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BEST'S REVIEW

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April 2011

Special RIMS Features
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BEST'S REVIEW

Monthly Insurance News Magazine

Insurers • Agents & Brokers • Reinsurers

Who's Behind The Wheel?

A regulatory shift will give underwriters a new perspective on commercial hauling.

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Exclusive Producer Compensation Study: How Do You Match Up?

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New Food Safety Regulations Serve Up Added Risks

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From the

Editor's Desk

NEW RULES OF THE ROAD

The cover story of our RIMS issue, "Who's Behind the Wheel?" focuses on the federal Department of Transportation's new program—the Comprehensive Safety Analysis 2010— and its impact on commercial auto insurers.

The regulation will allow insurers and their underwriting teams to conduct a deeper evaluation into how fleet operators are managing risk. In addition, truck drivers' safety and performances will be more closely monitored.

As the largest insurer of commercial auto, Travelers Insurance has been busy responding to the new regulations and creating products to cover the new risks.

In an e-mail interview, Sam Rizzitelli, national transportation director for Travelers Inland Marine, talked about using the program's richer data, and how the insurer is supporting its trucking clients regarding the regulations.

"The new program from FMSCA provides better data, particularly a more-refined focus on the behaviors that are behind safety issues. This helps insurers better understand their exposures to risk," he said.

Drivers will feel more pressure under the CSA system, the cover story reports. Past safety or performance issues that had been folded into a truck fleet's compliance record will now follow the individual driver. Travelers has responded by introducing a new coverage form for the onboard equipment used to capture data that may help improve safety performance in accordance with CSA 2010. The cover story also reports on how underwriters and risk managers will use the CSA data to write policies and meet compliance rules. Rizzitelli said Travelers is consulting with its trucking, cargo and logistics customers to offer tips and feedback related to hiring practices and driver training.

Another story you won't want to miss is our compensation survey of some 2,400 agents and brokers. Turn to page 48 to see what your colleagues are saying about commission levels.

Lynna Goch

> "The new program provides a more refined focus on the behaviors that are behind safety issues."

Watch the editor's prologue at *www.bestreview.com/videos/AprilPrologue.html*

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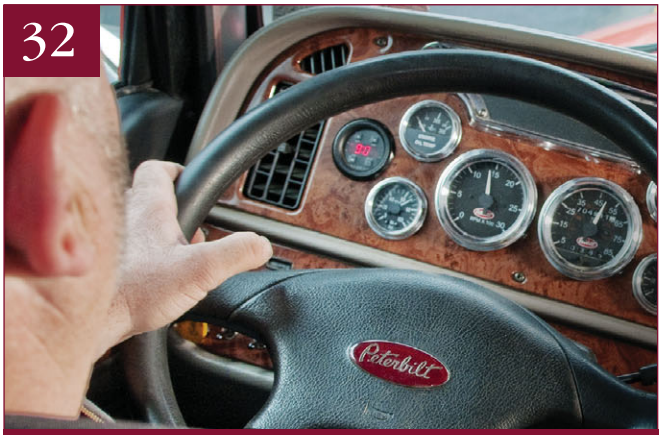

COVER STORY

Cover photo by Kim Bjorheim.

REINSURANCE/CAPITAL MARKETS

PROPERTY/CASUALTY

HEALTH/EMPLOYEE BENEFITS

LIFE

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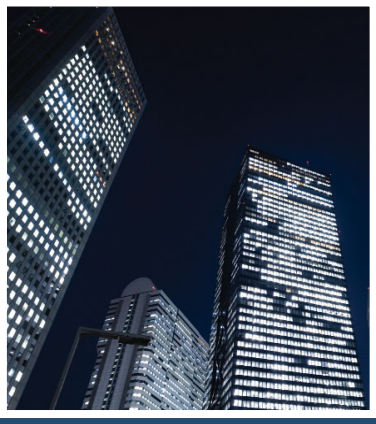

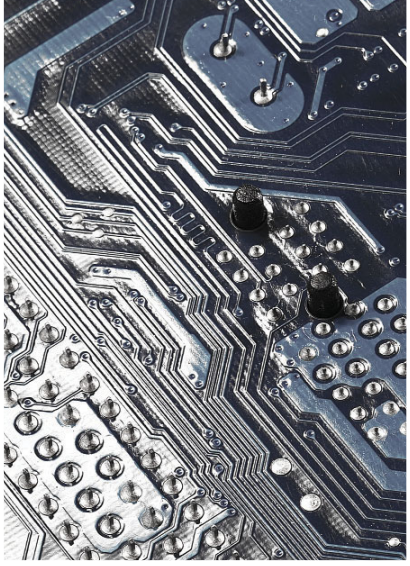

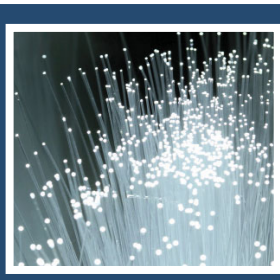

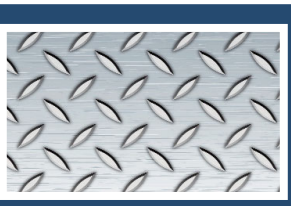

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We look forward to forging solutions together in the *next* 25 years.

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Tuesday, May 3, 2011, 2 p.m. EDT

Panelists:

- Karen O'Reilly, Lexington Insurance
- Vincent Pugliese, Lexington Insurance

A panel of experts including a Programs insurance executive, insurance producers, and a chief innovation officer discuss how to cultivate and drive innovation. Discussion topics: separating good ideas from great ideas, how to use data and demographics to figure out where the puck is heading, identifying niches and determining which are profitable and which are merely interesting, and how new solutions can be quickly developed and deployed.

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The E-Frontier for Property/Casualty Insurers: Leveraging Electronic Claims Payments

Sponsored by WRIGHT EXPRESS

Thursday, May 5, 2011, 2 p.m. EDT

Property/casualty insurers looking for greater control and quicker turnaround in claims payments are increasingly embracing electronic-payment methods. A panel of experts will review the state of past and current electronic payment implementations, and emerging electronic payment solutions for settling claims payments. You will learn where benefits are being realized, key learning from pilot programs, and strengths and weaknesses of various payment methods, including ongoing reliance on business checks. You may also find that you can quickly fit it into your active project list as several solutions are using proven technology which can be easily integrated into your current claims systems.

Registration is free online *at www.bestreview.com/webinars/claims11.html.*

Note: Webinar dates subject to change. Please visit *http://www.ambest.com/conferences/webinars.html* for the most current schedule.

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Our Insight, Your Advantage.

Excerpt: U.S. Asbestos & Environmental Liabilities

Market Review

February 21, 2011

Sector

Property/Casualty

U.S. Asbestos & Environmental – Top 5 Groups

Ranked by average annual incurred A&E losses from 2005-2009.
($ Millions)

Rank	Groups	Total 5-Year Average Annual Incurred Loss
1	Travelers Group	$357,181
2	American International Group	255,968
3	Swiss Reinsurance Group	252,545
4	Nationwide Group	213,660
5	Liberty Mutual Insurance Cos	199,903

Souce: A.M. Best Co.

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2009 Special Report:
U.S. Asbestos & Environmental Liabilities – 2008 Market Review

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Asbestos and Environmental Losses Jump 50%, But Still Manageable

The U.S. property/casualty industry saw another sharp swing in its asbestos and environmental (A&E) incurred losses, which increased 50% in 2009 after dropping 47% in 2008. A.M. Best is maintaining its revised view of ultimate industry A&E losses, which were adjusted downward by $4 billion on Dec. 7, 2009 to a combined total of $117 billion. This analysis is based on A.M. Best's review of Footnote 32 data for year-end 2009 from statutory annual statements.

• Aggregate industry funding for A&E liabilities increased by more than $4 billion over the past two years.

• Noteworthy court rulings have increased insurance coverage for asbestos claimants, including a New Jersey appeals court decision in 2010 that upheld a $30.3 million verdict in an asbestos-related suit involving a mesothelioma case.

• Environmental incurred losses also have fluctuated, but the industry's ultimate liability is unlikely to increase in the medium term.

• Paid A&E losses have remained consistently high over the past five years, averaging $2.7 billion a year for asbestos and just exceeding $1.0 billion a year for environmental.

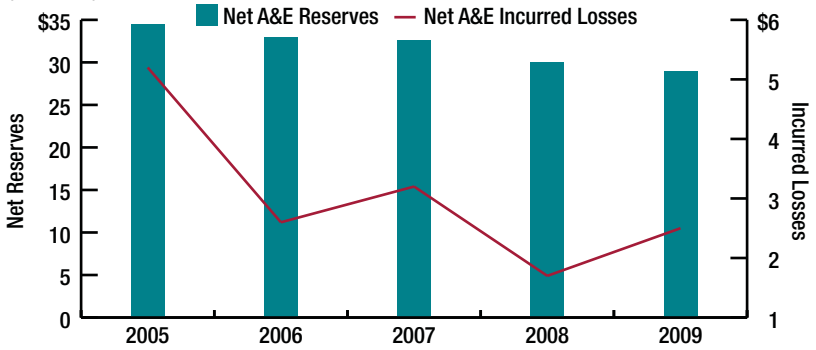
• More than 75% of the industry's total 2009 A&E incurred losses were concentrated among 10 insurer groups.

• The industry's accelerated provisions from 2001 through 2005 resulted in sharply improved funding levels; roughly 90% of ultimate asbestos loss estimates were funded through year-end 2009, while 83% of environmental exposures have been funded.

• The total industry A&E survival ratios were essentially unchanged in 2009 compared with 2008.

U.S. Asbestos & Environmental – Net Reserves & Incurred Losses (2005-2009)

($ Billions)



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Rating Implications Issue Review

March 7, 2011

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Life & Non-Life

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Weighing Solvency II's Impact on A.M. Best Ratings

The fast approaching implementation of Solvency II – now scheduled for Jan. 1, 2013 – is shifting the focus from its quantitative impact to the specifics of the implementation. The European Commission (EC) has issued a series of documents providing for the implementation of Solvency II, while the European Insurance and Occupational Pensions Authority (EIOPA) evaluates the regulatory equivalence of selected national supervisory regimes. The impact of these developments on the state of the (re)insurance industry is likely to extend far beyond the mere quantum of additional required capital.

• A.M. Best's analysis of insurers will continue to be based on the assessment of both the group's overall and stand-alone risk-adjusted capitalisation, based on A.M. Best's proprietary capital model (BCAR). In the analysis, capital available for transfer to operations that may need it can be reduced because of increased regulatory capital requirements in one regime. In this respect, the role of EIOPA in the supervision of insurance groups, combined with the evaluation of non-EU regimes as equivalent, could impact insurers' ratings.

• EIOPA's role in the supervision of cross-border insurance institutions, together with increased recognition of the position of group supervisor, has implications for the regulation of insurance groups operating within the EU and is expected to result in greater fungibility of capital under Solvency II. This will not have a direct impact on A.M. Best ratings but will strengthen confidence in the application of the new regulatory regime across member states.

• Potential lack of regulatory equivalence will have the opposite effect as it will ultimately result in reduced fungibility of capital between units of international groups. It is likely to result in increased capital requirements of groups operating in both the EU and third-country regimes. It is unlikely that the reduced capital fungibility will result in negative rating actions, given the current capitalisation levels of these groups.

• However, the side effect of the lack of equivalence will be the revision of existing business models. The lack of fungibility of capital and the revision of business strategy could have negative rating implications on the overall group, depending on the importance of the subsidiary transacting the business.

• The reasonable application of transitional periods will reduce market disruption due to the implementation of Solvency II, and as such will reduce any negative implications for A.M. Best ratings. A.M. Best's view on risk-adjusted capitalisation will not change because of the implementation or not of the transitional periods, but they are expected to facilitate a smoother transition into the new regime.

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Our Insight, Your Advantage.
Excerpt: U.S. Property/Casualty

2010 Rating Trend Review

March 7, 2011

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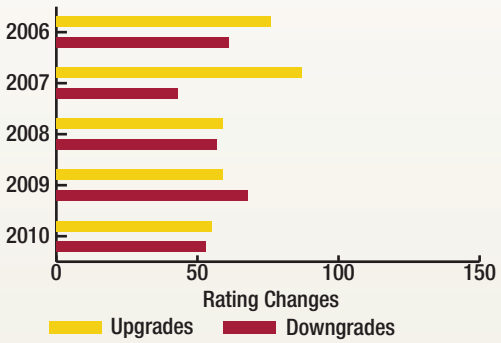
Property/Casualty

U.S. Property/Casualty – Rating Upgrades and Downgrades (2006-2010)



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A.M. Best Upgrades of Rating Units Edged Out Downgrades in 2010

Financial results for the overall U.S. property/casualty industry improved again in 2010, and slightly more rating units were upgraded in 2010 than were downgraded, in contrast to 2009. However, volatility in property lines remains a challenge for geographically concentrated personal lines carriers, contributing to negative rating actions due to frequent wind, hail and tornado activity. For commercial lines carriers, upgrades outpaced downgrades in 2010, partly due to strategic affiliations and carriers being acquired by higher-rated entities.

• Upgrades of property/casualty insurers totaled 55 in 2010, down from 59 in 2009. Downgrades totaled 53, compared with 68 in 2009.

• There were 40 upgrades and 24 downgrades in the commercial lines segment. Approximately 50% of the upgrades were in the commercial casualty and workers' compensation lines of business.

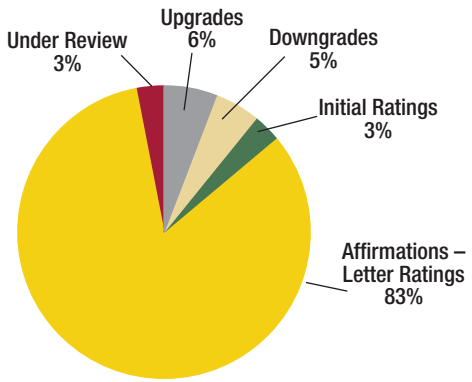
• Upgraded commercial casualty insurers generally reflected improved risk-adjusted capitalization based on solid operating performance and regional market strength, or a prominent position within their core niche of business.

• In the personal lines segment, 14 rating actions were upgrades, while 28 were downgrades.

• There were 11 downgrades in the personal property and nine downgrades in the private passenger auto/homeowners lines of business. The downgrades were primarily due to the impact of weather-related losses and adverse loss-reserve development on geographically concentrated carriers, particularly in Kentucky, Missouri and Oklahoma.

• There was one rating upgrade of a U.S. reinsurer in 2010, while one U.S. reinsurer was downgraded.

U.S. Property/Casualty – Annual Rating Activity (2010)



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March 7, 2011

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Life/Annuity
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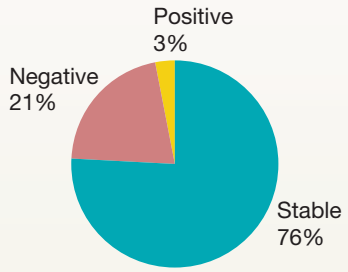
U.S. Life/Annuity & Health – Rating Outlooks* (2010)



*As of Dec. 31, 2010.
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Gradual Improvements Have Rating Trends Leaning Toward Equilibrium

After an alarming two-year period ended in 2009 – where the life/health industry experienced almost five times as many downgrades as upgrades – 2010 saw more balance in overall rating changes with 28 upgrades and 28 downgrades. This reflects A.M. Best's view that life/health companies – coming off the lows seen during the financial crisis – are continuing to strengthen their balance sheets and liquidity profiles. As a result, given the industry's overall improvement in its financial condition, the life/annuity segment's rating outlook was revised to stable in July 2010. However, while profitability and capitalization have improved, other factors are influencing A.M. Best's decision to maintain its negative rating outlook on the health segment.

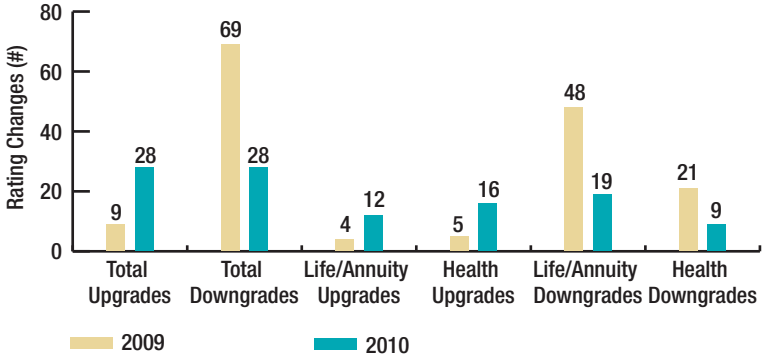
• A.M. Best observed in 2010, several significant trends including: a slow but steady improvement in overall economic conditions, enhanced capital positions at life/health operating and holding companies, lower unrealized and realized investment losses, and refined risk management practices.

• Notably, industry players were: focusing more on liquidity; increasing scenario/stress testing; performing product segment and corporate structure reviews; redefining risk appetites; and emphasizing statutory capital levels.

• The financial crisis and associated deterioration in economic fundamentals were the primary factors leading to the continued negative rating actions taken in the life/annuity segment in 2009. As conditions improved, investment portfolios stabilized, equity markets hit "post-crisis" highs and negative rating actions subsided.

• A.M. Best expects health insurers' margins to decline in 2011, due to: costs associated with systems and procedural changes related to the implementation of the Patient Protection and Affordable Care Act; medical loss-ratio and rate-reasonableness requirements; and more normalized utilization trends as the economy improves.

U.S. Life/Annuity and Health - Rating Changes* (2009-2010)



* Multi-company groups are treated as one unit.
Source: A.M. Best Co.

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Excerpt: India Non-Life & Life

Market Review
March 14, 2011

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Non-Life & Life

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India Market's Rapid Growth Poses Profitability Issues

The words "vibrant" and "colourful" are often used to describe India – adjectives that are also fitting of India's insurance market. In the past decade, private insurers have been allowed to enter a rapidly developing sector, and there are few signs of a slowdown in the pace of growth.

As the size of the insurance market has expanded sharply, the regulatory, underwriting and broking communities have needed to adapt quickly. While the full potential for growth in non-life and life insurance is far from being reached, the challenges to operating in a desirable though competitive market are mounting. A.M. Best notes:

• The global financial downturn has impacted India's insurance market to a far lesser degree than insurance markets in many other countries. India's economic prospects continue to offer great opportunities for non-life and life insurers.

• Despite low insurance penetration, the Indian insurance market is challenging. The influx of new entrants over the past few years has resulted in intense competition.

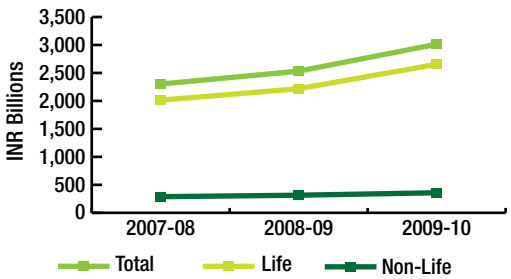
• Insurers appear to be taking steps to improve profitability, although A.M. Best believes underwriting results for non-life insurers are unlikely to turn positive in the foreseeable future. Non-life insurers have become dependent on investment return to compensate for poor underwriting results.

• New rules from the Insurance Regulatory and Development Authority (IRDA) on initial public offerings and mergers and acquisitions will be paramount in shaping the future of the industry. An increase in the foreign direct investment limit would transform the market further.

• After 10 years of market liberalisation, public sector insurers remain dominant. An increase in the stake of foreign players could help insurers raise additional capital, increase resources and bring in new management skills and knowledge.

• Given insurers' ability to adapt to the current challenging conditions, the Indian insurance market should be well positioned to grow further.

India Life & Non-Life – Premium Volume (2007-2010)



Source: Insurance Regulatory and Development Authority, annual reports 2005-06 to 2009-10.

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BEST'S SPECIAL REPORT
Our Insight, Your Advantage.
Excerpt: Panama Life & Non-Life

Market Review

March 14, 2011

Sector
Life & Non-Life

Related Reports

2010 Special Report:
Global Reinsurance – Market Review

Criteria – Insurance:
Assessing Country Risk

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Development, Regulatory Reform Boost Outlook for Panama Insurers

Panama's insurance market, the largest in Central America, is expected to continue to produce significant premium growth in the next few years. Expansion of the Panama Canal, increasing construction activity and tourism development all are positive factors. The market also may benefit from the country's efforts to increase transparency in its financial and tax laws, as well as from the potential reform of its insurance regulations in 2011.

• Panama's insurance market grew by about 9.5% in 2009 to PAB847.2 million and by 8.5% in 2010 to PAB918.9 million, according to figures from the Superintendency of Insurance and Reinsurance of Panama.

• Non-life premiums, including personal accident and health, registered annual growth of 12.9% to about PAB686.4 million.

• Premiums in the life market contracted by 2.7% to PAB232.5 million – representing the market's first contraction since 2005. However, declining premium volume in individual life was partially offset by modest growth in the group life market.

• Insurers in Panama rated by A.M. Best generally have demonstrated solid capitalization and favorable operating performance, while also benefiting from their established market share and local market expertise.

• Partially offsetting these factors is the geographic concentration within which these rated companies operate, subjecting them to regulatory and economic risk, as well as competitive market environments.

• In addition, A.M. Best assigns Panama a Country Risk Tier of CRT-4, indicating concerns with transparency in political, legal and business environments; early stage development of capital markets; and early development of regulatory structures.

Panama Life & Non-Life – Direct Writers

Ranked by 2010 premium income.
(PAB Thousands)

Ranking	Company Name	Premiums
1	Compania Internacional de Seguros S.A.	PAB 172,116
2	ASSA Compania de Seguros S.A.	158,810
3	Aseguradora Mundial S.A.	118,532
4	Assicurazioni Generali S.p.A. (Panama Branch)	74,070
5	Aseguradora Ancón S.A.	63,547
6	American Life Insurance Co. (Panama Branch)	58,479
7	HSBC Seguros (Panama) S.A.	55,648
8	Seguros Suramericana S.A.	40,079
9	National Union Fire Insurance Co. (Panama Branch)	29,292
10	Pan American Life Insurance de Panama S.A.	27,449

* For Best's Rating criteria and definitions, visit *www.ambest.com*.
Sources: Superintendencia de Seguros y Reaseguros de Panamá.

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Briefing

Insurance Jobs

February saw positive employment results for the U.S. economy, but the insurance industry lost 3,600 jobs, according to the latest employment report released March 4 by the U.S. Bureau of Labor Statistics. On a year-to-year basis, industry employment, now standing at 2.22 million jobs, is down 1.7% since February 2010. In February, the bureau reported a loss of 1,300 jobs in January. However, revised data more than doubled that loss to 2,700 jobs.

Jobs by Sector

The U.S. Bureau of Labor Statistics also provided detailed data by industry segment on an unadjusted basis for January 2011.

Sector	# Employees	% Change From a Year Ago
Agents and Brokers	636,500	↓ 0.5%
Property/Casualty Insurers	459,100	↓ 2%
Health Insurers	421,200	↓ 4.1%
Life Insurers	373,500	↑ < 1%
Third-Party Administrators	127,500	↓ 2.5%
Title Insurers	66,200	↓ 5.6%
Claims Adjusters	47,200	↓ 3.9%
Reinsurers	26,800	↑ 1.1%

Average Earnings

Average weekly earnings for the industry's nonsupervisory positions increased in all industry categories from January 2010 to January 2011.

Sector Employees	Average Weekly Earnings	% Change From a Year Ago
Property/Casualty	$1,074.68	↑ 6.9%
Health Insurers	1,063.50	↑ 8%
Life Insurers	1,053.16	↑ 4.6%
Reinsurers	1,025.35	↑ 10.9%
Claims Adjusters	977.63	↑ 8.7%
Title Insurers	894.86	↑ 0.5%
Agents and Brokers	827.59	↑ 7.3%
Third-Party Administrators	802.96	↑ 5.6%

Source: U.S. Bureau of Labor Statistics

Career Wise

By Steven Landberg

Question: Why should I utilize an executive search firm to conduct a search when there are so many executives seeking positions with my organization?

This is an ongoing debate, especially as many firms have established internal recruiting staffs in these challenging job market conditions. The decision generally is made on the basis of saving a third-party search fee, and on whether the internal recruiting staff can fill the role in a timely manner.

While there is usually a cost savings when only using an internal recruiting staff, that saving is not generally as large as one might estimate. The full cost of the internal recruiting staff needs to include the additional interviewing time required of executives, and the longer time frames required to fill an executive position. Internal recruitment staffs usually have large numbers of positions to fill and are not usually as skilled at pursuing highly sought-after executives who are employed at competitors. Internal recruitment staffs are generally more effective in managing candidates who respond to job postings or are referred to them by internal sources. However, that results in only part of the potential executive candidate pool being explored. Employed executives must be approached via skilled, trusted, and knowledgeable recruiters who can reach them with a strong value proposition for them to move forward in exploring a new role.

Executive search firms are best suited for the most critical or tough roles for an internal recruitment staff to fill. The key to success is establishing strategic search relationships with select executive search firms that have a strong understanding of the industry, business, and the role to obtain timely and top service levels when those needs arise.

Steven Landberg is the managing director of Claymore Partners, an executive search and consulting firm specializing in the insurance and financial services arena. He can be contacted at slandberg@ClaymorePartners.com.

As a financial professional you know what's best for your clients, but what about when it's for yourself? MassMutual's General Agencies attract financial professionals just like you, who choose to affiliate with our company for its legacy of stability and collaborative culture. Over the past four years this has helped increase our career agency system by 23%.[1] We take pride in helping our talent advance, ensuring them access to the support and resources critical to elevating their practice to the next level. And because we encourage an entrepreneurial environment, you'll have the flexibility to help your clients meet their financial needs while working in the way that fits you best. All this comes from a company with financial strength ratings that are among the highest of any company in any industry,[2] so you know our stability can lay the same foundation for your career. A good decision starts with you. **Learn more at MassMutual.com/Discover**

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Agent/Broker

❖ Insurance brokerage and risk management consulting firm **BEECHER CARLSON** said it promoted **DAN DONOVAN** to chief executive officer. Donovan succeeds Tom Golub, who is stepping down as CEO but will remain as chairman.

Dan Donovan

Donovan joined the company in 2005, and has been a senior vice president. He has 30 years' experience in the industry. Before joining Beecher Carlson, Donovan served in a senior leadership role at HRH, which has since been acquired by Willis.

❖ **WILLIS GROUP HOLDINGS** said it has promoted four executives to lead its reinsurance, wholesale and placement divisions.

PETER HEARN was promoted to chairman of Willis Re, the company's reinsurance unit. **STEVE HEARN,** who was responsible for **FABER & DUMAS**, global markets international and Willis Facultative, was promoted to chief executive officer of Willis Re. Peter and Steve Hearn share the same last name, but are not related.

DOMINIC SAMENGO-TURNER will succeed Steve Hearn as CEO of Willis' London market wholesale businesses. Samengo-Turner was CEO of global placement, an entity formed in 2009 to oversee the group's relationships with insurance carriers and its placement capabilities globally.

ALASTAIR SWIFT, who joined the group when it acquired HRH in 2008, will succeed Samengo-Turner as CEO of Willis global placement.

The management changes are the next phase in the development of Willis Global, a new business unit launched last year.

