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INTERNATIONAL

INSURERS IN STATE OF FLUX AS ‘BREXIT’ CONFOUNDS MARKET

U.K. decision to leave E.U. may upend strategies

BY SARAH VEYSEY

Insurers in the United Kingdom, the European Union and the United States face what looks to be an extended period of uncertainty after the U.K.’s vote to leave the E.U. The June 23 referendum, in which 52% of voters decided to leave the economic, political and trading bloc, shook financial markets around the world, resulting in two days of major declines. Insurer and bank stocks helped the markets regain some of the lost ground last week.

Now insurers and intermediaries must weigh whether to shift operations, redomicile or wait until the picture becomes clearer before making any decisions, experts say. Amid fears that other countries also might leave the bloc, Scotland was investigating how to remain in the E.U. despite the overall U.K. vote.

U.S. brokers to feel it more than insurers

BY MARK A. HOFMANN

The United Kingdom’s vote to leave the European Union looks to have a greater immediate effect on insurance brokers than insurers as the U.S. market has largely been a business-as-usual stance following last month’s referendum.

Despite the vote, observers point out that the U.K.’s withdrawal from the trading bloc is still not guaranteed and that it would take at least two years. Several U.S.-based insurance enterprises responded that they don’t intend to change the way they do business in the wake of the decision.

Thousands protesting Britain’s exit from the European Union gather on College Green across from Parliament.

Many areas of U.K. law are derived wholly or in part from E.U. law. These include some areas of employment law, such as discrimination and maternity rights, and some health and safety laws.

The effect

A snap survey of 1,092 U.K. businesses conducted by the London-based Institute of Directors last week found that 22% are considering moving some operations out of the U.K. Additionally, 64% said they believe the referendum result will be negative for their business, and 24% said they would put a freeze on recruitment.
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OSHA STEPS UP ENFORCEMENT ON HEAT-RELATED HAZARDS

New reporting rules show true frequency of heat stress

BY OLIVIA GONZALEZ

Sizzling summer weather makes it critical for employers to protect their employees from heat stress hazards, particularly with an expected increase in heat-related federal workplace safety citations. The U.S. Occupational Safety and Health Administration’s severe injury reporting rule, which took effect Jan. 1, 2015, requires employers to report the hospitalization of a single employee rather than three or more employees as previously required, experts said.

“A lot of these heat illness admissions to the hospital were going unnoticed by OSHA because it was one or two people and therefore they had no obligation to report it to OSHA,” said Craig Halpern, Denver-based vice president, risk control, IMA Financial Group Inc. “But now that we have the obligation to report every hospitalization, I have the feeling that they’re probably seeing more and more of these, and that may be the impetus for the emphasis on it.”

In 2015, OSHA received reports of more than 200 heat-related worker hospitalizations and at least eight deaths associated with heat exposure, according to the agency. “I would suspect we’re likely to see more heat-related issues reported to OSHA,” said Charles Keller, a partner with Snell & Wilmer L.L.P. in Phoenix. “Then the inquiry becomes: ‘What were you doing at the job site? Were employees given the proper training? Were employees given the proper access to water? Were employees given the proper access to breaks and shade to minimize the possibility of a heat-related illness?’

Although there is no standard governing such hazards, OSHA has cited employers in recent New reporting rules show true frequency of heat stress

STAY COOL
National Institute for Occupational Safety and Health recommendations to avoid heat stress include:

■ Acclimate workers to hot environments.
■ Develop a rest/reattimate regimen.
■ Provide cool water and encourage workers to drink five to seven 16-ounce bottles every 15 to 20 minutes.
■ Provide a cool rest area.
■ Train employees on heat stress risk, symptoms and prevention methods.
■ Establish a screening program to identify health conditions aggravated by exposure to heat.

CAPTIVES
Captives may offer cyber cover alternative

BY DONNA MAHONEY

SOUTHAMPTON, Bermuda — Despite the difficulty of quantifying, ongoing cyber breaches are fueling interest in and placement of some cyber-related risks in captive insurers.

“Everything we do now at work is on a computer that is tied to your company’s network,” said John Masters, Hamilton, Bermuda-based senior underwriter with American International Group Inc. “There is more acceptance by company senior executives that the risk is there, causing more interest in acquiring cyber liability insurance.”

The cyber liability insurance market, which had about $2 billion in gross premiums in 2014, is projected to reach $7.5 billion by 2020. More than 60 insurers offer standalone cyber coverage, and more are entering the market, Mr. Masters said.

As cyber breaches have proliferated, interest has developed in the manufacturing industry for captive coverage of bodily injury and property damage as a result of a cyber breach.

Other industries are examining covering reputational risks, he said of the risk that the massive 2013 Target Corp. data breach put on top of company executives’ radars.

See BERMUDA page 26

Rhode Island offers insurers runoff options

Insurers looking to restructure or exit lines of business may get help from Rhode Island, which is considering its first license application for a specialty insurer formed to take advantage of the state’s unique insurance portfolio runoff law.

Rhode Island last year became the first U.S. state to allow solvent insurers and reinsurers to terminate their liabilities on blocks of commercial property/casualty business by transferring them to a state-licensed company to be wound up, either in traditional runoffs or under accelerated commutation plans.

In other states, insurers may run off discontinued business in-house, retaining the liabilities during the process. Formal, regulator-approved runoff and commutation plans generally involve financially troubled or insolvent insurers.

London-based Pro Global Insurance Solutions PLC, now is seeking to license ProTuckin Insurance Co., which will assume runoff portfolios in protected cells and expects to complete its first deal next year, said Mory Katz, managing director of the consultant’s operations in New York.

Several insurers have expressed interest in runoff options under Rhode Island’s Regulation 68, including transfers to third parties such as ProTucked or to an insurer’s own Rhode Island-based affiliate, market sources say.

“There’s been a lot of buzz” about the law, said Carolyn Fayah, Woodbridge, Virginia-based executive director of the Association of Insurance and Reinsurance Run-Off Companies Inc., a 47-member group of mainly insurers and reinsurers. “They have really provided a very useful tool for companies looking to restructure their operations,” Mr. Fayah said. “The U.S. market needs something like that.”

Rhode Island originally developed Regulation 68 in 2004 to give solvent whole-company commutation plans. To date, only one company, GTE Reinsurance Co.,

See RUNOFFS page 26

BUSINESS INSURANCE July 4, 2016 3
Competitive market drives down property insurance prices

BY MARK J. ROTMANN

The buyer’s market in commercial property insurance is alive and well. Property rates continued to drop generally by single digits during this year’s midyear renewals, risk managers, brokers and insurers say. They also say capacity remains more than plentiful, and competition is still the name of the game among underwriters. But there are signs that the rate decreases are beginning to narrow, and for good reason: Underwriters can’t afford to trim them much more.

For now, however, “the buyers’ market continues and there is no end in sight,” said David Finnis, Atlanta-based executive vice president and head of property broking at Willis Towers Watson P.L.C. Buyers agree.

“We found the property market incredibly soft” when renewing a property program in May, said Mark S. Humphreys, vice president of litigation and risk management at Santa Monica, California-based Watt Cos. Inc.

Most of Watt’s assets are on the West Coast, which means the commercial real estate firm has “a huge earthquake exposure,” Mr. Humphreys said. But he found that all rates were lower than those of last year, even for earthquake. In fact, Watt increased its earthquake limits $15 million at a price lower than it paid last year; overall, the company reduced its rate by about 5%, Mr. Humphreys said.

“Companies are finally looking at engineering data and pricing the risk accordingly,” said Mike Liebowitz, senior director of insurance and risk management at New York University. He said NYU enjoyed single-digit rate decreases for its July 1 property renewal, despite the fact that “we’re the insured that had the big flood loss” from Superstorm Sandy in 2012.

“But I think there’s going to be a bottom where we begin hitting minimum premiums,” Mr. Liebowitz said.

While saying that insurers in general and American International Group Inc., the university’s main insurer/property insurer, “has treated me extremely fairly,” it’s because “they’re understanding the risk better, which enables them to treat me fairly.”

“Insureds are getting the credit for doing the good things,” which Mr. Liebowitz said “makes good business sense.”

On average, property rates are down 7% to 9%, said Rick Miller, national property practice leader at Aon Risk Solutions. “The only difference I think when you have ample capacity, there’s competition” for new and renewal business.

“Broadly speaking, we still continue to see a downward trend in most lines of coverage, with the exception of commercial auto,” Mr. Miller said.

“In general, it’s a flat market,” said Joseph Peiser, executive vice president and head of casualty broking at Willis Towers Watson P.L.C. in New York. “So most accounts are either renewing as is” or doing large increases or decreases, depending on their exposures.

“The exceptions are truckers, companies with large fleets of vehicles and energy companies, particularly energy companies that are in exploration” for new sources, he said.

