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A photograph of a middle-aged man with white hair, wearing a blue and white checkered shirt and dark trousers, inspecting a large, curved metal pipe in a factory. He is holding a clipboard and a pen. The background shows industrial structures and lights.

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Inside This Issue

March 25, 2013 • Vol. 91, No. 6 • West Region



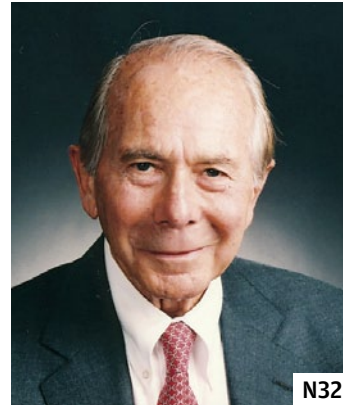
8



12



N22



N32

NATIONAL COVERAGE

- N16 Special Report: Hot New Markets in 2013**
- N22 Closer Look: High Risk Property**
- N24 Spotlight: 2012 M&A Snapshot**
- N26 E&O Insight: Pearsall on M&As**

WEST COVERAGE

- 8 New Mexico Space Industry Liability Bill Clears Legislature**
- 8 Bill Changes Arizona Pro Athletes Workers Comp**
- 8 Nintendo Found Guilty of 3D Patent Infringement**
- 21 Advertising Special: 2013 Corporate Profiles**

IDEA EXCHANGE

- 12 Property Focus: Building Updates: Aging Plumbing Systems**
- N12 Growing Your Property Casualty Agency: Shulman**
- N32 Closing Quote: Hank Greenberg with Andrew Simpson**

DEPARTMENTS

- 6 Opening Note
- 10 Declarations
- 10 Figures
- 18 People
- N20 MyNewMarkets

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Opening Note

Go Home!

When InsuranceJournal.com posted a story giving the Insurance industry's take on workplace flexibility following Yahoo Inc. CEO Marissa Mayer's announcement in February to bring telecommuters back into the office the story proved popular — particularly on LinkedIn.com.

A number of people shared the story on the social networking site — posters on the site more often seem focused on networking or career issues than posting pictures of their lunch or bragging about their latest gym experience. To capitalize on the buzz I posed the work-from-home question on LinkedIn.

"I work from home one day a week and I love it," wrote Jennifer Burcell in reply to the post. "It is great for me because it gives me the flexibility I need to take care of my daughter on that day. Not having to commute into the City and deal with BART on that day is wonderful as well."

In her post Burcell also tackled the issue of trust.

"I know this isn't for everyone and some employers can be concerned about their employees actually working," she wrote. "I think if you don't trust your employee to work then that is an issue that has nothing to do with where they are working."


Dan Marby wrote: "A lot of customers and carriers insist on a FT retail location, but producers and CSRs can expand the agency, and reduce office space needs, by working from home full time or part-time. I work from home early in the AM to deal with east coast carriers and in the evening to service clients who are too busy from 9-5 to have a quiet thoughtful conversation. Laptop computers, cloud software, VOIP, smartphones, Websites, and video conferencing is reducing the need for full-time office attendance. imo."

Well in my opinion working from home rules. That not-so-eloquent revelation is my version of a disclaimer: This reporter works at home.

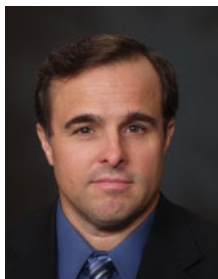
Poster Judi Weronicki says not only can the right technology enable seamless communication with field staff and real time communication with pretty much anyone, but it enables working away from a workplace even if it happens to be your home.

"Throw in hotspots and other devices supporting mobile broadband, it works," Weronicki wrote. "Use state of the art technology that works without hitches for your software and the best providers for your communication needs."

Jan Jones works from home whenever possible, where she's a lot more productive.

"No distractions and seem to be more focused on getting things accomplished," she posted. "If my company would allow it, I would work from home every day. I would think that more corporations would see the cost benefit of having their agents/brokers work out of their home rather than paying the expense for office space and everything else that goes along with it." 

'I think if you don't trust your employee to work then that is an issue that has nothing to do with where they are working.'



Don Jergler
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News & Markets

New Mexico Space Industry Liability Bill Clears Legislature

The New Mexico Legislature gave final approval to a proposal to help the state develop a commercial space travel industry.

Legislation to limit the liability of spacecraft manufacturers and their suppliers is heading to Republican Gov. Susana Martinez after clearing a final hurdle in the Legislature. The governor supports the measure.

While the proposal was pending in the

Legislature, the state had placed on hold its negotiations with space tourism company Virgin Galactic for a long-term lease at New Mexico's spaceport, which has cost taxpayers more than \$200 million.

The measure won final approval when the House unanimously agreed to a Senate-passed version of the liability shield proposal. **[U]**

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Bill Changes Arizona Pro Athletes Workers Comp



© 2012 AP

House committee has approved a bill already passed by the Senate that would bar pro athletes in Arizona from filing for workers' compensation in other states.

Republican Sen. John McComish says professional teams came to him with concerns

that pro athletes are filing claims in California because it has more lenient rules for so-called cumulative injuries.

Lawyers for the NFL and Major League Baseball players' unions told the House commerce committee that players rejected both leagues' efforts to get language in collective bargaining agreements banning the practice and they're now trying legislatively. A pro athlete can sometimes file in another state if they played some games there. Any claims are paid by the teams or their insurers.

A California legislator has introduced a bill that would address a "loophole" in which pro athletes are getting workers' comp benefits despite having played on teams in other states. **[U]**

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New Mexico Drunken Driver Sues Buddy, Restaurants

A repeat drunken driver convicted in a crash that killed two teenagers has sued his drinking buddy and two Santa Fe restaurants that served him alcohol.

James Ruiz, 37, filed a lawsuit in New Mexico District Court and is seeking monetary damages from the friend he was out drinking with as well as Applebee's and the Blue Corn Cafe.

The lawsuit, filed by Ruiz without a lawyer, claims the restaurants and his friend caused Ruiz emotional distress due to the loss of liberty and enjoyment of life after he was served drinks in 2010. Ruiz said in his suit he was convicted and incarcerated due to the

chain of events the defendants set in motion. Police said Ruiz rammed his truck into a car and killed Del Lynn Peshlakai, 19, and her sister Deshauna, 17. He's serving a 40-year prison sentence after a 2011 guilty plea.

Santa Fe Dining, a restaurant group that includes Blue Corn Cafe, and Applebee's declined to comment.

Ruiz was out on bond on his fifth DWI arrest when the fatal crash took place, authorities said.

Police said he had a blood-alcohol concentration at the time of 0.22 percent, nearly three times the legal limit for driving. **[U]**

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Nintendo Found Guilty of 3D Patent Infringement

A federal jury in New York in mid-March found that video game company Nintendo Co. infringed an inventor's 3-D display technology patent with its handheld 3DS videogame system.

The jury awarded the inventor, Seiji Tomita, \$30.2 million in compensatory damages.

The patent relates to technology that Tomita developed for providing 3-D images without the need for 3-D glasses.

In opening arguments last month, Tomita's attorney, Joe Diamante, told the jury in U.S. District Court in Manhattan that Nintendo used technology that Tomita developed for its 3DS. Tomita is a former longtime Sony Corp. employee.

But Scott Lindvall, a defense attorney for the Super Mario Bros franchise creator, argued that the 3DS doesn't use key aspects of Tomita's patent.

Lindvall also said a 2003 meeting with Nintendo officials that Tomita cited in his argument was merely one of several the company held with vendors selling 3-D display technology.

Tomita, 58, sued Nintendo and its U.S. unit in 2011 for patent infringement.

Lindvall declined to comment following the verdict. Nintendo officials were not immediately available for comment. **[U]**

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Declarations

Extreme Fire Weather

"As the weather becomes more extreme across the nation, so does the threat of fire."

— Joe Dougherty, spokesman for the Utah Division of Emergency Management, said state officials already are preparing for another busy wildfire season in Utah amid growing concern over the cost to battle them.

Venti Macchiato

"Just to put it in perspective it's a venti caramel macchiato with an extra shot."

— California Insurance Commissioner Dave Jones compared a 10 percent fee increase on insurance licenses that amounts to roughly \$6 a year to the price of a popular coffee beverage. However, Jones said it was a cost-driven decision that wasn't made lightly by the department.

Mercury V. Jones

"Mercury's insurance rates are among the most competitive in California — as exemplified by our 97 percent renewal rate on homeowner's policies."

— A statement from Mercury Casualty Co., which has filed a lawsuit opposing California Insurance Commissioner Dave Jones' decision providing for an 8.18 percent rate reduction in homeowners insurance, expressed disappointment in that decision.



Paying for Addiction

"They know the person can get addicted to the drug so they should pay for the process of them getting off it."

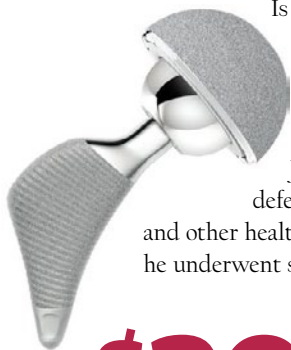
— Said Nevada state Sen. Tick Segerblom, D-Las Vegas, the sponsor of Senate Bill 75, which would allow patients addicted to prescription drugs to sue the doctors who prescribed the medication — and the drug's makers.

Figures

\$8.3 Million

Is what a jury awarded to a former prison guard who accused Johnson & Johnson's DePuy Orthopaedics subsidiary of knowingly marketing a faulty hip implant that was later recalled.

Jurors found that the ASR XL implant was defectively designed and caused metal poisoning and other health problems suffered by Loren Kransky after he underwent surgery in 2007.



\$23 Million

Is how much a Sacramento Superior Court jury hit Emeritus Corp. with in punitive damages in the wrongful death and elder abuse lawsuit filed and won by the family of an 82-year-old woman with Alzheimer's disease who died after a stay in one of the company's assisted living facilities in Northern California.

\$200,000

Is how much a policyholder claimed for a snow-damaged patio cover on his Liberty Mutual homeowners insurance policy, but no one was buying it. A jury in March convicted him of insurance fraud and attempted theft.



Liberty Mutual.
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21,000

People in Hawaii who were previously covered under Medicaid will need to buy their own health insurance once President Barack Obama's sweeping federal health care overhaul takes effect next year, the chief executive of the Hawaii Primary Care Association told a state Senate committee.





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Property Focus

Building Updates: Aging Plumbing Systems

The Agent's Role as Advisor and Risk Manager

Editor's note: This is the second of a three-part series to explain insurers' requirements for building updates and to help agents advise clients on mitigating risks inherent in older buildings. The first article addressed aging electrical systems and appeared in the Feb. 25 edition of *Insurance Journal*. The final installment will offer advice for HVAC and roofing systems.

The older a building, the more likely it is to have serious defects, particularly in critical building systems such as electrical, plumbing, HVAC and roofing. Older buildings generate more claims than younger properties, especially if they have not been well-maintained or if their building systems have not been updated.



By S. Carl Morello



Fig. 1. Distinctive look of polybutylene piping
Photo courtesy InterNACHI.



Fig. 2. Corrosion on Galvanized Steel Piping
Photo courtesy Levco Builders.

This is why an insurer will ask a policyholder about the age of the original building, the age of renovations or additions and the age and condition of critical building systems. The information helps the insurer price the coverage fairly, and brings to light any serious defects to be corrected. In the case of serious plumbing defects, failure-prone polybutylene piping for example, or when a major update is needed, say, an aging water heater, the insurer may request the upgrades as a condition of coverage.

