

## TRENDS, TENANTS, TECHNOLOGY AND MORE

We are more than halfway through 2011 following a very difficult spring in the U.S. with respect to flood and tornado losses, and are into another hurricane season with predictions of an above-average number of storms. Our third quarter edition of *Views* discusses insurance market conditions, which are always near and dear as you begin to develop your 2012 budgets. There is also a wide range of articles, touching a variety of real estate sectors and as always an attempt to provide practical information for your review and use. If there are topics or issues you would like to see addressed in future issues, please contact **Brian Ruane** or **Steve Sachs**.

## MARKET TRENDS

In our May *Views*, we reported strong evidence that the market for insurance buyers remained optimal with rate decreases for almost all lines of coverage. Our current update presents a slightly more nuanced status with movement away from the consistent rate decreases of the past few years.

The insurance industry has been buffeted by a series of large catastrophic events in the first half of this year. The tsunami in Japan, the flood losses in Australia, the earthquake in New Zealand and the tornadoes in the Midwest all have contributed to an above-average loss from catastrophe events. All this activity has occurred before we entered the hurricane season (which officially runs from June 1 to December 1).

It is the hurricane season which often determines the overall direction of rates. The National Oceanic and Atmospheric Administration is predicting 12 to 18 named storms, three to six of which could become major hurricanes.<sup>1</sup> Colorado State predicts 16 named storms, nine hurricanes and five major hurricanes – defined by storms with sustained winds of 111 MPH.<sup>2</sup> What is unknown is if these predictions are accurate and where these storms will make landfall, if anywhere. These chance events determine if the losses associated with hurricanes are market changing or not.

Those who argue that the market will remain soft point to the surplus of the industry, which stands at an all time high of \$564.7 billion as of



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March 31, 2011. This is up from \$556.9 billion as of December 31, 2010.<sup>3</sup> Some have suggested that the industry is overcapitalized and is in a uniquely strong position to absorb an active hurricane season without a change in rate direction.

Those who argue that rates are rising or firming point to the following factors: property and casualty insurers' net income after taxes dropped to \$7.8 billion as of March 31, 2011, down from \$8.9 billion as of March 31, 2010. The rate of return on surplus decreased to 5.6% from 6.8%. In addition, insurers' investment yields remain at historically low levels, and underwriting results for the largest portion of the property and casualty industry – workers' compensation – continue to worsen with the combined ratio jumping five points to 115 as of year end December 2010. All of the above factors combined with the introduction of the more conservative new RMS catastrophe Model, RMS 11, provide strong arguments for a change or hardening of the overall market. Also, *Business Insurance* in a July 12 article reported, "...first half catastrophes worldwide caused \$ 55 billion in insured losses which is more than four times the 10-year average." Of this amount \$ 17.3 billion occurred in the United States.

The results we are seeing support a real and concerted effort on the part of insurers to regain rate particularly on accounts with exposure to the catastrophe perils of windstorm, flood and earthquake and accounts with poor loss experience and difficult risk profiles. Towers Watson reports flat rates for the first quarter of this year except for workers' compensation which sustained a modest increase of 2%. Bruce Fell of Towers Watson stated, "...the increase in workers' compensation prices this quarter [is] larger than we've seen in quite some time, and package and general liability are also showing upticks."<sup>4</sup>

Market Scout reported that "average property and casualty insurance rates dropped 3% in June compared with a year earlier, but rates for workers compensation bucked the trend and rose."<sup>5</sup> Richard Kerr of Market Scout suggested, "It looks like workers' compensation will be the coverage leading us out of the soft market."<sup>6</sup>

We will continue to monitor the direction of rates and suggest, given the market's current state of flux, that the renewal process begin early and that the intent of the incumbent underwriter is determined as early as possible. It is our goal to prevent surprises on the upside; we believe that an early and frank dialogue among insured, broker and carrier can prevent unexpected and disappointing pricing results.

## MULTIFAMILY HOUSING

The multifamily housing industry has continued to see improvement during the first half of 2011 and we are seeing more activity with respect to new construction as well as redevelopment of existing properties.

As we slowly emerge from the "Great Recession," the reasons for improvement have become clearer.

