

BUSINESS GROUPS SPEAK UP ON PPACA REGULATIONS FOR EMPLOYERS / PAGE 3

INSURERS EMBRACING POWERFUL ANALYTICS BEHIND 'BIG DATA' / PAGE 3

JUST 30% OF EMPLOYERS OFFER DEFINED BENEFIT PLAN, STUDY FINDS / PAGE 3

inBrief

P/C net income up 245% in first half

U.S. property/casualty insurers' net income in the first half of this year increased 245.2% from the prior-year period to \$16.42 billion, according to the Insurance Services Office and the Property Casualty Insurers Association of America. "Improvement in underwriting results drove the increases in insurers' pretax operating income, net income after taxes, and overall rate of return, with net losses on underwriting dropping to \$7 billion in first-half 2012 from \$24.1 billion in first-half 2011," the report said.

Global insurance pricing higher in Q3

Commercial insurance prices are rising modestly, if unevenly, according to the Marsh Risk

See **IN BRIEF** page 29



SPOTLIGHT

EXCESS & SURPLUS LINES REPORT

Rates on the rise; adapting health care reform strategies; stamping offices gain; rankings of surplus lines insurers, wholesalers, MGAs; state premiums. **PAGE 9**

PROPERTY/CASUALTY INSURERS

AIG singled out for systemic risk test

Insurer could face stricter capital rules, stress assessments

By **MARK A. HOFMANN**

American International Group Inc. may be the only property/casualty insurer to be considered a systemically important financial institution and subjected to greater federal oversight, experts say. The possibility became clear last week when AIG said that it had received notice that it is under consideration by the Financial Stability Oversight Council "for a proposed determination that AIG is a systemically important financial institution pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act."

The notice of consideration "states that it is intended to inform AIG that it will be reviewed in stage three of the process described in the council's interpretive guidance for nonbank

financial company determinations and does not constitute notice of a proposed determination," AIG said in the statement.

An AIG spokesman declined comment on the notice.

The FSOC did not disclose which nonbank financial institutions to which it sent the notices. No other property/casualty insurers indicated that they had received such a notice.

If AIG were to be designated a SIFI, it would be subject to capital plan and stress requirements to determine whether it has the capital necessary to absorb losses due to adverse economic conditions. It also would have to meet stricter prudential

standards, including stricter requirements and limitations relating to risk-based capital, leverage liquidity and credit exposure, as well as overall risk management requirements. It also would become subject to a new early remediation process administered by the Federal Reserve Board.

See **AIG** page 26



Mr. Benmosche

WORKERS COMPENSATION



AP PHOTO

Officials investigate the shooting of two Border Patrol agents near the U.S.-Mexico border. A federal workers comp program covers agents.

Shootings highlight comp program issues

Claims handling for border agents faces criticism

By **ROBERTO CENICEROS**

The killing of a U.S. Border Patrol agent and the wounding of another last week in Arizona demonstrates the dangers faced by law enforcement professionals who depend on a federal workers compensation program when things go wrong.

The government has called

into question the claims-handling efficiency of that program.

Earlier this year, the Department of Homeland Security Office of Inspector General criticized the U.S. Customs and Border Protection agency's management of claims filed under the Federal Employees Compensation Act, which provides workers comp benefits for federal workers, including Border Patrol agents and surviving dependents.

In 2010, the customs and border protection agency spent

See **BORDER** page 26

RISK MANAGEMENT

Reputational risk a growing worry for businesses

By **RODD ZOLKOS**

Events that damage a company's reputation can have a significant financial effect on its shareholder value and can come from any number of directions.

In a world of Web-based com-

munications and social media, the risks of reputational damage are exacerbated, while the time to respond to a reputational threat has been reduced dramatically, experts say.

Not only can the impact of a reputation-damaging event be



ONLINE HELP: New Business Insurance Solution Arc examines reputational risk.

detrimental, there's evidence that such events occur frequently. A new report, Reputation Review 2012, prepared by analytics and advisory firm Oxford Metrica and sponsored by Aon P.L.C., suggests there is an 80% chance of a public company losing at least 20% of its equity value in any single month over a five-year period because of a reputation crisis.

"Having a robust, evidence-based reputation strategy in place

will minimize the likelihood of a critical event turning into a reputation crisis and will maximize the probability of recovery," according to the report.

"Probably the first takeaway is how prevalent reputational events are," said Randy Nornes, executive vice president with Aon Risk Solutions in Chicago. "It's not something that's rare. Over five years, it's quite likely."

Jonathan Copulsky, principal at Deloitte Consulting L.L.P. in Chicago, said, "It's not a question of if, it's a matter of when. We encourage people to think about what they would do" when an event occurs.

See **REPUTATION** page 29

INDEX

Advertiser Index27
Business Resources26
Commentary8
End Page30
Opinions8
Market Moves27
Mid-Market Executive6
Public Notices26
Up Close25



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HEALTH CARE REFORM

Business groups chime in on health reform law rules

Direction lacking for employers about statute specifics

By **JERRY GEISEL**

Business groups are offering their suggestions to regulators on drafting rules employers will need to comply with key health care reform law provisions that take effect in 2014.

Those efforts — launched by such employer groups as the American Benefits Council, the ERISA Industry Committee and the National Business Group on Health — are coming in the wake of a reform law regulatory vacuum in several compliance areas of critical importance to employers.

“There are a lot of pieces that have to fall into place. Employers are very eager for guidance,” said Paul Dennett, senior vice president-health care reform with the Washington-based American Benefits Council.

“Regulations are needed to address some of the largest issues,” said Gretchen Young, senior vice president-health policy with the ERISA Industry Committee in Washington.

“We don’t know the rules of the game,” said Rich Stover, a princi-

HEALTH CARE REFORM LAW COUNTDOWN

As the Jan. 1, 2014 effective date of many key Patient Protection and Affordable Care Act provisions draws closer, employers still await regulatory guidance on issues such as:

- Will the law’s \$2,000 per-employee penalty on employers apply if only a handful of employees are not offered coverage?
- Will the twin employer mandates of providing coverage, and that the coverage be affordable, apply for dependent coverage?
- Can employers consider employees’ “total wages” in calculating whether coverage is affordable?
- Can employers count the entire amount they contribute to employees’ health savings accounts and health reimbursement arrangements in running a reform law actuarial value test?
- How much will employers have to pay in “transitional reinsurance premiums” and how will the premiums be collected?

pal with Buck Consultants L.L.C. in Secaucus, N.J.

The biggest financial issue is a health care reform law provision

that imposes on employers a \$2,000 penalty for each of its full-time employees if just one full-time employee is not offered qualified coverage.

Nearly a year and a half ago, the Treasury Department issued a notice seeking comment on an approach it “contemplated” in which the penalty would not apply if an employer covered “substantially” all of its full-time employees.

But subsequent regulations have yet to be issued on that key financial issue, with business groups now offering their own suggestions.

For example, last week, the American Benefits Council, in a letter sent to the Internal Revenue Service, suggested an approach in which penalties would not be assessed on employers if those not offered coverage did not exceed 30 employees or 5% of its workforce, whichever is less.

“This is a rule of reason,” Mr. Dennett said, referring to its proposal. “A small number of inadvertent errors should not subject employers” to the coverage penalty, he said.

Given the high probability that employers and their plan administrators, especially during the first

See **REGULATIONS** page 25

TECHNOLOGY



Big data, big hope

Insurers must upgrade tech systems

By **BILL KENEALY**

The insurance industry is poised to capitalize on increasingly potent analytic technologies and big data, provided it can surmount persistent data storage, architecture and quality issues, experts say.

While many insurance companies have deployed predictive technologies for years in areas such as actuarial departments, the broader technology itself is just reaching maturity. In the case of big data, a class of emerging analytic technologies based on data sets too large for traditional software tools to effectively manage, the technology is more nascent still.

The 2012 Gartner Hype Cycle, an annual report tracking the adoption of emerging technologies and released in August by Stamford, Conn.-based research firm Gartner Inc., is instructive here. While the report places predictive analytics in the highest of the five categories for emerging technologies — the “Plateau of Productivity” — it relegates big data to the “Peak of Inflated Expectations,” its second-lowest level on the scale.

See **DATA** page 25

BENEFITS MANAGEMENT

Defined benefit pension plans fade away for most new hires

Defined contribution plans offered by more employers

By **JERRY GEISEL**

The percentage of the largest U.S. employers that offer a defined benefit pension plan to new salaried employees continues to fall, according to new research.

As of June 30, 30% of Fortune 100 companies offered a defined benefit plan to new salaried employees, according to New York-based Towers Watson & Co. That’s down from 33% at the end of 2011, 37% in 2010 and 43% in 2009.

As recently as 1998, defined benefit plans were the norm among the nation’s largest employers, when 90% of Fortune 100 companies offered the plans

to new salaried employees.

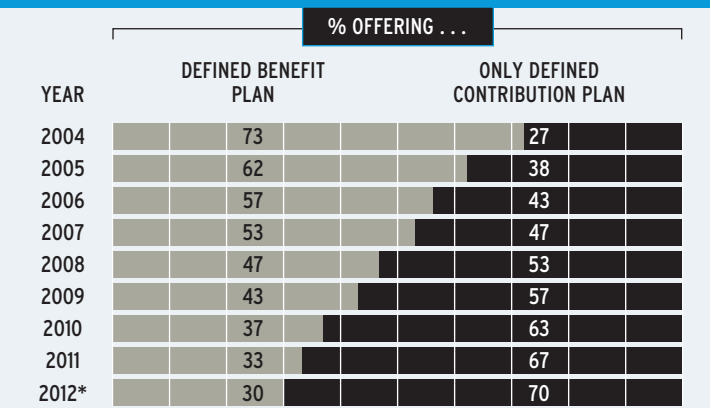
Since then, large employers have moved away from the plans.

“Large employers have been reassessing their retirement offerings for some time. ... The shift is motivated by several factors, including employers’ desire to reduce overall retirement costs — perhaps due to higher compensation and benefit costs elsewhere, especially health care — perceptions that workers prefer more portable plans, market trends, and the belief that such a shift reduces financial risk,” Towers Watson said in an article published last week in *The Insider*, a company publication.

In addition, as more companies have moved away from defined benefit plans, the competitive pressure on employers to continue to offer the plans has declined, said Alan Glickstein, a Towers Watson senior retirement consul-

CHANGE IN PENSION DIRECTION

Fortune 100 companies have moved away from defined benefit pension plans, leaving defined contribution plans as the sole retirement plan offered to new salaried employees.



*As of June 30
Source: Towers Watson & Co.

tant in Dallas.

The move away from defined

benefit plans has been especially pronounced for traditional plans,

in which the benefit typically is based on employees’ years of service and salary during their last years of employment.

Just 11 Fortune 100 companies offered a traditional defined benefit plan to new salaried employees as of June 30, down from 14 in 2011, 17 in 2010 and 19 in 2009.

By contrast, during the 1980s, defined benefit plans were the norm among Fortune 100 companies. In 1985, for example, nearly 90% of Fortune 100 companies offered a traditional defined benefit plan to new employees.

The prevalence of hybrid plans, typically cash balance plans, also has sharply declined. As of June 30, 19 Fortune 100 companies offered hybrid plans to new salaried employees. That’s unchanged from 2011, but almost 50% less compared with 2004,

See **TOWERS** page 29

HEALTH CARE BENEFITS

ACOs open new arena of medical liability risks

By MATT DUNNING

The rapid expansion of accountable care organizations among U.S.-based health care providers since the beginning of last year should suggest to risk managers the time has come to familiarize themselves with the unique liability exposures of alternative health care delivery and payment systems, according to a new white paper by New York-based Marsh Inc.

Defined and incentivized under the federal Patient Protection and Affordable Care Act, accountable care organizations allow hospital groups and other medical facilities to partner with smaller health care

provider groups and individual medical professionals to migrate health care delivery away from fee-for-service reimbursement models toward payment structures governed by the quality and cost-effectiveness of treatments that patients receive.

As of July 31, approximately 211 of these organizations had been formed in the U.S., up from 164 at the end of 2011, the first year in which the health care reform law's provisions regarding alternative reimbursement models were in effect, according to a recent report by Salt Lake City-based Leavitt Partners L.L.C.

While the steady growth in

'The biggest risk associated with sponsoring ACOs, or any hybrid model of an ACO, is that by doing so, you've just incurred areas of risk that were previously unknown to you.'

Donna Jennings, Marsh Risk Consulting

accountable care organization participation is encouraging news for the health care industry in terms of medical cost containment, liability insurance experts said there is a considerable amount of legal and financial risk associated with

sponsoring or participating in an this type of arrangement. Some or all of these risks might be entirely foreign to the participating providers, Marsh said in its October 2012 white paper, "A New Risk Management Frontier: Account-

able Care Organizations," released last week.

For example, selecting and establishing a network of providers, entering into reimbursement contracts with the government and employee benefit plans, and sharing patients' electronic health records between participating providers are all common, if not necessary, steps in the formation and management of a successful accountable care organization, Marsh said in its white paper.

But those same actions can expose the entity sponsoring the organization — possibly through

See **ACO** page 28

AGENTS & BROKERS



Insurance rates for most lines need to increase, attendees of the Council of Insurance Agents & Brokers' forum in Colorado Springs, Colo., were told.

Insurers poised to push for more P/C rate hikes

By GAVIN SOUTER

COLORADO SPRINGS, Colo. — Most property/casualty insurance policyholders should expect further rate increases in upcoming renewals as insurers consistently seek underwriting profits to make up for lackluster investment results, according to insurer and brokerage executives.

While insurers say average rate hikes likely will be in the high single digits, several brokers say the abundant capacity available in the market likely will lead to more moderate increases.

However, increases may vary significantly depending on line of business and individual policyholders' loss records, said the executives who were attending

the Council of Insurance Agents & Brokers' Insurance Leadership Forum in Colorado Springs, Colo., Sept. 29-Oct. 3.

The common message from insurance executives, who held numerous private meetings with agents and brokers at the event, was that rates need to increase across most lines.

"The message from the major insurers is very consistent: Most of the major commercial carriers say that rates have to go up between 5% and 10%," said Philip J. Edmundson, chairman and CEO of William Gallagher Associates in Boston.

He said rate increases for William Gallagher clients have

See **FORUM** page 28

WORKERS COMPENSATION

Employers shave costs in comp budgets

Raising retentions requires evaluation of program strength

By SHEENA HARRISON

INDIANAPOLIS — Employers are choosing higher self-insured retentions to help limit rising workers compensation costs as the market continues to firm, a panel of excess workers comp insurers said last week.

A discussion on the state of the excess comp lines sector was held during the Self-Insurance Institute of America Inc.'s national conference last week in Indianapolis. Panelists included Melodee J. Saunders, president and chief operating officer of

Midwest Employers Casualty Co. in Chesterfield, Mo.; Gene R. Maier, senior vice president of workers compensation underwriting for Safety National Casualty Corp. in St. Louis; and Charles C. Caldwell, president and CEO of Midlands Management Corp. in Oklahoma City.

Panelists said the hardening workers comp market seems to be pushing more employers toward higher retentions.

"Most of the buyers seem to be opting for the higher (retentions) to lower their up-front costs, whether (or not) that's the right thing to do over time," Mr. Caldwell said.

Mr. Maier said state insurance regulators have pressured some companies to select lower retention levels in order to ensure that

comp claims will be covered, particularly among firms that are facing financial challenges.

"In many situations, the state is analyzing the financials of the self-insured and really determining what the (retention) should be," he said. "So companies that have great financials, they have the luxury of being able to opt for that higher (retention) and ... the state may be trying to keep them at the lowest (retention) possible."

The decision to take a higher retention should be based on the strength of a company's workers comp program, Ms. Saunders said. That includes the effectiveness of the company's third-party administrator, a consideration

See **SIIA** page 28

Innovation Awards open for entries

Business Insurance is seeking nominations for its 2013 Innovation Awards.

