

DATA BREACH COSTS

Annual expenses per breach incident based on 1,279 global firms' survey responses.

Fiscal 2013	\$5.8 million
\$201 per compromised record*	
Fiscal 2012	\$5.4 million
\$188 per compromised record	
Fiscal 2011	\$5.5 million
\$194 per compromised record	
Fiscal 2010	\$7.2 million
\$214 per compromised record	

*Ponemon defines a compromised record as one record that affects one individual.

Source: Ponemon Institute L.L.C. annual global study released May 2014

CYBER RISKS

Sony faces array of risks from hack

Widespread attack seen as game-changer

BY LOUISE ESOLA

Risk and security experts examining the unprecedented cyber attack on Sony Pictures Entertainment Inc. see it as a game-changer for companies who think they have a handle on cyber security.

The brazen hack U.S. officials blamed on North Koreans leaves Sony facing a host of risk management, legal and liability problems that could significantly tarnish its brand. President Barack Obama on Friday said the U.S. will respond to North Korea for the malicious cyber breach, expected to cost Sony tens of millions of dollars.

Suddenly, breaches "are not all about credit cards," said Rena

See **SONY** page 24

RISK MANAGEMENT

INSURANCE MARKET JOLTED BY SURPRISE TRIA UNRAVELING

Private terrorism coverage could be scarce, costly



THIAGO LEITE/SHUTTERSTOCK.COM

An estimated \$300 billion in private terrorism insurance capacity is available, but capacity for high-risk areas such as midtown Manhattan is limited and the coverage is expected to be expensive.

BY MATTHEW LERNER

The failure of the U.S. Senate last week to enact legislation extending the federal government's terrorism insurance backstop beyond its year-end expiration sent shockwaves through the insurance sector.

Brokers and insurers were scrambling to field policyholder requests for pricing and capacity information on private terrorism insurance cov-

■ Drafting and passing TRIA legislation could come quickly in next Congress. **PAGE 25**

erage to replace the lapsing federal program. While an estimated \$300 billion in total private market capacity is available, capacity for high-risk areas such as midtown Manhattan is limit-

See **TRIA** page 25

MERGERS & ACQUISITIONS

XL bid to buy London rival may start trend

Deal values Catlin at \$3.4 billion

BY DOUGLAS McLEOD

XL Group P.L.C. will gain scale and a much bigger London presence with its proposed acquisition of Catlin Group Ltd., though some experts express caution about potential pitfalls of the combination.

The deal would boost XL's gross premium volume by roughly 70% — and double the size of its reinsurance operations — but its challenges will include maintaining the underwriting and service capabilities that have helped Catlin succeed, experts say.

"It's the classic service business M&A challenge of maintaining those kinds of attributes in a much larger bureaucracy, while still achieving the scale benefits necessary to make the acquisition additive," said Stuart Shipperlee, director with London-based Litmus Analysis, a consulting firm.

XL's stock dropped following the announcement and was downgraded by two stock analysts, citing the pending deal.

Meanwhile, several experts expect an increase in merger and acquisition activity — particularly of London underwriters and of units of large insurers — as acquirers look for growth and diversification.

Catlin announced its negotia-

See **CATLIN** page 24



Q&A: SHERMAN JOYCE

American Tort Reform Association head sees prospect of more civil justice reforms.

PAGE 12



COMMENTARY

Legislation to streamline broker licensing should not be lost in the drive to pass TRIA in 2015.

PAGE 14



IN BRIEF

Ace Ltd. to acquire Fireman's Fund personal lines business from Allianz for \$365 million.

PAGE 8



SPECIAL REPORT

YEAR IN REVIEW; 2015 FORECASTS

Capacity cushions buyers of commercial insurance; health reform law developments expected to dominate benefits management; risk management outlook hinges on evolving exposures and catastrophe risks.

PAGE 16

WE CAN TAILOR THAT
COVERAGE FOR YOU.

Yes.



Berkshire Hathaway
Specialty Insurance

12/22/14

CONTENTS

FEATURES

INTERNATIONAL



Profile: France

The French property/casualty market has seen slow growth in recent years, due to low rates of growth in France's economy. **10**

PERSPECTIVES

Wearable technology risks



Tracy L. Moon Jr., of Fisher & Phillips L.L.P. argues that wearable technology devices in the

workplace will have a big effect on how companies conduct business and will raise liability issues. **15**

OFF BEAT



Men the stupider sex: Study

Researchers have evidence that there is a difference between the genders when it comes to "idiotic risk-taking behavior." **26**

SECTIONS

INTERNATIONAL **10**

PEOPLE **12**

OPINIONS **14**

PERSPECTIVES **15**

MARKET PULSE **20**

OFF BEAT **26**

NEWS

RISK MANAGEMENT

TRUCKING FIRMS GET REPRIEVE FROM REST PERIOD RULES

Critics say regulations had unintended consequences

BY BILL KENEALY

The Senate's recent decision to temporarily suspend controversial U.S. Department of Transportation rules dictating the scheduling of rest periods for truck drivers is being hailed by transportation industry representatives and observers who say the rules did little to enhance road safety.

Attached as an amendment to the recent \$1.1 trillion omnibus spending bill by Sen. Susan Collins, R-Maine, the amendment suspends enforcement of several Federal Motor Carrier Safety Administration rules that went into effect in July 2013 and altered longstanding "hours of service" requirements for truckers.

That rule revision, which changed how truckers calculated a rest period known as a 34-hour restart by mandating drivers to take two periods of 1-5 a.m. off during the restart, had several unintended consequences, experts say.

Darren Beard, Kansas City, Missouri-based senior loss control consultant at insurance broker Lockton Cos. L.L.C., said the rules were particularly onerous for long-time drivers who had readjusted their body clocks to drive at night. "The new rules may have looked

TRUCKERS' HOURS

The Consolidated and Further Continuing Appropriations Act of 2015 amends 2013 rules issued by the Federal Motor Carrier Safety Administration:

- Suspends enforcement of the requirements regarding the restart of a driver's 60- or 70-hour limit
- Suspends the two rest periods from 1-5 a.m. from the mandated off-duty period of at least 34 consecutive hours
- Prohibits all agencies that receive federal grant funds under the Motor Carrier Safety Assistance Program from using MCSAP funding to engage in any enforcement activities based on the July 2013 restart restrictions.
- Requires the FMCSA to perform "a naturalistic study of the operational, safety, health and fatigue impacts" of those restart provisions.
- Does not pre-empt state laws.



good on paper, but for the people accustomed to driving from midnight to 8 a.m. it might not make

any sense to them from a circadian rhythm standpoint," Mr. Beard, a former truck driver, said. There were some issues with hours of service that needed to be addressed, but nobody took the time to step back and ask, "what are we trying to accomplish and can we do it with just one, steady-fast rule?" Mr. Beard said.

Kevin Burch, Dayton, Ohio-based president of trucking company Jet Express Inc., said suspension of the restrictions on the 34-hour restart provision, which went into effect on Dec. 16, would have an immediate impact on his operation.

By keeping truckers off the road between 1 a.m. and 5 a.m. whether or not they were tired, the restrictions impaired safety, Mr. Burch said. "This rule was so hurtful to our industry," he said. "Suspending it will make it safer because we won't be forcing drivers to drive early in the morning when they have to contend with school and rush-hour traffic."

Rich Bleser, Milwaukee-based senior vice president of Marsh Risk Consulting, agreed that the rules didn't fully account for the complexities of the trucking indus-

See **TRUCKERS** page 23

WORKERS COMPENSATION

New hepatitis C drug raises comp cost concerns

BY SHEENA HARRISON

A federal lawsuit alleging price gouging by the maker of hepatitis C drug Sovaldi mirrors a growing struggle to contain hepatitis C-related workers compensation prescription costs that can reach up to \$150,000 per claimant.

While Sovaldi, which entered the market a year ago, is a highly effective treatment that can cure

patients of hepatitis C — unlike other treatments for the chronic liver infection — employers should carefully monitor its use to determine whether cheaper treatments are available or appropriate, experts say.

In the class action suit filed Dec. 9 in U.S. District Court in Philadelphia, the Southeastern Pennsylvania Transportation Authority in Philadelphia says it has paid more

than \$2.4 million for Sovaldi prescriptions for its employees in 2014.

The agency accuses Sovaldi's maker, Foster City, California-based pharmaceutical company Gilead Sciences Inc., of "selectively charging exorbitant prices" for Sovaldi, and is seeking unspecified restitution and monetary damages

See **HEPATITIS** page 23

CORRECTIONS

■ Iris Teo, CEO of Marsh (Singapore) Pte. Ltd., was misidentified in the Women to Watch profiles in the Dec. 8 issue. She is the first female CEO of Marsh (Singapore), a unit of Marsh L.L.C., and the first female CEO for the company in the 10-nation Association of Southeast Asian Nations region.

■ Tracy A. Ryan was misidentified in the Women to Watch profiles. She is executive vice president and chief product officer of Liberty Mutual Insurance Co.

PENSION BENEFITS

Deal averts multiemployer plan crisis

Reform allows benefit cuts to avoid insolvency

BY JERRY GEISEL

Eleventh-hour congressional action last week ends any imminent risk of the collapse of big, massively underfunded multiemployer pension plans and the federal insurance program that guarantees a portion of participants' benefits, but long-term problems remain.

In a rare act of congressional bipartisanship and to the surprise of many, legislators led by Rep. John Kline, R-Minn., chairman of the House Education and the Workforce Committee, and the panel's ranking minority member, Rep. George Miller, D-Calif., added a sweeping multiemployer pension plan reform package to a broader federal spending bill that President Barack Obama signed into law last week.

The new law "will allow plans to survive and not end up on the doorstep of the PBGC," said Jack Abraham, a principal with PricewaterhouseCoopers L.L.P. in Chicago, referring to the Pension Benefit Guaranty Corp., the federal agency that guarantees participants' benefits.

"This is a common-sense solution that does not in any way cost the government money," added Vince Sandusky, CEO of the Sheet Metal and Air Conditioning Contractors National Association in Chantilly, Virginia.

The new law will allow participants' benefits to be cut if a plan is projected to become insolvent

See **MULTI** page 23

CATALYST FOR CONGRESSIONAL ACTION

The financial position of the PBGC's multiemployer pension plan insurance program has dramatically deteriorated in recent years (figures in billions*).

Year	Assets	Liabilities	Deficit
2008	\$1.33	\$1.80	\$0.47
2009	\$1.46	\$2.33	\$0.87
2010	\$1.63	\$3.06	\$1.43
2011	\$1.74	\$4.51	\$2.77
2012	\$1.81	\$7.04	\$5.23
2013	\$1.72	\$9.98	\$8.26
2014	\$1.77	\$44.20	\$42.43

*Reflects rounding

Source: Pension Benefit Guaranty Corp.

12/22/14

ONLINE
FEATURES

REGISTER

2015 World Captive Forum
registration open

Registration is now open for the 2015 World Captive Forum, to be held Feb. 2-4 in Boca Raton, Florida.
www.BusinessInsurance.com/CaptiveForum

VIDEO: IN FOCUS



2014 Women to Watch

Keynote speakers and panelists at the awards event are featured.
www.BusinessInsurance.com/InFocus

TOP 10 STORIES

The top 10 stories of the week

Find out what the most popular news articles and features are on *BusinessInsurance.com*.
www.BusinessInsurance.com/BITop10

DIRECTORY

Directory of Agents & Brokers



The Premium Edition of the 2014 Directory of Agents and Brokers provides information on trends and profiles of

the world's 10 largest insurance brokers and more.

www.BusinessInsurance.com/2014PremiumDirectory

BUSINESS INSURANCE (ISSN 0007-6864)
Vol. 48, No. 26, is published biweekly by Crain Communications Inc., 150 N. Michigan Ave., Chicago, IL 60601-7620. Periodicals postage is paid at Chicago and at additional mailing offices.

POSTMASTER: Email address change to customerservice@businessinsurance.com or mail to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, MI 48207-2912. \$10 a copy and \$149 a year in the U.S. \$169 in Canada and Mexico (includes GST). All other countries, \$249 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 40012850. GST No. 136760444. Canadian return address: 4960-2 Walker Road, Windsor, ON N9A6J3. Printed in USA. Copyright © 2014 by Crain Communications Inc.

NEWS

BENEFITS MANAGEMENT

SUPREME COURT SET TO CLARIFY
STATUS OF SAME-SEX MARRIAGE

Benefits professionals welcome prospect of certainty

BY MATT DUNNING

A definitive ruling by the U.S. Supreme Court on states' rights to ban gay marriage could come as early as June 2015, experts say, bringing welcome relief for employers and their benefits management staffs.

Earlier this month, Kentucky and Ohio joined a growing list of states urging the Supreme Court to hear arguments on constitutional challenges to state-level laws denying marriage rights and benefits to gay and lesbian couples.

"The proceedings throughout the country have created a patchwork of inconsistent decisions resulting in uncertainty and confusion," attorneys for Kentucky Gov. Steve Beshear said in the state's Dec. 9 brief, echoing similar pleas for a final ruling on the issue previously filed by officials in Michigan and Louisiana.

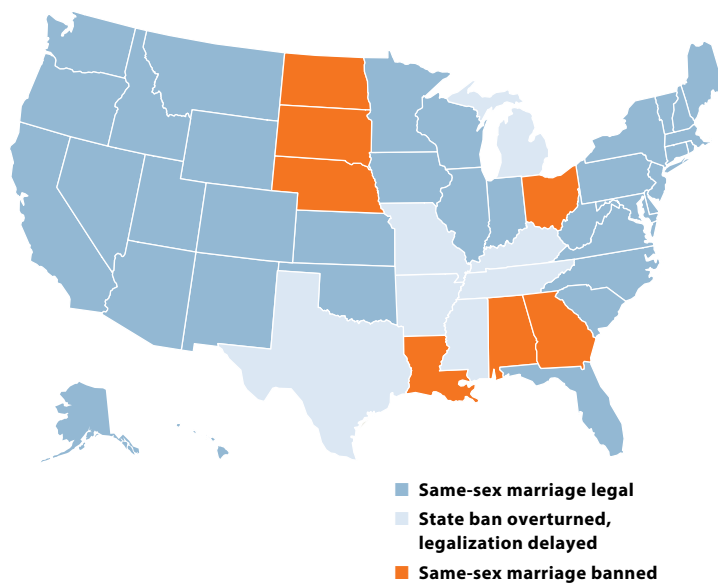
"The present status quo is unsustainable," Ohio Attorney General Michael Dewine wrote in his Dec. 12 brief. "The country deserves a nationwide answer to the question — one way or the other."

Confusion for employers

Since the beginning of the year, federal appeals courts have legalized same-sex marriage in 20

MARITAL STATUS

Marriage rights and benefits are currently available to gay and lesbian couples in 36 states and the District of Columbia. In several other states, implementation of court decisions overturning same-sex marriage bans has been delayed pending the outcome of appeals to federal appeals courts or the U.S. Supreme Court.



states, bringing the total number of states to provide gay and lesbian couples with equal marriage rights and benefits to 36.

Federal district judges have overturned statewide prohibitions on same-sex marriage in Florida, Mississippi, Missouri and Texas, but implementation of those rulings has been delayed pending appeals before the 5th, 8th and

11th U.S. Circuit Courts of Appeals.

"I think a lot of us have been amazed at how quickly things have moved in the last year," said Julie Stich, research director at the Brookfield, Wisconsin-based International Foundation of Employee Benefit Plans.

As rapid as the national shift

See **SAME SEX** page 22

WORKERS COMPENSATION

Comp rules on epidural injections may tighten

BY STEPHANIE GOLDBERG

Warnings by the U.S. Food and Drug Administration could lead state workers compensation systems and payers to tighten treatment guidelines for epidural steroid injections.

Epidural steroid injections are used to treat radicular pain, which occurs when a nerve root becomes irritated and pain radiates to the extremities, experts say, adding that it's often caused by a herniated disc.

However, some say the injections can be costly and overutilized in the treatment of injured workers. And in rare circum-

stances, they can have serious side effects or be fatal.

An advisory panel to the FDA on Nov. 25 voted on whether there are certain clinical situations that warrant adding a contraindication, or strong warning, to the label of such injections. The majority approved, in a 15-7 vote with one abstention, an FDA spokesman said.

The FDA has yet to take further action, but said in April of this year that epidural steroid injections could have rare but serious side effects, such as blindness, stroke, paralysis or death. Additionally, 14 people associated with New England Compounding Center Inc.

were charged last week in connection with the 2012 fungal meningitis outbreak in which 64 people died from contaminated doses of a medication used for epidural steroid injections.

Despite warnings, epidural steroid injections are still recommended by most of the evidence-based resources used in workers comp, said Dr. Jacob Lazarovic, Sunrise, Florida-based chief medical officer for third-party administrator Broadspire Services Inc.

But having updated treatment guidelines could save money, observers say, as the injections

See **EPIDURAL** page 22

REINSURANCE

London looks
to lure back
reinsurersGovernment considers
changes to tax rates

BY SARAH VEYSEY

A U.K. government drive to attract and retain reinsurance business in London has been welcomed by market participants concerned about competitive threats posed by other jurisdictions.

Renowned as a leading domicile for global reinsurers, London began losing ground in the late 2000s to jurisdictions with more favorable regulatory environments, prompting a study by the London Market Group. A report on the study's findings, released this fall, highlighted the loss of market share of worldwide reinsurance as one of the key risks facing the London market.

In response, U.K. Chancellor of the Exchequer George Osborne set up a working group to "explore options to ensure that the U.K.'s regulatory and tax regime is as competitive as possible to attract more reinsurance business to the United Kingdom," he said.

The group is headed by Michael Wade, a Lloyd's of London veteran who founded CLM Insurance Fund P.L.C., one of the first corporate capital vehicles at Lloyd's, among other things. Mr. Wade will present a report on its interim findings before the budget in spring 2015, Mr. Osborne said during his autumn budget statement in late November.