Since 1998, the rental rate as a percentage of households has risen from 31.6% to 33.6% today. That means three million renters have been added and three million more are expected by 2015, according to Harvard's Joint Center For Housing Studies and the Associated Press. Apartment construction is up 115% from its low in October 2009. In addition, the demand has seen median rent rising 4.1% between the end of 2009 and 2010.<sup>7</sup>

Rent.com predicts a 4.5% increase in rents in 2011 and a gain of as much as 3% in 2012.<sup>8</sup> The underlying metrics driving this move of rental units is very basic. The home ownership rate has fallen from 69.2% in 2004 to 66.4% and experts say that it could hit 1980s or earlier levels. Peter Flint, Trulia CEO, predicts that the ownership rate will fall to 63% due to "the emotional scars left by the collapse...changing the American psyche." He goes on to say more people are renting so that they are not tied to a certain location.<sup>9</sup>

Doug Bibby, National Multi Housing Council President, stated in the ULI Report "A New Era for Multifamily," that, more than simply being de-stigmatized, apartment living is now viewed as more desirable than homeownership. He believes that today's market offers an enticing trio of incentives for those in the multifamily industry. "First is the horror that went on with the single-family side. That has had a very lingering psychological effect. Second, is built up demand, and third is very low resident turnover. The back door is basically shut. People just aren't leaving."<sup>10</sup>

While nothing lasts forever, as in the housing boom that collapsed, the near future looks brighter for multifamily owners, developers and managers.

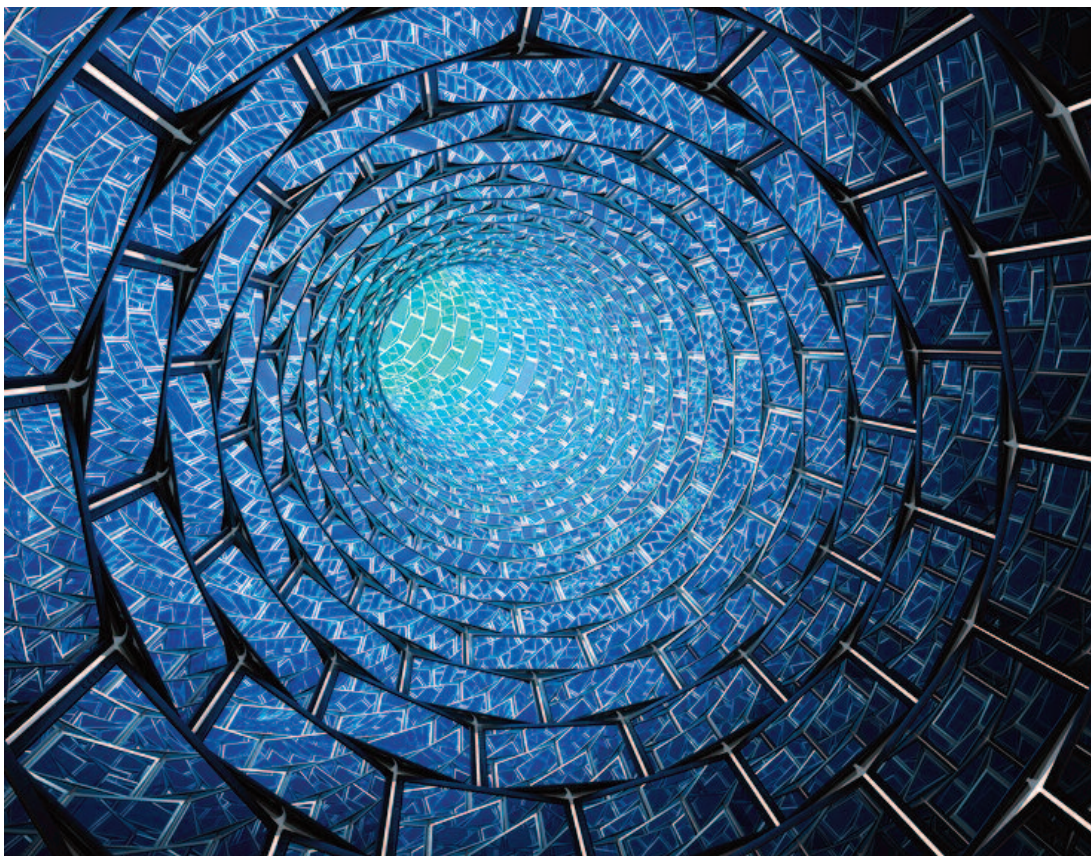
The multifamily real estate sector is a major emphasis for the Willis Real Estate and Hotel Practice and, as described in the next article, we have developed a new platform for effectively delivering value-added services to these clients.

