

Business Insurance

September 11, 2006

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\$5

Late News

Best ups SCOR rating to A-

A.M. Best Co. Inc. has upgraded Paris-based SCOR S.A.'s financial strength rating to A- from B++. The move reflects SCOR's risk-adjusted capitalization, strong business profile in Europe and "improving operating performance," Best said. Separately, the Oldwick, N.J.-based rating agency also said it upgraded New York-based SCOR Reinsurance Co. and its subsidiaries' financial strength rating to A- from B++.

No rehearing of IBM cash balance ruling

The full 7th U.S. Circuit Court of Appeals has, as expected, refused to rehear a landmark ruling by a 7th Circuit panel that found IBM Corp.'s cash balance pension plan does not discriminate against IBM's older employees. The court noted that none of its judges who considered the issue requested a vote on the petition by the plaintiffs to rehear the case, while all three judges who ruled in favor of IBM voted against a rehearing. The unanimous Aug. 7 ruling by

See **LATE NEWS** / page 55

Inside



BUILDING COVER

Companies use VEBA, RRG for health benefits.

PAGE 3

JLT SHEDS UNIT

Alliant buys broker's U.S. retail operations.

PAGE 3

The legacy of 9/11

By DOUGLAS McLEOD

MORE COVERAGE

Litigation lingers

Disputes over coverage, injuries remain unresolved.

PAGE 52

TRIA sunset

As time runs out on federal program, alternatives sought.

PAGE 53

Robert P. Hartwig saw his colleagues at the Insurance Information Institute evacuate their lower Manhattan office on Sept. 11, 2001, in a storm of dust and debris from the collapsing World Trade Center towers.

But Mr. Hartwig, the III's chief economist and president-elect, recalls his most haunting memory of that day as an image: a woman's shoe, robin's egg blue, lying in deepening ash on a sidewalk near his building just blocks from Ground Zero.

For Robert Blumber, a managing director with Marsh Inc., it was seeing the north tower, where Marsh leased several floors, from his midtown Manhattan office after the first plane hit: "We went to the windows and saw the building on fire (and) said, 'My God, that's where our guys are.'"

See **TERROR** / page 52

WTC attack drives efforts to quantify terrorism risks

By MARK A. HOFMANN and DOUGLAS McLEOD

A tool unavailable to U.S. insurers at the time of the Sept. 11, 2001, terrorist attacks is helping them manage terrorism risks with increasing sophistication.

The first commercially available versions of that tool—terrorism risk modeling—appeared in the marketplace in 2002. Like catastrophe models, terrorism models help insurers limit their aggregate expo-

sure in a given geographic area. Unlike catastrophe models, however, terrorism models cannot draw upon a century of data, and factors such as terrorist attack frequency remain unknown.

Still, "virtually all insurers who have any material amount of terrorism exposure" are managing the risk with such models, said Peter Ulrich, senior vp-model management at Newark, Calif.-based Risk

See **MODELING** / page 53

Spitzer ditches some allegations against Greenberg

Charges of 'sham' deal with Gen Re still in suit

By DOUGLAS McLEOD

NEW YORK—The public battle between Maurice R. Greenberg and New York Attorney General Eliot Spitzer heated up last week after Mr. Spitzer filed an amended fraud complaint dropping a handful of allegations against the former American International Group Inc. chairman.

The amended complaint, filed in New York State Supreme Court, continues to charge that Mr. Greenberg and former AIG Chief Financial Officer Howard I. Smith misled investors with sham transactions that artificially boosted AIG's reserves and disguised underwriting losses.

But the suit eliminates previous allegations that the two executives guided AIG schemes to avoid state workers compensation premium taxes and to conceal AIG's control of several offshore entities, and it drops a demand for punitive damages.

The amended complaint also removes AIG itself as a defendant. The insurer agreed to pay \$1.6 billion in February to settle similar charges brought by Mr. Spitzer and the U.S. Securities and Exchange Commission (BI, Feb 13).

Views on changes differ

Representatives for Mr. Greenberg issued a statement Wednesday, calling the dropped allegations "the most explosive and financially significant claims in the Attorney General's suit."

"We appreciate that the Attorney General has kept an open mind, considered the facts we have presented, and has now decided to drop these key claims from the complaint," David Boies, Mr. Greenberg's attorney, said in a statement. "We are confident that when all the facts are out, the remaining claims...will

See **SUIT** / page 55



Former AIG Chairman and CEO Maurice R. Greenberg faces civil charges that he played a role in deals designed to artificially boost the insurer's loss reserves.

PHOTO: BLOOMBERG NEWS/LANDOV



SPOTLIGHT

SURPLUS LINES

Door opens for independent wholesalers; nonadmitted insurers fight for business in competitive market.

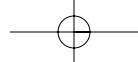
PAGE 11

BI RANKINGS

Largest surplus lines insurers **PAGE 16**

Largest wholesale brokers **PAGE 18**

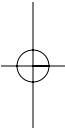
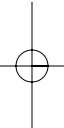
Largest MGAs/underwriting managers **PAGE 24**



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AON



September 11, 2006

Inside

Reinsurers post strong results for first half

Low catastrophe losses, high property rates boost profits for most reinsurers. **Page 4**

Calif. employers fight attempts to hike awards

Some workers comp reforms could be reversed by legislation, lawsuits. **Page 4**

Florida launches JUA for wind, hail risks

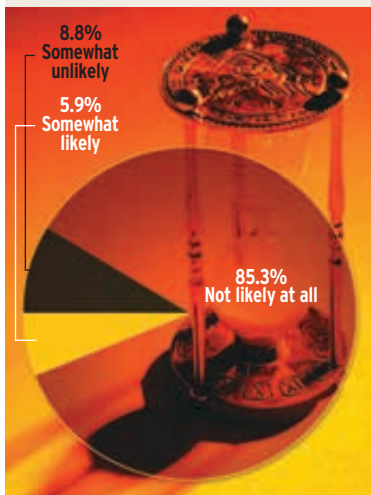
Facility will offer coverage to businesses turned down by the commercial market. **Page 4**

Workable solution needed for terror cover

The Sept. 11, 2001, anniversary is a stark reminder that the problem of terrorism insurance is yet to be solved, an editorial says. **Page 8**

Online poll [9/4-9/8]

How likely is Congress to pass major risk management legislation before it adjourns in a few weeks?



Participate in BI's online polls at www.businessinsurance.com.

Departments

Advertiser Index.....	54
Business Resources.....	48
Commentary.....	48
International.....	49
Opinions.....	8
Paul Winston.....	6
Products & Services.....	45
Professional Marketplace.....	50
Ticker.....	55

Reporting on corporate risk and employee benefit management news

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JLT to sell U.S. retail brokerage business

Alliant Insurance Services to acquire unit in \$100 million deal

By SALLY ROBERTS and SARAH VEYSEY

NEWPORT BEACH, Calif.—U.K. broker Jardine Lloyd Thompson Group P.L.C. has agreed to sell its U.S. property/casualty and employee benefits retail brokerage business to Alliant Insurance Services Inc. in a \$100 million deal announced last week.

The acquisition, which is expected to close next month, will expand Alliant's operations in the United States, adding six offices, approximately 240 employees and roughly \$60 million in revenue, the broker said.

London-based JLT said the sale stems from an operational review, launched earlier this year, designed to identify the broker's strongest business areas.

Houston-based JLT USA specializes in employee benefits, energy and marine, and health care and has offices in Waterbury, Conn.; Atlanta; Chicago; New York; and Dallas.

"The purchase of JLT USA is an exciting oppor-

tunity for our company," Tom Corbett, Alliant's chairman and chief executive officer, said in a statement. "The JLT U.S. retail operations are quite specialized and truly complement our existing business."



JLT Chief Executive Dominic Burke said the sale of the broker's U.S. retail business is part of a wider strategy.

Alliant, which has changed its name to Alliant Insurance Services from Alliant Resources Group Inc., is the 13th largest brokerage of U.S. business, based on \$205.9 million in 2005 brokerage revenues from U.S.-based clients. The broker re-

cently moved its headquarters to Newport Beach, Calif., from Stamford, Conn.

JLT, which was the 14th largest broker of U.S. business, based on \$194.0 million in U.S. brokerage revenue, will continue to place U.S. wholesale and reinsurance business and to operate U.S.-based specialty aviation and wind power insurance businesses, a JLT spokesman said.

"The sale of the retail part of our U.S.-based operations is an important step forward in implementing the results of the operational review that we initiated earlier this year," Dominic Burke, JLT's chief executive, said in a statement. "The disposal is consistent with JLT's strategy of concentrating on areas of proven business strength."

JLT said in March it would undergo a review of its business as it faced tougher operating conditions in the wake of investigations into brokerage compensation practices initiated by New York

See JLT / page 50

How the money flows

Construction companies' health benefits funding program

- Each company sets up and contributes to a voluntary employee beneficiary association
- VEBAs used to pay health care claims
- Companies make additional contributions to VEBAs when assets fall below certain levels
- Contractors reimbursed for VEBA contributions by a risk retention group they own

Health care funding tool combines VEBAs, RRG

By JERRY GEISEL

Seven highway construction companies are funding their group health care benefits programs in an innovative way that utilizes tax-free trusts and a Vermont-domiciled risk retention group owned by the companies.

The arrangement, believed to be the first of its kind, involves the interplay of voluntary employee beneficiary associations set up by each company and the RRG, ACBG Risk Retention Group L.L.C.

Under the arrangement, each company sets up and funds a VEBA, which is a special tax-free trust authorized under federal law. Employers receive an immediate tax deduction for their VEBA contributions, while VEBA assets must be used to pay for benefit-related expenses, such as health care claims.

In the case of the contractors' arrangement, when claims payments cause VEBA assets to fall below a certain level, the contractors make new contributions to their VEBAs.

Then, the contractors are reimbursed through policies issued by the RRG. The RRG, in turn, is reinsured by a unit of Allianz Group.

While thousands of VEBAs and a couple of hundred of RRGs now operate, the contractors' program is believed the first time that the two entities have been joined together to fund benefit risks.

Program organizers say the arrangement offers several advantages to members compared with other designs. For example, by banding together, members have a lot more leverage in negotiating with vendors, such as third-party claims administrators and wellness program providers, said Steve Heussner, the RRG's president in Dallas.

Additionally, since employees' health insurance policies are not issued by a commercial insurance company, the policies do not have to provide coverage in line with state laws that require certain benefits be offered, which can drive up costs and complicate administration, said Randal Schultz, a shareholder in the Kansas City, Mo.-based law firm Shughart, Thomson & Kilroy P.C., which assisted in the development of the program.

Other approaches also were not practical. Some contractors, for example, felt they were too small—with just a few hundred employees—to individually self-fund all their health care risks. Additionally, Internal Revenue Service regulations do not allow different employers spread across the country to set up one VEBA.

On the other hand, while risk retention groups cannot be used to fund employee benefit risks, federal law allows RRGs to provide coverage for contractual liability, in this case an employer's obligation to fund VEBAs when

BI Europe rolls out with debut issue

Crain Communications Inc. has launched Business Insurance Europe, a London-based biweekly news magazine for the European risk management community.

Staffed with reporters and correspondents throughout Europe, Business Insurance Europe will follow news, trends and issues affecting risk managers throughout the continent. The biweekly newspaper will be complemented by online news reporting and daily e-mail news alerts.

Crain Communications Inc. Vp/Business Insurance Publisher Martin J. Ross III oversees Business Insurance Europe, serving as publishing director, while Nick White, formerly with Crain Communication's Automotive News Group, is associate publisher/advertising director. Business Insurance Associate Publisher/Editorial Director Paul D. Winston is editorial director for the European publication.

The day-to-day operations of the Business Insurance Europe editorial team are run by Adrian Ladbury, who serves as editor of the magazine. Mr. Ladbury worked on Business Insurance in the 1990s and has held senior editorial positions at several insurance and risk management publications in London.

"BI Europe has been designed to help European risk managers by using its pages for the vital dissemination of new ideas, concepts and methodologies and, importantly, to also challenge the traditional risk transfer market to come up with new ways of helping its customers deal with their risks," says Mr. Ladbury.

Headquartered at Crain Communications' London office, Business Insurance Europe is a tabloid newsmagazine with a controlled and paid circulation throughout Europe. The subscription price is €150 a year.

For more information, visit www.BIEurope.com or contact Mr. White at nwhite@BIEurope.com or Mr. Ladbury at aladbury@BIEurope.com.



See BENEFITS / page 50

High rates, low cat losses boost reinsurer profits

By JUDY GREENWALD

U.S. reinsurers reported strong underwriting results for the first half of 2006, a trend that is expected to continue into next year despite softening casualty rates, say observers.

Sharp increases in property catastrophe rates over the past year should easily eclipse any fall in casualty income. Light catastrophe losses so far in 2006 and improved loss reserve levels for most lines of business also are contributing to the bright picture for reinsurers, observers say.

In a survey by the Washington-based Reinsurance Assn. of America, 23 reinsurers reported an aver-

age combined ratio of 96.5% for the first half of 2006 vs. 105.8% reported by a comparable group for last year's first half.

The sector's 2005 results were impacted in part by Princeton, N.J.-based American Re-Insurance Co.'s 266.5% combined ratio, which reflected a \$1.6 billion boost in its reserve. American Re has since changed its name to Munich Reinsurance America Inc.

The top 20 reinsurers, based on net premiums written, posted a 96.7% combined ratio for the first half of this year vs. the 104.1%, based on a weighted average, posted by the same group in the year-earlier period.

The reinsurers reported \$4.72 bil-

lion in net income in the first half of 2006, a 262.4% increase from the total reflected by a comparable group in 2005. The top 20 reinsurers reported \$4.68 billion in net in-

REINSURANCE FIRST-HALF RESULTS

come, a 263.4% increase from the total reported by the top 20 in 2005.

Net premiums written for the entire RAA group fell 1.7% to \$12.98 billion, while net premium income for the top 20 fell 1.5%, to \$12.95 billion.

"The results were very strong,

stronger than expected," said Adam Klauber, managing director at Cochran, Caronia & Co. in Chicago.

"The first-half results look fine," said Bruce Ballentine, vp and senior credit officer at Moody's Investors Service in New York. "The major themes are the hard market for catastrophe risks, and a neutral to softening market for other risks."

He noted also, "One area that has been a challenge over the past several years—U.S. casualty reserves—has seen significant improvement, or has been addressed by the reinsurance industry through substantial reserve strengthening, from a low point of reserve deficiency, in our view, at around year-end 2000,

to a much stronger position by year-end 2005."

Robert DeRose, assistant vp at Oldwick, N.J.-based A.M. Best Co. Inc., said, "Certainly, those companies that are taking on property are benefiting from the hard property market currently," although most U.S. companies are doing so "with a great deal of caution." Much of the business is going offshore and passing through sidecars or catastrophe bonds, he said.

However, John L. Ward, chief executive officer of Cincinnati-based Cincinnati Partners L.L.C., said despite the strong results, "There's a

See RESULTS / page 54

Employers prepare for Calif. comp fights

By ROBERTO CENICEROS

SACRAMENTO, Calif.—Employers expect that legislation that would increase workers compensation benefits in California will be vetoed by Gov. Arnold Schwarzenegger, but even if it is they still plan to fight against higher benefits on several other fronts.

Several lawsuits are under way in the state in which claimants are seeking to sidestep a permanent disability rating schedule that was enacted last year following reforms signed into law in 2004 by Gov. Schwarzenegger.

California legislators on Aug. 31 adopted S.B. 815. The measure would double workers comp permanent disability payments over three years. It would increase the total system costs by a cumulative 16.6% by the time it is fully implemented in 2009, according to a preliminary review conducted by the Workers' Compensation Insurance Rating Bureau.

Gov. Schwarzenegger has not stated whether he will sign or veto the bill sponsored by Senate President Pro Tempore Don Perata, D-Oakland. Observers, however, say they expect the governor will stick to his previous assertions that he will not roll back the reforms he signed in 2004, which, among other things, forced a change in the way California rates permanent disability.

If the governor vetoes S.B. 815 "(permanent disability) will still be an issue next year either legislatively or through the courts," said Mark Webb, vp for government relations for Agoura Hills, Calif.-based Employers Direct Insurance Co.

There are several court cases under way in which claimants are seeking to undermine the permanent disability rating schedule enacted last year following the 2004 reforms, said Scott Lipton, membership director and grass roots organizer for the California Workers' Compensation Coalition, a Sacramento-based employer group.

The cases involve various disputes over benefits amounts as determined under the new rating schedule, which ranks the severity of a worker's permanent injuries.

Labor and claimants attorneys argue that the rating schedule, the American Medical Assn.'s "Guides to the Evaluation of Permanent Impairment," unfairly reduced benefits more than lawmakers intended when they adopted the 2004 reforms.

They cite a February report by California's Commission on Health and Safety and Worker's Compensation, which found that the rating schedule reduced average permanent disability awards by 50%.

Employers say, however, that the report is not reliable because it was based only on a review of cases where injured employees were not represented by attorneys. The analysis, therefore, did not consider some of the more complex and serious cases that arise in the system, they say.

Employers argue that no changes to the rating schedule should be made until the publication of a report on permanent disability and return-to-work is released by the California Division of Workers' Compensation. There is no date set

See CALIFORNIA / page 54

Errors and Omissions

A story in the Sept. 4 issue, "Retro Prices Rise as Capacity Drops," misidentified a reinsurance brokerage executive. The executive quot-

ed was Tony Fox, deputy chairman of Collins-Bermuda, a unit of reinsurance intermediary John B. Collins Associates Inc.



Delta Air Lines received approval to terminate an underfunded pension plan.

Delta given OK to terminate plan

NEW YORK—A federal bankruptcy court judge last week approved Delta Air Lines Inc.'s request to terminate a severely underfunded pension plan covering about 13,000 former and current Delta pilots.

The termination, which the Pension Benefit Guaranty Corp. did not oppose, will mean another big loss for the agency. The PBGC estimates that the plan has about \$1.7 billion in assets and about \$4.7 billion in liabilities, of which the PBGC would guarantee \$913 million.

Atlanta-based Delta said it

intends to keep a much larger plan that covers about 91,000 other employees and retirees. Delta successfully lobbied Congress to include a provision in the recently passed pension funding reform legislation that gives the airline more time to fund that plan.

Delta said that extension, which is available to commercial airlines that freeze their pension plans, was essential to keep the bigger plan. However, even with the extension, Delta said it could not afford to maintain the pilots' pension plan.

—By Jerry Geisel

Florida JUA offers commercial cover

Program will act as insurer of last resort for some

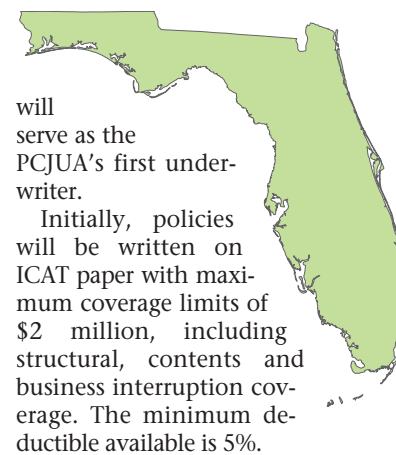
By RUPAL PAREKH

TALLAHASSEE, Fla.—Florida's new property/casualty joint underwriting association this week will begin accepting submissions from eligible businesses seeking commercial property coverage.

To qualify, businesses and their agents must establish that coverage for wind and hail risks—the only causes of loss underwritten through the PCJUA program—is unattainable in the admitted and surplus lines markets. Coverage for other perils still must be written in the private insurance market, though the PCJUA has said it may eventually offer a full-coverage policy. In addition, the facility will not write wind-only coverage in areas of the state where Citizens Property Insurance Corp.—Florida's insurer of last resort—writes that coverage.

Boulder, Colo.-based underwriting manager International Catastrophe Insurance Managers L.L.C.,

which specializes in providing coverage to companies in cat-exposed regions of the United States,



will serve as the PCJUA's first underwriter. Initially, policies will be written on ICAT paper with maximum coverage limits of \$2 million, including structural, contents and business interruption coverage. The minimum deductible available is 5%.

If the PCJUA is unable to fund all losses through premiums, it is required by law to assess commercial property insurers in the state to help fund the deficit.

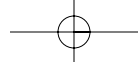
"It's a very risky venture...the fact that (the program's developers) are limiting it to smaller busi-

nesses is critically important right now," said Sam Miller, executive vp at the Florida Insurance Council. "They are trying to make sure that the rates are not going to compete with the private carriers."

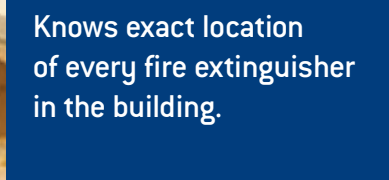
"One of the things that concerns us is that the JUAs have typically been a destabilizing force in the market," said Tony Abella Jr., a vp at Arthur J. Gallagher & Co.'s risks management services division in Miami.

"However, we recognize that there is a crisis right now in Florida for commercial property coverage, and the JUA could be a viable short-term solution if managed effectively," Mr. Abella said. "If this thing isn't effectively administered, the potential effect is that it creates such a burden on the market that the voluntary market may pull out of the state."

The PCJUA was enacted by regulators last month under an emergency state law permitting the creation of such facilities.



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PAUL WINSTON

You've got mail: U R TRMN8D :(

Checking your electronic messages is becoming more important than ever at some companies.

Just before the Labor Day holiday, Fort Worth, Texas-based electronics retailer RadioShack Corp. turned to e-mail to fire 400 employees. The company said it felt that using e-mail messages to deliver the bad news would soften the blow, and allow terminated workers a measure of privacy in which to receive the news, gather their belongings and clear the premises. "The workforce reduction notification is currently in progress," stated the messages in workers' electronic in-boxes, referring to previously announced layoffs. "Unfortunately, your position is one that has been eliminated."

Unfortunately, RadioShack is not the first employer to turn to modern technology to deliver bad news, and it won't be the last.

Last month Blue Banana, a Cardiff, Wales-based chain of body piercing studios, turned to cell phone text messaging to let an employee know she was fired.

"We've reviewed your sales figures and they're not really up to the level we need," her manager wrote. "As a result, we will not require your services any more. Thank you for your time with us." Even in a business accustomed to acute pain, that had to draw an "ouch!"

A company representative said that it turned to text messaging after repeated attempts to reach the employee by phone and leaving messages for her to call. Even so, the company defended its use of text messaging. In a statement to the local newspaper, it stated: "We are a youth business and our staff are all part of the youth culture that uses (text) messaging as a major means of communication."

In anticipation of this brave new future, perhaps, Arun Sarin, the CEO of London-based mobile phone company Vodafone Group P.L.C., negotiated a clause in his contract when hired in 2003 that he could not be fired by either text message or e-mail. He still has the job.

But terminating workers by electronic communications does not come without consequences.

It's not hard to imagine a plaintiffs attorney challenging the method of dismissal in U.S. courts, creating a potential liability exposure for companies that think they are saving time, money and effort by relying on electronic pink slips.

In the United Kingdom, there are several instances of courts awarding damages for unfair dismissal to workers who were let go via text messages. However, the rulings focused more on the reasons for abrupt dismissal than the methods employed.

And even without liability, the practice creates reputational risk, especially for companies that depend on public goodwill for a steady stream of customers and revenues.

But at some companies, the risks are even more tangible.

The Accident Group Ltd., a financially troubled personal injury claims firm based in Manchester, England, sacked more than 2,500 employees by text message in 2003. Furious ex-employees ransacked offices in Birmingham and Manchester, taking computers and other office equipment and vandalizing offices. A group of fired employees also told British paper The Sun they planned to fly to the Spanish villa of Accident Group's chairman, Mark Langford, to express their anger—in person. No word on how much more satisfying that face-to-face meeting was.

Associate Publisher and Editorial Director Paul Winston's commentary appears periodically. He can be reached at pwinston@businessinsurance.com.

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INSURING PROGRESSSM

Editorial

Terrorism risk ever-present as solution remains unclear

FOR RISK MANAGERS and insurers, the Sept. 11, 2001, terrorist attacks underscored the magnitude of the terrorism risk, a risk to which most Americans had fortunately little direct experience with until Sept. 11. Nearly 3,000 people died, and total insured losses exceed \$30 billion, an amount which will only increase as more and more first responders and others seek compensation for illness stemming from their work at the site.