Mr. Peiser said the trucker and large-fleet increases are due to an uptick in both personal and commercial vehicle losses.

“All insurers are telling us the same story,” he said. “New York City construction is also what we call a tight market that is driven entirely” by the state Scaffolding Law, “which drives many workers comp losses to be general liability losses. So that’s a unique statutory issue.”

Otherwise, general liability “clients that we had loss issues and done nothing to mitigate them are going to see some challenges,” he said. “They’re not going to get the advantage of good rates.”

“While we say the market is soft and competitive, the companies that continue to have the best risk

The buyers’ market continues and there is no end in sight.

David Finnis, Willis Towers Watson P.L.C.

BY ROB LENHAN

Many organizations are seeing decreases in their commercial liability coverage at midyear renewals, but there are distinct exceptions.

“Probably with the exception of New York-area construction, the market is still very soft,” said Frank Scott, senior vice president of USI Insurance Services L.L.C. in West Orange, New Jersey. “Rates are down, depending upon the account, high single digits into the double digits. New York construction continues to be a challenge, with increases growing into the low double-digit mark. And the market is also contracting there.”

Mark Molitos, senior vice president and analytics practice leader at Lockton Cos. L.L.C. in Kansas City, Missouri, had a similar view.

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“While we say the market is soft and competitive, the companies that continue to have the best risk

By Jody Greenwald

Buyers are enjoying competitive rates when renewing their directors and officers liability insurance, particularly in their excess coverage.

Despite the overall soft pricing, more challenging sectors that include life science and financial service firms may benefit less from the soft market, observers say.

Most experts estimate buyers are seeing decreases up to 15% depending on the risk, with the excess layers particularly competitive.

Mark Humphreys, vice president of litigation and risk management at Santa Monica, California-based real estate development and investment firm Watt Cos. Inc., said an area of uncertainty for risk managers right now is the impact of Britain’s vote to leave the European Union.

“Nobody knows how the Brexit is going to affect the global insurance market,” said Mr. Humphreys, who said his firm experienced essentially flat D&O rates when renewing May 1.

“The D&O market continues to be a highly competitive space in virtually all segments,” said Frank Baron, New York-based head of management solutions at Zurich North America.

“There is ample capacity with stable demand among publicly held companies, with about 5,300 such companies and no huge growth in initial public offerings," says Steve Gregoire, senior managing director at Marsh L.L.C.

Marsh public company clients that renewed in this year’s and last year’s first quarter experienced an overall 4.8% rate reduction, he said.

“It’s very much a buyer’s market now,” said Brian Wanat, New York-based CEO of the U.S. financial services group at Aon Risk Solutions.

“The only difference between this cycle and the soft D&O page 27

See LIABILITY page 27

D&O buyers see double-digit decreases

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Michael Liebowitz, senior director of insurance and risk management at New York University.

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July 4, 2016

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Many employers renewing their workers compensation coverage at midyear are benefiting from increased competition, with pricing that is the same or slightly less than a year ago.

“It’s very much a buyer’s market, so we’ve been able to secure rate decreases on a significant number of our clients’ programs,” said Christopher Flatt, managing director and leader of Marsh LLC’s Workers’ Compensation Center of Excellence in New York.

Most employers are seeing workers comp rates that range from flat to decreases as large as 5%, experts say.

However, employers with an unfavorable loss experience or a large number of workers in an urban area are less likely to see significant rate decreases, he said.

Meanwhile, insurers are offering “really aggressive collateral terms for the best-performing companies” as well as “early renewal strategies or multiyear rate commitments” to keep current customers, said Mark Moitoso, Boston-based senior vice president and analytics practice leader at brokerage Lockton Cos. LLC.

Rates vary from flat to a decline of 10% across Lockton’s portfolio, depending on the underwriter’s profitability and the client’s loss experience, he said.

In California, employers may see rate reductions greater than 5% as a result of S.B. 863, said Pamela Ferrandino, executive vice president and senior principal of national casualty at Willis Towers Watson P.L.C. in Hartford, Connecticut.

The law that took effect in 2013 increased benefits for injured workers and included several changes — such as independent medical and bill reviews — to reduce costs. The Oakland, California-based Workers’ Compensation Insurance Rating Bureau said in November that S.B. 863 could help reduce system costs by $700 million a year.

Rate decreases may also be greater for real estate companies and financial institutions “because a lot of the newer carriers or merged carriers are broadening their appetite to write large, guaranteed-cost business in that sector, and they’re being competitive about it,” Ms. Ferrandino said.

“Plenty of capital out there”

“The workers comp market is likely to remain very competitive for at least the rest of this year,” experts said.

“There’s plenty of capital out there,” said Gary Pearce, chief risk compliance and privacy officer at Troy, Michigan-based home- 

fice, managing director of the Specialty at Guy Carpenter & Co.

“Either through a reduction in our (underwriting company) capacity or through safety behaviors. Enhance a program centered on team-based procedures” but being unable to “formally show underwriting company how that’s actually executed is not going to get you the score you need” to reduce workers comp rates.

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Christopher Flatt, Marsh L.L.C.’s Workers’ Compensation Center of Excellence

so the buyer side is more liquid, if you will, than it was in the past.”

Still, Kelly Services renewed its workers comp coverage Jan. 1 with Chubb Ltd., previously Aon Ltd, in what he described as a “high-level agreement” that’s managed from “a multiyear perspective.”

According to the Boca Raton, Florida-based National Council on Compensation Insurance, private workers comp insurers’ combined ratio improved to 94% in 2015 from 100% in 2014.

NCCI Chief Actuary Kathy Antonello in May called it “one of the best underwriting results we’ve had in decades.”

The improved performance has led comp insurers to “be more thoughtful about having broader account strategies vs. simply line-of-business strategies to win over business,” Mr. Moitoso said.

Insurers are willing to be “more aggressive on rates for comp to be able to secure, maybe, a rate increase on a companion line (within property/casualty) that hasn’t necessarily performed as well,” such as commercial auto insurance, Mr. Flatt said.

For Syracuse, New York-based Giovanni Food Co. Inc., efforts to improve safety programs and reduce exposures have allowed the private-label food manufacturer to secure lower workers comp prices, Nicole Bryant, human resources manager, said in an email. The company, Ms. Bryant said, has implemented a return-to-work program; improved a program aimed at decreasing slips, trips and falls; and is working to enhance a program centered on team-based safety behaviors.

The efforts have benefited Giovanni Food “either through a reduction in our (experience modification) rate or through safety credits received via state-approved safety programs that we have established,” she said of the coverage provided by MEMIC Group.

Transparency and documentation “are critical aspects to getting the best terms and conditions in the marketplace,” Mr. Moitoso said. “Saying you have great safety procedures” but being unable to “formally show an underwriting company how that’s actually executed is not going to get you the score you need” to reduce workers comp rates.
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Sandy Bigglestone, director of captive insurance domicile and the third-largest worldwide, said they possess a deep understanding of risk allows risk professionals to show leadership in the arena of what essentially left a California small family-owned business self-insured,” according to the state.

Interim CEO wins the job at claims manager Crawford

Crawford & Co. has named Harsha Y. Agadi president and CEO. Mr. Agadi has served as interim president and CEO of the Atlanta-based claims manager since August of last year, when Glenn A. Spencer stepped down. “No matter the industry or the airport was able to reopen fairly quickly, limiting the market loss. He added that the exposure is “well within the arena of what we would typically write on an airport, which is of course a high threat target anywhere around the world and especially in Turkey.” The city’s control board spokesman said. The city’s control board has a relationship with the airport dating back to 2005, Mr. Halstead said.

Hiscox expands inland marine, snags from rivals for team

XL Catlin has expanded its inland marine business in the U.S., the company said in a statement. Chicago-based Janelle Levesque joins from Chubb Ltd., where she was an underwriter for inland marine. San Francisco-based Anda Serban was “a mutual decision” between him and the board, said in a statement. A Crawford spokeswoman said Mr. Bowman’s departure was “a mutual decision” between him and the board.

90 risk management professionals earn inaugural RIMS certification

The U.S. District Court in Dallas has ruled that out-of-network hospital system Texas General Hospital L.P. can sue UnitedHealthcare, the nation’s largest health insurer, for $104 million in unpaid hospital bills and that it can bring multiple claims under federal and state law for overcharges and rebates. The health insurer failed to make over a three-year period. Texas General Hospital, based in Grand Prairie, Texas, provided health care services to nearly 240,000 UnitedHealthcare plan members in February 2012 and June 2015, for which the hospital billed the insurer $183.2 million, according to its lawsuit. Texas General is not included in UnitedHealthcare’s provider network, so patients were required to assign their benefits to Texas General prior to getting treated. The hospital also received coverage verification and pre-certification from UnitedHealthcare before services were rendered. But UnitedHealthcare never fully paid up, according to the suit. The health insurer has yet to date any Texas General for $110.1 million of the total amount billed, according to court documents.