Health/Employee Benefits

❖ **UNITEDHEALTH GROUP INC.** announced **DAVID S. WICHMANN**, president of the company's group operations, is now chief financial officer of UnitedHealth. He will keep his responsibilities for leading companywide information technology and overseeing UnitedHealth's multi-year initiative to reduce operating costs.

G. MIKE MIKAN, who served as CFO for more than four years, will now oversee UnitedHealth's health services platform, including OptumHealth.

GAIL K. BOUDREAUX, president of the employer and individual business for UnitedHealthcare, has assumed responsibility for all of UnitedHealthcare's health benefits businesses.

JEFF ALTER, who headed UnitedHealthcare's commercial benefits business for the Northeast United States, was named CEO of the company's employer and individual business.

Life

❖ **UNI.ASIA LIFE**, a joint venture between Malaysia's integrated group **DRB-HICOM BERHAD** and **UNITED OVERSEAS BANK GROUP**, has appointed **VINCENT KWO SHIH KANG** as its new chief executive officer.

Kang has more than 20 years' experience in the insurance industry and has held executive positions with various multinational insurers in Southeast Asia countries. He has also served as a member of the management committee of the Life Insurance Association of Malaysia and a member of the Malaysian Financial Planning Council.

Plymouth Rock Agency Marketing Chief: Agents Need Carriers' Help

Gary Sjolin spends a lot of time on the 138 miles of the Massachusetts Turnpike and is very familiar with the road's pilgrim's hat logo. "The Mass Pike, that's the run," he said.

Gary Sjolin

Sjolin joined automobile writer Plymouth Rock Assurance Corp. as its chief of agency marketing in February. He previously served as national director of sales and marketing at RSC Solutions/Lexington Insurance.

Two to three days a week, Sjolin meets with the company's 400 appointed independent agents. He doesn't travel alone. A member of his five-member sales staff accompanies him as they knock on agents' doors that he likens to the game show *Let's Make a Deal*. "We have to decorate our door more attractively because we're selling similar products," he said. To accomplish that, Sjolin said Plymouth Rock provides a broad-based underwriting appetite and supportive technology to agents and customers.

"We provide various e-services that increase the value proposition of an independent agent from the customer perspective, such as access to payments online and through mobile devices," he said. Sometimes Sjolin visits four to five agencies a day. That's critical because Sjolin characterizes Massachusetts as "a pretty flat marketplace. ...So agents are looking to provide more value and continuously demonstrate value with customers in order to compete."

Insurers must support their agents, he said. "If a carrier is not helping agents in this digital age, I think the relationship will be strained."

–Lynna Goch

Listen to an interview with Gary Sjolin at *www.bestreview.com/audio*. Digital readers: Hold cursor over icon for content.

Property/Casualty

❖ **AMERICAN FAMILY MUTUAL INSURANCE CO.** will have a new chairman and chief executive officer on Nov. 1.


Jack Salzwedel

JACK SALZWEDEL will succeed Dave Anderson as chairman and CEO of the property/casualty insurer. Salzwedel has served as chief operating officer since 2006, becoming president in January 2007 when Anderson assumed his current post.

Anderson is retiring after a 36-year career with American Family.


Gerald Stephens

❖ **RLI CORP.** said its founder and chairman of the board, **GERALD D. STEPHENS,** will retire from the specialty property/casualty insurers' board of directors on May 5, following the company's annual shareholders' meeting.

President and Chief Executive Officer **JONATHAN E. MICHAEL** will assume the role of chairman of the board, along with his other responsibilities, following Stephens' retirement.


Jonathan E. Michael

Stephens served as president for 39 years and 11 years as chairman of the board. Stephens founded the Peoria, Ill.-based company in 1961.

Over the past five decades, Stephens has held leadership roles in organizations such as the Property Casualty Insurers Association of America and the American Institute of Chartered Property Casualty Underwriters.

❖ **ACE USA** said it has appointed **CHRIS MALENO** as chief operating officer. In this new role, Maleno will assist the Ace USA president in overseeing all day-to-day operations for the company's commercial property/casualty insurance products and services.


Chris Maleno

Maleno joined Ace in 2007, and most recently served as president of **ACE CASUALTY RISK**.


Ross Bertossi

In addition, **ROSS BERTOSSI** has been appointed president of Ace USA Casualty Lines. Bertossi will have overall responsibility for the company's casualty businesses, with the exception of its large account primary casualty division, Ace Risk Management. In addition to his current duties as president of medical risk, Bertossi will oversee Ace Casualty Risk, including the excess casualty, environmental, construction, custom casualty and public entity business units, as well as Ace USA's foreign casualty operations.

❖ **ACE GROUP**, the global insurance and reinsurance unit of Ace Ltd., appointed **JEFFERY HAGER** as regional president of Ace Far East in charge of its property/casualty and accident and health insurance businesses in Japan.

Based in Tokyo, Hager will report to **JOHN KEOGH,** vice chairman of Ace Ltd. and chairman of overseas general insurance. He succeeds **NEIL SMITH**, who now heads Ace's property/casualty and accident and health insurance operations in Thailand.

With 20 years of insurance experience, Hager has a background in country management in Asia, agency forces management in Japan and marketing and claims experience.

Before joining Ace, Hager was national sales leader at **FIREMAN'S FUND INSURANCE CO.**, based in Dallas. Prior to that, he was executive vice president of AIU's property/casualty and accident and health insurance company in Japan.

❖ London-listed general insurer **RSA GROUP** appointed **STUART PURDY** as chief executive for the Asia and Middle East region, managing the company's eight operations across the region.


Stuart Purdy

Purdy has more than 25 years experience in the insurance industry. He will join RSA from another U.K.-based insurer, Aviva plc, in May, to succeed **JON HANCOCK**, who had been interim Asia and Middle East CEO for RSA since March 2010.

Currently, Purdy is director of products and investment for Aviva Europe and Middle East, and is responsible for the company's pan-European investment, reinsurance and insurance carriers. BR

How to Market To Families With Special Needs Kids

1. Watch your language.
As opposed to "disabled child or person," always frame your positioning to "child or person with a disability."

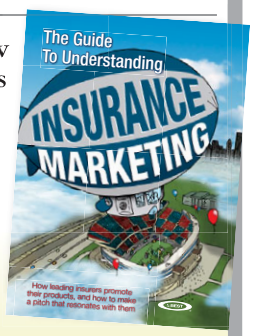
2. Be respectful.
Take into consideration families' network of caregivers and specialists, and how your offering enhances or blends with what's already in place.

3. Know the rules.
For example, Uncle Sam doesn't allow more than $2,000 in their names—otherwise, the government could freeze benefits such as Medicaid, Medicare or Social Security Disability Income.

4. Don't forget about siblings.
Don't forget about the overall family dynamic and upbringing needs of other members.

5. Educate yourself.
Legal, medical, financial and social advice is available, but proceed with caution.

—Joanne M. Gruszkos, director of SpecialCare at Massachusetts Mutual Life Insurance Co.



Explore how marketing plays a vital role in the insurance industry in *The Guide to Understanding Insurance Marketing*. Learn from an overview of strategies, such as search-engine optimization, social media and helpful Top 5 lists from industry experts and executives. To order copies and to see the entire A.M. Best's Guide series, visit *www.insurancebookstore.com* or *www.amazon.com.*

Insurance Marketing is compiled by Senior Associate Editor Lori Chordas.

BRANDING

Slam Dunk

SUN LIFE FINANCIAL has signed a new multifaceted sponsorship agreement with the Boston Celtics.

Under the terms of the agreement, Sun Life will be designated as an official team sponsor and receive extensive brand integration across a variety of Celtics' promotional and marketing vehicles. These would include: extensive in-arena presence through courtside signage, Sun Life branded in-game promotions and features, exposure on the Jumbotron, and the rights to use Boston Celtics team marks and logos in external and internal marketing and advertising campaigns.

As presenting sponsor of *Celtics.com,* powered by Sun Life Financial, the company will receive significant exposure throughout the site. Web assets include fixed header position on all *Celtics.com* pages, and presenting sponsorship of several interactive team content features, including the team statistics section, post-game breakdowns and Celtics Minute, a daily video vignette.

"This deal builds on our strategy to reach an attractive target audience in Boston with its strong demographics with regard to wealth-management needs," said Bill Webster, vice president, brand strategy.

RISK MANAGEMENT

THE RISK AND INSURANCE MANAGEMENT SOCIETY INC. unveiled a new appearance that emphasizes the organization's growth strategy. By way of the initiative, which includes a contemporary new logo and tagline, RIMS aims to capture the evolving nature of risk management. Its focus includes strategic and enterprise risk management, and the new branding speaks to strategy and integration.

RIMS
the risk management society

RIMS' new logo incorporates three stripes that represent its key areas of service to its members: resources, networking and education. More conceptually, the stripes also represent upward movement, symbolic of growth and action. They join together as they grow, demonstrating the integration of risk management within an enterprise and the effectiveness of collaboration.

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Spotlight

Technology

Product Manages Compliance Risk

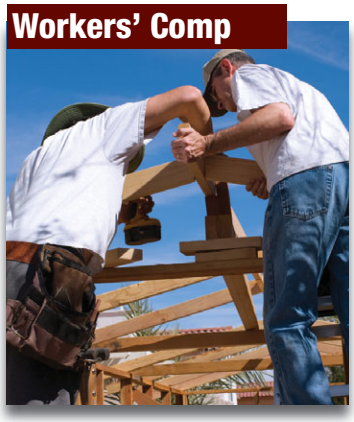
Risk-management software provider **BWise** has released its new Enterprise GRC platform, version 4.1.2, to help customers better understand and manage their risks of noncompliance and governance. The product provides new capabilities for internal auditors and compliance, risk and policy managers. By following an organization's structure, BWise can automatically roll up compliance assessment to the highest corporate level, including policy acknowledgements and compliance statements. Other features include off-line audit testing, planning, scheduling and time-keeping, and a new generation of drag-and-drop reporting.

Life

LPL Creates Fee-Based Platform

LPL Financial, an independent broker-dealer and subsidiary of LPL Investment Holdings, has a new fee-based variable annuity platform. The system will enable LPL Financial advisers to deliver portfolio management for clients along with these products' protection features. Investors will benefit from streamlined product pricing associated with the fee-based structure. Product providers include Allianz Life, Axa Equitable Life, Lincoln Financial, Prudential Annuities and Sun Life Financial.

Workers' Comp



Hartford: Employee-Funded Benefit

The Hartford Financial Services Group has a new disability insurance product to help small-business owners offer competitive benefits without impacting their bottom line. This new stand-alone product, available to employers with 50 to 999 employees, allows smaller businesses to offer income protection as an employee-funded benefit. It is best-suited for businesses that want to provide the additional benefit without increasing costs, or those paying for the benefit that need to shift this cost to their employees.

Snapshot

By the Numbers: Challenges in Marketing VAs

Based on responses from broker-dealers and insurers:

28% Attracting new advisers

25% Communicating complex benefit riders to advisers and investors

23% Differentiating offerings in a crowded marketplace

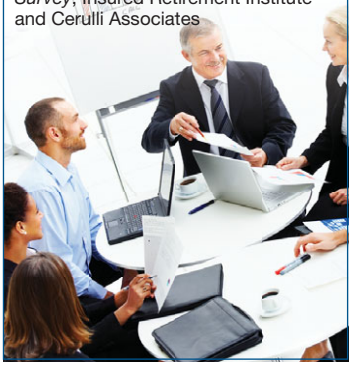
12% Validating the fees associated with a product's insurance features

5% Negative perceptions of insurance company solvency issues

5% Negative press coverage

2% Increased competition from target-date and other retirement income funds

Source: *2010 Annuity Distribution Survey*, Insured Retirement Institute and Cerulli Associates



Learn More

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Product News is compiled by Senior Associate Editors Lori Chordas and Ron Panko.

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Rating Actions

This edition reflects all financial strength rating changes—assignments, changes or placed under review—that occurred for life, health and property/casualty insurers domiciled in North America, as well as international insurance companies, since this section last appeared in the March 2011 edition of *Best's Review*.

See page 30 for the current Guide to Best's Financial Strength Ratings or visit the A.M. Best Co. website at *www.ambest.com/ratings/guide.html* for detailed rating definitions. The A.M. Best rating of any company and basic company information also are available free of charge at *www.ambest.com/ratings/access.html*.

Ratings Changed

Rating Action	Company Name & Domicile	AMB#	Current Rating	Previous Rating
	U.S. Life/Health			
	American Life Insurance Company Delaware	06081	NR-4	A+
	HPHC Insurance Company Inc Massachusetts	11367	NR-4	B++
–	National Health Insurance Company Texas	08392	B+	B++ u
New	Patriot Life Insurance Company Michigan	08973	A	NR-5
–	S.USA Life Insurance Company Inc Arizona	60110	B	B+
–	SBLI USA Mutual Life Insurance Co., Inc New York	06821	B	B+
	Summa Insurance Company Ohio	12024	NR-4	B++
	Teachers Protective Mutual Life Ins Co* Pennsylvania	07114	NR-4	C++
	XL Life Insurance and Annuity Company Illinois	60395	NR-3	A-
	U.S. HMO			
	Harvard Pilgrim Health Care Inc Massachusetts	68973	NR-4	B++
	Harvard Pilgrim Hlth Care of New Eng Massachusetts	64342	NR-4	B++
	SummaCare Inc Ohio	60143	NR-4	B++
	U.S. Property/Casualty			
+	Agri General Insurance Company Iowa	01935	A+	A u
–	Clearwater Insurance Company Delaware	03083	B++	A-
–	General Fidelity Insurance Company South Carolina	00247	B++	A- u
New	Harleysville Insurance Co of New York Pennsylvania	12051	A	NR-3
	Harleysville Insurance Company of NY New York	03656	NR-5	A

Rating Action	Company Name & Domicile	AMB#	Current Rating	Previous Rating
	U.S. Property/Casualty *(continued)*			
New	Main Street America Protection Ins Co Florida	13849	A	NR-2
+	MGA Insurance Company Inc Texas	02854	B+	B
New	Mid-Continent Excess & Surplus Ins Co Delaware	14150	A	
–	Missouri Valley Mutual Insurance Co South Dakota	04197	B+	B++
–	Newport Bonding and Surety Company Puerto Rico	11317	C++ u	B-
New	Queen City Assurance Inc Vermont	75149	A	
	West Bend Mutual Group Wisconsin	18447	NR-5	A
	Westchester Fire Insurance Company New York	02137	NR-5	A+
	XL America Group Delaware	18130	NR-5	A
	Non-U.S. Life and Non-Life			
+	Compania Internacional de Seguros SA Panama	87142	A-	B++
New	Energas Insurance (L) Limited Malaysia	91269	A	
New	Everest Insurance Company of Canada Canada	87033	A+	NR-5
	Glacier Reinsurance AG Switzerland	77461	NR-4	B++
+	Korean Reinsurance Company South Korea	85225	A	A-
–	New Zealand Local Authority Protection New Zealand	90869	B u	B++
+	Peace Hills General Insurance Company Canada	86955	B+	B
New	XL Insurance Switzerland Ltd Switzerland	78050	A	NR-5

Ratings Under Review

Rating Action	Company Name & Domicile	AMB#	Current Rating	Previous Rating
	U.S. Life/Health			
	Balboa Life Insurance Company California	06965	A- u	A-
	Balboa Life Insurance Company of NY New York	60347	A- u	A-
	Investors Insurance Corporation Delaware	06583	A u	A

Rating Action	Company Name & Domicile	AMB#	Current Rating	Previous Rating
	U.S. Property/Casualty			
	Balboa Insurance Company California	00195	A u	A
	Balboa Insurance Group California	04062	A u	A
	Meritplan Insurance Company California	02260	A u	A

*Rating was downgraded to **C++** from **B-** on Feb. 18, 2011. Current rating effective Feb. 18, 2011.

Rating Action: (**+**) or (**–**) Rating upgraded or downgraded; (**New**) Assigned initial rating; (**u**) Rating under review

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Ratings Under Review *(continued)*

Rating Action	Company Name & Domicile	AMB#	Current Rating	Previous Rating
	U.S. Property/Casualty (continued)			
	Middle Georgia Group Georgia	18654	B++ u	B++
	Middle Georgia Mutual Insurance Co. Georgia	04314	B++ u	B++
	Newport Insurance Company Arizona	02068	A u	A
	Non-U.S. Life and Non-Life			
	Fuji Fire & Marine Insurance Co, Ltd Japan	85251	B++ u	B++

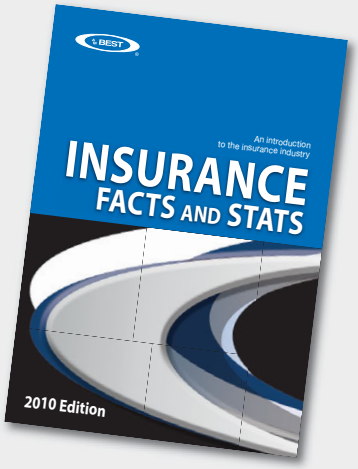
Rating Action: (**+**) or (**–**) Rating upgraded or downgraded; (**New**) Assigned initial rating; (**u**) Rating under review

INDUSTRY SNAPSHOT

A quick glimpse at the insurance industry.

Lines of Business

FRONT OF THE LINES:
Auto coverage, homeowners and workers' compensation dominate mostly because of legal provisions that mandate coverage be obtained.



U.S. Property/Casualty Direct Premiums Written 2009

Number in parenthesis represents the percentage change from 2008.
($ Billions)

- 96.5 Private Passenger Auto Liability (1.0)
- 64.8 Private Passenger Auto Physical Damage (-1.9)
- 66.1 Homeowners Multiple Peril (2.8)
- 44.2 Other Liability (-7.1)
- 40.4 Workers' Compensation (-12.9)

Explore today's insurance business environment through A.M. Best's extensive line of information products highlighted in **Insurance Facts and Stats 2010 Edition**. This handy reference focuses on the many lines of business within the property/casualty, life, health and reinsurance industries, with rankings of top writers. To order copies and see the entire A.M. Best's Guide series, visit *www.insurancebookstore.com* or *www.amazon.com.*

GUIDE TO BEST'S FINANCIAL STRENGTH RATINGS – INSURER

A Best's Financial Strength Rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. The rating is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Financial Strength Ratings – Insurer

	Rating	Descriptor
Secure	A++, A+	Superior
	A, A-	Excellent
	B++, B+	Good
Vulnerable	B, B-	Fair
	C++, C+	Marginal
	C, C-	Weak
	D	Poor
	E	Under Regulatory Supervision
	F	In Liquidation
	S	Suspended

Rating Modifiers

"u"	Under Review
"pd"	Public Data
"s"	Syndicate

Not Rated Categories

Assigned to companies reported on by A.M. Best, but not assigned a Best's Rating.

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NR-2:	Insufficient Size and/or Operating Experience.
NR-3:	Rating Procedure Inapplicable.
NR-4:	Company Request.
NR-5:	Not Formally Followed.

Rating Disclosure

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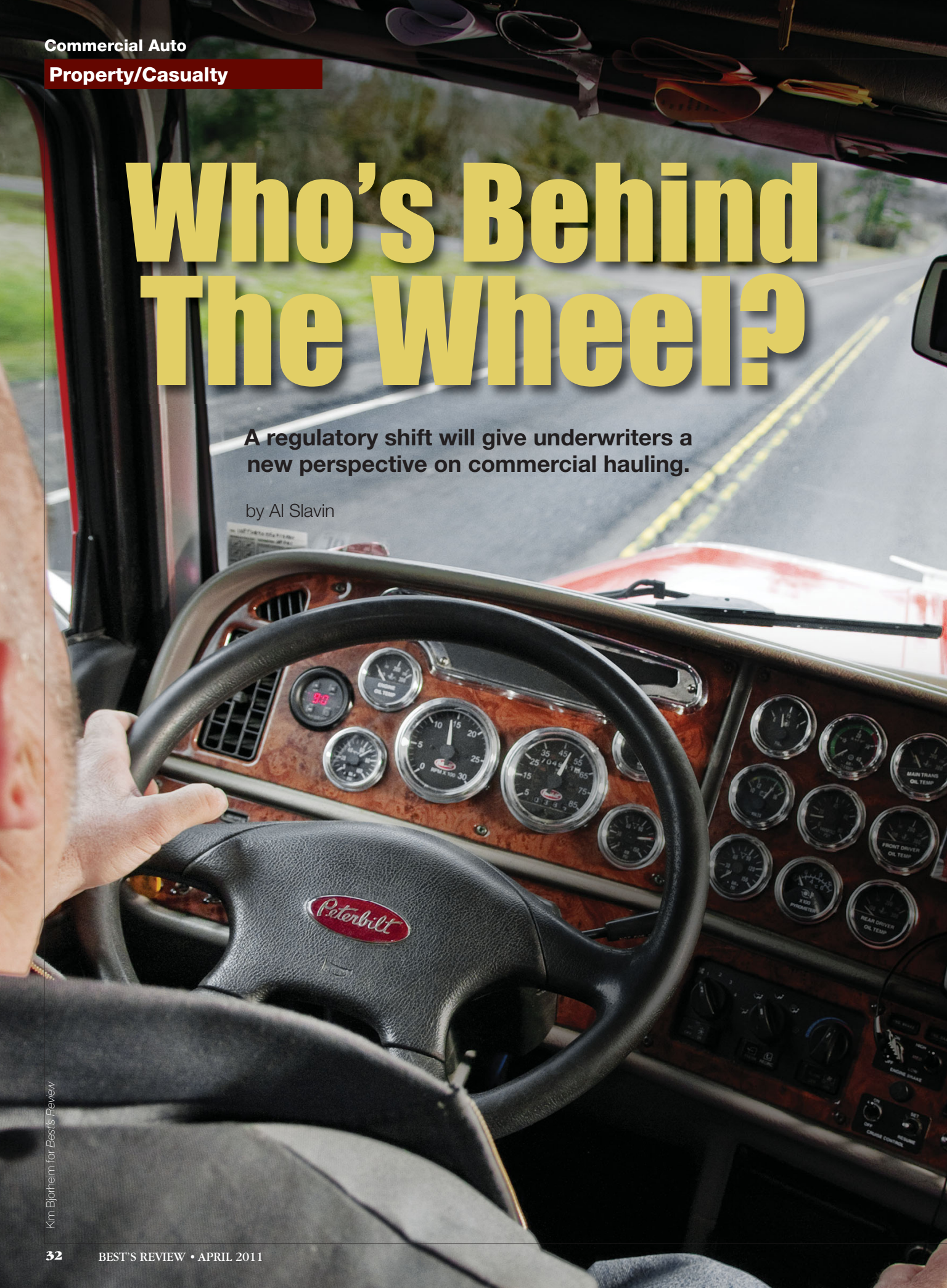
Who's Behind The Wheel?

A regulatory shift will give underwriters a new perspective on commercial hauling.

by Al Slavin



Kim Bjorheim for *Best's Review*

Key Points

- **At Issue:** The Federal Motor Carrier Safety Administration has recalibrated its use of safety data for commercial haulers.
- **What It Means:** Insurers will gain a better understanding of how commercial haulers are managing risk.
- **The Payoff:** Carriers that assimilate the new data stream will be better-positioned to identify the best risks, irrespective of market conditions.

A change in federal oversight of commercial hauling will now allow insurers and their underwriting teams to drill far deeper into how fleet operators are managing risk.

Trucking-fleet hiring managers also can gauge how driver candidates perform against safety-focused benchmarks under the reformulated approach at the federal level.

Both developments result from real-time information on driver behavior and roadside inspections being made available through a Federal Motor Carrier Safety Administration database.

The federal agency's previous system, known as SafeStat, focused on annual motor carrier compliance. That data resulted mainly from a vehicle being taken off the road—an action known in trucking parlance as an out-of-service violation.

The widened scope of review under the FMCSA's Compliance, Safety, Accountability program is designed to help the federal agency identify and root out potential safety issues among motor carriers more quickly, and on a more far-reaching basis.

Certain individual infractions can trigger an alert that greater scrutiny is needed, unlike in the past when that threshold was based on an annual, cumulative safety score.

For insurance carriers, the potential to craft new algorithms from the expanded federal criteria and resulting data may redefine the performance baseline used by underwriters, perhaps even on a regional basis. Nashville-based Greenwich Transportation Underwriters, which is part of the Wilson Smith Group, is a managing general agent with three decades of commercial trucking experience.

Ben Armistead, executive vice president at Greenwich, said the new data won't necessarily reinvent underwriting. But it does represent a deeper stream of risk-based information than was previously available to insurers, and to plaintiffs' attorneys.

"Companies will be able to apply the information into a rating factor that is either pass/fail, or they can create a pricing algorithm to it," Armistead said. "There's a whole different way of utilizing this information that an insurance company hasn't really been able to do before."

Competitive Edge

Armistead said insurers that capitalize on the information will clearly have a competitive advantage. He estimated that only about half of the carriers underwriting this segment truly understand the trucking business and have the systems or tools to adapt to the coming changes.

"It's not something that's going to change a little bit," Armistead said. "It's going to change a lot. For those that aren't investing in that, that's a big mistake."

Armistead said insurance costs are a crucial line item in a trucking fleet's operational budget, typically ranking just behind personnel and fuel costs.

Excess insurance market capacity competing for smaller shipping

Watch an interview with Liberty Mutual's Dave Melton at *www.bestreview.com/video.* Digital readers: Hold cursor over icon for content.

"There's a whole different way of utilizing this information that an insurance company hasn't really been able to do before."

—Ben Armistead, Greenwich Transportation Underwriters

volumes has continued to drive soft market conditions in the sector.

Jennifer Tomilin, head of motor for Zurich North America Commercial, said market rates for long-haul trucking risks are as low as she's ever seen.

"It's very, very soft, and continues to be soft and our underwriters battle that every day," Tomilin said. "We'll arrive at what we think is an adequate price for the coverage and terms requested for a trucking risk and we hear that competitors come in at a much lower price, in some cases with less coverage than requested."

Tomilin sees the new behavior-driven benchmarks established under the CSA program as dovetailing with the overall desire of carriers to identify accounts with good management controls and driver behavior.

Andy Peterson, Zurich's risk engineering manager, said the federal agency's new system reflects a shift in the use of information previously available.

While the SafeStat system was weighted toward motor carrier compliance, he said, CSA's Safety Management System creates a higher expectation for companies to manage their driver group.

New Hiring Tool

Motor carriers can now acquire a report through the FMCSA's Pre-Employment Screening Program that will not only detail a prospective hire's five-year crash data, but the prior three years of roadside inspection data for that individual, something that was previously unavailable.

The goals are to give hiring managers a clearer understanding of exactly whom they are placing behind the wheel, and to weed out bad drivers from the trucking industry.