In its report, the London Market Group — which is made up of representatives of the International Underwriting Association, Lloyd's and the London & International Insurance Brokers' Association — said London has been losing its market share in reinsurance, which fell to 13% in 2013 from 15% in 2010, because of increasingly centralized buying strategies of cedents and the increasing use of local hubs, among other factors. Tax and regulatory regimes applied to insurance and reinsurance companies needed to be "proportionate" if London is to maintain a competitive position, it added.

Mr. Osborne's actions drew a positive response from market observers.

"I am encouraged by the chancellor's commitment to ensuring the

See **REINSURANCE** page 22

**You have a passion
for your business.**

**We have a passion
for protecting it.**



You live for the challenge of managing risk and discovering opportunities no one else sees. You have a passion for your company. Liberty Mutual Insurance has a passion for protecting it. For more than 100 years, we've helped all types of businesses thrive. With coverages like general liability, property, and workers compensation, you'll get the peace of mind you need to focus on staying ahead of the competition. Talk to your agent or broker today about Liberty Mutual Insurance, or go to libertymutualgroup.com/business.



RISK MANAGEMENT

Catastrophe risks top Asian exposures

Despite its vulnerability, region's insurance market remains soft

BY JUDY GREENWALD

SINGAPORE — Asia is particularly vulnerable to natural disasters, but the region's risk managers can expect to experience the same soft market as their peers worldwide.

The region's vulnerability to natural disasters calls for a strong approach to risk management, said Franck Baron, chairman of the Pan-Asia Risk & Insurance Management Association, which formed 18 months ago.

Thailand produces 40% of the hard drive disks in the world, said Mr. Baron, who is also group general manager of risk management and insurance at International SOS Pte Ltd., a medical and travel security services company in Singapore.

And in terms of outsourcing, there are a few highly concentrated, cost-efficient locations in Asia, which "has been the most impacted region in the world" in terms of

natural catastrophes, said Mr. Baron, who was speaking at PARI-MA's inaugural Asian Risk Management Conference earlier this month in Singapore.

This concentration of economic activity makes mitigating the effects of natural catastrophes imperative, experts say.

During a conference session on extreme weather conditions, Charles W. Scott Jr., Philadelphia-based director of risk management for FMC Corp., said the "real 'Aha!' moment" at the chemical manufacturing firm came when its management team realized that although "we have the No. 1 position in virtually every product position sold," a loss from a natural hazard could cause the firm to be out of business for months, if not a year.

Buildings can be replaced, but not market share, Mr. Scott said. Once that message was conveyed to management, they were willing to invest in asset protection, he



2NIX STUDIO/SHUTTERSTOCK.COM

The Pan-Asia Risk & Insurance Management Association held its inaugural Asian Risk Management Conference earlier this month in Singapore.

said.

FMC has a plant in the Philippines that produces carrageenan, a thickener derived from seaweed that is used in products such as ice cream, Mr. Scott said. The Philippines has some of the best seaweed for that purpose, which is why the plant is there, but there are concerns in that region about earthquake and typhoon risks, he said.

To reduce the risk of loss from natural catastrophes, the company has introduced risk management techniques, such as installing shut-off valves along fuel pipelines that cost about \$2,000 each that can instantly cut off the flow of propane or diesel and be easily

reset with a screwdriver, Mr. Scott said.

Meanwhile, the overall market remains soft, with no immediate prospects for hardening, speakers at the conference said.

"I can't see (competition) abating until there's a bloodletting," said Kent Chaplin, Singapore-based head of Asia-Pacific and managing director of Lloyd's of London (Asia) Pte Ltd., during a conference session.

Given no significant unforeseen events, "I can guarantee insurance premiums and rates will not be going up in 2015," Mike Davies, Singapore-based chief underwriting officer for Asia-Pacific marine and offshore energy with XL

Group P.L.C., said in another session. "You are able to look forward to a soft market."

There are no longer market cycles "because of changes in the dynamics of the financial markets," Mr. Davies said.

He added, however, that the "insurance industry and the financial sector are similar to the retail industry, in that you get what you pay for." So even though insurance premiums may be declining, "never expect to get the same service in every single instance," he said.

If a deal appears to be too good, "it probably is, because insurers don't have an endless amount of money" and "we do have to try to find ways to turn a profit," Mr. Davies said.

Mergers and acquisitions in the region also need the attention of risk managers.

Risk managers must be involved in acquisitions early enough to get information so they can effectively advise management, said David Ralph, senior vice president of risk management with Hong Kong-based PCCW Ltd., a conglomerate whose interests include telecommunications and media, during a session on expanding from local to global operations.

Elevating the risk manager's role and the position "is absolutely critical to building global programs and allowing companies to expand," he said.

WORKERS COMPENSATION

Huge workers comp award for Ohio widow might be an 'outlier' case

BY SHEENA HARRISON

An award of more than 23 years of workers compensation benefits to the widow of an Ohio demolition worker who died only hours after his workplace injury has lawyers and employers weighing the Ohio appellate court ruling's fallout.

The award compensated the worker's widow for the loss of his limbs, sight and hearing in the period before his death, according to the ruling.

One attorney called the case an "outlier" that is unlikely to set a precedent for how loss-of-use benefits are awarded in Ohio, since the appellate court cited previous case law from the Ohio Supreme Court.

"This really is an infrequent or rare situation because it only involves death claims in Ohio," said Philip Fulton of the Philip J. Fulton Law Office in Columbus, Ohio, who was not involved in the lawsuit. "Over the last couple years on average, we only had about 100 (death claims) a year, and not all of them occur like this."

However, Dave McCarty, director and chairman of the workers comp practice at Kegler, Brown, Hill & Ritter law firm in

Columbus, Ohio, said the appellate ruling potentially could allow for large comp benefit awards in future Ohio cases involving catastrophic work injuries.

Dhimitraq Taluri, 63, worked for Lakewood, Ohio-based wrecking and demolition firm Arberia L.L.C. and died in October 2011

"This really is an infrequent or rare situation because it only involves death claims in Ohio."

Philip Fulton
Philip J. Fulton Law Office

after he reportedly fell 30 feet through a roof while performing demolition work, court records show. Mr. Taluri initially survived the fall with severe injuries to his brain and skull, but he died 4½ hours later at a nearby hospital.

The Ohio Bureau of Workers' Compensation granted workers comp death benefits to Mr. Taluri's widow, Doloreza. Ms. Taluri later filed a motion seeking an award for loss

of use of Mr. Taluri's arms, legs, eyes and ears caused by his fall in the hours prior to his death.

A doctor who reviewed Mr. Taluri's medical records testified to the Ohio workers comp bureau that Mr. Taluri had lost use of the body parts mentioned in Ms. Taluri's claim for a brief period before his death, according to court filings. Based on that testimony, a panel of the workers comp bureau awarded 1,225 weeks of permanent partial disability benefits, or \$959,175, to Ms. Taluri for her husband's injuries.

The award included 250 weeks for the loss of both eyes, 125 weeks for the loss of both ears, 400 weeks for the loss of his legs and 450 weeks for the loss of his arms.

Arberia appealed, arguing in part that Ohio law would limit the award for the loss of Mr. Taluri's limbs, sight and hearing to one week of benefits since he only lived for a few hours after his work accident, records show.

But a three-judge panel of the Ohio Court of Appeals' 10th District in Columbus unanimously overruled Arberia's objections and upheld the benefits award to Ms. Taluri on Dec. 4.

The court also found that, under Ohio case law, partial disability benefit awards are based on the life expectancy of a claimant's surviving spouse, dependent children and other dependents, not on the life span of the deceased claimant.

The court's ruling was based on a 2006 Ohio Supreme Court decision in *State ex rel. Moorehead v. Industrial Commission of Ohio et al.* In that decision, the high court found that a man who died 90 minutes after a workplace fall was a quadriplegic for the brief period after his accident. Therefore, the court found that his widow was due workers comp death benefits and loss-of-use benefits for her husband's short-term paralysis.

"It is irrelevant how many hours Taluri survived to collect an award because (Ohio law) only requires that he would have been entitled to an award before he died," the ruling said. "The medical evidence shows that Taluri was entitled to 1,225 weeks of scheduled loss award, which the (workers comp bureau) could commute to a lump-sum payment."

Mr. McCarty said the *Arberia* decision is "not surprising" considering the court's previous decision in *Moorehead*.



HER SERVICE,
OUR GRATITUDE,
COMBINED.

Insurance for individuals, families and businesses | acegroup.com

We are proud to announce that Combined Insurance, an ACE Group company, has earned the distinction of being named the #1 military friendly employer for 2015 by G.I. Jobs magazine.

The skills honed in military service – discipline, commitment and dedication to helping others – are the same traits that describe the most successful Combined employees. This is one of the many reasons why Combined is dedicated to helping veterans and their families transition back into civilian life through meaningful employment. This year alone, 42% of Combined's new hires have a military affiliation.

We congratulate Combined Insurance and are privileged that so many of our nation's heroes have chosen careers with the ACE Group of companies.



insured.®

U.S. regulators determine MetLife 'systemically' important

■ U.S. regulators have declared insurer MetLife Inc. so big that its failure could destabilize financial markets, a designation that brings extra regulation. MetLife said in a statement that it was disappointed by the decision made by the U.S. Financial Stability Oversight Council, and was considering whether to take the regulators to court over it. The determination "will harm competition, lead to higher prices and less choice for consumers, and ultimately could result in less financial protection for middle-class families," MetLife said. It has 30 days to seek a judicial review of the decision.

Reuters

Ace to acquire Fireman's Fund high-net-worth business

■ Ace Ltd. has signed an agreement to acquire Fireman's Fund Insurance Co.'s U.S. high-net-worth personal lines insurance business from Munich-based Allianz S.E. for \$365 million. The acquisition is expected to close in the second quarter of 2015, subject to regulatory approval, Ace said in a statement. The deal includes the renewal rights for new and existing business, reinsurance of all existing reserves and access to a network of approximately 1,100 agents and brokers, Ace said. In 2013, Fireman's Fund had \$891 million in personal lines gross written premiums, according to the statement. Novato, California-based Fireman's Fund personal lines business will be integrated into Ace's existing high-net-worth personal lines business, Ace Private Risk Services, which provides homeowners, automobile, umbrella and excess liability, collectibles and yachts coverages. Ace will keep the majority of Fireman's Fund employees, a spokeswoman for Ace said in an email.

Louisiana to cut workers comp insurance rates by 2.4%

■ Louisiana employers will see a 2.4% cut in workers compensation insurance rates as of May 1, 2015. The rate decrease is based on an earlier recommendation from the Boca Raton, Florida-based National Council on Compensation Insurance Inc., according to a statement from the Louisiana Department of Insurance. The rate cut marks a cumulative drop of 37% since 2006 and a 56% drop since 1995, the department said in the statement.

Securities issuance for 2014 reaches \$8.03 billion

■ The pricing of catastrophe bond Nakama Re Ltd. pushed 2014 insurance-linked securities issuance to a record \$8.03 billion, Aon Benfield Securities said, surpassing the previous record of \$7.86 billion set in 2007. Nakama Re provides \$375 million in coverage for Japanese earthquake risks using an indemnity-based trigger, Aon Benfield Securities, a unit of Aon Benfield Group Ltd., said in a statement.

New York bans fracking after health report

■ New York state will ban hydraulic fracturing after a long-awaited report concluded that the oil and gas extraction method poses health

risks, Gov. Andrew Cuomo's administration said. New York Environmental Commissioner Joseph Martens said at a cabinet meeting he will issue an order early next year banning fracking, which has been under a moratorium since 2008. Once that happens, New York will join Vermont as the only states to completely prohibit fracking.

Reuters

Tina Mallie named CEO of Spencer Re

■ Spencer Re, a unit of Spencer Capital Holdings Ltd., has named New York-based Tina Mallie as CEO. She succeeds Ken Shubin Stein, chairman of Spencer Capital Holdings, who was previously filling the role, a spokeswoman for San Juan, Puerto Rico-based Spencer Re said. Ms. Mallie, who has served as vice chair of Spencer Capital Holdings since 2013, will focus on expanding Spencer Re, the reinsurer said in a statement. Ms. Mallie joins Spencer Re from Tampa, Florida-based loss adjusting and claims management firm Cunningham Lindsey Group Ltd., where she was U.S. CEO.

Vermont governor drops statewide universal health effort

■ Vermont is abandoning efforts to move to a publicly financed health care system to ensure universal coverage, Gov. Peter Shumlin said. "I have advocated for such a system for much of my public life, but over the past two weeks it has become clear to me that the risks and economic shocks of moving forward at this time are too great," Gov. Shumlin, a Democrat, said in a statement. Vermont officials had been considering such an approach since 2011, when state lawmakers passed a bill calling for the Green Mountain State to move to a health care system that would "ensure universal access to and coverage for high-quality, medically necessary services for all Vermonters." But it turned out that the cost of a publicly financed health care system was, as Gov. Shumlin put it, "enormous" and would require an "11.5% payroll tax on all Vermont businesses and a public premium assessment of up to 9.5% of individual Vermonters' income. These are tax rates that I cannot responsibly support," he said.

Construction group loses appeal on Labor disability rules

■ The U.S. Court of Appeals for the District of Columbia Circuit has refused to agree with a construction trade group's objections to U.S. Department of Labor regulations that call for strengthening affirmative action programs to hire disabled workers, labeling the group's challenge "arbitrary and capricious." In 2013, the Labor Department issued final regulations that update Section 503 of the Rehabilitation Act of 1973. The new regulations detail specific actions federal contractors and subcontractors must take in the recruitment, training, record-keeping and policy dissemination for hiring disabled workers. It also calls for setting a goal of hiring people with disabilities to be equal to 7% of each job group of their workforces. The Washington-based Associated Builders and Contractors Inc. trade group objected to a provision of the rule that invites not just individuals who are offered jobs but also job applicants to advise contractors whether they believe they are covered by the Rehabilitation Act. The group also objected to the 7% hiring goal. But a three-judge panel of the D.C. Circuit unanimously upheld a

ruling by the U.S. District Court for the District of Columbia that dismissed the case.

NCR signs \$160 million pension buyout deal

■ NCR Corp. said it is buying a group annuity to provide pension benefits to about 4,500 retirees and their beneficiaries. The Duluth, Georgia-based technology company will transfer about \$160 million in pension plan obligations to Des Moines, Iowa-based Principal Life Insurance Co. The agreement covers about 4,500 plan participants who started receiving their benefits prior to Jan. 1, 1994. "This group annuity contract purchase is part of our pension transformation and is consistent with our overall strategy to address our legacy issues," NCR Treasurer John Boudreau said in a statement. At the end of 2013, NCR's U.S. pension plan was just over 91% funded, with \$2.931 billion in liabilities and \$2.683 billion in assets.

Hub commercial risk unit names division manager

■ Hub International Insurance Services Inc., a unit of Hub International Ltd., has named James Gervang as senior vice president and manager of its commercial risk division. In this newly created position, Mr. Gervang will take up account management and consulting roles, Mountain View, California-based Hub International Insurance Services said in a statement Tuesday. Most recently, Mr. Gervang was senior vice president, managing director and national practice leader of the international risk division at Wells Fargo Insurance Services USA Inc. in San Carlos, California, according to the statement. He is based in Mountain View.

Aspen renews sidecar Silverton Re for 2015

■ Aspen Insurance Holdings Ltd.'s Aspen Capital Markets division has renewed Silverton Re for 2015 with \$85 million of capital being raised to write a quota share of Aspen Reinsurance's property catastrophe portfolio, Hamilton, Bermuda-based Aspen said. Aspen created Bermuda-domiciled Silverton Re in late 2013 to provide additional collateralized capacity to support Aspen Re's global reinsurance business. The special purpose insurer capitalized initially at \$65 million, with \$15 million of funding provided by Aspen Re, and additional funding secured from third-party investors. Silverton Re will enter into a quota share retrocession agreement with Aspen Bermuda Ltd. under which Silverton Re will reinsure a proportionate share of Aspen Re's property catastrophe excess of loss portfolio.

Payment systems firm reports data breach

■ Charge Anywhere L.L.C., a South Plainfield, New Jersey, firm that operates as an intermediary between retailers' point-of-sale systems and their payment processors, has reported that an unauthorized hacker may have had access to its consumer data as early as November 2009. The company discovered on Sept. 22 that an unauthorized person had installed malware, and that while it only found evidence of data capture from Aug. 17 through Sept. 24, 2014, the unauthorized hacker had the ability to capture network traffic as early as Nov. 5, 2009.

Publisher:
Frank Quigley (Chicago)

**Associate Publisher/
Online General Manager:**
Paul D. Winston (Chicago)

Editor:
Gavin Souter (Chicago)

Editor-at-Large:
Jerry Geisel (Washington)

Managing Editor:
Paul Bomberger (Chicago)

Assistant Managing Editors:
Charmain Benton (Chicago);
Aranya Tomseth (Chicago)

Art Editor:
William Murphy (Chicago)

Senior Editors:
Judy Greenwald (San Jose);
Mark A. Hofmann (Washington);
Sarah Veysey (London);
Joanne Wojcik (Denver)

Associate Editors:
Matt Dunning (New York);
Stephanie Goldberg (Chicago);
Sheena Harrison (Chicago);
Bill Keeney (Chicago);
Matthew Lerner (New York)

Copy Desk Chief:
Katherine Downing (Chicago)

Copy Editor:
Dave Roknic (Chicago)

Copy Editor/Video Producer:
Jewell C. Washington (Chicago)

Editorial Assistant:
Shelby Livingston (Chicago)

Director of Research:
Angelina Villarreal (Chicago)

Editorial Cartoonist:
Roger Schillerstrom (Chicago)

Advertising Sales Director:
Peter Oxner (Chicago)

Northeast Regional Sales Manager:
Ron Kolgraf (Boston)

Mid-Atlantic Advertising Manager:
Mark Krawiec (New York)

Midwest/West Advertising Manager:
Spencer Moysey (Chicago)

**Custom Media Business
Development Director:**
Kimberly Jackson (Boston)

Account Executive:
Pegeen Prichard (Chicago)

Marketing Director:
Clifton Simmons (Chicago)

Sales & Marketing Specialist:
Emily Stein (Chicago)

Production Manager:
J. Thomas Janka (Chicago)

**Associate Group Publisher -
Conferences & Marketing Services:**
Nikki Pirrello (New York)

Events Manager:
Julie Ford (Chicago)

Director of Audience Development
Sherry Skalko (Chicago)

Digital Product Manager:
Christina Kneitz (Chicago)

Reprint Sales Manager:
Lauren Melesio (New York)

EDITORIAL: Chicago: 312-649-5200;
Denver: 303-278-7444;
London: 44-207-457-1400;
New York: 212-210-0100;
San Jose: 408-774-1500;
Washington: 202-662-7200

ADVERTISING: Boston: 617-261-8459;
Chicago: 312-649-5224;
Denver: 303-898-4043;
New York: 212-210-0136

SUBSCRIPTIONS & SINGLE COPY SALES:
1-877-812-1587 (U.S. & Canada)
1-313-446-0450 (All other locations)

Business Insurance is published by
Crain Communications Inc.

