Insurance

Insurance Industry Leaders Believe Market Capacity for Cyber Insurance is on the Rise

Leaders of the property/casualty insurance industry believe the cyber insurance market is expanding, particularly with emerging risks prompted by high-profile hackings, according to a survey conducted by the Insurance Information Institute (I.I.I.) at its 19th annual *Property/Casualty Insurance Joint Industry Forum*, held earlier this year. Cyber-Crime is exposing businesses – both in the U.S. and abroad – to greater levels of liability than ever before, which is why the market is far from saturated.

Eighty percent of executives said they see cyber insurance as a major growth area for commercial insurers.

Many executives in the property/casualty industry believe there will be a stricter regulatory environment in the year ahead. Seventy-two percent believe the federal government is interested in further expanding its regulatory oversight of insurers.

More than half of p/c industry leaders believe the U.S. economic growth will improve in 2015. Fifty-six percent believe the economy will accelerate; 6 percent believe it will decelerate and 38 percent believe it will remain about the same.

"The U.S. economy appears to be picking up steam, which translates into more economic activity and the addition of capacity. This means more businesses and people will need more insurance, implying further increases in insurance premium volume," said Dr. Steven Weisbart, senior vice president and chief economist with the I.I.I. "Moreover, business bankruptcies in 2014 dropped below their lowest level in the last two decades, so the erosion of commercial accounts will continue to ease. As the economy inches closer to full employment, we may begin to see wage increases that outpace inflation for the first time in nearly a decade, primarily affecting the workers compensation line. Further, the low-interest rate climate, which has lasted longer than virtually everyone thought likely, is expected to begin a return to normality sometime in the second half of 2015. Absent devastating natural catastrophes, 2015 could be another profitable year for insurers."

Broken down by lines of insurance, 61 percent of respondents believe there will not be an improvement in personal auto lines and 54 percent believe there will not be an improvement in the homeowners lines. In addition, 58 percent of respondents do not expect an improvement in commercial lines, however 44 percent expect an improvement in workers compensation.

Thirty-six percent of respondents believe that premium growth will be higher in 2015; 46 percent believe it will remain flat; and only 18 percent believe it will be lower. In terms of capacity, as measured by policyholders' surplus, 78 percent of respondents expect it to increase; 18 percent believe it will remain flat; and 4 percent believe it will decrease.

As compared with 2014, 74 percent of respondents believe the combined ratio will be higher in 2015. The combined ratio is a percentage of each premium dollar a property/casualty insurer spends on claims and expenses. The combined ratio declined by 1.1 percentage points to 97.8 percent in 2014 (estimated) from 96.7 percent in 2013. A combined ratio over 100 means that claims payments plus expenses exceeded insurance premiums.

"Combined ratios must be lower in today's depressed investment environment to generate risk appropriate ROEs," added Weisbart. "Lower catastrophes helped pull up ROEs in 2014," he said.

One way to lower expenses is by consolidation; 92 percent of respondents expect an increase in M&A activity among insurers and reinsurers in 2015.

In the area of torts, 18 percent of respondents believe that tort trends will deteriorate in 2015; 66 percent believe it will remain the same; and 16 percent believe it will improve.

On the investment side, 68 percent of industry leaders expect another "up" year in the equity markets in 2015 (but for the industry as a whole, equities constitute only about 15 to 20 percent of invested assets). About 70 percent of invested assets are in bonds.

Industry leaders were asked whether they expect interest rates to rise, fall or remain flat in 2015. Fifty-six percent think they will remain flat and 40 percent think they will rise; and four percent of the respondents expect interest rates to fall.

The *Property/Casualty Insurance Joint Industry Forum* was created to provide leaders from the widest spectrum of the industry with an opportunity to meet with each other in discussion of topics of general interest. Participants included nearly 250 representatives from property/casualty insurance and reinsurance companies and organizations. Of these, roughly 40 percent responded to the survey.

The sponsoring organizations of the Forum represent a broad range of insurance interests and audiences. They include: ACORD, American Insurance Association, the Association of Bermuda Insurers and Reinsurers, The Geneva Association, Insurance Institute for Business & Home Safety, Insurance Information Institute, Insurance Institute for Highway Safety, International Insurance Society, National Association of Mutual Insurance Companies, National Council on Compensation Insurance, National Insurance Crime Bureau, Property Casualty Insurers Association of America, Property & Liability Resource Bureau, Reinsurance Association of America, The Institutes and Verisk Analytics.

Information provided by the Insurance Information Institute. Learn more at www.iii.org.

