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In Brief

Gallagher settles suit on contingents

Arthur J. Gallagher & Co. on Friday said it will pay nearly \$37 million to end charges that it participated in an industrywide contingent commissions scheme. The allegations came as part of a federal multidistrict class action suit in a New Jersey district court, in which plaintiffs said Itasca, Ill.-based Gallagher and several other brokers and insurers breached federal antitrust rules by conspiring to increase premiums for insurers and commissions for brokers. Gallagher did not admit to any wrongdoing, but in a statement said it was opting to "conclude its involvement, rather than prolong what could be a costly and burdensome lawsuit." Under the settlement, which is subject to court approval, Gallagher agreed to pay a total of almost \$36.9 million, including \$28 million to

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P/C INSURERS' FINANCIAL HIGHLIGHTS

Nine months of 2006 vs. same period 2005, in billions of dollars

	2006	2005
Net premiums written	\$337.8	\$321.3
Net underwriting gain	\$24.4	(\$2.5)
Aftertax net income	\$44.9	\$29.7
Combined ratio*	91.5%	99.9%

* After dividends

Source: ISO, III, PCI

Insurers profiting from slow cat year

Underwriting income soars for P/C insurers in nine-month results

By JOANNE WOJCIK

JERSEY CITY, N.J.—Thanks to a much lighter year for catastrophes, U.S. property/casualty insurers are back on solid financial ground.

Nine-month 2006 results announced last week by the Insurance Services Office Inc., the Insurance Information Institute and the Property Casualty Insurers Assn. of America show that insurers posted a \$24.4 billion net gain on underwriting. That compares with a \$2.5 billion underwriting loss in the year-earlier period.

Third-quarter results also improved sharply, as insurers posted net underwriting income of \$9.3 billion in 2006 vs. an underwriting loss of \$15.2 billion during the third quarter last year, when Hurricanes Katrina and Rita struck.

The turnaround in results is benefiting insurance buyers as well, by stimulating competition and keeping rate increases at bay in most lines.

But analysts note the insurance business remains cyclical and warn that insurers still trail the combined return on equity of Fortune 500 companies.

In addition, insurers' improved finances could hamper efforts to extend the federal terrorism insurance backstop scheduled to expire at the end of 2007, and the PCI is already mapping its strategy (see story, page 21).

According to the ISO, III and PCI, property/casualty companies' net written premiums increased 5.1%, to \$337.8 billion, in the nine-month period, from \$321.3 billion a year earlier. Consolidated surplus grew 12.9%, to \$467.6 billion from \$414.2 billion.

Property/casualty insurers' nine-month 2006 combined ratio also improved to 91.5% vs. 99.9% in the first three quarters of 2005.

Similarly, aftertax net income rose 50.5% to \$44.9 billion in the first nine months of 2006, from \$29.7 billion for the first three-quarters of 2005.

The annualized return on average policyholder surplus rose to 13.4% for the first three quarters of 2006

See **INSURERS** page 21

Pre-Christmas storm lightly dusts insurers

Luck may not hold as second snowstorm strikes Denver area

By SALLY ROBERTS

DENVER—While the blizzard that blanketed parts of Colorado right before Christmas may have put a damper on people's holiday plans, it did not result in much insured damage, according to initial reports.

But a similar storm late last week that dumped more than two feet of

snow over much of the already snow-covered Denver area may change that.

More than 30 inches of snow fell in the Colorado mountains and up to two feet in the areas surrounding Denver—closing highways, schools and businesses just days before Christmas. Denver International Airport, the nation's fifth-busiest airport, was closed to all flights for 45 hours, leaving thousands of stranded passengers.

Despite the inconvenience,

See **STORMS** page 21

Greenberg establishes charitable foundation

Starr International Foundation funded with AIG stock

By RUPAL PAREKH

ZUG, Switzerland—It's the season for giving, and Maurice R. Greenberg has begun offering grants from a new charitable foundation supported by the Starr International Co. Ltd.

Based in Zug, Switzerland, Starr International Foundation is chaired by Mr. Greenberg, who heads investment vehicle SICO and managing general agent C.V. Starr & Co., and is the former chairman and chief executive officer of New York-based American International Group Inc.

Otto Saxer, former CEO of Swiss Mobiliar, and John C. Whitehead, former co-chairman of Goldman, Sachs & Co., also serve as directors of the charity, according to a statement from the organization.

The new fund is considered the successor to the Starr International Charitable Trust, founded by Dublin, Ireland-based SICO in 1971. It is distinct from the existing Starr Foundation in New York, which was created by AIG founder Cornelius Vander Starr, and currently



BLOOMBERG/LANDOV

Mr. Greenberg

has assets of about \$3.5 billion.

The Starr International Foundation will be among the world's largest charitable entities, with an endowment expected to exceed \$20 billion. It likely will be rivaled only by the Bill and Melinda Gates Foundation, which received a huge boost earlier this year when Berkshire Hathaway Inc. Chairman Warren Buffet announced plans to donate the bulk of his fortune to the organization.

Starr International Foundation is expected to dole out tens of millions of dollars in grant funds each year to support a range of artistic, cultural, educational, environmental, humanitarian, medical and oth-

See **STARR** page 22

SPOTLIGHT

YEAR IN REVIEW:
RISK MANAGEMENT

The midterm elections raise risk managers' hopes for a permanent solution to the problem of terrorism insurance, but diminish

their expectations of significant tort reform.