The awards recognize innovation and leadership in products, services and technologies designed for risk managers. Eligible for nomination are products or services that are designed for and made available to professional risk managers that address one or more of the following risk management functions: risk identification, risk assessment/analysis, risk control and risk financing.

To be considered for the 2013 *Business Insurance* Innovation Awards, the submitted product or service must have been rolled out to risk managers or entered the marketplace between Jan. 1, 2012, and Dec. 31, 2012.

Products intended for general business or administrative functions and not specifically meant to support the role of risk management in a public or private organization are not eligible and will not be considered. A company may submit more than one entry.

An independent panel of risk management professionals will select the award winners, to be honored during the 2013 Risk Management Summit, to be held March 5-6, 2013, in New York.

Entries must be completed by Dec. 3, 2012, using the official submission form, which can be downloaded at www.businessinsurance.com/innovationawards. Entry forms also are available for download at the Awards and Events page at www.businessinsurance.com.



Errors & Omissions

The Oct. 1 story "Mid-market companies use risk management to offset promotion costs" misstated the company affiliation for Marlene Benoit. She is the Las Vegas-based vice president and promotion and events specialist for Marsh Inc.

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Mid-Market EXECUTIVE

Helping C-level executives at midsize firms overcome critical risk and benefits challenges

Managing foreign travel risks

Accidents, political unrest could occur while overseas

By JOANNE WOJCIK

While large, multinational employers are familiar with the risks inherent in international business travel, midsize employers just beginning to send employees overseas are recognizing the need to manage this exposure.

Whether it's a marketing executive traveling occasionally to arrange for goods to be exported or an operations manager visiting a foreign manufacturing plant that supplies component parts, these international business travelers are exposed to risks ranging from the benign to the extreme.

Though most mid-market companies don't have on-the-ground operations in foreign countries, they can have travel exposures if their employees travel outside the U.S. for business, said Lyde Esposito, international segments leader at Zurich North America Commercial in Chicago.

"There's plenty that can go wrong when employees are traveling overseas," said Dominick Zenzola, Chicago-based vice president and employee benefit manager at Chubb Accident and Health, a unit of Chubb Group of Insurance Cos. "One of the most common is a medical emergency, such as an accident or illness."

Imagine an employee traveling in the Middle East who requires medical attention after becoming involved in a car accident. The employee is "thousands of miles away and doesn't speak the language and may not be familiar with the health care system in that country," Mr. Zenzola said. "There are some hospitals where you have to pay before you get in."

Bryan Tedford, senior vice president of foreign casualty at Ace USA in Jersey City, N.J., said the insurer once paid a damage claim on behalf of a furniture company employee who was injured while shopping in a farmhouse for antiques to import to the United States.

"The owner of the farmhouse wasn't very happy," Mr. Tedford said. Fortunately, the employee's injuries were minor.

Another time, Ace paid a claim for damage to a hotel that occurred when a traveling executive fell asleep while drawing a bath, flooding the room.

At the other end of the spectrum, international business travelers could encounter political unrest, natural disasters, kidnapping and extortion.

"A lot of business is being outsourced to India. There are call centers and branch operations being set up there," said Thomas Dunlap, assistant vice president and Dallas-based regional manager of global crisis management for the Southeast and Southwest regions at Liberty International Underwriters, a unit of Liberty Mutual Insurance Co. "It's all a matter of perception of

wealth. If you work for a Western company (and are traveling) in India, there's a perception that you have money and you become an easy victim," he said.

James Walloga, New York-based vice president of global travel risk management in Ace USA's accident and health division, said the biggest risk facing foreign business travelers often is "unfamiliarity with the location."

While companies often prepare employees to live and work outside the United States, they generally provide less training for those who engage in short-term travel abroad.

Depending on the nature of the trip, "a lot of time there is not enough time to prepare them beforehand," Mr. Walloga said.

But lack of familiarity with a country's

chase group policies since they may have only one or two people traveling abroad.

Employers also can elect to receive electronic alerts from travel management companies about risks such as natural catastrophes, labor strikes, changes in flight schedules or severe weather.

Bonnie Lang, risk and travel management analyst at Terumo BCT Inc., a mid-size biotech firm based in Lakewood, Colo., said she subscribes to one such service and, with insight provided by the travel management company, she is able to pass along to Terumo BCT's international business travelers pertinent information. The travel management company's reports proved useful when the earthquake and tsunami hit Japan last year,



'Organizations owe a duty of care to their employees. Preparing the individual is critical.' Chris Holt, Towers Watson & Co.

laws, customs and health care system could expose an employee to risks for which he or she may be unprepared, he said.

"For example, if I'm traveling to Egypt for two weeks and while I'm there, there's a political upheaval, where do I go? Who do I call? How do I protect myself? Or say I get sick in Germany," Mr. Walloga said. "Where do I find a doctor who will accept my health insurance?"

Just in case he confronted such a situation while traveling internationally, Mike Thompson, national practice leader for Mercer L.L.C.'s integrated benefits division based in Atlanta, said he "always carried around a card that had emergency numbers accessible all over the world for any kind of emergency if there was a serious illness within my family, someone needed to be repatriated or some kind of legal problem such as an arrest."

Such concierge services are included in international travel insurance products available on an individual and group basis to small and midsize employers (see related story). Smaller companies often do not pur-

because an employee was traveling in Japan at the time. Fortunately, the employee was unharmed, Ms. Lang said.

"Organizations owe a duty of care to their employees. Preparing the individual is critical," said Chris Holt, consulting director of a new crisis management team recently formed by Towers Watson & Co. to consult businesses in addressing terrorism, kidnapping, ransom and extortion, product recalls and "hostile environment" risks, such as riots or terrorist attacks that require protection or repatriation of a business traveler.

"Preparing the individual is critical. If someone's previous travel experience is North America and Europe and they're going to Nigeria, you need to prepare them," Mr. Holt said.

Moreover, "organizations should be able to monitor the risk and the exposure to their people so that if it changes fundamentally," they can respond effectively, he said. "A lot of times, that's fairly basic stuff like having a single number people can call 24/7 to access help."

Coverage can keep traveling employees safe

Whether a middle-market company is just starting to travel abroad or has already established a foreign presence, insurance is available to protect employees who travel internationally on business.

Nearly all travel-related products cover accidental death and dismemberment, medical expenses, lost or stolen property, general liability, auto liability, foreign voluntary workers compensation, employer liability, evacuation and repatriation and, to a limited extent, kidnap and ransom.

Premiums for group international policies, such as Ace USA's International Advantage and Zurich American Life Insurance Co.'s Exporter and Envoy packages, start at about \$2,500 per year for at least \$1 million in per-occurrence limits, while individual policies such as Travel Guard from Chartis Inc. cost as little as \$259 per person per year.

Because the kidnap and ransom coverage in most international travel insurance policies is limited to certain countries, security experts advise employers with employees traveling to high-risk areas, such as the Middle East, South and Central America, and Southeast Asia, to buy additional kidnap and ransom coverage. Major K&R underwriters include Chartis, Chubb Corp., Liberty International Underwriters, Hiscox USA and Lloyd's of London.

Aside from covering the cost of ransom, the policies pay for the services of security consultants who negotiate the release of kidnapped employees. The policies also cover rest and rehabilitation expenses so the victim can take time off from work to obtain psychological counseling, if needed.

Endorsements to kidnap and ransom insurance also can be purchased to cover extortion; product recall; child abduction; business interruption; hijacking; "express" kidnap, such as carjacking; and detention, such as when employees are held on criminal charges that later are proven to be false.

However, to prevent becoming an easy target, insurers require that companies and their covered employees not disclose that a K&R policy has been purchased.

— By Joanne Wojcik

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Opinions

EDITORIAL

A silver lining to rate hikes?

Admitted business is beginning to flow back into the excess and surplus lines market. That is generally considered to be a sign of a hardening market, as admitted insurers re-examine their books with an eye toward increasing profitability.

On the face of it, this is bad news for risk managers seeking coverage for their excess and surplus lines business, as well as admitted insurance buyers, because it means rates are going to go up.

But that statement calls for closer examination.

For one thing, dramatic rate hikes are not anticipated. According to insurers attending the Council of Insurance Agents and Brokers' Insurance Leadership Forum last week, insurers appear to be in lock step in insisting that average rate increases should be 5% to 10% in the admitted market.

Brokers say increases may be more moderate, but the low interest rate environment means insurers have to make money, which means some increases are probably inevitable.

But there still is plenty of capacity in the market, which makes a conventional hard market unlikely. Furthermore, insurers are looking more closely at individual accounts, so if policyholders put in loss-control measures, they will be rewarded with lower increases.

All this has implications for all insurance buyers.

For excess and surplus lines buyers, the flow of business back into the nonadmitted market may mean they will unhappily face increased rates. However, observers are quick to point out that, as in the admitted market, rates are not increasing precipitously, but in a gentler slope that is relatively kind to risk managers' budgets.

Furthermore, observers note that business that had left the excess and surplus lines market may have found itself in the hands of admitted markets interested primarily in enhancing their revenues that had no real understanding of the business or its risks.

As some have noted, admitted insurers are letting go of business they took on during the soft market that they did not necessarily have the underwriting expertise to handle to begin with. For that reason alone, having this business back in the hands of expert underwriters ultimately may pay off.

There could be positive benefits for all insurance buyers as well in this phenomenon. As much as it may hurt initially, a hardening market will further strengthen insurers financially.

And that is good news for everybody.

LETTERS

Business Insurance welcomes letters to the editor.

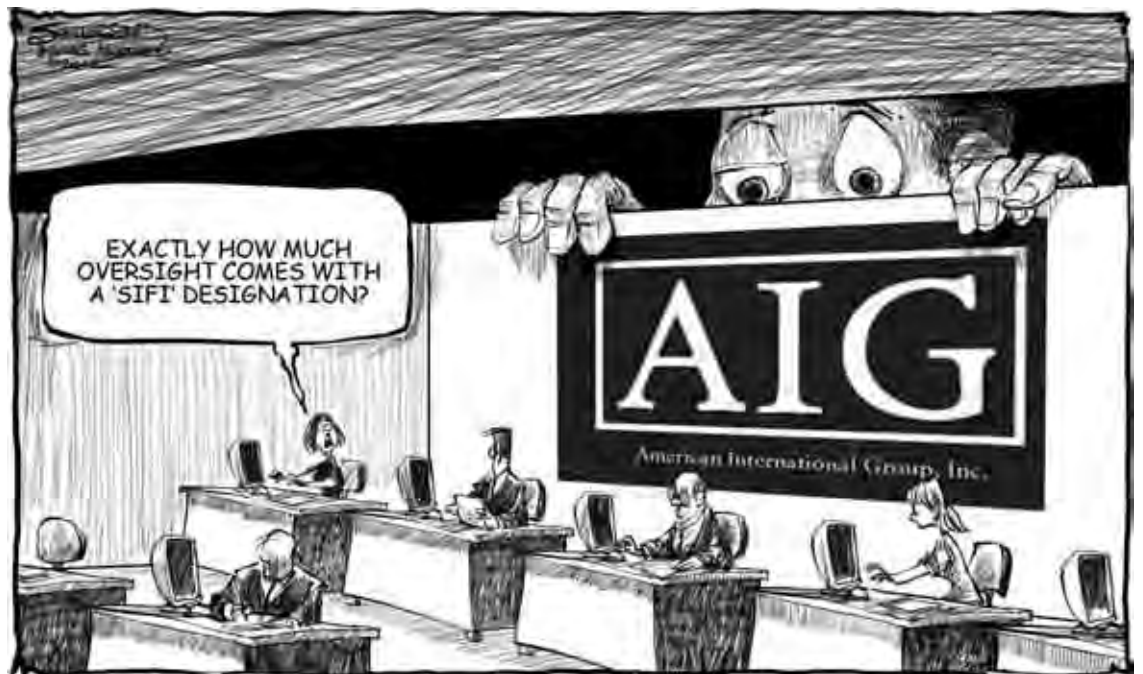
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SCHILLERSTROM



COMMENTARY

Cooking up cover for your dough

No small number of press releases makes its way into my email box each day and, while generally I make a point of looking at them all, it takes something really special to get my attention.

Something truly innovative, perhaps, or completely unexpected will cause me to take a second look. As will something that hits me on a personal level.

So it was that I found myself looking closely at a Willis Group Holdings P.L.C. release a couple of weeks ago. The release, describing Willis Programs' new PizzaGuard insurance program for pizza delivery restaurants, hit me where I live.

Pizza delivery, you see, has become an integral element of the routine most weekends at our home, and to that end I feel likely to be an indirect beneficiary of anything that might benefit the pizza delivery business.

I know people in various regions swear allegiance to their fashion of pie, but without bashing others' local preferences I think I can say without fear of contradiction that I'm fortunate to live in Chicago, one of the country's great pizza cities, and to do anything less than take advantage of the opportunity that presents on a regular basis would demonstrate some sort of shortage of civic patriotism.

While we have several local favorites, in recent years we've favored a neighborhood pizzeria which produces an outstanding thin pie from its wood-burning oven. This is probably an embarrassing admission, but these days when the proprietor sees

our number pop up on his caller ID at the customary weekend hour few words need be exchanged. "The usual?" he'll ask. "That would be great," I'll reply. He'll tell me they'll see me in an hour, though it's typically much sooner than that.

Which reminds me of a great risk management story from the pizza delivery business. Some years back a national pizza chain decided to drop its promise of delivery within 30 minutes or the pizza

was free. The concern was that, with the chain having faced several suits stemming from accidents involving delivery drivers, there was a growing perception that the chain's delivery employees were driving recklessly to meet that 30-minute deadline.

I'll note that Willis' PizzaGuard program includes non-owned auto among its coverages.

I was disappointed — shocked in fact — once by our neighborhood pizza maker when my call was met with the news that they'd be unable to fulfill my order

because they were out of dough. Out of dough! If I hadn't had such good experience and built so strong a relationship with this particular pizzeria, I might have decided to take my business elsewhere. I didn't, though, and my experience since has made me glad I remained loyal.

Still, thinking back on that "out-of-dough" moment, I find myself wondering whether Willis' PizzaGuard program includes reputational risk coverage.

Contact: rzolkos@businessinsurance.com



RODD ZOLKOS
SENIOR EDITOR



3.2%

A surplus lines report issued by A.M. Best Co. Inc. last week states that after a four-year decline, domestic professional surplus lines insurers reported a 3.2% increase in direct premiums written in 2011.

SMALL STEPS UPWARD

E&S rates climb higher as insurers focus on profits

By **JUDY GREENWALD**

After a long soft market, the excess and surplus lines market is beginning to see rate increases and the gradual flow of business from the admitted market, as admitted insurers cull their books with an eye toward increasing profitability, say observers.

However, the pace of that movement is slow, albeit steady.

Although reports vary, many observers say they are seeing either overall rate hikes of about 5%, or rate increases of that much or more in specific lines.

Barring any major catastrophes, this gentle upward slope is expected to continue (see story, page 10).

A surplus lines report issued by Oldwick, N.J.-based A.M. Best Co. Inc. last week states that after a four-year decline, domestic professional surplus lines insurers reported a 3.2% increase in direct premiums written in 2011.

Rates are increasing overall in the zero to 5% range, with an increase in the exposure base as well, so there is a "double benefit," said Matt Nichols, president of Hunt Valley, Md.-based All Risks Ltd. and incoming president of the Kansas City, Mo.-based

National Association of Professional Surplus Lines Offices Inc.

Timothy W. Turner, Chicago-based president and CEO of R-T Specialty L.L.C., a division of the Ryan Specialty Group L.L.C., said, "Generally speaking, the market is soft, obviously, but there's a few niche-firming phenomena that are happening in New York construction, trucking, and cat property," and there's an average of about a 5% increase that is taking place.

