

SLOW EXIT

AIG bought International Lease Finance Corp. in 1990 but has tried to sell it several times since 2008.

April 2010: AIG agrees to sell 53 ILFC aircraft for \$1.99 billion

September 2011: ILFC IPO filing

January 2012: AIG CEO Robert Benmosche says no to IPO timing

December 2012: AIG says it will sell ILFC to Chinese consortium for \$4.8 billion

December 2013: AIG announces ILFC sale to AerCap for \$5.4 billion

P/C INSURERS

AIG to get back to basics with ILFC sale

BY MARK A. HOFMANN AND RODD ZOLKOS

American International Group's Inc.'s agreement to sell its last major noncore business stands to benefit the company by allowing it to concentrate on its insurance operations.

AIG announced earlier this month that it reached an agreement to sell its International Lease Finance Corp. aircraft leasing business to AerCap Holdings N.V. in a cash and stock deal. It could be worth about \$5.4 billion when the sale is finalized, likely in the second quarter of 2014.

The transaction marks the end of AIG's sale of major assets, which began shortly after the federal government provided more than \$180 billion in financial assistance to the company to prevent its collapse in 2008.

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SPECIALTY RISKS

SATELLITE INSURERS FACE NEW UNDERWRITING CHALLENGE

SpaceX rocket puts launch coverage sector in flux



SPACEX

A SpaceX Falcon 9 rocket with a satellite payload launches from Cape Canaveral.

BY BILL KENEALY

The recent launch of a commercial satellite atop a new type of rocket may shake up the staid space launch insurance market, experts say.

Hawthorne, Calif.-based Space Exploration Technologies Corp.'s Dec. 3 deployment of the SES-8 satellite from its Falcon 9 rocket is an important development for the industry and the companies that insure it, said Jeff Polisenio, Washington-based CEO at Aon International

Space Brokers.

"The launch went off perfectly and hit all the orbital parameters," he said. "Many people in the industry consider it a game-changing event for SpaceX to demonstrate that they can pull off the mission at the price point they offer."

With the successful satellite deployment, SpaceX alters the calculus of an industry long dominated by two major launch platforms,

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LEGISLATION

Agents, brokers brace for FATCA rules

Law may complicate placement process

BY MATTHEW LERNER

The insurance industry is bracing for the July 1, 2014, implementation of an anti-money laundering statute, the Foreign Account Tax Compliance Act, which some say could be burdensome for agents and brokers.

The legislation, updated regulations of which are expected in January from the U.S. Treasury Department, could require that insurance premiums paid to foreign entities that are not registered with the Internal Revenue Service are subject to a 30% withholding regimen.

While the original intent of the law, which was signed in 2010, was to prevent tax-evasion by U.S. entities placing funds overseas via investment vehicles, the law also applies to some property/casualty placements.

To comply with FATCA, insurers must be documented and registered with the IRS and be issued a Global Intermediary Identification Number, said New York-based Denise Hintzke, global tax leader for FATCA compliance with Deloitte Tax L.L.P.

As the Department of the Treasury works to finalize regulations, time is growing short.

"We are expecting the final regulations in January and forms in

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Q&A: MARK GREISIGER

The president of NetDiligence speaks out on mitigating data breach loss and liability risk

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Large employers lead midsize firms toward innovations in employee benefits

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SPECIAL REPORT

2013 YEAR IN REVIEW 2014 FUTURE TRENDS

Risk management challenges in 2013 spanned the spectrum; health care reform law dominates 2013 benefits issues; terrorism backstop is a top risk management concern; health insurance exchanges, pension de-risking to grow in 2014.

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Financial information for the group may be found at www.nationalindemnity.com.

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INTERNATIONAL

Lloyd's breaks with tradition by appointing first female CEO

Inga Beale brings strong insurance background to role

BY SARAH VEYSEY

When Inga Beale steps into her office at the iconic Lloyd's of London building in January, she will become the first female CEO in the market's 325-year history.

After what Lloyd's described as "an extensive global search," conducted with the help of London-based executive search firm Odgers Berndtson, Lloyd's announced in December that Ms. Beale had been appointed to succeed Richard Ward, who announced his departure in July after eight years in the role.

Ms. Beale, 50, who formerly played for the London Wasps rugby union team, was described as "very professional," "tough" and "nice" by sources who have worked with her during her 30-year insurance and reinsurance career.

Having begun her career in 1982 at London-based Prudential Assurance Co. Ltd., Ms. Beale has held a variety of roles at insurance and reinsurance companies in the United States and Europe (see box).

She most recently was group CEO of Guernsey-based Canopus Group Ltd., a Lloyd's managing agency that operates multiline syndicate 4444 and earlier this month was sold to Sompo Japan Insurance Inc., the principal sub-



Inga K. Beale was appointed CEO of Lloyd's of London in December. She will take up the post in January.

■ Most recently, she was group CEO of Canopus Group Ltd.

■ From 2008 to 2011, she worked at Zurich Insurance Group Ltd., where her roles included global chief underwriting officer and head of mergers and acquisitions, organizational transformation and internal consulting.

■ From 2006 to 2007, she was CEO of Zug, Switzerland-based Converium Ltd., which was sold in 2007 to Paris-based SCOR S.E.

LLOYD'S OF LONDON

siary of Tokyo, Japan-based insurance group NKSJ Holdings Inc. — just days after the announcement of Ms. Beale's

appointment at Lloyd's. That appointment has been

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HEALTH CARE BENEFITS

Poor physician quality data may hamper patients

BY JOANNE WOJCIK

A new report that gives the majority of states a failing grade for providing quality information on doctors could fuel the fear and confusion felt by many employees when it comes to seeking out medical options at a time their employers are asking them to be more conscientious consumers of health care, experts say.

The "State Report Card on Physician Quality Information," published Dec. 10 by the Newtown, Conn.-based Health Care Incentives Improvement Institute Inc., gave only two states — Minnesota

and Washington — an A, while California barely passed with a grade of C. Every other state performed worse.

"The quest for quality information has been like the search for the Holy Grail," said Marianne Fazen, president and CEO of the Dallas-based Texas Business Group on Health, which is launching its own action-focused think tank in January in an attempt to drive improvements in provider quality in that state.

"Employers have been looking for credible information for decades," she said, but instead have been confronted with "a

plethora" of different metrics developed by various organizations.

"We've had quality assessments coming from the Leapfrog Group, the National Committee on Quality Assurance, the Joint Commission, the American Hospital Association, medical specialty societies — but everybody's using a different set of metrics. No employer is going to wade through it all and try to figure out what it all means," she said.

Moreover, "how are they going to help their employees make

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WORKERS COMPENSATION

Sedgwick rumored up for sale

Potential deal may be tied to comp firming

BY SHEENA HARRISON

A rumored deal to sell Sedgwick Claims Management Services Inc. is part of the standard life cycle for private equity deals, investment analysts say, though one source notes the timing could be tied to a recent firming of the workers compensation market.

Stone Point Capital L.L.C. and Hellman & Friedman L.L.C., which bought Sedgwick for about \$1.1 billion in 2010, reportedly have been discussing a sale of the third-party administrator to a "small group of private equity buyers," according to Reuters. The supposed deal could be valued at more than \$2 billion, according to unidentified sources cited in the report.

A company spokeswoman told *Business Insurance* that "Sedgwick doesn't comment on rumors." Calls to Stone Point and Hellman were not returned last week.

Memphis, Tenn.-based Sedgwick is the nation's largest TPA, according to the most recent data provided to *Business Insurance*. The firm reported \$855.5 million in revenue from self-insured clients in 2011.

Itasca, Ill.-based Gallagher Bassett Services Inc. is Sedgwick's next-largest TPA competitor, with \$463.8 million in revenue from self-insured clients in 2011.

Analysts who follow Gallagher Bassett's publicly traded parent company, Arthur J. Gallagher & Co., say Sedgwick is seen as a strong competitor in the TPA market and that they believe a potential sale would be part of the typical deal life cycle for private equity investors.

TPAs like Sedgwick are seen as "a fairly predictable cash flow-generating business — the kind that private equity firms certainly like," said Charles J. Sebaski, an equity analyst with BMO Capital Markets in New York.

Meyer Shields, managing director and analyst with Keefe, Bruyette & Woods Inc. in Baltimore, said that the firming workers comp market would prompt some employers to move toward self-insured workers comp programs. That shift would increase the demand for claims handlers like Sedgwick and Gallagher Bassett, and could factor into potential

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ONLINE
FEATURES

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NEWS

RISK MANAGEMENT

CYBER EXPOSURES THREATEN
SUPPLY CHAIN RISK MANAGEMENT

Critical role of IT in logistics, processes heightens concerns

BY RODD ZOLKOS

Businesses' growing concerns over supply chain exposures and cyber risks have begun to converge in a recognition of the potentially serious risks of cyber attacks along their supply chains.

The exposures can result in supply chain disruptions, theft of customer data or proprietary company information or, in some industries, the introduction of components tainted with malware.

"Cyber risks are a major threat to supply chains today," said Stephen DeAngelis, president and CEO of Enterra Solutions L.L.C. in Newtown, Pa., a cognitive computing and analytics firm that works with big data to help clients better understand systems such as supply chains and the related risks.

"Oftentimes a bad actor will use a supply chain as a means of entry into the broader company," Mr. DeAngelis said. Cyber attackers may find they can reach the target company through some of its lower tier suppliers, he said.

"What a bad actor is going to do is look for the weakest link in the chain," he said.

A particularly damaging event might be an attack through a vendor that supplies companies

across a variety of industries, Mr. DeAngelis said, such as a maker of wire that supplies auto manufacturers, consumer electronics companies and high-tech firms. "If that particular vendor is corrupted unknowingly by an organized bad guy they can use that vendor to

Meanwhile, data that is corrupted or deleted along the supply chain can disrupt processes, he said. "Obviously hackers and intruders can also affect the availability of a system, and that can come from any angle," Mr. Srail said.

ity to produce and sell your product ... you've potentially exposed customer records and intellectual property," she said.

Ms. Conrad said Zurich's disruption database shows that 52% of supply chain disruptions in the past year resulted from information technology or communications outages between buyer and supplier.

"You think about the many places that IT is used" along the supply chain, Ms. Conrad said. "There are electronics at every single point in the process."

And, she said, "It doesn't just have to be some malicious cyber attack. It can be something as basic as poor IT infrastructure" that prompts a supply chain disruption.

As the economy improves, supply chain risks are likely to increase because companies aren't fully prepared to meet increased demand, Ms. Conrad said, adding that related cyber risks also can be expected to increase.

The intersection of supply chain and cyber risks is an example of a "blended exposure," Mr. Srail said, and consequently requires a broad view to manage adequately.



"Obviously hackers and intruders can also affect the availability of a system, and that can come from any angle."

Thomas Srail, FINEX North America

penetrate a range of companies," he said.

Thomas Srail, senior vice president, FINEX North America at Willis North America Inc. in Cleveland, said the effect of a cyber risk event on a supply chain can vary by industry. For some, a disruption that affects logistics and the ability to deliver or receive critical components can be serious.

Linda Conrad, director of strategic business risk for Zurich Global Corporate at Zurich Insurance Group Ltd. in New York, said the effect from attackers getting access to companies' data along their supply chains can take the form of the loss of the data itself, reputation damage, regulatory issues and fines.

"Not only have you lost the abil-

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WORKERS COMPENSATION

Workers comp insurers report slow improvement in results

BY SHEENA HARRISON

Workers compensation insurers have seen some recent improvements in their financial performance, but observers are concerned that underfunded reserves and low investment returns could dull the bright spots for the near term.

"It's nice to see the (workers comp rates) turn around, but three years of positives definitely don't offset five years of declining rate environment," said Gordon McLean, senior financial analyst with Oldwick, N.J.-based rating agency A.M. Best Co. Inc.

Net written workers comp premiums reached \$41 billion in 2012, up 9.5% from \$37.5 billion in 2011,

Best said in its November workers comp "Segment Review" report. Meanwhile, Best said workers comp insurers saw their combined ratio decline to 110.3% in 2012, down from 117.8% in 2011 and the first combined ratio decline for the U.S. comp industry since 2006.

The National Council on Compensation Insurance Inc. also reported improvements for workers comp insurers last year. Workers comp insurers reported net written premiums of \$35.1 billion in 2012, up 8.7% from \$32.3 billion in 2011, Boca Raton, Fla.-based NCCI said. Combined ratios also declined in the NCCI report to 108% in 2012, down from 115% in 2011.

The workers comp ratings and

research agency estimated that net written premiums would climb 6% year-over-year to \$37.2 billion in 2013 and that combined ratios would fall to 106% this year.

Workers comp insurers reported net written premiums of \$35.1 billion in 2012, up 8.7% from \$32.3 billion in 2011.

"My speculation is that we will continue to see this modest hardening" moving forward, said Harry Shuford, chief economist for NCCI.

Experts attribute the improved

performance to a slowly improving economy, recent successes in pushing for higher workers comp rates and a focus on improved underwriting.

Mr. Shuford noted that the workers comp market has grown overall as payrolls have increased in recent years. That increase led the residual workers comp market to grow to \$800 million in 2012, up from \$500 million in 2011 — marking the first "material" increase in the residual market since 2002, according to NCCI.

The firming rate environment has pushed some employers out of the voluntary comp market into the assigned risk marketplace,

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ESTABLISHED RISK MANAGEMENT STEPS PROVIDE FRAMEWORK FOR MIDSIZE FIRMS

Top 10 risk management lessons for middle-market companies

BY RODD ZOLKOS

There are often benefits to middle-market companies emulating their larger counterparts' risk management examples.

"There is a basic risk management process, methodology that has been around for years," said Patrick Donnelly, co-leader of U.S. broking at Aon Risk Solutions in Chicago. "But only larger companies have been able to make the investment to create the framework to go through those steps."

Carol Fox, director of strategic and enterprise risk practice for the Risk & Insurance Management Society Inc. in New York, said it's critical for midsize firms to focus on how they're embedding risk management in the organization.

Here are 10 risk management lessons middle-market companies should heed in 2014:

1 Business continuity planning

One of the steps many larger companies have taken that middle-market companies could benefit from is business continuity planning.

"In order to have a good business continuity plan, you really need to understand your business — and that's inside and out," said Jim Hedrick, area vice president of business continuity planning at Arthur J. Gallagher & Co. in Cincinnati. "A middle-market company may not have the bandwidth to do that," he said.

2 Establishing a crisis plan

Hand in hand with the business continuity process is establishing a crisis management plan. A crisis management plan helps drive decision-making when a crisis occurs and helps ensure that information gets to the right people.

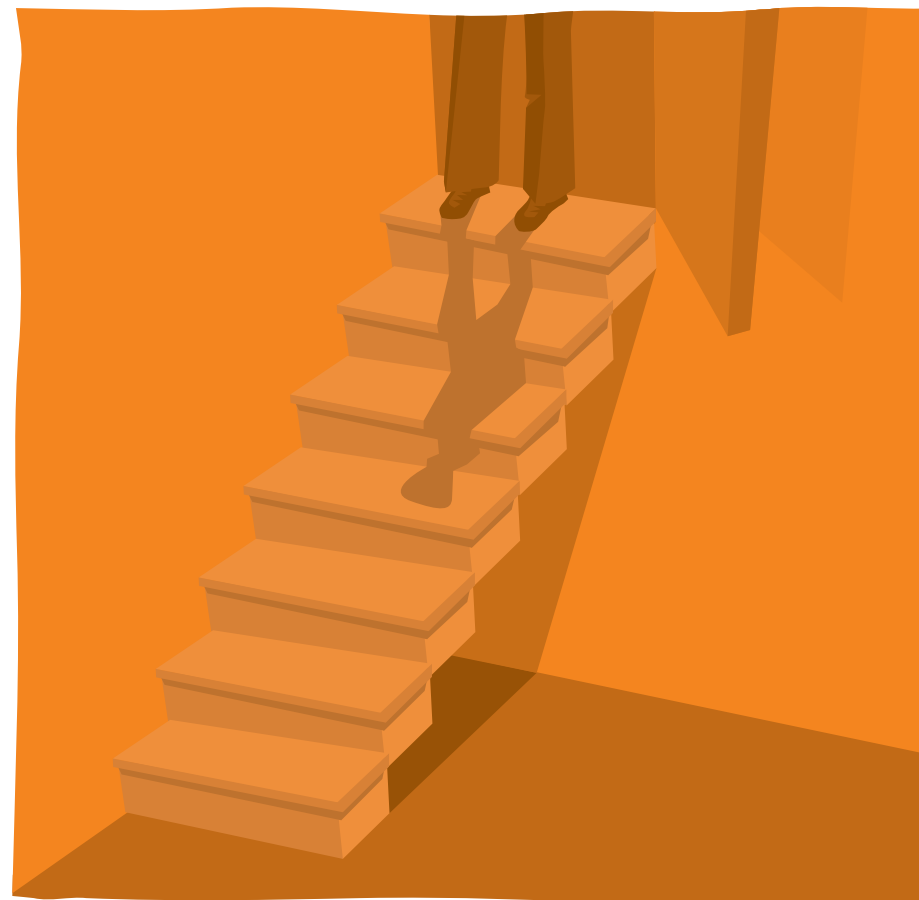
3 Testing the crisis plan

A crisis management plan alone isn't enough; it needs to be regularly tested. "To me, if you don't test your plans you might as well not have them," Mr. Hedrick said. "Not only does it test the validity of the plan, but also it's a terrific training mechanism."

Testing the plan also helps identify "who should be in your plan and shouldn't be in your plan," he said. "Sometimes you have people in these events who just melt down because they can't handle the stress."

4 Managing supply chain risks

While the effort can be challenging, large companies have increasingly recognized the



need to identify and address supply chain risks. Middle-market companies that haven't should do so as well, experts say.