# WILLIS ONLINE MULTIFAMILY REAL ESTATE PORTAL

Willis North America's Real Estate and Hotel Practice has joined with the Willis Strategic Outcomes Practice to create the Willis Online (WOL) Multifamily Real Estate Portal. This new tool offers a customized website for our multifamily clients that not only establishes a high level of communication between our client and Willis account staff, but also delivers loss control tools tailored to this industry sector. Some of its features include:

- 24/7 access to the Business and Legal Resources (BLR) safety **website**. BLR® is the leading provider of employment, safety and environmental compliance solutions. Briefly, the site offers:
  - **Training Library (training resources)** – BLR's carefully researched training solutions that access more than 100 customizable training toolkits, including slides, speaker notes, quizzes, handouts, certificates and activities, many available in Spanish.
  - **Compliance analysis and assistance** – “Plain-English” safety and health regulatory analysis, interpretations and regulatory activity notices of changes to federal and *your* state's OSHA regulations.
  - **Best safety practices and white papers** – Do it right the first time with best practices, OSHA case studies and white papers from leading safety experts.

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- **Newsletter Wizard** – Create employee newsletters that can be emailed, printed or linked on your company intranet. With the Newsletter Wizard, you can edit an existing article, select another from an extensive article library or create your own with the built-in text editor.
  - **Safety news weekly Ezine** – BLR's safety professionals save you time and trouble with valuable insight into new regulatory developments – updated daily!
  - **Answers from the experts** – Get personalized answers to your safety questions in one business day from BLR's OSHA experts.
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- Access to the **Client Toolkit** which contains 15 topics on employee safety and training as well as operational risk management issues, such as ADA compliance, Contact Review Guidelines, Emergency Preparedness and Site Survey Checklists that will help our multifamily clients reduce their long-term cost of risk. As new content is added to the toolkit, users can be automatically alerted if they choose this option.
  - Establishes an ongoing Client Service Plan through the shared Actions and Calendar functions.
  - Creates one-stop access to all documents related to the client's property and casualty insurance programs – policies, contracts, forms and Willis deliverables – to cut down on transactional interactions with each client.
  - Automatic client notification of Market Security Reports on insurance carriers currently writing their program.
  - Ability to create customized client self-assessment tools that focus on critical risk exposures at each property location that may impact the client's cost of risk.
  - Receiving all publications created by the National Real Estate and Hotel Practice, such as the Client Toolkit and our quarterly newsletter *Views*, through the Willis Publications portal.
  - Access to the Willis Discount Portal for the purchase of a select group of goods and services (Bedbug Begone organic spray, CAP Index crime reports and FireStop StoveTop fire suppressor) at pre-negotiated discounts that range from 21% to 38%.
  - Access to Willis and client documents from remote locations by simply logging into the Willis Online website from any browser.

This new tool delivers industry-leading value to our clients that will positively impact their long-term cost of risk. For example, an annual subscription to BLR for three users costs almost \$3,000 if placed directly. This subscription is just one of the modules that make up the WOL Multifamily Real Estate Portal that is available at no cost to Willis multifamily clients.

A video presentation that provides an overview of the basic features and capabilities of the portal is available [here](#).

Contact your Willis Real Estate or Strategic Outcomes Practice professional if you would like to participate in an online demonstration of this product. You may also contact **Brian Ruane** or **Steve Sachs** in the Willis Real Estate and Hotel Practice.



# THE FASB PROPOSED NEW STANDARDS FOR LEASE ACCOUNTING - A MOVING TARGET WHERE WE STAND NOW

By: Aaron S. Kaiser, CPA

For many years there has been a movement by the international community towards establishment of International Financial Reporting Standards (IFRS) as the uniform set of accounting principles to be followed by reporting companies worldwide. In the U.S., the Financial Accounting Standards Board (FASB), which is charged with promulgating U.S. accounting principles (so-called “U.S. GAAP”), has been collaborating with the IASB (their international counterpart) towards the goal of “converging” international and U.S. accounting principles with the ultimate goal of achieving global uniformity. It is within this context that one must view the pending changes in GAAP lease accounting: So why now? What’s the problem? The “problem” with existing lease accounting as enunciated by its critics is that (i) it does not faithfully represent the economic reality of the leasing activities and (ii) it contains too many “bright line rules” as opposed to “principles.” This later criticism has been the battle cry of the international set against U.S. GAAP in general. Perhaps there is some merit to the complaint, but mostly, U.S. “rules” started out as lofty “principles” which over time became more complex (as rules) as economic activity itself

became more complex and transactions could be structured to achieve an accounting result.