Letha E. Heaton, vice president of marketing at Cherry Hill, N.J.-based Admiral Insurance Co. and NAPSLO immediate past president, said, "We as a company have seen some rate improvement in every product line," including property, casualty, professional liability, excess and umbrella. "It looks like in some lines we're certainly over 6% and in some lines as much as 8% or 9%," said Ms. Heaton.

John Edack, San Francisco-based senior executive vice president for Arch Insurance Group Inc.'s casualty division, said while "pricing is all over the map," there is "a general trend of an overall rolled-up rate increase in the high single digits."

Joel Cavaness, president of Itasca, Ill.-based Risk Placement Services Inc., a managing general agency, said, there has been a slight upward trend with respect to pricing.

"Somebody termed it as a 'soft hard market,' which is probably a decent term to

use," Mr. Cavaness said. His firm's submission rate is up 20%, "which of course you hope turns into buying."

Linc Trimble, Jersey City, N.J.-based senior vice president and head of excess casualty at Torus Insurance Holdings Ltd. who focuses on small commercial umbrella business, said, "It's not dramatic increases, but certain segments have seen large increases," especially those with heavy auto fleet, construction or products exposures.

"But there's definitely a sea change in terms of rates," which are increasing at about 5%, said Mr. Trimble.

Adam Kagan, Fairfield, Conn.-based chief market relations officer for CRC/Crump Insurance Co. said, "We're seeing a rate environment of spot increases." There is "definitely pressure in certain classes of business, including construction and catastrophe-exposed property business," he said.

"On the casualty side, we have seen increased rates since the beginning of the year," although this past month "it has seemed to have gotten a little mushy, and I'm not sure why that is," said Robert J. Lala Jr., Chicago-based senior vice president of primary casualty for Liberty International Underwriters, a unit of Liberty Mutual Holding Co.

See **MARKET** next page

Excess &
Surplus Lines
Report

SPOTLIGHT

ADAPT STRATEGIES FOR HEALTH REFORM
PAGE 12

LARGEST SURPLUS LINES INSURERS
PAGE 14

MGAs/UNDERWRITING MANAGERS RANKED
PAGE 16

LARGEST P/C WHOLESALERS
PAGE 18

PREMIUMS, TAXES LISTED BY STATE
PAGE 20

STAMPING STATS SHOW RATE RISES
PAGE 22

PERSPECTIVES: RACE FOR LAST PLACE
PAGE 24

Market: E&S market sees rate increases

CONTINUED FROM PREVIOUS PAGE

Rates “are still going up slightly” in property lines, said Jim Dowdy, Atlanta-based vice president of excess property for Zurich North America Commercial. “There was a period where they increased a little bit more. I think that’s kind of leveled off,” said Mr. Dowdy.

Alan J. Kaufman, chairman, president and CEO of Farmington, Mich.-based Burns & Wilcox Ltd., said property rates are going up slightly “in certain specific areas and regions of the country.”

“There hasn’t been a major

event that’s impacted the market solvency, and the economy is still very weak,” he said.

Kevin T. Westrope, president and CEO of Kansas City, Mo.-based wholesaler Westrope, said, “Certainly, E&S looks like a pretty good place to be right now. While we don’t see a tremendous amount of rate increases, we are seeing a lot of gray-area business from the standard market kind of migrating back to the E&S side of the business. Consequently, most of us are enjoying a pretty good uptick in business.”

Business has been moving back into the excess and surplus lines

market for some time now, which is typically a sign of “a general improvement in the overall conditions of pricing,” said Enrico Leo, assistant vice president at rating agency Moody’s Investors Service Inc. in New York. Large property risks are moving back into the E&S market as well as general liability lines, he said.

Mr. Edack of Arch said, “The standard markets are coughing up business that they took on during the softening market, realizing now that they did not necessarily have the underwriting risk to handle such business.” Manufacturing, commercial and residential

construction, certain energy classes such as oil and gas and mining are among the businesses returning to the E&S fold, he said.

James Drinkwater, property/casualty brokerage division president of AmWins Group Inc. in New York, said, “The standard markets to some extent are analyzing their book based on the actuarial models ... and the overall complexion of their book, and they’re balancing it accordingly, letting business go if it does not prove to be profitable, and they do not have expertise in the area.”

“I think everything right now is being driven by concerns on the income statement side,” said David Blades, A.M. Best senior financial analyst.

Rate hikes set to continue for surplus lines

The excess and surplus lines market will continue to see slow but steady rate hikes, observers predict.

“The outlook’s basically positive as far as rates going up,” said Glenn Hargrove, president of MarketScout Wholesale L.L.C., a unit of Dallas-based electronic insurance exchange MarketScout.

The outlook is for “steady rate pressure,” said Adam Kagan, Fairfield, Conn.-based chief market relations officer for CRC/Crump Insurance Co., but “nothing dramatic, unless there’s a large property event.”

“I don’t believe there’s any short-term significant rate increases” on the horizon, said Matt Nichols, president of Hunt Valley, Md.-based All Risks Ltd. and incoming president of the Kansas City, Mo.-based

‘I don’t believe there’s any short-term significant rate increases’ on the horizon.

Matt Nichols, All Risks Ltd.

National Association of Professional Surplus Lines Offices Inc. “There’s probably going to be more of a zero to 5%” increase with no spike in rates, barring a catastrophic event, although there may be spikes in certain areas.

Kevin T. Westrope, president and CEO of Kansas City, Mo.-based wholesaler Westrope, said, “We’re going to continue to see this trend where there’s going to be a gentle up slope,” at least for the next couple of years, barring a major catastrophe.

Cash flow has stabilized a little, but continues to decrease for insurers, he said. “That’s a pretty good indication you’re getting ready to have a hard market, or at least continue for a little bit, and that’s what I see happening.”

John Edack, San Francisco-based executive vice president for Arch Insurance Group Inc.’s casualty division, said, “I see continued improvement with year-over-year rate increases continuing” as business returns to the E&S marketplace.

— By Judy Greenwald

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Reform law creates uncertainty for E&S market

Provisions may add responsibilities, costs for some providers

By **MATT DUNNING**

Health care providers have only just begun adapting their excess and surplus lines insurance strategies to accommodate the federal health care reform law, as it remains uncertain whether elements of the law will have a pronounced effect on the marketplace.

Several tenets of the Patient Protection and Affordable Care Act designed to give health care providers incentives to migrate toward results-based delivery and payment models, as well as to modernize their medical records and provide greater transparency on medical costs, have been implemented in part or in full since the beginning of 2011.

Though intended to enhance the quality and efficiency of medical care delivery, experts in the excess/surplus liability and health care risk management fields say many of the health care reform law's provisions have beset health care providers with a wave of new

compliance responsibilities and administrative costs.

The result, they say, has been a sharp uptick during the past 12 months in the number of consolidations and joint ventures entered into among hospital groups, physicians' practices and other medical care providers.

"Most of the movement that we've seen in the past year or so has really been a function of the ACA law," said Robert Allen, senior vice president of medical professional liability at London-based Torus Insurance Holdings Ltd. "At this point, all eyes are on the ACA and making sure we get future underwriting done correctly."

More than 290 mergers and acquisitions have been recorded in the health care services industry since the first half of this year, representing a 9.3% increase over totals recorded through the first two quarters of 2011, according to a quarterly study by Norwalk, Conn.-based Irving Levin Associates Inc.

A key driver of that rush of consolidation, experts said, is the health care reform law's strong support for the development of accountable care organizations — arrangements in which hospital

groups and other medical facilities band together with niche medical professionals, individual doctors and other smaller provider groups under a central contractual agreement to manage health care delivery for employer groups or individual consumers, and are reimbursed based on the quality and cost-effectiveness of their treatments.

Additionally, insurance experts noted that providers — primarily hospitals — have become much more aggressive in their hiring of physicians in recent months, as they position themselves for the next stages of the health care reform law's implementation in 2013 and 2014.

In either case, excess and surplus lines liability experts said liability insurers in the health care market are growing increasingly wary of the potential legal and financial ramifications of incorporating physicians and other smaller providers into insurance portfolios maintained by hospitals and other facilities.

"As you start bringing in different types of independent practices into the hospital's risk profile, there's a due diligence process that needs to be done by the purchasing facility relative to the

290

More than 290 mergers and acquisitions have been recorded in the health care services industry since the beginning of this year, representing a 9.3% increase over totals recorded through the first two quarters of 2011.

requirements promulgated under the reform law, particularly a set of stricter electronic health records management regulations, also have contributed to the rise in consolidation, experts said. The law includes new rules designed to standardize electronic billing and medical records management throughout the health care industry, with the goal of reducing administrative costs and medical errors.

"A lot of (physicians) might not want to take on the administrative components, and instead want to pass that on to the larger entity," said Kathryn Meyers, the Chicago-based health care practice director for Aon Risk Solutions. "So we're adding doctors into the mix at a very fast pace, and it may or may not change the makeup of the facility program."

Though they concede the EHR rules are necessary in order to modernize the industry on the whole, some insurers and brokers in the health care liability market said the dramatic rise in providers utilizing electronic records — especially if combined with reform provisions that call for a freer exchange of information

standards of practice for these independent entities," said Bradley Cox, Boston-based vice president of health care at Lexington Insurance Co. "Risk managers have got to make sure they have consistency on those standards, and underwriters have to make sure that the risk management programs that had been the norm at the facility level are integrated throughout the physician practices that are being rolled in."

Looming compliance costs and

See **HEALTH** page 22

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DATA snapshot

TOP SURPLUS LINES INSURERS

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PREMIUMS FLATTEN

Nonadmitted direct written premiums of the top 10 surplus lines insurers, in billions of dollars, were essentially the same in 2011 as 2010.



LARGEST U.S.-BASED SURPLUS LINES INSURERS

Ranked by 2011 nonadmitted direct written premiums

RANK	Company/address	Parent	Phone/website	2011 nonadmitted direct written premiums	% change	2011 gross premiums	% change	2011 net written volume	2011 net income (loss)	Principal officer
1	Lexington Insurance Co. ¹ 100 Summer St., Boston, Mass. 02110	Chartis Inc.	617-330-1100 www.lexingtoninsurance.com	\$4,584,874,510	(0.5%)	\$6,146,725,240	(19.0)	\$3,432,019,633	\$325,630,448	David J. Bresnahan, president
2	Scottsdale Insurance Co. ¹ 8877 N. Gainey Center Drive, Scottsdale, Ariz. 85258	Nationwide Mutual Insurance Co.	480-365-4000 www.scottsdaleins.com	\$1,087,239,649	8.3%	\$2,683,400,948	9.8%	\$572,431,552	(\$11,584,774)	Michael D. Miller, president/COO
3	Steadfast Insurance Co. ¹ 1400 American Lane, Schaumburg, Ill. 60196	Zurich Insurance Co. Ltd.	847-605-6000 www.zurichna.com	\$946,251,084	(11.9%)	\$1,151,070,573	(8.8%)	N/A	N/A	Nancy D. Mueller, president
4	Chartis Specialty Insurance Co. 175 Water St., 18th Floor, New York, N.Y. 10038	Chartis Inc.	212-770-7000 www.chartisinsurance.com	\$798,434,908	1.7%	\$1,413,770,179	(24.9%)	\$490,288,521	\$8,592,693	John Q. Doyle chairman
5	Columbia Casualty Co. CNA Center, 333 S. Wabash, Chicago, Ill. 60604	CNA Financial Corp.	312-822-5000 www.cna.com	\$750,476,544	4.5%	\$751,743,192	4.6%	N/A	\$7,408,950	Thomas F. Motamed, chairman/CEO/president
6	Illinois Union Insurance Co. 436 Walnut St., Philadelphia, Pa. 19106	Ace Ltd.	215-640-1000 www.aceusa.com	\$543,205,080 ²	2.0%	\$542,118,590 ²	1.9%	N/A	N/A	Brian E. Dowd chairman
7	Landmark American Insurance Co. 945 E. Paces Ferry Road, Suite 1800, Atlanta, Ga. 30326	Alleghany Corp.	404-231-2366 www.rsui.com	\$533,173,503	4.7%	\$543,025,813	4.6%	\$46,908,733	\$14,144,552	David E. Leonard, chairman/CEO
8	Nautilus Insurance Co. 7233 E. Butherus Drive Scottsdale, Ariz. 85260	W.R. Berkley Corp.	480-951-0905 www.nautilusgroup.com	\$430,531,252	17.0%	\$603,342,022	21.6%	\$490,741,050	\$86,134,743	Thomas M. Kuzma, president/CEO
9	Westchester Surplus Lines Insurance Co. 436 Walnut St., Philadelphia, Pa. 19106	Ace Ltd.	215-640-1000 www.aceusa.com	\$417,637,980 ²	2.0%	\$421,814,270 ²	2.0%	N/A	N/A	Brian E. Dowd, chairman
10	Arch Specialty Insurance Co. 300 Plaza Three, Jersey City, N.J. 07311	Arch Capital Group Ltd.	201-743-4000 www.archinsurance.com	\$412,775,805	2.5%	\$424,078,582	1.4%	(\$9,784)	(\$6,608,248)	David H. McElroy, chairman/CEO

¹ Figures reported on a pooling basis. N/A = Not available. ² BI estimate.

LOWEST COMBINED RATIO

Lowest combined ratio among surplus lines insurers participating in the BI survey

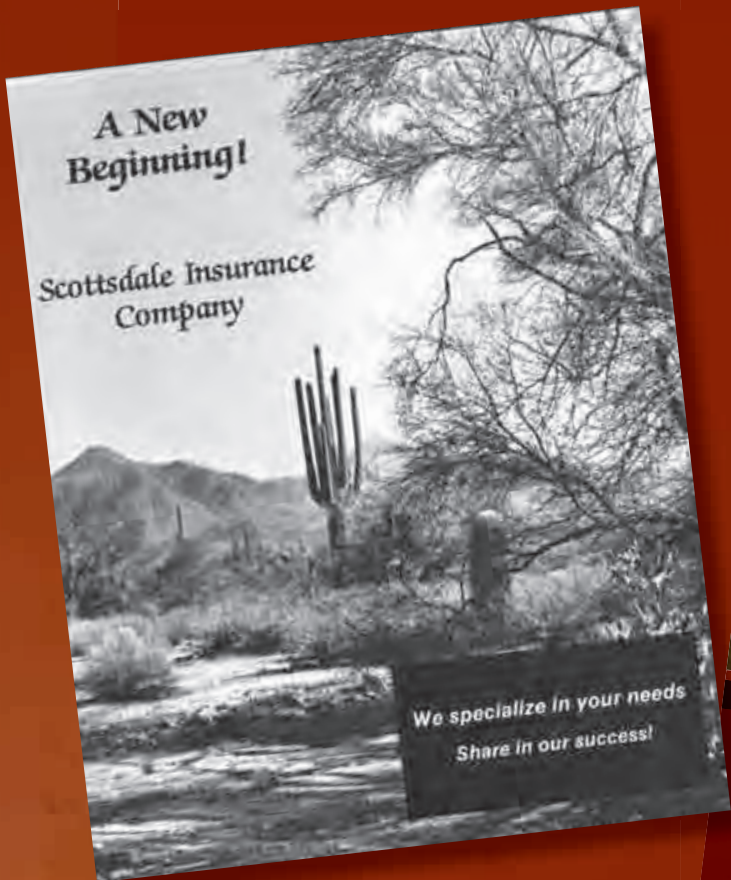
RANK	COMPANY	2011 COMBINED RATIO
1	Mount Hawley Insurance Co.	58.5%
2	General Star Indemnity Co.	71.8%
3	James River Insurance Co.	73.3%
4	Landmark American Insurance Co.	73.4%
5	United National Insurance Co.	79.7%
6	RSUI Indemnity Co.	81.9%
7	Nautilus Insurance Co.	85.1%
8	Evanston Insurance Co.	85.6%
9	Adriatic Insurance Co.	92.7%
10	Admiral Insurance Co.	93.3%