INSURANCE

A New Era in Employee Benefits

By LORI BROGIN-FALLEY

The Affordable Care Act (ACA) has resulted in a growing trend for insurance brokers and advisors to expand outside of their traditional role of obtaining quotes and identifying the best lines of coverage for employers.

Federal legislation has made a complicated industry even more complex. With seven major health plans now available in California, the focus has changed from price and plan negotiations to seeking advice on compliance and other regulatory issues.

For example, new in 2015, employers with 100 or more full-time employees or full-time equivalents are required to offer affordable and adequate health coverage or pay a penalty tax. In 2016, employers with 50 or more full-time employees or full-time equivalents will be required to offer coverage. Full-time employees include those who work at least 30 weekly or 130 monthly hours. This definition differs from the 40-hour per week full-time eligibility requirement that many companies previously used.

Under the current federal mandate, variable hour and seasonal employees—such as those who work for construction companies, hotels and restaurants—may also be considered full-time. The eligibility formula for coverage is complex, requiring employers to determine which employees should be offered health care coverage under the new law. The ACA also requires employers to distribute a Summary of Benefits and Coverage (SBC) and a Uniform Glossary of healthcare terms to plan participants and other required notices within specific timelines.

"The reduced number of insurance providers, new mandates and complex compliance requirements has created increased demand for consultative and administrative services," said James Garrison, president of Pacific Federal Insurance Corporation (PacFed), one of California's largest and most experienced privately owned employee benefits companies. "We've experienced significant growth from national companies that require assistance handling compliance and employee benefits issues for their California employees."

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A trusted consultant and administrator of employee benefits since 1990, PacFed assists businesses in carrier negotiations and the administration of employee benefit coverages. Many clients participate in PacFed-administered ERISA, Taft-Hartley and Private Exchange plans, which harness group purchasing power.

PacFed provides complete, direct services from a single source including: member service department, on-site enrollment, online services, consolidated invoicing, claims processing, employee compliance notifications and ACA updates.

"PacFed offers a complete suite of member services from a single source," said Garrison. "We assist employers with compliance, regulatory and fiduciary responsibilities."

Not all parties are legally qualified or competent to serve as employee benefits advisors.The California Department of Insurance monitors the industry and pursues unlicensed individuals who put the employer at risk by illegally collecting confidential employee information.

Before engaging the services of an insurance professional, beware of unlicensed operators. Insurance agents and administrators in California are required to display their license number on their business cards and marketing materials. Their licensing status can be verified online with the California Department of Insurance at www.insurance.ca.gov.

Next, choose an advisor with a reputation for trust in the employee benefits industry. Ask for client professional references. The California Department of Insurance's website is a resource for obtaining the disciplinary records of agents and administrators.

Finally, select an insurance advisor who offers a level of service and personalized care to meet your group insurance needs. Making the right decision will simplify the benefits process, reduce corporate administrative costs and support the long-term health and wellness of employees.

"Navigating through today's complex and changing group health insurance market is challenging, Garrison said. "PacFed has a 25-year history of helping employers optimize their insurance decisions, while keeping them a step ahead of compliance and regulatory mandates."

Lori Brogin-Falley, Esq. is vice president of Client Services and Public Affairs for PacFed, a leading employee benefits company specializing in the administration of Private Exchanges, Taft-Hartley Plans and corporate ERISA Plans. She oversees the administration and regulatory compliance of several health care trust funds, as well as the company's government affairs and community outreach efforts.

Emergency Management Agencies Adopt "The Red Guide to Recovery" as Disaster Recovery Tool

Emergency management agencies including the City of Los Angeles Emergency Management Department, the San Francisco Department of Emergency Management, and the Northeast Colorado Emergency Managers Group, have adopted a new tool that is helping disaster survivors in their communities rebuild their lives. ***The Red Guide to Recovery - Resource Handbook for Disaster Survivors***, written by San Diego author Sean Scott, is a recovery road map that walks disaster survivors step-by-step through the days, weeks, and months that follow a disaster event.

Originally created for San Diego County after wildfires devastated Southern California in 2003 and again in 2007, The Red Guide provides valuable insight that raises awareness of the many issues and pitfalls that often transform disaster survivors into disaster victims. In light of recent further wildfires in the San Diego area, the Red Guide to Recovery is more essential than ever.

"When first responders leave the scene of a disaster, the survivors are usually left to figure out their recovery on their own," said Scott. "For those who have lost their home or become displaced, this can be the beginning of a nightmare. Whether it's a hurricane, tornado, wildfire, flood, or even a kitchen fire, few are prepared for what the recovery process entails."