Five years later, we still grapple with how best to cover that risk. The horrific loss of life and property underscored the need for some extraordinary mechanism to cover catastrophic terrorist events. Even though terrorism catastrophe modeling, itself a discipline brought into being by the attacks, has grown increasingly sophisticated, no system can predict when and where a terrorist attack will occur.

Although insurers still depend on a federal financial backstop that will respond to future catastrophic events through the end of next year, there's absolutely no guarantee that the backstop originally created by the Terrorism Risk Insurance Act in 2002 will be extended beyond that deadline.

Calls that the government maintain some sort of high-retention backstop, or assume financial responsibility for the most unpredictable terrorist acts, those involving chemical, biological, nuclear or radiological agents, have spurred no action as lawmakers

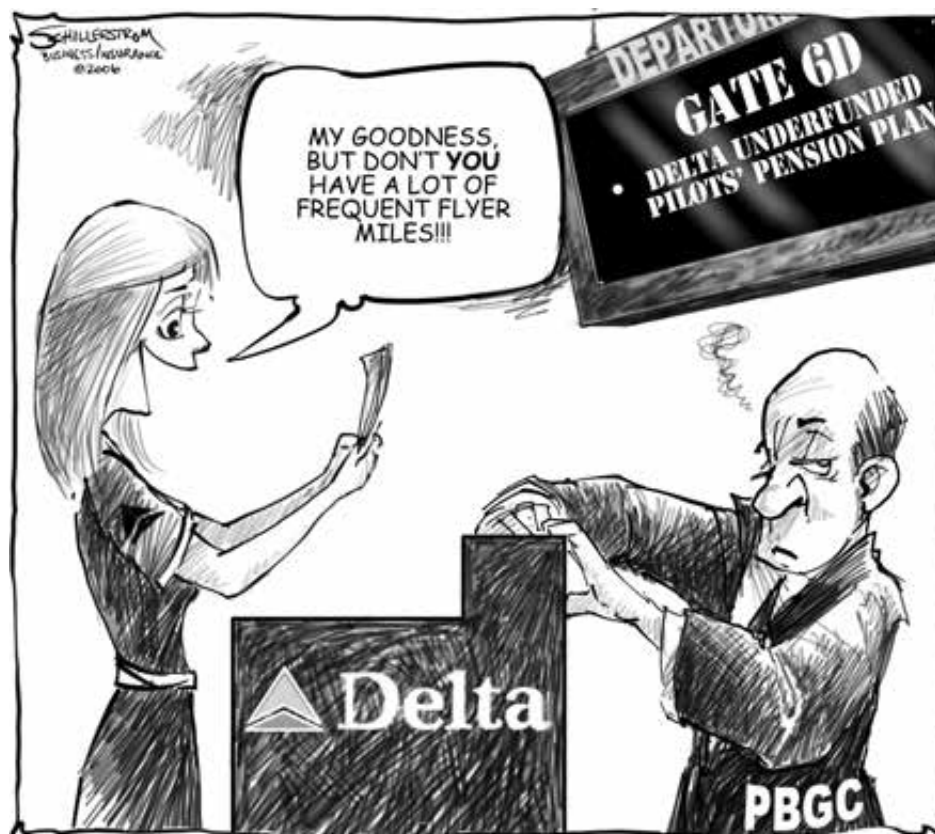
await a Treasury Department report on the state of the terrorism market. The report must be issued by Sept. 30, but few if any observers expect an endorsement of an enhanced—or perhaps even any—federal role.

Absent a government backstop, insurers must be allowed to come up with an actuarially sound and broad-based market solution to the problem. Something along the lines of the United Kingdom's Pool Reinsurance Co. Ltd. would be an attractive solution, but we're a long way from reaching that goal. To do so will require significant changes in insurance regulation and taxation, changes that neither the federal nor state governments appear willing to implement.

Terrorism risk is not analogous to natural catastrophe risk, a risk the private market can and does cover provided that it's given free rein to do so in a financially responsible manner. To expect the private market to accept covering the total risk of peril that many in the industry believe is basically uninsurable is both unrealistic and unfair.

The challenge on this fifth anniversary of the worst terrorist attack in U.S. history is to find a solution that is not only realistic and fair, but politically palatable as well. It's a considerable challenge, but one that must be met if we are to emerge from the next Sept. 11—and odds favor that there will be such an event—as well as we did five years ago.

Schillerstrom



Write Us

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No surprise in weakened drive to reimport prescription drugs

REMEMBER HOW the reimportation of prescription drugs from Canada to the United States was going to bring down the cost of drugs?

Indeed, over the past few years, an increasing number of individuals and public entities turned to Canada because prescription drugs there, due to price controls, can cost a lot less than drugs in the United States.

But now, the reimportation drive is fading. As we recently reported, Springfield, Mass., which in 2003 became one of the first cities to implement a program to allow its employees and retirees to reimport drugs

from Canada, now is pulling the plug on that program and will instead join a statewide benefits program that does not have a reimportation component.

At the same time, participation in programs set up by other public entities, such as Westchester, N.Y., has been much less than initially expected.

We are not surprised that the reimportation drive is faltering. In the first place, it is illegal for anyone other than the original manufacturer to reimport prescription drugs into the United States. That potential exposure to liability would make most employers reluctant to get involved in such

programs.

Secondly, concerns that some of the drugs being reimported were counterfeit also caused U.S. purchasers to back away, as did stepped-up confiscation of the drugs by U.S. customs officials. Obviously, prescription drug purchasers would be more reticent to obtain drugs from a source knowing that the supply was not reliable and, as a result, they might not receive their prescriptions when needed.

Just as important, there is much less need to reimport drugs than there was a few years ago. For starters, millions of elderly Americans now have prescription drug coverage due to the expansion of Medicare.

Additionally, several hugely expensive and widely used drugs now are available as low cost generics, making moot the need to obtain the drugs outside the United States.

Still, there is plenty that needs to be done to keep prescription drug costs manageable. Employers have to continue to examine plan designs to ensure that employees have sufficient incentives to purchase generics rather than more expensive brand-name products. And the federal government has to act if brand name manufacturers are unfairly preventing the entry into the market of lower-cost generics.

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Spotlight

SURPLUS LINES



Unit sales recast wholesale market

By SALLY ROBERTS

The landscape of the excess and surplus lines industry has changed dramatically over the past year.

The placement of E&S business is no longer dominated by the world's largest retail brokers but is instead ruled by independent wholesalers and in many cases their private equity owners.

As a result of retail brokerage giants Aon Corp.'s and Marsh Inc.'s divestitures last year, Swett & Crawford Group and Crump Insurance Services Inc., respectively, debut on this year's list of *Business Insurance's* largest U.S. wholesale insurance brokerages as independent firms.

And Willis Group Holdings Ltd.'s 2005 sale of Stewart Smith Group to independent wholesaler American Wholesale Insurance Group Inc. has propelled AmWINS to the top spot among the nation's largest wholesalers, succeeding perennial leader Swett.

The divestitures not only have created new growth opportunities in the E&S market as Marsh, Aon and Willis seek new wholesale relationships, they also have generated

much interest among private equity firms wanting to capitalize on the market dislocation stemming from New York Attorney General Eliot Spitzer's investigations into broker compensation, wholesalers note. Those investigations raised questions over whether a retail brokerage's ownership of wholesale operations creates conflicts of interest for those firms.

Unprecedented change

"It's a very exciting time in our business. I've never seen this many changes," said Glenn Hargrove, president and chief executive officer of Dallas-based Crump, which Marsh sold to private equity firm J.C. Flowers & Co. L.L.C. late last year.

"Never in the history of the E&S wholesale space has there been this kind of activity around financial sponsors," said M. Steven DeCarlo, president and CEO of AmWINS.

Pegasus Capital Advisors L.P., the Cos Cob, Conn.-based private equity firm that owned a majority interest in AmWINS, sold its interest in

See **WHOLESALE** / page 36

E&S insurers' agility helps them compete amid market shifts

By ROBERTO CENICEROS

Staying nimble to move quickly in and out of various types of coverage remains a cornerstone of surplus lines insurer operations.

The agility is an antidote for the shifting of standard-lines insurers in and out of business areas where surplus lines writers might be operating. That is one of the biggest issues nonadmitted insurers say they currently face—the entry of admitted insurers into their market areas.

For buyers, that likely means a downward shift in price for some coverage lines as admitted insurers

add their capacity. Additionally, standard markets are more likely to compete on price than are nonadmitted insurers, say several surplus lines observers.

The increased competition from standard insurers means surplus lines insurers must create new programs by aggregating similar risks, finding new niches that are underserved and looking to those hard-to-place risks that admitted insurers traditionally stay away from—no matter the overall market conditions.

See **SURPLUS LINES** / next page

SURPLUS LINES INSURER PROFILES

Lexington Insurance Co. / 12
American International Specialty Lines Insurance Co. / 14
Steadfast Insurance Co. / 20
Scottsdale Insurance Co. / 20
Columbia Casualty Co. / 22
Arch Specialty Insurance Co. / 23
Evanston Insurance Co. / 23
Landmark American Insurance Co. / 30
Admiral Insurance Co. / 32
Essex Insurance Co. / 34

MGAs strive to grow in mainly flat market

By ROBERTO CENICEROS

The 10 largest managing general agents are adopting a variety of strategies as they attempt to grow their operations in the face of flat rates for many lines of business.

Some of the MGAs only underwrite a few specialty niche programs in limited geographic regions of the United States where they have amassed expertise.

Others say they depend on continually diversifying their operations, by expanding into new product areas and hunting nationwide for new opportunities.

And outside of the soft market strategies, the various strategies of the top MGAs are often shaped by

their structure.

Some MGAs are units of larger retail or wholesale brokers while others are independently owned, second- or third-generation family businesses.

Many MGAs also own wholesale brokerage services to diversify their revenue stream if they are not a business unit of a broker. But some of the agencies making it onto *Business Insurance's* 2006 list of top 10 MGAs (see chart, page 24) got there by sticking to underwriting specialty risks without expanding into wholesale brokerage.

Some larger MGAs handle claims for the programs they underwrite.

See **MGAs** / page 41

RANKINGS: Largest surplus lines insurers / 16 Largest wholesalers / 18
Largest MGAs/underwriting managers / 24 State surplus lines premiums and taxes / 26

Surplus lines: Agility is key in softening market

Continued from previous page

Several of the top U.S. nonadmitted insurers say they are taking those measures in the generally soft market.

But not all lines of business are experiencing softening or an entry of standard lines insurers. Some are flat, and in catastrophe-prone areas there may be as much as a 50% shortfall in underwriter capital, one insurer estimated.

Some surplus lines insurers say they currently see opportunity in the heavy demand for catastrophe coverage.

But for others still feeling the impact of 2005's catastrophes, reduc-

ing their aggregate in storm-exposed regions remains the order of the day.

Next year could be completely different depending on how this year's storm season shapes up, surplus lines insurers say.

If insurers don't sustain heavy losses this year, those that have pulled their capacity could be looking to move back into storm-prone areas.

That could also mean that capacity that flowed from surplus lines property writers into casualty lines would shift back again, insurers add. That would drive up general liability rates.

Surplus lines insurers will be watching to see how they must respond with their capacity.

Following are profiles of the 10 largest surplus lines insurers as ranked by *Business Insurance*, including descriptions on how each is dealing with the various issues that are facing the market.

Some grew last year, others saw the premium volume they underwrite remain flat, while still others shrank, though in some cases the reduced premium volume was attributable to internal decisions to move certain lines of coverage to other units owned by their parent corporations.

1 Lexington Insurance Co.

Bad weather isn't all bad news for insurers.

"2006 is shaping up pretty much as we thought it would—we're seeing very, very heavy demand for catastrophe coverage; we're seeing some pressure on casualty rates, which we anticipated," said Kevin Kelley, chairman and chief executive officer of Lexington Insurance Co., a Boston-based unit of New York-based American International Group Inc.

"About a third of our business is property-related and approximately 50% of that is catastrophe-ex-

posed," Mr. Kelley said. "That's the biggest product area right now."

Lexington, which is an approved nonadmitted insurer in all states except Delaware, where it is an admitted insurer, wrote \$5.02 billion in nonadmitted premiums in 2005, an increase of 2.3% over 2004's \$4.90 billion. Net income, however, surged to \$315.82 million last year from \$71.64 million a year earlier. The insurer's combined ratio also improved to 96.7% in 2005 from 101.8% in 2004.

That kept Lexington in the No. 1 spot on *Business Insurance's* list of the 10 largest surplus lines insurers.

"Our unique distribution network allows us to see more business than any of our competitors," said Mr. Kelley. "The fact that we have

Lexington Insurance Co.

2005 nonadmitted premiums: **\$5.02 billion**

↑ 2.3%



Mr. Kelley

such a broad product arena allows us to touch clients in more ways than any of our competitors. If you add in the products and services that other AIG companies offer, that creates a very unique suite for product opportunities for clients."

Lexington writes in four areas in addition to property, said Mr. Kelley. These are casualty, high-limit excess casualty business written through fellow AIG unit Starr Excess Liability Insurance International Inc., program business and health care business, he said. Each category contains 10 to 25 products.

Additions to Lexington's product line over the past year or so include tax interruption insurance for municipalities to respond to financial losses when tax flow is decreased by physical damage to a commercial location; a property terrorism insurance endorsement that covers losses stemming from a military or civil order related to a terrorist attack or threat that impedes business operations; motor carrier coverage dealing with cargo theft; an outsourcing property policy; and, most recently, an evacuation response policy that covers expenses incurred by certain health care and educational institutions as a result of mandatory civil evacuation orders as well as a policy that protects real estate developers and lenders from losses due to changes in zoning laws.

Lexington's emphasis on catastrophe coverage reflects customer desires, Mr. Kelley said.

"We think that there's a very significant shortfall in the catastrophe

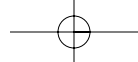
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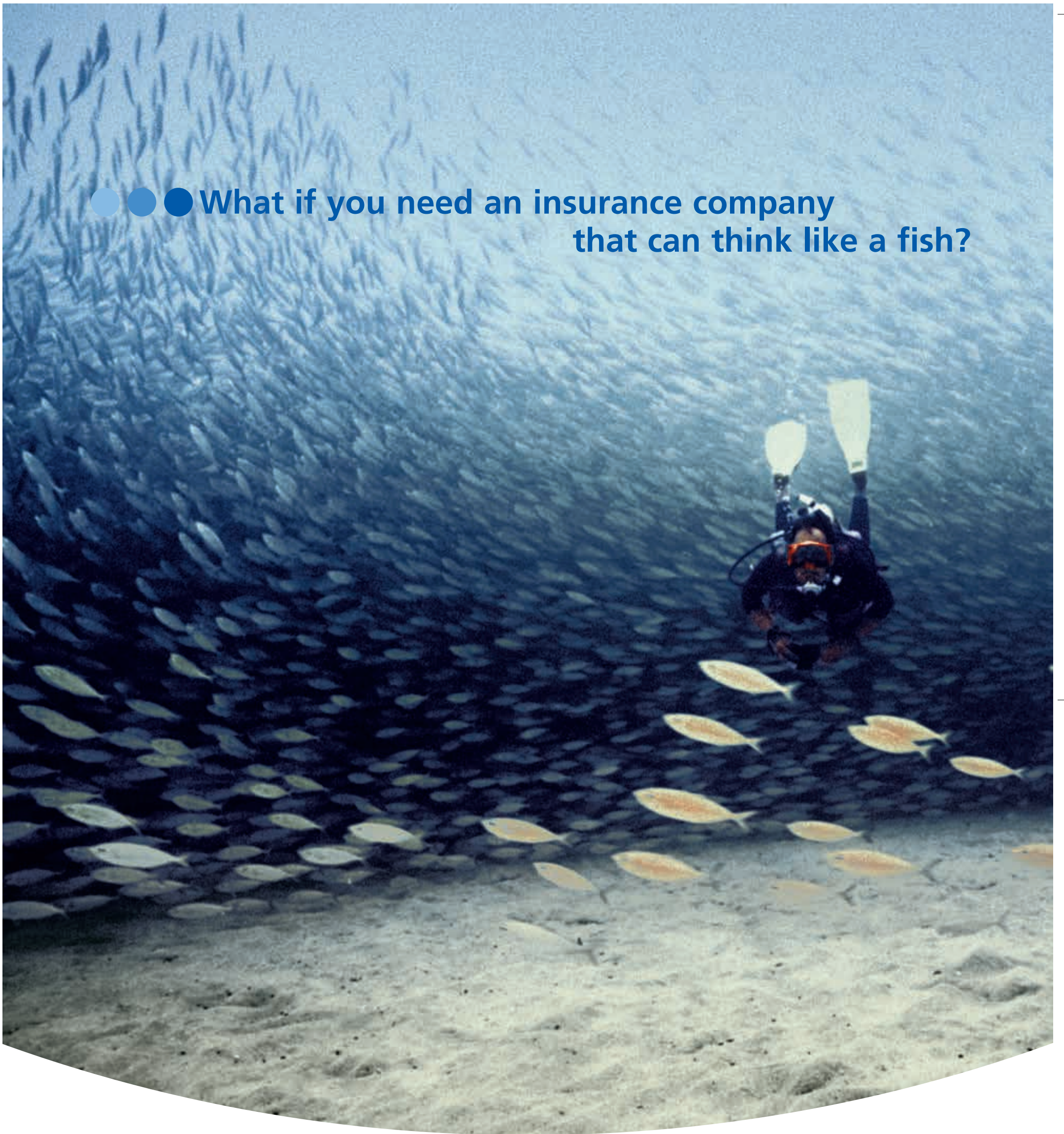


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Continued from page 12

market," he said. "We think that the market is short by about 50%. What we have done is we have committed to the market that we would maintain our gross capacity to the market and we continue to do that," on an individual account basis up to \$25 million, he said.

"In addition, we've added to the property market in noncat areas. Frequently, what happens is windstorm is capped, so you might have an exposure where the windstorm is capped at \$25 million or \$50 million and we'd take additional lines," said Mr. Kelley.

"We're always looking at ways to help our clients the best we can," he said.

—By Mark A. Hofmann

2 American International Specialty Lines Insurance Co.

The forced divestiture of a block of business and a huge reserve boost tempered American International Specialty Insurance Co.'s results last year but not enough to hurt the insurer's ranking among the top 10 surplus lines insurers.

Anchorage, Alaska-based AISLIC, a subsidiary of New York-based American International Group Inc., reported \$1.81 billion of nonadmitted premiums written in 2005, a 10.2% drop from its 2004 results but

strong enough to maintain the insurer's ranking as the second-largest surplus lines insurer.

Gross premiums written for the insurer dropped 14% last year to \$1.87 billion, and net written volume fell 14.7% to \$317.5 million.

But the drop in gross premiums does not necessarily mean that the business was lost to AIG, said Robert Schimek, chief financial officer for AIG's Domestic Brokerage Group and a senior vp and treasurer at AISLIC. AIG's profit centers determine which units will underwrite a risk based on state laws and where a policyholder would be best served, he said. Therefore, the drop in gross premiums means that AIG redistributed that business elsewhere within the organization, he said.

Overall, AIG's surplus lines business grew between 6% and 8% in 2005, according to Mr. Schimek.

AISLIC reported a loss of more than \$36.4 million last year, compared with a profit of nearly \$84.8 million in 2004. But its policyholder surplus grew 2.2% last year to nearly \$358.7 million.

AISLIC restated its 2004 results last year after settling a dispute with Alaska insurance regulators over the insurer's life settlements business.

In this business, an investor purchases the life insurance policy of an individual who does not expect to live much longer.

For the policy, the investor pays the policyholder more than the policy's cash surrender value but less than the policy's full limits. After

the policyholder dies, the investor collects the full policy limits, which the investor hopes will exceed the sum of the policy's purchase price and the premiums the investor paid on the policy after purchasing it from the policyholder.

To avoid public relations and accounting problems associated with the business, AIG structured the business in a manner that showed AISLIC writing surety policies to another AIG unit that then would file claims against those policies and use claims payments to purchase life settlements, according to a lawsuit by New York Attorney General Eliot Spitzer and New York State Insurance Superintendent Howard Mills. The lawsuit charged that the business arrangement among the



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American International Specialty Lines Insurance Co.

2005 nonadmitted premiums:
\$1.81 billion

10.2%



Mr. Schimek

AIG companies created false underwriting income (BI, May 30, 2005).

Under AISLIC's settlement with Alaska regulators, all the life settlements business was moved out of AISLIC. The business no longer is treated as insurance but as a financial transaction in a new AIG subsidiary, New York-based AIG Life Settlements L.L.C. AISLIC restated its 2004 results to account for the loss of this business.

AISLIC's net loss last year was driven by its share of the nearly \$1.82 billion charge AIG took to bolster its net reserves, Mr. Schimek said, but no single book of business compelled the reserve boost.

For the first half of 2006, AISLIC reported \$751.7 million of nonadmitted premiums, a 9.2% drop from 2005. Net income during the first half, however, more than doubled to nearly \$38.7 million.

Among the surplus lines business that AISLIC writes is environmental liability coverage, and the market for that business is stable, he said.

AISLIC also writes what Mr. Schimek characterized as risk-finance business. Those are nontraditional risks "that don't fit cleanly into any of our other profit centers," he said.

The insurer's products, however, tend to be "very customized" to its clients needs, Mr. Schimek said. As a result, the insurer faces little competition for that business, he said.

—By Dave Lenckus

Continued on page 20



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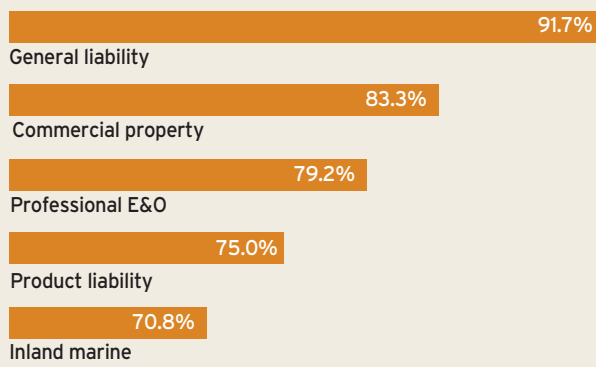
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BI RANKING**Most common classes of business**

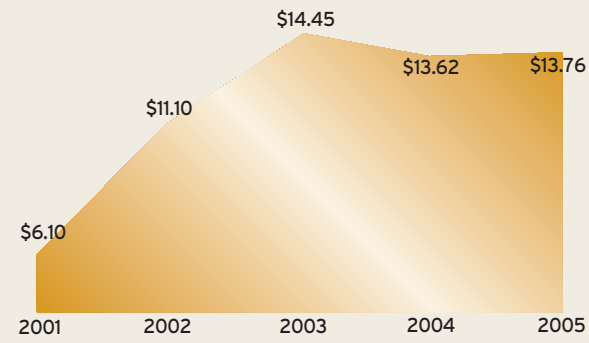
Percentage of most common types of coverage offered



Source: BI survey

Premium growth

Nonadmitted direct written premiums by the top 10 surplus lines insurers, in billions of dollars.



Source: BI survey

Over and under

Ranked by 2005 combined ratio as determined by A.M. Best Co. Inc. and/or Standard & Poor's Corp.