HIGHEST COMBINED RATIO

Highest combined ratio among surplus lines insurers participating in the BI survey

RANK	COMPANY	2011 COMBINED RATIO
1	General Star National Insurance Co.	129.3%
2	Penn-America Insurance Co.	117.9%
3	Lexington Insurance Co.	115.6%
3	Chartis Select Insurance Co.	115.6%
5	Chartis Specialty Insurance Co.	115.0%
6	Penn-Star Insurance Co.	114.2%
7	National Fire & Marine Insurance Co.	107.7%
8	Western World Insurance Co.	107.4%
8	Tudor Insurance Co.	107.4%
10	Safety National Casualty Corp.	102.0%

Source: BI survey. Researched by Angelina Villarreal



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PREMIUM VOLUME

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



LARGEST MGAs/UNDERWRITING MANAGERS

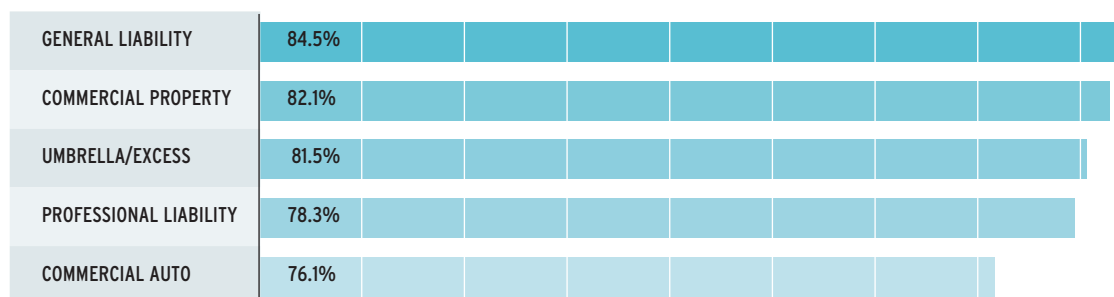
Ranked by 2011 wholesale premium volume from property/casualty placements*

RANK	Company/address	Phone, website	2011 premium volume	% change	2011 gross revenues	% change	% surplus lines	Underwriting manager	MGA	Wholesale broker	Lloyd's of London coverholder	Principal officer
1	Risk Placement Services Inc. 2 Pierce Place, 25th Floor Itasca, Ill. 60143	630-285-4303 www.rpsins.com	\$1,800,000,000	11.8%	\$147,000,000	5.8%	60.0%	0%	51.0%	42.0%	7.0%	Dave McGurn, chairman
2	Burns & Wilcox Ltd. 220 Kaufman Financial Center 30833 Northwestern Highway Farmington Hills, Mich. 48334	800-521-1918 www.burnsandwilcox.com	\$720,000,000	9.1%	\$185,000,000	8.8%	80.0%	0%	55.0%	30.0%	15.0%	Alan J. Kaufman, chairman/president/CEO
3	The Schinnerer Group 2 Wisconsin Circle Chevy Chase, Md. 20815	301-961-9800 www.schinnerer.com	\$665,000,000	(7.0%)	\$72,900,000	(1.1%)	5.0%	95.0%	0%	5.0%	0%	Rob Byler, CEO
4	AmRisc L.P. 20405 State Highway 249 Suite 430 Houston, Texas 77070	281-257-6700 www.amrisc.com	\$596,000,000	2.1%	\$94,000,000	32.4%	61.0%	39.0%	47.0%	0%	14.0%	Dan Peed, CEO/president
5	Appalachian Underwriters Inc. 800 Oak Ridge Turnpike, A-1000 Oak Ridge, Tenn. 37830	888-376-9633 www.appund.com	\$414,000,000	3.0%	\$39,500,000	4.0%	10.0%	20.0%	75.0%	5.0%	0%	Bob Arowood, principal/president
6	Gresham & Associates Inc. 1 Gresham Landing P.O. Box 927 Stockbridge, Ga. 30281	770-389-1600 www.gresham-inc.com	\$299,550,000	11.8%	\$31,850,000	8.8%	50.0%	0%	45.0%	45.0%	10.0%	James V. Gresham, chairman/CEO
7	Markel Midwest Inc. 10 Parkway N. Deerfield, Ill. 60015	847-572-6000 www.markelcorp.com	\$285,833,999	(1.7%)	\$33,819,403	(27.2%)	92.0%	100%	0%	0%	0%	Susan J. Swanson, regional president
8	Program Brokerage Corp. 1065 Ave. of the Americas New York, N.Y. 10018	866-607-8370 www.programbrokerage.com	\$239,571,323	9.0%	\$24,506,807	5.3%	18.0%	0%	70.0%	30.0%	0%	Scott Bell, Gary Shapiro, senior vice presidents-program division
9	Eastern America Insurance Agency Inc. Metro Office Park, Street One, Lot 10 P.O. Box 193900 San Juan, Puerto Rico 00919	787-273-1288 www.universalpr.com	\$221,839,520	1.4%	\$12,859,456	18.8%	13.0%	0%	100%	0%	0%	Monique Miranda, CEO
10	K&K Insurance Group Inc. 1712 Magnavox Way Fort Wayne, Ind. 46804	260-459-5000 www.kandkinsurance.com	\$206,596,000	10.0%	\$45,124,000	5.3%	5.0%	0%	96.0%	4.0%	0%	Todd Bixler, president/CEO

* Companies deriving more than 50% of their wholesale premium volume from acting as a managing general agent, underwriting manager or Lloyd's of London coverholder (authority to bind risks for Lloyd's syndicates, similar to an MGA)

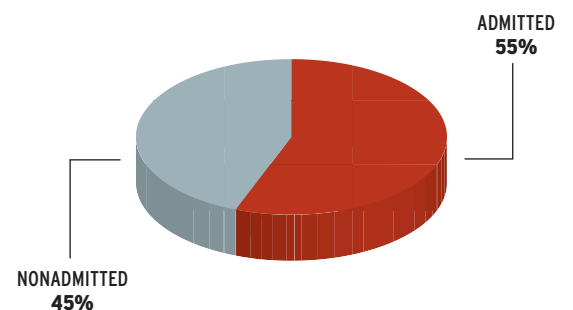
MOST COMMON CLASSES OF BUSINESS PROVIDED

Percentage of MGA/underwriting managers providing coverage



ADMITTED VS. NONADMITTED

Business performed by all MGA/underwriting managers



Source: BI survey. Researched by Angelina Villarreal

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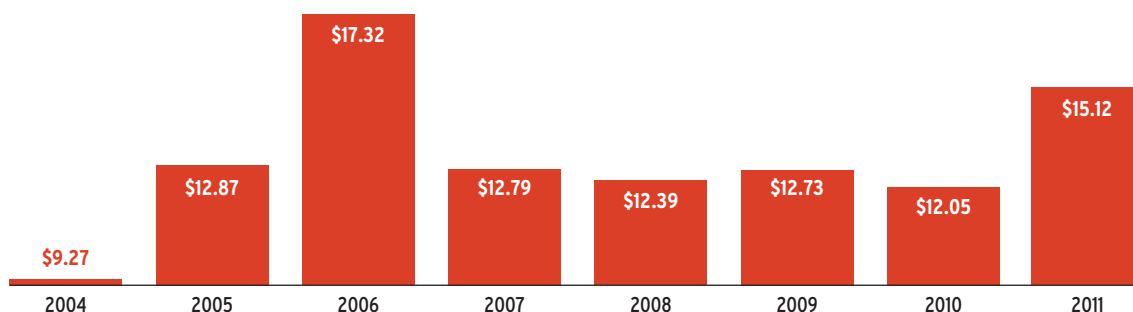
DATA snapshot

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PREMIUM VOLUME

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



LARGEST PROPERTY/CASUALTY INSURANCE WHOLESALERS

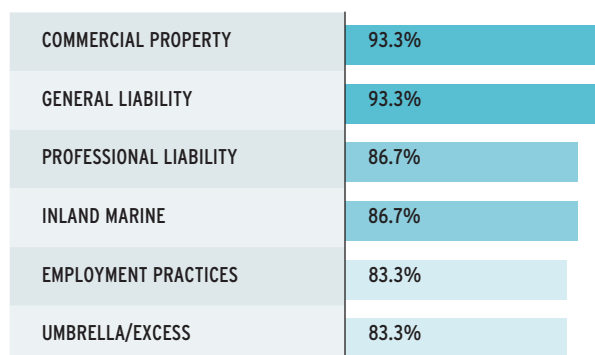
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RANK	Company/address	Phone/website	2011 premium volume	% change	2011 gross revenues	% change	Surplus lines	Underwriting manager	Wholesale broker	Managing general agent	Lloyd's of London coverholder	Principal officer
1	AmWINS Group Inc. 4725 Piedmont Row Drive, Suite 600 Charlotte, N.C. 28210	704-749-2700 www.amwins.com	\$5,273,572,612	29.5%	\$481,000,000	20.0%	67.0%	0%	81.3%	14.5%	4.2%	M. Steven DeCarlo, CEO
2	CRC/Crump Insurance Services 1 Metroplex Drive, Suite 400 Birmingham, Ala. 35209	205-870-7790 www.crcins.com www.crump.com	\$4,005,532,000	(2.6%)	\$572,108,000	1.5%	28.0%	3.0%	82.0%	11.0%	4.0%	Thomas J. Curtin, CEO
3	Swett & Crawford Group Inc. 3350 Riverwood Parkway SE, Suite 1100 Atlanta, Ga. 30339	404-240-5200 www.swett.com	\$2,000,000,000	(4.8%)	\$186,000,000	(2.6%)	55.0%	0%	75.0%	18.5%	6.5%	J. Neal Abernathy, president and CEO
4	Ryan Specialty Group L.L.C. 200 E. Randolph St., 20th Floor Chicago, Ill. 60601	888-884-1900 www.ryansg.com	\$1,393,477,728	N/A	\$116,000,000	NA	NA	12.0%	78.0%	6.0%	4.0%	Patrick Ryan, chairman/CEO
5	All Risks Ltd. 10150 York Road, Fifth Floor Hunt Valley, Md. 21030	800-366-5810 www.allrisks.com	\$687,000,000	10.8%	\$65,500,000	9.2%	67.0%	5.0%	55.0%	35.0%	5.0%	Nicholas Cortezi, CEO
6	ARC Excess & Surplus L.L.C. 113 S. Service Road Jericho, N.Y. 11753	516-747-4100 www.arcbrokers.com	\$454,000,000	(5.4%)	\$42,000,000	(2.3%)	25.0%	0%	90.0%	0%	10.0%	Christopher J. Cavallaro, managing director
7	Westrope 1100 Walnut St., Suite 3200 Kansas City, Mo. 64106	816-842-8222 www.westrope.com	\$446,489,400	11.2%	\$32,926,200	11.4%	56.0%	0%	91.0%	8.0%	1.0%	Kevin T. Westrope, president/CEO
8	U.S. Risk Insurance Group Inc. 10210 N. Central Expressway, Suite 500 Dallas, Texas 75231	800-232-5830 www.usrisk.com	\$366,000,000	19.2%	\$52,163,000	0.8%	90.0%	0%	64.0%	22.7%	13.3%	Randall G. Goss, chairman/CEO
9	Partners Specialty Group L.L.C. 100 Tournament Drive, Suite 214 Horsham, Pa. 19044	484-322-0400 www.psgins.com	\$347,000,000	7.8%	\$27,614,000	6.8%	68.0%	0%	98.0%	1.0%	1.0%	Daniel P. McDonnell, chairman
10	Bliss & Glennon Inc. 435 N. Pacific Coast Highway, Suite 200 Redondo Beach, Calif. 90277	310-372-9115 www.bgsurplus.com	\$218,757,000	(1.9%)	\$24,000,000	(4.0%)	90.0%	0%	60.0%	35.0%	5.0%	Corinne Jones, COO

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

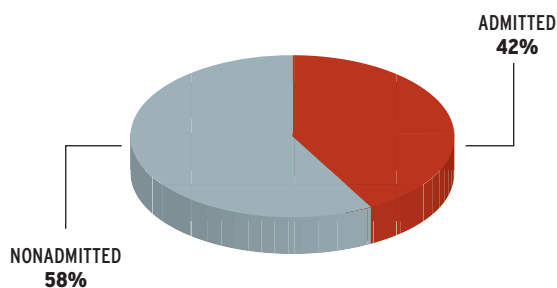
MOST COMMON CLASSES OF BUSINESS PROVIDED

Percentage of wholesale brokers providing coverage



ADMITTED VS. NONADMITTED

Business performed by all wholesale brokers



LARGEST WHOLESALERS

Ranked by 2011 wholesale premium volume including employee benefits and property/casualty

RANK	COMPANY	TOTAL PREMIUM VOLUME
1	CRC/Crump Insurance Services	\$8,355,999,000
2	AmWINS Group Inc.	\$7,018,712,489
3	Swett & Crawford Group Inc.	\$2,000,000,000
4	Risk Placement Services Inc.	\$1,800,000,000
5	Ryan Specialty Group L.L.C.	\$1,410,922,528
6	All Risks Ltd.	\$687,000,000
7	The Schinnerer Group	\$665,000,000
8	AmRisc L.P.	\$596,000,000
9	ARC Excess & Surplus L.L.C.	\$454,000,000
10	Westrope	\$446,489,400

Source: BI survey. Researched by Angelina Villarreal



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SURPLUS LINES PREMIUMS AND TAXES BY STATE