If the property is more than 30 years old, expect the insurance underwriter to ask the agent:

- What type of water supply piping is present in each part of the building? Copper, galvanized, polybutylene or other?
- When was this installed? What is its condition?
- Has the piping been updated in any part of the building? When was this done? Describe what updates were made. Were they full, or partial?
- Have there been any problems or failures of the plumbing system? If so, describe the problem and how it was addressed.
- If the property has laundry facilities, when were the laundry hoses last replaced? What types of hoses are in use? Are they standard black hose, braided steel or heavy duty rubber?
- When was the water heater installed? What is its condition? Has it been installed and vented if appropriate to do so, according to the manufacturer's specifications? Is it properly braced to protect against seismic activity?

- What type of fuel is used in the water heater? Natural gas, electric, oil, other?
- How is maintenance of the water heater handled?
- Are the drain and waste piping made from cast iron, vitrified clay (VC), or other material?

• How is maintenance of the plumbing system handled?
Plumbing systems typically

require updating only on an "as-needed" basis, such as when components fail due to age or inadequate maintenance, or when the discovery of material weaknesses or failures during inspections warrants repairs and replacements.

Piping

It is important to be aware of the type of piping used throughout the property, as various types present unique challenges as they age.

Polybutylene piping, which is relatively inexpensive and easy to install, was installed in millions of buildings from the 1970s to the 1990s (See Figure 1). The material turned out to be inappropriate for use in plumbing systems, however, because standard water treatment chemicals, such as chlorine and anti-bacterials, cause it to become brittle and subject to cracking and breakage. The degradation of the pipe can also affect the water quality, as chemicals leach into the water. Polybutylene pipe must always be replaced. It has proven unreliable and will eventually fail. It cannot be repaired. Polybutylene pipes are no longer recognized by building codes in the United States and Canada.

Failure of metal piping systems is generally caused by erosion, corrosion or a combination of the two. Erosion occurs to some degree in every metal piping system. The friction of water flowing within a

continued on page 14



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Property Focus

Building Updates, continued from page 12

pipe erodes the metal, gradually wearing it away. In lines where the flow is rapid and/or frequent, such as in recirculation lines, the pipe walls will erode relatively quickly. Corrosion, in which the metal piping reacts chemically with the water, is a bigger problem. The rate of corrosion and the way in which it affects the pipe varies depending on the types of metal used, the chemistry of the local water supply and the temperature



Fig. 3. Corrosion from a Pinhole Leak in Galvanized Steel Piping Photo courtesy Levco Builders.



Fig. 4. Corrosion on Galvanized Steel Piping Photo courtesy Levco Builders.



Fig. 5. Left to right: Cross sections of a standard black rubber hose, a plastic hose with braided stainless steel covering, and the Floodchek hose. Photo by SCM Engineering.

of the water. Corroded pipe is more vulnerable to bursting in below-freezing temperatures.

Galvanized iron piping — steel pipe covered with a protective layer of zinc — was installed in many structures built before 1960; it generally does not last more than 25 years. Over years of use, the zinc coating erodes, causing a build-up of corrosion within the pipe. This can reduce or completely block the flow of water, increasing the risk for leaks. The internal corrosion also affects the water quality, as lead and other metals leach into the water, causing discoloration and an unpleasant taste. Figures 2 and 3 show corrosion on the outside of the pipe, a sign of system-wide problems. The problem can be corrected by installing new piping alongside the old galvanized pipe, or by having the old galvanized pipe cleaned out and treated with a protective epoxy lining.

Other types of pipe that are subject to corrosion — including steel piping, older cast iron drain and waste piping, and older copper piping — should be scheduled for replacement before problems develop.

Piping presents a significant challenge. Because it is largely concealed — hidden behind walls or beneath concrete slabs — it is generally ignored until a failure occurs. In buildings where piping is accessible, such as in crawl spaces or basements, it can be inspected for signs of wear and deterioration so that repairs can be made in a timely manner, before any loss occurs. Building owners whose properties have inaccessible or outdated and plumbing systems should engage licensed plumbing professionals who have the technology to assess the condition and wear of the piping, such as by using a plumbing

camera to capture digital video and images from inside the pipe. This process can identify the origins of any leaks, and bring to light other problems, such as corrosion

The challenge with piping is that it is often out of sight, largely concealed in walls and under slabs, and ignored until a failure occurs...

or blockages, so that they can be repaired before a failure occurs.

Like piping, washing machine hoses and water heaters operate out of sight, and are generally ignored unless they fail. Washing machine hoses and water heaters have very short life spans, and are often responsible for the most costly water damage claims. Agents can provide a valuable service to their clients by encouraging them to maintain these carefully, and replace them before they fail.

Washing Machine Hoses

More than half the water damage claims related to washing machines were from broken water supply hoses. These incidents are also very costly, with the average claim running to more than \$6,000.

Washing machine hoses break because of:

- **Age.** Over time, all washing machine hoses will wear out. A study from the Institute for Business and Home Safety showed that failure rates increased dramatically in hoses over five years old; the average age of failed hoses was 8.7 years. More than half of failures occurred before eight years, and nearly 80 percent failed before 10 years.
- **Materials.** Many washing machine hoses are made of reinforced rubber that loses resiliency as it ages, making it subject to cracks, leaks and bursting (Figure 4)
- **Installation Errors.** Improper installation can damage the hose and hasten its failure. The most common installation error is failure to leave sufficient room to prevent kinks in the hose, particularly near the valve connections.
- **Manufacturing Defects.** Cracks, crimps

continued on page 16

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Property Focus

Building Updates, continued from page 14

or blockages in the line will cause premature failure.

When hoses or connections are weak or faulty, the normal pressure of water in the system will break the hose or coupling, sending water flooding out. In a typical home, water will spill out of a single hose at a rate of about 650 gallons per hour.

There are good alternatives to the standard black rubber hose, as shown in Figure 5. Consider these three hose types as “good,” “better,” and “best” approaches to managing the risk of burst washing machine hoses.

Water Heaters

Aging water heaters present another significant hazard. Every water heater will eventually fail, whether by slow leaking or by catastrophic failure — usually a crack or outright bursting, with total release of water.

As a water heater ages, corrosion and sediments accumulate inside the tank. In an older, poorly-maintained heater (Figure 6), the weakened tank is likely to split or burst under the constant pressure of the water within. The water in the tank, usually between 40 and 80 gallons, will flood out immediately, followed by a continuous

stream from the cold water feed, which will continue to flow until it is shut off. Even a slow leak can cause considerable damage, causing decay, mold, mildew, warping and eventual structural damage which can lead to collapse of subfloors and floors.

An analysis by Sequoia Insurance shows that in commercial properties, damage from failed water heaters can run to half a million dollars or more, depending on the location of the water heater, the type of property and the extent of resulting damage.

A study by the Institute for Business and Home Safety found that water heater malfunctions, with an average cost of \$4,400 per incident are one of the leading causes of water damage claims in residential properties. The IBHS review of 700 water heater insurance claims showed that leaking or burst tanks made up 69 percent of the failures.



Fig. 6. Severely corroded water heater. Photograph from WaterHeaterRescue.com.

The total cost of a failed heater, including repair of water damage, is far more than the cost of a scheduled replacement and installation. The flood that follows a failure can cause significant damage to furnishings and equipment as well as to the structure itself, requiring significant investment for cleanup, mold remediation, renovation and refurbishing.

Every water heater will eventually develop weaknesses and will need to be replaced. The useful lifespan of a typical water heater is five to ten years, depending on several factors, including the hardness of the water, the intensity of use, and the effectiveness of a preven-

tive maintenance program. The IBHS study shows that the chance of leaking and failure rises steeply in water heaters that are more than five years old, and indicates that nearly three quarters of all heaters fail before they are 12 years old. Very few water heaters last longer than 10 to 12 years.

Unless a water heater is on an effective preventive maintenance program, a good risk management approach to this hazard is the replacement of any water heater when it reaches ten years of age.

By helping the policyholder to understand these “age of building” questions, and by assisting with gathering and communicating accurate information to the underwriter, the agent fosters a mutually beneficial relationship between the insurer and the policyholder. By serving as an informed advisor and advocate, the agent can help the policyholder to reduce risk, increase safety and save money over the long term. ■

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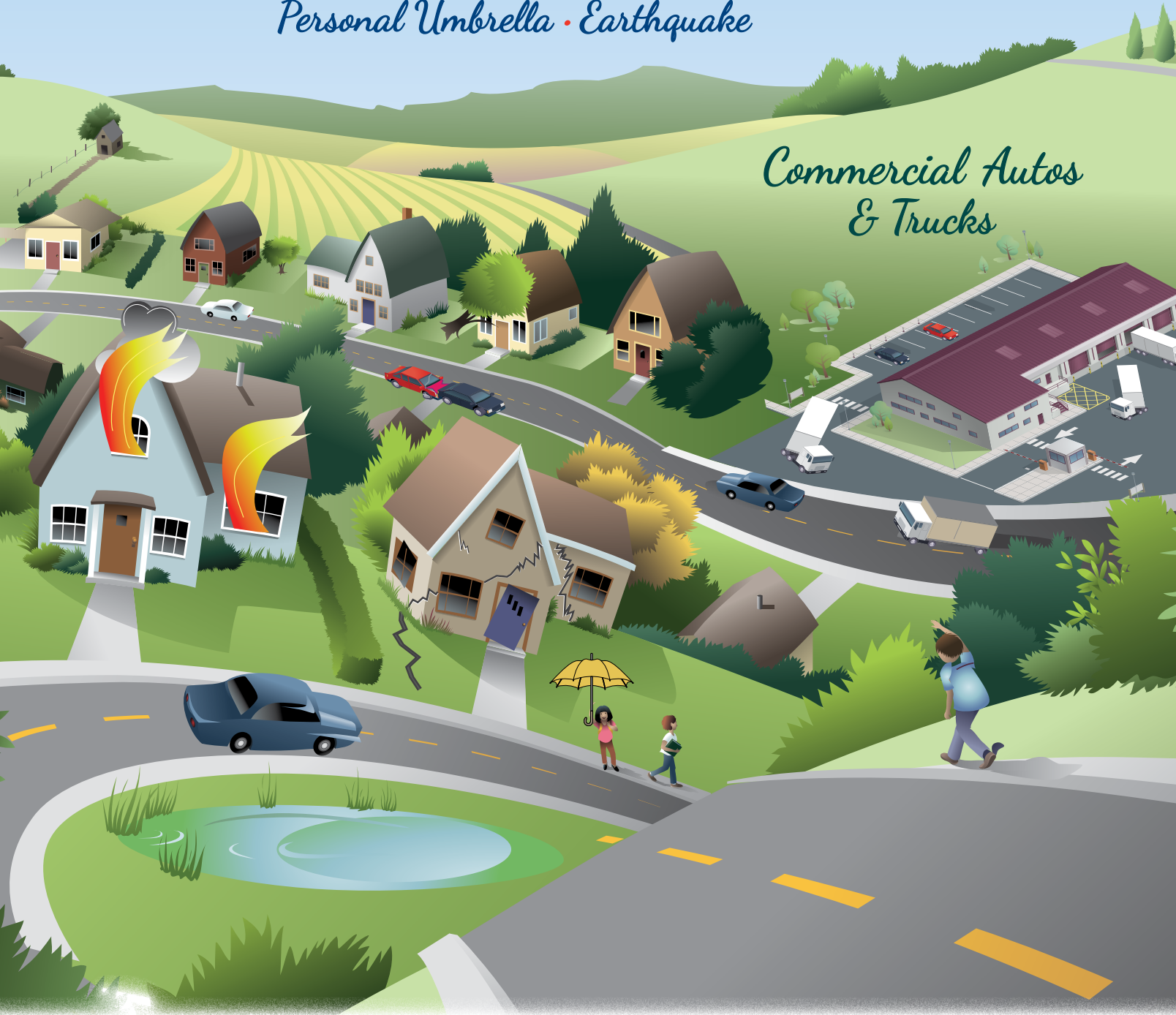
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People



Ravi Krishnan

San Francisco, Calif.-based **Woodruff-Sawyer & Co.** named **Ravi Krishnan** as the firm's first chief information officer.