Crain Communications Inc. Board of Directors

Chairman: Keith E. Crain
President: Rance Crain
Treasurer: Mary Kay Crain
Cindi Crain

Executive Vice President/Operations:
William A. Morrow

**Executive Vice President/
Director of Strategic Operations:**
Christopher Crain

Senior Vice President/Group Publisher:
David Klein

Chief Financial Officer:
Thomas Stevens

Vice President/Group Publisher:
Chris Battaglia

Vice President/Production & Manufacturing:
Dave Kamis

Chief Information Officer:
Anthony DiPonio

G.D. Crain Jr.:
Founder (1885-1973)

Mrs. G.D. Crain Jr.:
Chairman (1911-1996)

Merrilee P. Crain:
Secretary (1942-2012)

S.R. Bernstein:
Chairman-executive committee (1907-1993)

WorldCaptiveForum.com

BI | EVENTS

Turn connections into conversions

Our sponsorship packages connect you to potential business opportunities before, during and after the conference. You get a full array of digital and print options to keep your company front and center. For these opportunities and more, contact a sales manager today.

ORGANIZING
PARTNERS

BUSINESS INSURANCE



TOWERS WATSON 

SPONSORS

PLATINUM



ZURICH[®]

GOLD



Willis

SILVER

GRANITE
MANAGEMENT LIMITED



WORLD CAPTIVE FORUM



FEBRUARY 1-4, 2015 | BOCA RATON, FLORIDA

Contact:

Kimberly Jackson

kjackson

@businessinsurance.com

978-317-5032

WorldCaptiveForum.com



Disasters caused \$34B in insured losses in 2014

Insured losses from natural catastrophes and man-made disasters totaled \$34 billion in 2014, down 24% from \$45 billion in 2013, according to preliminary estimates released by Swiss Re Ltd. Of those losses, about \$29 billion were caused by natural catastrophe events, compared with about \$37 billion in 2013, according to the Swiss Re sigma study. Total economic losses from disaster events were about \$113 billion in 2014, down from \$135 billion in 2013, and about 11,000 people lost their lives because of natural or man-made disasters in 2014, down from more than 27,000 fatalities in 2013, the study showed. Swiss Re said its estimates were based on data received before Nov. 28, and that they were subject to change.

Integro acquires bloodstock broker

Integro Ltd. has acquired London-based Howard Global Insurance Services Ltd., a Lloyd's of London broker that specializes in bloodstock. Terms of the deal were not disclosed. David Howard, the CEO of Howard Global, said in a statement that the company's management team will continue to oversee the Howard operations. "This is a significant addition not only as a complement to our existing international operations, but also in terms of providing our private clients with an ever-broader array of product offerings," said John Sutton, managing director and co-leader of New York-based Integro's London operations, in the statement.

Cooper Gay launches Uruguay reinsurer unit

Cooper Gay Swett & Crawford Ltd. has launched Cooper Gay Uruguay to place facultative and treaty reinsurance for personal, health, property and casualty lines for insurers in the region, the reinsurance broker's latest move into the Latin American market. Montevideo, Uruguay-based managing director Maria Ferrari will head up the operation, London-based Cooper Gay said in a statement. She will report to Cooper Gay's regional headquarters in Miami, according to Cooper Gay. Ms. Ferrari has more than 20 years of experience in the local and regional reinsurance markets, according to the statement. "Fulfilling the needs and expectations of the Uruguayan market will be a

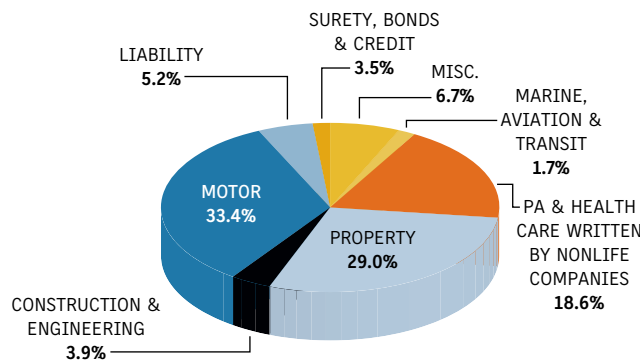
PROFILE: FRANCE

\$66.8
BILLION

The French property/casualty insurance market has seen slow growth in recent years, largely due to low rates of economic growth. The market grew slightly in 2012, largely on increases in reinsurance premiums. France recently changed the basis it uses to report premium growth, making comparison difficult; but growth in 2013 was sluggish, and that is expected to continue in 2014. Auto insurance accounts for much of the market, and competition is strong in the sector.

◀ 2013 P/C gross premiums

MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

Various lines of coverage are compulsory, including:

- Auto third-party liability
- Third-party liability for river transport
- Professional liability for more than 100 professions
- Hunting liability
- Cable car liability
- Tenants' property damage

NONADMITTED

Nonadmitted insurance is not permitted in France because the law provides that insurance must be purchased from locally authorized insurers, with some exceptions. Insurers from European Economic Area states — E.U. member states, Iceland, Liechtenstein and Norway — may provide insurance under E.U. freedom of services legislation.

INTERMEDIARIES

Brokers and agents are required to be authorized to conduct insurance business. Intermediaries can only place marine, aviation and risks that can't be insured locally with nonadmitted insurers. Intermediaries operating in any European Economic Area state can conduct business in France if they are registered with their home authorities.

MARKET PRACTICE

The French market largely complies with the legislation. More companies are buying locally admitted coverage as multinational corporations become more concerned with compliance.

challenge, but by blending international expertise with in-depth local knowledge we will provide innovative solutions for our clients," Ms. Ferrari said in the statement.

FERMA appoints deputy president

Jo Willaert has been appointed to the newly created position of deputy president of the Federation of European Risk Management Associations. Mr. Willaert, corporate risk manager for Brussels, Belgium-based Agfa Gevaert N.V., will succeed Julia Graham as president of FERMA when her two-year term of office ends in October 2015, Brussels-based FERMA said in a statement. In addition, FERMA announced that Edwin V. Meyer, general manager for risk

and insurance management at ArcelorMittal S.A. in Luxembourg, has been appointed secretary general, succeeding Pierre Sonigo, who has been in the role since 2004. Anders Esbjornsson, group risk manager at Solna, Sweden-based construction company NCC A.B., has been appointed treasurer of FERMA, succeeding Fernand De Winter. All appointments became effective Dec. 11.

S&P downgrades Generali rating to BBB+

Standard & Poor's Corp. has downgraded Assicurazioni Generali S.p.A. to BBB+ from A- after a downgrade of Italy's sovereign ratings. S&P lowered its insurer financial strength ratings on four Italian insurers after it downgraded its sovereign credit rating on

Italy to BBB- from BBB on Dec. 5 because of weak growth prospects and high public debts, among other factors. S&P said that, under its rating criteria, its rating on Trieste, Italy-based Generali is limited to two notches above the country rating. The rating agency also downgraded Allianz S.p.A. to A- from A, along with UnipolSai Assicurazioni S.p.A. and Societa Cattolica di Assicurazioni S.p.A., both of which were downgraded to BBB- from BBB.

European sectors face widespread risks

The weak macroeconomic climate, a prolonged low-interest-rate environment and sovereign credit risk are the key risks for the insurance, reinsurance and occupational pensions industries in

Europe, the European Insurance and Occupational Pensions Authority said in a report. The insurance sector would be particularly vulnerable to a "severe double-hit scenario" of widespread asset price corrections combined with a decline in risk-free interest rates, Frankfurt, Germany-based EIOPA said. While the insurance sector remains profitable overall, there is pressure on companies' results, EIOPA noted.

Stephen Catlin named to IIS Hall of Fame

The International Insurance Society Inc. has named Stephen Catlin, the CEO of Hamilton, Bermuda-based Catlin Group Ltd., as its 2015 Insurance Hall of Fame Award recipient. Mr. Catlin will be inducted at the June 15 awards

AREA
210,026 square miles

POPULATION
64.29 million

WORLD INSURANCE MARKET RANKING
4

2014 GDP CHANGE (PROJECTED)
0.9%

MARKET DEVELOPMENTS

UPDATED
OCTOBER 2014

- France's largest reinsurer, Scor S.E., has contested the alleged virtual monopoly of Caisse Centrale de Réassurance for obligatory natural catastrophe coverage. The case is before E.U. authorities.
- The Hamon law, a consumer protection statute promulgated earlier this year, makes it easier to cancel insurance policies midterm and introduces class action lawsuits.
- On Jan. 1, 2014, the tax on health insurance premiums was increased to 14% from 9%.
- France's financial regulator, Autorité de Contrôle Prudentiel, has been renamed Autorité de Contrôle Prudentiel et de Résolution to reflect its new powers intended to prevent and resolve systemic risk crises.

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

dinner taking place in conjunction with the IIS' 51st annual seminar June 14-17 in New York. The Insurance Hall of Fame award honors insurance leaders who have made a broad, encompassing and lasting contribution to the insurance industry, and who are recognized by their peers as successful leaders, innovators and visionaries, according to the IIS.

Aspen names Scott Kirk group CFO

■ Scott Kirk has been named group chief financial officer of Aspen Insurance Holdings Ltd. effective immediately. Mr. Kirk, who most recently served as chief financial officer of Hamilton, Bermuda-based Aspen Insurance, succeeds John Worth, whom Aspen Insurance said is leaving the company.

Low interest rates pressure insurers

■ A prolonged period of low interest rates in many economies of the world will continue to add to pressure on insurer and reinsurer earnings in the near term, according to Standard & Poor's Corp. S&P analysts said increased risk aversion from regulators around the world also is adding to the challenges faced by insurers and reinsurers. Regulatory developments overall such as the upcoming Solvency II risk-based capital rules slated for introduction in Europe in 2016 will increase pressure on smaller insurers and reinsurers in particular and may result in an uptick in consolidation, said Rob Jones, a managing director at S&P, at a briefing in London. It is unclear what the effect will be on the nine insurers classified by the International Association of Insurance Supervisors as globally systemically important, said Mr. Jones, though some may be able to exploit that status as a marketing tool to the benefit of their business.

Potential U.K. withdrawal from E.U., oil key risks

■ Political instability caused by low oil prices, increased shareholder activism and the threat to business caused by a potential U.K. withdrawal from the European Union are among the chief risk concerns for U.K. businesses in 2015, the London-based Institute of Risk Management said, citing results of a membership poll. Health care issues such as the Ebola outbreak, obesity and drug- and alcohol-related problems also

could pose big risks in 2015, IRM members said. A continued soft insurance market could threaten the profitability of U.K. insurance companies in 2015, the organization's members said.

Zurich says on track to meet profit targets

■ Zurich Insurance Group Ltd. says it is on track to meet key

financial targets it has set for 2014-2016, growing operating earnings and making progress this year toward its goal of achieving an operating profit after-tax return on equity of 12% to 14%. The ratio was 11.8% percent in the first nine months of this year. Last year, Zurich lowered its ROE target from the previous 16% percent, reflecting the impact of low interest rates, which have eaten away at investment returns.

Reuters

French storm losses cost insurers \$2.21B

■ Insurers are facing a €1.8 billion (\$2.21 billion) bill for claims from exceptionally high storm damage in France this year, the French insurance association said. Southern France, which usually enjoys a warm, dry Mediterranean climate, has suffered successive waves of rain storms in recent

months, repeatedly causing deadly floods. In the most recent episode, heavy rains and flooding triggered 50,000 damage claims with the cost expected to reach as much as €220 million (\$270.3 million), the insurance association said in a statement. In addition, insurers faced heavy claims earlier in the year from several hailstorms, causing losses in particular in the prime Bordeaux wine-producing region.

Reuters



Spotting risk should be part of your manufacturing process.

We understand that your success rests on flawless production. That means it also depends on anticipating risk and getting ahead of it. That's where we can help. With Travelers, you'll have an ally with the expertise to spot risks others might miss. And, we can help you turn that into a business advantage.

We'll take the time to thoroughly understand your operation and your unique threats to quality, safety and deadlines. Then, we can craft coverage and risk management solutions that can help minimize disruptions, save loss costs and keep production humming.

Find out how you can get ahead of your risks. Talk to your Travelers representative today.

TRAVELERS
It's better under the umbrella®

travelers.com

© 2014 The Travelers Indemnity Company. All rights reserved. Travelers and the Travelers Umbrella logo are registered trademarks of The Travelers Indemnity Company in the U.S. and other countries. BI-0673 Rev. 9-14

STATE-LEVEL TORT REFORM EXPECTED TO ACCELERATE

Q How would you describe the environment for tort reform in the states?

A It's very strong. We've come off of a good year in 2014. We believe 2015 will be very active with significant reforms in numerous states.

I think the issue is continuing along the lines of activist state attorneys general and the hiring of outside counsel. I think we're going to deal with abuses of state consumer protection acts around the country. I think medical liability will continue to be a major focus at the state level.

Another issue is judgment interest issue. We continue to be in a very-low-interest-rate environment, and some states charge judgment interest of 10% or higher. Judgment interest is either pre- or post-judgment, but the idea is that during the appeal of the claim, the value of the claim would go up by that judgment interest amount. In an essentially still zero-interest-rate-environment, why are some of these interest rates still in double-digit figures?

Q&A

Q Did November's elections improve the outlook for tort reform in the states?

A I think it did. We have begun to look at the landscape for 2015, and we think there will be a lot of activity. In some states like West Virginia in particular, the change in the leadership of the legislature will lead to strong opportunities for reform.

Q The new edition of "Judicial Hellholes" just came out. Has "Judicial Hellholes" improved the

outlook for tort reform?

A We think there's no question that by putting a bright spotlight on the worst jurisdictions, the report has had a very positive impact and been a catalyst for reform.

There are some jurisdictions that continue to be problems, and we hope that there will be efforts to address some of these problems. For example, the New York asbestos court continues to get worse. We think public pressure is necessary to help bring about change. That's just one example.

Q Are any federal-level reforms feasible in the new Congress?

A I'll leave it to others to speculate about what the Congress may be able to do, but I think the case for a variety of reforms is overwhelming. As Congress considers changes to the (Patient Protection and) Affordable Care Act, it's an opportunity to deal with medical liability reform in a meaningful way.

I think the asbestos transparen-



SHERMAN JOYCE

AMERICAN TORT REFORM ASSOCIATION

Sherman Joyce is president of the Washington-based American Tort Reform Association, a position he's held since 1994. He previously served as minority counsel to the Senate Commerce, Science and Transportation Committee. In a recent interview with *Business Insurance* Senior Editor Mark A. Hofmann, Mr. Joyce discussed the impact of ATRA's annual "Judicial Hellholes" report, the outlook for state-level tort reform and areas in which Congress might consider civil justice reform legislation. Edited excerpts follow.

cy issue case will get stronger as we learn more about what is revealed through the bankruptcy court in North Carolina. It's exposed a significant amount of fraud in asbestos claims when there are cases brought against individual companies and then (seeking) similar compensation for the same purposes from the asbestos trust funds, trying to find multiple sources for the same com-

ensation. It's seemingly done without any kind of transparency. Congress should address that — whether they will or not remains to be seen. We think the case is overwhelmingly strong.

The Lawsuit Abuse Reduction Act, I think, is particularly important to smaller businesses in providing them with a mechanism by which they can combat frivolous claims.

COMINGS & GOINGS

UP CLOSE: WILLIAM D. RHODES

KING OF PRUSSIA, PENNSYLVANIA-BASED PRESIDENT AND CHIEF OPERATING OFFICER

The Addis Group L.L.C.

PREVIOUS POSITION: King of Prussia, Pennsylvania-based executive vice president at The Addis Group

LOOKING FORWARD TO: Working with our leadership team to strengthen our customer and employee experience.

GOALS FOR NEW POSITION: Make The Addis Group the employer of choice for insurance brokers and risk management professionals. Deliver innovative and cost-effective risk management solutions for our clients. ... Continue the excellent work we've done in community service. Double the size of the company in 10 years or less, primarily through organize organic growth.

CHALLENGES FACING INDUSTRY: Commoditization of insurance products and insurance brokerage services.

INDUSTRY OUTLOOK: The outlook is positive and with major growth opportunities in niche marketing and specialization.



FIRST INDUSTRY JOB: An underwriter at Reliance Insurance Co.

WHAT SURPRISED ME: The size. How prevalent insurance is in all aspects of the business community.

ADVICE: Differentiation, drive and work ethic are key characteristics for success.

OUTSIDE THE INDUSTRY, A DREAM JOB: Quarterback for an NFL team.

HOBBIES: Fitness, golf and home renovations.

THING MOST PEOPLE DON'T KNOW ABOUT ME: I like to cook, and I'm pretty good at it.

WHEN I RETIRE: I want to live in Southern California.

FAVORITE MEAL: Spaghetti and meatballs.

BEST CITY: Laguna Beach (California).

Professional Moves & Promotions

Visit www.businessinsurance.com/ComingsandGoings for a full list of this week's personnel moves and promotions. Check our website daily for additional postings and sign up for the weekly email.