In August 2010, the FASB promulgated an exposure draft on leasing, which set forth sweeping changes to the way substantially all leases were to be accounted for (to both lessor and lessee) under GAAP. It would completely overturn accounting practice in place for the past 35-60 years. For a “principled” standard, there were lots of rules, requirements, implementation problems, guesstimates, etc.

The reaction of the stakeholder community was quite interesting – generally negative, extensive and highly critical of the monumental implementation burdens (e.g., the requirement of both lessees and lessors to estimate contingent rents, lease term and other matters imposed at the inception of the lease including retrospective application) for both lessor and lessee as well as the requirement for both to record on their books both an asset and liability based on this guess. Perhaps chastened by this negative reaction, the FASB resumed deliberations over March and April of 2011 with a view to fixing the perceived problems.

It appeared that the Board was set to retreat significantly (particularly vis a vis real estate leases) from their prior stance of requiring an asset/liability be recorded; but then (again apparently due to the pressures of the international community) re-reversed themselves. So, as of this writing, it appears that we are headed for a somewhat lighter version of the prior exposure draft to be issued and adopted by the end of 2011, with implementation to be required by 2013 or 2014.

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The conceptual holy grail of this standard will be that, from the lessee's perspective, the "right to use" model will be employed, whereby the lessee will record an asset representing the discounted present value of the expected future lease payments to be made under the lease, as well as a liability to make those payments. The asset will be amortized on a "systematic and rational" basis (mainly straight-line) while the liability would be deemed liquidated, as payments are made much like a mortgage debt, using the interest method. Even under a somewhat simplified model, the data capture and data gathering and analysis requirements will be somewhat burdensome. In most cases, lessors will most likely have similar accounting as lessees, particularly in real estate.

## SO WHERE DOES THE PROPOSED STANDARD STAND?

As of the most recent FASB - IASB meeting (June 13-15, 2011 - The Boards are meeting monthly at this point, for example on July 13, 2011 they'll be discussing leveraged leases) these are the highlights:

### AS TO LEASES IN GENERAL

- Standard will cover substantially all leases of tangible property (except for certain mineral rights, intangibles and biological assets)
- All leases having a term greater than one year (including renewals) will be covered
- Subleases will be covered

### LESSEE ACCOUNTING

As discussed, the lessee, at inception of the lease, will record an asset and liability representing the present value of scheduled rent payments and certain (but not all) contingent rents provided under the lease for the base term of the lease and any renewal periods which *ab initio* will be exercised either because of a serious economic incentive to renew or disincentive to not renew. The interest rate to be used generally will be the lessee's incremental borrowing rate.

The highlighted financial statement impacts on lessees as compared to current practice are as follows:

- a. Increased debt will adversely affect ratios such as debt/equity.
- b. Expense recognition (amortization of right to use asset, plus interest on the debt obligation) will be front loaded as compared to current practice, so net income will be reduced initially.
- c. EBITDA will be higher under this standard since amortization and interest are both below the line, whereas "rent expense" is above it.

### LESSOR ACCOUNTING

FASB is still trying to decide between two approaches, as follows:

1. The "performance obligation" approach will result in the lessor retaining the leased asset on its balance sheet, plus adding a new asset (and liability) representing the present value of the lease payments receivable and the "performance obligation" liability which could be likened to a deferred revenue concept. The receivable would diminish over time as rents are collected with a portion representing interest income and a portion representing payment of the receivable. The liability will be amortized to income over the lease term. The leased asset will be depreciated (U.S. GAAP), as under present practice.
2. The second approach is the so called "derecognition" approach which would result in the lessor removing all or part of the leased asset from its balance sheet at the inception of the lease, recording revenue and cost of sales.

The Board has stated that the derecognition approach would be appropriate if the lessor has transferred risks of ownership and does not expect significant returns upon reversion of the property. Again, as is the case of lessees, the implementation of this requirement will, of necessity, change the periodic amounts of income, EBITDA and financial ratios of lessors as well.

Obviously, even though I have only outlined very basic principles here, there is going to be a significant amount of detail to be ferreted out and judgment which will be required by the issuers of financial statements upon implementation of these standards.