Supply chain risk is "the one exposure that I believe has changed significantly since the credit crisis," said Mark Moreland, executive vice president for strategic consulting at Lockton Cos. L.L.C. in Kansas City, Mo. In trying to squeeze costs out of their supply chains some companies have taken steps to narrow their supply chains, reduce the number of suppliers and change their risk profile in the process, something that must be addressed, he said.

5 Defining a risk appetite

Mid-market companies should develop a clearly defined risk appetite. "This is the one thing that we are trying to do with all our clients and prospects: establishing a very clear risk appetite," Mr. Moreland said.

"What may happen in a middle-market organization is they believe, 'We know what our risk appetite is because we aren't that large an organization,'" Ms. Fox said. But middle-market companies can find value in having that conversation, clarifying their risks and specifying how much risk they're willing to assume and how much insurance to buy.

6 Benchmarking risk management performance

The process of defining a risk appetite also could help middle-market companies recognize how they might differ from companies they're benchmarking their risk management efforts against.

"It allows them to benchmark on areas that are different from just insurance buying," RIMS' Ms. Fox said. "It gives them more data points."

"Benchmarking is always something that clients are interested in. I think the real challenge is to get benchmarking that you can draw clear conclusions from," Mr. Moreland said.

"Benchmarking is one of those underrated tools that I think midsize companies can use in understanding their risk," said Mark Moitoso, executive vice president and general manager national accounts casualty at Liberty Mutual Holding Co. Inc. in Boston. "What's really nirvana in this is it helps them establish goals."

7 Using captives to self-insure risks

As middle-market companies become more familiar with their risks and their risk appetites, they may choose to retain

more risk or find risk financing alternatives and captives can be a useful tool. Middle-market companies are increasingly embracing alternative risk transfer.

"The big growth is with the middle-market companies," said Karl Huish, president of the Captive Services Division of Artex Risk Solutions Inc. in Mesa, Ariz. "These businesses are recognizing they have exactly the same sorts of risks that the larger companies have, they're just smaller in size."

Middle-market companies are starting to use captives both for risks they didn't previously insure and in financing large-deductible workers compensation, automobile liability, general liability and property programs. And the larger middle-market companies are often doing that through stand-alone captives, while smaller middle-market firms frequently opt for group captives.

8 Addressing cyber risks

With cyber threats cutting across companies of all sizes, middle-market companies also are increasingly aware of the need to address those risks.

When insurers first introduced cyber risk policies, many buyers questioned their value, recognizing the number of incidents that were occurring but not sure about the extent of potential damage, said Patrick Donnelly, co-leader of U.S. broking at Aon Risk Solutions in Chicago. Now nearly every company is recognizing that they have some sort of exposure.

"That's extended into the middle markets more in the past 18 months or so," Mr. Donnelly said.

9 Return-to-work efforts

Middle-market companies can also benefit by following larger companies' example in adopting return-to-work programs. Such programs can produce significant workers compensation savings while allowing injured workers to participate in modified work assignments while they recover from injuries.

10 Continuing education

Middle market companies always can benefit from following many large company risk managers' lead in looking for continuing education and networking opportunities through organizations like RIMS.

"It's not just the courses, the workshops, the online webinars, they can benefit from but the conferences and the networking by belonging to an organization," Ms. Fox explained.

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Helping executives at midsize firms and their brokers develop benefits solutions.

FOLLOWING THE LEADERS TO EMPLOYEE BENEFIT SAVINGS

Large companies' innovative programs help midsize firms expand offerings

BY JOANNE WOJCİK

Large employers historically have led innovations in employee benefits, as their size provides credible samples for experimentation, while midsize employers generally take advantage of lessons learned by their larger brethren as they move into uncharted territory.

For example, large employers were among the earliest adopters of consumer-driven health plans, which combined high-deductible insurance programs with health reimbursement arrangements or health savings accounts. Such plans yielded significant savings for employers while encouraging employees to become more conscientious consumers of health care.

More large-company trends to consider are:

1 Full-replacement CDHPs

Now that the plans have proven their value, many large employers are going full-replacement, a trend many benefits experts expect midsize employers to follow.

Though only 10% of U.S. employers now offer only a CDHP, 44% of employers with 500 or more employees say they are considering doing so in the next three to five years, according to research by Chicago-based Aon Hewitt.

"Consumer-driven plans are particularly important for midsize employers since their operating margins may be lower and less flexible than at large companies," said Scott M. Wood, a principal at Benefit Commerce Group L.L.C. in Scottsdale, Ariz. "Full-replacement CDHPs ... put all employees on the same field and allow the employer to communicate and promote consumerism in the same way for all. Our clients that implement full-replacement CDHPs consistently see 10% to 15% first-year savings and 2% to 3% additional savings each year thereafter."

2 Defined-contribution health care funding

In conjunction with the full-replacement CDHP movement, many large employers are adopting a defined contribution



ANDREA DANTI/SHUTTERSTOCK.COM

approach to health care funding, allocating a specific amount of pre-tax dollars that employees can use to buy health coverage, deposit in an HRA or HSA, and then use remaining funds to purchase ancillary benefits such as dental, vision or disability coverage.

A defined contribution approach also may help employers avoid the 40% excise tax that will be assessed on health premiums that exceed \$10,200 for single coverage and \$27,500 for family coverage

starting in 2018.

"Because of the possibility of triggering the excise tax in the future and having to manage health care costs overall, HDHPs and HSAs will continue to be part of that dialogue," said Jim Winkler, chief innovation officer of health and benefits at Aon Hewitt in Norwalk, Conn.

3 More voluntary benefits

As large employers share more of

the cost of health care with employees, they also are offering voluntary benefits on an employee-pay-all basis. "Traditionally, they've been a larger group-type offering, but the market has evolved, so there are more carriers writing smaller groups and middle-market employers," said Brian Celiberti, executive director of Crystal & Company in New York. In particular, accident, hospital indemnity and critical illness "are filling the gaps that might have been covered

by the health plan previously."

4 Private health insurance exchanges

Private health insurance exchanges established by benefit consultants to cater to large employers ineligible to participate in the public exchanges set up for small employers under the health care reform law could hold promise for middle-market firms.

"In fact, they might be better served by exchanges than large employers," said Helen Darling, president of the Washington-based National Business Group on Health. "They will perform the work of selecting the right plans and negotiating price — the things that midsize companies typically do not have the staff to do."

5 Self-insuring health care benefits

Large employers have self-funded health benefits for decades, but it was hard for midsize employers to do so until recently. However, the availability of stop-loss insurance, a form of excess coverage triggered when individual or total claims surpass a predetermined threshold, is making self-funding feasible for companies with as few as 100 employees. Self-funded health plans often are less expensive than fully insured arrangements because they are exempt from state benefit mandates and many of the PPACA provisions.

"The reasons for moving to self-funding are the additional taxation (on health insurance premiums), carrier margins, commissions paid to brokers and (adverse) selection issues if you give employees a number of choices and good decision-support models," said Rick Kahle, president of Lockton Benefits, a division of Kansas City, Mo.-based broker Lockton Cos. L.L.C. "You can save 7% to 12% by going self-funded."

6 Outcomes-based wellness initiatives

Large employers were among the first to embrace worksite wellness initiatives designed to reduce

HELPING WORKERS GET READY FOR RETIREMENT

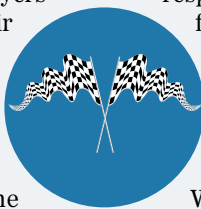
Retirement readiness is another benefits-related issue that is capturing much of the attention of large employers and also should be on the radar for midsize employers, experts say.

As part of workforce planning, "employers want to get a picture of how close their employees are ready to retire," said Alan Glickstein, senior retirement consultant at Towers Watson & Co. in Dallas. "A lot of people are way behind where they thought they would be. We've been seeing, in the wake of the recession, some of the issues with using a defined contribution plan as the sole retirement vehicle. That's what's driving things like adding auto-enrollment and auto-escalation, target date funds and annuity options. I think we're going to see some rebound and interest in the reason

why we had defined benefit plans in the first place."

"As employers turn away from defined benefit plans and turn to defined contribution plans, responsibility for retirement savings shifts from employers to employees. The problem is, most employees do not understand how much they will need to both last through and maintain their lifestyle in retirement," said Joanne Jacobson, a principal at Buck Consultants L.L.C. in Washington. "The possibility of longevity is something that must be taken into account. Many employees do not obtain financial planning, and they rely on the tools their employers provide to ensure that they will be ready for retirement."

By Joanne Wojcik



costs by improving employees' health status. In many cases, those employers also offered financial incentives to encourage employee participation. But participation often was inadequate, and many in recent years instituted outcomes-based incentives that require employees to achieve measurable health status improvements before qualifying for the incentives. In fact, the PPACA permits employers to offer incentives valued at up to 30% of single employee premiums for outcomes-based wellness programs if they provide a reasonable alternative standard for employees who cannot meet established criteria because of medical reasons.

"It's a natural transition if you've done participatory wellness," said Bob Klonk, CEO of Oswald Cos., a Cleveland-based broker. "Employers want to see financial results, which they are more likely to see if they concentrate on outcomes."

7 More data analytics

Large, self-funded employers typically use data warehouses to analyze their health care claims data to target their wellness and disease management programs. While sophisticated data analytics had been out of reach for many midsize employers because of its cost, today "there are newer players in this space that have built solutions targeting the middle market, and the health plans are becoming more cooperative" by sharing information with employers, said Aon Hewitt's Mr. Winkler.

8 Total absence management

Many large employers have taken data analytics a step further, combining health claims information with their workers compensation, disability and absence data to get a clearer picture of what factors affect worker productivity.

"What we're seeing on the larger end of the market is greater emphasis on centralization," said Chris Kroger, managing director of national accounts for Liberty Mutual Insurance Co. in Boston. "Large employers recognize the need to figure out why somebody is not on the job and to manage those absences. They also recognize the importance of marrying absence data to medical events."

9 De-risking defined benefit pensions

Though companies of all sizes have moved away from defined benefit plans in recent years, replacing them with defined contribution plans such as 401(k) plans, large companies with lega-

cy DB plans have tried to reduce the financial risk associated with those plans. Among popular de-risking strategies used by large employers are lump-sum distributions or purchasing annuities to transfer the risk to insurers.

"The interest in de-risking pension plans will continue in the coming year and will not be limited to large companies," said Joanne

Jacobson, a principal at Buck Consultants L.L.C. in Washington. "Many plan sponsors want out of the pension business. As (investment) rates go up, plans are better funded, making both lump sums and group annuities cheaper."

10 Benchmarking benefits

With an improving economy

comes a war for talent. While large employers have effectively used their strong benefits to attract the best and brightest, midsize employers can compete if they know what they are up against.

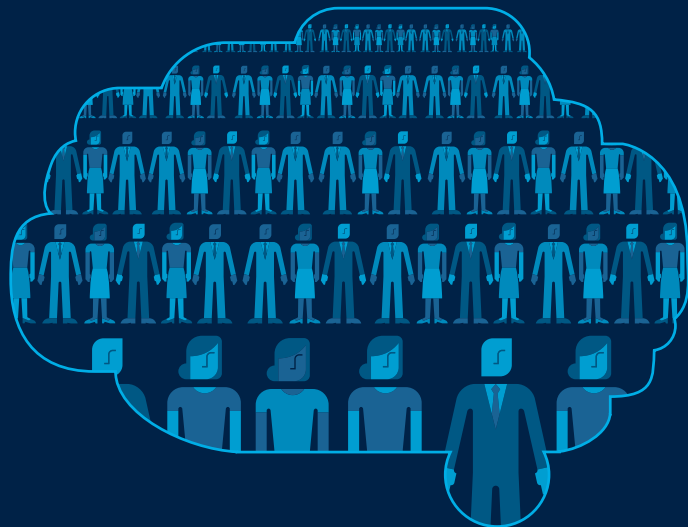
Benchmarking "is understanding where an employer is relative to similar companies, then taking that information and letting

employees know that you've checked the market and you know you're competitive," said Michael S. Grant, executive managing director at New York-based Crystal & Company.

In fact, a recent MetLife Inc. study found that employees perceive their benefits as being better than average if they are communicated effectively, he said.

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Sompo Japan Insurance to buy Canopus

■ Sompo Japan Insurance Inc., the principal subsidiary of Tokyo-based insurance group NKSJ Holdings Inc., will buy Canopus Group Ltd., a Guernsey-based Lloyd's of London managing agency, the companies announced. Sompo Japan will pay £594 million (\$968.1 million) for Canopus, it said in a statement. Canopus is backed by private equity, and its majority shareholder is London-based Bregal Capital L.L.P. In a statement, Kengo Sakurada, president of NKSJ, said the acquisition of Canopus, which manages multiline syndicate 4444 at Lloyd's, was part of the company's strategy to grow its overseas insurance business. In a statement, Michael Watson, chairman and CEO of Canopus, said that following completion of the deal it will be "business as usual" for Canopus. The deal is expected to close by mid-2014.

2013 cats result in \$44B in insured losses

■ Natural and man-made catastrophes caused insured losses of about \$44 billion in 2013, according to a Swiss Re Ltd. sigma report. The study showed that insured losses from disasters in 2013 were down significantly from about \$81 billion in 2012. Economic losses from catastrophes in 2013 totaled about \$130 billion, according to the study, compared with about \$196 billion in 2012. About 25,000 lives were lost as a result of natural and man-made disasters in 2013, compared with about 14,000 last year. The highest loss of life in 2013 occurred as a result of Typhoon Haiyan in the Philippines, which killed at least 7,000 people. Among major insured losses in 2013 were floods in Central and Eastern Europe in June that resulted in insured losses of about \$4 billion and caused economic losses of about \$18 billion. In June, floods in Alberta, Canada, caused insured losses of about \$2 billion, the study said. During July, hailstorms in France and Germany caused insured losses of about \$3 billion. Windstorm Christian in northern Europe caused insured losses of about \$1 billion, Swiss Re said, while Windstorm Xaver in the same region caused about another \$1 billion in insured losses.

Swiss Re's CFO moves over to Zurich

■ George Quinn has been named chief financial officer of Zurich

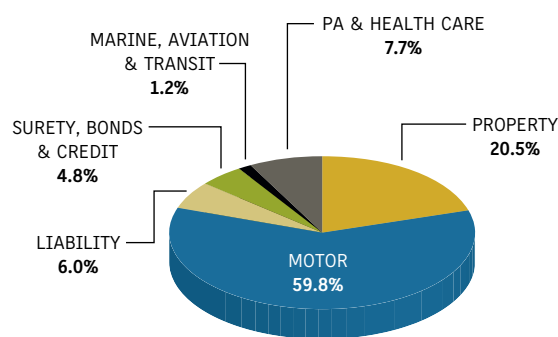
PROFILE: LITHUANIA

\$409 MILLION

Lithuania, a member of the European Union, achieved independence from the former Soviet Union in 1991. The insurance market is dominated by the former state-owned insurer, Lietuvos Draudimas, which is owned by Britain's RSA Insurance Group P.L.C. Foreign-owned insurers dominate the market. The property/casualty market grew 7% in 2012, and significant growth is expected in 2013, with gross premiums up by 10% in the first half of the year.

◀ 2012 P/C gross premiums

MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

Various lines of insurance are compulsory, including:

- Auto third-party liability
- Building contractors and designers liability
- Health care institutions liability
- Professional liability for major professions
- Marine oil pollution
- School students' liability

NONADMITTED

Unauthorized insurers cannot carry on insurance activity in Lithuania, but there is nothing in the law to indicate that insurance must be purchased from locally authorized insurers, except for compulsory classes of coverage. This is generally interpreted to mean that insurers can issue policies from abroad if approached by a buyer or intermediary.

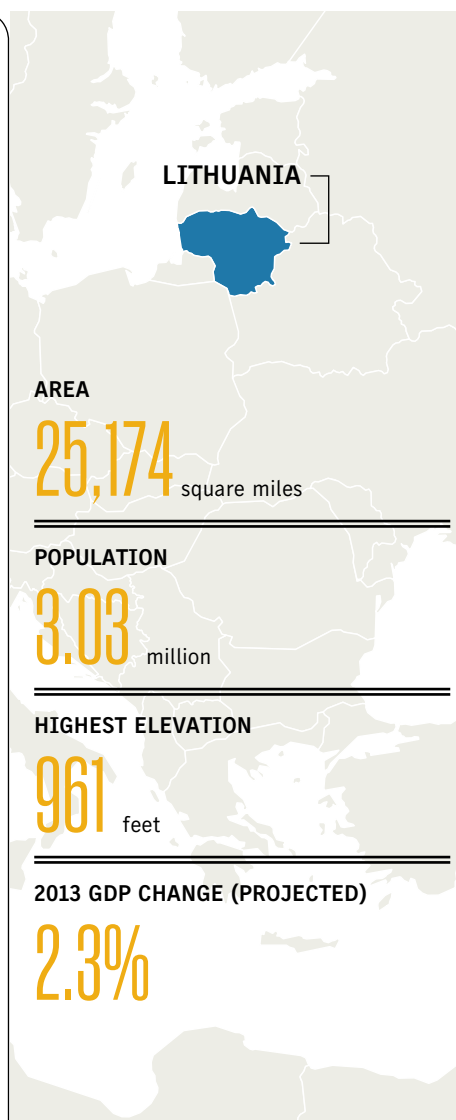
INTERMEDIARIES

Agents and brokers have to be authorized to do insurance business, but intermediaries involved in nonadmitted placements do not have to be registered with the insurance regulator, nor do they have to warn buyers that their insurer is not subject to local supervision. Most property/casualty coverage is sold through insurer branches and tied agents, but brokers are gaining market share.