Krishnan will be responsible for optimizing Woodruff-Sawyer's existing technology, driving strategic initiatives and aligning priorities and resource demands. He will also be the key strategist in the firm's new mobile platform initiative.

Krishnan has over 18 years of experience as a senior information technology strategist. Prior to Woodruff-Sawyer, he was executive director at Kaiser Permanente. His background also includes management and executive positions at Verizon, Cognizant Technology Solutions, GE Insurance and PricewaterhouseCoopers.

Woodruff-Sawyer is an active partner of Assurex Global and International Benefits Network and has offices throughout California and in Portland, Ore.



Curtis Ingram

Aon Risk Solutions, the global risk management business of **Aon plc**, made several additions to its San Francisco, Calif., office.

Aon appointed **Curtis Ingram** as vice president, **Payal Chahal** as broker, **Jeffery Rogers** as director, **Jenny Hon** as account executive and promoted **Jake Douglas** to project manager.

Ingram joins the political risk practice and will consult, place and service political risk insurance for North American colleagues whose clients need to protect foreign assets or contracts in emerging markets. Ingram has more than 14 years of insurance experience, most recently serving as leader of the West zone political risk practice at Marsh.

Chahal is a new broker in the technology and telecommunications practice. She will be responsible for analyzing and defining risk exposures, and servicing high visibility clients in across the nation. Prior to Aon, Chahal was a technology underwriter at Travelers.

Rogers will be responsible for the development of new business in the Western region for Aon global risk consulting. Most recently, he served as assistant director of workers' compensation for Kaiser Permanente.

Hon will provide customized solutions for small-to-medium sized companies. Prior to joining Aon, Hon served as account manager at Woodruff-Sawyer & Co.

Douglas was promoted from senior broker at Aon's New York office to project manager in the San Francisco office. He will be responsible for managing M&A projects and conducting data analysis on companies of all sizes.

Brendan Falvey was named director of the public entity product line for the **Markel Corp.**'s West Region.

Falvey is responsible for managing existing West Coast public entity client and broker relationships and developing new property/casualty clients with emphasis on joint powers authority

and other public entity pools.

He is located in San Francisco, Calif.

Falvey has more than 30 years of property/casualty insurance and reinsurance experience, including more than 15 years of public entity underwriting experience.

Most recently he was with a global reinsurer where he handled property/casualty underwriting, client and broker relationship management and new business production for individual risk insurance and JPA/PE reinsurance for over eight years.

Markel's public entity expertise and capabilities center around offering excess of loss and quota share reinsurance of pooling arrangements.

Jacob Brown and **Jim Stabilito** will join **Lockton** as senior executives in the insurance broker's Phoenix, Ariz. operation.

Brown and Stabilito are veteran employee benefits advisors who work with corporate clients to build benefit programs that help attract and retain employees.

Brown will be an executive vice president at Lockton and will be responsible for advising clients on employee benefit services, including dealing with the changes under the new health reform law. He will also be responsible for new business development.

Brown has been with Willis in the insurance broker's Phoenix operation for the past nine years, most recently as senior vice president and employee benefits practice leader. He has also worked at Unum, an insurance carrier.

Stabilito will be a senior vice president at Lockton and will provide client leadership and offer advice on employee benefit programs, dealing with health reform and new business development.

Stabilito has been with Willis in Phoenix for eight years and previously worked as an account executive with Aetn Inc. He began his employee benefits career with American Corporate Health Programs.

Kansas City, Mo.-based Lockton has operated in Phoenix for five years, building a team of more than 17 associates.

Edgewood Partners Insurance Center named **Derek Thomas** chief strategy officer and managing principal.

Thomas will be based in EPIC's San Francisco office and he will report to EPIC co-founder and president, **John Hahn**. Thomas' responsibilities will center on developing strategy, driving growth and operations. He will work with business units and industry teams in California, and will lead recruiting, talent development and retention initiatives.

Thomas has more than 25 years of experience and leadership within insurance companies, brokerage firms, Internet and e-commerce companies, as well as the non-profit sector.

Prior to EPIC, Thomas held a number of executive positions with the Aon Corp., the Chubb Group of Insurance Cos.,



Payal Chahal



Jeffery Rogers



Jenny Hon

continued on page 20



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John Garrett, CPCU, MBA, LUTCF, President-Chicago CPCU Chapter
Principal, Coverall Insurance Services, Burr Ridge, IL

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People

People, continued from page 18



Derek Thomas

GMAC Insurance and LeaseTerm Solutions. His experience includes strategy development, organizational development, general management and leading sales and marketing operations.

Prior to co-founding LeaseTerm Solutions, Thomas served as senior vice president of strategy/business development and chief sales officer for Aon Affinity Insurance Services.

EPIC operates from nine offices across California: Los Angeles, Irvine, Ontario, Fresno, Folsom, San Francisco, San Mateo, Petaluma and San Ramon.



Steve Keshishian

GUARD Insurance Group named Steve Keshishian director of regional sales to address recent and planned growth in the West.

Keshishian will oversee sales operations in California and Nevada and handle agency and territory management in those states. He will operate out of GUARD's office in Rancho Cordova, Calif..

Before GUARD, Keshishian worked for a number of national commercial insurers in a variety of roles. He most recently served as a broker for Owen Dunn Insurance in California. His background encompasses sales and underwriting as well as the


retail and company side of the industry.

GUARD, a workers' compensation specialist targeting small- to mid-sized accounts, works with independent agents, and writes business in 28 states plus D.C. In 2012 GUARD was acquired by National Indemnity Co., a subsidiary of Berkshire Hathaway Inc.

Irvine, Calif.-based **Burnham Benefits Insurance Services** named **Richard P. Asensio** vice president, director of compliance.

Asensio will work with clients to help them choose the best options while meeting HCR requirements. He will also work with Burnham's consultants to expand their assessment and compliance tools.

He has 13 years of consulting on compliance issues, with a focus on IRS, ERISA, COBRA and HIPAA compliance, health-care reform (PPACA) implementation, and document and operational compliance reviews of both retirement and health and welfare plans.

Burnham has three offices in California: Irvine, Los Angeles and Santa Barbara, as well as offices in Oregon and the Washington, D.C. metro area. 

20th Anniversary

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Annual Benefit Dinner

20th Anniversary

ANNUAL BENEFIT DINNER

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CORPORATE PROFILES

In their own words



Dear Reader:

Every business has a story to tell. For many corporations, small and large, that story ties closely to the personal lives of their founders. Throughout Insurance Journal's history, we have come to know and appreciate many of the unique stories in our industry. And year after year, we have watched as our advertisers' and readers' companies have grown and changed.

As a leading industry news and information source, we are not able to profile all of the corporations that cross our path. Our position as journalists sometimes makes it difficult as well. Consequently, we have created this special supplement to allow our clients, and some of the corporations you may work with on a daily basis, to tell their story ... in their own words.

We hope you find this supplement interesting and informative.

Best wishes from all of us at Insurance Journal.

Mitch Dunford
CEO
Insurance Journal
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-Colorado Springs, CO



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Monarch Kingdom Continues to Grow

The kingdom of Monarch E&S Insurance Services, one of California's leading managing general agents and wholesalers, continues to expand thanks to happy, loyal employees—laughing customers may have something to do with that growth as well.

La Crescenta, California-based Monarch has caught a lot of eyes and attention with its royally humorous ad campaign depicting knights in awkward poses and funny situations.

One of the stars of those ads is Derek Borisoff, who has been at the helm of Monarch since 1994. Borisoff, the sole owner of Monarch, purchased the business from Don Penniall who started it in 1986. True, much of Monarch's expansion can be chalked up to the desire to grow and strong business acumen, but the knights of Monarch's roundtable may play a role too.

"We feel branding is very important," Borisoff says. "The knight outfits are part of that branding, a symbol of strength and stability representing our people and the markets we underwrite for. We carry the theme in our ads to stress we are there to serve our retail agent customers."

Insurance is a very serious industry, with everyone under constant pressure to perform, Borisoff notes.

"But there is no reason we cannot smile among ourselves and make our customers laugh, while providing them with the quotes they need," Borisoff adds. "Nobody smiles unless we perform, though."

After building a solid reputation in Southern California, by 2003 Monarch opened its Rancho Mi-

rage office headed by Debbie Messina, and the next year Matt Merkle opened a Simi Valley branch office. Then in 2005, Monarch wanted a Northern California presence and opened their Novato office run by Briana Griffin and in 2008, Dona Shurtz approached Monarch asking to open the Fresno office. And in 2010 Debbie Perry helped Monarch create its first out of state presence with an office in Flagstaff, Arizona.

Monarch recently expanded into Hawaii. Monarch writes a broad range of coverages in the state and has been successful in developing specific programs for agents.

"All our growth has been organic," Borisoff says. "We have a reputation within the industry of providing a positive work environment and taking good care of our people. This has provided us with the opportunity to have great people who want to come and work with us."

As for Monarch's ad campaign, which include still images and videos, expect more chivalrous hijinks. The firm is in the process of producing at least two more videos set to come out soon.

One of the latest videos has Monarch COO Mark Kaufman coming to the rescues of a stuck and creaking Borisoff with a can of WD-40.

Asked just where that squirt of lubricant was aimed, Borisoff laughingly referred the question to Kaufman.

"I guess it was applied to whatever squeaked! You will have to ask Mark what he was aiming for," Borisoff says. ■

MONARCH E&S INSURANCE SERVICES PROUDLY PRESENTS

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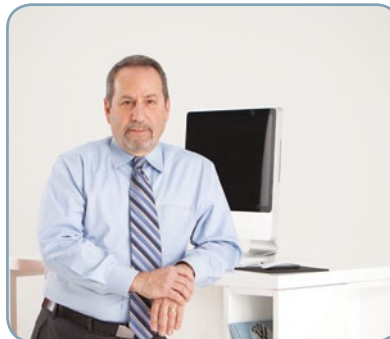
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Our entire company was designed to be nimble and responsive. To marketplace changes, industry trends, legislative pressure and, of course, client needs. Our broker partners will always have direct access to our leadership team. Senior executives who average 30 years of experience. Experts who listen, have the freedom to move quickly and are accountable for every decision they make. From initial policy review to account management and claims processing, a close working relationship is critical to understanding our clients' business and customizing innovative solutions. It's one of the main reasons why we launch so many new products year after year. It also explains how, in just five years, we've become one of the fastest growing specialty insurance companies in the world. But rest assured, no matter how much we grow, we'll still be as entrepreneurial as the day we started.

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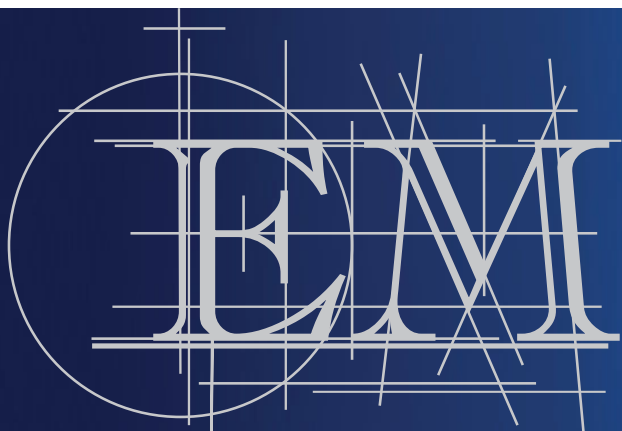
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"My daddy makes sure new baby dolls get to the toy store."