STATE	GROSS SURPLUS LINES PREMIUMS WRITTEN			% CHANGE		SURPLUS LINES TAXES COLLECTED			TAX RATE
	2011	2010	2009	2010-2011	2009-2010	2011	2010	2009	
Alabama	\$477,707,650	\$413,137,083	\$464,420,733	15.6%	2.9%	\$28,662,459	\$24,788,225	\$27,865,244	6.0%
Alaska	\$118,723,951	\$110,355,905	\$110,884,619	7.6%	7.1%	\$2,639,285	\$2,529,131	\$2,546,863	2.7%
Arizona	\$364,782,188	\$345,276,334	\$400,593,960 ³	5.6%	(8.9%)	\$11,413,752	\$10,934,169	\$12,414,774 ⁴	3.0%
Arkansas	\$184,099,000	\$190,640,000	\$194,700,000 ¹	(3.4%)	(5.4%)	\$7,363,961	\$7,625,600	\$7,788,000	4.0%
California	\$4,998,686,446	\$4,281,088,592	\$5,198,014,923	16.8%	(3.8%)	\$133,493,424	\$113,567,663	\$136,898,007	3.0%
Colorado	\$455,822,138	\$460,076,335	\$456,674,150	(0.9%)	(0.2%)	\$13,370,310	\$13,802,290	\$13,698,240 ¹	3.0%
Connecticut	\$320,182,481	\$320,182,481	\$296,120,786	0.0%	8.1%	\$12,130,109	\$11,218,747	\$11,389,261	4.0%
Delaware	\$47,087,633	\$61,452,694	\$55,545,006	(23.4%)	(15.2%)	\$941,753	\$1,225,058	\$1,111,239	2.0%
District of Columbia	\$213,460,100	\$161,903,220	\$158,670,350	31.8%	34.5%	\$4,269,202	\$3,238,064	\$3,173,407	2.0%
Florida	\$3,730,727,071	\$3,838,254,010	\$3,968,297,665	(2.8%)	(6.0%)	\$165,398,982	\$175,425,869	\$183,425,643	5.0%
Georgia	\$775,730,100	\$725,432,250	\$762,868,350	6.9%	1.7%	\$31,029,204	\$29,017,289	\$30,514,734	4.0%
Hawaii	\$204,416,094	\$220,623,558 ²	\$224,592,613 ²	(7.3%)	(9.0%)	\$9,549,602	\$10,375,697	\$10,510,842	4.7%
Idaho	\$61,251,476	\$64,188,352	\$62,699,122	(4.6%)	(2.3%)	\$915,065	\$997,120	\$983,819	1.5%
Illinois	\$1,004,600,363	\$1,026,856,572	\$987,413,683	(2.2%)	1.7%	\$35,164,581	\$33,384,215	\$34,549,239	3.5%
Indiana	\$368,310,377	\$366,517,160	\$294,126,084	0.5%	25.2%	\$9,207,759	\$9,162,929	\$7,353,152	2.5%
Iowa	\$166,367,311	\$150,313,739	\$157,838,864	10.7%	5.4%	\$1,663,673	\$1,503,137	\$1,578,389	1.0%
Kansas	\$160,113,057	\$151,191,030	\$154,010,710	5.9%	4.0%	\$9,562,627	\$9,071,462	\$11,164,172	6.0%
Kentucky	\$154,065,744	\$158,095,118	\$150,844,360	(2.5%)	2.1%	\$4,695,297	\$4,405,860	\$4,597,705	3.0%
Louisiana	\$1,255,578,355	\$1,279,435,677	\$1,305,625,926	(1.9%)	(3.8%)	\$62,609,510	\$63,971,459	\$65,281,296	5.0%
Maine	\$61,106,175	\$63,052,446 ¹	\$60,414,381	(3.1%)	1.1%	\$1,701,001	\$1,762,167 ¹	\$1,674,829	3.0%
Maryland	\$360,852,597	\$331,192,177	\$358,206,400	9.0%	0.7%	\$10,825,578	\$9,935,765	\$10,746,192	3.0%
Massachusetts	\$633,781,165	\$622,576,217	\$649,870,811	1.8%	(2.5%)	\$23,326,882	\$23,303,366	\$24,259,256	4.0%
Michigan	\$544,422,366	\$567,374,219	\$579,336,124	(4.0%)	(6.0%)	\$13,549,829	\$14,052,263	\$14,326,910	2.5%
Minnesota	\$281,473,171	\$292,335,179	\$251,274,966	(3.7%)	12.0%	\$8,444,195	\$9,155,983	\$8,066,345	3.0%
Mississippi	\$326,092,318	\$351,940,243	\$372,365,663	(7.3%)	(12.4%)	\$13,042,592	\$14,078,306	\$14,895,119	4.0%
Missouri	\$468,567,116	\$440,728,528	\$452,010,350	6.3%	3.7%	\$22,878,945	\$21,840,343	\$21,827,870	5.0%
Montana	\$60,180,432	\$64,773,666	\$62,510,454	(7.1%)	(3.7%)	\$1,643,543	\$2,089,596	\$2,072,951	2.8%
Nebraska	\$115,635,238	\$108,028,287	\$123,099,439	7.0%	(6.1%)	\$3,609	\$3,357,161	\$3,867,482	0.0%
Nevada	\$200,073,340	\$207,197,193	\$231,790,188	(3.4%)	(13.7%)	\$7,002,605	\$7,251,518	\$8,112,690	3.5%
New Hampshire	\$63,185,952	\$57,256,980 ³	\$62,675,761	10.4%	0.8%	\$1,899,798	\$1,521,790	\$1,253,512	3.0%
New Jersey	\$1,096,107,216	\$1,126,682,343	\$991,343,970 ¹	(2.7%)	10.6%	\$52,716,610	\$50,072,658	\$42,329,930 ⁴	5.0%
New Mexico	\$8,926,561	\$7,892,091	\$9,325,614 ⁴	13.1%	(4.3%)	\$2,972,548	\$2,628,069	\$3,105,432	3.0%
New York	\$3,499,787,795	\$3,086,813,224	\$2,957,943,587	13.4%	18.3%	\$88,771,420	\$72,555,433	\$61,627,634	3.6%
North Carolina	\$480,208,218	\$501,925,648	\$504,454,717	(4.3%)	(4.8%)	\$24,009,588	\$25,137,190	\$25,185,970	5.0%
North Dakota	\$58,747,972	\$55,897,871	\$53,827,716	5.1%	9.1%	\$1,045,251	\$978,922	\$942,131	1.8%
Ohio	\$563,806,553	\$527,341,315	\$566,447,354	6.9%	(0.5%)	\$29,989,447	\$26,123,193	\$27,861,495	5.0%
Oklahoma	\$244,566,108	\$226,153,557	\$206,042,969	8.1%	18.7%	\$18,915,136	\$19,307,008	\$18,177,368	6.0%
Oregon	\$233,825,874	\$234,676,582	\$244,439,308 ⁴	(0.4%)	(4.3%)	\$4,772,703	\$4,772,881	\$5,486,373 ⁴	2.0%
Pennsylvania	\$870,444,911	\$832,833,859	\$862,298,836	4.5%	0.9%	\$25,980	\$25,689,664 ¹	\$25,664,000	3.0%
Rhode Island	\$22,215,421 ¹	\$27,769,277	\$37,612,607 ¹	(20.0%)	(40.9%)	\$888,617 ¹	\$952,090	\$1,128,971 ¹	4.0%
South Carolina	\$480,427,307	\$496,714,019	\$496,402,643	(3.3%)	(3.2%)	\$19,217,092	\$19,868,593	\$19,856,106	4.0%
South Dakota	\$40,561,937	\$40,240,429	\$31,551,096	0.8%	28.6%	\$1,014,048	\$1,006,011	\$788,777	2.5%
Tennessee	\$419,425,973	\$335,254,306	\$476,896,329	25.1%	(12.1%)	\$10,793	\$12,046,883	\$12,921,616	5.0%
Texas	\$4,220,187,772	\$4,342,933,747	\$4,286,247,835	(2.8%)	(1.5%)	\$159,161,015	\$160,957,958	\$166,276,711	4.9%
Utah	\$162,395,834	\$148,683,769	\$156,967,481	9.2%	3.5%	\$5,206,191	\$6,020,354	\$6,410,531	4.3%
Vermont	\$52,539,000	\$45,116,000 ¹	\$40,220,000 ⁴	16.5%	30.6%	\$1,037,000	\$938,084	\$937,782	3.0%
Virginia	\$525,538,320	\$516,683,782 ^{1,2}	\$491,195,957 ²	1.7%	7.0%	\$11,974,967	\$12,226,523 ¹	\$11,965,746	2.3%
Washington	\$592,322,031	\$530,160,391	\$586,897,849	11.7%	0.9%	\$11,846,437	\$10,603,222	\$11,716,391	2.0%
West Virginia	\$103,837,169	\$115,632,628	\$129,486,286	(10.2%)	(19.8%)	\$4,484,768	\$4,484,831	\$4,921,115	4.6%
Wisconsin	\$226,720,192	\$261,013,953	\$271,081,787	(13.1%)	(16.4%)	\$6,817,157 ⁵	\$7,816,339	\$8,132,454	3.0%
Wyoming	\$63,747,982	\$66,255,335	\$72,568,208	(3.8%)	(12.2%)	\$1,833,389	\$1,816,729	\$2,034,115	3.0%
TOTAL	\$32,143,421,549	\$30,958,149,372	\$32,080,748,589	2.2%	0.4%	\$1,095,109,287	\$1,100,594,878	\$1,135,417,829	

1 BI estimate. 2 Net surplus lines premiums written. 3 Revised. 4 Restated. 5 Ocean marine tax increased to 3% as for other surplus lines.

Source: BI survey

Researched by Angelina Villarreal



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Health: Adapting strategies

CONTINUED FROM PAGE 12

between providers within an ACO — would likely inflict significant damage to a provider's loss experience on primary and excess cyber protection policies.

"It's safe to say that the more people you have handling data, the more likely it is that you're going to have a breach," said John Geisbush, a Phoenix-based managing director at Marsh Inc., adding that insurers' heightened sensitivity to cyber risk could manifest in the marketplace in the form of upticks in the amount of risk retention health care providers are asked to shoulder, or in the form of rate firming for excess cyber insurance limits. "I suspect that underwriters are going to be more and more interested in how their policyholders' systems are set up and what kinds of things they're doing to eliminate the possibility of a breach."

For all of the excess/surplus market's uncertainty regarding hospitals, health care systems and integrated delivery systems, purchasing conditions have demonstrated only modest signs of firming, if any at all, experts say. Year-over-year growth in pricing, deductibles and limits for excess medical professional liability and general liability has

been limited, while terms and conditions for most existing policies have remained largely unchanged.

Experts noted that while the number of ACOs has grown substantially since the beginning of 2011, few insurers have responded with liability coverage products specifically designed to address the unique exposures generated by accountable care-based delivery and payment models.

Last week, Zug, Switzerland-based Allied World Assurance Co. Holdings A.G. released a policy form designed specifically for ACOs. In March, Willis Group Holdings P.L.C. and Simsbury, Conn.-based Ironshore Inc. launched their own ACO-tailored coverage product.

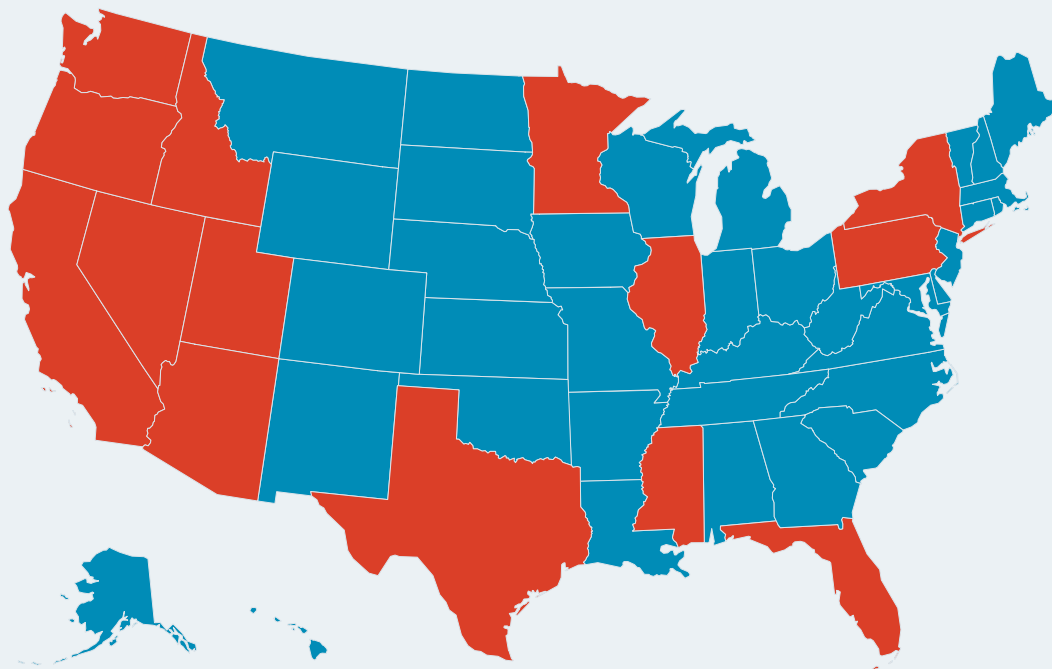
Frank Castro, Willis' Los Angeles-based national health care practice leader said: "We found that the traditional solutions simply weren't adequate to meet the needs of specifically, statutorily driven ACOs like the Medicare Shared Savings model and the Pioneer ACO model," Mr. Castro said.

Still, some experts questioned the necessity of such products, at least without any considerable loss history.

"That's one thing we haven't done — go out and say we're going to bolt together all of these coverages and call it a new ACO product — because I don't think it necessarily is a new product," said Lexington's Mr. Cox. "Candidly, I don't think the clients have a consistency of view as far as what their coverage gaps are."

STAMPING OFFICES

First-half 2012 surplus lines premiums collected by the 14 state stamping offices, in millions of dollars.

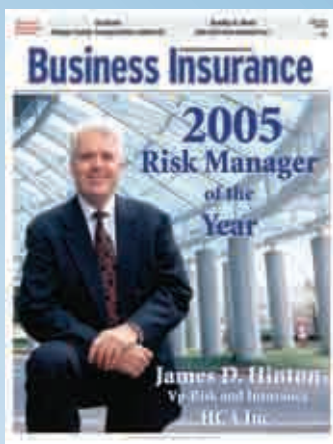


STATE	PREMIUMS	% CHANGE	STATE	PREMIUMS	% CHANGE	STATE	PREMIUMS	% CHANGE
Arizona	\$189.7	9.9%	Minnesota	\$174.5	16.3%	Pennsylvania	\$427.3	10.2%
California	\$2,147.6	8.3%	Mississippi	\$158.8	(2.9%)	Texas ³	\$1,935.2	23.2%
Florida ¹	\$2,360.9	4.4%	Nevada	\$105.7	27.0%	Utah	\$81.3	(2.2%)
Idaho	\$24.4	(7.6%)	New York ²	\$824.9	(67.3%)	Washington	\$336.9	36.2%
Illinois	\$555.0	11.7%	Oregon	\$89.3	(18.1%)			

1 Data includes premiums for independently procured insurance. 2 Data is gross premiums; large fluctuation is due to late-filed return premiums. 3 Data includes \$148.0 million in non-Texas premiums taxed as Texas, but excludes \$157.4 million in tax-exempt premiums.

Source: Surplus Lines Stamping Office of Texas

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INSIGHTS TODAY FOR THE RISKS OF TOMORROW

Stamping office stats show rates hardening

Surplus lines market adjusting to rules in Dodd-Frank law

By LOUISE ESOLA

A relatively new law aimed at streamlining excess and surplus lines insurance practices for multi-state companies has translated into inflated increases in premiums in the surplus lines markets for states that are home to large corporate hubs.

Experts say the latest batch of filings and premium data released by the U.S. Surplus Lines Stamping Office shows a slightly hardening market and an industry adjusting to the new regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

That act, signed into law in 2010, addresses excess and surplus lines insurance under the Nonadmitted and Reinsurance Reform Act. Among other provisions, the new insurance law requires that companies with multistate offices

pay premium taxes in the states where they are headquartered.

"We're all watching for changes regarding the new NRRRA regulations," said Phil Ballinger, executive director of the Austin, Texas-based Surplus Lines Stamping Office of Texas, which compiles data from all 14 U.S. stamping offices.

Stamping offices examine surplus lines filings to ensure compliance with state laws and regulations. They also ensure that surplus lines taxes and stamping fees are properly calculated and collected.

The latest round of data reveals a slightly hardening market, Mr. Ballinger said.

Overall, premiums processed by the 14 U.S. stamping offices through June 2012 totaled \$9.4 billion, a drop of 8.3% compared with the first half of 2011. The number of filings decreased 1.9% to approximately 1.5 million.

Mr. Ballinger, however, warned that the aggregate data is skewed by a large volume of late-filed

Continued on next page

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return premiums from prior years in New York, which showed a 67.3% decrease in premiums. Removing data for New York results in an 11% increase in premiums for the remaining 13 offices — to \$8.6 billion from \$7.7 billion, Mr. Ballinger said.

“That seems to be in line with what we are hearing and seeing in the trades and when you speak with individual underwriters,” he said. “They are seeing an increase in some amounts, (and) that’s all indicative of hardening to some degree, but not the increase in filings we would see in a true hard market.”

“In softer markets, standard (insurers) become very aggressive in underwriting; they lower rates and chase business,” he said. “We’re not seeing that here; we are seeing the increase in premium, but the filings decreased.”

Overall, the 2012 data shows a 1.9% decrease in filings for 14 states, counting New York’s figures and a major change for the Illinois surplus market that negatively affected the number of filings overall.

In New York last year, late filings out of that state accounted for skewed results in the 2010-2011 U.S. Stamping Office figures. Meanwhile, New York’s 2012 numbers are “distorted” by one particular filer, said Dan Mahar, executive director of the New York-based Excess Line Association of New York.

Mr. Mahar said the issue — the result of late filings and multiyear filings — will “fix itself” in the future.

And one change in Illinois affected the numbers for the entire country as well as the state. Specifically, it saw an 11.7% increase in premium — to \$550 million from \$492.4 million — but a massive 34.8% decrease in filings, from 85,108 down to 55,515.