Companies – both lessors and lessees – will have a tremendous compliance burden placed upon them as a result of this new standard, including required analysis of all leases and

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determination of the impact of changes on financial covenants embodied in credit or other agreements, including possible retrospective application. Credit grantors will rejoice at fees they will earn to change existing agreements to comply with the new accounting.

## THE TAKE AWAY

Lessors and lessees need to keep an eye peeled on the standards when issued later this year. Companies will need to develop the appropriate data capture and systems in order to develop the recorded amounts and required

disclosure. It will require a lot of work. Your CPA can be most helpful in this regard.

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# POTENTIAL UNINTENDED CONSEQUENCES OF TENANT RENT CONCESSIONS

Recently we reviewed a claim presented to the owner of an apartment complex for injuries sustained by a resident while assisting the management company's maintenance person in moving some appliances in another unit. The resident was provided a rent concession in lieu of payment for services. The labor was directed by the management company's

employee. While performing this service, the resident injured his back.

The claim was first reported to the management company's workers' compensation insurance carrier. However, the carrier initially advised that the resident was not an employee of the management company because he was not paid by the

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management company. The owner did not carry workers' compensation coverage because the owner had no employees, or so he thought.

The claim was then reported to the owner's commercial general liability (CGL) insurance carrier. This carrier recognized the resident as an employee of the owner due to the rent concession provided as payment for services rendered. However, coverage was initially declined under the policy due to the standard CGL exclusion for any liability arising out of workers' compensation laws. This claim has not matured to the point that we can determine which party will eventually have to provide coverage.

Tenants who perform certain functions for the landlord – i.e., off-duty police providing premises security and those handling some maintenance and/or management tasks – are often given rent concessions. Under most state worker's compensation statutes, employment status is not determined solely by the source of the compensation. Employment status is often determined by which party has direction and control over the employee's work.

This claim points to the need for owners to clearly state in the management contract that these types of employees are hired by and are under the direction and control of the management company. In addition to requiring waiver of subrogation for workers' compensation claims, the management contract should also indemnify the owner for any employment-related claims that may arise from the management company's operations. The objective here is to have the owner avoid creating an unintended employment relationship with a tenant in exchange for rent concessions when operations are conducted by a management company.

For more information, contact **Andra Tipton**, Willis Real Estate and Hotel Practice, at 972 715 2109 or [andra.tipton@willis.com](mailto:andra.tipton@willis.com).

## **BAD BEHAVIOR!**

### **THE WORKPLACE DANGERS OF HOSPITALITY**

Hospitality providers have recently found themselves in the middle of several high-profile incidents involving guests' allegations of sexual misconduct against their employees. These unfortunate events have caused many in the hospitality industry to re-think how they protect their workers.

Since the well publicized brutal assault against singer Connie Francis almost 40 years ago inside her New York motel room, numerous lawsuits have been brought against businesses in the hotel sector by both guests and employees alleging inadequate security. In the wake of the \$2.5 million judgment awarded Ms. Francis, hotel owners have continued to see multi-million dollar lawsuits brought against their businesses for failing to institute "reasonably practical" security measures to better protect their guests and employees from "foreseeable harm."

This issue has caused those in the hospitality sector to consider the many facets of their risk: financial impact, liability exposure, reputational damage, and worst of all, harm or loss of life. Protecting employees from the misconduct of guests also overlaps the area of workplace violence prevention and how employers can better address these matters. As defined by the Occupational Safety and Health Administration (OSHA), "workplace violence is any physical assault,

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*threatening behavior, or verbal abuse occurring in the work setting. A workplace may be any location either permanent or temporary where an employee performs any work-related duty."*

Additionally, as per the General Duty Clause: *Section 5(a)(1) of the Occupational Safety and Health Act requires an employer to furnish to*

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*Bad Behavior!– continued from page 8*

*its employees: a place of employment which is free from recognized hazards that are causing or are likely to cause death or serious physical harm to the workforce.* These workplace standards, along with [OSHA's] increased efforts to monitor and aggressively address safety issues of this type in the workplace and the recent high profile incidents that we have seen in the news, should clearly put those in the hospitality sector on alert.

To help you address these security risk management issues and better protect your employees, we offer the following suggestions.