Hannah
Age 6

Daughter of
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30

Thirty
years
growing

the ARROWHEAD

JOURNEY

HUMBLE BEGINNINGS

Our journey began in 1983 in Southern California when a group of 30-somethings started a general agency focusing on one product in one state. In that first decade we grew as a family and embraced our entrepreneurial spirit. We built relationships with the best insurance companies and found our footing in the marketplace with independent agents and brokers. It was hard work but we loved growing the company and culture we created.

FOUND OUR LEGS

By 1995 we were ready to broaden our product offering and began an eight-year run of organic program growth. We rounded out our programs with both personal and commercial lines of business. In 2004, we dove into the world of acquisitions, which proved to be a successful strategy that helped triple our written premium. By the end of that period, we had grown our book of business to more than 20 commercial and personal products.

HIT OUR STRIDE

With 30 years of experience in the marketplace, we are ready to focus on an innovative next phase that will revolutionize the way insurance companies work with us. And because securing the best markets for our network of independent producers is our mission, we are excited about a new way to bring them products.

We have invested heavily in our infrastructure and technology and have perfected the ability to streamline a program rollout. It is this speed-to-market skill that will lead us to our next era of growth.

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1983-1994

Arrowhead was established as a privately held company and offered California non-standard auto

Focused on our non-standard Personal Auto Program throughout California making it one of the most successful and fastest growing general agencies in the state

1995-2003

Personal Property
Contractors and Commercial Auto
Difference in Conditions

Began selling products online
Residential Earthquake
Launched online quoting portal, ArrowheadExchange.com
Architects and Engineers
Professional Liability

2004-2011

Personal Motorcycle
Workers' Compensation
Purchased by private equity firms

Acquired TPA, American Claims Management
Real Estate Agents and Brokers E&O
Personal and Commercial Marine

2012

Purchased by Brown & Brown, Inc. (NYSE: BRO)
Ambulance Insurance
Automotive Aftermarket



ARROWHEAD
General Insurance Agency, Inc.

CARRIER PROGRAM **REROUTE**

REROUTE: v. 1. To change direction. 2. When an insurance company transfers an entire operation to Arrowhead, including employees, but remains the issuing carrier supporting the line of business. 3. To utilize Arrowhead's robust infrastructure and industry-leading technology to reduce cost and maximize growth potential.

Carriers Can Reroute Lines of Business to Arrowhead

As a Program Manager, Arrowhead is in a unique position to provide business growth opportunities to the independent producers and insurance companies with whom we work. We're excited to announce a new way to successfully deliver products to the marketplace. We call it the Carrier Program Reroute.

1



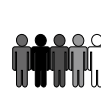
Every so often an insurance company has a line of business that stagnates due to a lack of dedicated resources. The line of business has an acceptable loss ratio but the operation is not at a desired level of scale and is at an intersection. That's where Arrowhead comes in with the ability to profitably scale a program.

Eliminate Administrative and Overhead Expenses

Carriers can seamlessly transfer their operations, including employees, to Arrowhead eliminating all administrative and overhead expense, but remain the paper supporting the line of business. The reroute allows both companies to maximize our talents. Carriers can focus on underwriting and risk management while Arrowhead tackles the day-to-day support and servicing of a program, whether it be marketing, policy administration, customer service or systems.

ARROWHEAD

Employees
Technology
Marketing & Distribution
Underwriting
Customer Service
Policy Issuance
Claims Administration



2

CARRIER

Risk Management
Capital Investment

3



Committed to Our Customers

The first successful reroute was in October 2012 with Zurich in North America Insurance Company. Zurich transferred the operations of the Automotive Aftermarket line of business to Arrowhead. 170 new teammates joined Arrowhead and \$150 million of business is now produced, underwritten and serviced by Arrowhead while Zurich remains the issuing carrier supporting a majority of the business.

Find out more about rerouting programs at ArrowheadGrp.com/30.



\$800M WRITTEN PREMIUM

700 EMPLOYEES

6,000 AGENCY LOCATIONS

30
years

ON WE GO...



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How It Works

When agents call TAPCO for a quote, the average hold time is less than 30 seconds. TAPCO underwriters gather basic underwriting information from agents and enter the data into TAPCO's own proprietary software program. Through this custom-built, comparative rating system, actual quotes, applications, finance agreements and terrorism forms are generated immediately and delivered electronically to the agent as PDF documents, allowing the agent to review the quote and application with the insured while they talk. Coverage can then be bound in minutes. Agents in most states also have the option to use TAPCO's Online Rater program, which allows them to easily quote their own E&S policies for Personal Liability, Dwelling, Homeowner, Vacant and Builder's Risk coverage, online, 24-hours-a-day, seven-days-a-week. For each type of coverage, the agents must enter basic information on one screen in simple-to-navigate fields. Once the information is

entered, quotes along with those same forms are generated as PDF documents and e-mailed to the agents instantly for review.

TAPCO has in-house binding authority to write more than 1,000 classes of business, through A-rated carriers for a wide range of risks, including all types of Property; General Liability; Inland Marine; Dwelling and Homeowners; miscellaneous Professional and D&O; Vacant and Builder's Risk; Liquor Liability; General Contractors, Specialty Contractors, and Artisan Contractors; Personal Umbrella, and other lines, in 29 states, including: Alabama, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia, Washington D.C and Washington state.

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Growing Your Property Casualty Agency

7 Basic Marketing Approaches for Independent Agents

It's impossible to market anything successfully without communicating well. There are multiple ways, online and off, to manage this vital activity. Below are overviews of seven marketing methodologies.



By Alan Shulman

Social media.

Networking is about communication and sharing. And as your mother taught you, sharing is a good thing. But to get the most out of it, post your own material or modify content that you acquire. Be professionally casual to encourage positive dialogue. Add interesting images and copy to your Facebook wall and Pinterest pinboards. Tweet messages and post LinkedIn updates that consist of more than links to the articles of others (except

mine, of course). People follow you to be informed; don't disappoint them. Post good stuff on a timely basis. Social media is here to stay, and it's constantly evolving. Enjoy the ride, but recognize that it's not the only horse in your stable.

Email. Venerable email serves as a one-on-one communicator, as well as a mass mailer. So, don't overlook the marketing value of periodic single topic "email alerts" to advise insureds about important insurance issues they may otherwise miss. Seasonal topics can range from spring floods to snowmobiles.

Website. Your website is the hub of your agency's online presence, and as such, it needs to be contemporary in appearance, continuously updated, and offer interactive functions like client service and quote generation. [Details in my June 21, 2010, col-



umn, "Is Your Agency's Website Dangerously Obsolete?"]

Client newsletters. This classic communicator is an excellent marketing device, especially when it's printed and mailed (with older issues archived as PDFs). They work best when they're published on a fixed schedule and written entirely (or

continued on page N14

Education choice for the best in the business.

There is only one risk management education program that is attended by 95 of the top 100 U.S. brokers. The Certified Risk Managers (CRM) Program, from The National Alliance, offers 5 course options to provide you with a solid foundation in risk management. CRM courses are available in the classroom and online.

According to the July 16, 2012 issue of *Business Insurance*, 95 of the top 100 U.S. brokers attend the CERTIFIED RISK MANAGERS PROGRAM

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The Sherman Antitrust Act remains a landmark federal statute on competition

It was enacted for the protection of competition in the marketplace

"No private corporation shall be created with exclusive rights or privileges. The corporate rights granted to one are open to all."

Sen. John Sherman
21 Cong. Rec. 2456 (1890)



Senator John Sherman

Author, Sherman Antitrust Act

"If we will not endure a king as a political power we should not endure a king over the production, transportation, and sale of any of the necessities of life."

"If we would not submit to an emperor we should not submit to an autocrat of trade, with the power to prevent competition..."

Sen. John Sherman
21 Cong. Rec. 2456 (1890)

The Supreme Court of the United States agrees with the provisions of the Sherman Antitrust Act

"The public interest is best protected from the evils of monopoly ... by the maintenance of competition."

Justice Harlan Stone
U.S. v. Trenton Potteries Co., 273 U.S. 392 (1927)



"The freedom guaranteed each and every business, no matter how small, is the freedom to compete - to assert with vigor, imagination, devotion, and ingenuity whatever economic muscle it can muster."

Justice Thurgood Marshall
U.S. v. Topco Assoc., 405 U.S. 596 (1972)

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Marketing, continued from page N12

mainly) in-house, as the authoring office knows what resonates with their clients. Blend promotional content within informational articles rather than featuring it on its own. Inform readers about their need for desirable upgrades (better coverage

forms, replacement cost on contents, etc.), wise additions (floaters, flood, umbrellas), and more. Tie these into personal interest stories, featuring text or video interviews of insureds. Include a link to the video interview hosted on YouTube (or elsewhere).

Videos. It seems that reading even short bursts of practical information is too much for some people, hence the growing popularity of mini-videos. Yours may consist of brief recordings on such topics as discounts, inadequate insurance issues, testimonials from happy claimants, etc. Record a collection of standalone videos or organize them in a video blog (vlog). Also create and host longer sessions as webinars for niche markets and general audiences. Just remember that your video may be on the Internet forever, so be careful about your appearance and content.

Blend promotional content within informational articles rather than featuring it on its own.

Direct mail. This medium is not obsolete, even if Saturday delivery bites the big one this August. Printing and mailing is still worth the expense when you have an important marketing message to deliver. It stands out in the digital world, much like digital once did when print was dominant. [Details in my March 19, 2012, column, "The Death of Direct Mail Is Greatly Exaggerated."]

Blogs. It's impractical for typically staffed agencies to author distinct content for every medium noted here — plus a blog. It's one reason why some agencies use blogs in lieu of traditional newsletters. However, this digital-only approach gives you less of a readership. Instead, repost articles from your newsletter and reformat them for the blog. Do the same with your social media posts. Let your blog become a second-chance repository for agency insureds. Another use for blogs is to create dedicated target market versions to exhibit your expertise. This second type is in addition to the second-chance variety. 

Shulman is the publisher of Agency Ideas, a subscription-only sales and marketing newsletter. He also authored many tools on the Agency Ideas Instant Download Store. Phone: 800-724-1435. Email: alan@agencyideas.com. Website: www.agencyideas.com.



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Markets

TOP

HOT NEW MARKETS

Insurance Journal examined industries experiencing changes and expansions during the past year. Here are the top 10 market sectors that just might deliver hot opportunities for agents and brokers in the property/casualty insurance industry in 2013.

1. Construction

Several market indicators have shown a recovery in the housing market. Slow but steady growth continued throughout 2012 despite challenges in home lending.

"Consistent, positive reports on housing starts, permits, prices, new-home sales and builder confidence in recent months provide further confirmation that a gradual but steady housing recovery is underway across much of the nation," according to David

Crowe, chief economist for the National Association of Home Builders (NAHB).

Multifamily construction projects continued to be the bright light in the construction market. The multifamily sector has led the way in the recovery of the overall housing market and now stands at about 70 percent of the way back to a sustainable level, according to the NAHB.

"Last year was a banner year for the multifamily market, and our baseline forecast calls for further steady growth in the rate of multifamily production," said Crowe. The NAHB is forecasting construction of 299,000 new multifamily residences in 2013.

Single-family housing is also making a comeback although at a much slower rate. In January, single-family housing starts listed at a 0.8 percent gain to 613,000 units, the strongest pace of single-family housing production since July 2008.

Regionally, combined single- and multifamily housing production gained 4.1 percent in the South and 16.7 percent in the

West, but fell 35.3 percent in the Northeast and 50 percent in the Midwest in January.

The good news for agents and brokers working in the construction market is that the worst may be over.

"There's no question that on the ground we are seeing an uptick in builder confidence as to what 2013 and 2014 are going to bring," says George Dale of the Los Angeles office of Cove Programs, a managing general agency with a focus on U.S. homebuilders.

Dale describes builder confidence as moving from just "hanging on from a year and a half ago" to "cautiously optimistic" early in 2012 to feeling confident enough in improving market conditions "to bet in terms of buying insurance and staffing up" that 2013 and 2014 will be good years.