LOWEST

Nautilus Insurance Co.	74.5%
Mt. Hawley Insurance Co.	79.8%
Professional Underwriters Liability Insurance Co.	80.0%
Admiral Insurance Co.	80.7%
First Specialty Insurance Corp.	85.8%

HIGHEST

American International Specialty Lines Insurance Co.	136.1%
Glencoe Insurance Ltd.	124.4%
RSUI Indemnity Co.	121.6%
Landmark American Insurance Co.	116.8%
General Star Indemnity Co.	114.3%

Source: BI survey

Largest U.S.-based surplus lines insurers

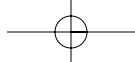
Ranked by 2005 nonadmitted direct written premiums

Rank	Company/Address/Parent	Phone/Fax/Web site	2005 nonadmitted direct written premiums	% change	2005 gross premiums	% change	2005 net written volume	2005 net income (loss)	2005 combined ratio*	Principal officer
1	Lexington Insurance Co. ¹ 2711 Centerville Road, Suite 400, Wilmington, Del. 19808 American International Group Inc.	617-330-1100 Fax: 212-458-7018 www.lexingtoninsurance.com	\$5,016,584,631	2.3%	\$6,237,852,988	-1.4%	\$3,477,280,927	\$315,820,837	96.6%	Kevin H. Kelley, chairman/CEO
2	American International Specialty Lines Insurance Co. 1400 W. Benson Blvd., Suite 315, Anchorage, Alaska 99503 American International Group Inc.	212-770-7000 Fax: 212-509-7059 www.aig.com	\$1,808,041,865	-10.2%	\$1,869,796,825	-14.0%	\$317,488,417	(\$36,448,682)	136.1%	Kristian P. Moor, chairman/president
3	Steadfast Insurance Co. ¹ 1400 American Lane, Schaumburg, Ill. 60196-1056 Zurich Financial Services Group	847-605-6000 Fax: 847-605-7895 www.zurichna.com	\$1,559,987,112	8.5%	\$1,738,619,446	15.2%	N/A	\$10,461,670	N/A	Thomas Bradley, president
4	Scottsdale Insurance Co. ¹ 8877 N. Gainey Center Drive, Scottsdale, Ariz. 85258-2108 Nationwide Mutual Insurance Co.	480-365-4000 Fax: 480-368-5856 www.scottsdaleins.com	\$1,194,440,734	0.7%	\$2,609,535,967	2.7%	\$592,134,798	\$41,792,643	N/A	Michael D. Miller, president
5	Columbia Casualty Co. CNA Center, 333 S. Wabash, Chicago, Ill. 60604 CNA Financial Corp.	312-822-5000 Fax: 312-817-0787 www.cna.com	\$819,102,417	3.8%	\$829,138,556	4.2%	N/A	\$6,007,504	N/A	Stephen W. Lilienthal, chairman/president
6	Arch Specialty Insurance Co. 1 Liberty Plaza, 53rd Floor, New York, N.Y. 10006 Arch Capital Group Ltd.	212-651-6500 Fax: 646-746-8105 www.archinsurance.com	\$801,376,553	-3.1%	\$821,696,119	-5.1%	\$54,707,474	\$20,358,913	N/A	Ralph E. Jones III, CEO
7	Evanston Insurance Co. 10 Parkway N., Deerfield, Ill. 60015 Markel Corp.	847-572-6000 Fax: 847-572-6259 www.shand.com	\$725,547,774	-12.0%	\$891,659,543	-9.6%	\$691,004,741	\$119,193,042	88.2%	Michael A. Rozenberg, president
8	Landmark American Insurance Co. 945 E. Paces Ferry Road, Atlanta, Ga. 30326 Alleghany Corp.	404-231-2366 Fax: 404-262-4432 www.rsui.com	\$699,681,736	-7.2%	\$701,042,375	-7.0%	\$37,917,250	(\$629,082)	116.8%	Jim Dixon, chairman/CEO
9	Admiral Insurance Co. 1255 Caldwell Road, Cherry Hill, N.J. 08034-3220 W.R. Berkley Corp.	856-429-9200 Fax: 856-429-8611 www.admiralins.com	\$596,873,667	3.1%	\$661,794,123	3.6%	\$603,378,083	\$130,457,537	80.7%	James S. Carey, president/CEO
10	Essex Insurance Co. 1209 Orange St., Wilmington, Del. 19801 Markel Corp.	804-273-1400 Fax: 804-273-1435 www.essexinsurance.com	\$541,969,321	-0.3%	\$578,798,704	1.2%	\$391,783,741	\$2,442,528	110.1%	William B. Dickler, president

*Combined ratio as determined by A.M. Best Co. Inc. and/or Standard & Poor's Corp. 1 Figures reported on pooling basis. N/A=not available

Source: BI survey

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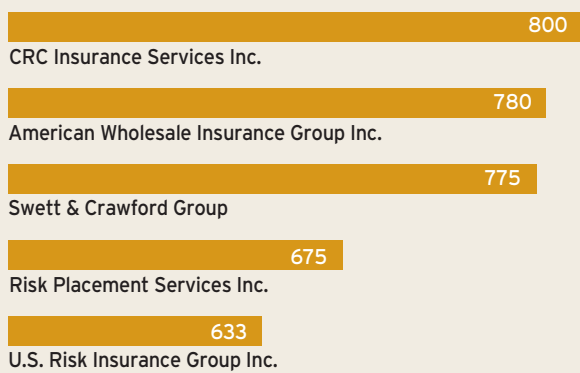
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BI RANKING

Largest by number of wholesale employees

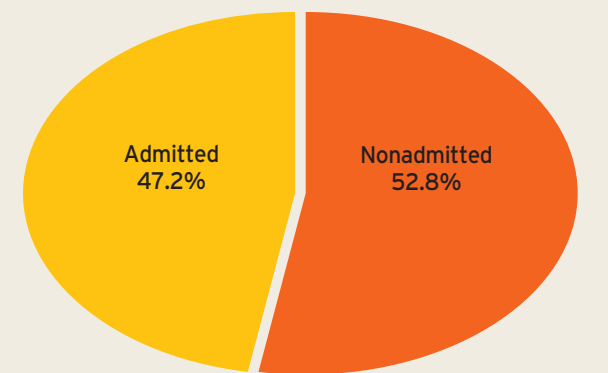
Number of wholesale employees as of 12/31/05



Source: BI survey

Admitted vs. nonadmitted

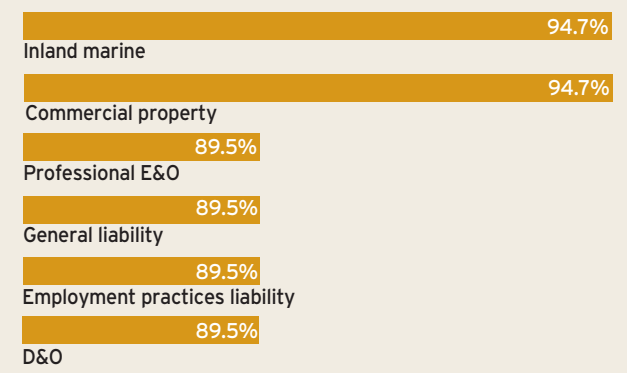
Business performed by wholesale brokers



Source: BI survey

Most common classes of business

Percentage of most common types of coverage offered



Source: BI survey

**Largest wholesale insurance brokers*
Ranked by 2005 wholesale premium volume**

Rank	Company/Address	Phone/Fax/Web site	2005 premium volume	% change	2005 gross revenues	% change	Surplus lines	Wholesale broker	Managing general agent	Lloyd's of London coverholder	Employees	Principal officer
1	American Wholesale Insurance Group Inc. 4064 Colony Road, Suite 450, Charlotte, N.C. 28211	704-943-2000 Fax: 704-943-9000 www.amwins.com	\$2,813,742,605	17.2%	\$191,284,000 ¹	17.1%	56.0%	84.5%	12.5%	3.0%	780	M. Steven DeCarlo, president/CEO
2	CRC Insurance Services Inc. 1 Metroplex Drive, Suite 400, Birmingham, Ala. 35209	205-870-7790 Fax: 205-986-6385 www.crcins.com	\$2,812,682,172	34.2%	\$231,563,213	30.6%	75.0%	89.0%	6.0%	5.0%	800	Thomas Curtin Sr., president/CEO
3	Swett & Crawford Group 3715 Northside Parkway, Atlanta, Ga. 30327	404-240-5200 Fax: 404-240-5393 www.swett.com	\$2,809,000,000	1.2%	\$250,010,000 ¹	1.6%	60.0%	76.0%	21.0%	3.0%	775	Neal Abernathy, president/CEO
4	Risk Placement Services Inc. 2 Pierce Place, 20th Floor, Itasca, Ill. 60143-3141	630-285-4303 Fax: 630-285-4075 www.rpsins.com	\$1,301,000,000	13.1%	\$107,583,377	20.0%	60.0%	56.0%	39.0%	5.0%	675	Joel Cavaness, president
5	Crump Insurance Services Inc. 7557 Rambler Road, Suite 350, Dallas, Texas 75231	214-265-2660 Fax: 214-265-2683 www.crumpins.com	\$1,249,000,000 ¹	0.0%	\$94,912,000 ¹	0.0%	55.0%	59.0%	41.0%	0.0%	442	Glenn Hargrove, president/CEO
6	BISYS Commercial Insurance Services Inc. 50 California St., Suite 2000, San Francisco, Calif. 94111	877-247-9772 Fax: 312-879-1335 www.bisyspc.com	\$1,020,000,000	1.0%	\$90,000,000	7.1%	50.0%	58.0%	40.0%	2.0%	476	John Hahn, president
7	Westrope 801 W. 47th St., Suite 500, Kansas City, Mo. 64112	816-842-8222 Fax: 816-842-3081 www.westrope.com	\$491,300,000	32.8%	\$34,300,000	24.3%	60.0%	96.0%	4.0%	0.0%	130	Kevin T. Westrope, president/CEO
8	ARC Excess & Surplus L.L.C. 1122 Franklin Ave., P.O. Box 9240, Garden City, N.Y. 11530	516-747-4100 Fax: 516-747-3633 www.arcbrokers.com	\$475,000,000	5.6%	\$38,950,000 ¹	0.6%	20.0%	95.0%	5.0%	0.0%	120	Christopher J. Cavallaro, managing director
9	Gresham & Associates Inc. 1 Gresham Landing, P.O. Box 927, Stockbridge, Ga. 30281	770-389-1600 Fax: 770-389-1650 www.gresham-inc.com	\$389,176,500	6.7%	\$40,178,688	0.6%	50.0%	60.0%	34.0%	6.0%	300	James V. Gresham, chairman/CEO
10	U.S. Risk Insurance Group Inc. 10210 N. Central Expressway, Suite 500, Dallas, Texas 75231	214-265-7090 Fax: 214-265-2454 www.usrisk.com	\$378,000,000	2.8%	\$75,000,000	3.7%	95.0%	60.0%	20.0%	20.0%	633	Randall G. Goss, chairman/CEO

*Companies deriving more than 50% of their wholesale premium volume from wholesale brokerage. 1 BI estimate.
Source: BI survey

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3 Steadfast Insurance Co.

Steadfast Insurance Co. saw its non-admitted premiums rise 8.5% in 2005, to nearly \$1.56 billion, to remain No. 3 on *Business Insurance's* annual ranking of surplus lines insurers.

Despite a surplus lines market that is seeing some rate reductions, the Zurich Financial Services Group unit reversed slides in both gross and nonadmitted direct written premiums it experienced in 2004. The company's gross premiums increased more than 15% to more than \$1.7 billion in 2005.

Steadfast's premium volume was solid mostly due to strong business from its owners, landlords and tenants and its product liability segments, said Jim DeSimone, New York-based senior vp, specialty casualty for Zurich.

Steadfast continues to be a stable provider for these insurance segments because of its experience and claims handling capabilities, which help the company retain and attract customers, he said.

"I think our strengths are our financial capabilities and our services, which are really highlighted by our underwriting, claims and risk engineering," Mr. DeSimone said.

Demand for these coverages is fairly constant with Steadfast typi-

cally writing limits in the range of \$1 million to \$2 million, although it can write up to \$5 million in coverage, he said.

The biggest issue the company is currently facing is the shifting of business into and out of the surplus lines market, he said.

"We need to adjust our underwriting expertise and in some cases our policy forms to address the type of business that flows into the market as other business flows out of the market," Mr. DeSimone said.

Owners, landlords and tenants business always shifts between the surplus lines and standard markets, and the same holds true to a lesser extent for product liability risks, he said.

"But the tougher-exposure busi-

ness will always stay in the surplus lines market," Mr. DeSimone said. "I believe this is just the general ebb and flow of commercial lines business into and out of the surplus lines market."

Commercial customers continue to seek flexibility in the surplus lines market, he said.

"Flexibility of terms and coverages are usually the reasons they come to surplus lines and I would say that's no different in today's market," Mr. DeSimone said.

Despite the constant evolution of the surplus lines market, the company aims to be a consistent service provider for customers, he said.

"We're all about sustainability and profitability over the long run so we will make adjustments when

Steadfast Insurance Co.

2005 nonadmitted premiums: **\$1.56 billion**

8.5%

necessary," Mr. DeSimone said.

An important aspect of its consistency is the company's stable relationships with its wholesalers, with Steadfast relying on them to provide up-to-date market intelligence, Mr. DeSimone said.

Having the right partners in the "ever-changing and shifting" surplus lines market is more important than ever and will help make Steadfast a steady and sustainable provider for a long time, he said.

—By Gloria Gonzalez

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4 Scottsdale Insurance Co.

After experiencing sizable growth throughout the last hard market, Scottsdale Insurance Co. is now relying on its producer relationships to continue its momentum.

Scottsdale Insurance Co.

2005 nonadmitted premiums: **\$1.19 billion**

0.7%



Mr. Miller

Based on 2005 nonadmitted premiums totaling \$1.19 billion, the Scottsdale, Ariz.-based insurer ranks No. 4 in *Business Insurance's* annual

Continued on page 22

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Continued from page 20

rankings of surplus lines insurers. Though the volume is up less than 1% from 2004 nonadmitted premiums, it follows three consecutive years of solid growth.

"I attribute a lot of it to the hard market," said Michael D. Miller, president of Scottsdale, which is a subsidiary of Nationwide Mutual Insurance Group. "From 2001 through 2004, the market's been very, very strong, so Scottsdale was able to take advantage of that."

"We also think we're doing the right things in continuing to develop the relationships we have with our producers," Mr. Miller continued. "For example, this year, through six months, we're up about 10% in a market that we think is pretty difficult. That certainly has nothing to do with the hard market, and we believe it has a lot to do with the things we're doing to strengthen our relationships."

The primary reason Scottsdale's premium volume was up only slightly in 2005 vs. 2004 was that many standard insurers came back into the market, taking away business that typically goes back and forth between the standard and excess and surplus lines companies, according to Mr. Miller.

For example, "they've withdrawn a lot of their capacity from coastal areas and, to make up for that, we believe, they've moved into the middle part of the country, so those markets are much more competi-

tive than the coastal markets. It's an interesting market right now," Mr. Miller said.

For its part, Scottsdale is still writing coastal property risks, albeit very carefully.

"We have capacity constraints based on our capital position and the reinsurance that we could buy," Mr. Miller said, alluding to the tightening in the property reinsurance market that followed last year's devastating hurricane season. "We were not able to buy all the reinsurance we wanted to buy and we paid a lot for what we did buy."

Still, "we're trying to do as much business in those markets as we can within our capacity restraints," Mr. Miller added. "We're paying a lot of attention to how we manage those coastal areas because we don't want to drive up an aggregation or concentration of risks that would cause us to have an unusually high probable maximum loss out of a storm or hurricane."

With rate increases up to 100% for commercial property on the water, by far the biggest challenge for commercial policyholders is finding adequate coastal property insurance coverage, Mr. Miller said.

"I think they're accepting what they can get," he said. "We believe that some are basically walking away saying, 'I'll just take a shot at this,' self-insuring to some extent. Others are taking a higher deductible."

—By Joanne Wojcik

5 Columbia Casualty Co.

Columbia Casualty Co.'s holistic approach to underwriting has enabled the excess and surplus lines subsidiary of Chicago-based CNA Financial Corp. to take advantage of tightness occurring in certain standard lines as it crops up.

When a risk is presented, it is examined to determine whether it can be written in the standard market or the E&S market, by itself or as part of a program, on admitted or nonadmitted paper.

"When the standard lines marketplace decides that they want to go after the surplus lines marketplace, they generally do it on price. We have to be light enough on our feet to opportunistically look to where we should stay and where we should go," said Jeff Segall, vp of E&S at CNA in Chicago.

For example, Columbia Casualty can take a risk that was in the E&S market one year because of poor loss experience and either help it get back into the standard market by providing CNA's risk control and claims management services or create a program for that risk by aggregating it with other, similar risks, Mr. Segall said.

In other cases, the insurer may

BENEFITS.

assist commercial policyholders in forming captives so they can "participate in the underwriting results and the investment income associated with being their own insurance company," he added.

In fact, by using this holistic approach to addressing the coverage needs of its policyholders, the in-

partners, and they know that they can come to us and get an A-rated carrier that's been around for a long time that offers a stable platform and the level of services that are on par with any other standard insurance market that would not be willing to take that risk," he said. "Whether it's on an admitted or nonadmitted basis, they get that same level of service."

Last year the insurer also added a risk mitigation credit to its architects and engineers policy, coverage it has written since 1957, for policyholders that follow its list of best practices, which include such things as having written service agreements.

The insurer also regularly develops combined property/casualty coverage programs for certain casualty risks that run into tight spots in the standard market when seeking property coverage.

For example, several years ago Columbia Casualty expanded its nonadmitted professional liability program for public officials and police professionals to also provide property coverage for buildings, streets and roads, parks and playgrounds.

While in some cases Columbia Casualty markets its products via CNA-appointed agents with surplus lines licenses, the insurer distributes mainly through managing general agents.

MGAs "can bring to us the expertise that's necessary to do the programs the way they ought to be done, or look at individual risks on a surplus lines or wholesale basis," Mr. Segall said.

In addition, because there is less

Columbia Casualty Co.

2005 nonadmitted premiums:
\$819.1 million

↑ 3.8%



Mr. Segall

surer grew 3.8% during 2005, making it the No. 5 surplus lines insurer in *Business Insurance's* 2006 ranking.

Columbia Casualty generated \$819.1 million in nonadmitted premiums in 2005 compared with \$788.8 million in 2004.

In particular, Columbia Casualty took on "a lot more habitational-type risks, more in the auto area from taxis and limousines on up to long-haul truckers," Mr. Segall said.

"I think the reason we, personally, are seeing that growth is because we have some loyal distribution

Continued on next page

ERAGE.

and manufacturers' products liability business—has been migrating back to admitted markets.

"It's typical of the cyclical nature of our business," Mr. Edack said.

Still, a large part of Arch's 2005 gross premiums were in liability lines, according to its statutory financial statement. Arch, admitted only in Wisconsin, wrote \$629.5 million in liability gross premiums last year, or about 77% of its \$821.7 million total. Property lines accounted for \$172.8 million and other lines made up the balance.

Arch reinsures a large amount of its business with an array of reinsurers, including Bermuda-based affiliate Arch Reinsurance Ltd. Arch Specialty's net written premium volume amounted to \$54.7 million last year, or 6.7% of its gross volume, the statement shows.

The huge ceding commissions generated by these reinsurance placements allowed Arch to significantly reduce its combined ratio last year. While the insurer's loss and loss expense ratio rose to 102.0% from 89.1% in 2004, its ratio of other underwriting expenses—which are offset by the ceding commissions—dropped to a negative 40.7% from a positive 12.5% in 2004. Arch thus finished the year with a combined ratio of 61.3% compared with 101.6% in 2004.

Ceding commissions also helped Arch turn what otherwise would have been a narrow underwriting

loss in 2005 into a \$21.4 million underwriting gain.

Arch booked \$103 million in capital contributions from its immediate parent company, Arch Insurance Co., last year, raising its policyholders' surplus to \$243.9 million at year end. The contributions were to bring Arch Specialty into compliance with a 2002 agreement with the Wisconsin Insurance Department to maintain Arch Specialty's surplus at 275% of its authorized control level risk-based capital level, the insurer reported. Arch's surplus exceeded the requirement at the end of last year.

—By Douglas McLeod

7

Evanston Insurance Co.

Explosive growth in architects and engineers liability business and an increase in demand for other products has Evanston Insurance Co. President Michael A. Rozenberg feeling "pretty excited about what's going on."

The Deerfield, Ill.-based unit of Glen Allen, Va.-based Markel Corp. has seen its A&E premium volume rise almost 50% since 2005, said Mr. Rozenberg. In addition, products liability coverage, including that for

Evanston Insurance Co.

2005 nonadmitted premiums: **\$725.5 million**

-12.0%



Mr. Rozenberg

non-Food and Drug Administration regulated items such as herbals and nutraceutical products, are also experiencing double-digit growth, he said. Such products "need coverage placement usually through the E&S market," said Mr. Rozenberg.

Evanston, which is an admitted insurer in Illinois and a nonadmitted insurer in all other states except New Hampshire, wrote \$725.5 million in nonadmitted premium in 2005, down from \$824.9 a year earlier. But the company's net income grew to \$119.2 million in 2005,

Continued on page 30

Continued from previous page

time available for underwriting in the E&S market since most risks land there only after a broker has failed to place them in the standard market, the insurer prefers working with a select group of intermediaries—about 20 or so—so "we can develop relationships and rapport and be able to answer their questions quickly," Mr. Segall added.

—By Joanne Wojcik

6

Arch Specialty Insurance Co.

Arch Specialty Insurance Co. hasn't been around as long as some of its surplus lines competitors, but it's making up quickly for lost time.

New York-based Arch Specialty became the main U.S. surplus lines unit of Arch Capital Group Ltd. in 2002, when Bermuda-based Arch Capital acquired the company, originally founded in 1964, as a shell from Sentry Insurance Group.

Since then, Arch Specialty has expanded its gross written premium volume from slightly more than \$220 million in 2002 to \$821.7 million last year. Its nonadmitted volume totaled \$801.4 million in 2005, making Arch Specialty the sixth-largest U.S. surplus lines insurer this year in *Business Insurance's* ranking.

Catastrophe-exposed property difference-in-conditions business, including Florida and Gulf Coast windstorm and California earthquake risks, has been one of Arch's

strengths over the last year, said John S. Edack, executive vp in charge of the insurer's Western region in San Francisco.

Capacity shortages have driven up prices on some of these risks by

Arch Specialty Insurance Co.

2005 nonadmitted premiums: **\$801.4 million**

-3.1%



Mr. Edack

25% to 100%, according to Mr. Edack, who noted that "property lines are in great dislocation."

Arch is looking to become a market leader in primary professional and general liability for health care "miscellaneous facilities," which include medical transportation, home care, imaging and teleradiology facilities, he said.