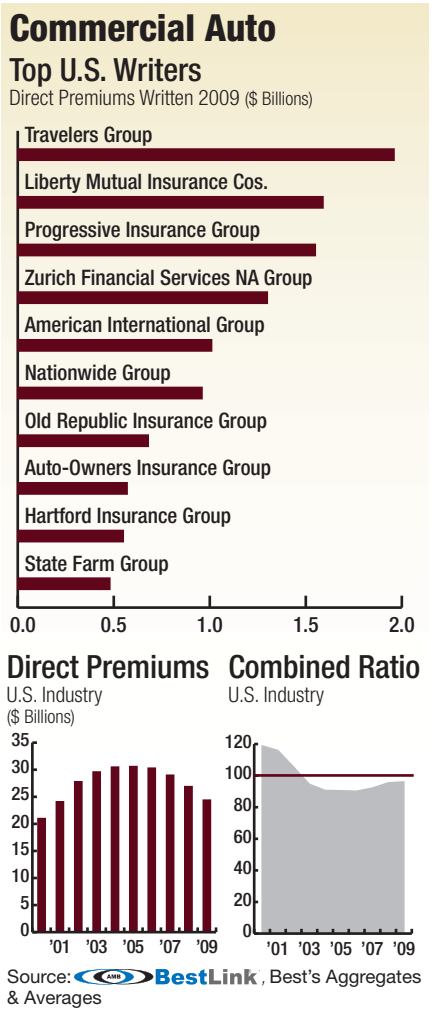
However, access to the database is limited to company use in pre-hiring, and a report will be generated only with the job applicant's consent.

Peterson said Zurich has been encouraging customers to use this tool when hiring personnel after it became available last May. He said that, based on his early experience with companies that have screened candidates through PSP, finding potential hires who are free of violations is proving to be the exception.

But, Peterson said, hiring managers now have the ability to benchmark a candidate's driving history against the company's own driver pool, and make a more-rounded decision on whether extra training or coaching can offset problem issues.

A separate, core aspect of the CSA database will assess a commercial hauler's safety record based on seven criteria, as opposed to four broader categories under SafeStat.

These seven Behavior Analysis and Safety Improvement categories will delve into, and yield corresponding scores for: unsafe driving; fatigued driving; driver fitness; controlled substances and alcohol issues; vehicle maintenance; cargo



issues; and a crash indicator.

Motor carriers will be ranked on a percentile basis against companies with a similar number of inspections, according to the CSA website.

"As some of these practices improve across the industry, we will certainly look to see that with our customers," Peterson said.

"If we're working with a company that is doing very good things in terms of managing their roadside inspections and CSA data, that's going to look favorably for us from a management standpoint."

Safety Data More Fluid

Tom Dickmeyer, chief executive of Cline Wood Agency, which specializes in trucking and commercial agri-business, said one of the biggest changes between the CSA and SafeStat systems is with motor carriers' compliance scores.

While SafeStat reported scores on an annual basis, "the overall score for CSA changes every day," he said. "Every time one of the drivers is stopped for a violation, or at a port of entry or weigh station, that information goes into the CSA system and changes the score at that point."

Dickmeyer said another pending change will hinge on the weight that underwriters give to CSA data. In his opinion, a new data or information stream tends to get more weight when first deployed as an underwriting factor.

Something similar happened when SafeStat first came out, he said.

"There were some insurance carriers that, rather than underwrite certain sizes of motor carriers, would tell their underwriters to look at the scores in SafeStat," he said. "If the scores were above a number, they weren't interested."

Dickmeyer said that as people became more familiar with the data, SafeStat became a smaller component of the underwriting process.

Trucking companies will face

Driving Data

New standards implemented under the Safety Measurement System quantify on-road safety performance of motor carriers to identify candidates for interventions. SMS, which replaced SafeStat, will also monitor whether compliance problems are improving or worsening. Insurers can better gauge how motor carriers are managing risk.

Safety Measurement System	SafeStat
Organized by seven Behavior Analysis and Safety Improvement Categories (BASICs).	Organized in four broad categories known as Safety Evaluation Areas (SEAs).
Identifies safety problems to determine who to investigate and where to focus the investigation.	Identified motor carriers for a compliance review.
Emphasizes on-road safety performance using all safety-based inspection violations.	Originated from roadside inspections and used only out-of-service and moving violations.
Violations are weighted based on relationship to crash risk.	Violations not weighted based on relationship to crash risk.

Source: Federal Motor Carrier Safety Administration's Compliance, Safety, Accountability program.

the challenge of comprehending the underwriter's thought process regarding CSA data, and demonstrating how their own respective risk management practices will mitigate issues.

"I think it's going to be critical that a trucking company has a very consistent and proactive way of dealing with this data," said Dickmeyer, whose agency is based in Leawood, Kan.

"Otherwise, I think it makes them vulnerable. Anytime you have data and don't make the best use of it, it's a little tougher on you in depositions."

Doug Hathaway, vice president of Maxum Specialty Insurance Group's transportation division, said underwriters will ultimately have to trust that there's a correlation between the BASIC scores that the CSA data generates and accident potential. Hathaway said that for most high BASIC scores he sees, there are aspects within the scoring categories that can be viewed favorably.

"As an underwriter, I'm going to be looking more at the progression of the score, where it stood on Dec. 17 when the scores first came out, compared to where it is today," he said.

"Unfortunately, relying on the presence of a CSA alert alone and not examining underlying factors will likely cause shippers, insurers and law enforcement to miss problem risks or unfairly discriminate against truckers who are self-correcting and working to reduce their scores," Hathaway said.

He anticipates a good deal of upheaval for the trucking industry over the next two years, considering what he sees as a high percentage of truckers currently operating with CSA alerts.

"There could very well be a high number of truckers taken off the road or forced to drastically change operations once the government decides to enforce the monthly alert notice letters they began sending in 2010," he said.

More Driver Scrutiny

Dave Melton, industry director of transportation at Liberty Mutual, said individual drivers will feel more pressure under the CSA system. Past safety or performance issues that had been folded into a truck fleet's compliance record will now follow the individual driver as well.

"So a driver who is looking for a job with a different carrier may find that their opportunities are limited because of their past driving history, their past listing of CSA

"I think it's going to be critical that a trucking company has a very consistent and proactive way of dealing with this data. Otherwise, I think it makes them vulnerable."

—Tom Dickmeyer, Cline Wood Agency

violations," Melton said.

Conversely, he said, drivers with more-exemplary records may find better opportunities, especially amid indications that there is a shortage of both capacity and drivers in the trucking industry.

"There's no question that it's coming back," Melton said, referring to business volume among fleets. "We're seeing that profits on larger fleets are up. We're seeing stronger used-truck sales. The numbers are starting to look much better."

Melton noted that the regulations that the CSA uses in its data reports have been in existence for years.

He said truck fleets that have done a good job of complying with those regulations and managing operational risk should not experience issues under the new system.

He views CSA as a positive development for the trucking industry because it generates more actionable data than did the SafeStat system.

Trucking fleet managers can potentially pinpoint and address issues more readily. Melton said CSA data will play just as significant a role as did SafeStat's data.

"However, I can't imagine any underwriter basing all their decisions on CSA alone," he said. "That is especially true since insurers cannot see all the data in CSA unless they're given access by the truck fleet itself. CSA is one more tool in the risk assessment process, and it's a good one." BR

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Regulatory/Law

Main Menu

The Food Safety Modernization Act adds recall responsibilities to food companies, providing new opportunities for insurers.

by Ron Panko

On Jan. 4, President Barack Obama signed into law the Food Safety Modernization Act, which potentially will have profound effects on companies in the food business and on insurers that write commercial liability coverage.

The new law empowers the U.S. Food and Drug Administration to effectively order a company to recall its food products. Before the act, it was up to the food companies to recall a product.

Another major change is that all food manufacturing and processing companies with at least $500,000 in annual revenue now have to register with the government.

"The government now has to know who you are and what you do," said Lou Lubrano, senior vice president of Liberty International Underwriters, a division of Liberty Mutual Group.

The FDA will now have the power to suspend a company's food safety registration, which would effectively shut down a business, if a company fails to present required documentation within a new 48-hour response deadline.

Changing the Culture

The business of insuring food producers comes with potentially big risks. From the outset of a food recall, liability insurers have a joint interest with insureds to contain losses, said Joseph A. Arnold of the law firm Cozen O'Connor, who serves as counsel for a liability insurer involved in the national recall of raw and roasted nuts by a major U.S. grower.

"There are a lot of ways to manage the crisis," he said. "Insurers can bring in consultants or in-house risk managers and catastrophe people. Getting the information is critical, especially when dealing with a grower or manufacturer whose product is being distributed through numerous markets and geographic regions."

Food products can be recalled even without physical illness or imminent risk. "The government just has to believe there could be a reason to recall your product."

—Lou Lubrano, Liberty International Underwriters

Key Points

- **The News:** A new food safety law requires food growers, manufacturers and distributors to develop plans to respond to product contamination.
- **The Significance:** Liability insurers will play a bigger role in helping smaller food businesses manage their risks and compliance.
- **Watch For:** Increased sales of insurance products designed to cover food recalls and third-party damages.

Listen to an interview with Lou Lubrano at *www.bestreview.com/audio.* Digital readers: Hold cursor over icon for content.

A quick response is important. Many customers along the chain of distribution suffer losses as the food product is withdrawn from shelves, contaminated food is shipped to sites for destruction and facilities have to be cleaned up and restarted after corrective measures are taken.

Moreover, there is likely to be an uptick in recalls, Arnold said.

"With an increase in control and oversight by the government, and the mandatory recall ability, the need for insurance is greater because the chances are greater of being impacted by the law," he said.

But despite the risks, Arnold said insurers that don't offer this type of specialty coverage are considering it, and those that already do are looking to expand the scope of their products.

Joseph Bermudez, a partner at the law firm of Nelson Levine de Luca & Horst, said that with food producers now required to create hazard analyses, corrective action plans and recall plans, insurers can provide expertise that the food companies are going to need.

In case of a recall, companies that can't present required documents to the FDA within a new 48-hour response deadline "are literally facing economic death."

—Joseph Bermudez, Nelson Levine de Luca & Horst

"Not the Nestles and the Krafts, but those in midrange and small range that won't have the expertise to produce a lot of the information that the FDA is going to require," Bermudez said.

Companies that can't respond within the 48-hour time frame set by the law "are literally facing economic death," he said.

Many companies can become involved in ingredient-driven recalls through no fault of their own when an ingredient is used throughout the industry, he said.

Asked about the possible adverse impact of new regulations on companies at a time the economy is trying to recover, Arnold said the law is designed to have a long-term impact "where everybody invests time and money up-front to try to ensure their products are safer."

He likened it to the National Football League imposing fines on players for hits to the head. "They're trying to change the game, trying to change the culture," he said.

Bermudez said the new law will make it harder for food businesses

to grow and hire people, except for the experts they will need to handle the new regulations.

"On the other hand, it's also necessary," he said. "The act is trying to create a proactive environment with respect to food safety."

Supporting Products

Companies have always needed a separate insurance policy to protect their operations from product recalls or losses due to contamination. But with the new compliance requirements, having a separate policy takes on added importance, said.

Liberty Mutual has two food safety insurance products. Contaminated products insurance provides coverage in case an insured manufactures, grows, distributes or sells a food product that causes someone to become ill. The policy would pay for the costs of a recall and any lost income the insured might have sustained from no longer being able to sell that product, Lubrano said.

The other cover, for product recall, is triggered when there is an imminent risk that food will make someone ill. That policy will pay for costs of recall expenses and the cost of a third-party's loss of income because that party can no longer sell the product.

But under the new law, the government can now decide to recall a product even if there is not a physical illness or an imminent risk of illness. "The government just has to believe there could be a reason to recall your product," Lubrano said. "That's a big difference."

The contaminated-products insurance industry, however, has been ahead of the curve and has developed a government recall endorsement that was available primarily in Europe.

"Now that endorsement is being adopted by the U.S. markets for U.S. insureds," Lubrano said. "The law has been in discussion here for over a year. So we had buyers that already had the endorsement on their policies as the law was being passed."

How prepared are food companies to satisfy requirements of the new law? According to Lubrano, that varies widely. "The very large food processing companies, the names you know well, have always been prepared," he said. "It's when you get to that level below the national brand names that you have companies that aren't prepared."

From the Beginning

In September, Bermuda-based XL Insurance changed their policies in anticipation of the new U.S. food safety regulations to include coverage for government-mandated recalls, said Ed Mitchell, global practice leader in product recall.

The company writes its North American business from a number of platforms in London, Bermuda and Dublin, with the distinction that Bermuda and Dublin focus on excess business with very large companies with big self-insured retentions. London focuses on XL's primary business.

The company has offered product contamination insurance since the policies evolved in the mid-1990s. Coverages have grown to include the costs of adverse publicity and recalls caused by adulterated ingredients.

Mitchell said sales in the United States, the United Kingdom, Europe and other territories are growing and that XL anticipates a rise of one-third due to legislative changes.

"Year on year, about 30% of policyholders are made up of new buyers, and we certainly anticipate a lot more interest from the food and drink industry in the U.S. over the next 12 to 24 months," he said.

In the European Union, food safety legislation comparable to the new law in the U.S. went into effect in 2005. "The result was a significant rise in recalls in the EU," he said.

XL has a crisis-management service, Response XL, that Mitchell said is an integral part of its products. "That's one of the areas where we've already been working proactively with our clients for years while addressing a lot of the issues coming out in the Food Safety and Modernization Act," he said.

Formed in 2006, Response XL has worked with U.S. clients in the areas of food safety, risk management, recall planning, crisis management, he said. "The mantra of Response XL is to help companies be prepared and know they will have the right systems in place to handle a crisis before that crisis hits," he said. "It's a very significant and integral part of our product offering." BR

Food Safety Legislation Key Facts

- Every year, 48 million people in the United States suffer from food-borne illness, more than 100,000 are hospitalized and thousands die.
- An estimated 15% of the U.S. food supply is imported, including 60% of fresh fruits and vegetables and 80% of seafood.

The legislation requires:

- Food facilities to evaluate hazards in their operations, implement and monitor effective measures to prevent contamination and have a plan in place to take necessary corrective action.
- The FDA to establish science-based standards for the safe production and harvesting of fruits and vegetables to minimize the risk of serious illnesses or death.
- The FDA to refuse admission to imported food if the foreign facility or country refuses to allow an FDA inspection.

Source: U.S. Food and Drug Administration

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Better Ways

New regulations and market-changing events are driving carriers to risk-management technology solutions.

by Lori Chordas

Inside just about every corner of an organization lurks the need for risk management.

That's why technology is no longer optional; it's become a must-have tool for carriers to generate comprehensive risk analyses.

"Sophisticated computer-based risk models on platforms that go well beyond what can be done on Excel spreadsheets now are understood to be requirements to comply with regulations like Solvency II," said Christopher Suchar, a director at asset management solutions, services and research provider Conning.

Technology puts data at the forefront and provides risk analysis, monitoring and modeling, data collection, storage and communication. It also helps companies make sound business decisions for a complete range of risks, and to decide what controls to put in place.

However, nearly half of respondents to an Oracle Corp. survey said they lack tools to assess performance management and risk together.

Nearly three-quarters said their IT infrastructure wasn't capable of using stored data to provide a full risk assessment, while almost half noted a lack of confidence in the accuracy of data related to risk.

And, the study goes on to say, only 18% of respondents could deliver risk management analysis in real time.

That's beginning to change as carriers invest larger portions of their IT budgets in risk management systems, noted Stuart Rose, global insurance marketing manager for business analytics software provider SAS.

"Some of the budgetary constraints over the past three years due to the recession are now being removed and carriers are beginning to see how they will update some of their risk solutions," Rose said. Those investments include data warehouses and data integration tools "to improve consistency and quality of data to feed into some of the risk models carriers already have developed."

The growing regulatory environment also is driving the need for risk management technology tools. "Regulators expect faster and more sophisticated reports. Carriers need to deliver them in a shorter time frame and rating agencies are also looking to insurers to provide similar information for them or their ratings may be downgraded," Rose said.

With Solvency II (an updated set of regulatory requirements for insurers operating in the European Union due to launch in 2013) "carriers aren't only talking about technical provisions but also different models that will help them mitigate risks related to usual activities on the operational side of the business," said Nicolas Michellod, a senior analyst with financial research and consulting firm Celent.

However, technology can't go it alone. People who understand business strategies and can communicate well with others also are a vital part of the mix, said Rose. "I call it the three P's: identify processes and potential risk factors to evaluate and have necessary people to do that."

Best's Review took a look at several risk management technology solutions being used in the industry today.

Key Points

- **The Need:** Financial uncertainty and turbulent capital markets have increased the need for carriers to measure and manage operational risk.
- **Filing the Need:** Technology is helping insurers monitor their companies' continuing risks.
- **What's to Come:** New and upcoming regulations, like Solvency II, are further driving the need for these technology-based tools.

ADVISE and GEMS

CONNING

Chris Suchar, director
Company: Conning
Headquarters: Hartford, Conn.

The aftermath of the 2008 financial crisis is serving as a catalyst for today's risk management, said Conning Director Chris Suchar.

"Risk models now need to be able to reproduce events like that. Many models that existed before 2008 didn't anticipate what happened at that time," he said. "Ours did, since we calibrate from a very long historical record that includes past crises. We got it right, but many did not simulate those kinds of outcomes and therefore, many risk managers were blind to the possibilities of what actually happened. Those market stress events had effects on both sides of the balance sheet for many carriers."

Conning's company model ADVISE and its GEMS economic scenario generators are changing that.

"One of the signature features of both is that they address both sides of the balance sheet," noted Suchar. "Most other modeling tools focus only on either the asset management side or liability side, with an overly simplistic treatment of areas outside that specialization."

ADVISE, a stochastic, Monte Carlo simulation tool, is designed to meet the requirements of insurance risk analysis for life, nonlife and reinsurance companies. Carriers can project a full range of possible outcomes to properly assess and manage risks, he said. ADVISE combines complete business logic in liabilities, investments, accounting and economic scenarios for enterprisewide modeling with the flexibility of a toolkit or spreadsheet.

"With the GEMS economic scenario generator, the principal advantage is in the robustness of the models," said Suchar. "That means companies can simulate stressful environments like the recent economic crisis."

The three GEMS products include: the GEMS Scenario Master, which provides advanced modeling and estimation technology; GEMS Portfolio Analyzer that allows users to model multiple investment portfolios and handle applications such as strategic/dynamic asset allocation and variable annuity hedging; and GEMS Enterprise Modeler, which can model applications such as multi-entity risk management and reverse stress testing to produce real-world and risk-neutral scenarios.

ClaimZone RMIS

MountainView Software
a division of Gallagher Bassett Services

Russell Lindberg, vice president of sales and marketing
Company: MountainView Software
Headquarters: Kaysville, Utah

MountainView Software's approach to risk management comes in its ClaimZone RMIS that brings together claims data and consolidates it from various claims systems, third-party administrators and carriers.

"More and more, we see multiple data sets. Historically, when companies wanted to do a loss run or look at a particular data anomaly, they were forced to look in several different places for the same things. Risk management technology meshes together data to allow users to see it on a level playing field," said Russell Lindberg, vice president of sales and marketing.

Users can access consolidated data anywhere there is an Internet connection and can query data instantly, see results on-screen, send it to a report or export data to Excel, he noted. Carriers also can drill down and look at individual claim specifics and review claim financials and policies. And, he added, various exposure data can be incorporated to allow for enhanced reporting.

Consumer support is also a vital component of the Web-based system, he said. "A risk management information system isn't just something you sell in a box and walk away from. It's an ongoing relationship and about knowing your clients and their needs."

ClaimZone RMIS works by taking data from a variety of sources and using a "mash up" to put that data into a single database. "For power users—those looking for a needle in a haystack—they're presented with a pile of data and it's our job to help them find the needles they're looking for. For example, if they have a $1 million claim and are just looking at the dataset, it clouds everything. They may have several other $50,000 claims that actually are more threatening to the bottom line than the single claim. Our system presents their data in a way that makes that visible."

He added that a "virtual risk manager" works behind the scenes to cull through data to look for anomalies and identify potential problems.

The system complements other ClaimZone products or can be used as a stand-alone application and integrated with other existing systems.

Technology

RiskTrak

Project management has become an integral way for carriers to assess risks being transferred to them, said Charles W. Bosler Jr., president of RiskTrak International.

That's why the company developed its risk management software tool, RiskTrak, to support the complete risk-management process. It helps the industry understand project and program risks before they occur, and users can gain and maintain better control over cost and provide a proactive approach to corporate program/project management.

The Windows-based network software's "IDEA" framework is a four-stage assessment method that identifies, defines, estimates and analyzes project or program risks. It's implemented using such RiskTrak features as import/export files and "tree-view" project display, along with what Bosler calls interview experts or "electronic questionnaires" to establish and implement company standards for risk tolerance and management.

RiskTrak's reporting features allow carriers to generate detailed risk management and contingency plans, and its query feature creates ad-hoc reports and allows management to pull up standardized top-level graphical charts that reveal current status of critical program elements. All risk elements can be exported through the export feature.

RiskTrak International
"Experts in Risk management"

Charles W. Bosler Jr., president
Company: RiskTrak International
Headquarters: Amherst, N.H.

While Web-based risk management tools are handy for carriers, Bosler said they expose companies to risks and unintended consequences.

"Our products are double-encrypted and are very secure, so only the intended users have access to information."

As for financial savings, Bosler said "for the most-well-run companies, risk management is something they value extremely well and that's what is keeping them ahead of everyone else.

"You can't legislate morality," he added. "People will do the right thing because it's the right thing to do and because they're using a proper process. Companies using a risk-based process will be among the most successful in the future."

SAS Risk Management for Insurance

SAS Risk Management for Insurance has become a vital tool for carriers to perform risk analysis and risk-based capital calculations.

Financial uncertainty and turbulent capital markets have brought the need for companies to measure and manage operational risk to the forefront.

SAS' risk management solution, built on a data management and reporting platform that includes an insurance-specific data model, allows life and property/casualty insurers to implement the Solvency II standard model approach for calculating risk-based capital.

Stuart Rose, global insurance marketing manager, said the solution not only helps carriers reduce volatility by improving risk-decision strategies by gaining a greater understanding of how economic factors affect a company's balance sheet. It also ensures solvency by stress-testing assets and liabilities against sudden and dramatic changes in market conditions; performs accurate risk analysis with an enterprise data warehouse; and lowers the total cost of ownership.

Users can access nearly any database on any technology platforms such as Excel, Oracle, SAP and legacy systems, he said. SAS Risk Management for Insurance also has a comprehensive repository of prebuilt reports including asset and liability valuation, valuation assumption, capital adequacy and stress-testing analysis.

sas

Stuart Rose, global insurance marketing manager
Company: SAS
Headquarters: Cary, N.C.

The solution also calculates Solvency II standard model requirements (minimum capital requirement and solvency capital requirement), and creates regulatory and management reports as required for this directive, he noted.

Rose said the solution supports four main areas: market risk; underwriting risk for P/C and life companies; and the ability to see risk from a companywide level. "We have very sophisticated risk analysis and a risk reporting model to disseminate information to regulators, along with data integration capabilities that very few companies have. We offer risk modeling capabilities and have the ability to easily integrate with other solutions so users can feed that information into SAS' sophisticated reporting capabilities." BR

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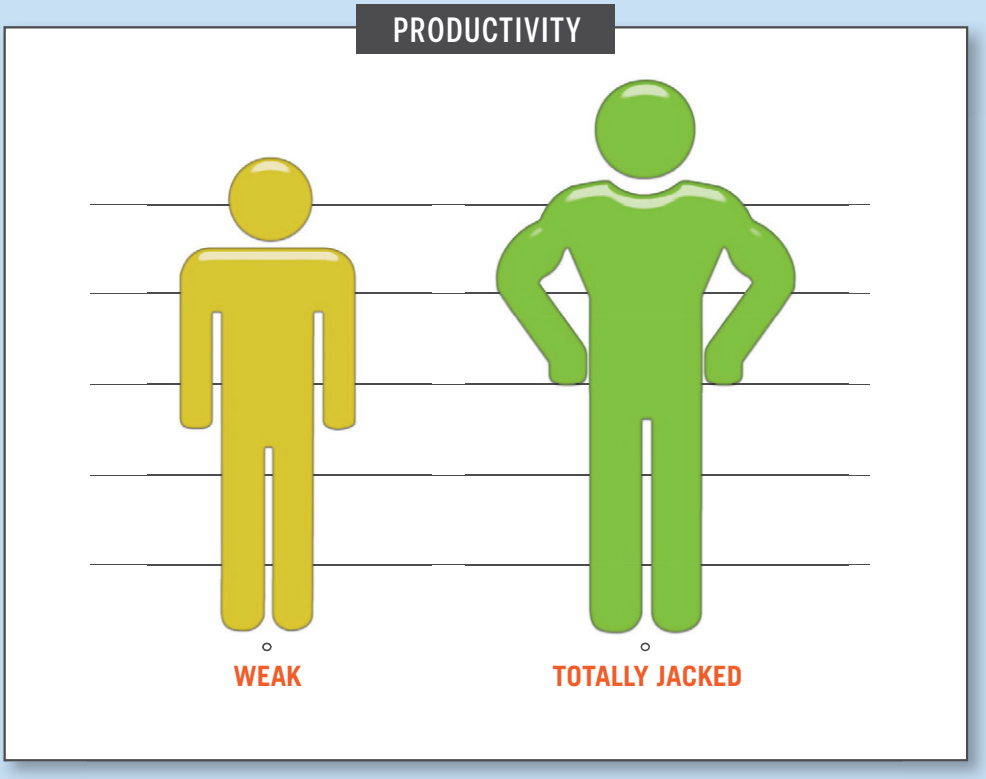

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The Perfect 20

Insurers find value in simplifying business data to just 20 key reports.

by Julie M. Donahue

In meeting with many of the most successful insurance companies in the world, we are often struck by the sheer volume of management information generated on a regular basis. In one instance, the collection of reports for the CEO easily reached three feet off the ground when stacked—and that was just for one month. But when insurance leaders are asked to describe the value and utility of this information, they usually come up short. There is simply more data being generated than any one person can hope to read or process.

We've discovered time after time that too much information is a liability, not an asset, to informed decision-making. Decision-makers spend their time wrangling about the information instead of using it. In the worst cases, leaders spend meetings arguing over whose fact is the right one.

Most insurance leaders would be able to manage their organizations far more effectively if they challenged themselves to create and use just 20 "trusted" reports for strategy, operating performance and transformation investments. With this perfect stack—thinner than the height of a couple of stacked BlackBerries—leaders can stop managing data itself and instead focus on the realities and performance of their companies.

They can move from just reading to actually analyzing the trends and outcomes versus the plan and managing the exceptions. More importantly, they can determine whether strategies are advancing as intended by looking at actual shifts in resources and the resulting performance.

It sounds simple, yet getting to a state of the "perfect 20" is a journey in itself. Most companies require a significant change in how they view the essential measurements of strategy and performance. Investments must be made to simplify and modernize both the management system and the information systems environments. Information that's currently gathered should be looked at critically and excluded from the final set of reports if it is no longer relevant to the plan or valuable to the shareholder.

And when the organization gets to the perfect 20, it has to change the fundamental way it uses information, requiring new management systems, a potential change in business processes and a mindset that has it creating strategy, managing performance, and driving transformation, instead of using information to validate historical performance or fuel day-to-day firefighting decisions.

This approach to information management gets the ball to the goal line. Decision-makers spend their time understanding which marketing investments paid off, or which channels are productive. They can understand underwriting performance versus actual result in claims. They can see whether stated strategies to pursue new markets are preceded by the necessary shift in resources.

Transformation isn't just about winnowing information down to an ideal number of reports.