BROKERS

Lovitt & Touché Inc.	Jackie Robinson
Integro Ltd.	Brian Morgan
Willis Group Holdings P.L.C.	Stefan Spohr

INSURERS

Lancer Insurance Co.	Kimberly Castle
Aspen Insurance Holdings Ltd.	Scott Kirk
Norcal Mutual Insurance Co.	Karen Frisella
Ace Ltd.	Jim Smith

REINSURANCE

JLT Re (North America)	Judy Benson
------------------------	-------------

AGENTS

Atlas General Insurance Services L.L.C.	Kristen Hakala
---	----------------

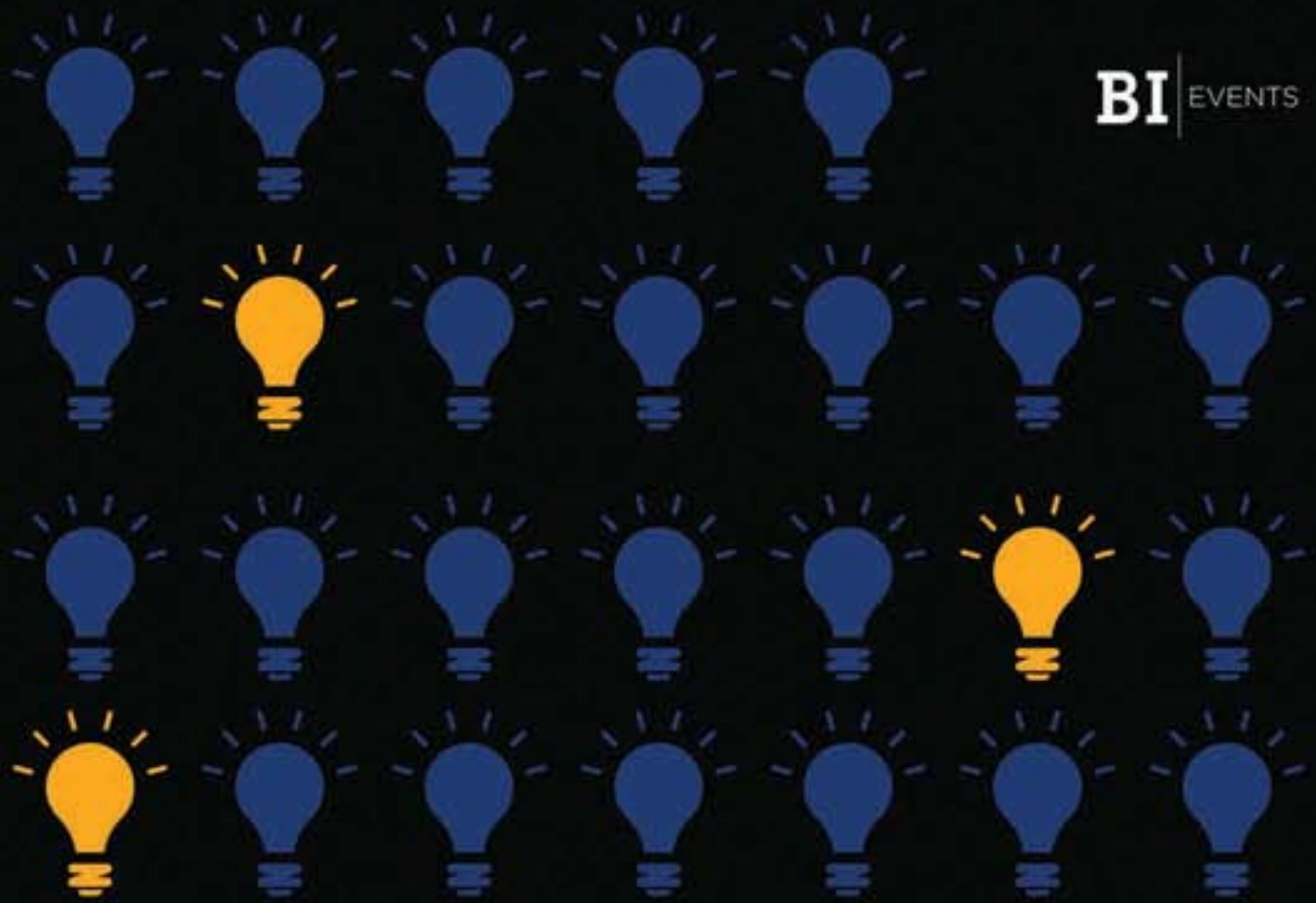
OTHER PROVIDERS

Mercer L.L.C.	Ed Bucher
iJET International Inc.	Mike Briskey

Business Insurance would like to report on senior-level changes at commercial insurance companies and service providers. Please send news and photos of recently promoted, hired or appointed senior-level executives to: Shelby Livingston, *Business Insurance*, 150 N. Michigan Ave., Chicago, Ill. 60601-7524. slivingston@businessinsurance.com.

WorldCaptiveForum.com

BI EVENTS



Breakout sessions to help you break through

ORGANIZING
PARTNERS

BUSINESS INSURANCE



TOWERS WATSON



SPONSORS

PLATINUM



ZURICH

GOLD



Willis

SILVER

GRANITE
MANAGEMENT LIMITED



The World Captive Forum is three days of expert insights from captive owners and providers. Get the best feedback about your captive options (and all of your bright ideas).

Some WCF courses are eligible for continuing education credits from the International Center of Captive Insurance Education. Members can also see a live webcast.

Register today at WorldCaptiveForum.com

Early registration
discount:
\$1,595
through
January 5, 2015.

Standard price \$1,895
starting January 6,
2015.

WORLD
CAPTIVE
FORUM



FEBRUARY 1-4, 2015 | BOCA RATON, FLORIDA

Contact:

Julie Ford

jford@

BusinessInsurance.com

312.649.5441

WorldCaptiveForum.com

EDITORIAL

TRIA HELD HOSTAGE IN SENATE

Shock, disappointment and disgust. That sums up our reaction — and the reaction of virtually every risk manager, producer and underwriter — to the Senate’s failure to reauthorize the federal government’s terrorism insurance program in time to prevent its lapse on Dec. 31.

The House of Representatives, which has tended to be more skeptical about the program than the Senate, passed a reasonable extension bill by an overwhelming margin earlier this month.

The Senate, however, operates by its own rules, one of which allows a single senator to hold up legislation for whatever reason.

And that’s what happened: Retiring Sen. Tom Coburn, R-Okla., placed a hold on the reauthorization bill because he objected to a provision that would have created a National Association of Registered Agents and Brokers.

The senator objected based on his interpretation of states’ rights — an interpretation apparently not widely shared among his colleagues, who had already voted to form NARAB. But Senate leaders decided it wasn’t worth the effort to overcome Mr. Coburn’s staunch objection.

In the process, the terrorism insurance program was abandoned.

There’s going to be a lapse; that can’t be undone. What can be done is to reauthorize the program as quickly as possible when the new Congress — sans Sen. Coburn — convenes next month. And that’s going to mean a renewed push on the part of the program’s supporters, who understandably think the deal already was done.

It’s back to square one: Bills will have to be drafted and introduced in both houses; the normal committee process will probably have to take its course. It’s not going to be easy, particularly with majorities in both chambers that might be more skeptical about the need for a federal terrorism insurance program than their predecessors.

But pressure has to be put on Congress to move, and quickly. House Speaker John Boehner, R-Ohio, wasted no time in blasting the Senate for inaction and expressing hope that the new House will move “very quickly” to reauthorize the program.

Supporters need to hold him to his word and do everything to get a similar response from the new leadership of the Senate.

Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers’ opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters.

Please send your letters to:

Letters to the Editor, *Business Insurance*,
150 N. Michigan Ave., Chicago, Ill. 60601-7524

Fax: 312-280-3174; email: gsouter@businessinsurance.com

SCHILLERSTROM



COMMENTARY

REVIVE PUSH FOR U.S. BROKER LICENSING ENTITY ALONG WITH TRIA

There’s much to be disappointed about in the Senate’s failure to pass the Terrorism Risk Insurance Program Reauthorization Act of 2014, not the least of which is the fate of the unrelated measure attached to the bill that would have streamlined broker licensing.

When Sen. Tom Coburn, R-Okla., decided to make his senatorial swan song the killing of TRIA and the provision it contained to establish the National Association of Registered Agents and Brokers, he struck a double blow to the insurance and risk management sector.

Incidentally, you have to despair at the timing of Mr. Coburn’s move that ended any hope of passing TRIA this year — the Pakistani Taliban’s slaughter of 141 children and teachers a day before would not have directly affected TRIA coverage, but do you need any other reminder that terrorism is still a huge worldwide threat?

Back to NARAB. The provision was, apart from Sen. Coburn who voiced states’ rights concerns, an uncontroversial measure that would have made it easier for brokers to gain licenses to operate outside of their own states.

NARAB would have been established as a nonprofit organization that would act as a vehicle to issue licenses to brokers operating in multiple states. Brokers would still have to pay licensing fees in the states they operate in, but the establishment of NARAB would centralize the process and reduce costs. The House passed its version of the bill in a voice vote earlier this year. Its supporters saw no reason not to attach it to a bigger bill to get it through the Senate.



GAVIN SOUTER
EDITOR

Even the National Association of Insurance Commissioners, the guardians and enforcers of the state-based insurance regulatory system, supports the creation of NARAB.

Securing licenses in multiple states is a big deal for many insurance brokers. Even relatively small brokerage firms often operate in more than one state, and for any broker that hopes to

operate in the large account space, multiple licenses are a necessity. According to the Independent Insurance Agents of America Inc., in 2009, the latest year for which figures are available, about 232,000 individual brokers and agents are licensed in multiple states, which is why the Big I and other broker groups, such as the Council of Insurance Agents and Brokers, had been pushing hard for the passage of NARAB.

NARAB would not lead to any reduction in license fees for states, but it would cut the cost of complying with the regulations.

Risk managers, too, are affected by the failure of Congress to pass the legislation, because the costs brokerages bear are ultimately passed to their customers.

Taking a second pass at TRIA should be a top priority for Congress next year and, with Sen. Coburn heading to pastures new, there’s no reason to exclude the NARAB provision from the bill.

Wearable technology boom creates employment liability risks

Wearable technology already is taking root in the workplace, and experts agree these new devices will have a vast and long-lasting effect on how companies conduct business. Tracy L. Moon Jr., a partner in the law firm of Fisher & Phillips L.L.P., discusses how businesses can be proactive in establishing use and training protocols as this new technology quickly becomes more common.

Wearable devices are the latest advance in technology, and businesses must quickly prepare to confront this trend.

Current use of wearable technology in labor-intensive industries demonstrates the positive effect it can have on productivity and profitability. In the retail industry, for example, sales staff wear wireless headsets so they can respond to customer inquiries quickly and accurately. In the distribution industry, wearable technology in the form of glasses that incorporate high-definition cameras are worn by warehouse employees and are used to scan bar codes to ensure the correct item is pulled for shipment to minimize returns, direct the sequence of item selection to improve efficiency, advise of fragile items to prevent breakage, and warn of hazards to avoid injuries.

Based on the successful use of wearable technology, businesses can expect the pace of its usage to increase significantly as new devices are introduced and software and application developers create programs and applications that better fit the operational needs of businesses. The use and presence of wearable technology may improve productivity and profitability, but the challenges it presents cannot be overlooked by businesses. The interest of consumers in wearable technology devices such as Google Glass and Apple Inc.'s recently announced line of watches does not necessarily mean that employees will accept their use in the workplace or that they will use wearables for appropriate and lawful purposes.

Businesses should be prepared to address the possible resentment of employees to being required to use wearables when they learn that businesses are able to receive a great deal of information about their activities, including information about their personal and private nonwork-related activities.

Some wearable technology is capable of providing employers information about employee health, their location and their activities on weekends, evenings, vacations and holidays. Although businesses have legitimate reasons for using wearable technology, employees have appropriate concerns that the information and data obtained could be used in a manner that adversely affects them and their continued employment. In addition, employees have legitimate concerns that information

received by their employers could be stolen and used for unlawful purposes.

To minimize these risks, businesses should adopt a strategy that overcomes employee resentment and concerns. A proactive approach to dealing with these potential problems is likely the best strategy. Businesses should make employees aware of the legitimate business reasons for using wearable technology, the steps being taken to limit the gathering of personal and private information about them, and actions implemented to secure the information and data received to prevent unauthorized distribution and use.

To further ensure the desired results of using wearable technology are achieved, businesses should develop policies and procedures addressing the work-related use of wearables. These policies and procedures should cover why and how wearable technology will be used with as much specificity as possible. Businesses should train employees on these policies and procedures and give them an opportunity to ask questions and voice any concerns.

Following the training, businesses should obtain a written acknowledgment signed by employees stating their understanding of the policies and procedures and consenting to the business use of the information and data obtained using wearable technology. The written acknowledgment from employees should foreclose them from contending later that unknown rules were imposed on them, and their privacy was violated.

Businesses also should take actions to ensure that employees do not use wearables for inappropriate or unlawful purposes. To avoid these potential problems, companies should develop policies or amend existing policies to cover wearable technology and its use, and take steps to ensure that employees comply with them.

There are several important policies companies should review in relation to wearable technology use by employees. They include policies prohibiting discrimination, harassment and retaliation; addressing reasonable accommodation; covering the use and misuse of company property; covering safety; protecting confidential and proprietary information; covering electronic communications and social media use; prohibiting unauthorized audio and video recording and

transmission; and covering the operation of motor vehicles. The development and revision of policies are of little value to businesses unless managers and supervisors are trained in them and unless they are consistently applied to prevent claims of discrimination.

At this time, the potential value of wearable technology to businesses seems to be enormous. Wearable technology can provide salespersons access to information in seconds about products, services and customers that can be useful in closing a sale. Wearable technology can provide information to experts in the medical field about patients in remote areas that could be invaluable to delivering effective medical care. Wearable technology can provide construction workers real-time, virtual access to building plans that can speed-up project completion. Wearable technology also can allow disabled individuals to perform essential job functions that they would not otherwise be able to perform.

Many technology experts predict that wearable technology eventually will make laptop computers, smartphones and tablets obsolete. Technology experts base their predictions on the fact that wearables are more durable and more efficient than carrying a laptop computer, smartphone or tablet while working. In addition, wearable technology can unobtrusively provide workers and management real-time access to information and data useful in ensuring jobs are performed at optimum levels with minimal errors and in compliance with company policies and the law.

Because of the positive effect wearable technology likely will have on job performance and the necessity to keep pace with competitors to satisfy customer needs and expectations, businesses will have few other options but to use wearables in their operations. Similarly, because of the significant interest of consumers in wearable technology, businesses probably will be faced with employees who wear wearables at work for personal reasons.

Before implementing the use of wearable technology in the workplace, businesses must carefully consider the pros and cons of doing so and evaluate potential employee resistance to its use. In addition, businesses should carefully consider how they will handle employees who wear or use wearable technology devices at work for personal reasons unrelated to work.

The success or failure of employing wearable technology to achieve desired improvements in profitability and productivity and minimizing employee relations and legal issues hinges on whether employers carefully evaluate the benefits and risks of wearable technology use in the workplace based on their objectives and goals before issues arise. The introduction of wearable technology into the workplace seems to be unavoidable, so now is the time for businesses to become prepared for its inevitable presence in the workplace.



Atlanta-based Tracy L. Moon Jr. is a partner with labor and employment law firm Fisher & Phillips L.L.P. He can be reached at tmoon@laborlawyers.com and 404-240-4246.



SPECIAL REPORT

Year in Review

2015 Forecast

Risk management outlook changes as risks evolve

PAGE 18

Health reform law's future hinges on high court, Congress

PAGE 19



Capacity cushions risk managers

Despite a turbulent year in some areas, commercial insurance market remains stable

BY BILL KENEALY

Risks during 2014 ranged from lawsuits over defective products to malware-infected computer systems to the fear of Ebola-infected employees. Yet abundant insurance capacity and a relatively quiet catastrophe year pressured commercial insurance pricing, generally benefitting risk managers and buyers.

Product recalls dominated the headlines. This was especially true in the automotive sector as industry heavyweights including General Motors Co., Ford Motor Co., Chrysler Group L.L.C. and Toyota Motor Corp. recalled hundreds of thousands of vehicles for various defective parts, and airbag supplier Takata Corp. became the subject of criminal probe in the U.S. as a result of defective products.

GM's troubles were especially acute as the automaker faced litigation over defective ignition switches believed responsible for 29 deaths. It set aside \$400 mil-

lion to establish a program to compensate crash victims.

Cyber risk

2014 also was marked by a rapid rise in cyber risk as Target Corp., The Home Depot Inc. and several other firms acknowledged major data breaches. According to a study by PricewaterhouseCoopers L.L.P., the number of global cyber security incidents in 2014 increased 48% over 2013.

Target said in August that it exhausted \$90 million in cyber insurance to pay expenses related to the breach. In November, Home Depot reported pretax net expenses of \$28 million related to its breach and said it anticipates the total cost will be at least \$34 million this year.

As a result of the breaches, major retailers became subject to higher rates and retentions and lower coverage limits for their cyber insurance.

Some insurers attempted to exclude cyber coverage under commercial general liability policies. In October,

a unit of The Travelers Cos. Inc. sought a ruling stating that it is not obligated to indemnify and defend P.F. Chang's China Bistro Inc.'s data breach under its commercial general liability policy.

Ebola fears

The Ebola outbreak that hit several West African nations throughout 2014, prompting major health care risk management revisions following a patient's October death at a Dallas hospital and the infection of two hospital workers, also elicited a response from the insurance industry.

In October, London-based Miller Insurance Services L.L.P. and Boston-based William Gallagher Associates Insurance Brokers Inc. launched pandemic disease business interruption insurance coverage to cover loss of income arising from the closure of health care facilities.

See **RISK** page 18

Health care reform law developments dominate benefit management issues in 2014

Opponents move forward with legal challenge while market adapts

BY JERRY GEISEL

Topped by the U.S. Supreme Court's decision to review whether individuals can obtain premium subsidies to buy health insurance in federal exchanges, developments related to the health care reform law dominated 2014.

The first major one of the year came in February, when the Treasury Department temporarily eased a Patient Protection and Affordable Care Act provision and earlier rules mandating that employers offer coverage or be liable for a financial penalty starting in 2015.