**POLICY AND PROCEDURE REVIEW:** Ensure that you have well documented policies and procedures for all security-related matters. The policies and procedures should be designed to fit your unique needs and strictly adhered to. Educate your entire workforce on the procedures and practices they are expected to follow to better protect themselves while on duty and during a security or risk incident of any type.

**INCIDENT REPORTING:** Encourage employees to report incidents of strange or inappropriate conduct on any level by guests or other employees. Once these incidents are brought to your attention, immediately initiate steps to address and investigate the information in a responsible manner and document all actions taken. Maintain a pro-active approach to incident management. Employees often hesitate to report their concerns to employers fearing retaliation or the lack of employer action.

**EMPLOYEE SUPPORT:** For employees who do demonstrate the courage to come forward and provide information, report a suspicious incident or request help for themselves, ensure that there is a confidential reporting process in place to ease their fears and facilitate the process of information sharing, and if needed, employee support resources to provide assistance.

**TRAINING AND AWARENESS:** Training and awareness programs are some of the most cost-effective ways to avoid future problems associated with workplace violence risk management and the possible litigation involving the loss of life, property or reputation caused by these incidents. A well designed and executed awareness program can also help transform areas of an organization's violence-prevention culture, increase the overall effectiveness of the security risk management program and present the "brand" of the security and prevention function in a more positive and better received light.

**SECURITY TECHNOLOGY:** Explore the use (functionality and practicality) of various forms of security technology that can be deployed throughout the workforce or within the workplace itself to locate and provide instant notification of employees who may find themselves in distress.

Ultimately, violence in the workplace, in any of its forms, presents one of the most challenging problems that an organization can face.

For more information contact **Kevin C. Wilkes**, Practice Leader, Willis Security Risk Consulting, Strategic Outcomes Practice at 412 645 853 or [kevin.wilkes@willis.com](mailto:kevin.wilkes@willis.com).

# BROWNFIELDS

Most property owners, buyers, sellers and developers have become familiar with the term “brownfields” over the years, but this term can have different meanings and bring with it a whole host of concerns depending upon your individual perspective (new found opportunity or potential liability). Fortunately, insurance can play an important role in insulating the opportunity or limiting the concern.

The U.S. EPA defines brownfields as “*real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of hazardous substances, pollutant, or contaminant.*” Others more simply define it as “real estate with environmental personality.”

## KEY ENVIRONMENTAL EXPOSURES

Brownfield sites can pose a range of exposures for owners, buyers, sellers, developers and even lenders and investors. The two major concerns are potential legal liability/toxic tort

scenarios and potential remediation expenses/cleanup costs which can include some of the following:

- Third-Party Claims
- New Releases, Discharges, Spills, Incidents, etc.
- Indoor Air Quality Concerns
- Government “Reopeners”
- Cleanup Costs and/or Overruns
- Contractor Caused Pollution
- Financial Defaults
- Consequential Losses (such as Business Interruption or Loss of Tenant Revenue)

## REAL SOLUTIONS AND RISK MANAGEMENT STRATEGIES

An increasingly attractive alternative to more traditional approaches (such as price discounting, indemnifications, escrows and hold-back provisions) is to transfer these risks to the environmental insurance market. The fundamental environmental exposures identified in the preceding section can be addressed with appropriately structured insurance programs. These insurance solutions can be introduced to virtually any transaction structure. A few of the key insurance products are detailed below:

**POLLUTION LIABILITY INSURANCE** - The unknown and future environmental exposures associated with brownfields can be

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*Brownfields – continued from page 10*

effectively managed with a Pollution Legal Liability policy. These policies can be structured to address unknown/unanticipated pre-existing (historical) and/or new (operational) pollution conditions. “Known” conditions that have been properly delineated and previously remediated can often be incorporated.

#### **REMEDIATION COST CAP INSURANCE -**

While there has been a significant restriction in market appetite as well as limited scenarios in which a carrier will consider providing this coverage, a cost cap or “stop loss” policy is designed to pay for unanticipated, additional remediation project costs once they have exceeded original estimates. Such a cost overrun might result from a variety of sources including the discovery of additional contamination, underestimation of base costs or changes in regulatory requirements.