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How can employers reduce the high cost of prescription drug benefits? This was the subject of last month's live *Business Insurance* Online Executive Forum "Hard to Swallow: Why Prescription Benefit Costs Are So High." To view this free archived discussion and download the speakers' slides, visit www.BusinessInsurance.com/webinars.

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WHITE PAPERS

Kaiser white paper views health care

"The State of Health Care," a Kaiser Permanente-sponsored white paper, outlines where the U.S. health care system is today, how it got here and what's being done to address the growing crisis. Based on a survey of benefits and HR professionals and employer executives, the white paper can be accessed in the White Papers area of www.BusinessInsurance.com.

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Business Insurance

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Mississippi AG seeks settlement of Katrina suit

Offer to insurers follows move by federal judge to send case back to state court

By LOUISE ESOLA

A federal judge tossed Mississippi Attorney General Jim Hood's lawsuit seeking to compel insurers to cover storm surge damage back to a state court, preceding Mr. Hood's announcement last week that he would like the insurers to settle.

The move from federal to state court is significant because federal courts have already denied similar claims made in other suits. Even more significant, however, is Mr. Hood's invitation to settle the case, industry observers say.

Robert Hartwig, president of the New York-based Insurance Information Institute, said the Mississippi attorney general is probably shifting to settle out of court because that federal court precedent could trickle down to the state court system.

"The precedent has been set and (Hood) knows this," Mr. Hartwig said. "What Hood is trying to do is



LANDOV

spin gold out of hay."

A spokesman for the Des Plaines, Ill.-based Property Casualty Insurers Assn. of America said the industry is confident that the state court will reach the same conclusion as federal courts.

'I think the public will appreciate the industry stepping up and doing the right thing.'

Jim Hood, Mississippi Attorney General

In an interview Dec. 29, Mr. Hood told *Business Insurance* that his proposal to settle out of court has nothing to do with the federal court precedents, but took into account what could be a lengthy trial and appeals process.

"I am comfortable in my position," Mr. Hood said. "Now's the time if we are ever going to resolve this. There's an opportunity for (insurers) to settle without having to admit problems with their claus-

es. I think the public will appreciate the industry stepping up and doing the right thing."

Shortly after Hurricane Katrina struck the Gulf Coast of Louisiana and Mississippi in August 2005, Mr. Hood sued five property insurers, claiming that wind, not flooding, caused the storm surge that devastated many homes and properties in the region.

Most insurance policies specifically exclude coverage for flooding, and insurers after Katrina denied coverage for storm surge damage.

Mr. Hood's suit argued that insurers are responsible for surge claims from the homeowners and businesses they insured. The companies named in the suit include: Mississippi Farm Bureau Insurance Co., State Farm Fire & Casualty Co., Allstate Property & Casualty Insurance Co., United Services Automobile Assn. and Nationwide Mutual Insurance Co.

Life insurers lead way to 'Triple X' captives

New facilities dwarf premium volume of traditional captives

By ROBERTO CENICEROS

Life insurers are driving a growing trend in forming U.S. reinsurance captives that easily dwarf the average premium volume written by property/casualty captives.

The new so-called "Triple X" facilities also have helped introduce capital markets to captive funding, say South Carolina and Vermont regulators.

"It's big dollars," said Derick A. White, director of captive insurance for the Vermont Department of Banking, Insurance, Securities and Health Care Administration. "These programs typically (write) between \$100 million and \$500 million a year in premiums."

In contrast, the approximately 540 active property casualty/captives in Vermont each write an average of \$20 million in premiums, Mr. White said.

Vermont, which licensed its second Triple X facility in November 2006, expected to have two more formations by year-end, Mr. White said. The domicile has scheduled a Jan. 4 hearing on proposed regulations that would facilitate the formation of captives reinsuring life insurance policies by addressing their reserve requirements and annual reports.

South Carolina, which modified its regulations in 2004, has licensed 18 of the facilities.

The world's largest life insurers are forming the reinsurance captives to

meet reserving requirements for universal life, whole life and term life insurance policies, sources say.

The National Assn. of Insurance Commissioners laid out the controversial reserving requirements in a model regulation implemented by most states in 2000 and 2001.

The facilities became known as Triple X captives because originally that was a placeholder name for the NAIC's model law and the reserves it called for became known as Triple X reserves, regulators said.

At the time the NAIC adopted its model, regulators believed life insurers were understating their liability so state regulations called for life insurers to increase their reserves up to fivefold, Mr. White said.

Under those regulations, insurers' need for reserves will peak about 10 years into the life of an insurance policy. That is why insurers are forming the captives now.

The captives remove hundreds of millions of dollars of reserve liability from life insurers' balance sheets. They can do so by ceding the required reserves, along with the associated premiums, to another insurance company such as a captive, Mr. White said.

Captives can obtain reserve funding through letters of credit that an affiliate of the captive's parent can provide.

They also can tap the capital markets by, for example, issuing a surplus note to a special purpose vehicle that provides the captive with cash, said Kevin Moriarity, assistant general counsel for Vermont's Department of Banking, Insurance, Securities and Health Care Adminis-

Quebec pension law requires employers to maintain reserve

Hedge against plans' underfunding puts squeeze on sponsors

By GLORIA GONZALEZ

An amendment to Quebec's pension law imposes strict provisions regarding the funding and management of defined benefit plans and may be another justification for Canadian employers to consider terminating their plans even though the amendment includes provisions that are favorable to plan sponsors.

In an effort to improve funding of pension plans to protect benefits of members and beneficiaries, the Quebec provincial government enacted an amendment—Bill 30—that will require a pension fund to maintain an "adverse deviation" provision.