State cracks down on Berkshire over unregulated comp policies

The California Department of Insurance has issued cease-and-desist orders to two Berkshire Hathaway Inc.-owned companies in the wake of a June decision regarding Shastra Linen Supply Inc. California Insurance Co. and Applied Underwriters Captive Risk Assurance Co. must “cease and desist from issuing or renewing any workers compensation policy that uses an unfiled and unapproved form for their collaborative agreement consistent with “Insurance Commissioner David Jones’ June 21 decision, the state’s Department of Insurance said in a statement. Mr. Jones ordered California Insurance Co. to provide a refund to Shastra Linen Supply after it sold the Sacramento, California-based business an unfiled and unapproved insurance program, records show. Applied Underwriters Captive Risk Assurance Co. sold the business a retroactive nonlinear insurance policy called EquityComp, which had not been submitted for review, record shows. The EquityComp policy essentially left a California small family-owned business self-insured,” according to the statement.

Cleveland ups liability coverage for Republican convention

Cleveland is gearing up for potential problems at the upcoming Republican National Convention, scheduled for July 18-21, by purchasing a $60 million liability insurance policy, a city spokesman said. The city’s control board approved payment of a $9.5 million initial fee to Aon Risk Solutions Northeast Ohio; the money will cover the city’s insurance premium and fee for broken windows in the host city, he said. The city had approved the purchase of a smaller $10 million insurance policy with a $5.5 million fee in March. The city expects to host more than 50,000 visitors during the four-day convention, which will take place primarily at Quicken Loans Arena, home of the Cleveland Cavaliers basketball team. The insurance will be purchased with money from a federal security grant the city received for hosting the convention, the spokesman said.

Hiscox leads insurance coverage for Turkey’s Ataturk airport

Hiscox Ltd. said it is the lead insurer for terrorism cover for Istanbul’s Ataturk Airport, where 43 people killed and hundreds wounded during a terrorist attack last week. Richard Halstead, line underwriter for war, terrorism and political violence for the London-based company, said the coverage includes property damage and business interruption. Mr. Halstead said there was no great deal of physical damage and the airport was able to reopen fairly quickly, limiting the market loss. He added that the exposure is “well within the arena of what we would typically write on an airport, which is of course a high threat target anywhere around the world and especially in Turkey.” The company has a relationship with the airport dating back to 2005, Mr. Halstead said. The broker is London-based United Insurance Brokers Group, and Hiscox writes this business through Lloyd’s of London.

Lockton names successor to chief executive Lumelleau

Glenn A. Spencer will succeed John L. Lumelleau as president and CEO of the Kansas City-based Lockton Cos. L.L.C. on May 1, 2017, the broker said. Joining Lockton in 2005, Mr. Spencer currently serves as Lockton’s chief operating officer and head of the company’s U.S. operations. Mr. Lumelleau will continue as president and CEO, positions he has held since 2002 until his retirement on April 30, 2017, Lockton said in a statement. Lockton added that he will work with Spencer as a special adviser to the broker during his retirement.

UnitedHealthcare can be sued by out-of-network system

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Candidates are judged on their accomplishments, expertise and leadership. Honorees will be recognized in the December 5 issue of Business Insurance and at our annual Women to Watch Conference and Gala December 12-13 in New York.

ENTRY REQUIREMENTS

Submit nominations online at: businessinsurance.com/w2wnominate

Entry deadline is Friday, August 5, at 11:59 p.m. EDT.
China’s Fosun plans Ironshore listing ‘ASAP’

Fosun Group, China’s biggest private conglomerate, will list U.S. property/casualty insurer Ironshore Inc. “as soon as possible” this year, Guo Guangchang, the company’s billionaire co-founder and chairman, told Reuters ahead of a Reuters Newsmaker event in Beijing. Mr. Guo, a self-styled student of U.S. investor Warren Buffett, said the size of the offering will be decided by the market, “the bigger the better.” Fosun International Ltd. earlier had said it would spin off Ironshore, which it spent $2.5 billion over two years to acquire, through a separate listing on the New York Stock Exchange or Nasdaq. Reuters

Cooper Gay names chief innovation officer

Cooper Gay Swett & Crawford Ltd. has appointed Peter Hacker as group chief innovation officer. The London-based reinsurer, wholesale and specialty brokerage said Mr. Hacker, co-founder and partner at think tank Distinction Global, an advisory unit of the Cologne, Germany-based Cyber Crime Institute, would take the new post immediately. Based in London, Mr. Hacker previously was head of the communications, technology and media practice at Jardine Lloyd Thompson Group PLC. In London. “Appointing an individual of Peter’s caliber is a statement of intent and offers a glimpse of the future ambitions for our business,” Steve Hearn, group CEO of Cooper Gay, said in a statement.

Mexican insurer gains access to Lloyd’s market

Specialty insurer and reinsurer Sompo Canopius A.G. and Mexico City-based insurer Grupo Nacional P #=>31##B have formed a strategic partnership to enable the companies to develop new business and insurance products for the Mexican market. The partnership also would enable GNP to broaden its portfolio to include international risks through participation in Sompo Canopius’ multi-line Lloyd’s of London syndicate 4444, the companies said in a joint statement. GNP underwrites commercial and personal lines insurance including property/casualty, auto, life and health and posted premium volume of $2.73 billion for 2015, according to the statement.

Signs point to decline in Chinese hacking

U.S. Assistant Attorney General John Carlin said Chinese hacking activity appears to have declined since the Chinese government

MARKET DEVELOPMENTS UPDATED FEBRUARY 2016

■ A resolution issued in September updates regulations dating to 2006 for allowable investments by insurers and reinsurers and their limits in domestic and international markets.

■ A July 2015 resolution establishes minimum capital and registration requirements for reinsurance, reinsurance and coinsurance arrangements and brokers.

■ A June 2015 resolution sets guidelines and reporting requirements for marketing micro insurance products.

■ In April 2015, Nicaragua became the first Central American country to join the CCRIF SPC, formerly known as the Caribbean Catastrophe Risk Insurance Facility.

2016 GDP CHANGE (PROJECTED) 4.0%
ment vowed last September to stop supporting the hacking of U.S. trade secrets. The assertion supports findings released in June by cyber security firm FireEye that breaches attributed to China-based groups had plunged by 90% in the past two years. "Generally, people have seen a change in activity," Mr. Carlin said at the Center for Strategic and International Studies think tank in Washington. But "there is debate about how long lasting" the apparent reduction in activity will be, Mr. Carlin said, adding that the private sector and U.S. intelligence officers were likely better positioned to assess hacking trends.

**Accenture looks to Israel to boost cyber security**

- Seeking to shore up the cyber security services it provides to customers, Accenture P.L.C has acquired an Israeli company and is establishing a research and development center in the country. Accenture, a professional services firm whose competitors include IBM Corp. and India’s Infosys Ltd., did not disclose financial details of its acquisition of Tel Aviv-based Maglan, which provides cyber forensics and simulation services, malware defense and research on intelligence threats. It employs about 30 people, who "are extremely expert ... from Israel’s military and intelligence complex," Omar Abbosh, Accenture’s chief strategy officer, told Reuters. Israeli cyber security firms, many of which have military roots, have attracted growing foreign investment over the past few years, raising a record $540 million in 2015. Reuters

**Berkshire specialty unit opens German office**

- Berkshire Hathaway Specialty Insurance Co. has opened an office in Düsseldorf, Germany, in coordination with its affiliate Berkshire Hathaway International Insurance Ltd. and announced executive appointments. Jörg Bechert was named senior vice president, head of executive and professional lines, Berkshire Hathaway said in a statement. Ulrich Kütter was named senior vice president, head of marine, Northern Europe; Leon der Metzger will serve as senior vice president, head of property, Northern Europe; and Robert Scherf will serve as vice president, head of human resources, Northern Europe, according to the statement.

**China closes in on cyber security law**

- China has moved closer to adopting a controversial cyber security law after its parliament held a second reading of the draft rules, which carry significant consequences for domestic and foreign business and threaten greater censorship. The draft, presented before the standing committee of the National People’s Congress, requires network operators to comply with social morals and accept the supervision of the government and public, official news agency Xinhua said. It also reiterated that Chinese citizens’ personal data, as well as “important business data,” must be stored domestically, adding that those wishing to provide that information overseas faced a government security evaluation. China enforces widespread controls over the internet that it has sought to codify in law, but Chinese laws often go through multiple readings and drafts before they are adopted.