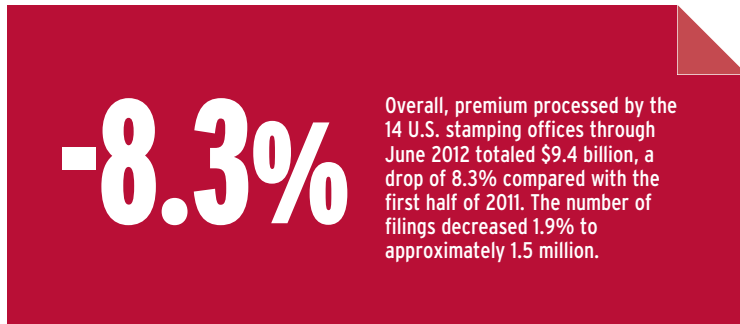
David Ocsek, executive director for the Chicago-based Surplus Line Association of Illinois, said the drop in filings was caused by the loss of a small Lloyd’s of London program in Florida.

“It was ancillary auto coverage out of Florida that would ride on top of a (traditional) auto policy. It covered petty theft and other minor coverage with small premiums (that) never generated any money,” he said. “It was, however, a lot of documents.”

In turn, the 11.7% increase in premiums in Illinois was likely the result of new laws, he said, adding that many other states are zeroing in on the NRRRA regulations and how that could shift premium upward in the future for individual stamping offices.

California, Illinois, Nevada, Pennsylvania, Texas and Washington all saw major increases in premium — between 10.2% and 36.2%. “Some of the increases you are seeing in the big states are the result of the NRRRA changes,” said Mr. Ballinger. “All the big states are watching out for this.”

Tracking Texas alone, Mr. Ballinger said 40% of the premi-



um filed in his home state through August 2012 accounted for the changes in the way premium tax is collected under the new law. In the new data, Texas saw a 23.2% increase in premium from the first half of 2012 compared with that of 2011, yet a 2% drop in filings. “We know that we are

keeping a lot of non-Texas premium and writing it and taxing it as though it were all in Texas.”

Meanwhile, experts say the new regulations are making it tough to know which markets are seeing prices harden.

“We definitely see an increase in the property area,” said Mr.

Ocsek, of Illinois. “It’s hard for us to tell how much is due to the new NRRRA environment. Illinois is a larger state and is likely to have a lot of multistate business. We are hearing anecdotally that they are getting better prices, (but) I suspect it’s a little bit of both. As a corporate hub-type state, there are a lot of businesses based here. We are more likely, under the NRRRA, keeping taxes that we were previously allocating to other states.”

In New York, another large state with headquartered multistate operations, Mr. Mahar said all eyes are on the NRRRA changes. “The dust is still settling on the impact (because) you have 50 states trying to react to it,” he said.



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Perspectives

Since the 2011 implementation of the Nonadmitted and Reinsurance Reform Act, two rival interstate agreements have been in a race for last place, says David Ocasek of the Surplus Lines Association of Illinois. The clear winner is no agreement at all.

Surplus lines regulations can't clear the first hurdle

By David Ocasek



Mr. Ocasek

One is left to wonder why state insurance commissioners would support a system that is clearly bad for their state coffers.

July marked the one-year anniversary of the effective date of the Nonadmitted and Reinsurance Reform Act, and the surplus lines industry has settled into an uneasy regulatory détente.

Despite losing half of its members, the lone functional interstate agreement continues to operate with six participants. The remaining 46 states utilize a single-state filing system that doesn't require the collection or reporting of allocation data.

In the months leading up to and immediately after the passage of the NRRA, there was excitement around the possibility that a nationwide, uniform, regulatory structure could be adopted with similar forms and rules, and that states could continue to receive their fair share of taxes through a simple and inexpensive allocation system using readily available data.

Participation by all states in such a system is the only way it could be truly "uniform." Properly designed and implemented, it would translate to greater efficiency and lower costs for brokers and policyholders. It was an expressed intent in the law, but not a requirement, and it was not the path that the states pursued.

States respond

The states had three choices. The Surplus Lines Insurance Multi-State Compliance Compact was developed over several years with input from industry, legislators and regulators. It provides a framework for uniformity and allocation, and was adopted by nine states. Because there is a 10-state threshold built into SLIMPACT before it becomes operational, these states remain in limbo.

The second option was the Nonadmitted Insurance Multi-state Agreement, which was more hastily put together by the National Association of Insurance

Commissioners and primarily addressed allocation. Eleven states and Puerto Rico adopted NIMA, though its membership has since dwindled to six.

The third option — doing nothing — was chosen by the majority of states, including California, New York, Texas and Illinois as well as 13 of the 15 states whose annual surplus lines premiums exceed \$500 million. By doing nothing, the default parameters of the NRRA apply — the filing is made with the home state of the insured, which has the sole right to regulate and tax the policy and retains all of the tax collected.

SLIMPACT states, in the absence of a 10th participant, are operating in this manner, as well.

Only one option viable

It has become clear that an interstate agreement, including all states and providing for regulatory uniformity and allocation, is simply not achievable in the current environment.

The logical and most efficient choice for the national marketplace, and the next best thing, is dissolving NIMA and SLIMPACT and letting the default NRRA rules apply.

While this does not achieve uniform regulation or filings, it achieves uniform simplicity and a giant step forward from the pre-NRRA days. Producers no longer file a single policy with multiple jurisdictions or collect and report allocation data. They simply determine the home state, then file the policy and pay all taxes to that state. Sophisticated producers, who are responsible for the majority of multistate surplus lines policies, already know and monitor the different rules in each state where their insureds have exposures.

If we can't be "uniform" we should at least be "unified." This is the most efficient system we can currently hope for under NRRA. If NIMA and SLIMPACT continue to push forward, we

could have three different frameworks operating atop the 50 different state laws. This would be a "nightmare scenario" for brokers and policyholders and is precisely what the NRRA was attempting to avoid.

Dissenting voices

While SLIMPACT remains sidelined with too few members, NIMA remains operational and recently opened a tax clearinghouse. The Florida commissioner, who was instrumental in developing NIMA, continues to voice support. Another supporter is the Florida Surplus Lines Service Office, which runs the NIMA clearinghouse and stands to benefit, along with its software vendor, by very actively marketing and licensing their software to other NIMA participants and non-participants alike.

NIMA supporters are advocating a national allocation system. Determining the winners and losers under such a system cannot be done with any precision, but one might reasonably guess that a substantial number of states would be somewhere in the middle — taking back in allocated taxes an amount roughly similar to what they allocated out. Taking this to its logical conclusion, if NIMA were to expand, taxpayer money would be spent to fund a tax clearinghouse so that most states could get about the same amount of tax, or less, than they would if NIMA and the clearinghouse didn't exist.

Because they are home to more large, national businesses, it is reasonable to assume that states like California, New York and Texas, as well as NIMA participants Florida and Louisiana, would have a large volume of policies with considerable tax dollars to be allocated to other states. There is no way these states will take in more tax than they give out under an allocation scheme.

The only entities that stand to benefit from NIMA are the FLSO, its clearinghouse (which, by their

own estimates, would earn \$9.3 million annually if it were implemented nationwide) and their software vendor. If I was a Florida legislator, taxpayer or broker, I would have to question a system that exports my state tax revenue to other states, while enriching these other organizations.

Costs of NIMA

In addition to the dollars the FLSO and its clearinghouse are spending on a national marketing campaign, implementation of NIMA imposes transactional costs like the clearinghouse transaction fee, 0.3%, and the cost for the broker and insured to collect and report allocation data. Aside from transactional costs, there are hits to state tax revenue.

One is left to wonder why state insurance commissioners would support a system that is clearly bad for their state coffers. Half of the participants in NIMA have closely examined the costs and benefits and decided to withdraw. How long will it take before the legislatures, producers and taxpayers in the remaining NIMA states come to the same conclusion?

Who benefits?

In a recent article discussing defections from NIMA, the former District of Columbia commissioner said it "would be a real shame if they can't get NIMA together." For whom? Not for the insureds or brokers, who benefit from the simplicity and low administrative costs of using a single state filing system. Not for the great majority of states, that would be either net tax losers or net tax neutral under NIMA allocation.

Failure of NIMA might be a "real shame" for the operators of the NIMA clearinghouse if they do not have the revenues it would bring them, but that is hardly a good reason to burden insureds, brokers and taxpayers with additional costs when shifting tax dollars around amongst the states provides them no additional benefit.

David Ocasek, who has been with the Chicago-based Surplus Line Association of Illinois for 21 years, has been its executive director since 1998. He can be reached at docasek@slai.org.

Data: New technology needed

CONTINUED FROM PAGE 3

Nonetheless, insurers need to investigate and get ready for these technologies. In a separate report released in August, Gartner vice president and distinguished analyst Kimberly Harris-Ferrante argued that the volume inherent in big data will stress the aged information technology infrastructures present at many insurance companies and likely require large investments in data storage and new analysis tools.

"To be successful, it is critical that P&C and life insurers understand the emerging issues related to big data," according to the report. "These include volume, velocity of data, complexities, data management, governance and the necessary IT funding."

Additional challenges associated with big data will revolve around architectural changes necessary to retrieve data trapped in legacy core business systems. As such, the report recommends that insurers identify the limitations of legacy policy and claims management systems to support big data and budget accordingly.

Likewise, a report released in June from New York-based insurance consulting and advisory firm Novarica concludes the industry has significant challenges to overcome before the benefits of big data can be realized. The report, "Analytics and Big Data at Insurers: Current State and Expectations," surveyed 86 insurance information technology executives who are members of Novarica's Insurance Technology Research Council and found the infrastructure required to run big data wanting, with only 15-20% of respondents indicating their organization is preparing its technology infrastructure for big data in the near future.

The report cited fragmented

Big data use can improve how insurers do business

The use of big data has the potential to be fundamentally disruptive to many entrenched business practices with insurance companies, experts say.

Insurers able to leverage analytic technologies to make sense of the growing amount of internal and market data available ultimately will gain competitive advantage, according to a recent report released by PricewaterhouseCoopers L.L.P. The report, "The Insurance Industry in 2012," says insurers using big data can improve their overall performance by facilitating greater pricing accuracy, deeper relationships with customers, and more effective and efficient loss prevention.

PwC predicts the use of big data eventually may transform the commercial insurance business model, as insurers find ways to use these new streams of information to radically alter business processes.

For example, a commercial fleet insurer may use actual data derived from telematic devices implanted in vehicles to underwrite a policy and set rates.

"Carriers may no longer need to compete on price; they instead may be able to assess the risk of individual customers based on their actual behaviors," according to the

report. "Additionally, commercial insurance increasingly will be able to focus on providing customized, flexible products and value-added services that involve working with the clients to proactively avoid or reduce losses and manage risks."

Yet, this propensity of an insurer to deploy advanced analytics and big data will likely depend on a variety of factors. A recent survey of 86 insurance information technology executives conducted by New York-based insurance consulting and advisory firm Novarica, revealed a split in analytics usage according to the size of the company. Indeed, the report accompanying the survey, "Analytics and Big Data at Insurers: Current State and Expectations," said smaller insurers face an "analytics gap" relative to their larger rivals.

"Larger property/casualty insurers universally plan to embrace analytics across all financial and risk management areas (as well as most operational areas), while only about half of midsize insurers have similar plans," according to the Novarica report. "This lack of analytic capability among smaller property/casualty insurers will intensify the competitive advantage that larger insurers already enjoy in other areas."

— By Bill Kenealy

data environments, a lack of investment in tools as primary impediments and said the huge volumes of structured and unstructured data now available for analysis presents a new set of challenges for insurers.

"The rising tide of 'big data' threatens to overwhelm enterpris-

es that haven't yet truly gotten a handle on 'little data' (structured enterprise data)," according to the report.

Another stumbling block the report identified was corporate cultures that value received wisdom over critical analysis. Moreover, the report notes that profi-

ciency in the use of analytics historically has been centered in a few departments within an insurance company.

"While usage of analytics across various actuarial and financial areas is generally widespread, insurers are much less advanced in using analytics for optimizing operational areas like marketing, underwriting or claims," according to the report. "The insurers that will be best positioned to profit from the potential value of big data will be those who have created a culture where business leaders trust analytics and act on the insights provided."

Just such a culture is emerging at insurer and reinsurer XL Group P.L.C., said Kimberly Holmes, head of strategic analytics for the company. The insurer's intent is to embed analytics in the decision management process across the enterprise to gain new insights.

"XL is committed to a strategy where big data and analytics are foundational," she said. "It will revolutionize the way people make decisions."

Ms. Holmes said that the true value of big data lies less in the size of the data sets used for analysis than in their novelty and accessibility.

"Big data to me is accessing and interpreting data that you never used before," she said. "A lot of the data that was available 10 years ago wasn't accessible."

Yet, many of the sources that likely will contribute to the largest amounts of data for analysis in the coming years did not exist a decade ago. A report released by PricewaterhouseCoopers L.L.P. in March contends data derived from sources including mobile devices, social networks and Internet-connected sensors placed on everything from cars to buildings to bridges will define the big data era.

"Insurers who intelligently harness this agglomeration of information will be able to better understand their customers and prospects, develop solutions — not push products — that address very specific customer needs, and build a foundation for a very positive customer experience," according to the report.



UPCOMINGS & GOINGS CLOSE

AMY HOTALING

NEW JOB TITLE: McLean, Va.-based vice president and manager of property/casualty operations for Ames & Gough Insurance Agency Inc.

PREVIOUS POSITION: Bala Cynwyd, Pa.-based national director of distribution for RLI Professional Services Group

LOOKING FORWARD TO: I am really excited about working more directly with clients and joining a growing firm with a great team. I like the idea of a client-focused approach. This allows me to solve clients' problems.

CHALLENGES FACING INDUSTRY: There is definitely a need for more experienced people in the industry as baby boomers retire. We need more knowledgeable and experienced professionals in the industry to fill the void.

INDUSTRY OUTLOOK: The outlook is good, and expert advice is always in demand. The industry is filled with opportunity.

FIRST EXPERIENCE IN JOB MARKET: Specifically in insurance, I was a home office underwriter for State Farm Insurance in Newark, Ohio. It was my first experience in understanding the relationship between underwriting and the brokerage side.

COLLEGE MAJOR: Psychology.

ADVICE: Find your niche in something you are passionate about. Focus on what you do best; match your skill set, and you will do great. Having in-depth knowledge in the specialty segment is always in demand, and don't forget to eat right and exercise.

OUTSIDE THE INDUSTRY, A DREAM JOB: I have always wanted to be a teacher. I never dreamed I would be in insurance.

HOBBIES: Hiking, yoga and volunteering for a local animal rescue league.

Regulations: Business groups chime in on new rules

CONTINUED FROM PAGE 3

years after implementation of the health care reform law, could make inadvertent errors in determining whether employees are eligible for coverage, a safe harbor for "de minimis errors" should be established exempting employers from penalties as they make a good faith effort to correct the errors within a reasonable amount of time, the National Business Group on Health said in a letter sent last week to IRS Commissioner Douglas Shulman.

Yet another issue involves a health care reform law provision that imposes financial penalties on employers, if coverage they offer to employees is not "affordable."

Under the law, the premiums

employees pay for coverage are affordable, if they do not exceed 9.5% of household income.

Last year, though, in a notice, the IRS, in responding to employer concerns that in many situations they would have little or no way of readily determining employees' household income, gave employers an alternative to satisfy the 9.5% premium affordability test.

Under that test, premiums paid by employees would be considered affordable if they did not exceed employees' wages as reported in Box 1 of their W-2 wage and income statements.

Income, though, listed in Box 1, the ERISA Industry Committee noted in its comment letter, does not include employees' 401(k) plan contributions or other pro-

tax contributions.