Adverse deviation is a percentage of the solvency liability—the estimated value of pension obligations if a plan were to be terminated—that is to be added to the pension fund by a plan sponsor in case of investment losses. The percentage varies depending on the distribution of the plan's assets and investment policy. For example, if 60% of plan assets were invested in equities, the reserve would equal 7% of a plan's solvency liability.

The government wants employers to make sure that plans are fully funded and have a reserve before surpluses are used to fund benefit increases or employer contribution

holidays, pension experts say.

"The idea is to make sure the assets of the plan and the funding of the plan (are) more secure for employees," said Robert Dupont, a Montreal-based partner with Heenan Blaikie L.L.P. who specializes in employment and pension issues.

The provision, though, has negative implications for plan sponsors because it will require that more money be contributed to pension plans, said Michel Methot, chief actuary of Alcan Inc. in Montreal and chair of the Quebec Regional Council of the Toronto-based Assn. of Canadian Pension Management, which represents plan sponsors in Canada.

Bill 30 also mandates accelerated funding of any change to a pension plan when the cost of the change causes the solvency of the plan to drop below a certain threshold. If benefits are increased at a time when the plan is less than 90% funded, the employer immediately has to pay the cost of the additional benefits or fund the plan up to the 90% level. This means few employers will be tempted to increase benefits because of the financial burden this will cause, Mr. Dupont said.

The new funding measures take effect in 2010.

Bill 30 also requires that any use of surplus assets to fund a plan amendment that increases benefits must be equitable for active and nonactive members. If 30% or more

IRS to resume approving hybrid pension plan conversions

Reform law removed uncertainty that led to agency moratorium

By **GLORIA GONZALEZ**

WASHINGTON—The Internal Revenue Service's decision to resume processing cash balance pension plan conversion applications may encourage more employers to offer cash balance and other hybrid pension plans, experts say.

The IRS is lifting a seven-year-old moratorium on determination letter applications for conversions

from traditional defined benefit plans to cash balance plans, as well as providing interim guidance on provisions of the Pension Protection Act of 2006 involving cash balance plans.

In 1999, the IRS suspended processing of determination letter applications pending study of the issues raised by conversions to cash balance plans, including the impact of such conversions on older employees. A determination letter is a kind of government seal of approval.

With the passage of the Pension Protection Act, though, the IRS said in Internal Revenue Notice 2007-6

that it can now resume processing the backlog of about 1,200 cash balance plan applications that were affected by the moratorium. The agency hopes to resolve a significant majority of these cases by the end of 2007.

The PPA, among other things, made clear that new cash balance plans will be considered non-age discriminatory so long as they meet certain standards.

Although the IRS will once again begin processing determination letter requests, the agency made a distinction between conversions occurring before June 30, 2005, which is the retroactive effective

date of the PPA's cash balance plan provisions. For conversions prior to that date, the determination letter will not address whether the plan meets the new legislative requirements, while it will certify whether plans converting after that date meet the requirements, said Jan Jacobson, director of retirement policy at the American Benefits Council in Washington.

For example, the PPA does not permit wearaway, a situation where employees in plans that convert to a cash balance design may not accrue benefits for years due to interest rate fluctuations in the new plan formula. Cash balance opponents cited

wearaway as a disadvantage of the plans. But the PPA requires plans that convert to a cash balance design to allow employees to receive benefits based on the old formula until the date of conversion and benefits based on the new formula after that date.

In its determination letters, the IRS would address whether a converted plan complies with the wearaway prohibition for plans that converted after the retroactive date, but would not do so for plan conversions prior to the retroactive date, Ms. Jacobson said.

See **IRS** page 20



Job qualifications at heart of ruling on hiring of locksmiths

Woman allowed to sue over hiring of unqualified men

By **JUDY GREENWALD**

PHILADELPHIA—A woman who does not meet the qualifications for a job may sue for sexual discrimination for being denied a promotion if the successful male applicant also does not meet the job's qualifications, a federal appeals court has ruled.

The unanimous decision by a three-judge panel of the 3rd U.S. Circuit Court of Appeals in Philadelphia in *Judy Scheidmantle vs. Slippery Rock University State System of Higher Education* has returned the case to a lower court for further proceedings.

According to court documents, Ms. Scheidmantle was passed over twice for promotion to a locksmith position. In both cases, the males hired for the job also lacked the experience requested in the advertisement.

While the district court accepted the university's argument—that Ms. Scheidmantle could not pursue a sexual discrimination claim because she lacked objective qualifications for the job—and granted a summary judgment dismissing the case, the appellate panel disagreed in its Dec. 19 ruling.

"Because Slippery Rock placed similarly 'unqualified' males in the locksmith position, it could no longer point to the job posting's objective qualifications as valid reason for refusing to promote Scheidmantle," the appeals panel ruled. In a long footnote, the ruling also said "the record before us suggests that the university has a history of failing to provide women with opportunities for locksmith training."

Attorneys in the case could not be reached for comment.

Judy Scheidmantle, appellant vs. Slippery Rock University State System of Higher Education, 3rd U.S. Circuit Court of Appeals, No. 05-3850, Dec. 19.

Ex-Unum exec pleads guilty to fraud

Probe of sales commissions led to Tennessee charges, insurer says

By **ROBERTO CENICEROS**

MEMPHIS, Tenn.—James Michael Foley, a vp of sales for UnumProvident Corp., recently pleaded guilty to fraud charges related to group product sales, according to the U.S. Attorney's office.

Mr. Foley sold policies to about 10 employers and directed UnumProvident's underwriting department to name his friend as the broker of record and pay a com-

mission, the U.S. Attorney's Office for the Western District of Tennessee said in a Dec. 21 statement.