Primary and excess casualty business, on the other hand, has become more competitive, with pricing on certain risks falling 20% or more, he said. Some of the business—notably commercial construction, premises and operations,

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Largest by number of MGA employees

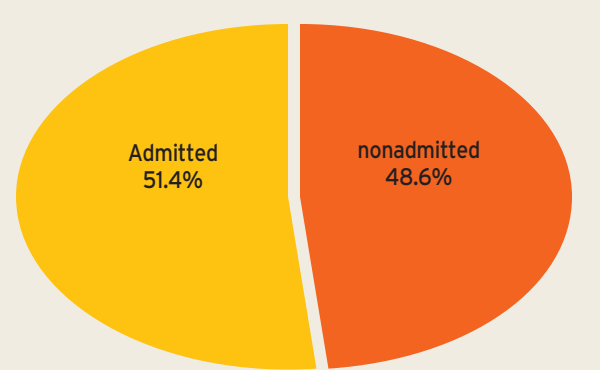
Number of wholesale employees as of 12/31/05



Source: BI survey

Admitted vs. nonadmitted

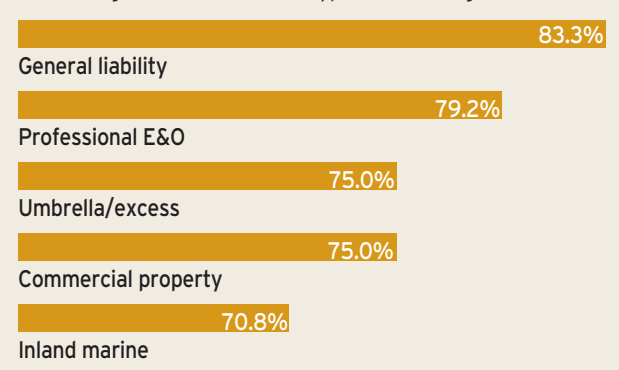
Business performed by MGAs/underwriting managers



Source: BI survey

Most common classes of business

Percentage of most common types of coverage offered



Source: BI survey

Largest MGA/underwriting managers*

Ranked by 2005 wholesale premium volume

Rank	Company/Address	Phone/Fax/Web site	2005 premium volume	% change	2005 gross revenues	% change	Surplus lines	Underwriting manager	Managing general agent	Wholesale broker	Lloyd's of London coverholder	Employees	Principal officer
1	The Schinnerer Group 2 Wisconsin Circle, Chevy Chase, Md. 20850	301-961-9800 Fax: 301-951-5444 www.schinnerer.com	\$991,000,000	-2.0%	\$83,244,000 ¹	-2.0%	5.0%	99.0%	0.0%	1.0%	0.0%	558	Lorna Parsons, Marie Solomon, Richard Horner, managing directors
2	Burns & Wilcox Ltd. 220 Kaufman Financial Center, 30833 Northwestern Highway, Farmington Hills, Mich. 48334	800-521-1918 Fax: 248-932-9046 www.burnsandwilcox.com	\$700,000,000	7.7%	\$175,000,000	2.9%	90.0%	0.0%	60.0%	30.0%	10.0%	854	Alan J. Kaufman, chairman/president/ CEO
3	Hub International Ltd. 55 E. Jackson Blvd., Chicago, Ill. 60604	877-402-6601 Fax: 877-402-6606 www.hubinternational.com	\$683,183,354	118.5%	\$478,369,184	100.1%	N/A	0.0%	67.0%	33.0%	0.0%	3,689	Martin P. Hughes, chairman/CEO
4	Eastern America Insurance Agency Inc. Metro Office Park, Street One, Lot 10, P.O. Box 193900, San Juan, Puerto Rico 00919-3900	787-273-1288 Fax: 787-782-8233 www.universalpr.com	\$239,635,146	0.2%	\$12,460,853	5.5%	2.0%	0.0%	100%	0.0%	0.0%	159	Luis Miranda Casanas, president
5	W. Brown & Associates Insurance Services 19000 Mac Arthur Blvd., Suite 700, Irvine, Calif. 92612	949-851-2060 Fax: 949-794-0744 www.wbais.com	\$221,827,476	3.7%	\$41,000,000	3.2%	17.0%	74.0%	9.0%	15.5%	1.5%	67	John W. Krebs, president- property/casualty; William S. Brown, president-aviation
6	K&K Insurance Group Inc. 1712 Magnavox Way, Fort Wayne, Ind. 46804	260-459-5000 Fax: 260-459-5606 www.kandkinsurance.com	\$221,101,691	-0.4%	\$47,736,000 ¹	-0.5%	15.0%	0.0%	93.0%	7.0%	0.0%	282	Ross T. Smith, president/CEO
7	NIF Group Inc. 30 Park Ave., Manhasset, N.Y. 11030	516-365-7440 Fax: 516-365-7392 www.nifgroup.com	\$210,253,117	-4.4%	\$20,100,000	2.0%	35.0%	0.0%	60.0%	37.0%	3.0%	135	Mark P. Maher, president
8	WKF&C Agency Inc. 1 Huntington Quadrangle, Suite 2C18, Melville, N.Y. 11747	631-756-3000 Fax: 631-756-2500 www.wkfc.com	\$162,000,000	2.5%	\$23,652,000 ¹	2.5%	65.0%	8.0%	89.0%	0.0%	3.0%	74	Thomas J. Kennedy, chairman/CEO
9	LoVullo Associates Inc. 6450 Transit Road, Depew, N.Y. 14043	716-856-3065 Fax: 716-857-8057 www.lovullo.com	\$133,468,467	3.9%	\$19,486,396 ¹	3.9%	78.0%	0.0%	82.0%	16.0%	2.0%	82	Leonard T. LoVullo, president
10	Arlington/Roe & Co. 8900 Keystone Crossing, Suite 800, P.O. Box 80803, Indianapolis, Ind. 46280	800-878-9891 Fax: 317-554-8551 www.arlingtonroe.com	\$105,000,000	8.5%	\$11,500,000	2.9%	35.0%	0.0%	62.0%	35.0%	3.0%	129	James A. Roe, president

*Companies deriving more than 50% of their wholesale premium volume from acting as managing general agents, underwriting managers and Lloyd's of London coverholders. ¹ BI estimate. N/A=not available.

Source: BI survey

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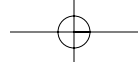
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Surplus lines premiums and taxes by state

State	Gross surplus lines premium written			Percent change		Surplus lines taxes collected			
	2005	2004	2003	2004-2005	2003-2005	2005	2004	2003	Tax rate
Alabama ¹	\$445,746,000 ²	\$406,991,433 ²	\$317,344,133	9.5%	40.5%	\$26,744,760	\$24,419,486	\$19,040,648	6.0%
Alaska	103,996,208	86,653,822	89,399,989	20.0	16.3	2,413,186	1,746,501	2,076,131	2.7
Arizona	575,388,342	509,184,668	395,433,211	13.0	45.5	17,261,650	15,379,570	9,237,767	3.0
Arkansas ³	201,859,745	184,392,693 ⁴	240,982,464 ⁵	9.5	-16.2	8,074,390	7,375,693 ⁴	9,639,299 ⁵	4.0
California	6,423,082,782	6,542,147,725	6,003,968,512	-1.8	7.0	168,673,514	167,183,075 ²	153,895,016	3.0
Colorado	503,030,140 ⁶	497,584,265	469,976,933	1.1	7.0	15,340,834	15,160,057	14,208,789	3.0
Connecticut	342,533,152	312,783,484	276,243,370	9.5	24.0	13,174,352	12,030,134	10,624,745	4.0
Delaware	92,689,683	73,810,093	81,881,690	25.6	13.2	1,856,719	1,476,202	1,637,633	2.0
District of Columbia	154,855,058	178,630,423	169,800,375	-13.3	-8.8	2,632,536	3,077,593	2,852,000	2.0
Florida	3,467,239,050	2,747,919,356	2,546,227,778	26.2	36.2	160,641,155	125,464,271	114,955,300	5.0
Georgia ³	895,643,175	852,746,750	896,272,500	5.0	-0.1	35,825,726	34,109,870	35,850,900	4.0
Hawaii	233,981,170 ⁷	198,509,751 ⁷	148,155,546 ⁷	17.9	57.9	10,948,720	9,294,008	6,927,970	4.7
Idaho	81,022,035	70,201,277	61,231,410	15.4	32.3	2,040,562	1,821,783	1,578,389	2.8
Illinois	1,016,395,632	1,012,483,750	815,041,545	0.4	24.7	35,577,662	35,440,099	28,529,162	3.5 ⁸
Indiana	409,581,452	375,323,146	329,365,324	9.1	24.4	10,239,536	9,383,079	8,234,133	2.5
Iowa	134,327,940	131,528,643	131,792,091	2.1	1.9	2,014,919	2,301,751	2,635,842	1.5
Kansas	170,585,763	152,743,375	150,545,505	11.7	13.3	10,481,866	9,497,768	9,117,473	6.0
Kentucky	165,200,696	152,515,154	143,776,907	8.3	14.9	5,050,679	4,637,613	4,378,128	3.0
Louisiana	882,190,525	840,477,720 ⁴	758,734,765	5.0	16.3	44,109,526	42,023,886 ⁴	37,936,738	5.0
Maine	72,671,013	68,738,259	65,917,089	5.7	10.2	2,002,987	1,889,611	1,762,240	3.0
Maryland	434,889,000	395,981,938	334,464,673	9.8	30.0	13,046,628	11,873,458	10,032,440	3.0
Massachusetts	760,792,604	767,642,863	675,783,742	-0.9	12.6	28,115,151	28,345,609	25,166,675	4.0
Michigan	715,567,116	683,621,656	553,478,000	4.7	29.3	17,581,213	17,898,108	13,836,950 ⁵	2.5
Minnesota	392,730,267	377,566,333	268,908,600	4.0	46.0	11,781,923	11,326,990	8,067,258	3.0
Mississippi	263,329,614	264,177,156	233,699,040	-0.3	12.7	10,532,527	10,566,888	9,347,791	4.0
Missouri	452,037,858	507,274,231	486,882,414	-10.9	-7.2	21,836,981	24,465,795	25,530,412	5.0
Montana	64,932,129	47,584,379	36,841,711	36.5	76.2	1,997,423	1,908,585	1,177,619	2.8
Nebraska	92,141,171	92,163,633	96,499,218	0.0	-4.5	2,764,235	2,764,909	2,894,977	3.0
Nevada	370,018,174	336,217,740 ⁴	215,539,955 ⁴	10.1	71.7	12,950,663	12,043,760 ⁴	7,707,338 ⁴	3.5
New Hampshire	102,917,482	80,254,867	67,525,555	28.2	52.4	2,058,925	1,605,098	1,350,511	2.0
New Jersey	1,197,282,785	1,204,845,857	1,019,791,239	-0.6	17.4	35,124,779	35,021,639	30,575,586	3.0
New Mexico ³	67,612,872 ⁵	63,189,600 ⁵	59,055,733 ⁵	7.0	14.5	2,030,282 ⁵	1,895,688 ⁵	1,771,672	3.0
New York	5,202,372,438	3,905,706,554	2,661,007,862	33.2	95.5	99,670,251	93,953,772	75,495,604	3.6
North Carolina	516,807,631	496,474,709	480,568,428	4.1	7.5	25,842,686	24,852,938	24,027,593	5.0
North Dakota	36,222,949	30,843,557	34,738,098	17.4	4.3	633,919	539,812	606,393	1.8
Ohio ³	430,334,745	551,508,331	376,218,276	-22.0	14.4	12,076,886	8,129,123	8,456,426	5.0
Oklahoma	319,526,400	304,275,767 ⁴	283,398,004	5.0	12.7	19,171,584	18,256,596 ⁴	17,003,880	6.0
Oregon	289,169,707	257,090,552	238,303,074	12.5	21.3	5,542,872 ⁵	5,141,811	4,766,061	2.0 ⁹
Pennsylvania	987,736,270 ¹⁰	1,185,757,000 ^{5,10}	1,031,093,000 ¹⁰	-16.7	-4.2	23,420,000	25,968,090 ⁵	22,118,094	3.0
Rhode Island	71,794,062	76,957,466	86,704,499	-6.7	-17.2	2,153,822	2,308,726	2,601,135	3.0
South Carolina	412,680,977	389,533,050	362,454,703	5.9	13.9	16,507,235	15,581,323	14,498,225	4.0
South Dakota	38,702,132	45,127,696	21,380,388	-14.2	81.0	967,553	1,128,192	534,510	2.5
Tennessee	270,373,000 ²	298,450,000 ²	260,875,305 ⁴	-9.4	3.6	11,314,281	12,226,772	10,571,917	2.5
Texas	3,046,363,903	3,321,116,492	2,945,474,937	-8.3	3.4	146,246,324	154,573,555	148,039,592	4.9
Utah	147,809,055	146,245,111	135,926,000	1.1	8.7	6,281,885	6,215,417	5,776,855	4.3
Vermont ¹¹	41,919,438	38,173,706	30,625,988	9.8	36.9	1,257,583	1,145,211 ⁵	918,780 ²	3.0
Virginia	634,472,929	684,693,630	722,952,625	-7.3	-12.2	13,759,440	14,256,074	11,930,400	2.3
Washington	739,930,065	712,362,142	631,529,487	3.9	17.2	14,798,601	14,247,245	12,630,706	2.0
West Virginia	140,307,224	139,249,875	124,068,143	0.8	13.1	5,219,050	5,135,375	4,679,034	4.0
Wisconsin	248,758,333	328,196,368	174,167,234	-24.2	42.8	7,462,750	9,845,891	5,225,017	3.0 ¹²
Wyoming	42,548,643	34,599,082	20,905,938	23.0	103.5	1,215,809	993,678	582,706	3.0
Totals	\$34,904,100,534	\$33,162,247,128	\$28,762,953,006	5.3%	21.4%	\$1,148,468,540	\$1,097,928,178	\$983,040,460	

1 Fiscal year ending 9/30. 2 Estimated. 3 Fiscal year ending 6/30. 4 Numbers revised following new information. 5 BI estimate. 6 Includes surplus lines taxes paid directly to state of Colorado under self procured policies. 7 Net surplus lines premiums written. 8 Rate changed from 3% to 3.5% effective 7/1/03. 9 Plus 1% on premium subject to fire marshal tax. 10 Includes premium for independently procured insurance. 11 Gross surplus lines premiums reported to the department and multiplied by the 3% tax equals surplus lines taxes. 12 0.5% on ocean marine.

Source: BI survey



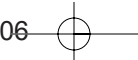
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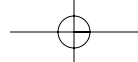
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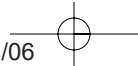
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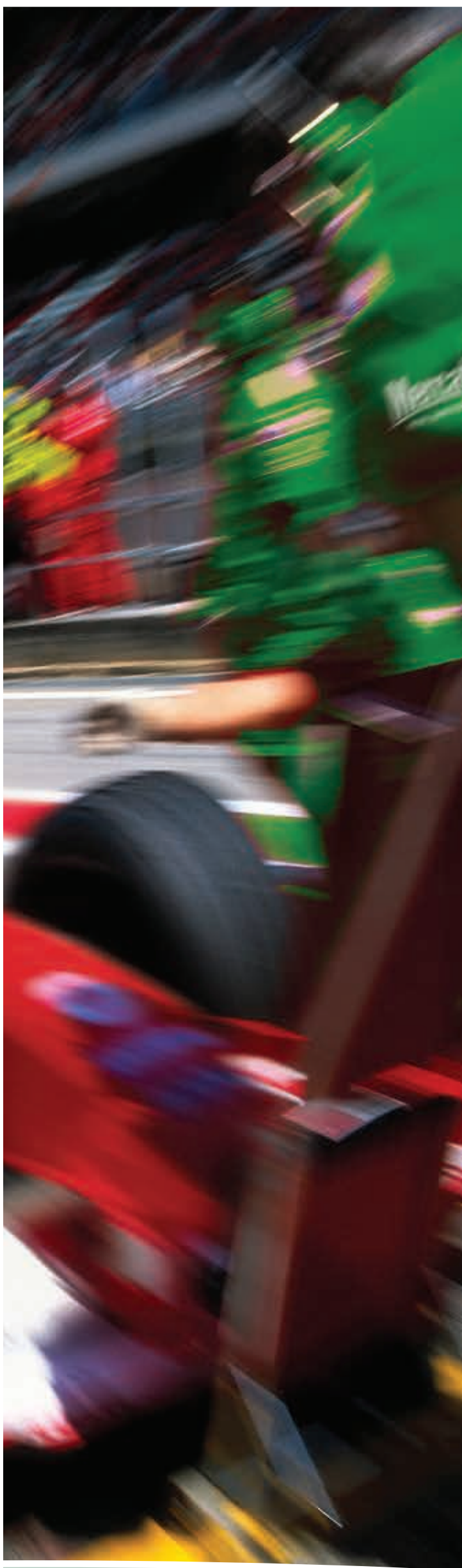




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Continued from page 23

from \$89.3 million a year earlier and its combined ratio improved to 88.2% from 89.8% in 2004.

2006 "looks like it will be another profitable year for us," said Mr. Rozenberg.

The insurer's major product lines include professional liability, property, general liability and primary casualty. While there is considerable variation by product line, limits generally range between \$1 million to \$5 million on primary layers and up to \$10 million on excess layers.

Shand Morahan, a managing general underwriter for Markel, is authorized to write coverage on all of Markel's risk bearing entities, such as Evanston. In addition to

Shand Morahan, the other Markel subsidiaries—Investors Underwriting Managers, Markel Southwest Underwriters and Markel Re—also write their business primarily through Evanston.

Mr. Rozenberg said that in July, Evanston launched a new policy coverage called Outbreak Extra Expense that provides businesses with coverage in the event of an outbreak of avian influenza, E. coli, or other contagions. He said the niche market for the product consists of small to mid-size companies in areas such as food service, medical related industries and educational institutions.

Mr. Rozenberg said that although Evanston does not write a lot of property coverage, "we've really reduced out coastal exposures signifi-

cantly. We're looking to write more property business in the rest of the country. We're still trying to determine what our strategy will be in terms of what states, what areas and what kind of exposure we want to apply to this kind of coverage." Evanston currently underwrites about \$100 million in property coverage throughout the country.

Mr. Rozenberg said that "we all have to write at a profitable level" at Markel. Over the last few years, "we've tried to bring tighter underwriting discipline." Financial viability is "more important and critical than it's ever been," he said.

Customers are asking about ratings in their effort to make sure that they have financially viable insur-

ers, he said. They're also demanding more value-added service with their policies, like loss control, free hotline service and risk management services, he said.

Customers still remember the "tougher experiences from the last cycle they suffered," he said.

"There is evidence that the market is still underreserved, that's not an issue for us, but for the industry," he said. Questions concerning reinsurance collectibles are also an issue for the surplus line industry in general, although once again not Evanston, he said.

"In terms of what sets us apart—our vision, the Markel style—it's our culture. It puts us in a position to hire the best people in the industry," he said. That ability gives the

insurer "strength for the future," he said, adding that the insurer also enjoys strong relationships with its wholesale partner.

"When you combine this with quality products and financial strength, it results in a formula for success," said Mr. Rozenberg.

—By Mark A. Hofmann

8 Landmark American Insurance Co.

Landmark American Insurance Co. has entered the ranks of the top 10 surplus lines insurers even though the transfer of one book of business to an admitted affiliate and hurricane-related losses have pounded the company's annual results in recent years.

Landmark American Insurance Co.

2005 nonadmitted premiums: **\$699.7 million**

-7.2%



Mr. Leonard

Despite Landmark's results in 2005, the insurer's parent group continues to be profitable and Landmark's results have rebounded during the first half of 2006, according to David E. Leonard, executive vp and chief strategic officer of Landmark and its immediate parent company, RSUI Indemnity Inc., both based in Atlanta. The two insurers form RSUI Group Inc., a subsidiary of New York-based Alleghany Corp.

Landmark ranks as the nation's eighth-largest surplus lines insurer, based on nearly \$699.7 million of nonadmitted premiums written in 2005, a 7.2% decrease from 2004.

Gross premiums written last year dropped a commensurate 6.9% to more than \$701 million.

But about half of the reduction in Landmark's gross and nonadmitted premiums did not translate into a loss of business for the insurance group, Mr. Leonard said.

Among the business Landmark writes is directors and officers liability insurance on a nonadmitted basis, which accounted for about 11.6% of the insurer's \$390.9 million of gross written premium in 2003—the year it was acquired by Alleghany.

But after regulators authorized RSUI Indemnity to write D&O coverage on an admitted basis, a majority of Landmark's D&O business

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Continued on page 32

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Continued from page 30

was moved there last year. As a result, Landmark's D&O book of business fell to \$16.8 million of gross written premiums in 2005 from nearly \$45 million a year earlier.

Landmark began writing much of its D&O book of business in 2003 because the ratings of its former parent company, Royal & SunAlliance Insurance Group P.L.C. of London, dropped after Alleghany purchased Landmark and other affiliates.

Before the ratings downgrade, RSUI Indemnity had arranged to use Royal's admitted paper to write the D&O business until RSUI Indemnity's own admitted paper was approved by regulators. But RSUI Indemnity risked losing the busi-

ness if it had continued using the downgraded Royal paper, so the business was moved to Landmark, Mr. Leonard said.

Landmark last year also reported its second consecutive net earnings loss. But the \$629,082 loss was a major improvement over 2004's loss of \$5.8 million.

In both years, the losses were attributable to hurricane damage claims, according to Mr. Leonard.

He noted, however, that Landmark is 90% reinsured by RSUI Indemnity, which has been profitable every year but two—2001 and 2005—since its founding in 1988.

Despite the rough year for Landmark, its policyholder surplus at year-end 2005 more than doubled to \$114.6 million from \$56.6 mil-

lion at year-end 2004. But that was due to a \$50 million capital infusion by RSUI Indemnity, according to rating agency A.M. Best Co. Inc. of Oldwick, N.J.

For the first half of 2006, Landmark has reported improved results compared with the same period last year. Its gross written premiums grew 24.9% to nearly \$422.5 million, and nonadmitted premiums grew 23.8% to \$418.2 million. Net earnings for the first half this year more than doubled to nearly \$9 million.

While Landmark reported a net loss in 2005, it reported a profit for the first half of the year.

Gross premiums for primary and excess property business for the first half this year rose 34% to nearly

\$251.2 million compared with the same period last year. Property is Landmark's largest book of business, accounting for 54.5%, of its gross written premium last year.

While Landmark's capacity for wind perils is 25% to 50% of its pre-Katrina levels, rates are two to five times higher, Mr. Leonard said.

Modified catastrophe modeling has spurred that change, Mr. Leonard said. Landmark's property catastrophe exposure in wind-prone areas of the United States rose dramatically under revised catastrophe modeling, which dramatically reduced the availability of reinsurance while driving up reinsurance rates, he said. That led to a substantial reduction in the amount of wind perils the insurer

could accept.

Landmark also writes primary general liability, professional liability, umbrella and excess, excess and lead excess, and umbrella-only coverage.

Managing general agents are a new source of business for Landmark. The insurer has given its pen to nine MGAs and expects to sign up several more shortly, according to Mr. Leonard.

MGAs produced more than \$320,000 of business for Landmark during the second half of 2005. During the first half of 2006, MGAs produced \$6.9 million of gross premiums.

—By Dave Lenckus

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9 Admiral Insurance Co.

Admiral Insurance Co. fell one spot among the 10 largest surplus lines insurers despite increases of more than 3% in both gross and nonadmitted written premiums.

Nonadmitted direct written pre-

Admiral Insurance Co.

2005 nonadmitted premiums: \$596.9 million

↑ 3.1%

miums for the unit of W.R. Berkley Corp. rose 3.1% in 2005 to \$596.9 million, while gross premiums increased 3.6% to \$661.8 million.

That made the Cherry Hill, N.J.-based company the ninth-largest surplus lines insurer, according to *Business Insurance's* 2006 ranking.

"While pricing has undoubtedly softened, Admiral has continued to find opportunities for growth in all of its lines of business," its parent

Continued on page 34

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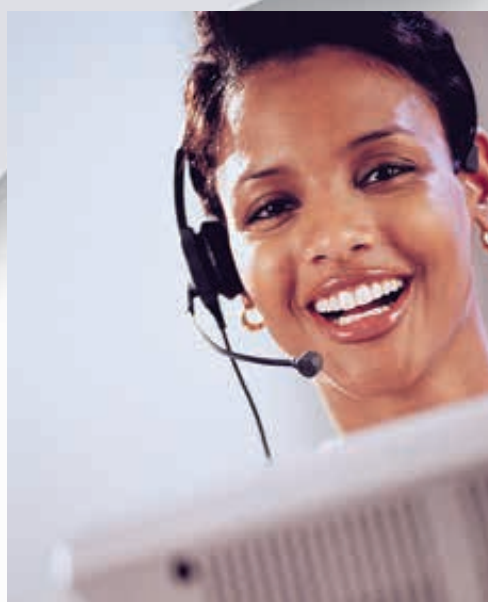
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- Campground
- Caterers
- Child Care
- Condominiums
- Consultants
- Detective Agency Program
- Hotels/Motels
- Janitorial Services
- Lawn Care Services
- Lessors Risk
- Other Offices & Banks



- Pet Training
- Recreational Facilities
- Resorts
- Restaurants
- Security Agency Program
- Special Events
- Suntan Beds

Non-Admitted:

- Alcohol & Drug Counselors (GL/Professional)
- Alcohol & Drug Facilities
- Apartments/Dwellings
- Builders Risk - Rehabilitation
- Clubs - Civic - Social
- Counselors (GL/Professional)
- Demolition Contractors
- Distributors
- Excavation & Grading of Land
- Homeless Shelters
- Homeowners Associations

- Lawn Care Services
- Lessors Risks
- Light Manufacturing
- Mercantile
- Mobile Home Parks
- Neighborhood Bars
- Outfitters & Guides
- Pawn Shops
- Special Events - Single Day to Multi Day Events
- Sport Camps
- Tree Trimmers
- Vacant Buildings

Brokerage:

- Adult Entertainment
- Food Products Mfg
- Lessors Risk
- Machine or Machinery Parts Mfg
- Metal Goods Mfg
- Multi-State Retail Operations
- Non-Franchise Supermarkets
- Pet Food Mfg
- Rubber/Plastic Mfg
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Continued from page 32

company said in its annual report.

Admiral provides excess and surplus lines coverage to commercial risks that generally involve moderate to high degrees of hazard. It writes a wide range of coverages, including commercial general liability and product liability, and can offer capacity up to \$5 million.

Admiral's top targeted segments in the commercial casualty area are contractors, manufacturers and customers such as apartments and condominiums, amusement parks, restaurants and shopping centers seeking owners, landlords and tenants insurance policies.

The company also offers professional liability coverages such as miscellaneous professional liability,

miscellaneous medical liability, technology errors and omissions liability, and architects and engineers professional liability. It can write up to \$5 million on these risks as well.

For its commercial property risks, the company offers \$7.5 million in capacity with facultative reinsurance available for higher limits. The top targeted entities in this category include apartments, condominiums and townhouses as well as churches, clubs and hotels/motels.