In the final rules, Treasury said large companies — those with at least 100 employees — would not be liable for the law's \$2,000 per employee penalty in 2015 if they extend health coverage to at least 70% of their full-time workers. Treasury delayed its earlier 95% coverage requirement to 2016.

Treasury also exempted employers with 50-99 employees from the coverage requirement until 2016.

In May, regulators said enrollment in public exchanges hit 8 million, a sign that technology-related problems that crippled many of the exchanges following their launch in October 2013, were largely resolved.

In November, though, regulators, put the exchange enrollment figure at 6.7 million, with much of the enrollment decline due to enrollees not paying premiums. In addition, administration officials acknowledged that about 400,000 people with stand-alone dental plans were incorrectly counted as having secured health coverage through the health insurance exchanges.

Among other major benefits management-related developments in 2014:

Gay marriage

A year after the U.S. Supreme Court struck down provisions of a 1996 law that defined marriage as the union of one man and one woman, the ramifications continued. For example, numerous federal courts in 2014 struck down various state laws banning same-sex marriages.

In addition, the Internal Revenue Service made it clear that employers must offer married same-sex couples the same pension and retirement plans that they provide to opposite-sex couples as of June 26, 2013, the date of the Supreme

Court ruling in *United States v. Edith Windsor*, the landmark case.

Private exchanges

In May, consultant Accenture

P.L.C. projected that private health insurance exchange enrollment could hit 40 million by 2018, up from a projected 9 million next year, and private exchanges proved popular among employers.

The reasons for that growth are simple: Having employees and retirees choose plans in an exchange frees employers from

See **BENEFITS** page 19

DEFINED BENEFIT PLANS WITHER

Among Fortune 500 employers, the percentage of companies that offer a defined benefit pension plan to new salaried employees continues to fall.

Year	% offering DB plans
2014*	22%
2013	24%
2012	25%
2011	28%
2010	30%
2009	34%

*As of June 30

Source: Towers Watson & Co.

Your energy + **Our tailored solutions** = **Keeping cool**

Swiss Re Corporate Solutions

Too hot. Too cold. Too dry. Too windy. The volatility of the weather can impact the fortunes of a whole range of industries from food production to tourism. And none more so than the power and gas sector. At Swiss Re Corporate Solutions, we combine our financial strength and expertise with your industry know-how to create tailor-made insurance and derivative-based solutions that will help protect your earnings. Whatever your business. Whatever the weather. **We're smarter together.**

swissre.com/corporatesolutions

Swiss Re Corporate Solutions offers the above products through carriers that are allowed to operate in the relevant type of insurance or reinsurance in individual jurisdictions. Availability of products varies by jurisdiction. This communication is not intended as a solicitation to purchase (re)insurance. © Swiss Re 2014. All rights reserved.

RISK MANAGEMENT OUTLOOK FOR 2015 HINGES ON EVOLVING EXPOSURES, CAT RISKS

BY BILL KENEALY

An issue that looks to remain a primary challenge for risk management professionals and insurers alike in 2015 is cyber risk and a rising number of attacks.

A series of data breaches in 2014, capped by a major breach at Home Depot Inc. and fallout from 2013's holiday shopping season breach at Target Corp. have made cyber risk "a big concern," said Stephan Upshaw, Chicago-based vice president of risk management at apartment complex owner Equity Residential.

"One of the silver linings to all this publicity is it has become a central focus of many boards of directors," Mr. Upshaw said. "They now view it as an enterprise risk."

Hugh Burgess, New York-based president and CEO of Allianz Global Corporate and Specialty, said cyber breaches have become top-of-mind in corporate board rooms.

"You don't see cyber risk as one of the top causes of loss, but if you ask risk managers what are there biggest concerns, it's in the top five," Mr. Burgess said. "The concern is understandable given the rapid change in technology."

Rapid evolution

Ben Walter, New York-based CEO of Hiscox USA, said cyber risks that companies face in 2015 may be different and potentially more costly as the threat evolves rapidly.

Data thieves are increasingly targeting personal health information, Mr. Walter said. While customers may be upset by stolen credit card data, exposing personal health data exposes companies to much greater reputational and regulatory risk.

"Credit card data is not personal information anymore because the issuers have made it so, but it is impossible to make health care information not personal," Mr. Walter said. "There may be new avenues to this that we really can't predict right now."

Mr. Walter agreed that biggest certainty regarding cyber risk is ongoing uncertainty.

Terrorism coverage backstop

One issue confronting risk managers immediately in 2015 is the lack of a federal terrorism insurance backstop. Because the Senate failed to act, the Terrorism Risk Insurance Program Reauthorization Act of 2014 expired on Dec. 31, 2014.

Retiring Sen. Tom Coburn, R-Okla., placed a hold on the legislation, because it would have created the National Association of Registered Agents and Brokers, a national clearinghouse for agent and broker licensing. Mr. Coburn wanted NARAB to sunset two years after it started.

Following the Senate's inaction before recessing for the holidays, House Speaker John Boehner said the House will act quickly during the 2015 Congress to reauthorize the TRIA program. Nonetheless, the effects of the program's lapse on the terrorism insurance market is a wild card.

Catastrophes

Risk managers and insurers have a perennial source of uncertainty for 2015: natural catastrophes.

Mr. Burgess said it's unlikely that modest catastrophe losses since 2012 can go on for another year.

"I hope I'm wrong, but it just seems unlikely that this can continue," Mr. Burgess said.

Mr. Walter noted it's been nine years since a major tropical storm made landfall in Florida. "I know each year is independent of the last, but at some point you have to pay the piper," he said.

James Auden, Chicago-based managing director of insurance at Fitch Ratings Inc., said the relative lack of natural catastrophe losses would affect property coverage renewing in January 2015.

"I think commercial property renewals will be down" for 2015 renewals, Mr. Auden said.

WINTRY WEATHER

Severe winter weather is a concern for the future, according to the New York-based Insurance Information Institute Inc., citing data from insurers and reinsurers.

■ Insured U.S. winter storm losses in 2014 likely exceeded \$2.5 billion, making it the fourth-costliest year on record for winter storms.

■ At 6.4% of insured losses, winter storm losses for 1994-2013 were the No. 3 cause of losses behind hurricanes and tropical storms, 41%, and tornadoes, 36%.

■ A repeat of the "deep freeze" of 2014 is possible in 2015, according to the I.I.I.

Regulatory risks

Risk managers in 2015 will also need to account for an active U.S. Equal Employment Opportunity Commission, which said in November that it had secured \$296.1 million in monetary relief for victims of employment discrimination in private sector and state and local government workplaces during fiscal 2014.

Likewise, businesses in 2015 will confront a Federal Trade Commission that struck an aggressive posture in 2014 on a variety of issues including corporate responsibility for data theft.

However, risk managers do have an additional protection in 2015: the U.S. Supreme Court's ruling in 2014 making it easier for companies and their top executives to get securities litigation dismissed.

Capacity and pricing

In addition to relatively benign disaster years, plentiful insurance capacity will shape the markets in 2015.

Alternative capital has "obviously been impacting reinsurance, but we have not seen the end of the repercussions of this on the broader market," Mr. Walter said. "You saw the impact of it this year with property rates going through the floor."

He said he expects alternative capital to spread to other sectors of insurance, eventually affecting casualty lines.

"The convergence of the capital and insurance markets is a fundamental shift in the way the insurance market operates," Mr. Walter said. "The question is what is version 2.0 of this?"

"The big question in 2015 is whether rates remain stable or do they start dropping and we get to a truer soft market," Mr. Auden said.

One encouraging sign is that improving macroeconomic conditions in 2015 may increase demand for insurance, Mr. Burgess said. "People get depressed about all the capacity out there, but hopefully demand continues to climb," he said.

Likewise, Aon P.L.C. introduced Ebola liability coverage for hospitals and other health care facilities. In a move to limit its Ebola exposure, Ace USA in October said it would exclude Ebola claims via an endorsement for new and renewing general liability insurance for those with African exposures.

Light catastrophe losses

While 2014 was notable for a relative lack of losses due to hurricanes and convective storms in North America, a magnitude-6.1 earthquake did hit California's Napa Valley in September, with insured loss estimates for the winery area ranging from \$250 million to \$1 billion.

Still, harsh winter weather over much of the U.S. early in the year likely will result in insured losses exceeding \$2.5 billion, about double the 20-year annual average, according to the Insurance Information Institute Inc.

Aviation disasters

High-profile mishaps and attacks also affected the aviation and space sector.

In October, an unmanned Orbital Sciences Corp. rocket exploded soon after liftoff, and an experimental Virgin Galactic spacecraft crashed in California.

In March, Malaysian Airline System Bhd flight MH-370 mysteriously disappeared shortly after leaving Kuala Lumpur International Airport and has yet to be found. In July, Malaysia flight MH-17 was shot down over Ukraine.

More than 500 people died in the two crashes, which experts said resulted in total insured losses in excess of \$200 million.

Competition

Abundant capacity was a common thread throughout much of the commercial insurance sector in 2014.

In the excess and surplus lines market, overcapacity depressed rates as much as 5% to 10% for midyear renewals in areas such as the large commercial property sector.

One factor exacerbating the soft pricing was competition from standard market insurers.

On the reinsurance side, alternative capacity continued to flow into the market and exert downward pressure on pricing for U.S. property catastrophe business. According to a September report by Aon Benfield Analytics, global reinsurer capital reached a record \$570 billion at the end of June, up 6% from the end of 2013.

Investor appetite for insurance-linked securities and other alternative risk transfer options was so strong in 2014 that brokers and

capital market investors began exploring ways to transfer new forms of risk, such as contingent business interruption, through capital markets.

Acquisitions

Market conditions prompted strategic recalculations as mergers and acquisitions continued to reshape the insurance landscape.

Arthur J. Gallagher & Co. was particularly active, agreeing to acquire Toronto-based Noraxis Capital Corp. in May after acquiring the insurance brokerage operations of Australian conglomerate Wesfarmers Ltd. and London-based Oval Group in separate deals in April.

The reinsurance sector also saw some sizeable consolidations and one near miss. In December, RenaissanceRe Holdings Ltd. said it had signed a \$1.9 billion agreement to merge with Platinum Underwriters Holdings Ltd.

Conversely, after a protracted battle waged in both the boardroom and the press, Aspen Insurance Holdings Ltd. managed to fend off a hostile takeover attempt from fellow Bermuda insurer Endurance Specialty Holdings Ltd.

NOTABLE 2014 NONCATASTROPHE LOSSES

Feb. 4
Fire at Ironbridge Power Station, Shropshire, England
\$230 million

March 8
Malaysia Airlines flight MH370 disappears
TBD*

March 22
YPF S.A. refinery fire, Mendoza, Argentina
\$180 million

April 16
Sewol ferry sinking, Jeju, South Korea
\$140 million

May 16
Satellite lost in Kazakhstan
\$217 million

June 15
Rosneft refinery fire, Achinsk, Russia
\$800 million

July 7
Chevron Phillips Chemical Co. refinery fire, Port Arthur, Texas
TBD*

July 14
Aircraft damaged in Tripoli International Airport fighting
\$750 million

July 17
Malaysia Airlines flight MH17 plane crash
TBD*

July 24
Air Algerie flight AH5017 plane crash
TBD*

*Total losses yet to be determined

Source: Allianz Global Corporate & Specialty global claims review 2014

BENEFITS

Continued from page 17

the administrative hassle of directly offering health insurance, and employers can more precisely predict their costs.

Contraceptives

In June, the Supreme Court ruled that family-owned for-profit employers cannot be forced by the health care reform law to provide prescription contraceptive cover.

In the 5-4 decision, the justices said the requirement, implemented by Department of Health and Human Services regulations, violated a 1993 federal law that bars the federal government from actions that substantially burden the exercise of religion.

In the wake of the ruling, HHS laid down a new approach for organizations and firms with religious objections to the mandate to receive the coverage

Under that approach, which would apply to both closely held, for-profit companies, as well as nonprofit religiously-affiliated organizations, such as hospitals, the entities would provide written notification to HHS of their objections to the coverage. For insured employers, HHS would notify the insurer, with the insurer responsible for providing the coverage.

For self-funded organizations, the Department of Labor would notify the organization's third-party administrator, with the TPA then arranging the coverage.

But litigation challenging the revised HHS requirements will continue into 2015 (see story, at right).

Subsidies challenged

In November, the Supreme Court set the stage for a 2015 decision that could be crucial for the public health insurance exchanges' future. The justices agreed to review the legality of a 2012 IRS rule that made federal premium subsidies available in state-operated and federal-operated exchanges. Critics argue the law clearly limits premium subsidies to state exchanges.

With about 85% of enrollees in the 37 federal exchanges receiving subsidies to secure coverage, the Supreme Court decision will be pivotal in whether the 2010 law will be able to achieve a key congressional objective: significantly reducing the nation's uninsured rate.

Multiemployer plans

Also in November, the Pension Benefit Guaranty Corp. said the deficit in its multiemployer pension program leaped fivefold in one year to more than \$42 billion for the roughly 1,400 plans that provide benefits to unionized

employees covered by collective bargaining agreements with several employers.

With collecting just over \$120 million a year in premiums from multiemployer plans, the PBGC's insurance program has a 90% chance of going broke by 2025 as several massively underfunded plans could collapse in the next decade, the agency said in its 2014 annual report.

Congress, though took action to reduce the likelihood of that happening, when it passed legislation allowing trustees of financially distressed multiemployer plans to cut retirees' benefits.

Pension plan de-risking

Moves by employers to "de-risk" their pension plans by purchasing group annuities and shifting liabilities to insurers or giving former employees the option to convert their monthly annuity to a cash lump sum continued throughout 2014.

Bristol-Myers Squibb Co. and Motorola Solutions Inc. were among well-known employers signing multibillion-dollar deals with Prudential Insurance Co. of America, shifting the obligation to provide benefits for tens of thousands of retirees to the insurer.

Those deals come on top of earlier moves by General Motors Co. and Verizon Communications Inc. to do the same.

In addition, well-known employers such as Hartford Financial Services Inc., Newell Rubbermaid Inc. and Ryder System Inc. offered former employees the opportunity to convert their monthly annuity benefit to a cash lump sum.

Several factors are driving both de-risking approaches. By reducing the size of their pension plans, employers are less vulnerable to having to pump more money into their plans, such as when interest rates fall, inflating the value of plan liabilities.

In addition, with fewer participants in their pension plans, employers shrinking the plans pay less in PBGC premiums, which are based in part on head count.

Group health plan costs

In 2014, increases in group health plan costs remained modest.

For example, a survey of more than 2,500 employers that Mercer L.L.C. released in November found that per employee costs increased an average of 3.9% — up from a 2.1% rise in 2013, but still sharply below the 7% average annual increase over the past 15 years.

A key reason for the continuing moderation in group health plan costs was employers' accelerating adoption of less costly high-deductible health plans. In 2014, 23% of employees were enrolled in consumer-driven health plans, up from 18% in 2013 and the biggest one-year increase since Mercer began tracking CDHP enrollment about a decade ago.

BENEFITS MANAGEMENT OUTLOOK FOR 2015 SHAPED BY COURTS, CONGRESSIONAL CHANGES

BY JERRY GEISEL

The U.S. Supreme Court and Congress will play key roles in the future of the health care reform law.

By the end of next June, the court will decide whether to uphold or reject IRS rules that allow lower-income individuals to use federal subsidies to buy health insurance in state and federal public exchanges.

Opponents argue that the health care reform law allows such subsidies only in state-operated public exchanges. The problem is only 13 states plus the District of Columbia have set up state-operated exchanges. The remaining 37 states have either federally operated or state-federal partnerships that operate their exchanges.

Premium subsidies

Federal appeals courts have split on the issue, and the Supreme Court in November agreed to hear that case and could uphold the IRS rules or limit premium subsidies to state-operated public exchanges.

Roughly 85% of those who have purchased exchange coverage also received a federal premium subsidy. Without those subsidies, "there would be a huge impact" and enrollment in public exchanges would plummet, said Rich Stover, a principal at Buck Consultants at Xerox in Secaucus, New Jersey. "There would be more uncompensated care. That is a certainty."

That would affect employers. With a spike in the number of uninsured receiving care, hospitals, for example, likely would pass those costs on through higher prices for patients that do have employer-provided insurance.

Should the high court limit subsidies only to state-operated exchanges, Democratic lawmakers would have to decide what provisions of the Patient Protection and Affordable Care Act they would be willing to change to get Republican support of legislation to make the subsidies available in any public exchange, observers say.

"It could open the door to a lot of horse trading," said Brian Marcotte, president and CEO of the National Business Group on Health in Washington.

Republican Congress

With Republicans controlling both houses of Congress in the coming session due to November election gains, GOP leaders promised to continue their efforts to repeal the Patient Protection and Affordable Care Act, while congressional Democrats, as well as the Obama administration, are certain to resist major changes.

The likely result, observers say, is some political give and take on issues such as whether to maintain the 30-hour per week definition of full-time employees, whom employers must offer coverage or pay a penalty.

Other legal challenges

Court decisions on other ACA-related challenges are expected in 2015.

The most significant is a mandate that employers offer prescription contraceptive coverage.

Following the Supreme Court's 2014 ruling that

family-owned for-profit employers cannot be forced to provide prescription contraceptive coverage if it violates closely held organizations' religious beliefs, the nation's highest court granted an injunction sought by Wheaton College that filling out the form, to state the religiously affiliated Illinois college's objections and authorize its third-party administrator to provide coverage, was too onerous.

Another complaint was brought by Catholic university Ave Maria that objected to providing health plan information under revised federal rules, and a Florida federal judge blocked enforcement in October. A ruling is expected sometime this year.

Private exchanges

While the future of public insurance exchanges remains cloudy, employers' use of cost-saving private exchanges is expected to grow in 2015.

For example, Mercer L.L.C. said in October that nearly 250 employers will offer coverage in 2015 to about 500,000 employees and retirees through the benefit consultant's exchange — about five times as many as 2014.

"You scale back the administrative burden," said Michael Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York, referring to employer moves to private exchanges.

"Exchanges mean more choices for enrollees," said Randy Abbott, a senior consultant at Towers Watson & Co. in Boston.