A safe harbor based on wages reported in Box 1 understates the affordability of coverage to those employees making pretax contributions, the ERISA Industry Committee said, which suggested to regulators they amend its proposal so that compensation reported in Box 5 of employees' W-2 statements, which includes 401(k) plan contributions, be used to determine if the affordability test is passed.

"That would be a fair approach," said Anne Waidmann, a director with PricewaterhouseCoopers L.L.P. in Washington.

Yet another issue for which employers need guidance is one involving a little-known provision in the law that imposes assess-

ments on employers that will be used to partially reimburse commercial insurers writing policies for individuals with high health care costs.

In all, the program is intended to raise \$25 billion over three years. The assessments will be made on a per-participant basis, with the first payments due in January 2014.

But so far, federal regulators, Mr. Dennett said, have yet to provide any guidance on how much the per participant fee will be or exactly how employers will pay the bill.

"At some point, employers will need to know how much will be collected from them and how they will pay the obligation, he said.

AIG: Insurer singled out for risk test

CONTINUED FROM PAGE 1

While individual insurers and their trade organizations have argued consistently that property/casualty insurers do not pose a systemic risk and should not be regulated under Dodd-Frank, AIG President and CEO Robert H. Benmosche has said he would welcome federal oversight.

"We want Federal Reserve regulation," Mr. Benmosche said in an interview last month on CNBC. "We encourage federal regulation because we want our clients, for sure, to know that we're regulated; and when we make promises, somebody's watching over our shoulder making sure we don't do what we did before and cause these problems."

The problems peaked in 2008 when the government bolstered AIG with \$182 billion in financial assistance as the insurance giant approached collapse because of problems with noninsurance-related activities. While the government once controlled nearly 80% of AIG, the insurer and the Treasury Department last month

AIG changes corporate logo as part of rebranding effort

Receiving notice that it might be subject to new regulation wasn't the only development at American International Group Inc. last week.

The company also unveiled a new corporate logo as part of an ongoing rebranding effort.

During the summer, AIG said that it would "return to the AIG name" rather than continue to operate its commercial property/casualty business under the brand of Chartis Inc.

AIG adopted Chartis in 2009, less than a year after AIG stood on the brink of collapse and was saved by the federal government assuming a nearly 80% ownership stake in the company.

AIG plans to complete the



rebrand this fall. When complete, Chartis will become AIG in most locations. Its life and retirement segment, known as SunAmerica Financial Group, will become AIG Life & Retirement.

"AIG's clients, investors and the general public are increasingly recognizing that AIG has made America whole plus a profit," President and CEO Robert H. Benmosche said in a statement.

"Our new logo reflects a rebuilt and forward-looking AIG — contemporary, dynamic, transparent and revitalized," he said.

The new logo will be used on a limited basis until the rebranding is completed, AIG said.

— By Mark A. Hofmann

said that AIG had repaid all of the federal assistance, although Treasury continues to hold 15.9% of AIG's common stock.

That AIG would receive a review notice did not surprise

industry observers.

"I do not think that AIG is at all surprised," Howard Mills, director and chief adviser at the insurance industry group at Deloitte & Touche USA L.L.P. in New York

and a former New York superintendent of insurance, said in an email. "Mr. Benmosche has been vocal in saying that they expect to be considered for SIFI designation and they are well prepared."

"In our view from a political standpoint, AIG was the 'too-big-to-fail' poster child at least partially responsible for the push to more heavily regulate nonbank systemically important financial institutions in the first place, so we think its progression in the FSOC's review process is expected and shouldn't surprise many investors," Meyer Shields, Baltimore-based director at Stifel Nicolaus & Co., said in a research note.

Additional layers of regulation are "seldom a positive, and at least initially, if AIG receives the FSOC's nonbank SIFI designation, we'd anticipate that regulators would prefer more capital to less, likely limiting AIG's share repurchase and eventual dividend paying ability," Mr. Shields said.

James Auden, an analyst at Fitch Ratings Inc. in Chicago, said AIG is "somewhat unique" as a property/casualty insurer, and that Fitch had not heard that others might be designated as such, although that could change.

"Compliance costs escalate as you're regulated by more bodies," he said, and conflicting overlaps among regulations could emerge.

"We're not expecting any other pure property/casualty companies"

to be considered for a SIFI designation, said Mark Dwelle, an insurance analyst at RBC Capital Markets, a unit of RBC Securities Inc. in Richmond, Va. He said that assessment is due partly because no property/casualty insurer came under increased federal scrutiny in the last financial crisis.

Minimum asset levels to determine whether a nonbank financial institution could be considered a SIFI "rule out a vast proportion of them," Mr. Dwelle said. "Only a handful would make the asset tests."

"It's no real surprise that they could be so designated," said John Lobert, a former senior insurance trade group executive and founder of Lobert Legislative & Regulatory Consulting in Lisle, Ill. "The taxpayers had to save the company from collapse."

But he dismissed arguments that more extensive regulation could be a competitive advantage.

"While AIG has certainly recovered in the marketplace as well as otherwise, the marketplace's memory is not short-term; it will remember that AIG once engaged in risky business," Mr. Lobert said. "I don't think it's going to hurt them or help them."

"It's no surprise whatsoever that this announcement came out," said John Ward, principal of Cincinnati Partners L.L.C. in Loveland, Ohio. "There are pluses and minuses," he said.

Border: Shootings highlight comp program issues

CONTINUED FROM PAGE 1

\$62 million on 11,229 workers comp claims, including medical expenses, according to a recent Inspector General report. The agen-

cy had nearly 59,000 employees in 2010.

Last week, Nicholas Ivie, a 30-year-old Border Patrol agent, was shot and killed near the border with Mexico, south of Tucson, Ariz.

He and two other agents were attacked, with two being shot, while responding to a sensor that detects the presence of people. The shooting happened along a route commonly used by drug smugglers.

Injured agents can find navigating a large government bureaucracy frustrating when attempting to obtain benefits, said James Stack, an agent and vice president at large for the National Border Patrol Council and president of the union's local affiliate in El Paso, Texas.

The U.S. Department of Labor's Office of Workers Compensation Programs, which administers the federal workers comp program, properly pays benefits once notified of an injury, Mr. Stack said.

But individual federal agencies are responsible for certain claims administration duties such as initiating Federal Employees Compensation Act claims, advising their employees, assisting them in returning to work and managing costs, according to documents.

The Border Patrol, however, doesn't do a good job of advising its injured employees on their rights or on how to file a claim, Mr. Stack said.

Yet agents and their families depend on the program when they are harmed or killed while on duty, Mr. Stack said.

"That is the federal employees' and border patrol agents' only source of redress should they be injured on the job," he said.

Agent frustrations with their workers comp system aside, the Inspector General report found that

the customs and border protection agency did not effectively control costs and that it was deficient in maintaining procedures for ensuring effective case management.

Auditors found, for instance, that from 2007 through 2009, the agency failed to validate "chargeback bills" for 28,245 claims totaling \$163 million. The bills are for amounts the U.S. Department of Labor charges its agencies to fund their claims.

"As a result, CBP has not minimized lost workdays and related compensation costs and has been billed for inappropriate costs," according to the report.

Private sector employers often allocate chargebacks to encourage local units to reduce injuries.

Fred O. Pachón, vice president of risk management and insurance for Santa Barbara, Calif.-based Select Staffing Inc., said his company holds its branches responsible for insurance costs and additional chargebacks of \$500 to \$1,500 when, for example, a root-cause investigation reveals that an injured employee was not properly trained or his or her physical capabilities were not properly matched with the job.

"The message is, 'Avoid the attitude of what doesn't cost me, doesn't affect me,'" Mr. Pachón said.

Last week's shootings occurred near a Border Patrol post recently named after Agent Brian Terry. He was shot in 2010 and his killing prompted investigations into a botched federal gun trafficking probe dubbed Fast and Furious that

allowed weapons to fall into the hands of Mexican drug cartels.

Cartels always have been willing to kill Border Patrol agents, Mr. Stack said. "That criminal element has always been present on the border and some parts of that criminal element have always been willing to take out a Border Patrol agent or assault a border patrol agent."

Assaults on agents, however, dropped recently because the struggling U.S. economy has meant fewer illegal immigrants are attempting to go to the U.S. for jobs, Mr. Stack said. That has led to fewer incidents such as the once-common practice of illegal aliens standing on Mexico's side of the border and hurling rocks at agents' vehicles, he said.

But shootings and assaults are only some of the workplace hazards Border Patrol agents face.

Their training alone takes its toll, Mr. Stack said. Injuries occur during use-of-force training, or while learning to use equipment such as all-terrain vehicles, he said.

Chasing illegal aliens, running through rough terrain, hopping over fences and the like also cause impact injuries such as broken bones or dislocated joints, he said.

Border Patrol agents "climb over unusual terrain with lots of easy places to twist your ankle, fall, twist knees and get injured," a spokeswoman said. "They are making contact with a criminal element. They drive vehicles in places where it is unusual, so they might have vehicle accidents."

Other mishaps also take their toll. Agent James R. Dominguez died after a vehicle struck him in July while he was helping a disabled motorist in Texas.

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Market Moves

Ryan Specialty Group buys Direct Group of U.K.

Ryan Specialty Group L.L.C. has agreed to acquire British insurance services provider Direct Group Ltd. for an undisclosed amount.

In a statement announcing the transaction, Chicago-based Ryan Specialty said the move "will significantly strengthen" its managing general agent and third-party administration capabilities in the United Kingdom.

Ryan Specialty said that Doncaster, England-based Direct Group has been a partner to specialist Lloyd's of London insurer Jubilee, part of Ryan Specialty, for years.

Direct Group delivers a range of MGA and TPA services across the insurance industry, according to Ryan Specialty. The services include underwriting, proposition delivery, policy administration, premium collection, distribution services, insurer and captive reporting, and comprehensive claims handling services.

The acquisition is subject to regulatory approval.

R-T Specialty acquires Atlantic Star Intermediaries

Ryan Specialty Group L.L.C.'s R-T Specialty L.L.C. wholesale operation has acquired the assets and operations of New York-based Atlantic Star Intermediaries L.L.C., Ryan Specialty announced.

Atlantic Star specializes in the wholesale brokerage placement of insurance for the construction and real estate industries, handling primary general liability, property, umbrella/excess liability and affiliated classes of business within these disciplines. Atlantic Star also maintains binding authorities for monoline owners and contractors protective liability and for monoline railroad protective liability coverages.

"The acquisition of Atlantic Star enhances R-T's construction and program capabilities, significantly expanding our presence in the New York region — one of the

most complex construction marketplaces in the U.S.," R-T Specialty President and CEO Tim Turner said in a statement announcing the acquisition. "We look forward to working with Atlantic Star President Frank Corda and his seasoned team of brokers to manage the tough challenges facing clients today with their construction risks."

Terms of the transaction were not disclosed.

Allied World's Miami branch Gets OK from Lloyd's

Allied World Assurance Co. Holdings A.G. has received approval for the Miami operations of Allied World Reinsurance Management

Co. to act as a Lloyd's of London coverholder for treaty business in Latin America.

The reinsurer will underwrite treaty business on behalf of Allied World's Lloyd's syndicate 2232, the company announced.

The Miami branch, which opened in May, is led by Will Turkel, senior vice president and general manager, Latin America and Caribbean. As a coverholder, the branch will offer a range of property/casualty treaty products and services.

"Coverholders allow Lloyd's syndicates greater access in the regions where they conduct business," said Darren Powell, active underwriter for syndicate 2232, in a statement. "This coverhold-

er is a cost-effective way for Allied World Reinsurance to build out operations regionally and continue to provide its trading partners with the exceptional security and service they have come to expect."

Hub International buys Puerto Rican brokerage

Hub International Ltd. has acquired Carrión, Laffitte & Casellas Inc., a Puerto Rican insurance brokerage.

Headquartered in San Juan, CLC operates throughout the Caribbean, Latin America and continental United States, focusing largely in the financial and construction sectors.

The group will function under the name Hub International CLC. The firm's management team and other employees will join the new entity working in its existing San Juan office and Hub's Miami-based branch.

Jose Carrión, one of CLC's founders, has been named president of Hub International CLC. Previously, he was president of CLC. He reports to Neil Morrison, chairman, Hub International Latin America, and CEO and president of Hub International Ontario.

The acquisition is expected to close in October, subject to customary closing conditions. Terms of the transaction were not disclosed.

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XL Insurance	10

ACO: New arena of liabilities

CONTINUED FROM PAGE 4

no action of its own — to allegations of antitrust activity, contract mismanagement and artificially inflating prices for medical services, transactional risks, data security breaches and medical malpractice suits.

“The biggest risk associated with sponsoring ACOs, or any hybrid model of an ACO, is that by doing so, you’ve just incurred areas of risk that were previously unknown to you,” said Donna Jennings, an Atlanta-based vice president of clinical health care consulting at Marsh Risk Consulting and author of the white paper. Integrating smaller doctor practices into hospitals “opens up a whole new world of potential exposures,” she said.

How certain liabilities are assigned among participating entities within an accountable care organization remains to be seen, experts said, and will depend largely on the organization’s exact structure. In the meantime, risk managers for providers contemplating participation or sponsorship should work with their brokers to explore available insurance coverage (see story, page 12).

“The problem, if there is one, is that all of this is so new that we start getting back to the position of wondering how exactly claims are going to start being brought against these ACOs and how liability is going to be doled out,” said Robert Allen, senior vice president of medical professional liability at London-based Torus Insurance Holdings Ltd.

“I don’t think anyone’s really sure what the next year or two years are going to look like,” Mr. Allen said.

Forum: Rates increasing

CONTINUED FROM PAGE 4

been more in the low single-digit range, but he also that may be due to the risk profile of its large number of high-growth company clients.

Insurers are saying rates will increase further, said Richard C. Hylant, executive vice president of Hylant Group Inc. and president of its Toledo office.

“I think the insurers have been pretty consistent and, in general, they have been getting the rate objectives that they have been trying to accomplish,” he said.

In particular, on workers compensation and property coverage, insurers have charged higher rates and that is expected to continue. “But the feeling is that this market is much more controlled and we are not seeing the dramatic spikes. The theme seems to be that the insurers are saying that they have to make good underwriting decisions,” Mr. Hylant said.

Insurers are achieving rate increases, said Daniel W. Riordan, CEO global corporate, North America for Zurich Insurance Co. Ltd. “Carriers are looking to be active in the market, but they are also looking to achieve rate and we do see positive rate developments.”

In some “challenging” lines, such as workers compensation, double-digit rate increases are being applied. “I would not see rate as matching the loss activity in that line,” Mr. Riordan said.

Insurers have pushed through some significant rate increases in the past year and, while rates may continue rising, the increases may taper, said Matt Keeping, chief placement officer at Willis North America Inc. in New York.

“There’s been steady rate increases over the last 12 months or so. We’ve seen some lines getting significant rate increases and others getting smaller, single-digit increases. There’s an element of sustainability in the lower-single-digit increases, but not the large, double-digit increases, unless the risk justifies it,” he said.

FORUM ATTRACTS 835 TO COLORADO

COLORADO SPRINGS, Colo. — About 835 insurance industry executives attended the Insurance Leadership Forum at The Broadmoor Hotel in Colorado Springs, Colo., last week.

The event, which has several formal sessions, largely is an opportunity for agents, brokers, insurers and reinsurers to hold numerous small-group and one-on-one meetings. Discussions centered on specific business relationships and general trends.

At the meeting, which was sponsored by the Council of Insurance Agents & Brokers and the Council of Insurance Company Executives, brokers said insurers largely were in lockstep pushing for rate increases as they struggle with shrinking investment income.

Other discussion topics included the belief by many brokers and insurers that cyber insurance will be more widely purchased in 2013.

Next year’s Insurance Leadership Forum will take place Oct. 5-9, 2013, at The Broadmoor. For more information, visit www.ciab.com.