The reports are a starting point. The real change comes in how management changes its behavior from reactive problem-solvers to proactive leaders who use data to inform decision-making that directs performance and supports the achievement of strategic goals. Some insurance executives have a hard time making this change. It's a new competency and a different way of working. Those who get it, though, understand that knowing what happened is no longer adequate. They want to know what's happening now, what's likely to happen next and what actions they should take. BR

The real change comes in how management changes its behavior from reactive problem-solvers to proactive leaders.

Best's Review contributor Julie M. Donahue is vice president of insurance for IBM Global Services. She can be reached at insight@best review.com.

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Is Flat The New Normal?

Producers tell *Best's Review* that it's more difficult to meet carrier commitment levels.

by Al Slavin

Competition on rates, combined with declining business volume and commission rate levels, forged perfect storm-like conditions for agents and brokers last year.

Despite a trying environment, 40% of nearly 2,400 agents and brokers surveyed by *Best's Review* said that 2010 revenues had increased from a year earlier. Yet, just one in about every four respondents reported an increase of more than 10% in agency revenue. Nearly four out of 10 noted flat revenue or an increase of less than 10%.

"To some extent, flat is the new good," said John Scirocco, president and chief executive of Scirocco Financial Group, a Hasbrouck Heights, N.J.-based independent property/casualty agency with nine locations. "It's the new norm and that's for most agencies."

Staying flat presents its own challenges. Agency expense ratios can quickly become vulnerable as agents market new products and services in order to maintain a reasonable level of top-line growth.

Scirocco said some national and regional carriers have done a very good job of developing new segments to target, whether it's green technology products or an industry-focused approach such as transportation. But he also said the complexity of the business being transacted is vastly different as a result of the carriers burdening agents with more work.

The factors include additional policy processing, evolving automation requirements, stronger carrier commitments or the greater need for agents to focus on the quality control of renewed or newly written policies.

"These are just some of the significant factors that are coming into play today, which are creating higher agency expense ratios," Scirocco said.

Agent Work Load Builds

Ken Auerbach, managing director and general counsel for E&K Agency in Eatontown, N.J., described 2010 as challenging for his company. His agency has managed to increase commissions annually despite an elongated soft-market cycle. That was until 2010.

"Other revenue sources beat 2009, but the important number is commissions and certainly it was challenged versus the year before," Auerbach said.

According to the *Best's Review* survey, 37% of agents and brokers indicated carriers had cut their commission rate levels in 2010. Auerbach said that wasn't the case for E&K, although pressure continues to build at the agency level from the additional work load that has flowed downstream from carriers.

"For instance, rating and binding policies and the like in-house," he said. "In a way, you could look at that as a commission reduction because we're doing more work for essentially the same compensation."

Auerbach said some carriers actually have increased commission rates, but on more of a one-time basis for new accounts written on certain business lines or products. His response is to remind carriers of the big picture and renewals.

"We're all about retention. That is how we flourish," he said.

Auerbach said reduced pricing levels in the small-to-middle commercial markets have required additional

(Continued on page 52)

Key Points

- **The Trend:** Commission rate levels faced considerable pressure last year.
- **The Big Picture:** Agents and brokers find themselves handling more work in the push to generate revenue.
- **Watch For:** Continued tension around carriers' minimum premium commitment levels.

> Some carriers have actually increased commission rates, but on more of a one-time basis for new accounts written on certain business lines or products.
>
> *—Ken Auerbach, E&K Agency*

No Remedy in Sight

Brian J. Borshoff has watched the annual revenue at his insurance agency plunge from about $1.3 million to $500,000 in just three years.

He believes that the difficulties triggered by the recession and accounts placed with a troubled insurer are now being exacerbated by the toll that health care reform has taken on agent/broker commissions.

"In the beginning of 2008 we had 39 groups with medical plans," said Borshoff, owner of Carmel, Ind.-based Borshoff and Associates. "Now we're down to 13 or 14 groups."

As the economy turned sour, Borshoff noticed his clients' employee levels tapering off. He also said that 40% of his renewal business was with American Community Mutual Insurance Co., which a Michigan judge ordered into rehabilitation on April 8, 2010.

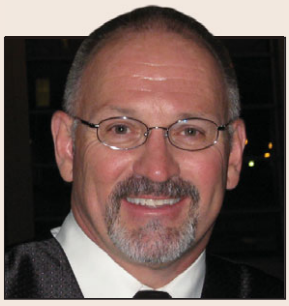
"I was only able to move 40% of that block of business," he said.

Borshoff started his agency in 1984 and said he's in too deep to turn away. When he calls clients now to discuss moving health plans, they respond by saying that they will wait for the government to take over.

"Everybody is on the fence and doesn't want to do anything," Borshoff said.

He's far from alone in confronting the challenges that agents and brokers face under the Patient Protection and Affordable Care Act.

Brian J. Borshoff



Michael Beer

Many responses from more than 2,400 agents and brokers surveyed by *Best's Review* lamented the difficulties they face in selling health plans. Many said they are reeling from cuts in commission rate levels that health insurers have implemented as they come to grips with federally mandated medical loss ratios.

Under those ratios, carriers focused on large group policies must direct 85% of spending toward health-related costs; carriers targeting small groups and individuals face an 80% ratio.

Agent and broker commissions and fees are not factored into the medical loss calculations.

According to the survey, 43.6% of the agents and brokers whose commission rate levels were cut said health and benefits were the most impacted segment.

Michael Beer, a Denver-based regional vice president for USA Benefits Group, said over the years he has developed a book of business with about 6,000 customers, which includes group plans, but mostly individual insureds. Beer said every carrier he deals with notified him in the last quarter of 2010 that compensation levels would be cut, some by as much as 85%, and advances drastically reduced effective Jan. 1, 2011.

"Some even said that they may have to go back retroactively to March of last year, and charge back commissions and advances that were already paid to agents," Beer said.

Beer feels the federal bill's mandate that every individual carry health insurance coverage has all-too-conveniently fallen in the carriers' favor, and will harm consumers because they will have fewer choices and resources to help navigate the market and select coverage.

Beer believes these actions were a hidden and intended consequence to rid the carriers of their national distribution system via the agents and brokers.

"One way or another it's going to force insureds to the carriers, via the government exchanges or to the carriers directly," he said.

Beer predicts about one-third of the agents selling health policies will leave the industry altogether, and another third will try to sell Medicare Advantage and senior products.

"Another third will probably try to hang around the industry if they can, working for table scraps and trying to get the low-hanging fruit," he said.

Nancy Litwinski, a director in Deloitte's national health care practice, said there is discussion among some companies aimed at shifting toward a fee-for-service approach, or having the consumer pay a commission.

Litwinski said there is still discussion at the regulatory level regarding the role of agents and brokers under health care reform.

A National Association of Insurance Commissioners' task force plans to review the treatment of agent/broker commissions and fees under health care reform, and how that may coincide with future state-based exchanges in which health care plans will be interacting beginning in 2014.

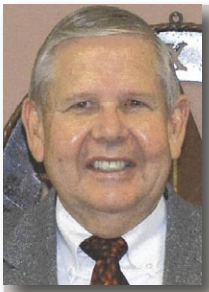
Litwinski said a difficulty is that this distribution system was adopted from the property/casualty sector and commissions have always been considered part of overhead.

"The challenge for agents and brokers will be linking what they provide as part of the overall health care delivery process to quality for the consumer," Litwinski said.

"I would describe it as a push to understand the role of the agents and producers, now and in the future when exchanges are actually set up in the individual states, and how that relates to the delivery of quality health care."

Agent/Broker

Agents Speak Out on Compensation



Hollis Matthews
Matthews Insurance Group Inc.
Arlington, Texas

"Speaking as a former senior VP of marketing for a major regional carrier, the carriers aren't well-managed from an expense standpoint and are taking more agent commission each year. They forget that distribution is key to a successful operation."

Stephen B. Rosen
Rosen & Co.
Armonk, N.Y.

"Reduced commission and incentive (guaranteed supplemental compensation and/or profit sharing) along with increased expense in processing. Many carriers no longer provide written copies of policies; we have absorbed their printing costs."

C. Steven Tucker
Small Business Insurance Services
Palatine, Ill.

"The new medical loss ratios passed under the PPACA. Commissions for all carriers were cut in half."

Allison Wilgus
Health Brokers of Florida
Boca Raton, Fla.

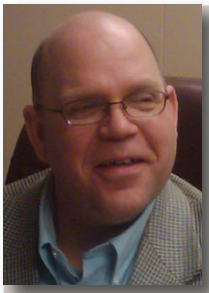
"Huge decrease in 2011 commissions makes it tough for any real, educated adviser to continue practicing."

Jay Simms
Gade Insurance Services
Council Bluffs, Iowa

"Commission levels, incentives, profit sharing. As an independent agent, I want to write business with companies that not only take care of my clients but also value the work we do as producers."

Phil Duncan
Pipeline Wholesale Insurance Services
La Mesa, Calif.

"Commission payouts from carriers are being delayed."



Tom Webber
Franklin Benefit Solutions
Grand Blanc, Mich.

"In Michigan they have reduced commission for small market. Large market will probably soon follow. Moving toward a fee-based approach."

Bett Martinez
BMIS Inc.
Albany, Calif.

"Medical loss ratios seem to be one issue or excuse. Brokers are valuable to clients and insurers, yet we are taking the big hit, in some cases 50% less commission. If the public was more clear on the vital function we play, they could protest."

John E. Wooten III
Green & Wooten Insurance
Raleigh, N.C.

"Reduction in premium levels, reduced bonus participation percentages in profit sharing. Shrinkage in average size of commercial accounts and price competition."

Mary Baldwin
Goods Insurance Agency
Birmingham, Ala.

"Every commercial market wants the preferred client and are less flexible to offer coverage for the non-preferred applicant."

Darlene Roe-Poundstone
LPL Financial
Morris, Ill.

"My LPL Financial business continues to grow. They have made no changes in their compensation. I am concerned about my group and individual health portion of my practice. If my state's exchange does not include agents, I will lose one-third of my business."

Susan Palla
We Care 4 U Insurance
Bangor, Pa.

"With the Internet there's no need for agents in any field. People now go by price only, not the service and quality of commitment to the client at all times of day. Carrier contact involves long wait times, which causes less productivity and money in my pocket."

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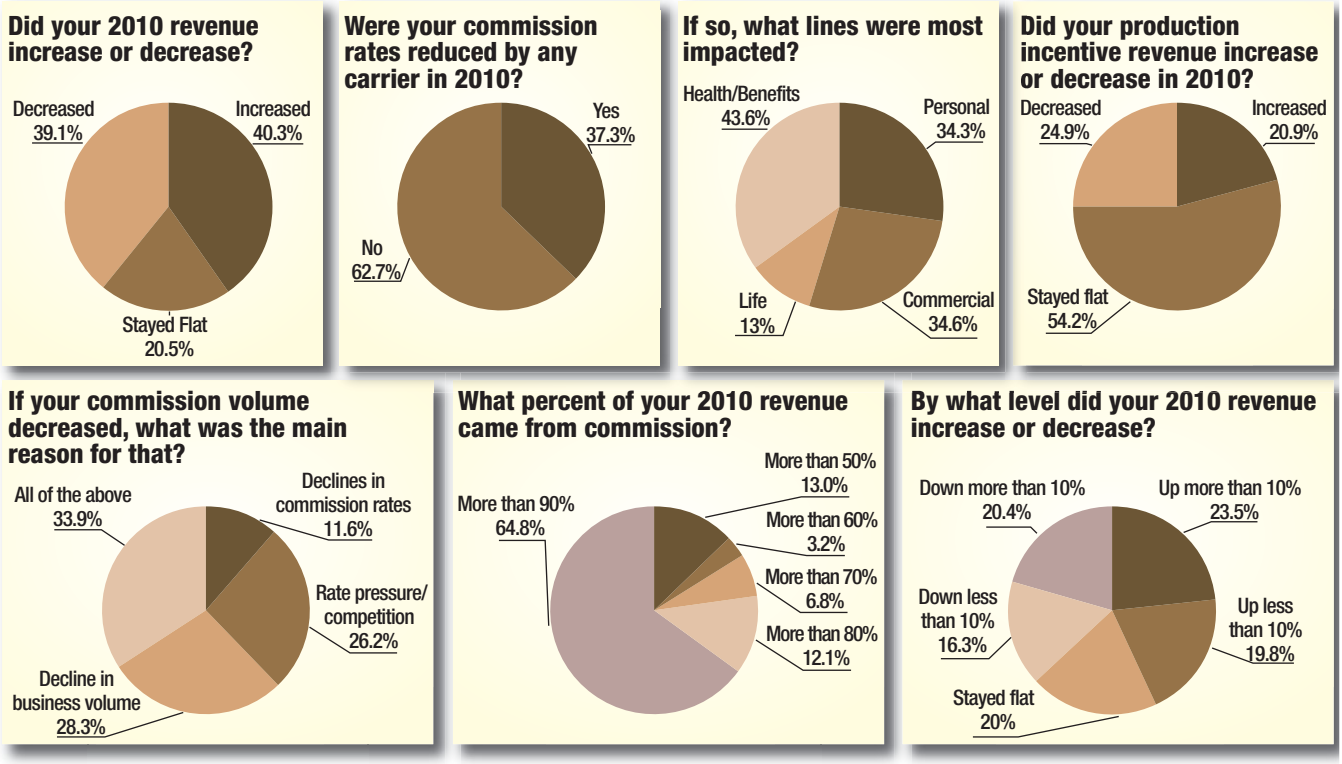
Best's Review Exclusive: Agent Compensation Survey

Best's Review surveyed nearly 2,400 agents and brokers on the revenue pressure they faced in 2010.



(Continued from page 48)
work and effort to meet minimum commitment levels with carriers. E&K has 5,000 clients in New Jersey and a dozen other states. The larger accounts are focused in areas such as construction, retail, distribution, commercial real estate, hotel property management, manufacturing and condominiums.

Auerbach understands that carriers are feeling pressure on their bottom lines. Given the advances in technology, he doesn't think it's a bad idea for agents to handle some front-line work. A carrier recently presented that business plan to him.

"If we hit a certain number in doing our own submissions and bindings, we could get a bonus at the end of the year," Auerbach said.

Channel Tension

Scirocco said the pressure to an agency's top-line commission income is compounded by the need for carriers to aggressively write new business during a fragile economy in order to close the gap on their overall retention ratios.

He said an account that had a $110,000 premium three years ago recently renewed for $65,000 with nominal change in exposure.

"In this case, the exposure was not the issue, but a willingness by the markets to compete heavily for a risk that is marginally profitable," Scirocco said.

Abundant capacity and a weakened economy have left Scirocco pessimistic about 2011.

His outlook is similar to one issued by A.M. Best on Feb. 14, 2011, in a U.S. Property/Casualty Special Report, which is available at *bestweek.com*.

A.M. Best has a negative outlook for the commercial lines segment "because of an anticipated sluggish economic recovery, continued price deterioration, erosion in reserve levels and higher accident year combined ratios."

A continued soft-market cycle won't likely ease tensions between carriers and the agent/broker segment.

Craig Nelson, senior broker in Towers Watson's insurance brokerage business, said continued consolidation in the agent/broker network has placed carriers at the mercy of larger ones that are in a better position to dictate terms. Appointing smaller brokers can result in larger overhead, which drives carriers to insist on minimum premium commitment levels.

Nelson said that there has been a push by carriers to maintain minimum levels.

In some situations, carriers have relaxed the standard in hopes of growing the relationship once the market firms or the agency achieves more success.

"Brokers see the problem as carriers being uncompetitive in the market, and the carriers see the brokers as not being committed to the relationship," Nelson said.

"This difference of opinion takes a lot of trust out of the relationship," he added. BR

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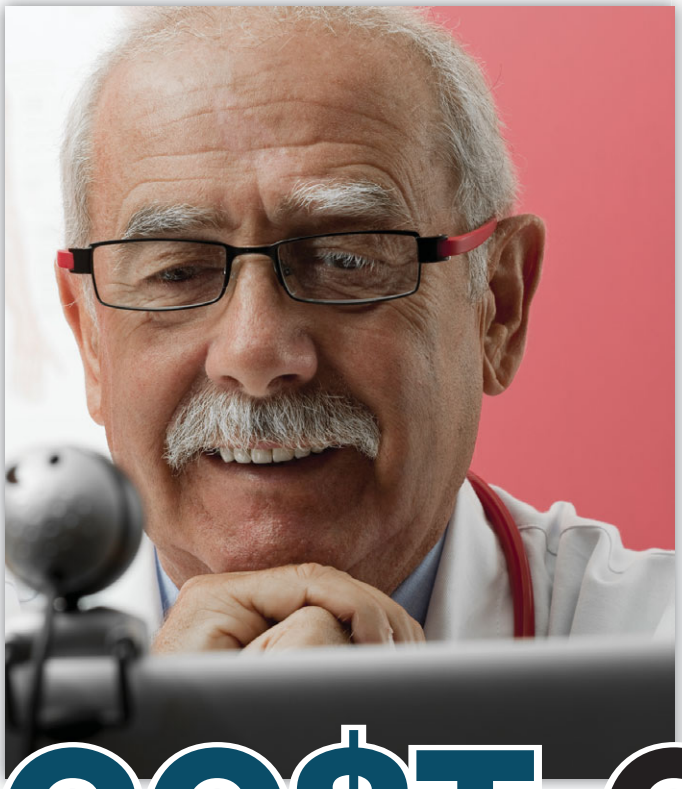
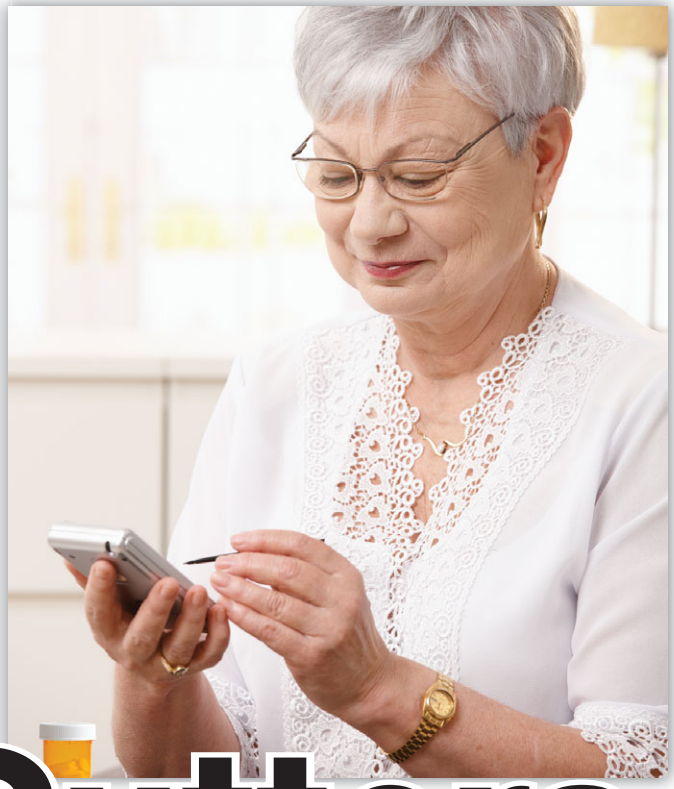




CO$T Cutters

As employer-provided health insurance costs keep increasing, companies and carriers find innovative ways to halt the upward trend.

by Lori Chordas

While many electronic-device prices decline and the cost of homes continues to plunge, the same can't be said about employer-provided health insurance costs.

Those costs are expected to rise by more than 10% globally this year, according to a recent Towers Watson survey.

In fact, the majority of medical insurers surveyed said they expect to see higher medical costs over the next five years.

This year, the average medical cost is expected to rise 10.5%, with respondents in Latin America and North America projecting the largest average medical trend: 13.7% and 11.6% respectively, according to the survey. Only European respondents expect a single-digit average medical trend—9.1%—in 2011.

New medical technologies, along with the overuse of care, have a hand in spiking employer-provided health insurance costs upward. As a result, many employers are increasing employees' financial contributions to their health insurance or are cutting health coverage altogether.

But can innovation extending beyond traditional cost-shifting methods help drive down those costs?

Listen to an interview with Michael Smith at *www.bestreview.com/audio.* Digital readers: Hold cursor over icon for content.

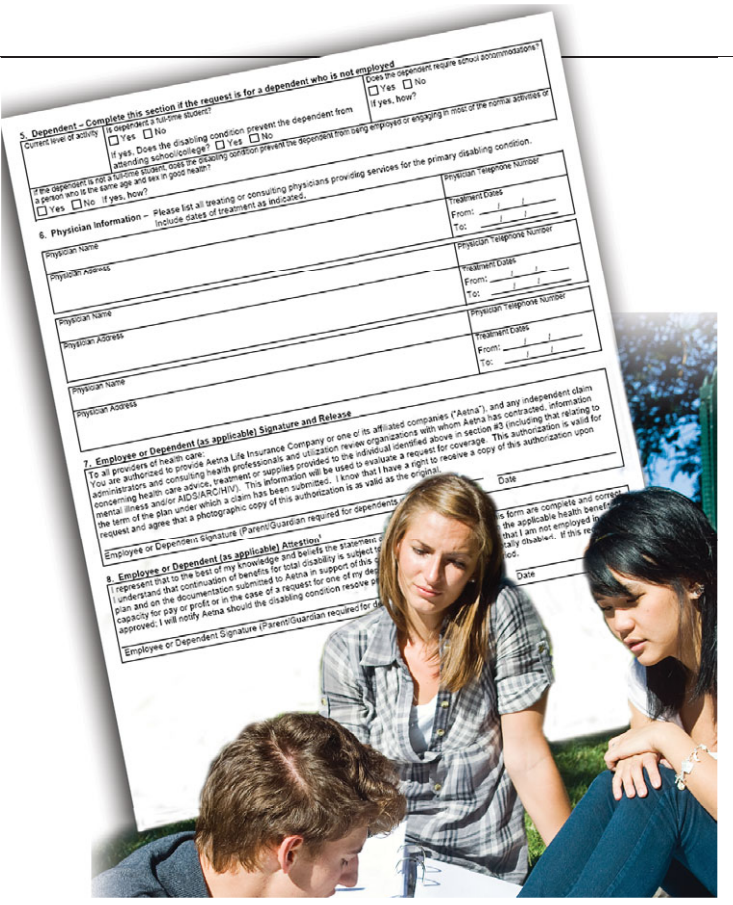
All Is Well(ness)

"The industry is at a turning point now that information and analytic capabilities have been built out," said Maureen Sullivan, senior vice president of strategic services for the Blue Cross and Blue Shield Association.

"Blue Cross and Blue Shield Plans are becoming innovation factories through partnerships with employers, doctors and hospitals to improve the quality of health care, provide affordable coverage

Key Points

- **What Happened:** Between 2003 and 2009, employer-sponsored family health insurance costs increased more than 40%.
- **Current Trends:** Employers are using innovative approaches and cost-sharing methods to drive expenses down.
- **What's to Come:** Health reform may have some impact on these costs beginning in 2014.



IT'S ABOUT SAVINGS: With employer-provided health insurance costs expected to rise by more than 10% this year, many insurers and employers are turning to new programs to reduce costs. They include virtual doctors' visits; offering price comparison of health costs for consumers; and removing ineligible dependents from health plans.

options and help employers with at-risk members."

One growing approach to doing that for many carriers is via lifestyle and wellness programs, which not only improve employee health and productivity but also reduce absenteeism and better manage health care costs.

The Wellness Council of America estimates that a $1 investment in a comprehensive wellness program saves about $3 in health care costs.

Highmark Inc. offers a host of wellness programs to its members, such as its Lifestyle Returns incentive-based product that rewards employees for participating in healthy lifestyle initiatives and receiving preventive care. It's also built a number of local wellness centers for its employees to take advantage of cardio- and strength-training, exercise classes, nutrition counseling, stress management and seated massages.

In a newly released study, Highmark noticed substantial savings for group customers once a work site wellness program was established. The four-year study found that when employers consistently offered a wellness program to their employees, health care costs rose at a 15% slower rate among wellness participants than a comparison group. Savings per participant was $332, Highmark said.

UnitedHealth Group's Personal Reward program also centers on behavior change. Enrollees are rewarded for taking a more active role in improving their health and wellness. Leveraging its Consumer Activation Index, which helps identify which health conditions have the greatest impact on a population of employees and an employer's bottom line, the program provides members with personalized online scorecards that identify specific health goals based on health status, lifestyle and personal health needs.

Employees who complete recommended steps earn credits toward incentives offered by their employer, such as savings on monthly premiums, a deposit into a health savings account or a one-time financial payment, said Chief Medical Officer Dr. Sam Ho.

Lockton Benefit Group takes a somewhat different approach via health-risk management strategies that bring risk management principles to a health plan, said President Mike Brewer.

"In any plan, there is a group or subgroup of individuals that is less healthy than the group as a whole. It's important to identify those risks and help those individuals make better decisions about their health care to hopefully improve their health and reduce their cost of care."

Using sophisticated data analytics tools, "we identify those groups and subgroups that are at risk for obesity, smoking, diabetes," he added. "We assign them a risk score and help employers develop a strategy and contract with vendors to address the health care needs of those individuals."

The payoff? "We've seen people with double-digit trends have those trends cut in half with aggressive and robust health-risk management strategies," noted Brewer.

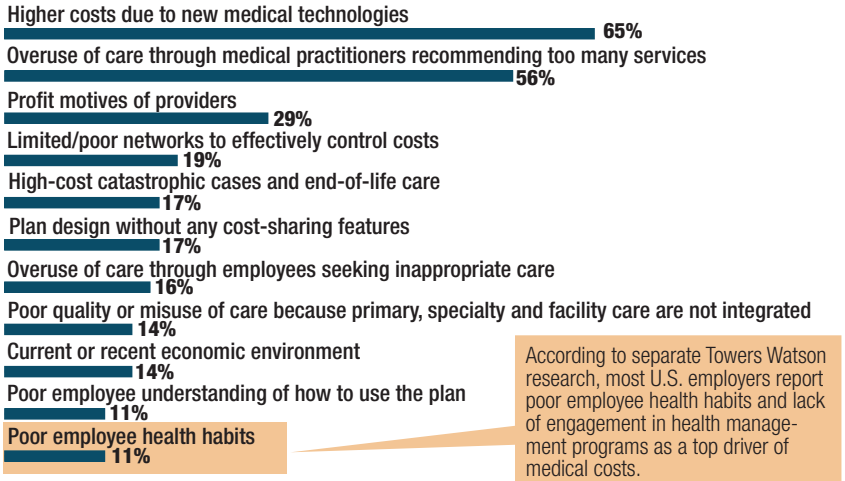
The majority of respondents to Towers Watson's survey said they plan to add some form of wellness feature to their health care offerings. Globally, nearly 75% offer employees lifestyle and health education programs, while 63% provide personal health assessments and 40% offer chronic condition or disease management programs.

Employers and health plans have seen costs rise so quickly that there's "a sea change in the willingness to experiment and take on new approaches."

—Maureen Sullivan, Blue Cross and Blue Shield Association

Cost Drivers

Considering the countries in which you provide medical insurance, what are the three most significant factors driving medical costs, per person?



According to separate Towers Watson research, most U.S. employers report poor employee health habits and lack of engagement in health management programs as a top driver of medical costs.