Exchanges can mean more predictable costs for employers since they typically give employees a fixed contribution toward the health insurance premium.

While hundreds of employers already have moved to private exchanges, "there are still a lot of employers who are in a wait-and-see mode and want to see the experience

of the early adopters before making a decision," Mr. Thompson said.

Pension de-risking

As far as pension plan de-risking, Motorola Solutions Inc. and Bristol-Myers Squibb Co. joined that bandwagon in 2014 and more are expected to do so in 2015, some experts say.

"2015 will be a bigger year than 2014," said Matt Herrmann, leader of Towers Watson's retirement risk management group in St. Louis.

Controlling costs

Employers also look to continue their efforts to control their health care costs overall. As 2015 begins, several studies project more employers will adopt high-deductible health plans, which cost substantially less than traditional plans.

For example, 7% of employers with at least 500 employees now offer only a consumer-driven health plan at their largest worksite, while 18% say they are likely to do the same within three years, according to a Mercer L.L.C. survey.

In addition, experts expect more employers to impose premium surcharges for dependent coverage when employees' spouses are eligible for coverage from their own employers.

Dependent coverage has "come under scrutiny" as employers look for ways to manage health plan enrollment growth, Mercer said.

WAVE OF THE FUTURE

Companies such as Domino's Pizza Inc., Walgreen Co., and Xerox Corp. moved to private health insurance exchanges in 2014, and more are expected to do so in the years ahead. Enrollment is in millions.

Year	Enrollment
2018	40
2017	30
2016	19
2015	9
2014	1

Private exchange enrollment excludes retirees older than 65
Source: Accenture P.L.C.

Verisk updates underwriting tools

Analytics provider Verisk Insurance Solutions has released an updated set of commercial property underwriting tools.

The improvements will enable insurers to gain new insights from its ProMetrix database of 3.5 million commercial properties, the unit of Jersey City, New Jersey-based Verisk Analytics Inc. said in a statement. They include an application programming interface that helps insurers automate underwriting guidelines and provides the ability to instantly benchmark risks against those of peer properties.

The update also has improved the functionality of Verisk Insurance Solutions' ProMetrix website, which provides data and analytics on construction, building and occupancy loss costs, as well as property and exposure details, the company said, noting that some customers are already transitioning to the new tools for ProMetrix.

Pioneer Special Risk gains Lloyd's coverholder status

New York-based Pioneer Special Risk, a unit of Pioneer Underwriting Ltd., has obtained Lloyd's of London coverholder status and has started underwriting management and professional liability lines.

Pioneer Special Risk, a managing general agent and broker of U.S. commercial lines that launched Oct. 16, underwrites a combination of international directors and officers, professional lines and diversified financial services business for small to middle-market clients, London-based Pioneer Underwriting, a unit of Minova Insurance Holdings Ltd., said in a statement.

Pioneer Special Risk writes surplus lines coverage with limits of \$5 million for U.S. domestic risks and \$10 million for international business, New York-based President Gary Dubois said. There is no minimum or maximum level of attachment point, he said.

RenaissanceRe Holdings Ltd. syndicate 1458 and Pioneer Underwriting's syndicate 1980 will provide the capacity, Mr. Dubois said.

Pioneer Special Risk will initially offer international financial products to provide D&O and related lines coverage for non-U.S.-domiciled companies and diversified financial services providing combined D&O, errors and omissions, employment practices liability and fiduciary liability coverage for U.S. private equity, investment management, hedge fund and partnership liability firms.

Hiscox USA expands professional liability lines

Hiscox USA has expanded its Hiscox Pro professional liability products to include admitted policies, stand-alone general liability coverage and extended home health care coverage.

Previously limited to surplus lines coverage, Hiscox Pro's technology, privacy and data breach, miscellaneous profes-



ISO preparing policy forms to cover drones

Verisk Analytics Inc.'s Insurance Services Office Inc. unit has developed endorsements to address the liability exposure of commercial drones.

The three endorsements, which will be available in June, cover bodily injury, property damage, and personal and advertising injury liability for scheduled unmanned aircraft, said Ron Beiderman, vice president of commercial lines coverage products at ISO Insurance Programs and Analytic Services.

The endorsements modify coverage under ISO's commercial general liability and commercial liability umbrella/excess policies, Jersey City, New Jersey-based ISO said in a statement.

"Because this is a newly emerging exposure, we introduced various exclusion and coverage options to give insurers maximum flexibility when writing risks that use drones in their operations," Mr. Beiderman said in the statement.

sional and general liability classes of coverage, along with media and cyber add-ons, are now available on the admitted market in all 50 U.S. states and the District of Columbia, Hiscox USA, a unit of Hamilton, Bermuda-based Hiscox Ltd., said in a statement.

Limits for both admitted and surplus policies vary up to \$10 million, a spokesman for Hiscox USA said.

Hiscox USA also added stand-alone general liability coverage for both admitted and surplus markets on occurrence and claims-made forms, the insurer said in the statement.

Additionally, the insurer has extended its Hiscox Pro Allied Healthcare product to include automatic additional insured status, third-party property damage coverage, defense outside of the limits and business personal property coverage, according to the statement.

Airmic offers toolkit for renewal process

Airmic Ltd., the U.K. risk management association, has issued an interactive toolkit intended to help insurance buyers obtain written, finalized policies in

advance of their renewal dates.

The tool, Airmic Countdown, which is available to members of London-based Airmic, identifies eight key steps in arranging insurance renewals and recommends that buyers begin the renewals process 150 to 180 days prior to inception — about 60 days earlier than current market practice.

"The efficacy timeline guides buyers through the renewal process to help them achieve an effective insurance policy, finalized and in writing, before the actual renewal date," Paul Hopkin, technical director of Airmic, said in a statement.

XL expands D&O cover for investigation expenses

XL Group P.L.C. has unveiled a directors and officers liability coverage form that extends coverage to include expenses related to regulatory and law enforcement investigations.

The executive and corporate securities liability policy offers limits of up to \$50 million and is sold through XL units in the U.S. and Canada, an XL spokeswoman said.

The policy extends coverage to both formal and informal investigations by a law enforcement or regulatory authority for insured individuals covered by the D&O policy, and for the company when an insured individual is under investigation, according to an XL statement.

The policy expands the definition of loss to include attorney fees associated with a settlement; Side A coverage, which applies to directors and officers, for fines, penalties and taxes levied against an insured when a company is insolvent; civil penalties for violations of the Foreign Corrupt Practices Act and section 308 of the Sarbanes-Oxley Act; and damages, judgments, settlements and pre- and post-judgment interest, according to the statement.

Finally, the policy covers additional defense expenses, including expert fees and costs incurred with a claim pursuant to section 304 of the Sarbanes-Oxley Act and section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, XL said.

Vlocity releases updated cloud-based support

Cloud software company Vlocity Inc. has released Vlocity Insurance 2.0 for the Salesforce1 Platform.

The application is tailored to the needs of insurers, agents and brokers and is meant to deliver support at a lower cost of ownership versus on-premise legacy apps, non-industry specific software or custom development, Vlocity said in a statement.

New features include the ability to view key details of policies, annuities and plans alongside associated lifecycle events such as claims, integrated with core insurance and agency management systems, as well as a mobile insurance adviser that can be customized for individual customers, according to the statement said.

DEALS & MOVES

Alliant acquires New York employee benefits provider

Specialty insurance broker Alliant Insurance Services Inc. has acquired New York-based employee benefits provider The Camps Group L.L.C.

A spokeswoman for Newport Beach, California-based Alliant said the company does not disclose the terms of deals.

The Camps Group provides benefits products and services, including medical and ancillary plans, wellness initiatives and voluntary benefits, as well as administrative services and financial and retirement products.

The Camps Group will join Alliant's employee benefits group, where it will be rebranded over time, the spokeswoman said in an email.

Mitchell International buying claims manager Cogent Works

Insurance technology provider Mitchell International Inc. has signed an agreement to acquire Salt Lake City-based pharmacy claims manager Cogent Works L.L.C.

A spokeswoman declined to comment on the terms of the deal or when it's expected to close.

Cogent Works operates AutoRx L.C. and CompToday L.C., which process and manage property/casualty pharmacy prescription claims for the automobile casualty and workers compensation markets, San Diego-based Mitchell said in a statement. Cogent Works has a network of more than 60,000 U.S. retail pharmacy locations, according to the statement.

Jardine Lloyd Thompson buys aviation insurance broker

Jardine Lloyd Thompson Group P.L.C. has acquired international aviation insurance brokerage Hayward Aviation Ltd. from Towergate Insurance Ltd. for £27 million (\$42.1 million).

JLT said it would finance the deal through cash and debt.

For 2013, Hayward Aviation generated revenue of £10 million (\$15.6 million) and a pretax profit of £3 million (\$4.7 million), JLT said in a statement.

London-based Hayward Aviation places insurance for regional airlines, small commercial fleets of fixed-wing aircraft and helicopters, along with individual jets, light aircraft and helicopters owned by private clients.

After the deal, which is subject to regulatory approval, is completed, the Hayward Aviation brand will be retained, JLT said.

Arthur J. Gallagher buys Australian brokerage Blue Holdings

Arthur J. Gallagher & Co. has acquired Brisbane, Australia-based brokerage Blue Holdings Pty Ltd.

A spokeswoman for Gallagher declined to comment on the terms of the deal, which were not disclosed.

Blue Holdings CEO Richard Smith and his team of about 45 employees will continue to operate from their current locations.

Separately, Gallagher's London-based broking arm said it's entering the China market via joint venture.

Calling this a big risk event

is an
understatement

Business Insurance is bringing together the nation's top risk managers to the 2015 Risk Management Summit (RMS) in New York City. It will be one of the biggest risk events for business and networking opportunities.

RMS sponsorship packages are now available and going fast. Missing this event is a risk you don't want to take. Talk to a *BI* sales manager today.

Contact:
Kimberly Jackson
kjackson@businessinsurance.com
978.317.5032



SAME SEX

Continued from page 4

toward full marriage equality has been, Ms. Stich said the prolonged litigation over state-level bans on same-sex marriage has resulted in several practical complications for employers.

“There still are a number of questions hanging out there that employers would like to have resolved,” Ms. Stich said. “It would be nice to have a final answer of some sort, and to have some consistency in the law no matter where your company or your employees are located.”

Primarily, experts say the uneven availability of marriage rights and benefits for same-sex couples on a state-by-state basis generates additional layers of administrative complexity and tax obligations for multistate employers that voluntarily provide employee health care coverage and other spousal benefits to gay and lesbian couples living in states that do not recognize same-sex marriage.

“The main thing that we’re hearing from employers is that they want a definitive decision on this,” said Sarah Bassler Millar, partner and vice chair of the employee benefits and executive compensation practice group at law firm Drinker Biddle & Reath L.L.P. in Chicago. “They want this issue resolved as a whole so that they can avoid the additional complexities of having distinctions between same-sex and opposite-sex spouses.”

Experts say the state briefs in support of a hearing before the Supreme Court are unusual in that each of the filing states recently prevailed in lawsuits challenging their respective marriage laws.

In November, a three-judge panel of the 6th U.S. Circuit Court of Appeals in Cincinnati upheld statewide bans on same-sex marriage in Kentucky, Michigan,

“There still are a number of questions hanging out there that employers would like to have resolved. It would be nice to have a final answer of some sort, and to have some consistency in the law no matter where your company or your employees are located.”

Julie Stich,
International Foundation of
Employee Benefit Plan

Ohio and Tennessee — as did a U.S. District judge in Louisiana — breaking with decisions previously issued in four other federal appeals courts and more than two dozen U.S. District Courts.

Plaintiff couples in all five states have since petitioned the Supreme Court to consider their cases for review during the court’s next private conference, scheduled for Jan. 9.

“It’s unusual to see the winning

party in these cases acquiesce a petition for a hearing before the Supreme Court,” said Camilla Taylor, the Chicago-based marriage project director at the Lambda Legal Defense and Education Fund, a nonprofit LGBT legal advocacy group. “I think these states are saying that there’s so much confusion given this mismatch of laws around the country, and that it’s hard on the states themselves” as well as the individual couples, families and employers involved.

If the court does elect to review one or more of the five lawsuits currently docketed for consideration, experts said it could render a final ruling on the constitutionality of state-level gay marriage bans as early as late June or early July of next year.

The combination of conflicting rulings among the federal appeals courts and the growing chorus of defendant states pleading for a final resolution on the legality of their current marriage laws has made an eventual ruling by the Supreme Court all the more likely, though not necessarily guaranteed.

“If you ask me if I think it’s likely that the court will take this up during this year’s term, I’d say the answer is maybe,” said Lisa Linksy, a New York-based partner at McDermott Will & Emery L.L.P. “It is absolutely a timely issue. The 6th Circuit ruling really has provided the opening for the court to step in and, once and for all, decide this issue and give us a national answer to the question of marriage rights for same-sex couples.”

REINSURANCE

Continued from page 4

government delivers the right environment to encourage further growth in our market,” said Steve Hearn, chairman of the LMG and deputy CEO of Willis Group Holdings P.L.C.

He said it was heartening to see that the “significant contribution” that the London insurance and reinsurance markets make to the U.K. economy “is being recognized by government and that it is willing to explore ways it can help us continue to thrive.”

Dave Matcham, CEO of the IUA — which represents underwriters in the London company insurance market — said the association fully supported the chancellor’s aim to attract more reinsurance business to London and “looks forward to contributing to this debate.”

It is important to ensure that any regulatory action is appropriate to the way insurers and reinsurers operate and not be styled on the needs of the banking system, Mr. Matcham said.

Colin Graham, U.K. insurance tax leader at PricewaterhouseCoopers L.L.P. in London, said the chancellor’s announcement is an exciting development coming so soon after the LMG report.

Around 2007 and 2008, a spate of London-based reinsurance companies — notably several in the Lloyd’s market — opted to redomicile to jurisdictions such as Bermuda, Dublin, the Netherlands and Luxembourg, prompted, in large

part, by the lure of more attractive tax and regulatory regimes, Mr. Graham said.

At that time, U.K. corporation tax was relatively high — about 30% for many companies — and profits on business derived overseas also were taxed in the United Kingdom, he said. This made the U.K. tax regime for reinsurers relatively unattractive when compared with other domiciles with low or no corporation tax and no tax on overseas earnings.

Since the current coalition government made up of the Conservative and the Liberal Democrat parties took over in 2010, steps have been taken that reduced the corporation tax rate for many companies, and the “headline corporation tax rate” is now about 20%, Mr. Graham said.

While this still is substantially higher than in some of London’s rival reinsurance centers, the reduction in the tax burden, coupled with other advantages of doing business in London, once again makes London a compelling proposition for reinsurance companies evaluating where to headquarter themselves, he explained.

Reinsurance companies will welcome Mr. Osborne’s moves to ensure the U.K. is a competitive place for them to do business, Mr. Graham said.

But he cautioned that other moves announced in the autumn statement, such as a commitment to ensure that overseas firms do not avoid U.K. tax on profits earned in the United Kingdom, are not introduced in such a way as to disadvantage reinsurance companies.

EPIDURAL

Continued from page 4

tend to be overutilized and cost anywhere from a couple of hundred dollars to a couple of thousand dollars, depending on whether they are given in an inpatient or outpatient procedure.

Many states either have their own treatment guidelines that outline when and how many epidural steroid injections are appropriate for injured workers, or they rely on the Official Disability Guidelines or American College of Occupational and Environmental Medicine guidelines.

“There are several differences between all of these guidelines, but they all have basic similarities in terms of defining when and how frequently” an epidural steroid injection should be used,” Dr. Lazarovic said. For the most part, they say injections become an option if the injured worker’s radicular pain hasn’t improved after four to six weeks of conservative treatments and that, when used alone, they offer no long-term functional benefit, he added.

Alternatively, Colorado’s treatment guidelines say epidural steroid injections might make sense within the first two to three weeks after an injury or the onset of pain, said Dr. Kathryn Mueller, medical director for the Colorado Division of Workers’ Compensation, president of the American College of Occupational and Environmental Medicine, and a professor at the University

EPIDURAL INJECTIONS CARRY RISKS BUT OFFER ADVANTAGES OVER OPIOIDS

“Whenever there’s introduction of a needle into the body, we think about potential safety concerns,” said Dr. Robert Hall, Westerville, Ohio-based medical director at pharmacy benefit manager Helios.

But compared with other surgical procedures and sometimes opioid use, epidural steroid injections are in the “spectrum of conservative care,” Dr. Hall said.

It depends on the person, but if an injured worker is unresponsive to truly conservative treatments, such as physical therapy, nonsteroidal anti-inflammatory drugs and heat, Dr. Hall said an epidural steroid injection may be

preferable to opioids, which are absorbed through the gastrointestinal tract.

That preference translates on the cost front, as well, said Dr. Marcos Iglesias, vice president and medical director at The Hartford Financial Services Group Inc. in Hartford, Connecticut.

“Opioids are rarely used for a very short period of time, and claims that are given opioids tend to be much more expensive,” Dr. Iglesias said. “On the other hand, an epidural steroid injection is typically a fairly straightforward outpatient procedure ... in the neighborhood of several hundred dollars.”

By Stephanie Goldberg

of Colorado Denver’s Anschutz Medical Campus. This is to facilitate an injured worker’s ability to partake in conservative treatments, she added.

“The idea of our practice guidelines is if you fit within the protocol, then you do not need prior authorization,” Dr. Mueller said. “The purpose of this is to decrease wasted administrative expenses ... In our state, you may not use any other guideline.”

In states that don’t disallow prior authorization, payers like Broadspire can utilize

their own guidelines when deciding whether to authorize or reimburse epidural steroid injections.

“We look for the symptoms of radiculopathy to be documented by the treating physician, objectively,” Dr. Lazarovic said. “We look to see whether there have been attempts at conservative therapy that have failed ... We require six weeks of conservative therapy before we will consider authorizing an epidural steroid.”

Images from MRIs or CT scans are also

studied to make sure there is some nerve root compression before authorizing an injection, Dr. Lazarovic said, adding that only one injection is authorized at a time, with a maximum of four injections permitted in one year.