MARKET PRACTICE

Multinational exposures, which previously were fronted locally and then reinsured, now are often covered by insurers of global programs on a freedom of services basis. The regulator attempts to curtail foreign insurers actively marketing in Lithuania but takes a relatively relaxed view.

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



MARKET DEVELOPMENTS

UPDATED NOVEMBER 2013

- In October 2012, Lithuania adopted a new version of its insurance law, which is intended to prepare the market for the introduction of the European Union's Solvency II directive by establishing new disclosure requirements for insurers, as well as stricter financial requirements to meet financial obligations and ensure policyholder protection. Full implementation is not expected until Solvency II comes into effect.
- In June 2012, auto third-party liability limits were raised to \$6.6 million for bodily injury, \$1.32 million for property damage and \$6,600 for pain and suffering. The changes were made to comply with the European Union's Fifth Motor Directive.
- Auto insurance has been the driver behind the Lithuanian property/casualty insurance sector's growth. The auto sector is dominated by many international freight companies, which represent between 20% and 30% of the auto insurance sector. Premiums in this sector have risen since 2011 in response to large claims in Germany, Ireland and the United Kingdom.

Insurance Group Ltd., and will join the company May 1, 2014, after serving seven years as CFO of Swiss Reinsurance Co. Ltd. Mr. Quinn, 47, joined Swiss Re in 1999 as the Zurich-based reinsurer's chief accounting officer, and later served as regional CFO for Swiss Re Americas in New York. He was named CFO of Swiss Re in 2007, and will step down from the position on April 30, 2014.

E.U. reaches deal on Libor, as three plead not guilty

■ The first three men to face trial in connection with a global investigation into a rate-rigging scandal that has rocked the financial industry pleaded not guilty in court. Tom Hayes, a former UBS A.G. and Citigroup Inc. trader has been charged with eight counts of conspiring

with staff from at least 10 major banks and brokerages to manipulate Libor benchmark interest rates between 2006 and 2010. Terry Farr and James Gilmour, former RP Martin brokers who were arrested alongside Mr. Hayes in Britain last December and later also charged with two and one count of conspiracy to defraud, respectively, by Britain's Serious Fraud Office, also pleaded not guilty. All three are out on bail. Meanwhile, a deal reached recently means traders in the E.U. caught rigging market benchmarks like Libor, oil or currencies could be jailed for four years. The agreement on toughening up the bloc's law on stopping market abuse was reached between representatives of the European Parliament and the bloc's member states. It follows public anger after U.S. and European authorities fined 10 banks and brokerages about \$6 billion in connection with rigging the London

Interbank Offered Rate, or Libor. The revised law, which still needs to be formally approved by parliament and E.U. states, will take effect from 2016.

Reuters

NAIC grants Bermuda conditional jurisdiction

■ Bermuda has been granted conditional qualified jurisdiction status by the National Association of Insurance Commissioners, effective Jan. 1, the Bermuda Monetary Authority said. The BMA in September was the first insurance supervisor to agree to participate in an expedited review under the NAIC's process for developing and maintaining a list of qualified non-U.S. jurisdictions for reinsurance collateral reduction purposes. Reinsurers licensed and domiciled in Bermuda approved under the

NAIC process will be eligible to be certified for reduced reinsurance collateral requirements under the NAIC's Credit for Reinsurance Model Law, the statement said. The NAIC adopted the Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions on Aug. 27, according to a statement from the organization. Germany, Switzerland and the United Kingdom also were approved by the NAIC, it said in a statement. A full review of the four approved jurisdictions will take place during 2014, according to the statement.

U.K. regulator fines JLT Specialty \$2.9M

■ The U.K. Financial Conduct Authority fined JLT Specialty Ltd. £1.8 million (\$2.9 million), saying

the London-based specialist insurance broker exercised inadequate risk controls over its overseas business. The FCA said the broker was found to have failed to conduct proper due diligence before entering into a relationship with partners in other countries who helped JLT Specialty secure new business between February 2009 and May 2012. In a statement announcing the fine, Tracey McDermott, the FCA's director of enforcement and financial crime, said firms must ensure that they take the necessary steps to control the risks around third-party relationships.

Ikea to give pension boost to long-serving staff

■ Ikea, the world's biggest furniture retailer, is launching a program to top up the pensions of some of its staff, linking a bonus-style payment to long-term service and retirement income and offering the same to workers as managers. The Swedish firm said it would allot an initial 100 million euros (\$138 million) towards the scheme, called "Tack!" — Swedish for "thank you" — that would contribute to pension plans of employees with more than five years service. Additional funding for the scheme would then be decided annually based on how the group fared against its targets. Ikea said it would only know at the end of next year how many of its about 135,000 employees would be eligible for the program.

Reuters

Turvill retires from Willis; joins board of unit

■ Sarah Turvill has been appointed as a nonexecutive director of the board of Willis Ltd. and will retire as chair of Willis International at the end of the year, Willis Group Holdings P.L.C. announced. Ms. Turvill joined Willis in 1978 and served as chief executive of its Continental European operations, among other roles. In a statement, Steve Hearn, deputy group CEO of Willis, said he was "delighted" that Willis would continue to benefit from Ms. Turvill's "combined insurance and merger and acquisition experience accumulated over many successful years with this company."

India seeks guarantees for Iran's oil shipments

■ India has asked Iran to provide financial guarantees before Delhi continues to allow vessels with Iranian insurance cover to enter Indi-

an waters, the latest sign of difficulties Iran is facing in exporting oil. Iran and world powers reached a breakthrough agreement last month over Tehran's disputed nuclear program that allowed the Middle Eastern nation to continue oil shipments at current levels of about 1 million barrels per day. India's latest request, however, shows the struggle OPEC member Iran still faces in maintaining steady oil shipments. International sanctions on Iran have made it

difficult to insure refineries and ships involved in trade with Iran and forced India to settle 45% of oil payments in rupees through state-owned UCO Bank while refiners are withholding the remainder. India is the second-biggest market for Iranian oil after China and India and Iran recently held discussions on ways to settle oil trade in hard currencies like dollars and euros. But no mechanism has been finalized yet.

Reuters

Canadian retailers urged to sign Bangladesh pact

■ A group that includes Canada's largest unions is urging Hudson's Bay Co., Canadian Tire Corp. and other Canadian-based retail companies to sign a European-led initiative to improve safety for garment workers in Bangladesh. Proponents of the Accord on Fire and Building Safety in Bangladesh say

it is stronger than the U.S.-led Alliance for Bangladesh Worker Safety initiative, which many Canadian-based retailers have already endorsed. The European initiative requires clearly independent inspections of work sites, binding arbitration enforceable in court in case of a dispute, and full disclosure of all suppliers, inspection reports and detailed quarterly reports. More than 125 companies have already signed the accord.

Reuters



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EDITORIAL

PHYSICIAN DATA NEEDS AN UPGRADE

The drive toward consumerism in the health insurance sector is hitting a troublesome roadblock in the form of poor information on physician quality. And that lack of information on physician quality is a hindrance to health care cost control efforts that will only be exacerbated by the flood of newly insured patients coming into the system via the health care reform law.

As we report on page 3, most states fail to provide health care consumers with the information they need to make informed judgments about the physicians they should consider using. That failure to provide adequate information is taking place in an era when patients are being incentivized to spend health care dollars wisely and differentiate between doctors based on value for money.

It's not a lack of data that is causing the problem. Rather, the data that is available often is not organized appropriately for patients and their employers to easily access.

While there are numerous organizations that assess physician quality, the information can appear contradictory or incomplete and the task of deciphering the data is daunting for employer organizations, leave alone individual employees.

The problem, however, would only be partially alleviated by better data organization. The data sets themselves often focus on process rather than outcomes. Such a focus may tell an observer that the physician is following recommended guidelines, but it says little about whether a patient's condition actually improves — which surely is the ultimate measure of a physician's performance.

The good news is that efforts are being made to introduce a greater focus on outcomes in measuring physician quality. In addition, a few states, most notably Minnesota and Washington, are receiving top grades for the quality information they make available. The fact that a few states can provide consumers and employers with information to help them make informed decisions when selecting physicians shows that the problem is not insurmountable.

As employers search for ways to provide good-quality health care options at a time when medical costs continue to rise above the rate of inflation, however, the whole of the health care establishment and the organizations that measure their quality need to work faster to provide consumers with the tools they need to make informed decisions.

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SCHILLERSTROM



COMMENTARY

GENDER DIVERSITY IN INSURANCE NOT JUST AN ISSUE FOR WOMEN

During this year's *Business Insurance* Women to Watch Leadership Workshop, I suggested that those who attend next year's event bring their daughters to introduce them to possible careers in the insurance industry. However, after some reflection, I think women in our industry might be better served if more of their male colleagues attended Women to Watch. The composition of the audience, as compared with that of the CEO panel, pretty much reflected the shakeout that has been occurring among women in the insurance industry.

But I guess some men feel threatened by the prospect of attending such an event, based on the reaction I received from one high-level male industry executive I had invited to attend.

"That's for women, isn't it?" he replied with a shudder.

"Well, it's about women, but it's not exclusively for women," I said, explaining that the event focuses on the challenges women face in shattering the industry's glass ceiling.

Another, more enlightened industry CEO, who has actually attended every Women to Watch Leadership Workshop since its inception in 2011, had this to say: "It is definitely the most uncomfortable industry event I attend all year, but it is also the most beneficial."

Indeed, companies that place a high value on workforce diversity — particularly at the senior management and executive levels — consistently outperform their competitors on a range of metrics, including their overall returns on sales and investment



**JOANNE
WOJCIK**
SENIOR EDITOR

capital, Aon Hewitt CEO Kristi Savacool — a 2011 Women to Watch honoree — reported during the CEO panel at this year's workshop.

Unfortunately, just 5% of leadership positions across the industry are held by women.

Women throughout the industry also are not compensated commensurate with their contributions.

Women in insurance made just 62.2 cents on the dollar earned by their male counterparts in 2011, according to the U.S. Bureau of Labor Statistics. Yet every one of the individuals who have been identified by *Business Insurance* as Women to Watch have consistently performed above and beyond the call of duty, oftentimes making significant personal sacrifices to help bolster their employer's bottom lines. Unfortunately, only about 25% of men are aware that women still earn less than them, according to other research presented at Women to Watch.

I have long held the belief that women's liberation would be equally liberating for men. I know many fathers who would relish the opportunity to spend more time with their children if not for the fact that they are their family's major breadwinners. But if women were paid on par with men, more of them might ascend to the top of the corporate ladder.

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SPECIAL REPORT

2013 Year in Review

2014 Future Trends

Terrorism backstop
a top concern
in risk management

PAGE 16

Private exchanges
set up shop,
see rapid growth

PAGE 20

Risk management challenges spanned the spectrum

Dreamliner battery fires, Boston Marathon bombings cap risks in 2013

BY BILL KENEALY

The past year provided a vivid reminder of the array of challenges a risk manager may have to confront. From devastating natural disasters to train derailments to shifting competitive dynamics in the commercial insurance market, 2013 left risk managers with much work to do to protect and help adapt their organizations.

Boeing Dreamliner fires and reputational risk

Reputational risk was front and center this year, and few companies had to endure problems on the scale of Chicago-based Boeing Co. In January, the company's 787 Dreamliner fleet was grounded following a series of fires in the plane's lithium-ion battery packs. After a public and protracted



AP PHOTO

Boeing Co.'s 787 Dreamliner fleet was grounded following a series of fires caused by lithium-ion battery packs.

safety review led by the U.S. National Transportation Safety Board, the Federal Aviation Administration finally cleared the fleet to return to the skies in April.

While the company's losses were mitigat-

ed by customer sales agreements and low limits for grounding liability exposures, the groundings tarnished the company's brand and upset relations with customers such as Japan's All Nippon Airways Co. Ltd., which asked Boeing that All Nippon be compensated in cash rather than with discounts on future purchases for losses while aircraft were grounded.

Boston bombings and mass shootings

April's Boston Marathon bombings caused risk managers and underwriters alike to appreciate the necessity for terrorism insurance coverage for sporting events, festivals and other large gatherings.

The Washington Navy Yard shooting in September highlighted the delicate balance employers face in protecting their employ-

ees and customers while avoiding government scrutiny for potentially violating individuals' rights.

Buffett expands, insurance operations

Having already conquered personal lines and reinsurance, Warren Buffett set his sights on the commercial market. In June, Berkshire Hathaway Inc. launched Berkshire Hathaway Specialty Insurance, a new property/casualty insurer focused on U.S. excess and surplus lines. To run the insurer, Mr. Buffett recruited several top executives from American International Group Inc., including Peter Eastwood, formerly president and CEO of AIG's property/casualty unit.

See **RISK** page 16

Health care reform law dominates benefits issues

High-deductible health plans, pension de-risking efforts gained ground in 2013

BY JERRY GEISEL

Cappped by the disastrous launch of public health insurance exchanges, health care reform law-related issues dominated employee benefit issues in 2013, mainly related to Patient Protection and Affordable Care Act rules and guidance.

It began in February when the Internal Revenue Service issued regulations that employers would be hit with stiff financial penalties if single coverage, rather than family coverage, was deemed unaffordable. Under the final rule, employers will be hit with a \$3,000 penalty for each employee whose premium contribution for single coverage exceeds 9.5% of household income and the employee uses a federal premium subsidy to buy coverage in a public exchange.

Many more compliance rules followed. For example, in July, the Treasury Department delayed by one year to 2015 a key require-

ment of the health care reform law that employers offer qualified coverage or pay a \$2,000-per-full-time-employee penalty, citing reporting-related issues. In September, the IRS said pre-Medicare eligible retirees would lose eligibility for health insurance premium subsidies to buy coverage in public insurance exchanges if their former employers contributed to retirees' stand-alone health reimbursement arrangements.

Pension plan funding the best in five years

Buoyed by robust returns in the equities market, pension plan funding levels, much to the delight of plan sponsors, headed upward in 2013. At the close of 2012, on average, pension plans sponsored by companies in the Standard & Poor's 1500 were 74% funded, the third consecutive year that plan

funding dropped. That fall came to an abrupt halt this year as the value of many stocks held by pension plans leaped. By May, plans on average were 86% funded. And in November average funding levels hit 93% — the highest level in five years, according to Mercer L.L.C. For employers, the improvement in pension plan funding will mean sharply lower contributions in the year ahead.

Pension plan de-risking efforts gain momentum

Pension plan de-risking, which entered the mainstream benefits vocabulary in 2012 when big-name employers like Ford Motor Co. and General Motors Co. unveiled trailblazing plans to shed tens of billions of dollars in plan liabilities by offering retirees

DB PLANS ON THE WANE

Among Fortune 100 employers, less than one-third now offer a defined benefit pension plan to new salaried employees, and more than two-thirds offer only a defined contribution plan.

Year	% offering DB plans	% offering only DC plans
2013	30%	70%
2012	32%	68%
2011	33%	67%
2010	37%	63%
2009	43%	57%
2008	47%	53%
2007	53%	47%

Source: Towers Watson & Co.

See **BENEFITS** page 21

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Terrorism backstop a top concern

More competition also on risk management radar in 2014

BY BILL KENEALY

As risk managers look ahead to 2014, many trends expected to shape the market come from unfinished business.

For example, while the Sept. 11, 2001, terrorist attacks happened more than a decade ago, the ability of risk managers with large property exposures to obtain sufficient coverage will in many ways hinge on the legislative fate of the federal terrorism insurance backstop set to expire with 2014.

Competition grows as does capacity

Commercial insurance offerings from Asia-domiciled insurers such as Beijing-based People's Insurance Co. of China and Shanghai-based China Pacific Property Insurance Co. Ltd., as well as new broker facilities, such as the sidecar deal between Aon P.L.C. and Berkshire Hathaway Inc. will give buyers additional options to consider.

Likewise, alternative capital that rushed into the reinsurance market in 2013 shows no signs of abating and may decrease the price of primary insurance. Specialized hedge funds and pension funds sponsoring insurance-linked securities are unlikely to leave the market as low interest rates limit their investment options elsewhere, said Bill Dubinsky, New York-based head of ILS at Willis Capital Markets & Advisory.

"We will see people moving in and out of the market, but the pension fund money is inherently slow money," he said. "It's what's really driving the market at this point."

Catastrophe bonds cover storm surge

Another trend in 2014 may be large buyers

bypassing primary insurers and directly accessing the capital markets for coverage.

Deals such as the New York Metropolitan Transportation Authority's July placement of a \$200 million catastrophe bond to help guard against the risk of storm surge may well be emulated by other buyers.

"Falling (catastrophe bond) spreads make the (insurance-linked securities) market more viable for individual insureds that need large limits," Mr. Dubinsky said. "It really comes down to price. If you look at the gap between insured losses and economic losses for all types of catastrophe events, there is a market out there waiting to be satisfied at the right price."

Risk models growing in sophistication

Technology changes will recalibrate risk modeling in 2014.

This is especially true in the realm of catastrophe models, where insurers, reinsurers and risk managers are seeking greater control over the assumptions of underlying third-party models, said Karen Clark, president and CEO of Karen Clark & Co. in Boston.

"There so much change going on now," Ms. Clark said. "The traditional catastrophe models have served the industry well over the past 20 years, but one of the drivers for change is that companies want more and they want more sophisticated tools. They want transparency, consistency and flexibility, and are getting more resistant about sending their proprietary data to third-party model vendors."

One area rife for innovation is flood modeling. "As interest grows toward writing more flood cover in the private market, there will be a need for more tools," Ms. Clark said.

Flood mitigation a worldwide concern

Lou Gritz, Boston-based vice president of research at FM Global, said Superstorm Sandy as well as major floods in Canada, Thailand and Australia have increased the level of flood awareness.