Note: Participant-weighted estimates
Source: Towers Watson

Good news for smaller employers: Beginning this year, they're eligible for grants to help initiate wellness programs. In 2014, employers will be allowed to reward employees up to 30% of the cost of coverage for participating in a program.

Out of the Equation

Removing ineligible dependents from the cost equation is another innovative approach to cost containment.

ConSova offers health care eligibility verification to identify employees' dependents such as ex-spouses, or children who have dropped out of college and should not be on their health plans.

Over the past seven years, the Lakewood, Colo.-based company has generated more than $550 million in savings for clients, said Chief Executive Michael Smith.

Dependent ineligibility audits not only identify deliberate falsifications to uncover immediate cost savings, but also help companies clear up inconsistencies or areas of confusion in their eligibility requirements, he said.

For instance, dependents can be erroneously admitted to a plan because employees don't understand the dependent definitions.

"With the dependent eligibility changes imposed by health care reform, we're seeing ineligible rates range from 7% to 10%," said Smith. One of ConSova's clients identified more than 725 ineligible dependents, to a tune of nearly $2.2 million of savings in the first year.

Each year, insurers issue millions of dollars in overpayments due to duplicate payments, improper coordination of benefits and provider contractual overpayments, he said. "Our receivable monitoring process can produce recoveries up to 2% of annual paid claims."

Employers' use of audits or eligibility and enrollment reviews in their health plans climbed 14% between 2008 and 2010, according to a Towers Watson report.

Another approach to driving down health coverage costs removes things like paper gowns

Price Check

Employers and carriers are trying to drive greater transparency of health care costs into employees' hands.

That's especially useful for those in consumer-driven health plans like health savings accounts and high-deductible plans, where price sensitivity is heightened for frequent health care purchases.

Earlier this year, Blue Cross and Blue Shield plans unveiled a new tool that sheds light on the cost of 59 of the most common elective procedures for inpatient, outpatient and diagnostic services at specified area hospitals, ambulatory surgery centers and free-standing radiology centers nationwide in nearly every ZIP code. Cost estimates are developed using claims data from 12 months and provide consumers with a cost range for a specific procedure.

Dr. Sam Ho

For UnitedHealth Group members, its Premium Designation program recognizes physicians and specialty centers that meet or exceed quality-of-care and cost-efficiency standards, said Chief Medical Officer Dr. Sam Ho.

Hospitals and doctors in 20 specialties are evaluated based on industry standards, evidence-based and medical society standards and guidelines from medical organizations and governmental agencies such as the National Committee for Quality Assurance, along with scientific advisory boards.

Ho said UnitedHealth is narrowing that information down to the 10 most common elective procedures, such as gall bladder surgery and hip and knee replacements.

"Employers are asking for condition-specific transparency to know quality and cost in any given market to share with consumers," Ho said.

and waiting rooms from the health care equation.

Cigna is among a growing list of carriers that routinely cover virtual medical visits for various maladies.

In 2009, about 40% of physicians were communicating with patients online, up from about 15% five years before, according to the technology-focused firm Manhattan Research.

Since 2006, Cigna's eVisits allow customers to consult with their physicians via a secure website about non-urgent medical needs, such as follow-ups on chronic conditions, allergies or sore throats.

At no charge, customers can perform administrative tasks such as refill prescriptions, schedule or cancel appointments, view lab results and request a referral online.

Amrita John, director of product development, said that after customers answer a series of questions, they receive a response from their physician within eight hours. The cost for employers averages around $30, and members pay their plan's defined copay or coinsurance.

That's a significant saving from a general office visit that typically runs upward of $80, she noted.

"The visits improve productivity and lower absenteeism because patients aren't sitting in a doctor's office. Rather, they're communicating via computer or getting a prescription without taking time off of work," John said.

Aetna offers a similar program, known as webVisits. In February, it took the idea a step further by rolling out to members, in most fully insured medical plans in Texas and Florida, the option of accessing non-urgent care over the phone.

Aetna members contact a participating local Teladoc doctor, who calls the member usually within 20 to 30 minutes.

A summary of each consultation is captured in an electronic health record. The cost of a consultation, available around-the-clock, is $38 or lower, depending on the member's specific plan. Copays, deductibles and coinsurance apply, and consultations are a qualified expense for health savings accounts, flexible spending accounts and health reimbursement accounts.

'Virtual' doctors' visits "improve productivity and lower absenteeism because patients aren't sitting in a doctor's office."

—Amrita John, Cigna

Earlier this year, Blue Cross and Blue Shield of Minnesota launched a "virtual clinic" to all Minnesotans to receive a live, 13-minute physician consultation on a broad spectrum of conditions via webcam, voice and instant messages, said Sig Muller, vice president of business development.

Users are charged a $45 flat fee directly to their credit card, or employers can subscribe to the online service to offer employees and their families unlimited access.

In terms of savings, Muller said 87% of users indicated they would have gone to an emergency room or had an office visit if not for the online consultation, "so that's real tangible savings versus the cost of those visits."

Onward Bound

This year, employers can expect to pay about $7,612 in health care premiums per employee, according to Aon Hewitt.

That's leading to "a sea change in the willingness to experiment and take on new approaches," said the Blues Association's Sullivan.

With that come some challenges, however.

"As extensive as innovation and pilots are, many Blues Plans are waiting to see results before they expand. That can take 12 to 18 months," she said. "The need to bring costs under control is immediate, but it will take time for us to make that happen as we roll out innovation in the market based on what works and across different communities."

Will health reform legislation have an impact in this area?

"There's an added urgency with health insurance exchanges," said Ho. Coming in 2014, those exchanges will assure individuals and small employers that plans include essential benefits and protection against high medical bills.

"Employers are keenly interested in [the exchanges] because they'll be a new marketplace for plans to be offered to individuals and small group markets," Ho said.

"All employers will have an opportunity to review whether they can have more-competitive plan designs offered through exchanges. Health care costs and premiums will be more important than ever." BR

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Regulatory/Law

Special Interest

New York's high court clarifies the ground rules for stranger-owned life insurance transactions in the Empire State.

by Donald B. Henderson Jr. and Allison J. Tam

This past November, New York's highest court ruled that stranger-owned life insurance, called STOLI, does not violate New York's insurable interest law if the insured is the applicant for the policy.

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Henderson


Tam

Although widely reported, the ruling in *Alice Kramer v. Phoenix Life Insurance Co. et al* may have only a limited impact inside and outside of New York. The decision is based on the precise language of the New York statute; further, a new life-settlement law went into effect in New York earlier this year.

All states require that a person procuring a life insurance policy have an "insurable interest" in the life of the person insured when the policy is purchased. An insured has an insurable interest on his or her own life. In addition, state laws generally define insurable interest to include an interest "engendered by love," as in family relationships, or a substantial economic interest in the insured's life. If there is no insurable interest, the policy is an illegal wagering contract.

The stakes are high. In most states, if there is no insurable interest, the policy is void. The insurance company

Key Points

- **The Situation:** In a landmark ruling, New York's highest court outlines conditions that allow STOLI transactions to continue.
- **The Background:** The court's decision analyzes the "intent" of the insureds and the investors who engage in STOLI purchases.
- **The Outcome:** The ruling was limited to New York STOLI cases and its impact in other states' cases is uncertain.

is permitted to rescind the policy and return the premium paid, though the requirement to return the premium is being challenged by insurers, with some success. Either way, the death benefit will not be paid. In other states, including New York, the policy remains in force and the death benefit is paid, to the insured's estate.

In 2008, a New York federal court held in *Life Product Clearing LLC v. Angel* that under New York law the validity of a life insurance policy depends on the policy owner's intent at the time of purchase. The court held that a policy is unlawful if purchased by the insured with an intent to sell the policy in the life-settlement market. The court found New York's common law requirement of "good faith"—a genuine intent to obtain insurance protection for a family member or another person who has an insurable interest—still applies in New York.

Other Views of 'Intent'

Contrasting with the *Angel* case, the Maryland federal court, applying Arizona law, held in *First Penn-Pacific v. Evans* that the insured's intent to sell a policy soon after issuance did not mean there was no insurable interest when the policy was purchased, if no third party was involved in the plan.

In *Evans*, the insured applied for a $2 million policy from First Penn-Pacific but did not disclose that he was also applying for large amounts of coverage from other carriers. On the day the application was approved, he contacted a life settlement broker about selling the policy. The broker found a buyer for the First Penn-Pacific policy and for the other policies purchased by the insured.

Among other theories, First Penn-Pacific claimed that the policy was invalid because the defendant intended to assign the policy when he applied for it, so therefore the insured had no insurable interest.

The *Evans* court held that where an insured is working with an assignee to purchase a policy on his or her life, the assignee could be considered the real purchaser of the policy. The court found that in this circumstance, however, there was no scheme that involved other parties working together with the insured to procure the policy and to then purchase it from him. The court further held that once the policy was issued, it was an asset that the insured was free to sell.

Similar to *Evans*, in *Sun Life Assurance Co. of Canada v. Paulson*, the Minnesota federal court, also applying Arizona law, held that it is not fraudulent for an insured to obtain policies on his or her own accord with the intent to sell them.

In the *Paulson* case, an insured purchased seven policies on his life from Sun Life, with the help of two insurance agents. After the contestability period expired, the agents, now acting as life settlement brokers, arranged for certain policies to be sold to three different life settlement providers.

The court found no evidence that the insured had any contact with the life settlement providers prior to, or contemporaneous with, his purchase of the policies or that any of them paid the policy premiums. Sun Life argued that the insured's intent to transfer the policies at the time of purchase rendered them void. The court held, however, that for there to be no insurable interest, there must be an identified third-party buyer for the policies at that time.

The *Kramer* Decision

In the *Kramer* case, the decedent, Arthur Kramer, established two trusts to purchase life insurance on his life. His children were the beneficiaries of these trusts. Shortly after the policies were issued, the children sold their interests in the trust to unrelated investors. Allegedly, neither Kramer nor his children paid any premiums on the policies. Presumably, the premiums were paid by the unrelated investors.

Following Kramer's death, his widow Alice filed suit in federal court alleging that the policies violated New York's insurable interest law and, as a result, the death benefits should be paid to Arthur Kramer's estate.

The federal court asked the New York Court of Appeals to interpret the state's insurable interest law.

Section 3025-b-1 of the law—concerning individuals obtaining life insurance on their own lives—provides that:

"Any person of lawful age may, on his own initiative, procure or effect a contract of insurance upon his own person for the benefit of any person....

"Nothing herein shall be deemed to prohibit the immediate transfer or assignment of a contract so procured or effectuated."

Section 3025-b-2 of the law, concerning a person's ability to obtain life insurance on the life of another, provides that:

"No person shall procure or cause to be procured, directly or by assignment or otherwise, any contract of insurance upon the person of another unless the benefits under such contract are payable to the person insured or his personal representatives, or to a person having, at the time when such contract is made, an insurable interest in the person insured."

Alice Kramer argued that Section 3205-b-2 applied, since under the arrangement the investors were the real parties in interest, and were, in effect, purchasing life insurance on the life of her husband. She also argued that Kramer did not purchase the policy on his own initiative, as required under Section b-1. Following the reasoning of the *Angel* case, she further claimed that under common law a policy must be purchased in good

faith without circumventing the insurable interest requirement.

The New York court held that section 3205-b is clear and unambiguous. As long as the insured is the applicant for the policy and acts "on his own initiative"—meaning "free from nefarious influence or coercion"—he can procure the policy for the benefit of a stranger, the court said. The court went on to rule specifically that there is no longer an intent or good-faith requirement under New York law, and that any such requirements under common law have been replaced by section 3205-b.

The *Kramer* decision is important because many policies sold in the life settlement market were originated in New York prior to 2010 and the case should cut off debate about the legitimacy of those policies. The case should also have the effect of nullifying the reasoning of the *Angel* case. Nevertheless, the case may have little impact in other states that do not have a statute with language similar to New York's, and which continue to look to common law.

New Life Settlement Law

New York adopted a life settlement law, effective May 2010, that prohibits STOLI and prohibits the sale of a life insurance policy within two years of issuance.

The law defines STOLI as "any act, practice or arrangement, at or prior to policy issuance, to initiate or facilitate the issuance of a policy for the intended benefit of a person who, at the time of policy origination, has no insurable interest in the life of the insured."

One part of the law says that "no person shall directly or indirectly engage in any act, practice or arrangement that constitutes [STOLI]" and authorizes the New York State Insurance Department to take enforcement action against lawbreakers. This should deter STOLI transactions in New York.

The life settlement law also says that any person who has been injured by violation of the STOLI provisions "may bring an action to recover damages suffered by reason of such violation." The extent to which this private right of action for damages will give an insurer or an estate any rights to challenge a policy is not yet clear.

The *Kramer* decision is important because many policies sold in the life settlement market were originated in New York prior to 2010 and the case should cut off debate about the legitimacy of those policies.

Analyzing *Kramer*

The New York court could have reached one of three conclusions in rendering its decision on *Kramer*:

1. That the common law good-faith requirement still applies in New York.
2. That common law no longer applies, but section 3205-b requires that the policy purchase not be part of a STOLI program designed to effectively allow a stranger to purchase a policy on the life of the insured.
3. That as long as the insured is the policy applicant, there is no longer a "good faith" requirement in New York and no prohibition on STOLI.

The New York court chose the third approach. While this approach has the benefit of creating a "bright-line" test, a convincing argument can be made that the second approach would be better justified by section 3205-b and public policy.

In rendering its decision, the New York court focused on the language of section 3205-b-1, which permits an insured to procure a policy on his own life for the benefit of any other person, so long as he does so on his "own initiative."

The court then interpreted "own initiative" to mean that the insured was not coerced into making the purchase.

Nevertheless, section 3205-b-2 prohibits the procurement of insurance by a stranger either directly or "by assignment or otherwise." The New York court cites, but does not discuss, how this section could be interpreted as being compatible with a prohibition on STOLI.

The court makes no attempt to determine whether the investors procured life insurance on Kramer "by assignment or otherwise" and effectively read this language out of the statute.

Since Kramer and the investors had prearranged plans for the policies to be transferred to the investors, it is difficult to see how the transactions do not fall under the "by assignment or otherwise" provision of section b-2. Under this interpretation, the phrase "on his own initiative" in section 3205-b-1 would be interpreted as meaning not being part of a prearranged plan to sell the policy to an identified purchaser.

Such an interpretation would be compatible with the rulings in the *Evans* and *Paulson* cases. It would also effectively overrule the discussion in the *Angel* case that there is a New York requirement that policies be purchased "in good faith," without an intent to sell the policy to a stranger.

Under this interpretation, the insured's intent would be irrelevant, as long as the purchase is not part of a STOLI transaction. This interpretation would also promote the long-standing public policy in New York of discouraging the procurement of insurance by a stranger as a wager on the life of the insured. BR

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Regulatory/Law

By Howard Mills

Listen to an interview with Howard Mills at *www.bestreview.com/audio.* Digital readers: Hold cursor over icon for content.

Now Arriving...

Insurers are up to their knees in federal regulation, even without an optional charter.

Generations of parents have cited this warning to their children: Be careful what you ask for, you may get it! That thought sprang to mind as I considered the decades-old debate over an optional federal charter.

Many in the insurance industry have long wanted the option of a federal, in lieu of a state, regulator. But now that federal involvement in insurance regulation (not optional) is closer than ever, the industry may have just cause for trepidation.

The hodgepodge of state regulation could well be replaced by an alphabet soup—FRB, FSOC, FIO, SEC, FDIC, OCC—of multiple overseers and compliance standards. Insurers owning thrifts, for example, soon will find their supervision shifted from the Office of Thrift Supervision to three other agencies, with stricter capital requirements and little effective time left to prepare for the new reporting requirements.

The cost of compliance with new rules already in place may be high.

Buyer's remorse is understandable if what is happening on the Financial Stability Oversight Council is a guide to the future. Two of the three FSOC insurance industry members have not been named, including the presidential representative and sole voting member, and the director of the Federal Insurance Office. Yet, FSOC already has proposed the criteria it will apply in considering whether to designate non-bank financial companies as systemically important under Dodd-Frank.

This sparked bipartisan unity when four members of the House Financial Services Committee wrote President Obama, demanding the insurance-related seats be filled without delay since "FSOC is currently at work developing rules, procedures and policies that will have long-term effects" on the insurance sector.

The NAIC complained that Treasury was blocking its representative, the only insurance industry specialist on the panel, from using the resources necessary to properly do his job. Major trade groups—ACLI, PCI, AIA and RAA—sent a joint letter to Treasury Secretary Tim Geithner, asking that decisions affecting insurers with regard to the proposed rule be deferred until the two insurance members are seated. No one knows when that will be, since at press time, no director had yet been named for the FIO.

On July 21, OTS cedes power to the OCC to regulate federal thrifts, and the FDIC will have supervisory, though not rulemaking authority, over state thrifts. The cost of compliance with new rules already in place may be high. Currently, for example, reporting for insurers owning thrifts is largely done on a business-unit basis. Going forward, information will be aggregated on a global basis, in a consistent format and in accordance with regulatory standards (e.g. risk weightings). Staffing may need adjusting to reflect the increased reporting needs and the specialized knowledge now required to meet those needs.

New technology may be necessary. A regulatory reporting technology solution will need to be implemented and interfaced with existing information systems.

So, a look at federal regulation shows the industry is either being overlooked, told to wait, or facing additional regulatory burdens on a short timeline. The one thing there isn't is an optional federal charter.

Current federal regulation may not be what the industry asked for.

It is, however, what we have—and we need to be prepared. BR

Best's Review *columnist Howard Mills is chief adviser for the Insurance Industry Group at Deloitte LLP and a former Superintendent of the N.Y. Insurance Department. He may be reached at* insight@bestreview.com.

LOOKING IN THE RIGHT PLACES: Richard de Haan, principal in Ernst & Young's Insurance and Actuarial Advisory Services practice, says reinsurers are looking at markets for their services against the different and varying regulatory frameworks that are changing the industry.

Facing the Challenge

The soft market, pending regulatory changes and fallout from the financial crisis combine to make life difficult for reinsurers.

Kim Bjorheim for *Best's Review*

by Ron Panko

For reinsurers, today's economic environment is characterized by market-cycle pressure, low interest rates and tightening regulation, both in the United States and abroad. In this uncertain climate, reinsurance companies are doing all they can to sustain and grow their businesses.

According to an A.M. Best Global Reinsurance Special Report from September 2010, reinsurers have been looking at every aspect of their operations, from capital management to underwriting discipline to the size of their balance sheets.

Two experts—one a New York-based actuary and consultant, the other a Bermuda-based chief financial officer—provide an overview of how reinsurers are dealing with these challenges.

Ernst & Young: Life Reinsurers Cautious About Regulatory Changes

Life reinsurers are currently grappling with uncertainty about the changing regulatory environment, according to New York-based Richard de Haan, principal in Ernst & Young's Insurance and Actuarial Advisory Services practice.

"Reinsurers are cautiously viewing what their opportunities are," he said. "They're looking at where there is a market for their services against the different and varying regulatory frameworks that are changing our industry. Use of capital for growth will then be determined by how much is really available for them to use."

In the United States, the National Association of Insurance Commissioners is reviewing its Risk-Based Capital framework. And in Europe, Solvency II will be in place in 2013, but its exact rules are still being

Key Points

- **The Trend:** Today's uncertainties are tied to the soft cyclical market, plans for regulatory tightening and low interest rates.
- **The Significance:** Decisions on how to manage and deploy capital are vital to staying healthy in trying times.
- **What Needs to Happen:** For property/casualty reinsurers, a catalyst that leads to a hard market; for life reinsurers, a stronger economy.

finalized. "There's a general sense of where it is going to go, which is to increase the required capital levels that insurers and reinsurers need to keep," said de Haan. "But exactly by how much is yet to be determined."

Adding to the uncertainty is that U.S. regulators will want their supervisory regime to become Solvency II-equivalent, de Haan added.

So what should life reinsurers be doing with their capital?

Certainly, they should continue to try to consolidate. "Their game is about aggregating risk, and scale is an advantage," said de Haan. One way to achieve that is acquisition of blocks of business, and he said a number of reinsurers are very active in that space, or are trying to be.

Reinsurers also are being cautious about taking on variable annuity risk. "The VA business has gone through its trials and tribulations and has caused a lot of direct writers to re-evaluate their exposure and implement risk-mitigation strategies," said de Haan. "The reinsurers obviously would be very selective in how they approach that marketplace."

In particular, the industry is being very careful about variable-annuity living benefits, particularly the guaranteed lifetime withdrawals.

"These are much more difficult risks to off-lay, simply because the cost of capital that backs it and the economic cost of covering the risk is going to be a lot more expensive now for a direct writer," de Haan said. "Reinsurers have not entirely backed away from that segment, but in general, most of them are probably not in the VA reinsurance game anymore."

An area that continues to be a primary focus is mortality, which has been profitable for reinsurers. Direct writers, however, have taken note and have decided it's probably better to retain mortality risk than to reinsure it, de Haan said.

In fact, direct writers have become more selective around their use of reinsurance. For example, from 2001 to 2008, a large element of reinsurance by volume was associated with two new regulatory standards—Triple X, which upped required reserves for the level-premium term life business, and A-Triple X, which increased reserves for universal life insurance with secondary guarantees.

"As capital markets solutions evolved, direct writers ceded less of this business to reinsurers," he said. "The financial crisis in 2008 again changed the landscape, making the capital market solutions a lot more expensive. Recent innovations have involved reinsurers partnering with banks in providing capital market solutions. This has provided reinsurers an opportunity to play."

Reinsurers certainly have a significant amount of capital, but de Haan said that measuring excess capital depends on the lens one

Watch an interview with Richard de Haan at *www.bestreview.com/video.* Digital readers: Hold cursor over icon for content.

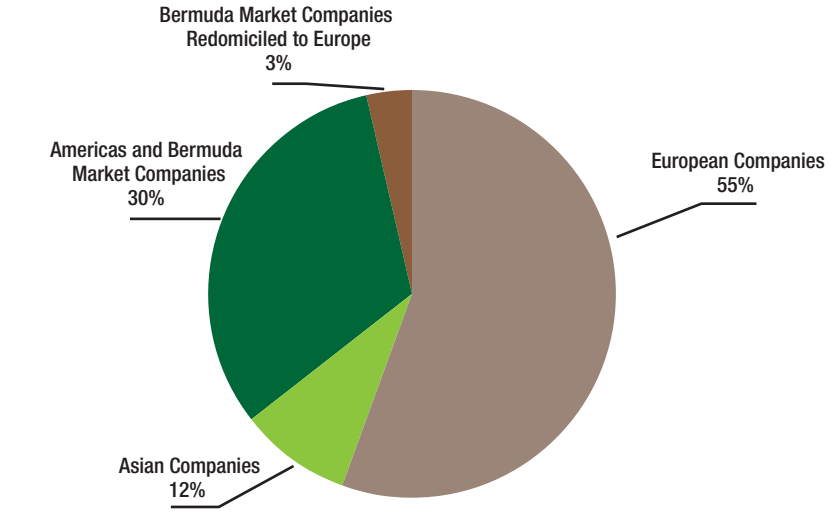
U.S. Life – Leading Reinsurers (2009)

($ thousands)

Company	Amt. of In-Force Non-Affiliated Business
RGA Reinsurance Co.	$1,459,868,074
Swiss Re Life & Health America Inc.	1,211,568,861
Canada Life Assurance Co. USB	976,029,502
Munich American Reassurance Co.	768,103,584
Hannover Life Reassurance Co. of America	699,449,853
Transamerica Life Insurance Co.	672,841,073
Security Life of Denver Insurance Co.	505,749,147
Generali USA Life Reassurance Co.	485,487,930
Lincoln National Life Insurance Co.	371,284,386
Berkshire Hathaway Life Ins Co. of Nebraska	346,560,665
Employers Reassurance Corp.	324,426,429

Source: A.M. Best Co.

Global Non-Life Reinsurance – Gross Premiums Written by Region (2009)



Source: A.M. Best Co.

"When you combine [the soft market] with the fact that risk-free rates are at historically low levels, it's very tough for the industry to earn a solid return on equity."

—Michael McGuire, Endurance Specialty Holdings Ltd.

applies, whether it's a pure entity in the United States subject to RBC guidelines, or its global ultimate parent that would reside in another jurisdiction that might be subject to Solvency II or some other regime.

"Most reinsurers have a global footprint," he said. "The game of reinsurance is really to aggregate risk. What reinsurers like to do is diversify as much risk as they can, not only around lines of business, but geographically….

"Reinsurers are certainly more adept at moving capital and risk around the world than just a pure direct writer would be. And that is one of their competitive advantages."

But from an investment-strategy perspective, the liability profile of life reinsurers is similar to direct writers'. Among their current concerns are the low interest-rate environment and asset deterioration on a mark-to-market basis under international financial regulatory standards and asset impairment rules in U.S. Generally Accepted Accounting Principles.

"From a pure investment perspective, they have fairly similar asset investment strategies," de Haan said. "They wouldn't be as much in illiquid assets, such as real estate, as a long-term life insurer would be, but they would manage their assets to liabilities in a similar way."

Endurance Specialty Holdings: Exploiting its Advantages

A majority of property/casualty reinsurers are trading below book value, said Michael McGuire, chief financial officer with Bermuda-based Endurance Specialty Holdings Ltd.

"Those are things out of any company's control," he said. "Part of the reason is that institutional investors can easily overlook the P/C insurance and reinsurance sectors. If you add up the market cap of the P/C industry in the U.S. and Bermuda, other than Berkshire Hathaway, the total is approximately that of ExxonMobil by itself."

A.M. Best's 2011 Global Non-Life Reinsurance Outlook

For the fifth consecutive year, A.M. Best Co. is maintaining a stable outlook in 2011 for the global non-life reinsurance industry. The current outlook implies that the majority of 2011 reinsurer rating actions are likely to be affirmations, with only a modest number of anticipated rating or outlook changes.

The outlook reflects A.M. Best's view that the majority of global reinsurers continue to maintain a very strong capitalization position, which should provide sufficient cushion for most companies to withstand the continuing soft reinsurance market that is entering its fifth year. Meanwhile, 2010 is proving to be a reasonable year in terms of underwriting performance, bolstered by the absence of a major U.S. hurricane and continued favorable reserve development, which has helped to mitigate losses incurred from a rash of global catastrophes occurring mostly in the first half of the year. The continuing recovery in investment markets further enabled the segment to regain capacity in terms of both realized and unrealized investment gains. Net investment income, while positive, is a noticeably smaller component of the bottom line, as investment yields continue to shrink against a growing invested asset base.

The top line is also under pressure as reinsurers continue to maintain underwriting discipline and ceding companies choose to retain larger shares of their books of business. Over the past several years, reinsurers have shifted their focus to underwriting shorter tailed classes, where pricing has proven to be more attractive, especially given the current investment yield. This discipline, however, is absolutely necessary to mitigate future underwriting losses, which inevitably will emerge from underpriced long-tail casualty classes, and could be compounded by the future threat of inflation. This shrinking demand for reinsurance capacity has necessitated more stringent capital management from reinsurers, which overwhelmingly has been in the form of share repurchases. Merger and acquisition activity has been fairly muted thus far because of depressed valuations, which is also a concern for financial flexibility. However, capital markets recently have been receptive to debt financing, for which there has been a recent uptick in issuances to facilitate capital management initiatives.