— By Gavin Souter

In general, insurers are looking for 5% to 10% increases, but with plentiful capacity in the market, they may have to settle for low single-digit increases to retain business, Mr. Keeping said.

Though, he said, insurers are being “much more granular” in assessing individual risks.

The property/casualty market appears to be firming further, which is being driven by insurers seeking to return to profitable underwriting, said Kevin T. Kenny, executive vice president, head of insurance brokerage and consulting at Wells Fargo Insurance Services USA Inc. in Madison, N.J.

Insurers are seeing dwindling investment returns and “there’s a

general desire to return to a more profitable pricing model,” Mr. Kenny said.

In particular, catastrophe-exposed property accounts are seeing increases, but “mini cats” — freak storms, the Virginia earthquake, and tornadoes in Alabama and Mississippi — also are driving rate increases, he said.

Smaller commercial accounts are seeing the biggest reaction to losses from underwriters as large commercial accounts often contain the mini cats in their retentions, he said.

Tornado losses, in particular, are driving up rates as they often are not sufficient to tap reinsurance coverage, but the frequency of the events means some insurers bear multiple tornado losses a year, said Peter Roeder, member of the board of management at Munich Reinsurance Co. in Munich.

“The primary property increases are triggered in part by the fact that some of the natural catastrophe losses were not covered by reinsurance. For tornado losses, most were retained by insurers on their own book,” he said. “That’s triggered increases on property personal lines and commercial lines also.”

The rate increases will come as additional burden for policyholders already facing challenges in their core businesses due to the sluggish economy, Mr. Kenny of Wells Fargo said.

“Very few clients are prepared for an increase in rate now, because they face so many of their own challenges. They are expecting early advice and to be involved in determining how their program could be restructured to absorb some of the pricing adjustments,” he said.

Brokerage clients increasingly use sophisticated data analysis in their own businesses and that is leading them to have higher expectations in terms of using data in the insurance selection process, Mr. Keeping of Willis said.

“The old phrase, ‘Trust me, I’m your broker,’ no longer works. You need to back that up and prove that you should be the broker and that needs to be backed up with data,” he said.

SIIA: Retentions rising

CONTINUED FROM PAGE 4

of its risk appetite, and its ability to predict comp losses.

“Whether or not you take a higher (retention) shouldn’t just be purely a decision based on whether I can buy cheap excess insurance or not,” Ms. Saunders said. “It should be what’s my financial condition as a company ... and how much risk can I take into my balance sheet?”

In a separate panel at the SIIA conference, experts said the workers comp industry can benefit by adopting best practices currently used in group health settings.

For instance, panelists discussed the use of predictive modeling in the group health and workers compensation arenas to identify claims that are at risk of generat-

ing high costs.

Group health insurers have used such information to guide patient intervention for improved outcomes, said Dr. Jennifer Christian, president of Wayland, Mass.-based Webility Corp., a service provider that aims to reduce return-to-work times in workers comp and disability claims. But she said the workers comp industry has struggled to find practical applications for predictive modeling data.

“On the work comp side, there’s a lot of talk about predictive modeling, but not too much clarity about what to do once you identify somebody at risk,” Dr. Christian said.

Additionally, Dr. Christian said claims adjusters sometimes disregard predictive modeling results

that flag potentially troublesome workers comp claims. She said companies should have procedures to ensure flagged claims receive proper handling, such as by automatically referring high-risk cases for intensive claims management.

“You cannot have meaning in a screening tool unless you respect it,” Dr. Christian said.

Panelists in that session also included Carrie Hatch, Meridian, Idaho-based director of operations for third-party administrator AmeriBen/IEC Group; Robert Jackson, chief operating officer of Atlanta-based medical cost management firm Stratose Inc.; and Jason Davis, vice president of medical cost management firm Global Excel Management Inc. in Sherbrooke, Quebec.

The panel was moderated by Steven J. Link, chief innovation officer for Midwest Employers.

SIIA MEETING DRAWS 1,600

INDIANAPOLIS — The Self-Insurance Institute of America Inc. drew about 1,600 attendees to its 32nd annual National Educational Conference and Expo, held Oct. 1-3 in Indianapolis.

Topics discussed at the conference included the effects of health care reform for employers, the use of employee benefit captives for alternative risk transfer and how to establish self-insured group health plans.

SIIA’s next national conference is scheduled to be held Oct. 21-23, 2013, in Chicago. For more information, visit www.sii.org.

— By Sheena Harrison

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Reputation: Growing worry for business

CONTINUED FROM PAGE 1

Reputation-threatening events can come at organizations from any number of directions.

"Product safety is one big category that we see. A second big category we see is unhappy customers," Mr. Copulsky said. "A third can be behavior on the part of either employees or the CEO."

Regulatory pressures also can pose reputational risks, particularly in the financial services industry, he said.

Rob Yellen, chief underwriting officer for financial lines in the U.S. and Canada at Chartis Inc. in New York, cited the reputation effect of data breaches and computer system hacks, and the experiences of companies that faced supply chain disruptions or radiation fears after the March 2011 earthquake and tsunami in Japan.

He also mentioned the situation after last year's cantaloupe listeria outbreak. While the outbreak was tracked to a Colorado producer, other producers and even companies selling different sorts of melons felt a reputational impact, Mr. Yellen said.

"You have some incidents that affect the whole category," Mr. Copulsky said. "Categories can lose trust in the same way that individual companies can."

"It's anything, anywhere. If you have a company that's valuable, you have a reputation and you need to protect it," Mr. Yellen said. "It's easy in today's world for anybody to attack a company's reputation."

Social media and the Internet exacerbate reputational exposures, allowing reputation-threatening information to spread wide-

ly and very quickly, while also reducing response time. Because items have a long lifespan on the Web, it also increases persistence. "You've got to manage all these factors: dispersion, speed, need for a quick response and persistence," Mr. Copulsky said.

KEY ELEMENTS OF REPUTATIONAL RISK MANAGEMENT

EVALUATE REPUTATION EQUITY: Measuring the size of the reputation asset facilitates benchmarking reputation performance over time and against peer groups.

ANALYZE REPUTATION DRIVERS: Identifying and ranking reputation drivers allows more effective allocation of reputation resources.

DEVELOP A REPUTATION RECOVERY STRATEGY: Effective preparation and evidence-based planning for remedial actions maximizes the chances for reputation recovery.

MONITOR REPUTATION EQUITY: Ongoing monitoring of reputation performance provides feedback that will enhance decision-making and rapid responses to emerging reputational risks.

Source: Oxford Metrica Reputation Review 2012

"We are in the midst of an evolution of how we communicate," Mr. Yellen said. "You've got Twitter out there, and anybody can post anything about anybody, and there's very little recourse."

Tracy Knippenburg Gillis, glob-

al reputational risk and crisis management practice leader for Marsh Inc.'s Marsh Risk Consulting unit in New York, said the advent of the 24-hour, seven-day-a-week cable news cycle at least 20 years ago changed the game in terms of responding to reputation risks. "Social media is changing the game in a different way. Things can go viral very quickly," she said. "But it also creates the challenge of when and how to respond."

It's important to recognize whether the social media activity is actually sufficient to merit a response, Ms. Gillis said. If the volume of social media activity is small, "It's not to say that you then ignore it. But it doesn't drive your strategy at that level," she said. "You're always doing a balancing act, and now social media is one more outlet to consider."

A common mistake in addressing reputation threats involves a lack of "understanding when you should just let it go," Mr. Copulsky said. "Not every tweet, not every post to Facebook matters."

Another common error is that many companies automatically decide to address events through their CEO and public relations staff rather than considering whether it might be more effective to involve frontline employees, Mr. Copulsky said. "It's a delicate balance," he said, stressing the value of "properly equipping employees to be an ambassador for you."

Allowing the legal department's liability concerns to prevent the organization from addressing the event in a way that satisfies the public is another frequent mistake.

"Let's say the CEO wants to

make a public statement about the issue but the legal people want to be careful about how the statement's worded," Mr. Nornes said. Ultimately the statement might only lead to more questions about the organization, he said.

"Sometimes the fear of saying something that will make you legally liable prevents you from saying anything," Mr. Copulsky said.

With reputational risks coming in various and sometimes unpredictable forms, preparation for reputation-threatening events is essential.

"When an event occurs, you need to respond promptly, effectively and efficiently," Ms. Gillis said.

In addition, it's important to have an "early warning system" such as a media-monitoring mechanism in place as a bridge between the understanding of reputational risk and the preparations for dealing with events.

Mr. Yellen stressed the value of bringing in an outside expert to help with discussing the risk, scenario planning, building a plan for dealing with reputation-threatening events and testing the plan. "We believe the right thing to do is facilitate our insureds, the policyholders, getting really good advice on crisis communications," both before and during an event, he said.

Mr. Nornes said the Oxford Metrica report identified another benefit to such preparation in its suggestion that there can be winners and losers in reputational events, with proper preparation leading to organizations' seeing increased shareholder value after a reputation event.

"Because you have the potential for value creation, that's part of the upside for reputation risk management," he said.

inBrief

CONTINUED FROM PAGE 1

Management Global Insurance Index. Compared with the second quarter of 2012, prices across major lines of insurance increased by 0.9% in the third quarter, the report from the Bowring Marsh unit of Marsh & McLennan Cos. Inc. found.

Marsh exec's libel suit against Spitzer tossed

A federal judge in New York has dismissed a libel suit brought against former New York Gov. Eliot Spitzer by Marsh & McLennan Cos. Inc. Managing Director William Gilman. Mr. Gilman filed the suit against Mr. Spitzer last year, alleging that the former governor libeled him in a 2010 column posted on Slate.com. Mr. Gilman alleged that Mr. Spitzer acted with "actual malice" by suggesting that Mr. Gilman was guilty of crimes, including some of which he was not accused, after his conviction in connection with a bid-rigging scandal had been thrown out. Mr. Gilman had sought \$60 million in damages.

Asia rain, floods cause big economic losses

Torrential rainfall and flooding in Asia during September caused more than \$7.5 billion in economic damages, according to a report by Aon Benfield. The brunt of the damage was sustained by China, where two separate flood events caused \$151 million in economic damages and damaged or destroyed at least 38,700 homes and other structures.

NCCI seeks 6.1% hike for Fla. comp rate

NCCI Holdings Inc. says increasing workers compensation claim frequency in Florida and rising prescription drug costs are the basis for a 6.1% rate increase requested in the state for 2013. NCCI submitted its rate filing to the Florida Office of Insurance Regulation in August. The new rate would take effect Jan. 1.

Towers: DB plans continue dropping in popularity

CONTINUED FROM PAGE 3

when 35 Fortune 100 companies offered the plans. While hybrid plans have defined benefit and defined contribution plan elements, legally they are defined benefit plans.

While a handful of big employers, including Dow Chemical Co. and The Coca-Cola Co., have set up new cash balance plans in recent years, new formations have been more than offset by other Fortune 100 companies,

including Bank of America Corp., SunTrust Banks Inc. and Wells Fargo & Co., which began to phase out their cash balance plans.

Only DC plans

As employers have moved away from defined benefit plans, the overwhelming majority of Fortune 100 companies now offer only a defined contribution plan to new salaried employees, according to Towers Watson.

As of June 30, 70% of the For-

tune 100 offered only defined contribution plans, up from 67% in 2011, 63% in 2010 and 57% in 2009. By contrast, as recently as 1998, just 10% of Fortune 100 companies offered only defined contribution plans, typically 401(k) plans.

On the other hand, as employers have shifted to an all-defined-contribution-plan approach, they have added certain features to increase the likelihood employees will accumulate savings, Mr. Glickstein said.

For example, a rising percentage of employers have added automatic enrollment features to their defined contribution plans. That feature is aimed at those employees who don't respond to company requests to enroll. Unless they specifically object, such employees then are enrolled with a percentage of their salary — based on the employer's design — contributed to the plan, assuring the growth of employees' defined contribution plan account balances.



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LEXCASTS



HALE AND RAINE? WINTER STORMS TO GET NAMES

Residents of the Snowbelt soon will be on a first-name basis with the winter storms blanketing their yards.

The Weather Channel announced last week that it will begin using formal names to identify winter storms.

In a statement explaining the decision to personify the storms, the company said the bequeathing of names "adds to awareness" and makes it much easier to reference a storm in social media. Moreover, the company noted that hurricanes and tropical storms have been given names since the 1940s.

Nonetheless, critics of the naming scheme have noted that summer storms are named by a governmental agency, the National Hurricane Center, while the Weather Channel is a private company.

Despite the blizzard of criticism, the Weather Channel seems intent in plowing ahead.

"This is an ambitious project," the company said in a posting on its website. "However, the benefits will be significant."

CONTRIBUTING: Roberto Cenicerros, Matt Dunning, Bill Kenealy, Mike Tsikoudakis

End Page



COURTESY OF CATLIN SEAVIEW SURVEY

Catlin Seaview Survey's deep reef team last week was accompanied by a pod of dolphins while exploring the sea off the coast of Australia.

Dolphins escort crew along Aussie reef

Members of the Catlin Seaview Survey's deep reef team received a sendoff fit for Poseidon himself last week, as the explorers were escorted along Myrmidon Reef in Queensland, Australia, by a pod of about 30 bottlenose dolphins.

The Catlin Survey team, led in part by researchers from Google Inc., had been exploring coral reefs along Australia's coast, studying the effects of recent cyclones in the region, according to a report.

The expedition was sponsored by London-based Catlin Group Ltd.

According to the article, the dolphins seemed particularly drawn to the survey team's water scooters.

The team's interaction with the dolphins likely was a welcome and a markedly less terrifying alternative to a previous encounter with the region's native sea life.

Last month, a group of grey reef sharks accompanied the team on its exploration of Flinders Reef.



MERCURY INSURANCE

Mercury Insurance Advertising Manager Michael Bregder with the Stanley Cup.

Stanley Cup makes rounds to insurer office

More than 1,000 employees of Mercury Insurance Group were given the chance to touch hockey's Holy Grail this week when the Stanley Cup made the rounds to the insurer's Brea, Calif., headquarters.

As 2012 National Hockey League champions, the Los Angeles Kings are allowed to pass the Cup around for 100 days, including a day with each player and staff member and days with sponsors. Mercury Insurance is one of the Kings' sponsors.

"Thanks to the Kings, we had one very special hour with the Cup today," said Erik Thompson, Mercury's advertising director, in a company statement. "I'd guess we had more than 1,000 people packing the halls waiting for the chance to take a photo with the trophy. It was quite a treat for everybody to see the most famous prize in sports, and I'm happy to say that everyone had a chance to get a photo."

Mercury Insurance is a multiline insurer offering predominantly personal lines auto and homeowners insurance.

VIDEO MAY SINK DRIVERS AUTO INSURANCE CLAIM

An insurer hopes that a YouTube video showing a rare, \$1 million Bugatti car swerving into a lagoon in Texas will help it win its case against a man it accuses of insurance fraud.

Just three weeks before the car was videotaped driving off a highway and into the lagoon, Philadelphia Indemnity Insurance Co. issued a \$2.2 million policy on the 2006 Bugatti, according to reports.

The man at the wheel of the car, Andy House, told investigators he dropped his cellphone while driving near Houston, and when he looked up, he saw a pelican and that caused him to veer into the lagoon. But a trial is scheduled to commence this month in a lawsuit filed by the insurer, which claims Mr. House intentionally drove into the lagoon to destroy the car. The insurer also says it has an informant who alleges that Mr. House offered to pay to have the car stolen and set afire.

The car is extremely rare, with just a few hundred made. It is also technologically advanced, which raised questions about why Mr. House left the motor running after driving off the highway. He claims that happened because he was distracted by mosquitoes, reports state.

The video on which the insurer is relying for evidence came from car enthusiasts who were marveling at the Bugatti when it went off the highway.

The insurer argues that the video, which has received 3 million YouTube views, does not show any sign of a pelican when the car crashed. But Mr. House is countersuing and says the insurer owes him \$2.2 million in damages.



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