"Towns are much more aware of their flood risks and taking active measures to improve their resiliency," Mr. Gritz said. "Flood awareness has also led to an increase in flooding planning and response capabilities from companies that dovetail nicely with those community activities."

Nonetheless, Mr. Gritz said risk managers and insurers must guard against the assumption that 2014 will be a repeat of the relatively benign catastrophe year in 2013 for the United States.

"A quiet hurricane season, plus adequate capacity means that the conditions are becoming ripe for complacency in the risk management community, but more importantly, at the board level," he said. "Storm memory is short."

Terrorism insurance backstop renewal stalls

Another potential disaster for which buyers need to plan is a possible shortage of terrorism insurance. While risk managers and the insurance industry hoped Congress would renew the federal terrorism insurance backstop established in 2002 by the Terrorism Risk Insurance Act in time for the Jan. 1, 2014, renewals, that did not happen.

"TRIA is frustrating because the general consensus is that it will be renewed, but that history will repeat itself and it will renew just as it is about to expire," said Howard Mills, New York-based director and chief adviser of the insurance industry group at

Deloitte L.L.P.

"This introduces a whole bunch of uncertainty in the market in regards to treaties being renewed, and large construction projects finding capacity. It's just causing needless damage," Mr. Mills said.

Thomas J. Santos, Washington-based vice president of federal affairs at the American Insurance Association, said a key indicator about the fate of the terrorism insurance backstop will be when House Financial Services Committee marks up the bill. He said signs indicate that the committee may mark up a bill as early as the first quarter of 2014.

"If you look at the history of this process, if the committee were to act that soon, that's a good signal to the market that Congress is serious about getting this authorized and not waiting to until the last minute," Mr. Santos said. "I think the leadership is well aware of insurers' and large commercial policyholders' need for certainty."

Evolving regulations warrant constant monitoring

In addition, enhanced oversight from executive branches such as the Financial Stability Oversight Council, which began designating systemically important insurers in 2013, will continue in 2014 for organizations considered to big to allow to fail.

"We have to bear in mind that the Financial Stability Oversight Council is not going away," Mr. Mills said. "They will be monitoring market conditioning continually."

Moreover, since the oversight council considers the size of an insurer when making its designations, mergers and acquisitions could make a difference.

"Insurance companies of a certain size may start to wonder if M&A is worth it," Mr. Mills said. "It's a new consideration that the industry never had to deal with before."

RISK

Continued from page 14

Berkshire Hathaway also raised eyebrows in March when it announced an insurance sidecar facility set up by Aon P.L.C., where Berkshire participates in 7.5% of the business Aon places that has Lloyd's participation.

Tornadoes wreak havoc, leave billions in losses

While the insurance industry made it through hurricane season unscathed, convective storms caused billions in losses.

November twisters across the Midwest resulted in eight deaths and estimated insured losses of more than \$1 billion. May tornadoes, including one that leveled Moore, Okla., left up to \$5 billion in insured losses.

Broker buying spree includes some big names

Brokerage deals made 2013 a remarkable year for mergers and acquisitions. Top 10

brokers Brown & Brown Inc. and Arthur J. Gallagher & Co. inked mega deals.

In June, Brown & Brown bought rival Beecher Carlson Holdings Inc. for \$336.5 million from private equity firm Austin Ventures. In August, Gallagher acquired Short Hills, N.J.-based insurance broker Bollinger Inc. for about \$276.5 million. Less than a month later, Gallagher bought London-based Giles Group of Cos. in a \$362.1 million buyout.

Concussions settlement and the NFL's bad year

The National Football League was on the defensive. In July, it reached an undisclosed settlement in three cases involving former NFL players who sought to file workers compensation claims in friendly California.

More contentiously, the league in September reached a \$765 million settlement with 4,500 former players who had accused it of misleading them about concussion dangers.

Catastrophes, derailment cause trouble in Canada

Those who regarded Canada as relatively



AP PHOTO

Jason Campbell, quarterback for the Cleveland Browns, suffered a concussion in a November game against Pittsburgh.

safe from catastrophes were reminded that disaster can strike anywhere. June floods ravaged Alberta and its largest city, Calgary. The raging waters caused insured losses estimated at more than \$1.61 billion, making it the costliest disaster in Canadian history, said the Insurance Bureau of Canada.

Meanwhile, July floods in Toronto cost insurers an estimated \$802.2 million, while the derailment and explosion of a crude oil-laden freight train killed 46 people and destroyed much of central Lac-Mégantic, Quebec.

Systemic risk designations in U.S. and abroad

Large insurers came under enhanced scrutiny from regulators in the U.S. and abroad.

In June, the Financial Stability Oversight Council deemed several insurers including New York-based AIG "systemically important." While AIG said it "welcomed" the move, other potential designees such as Prudential Financial Inc. and MetLife Inc. publicly pushed back on the idea that the firms presented a systemic risk.

In July, the Basel, Switzerland-based Financial Stability Board designated nine global insurers systemically important, or too big to fail.

Insurance-linked securities and alternative capital

Alternative capital continued to flow into the reinsurance market in 2013.

Stymied by low interest rates, institutional investors such as pension funds and hedge funds triggered record demand for insurance-linked securities such as catastrophe bonds.

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Health care exchanges, pension de-risking set to grow in 2014

BY JERRY GEISEL

Employers offering employees health coverage through private health insurance exchanges — one of the biggest benefit trends of 2013 — is certain to continue in 2014.

Sensing rapidly growing employer interest, 2013 was the year in which major consulting firms launched or said they planned to launch private exchanges.

Aon Hewitt started its exchange in 2013, Mercer L.L.C. and Buck Consultants L.L.C. geared up to offer exchanges in 2014, and Towers Watson & Co. acquired Liazon Corp. to expand its private health insurance exchange presence.

Early market entrants see rapid growth

Those early movers were rewarded with substantial growth.

The number of employers participating in Aon Hewitt's exchange will leap six-fold in 2014.

In all, 18 employers, including Deerfield, Ill.-based drug store

chain Walgreen Co., will participate in Aon Hewitt's Corporate Health Exchange in 2014. That compares with three employers — including U.S. employees of Aon Hewitt parent Aon P.L.C., Orlando, Fla.-based restaurant chain Darden Restaurants Inc. and Hoffman Estates, Ill.-based retailer Sears Holding Corp. — that offered coverage through the exchange in 2013. More than 600,000 employees and dependents of the 18 employers are eligible for coverage through the exchange in 2014.

Meanwhile, Buck Consultants' new exchange starts 2014 with 14 employers, all of which have at least 3,000 employees. They include well-known companies such as Arby's Restaurant Group Inc., Bob Evans Farms, Domino's Pizza Inc. and Buck Consultants' parent company Xerox Corp. In all, about 400,000 employees and dependents will receive coverage through Buck's RightOpt exchange.

"The growth we saw in 2013 will seem very pedestrian to what we will see in 2014 and beyond," said Alan Cohen, Liazon's chief strategy officer in New York. "In three to

five years, exchanges will be the standard way health care coverage will be purchased."

The widely predicted growth in private health exchanges comes from their dual appeal to employers and employees, experts say.

For employers, the exchange model means predictable costs and an end to the administrative hassles associated with offering health plans. That is because employers agree to provide a fixed premium contribution and employees pay more or less for their share of the premium depending on the level of coverage they choose.

For employees, the exchange model typically means more health plan designs from which to choose compared with previous offerings by their employers.

Consumer-driven health plans

While consumer-driven health plans were barely known a decade ago, that is hardly the case today. CDHPs have become main-

stream employee benefit plans.

This year, for the first time, the percentage of employees enrolled in CDHPs at 18% equaled the percentage enrolled in health maintenance organizations, according to a Mercer L.L.C. survey.

With high deductibles and links to health savings accounts, which can be used to pay for uncovered expenses, CDHPs have powerful financial incentives for employees to become more careful users of health care services.

On average, CDHPs linked to HSAs cost about \$1,700 less per employee a year vs. traditional preferred provider organization plans, according to Mercer.

With such cost savings, "There is more and more employer interest in adopting CDHPs," said Rich Stover, a principal with Buck Consultants in Secaucus, N.J.

Pension de-risking an ongoing effort

"Pension plan de-risking" became pension plan vernacular in 2012 when Ford Motor Co. said it

would offer tens of thousands of former employees the opportunity to convert their monthly pension annuity benefit into a cash lump-sum benefit.

Other employers also adopted de-risking strategies in 2012, and such efforts continued in 2013.

In November, SPX Corp. said it had purchased a group annuity from Massachusetts Mutual Life Insurance Co. to provide benefits to about 16,000 retirees and would offer about 7,500 former employees who were vested but not yet receiving benefits a choice of converting their future annuity into a cash lump-sum benefit.

Through the two actions, the Charlotte, N.C.-based manufacturer said it expected to reduce its U.S. pension plan obligations by about \$800 million.

"We are having more and more conversations about it with clients," said Richard McEvoy, leader of Mercer's financial strategy group in New York.

"While 2013 was not a year of great public activity, we have been very busy" planning future transactions, he said.

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BENEFITS

Continued from page 14

and former employees the option to convert their monthly annuity into a cash lump-sum benefit and/or shifted the liabilities to insurers with purchasing group annuities, continued this year.

The appeal of de-risking is basic: By reducing the size of their benefit obligations, employers face less exposure to risks, mainly making higher required plan contributions when interest rates fall.

For example, spice manufacturer McCormick & Co. gave 3,300 former employees eligible for but not yet receiving retirement benefits the opportunity to convert their future annuities to a lump sum benefits. McCormick paid about \$60 million to former employees who accepted the offer.

Later, SPX Corp., a Charlotte, N.C.-based manufacturer, took a two-step approach. It bought a group annuity from Massachusetts Mutual Life Insurance Co. to provide benefits to about 16,000 retirees.

In addition, it offered to about 7,500 former employees who are vested but not yet receiving benefits the opportunity to convert their future annuity into a cash lump-sum benefit. With the two actions, SPX expects to reduce its U.S. pension plan obligations by about \$800 million.

Pension plan freezes limit employer costs

More than a decade ago, employers began to freeze their pension plans and that move continued in 2013.

Well-known companies such as Chrysler Group L.L.C., Goodyear Tire & Rubber Co., Macy's Inc. and numerous others this year either froze or announced their intent to freeze their pension plans.

Towers Watson & Co. research shows how widespread freezes have become.

As of June 30, only 30% of Fortune 100 companies still offered a defined benefit plan to new salaried employees. By contrast, in 1998, such plans were pervasive when 90% of the Fortune 100 offered DB plans to new salaried employees.

The reasons for the decline of defined benefit plans are several. They include employers' desire to reduce overall retirement costs, perceptions that workers prefer more portable plans and employers' belief that phasing out pension plans reduces financial risk.

Group health cost increases slow

In 2012, employers were ecstatic because, on average, their group health care plan costs, on average, rose 4.1%, a 15-year low. In 2013, the news got even better as costs, on average, inched up by an aver-

age of just 2.1%, according to Mercer L.L.C.

The most important reason for the easing of health care plan inflation is the increasing shift of employers to high-deductible, consumer-driven health care plans. The high-deductible feature, experts say, makes these plans much less expensive than more traditional health plans and also makes plan enrollees more careful consumers of health care services.

This year the cost of coverage via consumer-driven plans averaged \$8,482 per employee, compared with \$10,196 for preferred provider networks and \$10,612 for health maintenance organization plans.

Greater flexibility for FSA contributions

In 2013, the Internal Revenue Service gave employers a new design alternative to reduce the likelihood employees will forfeit unused contributions to their flexible spending accounts.

That option, announced by the IRS at the end of October, will allow employees to carry over up to \$500 in FSA contributions remaining at the end of a plan year to use the next plan year. That is an alternative to the modification of the 1984 IRS use-it-or-lose-it rule, which requires FSA participants to forfeit money remaining in their accounts at the end of a plan year.

Under a 2005 modification, employers can establish grace-period FSAs that allow employees to roll over the entire unused account balance to pay for expenses incurred during the first two and a half months of the next plan year.

The appeal of the carry-over approach is obvious: Because employees will have much more time to spend unused contributions, wasteful end-of-year spending binges will be reduced. Still, employers are not likely to adopt the new approach until the IRS formally clarifies several issues, including the interaction of carry-over flexible spending accounts and contributions to health savings accounts.

LOWER COST INCREASES

2013 was the third consecutive year in which the rate of increase in group health plan costs was a smaller percentage rise than the previous year.

Year	Cost per employee	% increase
2013	\$10,779	2.1%
2012	\$10,558	4.1%
2011	\$10,146	6.1%
2010	\$9,562	6.9%
2009	\$8,945	5.5%
2008	\$8,482	6.3%
2007	\$7,983	6.1%

Source: Mercer L.L.C.

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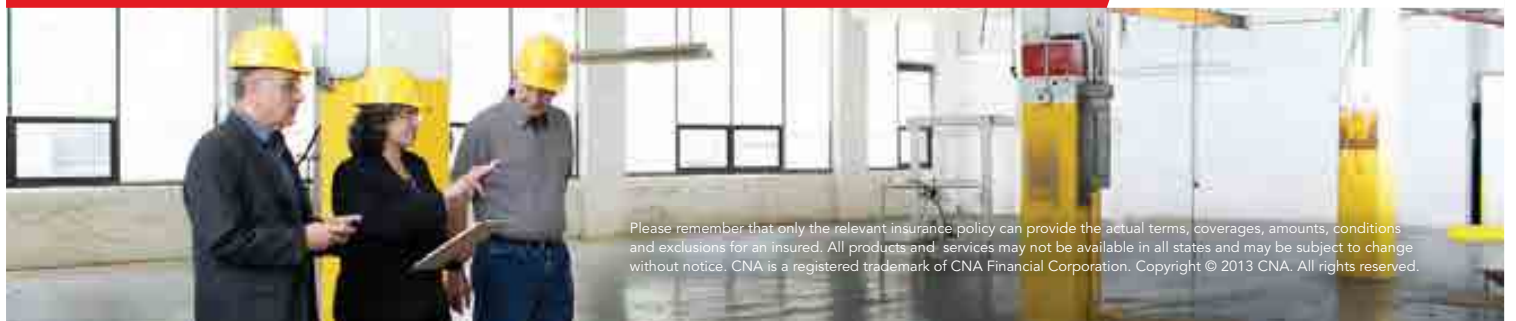
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Beware of catastrophe complacency



Mr. Hudson

BY RODERICK HUDSON

Insurers have seen an increase in catastrophe losses over the past several years, despite a relatively benign 2013. Underwriters and their policyholders need to take a proactive approach to managing catastrophe risks as they address the increased exposures, says Roderick Hudson, a regional underwriting manager at Markel Corp.

One year after Superstorm Sandy, one of the mildest hurricane seasons on record has come to a close.

But Typhoon Haiyan, one of the most powerful storms ever recorded; the severe storm widely known as Christian that hit northern Europe in late October; and the November outbreak of severe tornadoes that ravaged the Midwest served as devastating reminders that insurers should not lapse into a false sense of security in the lack of U.S. hurricane activity.

Catastrophes are global in dimension, can occur at any time and are able to severely and immediately hurt an insurer's bottom line.

Scientific research and data point to changing climactic conditions (global warming) as the primary cause of increased heat waves, droughts, flood and storms with strong winds and hail that cause significant damage.

Events such as thunderstorms and tornadoes, which often follow thunderstorms, have been the most frequent types of catastrophes in the United States in recent years.

In fact, a hurricane greater than Category 1 has not made landfall in the U.S. since 2010. And prior to Sandy, thunderstorm losses outpaced hurricane and tropical storm events \$60 billion to \$20 billion during 2010 through 2012, according to the National Oceanic and Atmospheric Administration. Current industry estimates place average annual losses at \$25 billion for catastrophes in the United States.

Exposure to catastrophes has become more severe worldwide because of the consistent growth of population and building values in high-risk areas. For example, in addition to much-sought-after locations in coastal areas, formerly rural areas of states in the South and Central Plains regions of the United States have experienced dramatic growth in population and insured values. These areas are prone to frequent and intense storm and tornado activity.

In fact, the tornado season of this past spring saw severe tornado activity in Kansas, Texas and Oklahoma, with Oklahoma alone suffering billions of dollars in insured losses resulting from tornadoes, according to the Federal Emergency Management Agency.

Poor planning and inadequate building standards in new areas of growth and development also help increase exposure to catastrophes.

Although catastrophes of all types have

occurred on large scale, earthquakes have dominated insured catastrophe losses on a global basis in recent years. Events such as the 2010 Chilean, 2010 New Zealand and 2011 Japanese earthquakes caused several billions of dollars in insured losses, with the Japan event ending up as one of the costliest events in history, according to industry estimates. Overall, catastrophe losses are now averaging \$25 billion annually on a global basis, according to NOAA.

The catastrophe risk landscape consists of varying degrees of hazards and loss potential based on the geographies of the world. Insurers must execute underwriting strategies based on regional exposures and activity to optimize viable risk opportunities that best match up with growth objectives and enhance profitability.

Risk modeling is at the center of catastrophe portfolio management, and all insurers have modeling systems to help assess catastrophe underwriting. But risk models cannot provide answers, and insurers should not rely on catastrophe models alone to develop pricing and risk management decisions. Risk models provide dollar loss estimates that capture past experience of known perils against current exposures; but the future will not necessarily follow the past, which makes loss estimates uncertain.

The increased frequency of extreme weather events further disrupts the premise that the future will line up with the past. And the random nature of catastrophes creates a wide range of variables and factors in actual loss compared with estimated loss for a given catastrophe.

No matter how sophisticated the models used, they cannot predict when a loss will occur or what the traits and characteristics of a loss will be when one does occur.