Admiral's excess underwriting division concentrates on unique and difficult-to-place excess/umbrella accounts, providing capacity up to \$10 million.

Admiral Insurance did not respond to requests for comment.

—By Gloria Gonzalez

10 Essex Insurance Co.

Essex Insurance Co. is staging a strong recovery from last year's hurricane losses, according to the Glen Allen, Va.-based insurer's president.

Last year "was the first year since 1985 that we actually had a combined ratio that exceeded 100%," said Brad Dickler, president of Essex, which is a unit of Markel Corp.

"It was dominated by the hurricane losses. If you excluded hurricane losses, we would have been in the low 80s," Mr. Dickler said.

Essex, which is an admitted in-

sured in Delaware and a nonadmitted insurer in all other states, wrote nearly \$542 million in nonadmitted premiums in 2005, a slight drop from the \$543.4 million it wrote in 2004.

The 2005 nonadmitted premium volume made Essex the 10th-largest surplus lines insurer in *Business Insurance's* annual ranking.

While premium volume dropped slightly, it was hurricane-related losses that sent its combined ratio into negative territory—reaching 110.1% in 2005 after registering 85.6% in 2004. Net income plummeted to \$2.4 million in 2005 from \$54.3 million a year earlier.

But the situation has changed for the better, Mr. Dickler said.

"In 2006, we are marginally over

Essex Insurance Co.

2005 nonadmitted premiums: **\$542 million**

-0.3%



Mr. Dickler

budget premium volume-wise," with a combined ratio for the first half of the year of 85%, he said. "We're pretty much back on track even with some additional slight deterioration in our hurricane reserve numbers," he said.

The largest casualty line is primary general liability, which generated about \$200 million in premiums, 98% of which is nonadmitted. Essex's contract division's property premium volume stands at about \$45 million while that of Essex Special Property, which writes buffer layers on catastrophe-prone business driven either by earthquake or wind exposures, stands at \$145 million.

"We spent a lot of time concentrating on our catastrophe situation," said Mr. Dickler. "The reinsurance market is obviously extremely tight, very expensive—capacity is at a premium."

"We have focused on increasing the estimation on probable maximum losses in a given situation," he said. "We've concentrated on reducing our aggregate in storm-prone areas down to the level where we think they're manageable." He added that "like everyone else," Essex was "laboring under the assumptions" of older catastrophe models when last year's hurricanes struck.

"We're downsizing areas where we had too much of an aggregate" exposure even though Essex has not totally rejected cat-exposed businesses, Mr. Dickler said. In addition, the insurer is "trying to capitalize on other business" such as that in the Midwest or West Coast fire-exposed property.

On the casualty side, Essex recently introduced "an energy saving indemnity program, whereby we back up (heating, ventilation and air conditioning) contractors' guarantee of a certain amount of kilowatt hour savings to a certain customer." The ability to put an insurer behind their warranty gives such contractors a competitive selling advantage, and multiyear contracts carry limits of \$100,000 to \$1 million, he said.

Mr. Dickler said that Essex's "dedication to service" sets it apart from competitors.

"We are not the cheapest company in the marketplace. We are not the broadest in terms of form," Mr. Dickler said. "We do have a good cadre of product lines. We concentrate on having extremely fast turnaround time on servicing the business" and truly partnering with its general agents.

—By Mark A. Hofmann

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Wholesalers: Retail divestitures, tight capacity among changes driving the market

Continued from page 11

the wholesaler last October to Parthenon Capital L.L.C.

But it's more than divestitures that have created opportunities in the marketplace, wholesalers say. The difficult property catastrophe market also is creating growth opportunities, although wholesalers say they are working harder than ever to place business as capacity remains scarce and pricing is often prohibitively expensive.

Acquisitions plus growth

As a group, the nation's 10 largest wholesalers saw premium volume

grow an average 12.3% in 2005, according to *Business Insurance's* rankings. Acquisitions and solid organic growth played a big role in many of the firms' growth in 2005, they said.

In addition, several of the wholesalers point to their strong recruiting efforts, new sales and development programs, and their team-based approach to servicing clients' accounts as key growth drivers.

Overall, the wholesalers say they are bullish about their opportunities in the market.

"It's a great time in the wholesale world," said John Hahn, president of San Francisco-based BISYS Com-

mercial Insurance Services Inc. "For us, when you have the three largest brokers in the world getting rid of their wholesalers, that business is up for grabs and we're pretty excited about it. I think you'll see us from the brokerage side adding capabilities and resources that will align us well with Marsh, Aon and Willis so we can capitalize on that new business opportunity and become relevant for them."

"For us, we were the independent one. We didn't do any business with Marsh, Aon or Willis," said AmWINS' Mr. DeCarlo. While the acquisition of Stewart Smith gave AmWINS the opportunity to work

with Willis, "we've also had great opportunity with Marsh and Aon to professionally and honorably earn their business and that creates growth," he said.

Mike Johnson, vp-business development at Birmingham, Ala.-based CRC Insurance Services Inc., said the wholesaler is seeing more growth opportunities not only from Marsh, Aon and Willis, but also from its core group of top 100 retail broker clients that are writing more business that used to be "the domain" of the top three.

While the world's three largest retail brokerages have divested their wholesale brokerage interests, other

retail brokerages continue to own and operate wholesale units.

"Pat Gallagher has publicly stated that he likes this business and it's a business he's going to continue to stay in and grow," said Joel Cavaness, president of Itasca, Ill.-based Risk Placement Services Inc., which is owned by the world's fourth-largest retail brokerage, Arthur J. Gallagher & Co.

"It doesn't make a difference to us" that Risk Placement Services is owned by Gallagher, Mr. Cavaness said. "We do business with Gallagher retail just like a lot of our competitors...and we fight for that business just like they do."

While CRC is owned by banking giant BB&T Corp., which also owns BB&T Insurance Services Inc., the world's seventh-largest retail brokerage, CRC executives say that the only affiliation the two firms have is the same parent.

"There's minimal capacity, so we're seeing a lot more opportunity, yet we have to work five times as hard."

John Hahn

BISYS Commercial Insurance Services Inc.

"There is a very clear distinction there and that was part of the business model that was built when BB&T acquired CRC in '02," said Thomas Curtin, president and CEO of CRC. "We were very aware that being owned by a retail insurance agency was not something CRC wanted to do or be a part of, so we are owned by a financial services company and we think that distinction is significant."

Hard work required

In addition to opportunities created by ownership changes during the past year, the difficult property catastrophe market also is bringing wholesalers more opportunities, yet they are working harder than ever to capitalize on it.

"It's very difficult to find capacity. We're having success, but it's not without a lot of hard work. It's definitely a struggle," said Neal Abernathy, president and CEO of Atlanta-based Swett & Crawford. "For me to say that we're meeting the needs of every customer at a price they are willing to pay would be incorrect."

"There's minimal capacity, so we're seeing a lot more opportunity, yet we have to work five times as hard—putting five times more time and five times more resources on each account—just to get it placed," BISYS' Mr. Hahn said. "Then you're seeing buyers buy less limits and increasing their deductibles."

"I think if we have a stormless year, we'll have a little more normalization to the marketplace and next year will be real bullish for everybody on the wholesale side and it will be a little easier to put deals together. But right now, it's vicious," he said.

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Leading wholesalers

American Wholesale Insurance Group Inc.

An aggressive growth-by-acquisition strategy has propelled Charlotte, N.C.-based AmWINS to the top spot of the nation's largest wholesale insurance brokers in 2006.

AmWINS' February 2005 acquisition of Stewart Smith Group Inc. from Willis Group Holdings Ltd. not only opened the doors to the world's third-largest brokerage as a retail client, but also helped boost AmWINS' premium volume by 17.2% in 2005 to \$2.814 billion—more than enough to secure the No. 1 spot from Swett & Crawford Group in *Business Insurance's* 2006 ranking.

"We're a growing company. I am incredibly amazed at the opportunities as a wholesaler," said President and Chief Executive Officer M. Steven DeCarlo, who founded AmWINS four years ago.

In addition to the growth opportunities presented from the world's three largest retail brokers, with which AmWINS had never worked before, AmWINS also continues to build and expand its core businesses.

In May, Americana Program Underwriters, an AmWINS managing general agency unit, announced a new program for armored car and courier services. The firm also recently acquired Irving, Texas-based Web TPA Inc., a third-party administrator for self-funded employers and insurers, which remains its own unit; and the Fort Worth, Texas-based Policy Administration Division of CBCA Administrators Inc., an association insurance administrator, that will be merged into National Employee Benefit Cos., another unit of AmWINS Benefits Brokerage.

AmWINS is made up of four core divisions: AmWINS Brokerage, AmWINS Specialty Underwriting, AmWINS Benefits Brokerage and its newest division, AmWINS Standard Market, which provides access to standard line products and insurers for smaller retail brokers.

"To us wholesaling...is more than just E&S," Mr. DeCarlo said. "It's morphing into truly what a wholesaler is—a middleman between the retailer and the insurance company" and that may include excess and surplus lines products, standard lines products, MGA products or group benefits products.

CRC Insurance Services Inc.

Premium volume rose 34.2% at Birmingham, Ala.-based CRC Insurance Services in 2005 to \$2.813 billion, propelling the BB&T Corp. unit up one spot to become the nation's second-largest wholesale broker.

Acquisitions accounted for a "good portion" of the growth, executives said. In 2005, CRC ac-

quired Negley & Associates Inc., a Cedar Cross, N.J.-based program manager; Sterling West Insurance Services Inc., a Glendale, Calif.-based wholesaler; and Vista Insurance Services, a San Antonio-based MGA.

In addition to acquisitions, "we have been able to enjoy a fair amount of organic growth, of which a large part is due to our property department and what we've seen in the property market, especially in South Florida," said Charles W. Wood, CRC's chief operating officer.

In addition, CRC's core base of retail clients—the top 100 brokers—grew organically in 2005 and "we got our proportionate share of that," he noted.

Going forward, CRC is seeking to expand and fill out its MGA business, which operates as Southern Cross Underwriters Inc. and accounted for just 6% of its business in 2005.

The MGA business tends to be less cyclical and less vulnerable to competition than transactional business, said Tom Curtin, president and CEO.

While CRC is open to any line of traditional property/casualty wholesale MGA business, it is seeking to fill out its MGA operations in the West Coast, Northwest and Midwest, executives said.

Among its differentiators, executives point to CRC's team-based approach to clients and its "fairly deep team" of specialists and assistants.

CRC invests a tremendous amount of time and resources into training and continues to hire talent right out of college, which "has given us a great deal of depth," Mr. Curtin noted.

Swett & Crawford Group

A sharp focus on sales contributed to a 1.2% rise in premium volume to nearly \$2.81 billion at Atlanta-based Swett & Crawford in 2005, but it wasn't enough to maintain its spot as the nation's largest wholesaler.

In the 2006 ranking, Swett & Crawford is the nation's third-largest wholesale broker.

"I'm very pleased with it," President and CEO Neal Abernathy said

of Swett's growth. "It's 1% growth in a declining market. If we had not been (focused on sales) we'd be lucky if it were flat," he said, noting specifically that the wholesaler's energy and property practice groups saw the greatest growth from a premium perspective.

Mr. Abernathy acknowledged that Swett's 2005 divestiture from Aon Corp. also played at part in its modest growth, noting there were indeed "a lot of questions" about Swett's future coming over the last 18 months. "People were working, but they were not 100% focused."

With that said, though, Mr. Abernathy stressed how pleased he is with Swett's employees. "I just

Continued on page 38

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Continued from page 37

think everybody in the company deserves a round of applause for not just hanging in, but also remaining engaged and keeping the company strong and continuing to deliver good service to our customers," he said.

Aon sold Swett in the latter half of 2005 to an investor group including Hicks, Muse, Tate & Furst Inc., Bank of America Capital Investors and Emerald Capital Group Ltd.

Mr. Abernathy said that being independent not only allows Swett to be its own company, but it also "has given us the ability to create a nimbleness to do the things that we need to do from a staffing and acquisition perspective," which didn't fit into Aon's view of where they

wanted Swett to go.

"It's going fantastic," he said of Swett's new ownership arrangement. "They are very focused on helping us grow the business."

While Swett's growth strategy includes a focus on organic growth and hiring new producers, major growth will come through strategic acquisitions that make sense for the company, Mr. Abernathy said. "That's my main focus."

Growth also will come in all areas of the company including its MGA business, which in 2005 accounted for just 21% of its business, Mr. Abernathy said.

"I think MGA business is critical to us," but that doesn't mean it will ever represent more than 20% of Swett's overall business, Mr. Aber-

nathy said. "That's because we want to grow everything."

Risk Placement Services Inc.

After topping the list as the nation's largest MGA based on 2004 premium volume, Itasca, Ill.-based Risk Placement Services Inc. is the nation's fourth-largest wholesale broker this year based on \$1.3 billion in 2005 premium volume, of which 56% came from acting as a wholesaler.

"Strategically, we like to keep it around 50/50," President Joel Cavaness, said of Risk Placement Services' breakdown of wholesale vs. MGA business. "We grew a little faster on the brokerage side" in

2005, primarily because of property catastrophe business, he said.

The wholesaler's overall 13.1% rise in premium volume in 2005 is attributable to an even mix of organic growth and acquisitions, Mr. Cavaness noted.

In 2005, the wholesaler acquired WorkCare Northwest Inc., a Boise, Idaho-based program administrator specializing in workers compensation, and Alternative Market Specialists L.L.C., an Edina, Minn.-based MGA specializing in public entity business.

So far in 2006, Risk Placement Services has acquired Sobieski & Bradley Inc., a Salt Lake City-based wholesaler, and Lemac & Associates Inc., a Los Angeles-based wholesaler. While property catastrophe busi-

ness is driving Risk Placement Service's organic growth, the wholesaler also has seen "significant" growth in medical malpractice, general casualty and wrap-up business, Mr. Cavaness noted. It also opened four new offices in 2005 and hired a number of new people.

"Our strategy for growth is to hire more good people, make good mergers and continue to push our college recruiting," he said.

Risk Placement Services had 22 college interns this summer, which the wholesaler hopes to hire full time, he said.

Crump Insurance Services Inc.

Premiums at the now-independent Crump Insurance Services remained flat in 2005 at an estimated \$1.25 billion, much of which is attributable to its divestiture from Marsh Inc., according to Crump President and CEO Glenn Hargrove.

Not only was there the distraction associated with the November 2005 sale, but Dallas-based Crump also was not able to make any significant new hires or any acquisitions during that time period. "We were sort of frozen in time," he said.

Then there were the distractions at Marsh Inc. itself, which was and still is a significant client of Crump. Marsh lost business following New York Attorney General Eliot Spitzer's bid-rigging lawsuit and resulting settlement, which in turn affected Crump's growth, Mr. Hargrove said.

"We actually grew and were up with most of our markets, but the offset of Marsh's business deteriorating in '05 was tough," he said.

Now, nearly 10 months into its new relationship with parent J.C. Flowers & Co. L.L.C., Mr. Hargrove said being independent "is terrific."

The New York-based private equity firm is "very supportive" of what Crump would like to do and that is to acquire companies or teams of people and hire "significant" talent, Mr. Hargrove said.

"We've done a couple of small acquisitions of teams or individual operations and there are a number of things we're in the process of working on right now," he said.

Additionally, the fifth-largest wholesale broker continues to promote its 2-year-old team-based approach to its client services—a philosophy that not only is being "embraced" by employees and clients, but also is an attractive recruiting point for new hires, he said. More than 20% of Crump's transactions now involve multiple Crump brokers, Mr. Hargrove noted.

BISYS Commercial Insurance Services Inc.

A number of drivers were responsible for San Francisco-based BISYS Commercial Insurance Services' 1% rise in premium volume to \$1.02 billion and 7.1% rise in gross revenues to \$90 million in 2005, according to President John Hahn.

Last year, the firm rolled out new sales and customer service training programs, which have driven new business and improved retentions, Mr. Hahn said. It also continues to

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Continued on next page

September 11, 2006

Continued from previous page

develop new fee-based consultative services within its wholesale brokerage unit, Tri-City Brokerage, including a new residential construction Wrap Risk Assessment Program. The computerized modeling tool evaluates critical project components from an underwriting perspective to help identify the best insurance strategy for clients.

On the MGA front, BISYS Specialty Programs unveiled a new towing and recovery program and has forged new insurer relationships for its transportation lines, allowing it to write new classes of business, Mr. Hahn said.

While all of BISYS' growth last year was organic, the firm—the sixth-largest U.S. wholesale broker in the 2006 ranking—is “in a bullish acquisition mode right now,” he said. That means not only growing BISYS' brokerage business, but also expanding its MGA business by diversifying from transportation-related coverages.

“Even though it is our bread and butter and we love it and will continue to add new carriers and geographic spread to it, we want to be more than just a transportation MGA,” Mr. Hahn said.

About 60% of its MGA business is transportation, with the rest a mix of workers compensation, errors and omissions and employment practices liability, he said.

On the brokerage front, about 50% of the business is casualty, 25% professional liability and 25% property, Mr. Hahn said.

In 2005, 58% of BISYS' business was derived from acting as a wholesaler and 40% from acting as an MGA, a business mix BISYS intends to maintain. “We like to balance the business that way,” Mr. Hahn said.

Westrope

Premium volume grew 32.8% to

\$491.3 million at Kansas City, Mo.-based Westrope, which President and CEO Kevin Westrope attributes to a combination of things.

“Part of our growth process is always driven by people,” Mr. Westrope said. Westrope's brokers are at various levels of development, and “as they continue to mature, we get growth.”

At the same time, the property market “is a huge product line for us” and Westrope has benefited from the dislocation occurring in the property catastrophe market, Mr. Westrope added.

“But having said that, our casualty operations grew at a rate of 30% as well,” he said, attributing the growth to Westrope “out-hustling” the competition.

While there was a time that Westrope was known primarily for its property expertise, its casualty operation represented 45% of its business in 2005, Mr. Westrope said.

As for the overall success of the nation's seventh-largest wholesale broker in the 2006 ranking, Mr. Westrope points to its team-based approach and culture as its main differentiators.

“We have a highly motivated, sales-oriented but integrity-driven culture,” he said. “And we're very team-oriented. At every level of our organization, we're constantly talking about teamwork and you'll rarely find just one person working on your piece of business or even one broker. There may be two or

three of us who have looked at it, offered advice or thoughts on structure, possible markets, etc.,” Mr. Westrope said.

ARC Excess & Surplus L.L.C.

After 20 years of operating solely as a professional and management liability specialist, Garden City, N.Y.-based ARC Excess & Surplus is branching out into more traditional property/casualty lines of business.

In May, ARC formed ARC Specialty Brokerage L.L.C., a full-service property/casualty wholesaler with four employees and a goal of producing about \$15 million to \$20 million in premiums

the first year.

“It's a very small part of our operation, but we will build it over time and make it work,” said Christopher J. Cavallaro, managing director at ARC.

Overall premium volume rose 5.6% in 2005 to \$475 million, all of which is organic. “We've never done an acquisition,” Mr. Cavallaro said.

That premium volume made ARC the eighth-largest wholesale broker in 2006.

While ARC's “strong suit” is directors and officers liability insurance, the wholesaler handles all forms of professional liability with expertise in miscellaneous professional liability, employment prac-

Continued on page 40



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Continued from page 39
 tices, employed lawyers liability, errors and omissions, fiduciary liability and Internet liability.

Professional Risk Facilities Inc., its small Garden City, N.Y.-based MGA subsidiary, underwrites D&O, EPL, miscellaneous professional liability, employed lawyers and fiduciary liability coverages.

Gresham & Associates Inc.

Premium volume grew 6.7% in 2005 to \$389.2 million at Stockbridge, Ga.-based Gresham & Associates, which President George Abernathy attributes to strong growth in both its wholesale and MGA business.

"We're an MGA and an open market broker and that's why we are different than a lot of other people," Mr. Abernathy said. Others are either an MGA or an open-market broker or they "dabble" in both. "We do a lot of each," he said.

In 2005, 60% of Gresham's business was derived from wholesale and 40% from MGA business.

"It's not by design" that Gresham's business is divided this way, Mr. Abernathy noted. "We let it roll as the market gives us the opportunity to grow."

With that said, Gresham will "never forgo the profits and the opportunities that we have on a continuous basis in the MGA world," he said.

Each of Gresham's 12 offices,

with the exception of one, is staffed with contract binding specialists and commercial open market brokers, Mr. Abernathy said. As a result, "we can handle your small \$1,500 MGA account or your \$1.5 million account."

In terms of Gresham's growth last year that made it the ninth-largest wholesale broker in this year's ranking, Mr. Abernathy points specifically to its national environmental transportation program within its Indianapolis office as having "excellent growth" and its three Florida offices that generated "a lot of wind business."

Based on the growth Gresham is having so far in 2006, Mr. Abernathy predicts the wholesaler will finish the year at about \$425 mil-

lion in premium volume.

"It's been very exciting this year," Mr. Abernathy said, noting premium volume is up 15% and profits are up more than 20% so far.

U.S. Risk Insurance Group Inc.

Premium volume rose 2.8% to \$378 million at Dallas-based U.S. Risk Insurance Group, which Mac Wesson attributes primarily to the wholesaler "pushing the pedal to the metal."

"We're just exerting more effort," U.S. Risk's president and chief operating officer said.

In the latter half of 2005, U.S. Risk expanded its presence in California, opening a startup office in

Irvine, where there "was an almost immediate flow of new business that was a result of that," Mr. Wesson said.

He also pointed to the wholesaler's criminal justice operations program—which provides general liability and professional liability coverage to privately owned detention centers and other social service centers such as halfway houses—as a book of business that "grew quite nicely" in 2005.

That growth made U.S. Risk the 10th-largest wholesale broker in the 2006 ranking.

While the wholesaler made no acquisitions in 2005, it did earlier this year with the purchase of Lighthouse Underwriters L.L.C., an Annandale, Va.-based program administrator for select industries.

"We're always acquisition-minded and will look at anything that comes our way," Mr. Wesson said. Rather than being geographically focused, though, U.S. Risk wants to add quality people and quality products to its portfolio regardless of location, he said.

"Having said that, we did recognize that we wanted to grow in California and we've made the same decision with New York and Florida" where U.S. Risk will try to find acquisition possibilities, he said.

"Because we're independent and because we have a relatively few number of owners, we're able to be pretty nimble and that allows us to maneuver through some opportunities pretty fast," he said.

"Our basic strategy is to groom ourselves to be twice the size we were last year, four years from now," Mr. Wesson said. "It's a lofty goal, but I think we can get there."

—By Sally Roberts



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MGAs: Fresh strategies in a soft market

Continued from page 11

For others, the insurers that the MGAs represent designate a third party claims administrator.

Despite the differences among MGAs, several of the top 10 say that current flat rate conditions demand that they retain their existing customers by providing the best service possible.

Without great service, disciplined underwriting and superior policy issuance processes, they cannot earn a profit for themselves and the insurers they represent, several MGAs said. And if they can't earn a profit for the insurers they represent, they lose those markets.

Competitive moves

To counter increased competition from standard insurers, some MGAs say they recently have had to concentrate more on underwriting traditional excess and specialty business from which standard insurers shy away.

They have to write more of the small, hard-to-place risks as the standard markets are mainly interested in the larger accounts. Or, MGAs say, they are tackling specialty risks that are somewhat easier to underwrite, but still are risks that standard insurers would shy away from under harder market conditions.

In the Northeast, for example, standard markets have targeted the restaurant business in which Program Brokerage Corp., an MGA unit of Hub International Ltd., has specialized, said Marc Cohen, PBC president and chief executive officer. That has put downward pressure on pricing, he said.

But with lead paint and mold exposures a concern for some Northeast real estate, standard insurers are less interested in underwriting the business and rates are holding flat, Mr. Cohen added.

Regardless of current market conditions, some of the top 10 MGAs profiled below have seen their premium volume increase, while others have seen theirs hold flat.

Still others have experienced a decline in the premium volume they manage.

specialty design-industry liability program for the American Institute of Architects and the National Society of Safety Engineers.

Today, Chicago-based CNA Financial Corp., the original program insurer, continues to insure the architects and engineers program for multiple lines of coverage underwritten by Schinnerer, said John F. Shettle, president of Chevy Chase, Md.-based Schinnerer & Co.

Along with architects and engineers, today Schinnerer underwrites liability coverage for businesses that include health care organizations, public entities, real estate firms, construction companies and technology professionals.