Policies sold by Mr. Foley normally did not generate a commission, but he received 90% of the commissions paid to his friend and altered documents to conceal the scheme from employers, according to the statement.

Mr. Foley no longer works for UnumProvident and faces up to 23 years in prison and a \$500,000 fine.

He is scheduled to be sentenced March 23, the U.S. Attorney's office said in its statement.

A spokeswoman for UnumProvident said the problem came to light following former New York Attorney General Eliot Spitzer's investigation into insurance commission payments.

Disability and life insurance are the Chattanooga, Tenn.-based insurer's largest-selling group products.

California updates reinsurance rules after protracted talks with industry

In compromise, companies and state agree to monitor regs

By **JUDY GREENWALD**

SACRAMENTO, Calif.—New California reinsurance regulations—the result of extensive negotiations between the state Department of Insurance and the industry—go into effect today, but do not include sweeping changes, say observers.

The complex technical Reinsurance Oversight Regulations, which update the state's 1997 insurance law, cover issues that include credit for ceded reinsurance, contract requirements and oversight of reinsurance transactions, among other issues.

The regulations, initially proposed by the California department in 2005, were vigorously opposed by insurance and reinsurance groups, which said the rules were overly broad and improperly extended the department's authority. The subsequent compromise that produced the revised rules should not create significant problems for the industry, observers said.

"The industry and the department did a great job of coming to basically a meeting of the minds on a lot of issues, so the industry is relatively happy" with the outcome, said Marsha A. Cohen, senior vp and director of state relations at the Washington-based Reinsurance Assn. of America.

nature and do not result in what I would characterize as real substantial or substantive revisions."

Barry Leigh Weissman, an attorney with Sonnenschein Nath & Rosenthal L.L.P. in Los Angeles, said, "Nobody is really happy with them, but it was a compromise" that avoids "huge battles" in the legislature or courts. "However, one of the cornerstones of the compromise is an agreement by the department" that there will be continued scrutiny of the regulations, particularly this year "as to their practicality and how they work."

That could lead to modifications later, he said.

Legislation spurs compromise

Mr. Weissman said a version of Assembly Bill 2400, which "would have completely neutralized" the regulations proposed originally, encouraged cooperation between the department and the industry.

"As a result, the department was willing to start negotiations and we came to compromises" with it. A revised version of AB 2400, which was signed into law in September, makes minor changes to the law regarding reinsurance.

"A principal feature of the final regulations, together with the legis-

NO SWEEPING CHANGES

The complex technical Reinsurance Oversight Regulations, which update the state's 1997 insurance law, cover issues that include credit for ceded reinsurance, contract requirements and oversight of reinsurance transactions, among other issues.

The industry "can live with the terms that ended up in the...version that was ultimately adopted," said Brian S. Kaas, an attorney with Foley & Lardner L.L.P. in Milwaukee. "Many of the changes are more technical in

See **CALIFORNIA** page 20

Errors & Omissions

Due to a production error, the final edition of 2006 published by *Business Insurance* listed an incorrect issue number. The Dec. 25, 2006, magazine was Vol. 40, No. 52, and was the final regular issue of the year. *BI's* 2007 Market Sourcebook, also published in December, was Vol. 40, No. 53.



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Triple X: Captives access capital markets

CONTINUED FROM PAGE 3

tration. In turn, the special-purpose vehicle can issue a surplus note to investors who provide it with funding that ultimately flows to the captive, he said. A third party, such as an insurer or an investment bank, can guarantee investors' returns.

As evidence that the arrangements are helping the capital markets grow increasingly comfortable with captive funding, South Carolina in October licensed a facility providing accident and health insurance coverage, said Leslie M. Jones, executive assistant to the director and chief life/health actuary in the South Carolina's Department of Insurance in Charleston.

The captive's owner uses it to access capital markets to fund capital requirements for the accident and health coverage, said Ms. Jones, who declined to provide further details.

The NAIC says the model requirement, "Valuation of Life Insurance Policies Model Regulation," that spurred the growth of Triple X captives addressed a situation that had

allowed life insurers to write policies without having to put up adequate reserves.

But the NAIC task force that created the model regulation relied on outdated mortality tables to determine an adequate reserve level for insurers, said Ms. Jones, who is also a member of the NAIC's Life and Health Actuarial Task Force that created the model regulation.

"It posed a significant problem for life companies because they were charging premiums based on what they expected to happen, yet they have to hold reserves based on outdated mortality tables," Ms. Jones said. "So they ended up in a funding pinch."

Reserve calculation debate

Because the reserves are considered redundant and there is little risk that they will ever be needed, the capital markets have been willing to step up and provide the reserve funding, Ms. Jones said.

Others within the NAIC, though, dispute whether the model law missed its mark in calling for increased reserves. How to best cal-

culate reserves has been debated among actuaries and NAIC members for years, sources say.

However, there is growing recognition that a so called "formulaic" reserve approach may need to be revised for some underwriting products including life policies, Ms. Jones said.

Movements now are afoot to adjust the reserve requirements, Ms. Jones and Mr. White said.

However, it will take years for such changes to occur, sources say.