2. Manufacturing

Even in today's global, outsourced economy, the U.S. manufacturing industry is still big business.

Taken alone, manufacturing in the



United States would be the 10th largest economy in the world, according to the National Association of Manufacturers (NAM).

The U.S. manufacturing industry generated \$1.8 trillion worth of value, or 12.2 percent of the U.S. gross domestic product, and supports an estimated 17.2 million jobs, or about one in six private-sector jobs. And it continues to grow.

"Some sectors, such as electronics, computers, and related hardware, expanded at a very fast clip. Others lost ground to changing tastes and technology (think typewriters and payphones). In the 20 years ending in 2011, manufacturing output increased more than 55 percent," NAM said in its "2012 Facts About Manufacturing" report.

The United States produces the most goods and services overall as measured by GDP, and is far ahead of second-place China, according to the report.

Nearly three out of four leaders within the manufacturing industry have either expanded their product or service offerings in the past year, or plan to expand them in the coming year, according to a recent IndustryEdge survey of 200 professionals in the manufacturing industry conducted by Travelers.

2012 was a record year for manufacturing revenues, and the survey reinforces the view that expectations for 2013 are positive.

"All of this growth presents tremendous opportunities — and a host of new hazards throughout the complex, interconnected global supply chain," said Jim Mandes, manufacturing industry manager, Travelers Commercial Accounts. "Hazards may include less skilled workers, fewer suppliers to choose from and an increased potential for business interruptions."

The survey also found that finding and hiring qualified employees is a concern for manufacturers. In the past year, 88 percent of surveyed decision makers in the manufacturing industry either hired new employees or made plans to hire in the next year.

3. Healthcare

The Affordable Care Act in 2010 has pushed the healthcare industry into over-

drive in a rush to meet new regulations under its guidelines. Healthcare initiatives known as accountable care organizations, or ACOs, are a major component of the new healthcare reform.

There are many factors and risks to consider when establishing and running ACOs. ACOs often consist of groups of physicians that practice different areas of medicine and can need insurance tailored to their individual specialty. Such scenarios make for a more complicated and expensive insurance policy when medical specialties combine into one entity, the experts say.

Insurers have been slow to respond with insurance services that address these new healthcare risks, according to Frank Castro, national practice leader for insurance broker Willis. Castro says insurers still don't understand or aren't comfortable with the new exposures ACOs present.

"ACOs with multiple stakeholders bring different risks to [carriers] like managed care E&O or physician's liability that they wouldn't have otherwise written and it becomes challenging," says Castro.

Willis opted to address the new coverage needs of ACOs last year when it unveiled a standalone insurance liability policy in partnership with insurer IronHealth. The coverage features several options, including: directors and officers (D&O) liability, managed care operations liability, medical professional liability, and general liability, to name just a few.

Castro says clients are looking for ACO and delivery model resources that go beyond just a specific product.

Evan Smith, healthcare underwriter and miscellaneous medical focus group leader for Beazley in Chicago, says buyers and brokers are not particularly happy with the current coverage offerings available to ACOs right now.

"Because ACO risks have a predominantly different structure than a typical healthcare physician practice, they have to buy a standalone insurance program; ACOs can't just be part of a [typical] healthcare program," says Smith.

As 2013 goes on and healthcare initiatives including ACOs continue to be formed, insurers will be increasingly challenged to

find the most effective ways to meet the changing needs of their insureds.

4. Transportation

Rates in the transportation segment have risen steadily for the last several months. But indications of a harder market for this class haven't been enough to keep competition down.

Participants in NIP Group's Transportation Insurance Pricing Survey (TIPS) from the fourth quarter of 2012 believe more generalists are re-entering the segment compared to the third quarter because of significant rate increases in auto liability.

Players may also be trying to cash in on opportunity from a transportation bill passed by Congress that includes \$1.75 billion in funding for transportation. Major roadworks projects that were delayed because of state budget deficits may now be able to go forward.

"All of the erosion of infrastructure that everyone has written about hasn't gone away," says

Mark Reagan, Marsh global construction practice leader in Morristown, N.J. "The need in the country to build, and the need to

find the money for that build is clear. For a lot of the country, the window for it (infrastructure construction) being an optional spend, that window closed or is closing."

Insurers like AIG and National Interstate are prepped and ready with new products aimed at the transportation industry.

At the beginning of this year, National Interstate launched a new traditional fuel distribution program to complement its captive fuel distribution business. The program will focus on residential propane and fuel dealers.

National Interstate also created a new program targeting waste operations, including residential, commercial and industrial collection; recyclers; construc-



continued on page N18

Markets

Hot Markets, continued from page N17

tion and demolition debris removal; and landfills supported by a collection operation, to name a few.

AIG expanded its NextGen Protection products at the end of February with PLL Transportation and Logistics Protect, which is designed for clients who transport or arrange transport for both hazardous and non-hazardous materials.

5. Hospitality & Leisure

With a better economy comes a better hospitality industry. As economic conditions improve, hospitality experts say there will be a change in the trend of “staycations,” and more people will flock to the travel destination of choice.

In response, several companies expanded or enhanced products in the hospitality and leisure markets in the last year.

AIG's property/casualty division Chartis launched a hospitality and leisure industry practice group in 2012, which provides specialized insurance and risk management products for the hotel, amusement, gaming, restaurant, resort and theme park segments.

The Chartis Insurers also added PLL Hospitality Protect to their NextGen Protection suite of industry specific insurance products. PLL Hospitality Protect is offered with CrisisResponse and crisis management, which help companies mitigate losses and prevent reputational damage in the event of a crisis management event.

The services provide an insurance product

tailored to respond to the pollution exposures associated with the hospitality and leisure industry.

Insential and American Safety Insurance combined to offer a management liability program for the hospitality

industry. The product offers employment practices, directors and officers and fiduciary liability coverage as either a package policy or standalone.

Leavitt Recreation & Hospitality Insurance (LRHI) launched a new program

designed for archery clubs and ranges. The program offers general liability, property, equipment, commercial auto, worker's compensation, and umbrella policies.

6. Cyber Liability

The small to medium-sized business segment has plenty of untapped privacy and security market potential — a fact that is not lost on insurers. The industry has turned up the heat when it comes to value-added services for cyber liability products especially targeted at small-medium enterprises (SMEs). Data breach notification tools, credit monitoring, and post-breach crisis management services, are just a few of the bells and whistles insurers are offering in hope of capturing more of the SME segment.

“In the small to mid-size segment, at least two thirds of your clients haven't bought yet,” says Michael Carr, senior vice president of E&O underwriting for Argo Pro. “A good chunk of them probably will over the next couple years, either because they have come to recognize the exposure or because they have a contractual duty or even a statutory duty that requires them to do it.”

The evidence supporting this untapped potential is not lacking, either. One survey conducted by the Ponemon Institute for Hartford Steam Boiler and Insurance Co. found that 55 percent of small businesses in the U.S. have had a data breach and 53 percent had multiple breaches. The survey also found that 70 percent of small business owners surveyed said they would purchase insurance to help pay for the costs if data is breached.

SME's awareness of their threat is also increasing, according to a survey from Zurich and Advisen released at the end of last year. Most small businesses see “at least a moderate threat to their organizations” from information security and other cyber risks.



And Marsh found in a new report titled, “Benchmarking Trends: More Companies Purchasing Cyber Insurance” that U.S. clients purchasing cyber insurance increased 33 percent in 2012 compared with 2011.

7. High Net Worth

Many independent agents continue to struggle with maximizing sales potential in personal lines in general and in serving the personal lines needs of the wealthy in particular.

Estimating market share in the high net worth segment of the personal lines market is not as easy.

Bob Courtemanche of ACE Private Risk Services, says that less than one-fourth of the HNW personal lines market is insured with independent agency carriers that have products and services tailored for the affluent. He bases his estimate on a Conning Research & Consulting study in 2008 that pegged the HNW personal insurance premium opportunity at about \$30 billion. Isolating the personal lines premium written by the carriers that specialize in the HNW market and then dividing it by the \$30 billion, produces a rough idea of market share, he says.

The opportunity for growth in the high net worth market is one reason behind the creation of MarketScout's new Council for Insuring Private Clients (CIPC).

CIPC, which began operation last summer, was founded in response to the growing interest in this segment and a lack of resources for the commercial lines industry when it comes to insuring the class, says Richard Kerr, CEO of MarketScout.

The goal of CIPC is to provide a place where agents, brokers and carriers can go to share best practices, and, says Kerr, make market connections so those in the industry can learn from each other better ways to serve clients in this segment.

The council features carriers that specialize in this segment, with AIG, ACE Private Risk Services, and Fireman's Fund signing on as the founding strategic partners and new carriers joining now as corporate



members.

Kerr says the underwriters who are getting involved are those who currently specialize in high net worth insurance, but anyone can join the CIPC, even agents who aren't currently involved in the space.

8. Energy - Fracking

The energy segment has been popping out alternative and green energy insurance products left and right for some time now. However, most insurers have been avoiding the highly-controversial hydraulic fracturing — or fracking — segment like the plague.

Fracking involves extracting natural gas from shale rock layers deep within the earth. It has become more prevalent recently because new technology makes the process more efficient and has allowed oil and gas operations to expand into new geographies. But the expansion does come with risks.

Rick Burns, president of Ryan Specialty Group's Global Special Risks (GSR) in Houston, says those drilling contractors that

do not specialize in fracking may not have the needed technical expertise and thus may present a greater risk. Disposing of the water that is used during the frack-

ing process could create a hazard, if not done properly. There is also a fear of the unknown on the part of insurers.

"This is extremely new technology. Insurers have said 'we need to take a look at this and see what we are insuring,'" he says.

Even so, Ryan Specialty's GSR has already responded by offering coverage for energy consultants who work in fracking environments. It offers a package policy with commercial general liability, professional liability, maritime employers liability and umbrella coverage.

GSR is also working on taking its existing well control product and making it more focused and readily available for those

independent oil lease operators working with hydraulic fracturing.

MarketScout's Monster Insurance is also launching a fracking insurance program, which it hopes to have completed by July 1. Monster is also in the process of writing a white paper on fracking and the insurance industry to help educate the industry on the fracking process.

Given the increasing interest in finding new energy sources, fracking is not going away. Burns says he expects to see many more insurance products coming out in the next two years.

9. Mergers & Acquisitions

A surge in financial services mergers and acquisitions in the fourth quarter of 2012 has led to optimism that M&A activity will pick up in 2013, according to a survey by PwC (PricewaterhouseCoopers). There is also increased M&A activity in the healthcare sector as venture capital and private equity companies look at opportunities in this space because of healthcare reform.

Evan Smith, healthcare underwriter and miscellaneous medical focus group leader for Beazley U.S. in Chicago, says they have seen many of these private equities "rolling up" small and mid-size mom-and-pop clinics or specialized medicine offices and making midsize companies out of them.

"I think as the economy improves and companies are sitting on cash, we will see a lot of mergers and acquisitions," he says.

M&As can be a risky and volatile segment, say experts, especially with so many uncertainties in today's marketplace, which is why interest and demand for transactional risk insurance has increased. The coverage insures against the legal, financial, tax or regulatory risk that arises from extraordinary transactions like mergers and acquisitions.

According to a Marsh study last fall, demand for transactional risk insurance was up 35 percent from June 2011 through June 2012 and in January, Lloyd's of London said they have seen an increase in demand for insurance relating to M&As.

Most recently, Aon Risk Solutions launched a new transactional risk liability practice "to capitalize on the exponential growth" it sees in this market.

Concord Specialty Risk is a unit of Ryan Specialty Group that focuses on insurance for extraordinary transactions like mergers and acquisitions. Dave DeBerry, CEO of Concord says the percentage of U.S. M&A deals that now consider this coverage has increased by close to 20 or 25 percent, but there is no reason why it can't be higher.