By generating \$991 million in

premium volume in 2005, down from more than \$1 billion in 2004, Schinnerer continues to rank No. 1 in *Business Insurance's* 2006 ranking of the 10 largest underwriting managers.

The 2005 premium volume decline is due to the closure of London-based Schinnerer UK and soft market conditions for liability coverage, Mr. Shettle said.

Mr. Shettle said he plans to counter the impact of soft market conditions by creating new programs.

In 2005, Schinnerer launched business-to-business management consultants liability coverage for professionals who provide consulting on topics such as public relations, advertising and human re-

sources. A Lloyd's of London syndicate managed by Brit Insurance Holdings P.L.C. provides the paper, with up to \$2 million in limits available.

Burns & Wilcox Ltd.

Burns & Wilcox Ltd.'s strength lies in the diversification of its nationwide offices, says Alan J. Kaufman, the managing general agent's chairman, president and chief executive officer.

Each of the company's offices produces a different mix of business depending on location, expertise and other factors.

The San Francisco office, for example, generates about half its business from wholesale brokerage ser-

vices for retailers with large commercial clients. The other half comes from MGA services provided to small accounts.

In Arlington, Texas, meanwhile, Burns & Wilcox's office largely provides MGA services for small accounts.

"Our personality is not consistent across the country," Mr. Kaufman said. But the diversification helps the independently owned, Farmington Hills, Mich.-based company thrive during up and down insurance cycles.

In 2005, Burns & Wilcox's \$700 million in premium volume rose 7.7% from the prior year. With about 70% of its business deriving

See MGA LIST / page 42

Ward Maloy
Petroleum Engineer
Northstar GOM L.C.
Houston, Texas



"We wouldn't be where we are today without RLI Surety."

Northstar knows better than anyone how tough it is to get a foothold in the oil industry — especially for smaller exploration and production companies like theirs. "We're in a high-risk business," explains Maloy from Galveston 215, a Northstar oil platform off the coast of Galveston, Texas. But since working with RLI Surety, Northstar has been able to rest assured.

"RLI Surety has outstanding expertise and understanding of the oil industry and its regulations," added Northstar President Glynn Roberts. "They guided us through a flexible bond payment plan to provide us with the stability to enter the smaller offshore E&P niche. RLI Surety is the best in the business — without them, Gulf of Mexico surety bonds would likely cease to exist for companies like ours."

Leading MGAs

The Schinnerer Group

The No. 1 managing general agent continues to build its reputation for providing professional liability insurance while retaining clients and markets over the long haul.

In fact, 2006 marks a significant anniversary for The Schinnerer Group's customer relations. In 1956, construction brokerage Victor O. Schinnerer & Co. created a

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Continued from page 41
from its MGA operations or from acting as a Lloyd's of London coverholder, Burns & Wilcox's premium volume puts it in the second spot nationwide in *BI*'s 2006 ranking of the largest MGAs.

The remainder of Burns & Wilcox's business stems from wholesale brokerage operations.

Founded in 1969, the majority of the company's business has derived from its work as an underwriter, Mr. Kaufman said. More recently, however, Burns & Wilcox has handled a greater volume of large brokerage accounts because of its nationwide reach.

Burns & Wilcox provides a wide variety of products and coverages including commercial property,

earthquake, employment practices liability, general liability and inland marine. Its specialty coverages include prize indemnification, public official liability, liquor liability, equipment and warehouse legal liability.

Recently, Burns & Wilcox landed binding authority, with limits up to \$25 million, for small environmental programs underwritten on behalf of an insurer rated A+.

Hub International Ltd.

Hub International Ltd.'s wholesale subsidiaries stick closely to the business niches and geographical areas where they have honed their expertise, says Marc Cohen, president and chief executive officer of

Program Brokerage Corp.

New York-based PBC is by far Chicago-based Hub's largest managing general agent among several wholesale operations the retail broker operates across the country, Mr. Cohen said.

PBC's largest flagship program insures various types of real estate. Its second-largest program covers restaurant risks.

"We really stay very steadfast to what we do and what we know best," Mr. Cohen said. For PBC, that means focusing on business generated only in the Northeast United States. "It's a very controlled geographic area that we source our business from," Mr. Cohen said.

"We never export our programs throughout the country," he said.

"We really keep our business focused in our own territory where we have a good understanding of rate, competition and jurisdiction from a legal standpoint and the claims environment."

That disciplined underwriting helps make Hub a powerhouse broker. In 2005, Hub's wholesale business units generated \$683.2 million in premium volume, up from \$312.7 million a year earlier, although some of that premium volume is attributed to acquisitions.

The business generated by Hub put it in the No. 3 spot in *BI*'s 2006 ranking of the nation's 10 largest MGAs.

Apart from real estate and restaurant programs, PBC provides insurance for several other business class-

es. A general wholesale program, for example, can accommodate manufacturing and durable goods wholesalers, food and dry goods distributors, and fuel distributors, among others.

Eastern America Insurance Agency Inc.

Representing insurance markets while communicating its services in English and Spanish is all in a day's work for San Juan, Puerto Rico-based Eastern America Insurance Agency Inc.

The managing general agent's Web site and telephone answering system accommodate both languages and its staff is largely bilingual. Providing insurance services throughout Puerto Rico also shapes Eastern's operations in other ways, said Jorge J. Amadeo, executive vp.

The agency, for example, binds insurance for business placed by Puerto Rico's local agents. Yet it also underwrites coverage placed by the world's largest brokers with paper provided by U.S. insurance companies that rely on Eastern for its knowledge of conditions unique to Puerto Rico.

"We help everybody out," Mr. Amadeo said. By doing that, the MGA handled \$239.6 million in premium volume in 2005, making it the fourth-largest MGA in the 2006 *BI* ranking. In 2004, Eastern processed \$239.2 million in premium volume.

Founded in 1981, Eastern is a part of San Juan-based Universal Insurance Group. Universal Insurance Co., a commercial and personal lines property and casualty writer, is the largest unit in the group.

Nearly 60% of Eastern America's business is for commercial accounts, with the MGA providing a wide range of property/casualty insurance. The coverages include boiler and machinery, inland marine, commercial auto, professional liability, and directors and officers liability.

The agency specializes in covering Puerto Rico's risks, Mr. Amadeo said.

W. Brown & Associates Insurance Services

Since W. Brown & Associates Insurance Services launched in 1987, it has maintained a steady focus on underwriting aviation risks, although it has since extended its reach.

The Irvine, Calif.-based managing general underwriter provides clients with aviation products on paper provided by XL Specialty Co., a unit of XL Capital Ltd.

In 2005, WBA's combined operations handled \$221.8 million in premium volume, up from \$214.0 million. With most of its business stemming from underwriting operations, the premium volume placed WBA at No. 5 in the 2006 *BI* ranking of the 10 largest managing general agents.

The coverages it has available include aviation products liability, airport liability and fixed-base operators, all with limits up to \$50 million. The fixed-base operators coverage is suitable for premises,



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Continued from previous page

ground operations and hangar keepers.

Aircraft liability is also available with \$50 million in limits for preferred pleasure and business operations, as well as charter and industrial aid. Along with other aviation products, WBA can also underwrite up to \$10 million in hull insurance.

WBA's aviation coverages are licensed in all states. But over the years, it has expanded to provide a wider array of property/casualty products backed by a variety of specialty insurers.

Either through its surplus lines brokerage operations or through its MGA products, WBA can help truckers, restaurants, manufacturers, hotels and other business entities. Pollution liability, professional liability, and technology errors and omissions are some of the products it provides.

K&K Insurance Group Inc.

K&K Insurance Group Inc.'s slogan of "Insuring the World's Fun" fits the Fort Wayne, Ind.-based managing general agent like a well-worn baseball glove.

Think of most sport, entertainment or leisure activities and chances are good that K&K underwrites coverage for them. From amateur baseball teams, to performing arts centers and whitewater rafting guides, K&K likely has the coverage if it's related to an American pastime.

That is not far from the MGA's beginnings in 1952 when a couple of motorsport enthusiasts provided an accident medical benefits fund for race car drivers. K&K later expanded to cover racetracks, race promoters and other related entities.

Today, K&K is a unit of Aon Corp. It consists of five business units including sports, motor sports, recreation and entertainment, leisure and mass merchandising, says Ross T. Smith, K&K's president and chief executive officer.

Four of those units are roughly equal in size. Mass merchandising is the smallest of the five and includes coverage for main street businesses such as dance or martial arts studios.

In 2005, the MGU processed \$221.1 million in premium volume, down from \$222.0 million in 2004.

Its premium volume ranked it No. 6 in *Business Insurance's* 2006 list of the largest MGAs.

A small sampling of businesses that K&K underwrites include sports camps, antique vendors, produce vendors, motorcycle dealerships, tribal gaming operations and festivals.

While K&K's core offerings have included general liability, property, auto liability and personal accident coverages, it has recently expanded to provide some workers compensation coverage and directors and officers liability coverage for nonprofit entities.

NIF Group Inc.

About 40% of NIF Group Inc.'s program business comes from underwriting nonprofit social service organizations such as homes for runaways and drug and alcohol

counseling centers, says Mark P. Maher, NIF's president.

Manhasset, N.Y.-based NIF underwrites property, general liability, professional liability, auto, crime, and umbrella coverage for social service organizations. NIF's second-largest program covers public entities such as water, sewage and housing authorities in half a dozen states.

It also administers programs that insure trade contractors, nonprofit directors and officers liability risks, and homeowners with properties along a portion of the East Coast.

One of NIF's newest programs provides property and inland marine coverage with limits of up to \$5 million on an A-rated insurer's paper. The program is available in

Connecticut, Georgia, Massachusetts, New Jersey, New York, Pennsylvania and Rhode Island.

The new property program is available for manufacturing and warehouses; vacant buildings; and mercantile, including restaurants.

Through its broad network of insurance companies, however, NIF wholesale brokers can place all lines of coverage, the company says.

Independently owned NIF has eight offices throughout the eastern United States and was founded in 1976.

In 2005, it handled more than \$210.2 million in premium volume, placing it seventh in the 2006 *Business Insurance* list of largest MGAs.

Its premium volume declined 4.4% from 2004, mainly because of

increased competition for social services business, but also because of softening insurance rates, Mr. Maher said.

Mr. Maher describes NIF, which is an insurance holding company, as "tight-knit" because it retains both clients and employees for many years.

WKF&C Agency Inc.

WKF&C Agency Inc. is a Melville, N.Y.-based managing general agent known mostly for underwriting property insurance, but it also underwrites other specialty risks, said Michael Sillat, chief operating officer and chief financial officer.

"Our strategy was to expand into as many lines as we possibly can so

that when maybe one or two lines are down, the others are up," Mr. Sillat said. "We have a broad product palette to offer."

One of WKF&C's unusual attributes is that, unlike many other MGAs, it does not have wholesale brokerage operations.

If WKF&C also operated a wholesale brokerage unit, that would likely decrease the business it receives from nearly 400 wholesale brokers nationwide who now bring it accounts to underwrite, Mr. Sillat said.

The strategy works for WKF&C. In 2005 it processed \$162 million in premium volume. That was up from \$158 million in 2004. The pre-

Continued on page 44

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Continued from page 43

mium volume it handled in 2005 put WKF&C in the No. 8 spot in *Business Insurance's* 2006 ranking of the 10 largest MGAs.

It has offices seven states: California, Connecticut, Illinois, Kansas, New Jersey, New York and Virginia. Its newest office opened recently in Los Angeles.

WKF&C, founded about 10 years ago, provides special events and property coverage. The special events coverage, though, is now less than a \$10 million book of business annually. In comparison, its property book of business produces about \$150 million a year, Mr. Sillat said.

While it underwrites much larger accounts, the bulk of its underwriting, including property, is for accounts with premiums ranging from about \$3,000 to \$25,000 annually, Mr. Sillat said.

WKF&C also underwrites miscellaneous professional liability, various inland marine coverages, boiler and machinery, weather-related and other specialty risks.

LoVullo Associates Inc.

Leonard T. LoVullo, president and chief executive officer of Depew, N.Y.-based LoVullo Associates Inc., says he has considered expanding his company's reach beyond the state of New York.

But he hasn't been willing to do that out of concern that the high level of service his firm now offers clients could falter, he said.

"It's all about great service," Mr. LoVullo said. "It sounds cliché, but there is no other way."

Mr. LoVullo should know. The premium volume his wholesale operation, with a total of 82 staff members, processed in 2005 rose to \$133.5 million, a nearly 4% increase over 2004. That ranks his company as the ninth-largest MGA in *BI's* 2006 ranking.

LoVullo Associates formed in 1981 from the wholesale operations that evolved from an insurance agency Mr. LoVullo's father founded in 1949.

Commercial lines business now accounts for 85% of the premium volume handled by LoVullo Associates. The company also provides insurance for watercraft, motorcycles, mobile homes and other personal lines risks, Mr. LoVullo said.

On the commercial side, Mr.

LoVullo said his company is one of the largest writers of contractors and truckers coverage in New York. Focusing on such hard-to-place risks helps the company grow even in a soft market when standard insurers expand into areas they usually leave to surplus lines companies.

But LoVullo Associates doesn't limit itself to underwriting truckers or various contractors. It provides property and casualty coverages for a wide range of entities.

Arlington/Roe & Co.

Arlington/Roe & Co., with its broad array of specialty programs, aims to serve as a one-stop shop for insurance agents across six Midwest states, says company President James A. Roe.

Founded in 1964 by Mr. Roe's father, Arlington/Roe handled \$105 million in premium volume in 2005, up from about \$96.8 million a year earlier. Some of the growth is attributable to an acquisition, Mr. Roe said.

The premium volume managed by Indianapolis-based Arlington/Roe in 2005 earned it the No. 10 spot in the 2006 *BI* ranking of the largest managing general agents.

Its largest specialty program underwrites homes valued at \$1 million or greater and homes valued at less than \$100,000. Standard homeowner insurers typically shy away from high- and low-value homes, Mr. Roe said.

Yet a broad arrangement of coverages for commercial entities account for about 75% of Arlington/Roe's business.

Under the MGA side, "We do

your standard restaurants, taverns, bars, daycare centers, small contractors and a few nursing homes," Mr. Roe said. Arlington/Roe also underwrites coverage for other "routine surplus lines" business such as apartments and vacant buildings.

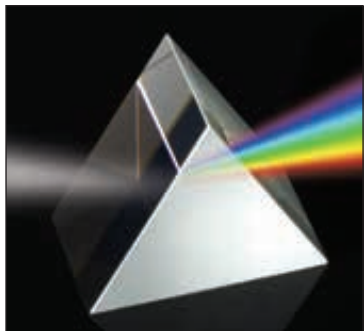
Its surplus lines brokers, meanwhile, can find insurance for large properties, product liability, excess liability and other risks. Arlington/Roe also has specialty divisions that focus on medical malpractice, pro-

fessional liability, transportation, workers compensation and other risks, Mr. Roe said.

While the majority of its business is focused in Illinois, Indiana, Kentucky, Michigan, Ohio and Tennessee, Arlington/Roe also has an aviation unit for risks nationwide. It represents several markets that insure risks such as airports, aviation liability and personal and corporate aircraft.

—By Roberto Cenicerros

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Lexington offers zoning coverage

NEW YORK—Lexington Insurance Co. is offering insurance to protect commercial and residential real estate developers and lenders from losses due to changing zoning ordinances.

The new policy, called Zoning Restriction Protector Insurance, was designed for commercial and multi-tenant residential real estate owners and lenders who may incur significant damage to their property but cannot rebuild the same size building due to zoning issues.

The policy will provide the following coverage:

- It will insure lenders against a loss between the loan balance on the date of a property damage loss from an insured peril and the total insurance proceeds received due to property damage, if the same size building cannot be rebuilt due to zoning ordinances on the date of the property damage.

- It will insure, in conjunction with Lexington's standard building insurance policies, the owner for the loss of the net equity in whole or part as determined by appraisal after taking into consideration all debt and insurance recoveries, if the same size building cannot be rebuilt due to zoning ordinances on the date of the property damage.

New York-based Lexington has \$40 million in capacity for the program.

To learn more about Zoning Restriction Protector Insurance, contact Ed Mazman, vp of property real estate at 617-443-4660 or at edward.mazman@aig.com.

CIGNA expands depression program

BLOOMFIELD, Conn.—CIGNA HealthCare is expanding the availability of its depression disease management program so that benefit plan sponsors can offer a single, consistent clinical program for depression across their entire workforce.

As part of the program expansion, Bloomfield, Conn.-based CIGNA will integrate and analyze data from an employer's health care and pharmacy benefits vendors along with the employer's behavioral health data to deliver depression disease management services. The program will be administered by CIGNA Behavioral Health. The program will also be available through Philadelphia-based CareAllies, a CIGNA unit that offers benefit plan sponsors and third-party administrators health management programs regardless of their medical plan or provider network.

The depression disease management program integrates behavioral, pharmacy and medical management data to more readily identify members with depression and assist them in receiving appropriate care.

Program features include, among other things, intervention and personalized coaching from CBH professionals, identification and intervention to avoid drug interactions and ensure appropriate pharmacy management of anti-depressants, and ongoing education and support for the member from behavioral health

specialists to help them follow treatment protocols recommended by their primary care physician and coordinate referrals for more specialized care as needed.

For more information, contact Jodi Aronson Prohovsky at 800-433-5768, or visit www.cignabehavioral.com.

London American creates LTC program

HOUSTON—CareSurance is a new liability insurance program from London American Risk Specialists Inc.

that is designed to meet the needs of skilled, assisted and independent long-term care facilities across the United States.

CareSurance starts with a comprehensive risk assessment of each facility to generate a quote based on the facility's risk profile.

The program also includes risk management tools from Lexington, Mass.-based consulting company LTCQ Inc. that provide clinical, operational and financial benefits to the facility such as:

Continued on page 46

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Cash Balance Pension Plans: Back on the Table

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 - **Larry Sher**, Principal & Director of Retirement Policy, Buck Consultants L.L.C., New York
 - **Bill Sweetnam**, Principal, The Groom Law Group, Washington, DC
- Moderator:** **Jerry Geisel**, Editor-at-Large, Washington, DC

QUESTIONS TO BE ADDRESSED:

- Do cash balance plans have a brighter future in the wake of the Pension Protection Act and recent appeals court ruling upholding IBM's plan?
- Does it make sense for employers to set up new cash balance plans or continue existing plans in the wake of the new pension reform law?
- What plan designs will work and which ones will not pass muster?
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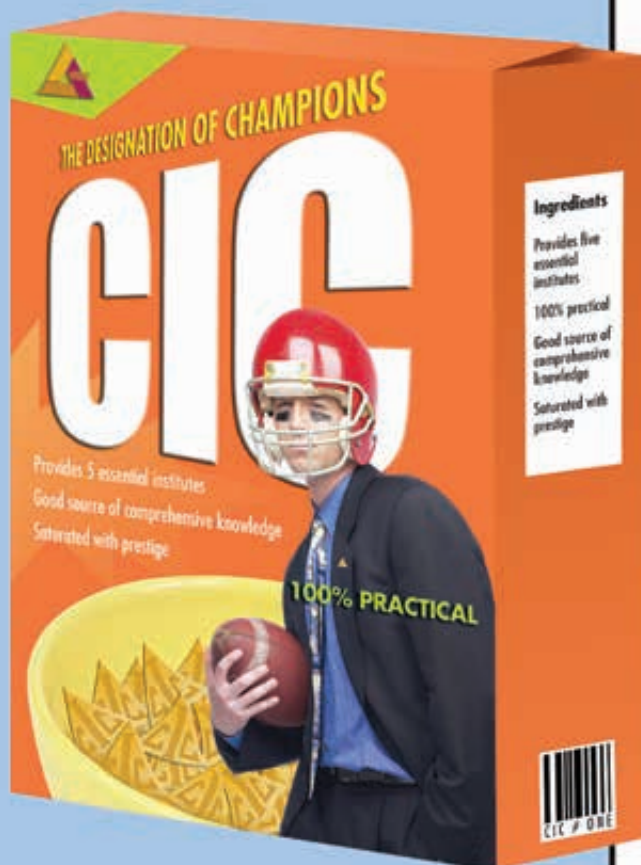
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Continued from page 45

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MANCOMM releases OSHA mandates guide

DAVENPORT, Iowa—To help companies in the oil and gas industry protect employees and stay compliant with Occupational Safety and Health Administration mandates, Davenport, Iowa-based safety-industry publisher Mangan Communications Inc., which does business as MANCOMM, has released "Oil & Gas Industry: OSHA Regulations from Parts 1903, 1904, 1910, & 1926 (Product No. 36B-002)."

The book, designed to take the place of several volumes of OSHA regulations, covers the following regulations pertinent to land-based oil and gas industry operations: Part 1903, inspections, citations and proposed penalties; Part 1904, recording and reporting occupational injuries and illness; Part 1910, general industry; Part 1926, construction; and letters of interpretation.

"Oil & Gas Industry: OSHA Regulations from Parts 1903, 1904, 1910, & 1926" is available for \$89.95. To order, call 800-626-2666. For more information, contact Mark McLaughlin, director of communications, at 563-499-9046, or e-mail mmclaughlin@mancomm.com.



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COMMENTARY

Rodd Zolkos

All that's changed and stayed the same

There's been no shortage of reminders over the past few weeks of the events that took place in New York, Washington and western Pennsylvania five years ago today. On TV and radio, in newspapers and magazines—this one included—there's naturally been plenty of discussion of what occurred on Sept. 11, 2001, and all that's happened, or not happened, since.

The Sept. 11 attacks on the World Trade Center and the Pentagon, along with the passenger uprising against the terrorists who'd taken control of Flight 93, was the sort of event that stays with you forever. It's no surprise that a survey conducted in August by the Pew Research Center for the People & the Press found that 95% of Americans could recall exactly where they were or what they were doing when they first learned about the attacks.

Nearly half of those questioned, 47%, said they felt the 9/11 attacks were as serious as the Dec. 7, 1941, Japanese attack on Pearl Harbor, and another 35% said the Sept. 11 attacks were more serious. And 51% of those questioned in the Pew survey said the attacks had changed life in the United States "in a major way," with 22% saying their own lives had changed because of the attacks.

In the weeks immediately following the attacks, there was a lot of discussion among pundits and others quick to prognosticate about such things that life as we knew it had changed forever.

On the cultural front, one notion forwarded by several was that 9/11 meant the "end of irony." In fact though, many scholars of literature and cultural history suggest that it was in response to an earlier horror, World War I, that irony actually took hold as a key element of our culture.

In his excellent book "The Great War and Modern Memory," Paul Fussell, cultural historian and professor emeritus of English literature at the University of Pennsylvania, makes that point, writing, "I am saying that there seems to be one dominating form of modern understanding; that it is essentially ironic; and that it originates largely in the application of mind and memory to the events of the Great War."

World War II and living in the shadow of The Bomb throughout

the Cold War years tightened irony's cultural grip. Add the terrorist threat to the mix and irony was probably never really in jeopardy.

Others spoke of changes 9/11 would make elsewhere in our lives. People wouldn't get married on Sept. 11, for example, and would hope their children would be born on some other date. Various accounts indicated there was a drop-off in wedding activity on Sept. 11, 2004. The next Sept. 11 falling on a Saturday is in 2010. We'll see whether the number of couples exchanging vows then moves closer to the norm.

I know my youngest brother's birthday is Dec. 7 and, aside from my father joking that had he been a girl they'd have named him Pearl, I don't remember any special attention to the particular date on which he was born.

Obviously some things have changed. Security considerations, clearly. We've learned to walk in stocking feet through airport metal detectors, and are now adapting our in-flight thirst quenching and personal grooming habits to the ban on carrying aboard liquids and lotions.

In the papers and the nightly news, details of the execution of the War on Terror are an ongoing subject of political debate.

We've also sought to prepare ourselves for the worst. A recent survey commissioned by the National Emergency Response & Rescue Training Center, a division of the Texas A&M University System's Texas Engineering Extension Service, showed that 73% of 629 companies surveyed across various industries rated their company's response plans for a disaster or terrorist attack as good to excellent.

Concerning their company's training programs for such response, 64% said their efforts were good to excellent. But, while 62% of the companies surveyed said they'd conducted a drill simulating a disaster or attack in the past year, 25% said they'd never conducted such an exercise.