Excerpted from A.M. Best Co. Briefing, "Global Reinsurance 2011 Outlook." The complete report is available at bestweek.com.

Among the challenges the industry faces is a soft market. "When you combine that with the fact that risk-free rates are at historically low levels, it's very tough for the industry to earn a solid return on equity," McGuire said.

But he also said that Endurance's valuation is above the average of companies against which it competes, due to its track record of excellent risk management and the franchise's ability to generate above-average returns on equity. Endurance's business is well-diversified, both by business line and geography, and the portfolio is skewed toward more specialty and shorter-tailed classes of business, which should perform better through a softening market.

The company uses both vendor and proprietary models as tools to assist underwriters to better understand the risks they accept and how each risk affects Endurance's overall portfolio.

Overall, about half of Endurance's business is insurance-based; the remaining half is reinsurance. On the insurance side, about 23% of total business is multiperil crop insurance underwritten as part of the federal crop insurance program. The crop business is not exposed to P/C market cycles, and underlying trends in the agriculture business are currently bullish because of increasing global demand for agricultural commodities, McGuire said. "It also does not consume a lot of capital," he added.

The company's other insurance lines include its Fortune 1000 insurance business, which is about 12% of total business; a middle-market excess and surplus operation, representing about 9% of total business; and its program business, representing 4%.

On the reinsurance side, some 21% of total business is written by Endurance's Bermuda-based operation. It covers severity risks, including property catastrophe, both in the United States and globally; aerospace and aviation; casualty clash, workers' compensation catastrophe and other specialty lines of business.

"It is a very technical, model-driven market with high margins," said McGuire. "You take a lot of risks, but if you properly assess them and carefully construct the portfolio in such a way that you balance the volatile risks you take, you can be quite successful."

In the U.S. reinsurance segment, which represents 26% of net 2010 premium, Endurance takes working-layer reinsurance risks in which specialty underwriting teams focus on various lines of business.

The lines include agriculture; personal accident; surety; casualty; professional liability; property per risk treaty; small business; and direct treaty.

The international reinsurance segment represents 5% of total premiums written out of offices in London, Zurich and Singapore.

Lines of business include property; personal accident; motor; marine; casualty; surety; and a small amount of trade credit.

Endurance is only about a decade old and has grown its capital base from $1.2 billion to more than $3 billion, McGuire said.

Capital Market Solutions

In 2010, the company repurchased $338 million of stock. Its annual dividend has remained at $1 per share for several years, as the company has taken advantage of being able to repurchase shares below book value.

"Every share we buy back below book value instantly accretes value to our remaining shareholders," McGuire said.

As of February 2011, Endurance had repurchased $321 million of stock from its last remaining founding investor. At its most recent board meeting, Endurance increased its quarterly dividend by 20%.

Last year, Endurance reopened its 2034 debt, and as a result the company raised about $85 million of long-term debt.

In 2006, the company sold a series of catastrophe bonds that provided tail risk protection for some of its peak zone exposures.

In 2007, it struck a deal with counterparty Deutsche Bank in a variable forward sale of equity. Under that deal, Endurance could have issued shares to the bank at a range of predetermined price levels for $150 million in cash at any time during a three-year period. The company did not need the funds and let that deal expire unused.

"In each of these cases, they were enhancements to a more traditional capital structure such as common equity, preferred equity and debt," McGuire said. "Having the ability and the knowledge of capital market solutions, as we do, gives us great options when we need to enhance or add to our capital position."

In the past year, the company has seen improvement in its price-to-book multiple. "Clearly, we think there should be a franchise value applied to a company like Endurance," said McGuire.

"But it is going to take some catalyst event that focuses institutional investors' attention on the property/casualty market space, and that could either be a significant impairment of individual companies within the space or a significant catastrophe loss that impairs the capital position of the industry. Those events could lead to improved pricing terms and conditions that would attract the attention of institutional investors." BR

Learn More

Endurance Reinsurance Corp. of America
A.M. Best Company # 12559
Distribution: Brokers

For ratings and other financial strength information visit *www.ambest.com.*

By
Robert Stein

Listen to an interview with Robert Stein at *www.bestreview.com/audio.* Digital readers: Hold cursor over icon for content.

Storm Clouds Lift

With signs of recovery growing stronger, the insurance industry needs to set strategic priorities.

As we move through 2011, the industry is feeling good about its turnaround and outlook. Sure, there are still a few monsters lurking—real estate exposures, intractable cost levels, increasing regulation. But capital has been restored. Equity markets have moved up smartly. Interest rates are gently rising. Earnings levels and volatility are improving. And sales are picking up after a dramatic crisis-driven decline.

So, with recovery growing stronger, what now should be the industry's strategic priorities? Top on my list is business strategy. But the burden of increased regulation and the impact of external shocks to the economy have to be seriously considered.

These issues help define the context for strategic decision-making and will not be addressed further, except to say that they severely complicate the development of core business strategy.

The uncertain impact of additional regulatory requirements, the unpredictable effects of a European sovereign debt crisis or the ramifications of the political crisis in the Arab world, when added to the fragility of our own economic expansion, only increase the unprecedented volatility that must be considered in developing business strategies and plans.

For this discussion, let's stick to the strategic basics—products, markets, distribution and infrastructure. Each area is closely interrelated with the others; decisions about one cannot be made independently from the others. But let's look at product strategies this time and markets, distribution and infrastructure in the next column.

Perhaps the biggest decision concerns the product set, and therefore the risk profile, that will determine our focus and guide investments. Many companies are well into the process of re-evaluating the risks—and therefore the products—that should be embraced. They are balancing the trade-offs among exposure to equity markets, spread businesses and underwriting risks. Often this manifests itself as reducing aggregate exposure to equity markets and has led many companies to exit, reduce or redesign their commitment to the variable annuities business and to sell asset management businesses.

Many are reinvigorating life insurance businesses that withered while they built savings-product businesses. Others are reexamining their commitment to long-term care insurance, once viewed as a sound base for growth. All are defining how they will attack the asset liquidation market for retiring boomers, which brings significant interest-rate risk, performance risk from the non-fixed income assets needed to support these long liabilities and, of course, longevity exposure.

One thing is certain. The strategic choices made will require the conscious decision of management and the board of directors. No longer will companies accumulate exposures in an ad hoc, reactive or unplanned manner. This is the single most significant arena in which risk management programs must contribute. The industry has emerged intact from the most challenging period it has faced in decades, and those that can integrate sound risk analysis with strategic decision-making will have the greatest chance for success in the very unpredictable future. BR

No longer will companies accumulate exposures in an ad hoc, reactive or unplanned manner.

Best's Review *columnist Robert Stein is vice chairman of global financial services for Ernst & Young and editor of the company's* CrossCurrents *magazine. He may be reached at* robert.stein@ey.com

Life

PRODUCT ADVOCATE: Douglas Dubitsky, vice president in product management for the Guardian Life Insurance Company of America, spearheaded the addition of a single-premium immediate annuity to the company's product suite.

Gaining Favor

Interest in single-premium immediate annuities is emerging among insurers, financial advisers and clients.

by Ron Panko

Kim Bjorheim for *Best's Review*

In 2009, financial advisers that distribute products of the Guardian Life Insurance Company of America started asking about fixed immediate annuities. "We had partners say to us, 'Why don't you guys have one?'" said Douglas Dubitsky, vice president in product management, Retirement Solutions.

Key Points

- **The Trend:** Chastened by the recession, advisers and consumers are starting to show interest in immediate annuities.
- **Behind the Trend:** Individuals have learned that percentage-based systematic withdrawals from depleted assets can decline drastically in volatile markets.
- **Watch For:** Whether insurers can make immediate annuities more attractive for both advisers and clients.

"I was surprised, also," he said. "I've been here about three years, and I very much believe in the value and the importance of the income annuity, especially given today's demographics and marketplace. So that was one of the things I immediately tackled. We needed to have one."

Based on estimates of immediate-annuity purchases in 2010, insurers, advisers and clients are starting to move in that direction. Executives at Toronto-based CANNEX, a real-time central exchange for guaranteed product data and calculation in the United States and Canada, said interest in single-premium immediate annuities is generating higher sales and greater interest by insurers to make them more attractive to distributors.

Gary Baker, president of CANNEX USA, said income annuity sales have more than doubled over the last eight or nine years. Market research firm Limra reported that fixed immediate sales increased 1% in 2010 to $7.6 billion, as opposed to a 27% decrease for all other types of fixed annuities. (See table on Page 70.)

Guardian launched its SPIA in June 2010, in time to coincide with new interest in a product that traditionally had been shunned by advisers. The problem for advisers has always been that SPIA purchases detract from assets under management, a basis for how much advisers earn in their practices.

But clients, too, have had deep reservations about the product. They never liked turning over a big chunk of their assets to an insurer in return for a guaranteed stream of income. And they didn't like that, when they died, there would be nothing from those assets for their beneficiaries.

Current circumstances at least have started to change perceptions. One circumstance is the historically low interest-rate environment. "People are thinking they can't get anything from a fixed annuity or a certificate of deposit, but with an SPIA they can get a decent income stream that is guaranteed," Dubitsky said.

Rates on SPIAs are higher because of the mortality credit that other fixed-income products do not have. The single premium goes into a pool of other product buyers and, as annuitants die, there are fewer annuitants that share in the revenue from the pool.

And, of course, the payments are higher the older a product buyer is because their life expectancies are shorter.

A 65-year-old male, for example, could currently receive more than 7% of the single premium each year for life, guaranteed by the issuer.

Another attraction is the income guarantee. "It's going to be a long time before people forget the damage inflicted on investment portfolios in the last few years," said Dubitsky. "Advisers remember that feeling of having no answer for their clients, and they know they don't want to ever again be in the situation they were in during 2008 and 2009."

Even in a thriving economy, income annuities should be part of people's portfolios, he said.

New Interest

Baker, along with CANNEX chief executive Lowell Aronoff, said the exchange is seeing more effort by insurers to educate advisers on how SPIAs can play significant roles in holistic retirement income planning. For example, life insurance-based advisers might urge a client to use Social Security, a pension and an SPIA to cover essential recurring expenses. The adviser would then be free to deal with other elements of a financial plan, such as estate planning or protection needs.

An investment-oriented adviser whose tools are asset allocation and systematic withdrawals of typically 4% to 5% of client assets might use SPIAs as "super bonds" that pay more than real bonds or CDs in supporting a cash-flow plan.

Such a strategy would take the load off systematic withdrawals from other investments, they said.

For advisers that deal in both life insurance and investments, Baker and Aronoff said SPIAs can be used as income generators in bucketing, or time-segmentation, strategies.

For example, an adviser might establish several five-year buckets, starting with one that covers years one through five. The most immediate bucket would be used to generate income, while the most distant bucket would be used to generate asset growth.

Insurers are also designing products to address long-standing adviser and client objections, the CANNEX executives said.

Watch an interview with Douglas Dubitsky at *www.bestreview.com/video.* Digital readers: Hold cursor over icon for content.

What Annuitants Can Earn*

Single life
Male
Age 65
New Jersey resident
$100,000 single premium
10-year period certain
Top rate quoted: $610.49/mo.
Equates to annual return of 7.33%
Monthly taxable portion: $211.84
Lowest rate quoted: $565.07/mo. (6.78%)
With 20-year period certain:
Top rate of $559.53 /mo. (6.71%)

Joint Life
Husband and wife
Both age 65
10-year period certain
Benefit not reduced if one spouse dies
Top rate quoted: $531.10/mo.
Equates to annual return of 6.37%
Monthly taxable portion: $199.69
Lowest rate quoted: $477/mo. (5.72%)
With 20-year period certain:
Top rate of $522.17/mo. (6.27%)

*Using nonqualified assets (already taxed). Quotes from companies with A.M. Best Financial Strength Ratings of A- (Excellent) or higher.

Source: CANNEX Financial Exchange USA

Fixed Annuity Industry Estimates

$ billion

Type of Fixed Annuity	4Q 2010	4Q 2009	% Change	Total 2010	Total 2009	% Change
Book value	$6.4	$9.5	-33	$29.3	$53.2	-45
Market value adjusted	1.3	1.5	-13	6.0	14.4	-58
Equity indexed	8.2	7.0	17	32.1	29.9	-7
Fixed deferred	15.9	18.0	-12	67.4	97.5	-31
Fixed immediate	1.8	1.8	0	7.6	7.5	1
Structured settlements	1.4	1.3	8	5.8	5.6	4
Total fixed	**$19.1**	**$21.1**	**-9**	**$80.8**	**$110.6**	**-27**

Note: Industry estimates reported for 4Q 2010 based on data from 60 companies representing 96% of total sales.
Source: Limra

For example, SPIAs traditionally have paid front-end commissions, but insurers believe no-load SPIAs might appeal to fee-based advisers, and some also include the SPIA on client statements.

Up to now, liquidity features existed for the beneficiary, such as a period-certain income stream for the first 10 or 20 years on a life annuity. New SPIA designs allow annuitants to change their minds and get back at least part of their purchase payment.

Baker said one new product feature allows annuitants a cash advance of, say, 12 months of payments. Aronoff said some insurers might allow annuitants to cash in the period-certain part of some policies, which he said would stop payments for that period. At the end of the period, payments would resume.

Choosing a period-certain guarantee liquidity option results in a lower payment compared to a straight life annuity. Aronoff said that while inflation can drive down the value of a fixed income, not taking advantage of mortality credits and risk pooling means prospects don't receive income they would otherwise get.

"In addition, the long-duration fixed-income investments on which an insurance company is basing annuities are earning in the 4% to 4.5% range," he said. "The rates can go down from there. No one knows the direction of interest rates. What you want to do is hedge your bets to a certain extent." One way to do that, he added, is to buy SPIAs over time.

Fresh Thinking on Annuities and Retirement

Insurers are working to change the conversation about income annuities, not only in the individual market but also in workplace retirement plans. And they may get some help from Congress.

According to Jody Strakosch, national director of retirement products for MetLife, a bill known as the Lifetime Disclosure Act, S-267, would amend the Employee Retirement Income Security Act of 1974 to require that retirement plans estimate for plan participants how much their account balances would generate in monthly or annual income beginning at age 65.

The bill was reintroduced Feb. 3 and would not require participants to convert assets to an annuity, she said. A similar bill died in December in the previous Congress.

MetLife is working through industry trade groups like the American Council of Life Insurers to urge passage of the bill.

The Insured Retirement Institute also backs the bill.

MetLife also is working on its own to get people thinking about the transition from accumulating assets to taking income. Last fall, MetLife launched an online version of its Income Selector tool, which previously had been available to individuals only through their financial advisers.

Jody Strakosch

Bennett Kleinberg

Bennett Kleinberg, vice president and senior actuary, said the tool helps individuals by asking a series of questions to help them discover how they feel about guaranteed income and having access to their assets.

Based on the answers, it will recommend a product allocation between a number of different investments, including income annuities. Another tool is in development for use by third-party advisers, he said.

The company also introduces into the conversation a deferred annuity known as longevity insurance. In that product, a single premium, often made by people in their 60s, buys a stream of income that begins at age 85.

"It helps with uncertainty about how long an individual will live in retirement by taking that post-85 period off the table, and it helps individuals to take more income before age 85," said Kleinberg. "It helps people to maximize their retirement lifestyles."

The single premium is much lower when income is to begin at age 85 than for the same level of income to begin immediately, he said.

Fidelity Investments is one of the largest sellers of SPIAs, with sales last year of more than $600 million, according to Jeff Cimini, president of Fidelity Investments Life Insurance Co.

The huge financial services company, however, does not underwrite any of that business. Instead, it has a partnership with five insurers, including New York Life, MetLife and MassMutual.

Fidelity Investments Life offers a variable annuity that doesn't have a death benefit; it stopped selling variable annuities with death benefits in 2005.

Instead, Fidelity sells SPIAs of other insurers as part of its holistic financial planning practice through 1,200 salaried financial representatives in 150 branch offices nationwide. "We like that model because it allows us to align the financial planning with our customers' interests," said Cimini. "They principally work on a guidance-and-planning basis."

Beginning Feb. 2, Fidelity launched a 30-day education and investor engagement initiative in which it invited investors and workplace plan participants to one of 200 free, live educational events and seminars. An important part of the program was the online Fidelity Income Strategy Evaluator, *www.fidelity.com/incomestrategy*, which is designed to help investors near or in retirement to assess their income needs and structure a portfolio and withdrawal strategy.

Cimini said the evaluator recommends immediate annuities to people lacking enough guaranteed income through sources like a pension and Social Security. The online evaluator uses the same process that financial representatives use with clients face-to-face or on the phone.

Will the emerging interest in SPIAs have legs, or will it peter out when the economy improves?

Cimini said demographics imply more SPIA use. In 1950, the average retiree lived only a few years after stopping work, but today can live another 20 or even 30 years.

In 1974, about three-quarters of workers retired with access to defined benefit plans, but only 10% do today, he said. BR

Learn More BEST

Guardian Life Insurance Company of America
A.M. Best Company # 06508
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Fidelity Investments Life Insurance Co.
A.M. Best Company # 09138
Distribution: Salaried representatives, direct

Metropolitan Life Insurance Co.
A.M. Best Company # 06704
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Life

By Ronald D. Verzone

Listen to an interview with Ronald D. Verzone at *www.bestreview.com/audio.* Digital readers: Hold cursor over icon for content.

Building a Model Life Sales Force

As the nation's population increases, the number of active life insurance agents is dropping. Not so long ago it was around 250,000; today it hovers at 185,000.

About the only thing that is edging up with life agents is their age. Even among the "actives," some are slowing down and others keep an office just to have a place to go before going to lunch.

Some suggest a major cause for the decline in the life agent census can be traced to life companies abandoning their training programs, while the current "on-the-job" training models seem less-than-compelling for attracting and retaining highly motivated recruits.

Starting out with little or no serious training doesn't seem to be a good way to nurture success.

Some agents are quick to point out that they did it "the hard way." But if there's to be an adequate and properly trained sales force capable of helping consumers meet demanding financial challenges, starting out with little or no serious training doesn't seem to be a good way to do it.

Even so, new agents are entering our industry. Although numbers are illusive, these agents answer telephone calls 24 hours a day from customers who want to buy life insurance policies—via the Internet.

For many in our industry, this is far from ideal, although one might argue that they at least have some protection. What's missing is huge: no needs analysis, no weighing of options, no planning and no input from an experienced insurance professional.

Interestingly enough, there are other agents coming into our business who are trained to do all this, and they are doing it without putting the arm on relatives they haven't seen for years or friends who are barely acquaintances. Remarkably, they are doing it without irritating and alienating the people they care about.

This model is the one State Farm has long been using to grow successful insurance agents, as well as the one Liberty Mutual has rolled out more recently. Best of all, this model doesn't drive new agents out the door, overwhelmed by bitter memories of their failure. On the contrary:

- Agents start out where it makes sense—selling auto and homeowners policies—which gives them the opportunity to learn the business, earn an income, build their confidence and understand what it means to serve customers.
- It's a model that offers an agent a way to build customer relationships, the key component for success in life insurance sales. It also fosters regular contact with customers, so an agent can better understand their interests, goals and needs—the essential preconditions for successful life sales.
- It's also a model that demands continued learning by every agent.
- Whether the first meeting with a client is about auto or homeowners insurance, the agent plants the seed of life insurance.

While these companies may offer less-than-perfect solutions, it is possible to learn from them, particularly since they are growing new, enthusiastic and successful agents, an objective that has long eluded the life insurance industry. BR

Agents coming into the life business are being trained in its nuances, but only after receiving the proper foundation.

Best's Review *columnist Ronald D. Verzone is president of United Underwriters Inc. He may be reached at* rverzone@unitedunderwriters.com.

Crack SHOT

Joseph Chiarello & Co. has carved out a niche in the firearms business.

by Al Slavin

The sales lead came in 30 years ago from a client's accountant.

That accountant knew a businessman who was trying to import replicas of Colt firearms. The trouble was that Colt Manufacturing wouldn't accept the importer's insurance, which stymied the deal.

"So the accountant asked if we could do anything," said Robert Chiarello, president of Joseph Chiarello & Co., which was then a brokerage steeped in maritime shipping. "We actually went to Starr Associates, which was part of AIG at the time."

Chiarello said the hard market was transitioning into a soft market during that stretch of 1979. This import-business prospect held the potential for large premiums and low frequency of losses. Chiarello said Starr decided to underwrite the account.

It marked the beginning of a 30-year-plus bond between American International Group Inc. and Chiarello & Co.'s program business for the firearms industry. The transaction also provided some early momentum for Chiarello & Co.

A year later, Chiarello & Co. landed an account with O.F. Mossberg & Sons, a well-known, family-owned, Connecticut-based manufacturer of shotguns. The third critical piece was added in 1981, when Chiarello was approached by the National Association of Federally Licensed Firearms Dealers to help fill the insurance void that its members were experiencing in a politically volatile atmosphere.

In just three years, the brokerage had established a formidable presence in a sector comprised of gun manufacturers and retailers.

Much has changed along the way. Chiarello said that, in those early days, coverage focused on liability and that AIG preferred not to write the property end. Back then, a seven-question form shared space on a sheet of paper with an advertisement. That submission template has since morphed into a 14-page document.

AT A GLANCE

Joseph Chiarello & Co. Inc.

Founded: 1934

Based: Elizabeth, N.J.

Family Ties: The company's ties to the insurance industry date back 77 years. Company president Robert Chiarello learned the business from his father. Early on, it consisted of writing life, accident and health coverage. That transitioned into property/casualty coverage for marine and stevedoring. The program business for gun dealers and manufacturers started in 1979.

Simply Put: "I used to run binders around, which is how I learned the business. It was always in my blood, even having graduated law school, to be in this insurance business." —Robert Chiarello

Next Generation: Robert's son, Joseph, is company vice president; his son, Stephen, joined the company four years ago.

Kim Bjorheim for *Best's Review*

Robert Chiarello with sons Joseph, left, and Stephen.

"That's because of our experience and what we recognize as being important from an underwriting standpoint," he said.

The National Shooting Sports Foundation pegs the industry for firearms and ammunition manufacturing at somewhere between $4 billion and $5 billion.

As the sector expanded, Chiarello's company grew from three employees to 15. The staff includes his two sons, Joseph and Stephen.

Chiarello said local gun dealers across the country comprise the majority of their book of business on a policy-count basis. They also write coverage for distributors with sales ranging anywhere from $50 million to $500 million.

"So they are the bigger premium part of it," he said.

Other areas of coverage include ammunition and custom firearms manufacturing, gun ranges and gunsmiths.

Coverage is written on admitted paper through what is now Chartis (formerly AIG) subsidiary Granite State Insurance Co., which is licensed in 50 states. Loss-control efforts for dealers focus on theft prevention.

"One of the biggest things we look at from an underwriting standpoint is the security of the building and how the firearms are stored," said Robert's son, Joseph Chiarello, the company's vice president. "In a way, insuring a firearms dealer is like insuring a jewelry store because you have small products that are very expensive and very attractive to criminals."

One difficulty is that criminal liability can become an issue if a stolen firearm injures someone.

Dealers are also coached on vetting purchasers to prevent "straw" sales in which the actual buyer acquires a weapon for someone else. To a large degree, Bureau of Alcohol, Tobacco and Firearms regulations for federal firearms licensees set the standards for sales and auditing of licensee activity.

Chiarello & Co.'s program has a separate endorsement available to cover any revocation measures brought by ATF. An insured who hasn't had a prior problem can receive $25,000 for defense expenses.

Another special endorsement is tailored toward the firearms instructor program.

Robert Chiarello said it evolved in the wake of concealed-carry permits that required a level of instruction before issuance.

"We designed a program that included, as one of the triggers, negligent instruction," Chiarello said. "If someone was injured well after the policy was cancelled but alleged negligent instruction, that policy would still cover it. We had a pretty good run with that."

"In a way, insuring a firearms dealer is like insuring a jewelry store because you have small products that are very expensive and very attractive to criminals."

These aren't the only ways Chiarello & Co. has differentiated itself in the firearms industry.

The company actually helped start an industry-owned captive in Bermuda called Sporting Activities Ltd. Insurance. That captive, formed in 1986, is focused on manufacturers and Chiarello is on its board, along with one of his sons.

"We assist with the underwriting as well as the production, and have reinsurance in excess of $150,000 of each claim," he said.

Chiarello said that, like AIG, the captive has significant experience defending against claims. "It knows who the lawyers are who understand the firearms business, so they don't have to reinvent the wheel each time a claim occurs," he said. "The captive is still in business, although because of the soft market, it's not expanding as it has in the past."

In addition to weathering market conditions over the past three decades, Chiarello & Co. also felt the heat from a wave of litigation brought by cities, municipalities and states that sought to hold gun manufacturers liable for criminal acts committed with guns.

Chiarello said there was a question about whether insurance would cover legal fees, but "AIG stepped up to the plate and defended them."

He said the firearms industry prevailed on two-dozen lawsuits in federal and state courts.

Congress later passed the Protection and Lawful Commerce in Arms Act, which restricted lawsuits against firearms manufacturers in cases of criminal misuse.

"These were very costly lawsuits, but we were successful, so a lot of our insureds have lived through that," he said.

The relationship Chiarello and AIG forged over the years paid off when the insurer stumbled financially in 2008 and required a government bailout.

Chiarello said it was frightening to contemplate that the program business he spent decades building could come apart.

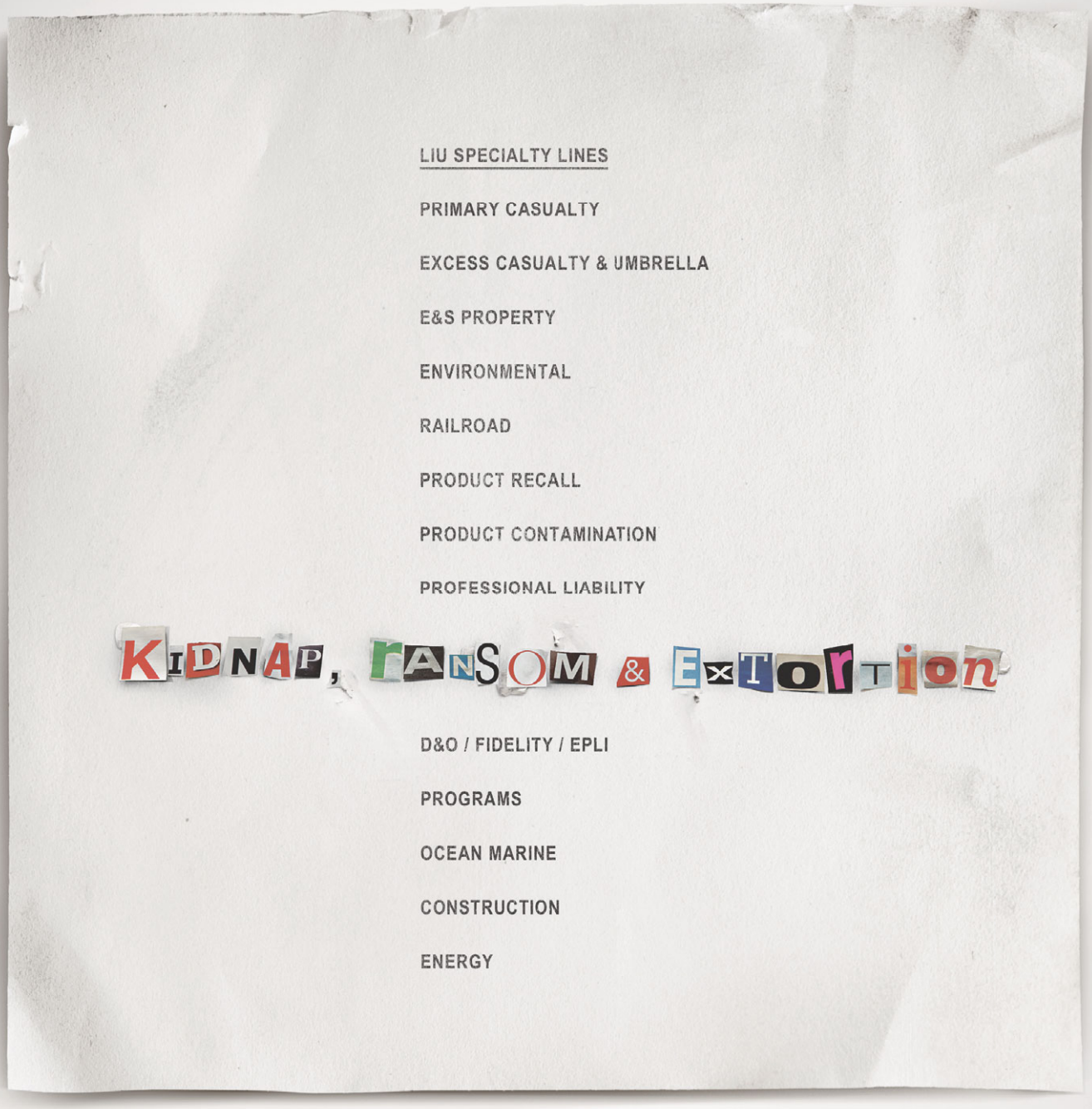
Some of the first calls Chiarello received, in the wake of that crisis, were from other carriers that were willing to take the program.