**Swiss Re shuffles global executive ranks**

- Swiss Re Ltd. has appointed Steve Arora global head of casualty. Mr. Arora, who currently is head of Japan for Swiss Re, will replace Jayne Plunkett, who has been named regional president and CEO of reinsurance for the Asia region at Swiss Re, the reinsurer said in a statement. Swiss Re also said Atsuhiro Dodo, who is head of client markets for property/casualty business in Japan, has been appointed country president there. All moves will take effect July 1.
Q: What attracted you to the WCRI?

A: Its reputation, its clear mission to improve workers compensation systems and its focus on research. It’s great to be working with such an intelligent and talented group of colleagues who are committed to publishing high-quality, credible and independent research. Along those lines, what has been most eye-opening has been the tremendous support for the research from stakeholders in the workers compensation community. That support indicates the value they attach to the work that we do.

Q: What is one of your goals for the next year in your new position as president?

A: My main goal moving forward is to continue producing credible, independent and high quality research, while identifying new impactful areas of research. Producing impactful research means providing research findings that are used in public policy debates to improve workers comp systems. The research that I described previously is in areas that we believe are getting a substantial amount of attention in the policy arena. Also important is our suite of core benchmarking studies that allow stakeholders to make comparisons of workers comp system performance across states and within a state over time. These studies allow stakeholders in a state to answer questions such as how does my state workers comp system compare to others according to a wide variety of metrics? Also, how has my state been doing over time? Our research tends to be very scholarly and technical. One goal of mine is to provide new products that are consistent with our rigor but that reach a broader set of stakeholders. We will experiment with research briefs and videos that crisply deliver our research findings.

Q: What are the main workers comp issues that the WCRI will research this year?

A: Over the next two years, we plan to conduct research on treatment guidelines. First, we’ll catalog how treatment guidelines are implemented across states and describe their general characteristics. With that information, we can then assess the impact of guidelines on procedures, costs and injured worker outcomes. With regard to worker outcomes, we intend to expand our set of worker outcome surveys that assess how injured workers fare in the workers compensation system. These important surveys measure workers’ recovery of health, access to medical care, return-to-work timing and earnings loss. There has also been a lot of interest in how health care markets are impacting workers compensation. We will look at the impact of the growth of high-deductible group health plans on case shifting to workers compensation, and also assess the impact of the growth in accountable care organizations and the consolidation of health care on workers compensation prices. Finally, another area I’ve been most eye-opening is that the workers compensation system is being increasingly understood the value of the employee assistance programs … to really help the market challenges in continuing to educate companies about assistance programs; how it helps companies not only attract but retain talent, that the collaboration with the employer-sponsored program really leads to a more robust (employee assistance programs).

Q: What do you enjoy most about working for the WCRI?

A: One of the things that I enjoy most about working for WCRI is that while having a mission similar to the U.S. Bureau of Labor Statistics ... in providing objective information and research, we are able to focus that research and information where the public policy debates are occurring. As a result, we make a tangible difference in improving workers compensation systems and the outcomes of injured workers.

Q&A

JOHN W. RUSER

WORKERS COMPENSATION RESEARCH INSTITUTE

Mr. Ruser recently spoke with Business Insurance Staff Reporter Donna Mahoney about his goals and the WCRI’s efforts to bring useful information to the workers compensation community. Edited excerpts follow.
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Matthew McCabe | Senior Vice President Marsh L.L.C. (Business Blackout)
Sandra Toner | Technical Specialist | ICF International Inc. (IoT)

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**MAKING A DIFFERENCE THE RIGHT WAY**

Top benefit managers have a difficult job but, when they execute the right strategy, they can make a big difference for employees and employers. That's particularly the case when it comes to health care. Over the past several years, employers have increasingly addressed the problem of rising health care expenses by shifting more of the costs to employees. That's proved an effective short-term strategy for cutting costs, but it's often been at the expense of worker satisfaction and long-term worker health.

It's not easy to develop benefit strategies that tackle complex issues in effective and affordable ways, so when they arise it's worth taking notice.

Philia Swam of L&FargoHolcim U.S., Business Insurance's 2016 Benefit Manager of the Year®, developed such a strategy for her employer by concentrating on creating a healthy workforce in addition to revamping the firm's benefits offerings to save on costs. The fact that she implemented the strategy in the wake of a major merger, which creates benefits challenges in itself, makes her achievements doubly impressive.

One of the keys to her and L&FargoHolcim's success in implementing the changes was not being afraid to invest money to encourage people to lead healthier lives. Most people would agree that the best way to reduce health care costs is to make sure that people don't get sick in the first place, but they often need incentives to make the necessary changes to improve their health.

In conjunction with the introduction of high-deductible health plans, Ms. Swam and her team developed and implemented significant financial incentives to encourage L&FargoHolcim employees to monitor their health more effectively and boost their physical activity. Money was also made available to identify and better manage chronic conditions, which are notoriously expensive to treat over the long term.

In our special profile in this issue of Ms. Swam and the L&FargoHolcin benefits program, you will find numerous examples of creative ways to address the thorny problems that today's benefit managers face.

Congratulations to Ms. Swam, and we hope you enjoy reading about her achievements.

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**SCHILLERSTROM**

**PLAYING BY THE RULEBOOK DOESN'T YIELD BEST RESULT**

At one point in the classic, eerily prescient 1946 political novel “All the King's Men” by Robert Penn Warren, cynical governor Willie Stark, who is based on Louisiana Gov. Huey Long, has a conversation with an idealistic doctor.

Willie tells the doctor that things change: “Because what folks claim is right is always just a couple of jumps short of what they need to do business. But folks in general, which is society, Doc, is never going to stop doing business.”

What brings that to mind is what happened to Lisa Caporicci, an employee at a South Tampa, Florida, restaurant operated by Denver-based Chipotle Mexican Grill Inc., which was terminated after one episode of acting inebriated after taking a prescribed anxiety medicine, according to the U.S. District Court in Tampa’s May 27 ruling in Lisa Caporicci v. Chipotle Mexican Grill Inc.

Before the events leading up to her termination, Ms. Caporicci had been considered “really good at her job” and was being “watched carefully for a promotion.”

But then Ms. Caporicci took a brief Family Medical Leave Act leave to adjust to her new medication, and was terminated just four days later.

Ms. Caporicci sued Chipotle on grounds including violating the Americans with Disabilities Act and retaliation for exercising her FMLA rights.

The court dismissed the FMLA charge on the basis that she was not eligible for FMLA protection because she was not under the influence of the medication, and was terminated just four days later.

This is one case that called for a bit more compassion and, to quote Willie Stark, a business being willing to take “just a couple more jumps” and doing what is right.
Risk managers face new liabilities in web of medical payment rules

Medicare Secondary Payer requirements have had a costly effect on claims settlements. While the Strengthening Medicare and Repaying Taxpayers, or SMART, Act helped solve many significant problems, risk managers face a new set of liability risks that have arisen over the past four years. David Farber, a partner at King & Spalding L.L.P., outlines the issues that risk managers need to address.

In the past 10 years, Medicare Secondary Payer issues have become a dominant concern. During that time, Congress has driven systemic changes in the MSP landscape, which have given MSP issues a key role in the resolution of any case involving a Medicare or Medicaid beneficiary. No risk manager can chance being unaware of the legal requirements and the effect of MSP on case closures, risk management operations and claims department budgets.

The last decade has brought significant clarity to many of the issues that plagued MSP compliance years ago. But numerous issues remain, adding to claims resolution costs, and others are emerging as major business threats. Here is a look at the changes and five major MSP business threats facing risk management departments:

- Congress enacted the MSP statute in 1980 and updated it in 2003 to clarify that settling parties still were subject to MSP laws. In December, Congress enacted Section 111 of the Medicare, Medicaid and SCHIP Extension Act, which required risk managers and other entities paying a settlement, judgment or award to a beneficiary report the payments to Medicare or face a $1,000 per day per claim penalty. Once implemented by the Centers for Medicare and Medicaid Services in 2011 and 2012, a flood of data regarding potential secondary payer recovery claims became available, helping CMS increase collection of MSP “conditional payments,” amounts paid by Medicare for health care related to an injury that is the subject of a settlement, judgment or award.

- In response to Section 111, self-insured claims managers, third-party administrators and insurance industry representatives formed the Medicare Advocacy Recovery Coalition, which between 2009 and 2012 worked with Congress to enact the Strengthening Medicare and Repaying Taxpayers Act. The legislation helped eliminate several major MSP risks facing industry, including the late reporting penalty and transaction costs associated with small MSP claims. In addition, the legislation required Medicare to create an electronic “portal” to ensure prompt communication of MSP liability amounts so parties could resolve all claims at the time of settlement. The SMART Act has saved industry tens of millions of dollars by eliminating potential liabilities, expediting settlements and reducing extensive transaction costs and delays.