For all that's changed and all that hasn't over the past five years, one undeniable constant is the loss of family, friends and colleagues who were victims of the attacks of 9/11. Our regard for them and our sympathies for those they left behind should remain unchanged as well.

Senior Editor Rodd Zolkos can be reached at rzolkos@businessinsurance.com.

Punitive damage law reinstated

Calif. insurers say split recovery 'makes no public policy sense'

SACRAMENTO, Calif.—California lawmakers have voted to reinstate through June 30, 2011, a law that requires that 75% of any punitive damages award to be paid to the state.

The original 2004 so-called split recovery law expired on June 30 of this year. The reinstatement bill—S.B. 832—was opposed by civil justice advocates and insurers, who fear that the measure will increase the size of punitive damage awards.

In a position paper issued on Aug. 29, the Sacramento, Calif.-based Civil Justice Assn. of California noted that while jurors are not supposed to be told of the state's share of any punitive damage award, "the punitive damage sharing scheme in S.B. 832 would soon become public knowledge, encouraging jurors to award exorbitant punitive damage amounts in hopes of reducing their own tax burden, even in the face of an undeserv-

ing plaintiff."

The Assn. of California Insurance Cos. also condemned the bill. In a letter to lawmakers, the insurer group said that the concept of split recovery endorsed by the bill "makes no public policy sense from either a fiscal or legal perspective."

Republican Gov. Arnold Schwarzenegger has until the end of September to sign or veto the bill.

—By Mark A. Hofmann

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French consumers try to overturn class action ban

By RICK MITCHELL

PARIS—A French consumer association is bringing a mass lawsuit in a bid to highlight what it considers to be deficiencies in the country's judicial system and as part of a campaign for the introduction of class action-style lawsuits.

Against the backdrop of a presidential campaign in France, the group has announced plans to file 11,582 price-fixing complaints against three major cellular telephone operators, to highlight what it regards as an overly complex process that consumers must follow to achieve justice in France.

Consumer organization the Union Fédérale des Consommateurs-Que Choisir will file its action in Paris' commercial court about the same time that Parliament is expected to begin debate in October on a controversial bill that would allow certain types of class action suits. French law currently does not permit class actions, but consumer associations can file collective complaints over products or services.

The UFC seeks €700,000 (\$898,450) in compensation for customers overcharged during 2000 to 2002 by mobile phone giants Orange S.A., SFR and Bouygues Telecom as a result of the networks' al-

leged collusion to fix prices and market share, for which they were fined a combined €534 million (\$685.4 million) last December by France's competition watchdog, the Conseil de la Concurrence. The operators' appeal of that ruling is pending. "Since those fines go directly into government coffers, we want compensation for the consumers who were overcharged," said Gaëlle Patetta, the UFC's legal director.

The UFC also seeks €500,000 (\$641,750) for its own costs.

"We're only seeking an average of €60 (\$77) per complaint, but a successful action would dissuade

companies from trampling on customers' rights," said Ms. Patetta.

"Most importantly, we want to demonstrate that the (current) process poses many hurdles for consumers to get justice," she said. "For this action, we will need a small truck to carry all the required customer identification papers, telephone bills and contracts, all in multiple copies, to the court. A clerk will have to enter it all into the record, and a judge has to personally examine all 12,000 dossiers."

Proposed by French President Jacques Chirac, the class action bill has been significantly toned down

in the face of impassioned objections by the business association Mouvement des Entreprises de France.

The proposed bill would create a two-phase process in which judges could hear class action complaints covering only consumer goods linked to a contract, and only those filed by government-approved consumer organizations.

If a judge determines "professional fault", individual plaintiffs would then have to individually negotiate with the company for compensation, then personally appear before the judge if the company refuses to settle.

Modeling firms expand analysis of German floods

2002 losses prompt launch

By RICHARD MILLER

The first probabilistic flood models covering all of Germany are being unveiled by modeling firms this month, tools that are expected to bolster insurance underwriting in the region following recent serious flooding.

Risk Management Solutions Inc., of Newark, Calif., plans to announce on September 12, the release of its comprehensive flood model for Germany, which will cover both the risk of flooding from all the major rivers, as well as off-flood plain flooding, the company said.

EQECAT Inc., an Oakland, Calif.-based modeler, says it is coming out with its own model by the end of the month, or early October at the latest. The model expands upon EQECAT's previous model of six river basins, released in 2004, by now covering all postcodes in Germany, as well as all types of flooding.

"It is always beneficial to have new modeling tools to better understand hazards and quantify risk, provided these are used as sensitivity tests on an insurance

portfolio and not as pure risk arbitrators," said Andrew Mitchell, business leader, catastrophe management, at Willis Analytics & Solutions, a division of Willis Group Holdings Ltd., in London.

"The availability of two models for a particular country and hazard is especially useful for providing multiple perspectives on the risk, to contrast and analyze the different assumptions used in making computer representations of the physical reality," he said.

"Allianz welcomes any initiative which allows for more transparency concerning hazard assessment," said Olaf Novak, head of catastrophe risk management for German insurer Allianz A.G.'s reinsurance arm. "In this regard, Allianz is already testing these new, upcoming models," he added.

Modelers say the new products are responding to increased demand for risk assessment tools following the major flooding of the Elbe River in 2002. The floods that year caused an insured loss of about €1.8 billion (\$2.31 billion) in Germany, and a total economic loss of more than €9 billion (\$11.55 billion), the modelers reported.

In terms of the scope of the risk today, if a similar Elbe flood



Flooding from the Elbe river submerged buildings in Dresden, Germany earlier this year.

occurred now, it could end up costing €2.5 billion (\$3.21 billion) in insured losses, said Michel Voronkoff, the Paris-based manager of European technology and consulting for EQECAT. The increase, he said, is due to inflation, as well more insurance penetration and rising property values.

"I think the 2002 Elbe floods really triggered a very large increase in the market perception of the risk," said Claire Souch, RMS' director of model management.

"In some areas there has been a reluctance to insure," she said.

Flood insurance is generally available in Germany for damage from inland flooding, but not for storm-surge—an onshore gush of water typically caused by a low pressure weather pattern—or ocean flooding, according to insurers.

Overall, the greatest insured risk is along the Rhine River, particularly around Cologne and

Frankfurt due to the combination of high flood potential from Germany's largest river and the large concentrations of industrial, commercial and residential property, according to RMS.

By contrast, the risk in Munich is driven predominantly by frequent, smaller flood events, typically caused by rainfall from severe storms and runoff. Hamburg is well protected by flood defenses, but is vulnerable to the largest floods along the River Elbe, which could overwhelm those defenses, says RMS.

RMS' new German flood model will provide probabilistic modeling of the interconnections between different stretches of the same river, different rivers across the country, as well as the off-floodplain events.

EQECAT's comprehensive German flood model will serve as a blueprint for its models in other countries, said Mr. Voronkoff. The model analyzes with a resolution of a few meters.

New cell captive formed by Aon in Guernsey

By MICHAEL BRADFORD

ST. PETER PORT, Guernsey—The first incorporated cell company for insurance has been formed in Guernsey, where legislation allowing such vehicles was passed earlier this year.

White Rock (Guernsey) ICC, formed by Aon Corp. unit Aon Insurance Managers (Guernsey) Ltd. and licensed in August, will be able to write nonadmitted insurance in several countries, including the United Kingdom and the United States. It also can serve as a reinsurer for coverage issued through a fronting company.

"It's meant to be an alternative to our existing protected cell company" in Guernsey, said Chris Le Conte, managing director with Aon Insurance Managers.

Cell captive structures allow companies that do not wish to set up full captives to operate mini-captives within umbrella structures but separate from the liabilities of other members of the cell structure.

Unlike a PCC, which is a single entity with multiple segregated cells, an ICC is made up of cells that all are legal entities. And, unlike in a PCC, the cells within an ICC can contract with each other.

Because cells within an ICC are legally separate entities, they are more likely to be shielded from the insolvency of other cells within the same structure than is the case within a PCC company, experts argue.

In the event that a cell becomes insolvent, the ICC structure is likely to provide more certainty that the assets of other cells within the same structure cannot be seized, they contend.

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Continued from page 3

costs exceed specified limits.

"It is a blending of employee benefits and risk financing," said Mr. Schultz.

Additionally, the program has tax advantages. Members receive immediate tax deductions on their VEBA contributions and premiums paid to the RRG.

Furthermore, the RRG, unlike other types of captive insurance companies, can issue policies to members in any state after meeting the licensing requirements of one state. Currently, the program has members in seven states.

Members say their positive experience in a group-owned offshore captive insurance company—American Contractors Insurance Group in Bermuda, which funds various casualty risks—was a driver for their participation in the health care benefits funding program.

"The concept of captive insurance works for property/casualty risks. Let's see what it does for health benefits," said Linda Clarkson, vp of Total Risk Management Inc., the insurance and risk management subsidiary of Clarkson Construction Co. in Kansas City, Mo., one of the contractors involved.

Outside observers say the joining together of VEBAs and an RRG is an appealing one. "It is a way of pooling your risks and for each company to have much less volatility," said Karin Landry, a managing partner with Boston-based Spring Consulting Group L.L.C., a captive insurance consultant, who first wrote about the concept several years ago.

By banding together, "policyholders are going to get a lot more bells and whistles," Ms. Landry said.

"I think it is a very viable idea," said Jon Harkavy, vp and general counsel with Risk Services L.L.C., a captive and RRG manager in Arlington, Va. "My guess is that this will be replicated," he added.

Still, putting together such a program has its obstacles, observers say. "You need a group of employers that is willing to work together," which can be challenging, Ms. Landry said.

At the same time, some employers might shy away from participation out of concern that they would subsidize the claims costs of others with less favorable experience, said Henry Saveth, an attorney with Mercer Human Resource Consulting in New York.

JLT: Sale of U.S. retail unit part of wider strategy

Continued from page 3

Attorney General Eliot Spitzer in 2004 (*BI*, March 13).

While JLT was not forced to make a settlement offer to clients like some of its larger U.S. rivals, it voluntarily ceased collecting contingents on large, commercial business in an effort to become more transparent. JLT, though, still collects contingent commissions on some business—mainly U.K. regional business—in which it competes with regional brokers that are still using such commission structures.

In announcing the review, Mr. Burke said the process would "evaluate prospective developments in the broking industry and enable us to clarify and refine our strategy to better equip the group for the challenges the business faces today."

In July, JLT said it was in preliminary discussions to acquire rival London-based brokerage Heath Lambert Group, but Heath pulled out of those talks, saying only that a merger would not have been in the best interests of its staff or clients (*BI*, July 17).

In a statement on the JLT/Alliant deal, analysts from Keefe, Bruyette & Woods Ltd. in London noted that "the sale removed conflicts between the retail operations and wholesale business of (JLT subsidiary) Lloyd & Partners" and is

consistent with JLT's strategy of focusing on "areas of proven business and management strength."

Alliant was founded in 2000 by John Addeo, a veteran insurance brokerage builder who previously worked with Bernard H. Mizel in creating Briarcliff Manor, N.Y.-based USI Holdings Corp. Mr. Addeo, who was Alliant's CEO, left the

brokerage at the end of 2005 following its acquisition by New York-based private equity firm Lindsay Goldberg & Bessemer and other management and employees. He has since teamed up with former Marsh Inc. executive Christopher M. Treanor to form wholesaler Mercator Risk Services Inc. in New York.

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Developer Larry Silverstein's dispute with insurers over his company's WTC claims was the most widely publicized of many coverage battles that followed the terrorist attacks.

PHOTO: FRANKS

WTC-related lawsuits far from resolved

Cleanup health claims pending

By DOUGLAS McLEOD

NEW YORK—The Sept. 11, 2001, terrorist attacks spawned insurance coverage litigation almost as fast as they did fear of further attacks, with disputes ranging from how many occurrences the World Trade Center's destruction represented to how business interruption losses should be calculated under manuscript policies.

The most widely publicized case was WTC leaseholder Silverstein Properties Inc.'s battle with its property insurers—launched by one of the insurers in October 2001—over Silverstein's contention that the complex's destruction by two hijacked jets was two occurrences, entitling it to two \$3.55 billion policy limits.

After parsing the insurers' cover notes and other evidence, two separate juries reached what amounted to a split decision in 2004, finding most insurers liable for only one occurrence but some liable for two. The decisions, which leave Silverstein with a possible recovery of \$4.68 billion, are being appealed by both sides.

The question of Silverstein's property recoveries was further complicated by a 2006 rebuilding agreement for the WTC site in which Silverstein ceded development rights to the planned Freedom Tower and one other building near Ground Zero and agreed to provide funding for those buildings from its insurance recoveries. Silverstein then sued several of its insurers for a judgment that the plan does not affect its recoveries; at least one insurer, though—Allianz Global Risks U.S. Insurance Co., which wrote about 10% of the WTC's limit—countered that Silverstein cannot transfer its insurance rights to another developer. The dispute is pending.

Another of the largest pending cases involves liability for health claims of more than 8,000 of the 44,000 workers who labored to clear the WTC site after the attacks. Litigation filed in U.S. District Court in New York names New York City and numerous contractors and subcontractors, all insured

by WTC Captive Insurance Co., a New York-domiciled captive formed to insure the clean-up and capitalized with \$1 billion from the Federal Emergency Management Agency. Motions by the city and the contractors to dismiss all claims on the basis of state and federal immunity laws are pending.

The worker health claims were not encompassed by the federal Sept. 11 Victim Compensation Fund, which Congress created to handle liability claims against airlines and other defendants by victims of the attacks or their survivors. The fund closed in 2004 after paying nearly \$7 billion in settlements covering 5,531 death and injury claims. Claimants accepting settlements from the fund agreed not to sue over 9/11-related injuries.

Business interruption

The terrorist attacks also produced a flood of business interruption disputes, many of which have been resolved with mixed results for policyholders.

A federal appeals court in New York, for example, ruled last year that an engineering and janitorial services company that serviced the WTC complex is entitled to pursue more than \$100 million in business interruption claims from one of its insurers even though the company did not own or lease WTC space. The court found that San Francisco-based ABM Industries Inc. had an insurable interest in the WTC property and was thus entitled to business interruption coverage.

In another decision earlier this year, though, the Virginia Supreme Court found that Tempe, Ariz.-based US Airways Group Inc. can not recover under both its business interruption coverage and a federal act passed to compensate airlines for 9/11-related losses. US Airways received \$310 million under the 2001 Air Transportation Safety and System Stabilization Act, and must reduce any business interruption recoveries by that amount under the terms of its manuscript policy, the court ruled.

Terror: Huge changes result from attacks

Continued from page 1

For Janice Ochenkowski, senior vp and director of global risk management with Jones Lang LaSalle Inc. in Chicago, it was the apprehension that she and her colleagues felt seeing planes from their 70th floor office windows once commercial flights resumed after the attack. "It was a very unnerving experience," she said.

The shock of the terrorist attack is still real five years later, though the loss itself has become more comprehensible as risk managers and insurers have worked to cope with an exposure most never imagined.

The months after the attack saw new government-backed and private markets develop in response to insurers' exclusion of terrorism risk—markets still uncertain in the face of next year's expiration of the Terrorism Risk Insurance Extension Act.

They also saw insurers trying to understand and control their concentrations of exposure to an extent they never did previously, using still-developing computer models. Risk managers also focused on security and terrorism risk mitigation in ways they never considered previously.

"Since 9/11, the whole issue of security and safety has become a bigger and bigger issue for companies around the globe," said Mr. Blumber, who is with Marsh's North American property practice. "Many organizations are more fully aware of what's going on around them."

Until they were surpassed last year by Hurricane Katrina, the 9/11 attacks on New York and Washington were the largest catastrophe ever recorded in any of the several affected lines of coverage, including property. The attacks remain the largest workers compensation and aviation losses on record.

The III's estimates total insured 9/11 losses at \$35.6 billion, adjusted for inflation to 2005 prices. The estimate includes \$12.1 billion for business interruption; \$10.56 billion for property, including the destruction of the WTC complex; \$3.85 billion for aviation liability; \$4.4 billion for other liability; and \$1.98 billion for workers comp.

The attacks—which killed 2,752 people in New York, 189 at the Pentagon in Washington and 44 in a jet that crashed in Pennsylvania—also caused tremendous personal loss for the industry. Marsh & McLennan Cos. Inc. lost 295 employees at the World Trade Center, while Aon Corp. lost 175.

Terrorism exclusions

One of the insurance industry's first responses to the attack was to exclude terrorism from policies that had routinely covered it at no additional cost. A limited market for terrorism coverage developed and Congress in 2002 passed TRIA, which provided a federal backstop for mandatory offers of terrorism coverage by private insurers.

The number of companies opting for TRIA property coverage has grown steadily since 2002, reaching more than 60% by the end of last year, brokers report in surveys of their clients. Many experts expect

the market to be disrupted, though, as the Dec. 31, 2007, expiration of the act approaches. (see story, page 53.)

Insurers also responded to the loss by focusing on accumulations of property and workers compensation exposure in urban areas. Modeling companies developed new software to break geographic areas into grids, map the limits exposed at a given location and measure the impact of various types of terrorist attacks. (see story, page 1.)

Before 9/11, underwriters rarely asked policyholders or their brokers about employee concentration: whether, for example, a policyholder's 1,000 workers were in a single location or spread among several, said Don Bailey, chief operating officer of Willis North America in New York.

"It was a subject that just never came up," he said.

"What we see is (insurers) making every attempt to manage what is really an unmanageable exposure," said Julie Rochman, a senior vp with the American Insurance Assn. in Washington. "Who would have thought that office workers in

guards, cameras, card key systems and tenant monitoring systems, she said.

Even such basic tenant safety efforts as fire drills are more common: "It was very difficult to get participation in fire drills for high-rise buildings before 9/11," but less so in the years since, Ms. Ochenkowski said.

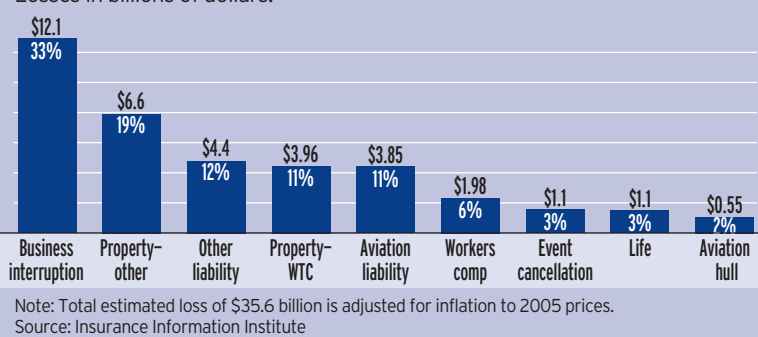
Anti-terror measures like blast-resistant glass and reinforced bases also have become part of new construction. Perhaps the most striking example is New York's planned Freedom Tower, which is to stand on the former WTC site next to the Twin Towers' footprint and feature a 200-foot-high base of steel and concrete sheathed by panels of glass prisms.

Mitigating risk

Along with the need to safeguard employees and property, mitigation efforts are being driven in many cases by loan covenants and corporate governance concerns, as companies must show shareholders that they are taking "reasonable and prudent" steps to address terrorism risk, market observers say.

The cost of terror

Loss distribution by type of insurance from Sept. 11, 2001, terrorist attacks. Losses in billions of dollars.



a tower would present more of a risk than miners?"

Risk managers and their brokers, meanwhile, have likewise taken an array of steps to understand and reduce their companies' exposure to attacks.

Aon, for instance, has helped clients assess anti-terrorism measures and perform probable maximum loss analyses of property damage and business interruption at iconic buildings assuming different types of terrorist weapons, said Aaron Davis, director of Aon's National Terrorism and Property Resources unit in New York.

This type of PML modeling helps predict the potential impact of a terrorist attack, though not its likelihood, added Paul Bassett, executive director of Aon's terrorism and political risk operation in London.

"We can't do anything about the threat, but we can help (clients) understand it," Mr. Bassett said.

Jones Lang LaSalle, a Chicago-based commercial real estate manager, has taken several steps to mitigate its exposure, Ms. Ochenkowski said. These include reconfiguring buildings to reduce the number of entryways, increasing security at underground garages and limiting access to drive-up and drop-off points to reduce vulnerability to truck bombs, she said.

The company also added security

They've also helped companies line up terrorism coverage that otherwise might be more expensive or unavailable, brokers say.

If a company can show it's taking the risk seriously by assessing its PML exposure and by taking risk mitigation steps, it is more likely to get a bigger share of the market's capacity, Mr. Davis said.

Heightened security measures also reduce a building's chances of being hit, Mr. Davis said. Al Qaeda has shown since 9/11 that it will shift its focus from highly protected targets to "softer" targets that are easier to attack.

"Clearly, mitigation plays a great role in lessening the likelihood of a particular asset in your portfolio becoming a target," he said.

While Sept. 11, 2001, has had its own impact on policyholders' and insurers' view of risk, some observers see it as only one element in a chain of events that has altered risk managers' perspective on their work.

The corporate accounting scandals touched off by Enron Corp.'s 2001 collapse, hurricanes Jeanne and Charley in 2004 and Katrina in 2005, and war in the Middle East have all added new concerns for large corporations, Willis' Mr. Bailey said.

"There's just so much that's changed in the landscape over the last five years," he said.

Industry still awaiting TRIA's permanent replacement

Act's expiration to disrupt property market with coverage becoming scarce and costly

By DOUGLAS McLEOD

NEW YORK—The Terrorism Risk Insurance Act's 2007 expiration is likely to cause property market disruption next year and its absence would make terrorism coverage scarcer and more expensive, brokerage and insurance industry sources agree.

TRIA—enacted in 2002 in response to insurers' withdrawal of terrorism coverage and extended for two years in 2005—provides federal reinsurance for foreign terrorist acts in the United States that produce aggregate losses of \$50 million this year, rising to \$100 million next year. The TRIA extension expires Dec. 31, 2007.

"TRIA has been incredibly important in generating capacity that was not available in the marketplace" after the Sept. 11, 2001, terrorist attacks, said Aaron Davis, director of Aon Corp.'s National Terrorism and Property Resources unit in New York.

Surveys by Marsh Inc. found that the percentage of client companies opting for TRIA-backed property insurance has risen steadily in the past two years—to 64% in the fourth quarter of 2005 from 23% in the second quarter of 2003. Other brokers report

similar takeup rates.

The highest takeup rates are by companies in the Northeast, with real estate, financial institutions, health care and media companies most frequently buying the coverage, Marsh found.

In addition to TRIA-backed coverage, a stand-alone terrorism insurance market has developed since 9/11 and now offers about \$1.5 billion in per-risk capacity. Berkshire Hathaway Inc. accounts for \$500 million to \$1 billion of this, with the remainder provided by Lloyd's of London underwriters, AXIS Specialty Insurance Co., American International Group Inc. and seven other insurers, Marsh reports.

About 70 to 100 companies, or about 7% to 10% of Marsh's large corporate clients, buy stand-alone coverage in addition to or instead of TRIA-backed coverage, with typical limits of \$250 million to \$500 million, said Robert Blumber, a managing director with Marsh's North American property practice in New York.

TRIA's impending expiration is likely to bring a replay of the property market disruptions that preceded the act's 2005 extension, with insurers adding "pop-up" terror-

ism exclusions that would go into effect if TRIA expires, said Robert Hartwig, president-elect and chief economist of the Insurance Information Institute in New York.

If Congress fails to replace TRIA with a permanent federal backstop for terrorism insurance, the stand-alone market may expand slightly, but not nearly enough to accommodate the increased demand for coverage, he added.

That demand would also exacerbate insurers' problems with accumulation of risk, especially in urban areas, further restricting capacity in those areas. And terrorism insurance pricing, which has dropped significantly in the last year, would spike, said Aon's Mr. Davis.

Several plans for a permanent replacement for TRIA have been proposed, including one by the American Insurance Assn. that calls for high-level federal reinsurance of terrorism risks that include chemical, nuclear, biological and radiological attacks. The AIA plan also would allow the government to recoup some of its losses through a surcharge on policyholders.

A federal solution to the so-called CNBR risks is especially important, since such an

attack—for example, a nuclear device exploded in New York—would vastly exceed insurance industry claims-paying capacity, Mr. Hartwig said.

Securitizing terrorism risk in the capital markets is also not a realistic option, said Christopher M. Lewis, vp-alternative market solutions P&C capital management at The Hartford Financial Services Group Inc. The same obstacles holding back terrorism reinsurance markets—such as shortcomings of modeling and the uninsurable nature of the risk—have stymied the development of a terrorism securitization market, he said.