10. Reputational Risk

Companies are more at risk than ever from social media and the 24-hour news cycle that can turn even the smallest mistake into a highly-publicized event that can damage a company's image beyond repair.

In 2011, Aon and Chartis launched specific products aimed at helping companies protect and manage their reputations, as well as a crisis response service to help minimize reputational damage and restore a company's image.

Willis went a more niche-specific route and launched Hotel Reputation Protection 2.0 specifically for the hotel industry.

It appeared at the time that insurers had recognized an underserved area

of the market and were taking steps to fill the void with reputational risk products. But in 2012, most of this market was very quiet.

Only two major insurers launched new standalone reputational risk products in 2012, bringing the total number of reputational risk-specific products to five. In April, Munich Re launched a product to cover financial loss from a reputational risk event that mainly targets business to consumer companies. Later in the year, Allianz released Allianz Reputation Protect that helps respond to a crisis incident and provides a risk assessment to see how a company is currently perceived by the media and public. ■



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High Risk Property

Insurer Readiness on Long-Term Effects of Climate Change Called Into Question: Report



By Don Jergler

Insurers rank well in readiness for handling the short-term challenges of extreme weather events, but fall short in preparedness for the long-term effects of climate change, a new report says.

A report that surveyed insurers doing business in California, Washington and New York found that while many insurers are prepared to deal with today's extreme weather events, they are not prepared for longer-term "baseline changes" driven by climate change that may lead to more potent catastrophes like Superstorm Sandy.

The report "Insurer Climate Risk Disclosure Survey: 2012 Findings & Recommendations," commissioned by the nonprofit Ceres, gives a picture of how prepared the industry is to deal with new risks associated to climate change. Ceres drew its results on survey responses from insurers with more than \$300 million in direct written premiums

doing business in those three states.

"Climate really does have the potential to be a game-changer for the insurance industry, and we want to be sure it stays on their radar," said Washington Insurance Commissioner Mike Kreidler.

Kreidler, who said "the clock is clearly ticking" on the time to act on climate change, lauded the report as a good indicator of who is working to be prepared and take action on climate change, and who is not.

"The report shows there are some strong standouts in the insurance industry, but there is room for improvement," Kreidler said.

Jack Ehnes, CEO of California State Teachers' Retirement System and a former insurance regulator in Colorado, noted that CalSTRS has \$153 billion in investment holdings, including extensive insurance company holdings.

"The insurance industry response is well short of what we need," Ehnes said.

"As a matter of fact you can say it's tepid," he said.

Geoff Margolis, deputy commissioner and special counsel in the California Department of Insurance, spoke on behalf of Commissioner Dave Jones, who he said "applauds Ceres" for undertaking the report.

Margolis said "climate risk is something that insurers and regulators need to be thinking about."

The survey on climate risk, which was developed by the National Association of Insurance Commissioners, generated 184 responses. Ceres assessed: How the companies manage climate change issues, what drivers shape their strategies, what actions they take in their core functions or operations, and how they interact with external stakeholders.

"The implications are profound, for the insurance industry is a key driver of the national and global economies," the report's authors said. "If climate change undermines the financial viability of the insurance industry, it will have a devastating impact on the economy, as well."

The report noted that 2012 was the warmest year on record in the lower 48 states and had the second-most extreme weather year in U.S. history. It called extreme weather, including stronger, more damaging storms and flooding in some areas, and drought and heat in others "the predictable consequences of rising global temperatures."

Eleven extreme events each caused at least \$1 billion in losses last year in the United States, while Superstorm Sandy caused more than \$50 billion in economic losses, according to the report.

The report covered life and annuity, health and property/casualty insurers, but zeros in on the latter.

"By far, the industry segment with

continued on page N28

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SNL FINANCIAL - ADVISOR RANKINGS		
Merger & Acquisition Transactions in Insurance Brokerage 1999-2012		
FIRM	1999-2012: # OF DEALS	2012: # OF DEALS
Marsh, Berry & Company, Inc.	397	50
Dowling Hales	198	19
Mystic Capital Advisors Group, LLC	144	19
Reagan Consulting, Inc.	155	17
Macquarie Capital (USA) Inc.	44	1
B.H. Burke & Co.	24	0
Philo Smith & Company	21	4
Sica Consultants, Inc.	21	1
Bank of America Merrill Lynch	20	1
Optis Partners, LLC	18	7

Completed transactions in the United States.
Whole Deals as reported by *SNL Financial*, January 28, 2013.



- MARSHBERRY LEADS THE INDUSTRY IN M&A
- #1 ranking by *SNL Financial* for each of the past 14 years
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- More than 160 Bank Insurance M&A transactions
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Mergers & Acquisitions

2012 Insurance M&A Snapshot

Here is a snapshot of the property/casualty insurance industry merger and acquisition activity reported by *Insurance Journal* in 2012.

Major carrier transactions included Nationwide's acquisition of Harleysville, The Hartford's selling of its life units, Allegheny and Transatlantic completing their merger, and Markel's announced intention to acquire Alterra. There were several transactions involving medical malpractice insurers.

There was considerable activ-

ity in the wholesaler/MGA/program administrator space. BB&T completed its \$570 million acquisition of Crump Insurance units.

Ryan Specialty, AmWins and Bollinger proved to be active buyers.


In the agency space, Illinois-based insurance broker Arthur J. Gallagher left other insurance agency buyers in the dust in 2012, scoring or announcing 26 acquisitions, far more than any other buyer. Five of its acquisitions were in its home state of Illinois. Brown & Brown, Confie

Seguros, Marsh, Assured Partners/Neace Lukens and USI were also busy.

Two of the most active buyers, Confie Seguros and USI, were themselves bought. ABRY partners acquired a majority of the equity of the large personal lines insurance broker Confie Seguros from Calif.-based Genstar Capital. Canadian private equity firm Onex Corp. acquired USI Insurance Services from Goldman Sachs Group's GS Capital Partners for approxi-



mately \$2.3 billion.

In addition to those agencies that were busy in 2012, *Insurance Journal* reporters indicate buyers to watch in 2013 include Aon and Wells Fargo. The following are 2012 transactions or announcements of note. Special thanks to this year's "Insurance M&A Snapshot" sponsor MarshBerry. 

Carriers

- MedPro completes acquisition of New Jersey-based Princeton Insurance
- Chartis acquires warranty services provider Service Net
- Allegheny and Transatlantic complete merger
- OneBeacon completes sale of AutoOne business to New York's Interboro
- Goldman Sachs completes acquisition of Ariel Re's Bermuda operations Arch Capital completes acquisition of Ariel Re's Credit & Surety Reinsurance
- HSBC sells general insurance business to AXA, QBE for \$914 million
- Tokio Marine buyout of insurer Delphi allowed to proceed
- Hartford bows to shareholder Paulson, sells most life units
- Southeast non-standard auto insurer Peachtree acquired by California equity firm
- Liberty Mutual acquires Kit Finance, enters Russian auto insurance market
- North Carolina's Red Ventures buys HomeInsurance.com
- Workers' comp insurer BrickStreet acquires PennCommonwealth
- Canopus to buy Lloyd's Omega insurance for \$265 million
- Tower Group to invest in Lloyd's

- Canopus
- Nationwide Mutual completes Harleysville merger
- Flexpoint Ford agrees to acquire GeoVera from Hellman & Friedman
- Western National completes purchase of American Freedom insurance
- Hilltop Holdings, PlainsCapital Corp. Sign merger agreement
- Maryland's state-run WC insurer IWIF to become private nonprofit
- Private equity firm Southport Lane to acquire Dallas National Insurance Co.
- Southport Lane acquires Redwood Reinsurance
- RSA acquires Quebec insurer L'Union Canadienne
- Lexon buys Florida's Peninsular Surety
- Fairfax runoff sub Riverstone to acquire Brit Insurance Ltd.
- White Mountains acquires 2 Pico Holdings insurers in runoff
- Independent Nevada Doctors Insurance Exchange to merge with ProAssurance
- Medical liability insurer ProAssurance to acquire Medmarc in Virginia
- CNA completes acquisition of Hardy Underwriting Bermuda Ltd. for \$230 million
- Catalina Holdings acquiring two insurance operations from HSBC

- Main Street America, Austin Mutual Insurance affiliation finalized
- The Hartford sells life private placement unit to Philadelphia Financial
- MetLife acquires Georgia's Reynolds Plantation
- Physicians Insurance acquires EMPAC/Scrubs
- Zurich to transfer automotive aftermarket business to Arrowhead
- Flagstone Re completes the sale of Lloyd's operation to ANV
- Validus to buy Flagstone Re for \$600 million in cash and stock
- The Hartford to sell retirement plan unit to MassMutual
- Dubai Group sells Turkey insurance unit to Starr, Oman Insurance
- Ace acquires 80% of Indonesia insurer Asuransi Jaya Proteksi
- Ageas to acquire Groupama Insurance (UK)
- Catalina acquires runoff vehicle KX Re from Tawa
- American Family acquiring Permanent General, Lumbermens Casualty
- Prudential to pay \$615 million for Hartford's life insurance unit
- ING to sell Malaysian insurance unit to AIA for \$1.73 billion
- OneBeacon cuts ties with Hagerty Agencies, selling Essentia to Markel
- OneBeacon selling runoff business to Bermuda's Armour Group
- Ally Financial to sell Mexican insur-

- ance business to Ace
- Hong Kong's Li returns to insurance with \$2.1 billion ING deal
- Penn. regulators approve pending sale of Isreal's CLAL's U.S. unit to Berkshire's National Indemnity
- The Doctors Co. to acquire Utah Medical Insurance Association
- RLI acquires Medical Malpractice Underwriting Agency
- RLI acquires Houston's Rockbridge Underwriting Agency
- MetLife to sell mortgage service unit, focus on insurance operations
- Endurance acquires Galileo Weather Risk
- AIG, others to take up half of China Pico's \$3.6 billion Hong Kong IPO
- AIG acquires The Hartford's financial advisory group Woodbury
- White Mountains completes acquisitions of AIG, Pico runoffs
- Thai group buys Ping in stake from HSBC for \$9.38 billion
- Chinese group to buy AIG's plane leasing unit for up to \$4.8 billion
- Treasury completes final sale of AIG stock
- PartnerRe to acquire Calif.-based Presidio Re Group
- Markel acquiring Alterra for \$3.1B
- RSA announces sale of Dutch Caribbean operation
- Zurich transfers Eagle Star to Riverstone; Irish banking business to Dunbar

Wholesalers/MGA/Program Managers

- Penn.-based Glatfelter acquires faith-based and senior living programs
- N.J.-based Bollinger acquires Argent Professional Insurance Agency
- R-T Specialty acquires Texas insur-

- ance wholesaler Maclean, Oddy & Associates
- R-T to acquire workers' comp wholesaler IFIS in California
- IMAC acquires Chicago-based Specialty Service Solutions
- U.S. wholesale broker AmWins com-

- pletes acquisition of London's THB
- Kaufman Financial acquires London's Chesterfield Group, Texas MGA
- K2 acquires majority stake in Midwestern Insurance Alliance
- BB&T completes \$570M acquisition

- of Crump Insurance units
- N.J.-based broker Bollinger acquires Creative Agency Group
- Worldwide Facilities acquires N.Y.-based wholesaler Privett
- The McGowan Cos. purchases Md.-based Allied Insurance Brokers