"When first responders have this resource on hand," added Scott, "it allows them to provide disaster survivors with the information they need when they need it most - immediately after a disaster event. It also plays a vital role as a preparedness tool that is helping communities prepare for recovery."

With an increase in major disasters affecting the U.S. each year, more emergency management agencies and fire departments around the country have adopted The Red Guide as their resource to hand out after disaster events.

"The Red Guide to Recovery is a comprehensive resource that provides up to date information to individuals and families who must begin navigating through the complicated and often confusing process of recovery following a fire or other destructive event," said San Francisco Fire Chief Joanne Hayes-White. "When we saw The Red Guide for the first time, we knew that we wanted to be able to provide it to the residents of the City and County of San Francisco to give them some direction and to assist them in beginning the recovery process as soon as possible."

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"Los Angeles is susceptible to a large variety of emergencies, both natural and human caused," said James Featherstone, General Manager of the Los Angeles Emergency Management Department. "Therefore, not only should our residents be prepared for these emergencies, they should also know what to do after the emergency to stay safe and recover as quickly as possible. This guide will help them do that."

Until late last year, The Red Guide to Recovery was only available to first responders or government agencies, but now a limited supply is available for individual purchase at www.TheRedGuideToRecovery.com or through Amazon.com

For more information on The Red Guide to Recovery, visit www.TheRedGuideToRecovery.com.

INSURANCE

How Is Your Business Impacted by New PPACA Reporting Requirements?

By TOBY KENNEDY

There are a few new reporting requirements PPACA has created and many employers have questions on which are necessary for them, when the reporting is to be done and whether or not there are fees involved. Companies need to be sure their team understands what is required to satisfy these new ACA regulations.

As a response to the overwhelming amount of disparate information on the topic, below is a brief compilation of the "headliners" from an Affordable Care Act reporting standpoint:

Patient Centered Outcomes Research Institute fees are also known as PCOR, PICORI, PCORI or CERF fees. This is a relatively small fee that fully insured companies can rest assured their carrier handles automatically, while companies who are self-funded and *also* companies who have an HRA are responsible for. If the company is self-funded, has an HRA, or is unsure, ask your broker, email Montage, or work with a CPA to ask about the second quarter Form 720, which is due by July 31st. Depending on the plan anniversary, the fee is either $1 per year per covered life or $2 per year per covered life with most companies using a "snapshot average" method of calculating the figure of "lives covered" in the fee, though there are a few different safe harbors.

Reinsurance Fee is also calculated off of the number of covered lives, but is a substantially higher amount. The fee for 2014 was $63 per year per covered life and can be paid in two installments. The first installment of $52.50 was due by January 15, 2015 and the second installment of $10.50 per covered life will be due no later than November 15, 2015. The 2015 fee will be $44 and can be paid at once, of course, or is also allowed to be in 2 installments that need to be $33 and $11 respectively. The proposed amount for 2016 is $27 per member per year. The calculation for the number of covered lives is to be submitted to HHS. Similar to the PCOR fees, fully insured groups will have this done for them by their carriers, whereas self-funded companies will need to take action here. Also, similar to the PCOR fees, there are a few different safe harbors and companies will want to work with their consultants to correctly apply the one which they deem most suitable for them. Within 30 days of submitting the count to HHS, companies will be notified of the amount they owe, and that payment will be due back within 30 days of the company's receipt of notice.

Forms 6055 and 6056 are also new reporting measures. The first time this comes into play is in 2016 for the 2015 year, so companies have a little more time on this than the PCOR/Reinsurance fees. The 6055 is for insurance carriers and self-funded companies to report all of the people they cover and it deals with the individual mandate. Basically, it is a resource for the government to double check that people who claim to have satisfied the individual mandate are indeed covered. The 6056 is a report where companies list the employees that are offered coverage to help the government track subsidies. This is required by all applicable large employers—*fully-insured or self-funded*. Because subsidies are only available to people ***not*** otherwise offered affordable coverage, this helps to track those who might be applying for subsidies, but who are actually ineligible because of their employer's offering.

Toby Kennedy is Executive Vice President of Montage Insurance Solutions. Call (818) 676-0044 for more information.

Make a Coverage Checklist for Your Business Property

By DEANNA SCHNEIDER

Some business owners learn the hard way that they didn't buy enough coverage. Remembering to consider certain pieces of your business property when purchasing an insurance policy is vital to keeping your doors open.