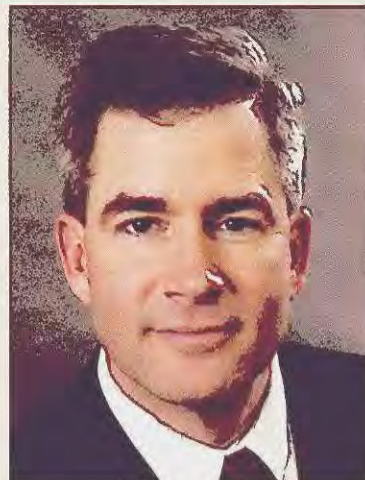
Meanwhile, regulators say they expect the formation of Triple X captives to continue as more insurers turn to them to address their reserve requirements.

The captives tend to be "deal specific" because investors want their business kept isolated, said John Hunter, chief financial officer in Cedar Rapids, Iowa, for AEGON Financial Partners, a unit of Hague, Netherlands-based AEGON.

AEGON formed Stonebridge Re in Vermont about a year ago, and The Hartford Financial Services Group licensed Champlain Life there last month.

Questions Answers

Howard Mills is the newly appointed chief advisor, global insurance industry practice, of Deloitte & Touche L.L.P. and the outgoing New York superintendent of insurance. Mr. Mills spoke recently to Business Insurance Associate Editor Rupal Parekh about his time as an insurance regulator, his views on hotly debated industry issues and what's next for him.



N.Y. tenure 'invaluable'

Q: What surprised you most about the industry when you became superintendent?

I became superintendent, obviously, at a time of tremendous tumult—contingent commissions, finite re, pending expiration of TRIA. It was just amazing to me how dynamic the industry was. To see it from the perspective of New York superintendent, one of the more prominent regulatory spots, was unique—to see everything just swirling around. It was a very pleasant surprise.

Q: What are you proudest of during your tenure as superintendent?

I'm proud of a lot of things that we've done. Internally, we enacted some reforms that were very significant. We made a switch, under my direction, from the old periodic-exam formula to risk-based exams. I think that's the wave of the future. It helps us to use our resources better but also helps us to spot problems in companies and correct them earlier.

We formed our corporate practices unit, which is a brand new unit, and that, in conjunction with risk-based exams, will enable us to spot issues where there is any criminal wrongdoing, get it to the attorney general faster and hopefully correct problems before they become full-blown crises. We've done a lot of other good things on the consumer side, processed many cases and in many instances, gotten involved on behalf of consumers.

For big-picture items, I think that the New York department was very involved—and I like to think that I was very involved—in winning the extension of TRIA. I spent a lot of time in Congress last year, testified before both the House and the Senate several times, tried to be very vocal and a thought leader, and hopefully that will carry over in the new Congress, which has been very, very responsive and very receptive to the continued federal role in a terror backstop.

Q: What's next for you professionally?

I'll be joining Deloitte & Touche, with the title of chief advisor, global insurance industry practice. I will be based in New York. It's a wonderful firm....They've got a very, very significant insurance practice. I was entertaining a lot of offers

and...was very impressed with Deloitte—the culture of the firm, the dynamics of that role....It is a very broad portfolio...similar to being the superintendent.

Q: Did Eliot Spitzer's aggressive pursuit of wrongdoing by New York's insurers and brokers help you or hurt you as the state's top insurance regulator?

I think that it was a help in that I was put into a position...where we

THE FULL TEXT of this abridged BI interview is at www.BusinessInsurance.com/QandA

were at the center of the driving issues of the day. I didn't always agree with Attorney General Spitzer on the way he handled things, but we ultimately formed a very effective partnership, worked together very collaboratively and at the end of the day, concluded a significant number of joint settlements—which really had a fundamental impact on the industry and also on the regulatory community.

Never having been a regulator, I think was a benefit to me, and I didn't feel any need to make excuses for the past. I came in and said, 'Look, there's a reason that the attorney general is so actively involved in the insurance sector,' and part of that, regulators have to acknowledge, is that we hadn't drawn a clear enough path.

Take finite reinsurance for example: There were no clear rules that were readily understood...known. The regulatory community bears a responsibility for that, and we needed to do a better job of defining what the rules were for proper use and proper accounting of finite reinsurance, to give one example.

Q: Any advice for the next superintendent?

The toughest part about this job is maintaining the proper balance. On the one hand, our critical mission is to protect the insurance consumer in New York, but right behind that—and you really can't say that it's even behind it because without the second you can't do the first—is to maintain a market and an environment that's conducive to the business. So you have to maintain the balance to protect the consumer but keep the marketplace strong. I don't know if you want to call it advice, but I would say that that's the primary challenge any superintendent will face.

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Business Insurance OPINIONS

What's ahead in 2007? BI offers 'ins' and 'outs'

EACH NEW YEAR brings an opportunity to look back at the past year as well as ahead to what may be in store. Continuing a long tradition, *Business Insurance* offers our predictions on what will be "in" and "out" in risk management and employee benefits during 2007.

We acknowledge weaknesses in our prognostications, but several of our predictions at the beginning of last year proved correct. Here's what we got right.

Comprehensive pension funding reform had long been on employers' list of unfulfilled wishes, but we thought Congress would finally deliver in 2006—and it did. In August, the Pension Protection Act ushered in the most sweeping set of reforms since the Employee Retirement Income Security Act of 1974.

We believed policyholder litigation over the cause of hurricane losses would occur, and that also came to pass. Most courts have so far ruled in insurers' favor, though, and the Mississippi attorney general announced last week that he would welcome an out-of-court settlement with the major homeowners insurers even as he succeeded in getting the case moved back to state court (see story, page 3).

After the record year for hurricane losses in 2005, it was easy to predict that rates for catastrophe-exposed risks would rise a lot. In fact, they not only went up by double digits, on average, last year, but continued to rise as policies renewed throughout 2006.