#### **BLENDED INSURANCE PROGRAMS - It**

is possible to transfer both known cost items (i.e., identified remediation obligations) and the associated unknown risks (for example, potential overrun) using a combination of pre-funding and conventional cost cap insurance. These so-called blended programs are typically combined with a Pollution Liability policy to cover third-party liability claims. In essence, insurers will charge a premium to fund the predicted remediation expenditure with an additional charge to transfer the cost overrun and timing risks. Since they are future costs, the estimated remediation costs are discounted to an appropriate net present value. This is a structure that very few insurers will entertain and, when offered, is reserved for the largest of projects.

In summary, brownfield sites offer great opportunity to put back into productive use an underperforming site with environmental challenges. And while there are real environmental concerns on these sites, numerous environmental insurance products are available in the marketplace to address these concerns and help move a challenged site to productive re-use.

For more information, please contact **Rick Hawkinberry**, Environmental Practice Leader at 412 586 3530 or [rick.hawkinberry@willis.com](mailto:rick.hawkinberry@willis.com).

## **WILLIS BEDBUG INFESTATION RECOVERY INSURANCE™ (BBIR)**

“Bed bugs have been shown the “no vacancy” sign in the U.S. for nearly 50 years – they had been virtually eradicated. But now – that’s all changed. They’re back. And they’re in almost every hotel or apartment complex and biting the best of people.”<sup>11</sup>

Because of this resurgence, the Willis Group has teamed with Professional Liability Services Inc. to offer a bedbug-specific insurance policy for hotels and landlords. The BBIR product delivers a range of solutions, including:

- Insurance to cover the cost of decontamination services
- Insurance to cover the cost of rehabilitation expenses
- Insurance to cover the loss of profit due to business interruption
- Crisis management services including a 24/7 crisis hotline and expert operating teams to coordinate with regulatory authorities, public health authorities, customers, employees and media
- Risk control techniques, including a bedbug prevention guide, customized action plans and training material for staff
- Decontamination services provided by locally and nationally recognized pest control specialists, including Orkin, LLC, a wholly owned subsidiary of Rollins Inc.

In the past, the cost of treating a bedbug infestation was seen as an additional out-of-pocket expense paid by the hotelier or landlord, because property damage and business interruption due to bedbug problems were excluded from property insurance policies. This new BBIR policy will not only provide expense protection for remediation costs, but will also provide profit protection in case of an event.

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This program has limits available up to \$25 million with no deductible, no minimum premiums and no waiting period. Lastly, the application process is extremely user friendly and takes 15 to 20 minutes on average to complete with a quote delivered within 72 hours.

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Based on benchmarking data, U.S. hotels and resorts encounter a bedbug issue an average of 4-6 times a month with 50% of those issues resulting in the infestation of a third party. To compound matters, studies have found that the bedbugs actually differ from region to region and are mutating at a rate where conventional extermination protocols are not as effective as they once were. “It’s a national problem,” agrees entomologist Dini Miller,

Ph.D. “The Orkin Pest Control Company says that after 50 years more or less without them, it’s now treated bedbugs in all but three states.”<sup>12</sup> And according to the National Pest Management Association, bedbug complaints have increased 50-fold over the last five years. They’ve popped up in apartments, mansions or dormitories in nearly every corner of the country.”

The Willis product is much broader than others recently announced in that ours includes the crisis management services of SRM. The crisis management component of this program is critical as any bedbug outbreak big or small has the potential to damage an organizations’ reputation or brand, resulting in financial loss. The BBIR product includes a team of experts that that can respond and coordinate with customers, the media and regulatory authorities. This will go a long way towards minimizing the impact of an occurrence on a client’s brand.

“This timely and innovative product will be a powerful ally for the hotel and residential property industries,” said Brian Ruane, Willis North America’s National Real Estate and Hotel Practice Leader. “This program offers organizations a comprehensive approach to addressing the risks involved with this exposure – from tools to help prevent an infestation, to coverage for the economic consequences, through crisis management and remediation. The program is intended to close a critical gap in most insurance policies.”

For more information contact **John Lafakis** at 212 915 8274 or email [john.lafakis@willis.com](mailto:john.lafakis@willis.com).

## CAT MODELING DATA: FIRST THINGS FIRST

We have all heard the talk about how important secondary modifiers are to CAT modeling, but there is one thing we need to remember – they are modifiers. The importance of the primary information, and especially the COPE information, cannot be understated.

First, the importance of a *valid address* cannot be stressed enough. Without it we cannot accurately place the location in respect to the exposure. *Views* covered the specifics of the address in a previous issue and will not harp on them again.