Wholesalers/MGA/Program Managers Continued

- Stoermer Insurance to assume accounts of Black/White & Assoc.
- PGI acquires N.Y.-based program administrator American Altair Group
- Personable Insurance acquires Texas-based endeavor General Agency
- R K Harrison completes specialty lines purchase from Gibbs Hartley Cooper
- AmWins Group completes recapitalization deal
- N.Y.-based broker Sterling & Sterling, Hyde Agency form joint venture
- Ryan Specialty to buy Direct Group in UK
- AmWins buys Wisconsin school insurance broker, SMIC
- Ryan Specialty Group acquires Atlantic Star Intermediaries in New York
- Ryan Specialty Group to acquire WKFC Underwriting Managers
- CRC/Crump acquires preferred brokerage unit of Preferred Concepts
- N.J. brokerage Bollinger acquires The Morville Agency
- Preferred Concepts acquires Metro Insurance Services in New Jersey
- Kaufman Financial Group acquires Premium Insurance Auditor
- Prowriters acquired; opens as independent managing general underwriter
- IDP Holdings acquires NSU's Hospitality Program in Washington
- Penn.-based W.N. Tusciano buys Special Risk Solutions from Utica Mutual
- AmWins Group to acquire Georgia-based Gresham & Associates
- Brown & Riding in California merges with Travis-Pedersen
- Utah-based Veracity acquires Stratus Insurance Services
- KKR to acquire Alliant Insurance from Blackstone
- California's Trinity Insurance Services bought by McNeil & Co. of New York

Most Active Agency Buyers

Arthur J. Gallagher

- Capital Bauer Insurance in Albany, N.Y.
- South Carolina's Riley & Associates
- Prosource Financial in Illinois
- Louisiana MGA, First Premium
- Dallas-based Wischmeyer Benefit Partners
- Human Resource Management Systems in Illinois
- Canadian broker BenefitLink Resource Group
- Louisiana's Besselman & Little Agency
- Ohio's Schiff, Kreidler-Shell
- UK's Insurance Dialogue Limited
- Professional Claims Managers of Dallas
- Grossman & Associates of Ohio
- Broker Benefit Services in Missouri
- Alabama's Whitehaven Insurance
- Miller Buettner & Parrott in Illinois
- Triad USA in Pennsylvania
- Grace/Mayer Insurance Agency of Nebraska
- Texas-based Sunday and Associates
- Coyle Insurance Agency of Illinois
- Unison Inc. of Minnesota
- Park Row Associates in Rhode Island
- Aires Consulting Group of Illinois
- Nebraska's Brendis & Brendis
- Michigan's Charter Lakes Marine

- Insurance Agency
- Western Benefit Solutions of Idaho
- Ahrold Fay Rosenberg of Iowa

Confie Seguros

- Power Auto in California
- Survival Insurance in California
- Speedlane Insurance in California
- The Chapman Agency in New Jersey
- Coppola Insurance in New York
- Palmetto Insurance in Florida
- Daley Insurance in Florida
- Bradley Insurance Agency in Nevada
- Auto Insurance World of Florida
- Westside Auto, Ontario, Canada
- Stonewood Insurance Services in California
- Maurisset Insurance in Florida
- CNS Insurance Services in Florida
- Briar Bay Insurance in Florida
- Got Insurance of Las Vegas, Nevada

Brown & Brown

- Arrowhead General Insurance Agency in California
- D. Bezona & Co. in California
- Moten Associates in Pennsylvania
- Mass.-based Richard W. Endlar Insurance
- Insurcorp in Nevada
- Behnke & Associates in Florida
- Gilbert RV Insurance in Florida

- Rowlands & Barranca Agency in New York
- RV America Insurance Marketing in Kentucky
- Let's Talk Insurance in Kentucky
- Johnson & Strachan in Virginia
- Edgren Hecker & Lemmon Insurance in Washington
- Texas Security General Insurance Agency in Texas

Marsh/Marsh & McLennan Agency

- Africa's Alexander Forbes' brokerage business
- KSPH in Virginia
- Cosmos Services, a unit of Japan's Itochu Corp.
- Progressive Benefit Solutions in North Carolina
- Security Insurance Services in Wisconsin
- South Carolina's Rosenfeld Einstein
- South Dakota's Howalt+McDowell Insurance
- Protector Group in Massachusetts
- Ohio's Brower Insurance Agency
- Independent Insurance Group Benefits in Texas

Assured Partners/Neace Lukens

- Kentucky's Berryman Agency

- Indiana's Jenkins Insurance Services
- Indiana's Matrix Benefits and Consulting Group
- Kentucky's Morehead Insurance
- South Carolina's Gosnell Agency
- Davis-Garvin Agency in South Carolina
- Dawson Cos. in Ohio
- Moore & Johnson in North Carolina
- Schiffman Remley and Associates in Kansas
- R. Stanford Webb Agency in North Carolina

USI

- Virginia's the Pinnacle Group
- Illinois-based Euclid Insurance retail business
- National Insurance Specialists in Ohio
- Georgia's Impact Benefit Management Services
- Lynch, Beretta and Bucci Insurance in Rhode Island
- Kelly Insurance Brokerage in New York
- Florida's Suncoast Associates
- Canadian TD Bank's U.S. Insurance subsidiary
- Compass Insurance in Alabama

Noteworthy Agency/Broker Transactions

- Hub acquires Associated Independent Agencies Inc. (AIA) in Washington
- TDECU Insurance Agency acquires Associated Insurance Advisors in Houston
- Bolton & Co. acquires Pacific General Insurance Services, California
- UPA Insurance brokers in California acquired by Risk Strategies
- Ascension Insurance acquires North Carolina's Falcone Williams
- Digital Insurance buys Va.-Based strategic employee benefits services
- PSA acquires Baltimore office of edgewood partners Insurance center
- Direct-link acquires Southern California firm Cumbre
- Ventura Partners acquires California's Barlocker, forms Coastal States
- Lubbock office of Shofner, Lynch & Shulse joins McQueary Henry Bowles Troy in Dallas
- TDECU Insurance acquires assurance Insurance Agency in Texas
- TDECU Insurance acquires Burrigde Insurance agency based in Texas
- The Buckner Co. acquires Leonardson Insurance in Idaho
- Florida Harbor Agency acquires Fidelity Insurance Associates
- Town & Country Insurance Agency completes Whittington acquisition in Texas
- Palomar buys Martin Grace Benefit Group in Alabama
- Bell-Anderson in Washington acquires Michael J. Girias
- Poms acquires Stone, Harris & Stone in California
- Benefit Specialists joins Higginbotham Insurance group in Texas
- Stahlka Agency acquires Historic Square Agency's Western N.Y. practice
- Michigan's InPro Insurance group acquires Falvey-Counihan Insurance
- Bancorpsouth Insurance acquires Alabama agency, Securance Group
- CBIZ acquires Texas-based Stolz and Co.
- Sebs of the Midwest merges with Digital Benefit Advisors' Chicago office
- Whitfield United Insurance Agencies in Washington join the Leavitt Group
- Coverica acquires assets of Dallas-based Unimark Insurance
- Bolton acquires Reaume Financial Group in California
- Digital Insurance acquires DSG Benefits Group in Dallas
- Integro buys UK Media Insurance
- McGowan purchases assets of CGA Associates in Ohio
- Ascension acquires Modern Services Insurance in Atlanta
- Bolt buys 2 Florida agencies: PRG and Florida Direct
- Digital Insurance acquires Knoxville's First Benefit Partners
- Ohio's Norman-Spencer Agency acquires N.Y.-Based Keenan Marine Agency
- CBIZ acquires Trinity RiskAdvisors of Atlanta
- New York's Cook, Hall & Hyde to merge with Maran Corporate Risk Associates
- Digital Insurance buys North Carolina's Strategic Benefit Solutions
- HUB International expands in Caribbean with Puerto Rico broker
- Lockton Dunning Benefits acquires Excelsior Solutions in Minnesota
- MJ Insurance acquires Indianapolis-based Mead & Company
- Powter acquires Jordan in Texas
- CBIZ buys Leavitt Pacific's employee benefits in California
- HUB acquires Raintree Insurance Agency in California
- The Horton Group, Cassidy Neeser & Brasseur merge
- Risk innovations acquiring work comp business of Missouri's TAS Insurance Group
- Risk Strategies Co. acquires D&D Insurance Agency in Massachusetts
- Northwest Savings Bank acquires Bert Insurance Group of Pennsylvania
- Willis North America to acquire Canadian benefits broker Avalon Actuarial
- Coastal Insurance Group becomes a Higginbotham Co.
- Integro acquires southern California's the Rule Group

Mergers & Acquisitions

E&O Insights: Don't Forget About E&O When Buying or Selling an Agency

While the industry seemed to see a spike in mergers and acquisitions activity in 2012 due to some tax



By Curtis M. Pearsall

implications, many are projecting that 2013 will see some healthy buying and selling, too. While there are many issues to address involving staffing, systems, etc., something that does not seem to

get the attention it deserves involves the applicable errors and omissions (E&O) issues. This is somewhat surprising because without the proper structure and attention to detail, agencies could find themselves, whether they are the buyer or the seller, without the proper coverage.

Both the buyer and seller must realize that not all E&O carriers handle this transaction the same, and the process is not as straightforward as one might think. There are potentially some unique issues and factors that could determine the exact nature of the trans-

action. Is it an acquisition or is it actually a merger?

Purchased Entity Endorsement

Whether you are the buyer or the seller, to ensure that the coverage has been structured properly, a great starting point is to contact your E&O carrier and advise them of your intentions. Let them guide you through the process and the issues.

The carrier will often require the completion of some paperwork to help determine the nature of the transaction. As most E&O policies contain set timeframes for the handling of these issues, it is important that agencies are proactive in addressing this matter. Waiting to advise the carrier could jeopardize your ability to secure the necessary coverage. The E&O carrier will probably ask you some key questions and advise you of any paperwork that must be completed.

For the buyer, the traditional approach is to have your E&O policy endorsed to provide coverage for the "new" agency. The coverage, referred to by many E&O carriers as a purchased entity endorsement, will provide protection against errors made by the "new" agency beginning with the effective date of the acquisition. Essentially, it will be up to the seller to secure coverage for errors made by the "new" agency prior to the date of the sale.

Moreover, it is not a "slam-dunk" that the E&O carrier will provide purchased entity coverage automatically. This is

one of the many reasons it is important to bring your E&O carrier into the discussion early. If you are a retail agency acquiring a wholesaler agency, your E&O carrier may be unwilling to provide the necessary coverage. Much of this depends on the underwriting appetite and experience regarding the type of agency you are looking to acquire.

Is there a premium charge for purchased entity coverage? Maybe. This will depend on how that E&O carrier has

filed to handle this transaction, which could vary among carriers on their rating basis (premium, staff,

Without the proper structure and attention to detail, owners could end up in an E&O situation when buying or selling an agency.

revenue, etc.). Some E&O carriers look to address this "additional exposure" at the next renewal.

This is another example demonstrating that not all E&O carriers handle this issue the same. Because the issue of E&O could become an afterthought, some of the more preeminent E&O carriers in the market provide 90 days of automatic coverage when you buy an agency. This is a significant issue and benefit.

The Longest Tail

For those that have decided that "enough is enough" and it is time to sell your agency, contact your E&O carrier and advise them of your plans.

The traditional approach involves the seller purchasing an optional extended reporting period endorsement (also known as "tail"). Most policies will contain an automatic 60-day grant of coverage, but this is not enough. Due to the nature of claims-made coverage, the optional "tail" will provide an additional period of time after the expiration of



the policy for which valid claims will continue to be accepted, provided the wrongful act occurred before the end of the policy period.

Although all claims-made policies contain this provision, there is, once again, no consistency among carriers as to the available options. Some policies only allow an additional one-year "tail." Other policies may only allow options up to three years. Still others (typically admitted markets) provide up to 10 years, or even an unlimited period. The charge for this additional coverage comes with a hefty premium charge so plan for this expense; 200 percent of the last full annual premium for a 10-year tail is common.

This is not an issue you have unlimited time to think about. Once again, this speaks to the benefit of contacting your E&O carrier to find out your options and when the decision needs to be made.