In a related development, criticism of cat models suggested that the modeling companies would enhance their products. That, too, occurred as Risk Management Solutions, EQECAT and AIR Worldwide all tweaked their algorithms.

We thought retrocessional reinsurance coverage would be in, but it looked as though we were wrong until late in the year. Several companies established offshore vehicles to provide sorely needed retro capacity, which the hurricanes in '05 all but wiped out.

Business Insurance missed the target in other areas, however.

We thought that discussions of extending the Terrorism Risk Insurance Act would die in 2006. But the November elections that brought Democrats into the majority revived the chances that TRIA will survive.

Employers' interest in defined benefit plans still wanes, but we wrongly predicted such pension designs would virtually disappear. The massive Pension Protection Act was a shot in the arm of defined benefit plans and put hybrids, such as cash balance plans, back on the table.

Layoffs by major brokers continued in 2006, against our expectations. And softening rates in most lines of business will give impetus to further cost-cutting.

After aggressively pursuing brokers and insurers during 2005, we figured Eliot Spitzer would lose interest in the insurance industry last year. Not quite. He continued his war on contingent commissions by focusing on insurers. 2006 saw a string of settlements by some of the largest commercial lines insurers, led by American International Group's \$1.64 billion agreement. Mr. Spitzer remained active in investigating the industry right up until New Yorkers elected him governor, and his successor vowed to continue the course his predecessor set.

Above are some forecasts for what may be "in" or "out" in 2007.

IN FOR 2007

- Cash balance plan conversions
- Competitive insurance market conditions
- Consolidation among PBMs
- Extension of TRIA backstop
- Gradual growth in consumer-driven health plans
- IPOs for Bermuda startups
- M&A among large brokers
- More hurricanes, after 2006's welcome respite
- States promoting universal health care

OUT FOR 2007

- Adequate capacity for coastal property risks
- Discussion of a federal program for funding catastrophes
- Drive to eliminate contingent commissions
- Expansion of alternative risk transfer market
- Legislation mandating large employers' health care spending
- Strict reinsurance collateral rules for all alien reinsurers
- Steeper increases in health care costs
- Underwriting discipline in most lines



Letter

Article misrepresented Zurich's position

To the editor: I feel compelled to write to express Zurich's disappointment in the tone and completeness of the "Announcement Raised Eyebrows" article written by Meg Fletcher in the Dec. 18 issue.

The phrase "raised eyebrows among some industry sources" implies some type of quid pro quo existed between Alessandro Iuppa's NAIC leadership position on the Reinsurance Evaluation Office issue and a potential benefit to be gained by Zurich.

Zurich's position on the REO, based on the proposal as drafted, is neutral for a number of reasons. While the many unknown variables that exist at this time prevent us from making a firm estimate of the impact this proposal might have on our expenses, the article implies that the benefit to Zurich under the proposed REO would be material, which very likely will not be the case.

Your "analysis" only considered

reinsurance recoverables from Zurich entities. Under the REO proposal, Zurich would lose the benefit of a portion of collateral it currently holds from the unaffiliated alien reinsurers that reinsure our U.S. entities. To the extent that they have a similar reduction in collateral Zurich would lose that collateral.

Therefore, any potential benefit to Zurich of the proposed REO, which is still unclear, most likely would be administrative, as it would allow us the flexibility of investment management without the constraints of trusts.

We welcome the opportunity to participate in an in-depth review of the potential effect of REO on insurers and reinsurers, the type of thoughtful coverage that is the hallmark of *Business Insurance*.

Keith Owens

PR Director
Zurich North America
Schaumburg, Ill.

Online Poll at www.businessinsurance.com

Will the proposed easing of collateral requirements for non-U.S. reinsurers be beneficial for U.S. risk managers?



NEXT WEEK'S POLL: How likely is consolidation among prescription benefit managers to help reduce employers' drug costs?

BI Online Poll tool sponsored by Wausau

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Year in Review:
Risk
Management

SPOTLIGHT

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MANAGEMENT
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LAST YEAR?
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**TIMELINE OF
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NEWS AS IT
DEVELOPED
PAGE 16**



Winds of change blown by politics, not nature

*Lack of catastrophes,
steady med mal rates
are major 2006 factors*

By **DAVE LENCKUS**

Risk managers in the new year are contemplating the potential good and bad fallout from what they consider to be last year's most important news stories: the 2006 midterm elections and the hurricane season that wasn't.

"The elections change the face of insurance, risk management and benefits for the coming 12 to 24 months," said Lance Ewing, vp-risk management at Memphis, Tenn.-based Harrah's Entertainment Inc.

That is, of course, if Democrats hold their slim majority in the U.S. Senate following the illness of Sen. Tim Johnson, a Democrat from South Dakota. If Mr. Johnson could not complete his term, the state's Republican governor would appoint his replacement. If he appoints a Republican, then the GOP, with tiebreaking votes cast by Vice President Dick Cheney, would

regain control of the Senate.

In the U.S. House, however, Democrats still are poised to take control of the chamber.

A quiet hurricane season in 2006 is significant because risk managers with catastrophe exposures hope that means good news when they renew their property accounts this year.

Other developments also important to risk managers include a credit rating agency's modified approach for evaluating financial institutions and a stabilized medical malpractice insurance market.

But the election results—which risk managers spoke about before Sen. Johnson fell ill—and the country's respite from catastrophic windstorms clearly topped risk managers' lists of the top news stories in 2006.

With Democrats possibly taking control of Congress and making significant gubernatorial gains, "the chance of tort reform diminishes, if not completely disappears" because of the party's close ties to the plaintiffs bar, said medical center risk manager Richard P. Kidwell.