But a new set of risks has arisen in the four years since the SMART Act’s enactment, putting millions of dollars at stake.

The five biggest disruptions to claims administration are:

- **Part C/Part B**: In the past several years, a number of Medicare Advantage insurers (private insurers who, for a fixed per-member-per-month fee from CMS, agree to cover all Medicare beneficiary claims otherwise covered by Medicare Part A and Part B) have sued insurers, those who are self-insured and plaintiffs’ attorneys to recover payments for medical costs later addressed by a settlement, judgment or award. The insurers claim they are acting on behalf of the CMS for purposes of recovery, a position they believe entitles them to seek what amounts to double damages. Though the case law is mixed, with decisions in the U.S. Court of Appeals for the 4th and 9th circuits rejecting these claims, the 3rd Circuit allowing them and the 11th Circuit considering the issue, insurers have met with success in many district courts. These claims, often brought months or years after a settlement, cause risk managers to reopen closed cases. Though these cases have involved MA plans, claims by Medicare Prescription Drug benefit insurers are soon to follow. At issue are billions of dollars of potential liability to insurers and those who are self-insured.

- **Liability “set-asides”**: For five years, CMS has threatened to expand its “future medicals” policy and “Medicare set-aside” process applicable to workers’ compensation settlements to liability settlements as well. The implications of having to navigate the costs of future medicals in liability cases, particularly when the metrics are set by CMS as is the case in workers’ compensation, would significantly increase settlement costs and delay settlements in many cases. Similar to a rule it proposed in 2014 and withdrew in 2015, CMS announced last month that it was considering expanding its voluntary Medicare set-aside arrangements amount review process to include proposed liability insurance (including self-insurance) and no-fault insurance set-asides. Every risk manager has a stake in how this issue is resolved.

- **Treasury debt collection**: Every year hundreds of insurers and those self-insured faced Treasury collection efforts for unknown MSP debts. While most amounts are not large, they can add up to hundreds of thousands of dollars. Claims departments can rarely identify the related MSP claim. Treasury says it has no information and refers inquiries to CMS, which says all information is in the hands of Treasury. While MARC has initiated a partnership with CMS and the Treasury to improve the debt collection system, Treasury debt collection remains a major MSP risk.

- **Ongoing responsibility for medicals**: Every quarter, hundreds of thousands (and soon millions) of claims will be reported to CMS under Section 111 as “ongoing responsibility for medicals.” This requirement is wasteful for companies that have internally closed the claims but, under state laws must continue the reporting process. It also often results in CMS wrongly denying beneficiaries’ Medicare coverage unrelated to the claim in the report. There have been hundreds of cases of CMS denying beneficiaries coverage for cancer care because the beneficiary has an ongoing responsibility for medicals and the works compensation injury. Beneficiaries with no other choice file complaints with state regulators against their employers or insurers.

- **Ongoing responsibility reporting** translates to an inescapable loss of goodwill, transaction costs and time and effort for all claims managers, who continue to work with CMS to reform the reporting process and find a reasonable date upon which such reporting can end.

The portal: On Jan. 1, CMS implemented the SMART Act portal. Though the portal provides extensive information to beneficiaries and allows them to seek final conditional payment statements before settlement, it does not give insurers all the data necessary to make MSP payments at the settlement table. Though the portal has saved millions in MSP repayment transactional costs as it was phased in the past three years, more improve-ment is needed. MARC continues to work on this issue, but risk managers are paying unnecessary transactional costs in settling cases involving Medicare in the meantime.
For Philia Swam, improving employees’ health and wellness has been the passion driving her career. For much of her 18 years with LafargeHolcim U.S. and predecessor company Lafarge North America Inc. Ms. Swam has launched a slew of initiatives to control the costs of LafargeHolcim’s health plans, which cover about 13,000 U.S. employees and dependents, while increasing the company’s focus on wellness.

“We have shaped our health and wellness culture to focus on early prevention and detection of chronic conditions,” said Ms. Swam, who is manager of health, wellness and group benefits at LafargeHolcim U.S. in Chicago.

Last year, LafargeHolcim switched its U.S. employees to high-deductible consumer-driven health plans, but it also gave employees a powerful financial incentive to participate in wellness programs — sizeable company contributions to health savings accounts.

For example, the company contributes $650 to each employee’s HSA, and their spouses receive an equal contribution if they are screened for metabolic syndrome, which includes checking waist
circumference, blood pressure, blood sugar, triglycerides and HDL cholesterol levels. If they have no more than two of the five risk factors and test negative for exposure to tobacco smoke, they receive the full HSA contribution. If they have three risk factors and/or test positive for nicotine, they must complete health coaching to get the full $650.

That incentive clearly is attractive, as 85% of employees participate in LafargeHolcim’s on-site health screening programs, which Ms. Swam said will improve employees’ overall health and detect medical problems early on, saving the company money in the longer term.

“If you have metabolic syndrome, you are two to four times more likely to get heart disease, kidney disease, a stroke, cancer and diabetes. Our position was that for a majority of our population, those conditions are preventable and reversible. Why wouldn’t we focus on them, because we know most people can make a change?” Ms. Swam said.

Giving employees a strong financial incentive to have wellness exams is one of several initiatives Ms. Swam has put in place to improve employee health while also controlling company costs, for which Business Insurance has named her the 2016 Benefit Manager of the Year.

Another initiative, a nurse engagement plan through health insurer Aetna Inc., gives employees with chronic conditions such as asthma, diabetes and high blood pressure easy access to Aetna nurses.

“The goal for the health plan enrollees is to get help and support to better manage the condition and get care, avoid problems and enjoy better health,” Ms. Swam said.

Employees and spouses who enroll in Aetna in Touch Care receive a $75 company contribution to their HSAs.

The results, she said, have been “incredible.” Last year, 78.2% of the population with acute or chronic health conditions participated in Aetna in Touch Care.

Also incredible, she said, is that the wellness program efforts helped limit LafargeHolcim’s health plan costs to an increase of just 3.8% last year.

Colleagues credit Ms. Swam’s successes to her fervor for health care and ongoing commitment to make needed changes.

“She is passionate about health and wellness, and has a high-energy drive. That is what has made her so successful,” said Lauren Strohl, LafargeHolcim’s director of compensation and benefits in Chicago.

“She has great business sense combined with a passion for the wellness of employees,” said Chris Mack, LafargeHolcim’s director of industrial relations in Chicago.

“It is not just a job; health and wellness are one of the passions of her life,” said Alexis Langlois, the company’s Chicago-based regional head of human resources and integration for North America.

Ms. Swam’s “biggest accomplishments are all due to her ability to embrace and introduce change. She is not afraid of trying new ways,” said Wendy Calcagno, LafargeHolcim’s health and wellness coordinator in Southfield, Michigan.

Dave Ratcliffe, a principal at Xerox HR Services in Washington, a LafargeHolcim health care consultant, attributes Ms. Swam’s successes to her vision and ability to get the backing of top company management.

“She is prepared to take on aggressive and cutting-edge strategies and to make them happen,” Mr. Ratcliffe said. “She is confident in her ability to win top management support, and she gained their full support.”

Ms. Swam, who also has overseen moving retirees to a private health insurance exchange while expanding voluntary benefits for U.S. employees of the company that provides cement, concrete, aggregates and asphalt, in a variety of industries, said her efforts are ongoing.

While we continually monitor health care trends that occur today and in the future,” Ms. Swam said. We elect to have a high (stop-loss) threshold because most of our high-dollar claimants usually peak at about $500,000 to $750,000 for catastrophic incidents,” Ms. Swam said. “We prefer to pay a lower stop-loss premium and accrue the cash reserves ourselves.

Shifting to high-deductible health plans was the “right decision for our benefit plan strategy of continuing to change employeefamily consumer behavior, and (we) decided that implementing HSAs would help our employees save money for health costs that occur today and in the future,” Ms. Swam said.

By Jerry Genel

HIGH-DEDUCTIBLE HEALTH PLANS REAP BIG SAVINGS
WHILE SOWING CASH TO HELP WORKERS CHANGE THEIR WAYS

While LafargeHolcim U.S.’s move to high-deductible health plans last year shifted substantial costs to U.S. plan participants, the building materials manufacturer also took steps to ease that financial burden.

Under one of the new plans, HealthChoice, the annual deductible for single coverage is $2,600, while the deductible for family coverage is $5,000. Once deductibles are met, the employee picks up 30% of claim costs, up to an out-of-pocket maximum of $6,500 for single coverage and $13,000 for family coverage.

The other plan, HealthChoice Plus, has a deductible of $1,750 for single coverage and $3,500 for family coverage. After that, employees pay 20% of out-of-pocket expenses up to a maximum of $5,750 for single coverage and $11,500 for family coverage.