Policyholders also inquired about whether they needed to make changes. Chiarello said they remembered AIG's prior help during the municipal litigation.

"What they said to us was, 'We know what AIG has done for us in the past, and we know what you have done for us in the past, our relationship is really with you'," he said.

Chiarello said those policyholders indicated they would depend on him to do the right thing and follow that decision.

"They stood by us and they stood by AIG because AIG had stood by them and it was very good to see that," Chiarello said. BR



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Agent/Broker

By
William Malugen

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Recovery-Ready In Workers' Comp

Clients that are still in recession mode are so 2008.

A midcycle stewardship meeting is a collaborative way to develop a proactive approach with your customers.

Two years ago, risk managers faced a challenging financial market and a deepening recession. In response, insurance agents and brokers worked with their larger casualty clients to better position their workers' compensation and claims management programs to withstand the adverse affects of the economic downturn.

Given today's economic landscape, agents and brokers must prepare their customers for recovery. A midcycle stewardship meeting focused on strategic outcomes provides the opportunity to review client objectives, manage expectations and evaluate recovery readiness.

Implications for workers' compensation include increased exposures because of rehiring; increased claim frequency due to less-experienced workers; and deteriorated loss ratios driven by medical cost inflation.

Claim costs continue to trend upward. The National Council on Compensation Insurance reports the average medical cost per lost-time claim grew 6.7% per year from 1991 to 2009. Over a similar period, the medical cost component increased to 58% of the workers' compensation claim-cost pie, with indemnity at 42%. The average indemnity cost per lost-time claim grew 4.7% per year from 1991 to 2009.

Bureau of Labor statistics support the NCCI's findings. In the past 25 years, the medical consumer price index outpaced the general CPI by 4% and the average weekly wage increased more than 3%.

These cost-drivers may have considerable impact on a customer's workers' compensation loss costs. To be most effective, the stewardship report should provide metrics and trend analyses that highlight areas needing improvement.

Focus on key risks. The medical cost component is significantly affected by claims management services. In order to provide a comprehensive and clear picture for customers, obtain performance metrics in medical network penetration, cause-of-loss and location variances, return-to-work results and medical bill management payouts and highlight the customer's return on investment and net cost.

A midcycle stewardship meeting is a collaborative way to develop a proactive approach with customers and may include:

- Recommending risk control programs that address job candidate selection, training, ergonomics, pre-loss prevention and post-loss mitigation. Risk management information efficiencies are assets to effective program management. Credible data helps the insurance carrier account team visualize and communicate results and take corrective action.
- Developing stewardship reports for each casualty line with appropriate analytics, troubleshooting and actionable recommendations.
- Utilizing the insurance carrier's experience to build a recovery playbook. This will help to summarize industry and market trends tailored to the customer's business environment and provide peer benchmarking reports if available.

We are headed for a time of change. Stewardship is a valuable opportunity for insurance professionals to engage their clients in improving outcomes. BR

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High Pressure

Managing general underwriters must find ways to recapture market share in employer stop-loss programs.

by Miriam Kaufman and David Nussbaum

Employer medical stop-loss reinsurance was quite an innovative program for reducing skyrocketing health costs when first introduced in the early 1980s.

This product allowed employers to take risks while also encouraging and introducing cost-saving programs without sacrificing coverage. In addition to avoiding the excessive overhead costs frequently associated with fully insured plans, employers also receive some tax benefits from self-funding. And there are further cost savings as a result of Employee Retirement Income Security Act plans, which allow for opting out of state-mandated benefits.

High-retention programs were offered by managing general underwriters, who marketed, managed and underwrote such programs. Most MGUs worked in conjunction with third-party administrators, who administered and paid claims for the self-insured portion. For the risk portion, an insurance company typically would "front" the business, receiving a fee for providing their "paper"—in other words, their policy forms or certificates—in addition to accepting a minimum share of the risk that ranged from zero to 20%. The remaining portion of the risk would be reinsured by several reinsurers using equal or varying quota share splits.

The medical stop-loss market operates in much the same way today: MGUs generate, underwrite and manage the business. With increased competition from large, direct insurance companies, MGUs are being pressured to lower rates. Although part of these rate reductions come from reduced MGU expenses or broker/TPA compensation, in reality most have come

Key Points

- **The Situation:** Medical stop-loss reinsurance continues to play a vital role in containing employers' health care costs.
- **The Issue:** Managing general underwriters, who originally handled these programs, have lost market share to large direct writers.
- **The Way Ahead:** Health care reform and highly disciplined underwriting tools offer growth opportunities to MGUs.


Kaufman


Nussbaum

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from reduced reinsurance profitability.

Although MGUs are supposed to underwrite risk and leave the pricing to actuaries (or more typically to pricing manuals), in actuality MGUs also make pricing decisions via a mechanism called underwriter's discretion. This allows the underwriter to increase, or more typically, to decrease, manual rates based on underwriting criteria.

Such underwriting is far from clear. Most MGUs do have written underwriting guidelines but those guidelines are just for underwriting, not for pricing. One MGU, or even one underwriter within an MGU, might offer a discount of 10%, while another can just as easily offer a 25% discount, based on exactly the same information. Further, most rating manuals have up to a dozen factors that are evaluated to produce a final rate, including age, gender, plan design, geographic area factors and trend, among others.

A Vital Savings Factor

Most of these factors are fully determined by the manual. But several factors are actually items that the manual does not consider. The most important of these is the preferred provider organization factor.

In the wake of increasing health care costs, PPOs have become very important to the profitability of health care insurers. PPOs are a vital component of cost savings for stop loss. Savings can range from 5% to 70%. Discounts depend on the specific PPO contract with hospitals and medical providers. In addition, within a specific PPO, savings will vary by geographic area. Finally, many PPO contracts can also vary by what are called outliers; at a certain level of claim, the discount will change.

All this sounds complicated, and it is. The individual underwriter decides what the PPO discount should be for each group. There are PPO manuals available in the market. However, each has its own problems, such as not including a significant percentage of PPOs, or being outdated. Further, often credible data is not available to the manual producers to calculate an appropriate discount by narrow geographic area.

Another factor that underwriters are asked to determine is the credibility of the group's claim experience. Reinsurers often hear that a group is "clean," meaning it has good experience and no individual is currently at risk to exceed the group's self-insured retention. But actuarially speaking, this may be typical, not unusual. Credibility should be based on group size, deductible amount, number of experience years and expected number of claims exceeding the SIR. Some groups will never be credible, regardless of their experiences.

In determining an appropriate rate, underwriters also need to understand that medical stop-loss is a highly leveraged product. An extra dollar of claims for stop-loss is much greater as a percentage of claims than it is for first-dollar medical. (See "Small Change" graphic.) Therefore, a group with superior criteria will result in better experience and should be offered a lower rate, and vice versa for a worse group.

It is critical that all parties' interests are aligned—the MGU's, insurer's and reinsurer's. Typically, MGUs are paid based on premiums; reinsurers based on profitability; and insurers on a combination based on the percentage of risk taken and premium. However, to align interests, MGUs and sometimes insurance carriers are asked to place fees at risk; for instance, if the business is not profitable, some of the fees will be reduced.

Market Share Erosion

Unfortunately, as the medical stop-loss business has evolved over the past 30 years, MGUs have suffered. While MGUs once controlled more than 75% of the market, large direct-writing companies, retaining 100% of the risk, have overtaken them. Direct writers have lower expenses, better PPO access and more sophisticated claim management. These insurers often capitalize on administrative fees by leveraging their internal or affiliated operations, rather than pay an independent TPA. And they require a lower profit margin, which is ultimately subsidized through profits achieved at the administrative level for the same or affiliated entity.

Most importantly, MGUs are no longer driving the stop-loss market. MGUs are attempting to hold their own, but they need to fully understand the key considerations involved in the rating process.

Here are 11 key ways MGUs can improve their rating/underwriting processes:

Small Change

How the effect of a smaller increase or decrease in claims results in a larger effect on the cost of stop-loss coverage.

Example 1 — Leveraged Savings

Original Claim: $200,000

	Savings	Insured's Retention	Reduced Claim	Percent Savings
First-Dollar Medical:	$20,000	$0	$180,000	10%
Stop-Loss Medical:	$20,000	$100,000	$80,000	20%

Example 2 — Leveraged Trend*

Original Claim: $250,000

	Increase	Insured's Retention	Increased Claim	Percent Increase
First-Dollar Medical:	$25,000	$0	$275,000	10%
Stop-Loss Medical:	$25,000	$100,000	$175,000	17%

* Trend is the total increase in claims costs due to inflation, increased utilization of medical services, new medical technology, etc.
Source: Kaufman and Nussbaum

1. Fully document underwriting/pricing decisions. List each positive and negative aspect and offer a quantitative assessment. This also allows the underwriter to review actual vs. expected results at each renewal.

2. Ask questions whenever underwriters are asked to re-evaluate a quote based on a competitor's offer. How is this being done without reducing profitability? Who else is sharing in the rate reduction? Are all parties willing to reduce fees—the broker, MGU, insurer and reinsurer?

3. Work up a rate without knowing the current rate or what the competition is offering. Do a comparison only afterwards—that is, calculate the rate according to the manual and underwriting guidelines.

4. For a particular PPO, have the TPA demonstrate actual cost savings for all or a large sample of large claims within its portfolio. First-dollar savings are usually irrelevant for a stop-loss portfolio. Most PPO's will have lower discounts for very large claims. These are called outliers. Therefore, the savings for a large claim, which stop-loss is meant to cover, will not be in proportion to the savings for overall claims.

5. Perform experience studies by producer (TPA or broker). The MGU should discuss these results with the producer and, if they are positive, encourage more business or be a little more liberal with the rates. If the results are negative, investigate if the producer is sending requests to the MGU for all their cases or just the problem ones. Understanding what percentage of the producer's business is being quoted by the MGU may also be useful in determining if there is an anti-selection problem by the producer.

6. Except for very large groups with relatively smaller retentions, the underwriter should always realize that the claims experience of a group is not credible and should not be used as rationale for further discounting off the manual rates. Over the long run, unwarranted discounting will lead to unprofitable business.

It is crucial that managing general underwriters become more sophisticated with their underwriting/pricing tools and decisions.

7. Playing the leverage game can lead to better results. That is, a group with several positive factors (such as a young group in a low-cost area with an excellent PPO) will be equal to more than the sum of its parts.

8. An MGU who has been in business for a while and has good reporting systems can perform studies that demonstrate which factors make their business profitable. Some examples include studies on age, rate-to-manual bands, and retention bands or group size, among others.

9. To compete with major carriers, MGUs must have excellent cost-containment programs, both within their shops and in conjunction with TPAs. Such programs include large case management, specialty care programs, data mining and hospital audits.

10. Medical underwriting by itself is a critical component. Reviewing disclosure statements, case management notes and historic claim experience for known claimants can help set lasers, if appropriate, or increase stop-loss premiums to cover the costs of known claimants. (Lasers are a means of covering members who are expected to cause large claims due to their medical conditions. Each such member's condition is evaluated and an expected claim amount for the renewal year is calculated. This amount becomes the higher specific deductible for that individual in lieu of the lower group specific deductible.) Manual stop-loss rates contemplate new or unknown claimants, not ongoing claims.

11. Health care reform will have a definite impact on employer medical stop-loss programs. How, where and when is still uncertain. Things to watch for include: unlimited maximums, family coverage to age 26, rescissions, exchanges, and state-mandated minimum loss ratios for fully insured medical plans, among others.

MGUs have always been key players in the employer medical stop-loss market and they will continue to see opportunity as health care evolves in our nation. However, it is crucial that MGUs become more sophisticated with their underwriting/pricing tools and decisions. BR

Property/Casualty

By
William H. Panning

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Learning From The Last One

What lessons from ALM can we use today?

The world may turn out to be more complex than our way of thinking about it.

When I joined the insurance industry nearly three decades ago, the emerging hot topic was Asset Liability Management, or ALM, which focused on measuring and managing the effect of changing interest rates on insurers. What's hot today is Enterprise Risk Management, or ERM, which focuses on measuring and managing an insurer's total risk, not just that from interest rate changes.

Both ALM and ERM are ways of thinking that purport to provide new insights into old and familiar problems. Are there useful lessons we can learn from our earlier experience with ALM? Here are a few.

First, determine how the proposed way of thinking can best be adapted to your particular business model. ALM, for example, was initially embraced by banks and investment managers, who owned or managed securities whose values were affected by changes in interest rates, and by life insurers who offered interest-sensitive products and guarantees. For property/casualty insurers, by contrast, ALM was more applicable to developing appropriate strategies for ensuring adequate liquidity in long-tail business lines and for appropriately synchronizing pricing and investment strategies. Firms that viewed ALM as just another compliance issue failed to recognize how it could help them better understand their business.

Second, identify and remain conscious of its blind spots. Ways of thinking are always selective. Like microscopes, they enable us to see some things in new or clearer ways by ignoring other things that may be equally important. For example, ALM was developed and widely adopted during a prolonged period of falling interest rates and rising home prices. Its apparent success under those circumstances masked the fact that its implications could change dramatically when that benign environment changed, as happened recently.

Specifically, when home prices began to fall, the pricing of mortgage-related securities quickly came to be dominated by credit issues, so that the behavior of interest rates had a smaller impact than before.

Third, identify and be wary of implicit assumptions or approximations. In ALM, the principal measure of the sensitivity of value to interest-rate changes is duration. Many firms use this measure in a simplistic way that implicitly assumes all interest rates change in lockstep and all parts of the yield curve are equally volatile. For some purposes, these assumptions can be useful approximations. But in other instances they can lead to inferences that are entirely misleading. For example, they dramatically distort comparisons of the interest-rate sensitivities of otherwise similar taxable and tax-exempt securities.

These lessons underscore the inevitable need for sound judgment in adopting, adapting, implementing and interpreting an analytical framework or way of thinking.

In 1996, I asserted at an NAIC meeting that changes in the stock market since 1929 had dramatically reduced market volatility. But, as it turned out, during the recent crisis stock market volatility returned to the elevated levels last seen in 1929-31.

So, the final and perhaps most important lesson is caution and humility. The world may turn out to be more complex than our way of thinking about it. BR

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Property/Casualty

What's in A Name?

Unitrin weighs broader use of the Kemper brand.

by Diana Rosenberg

Unitrin Inc., which last year acquired all rights to the Kemper name, is considering broader use of the moniker.

"We are even considering whether we should change the name of the parent company," Unitrin Chairman, President and Chief Executive Officer Donald G. Southwell told the audience at the annual New York Society of Security Analysts insurance conference in February.

Southwell said the Kemper name has a lot of meaning to many generations, and has "tremendous value" with independent agents.

"Our independent agents that work with us in our Kemper business tell us that it's got very strong name recognition and value with their customers," Southwell said. "They've encouraged us over the years to use this name more broadly."

Southwell said that if and when the company markets Kemper more broadly, "we'll probably have to invest some more in the name."

Chicago-based Unitrin acquired the Kemper personal lines business in 2002, and last June purchased all rights to the Kemper name from Lumbermens Mutual Casualty Co. and its affiliates. Kemper, based in Jacksonville, Fla., gets 61% of its sales from personal automobile, and 39% of sales from homeowners.

WAY BACK THEN: Kemper used the cavalry theme in its marketing beginning in the mid-1970s.

Even though Kemper is based in Florida, Southwell said the company doesn't sell in the Sunshine State.

"Florida is a very, very difficult state in which to do personal lines property and casualty, and Kemper—our Kemper operation does not sell in Florida at all. We do sell nonstandard auto in Florida, and we sell direct-to-consumer auto in Florida," Southwell said.

Unitrin has more than 6 million policyholders. As of Dec. 31, personal auto accounted for 55% of the company's earned premiums, with $819 million from standard and preferred personal auto, and $431 million in nonstandard personal auto. Homeowners accounted for $299 million, or 13% of the company's earned premiums. Life insurance accounted for $397 million, or 17% of the company's earned premiums, according to the company's presentation to NYSSA.

In addition to Kemper, Unitrin's property/casualty insurance group includes Unitrin direct auto and home insurance and Dallas-based Unitrin Specialty, which sells nonstandard auto insurance through 8,000 agents in 21 states. Unitrin also sells life, accident and health insurance under the Unitrin and Reserve National names. BR

The Kemper name has a lot of meaning to many generations, and has "tremendous value" with independent agents.

—Donald G. Southwell, Unitrin

Watch an interview with Donald G. Southwell at *www.bestreview.com/video.* Digital readers: Hold cursor over icon for content.

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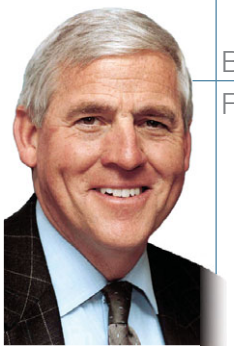

By
Frank J. Coyne

When catastrophe strikes, a business with sound risk management practices can help propel recovery.

Over the past decade, major catastrophic events like Hurricane Katrina and the 2001 terrorist attacks have forced insurers and risk managers to re-examine the effectiveness of catastrophe risk management strategies. In this modern era of highly interconnected and interdependent economies, effective risk management techniques must extend beyond the enterprise to consider the broader impact of catastrophic events on an organization's key stakeholders as well as the community in which it operates.

Hurricane Katrina exemplifies the local, regional, national and global disruption which can occur in the wake of a major catastrophic event. Severe flooding and wind-damaged communication networks not only forced the closure of local businesses but incapacitated regional and national transportation, hindering the delivery of much-needed goods and services. Badly damaged oil rigs and other assets in the Gulf of Mexico debilitated a major supply of oil for the United States, driving up gasoline prices across the nation, which affected overall consumer behavior. Moreover, these conditions strained global supply-chain components and increased volatility in energy pricing and commodities on international markets.

Employees have a greater incentive to stay within the community for the rebuilding process when a business can quickly rebound from a catastrophic event.

The fact is, we were not prepared for the far-reaching consequences of Katrina, but we must be ready for the next potential catastrophic event no matter where it may occur. A good risk management and emergency preparedness strategy requires a robust, reliable response to extreme events that is not only planned but rehearsed and ready for implementation at a moment's notice. More importantly, the strategy must be coordinated with business, community, and governmental logistics and planning to mitigate catastrophe risk and properly conserve appropriate resources to cover the catastrophe.

A holistic risk management and business continuity plan will coordinate the necessary authorities throughout an emergency from initial prioritization to stabilization to recovery. Such measures not only protect the well-being of an organization's employees but the interests of the enterprise and community at large as well.

A speedy and efficient recovery is also necessary. When a business can rebound from a catastrophic event quickly, employees have a greater incentive to stay within the community for the rebuilding process. Enterprises can also provide assistance to governmental authorities, charities, and other organizations supporting recovery efforts.

Insurers, businesses, officials and citizens all play an integral role at each stage of the recovery process when rebuilding a community following a catastrophe. By combining forces, these entities can help the community mitigate the effects of loss, initiate recovery and restore normal operations.

Industry and communities depend on one another to operate effectively and sustain daily life and commerce on the local, regional, national and global levels. By coordinating responses to extreme events closely with government and community officials, organizations can help protect not only their enterprises but lives, property and economic viability as well. Advanced risk management can provide this fundamental value to our increasingly interconnected world. BR

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Property/Casualty

Growth Spurt

Utah and Delaware show an increase in captives in 2010.

by Meg Green

Competition among U.S. captive domiciles continues to heat up, with Utah and Delaware growing faster than many other states.

Vermont, the long-time leader of U.S. captive domiciles, added 33 new captives and continued to hold on to its top position with 572 captives at year-end 2010.

Utah edged its way up to second place, with 188 captives. Utah also saw the strongest growth, with 54 new captives forming in the Beehive State.

"We had a big year," said Ross C. Elliott, captive insurance director for Utah. "There was a lot of pent-up demand."

Elliott said about 42 of those 54 new captives were formed in the last two months of the year.

He said one factor in Utah's growth has been that other domiciles are struggling to deal with staffing issues.

"As companies looked around at domiciles, many have been hit with budget cuts and couldn't take any more applications," Elliott said.

Also, he said Utah's position of being one of just two jurisdictions—the other is Arizona—to charge a flat fee premium tax might have given the state a boost.

Nancy Gray, regional managing director of Aon Global Insurance Managers, said Arizona has a good captive law on the books, but has faced budget cuts and has been unable to staff the office appropriately. "They've suffered as a result," Gray said. "I still believe it's a good solid captive domicile, but it's a longer process."

Stephanie Lefkowski, chief analyst with Arizona's captive division, disagreed that staffing has been an issue with the licensing of captives.

While the insurance department experienced cuts in 2009, the captive division did not lose staff, she said, although it was impacted by a statewide hiring freeze.

Different Offering

Delaware, which has long been a financial services hot spot, showed the second-largest number of new captives in 2010.

It licensed 48 new captives, bringing its total to 96.

Steve Kinion, Delaware captive bureau manager, said the state has an advantage over competing domiciles by being the only one that allows series entity captives.

"It's our flagship or marquee product," Kinion said.

Only eight states allow series limited liability companies, which are set up to allow one core company to segregate its risks into subsidiaries, which are recognized as their own individual tax-paying entities.

Delaware is one such state, but has taken the regulation a step further to allow series captives.

Similar to a rent-a-captive, series captives are owned by a parent company with individual captives or cells.

But unlike a segregated cell captive, where the individual cells are treated as accounts, a series captive allows those individual members of the series to be treated like a captive—except they are not subject to the minimum premium tax requirement or a standard minimum capitalization.

All the series captives' premiums are pooled together, and the premium tax is based on that collective figure, rather than each member of the series having to face its own $5,000 minimum premium tax, Kinion said.

Also, regulators review what types of risk a series captive is undertaking and base the required

"There seems to be a reverse migration going on now, from offshore back to onshore."

—Steve Kinion, Delaware Captive Bureau

U.S. Captive Domiciles

Top U.S. captive domiciles as ranked by number of active captives at year-end 2010.

Vermont	572
Utah	188
Hawaii	168
South Carolina	160
Kentucky	127
Nevada	124
Washington, DC	101
Arizona	96
Delaware	87
Montana	67
New York	46

Source: A.M. Best Co.

"With 30 captive domiciles competing for business, it's interesting to see what happens as the options for captive owners has expanded."

—Nancy Gray, Aon Global Insurance Managers

capital on that review, rather than the $250,000 standard capitalization required for some other types of captives in the state.

Of the 48 new captives licensed in Delaware in 2010, 22 were series captives. That reflects the core, or parent, series captives, not the number of individual series belonging to each one.

Also, unlike many jurisdictions, Delaware does not require captives to hold an annual meeting in the state as long as one director is a state resident.

Utah had four captives redomesticate from offshore jurisdictions. Delaware had a number of foreign captives set up "branch captives."

"There seems to be a reverse migration going on now, from offshore back to onshore," Kinion said.

Vermont also saw 21 captives dissolved in 2010, more than the other jurisdictions surveyed. That's not a surprise, given the sheer volume of captives in Vermont, Gray said.

"It's not unusual to have captives dissolved. The higher the volume of captives, the more captives that have been around a long time, the more likely they are to have run through the cycle and decide to close the captive," Gray said.

"A lot of the domiciles have viewed Vermont's law as the template, the starting point, in starting their new captive structure," Gray said. "They are modeled after Vermont for the most part."

Gray said one challenge the industry faces is the number of different types of captive structures, and the number of captive domiciles available today.

"With 30 captive domiciles competing for business, it's interesting to see what happens as the options for captive owners have expanded," Gray said.

"I think the competition is good. It creates an environment of more choice for captive owners, and that is a good thing."

New Jersey is poised to become the latest addition to the roster of U.S. captive domiciles.

The new law was signed by the governor Feb. 22 and goes into effect 90 days after that. BR

A World of Change

New insurance accounting rules from Europe will affect U.S. reinsurers.

by Hugo Kostelni

The biggest and most comprehensive financial reform for insurance companies in 2010 did not come out of Washington, D.C., or even from the National Association of Insurance Commissioners.

It came from Europe, courtesy of the International Accounting Standards Board. And the reinsurance implications will be more far-reaching than those resulting from 1992's groundbreaking *Statement of Financial Accounting Standards No. 113: Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*.

Back in 2002, the Financial Accounting Standards Board and the IASB agreed to combine accounting standards under the Norwalk Agreement. The stated goal of this convergence was to enhance comparability and consistency between U.S. and international accounting standards while satisfying the overall objective of financial reporting.

In July 2010, the IASB issued an *International Financial Reporting Standard, Exposure*

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Key Points

▶ **What Happened:** New accounting standards were issued by the International Accounting Standards Board.

The Situation: Later this year, the Securities and Exchange Commission will decide how and when to incorporate the new standards into financial reporting for U.S. insurers.

The Outcome: There may be less use of working-layer reinsurance and more emphasis on high-layer excess reinsurance due to the new standards.

Table 1
Initial Measurement of Reinsurance Contract Under IFRS

$ million	Funds Held	Traditional
PV cash inflows: (claim payments, profit sharing, etc.)	$3.0	$3.0
Less: PV cash outflows:	4.0	5.5
Composite margin:	1.0	2.5

Note: The difference in composite margin between the Funds Held and Traditional is driven by three factors: The Funds Held approach factors in the time-value of money in the pricing of the cover; the Traditional Cover provides a higher limit of coverage, which requires a higher risk margin; and 100% profit sharing of the Funds Held cover reduces the weighted average cost at percentiles below 50%.
Source: Hugo Kostelni

Draft: Insurance Contracts. This was followed shortly thereafter by an FASB discussion paper, *Preliminary Views on Insurance Contracts*. These two papers are the culmination of years of work to produce a unified standard for insurance accounting.