Mr. Kidwell, associate counsel

and director of risk management for the University of Pittsburgh Medical Center in Pittsburgh, advocates reforms to curtail runaway jury verdicts, eliminate frivolous claims and assure plaintiffs of a bigger piece of their recoveries by reducing their attorneys' contingency fees.

Even absent those reforms, the medical malpractice market began stabilizing in 2006, which was a major development, Mr. Kidwell said. But, he noted, the market stabilized at extremely high rates, and claim costs continue to rise.

A cause that a Democratic Congress would be expected to embrace is reducing the ranks of U.S. residents without health insurance, said James D. Hinton, vp-risk and insurance at Nashville, Tenn.-based HCA Inc., the nation's largest multihospital corporation. Since a significant percentage of the uninsured are employed, Congress' solution could be a challenge for business, according to Mr. Hinton.

A Democrat-controlled Congress also would more likely push harder to move regulation of the insurance industry to the federal government from the states, risk managers said.

Insurers and risk managers have debated for years whether such a shift in industry oversight would help or hurt buyers.

Democrats' other anticipated pet projects that are not directly linked to risk management and insurance also would impact risk managers, Mr. Ewing said. For example, if Congress raises the minimum wage, then workers compensation costs would rise, he pointed out.

But some risk managers also expect a few good things from a Democrat-controlled Congress.

For example, unlike Republicans, Democrats are more receptive to allowing the government to flex its buying power muscle with pharmaceutical companies and negotiate lower prescription drug costs for Medicare recipients, Mr. Hinton said.

"That will have an effect on everybody" because health maintenance organizations would begin to demand a similar cost structure, he said. "They can't get to the government's numbers, but they will get as close as they can."

Continued on next page

Bid-rigging, finite re probes lead insurers to settlement table

States turn attention to sales of annuities and personal lines

The U.S. insurance industry settlement frenzy of 2005 showed no signs of letup in 2006.

As authorities continued to aggressively pursue resolutions with insurers over bid-rigging charges and finite reinsurance wrongdoing, they expanded investigations to annuities and personal lines.

With major brokers settling regulators' probes into contingent compensation in 2005, in 2006 it was the insurers that one after another inked settlements—each costing millions in policyholder restitution and penalties, and forcing changes to business practices. In all, insurers paid more than \$2 billion in fines and restitution.

In February, American International Group Inc. agreed to pay \$1.64 billion to resolve allegations by New York Attorney General Eliot Spitzer and other states that it,

among other charges, conspired with Marsh & McLennan Cos. Inc. to rig bids.

The following month, it was Zurich Financial Services Group Inc. that reached settlements of \$153 million in nine states' investigations of bid-rigging and improper use of finite reinsurance. Later in 2006, Zurich reached similar settlements with more states as well as the District of Columbia and agreed to pay another \$141.8 million.

Bermuda-based ACE Ltd. paid \$80 million in April to end investigations by New York, Connecticut and Illinois.

In May, Hartford Financial Services Group Inc. said it would pay \$20 million to settle charges brought by Mr. Spitzer and others concerning its broker compensation for placing group annuity business.

St. Paul Travelers Cos. Inc. wrapped up similar charges in August by entering a three-state agreement for \$77 million.

The settlements continued right through the end of year.

UnumProvident Corp. agreed in



November to pay \$17.4 million to settle charges by New York and others over its compensation practices.

In December, Prudential Insurance Co. of America reached a \$19

million settlement with Mr. Spitzer—who by then had won New York's race for governor—as well as a settlement with California Insurance Commissioner John Garamendi concerning its business practices.

Also in December, Chubb Corp. agreed to a \$17 million compensation practices settlement with attorneys general of New York, Connecticut and Illinois, and became the first property/casualty insurer to agree to eliminate contingent commissions on all U.S. business.

But it wasn't just about the money. The companies all vowed to make significant changes in how they conduct business, including halting contingent commissions as well as enhancing reporting requirements and client disclosure.

To top it off, Mr. Spitzer in late November informed ACE, AIG, St. Paul Travelers and Zurich that—in addition to contingent commissions they previously agreed to stop paying on certain classes of business—they also must end contingent payments for six additional lines of business. The lines included

automobile, homeowners multiperil, boiler and machinery, and financial guarantee coverage.

The move, in which Mr. Spitzer targeted the personal lines industry for the first time, prompted an outcry from independent agents, many of whom are reluctant to give up contingents as a producer incentive.

Despite all the 2006 handshakes, two companies refused to bend.

Liberty Mutual Group Inc., which Mr. Spitzer sued in May for allegedly participating in a bid-rigging and steering scheme with Marsh, said the settlement demands were "excessive and unreasonable." The brokerage maintains that its business practices were lawful and vowed to defend itself in court—one battle the entire industry is waiting to watch unfold.

And Acordia Inc. and parent Wells Fargo Bank N.A. declared in late December that the brokerage would vigorously fight claims by three states that it accepted nearly \$200 million in undisclosed commissions from insurers.

—By Rupal Parekh

Mother Nature gives property owners and insurers a break

Even so, rate relief for cat-exposed risks extremely hard to find

The fierce winds of 2005's record hurricane season continued to batter the commercial property insurance market throughout 2006.

Risk managers, particularly those with catastrophe-exposed properties along the East and Gulf coasts or along the California earthquake fault lines, found themselves facing double-digit and in some cases triple-digit rate increases while the amount of coverage available shrank.