For example, an agency owner may look to buy a three-year tail and say, "when that expires, I will look to buy another three years." This is not an option. You have one opportunity to make your decision, so give it serious consideration. It is not a cost that can be financed, so plan ahead. Buying the longest option available is highly recommended. Claims during this optional "tail" coverage do occur, so this could spell disaster without the proper coverage.

On Notice

If you are on the verge of selling your business, it is recommended to put your E&O carrier "on notice" of any potential claims that may arise. By reporting those potential claims, most E&O carriers will consider those claims covered regardless of when the actual claim is made. It essentially locks in the "date claim made."

Contrary to what some may want to believe, E&O policies are not assignable, and thus giving your E&O policy to the buyer and requesting that they keep making the payments is not the solution. If a


problem develops, this approach could very well leave both the buyer and seller with no coverage whatsoever.

From time to time, a buyer agrees to provide coverage for the seller on an ongoing basis under the buyer's E&O coverage. Is this a good deal? It may appear so on the surface, but it's fraught with problems. Consider the following:

- What if the buyer's E&O policy is not as broad and thus does not cover all of the activities the seller had covered under his or her policy?
- If the deductible is higher or of a different type (loss-only as opposed to a combined loss and expense deductible), the seller could find himself paying more if an E&O problem develops

based on an error prior to the date of the sale.

- What is the E&O for the buyer that is non-renewed due to loss history and what if the buyer cannot find coverage or finds inferior coverage? The seller is now at the mercy of this decision.

Looking to buy or sell? Include your E&O carrier early on in the discussion. This is the key to ensuring you make the right decisions. 

Pearsall is president of Pearsall Associates Inc., a risk management consulting firm specializing in helping agents to protect themselves. He is also a special consultant to the Utica National Agents E&O program. Phone: 315-768-1534. Email: curtis@pearsallassociates.com. Blog: www.agentseotips.com.



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High Risk Property

Climate Change, continued from page N22

the most climate risk management activities underway is property and casualty — unsurprising as weather events are a major driver of losses to these companies,” the report stated.

Climate Variability vs. Climate Change

The report drew a distinction between climate variability and the long-term impact of climate change.

“While most insurers in the P/C segment have policies in place to manage climate variability, the annual and decadal variance inherent to the global climate system, few have explicit policies to identify or manage the trends of global climate change,” the report said. “Some insurers do not seem to understand the difference between climate variability and climate change.”

Climate change is global; it’s related to a growing amount of carbon in the atmosphere and the increased capacity for heat

to be stored in the ocean, leading to rising sea levels, stronger storms and longer droughts that can leave more tender for massive wildfires, according to the report’s lead author, Sharlene Leurig, senior manager of the insurance program at Ceres.

“Those are baseline changes,” Leurig noted.

Especially within the health and L&A segments, but even among some P/C insurers, many companies view climate change as an environmental issue immaterial to their business, with many of the remaining companies regarding climate change as a risk that will inherently be captured in their enterprise risk management strategies, the report showed.

According to the report, only 23 of the 184 companies have “comprehensive climate change strategies,” and of those 13 are foreign-owned, while eight are property/casualty companies.


“Yet even among those companies with comprehensive climate strategies, the view of climate science is remarkably diverse,” the report stated.

The report also showed larger companies may be better prepared for the impacts of climate change. For the purpose of the report, companies were categorized by size: small (between \$300 million and \$1 billion annual premiums); medium (\$1 and \$5 billion); large (\$5 billion-plus).

Insurer responses varied, with some companies seemingly more enthusiastic about dealing with the topic than others.

There are companies like The ACE Group that are funding climate change research, while companies like Swiss Re actively lend their brand to efforts at the Intergovernmental Panel on Climate Change, a global cooperative to synthesize the state of climate change science.

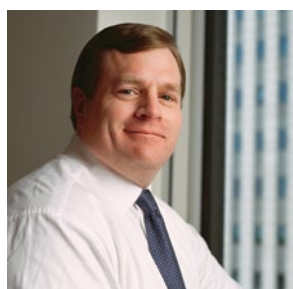
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concluded that climate change is already driving extreme events to diverge significantly from historic trends," the report stated. "Among them is Munich Re, which includes climate change among the set of factors amplifying decadal weather-related losses in North America, particularly for heat waves, droughts and thunderstorms. The increasing unpredictability of extreme events, and the potential for climate change to undermine the industry's diversification models, threatens the industry's long-term financial viability along with the very concept of insurability itself in some parts of the world."

Leurig said that while the industry today may be capable of dealing with extreme weather events, the report's findings reflect a lack of forethought about the future impacts of climate change. "What it takes to be resilient to extremes is different, the baseline is changing," she said. 

How Insurers View the Impact of Climate Change


Besides revealing attitudes about climate change, the Ceres report highlights how insurers view the impacts of climate change affecting the industry.

Some insurers believe climate change could potentially affect the availability and cost of risk transfer options, reinsurance, catastrophe bonds and catastrophe swaps, according to the report.

In its response, Progressive Insurance Group said: "Extreme global weather volatility could increase risk financing costs. Risk financing is the process by which a company secures the appropriate funds to cover unexpected financial losses arising from a risk that the company has deliberately retained. Both capacity in the reinsurance market and availability of capital from the catastrophe bond market could,

theoretically, become constrained after the occurrence of extreme weather events."

Reputation was another motivating factor for insurers embracing climate change policies and attitudes, according to the report.

One such company is The Hartford Insurance Group: "We believe that companies that themselves demonstrate a strong, comprehensive and sustained approach to environmental stewardship and offer appropriate products at the appropriate price can build a green insurance brand. Also, in the war for talent, companies that can demonstrate to their employees that they have a serious commitment to environmental stewardship will be better positioned to attract and engage talented employees." 

Insurer Strategies for Managing Extreme Weather Risk

Common strategies for risk management include catastrophe modeling, reinsurance, higher deductibles or broader exclusions in risk-prone areas, particularly coastal zones, and a tight control of aggregate exposure, including rebalancing property with other lines of business, according to the Ceres report "Insurer Climate Risk Disclosure Survey: 2012 Findings & Recommendations."

"The most frequent challenge to risk management cited by insurers is regulatory pricing controls, in which prices are not permitted to rise as quickly to higher risk levels in regulated markets," the report stated.

Risk modeling was specified by 40 insurers as an important technique to explore their capital adequacy, using realistic disaster scenarios and catastrophe models in the case of P/C insurers.

Twenty underwriters, mainly P/C insurers, mentioned accumulation control, in which the insurer limits the amount of risk it will accept in high-hazard regions.

For example, Mercury Casualty stated:


"Because of the predicted increase in hurricane frequency, Mercury is taking numerous steps to monitor, control or even reduce exposure to catastrophic losses caused by hurricanes. Mercury is also exiting the homeowners insurance market in Florida."

David Snyder, vice president of international policy for the Property Casualty Insurers Association of America, took exception with assertions in the Ceres report that insurers are relying on standard risk strategies.

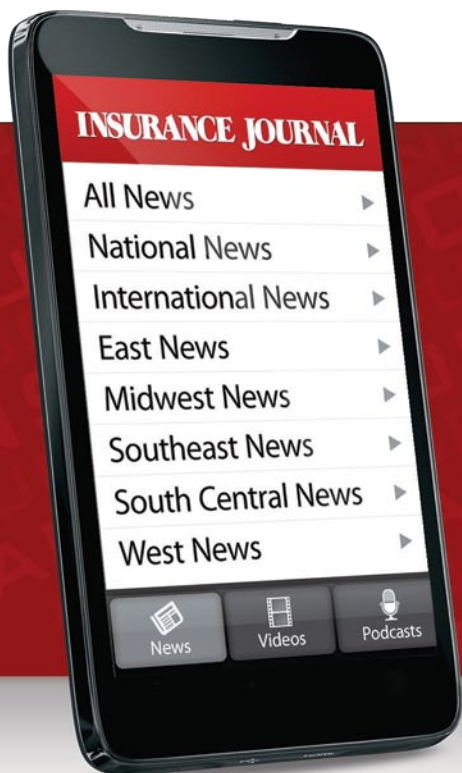
"That's not, by a long shot, all of what the industry is doing," Snyder said.

He noted that insurers have rolled out usage-based auto insurance, which helps decrease carbon emissions; insurers are increasing the effectiveness of catastrophe modeling; they are pricing for changing weather patterns; and they are pushing building codes and smarter development so that stronger buildings are constructed in safer areas and existing buildings are made more weather-resistant.

"Across the board we think the industry is responding to the needs of its policyholders," Snyder said, adding that "the industry responds to risks as proven through actuarial means that have to meet a very high test of credibility."

Snyder doesn't think a "one size fits all" strategy should be adopted for all insurers, and added that better reporting is not the answer. "Future actions shouldn't be more reporting, but rather be focused on joint action to actually reduce risk," he said. 





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Greenberg's View



By Maurice 'Hank' Greenberg with Andrew Simpson

From 1967 until March 2005, Maurice "Hank" Greenberg, now chairman and CEO of Starr Cos., helped build American International Group (AIG) into the world's largest insurer with a market value of \$180 billion, forging relationships, opening markets and inventing products around the globe. All was well until 2005, when New York Attorney General Eliot Spitzer set his sights on Greenberg, forced him out as CEO of AIG early and nearly destroyed the company. In a new video interview with Wells Media Group's Andrew Simpson, Greenberg shares stories from his new book "The AIG Story," including his views on AIG, Spitzer, the financial crisis that led to the government owning 79 percent of AIG and the principles that have guided him during his 60-year insurance career.

The following are excerpts on just a few of the topics from that interview. Watch the complete interview and all excerpts at www.InsuranceJournal.tv.

Corporate Culture

How much of AIG's culture was your personality and values versus something that you had to create?

Greenberg: It's hard to separate the two, I think. The mark of a good executive is one who doesn't try to be like everybody else, tries to be himself, number one, and himself is different from most others. You don't just try to follow

in somebody else's footsteps to be like them. You want to be yourself and yourself has got to be different than most others. You've got to think independently. If you don't think independently, what are you? You're just a copycat.

Foreign Trade

What is your view of attaching human rights, environmental or other conditions to global trade agreements?

Greenberg: I think you have to be careful about that. If we started to ... and that's one reason why we have such few trade agreements ... You can't tell a country what to do in their country. If they want to not follow union practices, that's up to them. It's their country. We can't negotiate an agreement and tell them what to do in their backyard. It's their country, not ours. If you're there and you treat your employees differently and you meet with leaders of that country and explain why it's in their national interest over a period of time to adopt certain practices. You don't win all the time, but you win many times. It's that kind of a dialog, that's important. That's why American business operating globally has an influence on the behavior of many countries.

Employee Compensation

Why do you think long-term compensation is best?

Greenberg: We wanted people to have a long-term view, commitment to what we were doing, not for everybody. We didn't want everybody. We wanted the people who shared the same values that we did. I never had an employment contract. I refused it. I had a plan. I would never take compensation of more than a million dollars. You can pay me a bonus, but I don't want, and the bonus has to be based on certain performance issues. I participated in, what we call the SICO plan, which was not any cost to AIG whatsoever. A private company that we did out of our own pocket when we went public. We compensated many individuals in AIG based on performance. That's what I thought it ought to be.

'If you don't think independently, what are you? You're just a copycat.'

Climate Change

Is climate change something you factor into strategy?

Greenberg: There's climate change taking place but how much of it is man-made and how much of it is plain nature? We had an ice age on this planet a million or hundreds of years ago. Is what we're seeing a part of a new change in climate? Is man-made change that traumatic or is it a pitiful small amount of it? There's nobody to give you a straight answer on that. Currently, whether it's man-made or nature-made, there is a change going on. You have to deal with it, not because the change is going to take place over 100 years, it's happening now. ■

Watch the full interview and all excerpts at www.InsuranceJournal.tv.

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