Previously, the company offered traditional preferred provider organization health coverage with little or no deductibles and flat-dollar copayments, said Philia Swam, LafargeHolcim’s U.S. manager of health, wellness and group benefits in Chicago.

While earlier plan changes had brought down annual cost increases to an average of 4.7% from 2007 to 2014, from 3.3% from 2001 to 2006, more changes were needed to reduce LafargeHolcim’s exposure to a health care reform law provision that imposes a stiff excise tax on plan premium costs that exceed certain levels, Ms. Swam said. In 2013 alone, the plan design changes saved LafargeHolcim $5.4 million.

At the same time, LafargeHolcim added features to reduce employees’ cost burden.

For example, the company contributes up to $650 to the health savings accounts of employees who get screened for certain conditions. That same $650 contribution also is available to employees spouses who have the screenings.

HSA contributions also provided for employees who engage in other health related activities. For example, employees and spouses who participate in a company Get Active program are each eligible for up to a $300 HSA contribution, while a $150 HSA contribution is offered to pregnant plan participants who complete an Aetna maternity management questionnaire within the first 16 weeks of pregnancy, and a $75 HSA contribution is provided to employees participating in an Aetna program that counsels those with chronic problems, such as high blood pressure.

LafargeHolcim purchases stop-loss insurance from Aetna that covers individual claims that exceed $2 million and self-insures claim costs below that amount.

“We elect to have a high (stop-loss) threshold because most of our high-dollar claimants usually peak at about $500,000 to $750,000 for catastrophic incidents,” Ms. Swam said. “We prefer to pay a lower stop-loss premium and accrue the cash reserves ourselves.”

By Jerry Genel

S5.4M
What plan design changes saved LafargeHolcim in 2013 alone.
For retirees, a move to private health exchanges with cash to cover the shift

BY JERRY GEISEL

One of the biggest benefits trends in recent years has been employers dropping retiree health coverage and moving retirees to private exchanges.

Last year, LafargeHolcim U.S. joined that movement.

For decades, the building materials manufacturer provided the coverage directly to both pre- and Medicare-eligible retirees and their spouses.

But with costs soaring, that could not continue.

“The cost of coverage was becoming unaffordable for both retirees and the organization,” said Philia Swam, manager of health, wellness and group benefits at LafargeHolcim U.S. in Chicago.

One potential approach was to stop offering retiree health coverage, but “we didn’t think that would be fair,” Ms. Swam said. “Our retirees worked for us for very long periods of time — in many cases, their entire careers. We wanted to be able to provide them with something to help offset the cost of coverage.”

Philia Swam, LafargeHolcim U.S.

Preventive medicine seen as better cost control

BY JERRY GEISEL

If there is one change Philia Swam would like federal lawmakers to make in the 2010 health care reform law, it would be repealing the Affordable Care Act’s Cadillac tax.

Under that provision, a 40% excise tax is to be imposed on the portion of group health plan premiums that exceeds $10,200 for single coverage and $27,500 for family coverage starting in 2020.

Backers of the tax argue, among other things, that the threat of the tax will encourage more employers to adopt more cost-efficient plans.

But Ms. Swam, manager of health, wellness and group benefits at LafargeHolcim U.S. in Chicago, disagrees.

“When has a tax changed behavior? We made proactive changes a long time ago without facing tax implications by focusing on changing health behavior,” she said, referring to several company initiatives, such as wellness programs, intended to improve employees’ health and reduce increases in health plan costs.

Ms. Swam also questions another widely held ACA assumption: With more people getting coverage age due to federal premium subsidies, there will be a significant reduction in uncompensated care, a cost that some believe providers have tried to offset by boosting charges for insured patients.

“I’m still not convinced that people are rushing out to find coverage, aside from no subsidy, because the public marketplace is still evolving and is complex to use,” she said.

For employers, the law has significantly increased their administrative burdens, Ms. Swam said.

“New taxes, fees, more reporting to the government has complicated matters,” she said. “In addition, to managing health plan costs and the health of employees and their dependents, we now have to perform so many administrative tasks that we didn’t have to do before.”

Still, she said, the requirement that preventive services be fully covered is a positive aspect of the health care reform law.

“In order to reduce health care costs over the long term, individuals should be taking preventive measures to learn about their health early on and taking action to mitigate future risks from occurring,” Ms. Swam said.

In addition, she supports the ACA ban on denying coverage for pre-existing medical conditions.

Requiring insurers to cover people with pre-existing conditions allows “individuals to get treatment without fear that they won’t have coverage for specific health conditions they may have,” she said of the company that became LafargeHolcim Ltd. last year with the merger of Lafarge S.A. and Holcim Ltd.

Health plan changes that legacy company Lafarge had to make to comply with the law were relatively minor, Ms. Swam said. For example, Lafarge had to remove a $2 million lifetime limit on participants’ claims to comply with the ACA ban on such limits effective in 2014.

Just two Lafarge plan participants hit that maximum dollar coverage limit between 2004 and 2010, which Lafarge eliminated in 2011.

In addition, Lafarge in 2011 amended its health plans to allow employees’ adult children to receive coverage up to age 26. Previously, Lafarge, like many employers, ended coverage when employees’ children turned 19, though it continued coverage up to age 25 for employees’ children who were full-time students.

The financial impact of extending coverage to employees’ older children also was minor, Ms. Swam said.

Colleagues say Ms. Swam’s ability to plan ahead eased the changes to comply with the health care reform law.

“She is proactive. She has a great ability to stay on top of changes that will need to be made and to keep top management abreast of what will need to be done,” said Laureen Strohl, director of compensation and benefits at LafargeHolcim U.S.
Company reinvests savings into critical care, accident policies for employees

When LafargeHolcim U.S. moved to consumer-driven, high-deductible health plans last year for its employees, it spent $2 million of the cost savings on added benefits. The company used a portion of the money to purchase on behalf of every employee and dependent enrolled in its health plans three new health care-related policies: a hospital indemnity policy, a critical illness policy and an accident policy, written by Aetna Inc. and Allstate Benefits, a unit of The Allstate Corp.

The coverage provides a cash benefit to offset a portion of expenses that fall under plan deductibles or coinsurance, said Philia Swam, LafargeHolcim’s U.S. manager of health, wellness and group benefits in Chicago.

“We know we made significant plan design changes. We know we are shifting a significant amount of costs to participants that they never have had before,” she said. “We want to be able to take some of that burden off employees by providing them with these policies that offer cash to cover expenses associated with particular medical situations.”

In addition, cash payments are offered for employees to have certain preventive services, which can save money for the company and employees, Ms. Swam said.

For example, a $400 cash benefit per family to apply to the cost of certain preventive medical, dental and/or vision services.

“It is our way of saying thank you for having a preventive care screening,” Ms. Swam said. There is an additional bonus to offering the policies: reducing the likelihood that the health plan will trigger the Affordable Care Act’s Cadillac tax, Ms. Swam said. The 40% excise tax is to be imposed on the portion of group health plan premiums that exceed $18,000 for single coverage and $27,500 for family coverage, effective in 2020.

But the cost of voluntary plans, which include LafargeHolcim’s hospital indemnity, critical illness and accident plans, are excluded when calculating the excise tax. “These plans are separate from medical and are not used for Cadillac tax calculations,” Ms. Swam said.

By Jerry Geisel

BENEFITS MANAGEMENT HONOR ROLL ADDS 1

Business Insurance named Mike Greenberg, the New York-based vice president of benefits at Hudson’s Bay Co., to the 2016 Benefits Management Honor Roll.

Mr. Greenberg joined the Toronto-based retailer in 2014 and was tasked with harmonizing all U.S. employee benefits, benefits administration and benefit communications for Hudson’s Bay’s Sales Fifth Avenue and Lord & Taylor stores by Jan. 1, 2016.

Officials at Hudson’s Bay, however, declined to allow Mr. Greenberg to comment on specifics of the integration efforts recognized by an independent panel of judges composed of 2015 winners of the Business Insurance honors and benefits industry professionals.

Unaffordable healthcare costs are bankrupting consumers everywhere, and with healthcare being the number one most costly expense during retirement, it’s clear these costs aren’t going away. Fortunately, there’s a simple solution: An HSA. But just having one isn’t enough — the key is knowing how to use it.

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THE PROOF IS IN THE NUMBERS

HELPING YOUR EMPLOYEES ISN’T A JOB YOU HAVE TO DO ALONE.
Coaches on call with playbook on building a healthy lifestyle

P"hilia Swam responds quickly when asked why she spent most of her professional career working for one company — building materials manufacturer Lafarge North America Inc., once a unit of Paris-based Lafarge S.A. and now LafargeHolcim Ltd., following its 2015 merger with Swiss-based Holcim Ltd.