Some observers express doubts that Congress will act on the issue far enough in advance of TRIA's expiration to head off insurers' imposition of contingent terrorism exclusions next year.

"I expect it to come down to the wire again," Mr. Davis said. "We very much expect a repeat of commercial market behavior" like that of 2005.

The next milestone in the process will be a report on terrorism insurance market conditions by the President's Working Group on Financial Markets, Mr. Hartwig noted. That report is due by the end of this month.

Modeling: Assessing and monitoring terrorism exposures to optimize capacity

Continued from page 1

Management Solutions Inc., which introduced a terrorism model in 2002.

Mr. Ulrich explained RMS' approach to modeling in testimony he presented July 25 to a joint hearing of the House Financial Services Committee's Oversight and Investigations Subcommittee and the Homeland Security Committee's Intelligence, Information Sharing and Terrorism Risk Assessment Subcommittee (BI, July 31). "RMS does not attempt to predict the time and place of the next terrorist attack. Our focus is on modeling the likelihood of an attack occurring at given target, using a specific weapon, and then determining the consequences of such an attack," according to his testimony.

In 2002, Zurich North America developed its own customized version of the RMS terrorism modeling program to assess workers compensation and property exposures, said Dan Loris, a senior vp with the Schaumburg, Ill.-based insurer.

While workers comp exposure was largely tracked on a state-by-state basis before 9/11, Zurich realized after the attacks that it needed to know how many workers each policyholder had in a single building at a given time and how many policyholders Zurich insured in a given area, he said.

"The whole philosophy around reporting and quantifying workers comp exposure changed after 9/11," Mr. Loris said, noting that underwriters focused on risk accumulation in the same way property catastrophe insurers had done.

Zurich's system not only gives it real-time access to workers comp and property data on a building-by-

building basis but also allows it to calculate its probable maximum loss from hypothetical terrorist attacks such as a five-ton truck bomb or a two-ton radiological "dirty" bomb detonated outside a building.

"It allows us to optimize our capacity so we aren't shying away from risks we don't really need to



"The insurance industry has only a marginally better idea today about the likelihood of a terrorist attack than we did five years ago."

Robert Hartwig
Insurance Information Institute

worry about," Mr. Loris said.

"We've spent a considerable effort in developing a robust approach to assessing our terrorism risk," said Robert Paiano, senior vp-reinsurance and catastrophe risk management at The Hartford Financial Services Group Inc. in Hartford, Conn.

"Given the unique characteristics of the peril, including the fact that acts of terrorism are intentional and the potential magnitude of the loss is so significant, we use a multi-faceted approach in assessing and monitoring our exposures," Mr. Paiano said. This includes "an internally developed deterministic model, a periodic review of loss estimates using a vendor model and monitoring our aggregate limits ex-

posed. We perform this assessment across both our life and P/C operations," he said.

While modeling has allowed insurers to understand their exposure and measure the severity of various types of terrorist attacks, the frequency of and weapons used in attacks remain wild cards.

"Enterprise risk management has

York. He described the frequency of future attacks as "fundamentally unknowable."

Assessing frequency is one of the biggest challenges for modelers, said Jack Seaquist, a senior manager at AIR Worldwide, a Boston-based unit of the Insurance Services Office Inc. AIR, which introduced a terrorism model in 2002, has established processes to do the best job of estimating frequencies "but it's all subject to the limitations of the available information," he said.

Mr. Seaquist pointed to a key difference in information gathering. Whereas governmental authorities are more than willing to share information about natural perils such as hurricanes and earthquakes, governments may not be forthcoming about terrorism-related information, he said, and terrorists operate in secret.

Another challenge is dealing with the fact that terrorist events are localized, he said. "So we need to know exactly where our potential targets are and the insured location down to the street address level. That's where we've been developing a more accurate base of buildings in the U.S., increasing the depth and extent of that database to help clients refine their own data," Mr. Seaquist said.

"One other aspect is the calculation of the maximum foreseeable loss," Tom Larsen, senior vp of EQECAT Inc., an Oakland, Calif.-based unit of ABSG Consulting Inc., said in an e-mail. EQECAT also introduced a terrorism model in 2002. "Again, natural catastrophes modelers have the ability to logically link observations of the past into a credible assertion of future expectations. While 'probabilistic' method-

ologies do not lend themselves to the calculation of a 'worst event,' they can develop robust estimates of very extreme-level events," he wrote, for example, estimating a loss that has a 0.2% probability to occur in a single year, often called a 500-year event. In addition, "historic data can provide us with a very good understanding of the maximum severity of an event," such as an earthquake of a specific magnitude occurring on a specific fault.

"For terrorism, the trend is that we have not observed the maximum event. As time progresses, we see the 'maximum' event creep forward," with single-building terror incidents giving way to the Sept. 11 multiple attacks. "The extent of the future 'maximum' event is limited only by human ingenuity," he wrote.

While modeling theoretically allows insurers to fix limits on their exposure in a given geographic area, competitive pressure will continue to govern their actual underwriting, some say.

"I don't think very much has changed" because of modeling, said Stephen A. Cozen, an insurance defense lawyer at Cozen O'Connor in Philadelphia. "If you want to write financial services (companies), how can you possibly avoid accumulation and concentration of risk in a small geographic area? You can't."

The III's Mr. Hartwig agreed that competition will continue to be a factor.

"Competitive reasons will probably drag some insurers into situations where they are more highly exposed to terrorism risk than they'd prefer to be," he said.

Largest U. S. reinsurers' 2006 first-half results

Ranked by net reinsurance premiums written. All amounts in thousands of dollars.

Reinsurer	Net reinsurance premiums written 2006	Net reinsurance premiums written 2005 ¹¹	Policyholder's surplus (reinsurers only)	Net income (Loss)	Loss & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 2006	Combined ratio 2005
National Indemnity Co. ¹	\$2,316,601	\$1,689,803	\$29,174,514	\$3,765,518	\$976,012	63.6%	\$271,636	11.7%	75.3%	52.3%
Transatlantic Re/Putnam Re	1,675,419	1,584,372	2,766,890	196,436	1,132,737	68.7	456,054	27.2	95.9	98.0
Swiss Reinsurance America Corp. ²	1,367,676	2,420,784	7,567,698	(869,342)	1,688,957	85.4	602,430	44.0	129.5	121.7
American Re-Insurance Co. ³	1,245,080	685,860	3,350,600	185,482	866,673	66.2	394,580	31.7	97.9	266.5
Everest Reinsurance Co.	1,085,756	1,253,308	2,510,142	179,979	764,031	70.0	280,300	25.8	95.8	91.4
Odyssey American Re/Odyssey Reinsurance ⁴	986,440	1,047,106	2,287,287	385,765	687,775	66.4	269,447	27.3	93.7	97.6
Berkley Insurance Co.	963,966	894,588	1,984,334	200,384	595,077	67.4	230,306	23.9	91.3	91.5
General Re Group ⁵	835,283	1,006,599	8,568,246	387,731	434,102	48.1	390,271	46.7	94.8	100.8
PartnerRe U.S. ⁶	372,986	376,577	576,390	9,405	267,055	78.4	114,729	30.7	109.1	103.6
Folksamerica Reinsurance Co.	364,768	339,026	1,106,371	2,386	291,927	81.5	110,358	30.3	111.7	97.1
AXIS Reinsurance Co. ⁷	333,722	376,907	526,908	(8,160)	141,377	68.0	73,949	22.2	90.2	90.6
XL Reinsurance America ⁸	278,333	235,634	1,976,223	91,151	187,035	66.6	21,433	7.7	74.3	87.3
Insurance Corp. of Hannover	255,109	39,272	355,221	27,194	142,879	60.1	56,789	22.2	82.4	102.1
QBE Reinsurance Corp.	215,805	214,608	561,847	12,387	125,256	60.5	70,982	32.9	93.4	94.1
Endurance Reinsurance Corp. of America	145,413	211,116	566,295	52,970	90,858	53.6	41,813	28.7	82.3	99.8
American Agricultural Insurance Co.	143,455	230,751	472,760	(905)	178,100	94.2	32,496	22.7	116.9	94.9
Toa Reinsurance Co. of America	137,346	129,098	368,422	16,998	110,556	78.6	36,851	26.8	105.4	106.1
Platinum Underwriters Reinsurance Inc.	136,592	298,845	525,351	69,221	60,577	31.5	75,588	55.3	86.8	92.8
SCOR U.S. Group/SCOR Reinsurance Co. ⁹	57,328	63,269	426,238	(32,541)	77,244	150.4	30,781	53.7	204.1	127.5
EMC Reinsurance Co. ¹⁰	30,023	43,008	89,117	7,541	25,938	71.9	6,724	22.4	94.3	95.7
Totals for Top 20	\$12,947,101	\$13,140,531	\$65,760,854	\$4,679,600	\$8,844,166	69.1%	\$3,567,517	27.6%	96.7%	104.1%
Totals for all companies	\$12,982,666	\$13,210,194	\$66,328,728	\$4,723,760	\$8,833,767	68.8%	\$3,591,896	27.7%	96.5%	105.8%

1. Underwriting results exclude assumptions from affiliated General Re Group. 2. Represents only part of Swiss Re Group's business, including the GE Insurance Solutions business acquired from General Electric Co. in June 2006, and includes a number of impacts including cessions to the parent as well as cessions to former GEIS entities that were retained by G.E. 3. Includes the combined results of American Re-Insurance Co., American Alternative Insurance Corp. and the Princeton Excess & Surplus Lines Insurance Co. 4. Includes combined results of Odyssey America Re Corp., Clearwater Insurance Co., Hudson Insurance Co., Hudson Specialty Insurance Co. and Clearwater Select Insurance Co. 5. All data presented for the North American Property/Casualty segment at the General Re Group. Underwriting results exclude certain intercompany transactions and other adjustments. Underwriting results also exclude cessions to certain affiliated members of the Berkshire Hathaway Group. 6. Includes the combined results of Partner Reinsurance Co. of the United States and its subsidiary PartnerRe Insurance Co. of New York. 7. Excludes reinsurance business of AXIS Capital Holdings Ltd. written in Bermuda. 8. XL Reinsurance America's net underwriting results consist of its net pooled share of the combined underwriting results of the XL America Group Pool. All pool members are wholly-owned subsidiaries of XL Reinsurance America. 9. SCOR U.S. Group includes the following companies: SCOR Reinsurance Co., General Security National Insurance Co. and General Security Indemnity Co. of Arizona. 10. All reinsurance is issued in the name of Employers Mutual Casualty Co. 11. Total net premiums written shown for June 2005 are those reported in the June 2005 Reinsurance Underwriting Report.

Source: Reinsurance Assn. of America

Results: Property rates, lower catastrophe losses brighten reinsurance picture

Continued from page 4

cloud of uncertainty that looms in some ways over the reinsurance segment."

While the 2005 catastrophes caused reinsurers to take a fresh look at their modeling, it now looks like 2006 catastrophes are going to be fewer than weather experts had projected, "raising doubts if modelers had a good handle on the exposures or not," said Mr. Ward.

He also noted a decline in net premiums written. "The prices are firming, but primary companies are retaining more of the risk, so you're actually seeing some real softening on a net premiums-written basis, even in a semihard premium environment," Mr. Ward said.

Several other observers, however, say that the outlook is positive. Absent catastrophes, reinsurers should

continue to show improved results, despite the softening rate environment, through year-end 2007, "although probably moderating significantly in the second half of 2007 as the impact of rate decreases continues to chew its way into the business," said John D. Gwynn, managing director at Morgan Keegan & Co. Inc. in Memphis, Tenn.

"The expectation is that things will be pretty good," with higher property rates and the "very distinct potential for very low catastrophe losses this year," said J. Paul Newsome, vp and senior equities analyst with A.G. Edwards & Sons Inc. in St. Louis.

While casualty rates are softening, "If you look at what's going to move profitability, the property rates should more than compensate for lower casualty rates," he said.

Another positive factor is "in general remarkable stability in claims costs, both in property and on the liability side," which is good for the reinsurers, said Mr. Newsome. "You're just seeing a lack of major issues at the moment."

Reserves more settled

"Even if we get back to a normal cat season, reinsurers should have a pretty good year," said James B. Auden, senior director at Chicago-based Fitch Ratings. The reserves issue has "settled down a bit" and property rates have increased considerably, which should help generate continued profits, he said.

"You still may see more developments in the '05 losses, but we don't think it will be very large sums at this point," Mr. Auden said.

"There could be a company or two with a surprise."

The outlook is "a little bifurcated, I think," said Mr. Klauber. "Companies with bigger than average property exposures will continue to have very strong earnings growth. Companies that are more diversified will have solid earnings going into next year." Although underlying casualty rates will continue to soften, "early indications are that property pricing

should stay at much higher than historical levels," he said.

An issue for next year, though, is whether property market competition will increase or if it will "remain pretty disciplined," Mr. Klauber said.

Mr. Newsome agreed. The "biggest question," he said, is whether the hard property market "will turn quickly given the lack of catastrophe losses this year."

California: Workers compensation battles heat up

Continued from page 4

for the report's release, but employers expect it will be available before year's end, said Jason Schmelzer, a lobbyist for the California Manufacturers & Technology Assn. in Sacramento.

Employers are counting on the report for a thorough public policy discussion on how injuries should be rated and then compensated, Mr. Schmelzer said. But supporters of S.B. 815 want to increase benefits

without first establishing how an injured worker's disability percentage should best be determined, he added. "It's distorting the facts and complexity of the issue and that is not good for anybody," Mr. Schmelzer said.

Rating schedule cases

Meanwhile, *Joey Acosta vs. Hardy Diagnostics; State Compensation Insurance Fund* offers an example of a

handful of court cases under way that are being watched for their potential impact on the rating schedule, Mr. Webb said.

The case is now before a workers compensation court. It seeks to increase benefits by arguing that the claimant should be allowed to have a back injury rated with the help of vocational experts who can attest to his decreased earning capacity rather than just having to rely on the rating schedule, Mr. Webb said.

ADVERTISER

INDEX

Issue of September 11

ADVERTISER	PAGE #	ADVERTISER	PAGE #
Ace Insurance	7	Harbor Capital Advisors, Inc.	6
ACSTAR Insurance	12	Harvard Pilgrim Health Care	33R
American Institute for CPCU	38	Katie Insurance School and Financial Services	48
American Wholesale	22/23	Lexington Insurance	56
Aon Corporation	2	Liberty Mutual	5
Apex Insurance	48	Markel Corporation	42
Arch Insurance	35	Mercator Risk	28/29
Beazley Group Inc.	10	Munich Reinsurance America, Inc.	31
BISYS Commercial Insurance	19	National Alliance	46
Burnham Systems	48	Prime Insurance Syndicate	48
Business Insurance	33, 45, 46, 47, 51	RLI Corp.	41
Capitol Insurance Companies	33R	Scottsdale Insurance Company	17
CNA Insurance	27	Signet Star Reinsurance	20
Colemont Insurance Brokers	30	St. Paul Travelers	40
Corporate Environmental Advisors	48	Swett & Crawford Group	34
Crump Insurance Services	37	Swiss Re	25
Dempsey, Myers & Co., LLP	6	The Navigators Group	32
EQECAT	44	Wausau Insurance Companies	14
Fireman's Fund	9	Westrope & Associates, Inc.	36
First State Management	39	WFT Incorporated	43
Fitch Ratings	44	XL Insurance	15
Guilford Specialty Group	21	Zurich North America	13
G&M Marine Inc.	45		

Suit: Spitzer drops some charges against Greenberg

Continued from page 1
also be dismissed."

"The things dropped out of the case had a much greater (financial) impact on AIG than the things left in," a spokesman for Mr. Greenberg added.

Mr. Smith's attorneys, Vincent A. Sama and Andrew M. Lawler, echoed the hope that the case will ultimately be dismissed.

But Mr. Spitzer's office fired back immediately.

David Brown IV, chief of the attorney general's investment protection bureau, replied in a statement that "the changes are housekeeping matters that will streamline the case... (and) have no bearing on the core of our claims against Mr. Greenberg."

"The claims at the center of this case, alleging that Mr. Greenberg and Mr. Smith cooked the books to make a company appear more sound, remain," a spokesman for Mr. Spitzer said.

Regarding the dropped workers comp-related claims, the spokesman added, "from our perspective there wasn't a whole lot of upside to litigating this" because AIG had already paid penalties for the issue as part of its settlement.

While lawyers for Messrs. Greenberg and Smith tried to depict the amended complaint as a concession by Mr. Spitzer, some legal observers say the new court filing indicates that the attorney general is not backing down.

'Down to business'

"I think it actually means he's ready to get down to business here," said Anthony M. Sabino, professor of law at the Peter J. Tobin College of Business at St. John's University in New York.

Paring the case down to its strongest elements makes sense, he added. "You basically bring your 'A' game to the table."

The Greenberg legal team's public relations tactic of trumpeting the dropped allegations, meanwhile, is

both "bold and foolish," Mr. Sabino said.

On the one hand, it puts Mr. Spitzer publicly on notice that "he's in for a dogfight," and in a "perverse" way could set the stage for future settlement discussions, he explained. But it could also antagonize Mr. Spitzer and draw insurance industry attention to the fraud charges that are still pending.



PHOTO: LANDOV

New York Attorney General Eliot Spitzer filed an amended complaint against former American International Group Inc. Chairman Maurice R. Greenberg and former CFO Howard I. Smith.

The lawsuit Mr. Spitzer filed against Mr. Greenberg and Mr. Smith last week amends a complaint originally filed in May 2005. The amended suit reiterates several charges against the two executives, including that they orchestrated schemes to:

- Inflate AIG's reserves in a sham \$500 million loss portfolio deal with General Re Corp. that actually transferred no risk and that was concealed with false documentation.
- Manipulate reserves further with so-called "topside" accounting adjustments to AIG financial reports.
- Disguise underwriting losses on auto warranty and Brazilian life insurance business by turning them into investment losses in a complex series of transactions with offshore affiliates.

Mr. Greenberg's and Mr. Smith's motive in these deals was partly to preserve the value of their huge holdings in AIG stock: the value of Mr. Greenberg's holdings at one point rose or fell \$65 million for every one dollar change in the insurer's share price, the suit charges.

The complaint, however, eliminates various claims raised in the original filing. These include allegations that the two executives directed schemes to misreport workers comp premiums as general or auto liability to avoid premium taxes and assessments; mislead regulators about AIG's control of offshore entities used in some of AIG's allegedly improper transactions; and disguise income from life insurance settlement business as surety premiums.

The original complaint included four counts: three violations of New York antifraud and securities statutes and one count of common law fraud.

The amended complaint drops the common law fraud count, as well as a demand for punitive damages.

The elimination of that count represents a gain for the defendants, said James M. Burns, a lawyer with Vorys, Sater, Seymour & Pease L.L.P. in Washington.

"There has been some real advantage gained by the dismissal of the common law fraud count, because the prospect of punitive damages is no longer there," Mr. Burns said. "There is a tangible reduction in exposure there."

Mr. Sabino suggested the change may relate to the dismissal of AIG as a defendant and the refocusing of the complaint on the two executives.

"Since AIG has cleaned up its act, there's no purpose to punitives," he said. "It's really not appropriate anymore."

Rupal Parekh contributed to this report.

Late News

Continued from page 1

the three-judge panel in Chicago was the first time that an appeals court has ruled on whether cash balance plans are age discriminatory. Plaintiffs still can request a review by the U.S. Supreme Court.

Suit asks Alberta to allow private care

A lawsuit filed last week in Alberta seeks to overturn the Canadian province's ban on private health insurance for basic health services provided by the government. The lawsuit seeks to compel the Alberta government to comply with the June 8, 2005, ruling by the Supreme Court of Canada in *Chaoulli vs. Quebec (Attorney General)* that found Quebec's ban on private insurance for health care services that are already provided by the province to be unconstitutional (*BI*, June 20, 2005).

Calif. single-payer bill faces veto

California Gov. Arnold Schwarzenegger will veto a measure, passed earlier this month, to eliminate all public and private health insurance in California and replace it with a single-payer system. But Gov. Schwarzenegger said he planned to work with state legislators next year to develop health care reform legislation that would promote personal responsibility and recognize the shared responsibility of individuals, employers and government.

Destiny Health names CEO, adds PPO plan

Consumer-driven health plan provider Destiny Health has named Arthur C. Carlos president and chief executive officer. Mr. Carlos joined Chicago-based Destiny Health in 2005 from Aon Consulting, where he was chairman of its national retirement practice council and senior vp in charge of its U.S. central region retirement consulting practice. As he takes over as head of the Discovery Holdings unit, one of the company's key strategies will be to introduce a preferred provider organization plan to ease the migration into consumer-driven products for companies that support the concept but are not ready to adopt CDHPs as a full-replacement solution, Mr. Carlos said.

Aon gets OK for MGA commissions

Aon Corp. can now accept extra profit-based commissions from insurers when it acts as a managing general agent or underwriting manager under an agreement it has reached with authorities in Connecticut, Illinois and New York. Aon's agreement amends its March 2005 settlement with the state authorities, in which it agreed to cease collecting contingent commissions from insurers, which authorities alleged created a conflict of interest with insurance buyers that compensate Aon for its services.

Marsh Inc. and Willis Group Holdings Ltd. recently reached similar agreements with state officials.

P/C rates down 7% in August

U.S. property/casualty rates fell by 7% on average in August, marking the second straight month of such a decrease, according to a survey of insurance agents and buyers released by Internet-based insurance exchange MarketScout. While there were minor price increases in certain classes, such as directors and officers liability, many lines—including inland marine, general liability, professional liability, workers compensation and excess coverage—saw average rate decreases between 3% and 8%, the survey said. Employment practices liability, fiduciary liability and surety rates, meanwhile, remained unchanged, the survey found.

AIG appoints general counsel

American International Group Inc. has hired Anastasia D. Kelly as its executive vp, general counsel and senior regulatory and compliance officer. Ms. Kelly comes to New York-based AIG from MCI/WorldCom, where she was executive vp and general counsel. She succeeds Ernest T. Patrikis, AIG's former general counsel, who left in April.

Briefly noted

American Re-Insurance Co., a Princeton, N.J.-based unit of the Munich Re Group, has formally changed its name to **Munich Reinsurance America Inc.**...California lawmakers have voted to reinstate through June 30, 2011, a law that requires that 75% of any **punitive damages** award to be paid to the state. The original 2004 so-called split recovery law expired on June 30....The Risk & Insurance Management Society Inc.'s Spencer Educational Foundation Inc. affiliate has appointed **Thomas R. Tizzio** as honorary fund-raising chairman. Mr. Tizzio served as president of American International Group Inc. from 1991 to 1997 and is currently senior adviser at AIG....XL Capital Ltd. and Brazil's Banco Itau Holding Financeira S.A. are forming a joint venture to provide commercial property/casualty and specialty insurance in Brazil. The new company will be named **ITAU XL Seguros Corporativos S.A.**...**Risk Management Solutions Inc.** has opened an office in Zurich, Switzerland. Newark, Calif.-based RMS said it opened the office to service its growing client base in continental Europe.

At BusinessInsurance.com

New Online Poll: Did the the events of Sept. 11, 2001, alter significantly your organization's approach to risk management?

Items in the Late News column originally appeared in BI's Daily News feature on www.businessinsurance.com. Visit the BI Web site to sign up to receive BI's Daily News by e-mail.

BI Stock Index [09/04 - 09/08]

Up-to-the-minute data for all 85 companies that comprise the BI Stock Index can be found at www.businessinsurance.com

Percentage change of BI Stock Index vs. key indicators

BI Stock Index	
3014.71	-0.89%
Dow Jones	
11392.11	-0.63%
S&P 500	
1298.92	-0.92%

Source: FinancialContent Inc. (<http://financialcontent.com>)

Largest gains

American Safety Insurance Holdings Ltd	6.77%
Health Net, Inc.	3.29%
RenaissanceRe Holdings Ltd.	2.50%
IPC Holdings, Ltd.	2.43%
Gainsco, Inc.	2.17%

Weekly change by market segment

Brokers	-1.81%
Insurers/Reinsurers	-0.29%
Managed Care Organizations	-0.94%

Largest losses

Clark Inc.	-11.85%
Sierra Health Services Inc.	-6.80%
ING Groep N.V.	-4.39%
EMC Insurance Group Inc.	-4.38%
AXA	-4.21%

IS RISK SNEAKING UP ON YOU?



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