The earthquakes in Chile and New Zealand are two of the more costly examples of risk model uncertainties. Model loss estimates badly missed the mark because of aftershocks and liquefaction damage that earthquake model templates did not account for. In both events, many structures that withstood the earthquakes had to be demolished because of the settlement of the structures caused by liquefaction. As a result, actual insured losses far exceeded risk model loss expectancies for each event.

Although some insurers have seen catastrophe losses significantly reduce profitability in 2013, claims-paying capacity is at record levels, and there is no shortage of capacity for catastrophe coverage in the marketplace, according to industry analysts.

However, insurers cannot continue to absorb devastating losses at the increasing frequency and severity of catastrophe events. The accelerated pace and complexity of losses means risk managers must change how they think about catastrophe risk to mitigate the consequences of future disasters.

Risks that have moderate to heavy catastrophe exposure or require high catastrophe limits, particularly those that involve the global property marketplace, will be affected most. Policyholders can help control costs and improve risk management by identifying and reducing as much exposure to loss as possible to make their risk more attractive to insurers. This includes having a comprehensive disaster preparedness plan in

fires, tornadoes and powerful winter storms to be more common, will continue to help increase catastrophe losses and present significant threats to insurers' bottom lines.

And business income coverages, particularly contingent business income, continue to pose significant challenges to insurers. The Japanese earthquake of 2011 and the Thailand flooding of 2011 underscored how difficult to underwrite this coverage is because of the multiple levels of interdependencies between supply chains in today's global economic environment. This is especially true for large manufacturing risks that usually have many suppliers who often are located in high hazard catastrophe exposed regions.

About 1,000 electronic component manufacturing factories were affected by the flooding in Thailand, according to Reuters. This disrupted the supply chain for various manufacturing operations all over the world, causing billions of dollars in losses as a result of contingent business income.

Insurers can restrict coverage, use reinsurance and closely monitor catastrophe exposure concentrations to help control and manage catastrophe risk.

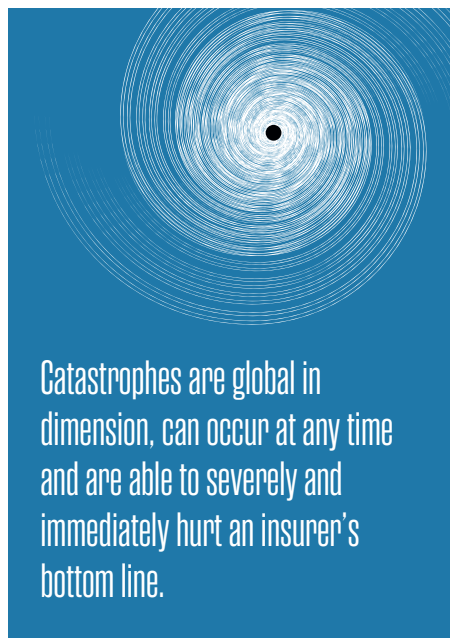
After each disaster, the focus by insurers and others is usually on "getting back to normal." As a result, insurers' underwriting decisions too often are guided by "rearview mirror" observations that cause pricing and risk management decisions to lag behind loss experience.

But catastrophes are no longer low-probability events. Insurers should not wait until reaching a tipping point before addressing the various emerging threats posed by catastrophes, and they should not solely rely on risk model estimates to make underwriting decisions.

Insurers must weigh other risk factors and variables and involve sound underwriting judgment to balance risk model information when making underwriting decisions and managing catastrophe risk.

Otherwise they run the risk of jeopardizing their financial health by underestimating their true loss potential from catastrophes. Insurers that take a proactive and comprehensive approach to catastrophe risk management will be better positioned to achieve profitability in the face of the new normal of frequent and severe catastrophes.

Roderick Hudson is a Chicago-based regional underwriting manager at Markel Corp. He can be reached at 312-258-3378 and rhudson@markelcorp.com.



place and the ability to carry it out to help protect property and resume operations as quickly as possible in the event of disaster.

Policyholders can also opt to retain more exposure by selecting less coverage and lower limits to help offset insurer pricing they may find unattractive. Ultimately, insureds must determine coverage and limits needed and premiums they are willing to pay that best match up with their risk management needs.

Uncertain risk modeling and often-outdated and/or inaccurate information, such as has been discovered to be the case with FEMA flood maps after some loss events, add to the challenges faced by insurers. In addition, changing demographics, improving economic conditions and volatile weather patterns that cause events such as wild-



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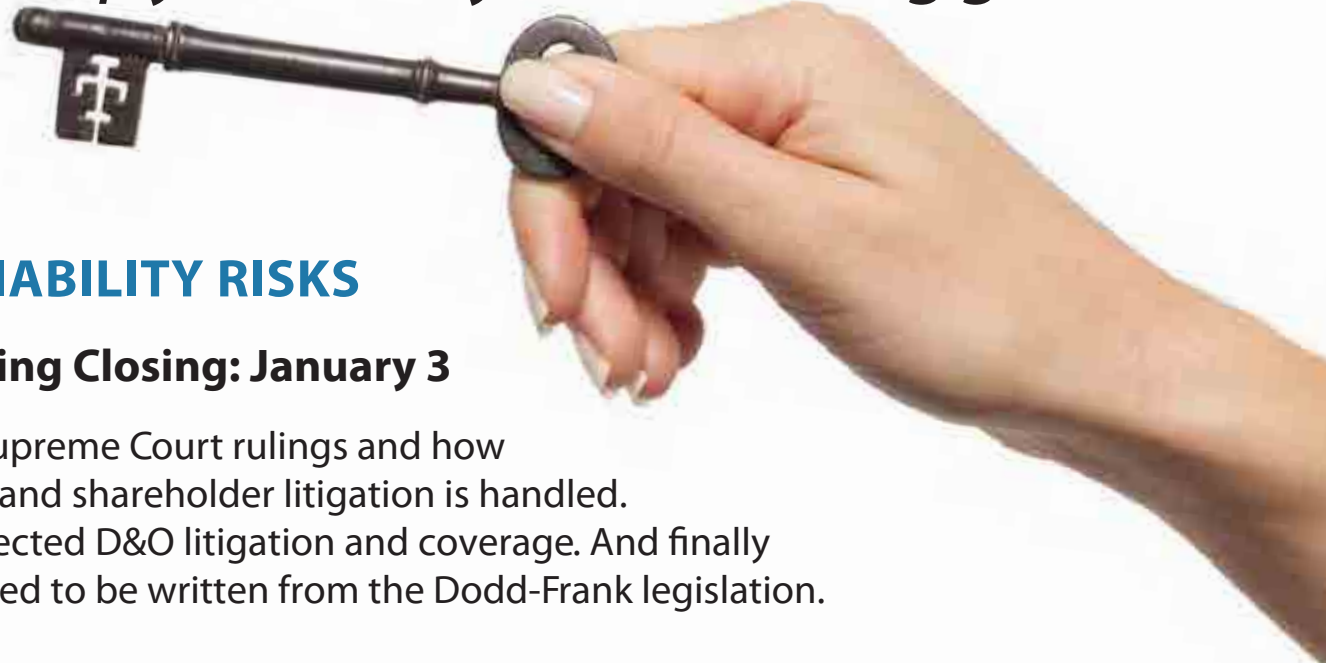
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Jan. 14	Property/Casualty Insurance Joint Industry Forum (Insurance Information Institute Inc.)	New York
Jan. 28-29	PLUS D&O Symposium (Professional Liability Underwriting Society)	New York
Jan. 29-31	23rd World Captive Forum (World Captive Forum Inc.)	Aventura, Fla.
Feb. 2-5	American Bankers Association - Insurance Risk Management Annual Forum	San Diego
Feb. 3-5	Legislative Leadership Summit (Council of Insurance Agents & Brokers)	Washington
Feb. 27-28	14th Annual Employee Health Care Conference (Towers Watson & Co., the Conference Board)	San Diego
March 1-4	AAMGA Automation Conference (American Association of Managing General Agents)	Orlando, Fla.
March 3-5	2014 IBI Annual Forum (International Benefits Institute)	San Francisco
March 4-6	IRMI Energy Risk and Insurance Conference (International Risk Management Institute Inc.)	Houston
March 5-7	Business Health Agenda 2014 (National Business Group on Health)	Washington
March 5-7	13th Annual Legal Malpractice & Risk Management Conference (Hinshaw & Culbertson L.L.P.)	Chicago
March 5-8	Mid-Year Leadership Forum (National Association of Professional Surplus Lines Offices Ltd.)	Scottsdale, Ariz.
March 9-11	2014 International Conference (Captive Insurance Cos. Association)	Scottsdale, Ariz.
March 11-12	Seventh Annual Enterprise Risk Management Conference (Marcus Evans Group)	Chicago
March 11-12	14th Annual Employee Health Care Conference (Towers Watson & Co., the Conference Board)	New York
March 12-13	<i>Business Insurance</i> Risk Management Summit	New York
April 7-9	11th Annual World Health Care Congress (World Congress)	National Harbor, Md.
April 9-11	Big "I" National Legislative Conference & Convention (Independent Insurance Agents & Brokers of America)	Washington
April 23-24	PLUS Medical Professional Liability Symposium (Professional Liability Underwriting Society)	Atlanta
April 27-30	RIMS 2014 Annual Conference & Exhibition (Risk & Insurance Management Society Inc.)	Denver
May 4-6	ACORD LOMA Insurance Systems Forum (Association for Cooperative Operations Research & Development, LOMA)	Orlando, Fla.
May 8-9	NCCI's Annual Issues Symposium (National Council on Compensation Insurance Inc.)	Orlando, Fla.
May 14	Third Annual Health & Wellness Benefits Conference (Northeast Business Group on Health)	New York
May 18-21	AAMGA Annual Meeting (American Association of Managing General Agents)	Waikoloa, Hawaii
May 19-21	Total Rewards 2014 Conference & Exhibition (WorldatWork)	Dallas
May 27-30	Employee Benefits Leadership Forum (Council of Insurance Agents and Brokers, Council of Employee Benefit Executives)	Colorado Springs, Colo.
June 2-4	Bermuda Captive Conference (Bermuda Captive Conference, Bermuda Insurance Management Association)	Bermuda
June 8-11	PRIMA's 2014 Annual Conference (Public Risk Management Association)	Long Beach, Calif.
June 8-11	IASA 2014 Educational Conference & Business Show (Insurance Accounting & Systems Association Inc.)	Indianapolis

Date(s)	2014 conferences and events for the insurance, risk management and benefits management sector	Location
June 8-11	Safety 2014 (American Society of Safety Engineers)	Orlando, Fla.
June 16-18	Airmic 2014 Conference (Airmic Ltd.)	Birmingham, England
June 12-13	NetDiligence Cyber Risk & Privacy Liability Forum (NetDiligence, a Network Standard Corp. unit)	Philadelphia
July 16-18	12th Annual Conference Legislative & Educational Forum (California Coalition on Workers' Compensation)	Anaheim, Calif.
June 22-25	IIS 50th Annual Seminar (International Insurance Society)	London
June 22-25	SHRM 2014 Annual Conference & Exhibition (Society for Human Resource Management)	Orlando, Fla.
Aug. 11-14	19th Annual International Conference (Disability Management Employer Coalition)	Las Vegas
Aug. 12-14	VCIA 2014 Annual Conference (Vermont Captive Insurance Association)	Burlington, Vt.
Sept. 9-10	Entrepreneurial Insurance Symposium (MarketScout)	Dallas
Sept. 10-12	California Workers' Compensation & Risk Conference	Dana Point, Calif.
Sept. 13-18	Rendez-Vous de Septembre	Monte Carlo, Monaco
Sept. 14-17	2014 RIMS Canada Conference (RIMS Canada Council)	Winnipeg, Manitoba
Sept. 15-18	2014 NAPSLO Annual Convention (National Association of Professional Surplus Lines Offices Ltd.)	Atlanta
Sept. 16-18	2014 National Conference on Health, Productivity and Human Capital (National Business Group on Health)	Dallas
Sept. 20-23	CPCU Society Annual Meeting (Chartered Property Casualty Underwriters Society)	Anaheim, Calif.
Sept. 21-23	2014 National Insurance Conference of Canada	Ottawa, Ontario
Sept. 21-24	IUMI Annual Conference (International Union of Marine Insurance)	Hong Kong
Sept. 30-Oct. 2	NRRA National Conference 2014 (National Risk Retention Assn.)	Chicago
Oct. 5-8	34th Annual National Educational Conference & Exposition (Self-Insurance Institute of America Inc.)	Phoenix
Oct. 11-15	Insurance Leadership Forum (Council of Insurance Agents & Brokers)	Colorado Springs, Colo.
Oct. 19-23	Baden-Baden Reinsurance Meeting 2014	Baden-Baden, Germany
Oct. 20-21	FERMA Risk Management Seminar 2014 (Federation of European Risk Management Associations)	Brussels
Oct. 26-29	2014 Annual Meeting (Property Casualty Insurers Association of America)	Scottsdale, Ariz.
Oct. 26-29	ASHRM 2014 Annual Conference & Exhibition (American Society for Healthcare Risk Management)	Anaheim, Calif.
Nov. 5-7	2014 PLUS International Conference (Professional Liability Underwriting Society)	Las Vegas
Nov. 9-13	IRMI Construction Risk Conference (International Risk Management Institute Inc.)	Nashville, Tenn.
Nov. 10-12	NBCH's 19th Annual Conference (National Business Coalition on Health)	Washington
Nov. 16-19	NAIC Fall Meeting (National Association of Insurance Commissioners)	Washington
Dec. 9	<i>Business Insurance</i> Women to Watch Leadership Conference & Awards Luncheon	New York

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Marsh-Maplecroft 2014 risk map released

Risk for direct foreign investors operating in the Middle East and North Africa has risen markedly in the wake of the Arab Awakening, insurance broker Marsh Inc. and risk analytics firm Maplecroft Ltd. said in a report.

The 2014 Marsh-Maplecroft Political Risk Map, which annually assesses political risks across 197 countries, finds that more than 60% of countries in the MENA region have experienced a significant increase in the level of political violence since 2010. According to the map, of the 17 countries that have experienced a significant increase in their level of dynamic political risk since 2010, more than half are located in the MENA region. The country with the most significant increase in risk rankings was Syria, which the report now ranks as the second-highest risk country, trailing only Somalia. The report also identified Egypt as a country representing an “extreme” risk for political violence as a result of the coup that overthrew Egyptian President Mohamed Morsi and increased terrorist activity in the Sinai Peninsula.

Moreover, this uptick in violence coincides with more firms looking to do business in the region, said Alyson Warhurst, CEO of Maplecroft. “The increase in political violence in East Africa presents significant challenges to foreign investors looking to the region following the discovery of substantial oil and gas reserves,” she said in a statement.

The report also finds several countries where the overall political risk dynamic has significantly improved since 2010, including the Philippines, India, Uganda, Ghana, Israel and Malaysia.

“Companies with direct foreign investments and cross-border contracts continue to operate in a fast-changing, highly volatile global political landscape that can quickly escalate with negative consequences,” Evan Freely, Marsh’s global credit and political risk leader, said in a statement. “It is imperative that companies stay abreast of the key issues impacting the regions in which they operate and have plans in place to protect their strategic interests from the threats of unforeseen political changes and violence.”

Ace launches construction catastrophe services

Ace USA has launched catastrophe claims services designed for the construction industry, the insurer said.

Designed to help control losses that occur after catastrophes caused by construction operations, the services are offered through Ace USA unit Esis Inc., a risk management services company, the insurer said in a statement.

Features include catastrophe pre-planning, catastrophe claims servicing and emergency response that are available for businesses, general contractors and construction managers for new construction and renovation projects, according to the statement.

Ace and Esis’ catastrophe services provide access to a team of specialists to



Liberty offers deductible waiver for inland marine

* Liberty Mutual Insurance Co. is working with National Equipment Register to provide its inland marine contractor policyholders increased protection from equipment theft by offering an endorsement that waives theft deductibles of up to \$10,000 if they register their equipment with NER’s HELPtech program.

Policyholders must register equipment with NER before it is stolen and report the theft to law enforcement in order to qualify for the theft deductible waiver, Liberty Mutual said in a statement. NER, a unit of Verisk Analytics Inc., also gives Liberty Mutual policyholders a 20% discount on its registration fee.

Nearly 11,000 heavy equipment thefts were reported in 2012, according to National Insurance Crime Bureau statistics, Liberty said in the statement. “By offering the theft deductible waiver, we encourage (policyholders) to further safeguard their equipment,” Kathy Balzano, Liberty’s assistant director of commercial insurance inland marine underwriting strategy, said in the statement.

help policyholders identify and address potential risks, develop a comprehensive catastrophe response plan, and deploy a specialized team of claims personnel, managers and adjusters to help manage the response in case of a catastrophic event, Ace said in the statement.

Torus extends offering through Lloyd’s syndicate

Torus Insurance Holdings Ltd. will increase the capacity of its Lloyd’s of London syndicate 1301 for 2014 to £180 million (\$293.4 million) from £160 million (\$260.8 million) and extend its product offering to include excess casualty and U.S. health care, Torus said in a statement.

Torus will begin writing U.S. health care and international excess casualty business through Lloyd’s. Syndicate 1301 will become the principal underwriting platform for international excess casualty business written from London and Europe, the company said.

Lloyd’s also approved four of Torus’ six European offices — those in Cologne, Germany, Paris, Milan and Rotterdam,

Netherlands — as Lloyd’s coverholders, effective Jan. 1, 2014, allowing these offices to begin writing business locally on Lloyd’s paper for all Torus products written through Lloyd’s. An application for Zurich is pending.

Cologne, Rotterdam and Milan already act as coverholders for marine business, but also will offer syndicate 1301’s full suite of international specialty products across accident and health, aviation, casualty, construction, marine, property, direct and facultative, property schemes, and war and terrorism.