“There is no greater satisfaction than getting an email or phone call or being stopped by someone who says, ‘Thank you for saving my life or my spouse’s life,’” says Ms. Swam, manager of wellness, health and group benefits at LafargeHolcim U.S. in Chicago.

“Being part of the team that creates the programs and opportunities for our people to get healthy and change their lives for the better is what makes me get through some of the most challenging days,” said Ms. Swam, in charge of LafargeHolcim’s U.S. medical, life, disability, wellness and employee assistance plans. Ms. Swam’s first experience with employee benefits came in graduate school. After graduating in 1994 from Rider College in New Jersey and, where she majored in business administration and English, she attended Towson University in Maryland, where she got her master’s degree in human resources and organizational development in 1996.

Then, Ms. Swam began working in HR for a small perfume and cosmetic bottle manufacturer in Baltimore.

“Two years later, she heard of an opening for an HR manager at Lafarge’s construction materials division in the eastern U.S. She was hired and has been there since. In 2002, she was promoted to manager of strategic staffing. In 2004, she was named director of health, wellness and group benefits. Following last year’s merger, her title was changed to manager of health, wellness and group benefits for the U.S. unit through her responsibilities remained the same.

In those 18 years, Ms. Swam, 43, has been involved in several U.S. employee benefits projects, including developing an aggressive wellness incentive program, case management for costly claims, moving retirees to a high-deductible plan and developing an aggressive wellness incentive program, among other initiatives.

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Arthur J. Gallagher offers terrorism insurance model

Arthur J. Gallagher, the international brokerage arm of Arthur J. Gallagher & Co., has launched a risk modeled terrorism solution for U.K.- and U.S.- domiciled clients.

It allows location to be geocoded, visually mapped and values aggregated before analytics determine proximity to potential terrorist targets, Gallagher said in a statement. Disaster scenarios are run to determine probable maximum loss and specific vulnerabilities, allowing Gallagher provide advice on how to choose the best limits and types of coverage, according to the statement.

Underwriters on the program offer limits up to $20 million ($14.6 million) per location for commercial, damage and business interruption, $100 million ($136.5 million) for terrorism liability, and up to $150 million ($188.4 million) for threat, loss of attraction, denial of access, and chemical, biological, radiological and nuclear defense, a spokeswoman for Arthur J. Gallagher said in an email.

“Businesses and individuals are becoming more likely to be exposed to multiple, complex terrorist attacks, such as those seen recently in mainland Europe in both Paris and Brussels. The changing nature of threats presents different challenges to businesses and demands an equally dynamic response from those specializing in risk management and insurance,” London-based Paul Bassett, managing director of crisis management at Arthur J. Gallagher, said in the statement.

Allianz, specialty broker offer drone coverage

German insurer Allianz S.E. and specialty risk broker Transport Risk Management Inc. have teamed to develop an insurance program that provides liability and hull coverage for commercial unmanned aerial systems exposures.

The policy covers all uses and all models and includes worldwide coverage for operators, manufacturers and service providers, as well as online training, online safety support and online flight support, Conifer, Colorado-based Transport Risk said in a statement about the UUnmanned Risk Management program.

Liability coverage is available up to $1 million, and hull physical damage coverage is available up to $10 million, according to the statement.

P/C reinsurers get dedicated platform

Knightsbridge Technology Group L.L.C., a reinsurance software provider, said it has launched a business and accounting solution designed exclusive- ly for property/casualty reinsurance companies.

“The Geosphere Reinsurance System allows the processing of all reinsurance business on one integrated platform. It combines accounting requirements and the functionality needed by reinsurers, including financial and regulatory compliance. The integration within Geosphere also lessens the number of business resources required to run the system.”

Cat modeler AIR beefs up earthquake, storm models

AIR Worldwide has expanded and enhanced its earthquake and typhoon models for Southeast Asia.

The new earthquake model features the ability to account for the tsunami and liquefaction subperils for Indonesia, the Philippines and Taiwan. The updated typhoon model features a new precipitation-induced flooding module built using high-resolution data and also a probabilistic storm surge module for Hong Kong, the Philippines, and Taiwan.

“Southeast Asia has some of the fastest-growing economies. Located partly on the Ring of Fire, it’s seismically one of the most active regions in the world, with earthquakes of magnitude 8.0 or larger occurring every eight to 10 years on average,” Jayanta Guin, executive vice president and chief research officer at AIR Worldwide, said in a statement. “On the atmospheric side, more than 25 tropical cyclones typically form each year in the Northwest Pacific. A wealth of data has become available due to the number of catastrophes in this region, and AIR scientists have been conducting extensive research over the past 10 years to better understand these events.”

The AIR Typhoon Model for Southeast Asia — part of AIR’s Northwest Pacific Basinwide Typhoon Model — provides a probabilistic approach for determining the likelihood of losses from typhoon winds, precipitation-induced flooding, and storm surge. Loss data from the Southeast Asia insurance market was used to validate model results.

Financial wellness product delve beyond retirement

Mercer L.L.C. has launched Mercer Financial Wellness, a digital platform that allows employers to offer employees access to expert providers of financial services.

Mercer Financial Wellness includes tools to help manage financial accounts, retirement counselors, credit score management, and unsecured personal loans, Mercer said in a statement.

“Employees are increasingly interested in their employer providing benefits that help them with their overall financial wellness, moving beyond the focus on retirement to address a wide range of individual financial needs from individual coaching to challenges facing new families to better debt management,” Barry Zyskind said in the statement.

“Hence, our work at Mercer’s U.S. defined contribution and financial wellness leader, said in the statement. “Our goal is to provide an integrated experience that drives behaviors to optimize the financial well-being of individ- uals at every stage of their lives. This kind of holistic approach has the potential to strengthen and distinguish employer value propositions.”

Gallagher acquires benefits broker and consultant

Arthur J. Gallagher & Co. has acquired The Buchholz Planning Corp., a Madison, Wisconsin-based provider of employee benefits consulting and brokerage services for middle-market and large health care businesses and individuals in the U.S., Gallagher said in a statement.

Buchholz President and CEO William Buchholz, his partners and his associates will continue to operate at their current location. They will operate under the name The Buchholz Planning Corp., a division of Gallagher Benefit Services Inc., a Gallagher spokeswoman said in an email.

AmTrust Financial Services Inc. has acquired workers compensation solutions provider Total Program Management LLC.

Founded as a managing general agency in 2005, Ronkonkoma, New York-based Total Program Management was responsible for insurance premium totaling $47.1 million in 2015, New York-based AmTrust said in statement, noting that it has been the insurer for the majority of premiums written.

Further terms of the deal were not disclosed.

“Acquisitions of TPM represents AmTrust’s continuing strategy to vertically integrate product distribution and expand the company’s valuable fee-based businesses," AmTrust Chairman, President and CEO Barry Zyskind said in the statement.

Brocker Risk Strategies acquires professional liability agency

Risk Strategies Co. has acquired Dallas-based McLaughlin Brunson Insurance Agency LLC.

Terms of the deal were not disclosed.

McLaughlin Brunson Insurance Agency is a provider of professional liability, property/casualty and health insurance. The firm serves architects, engineers and accountants in Texas and Oklahoma.

McLaughlin Brunson Insurance Agency will operate under the name McLaughlin Brunson, a Risk Strategies Co. and continue with current staff under the leadership of Joe A. Bryant and John Krantz, Boston-based Risk Strategies said in a statement.

Regional insurance agency expands with purchase

Cross Insurance, a subsidiary of Cross Financial Corp., has acquired Pittsfield, Massachusetts-based Bardwell, Bowly & Karam Insurance Agency Inc.

Terms of the deal were not disclosed.

Bardwell, Bowly & Karam is an independent regional property/casualty retail insurance agency that focuses on financial services and risk management, Bangor, Maine-based Cross Insurance said in a statement.

Bardwell, Bowly & Karam will continue under the same leadership and staff, according to the statement. The agency will join the Agency and Consulting Group Inc. to offer bonding services, the statement said.
Continued from page 1

firms’s international trade group.

“The think that there’s going to be a strong future,” for high-performance networks, said Steve Wojcik, NBGH vice president of public policy.

The tactic, which sources say limits wasteful use of health care services, is not without its controversy.

Narrow networks, made popular by HMOs that became prevalent in the 1980s and 1990s, resulted in consumer rebellion against the limited choices of doctors and hospitals. Some critics say the approach often requires patients to travel farther to get care, and others argue many narrow networks lack enough specialists.

“Consumer choice was extraordinarily high on the consumer preference list” a few decades ago, said Dr. A. Mark Fendrick, director of the Center for Value-based Insurance Design at University of Michigan in Ann Arbor and a professor of internal medicine and health management and policy.