Historically, the injections were ordered in a series of three, “but the vast majority of evidence-based medicine agrees that approving three all in one shot does not make sense,” said Mark Pew, senior vice president of product development at Prium, a Duluth, Georgia-based medical management company.

A best practice in workers comp, which is used in New York and by some payers, is to recommend scheduling each injection separately and then seeing if a second or third one is appropriate based on the injured worker’s response to the first one, Mr. Pew said.

Unlike pharmacy benefit managers that put out drug trend reports, payers don’t typically disclose results of utilization reviews, which makes it difficult to know exactly how many epidural steroid injections are given to injured workers each year, Mr. Pew said.

However, the Centers for Medicare and Medicaid Services alone paid for nearly 9 million epidural steroid injections in 2013, according to news reports.

Whatever the number, the percentage of people with radicular pain who are appropriate candidates for epidural steroid injections “is very small compared to the population that we’ve been putting injections in,” Dr. Mueller said.

MULTI

Continued from page 3

during a current plan year or any of the next 14 years, or any of the next 19 years if the plan's ratio of inactive participants to active participants exceeds 2-to-1 or if the plan is less than 80% funded.

Participants would have to be given the right to vote on cuts before the benefit reductions could be implemented. However, even if participants rejected the cuts, the U.S. Treasury Department could override the vote, permitting implementation of a benefits suspension plan, if a plan is "systemically important," meaning it poses a very large risk to the PBGC.

Certain participants would be protected from benefit cuts, including retirees age 80 and older and those receiving disability benefits under the plan. Retirees between ages 75 and 79 would face smaller benefit cuts than retirees under age 75. And plans could not reduce benefits to less than 110% of the benefit guaranteed by the PBGC. Currently, the maximum annual benefit guaranteed by the PBGC is \$13,000 for a participant with 30 years of service.

Effective in 2015, the new law will double the PBGC premium rate for multiemployer plans to \$26 per plan participant. The current pre-

mium is \$12 per plan participant and had been scheduled, prior to passage of the bill, to rise next year to \$13 per plan participant.

While inclusion of the multiemployer provisions in the spending package came at the very close of the congressional session, lawmakers have been bombarded for years with warnings from plan executives, trade groups and federal agencies that action was needed to prevent the failure of large underfunded pension plans and, with those failures, the collapse of the PBGC's multiemployer pension plan insurance program.

The PBGC itself warned last month that the looming insolvency of several large multiemployer plans led to a fivefold leap — to \$42.43 billion — in just one year in the deficit of the agency's multiemployer insurance program that guarantees benefits to participants in insolvent plans. That \$42 billion-plus deficit compares with only \$122 million the PBGC collected in 2014 from the nation's 1,400 multiemployer plans, which have about 10.4 million participants.

The PBGC warned that it expects more than 10% of the plans it insures would become insolvent and need money from the agency to pay participants' benefits. Without congressional action, the U.S. Government Accountability Office projected the PBGC's insurance program would go broke in the

PENSION PLAN DEMOGRAPHICS

With fewer new employers joining multiemployer pension plans, the plans' demographics have changed dramatically.

Year	PARTICIPANTS		
	Active	Retired	Separated vested
1980	75.9%	17.7%	6.5%
1985	66.1%	22.6%	11.4%
1990	58.6%	25.2%	16.2%
1995	52.4%	28.9%	18.7%
2000	51.1%	30.1%	18.7%
2005	45.7%	30.8%	23.5%
2010	39.1%	33.1%	27.7%
2011	38.3%	33.7%	27.9%

Source: Pension Benefit Guaranty Corp.

next 10 to 15 years.

Now, with the new law allowing financially troubled plans to cut benefits, those plans are much less likely to need a PBGC bailout.

"This certainly significantly extends the solvency of the PBGC's insurance program," Mr. Abraham said.

By allowing plan trustees to cut benefits, the plans' liabilities will be cut. That in turn will reduce the payments, known as withdrawal liability, that employers pay when they leave underfunded plans.

Knowing that withdrawal liability payments will not escalate due to the law giving plan trustees the ability to cut benefits, more

employers could be encouraged to remain in the plans, some say.

"What Congress did was to avoid a mass withdrawal of dozens, perhaps hundreds, of employers from the plans. Had that happened, the system would have collapsed," said Joshua Gotbaum, a former PBGC director and now a guest scholar at the Brookings Institution in Washington.

Still, the financial problems facing a segment of multiemployer pension plans are far from settled.

For example, deregulation of certain industries, such as trucking, has triggered more competition and more failures of companies that contribute to multiemployer plans. At the Central States, Southeast and Southwest Areas Pension Fund, more than 600 firms once in the plan have gone into bankruptcy since 1980, Thomas Nyhan, the plan's executive director, told a congressional panel last year.

In addition, the fear of withdrawal liability has discouraged new employers from joining the plans, said Diane Gleave, senior vice president and regional manager with The Segal Co. in New York.

While the congressional action may reduce the amount of withdrawal liability employers could face if they leave the plans, the threat of it still may be high enough to discourage new employers from joining the plans, Mr. Abraham said.

TRUCKERS

Continued from page 3

try. "It's just not a good idea to have all these trucks on the road at the same time just ahead of rush hour," he said.

Moreover, by limiting truckers' ability to set their own hours, the rule made the job less desirable and exacerbated an existing shortage of experienced truck drivers. Mr. Burch said.

"I've had drivers for our company come to me and tell me the hours of service rules were actually making them more fatigued," he said. "We need a million more truck drivers over the next decade, and we've had seasoned, safe drivers who have quit because of this regulation."

Rob Abbott, vice president of safety policy at the American Trucking Association in Arlington, Virginia, said while the industry appreciates the reprieve, the relief is only temporary. "The suspension is only effective for the life of the bill, which is through September 2015," he said.

Mr. Burch said the industry needs to renew efforts to communicate with the lawmakers and the public about the efforts the industry has made to improve safety over the years.

"We are driving more miles with fewer fatalities," he said. "We need to do a better job of telling people what we do."

Indeed, the need for the trucking industry to explain its commitment to safety is acute given incidents such as a June crash between a Wal-Mart Stores Inc. tractor-trailer and limousine in New Jersey that severely injured comedian Tracy Morgan.

"There have been high-profile motor carrier accidents in the news, and the first thing people want to point to is hours of service," Mr. Beard said. "But for people to really understand, you have to look at what type of business it is and what are those drivers' activities."

Moreover, a host of technological innovations — from electronic onboard data and video recorders to vehicle-to-vehicle communication to active braking systems — have helped improved the industry's safety record, Mr. Bleser noted.

Much as the data gleaned from these devices have helped risk managers in transportation increase safety, this data may also help lawmakers and regulators take a more educated approach to rulemaking, Mr. Bleser said. "There is an opportunity today with the advanced technologies that are available to us to do a much better job identifying the leading causes for collisions and better justify rulemaking as it goes forward," he said.

HEPATITIS

Continued from page 3

against Gilead for alleged unjust enrichment, violations of the Patient Protection and Affordable Care Act and other claims.

Gilead Sciences did not respond to requests for comment.

While the SEPTA suit relates to group health payments for Sovaldi, workers comp payers also are seeing rising costs related to the drug.

Pharmacy benefit manager Express Scripts Inc. said spending for hepatitis C medications in workers comp increased 135% in the first six months of 2014 compared with the same period in 2013. About 66% of that increase is attributed to Sovaldi prescriptions, the company said in a statement.

The cost increase occurred despite a reduction in the number of pharmacy prescriptions for hepatitis C medications at Express Scripts, where workers comp claims for the disease fell to 79 in the first half of 2014, down from 92 in the first half of 2013, according to the PBM's data.

Health care workers, emergency first responders and other workers who are regularly exposed to bodily fluids are most likely to file for workers comp benefits related to hepatitis C.

"Sovaldi is priced at an orphan drug price for a population that is not an orphan drug population. So it's priced really at a premium that we can't sustain," said Brigitte

Nelson, senior vice president of workers compensation clinical management for Express Scripts in Cave Creek, Arizona.

So-called orphan drugs are medications used for illnesses that affect only a small subset of the population.

Hepatitis C treatment costs can soar higher when Sovaldi, which costs \$84,000 for a 12-week course of treatment, is paired with another new hepatitis C drug called Olysio, which is made by Titusville,

claim can be tricky. Experts agree that Sovaldi and other newer treatments are more effective than older, cheaper hepatitis C medications that include longer courses of treatment, have more side effects, require patients to take multiple doses a day and less likely to cure patients of the disease.

"We're not disputing that Sovaldi is a much better drug, because it is better tolerated than the previous therapies. It's just the cost that we're concerned about," Ms.

COSTLY MEDICINE

Hepatitis C medications recently approved by the U.S. Food and Drug administration include improved effectiveness rates and higher costs.

Name	Year approved	Doses/day	Cost
Sovaldi	2013	1	\$84,000 for 12 weeks
Olysio	2013	1	\$66,360 for 12 weeks
Incivek*	2011	3	\$11,025.85 12 weeks
Victrelis	2011	3	\$3,343.36 for 24 weeks

*Sales discontinued in 2014

Source: National Institutes of Health; the drug manufacturers

New Jersey-based pharmaceutical company Janssen Therapeutics and costs \$66,360 for a 12-week course of treatment. The U.S. Food and Drug Administration approved both drugs in late 2013.

The medications often are used together to help increase the chances of curing a patient's hepatitis C infection, said Phil Walls, chief clinical and compliance officer at Tampa, Florida-based PBM Matrix Healthcare Services Inc., which does business as myMatrix.

Trying to limit drug costs for hepatitis C under a workers comp

Nelson said.

Additionally, an effective course of Sovaldi treatment could prevent hepatitis C patients from developing conditions that need much costlier courses of treatment that employers would be responsible for paying under a workers comp claim, said Jamie Harer, pharmacy product manager for third-party administrator Sedgwick Claims Management Services Inc. in Orange, California.

"If this illness goes untreated, it can lead to cirrhosis of the liver, it can lead to liver failure, it can lead to liver cancer," Ms. Harer said.

"All of these things require a liver transplant."

Employers should work with their TPA or PBM to create prescription drug formularies that would automatically flag a claim for Sovaldi and initiate a review of whether the drug is appropriate for certain patients, Ms. Harer said.

For example, patients recently exposed to bloodborne pathogens may be effectively treated with prophylactic antiviral medications that can prevent infection and are much less costly than Sovaldi and other hepatitis C treatments, she said.

Mr. Walls said claim payers should consider using specialty drug pharmacies to fill prescriptions for Sovaldi or other hepatitis C drugs, since such pharmacies specialize in helping patients to adhere to drug treatments.

Proper adherence can make sure that a Sovaldi drug course works the first time, preventing a patient from needing to do another expensive round of the treatment in the future, he said.

"You really need to be compliant with your therapy in order for the drug to be as effective as possible," Mr. Walls said.

Ms. Nelson of Express Scripts said the company — the nation's largest PBM — is pushing Gilead and other hepatitis C drug makers for more competitive prescription prices.

"That's the next step that needs to happen so that people have access to drugs at a cost that can be sustained," she said.

SONY

Continued from page 1

Mears, San Francisco-based managing director in the data risk, data security and privacy practice for law firm Buckley Sandler L.L.P. “This one is being used rather uniquely to make demands on a company and individuals.”

The debacle for Sony Corp., which suffered an earlier breach in 2011 in which hackers accessed more than 100 million PlayStation consumer accounts, began in late November with hackers stealing more than 100 terabytes of data—a breach so massive technology experts said it will take Sony more than a year to analyze exactly what’s been released into the wild.

So far, the tally is five feature films, droves of embarrassing and potentially damning internal Sony emails, salaries for studio executives, personal information of more than 47,000 of studio employees, and the promise of more to come.

“What the Sony attack has indicated is these attacks are not limited to companies with personal information,” said Kevin Kalinich, Chicago-based cyber global practice leader for Aon Risk Solutions. “This is a wake-up call to companies.”

And the casualties are mounting for the global entertainment company. Last week, Sony Pictures canceled the widespread theater release of the film “The Interview,” after threats were made to theaters that planned to feature the comedy depicting the assassination of North Korean President

Kim Jong-un. Also in the wake of the scandal, two class action lawsuits emerged against Sony from employees alleging negligence in protecting their personal information in the months leading to the cyber attack.

“This is the first incident that made national news that’s targeted the company and its way of doing business,” said Shari Klevens, Washington-based head of the insurance division for McKenna Long & Aldridge L.L.P. “Up until now (cyber) attacks have been random, with a company being targeted because they did not have protections in place. (The Sony) attack has to make people nervous about being targeted for the work they do. The motive here is different ... There are a lot of companies that do things people don’t like, and this creates a new risk.”

A group that calls itself Guardians of Peace boasted responsibility, and the FBI has since pegged North Korea as the culprit, a revelation greeted with skepticism within the information technology community that introduced the term “hacktivism” into the cyber security lexicon. Was this the work of people with a social or political agenda, or an attack assisted by a disgruntled Sony employee?

“This is fluid; it can change tomorrow,” said Adam Cottini, New York-based managing director for the cyber liability practice of Arthur J. Gallagher & Co.

CNN reported late last week that North Korean hackers pilfered computer credentials of a Sony systems administrator to breach the firm’s computer system.



AP PHOTO

A theater worker in Atlanta carries away a poster for the early showings of the movie “The Interview,” which Sony abruptly cancelled last week.

Risk analysts say the fiasco reveals a number of actual and potential problems for Sony: liability; reputational damage; business disruption; further scrutiny of employees; civil rights issues; supply-chain losses; cyber terrorism; defamation lawsuits; and skyrocketing forensics costs.

“This has blown out into more exposures,” Mr. Cottini said. “People are scrambling.”

Even something as simple as sending an email—seemingly trite, yet vital to the way businesses operate—is at issue. “This has

put the spotlight on communications,” Mr. Cottini said, adding that people working from the executive level down will think twice about what they write in internal communications.

Meanwhile, technology experts are warning that cyber risk is no longer a back-burner issue and traditional anti-virus software and computer network firewalls are a protection of the past.

“This attack signifies a lot of resources went into the breach and it increases difficulty for the defender to discover whether

there will be more to come,” said Fengmin Gong, the Santa Clara, California-based co-founder and chief strategy officer for information technology security firm Cyphort Inc. “This is most challenging (for companies). The threat landscape is changing.”

As for Sony, now entrenched in what appears to be an ongoing dilemma with more turns and twists than a blockbuster thriller, at least one cyber risk expert said the company ought to focus more on its public relations as it grapples with difficult aftermath of the breach.

Jody Westby, Washington-based CEO for Global Cyber Risk L.L.C. and adjunct professor with the Atlanta-based Georgia Institute of Technology, chided Sony Pictures for sending letters to media outlets demanding they not reveal any information found in illegally obtained and released data, such as internal Sony emails.

“This action is almost certain to generate publicity and reveals just how poorly prepared Sony was to manage a substantial cyber incident,” Ms. Westby wrote in a memorandum to other cyber security professionals.

On questions of reputation damage, Ms. Westby said of Sony in an interview: “They’re doing it to themselves. They think sending a letter and threatening people is the answer. It’s the stupidest move I have seen in a company in a cyber breach.”

“No company is bulletproof,” she said. “They need to get serious about cyber security.”

Repeated attempts by *Business Insurance* to reach Sony for comment were unsuccessful.

CATLIN

Continued from page 1

tions with XL last week, after news of the talks broke in London’s Financial Times newspaper. Soon after, XL confirmed the talks.

Under the terms of the proposed deal, Dublin-domiciled XL would acquire 100% of Bermuda-based Catlin for cash and XL stock worth £6.99 per Catlin share, or £2.5 billion (\$3.93 billion) in total.

Catlin founder and CEO Stephen Catlin personally owns 5.9 million shares, making his stake worth £41.3 million (\$64.9 million).

XL and Catlin “both believe that we will be far better positioned and stronger together,” XL CEO Michael McGavick said in a statement. “We see this transaction as deeply accelerating the strategies of both companies.”

Catlin manages the largest Lloyd’s of London syndicate, with a capacity of £1.43 billion, and would become larger with the merger of XL’s syndicate, with a capacity of £300 million at year-end 2013.

The combined company would also “be a leader in the global specialty and property cat markets,”

BY THE NUMBERS

Year-end 2013 figures in millions, except employees

	XL	Catlin
Property/casualty gross written premiums	\$7,417	\$5,309
Insurance	\$5,523	\$3,459
Reinsurance	\$1,894	\$1,850
Net income	\$1,059	\$392
Market capitalization*	\$8,632	\$3,616
Employees	4,291	2,259

*Stock prices as of market close 12/18/14

Source: XL Group P.L.C. and Catlin Group Ltd. Financial statements

according to Mr. McGavick.

While XL is larger overall, with 2013 gross premiums of \$7.4 billion versus Catlin’s \$5.3 billion, the companies’ reinsurance units are similarly sized at \$1.9 billion each and combined would be among the world’s 10 largest reinsurers, XL said.

“It clearly will be a business with a lot more scale,” Ben Cohen, an analyst with Canaccord Genuity Ltd. in London said of the reinsurance operations. “The size difference between the two is not so large that Catlin will be swamped in the combined organization.”

With Catlin’s largest geographical business segment in London—accounting for \$2.5 billion, or nearly half, of its 2013 premium vol-

ume—the insurer has also expanded in the United States, Europe and Asia in recent years. Its U.S. business, though, at \$1.2 billion in 2013 gross premiums, is less than half XL’s U.S. volume, according to the companies’ financial reports.

Mr. McGavick cited “the deep cultural and strategic alignment we see between XL and Catlin, with both built on disciplined underwriting.”

Some market observers, though, express caution about the proposed deal. “We’re not convinced that specialty insurance market leadership translates into improved underwriting results, other than modest expense synergies that take time to emerge,” analysts with Baltimore-based

Keefe, Bruyette & Woods said in a research note downgrading XL’s stock.

And while “size and line-of-business diversification increasingly matter in reinsurance, (they are) much less important than underwriting discipline in primary insurance,” KBW analysts said.