“Following the launch of Torus’ managing agency this year, we look forward to expanding our trading activity through Lloyd’s in 2014. Lloyd’s is a key platform for Torus and we are seeing excellent opportunities to link syndicate 1301’s specialty products and distribution with Torus’ current offerings in the U.S. and Europe,” Dominic Kirby, managing director of Torus Underwriting Management Ltd., said in the statement.

Ironshore launches enhanced energy cover

Ironshore Inc.’s U.S. specialty casualty unit has launched enhanced insurance coverage endorsements for upstream energy risks as part of its ExcessProtect Plus Energy Commercial Excess Liability policy.

The suite includes insurance coverage for energy risks that are engaged in oil and gas lease site operations including lease operators and non-operators as well as other contractors involved.

“The upstream energy space presents clients with unique exposures typically not seen with most other industry sectors. Ironshore is addressing these exposures, especially in a technology-driven industry, to assist our clients in closing gaps that may exist in traditional insurance covers,” Dawn Puro, vice president and home office underwriting manager for U.S. specialty casualty at Ironshore, said in the statement.

“The endorsements offer solutions for such risks as use of radioactive isotopes found in well-logging tools, expanded underground resources coverage, as well as exceptions to ISO styled pollution covers with respect to what constitutes a waste site,” Ms. Puro said.

Adaptik releases PolicyWriter 8.1 software

Adaptik Corp., a provider of policy administration solutions for property/casualty insurers, announced the latest version of its software PolicyWriter8.1.

The software delivers new functions and architectural improvements intended to help insurers meet their changing needs, the company said in a statement.

Some of the features of PolicyWriter 8.1 include browser flexibility, user interface personalization, direct to customer support, common rule base for multiple applications, enhanced large national and multi-national account processing and analytics support, according to the statement.

DEALS & MOVES

USI acquires Alabama-based broker Molton, Allen & Williams

USI Insurance Services L.L.C. has acquired Birmingham, Ala.-based broker Molton, Allen & Williams L.L.C., USI announced.

Terms of the deal were not disclosed.

Molton, Allen & Williams will merge with the existing USI Birmingham office and be run by current Molton Allen & Williams Chairman and CEO John W. Williams, USI said in a statement. Molton, Allen & Williams has clients across the Southeast region and offices in Birmingham and Pensacola, Fla., allowing USI to expand its presence in the region, USI said.

“We are excited to be joining USI, and I look forward to continuing to provide our clients an unparalleled sales experience that is now complemented by an expanded set of resources,” Mr. Williams said in the statement. “Through our partnership, our clients will now have the benefits that come from a nationally recognized broker.”

“MAW’s reputation of delivering on large, complex risks is perfectly aligned with USI’s approach,” Michael J. Sicard, chairman, president and CEO of USI Insurance Services, said in the statement. “Through this acquisition, we partner with an experienced staff that will not only extend our presence in the Southeast but will help us realize our vision of becoming the national brand in the middle-market insurance brokerage industry.”

USI is the 10th-largest insurance brokerage of U.S. business, according to *Business Insurance’s* 2013 ranking.

AmTrust gains Lloyd’s access with Sagikor Europe acquisition

AmTrust Financial Services Inc. has completed the acquisition of Sagikor Europe Ltd. and its wholly owned subsidiaries from Sagikor Financial Corp. for approximately £56 million (\$91.5 million).

AmTrust received final approval from regulators as well as Lloyd’s of London for the acquisition and funded the purchase with existing working capital, the insurer said in a statement.

Sagikor of Lloyd’s Ltd., a wholly owned subsidiary of Sagikor Europe, is a managing agency and owner of Lloyd’s property/casualty insurance syndicate 1206, with stamp capacity of £200 million (\$326.7 million), and Lloyd’s life insurance syndicate 44, with stamp capacity of £10 million (\$16.3 million).

“We are looking forward to the addition of SEL’s managing agency and Lloyd’s syndicates to our organization. Access to Lloyd’s global resources greatly expands the capabilities of our insurance business,” Barry Zyskin, AmTrust Financial Services president and CEO, said in the statement. “Lloyd’s brand, rating, and efficient capital structure contributes significantly to our global insurance platform.”

JLT buys South African employee benefits broker Eluleka

London-based brokerage Jardine Lloyd Thompson Group P.L.C. has acquired Johannesburg-based employee benefits and health care consultancy and brokerage Eluleka Consulting (Pty.) Ltd.

Terms of the deal were not disclosed.

Eluleka, which has 40 employees, focuses on providing health care advice and employee benefits services to midsize and large companies.

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LIABILITY EXPOSURES EXPAND AS REGULATORS TARGET DATA

Q What are some of the key cyber liability risks that concern risk managers?

A There's been an awakening in general about private information being the holy grail that needs to be safeguarded, and some of that awakening is that they have paramount protection duties when it comes to safeguarding customers' private information. They understand now that there are actual class action lawsuits starting to happen. They're seeing their peers being sued for significant data breaches, and that impacts both the bottom line and their reputation. The other major driver of the past couple of years is regulatory risk wrapped into cyber liability. Federal and state regulators, especially state attorneys general, are very, very aggressive when it comes to enforcing data breach events. There's some 46 states that have laws on the books that require ... things companies must do following a data breach event. A number of attorneys general will actually sue companies when they feel they're negligent in safeguarding private information, and the fines

Q&A

can be significant — millions of dollars, hundreds of dollars per record.

Q What data protection safeguards are often weak or missing?

A In general, it's challenging for big companies as well as small companies to safeguard their information in the many places within their company they have to safeguard it ... and that can be, for example, in their own servers and databases, it can reside in laptops that they entrust with consultants, it can be in backup tapes and storage facilities, and it can be —

increasingly so — in a third-party service provider such as a cloud operation. So that's understanding where your data is. Secondly, are there reasonable safeguards surrounding that data to protect it in a prudent matter? The things that tend to be missing are ... encryption for data at rest and weak intrusion detection capabilities. Most companies fail to detect a breach in a timely manner ... Oftentimes, there's poor management of the third-party vendors. They ... don't properly manage their vendors, whom they entrust with their data.

Q What new trends do you see on the horizon?

A It seems like state attorneys general are always one step ahead these days in trying to protect — rightly so — data in their state. There are massive amounts of mobile apps out there. One of the things states like California will come after you for, for significant fines, is if you're offering mobile apps and they do not have a privacy policy embedded in it. The other, similar trend is, you probably think of your Social Security number and



MARK GREISIGER
NETDILIGENCE

Mark Greisiger is president of Philadelphia-based NetDiligence, which provides cyber risk assessment and data breach response services for insurers and risk managers to help them better understand if an insured organization deploys reasonable and prudent security and private safeguards in order to mitigate data breach loss and liability risk. He spoke recently with *Business Insurance* senior editor Judy Greenwald. Edited excerpts follow.

date of birth and financial records as personal information, but some states are expanding the definition of personally identifiable information to, for example, your password and user ID.

One last point on just trends in general: Clouds, just the massive amount of outsourcing, whether it's for storage or business applications — it's the dependence on clouds, and that impacts not only the risk manager but also the underwriters.

Q What industries are particularly vulnerable to cyber risk and why?

A The health sector is No. 1, and I think some of that is driven by the fact they're increasingly going digital in their operations, and they have very strict laws governing how health care sectors need to protect patient information and, when something bad happens, how they must notify the federal government and the patients.

COMINGS & GOINGS

UP CLOSE: TERRI T. SNELL

ATLANTA-BASED EXECUTIVE VICE PRESIDENT, CHIEF OPERATING OFFICER
Swett & Crawford Group Inc.

PREVIOUS POSITION: Atlanta-based executive vice president, chief administrative officer for Swett & Crawford Group Inc.

CHALLENGES FACING INDUSTRY: A more informed public with an expectation of instant gratification through self-service.

INDUSTRY OUTLOOK: Opportunistic.

WHAT I WOULD CHANGE: Complications of the regulatory environment.

FIRST INDUSTRY JOB: Secretary to the accounting manager of a large retail broker in Atlanta.

WHAT SURPRISED ME: How small the insurance world really is for such a vast industry.

IF I KNEW THEN WHAT I KNOW NOW: I would not sweat the small stuff.

MYSELF IN 10 YEARS: Who knows? It's been 36 years, and I'm still in this industry.

ADVICE: Trust your instincts. Don't overcomplicate.



OUTSIDE THE INDUSTRY, A DREAM JOB: Musician.

HOBBIES: Piano and singing in the church choir.

THING MOST PEOPLE DON'T KNOW ABOUT ME: I was in a rock band in high school.

WHEN I RETIRE: Whatever life has waiting for me.

CAN'T-MISS TELEVISION SHOW: "The Good Wife."

FAVORITE BOOK: "Gone with the Wind" by Margaret Mitchell.

FAVORITE MEAL: Peanut butter sandwich.

BEST CITY: Atlanta.

ON A SATURDAY AFTERNOON: I enjoy spending time with my granddaughter.

THOUGHTS ON SMARTPHONES: Necessary evil, but life was a bit simpler when we weren't so accessible.

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Torus Underwriting Management Ltd.	John Milne
Chubb Corp.	Greg Arms

OTHER

The Society of Actuaries	R. Dale Hall
Surety Partners of America L.L.C.	Sean R. Henderson

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: Kate Shepherd, *Business Insurance*, 150 N. Michigan Ave., Chicago, Ill. 60601-7524. kshepherd@businessinsurance.com.

SUPPLY

Continued from page 4

“We all know this is no longer an IT problem and it deserves more than an IT fix or an insurance fix,” he said. “You can’t buy one big insurance policy and solve all your supply chain problems.”

He suggested companies take a step back and look at the exposure more on an enterprise basis while drilling down into the supply chain and cyber aspects of it.

“That’s what a lot of organizations are doing now,” Mr. Srail said. “We end up integrating the supply chain and cyber risk assessments that we do very much into companies’ enterprise risk management.”

Mr. DeAngelis said it’s necessary that as they deal with suppliers, companies establish “trusted nodes on the supply chain.”

“Minimally, critical nodes on that supply chain have to be trusted,” he said. “What you have to have is a means of dynamically sensing, thinking, acting and learning,” he said, requiring a process through which companies can determine vulnerabilities, take action to address the vulnerabilities and learn from what they’ve found. “It needs to be a dynamic functionality, minimally in the critical aspects of your supply chain, ideally in all of your supply chain.”

Oliver Brew, vice president of technology and privacy risk at Liberty International Underwriters, a unit of Liberty Mutual Holding Co. Inc., New York, said companies whose suppliers are handling critical data can help protect themselves through supplier audits and due diligence. “Vendor management is a critical piece of all cyber threats,” he said. Any company working with suppliers that handle its sensitive data should ensure contracts spell out the suppliers’ responsibility for handling that data securely, he said.

Rather than simply saying, “I’m worried about hackers,” companies looking to address cyber exposures along their supply chains have to identify the specific risks that concern them, Mr. Srail said. “That’s an important part of managing the risk.”

COMP

Continued from page 4

which has provided some benefits for insurers in both segments, Mr. Shuford said.

“When an employer leaves the voluntary market and goes to the residual market, the quality of both improves,” Mr. Shuford said.

Best’s Mr. McLean said underwriting has become a key focus for insurers in recent years to make up for low investment yields. He expects that trend to continue since the Federal Reserve Bank has continued to hold interest rates at low levels.

“We definitely have seen companies take another look at the exposures within the line that they insure,” Mr. McLean said of the underwriting focus.

Elizabeth Haar, president and CEO of Accident Fund Holdings Inc. in Lansing, Mich., agreed that underwriting has been a key focus for the workers comp insurer. The company has worked to develop its underwriting predictive model and has been careful in its risk selection while implementing safety programs that have helped reduce comp claim frequency for insured employers, she said.

Those strategies have supported Accident Fund’s financial results despite the soft market and uncer-

tainties in the workers comp industry, such as how health care reform will affect workers comp insurers and whether the federal government will renew the Terrorism Risk and Insurance Act of 2002, Ms. Haar said.

“While it’s improving, there is still a lot of risk that goes with that uncertainty,” she said.

Despite positive signs for workers comp insurers, experts say they’re keeping an eye on possible trouble ahead in the comp market.

NCCF’s Mr. Shuford said insurers still have high combined ratios and are losing money on workers comp policies that they underwrite. Investment income in recent years has been sufficient to cover

comp losses, he said, but he’s concerned that trend may not hold up over time.

“We have a bit of a concern that over the next two or three years, as old investments mature and are replaced by new investments, that the investment income is going to weaken,” Mr. Shuford said.

Best’s Mr. McLean also noted that workers comp reserves remain underfunded. According to Best’s report, there was an estimated workers comp reserve deficiency of \$27.8 billion in 2012, up from \$26.7 billion in 2011 and \$21.6 billion in 2010.

It remains to be seen how long it will take for the workers comp market to return to full health, he said.

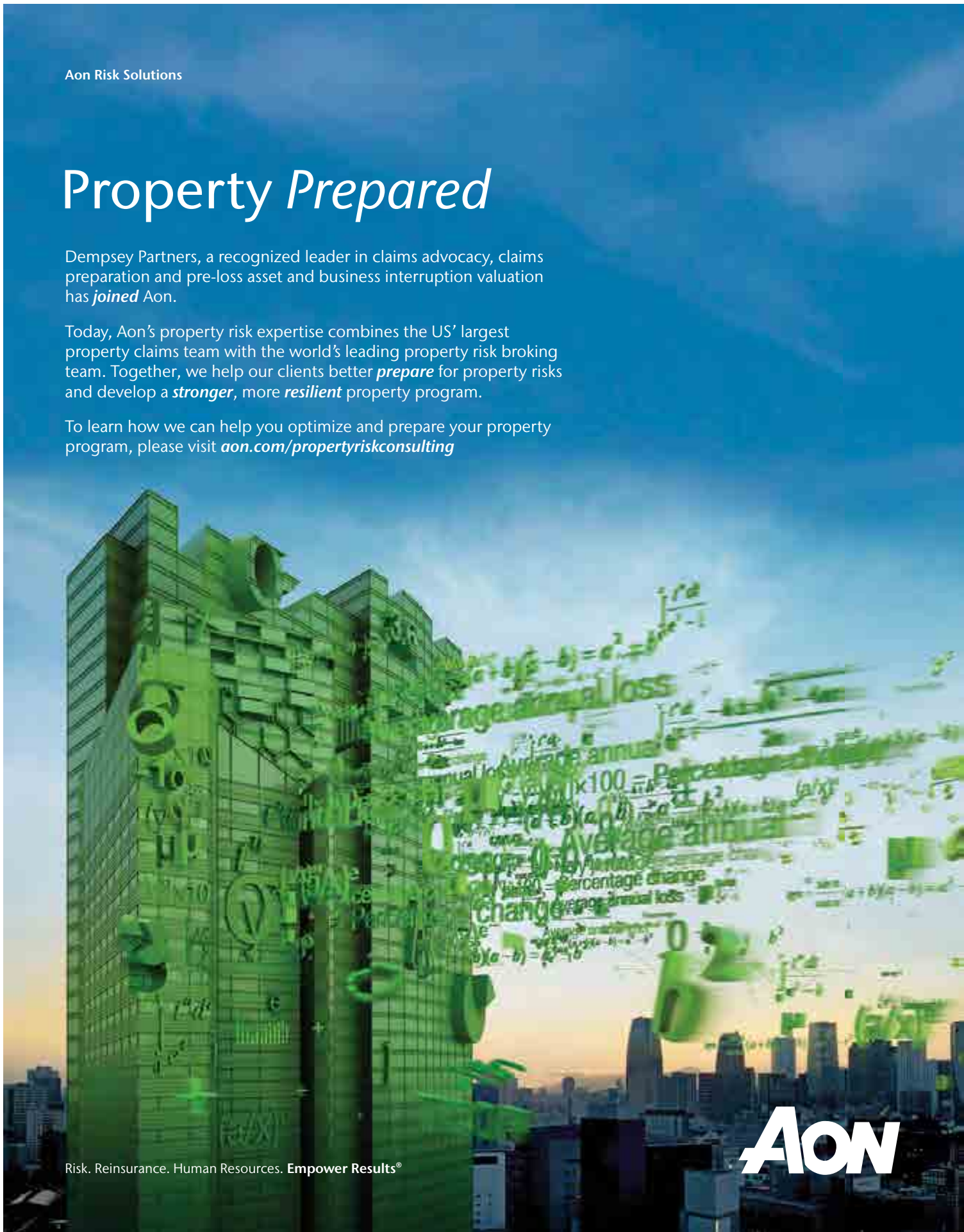
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BEALE

Continued from page 3

hailed by sources as a sign of greater diversity and inclusion in the insurance market generally and more specifically at Lloyd's, where women first were admitted to the underwriting room in 1972.

In a statement, London-based financial consultancy deVere Group described the appointment of a female CEO of Lloyd's as a "landmark event."

Ms. Beale, who was named one of *Business Insurance's* Women to Watch in 2006, has been a vocal supporter of diversity in the insurance industry.

One former colleague at Zurich Insurance Group Ltd., who asked not to be named, said Ms. Beale's appointment at Lloyd's "sends a real statement about how the industry is changing in a positive way" and is "great news."

In a "60-second" interview with *Lloyds.com* this year, Ms. Beale said "the business is run differently if you have women around the decision-making table, and that is why it is important to have diver-

sity, not just on the gender side."

"Different people approach things differently and provide alternative views — diverse boards help companies make better decisions, which affect the bottom line."

Other sources noted that Ms. Beale's status as an insurance industry insider — in contrast to Mr. Ward, who was recruited from the International Petroleum Exchange — rather than her gender is perhaps the most significant factor about her appointment to the Lloyd's CEO role.