Your business may not possess all the following types of property, but you can use this quick reference list to make sure you have thought of all property categories and any insurance coverage that may be warranted for your business:

- Buildings and other structures (owned or leased).
- Furniture, equipment and supplies
- Money and securities
- Accounts receivable records
- Improvements and betterments you made to the premise
- Boilers and machinery
- Data processing equipment and media (including computers)
- Valuable papers, books and documents
- Mobile property such as automobiles, trucks and construction equipment
- Satellite dishes
- Signs, fences and other outdoor property not attached to a building
- Intangible property (good will, trademark, etc.)
- Leased equipment

Deanna Schneider is a freelance writer specializing in the insurance industry.

INSURANCE

Out of Sight, Out of Mind, but Not Out of Coverage

Tips for Choosing a Safe Storage Facility—and Insurance for the Belongings Stored Offsite

While self-storage units may be a useful way to de-clutter your home or small business, having the right insurance coverage is the best way to financially protect your belongings—no matter where they are, according to the Insurance Information Institute (I.I.I.).

"If an item is valuable enough that you are willing to pay for storing it, you should be careful to protect it with the proper amount and type of insurance," said Loretta Worters, vice president for the I.I.I. "Even in the best managed storage facilities, theft, fire and other disasters can—and do—occur. So find out what types of losses will be covered by the storage facility and whether you need supplemental insurance."

The Self Storage Association (SSA) notes that one out of every 10 households in the United States currently rents some kind of storage unit, including portable on-demand storage (PODS). That represents a significant increase from 1 in 17 U.S. households in 1995.

If you are planning to rent a storage unit for your belongings, take the following steps:

- **Ask your insurance professional about off-premises coverage.** Some standard homeowners and renters insurance policies include coverage for personal possessions kept off-premises including a storage facility. Off-premises coverage includes theft and damage from fires, tornadoes and other perils listed in the policy. However, it does *not* cover for damage caused by flooding, earthquakes, mold and mildew, vermin or poor maintenance. And check the coverage limits, as these vary by company.
- **Find out what type of financial protection is provided by the storage facility.** Most facilities provide reimbursement based on the square footage of the unit. Check both the coverage limits and whether it is provided on an actual cash value or replacement cost basis. Most storage facilities will also offer a variety of supplemental insurance packages; ask your insurance professional if it would make sense to buy this additional coverage.
- **Consider special insurance or storage for expensive items.** If you intend to store valuable property, such as art, antiques, jewelry or furs, there may be dollar restrictions under your standard homeowners or renters insurance policy for theft. Ask your insurance professional about adding a floater or endorsement to your policy in order to fully cover these items. There are also specialized storage facilities available for these types of items, as they often need to be kept at specific temperature and humidity levels. Small items such as jewelry will cost less to insure if they are kept in a bank safe-deposit box. Keep in mind contents in a safe-deposit box are *not* insured by the bank.
- **Create an inventory of items to be kept off-premises in storage.** Add the items you're moving to the storage unit to your home inventory so that you can keep track of your belongings and make sure you have the right amount of insurance to protect them. To make creating your inventory as easy as possible, the I.I.I. has a free home inventory tool, Know Your Stuff, which includes secure online storage so you can access your inventory anywhere, anytime.

If an item is valuable enough that you are willing to pay for storing it, you should be careful to protect it with the proper amount and type of insurance.

LORETTA WORTERS
Insurance Information Institute

The I.I.I. offers the following tips for choosing a storage company:

- **Look for a secure facility**. Fencing that secures the entire property and access control are the minimum security measures a storage business should offer. But, ideally, the storage building should have onsite security features such as 24-hour video surveillance cameras and coded security pads. Also, find out about the facility's procedures in cases such as a fire or flood.
- **Look for a unit with climate control.** Very high or low temperatures, as well as dampness can quickly cause damage to appliances and furniture. And make sure that rising ground water from snow or rain is unable to penetrate the storage.
- **Consider a storage company that offers insurance**. If your renters or homeowners insurance does not provide off-premises coverage, you may want to opt for one of the company's coverage options. Keep in mind that any facility should also have its own insurance to cover damages to the property or injuries that occur on the premises.
- **Check that the facility is clean and well-maintained.** If a storage facility is not routinely and thoroughly cleaned, there is a good possibility no one is monitoring for bugs and rodent infestations. Verify that the facility has a permanent, reliable pest extermination contract in place before you trust them with your belongings.

Information for this article was provided by the I.I.I. To learn more, visit www.iii.org.