One piece of information that is rarely discussed but has a one-to-one correlation to the losses are the *values*. These should be broken down by Building, Contents and BI. If these values are 10% off, the losses will also be 10% off – no magic here.

Now, for the fun stuff – COPE. First, let’s discuss *construction*. All of us are familiar with the ISO fire codes. These are like an old cozy blanket and they are fine when placing an all risk policy, but when it comes to DIC, they leave a bit to be desired. When it comes to CAT modeling, it is best to know what the actual wall construction is, and the devil is in the details. Let’s look at a few examples. Joisted masonry only tells us that the floors and/or roof are wood. Great to know if you are worried about a fire, but if an earthquake occurs, you want to know if the masonry is reinforced. Reinforced masonry tells us that there is

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*Cat Modeling Data: First Things First – continued from page 12*

steel rebar in the walls that helps give them strength and keeps them from crumbling down on our heads. Another meaningless description is non-combustible – which is actually, steel, concrete, masonry and light metal. The only thing we do know is that it is not wood. Most of the modeling companies map this to light metal, which is something similar to a Quonset hut or the light metal tool shed you have in your back yard that was purchased from your local hardware store. Another example of a construction description with room for error and one that can make a huge difference in the results is concrete. We need to first ask if it is reinforced. Is it poured in place? Is it a concrete frame and, most importantly, is it a tilt-up? Tilt-ups have been shown to not stand up to earthquakes well and can have a significant influence on our modeled results.

The next important piece of information is *year built*. Again, the importance of this simple piece of information cannot be overlooked as in the case of tilt-ups. After the Northridge quake, major changes were made to the building codes to address deficiencies that were found after the quake. Year built is

used to determine what codes were in place at the time of construction. With this information the model can better construct the damage functions for a building.

The *number of stories* is another simple piece of information, but when it comes to storm surge, it is a key component in figuring out the potential losses.

The *number of buildings* comes into play when there is a complex of buildings of similar construction but only a single value has been provided. If the model knows there are multiple buildings at a location, it will spread the value among the buildings instead of placing it all in one structure.

*Occupancy* plays a large role in the determining of contents' vulnerability. Whether it is office supplies, large manufacturing equipment or delicate electronics, we need to know what the building is used for.

Primary modeling data accounts for a disproportionate share of the loss and should be the easiest piece of the modeling puzzle to collect. We must remember that the secondary modifiers modify the primary information. Without complete and accurate primary information, asking an insured to provide the secondary modifiers may be an undo burden. *It is important to remember that secondary characteristics impact the statistical credibility of the PML estimate and do not drive the estimate itself.*

# HEALTH CARE REFORM'S 1099 REPORTING AND FREE CHOICE VOUCHER REQUIREMENTS REPEALED

Congress has enacted legislation that repeals two mandates under the health care reform law: the expanded Form 1099 information reporting requirements and free choice vouchers. Although neither mandate was currently in effect, given the administrative and financial burden these requirements would have imposed, their repeal is welcome

news to businesses. Details of this repealed legislation can be found in *HR Focus* – Issue 48, dated June 2011.

The Willis Human Capital Practice offers an array of health care reform-related tools, publications and presentations. We invite you to **click here** to review the archive of available information. Our site will be updated regularly as new developments occur and new guidance published; please check back often.

## CONTACTS

For additional information on the topics discussed in this issue, or any others for which our Real Estate & Hotel Practice might provide assistance, please visit our **website** at **willis.com**.

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<sup>1</sup> *Asbury Park Press*, June 12, 2011.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Business Insurance*, June 22, 2011 and May 5, 2011.

<sup>4</sup> *Business Insurance*, June 13, 2011.

<sup>5</sup> *Business Insurance*, July 5, 2011.

<sup>6</sup> *Ibid.*

<sup>7</sup> “Troubled Home Market Creates Generation of Renters,” ABC News (5/24/11 Kravitz, Derek).

<sup>8</sup> “Winners of the Rental Economy” CNNMoney.com (05/25/11 Tseng, Nin Hai).

<sup>9</sup> “Housing Index Is Expected to Show a New Low in Prices,” New York Times, 05/30/11, Streitfield, David.

<sup>10</sup> “ULI Report: A New era for Multifamily” *Commercial Property Executive*, 05/19/11, Landa, Allison.

<sup>11</sup> <http://www.msnbc.msn.com/id/11916682/>.

<sup>12</sup> *Ibid.*