"The fact that she is an insurance person is important," said David Gittings, CEO of the Lloyd's Market Association, which represents underwriters at Lloyd's. "My feeling was always that it would be preferable to find someone with insurance industry experience, even if that was not solely Lloyd's," said Mr. Gittings, who encountered Ms. Beale during her time as group CEO of Canopus.

Ms. Beale will be able to "hit the ground running" on issues such as the Lloyd's 2025 modernization program, said Mr. Gittings, who noted that diversity is one of the major prongs of that plan.

Ms. Beale's experience as a chief

executive, a chief underwriting officer and several other roles makes her a well-rounded candidate to be CEO of Lloyd's, he said. Ms. Beale's experience on the underwriting side will help her tackle some of the challenges facing the market, such as the influence of insurance-linked securities and other capital market instruments, broker-backed underwriting facilities and the continued soft market for many lines of insurance and reinsurance business, he added.

One longtime Lloyd's market observer noted that in many ways, the CEO role at Lloyd's is more akin to that of a chief operating officer at other companies, while the chairman of Lloyd's fills more of a figurehead role.

The CEO of Lloyd's job is about "nuts and bolts," he said, and issues such as claims processing.

Ms. Beale's insurance industry experience will count in her favor, he said, and the fact that Canopus recently was sold for "a lot of money" suggests that she was successful in her previous position.

Sompo paid £594 million (\$968.1 million) for Canopus. Ms. Beale also prepared Converium for its sale to SCOR S.E. in 2007.

QUALITY

Continued from page 3

informed decisions? I think it's time for someone from a company like Apple Corp. to make a tool that's as easy to use as the iPhone to decipher all of this medical quality information," Ms. Fazen said.

But Francois de Brantes, HCI3's executive director, said the objective of the report card is to encourage further transparency efforts by highlighting those states that have done a fairly good job of providing such information to consumers.

"We're 15 years out from the Institute of Medicine's trailblazing report calling for the transformation of a 'fundamentally flawed' health care system, and for the most part we still have no idea of the quality of care delivered by the majority of physicians in the U.S.," he said. "That's not just shameful, but it unnecessarily puts patients at risk."

Instead of producing yet another set of metrics to attempt to measure quality, Cyndy Nayer, founder and CEO of the Naples, Fla.-based Cyndy Nayer's Center of Health Engagement, suggested that "we need to get the thought leaders together and merge the thinking and also take a look at what's coming down the pike" with health care reform. "We should be able to put an information pathway together."

In the meantime, "I'm not sure we should be measuring intermediate outcomes," she said.

For its report card, HCI3 graded states on the percentage of physicians and supporting health care professionals, such as physician assistants and nurse practitioners,

who publicly report quality information; the type of measurement provided, such as outcomes, process and/or patient experience; and the accessibility of this information to consumers. The Robert Wood Johnson Foundation's national directory for comparing health care quality served as the starting point for the review, with researchers examining whether that information was current, free to consumers and produced by independent third parties, and it included a range of physicians, including specialists and support-

The report, available online, contains information on 700 of the state's estimated 3,500 primary care physicians, she said.

However, Mr. de Brantes explained that while most states — including Colorado — had readily available information on the quality of primary care doctors, such information on specialists or supporting health care professionals was "severely lacking." He estimated that only about 20% of medical care is delivered by primary care doctors, with the remainder provided by specialists and supporting health care providers.

Mr. de Brantes said the two states receiving "A" grades have had strong, consistent measuring and reporting programs in place for many years.

Minnesota, for example, has had statewide transparency initiatives for more than a decade, resulting in 66% of clinicians reporting quality data. In addition, Minnesota HealthScores, an online resource, provides "patient-friendly" quotes quality reports on area clinics, medical groups and hospitals as well as average cost comparisons for common procedures.

In Washington, the Puget Sound Health Alliance compares the performance of doctors in medical groups across several practice areas, including treatment of diabetes, heart disease, asthma, chronic obstructive pulmonary disease and assessment of patient experience. Its database includes quality information on 55% of the medical providers in the state, he noted.

Meanwhile, California, which received a passing grade of C, has publicly available quality information on only 37% of medical providers in the state, according to the HCI3 report.



HEAR INTERVIEW

Access *Business Insurance's* interactive digital edition to hear Francois de Brantes of HCI3, discuss the objectives and results of the state report cards on how well they communicate physician data.

ing health care professionals.

Donna Marshall, executive director of the Colorado Business Group on Health, which annually publishes a report on Colorado physicians who have attained recognition in the treatment of either diabetes, cardiac or primary care, objected to the low score her state received on HCI3's report card.

"The recent publication by HCI3 suggests that Colorado has no resource that offers information on quality physicians that is timely, readily available, free and published by a credible and objective source," she said. "We are pleased to be a ready resource for our fellow Coloradans who are looking for high-quality physicians."

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PUBLIC NOTICES

LEGAL NOTICE

IN THE MATTER OF THE LIQUIDATION OF REALM NATIONAL INSURANCE COMPANY Supreme Court County of New York Index No.: 401876/05 NOTICE

Pursuant to an order of the Supreme Court of the State of New York, County of New York ("Court"), entered on June 15, 2005, the then-Superintendent of Insurance of the State of New York and his successors in office were appointed as liquidator ("Liquidator") of Realm National Insurance Company ("Realm") and, as such, have been directed to take possession of Realm's property and liquidate its business and affairs pursuant to Article 74 of the New York Insurance Law ("Insurance Law"). The Superintendent of Financial Services of the State of New York has now succeeded the Superintendent of Insurance as Liquidator of Realm. The Liquidator has, pursuant to Insurance Law Article 74, appointed Michael J. Casey, Acting Special Deputy Superintendent, as his agent to carry out the responsibilities of the Liquidator, through the New York Liquidation Bureau, 110 William Street, New York, New York 10038. The Liquidator has submitted to the Court a verified petition ("Verified Petition") seeking an order: (i) approving the Liquidator's Report on the Status of the Liquidation of Realm National Insurance Company ("Liquidation Proceeding") and Request for Authority to Distribute Assets and Establish a Cut-Off Date ("Report") and the financial transactions delineated therein; (ii) establishing July 31, 2014 as the cut-off date, the final date by which the Liquidator must actually receive in respect of any claim presented prior to January 31, 2014 (the "Bar Date") established in the Liquidation Proceeding by order of the Court entered on November 15, 2013) any and all evidence demonstrating (a) that such claim has been liquidated and (b) that there has been actual loss and/or payment in respect of such claim; (iii) barring and discharging all claims, other than claims for administrative expenses reported after the Bar Date; (iv) authorizing the continued payment of administrative expenses; (v) authorizing the Liquidator to distribute Realm's assets, consistent with this Court's orders and the priorities set forth in Insurance Law Section 7434, to those creditors of Realm with allowed claims, to the extent that, in the Liquidator's discretion, sufficient funds are available; (vi) extending judicial immunity to the Liquidator of Realm, his successors in office and their agents and employees, for any cause of action of any nature against them individually or jointly, for any act or omission when acting in good faith, in accordance with the orders of this Court, or in the performance of their duties pursuant to Insurance Law Article 74; and (vii) providing for such other and further relief as this Court deems appropriate and just;

A hearing is scheduled on the Verified Petition on the 3rd day of March, 2014, at 9:30 a.m., before the Honorable Michael D. Stallman, JSC, New York Supreme Court at the Courthouse, IAS Motion Submission Part, Room 130, 60 Centre Street, in the County, City and State of New York, 10013.

If you wish to object to the relief sought, you must serve a written statement setting forth your objections and all supporting documentation upon the Liquidator and Clerk of the Court, at least seven days prior to the hearing. Service on the Liquidator shall be made by first class mail at the following address: Superintendent of Financial Services of the State of New York as Liquidator of Realm National Insurance Company, 110 William Street, New York, New York 10038, Attention: General Counsel.

The Verified Petition and Report are available for inspection at the above address. In the event of any discrepancy between this notice and the documents submitted to Court, the documents control.

Requests for further information should be directed to the New York Liquidation Bureau, Creditor and Ancillary Operations Division, at (212) 341-6588.

Dated: December 16, 2013, Benjamin M. Lawsky, Superintendent of Financial Services of the State of New York as Liquidator of Realm Insurance Company of New York.

LEGAL NOTICE

IN THE MATTER OF THE LIQUIDATION OF CENTENNIAL INSURANCE COMPANY Supreme Court County of New York Index No.: 402424/10

Pursuant to an order of the Supreme Court of the State of New York, County of New York, entered on April 27, 2011, the Superintendent of Insurance of the State of New York and his successors in office were appointed as liquidator ("Liquidator") of Centennial Insurance Company ("Centennial") and, as such, has been directed to take possession of Centennial's property and liquidate its business and affairs pursuant to Article 74 of the New York Insurance Law. The Superintendent of Financial Services of the State of New York has now succeeded the Superintendent of Insurance as Liquidator of Centennial.

PLEASE TAKE NOTICE that the Supreme Court of the State of New York, County of New York, has issued an order, entered December 2, 2013: (1) vacating the prior order, signed by the Court on September 17, 2013, establishing September 30, 2013 as the bar date in this proceeding and (2) establishing (i) December 15, 2013, as the bar date ("Bar Date") for the presentation to the Liquidator of all claims against Centennial or its insureds other than the Liquidator's claims for administrative expenses and (ii) January 16, 2015, as the last date on which the holder of such a claim against Centennial or its insureds submitted by the Bar Date, other than the Liquidator's claims for administrative expenses, may submit to the Liquidator proof, including all facts regarding such claim (for the avoidance of doubt, facts include all identifying information of those allegedly injured by an insured), in support of the allowance of such claim.

Requests for further information should be directed to the New York Liquidation Bureau, Creditor and Ancillary Operations Division, at (212) 341-6665.

Dated: December 6, 2013, Benjamin M. Lawsky, Superintendent of Financial Services of the State of New York as Liquidator of Centennial Insurance Company.

LEGAL NOTICE

IN THE MATTER OF THE LIQUIDATION OF ATLANTIC MUTUAL INSURANCE COMPANY Supreme Court County of New York Index No.: 402424/10

Pursuant to an order of the Supreme Court of the State of New York, County of New York, entered on April 27, 2011, the Superintendent of Insurance of the State of New York and his successors in office were appointed as liquidator ("Liquidator") of Atlantic Mutual Insurance Company ("Atlantic Mutual") and, as such, has been directed to take possession of Atlantic Mutual's property and liquidate its business and affairs pursuant to Article 74 of the New York Insurance Law. The Superintendent of Financial Services of the State of New York has now succeeded the Superintendent of Insurance as Liquidator of Atlantic Mutual.

PLEASE TAKE NOTICE that the Supreme Court of the State of New York, County of New York, has issued an order, entered December 2, 2013: (1) vacating the prior order, signed by the Court on September 17, 2013, establishing September 30, 2013 as the bar date in this proceeding and (2) establishing December 15, 2013, as the bar date for the presentation to the Liquidator of all claims against Atlantic Mutual or its insureds other than the Liquidator's claims for administrative expenses.

Requests for further information should be directed to the New York Liquidation Bureau, Creditor and Ancillary Operations Division, at (212) 341-6665.

Dated: December 2, 2013, Benjamin M. Lawsky, Superintendent of Financial Services of the State of New York as Liquidator of Atlantic Mutual Insurance Company.

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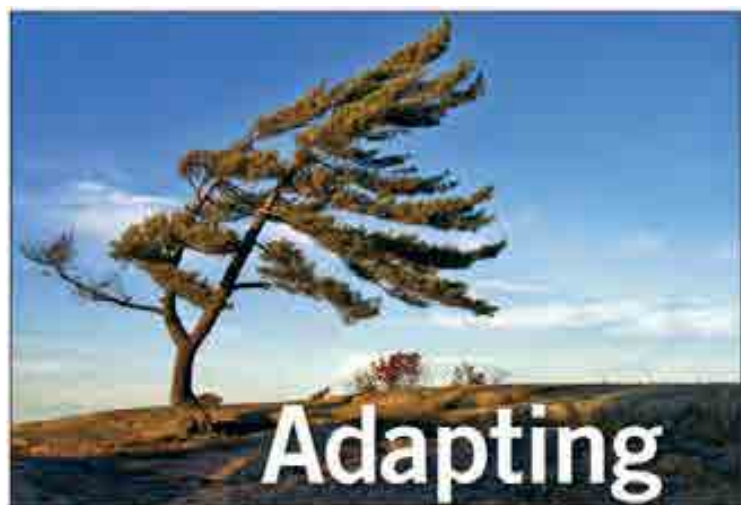
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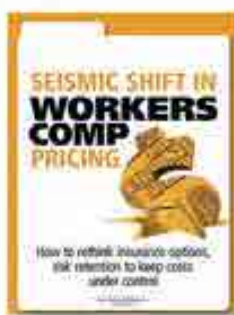
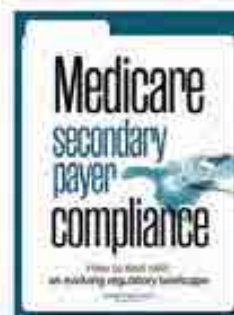
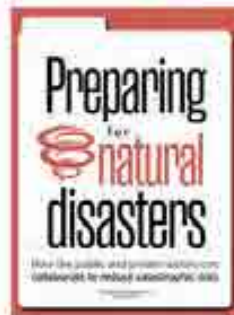
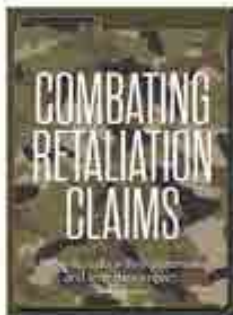
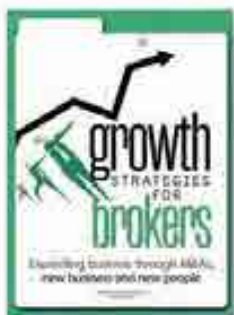
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AIG

Continued from page 1

Among other assets previously sold to repay the government and bolster the company were: China-based insurer AIA Group Ltd.; Taiwan-based Nan Shan Insurance; personal automobile insurance company 21st Century Insurance; and AIG's Tokyo headquarters.

With the planned sale of the aircraft leasing business and the repayment of federal taxpayer assistance completed, AIG now is poised to compete more effectively in the insurance marketplace, industry experts and insurance buyers say.

"It's ... ultimately a major step to getting to the ultimate goal of becoming a much more easy to understand insurance company," said Paul Newsome, managing director and senior insurance analyst at investment banking firm Sandler O'Neill & Partners L.P. in Chicago.

During the past five years, AIG did lose some senior executives, perhaps none more key than Peter Eastwood, who had been president and CEO of AIG Property/Casualty-The Americas. He resigned earlier this year to join Warren Buffett's Berkshire Hathaway Inc. to build its specialty insurance business, which is quickly becoming an AIG archival.

"They've lost a ton of talent, though," said William Montanez,

director of risk management at Ace Hardware Corp. in Oak Brook, Ill. "They've lost a lot of good people, but I still think they've got a pretty good core of talented and creative people."

Focusing solely on the insurance business should benefit AIG, Mr. Montanez said. "In the long run, I think it will be to their benefit and the benefit of the insurance industry to be focused and not distracted by noncore businesses," he said.

John Ward, CEO of Cincinnati Partners L.L.C. in Loveland, Ohio, said AIG CEO Robert Benmosche has done an "admirable job in guiding the company through this transition."

Mr. Benmosche plans to stay at AIG's helm until at least 2015, a company spokesman said in an email to *Business Insurance*. Regarding AIG's CEO succession plan, Meyer Shields, Baltimore-based managing director of equity research, property/casualty insurance for Keefe, Bruyette & Woods Inc., said: "I guess the obvious successor is probably Peter Hancock," referring to the current chief executive of AIG Property Casualty.

Meanwhile, "they're done with company reorganization, and now it's all about executing on the insurance businesses," Mr. Shields said.

Gloria Vogel, a senior vice president at Drexel Hamilton L.L.C. in New York, said the ILFC aircraft business "sort of clears the decks of all of the stuff they had to get rid of." However, since AIG said it would retain a 46% stake in the

combined entity with AerCap, "It's not a complete exit until they actually sell their shares in the combined company," she said.

Of the planned transaction with AerCap, Mr. Ward said: "The deal itself I wouldn't call particularly lucrative for AIG, but it's a big accomplishment in the sense that it's the final large noncore divestiture."

"And I think AIG is well-positioned going forward to being a great franchise," he said. "They've taken this transition period over the past four or five years to make some improvements to the property/casualty business. And while the current results are average at best, and in many ways are underperforming the industry, I think the outlook is very positive for AIG."

James Auden, managing director of insurance for Fitch Ratings Inc. in Chicago, said, "They've made plenty of steps to get back to the core business, and this is the last big piece."

He said AIG's life operations are "doing fairly well," and that the company has taken steps to improve its property/casualty insurance business, including using more predicative modeling in its underwriting. Those improvements are "starting to bear fruit," Mr. Auden said.

Ms. Vogel said the aircraft leasing business is capital-intensive and involves "a lot of debt."

"Getting this off the books frees up their capital flexibility," she said.

FATCA

Continued from page 1

February," Ms. Hintzke said. "I think that it was already going to be a tight timeframe to implement. With the regulations out in January, that leaves less than a full six months, which will be even more difficult."

Faced with the choice becoming part of the compliance process or potentially running afoul of it, most insurers are likely to choose to participate.

"Most will probably register," said Ms. Hintzke, a process which is "not overly complicated" and should take some 30 to 40 minutes to do, she added.

There may be, however, insurers that elect not to do so. "A company may just decide that they do not want to be registered with the U.S. Government," said Ms. Hintzke.

Of the costs and burdens associated with compliance, the withholding requirement is particularly troublesome for insurance brokers and policyholders, some observers say.