Later this year, the Securities and Exchange Commission will decide how and when to incorporate IFRS into financial reporting for U.S. insurers. The effective implementation date has been tentatively set as Jan. 1, 2013.

The FASB/IFRS proposed changes are dramatic:

• The balance sheet will become the Statement of Financial Position. This new statement will present insurance and reinsurance contracts as single net assets.

• The income statement will become the Statement of Comprehensive Income, whereby revenue and claims are recognized under the FASB proposal through a composite margin approach.

• Experience adjustments and changes in estimates of future cash flows will be presented separately.

• Premium revenue will no longer be directly displayed on financial statements.

The objective of financial reporting, as per the Statement of Financial Accounting Standards No. 1, is "to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers."

It is imperative that this useful financial information be both relevant and reliable, as per SFAS No. 2. Under the FASB's discussion paper, reinsurance assets will be measured using the same basis as underlying insurance contracts.

Within the proposed new rules:

• Reinsurance assets will be calculated using a weighted estimate of net present-value cash inflows from the reinsurer, less the present value of the ceding company's expected payments to the reinsurer.

• A composite margin approach will be used to eliminate any loss at the initial recognition of the reinsurance contract.

• The composite margin is amortized over the coverage period contract. Any gain, if applicable, would be recognized immediately, according to Deloitte.

There are no specific prescribed methods for determining the initial measurement. This "fair value" approach contrasts with others, such as the factor-based method, or formulaic approach, that has been employed in Canada for years.

Another example exists in the U.S. tax rules. The Internal Revenue Service issues, by line of business

and year, discount factors to apply to the respective line of business reserves.

The rules state that a company may adopt its own tax discount factors if certain criteria are met, but the resulting factors are not subjective, as are selections an actuary may make in a pricing or reserving exercise. These factor-based approaches standardize the fair value of reserves.

The IFRS-inspired rules do not prescribe any such factors or a single or consistent methodology for determining the fair value of any reinsurance asset. This may produce a more subjective measurement and actually result in less comparability among peer companies.

The new rules require one model for measuring each portfolio using a discount rate that is risk-free, with an adjustment for illiquidity. The net asset is remeasured each period using current estimates through the single net line item.

Net Reinsurance Assets

When the new approach is adopted, the net asset for reinsurance will be handled through a series of adjustments that write off all intangible assets and restate the amounts, both through opening retained earnings.

Tables 2 and 3 compare and contrast the accounting for a structured excess-of-loss treaty with a traditional excess-of-loss cover. The traditional cover may provide a higher limit of coverage at remote levels, but the profit-sharing terms of the structured cover greatly reduce the net present value weighted-average cost at probabilities below the 50th percentile. Also, the structured cover is executed on a funds-held basis, which reduces the illiquidity adjustment.

The comparison highlights some of the potential challenges for reinsurance buyers that could result from the new IFRS-inspired rules. It has been suggested that there may be less use of working-layer reinsurance and more emphasis on high-layer excess reinsurance. Others believe the pricing of working-layer casualty reinsurance will factor in the time value of money more explicitly.

Table 2
Traditional Income Statement

$ million	Funds Held XOL	Traditional XOL	Difference
Premium revenue	<$4.5>	<$6.0>	$1.5
Investment income	<.500>		<.500>
Change in insurance liability	<4.0>	<4.0>	
Expenses	0	0	0
Acquisition costs	0	0	0
Total expenses	0	0	0
Profit	<1.0>	<2.0>	1.0

XOL: Excess of Loss
Source: Hugo Kostelni

Table 3
Summarized Margin Statement of Comprehensive Income

$ million	Funds Held XOL	Traditional XOL	Difference
Composite margin	<$1.0>	<$2.5>	<$1.5>
Insurance margin	<1.0>	<2.5>	<1.5>
Experience adjustments			
Changes in estimates			
Acquisition costs			
Net gain at inception			
Investment income			
Interest on insurance liability			
Net interest and investment			
Profit/(loss)	<1.0>	<2.5>	<1.5>

XOL: Excess of Loss
Source: Hugo Kostelni

Statutory accounting, however, is not expected to change in the foreseeable future, because fair value accounting is equivalent to discounting losses on a nontabular basis.

Regulators may view fair value accounting as inconsistent with the solvency objective of statutory accounting.

In any event, the market will adapt and respond to the needs of buyers and sellers, because economics drive the insurance business and the decisions of reinsurance buyers. Financial statements reporting under the new rules may have increased volatility to earnings, and this increased volatility may decrease the transparency of reported results.

Users of financial statements, such as rating agencies, stock analysts and other investors in the insurance and reinsurance business, may rely more on the statutory results in the short to medium term until a credible history has been established with the new rules.

Nevertheless, change is inevitable and accounting rules will continue to evolve to address the complex world of insurance and reinsurance. BR

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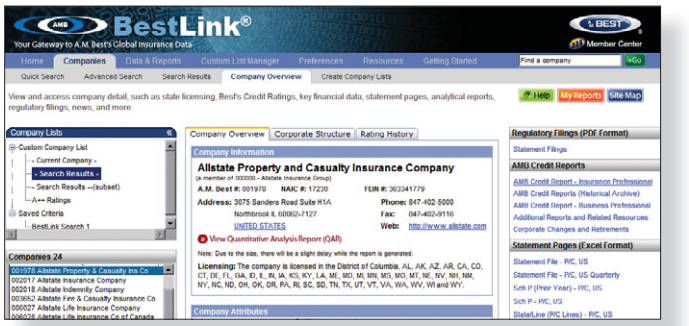

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Technology

What Risk Professionals Should Know About Cyber Liability

Experts on cyber liability coverage explore developments and the emerging risks of this fast-developing sector.

John F. Mullen Sr.
Nelson Levine de Luca & Horst
Chair–Complex Litigation Practice Group

Robert Parisi
Marsh's FINPRO Practice
Senior Vice President

Mark Greisiger
NetDiligence
President

Thomas Herendeen
Philadelphia Insurance Cos.
Senior Vice President–Specialty Lines Division

LEE McDONALD: Tom, let's lay the groundwork here. What is cyber liability?

TOM HERENDEEN: Cyber liability is a relatively new insurance coverage that's come as a result of the expansion of liabilities against companies for breach of private information, and insurance for digital assets. A good cyber liability policy covers a number of things: privacy liability, as well as the resulting notification costs; first-party types of exposure, like the value of your data and what would it cost to reconstruct your data in the event of a hacker attack or something of that nature. Comprehensive coverage will also include some media publishing liability. Like it or not, in having a website you are now in the publishing business. You have information that's in the public domain.

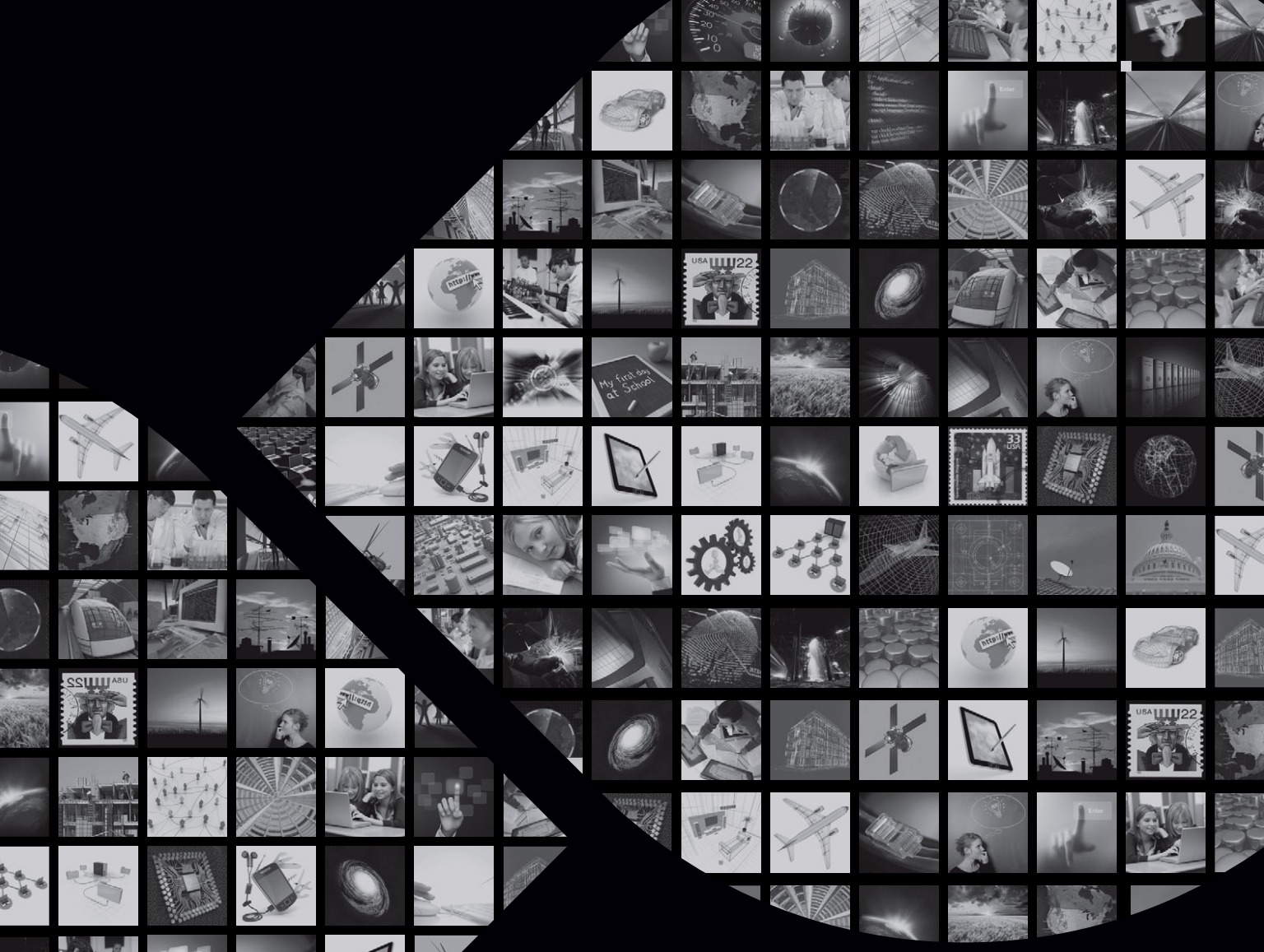
McDONALD: Mark, what is a typical loss and what is a typical claim?

MARK GREISIGER: Typical is the exact opposite of what we see in this area. We can never find any common trends. Some common things, though, are [first] it's never at a convenient time. Clients call us at 10 at night. The broker is panicking, because he got a panic call from a risk manager whose network is under attack on a cyber Monday or Christmas Eve, the height of their season, or they had a data breach event. They were typically told about the data breach event from some third party. They unfortunately failed to detect the breach on their own network. Plaintiff lawyers love to jump on you when you have failed to detect a breach. Therefore you failed to give timely notice to the victims and the attorneys general are getting into the act of jumping on you for that same reason. So the customer is panicking. They say, "We think we had a claim." Really they're reporting an incident in the beginning. None of these things come in a neat package. What's typically happening is they are incurring costs. They have to investigate what happened. What private information was touched? Did it include Social Security numbers, personal information that's going to trigger state and federal laws? If they do trigger those laws they're going to have to incur additional costs. You may have to send out physical-mail letters notifying all these victims. There's a big cost to that. Forensics costs are being incurred; that's another claimable event. They then get into patching the hole in their network so they can at least stop the bleeding. They might want to offer credit monitoring to these victims down the road. That

BEST'S REVIEW® Webinar Transcript

This is an edited transcript of the Jan. 27, 2011 webinar, "What Risk Professionals Should Know About Cyber Liability," hosted by A.M. Best and sponsored by Philadelphia Insurance Cos. Watch the entire broadcast and read the complete transcript at *http://www.bestreview.com/webinars/cyber11.*

Webinar moderator: Lee McDonald, group vice president communications.



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could all be part of this claim. Finally, if they are big enough and the breach is big enough and the plaintiffs' lawyers catch wind of this, you could be facing a class-action lawsuit. They're going to be asking for reimbursement for those costs, too, which would be massive defense costs.

JOHN F. MULLEN: You have to evaluate from the get-go: Is your breach ongoing and what happened. Breaches don't come wrapped up with all the data handed to you. They typically come in some kind of panic situation. People don't know what was on the lost laptop. They don't know if the hack is still going on. Then you have to make decisions like, do we need a forensic analysis company? Do we need to bring in any number of high-tech companies to figure out what is going on? While that's happening, you already have clocks ticking on state statutes for notification laws. While you're scrambling, trying to figure out what is going on, the days are ticking by. After five [days], in certain states under certain scenarios, you're already in violation of the law.

McDONALD: Define cyber liability coverage versus general liability and business owners'. Where does one stop and the next pick up?

ROBERT PARISI: There are several aspects of it. You have to look at the underwriter's intent and the history of the policies. Traditional policies were written for a time that no longer exists. Trying to fit cyber or privacy risk onto a traditional general liability policy, business owners' policy or property policy is like trying to fit a round peg into a square hole. We're also seeing many of the carriers on the GL, property and BOP sides putting in express exclusions: no coverage for data, no coverage for rogue employees' intentional acts. Most if not all of the costs that we've seen today have been pre-claim. Even the broadest liability policy is still triggered by a claim, an allegation that you did something wrong, that someone suffered harm. What you're facing today and where people are spending the money is in response to the breach notifications, in offering credit monitoring, identity restoration, facing a regulatory action if it's financial information or health care information. All of that's going to occur before anyone makes an allegation that you did anything wrong. No policy would even be triggered.

McDONALD: What about errors and omissions?

PARISI: That's probably where you will see a little more overlap. This is certainly a risk that needs to be mentioned to all your clients. Professional liability errors and omissions is triggered by the rendering or failing to render a professional service. There's a requirement that there be negligence. If you're a service provider and you do something wrong that places a client in a more vulnerable position, chances are the E&O policy, unless it's got exclusions on it, will pick up cyber-related issues. Again you're stuck with the fact that a lot of the costs and expenses are going to be before there's a claim. Even the broadest professional liability or errors and omissions policy is not going to step up at the right time. We have seen the marketplace adapt. For technology companies, telecommunication companies, media companies, most of the marketplaces is able to provide cyber and privacy coverage as part and parcel of their professional liability. It's almost gross negligence not to have the cyber and the privacy [covers] flow with the professional liability.

MULLEN: One of the first questions I ask when I get a call to assist a client or a potential client with a breach event is, "Do you have insurance?" That's a critical question and answer. The minute they say "no," what I think but don't always say is, "Why not and who's your broker?"

McDONALD: Who ought to be protected for this, and what portion do you think actually is protected?

PARISI: In the technology and the telecommunications sectors of our industry, those guys are probably close to 100% protected. When we look into the health care sector, the financial institutions, the retailers, I would say probably anywhere from 10% to 20% penetration of this coverage. It's higher for the larger, more sophisticated entities. It tails off dramatically as you start getting into Main Street and the mom-and-pops, the middle market, as it were. We still are seeing what is largely an undiscovered country. Even if you assume, best case, that there's 20% penetration, that means there's 80% of the industry, 80% of the economy that either hasn't looked at this, hasn't had it explored for them or hasn't been provided with viable alternatives.

HERENDEEN: We're starting to see coverage definitely move down from financial institutions and large accounts. Probably less than 2% of insurance buyers in that general marketplace currently have coverage. The difference there is if you asked that question two years ago it would have been significantly less. We are seeing it grow tremendously at that level of customer. We're quoting 500 to 1,000 new customers per month.

McDONALD: Mark, let's prioritize. Who ought to be covered the most?

GREISIGER: [That] runs the gamut of large and small companies, especially smaller companies. A lot of times we're seeing bigger companies requiring them to have this coverage. If their systems are going to touch their larger partner's network or if they're in the care, custody or control of a bigger business partner's customer information, often they have to have the coverage. Generally speaking, it's any business that touches, collects, transacts with personal, identifiable information of people—they're probably most at risk. Like health care and financial services because there are certain laws that drive that space. They give attorneys general and plaintiff lawyers more ammunition to come after you for negligence, for having anemic security practices. Every sector and every size out there potentially could have exposure and should be thinking about this. BR

Zurich Targets Latin America via Banco Santander Deal

Zurich Financial Services Group is taking a major step to expand its insurance presence in Latin America by announcing a 25-year strategic distribution agreement with Banco Santander SA, a leading banking group in the region.

Under terms of the agreement, Zurich will acquire a 51% participation stake in Santander's insurance operations in Brazil, Mexico, Chile, Argentina and Uruguay for $1.67 billion. Zurich said the transaction will be mostly funded by internal cash sources, with some hybrid debt issued.

The distribution agreement covers life insurance, pension and general insurance operations of Santander in those countries.

Over the 25-year term of the agreement, an earn-out mechanism will aim for specific profit performance targets and protect against underachievement, said Zurich.

Based in Madrid, Banco Santander said it is the largest banking group in the Eurozone and 10th largest in the world by market capitalization.

If the two operations had been combined in 2010, they would have produced $3.9 billion in gross premiums written and $2.9 billion in pension contributions, Zurich said.

Banco Santander said the arrangement is expected to "significantly increase" its own revenue from insurance distribution, which in 2010 totaled $972 million.

The transaction will make Zurich the fourth-largest insurer in Latin America in terms of 2009 market figures, the insurer said. Zurich said it would be the third-largest life insurer and sixth-largest nonlife insurer in the region.

Zurich said the alliance will give it access to more than 5,600 bank branches and 36 million customers in Latin America. Zurich said the region "is one of the most attractive insurance markets globally as it combines a young and growing population of 590 million people with a low penetration of financial services."

The insurance group added that bank distribution is emerging as an important channel in the region. In Brazil, the largest market in Latin America, bank distribution accounted for 40% of total insurance volume in 2009, according to Zurich.

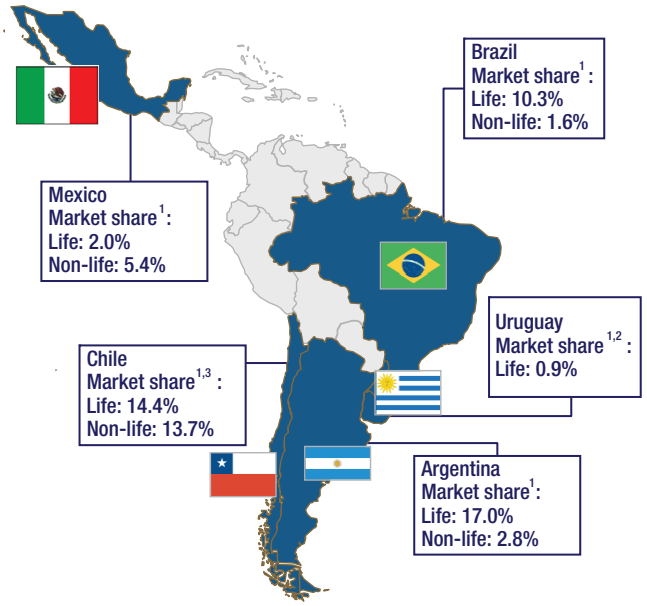
Insurance penetration—premiums as a percentage of gross domestic product—totaled 2.8% (life and nonlife combined) in 2009, according to Swiss Re's annual sigma report on the global insurance market. Total penetration worldwide was 7%.

The Santander arrangement is the latest in a series of moves by Zurich Financial to build a presence in high-growth, underdeveloped insurance markets.

—David Pilla

Zurich/Santander Insurance Market Share

Zurich Financial said a combined insurance distribution deal with Santander will make it the fourth-largest insurer in Latin America.



(LTM) 3Q10, except for Brazil (LTM 2Q10)

Source: Local regulators, except for Brazil (Ratings de Seguros)
[1] Market share as of Last Twelve Months (LTM)
[2] Excludes pension operations
[3] Including annuities

Correction

In the story, "You've Been Served," beginning on page 24 of the February 2011 issue of *Best's Review*, the name of the company at which Rick Grimes serves as executive vice president was misidentified. The correct name is Professional Risk Solutions, which is a wholesale insurance broker based in Warren, N.J.

BEST'S REVIEW

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Allstate Plans Expanded Agency Force in Texas, California

Allstate Corp. continues its expansion in Texas, where it said it plans to open at least 140 agencies this year, and California, where the company plans to add 120 new agency owners.

"Texas is a key state for Allstate," said Tom Caunitz, the company's strategic deployment leader in the Lone Star state. "We certainly want to grow as Texas grows."

The population in Texas jumped more than 20% in the past decade, Allstate said, citing data from the U.S. Census Bureau. The company's recruiting goals in Texas include 40 new agencies in the Dallas-Fort Worth area, 30 in the San Antonio and Austin regions, and 25 in and around Houston.

Caunitz said the insurer is using social media, including the websites Facebook and LinkedIn, to attract potential agency owners, including people who may be interested in a career change.

The Northbrook, Ill.-based insurer, which had consolidated revenue of $31.4 billion last year, currently has 1,094 agencies in Texas and roughly 1,000 agencies in California.

Allstate recognizes that California is a growth market, said spokesman Jim Klapthor, adding the company is nearly tripling its recruitment efforts from last year, when it signed on 44 new exclusive agents in California. Allstate opened 130 agencies in Texas last year.

Candidates for Allstate agency ownership need a minimum of $50,000 in liquid capital. Caunitz said Allstate will work with entrepreneurs to assist them in developing a business plan and an extensive marketing plan. Allstate also will help train the agency's staff at no cost to the agent, he said.

Allstate also is encouraging new and existing agencies in California to hire at least 600 licensed sales personnel, part of the company's plan to grow its automobile business in the state. The Allstate Insurance Group had an 8.76% market share of the California private passenger auto market in 2009, and an 11.82% market share of the private passenger auto market in Texas that year, according to BestLink, which provides online access to A.M. Best's database of insurance information.

The company's property/casualty group, led by Allstate Insurance Co., writes personal and commercial insurance throughout the United States and Canada. The group's mix of business is split approximately 95% personal lines and 5% commercial lines. Its primary lines are private passenger auto and homeowners, which represent approximately 70% and 25% of Allstate's property/casualty business, according to BestLink.

—Diana Rosenberg

Starr International, C.V. Starr Launch New Logo, Brand Name

C.V. Starr & Co. Inc. and Starr International USA Inc. have launched a new logo and corporate brand name: Starr Cos.

The companies, led by Maurice "Hank" Greenberg, include managing general agents under the C.V. Starr name and insurance underwriting companies under the Starr International USA name.

Jake Sokol

The companies' roots date back to China in 1919, and the rebranding is meant to present a unified corporate image, said Jake Sokol, marketing director for Starr.

"We had a number of brands out there in the marketplace that are well known, but there was no one common brand that really tied it all together," Sokol said.

The new Starr logo features a star reaching around the globe, which is intended to convey the international reach of Starr Cos., Sokol said. The three legs of the star represent the three branches of the companies' business: insurance, investments and financial services, he said.

The logo will be accompanied by the tagline: "Security through knowledge and experience. Worldwide Since 1919."

C.V. Starr is a privately owned holding company with insurance agencies and a portfolio of global investments. Its insurance agencies write specialty lines covering aviation, marine, energy, excess casualty and property, including risks with international exposures.

Starr International USA is also a private insurance holding company. It includes Starr Indemnity & Liability Co. and Starr Surplus Lines Insurance Co., which write customized property/casualty and accident and health insurance products, with significant access to the excess and surplus marketplace.

Last year, Starr Indemnity & Liability said it created a general casualty excess group to provide liability solutions for national accounts.

—Meg Green

Listen to an interview with Jake Sokol at *www.bestreview.com/audio.* Digital readers: Hold cursor over icon for content.

Editorial Calendar: Looking Ahead

July 2011

Agent/Broker: *Best's Review*'s Ranking of the Top Global Brokers
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Property/Casualty: Top PC Writers Ranked
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Technology: Document Management System Review

Advertisers Index

With antiques and collectibles, there's no time like the present to insure the past.

Time *Is* Money

INSURING THE PAST: Dorit Straus, Chubb's worldwide fine arts manager, said a special rider or fine arts policy is often needed to protect antiques or fine arts because most standard homeowners policies lack sufficient coverage.

From something as kitschy as a Smurf chess board to a native Alaskan mask more than 100 years old, insurance companies face unique exposures when protecting personal collections of antiques and collectibles.

When it comes to antiques, "every one is different," said Dorit Straus, Chubb's worldwide fine arts manager, at the Winter Antique Show at the Park Avenue Armory in New York this past January.

The exhibition showcased a wide selection of collectible antiques from around the world. Each brings its own risk management and insurance challenges, she noted.

Valuable art and antiques are often not covered under standard homeowners policies, so owners need to either add a rider or purchase a stand-alone valuable article policy or fine art policy, Straus said. Premiums generally range from the low single digits to double digits as a percentage of the property's value. The larger the value of the collection, the lower the percentage.

A major premium factor is where the article or collection is located. For instance, a home in California's earthquake zone might face a higher premium than a Midwestern home—as long as it didn't face flood risk, Straus said.

"Fine art premiums are certainly less than jewelry, because the exposure is better. You don't wear your art in public," she said.

The most common claim is for water damage, she said. Unlike traditional homeowners policies, fine-art policies include coverage for water damage from things such as sewer backups and seepage.

"You can underwrite for flood," Straus said. "That's one of these things that people buy insurance for."

Insurers like writing fine-art insurance because the "loss ratio overall for art has always been very good," she said.

When faced with the challenge of insuring a large collection—worth $1 billion or more, say—insurers often build a layered policy. One company writes the primary layer and takes control of risk management, while additional carriers provide excess layers of coverage.

Risk management is an important consideration, Straus said. She advises clients with large collections to speak to a conservator about how the items should be cared for.

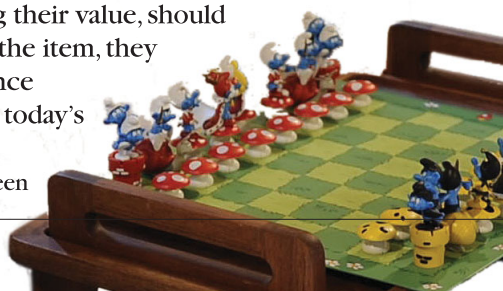
For instance, paintings should not be hung over fireplaces or radiators, where they can be damaged by heat, and textile arts should not be hung near windows, where direct sunlight might fade them over time. Collectors should check how their antique paintings are hung on walls, because old string and nails can decay. Replacing an antique painting's hanging system does not impact the value of the work, she said.

Even wood furniture has unique exposures. "Gradual changes in temperature that might result in warping are not covered," Straus said. "Insects are not covered."

She said clients have to reach a happy medium between living with the objects and creating an environment to protect them. "Most people don't live in museums where you can control the humidity and temperature perfectly. Most people are challenged to live with their collections," Straus said.

Also, she said, collectors need to regularly update the valuations on their insured items. Collectors may be insuring an item for what its value was 10 to 30 years ago. Without updating their value, should they need to replace the item, they may find their insurance proceeds fall short in today's market.

—Meg Green



Kim Bjorheim for *Best's Review*

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