“The obvious challenge will be in keeping—let alone enhancing—the value that has built up in Catlin’s franchise,” Mr. Shipperlee said. “(XL’s) much bigger balance sheet helps, but it is often the soft factors that differentiate in Catlin’s markets and that can be much more difficult to maintain post an acquisition.” Such “soft factors,” he said, include underwriting culture, willingness to innovate, claims handling and speed of decision-making.

Whether or not the XL/Catlin deal proceeds, market observers expect growing numbers of merger and acquisition activity in the coming months.

With stronger balance sheets and more available funding, insurers and reinsurers will be increasingly interested in acquisitions, including international companies looking to acquire Lloyd’s operations and Bermuda companies looking to diversify away from

property catastrophe business, Mr. Cohen predicted.

Property catastrophe reinsurance rates have fallen significantly over the past year, as reinsurers have experienced minimal significant losses and competition from nontraditional capacity providers through cat bonds and other vehicles has intensified.

Thomas M. Dawson, a partner with Drinker, Biddle & Reath L.L.P. in New York, agreed that diversification will be a prime driver of future deals. He cited the recently announced \$1.9 billion acquisition of Platinum Underwriters Holdings Ltd. by RenaissanceRe Holdings Ltd., aimed at expanding RenRe’s casualty and specialty business.

Cathy Seifert, an equity analyst with Standard & Poor’s Corp. in New York, said acquirers are more likely to target specific segments of another insurer’s or reinsurer’s business rather than the entire company. She mentioned Ace Ltd.’s pending \$365 million purchase of high-net-worth personal lines business of Fireman’s Fund Insurance Co.

“It’s probably going to be Company A buying a division of Company B, not so much A buying all of B,” Ms. Seifert said.

TRIA

Continued from page 1

ed and the coverage is expected to be expensive.

For risk managers in the construction and real estate industries in particular the program originally created by the Terrorism Risk Insurance Act of 2002 has been a crucial resource allowing them to fulfill insurance requirements imposed by loan covenants.

They and insurance buyers in other high risk industries potentially were left without coverage by the unexpected failure of the Senate to reauthorize TRIA before its Dec. 31 sunset.

“As an industry, everyone is surprised,” said Ben Tucker, New York-based head of the U.S. terrorism and political violence crisis management business at XL Group P.L.C.

“We are surprised and disappointed about the uncertainty it has created,” said Brad Wood, senior vice president, risk management, at Marriott International Inc. in Bethesda, Maryland, said

Many insurance industry lobbyists had been pushing for the program’s reauthorization for months and were optimistic that it would be reauthorized in some form. TRIA, which has always contained a sunset clause, had twice been reauthorized previously.

The Terrorism Risk Insurance Program Reauthorization Act of 2014 was a compromise measure, earlier passed by the House, which would have extended the backstop for six years and raised the federal coverage trigger to \$200 million in industry losses from \$100 million. The measure also contained an unrelated measure that would have created the National Association of Registered Agents and Brokers to streamline the pay-

ment of state brokerage licensing fees.

The inclusion of NARAB proved to be the downfall of TRIA as Sen. Tom Coburn, R-Okla., who is retiring, objected to the measure on states’ rights grounds. Mr. Coburn last week implemented a procedural measure extending debate time on the bill that effectively killed it for 2014. Industry organizations are already pushing lawmakers to quickly pass reauthorization legislation early in the next Congress (see related story).

Initial shock at the failure of the anticipated reauthorization gave way to urgent efforts to find private market alternatives.

“We are already seeing significantly increased demand for private-market terrorism insurance” effective Jan. 1, said James Dover, New York-based senior vice president of the terrorism and sabotage insurance practice for Ironshore Inc., which offers \$300 million in per-risk capacity for stand-alone terrorism coverage.

Maurice R. Greenberg, chairman and CEO of Starr Insurance Holdings Inc., said in a statement: “While we have every hope that Congress will pass an extension of TRIA when it convenes in January, Starr is ready to respond to the needs of our clients. We have capacity for stand-alone coverage for a broad array of property, casualty and aviation exposures.”

XL, which offers \$100 million of per risk capacity for stand-alone terrorism cover, saw a more than fivefold increase in submissions in the 48 hours after the Senate’s inaction, Mr. Tucker said.

Demand is also growing at managing general agent Global Excess Partners L.L.C., according to New York-based partner Mary Pat Thurston. The company had received 18 new submissions by day’s end last Wednesday, and the phones are “ringing off the hook,”



AP PHOTO

Sen. Tom Coburn, R-Okla., objected to an unrelated measure attached to the TRIA bill.

she said.

There is about \$300 billion of capacity for stand-alone terrorism insurance in the marketplace, according to market sources, but there is a huge variation in available capacity depending on the location of the property risks.

For so-called Tier One cities, which include New York, Chicago and San Francisco, available capacity can range from about \$1 billion all the way down to \$250 million, depending on ZIP code.

Competition for such Tier One capacity is likely to be acute in the aftermath of the terrorism bill’s expiration, sources agreed.

“In central business districts, there is the potential that demand will outstrip capacity,” Ironshore’s Mr. Dover said.

Tier One capacity will be quickly taken up, said Ms. Thurston of Global Excess.

“I do think there will be a rush to lock up available coverage for January, particularly in Tier One cities,” said Robert Hartwig, president of the Insurance Information Institute Inc. in New York. “As policies expire, insurers will no

longer be obliged to offer terror cover as they were under the act, so carriers will offer terrorism insurance on a case-by-case basis at a price generally higher.”

Real estate and construction risks will be in particular need of terrorism coverage to satisfy the requirements of loan covenants. Duncan Ellis, national property practice leader at Marsh L.L.C. in New York, said that the expiration of the program will have a major effect in areas such as construction, commercial real estate and “basically anywhere where commercial lending” is involved.

Policyholders with lender requirements on their mortgaged properties could technically be in default of those lender requirements and loan covenants if their coverage lapses when TRIA sunsets, said Ironshore’s Mr. Dover.

Mr. Hartwig of III said that specific industries, such as those managing critical infrastructure, the energy and health care sectors, and the vacation and tourism industries, are also likely to move quickly to secure coverage.

High profile events, such as the National Football League’s Super Bowl, would also be covered, he said.

“The Super Bowl will be played,” said Mr. Hartwig. “For those marquee events, they will do everything possible to secure coverage, and they’re willing to pay top dollar to do it.”

The sunset of the TRIA legislation also triggered the activation of conditional commercial policy contract language to exclude terrorism coverage from Insurance Services Office Inc., part of Verisk Analytics Inc., the organization said Thursday in a statement.

The three major brokers all issued statements last week saying they are working with risk managers to secure private market coverage.

TRIA TIMELINE

Key dates in the formation and expiration of the federal government’s terrorism insurance backstop program

Nov. 26, 2002 — President George W. Bush signs the Terrorism Risk Insurance Act of 2002 into law, creating the federal terrorism insurance backstop in response to the terrorist attacks on New York, Washington and Pennsylvania on Sept. 11, 2001. The program is slated to expire on Dec. 31, 2005.

December 2005 — Congress approves legislation to extend the terrorism insurance program until Dec. 31, 2007, which President Bush signs into law.

December 2007 — The terrorism insurance backstop is reauthorized through Dec. 31, 2014. While rejecting attempts to add life insurance to the lines of insurance covered by the program, lawmakers agree to extend the program to cover acts of domestic as well as foreign terrorism.

Dec. 10, 2014 — The House of Representatives approves legislation that would extend the terrorism insurance program through Dec. 31, 2020, while increasing the minimum trigger to activate the program to \$200 million of insured damage and gradually increasing the industrywide deductible to \$37.5 billion. The bill also contains a provision that would create a National Association of Registered Agents and Brokers to streamline interstate producer licensing.

Dec. 16, 2014 — The Senate fails to take up the measure before adjourning because of one senator’s objection to the NARAB provision.

Dec. 17, 2014 — House Speaker John Boehner, R-Ohio, criticizes the Senate’s failure to approve the bill and says in his blog “we expect the House will act very quickly in the new Congress to reauthorize this program.”

Dec. 31, 2014 — The Terrorism Risk Insurance Act will expire because of the Senate’s failure to extend the program.

TRIA reauthorization supporters pin their hopes on the next Congress

Supporters of the federal terrorism insurance backstop are guardedly optimistic the next Congress will take up reauthorization of the program shortly after it convenes next month.

The program, created by the Terrorism Risk Insurance Act of 2002, will lapse on Dec. 31 following the Senate’s failure to extend it. A single senator’s objection to a provision that would create the National Association of Registered Agents and Brokers, which would streamline the interstate licensing of producers, halted consideration of the Terrorism Risk Insurance Program Reauthorization Act of 2014, before the Senate recessed last week.

But both House Speaker John Boehner, R-Ohio, and House Democratic Whip Steny Hoyer, D-Md., have issued statements indicating the reauthorization should be at the top of the new House agenda.

Supporters think lawmakers will move



HEAR INTERVIEW

Access *Business Insurance’s* interactive digital edition to hear Joel Wood of the Council of

Insurance Agents and Brokers discuss the impact of TRIA’s Dec. 31 sunset and hopes for reauthorization in the new Congress with *Business Insurance* Senior Editor Mark A. Hofmann.

quickly on the issue.

“We do have hope it will be dealt with immediately,” said Carolyn Snow, president of the Risk & Insurance Management Society Inc., adding she hopes “the Senate will see the importance of passing it quickly.”

“I do believe Congress will come back in January and do something,” said Howard

Mills, chief adviser at the insurance industry group at Deloitte Services L.L.P. in New York. But he added that uncertainty is “really sky high” because both houses will be controlled by Republicans, who have been among the most vocal critics of the program. “Who knows what type of terrorism program will emerge from this?” he said.

“We really need to have a bit of post-mortem until we see a clear path through,” said Joel Wood, senior vice president at the Council of Insurance Agents and Brokers in Washington. “The policyholder and industry coalition will be recovering. As much as we are reeling from the dysfunction presented by that lack of a vote, the reality is we have been astonishingly close to achieving this, and we hope not to lose that momentum.”

The Independent Insurance Agents & Brokers of America are “optimistic” that renewal legislation will contain the NARAB provision, said Charles Syming-

ton, senior vice president of the Alexandria, Virginia-based group. He said the industry is pushing to have both NARAB and TRIA in the same vehicle.

“We have a very simple request: to move this very same package that has already been negotiated between the House and the Senate immediately upon Congress’ return,” Mr. Symington said.

“Our hope is that when Congress indicates that they will take this up quickly, they mean the first week of session,” said Jimi Grande, senior vice president in the Washington office of the National Association of Mutual Insurance Companies.

“Stakeholders are strongly advocating that TRIA reauthorization be among the first issues that Congress handles upon its return,” said a spokesman for the Washington-based American Insurance Association, noting that congressional leaders have indicated they “intend to act quickly” in the new Congress.

By Mark A. Hofmann



Airline lets falcons rest their wings

An airline's effort to cater to an elite clientele means that some high-flying birds will be ascending to new heights.

Lufthansa Technik's VIP & Executive Jet Solutions Division, a unit of Cologne, Germany based Deutsche Lufthansa A.G., says it has developed a platform that enables people to more easily transport their falcons on flights. Dubbed the "Falcon Master," the dedicated bird stand is adjustable and designed to sit above different seats in Boeing and Airbus planes.

Lufthansa Technik said it expects the device to be popular with passengers in the Middle East region, where falconry is a popular hobby. "Working closely with falcon specialists from the Middle East, Lufthansa Technik has designed the 'Falcon Master' in due consideration of hygienic aspects as well as practical requirements like cleanliness and certification requirements," the company said in a statement.

So the next time you are stuck in the middle seat in coach, take solace in the fact that these pampered birds of prey and their razor-sharp talons are riding in style.

RESEARCH CONFIRMS MEN MORE LIKELY TO TAKE IDIOTIC RISKS



Men and women have long argued over which is the more stupid sex, but now researchers have evidence to support the postulation that there is a "highly statistically significant" difference between the genders when it comes to "idiotic risk-taking behavior" — and it does not favor men.

Researchers at Newcastle University in England conducted a study of the risk-taking behavior of winners of the Darwin Awards — which commemorate those who die in bizarre accidents — and came up with the "Male Idiot Theory." Over a 20-year period, the researchers found that males made up 88.7% of Darwin Award nominations, according to the British Medical Journal, which published the study in its holiday issue.

Winners of the Darwin Award include a Toronto lawyer who crashed through a pane of glass and fell 24 floors to his death while demonstrating the safety of the building's windows; a Polish farmer who cut off his own head with a chainsaw while horsing around with friends; and a would-be terrorist who mailed a letter bomb with insufficient postage only to die when the parcel was returned to sender and he opened it.

The researchers said that their findings support their working hypothesis that "men are idiots and do stupid things." The research team — all men — said they were surprised at the results of their tongue-in-cheek study, but that their female colleagues were less shocked.

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

Bank gets message after robocall suit

An ill-timed robocall can foul anyone's mood, but for one couple, there was a pleasant payoff in the end, albeit hundreds of calls later.

Bank of America Corp. will have to pay \$1 million to the Florida couple who say the bank harassed them with more than 700 robocalls after they failed to pay their mortgage.

Nelson and Joyce Coniglio sued Bank of America in U.S. District Court in Tampa, Florida, in July, claiming in court documents that a Bank of America subsidiary "intentionally harassed and abused" them after they began missing mortgage payments in 2009.



The Coniglios said in their complaint that they sent attorney-drafted letters to Bank of America asking them to stop the calls. Still, they said they continued to receive up to five calls a day from the bank on their cell phones and residential phone.

A federal judge found in favor of the Coniglios and ordered Bank of America to pay \$1.05 million in damages plus \$61,657 in attorney fees to the Coniglios.

That comes out to about \$1,588 per call.

Restaurant's drone accepts tips

Love is in the air this holiday season. At least, it was before it spun out of control and clipped a photographer's nose.

As part of TGI Friday's "mistletoe drones" promotion, two remote-controlled helicopters toting mistletoe and kiss cams flew around the chain's Brooklyn location Dec. 4 urging diners to "come together this Christmas." However, an unsuccessful drone demonstration left a local photographer with a bleeding nose instead of a kiss, according to reports.



As drone operator David Quinones, founder of aerial photography and video firm SkyCamUSA in New York, attempted to land one of the drones on a Brooklyn Daily reporter's hand, a helicopter blade spun into the nearby photographer's face and "literally chipped off" the tip of her nose, according to the Brooklyn Daily's report.

Following the incident, Mr. Quinones reportedly told the Brooklyn Daily that "if people get hurt, they're going to come regardless." "People get hurt in airplanes, they still fly. There is a risk involved."

As if making out over a plate of garlic-marinated chicken wasn't risky enough.



WE TV

Anita Maxwell was charged with 14 felony counts associated with insurance fraud.

Bridezilla faces fraud charges

After a two-episode arc on the reality TV show "Bridezillas" in 2007, a California woman continued to get attention, but now it was of the unwanted variety.

Anita Maxwell recently surrendered to the Los Angeles County Superior Court on 14 felony counts associated with insurance fraud, the California Department of Insurance said in a statement.

An investigation which began in 2012, found that "Ms. Maxwell allegedly submitted fraudulent documents and made false claims to receive more than \$40,000 in undeserved workers compensation benefits," according to the department's statement.

Ms. Maxwell received workers comp for injuries she received as a clinical partner in 2012, according to the statement. She allegedly denied having prior injuries, though she had previously filed for comp, and submitted more than \$5,000 in false mileage forms for travel to treatments.

2015 EDITORIAL CALENDAR AT A GLANCE

Reach over 46,000 *Business Insurance* readers.
Digital and print advertising or sponsorship opportunities
are available now.

SPECIAL REPORTS KEY ■ Risk management ■ Benefits management ■ Workers comp ■ Other

ISSUE DATE	PRINT AD CLOSE	SPECIAL REPORTS BUSINESS INSURANCE EVENT	Video	BI Events	BI-Print Bonus Distribution	Webinars	White Papers	Research & Data
1/5	12/19	WORKPLACE SAFETY TRENDS Property/Casualty Insurance Joint Industry Forum- Jan 15	•		•			
1/19	1/2	HEALTH CARE REFORM UPDATE	•			•	•	•
2/2	1/16	MANAGEMENT LIABILITY	•					•
		WORLD CAPTIVE FORUM- FEB 2-4 Plus D&O Symposium- Feb 4-5 CIAB Legislative Leadership Summit- Feb 9-12	•	•	•			
2/16	1/30	PRESCRIPTION DRUG MANAGEMENT NAPSLO Mid Year Forum- Feb 23-26	•		•			
3/2	2/13	CYBER RISK: INSURANCE/LIABILITY INNOVATION AWARDS NBGH- March 4-6 CICA International Conference- March 8-10	•		•			
		RISK MANAGEMENT SUMMIT CAPTIVES REPORT AAMGA Automation & Technology- March 21-24 World Healthcare Congress - March 22-25	•	•	•			•
3/30	3/13	CLAIMS MANAGEMENT CBO SPRING	•					•

*Product offerings are subject to change



Contact us today:
advertising@businessinsurance.com
312.649.5243

the
Right Solutions
to **Manage**
your **Risk**

We partner with our clients to understand their unique needs and design the right solution for each.

We specialize by type of insurance coverages, as well as by industries. Our parent company, Old Republic International Corporation, is one of the nation's 50 largest publicly held insurance organizations.

Old Republic General Insurance Group

BITCO Insurance Companies¹

Chicago Underwriting Group²

Great West Casualty Company

Old Republic Construction Program Group³

Old Republic Home Protection Company

Old Republic Insurance Company

Old Republic General Insurance Corporation

Old Republic Insured Automotive Services²

Old Republic Risk Management²

Old Republic Surety Company

Phoenix Aviation Managers²

PMA Companies⁴

Insurance contracts are underwritten and issued by: 1. BITCO General Insurance Corporation and BITCO National Insurance Company; 2. Old Republic Insurance Company; 3. Old Republic General Insurance Corporation; 4. Pennsylvania Manufacturer's Association Insurance Company, Manufacturers Alliance Insurance Company, Pennsylvania Manufacturers Indemnity Company.

For more information please visit:
www.oldrepubliccompanies.com