"You can't withhold 30% of the premium, because you can't bind business without full payment," said Scott Sinder, general counsel for the Washington-based Council of Insurance Agents and Brokers.

If business is not bound, said Mr. Sinder, clients are not insured, and insurers could refuse claims on unbound business.

Such a requirement could force certain players to consider making changes in business activities, experts say.

Many companies in the insurance industry are reviewing whether coverage can be bound if FATCA withholding is applied, said New York-based Steve Chapman, financial services tax partner with PricewaterhouseCoopers L.L.P., in an email. "These considerations are forcing carriers and clients to make business decisions around whether to do business with non-compliant FATCA carriers — many will be simply unwilling to transact with noncompliant carriers."

The costs and efforts associated with compliance also could pose a burden to brokers and agents.

"The insurance industry — really more specifically agents, brokers and consultants — have welcomed and embraced an environment of full disclosure and transparency," said Kansas City, Kan.-based Nancy Mellard, executive vice president and general counsel with the employee services division of Cbiz Inc., a professional services firm. "However, with these compliance statutes, which continue to be forced upon us, the redundancies of these types of compliance requirements are burdensome and potentially cost-pro-

hibitive."

The industry has made its position known to the Internal Revenue Service and the Treasury, but to no avail.

"The IRS has decreed that all insurance transactions must fall under this legislation. We sought relief when they made the determination in 2102, when they determined they would bring all insurance transactions under the tent of compliance," said Joel Wood, senior vice president of government affairs for the CIAB.

"We have argued before the IRS to reassess this, and that effort will continue, although to date we have not had any reconsideration," added Mr. Wood.

Support from Treasury

For its part, Treasury appears fully committed to FATCA and says it sees substantial support for the legislation and its goals.

"We are pleased by this significant international support and are working diligently to finalize all related guidance to ensure that financial institutions have time to effectively prepare and comply," said a Treasury Department spokeswoman in an email. "We are planning to finalize the regulations on account withholding and due diligence requirements early next year and there is no consideration for a delay."

The IRS did not respond to requests for comment. However, Mr. Sinder pointed to recent comments made by a Treasury official indicating that the effective dates will not be postponed as further dashing any hopes of a delay or change in implementation.

Those elements of compliance that have been portrayed by the industry as being potentially onerous, such as adding entire new systems and staff, may not be necessary, however.

"The requirements companies have to put in place should be on top of things already in place, including reporting and documentation," said Ms. Hintzke.

At Aon P.L.C., this is indeed the case.

Aon has been preparing for FATCA implementation for more than a year and formed a corporate team in 2012 to lead the overall implementation effort and to oversee internal and external communications, said Chicago-based Andy Jenn, Aon Risk Solutions' senior vice president of global projects.

"Aon is integrating the FATCA processes into the existing organization structure and does not anticipate the need to establish any new business units or teams," said Mr. Jenn. "We will, however, identify a 'responsible officer' as required by FATCA to certify the status and compliance of our entities designated as foreign financial institutions as required by the FATCA regulations."

SPACE

Continued from page 1

according to Mr. Poliseo. Those platforms are France's Ariane series, made by Arianespace S.A., and Russia's Proton rocket, manufactured by the Khruvich Space Center. "Adding a third major player is very beneficial to the industry as a whole and to the insurance industry because it offers a diversity of risk," he said.

Sima Adhya, London-based head of space at Torus Insurance Holdings Ltd., said SpaceX is not the only organization looking to crack the market for satellite launch.

"For the last decade or longer, the commercial launch industry has been dominated by two vehicles — the Proton and the Ariane — but now we are seeing other vehicles from private companies and other space-faring nations," Ms. Adhya said. "Overall, this is a good thing, but it does bring insurance challenges. However, once these new vehicles prove themselves, it will be a healthier environment for both satellite operators and insurers."

The new launch technologies employed by these companies will require careful consideration by underwriters, Ms. Adhya said.

"As underwriters, we prefer to insure technologies that have a proven flight heritage but, on the



A Falcon 9 rocket leaves its hangar at Cape Canaveral in Florida.

other hand, are keen to support new entrants into the market," she said.

Newer companies in the field can find sufficient coverage. "We look at each case individually," she said. "A lot depends on who the operator is and what type of oversight they have had. In the case of SpaceX, we do take a degree of comfort in the fact that NASA has been involved."

Jan Schmidt, director and head of space for Swiss Re Corporate Solutions, said the fact that SpaceX was tapped to deliver a satellite by Luxembourg-based satellite operator SES S.A. helped validate the upstart launch company in the eyes of many. "It speaks well for

SpaceX that SES, the second-largest satellite operator in the world, is launching such an important satellite on a Falcon 9," he said. "It underlines the positive perception people have for the Falcon 9 rocket."

Mr. Schmidt stressed that an understanding of the underlying rocket technology is just one part of the underwriting process.

"Part of our underwriting process is a very thorough risk assessment of the satellite payload and launch vehicle," he said. "Apart from the technical aspects, the underwriters also assess the commercial aspects of the risk, such as the experience and engineering capabilities of the operator as well as the loss experience and what orbit the satellite will be operated in."

Thorough assessment by underwriters notwithstanding, buyers of space launch insurance can expect a buyer's market given the amount of market capacity, Mr. Schmidt said. "In terms of premium, it's probably the lowest levels we have seen in the market. The question is whether this is sustainable."

An insurance broker, who did not want to be identified, said that two large claims this year have pushed the space market to the brink of making a loss for 2013.

With the market generating only \$700 million to \$900 million in premium a year, it takes just a few losses to make a year unprofitable for insurers, he said.

P/C insurers' net income rises 74.5% in third quarter

■ U.S. property/casualty insurers' net income after taxes in the third quarter of 2013 rose 74.5% over the third quarter of 2012 to \$18.5 billion, according to an analysis by Verisk Analytics Inc.'s Insurance Services Office Inc. unit and the Property Casualty Insurers Association of America. Net written premiums for the quarter rose 3.8% from the prior-year period to \$126.2 billion. The industry's combined ratio improved to 91.8% during the third quarter of 2013 from 98.5% in the third quarter of 2012, the lowest level since the 90.6% for the third quarter of 2006 and 13.9 percentage points below the 105.7% average for the third quarter based on quarterly records extending back to 1986. For the industry overall, net gains on underwriting grew to \$8.2 billion in this year's third quarter from \$200 million in the third quarter of 2012. Investment income slipped 2.9% from the year-ago period to \$11.1 billion.

California tops 2013 list of 'judicial hellholes'

■ Civil courts in California, Louisiana, New York City, West Virginia, South Florida, and Madison and St. Clair counties in Illinois are among the nation's "most unfair," according to the American Tort Reform Foundation's "Judicial Hellholes" report. The annual report documents developments in places where, it says, "judges in civil cases systematically apply laws and court procedures in an unfair and unbalanced manner, generally against defendants." California headed the list, where, the ATRA said, "average Californians feel the pinch of the he-sues-she-sues-everyone-sues litigation climate." The report said the food industry is the latest target of the plaintiffs' bar in that state as attorneys "seek to take advantage of the state's plaintiff-friendly consumer protection laws and a federal court's perceived receptivity to such lawsuits." Louisiana ranked No. 2 on the list for what ATRA called the state supreme court's decision to give "new life to abusive 'legacy lawsuits' that threaten the state's onshore oil and gas production."

Catastrophe modeler Eqecat bought by data firm CoreLogic

■ Data and analytics provider CoreLogic Inc. said it has purchased catastrophe modeling firm Eqecat Inc. for an undisclosed sum. A CoreLogic spokeswoman confirmed the deal and said more information about the transaction would be made available in the coming year. Irvine, Calif.-based CoreLogic provides real-time property information to underwriters, while Oakland, Calif.-based Eqecat provides a

catastrophe risk modeling platform widely used in the insurance and reinsurance industries as well as by risk managers.

Number of bias charges decreased in 2013: EEOC

■ The U.S. Equal Employment Opportunity Commission received 93,727 private-sector charges of discrimination in its fiscal year 2013, ended in September, a decrease of about 6,000 charges from the prior three fiscal years, said the agency in a report. The total, however, still makes 2013 one of the top five fiscal years in terms of receipts. In addition, 97,252 charges were resolved, which was a drop of nearly 14,000 from fiscal year 2012. The report says the average processing time to resolve charges dropped by 21 days to 267 days. The agency also said it obtained a record \$372.1 million in monetary relief for victims for private-sector workplace discrimination in fiscal year 2012, or \$6.7 million more than was recovered last year.

U.S. property rates down in first nine months

■ Property insurance rates in the United States for the first nine months of 2013 dropped an average 1.1% for policyholders with total insured values of more than \$5 billion and were down 0.1% for firms with total insured values between \$1 billion and \$5 billion, according to a new report from insurance brokerage Marsh Inc. Policyholders with total insured values of less than \$1 billion paid on average 2.3% more for their property insurance coverage in 2013, which is a decrease from the first-quarter average increase of 3.5%.

Workers comp pricing still rising in California

■ Pricing for workers compensation insurance continued to harden in California during the first half of 2013, according to a report published by SNL Financial L.C. California's 10 largest workers compensation insurers by premium volume, which account for roughly 60% of the state's marketplace, increased their rates an average of 4.3% during the first half of the year, based on filings for new business effective between Jan. 1 and July 1. Excluding a 7% decrease filed in March by the State Compensation Insurance Fund, which is the state's largest workers comp insurer, the average rate increase among California's market leaders through July 1 was 5.9%. Statewide, rates for new workers compensation accounts were at their highest in February, when insurers in California filed average rate increases of 9.8% on \$1.1 billion in premiums written.

NAIC elects 2014 officers at recent meeting

■ The National Association of Insurance Commissioners has elected its 2014 officers during its recent meeting in Washington. North Dakota Insurance Commissioner Adam Hamm was elected president of the group, succeeding Louisiana Insurance Commissioner James J. Donelon. Montana State Auditor and Commissioner of Securities and Insurance Monica J. Lindeen was elected president-elect, succeeding Mr. Hamm. Michael F. Consedine, NAIC secretary-treasurer and Pennsylvania's insurance commissioner, was elected to succeed Ms. Lindeen as vice president, and Kentucky Insurance Commissioner Sharon P. Clark was elected secretary-treasurer. The newly elected officers will assume their duties on Jan. 1.

Brokerage executive J. Smith Lanier II dies at age 85

■ J. Smith Lanier II, chairman emeritus and former CEO of the West Point, Ga.-based insurance brokerage J. Smith Lanier & Co., died Dec. 19 at East Alabama Medical Center. He was 85. Born in Egan, Ga., Mr. Lanier began his career in insurance in 1950 with the Lanier Insurance Agency, owned at the time by one of his aunts, Edith Lanier. Mr. Lanier purchased the company in the early 1970s and incorporated it under the name J. Smith Lanier & Co. in 1983. The company rose to national prominence under Mr. Lanier's direction as its CEO and chairman, and today is 24th-largest insurance broker of U.S. business, according to *Business Insurance's* 2013 rankings. Mr. Lanier is survived by Elizabeth Walker, his wife of 56 years, and daughters Mary Ellen (Anthony) Collins, Elizabeth Lester and Edith Carroll (Joseph) Hodges, as well as eight grandchildren. He also is survived by his sisters, Mary Champion and Sally Davenport. A memorial service was held Dec. 23.

Okla. Supreme Court upholds workers comp reform law

■ The Oklahoma Supreme Court has upheld the constitutionality of a controversial workers compensation reform law in a divided ruling. The law allows employers to adopt an employee injury benefit plan as an alternative to mandated benefits typically provided through the state's workers comp system. It also creates several other changes to Oklahoma's workers comp system, such as establishing an administrative dispute resolution process to replace a court-based adjudication system. A lawsuit challenging the law's constitutionality was filed by the Professional Fire Fighters of Oklahoma, state Sen. Harry E. Coates, R-Seminole, and state Rep. Emily Virgin, D-Norman.

SEDGWICK

Continued from page 3

discussions about Sedgwick's future, he said.

"I assume that that's part of the timing of it," Mr. Shields said. "I wouldn't view it as a sign that something's not working at Sedgwick."

Both Mr. Sebaski and Mr. Shields say private equity firms or institu-

"I wouldn't view it as a sign that something's not working at Sedgwick."

Meyer Shields, Keefe, Bruyette & Woods Inc.

tional investors would be the most likely candidates to consider buying Sedgwick.

While Arthur J. Gallagher has

brokerage and TPA services, sources say it's unlikely that brokers such as Marsh Inc. or Aon P.L.C. would consider acquiring Sedgwick or another TPA at this point.

"There's not an enormous appetite for owning this business," Mr. Shields said. "So it's certainly possible that one of the bigger brokers would want to own them, but I think that's unlikely."

While Mr. Sebaski does not follow Sedgwick, he said it's possible

that a potential buyer could help Sedgwick gain financial leverage, if needed.

"Being that it's the only one of its kind of this size and a stand-alone outside of any other business, I don't know if that makes it more challenging environment (or) if that makes its cost of financing higher — some of the things that an institutional investor or (private equity) firm might be able to help with... very quickly," Mr. Sebaski said.

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“Birds” actress Tippi Hedren suffered severe headaches after water fell on her.

Actor hit by water wins \$1.5M lawsuit

A judge has ruled in favor of an actress who was assaulted by water and then misrepresented by her attorney.

California 4th District Court of Appeal Associate Justice Terry B. O’Rourke recently ruled that “Birds” actress Tippi Hedren was due \$1.48 million in damages. Ms. Hedren’s Hitchcockian legal odyssey began in 2006 when a gallon of water fell from the ceiling onto her head at a soundstage where she was rehearsing a role, resulting in severe headaches. Ms. Hedren hired attorney Joseph Allen to file a personal injury lawsuit against the owner and lessee of the soundstage.

After an error by Mr. Allen led to that lawsuit being dismissed, Ms. Hedren successfully sued him for malpractice in 2009 and was awarded \$1.5 million. In his ruling, Justice O’Rourke agreed with the jury’s decision.

Insurers fashion umbrella coverage

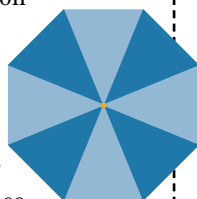
No savvy London market insurance worker leaves home in the morning without his or her trusty umbrella. And far from being just a necessary piece of equipment, umbrellas are a sought-after accessory for the fashion-conscious, recent research has found.

Gracechurch Consulting in early December surveyed 150 underwriters and brokers in the London market to determine the winners of the “umbrella Oscars.”

The consultancy polled insurance workers to find out which company-branded umbrellas they owned and which they coveted.

Catlin Group Ltd.’s umbrella was the most commonly owned, with 39% of those surveyed owning one, while Amlin P.L.C.’s umbrella was owned by 12% of the sample.

Respondents were asked which underwriters’ umbrellas they coveted. Ascot Underwriting Ltd.’s multicolored umbrella came out top with 20% saying they coveted one, followed by Hiscox Ltd.’s model with 9% and Ace Ltd. and Catlin’s umbrellas which both received 7% of the vote.



‘WALKING DEAD’ CREATOR SUES AMC OVER PROFITS



AMC NETWORKS INC.

Currently in its fourth season, “The Walking Dead” has been renewed for a fifth. Its creators say they are being cheated of profits.

The creator of the popular television series “The Walking Dead” and his agent have sued AMC Networks Inc. claiming they’re being cheated out of their fair share of the program’s profits.

According to reports, the suit filed earlier this month in New York Supreme Court by Frank Darabont — who created the zombie apocalypse-themed series — and Creative Artists Agency claims that AMC is paying an artificially low licensing rate to the network affiliate that produces the show, cheating the plaintiffs out of tens of millions of dollars.

The suit contends that the licensing rate is less than the actual cost to produce “The Walking Dead,” resulting in no profit for the production affiliate at the end of the season, according to reports. AMC has not commented on the suit.

Currently in its fourth season, “The Walking Dead” has been renewed for a fifth. Its October season premiere drew more than 16 million viewers.

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Man irritated over loss of consortium

A woman who apparently got a little more than she bargained is suing a discount retailer claiming a dress she purchased there triggered a severe allergic reaction.

Aracely Gonzalez is suing Bentonville, Ark.-based Wal-Mart Stores Inc. in Miami-Dade County Court in Florida, alleging that the day after she purchased and wore the dress, she “developed an excruciatingly painful red rash over large portions of her body, which required her to go to Palm Springs General Hospital, where she was diagnosed with allergic dermatitis.” Eight days later, she returned to the hospital with palpitations, also allegedly caused by the Wal-Mart dress.

In her complaint, Ms. Gonzalez claims an allergist identified the dress she had purchased at Wal-Mart as the cause of the dermatitis. She is seeking damages for negligence, strict liability and breach of warranty. In addition, her husband is asking for damages for loss of consortium because her allergic reaction made it uncomfortable for her to be with him.

“The painful rash lasted for a period of several months, with several outbreaks,” Ms. Gonzalez said in her complaint.



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Def Leppard is reportedly considering legal action against One Direction.

1D brings back metal memories

Boy band One Direction may be singing a different tune after being accused of ripping off a Def Leppard classic on its latest album.

“Midnight Memories,” the title track off the group’s new album, which topped the Billboard 200 earlier this month, bears a striking resemblance to Def Leppard’s “Pour Some Sugar on Me,” music critics have pointed out, and the British tabloid Daily Mirror is reporting that the rock band is considering legal action.

This apparently isn’t the first time One Direction has been accused of plagiarism. The boy band also was accused of lifting key elements of The Who’s “Baba O’Riley” on its hit single “Best Song Ever.”

But The Who frontman Peter Townshend has said publicly that he isn’t going to challenge One Direction for merely using common chords.

Guess it’s still rock ‘n’ roll to him.

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