But as health costs have risen and individuals’ share of the costs increased, there’s been a “shift in terms of consumers willing to give up ultimate unlimited choice to be able to save some out-of-pocket expenses,” he said.

For example, out-of-pocket spending for hospitalizations of patients with private health coverage rose 37.3% from 2009 to 2013, when it reached $1,013 on average, according to a study published in June by JAMA Internal Medicine and conducted by researchers with the University of Michigan.

“While saying insurers that typically have more of their European currency and economic exposure and relatively little integration into Latin America, Asia; they can always done business in the U.S., Europe, the clients I deal with have always done business in the U.S. and group benefits at Willis Towers Watson as a firm, or our industry at large, is not expect to see any material change in the short term,” said Mattessich, a partner at Kaufman Dolowich & Voluck L.L.P. in New York.

But few other employers use narrow network plans at the moment, according to the 2015 NBGH study — it’s likely narrow networks also will become more common, said Sandra Morris, former senior manager at Aon overall.”

“there’s not that much impact on Aon’s most recent earnings call, said Mr. Mattessich. “Do they suddenly get shut out of Germany” if the U.K. leaves the E.U.? That shouldn’t happen “unless there’s another real vicious trade war, if not a hot war.”

Aon declined further comment.

“The process for exiting the E.U. will take many years, and we do not expect to see any material changes immediately, or expect the way in which we do business, and don’t expect to see any major changes in the way we do business, to the barriers that we have to solve, as we are now dealing with the use side of the cost equation,” Mr. Parson said. “Where do we avoid unnecessary reassignments? How do we manage our message to employees and our contracts with providers in a way that puts programs in place that push away unnecessary use of services and drive better outcomes?”

And as HDHPs have become more widespread — 85% of large employers said they would offer an HDHP in 2016, according to the 2015 NBGH study — it’s likely narrow networks also will become more common, said Sandra Morris, former senior manager at Aon overall.”

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Aon declined further comment.
The E.U., however, has been working to persuade the U.S. to reduce collateral obligations on E.U. insurers, so philosophically the bloc may have a problem with asking U.K. insurers to post large collateral sums, he said.

In an open letter published in the Financial Times, Lloyd’s of London CEO Inga Beale said how the British exit, known as Brexit, will affect access to the single market is “the most important question for chief executives throughout the sector.”

“Lloyd’s will press ahead by implementing our contingency plan, which is designed to ensure we can continue to trade in our key European markets,” she said.

Still, Ms. Beale stressed that swift progress on single-market negotiations is vital.

Lloyd’s Underwriting Association CEO David Matcham said passporting rights are “vitally important” to the group’s London-market members.

“Preserving this advantage must be a top priority in the exit negotiations,” he said.

Currently, insurers domiciled in an E.U. member state can use the so-called passporting rights to sell their goods throughout the E.U. without being regulated by each country.

Non-E.U.-domiciled insurers and brokers with bases in London likely will review whether to redomicile to an E.U. member state to have certainty that their ability to passport will be preserved, Mr. Netherway said.

Many large, multiline insurers currently have only one headquarter in an E.U. member state and use passporting to write business throughout the trading bloc, said Iver Edwards, European head of corporate insurance at Clyde & Co. L.L.P. in London. Many insurers that have their base in the U.K. are considering setting up in other European countries to continue to access European markets, he said.

It is “clearly a long runway” before the future nature of the U.K.’s relationship with the E.U. and its effect on insurers, will be known, said Thomas Dawson, a partner at Drinker Biddle & Reath L.L.P. in New York.

It is “too soon to say what the positive or adverse effects will be” on insurers, he said.

Many insurers that use the London insurance market as “a jumping-off point” into the E.U. also have platforms elsewhere in Europe or in Bermuda, which already has regulatory equivalence with Solvency II, Mr. Dawson said.

The effects of the Brexit vote spread to Australia, where Sydney-based QBE Insurance Group Ltd. said in a statement that the U.K.’s decision to leave the E.U. “may require a revised approach in relation to approximately £500 million ($683.8 million) of insurance and reinsurance premium” that QBE gets through U.K.-regulated entities under the current E.U. passporting rules.

“Should E.U. passporting rules not be preserved, QBE will be required to renew this business into newly established licensed E.U. entities,” QBE said.

Still, QBE said the minimum two-year withdrawal from the E.U. would give it enough time to ensure its commitments to European customers are uninterrupted.

Mr. Dawson said there even could be some benefits to the U.K.’s withdrawal from the E.U., including building a market for insurance-linked securities without having to wait for E.U. approvals.

The U.K.’s vote to leave the E.U. may “not be all doom and gloom” for the insurance industry, he said.

Lloyd’s will press ahead by implementing our contingency plan, which is designed to ensure we can continue to trade in our key European markets.”

Inga Beale
Lloyd’s of London
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studies were "a great big claim all," Mr. Mullen said. "From a risk perspective we see steady growth for captives that are writing cyber." However, there were "two big claim scenarios," Mr. Mullen said. "We are not planning on becoming a jurisdiction where you can go and dump your company. We don't want to do anything behind the scenes. We want to have conversations with any domestic regulator that has concerns."

Elizabeth Kelleher Dwyer
Rhode Island Insurance Division

BERMUDA
Continued from page 3

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E&O RATES CHANGE VARY BY PROFESSIONAL SECTOR

While errors and omissions rates are still high in many midyear renewals, experts say it’s difficult to make over-all statements due to the disparate sectors covered by E&O policies.

“If I had to give a generalization, it’s still a pretty stable market,” said Dan Knise, president and CEO of McLean, Virginia-based specialty insurance firms Knise & Company. “There’s plenty of capacity, which tends to hold rates down, he said. “Incumbents are seeing flat to 2% rate increases, but new insurers are willing to come in at 2% and even as much as 5% below expiring” pricing, Mr. Knise said.

“It’s still a good time to be a buyer,” Mr. Knise added. “Prices are still relatively stable and quite low when you look at where the rates were eight or 10 years ago.”

By Judy Greenewald

In some cases, however, excess markets are walking away from certain risks that other markets are happily accepting, said Rob Yellen, New York-based executive vice president of Willis Towers Watson P.L.C.’s FINEX North America.

“Terms and conditions remain broad, and coverage enhancements can continue to be negotiated on most policies,” except for classes or companies that have claims issues, said Mr. Yellen.

In some cases, observers say, excess insurers are dropping down and providing additional coverage in the same limits within primary policies.

“They’re trying to differentiate themselves,” Mr. Spore said of excess insurers. “There’s very little turnover in the primary. There’s much more turnover in excess, which is more commoditized.”

One area of continuing relative hardness is for life sciences companies. This includes pharmaceutical firms going into Phase III clinical trials, during which a drug or treatment is given to large groups of people to prove its effectiveness, said Carolyn Polikoff, San Francisco-based corporate and executive protection practice leader at Woodard & Currie.

“If that’s the only drug or treatment at that company, they can go out of business” if the trial is unsuccessful, while it could hurt the financials of firms that have other products as well, said Ms. Polikoff.

Big banks may also have some difficulty getting reduced D&O rates, although “that’s probably not as bad as it was a couple of years ago,” Ms. Polikoff said. Some experts also cite energy companies as potentially challenging risks because of low prices affecting their financials.

However, Marc London, New York-based head of the finance and risk management group at Beazley P.L.C.’s U.S. management liability team, said underwriters are looking “relatively favorably” even at companies “that are present as being difficult risks.”

How long will the ongoing soft D&O prices last?

“I’ve got to believe we’re close to the bottom,” Mr. Wanat said.
FORCES BATTLE IN STAR WARS TRADE SECRETS SUIT

A blockbuster legal dispute is brewing between a group of former employees and the company that created Star Wars’ famed R2-D2.

Two former employees of the model-making company that gave the universe Star Wars’ iconic droid R2-D2 allegedly went over to the dark side by poaching a key client, swiping proprietary information, and then leaving to form a rival outfit, according to a $3 million complaint filed in Los Angeles County Superior Court.

McCune Masterworks is suing the company’s former shop supervisor, production designer and vendor for misappropriation of trade secrets and unfair competition, and other claims, charging that Morty Shook, Jack Edjourian and John Ferrari conspired to destroy McCune’s business by creating a competing company to steal a longtime client.

Messrs. Shook and Edjourian worked with the late Grant McCune for more than 20 years on such projects as Spiderman, Rambo and Iron Man 2. Mr. Edjourian did a stealth job for SBEZ in 2012, the complaint said, and set up a plan to leave McCune and take the client with them.

Before shifting into hyperdrive, the defendants gathered “valuable proprietary information” including confidential client project details and vendor lists. The complaint alleged that Shook and Edjourian copied pertinent information and then “tried to cover their tracks” by wiping a hard drive clean.

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