Five hurricanes accounted for \$52.7 billion—or 93%—of 2005's \$56.8 billion in insured property damage, the Insurance Services Office Inc.'s Property Claim Services

unit reported in late January. Hurricane Katrina alone caused more than \$38 billion in insured property damage, far more than the total sustained by the property/casualty insurance industry in 2004, and the \$27.3 billion in insured damage posted that year was itself a record.

Many liability lines soften

But risk managers seeking to place property accounts in some noncatastrophe-exposed parts of the country, such as the Midwest, found themselves actively courted by underwriters. And for most accounts—catastrophe-exposed or not—the jump in property prices was somewhat offset by a continued softening of many liability lines.

By midyear, general liability rates had fallen by single-digit amounts compared with a year earlier, while



excess liability rates had fallen by as much as 10%.

Directors and officers liability rates remained stable or even dropped for many buyers as a feared reinsurance crunch failed to materialize.

Property insurers got a break from Mother Nature as well. Despite initial predictions of above average hurricane activity for the Gulf and Atlantic coasts, 2006 did not enter the record books as an active one. In fact, no hurricane made landfall along the Gulf and Atlantic coasts during the season.

That didn't translate into significant rate relief for buyers, though. By year's end, the best that risk managers with catastrophe-exposed property could hope for were decelerating rate increases, not outright decreases or even a flattening of rates.

Further complicating the picture was uncertainty over what role, if any, the federal government would play in guaranteeing terrorism insurance.

The new Democratic chairmen of the Senate Banking, Housing and Urban Affairs and the House Financial Services committees both promised to move swiftly on extending the federal terrorism insurance program, which is slated to expire on Dec. 31, 2007. But the Bush administration gave no indication that it would support—or at least not block—continuation of the program.

And the news from the hurricane forecasters indicated that there could be trouble ahead. Forecasters predicted that 2007 hurricane season, while not as active as 2005, would be more active than usual.

—By Mark A. Hofmann

CONTINUED FROM PREVIOUS PAGE

Rising health care costs, particularly a \$1 million increase in prescription drug costs, was a major development in 2006 for Joey Page, risk manager for the city of Plano, Texas. Health care benefits are important "to attract and retain good employees," and they factor into the city's workers comp costs, he said.

Another potential benefit of a Democrat-controlled Congress is a permanent solution to terrorism insurance, risk managers said. The federally backed terrorism coverage plan, which Republican-controlled Congresses created and renewed through the Terrorism Risk Insurance Act, will expire at year's end lacking action by Congress.

Democrats, who already have promised quick action on TRIA, "are not expecting the commercial market to carry the burden" for terrorism losses, said John W. Lambdin, assistant treasurer and director

of insurance at Weyerhaeuser Co. of Federal Way, Wash.

What many risk managers characterized as "a nonstory"—the unexpectedly inactive 2006 hurricane season—still was a major development.

On the heels of a devastating 2005 season, which drove up insurance premiums and pinched capacity for wind-exposed property, hurricane prognosticators said there was a high likelihood that 2006 hurricane activity would be above normal. No hurricanes, however, made landfall in the United States.

Risk managers said they hope that means the property catastrophe insurance market will soften.

"Hopefully, capacity will be more available, even if it's at a higher price," said Mr. Hinton of HCA, which owns several facilities in wind-exposed regions. "We weren't able to buy all we needed" in 2006, he noted, echoing complaints of many risk managers responsible for

property in wind-prone areas.

The calm hurricane season also was the top story for Mark Dama, director of insurance and risk management for the Irving, Texas-based Boy Scouts of America, which owns property in Florida. But Mr. Dama said his broker has advised him to expect neither pricing nor coverage improvements from his incumbent insurer at renewal in 2007.

For risk manager Beaumont Vance, the 2006 hurricane season was important for other reasons.

"All of the hand-wringing" over the hurricane projections "shows a fundamental misunderstanding of statistical analysis," said Mr. Vance, senior enterprise risk manager for Sun Microsystems Inc. of Broomfield, Colo. "If there's a 99% chance you're going to lose at a roulette table, that doesn't mean you're going to lose, or you'll never put your money down."

Because hurricane activity did not match predictions, Mr. Vance

said he is concerned that preparedness in the future may suffer when forecasters predict high probabilities of above-normal activity.

But the year's top events for Mr. Vance revolved around enterprise risk management.

One was U.S. Treasury Secretary Henry M. Paulson Jr.'s remarks in November that there should be a less costly and more efficient way to implement the Sarbanes-Oxley Act section that requires management and auditors to assess internal controls. Risk management experts say Sarbanes-Oxley promotes ERM.

Focus on material changes

Mr. Paulson's statement should motivate auditing firms to abandon their "boil-the-ocean" approach to reviewing internal controls and "focus on things that will have a material impact," Mr. Vance said. The current approach has distracted attention from core operations and did not prevent the options back-

dating scandal, he noted.

The cost/benefit approach that Mr. Paulson suggests for assessing internal controls "is where risk managers come in" as this "momentous and society-shifting" story develops, Mr. Vance said.

The other major development late in 2006 was Standard & Poor's Corp.'s decision to factor into its credit rating analyses of financial institutions the maturity of their ERM processes.

In 2005, S&P began evaluating insurers' ERM processes as part of its evaluation of their financial and credit strength. Now, S&P is exploring whether to adopt the same methodology as part of its credit rating process for the energy sector, said David Ingram, director of ERM in the rating agency's financial services sector.

"I think you'll see true enterprise risk management become a necessity at all companies that care about their credit rating," Mr. Vance said.

Brokers make 2006 a blockbuster year for M&A activity

Also noteworthy was megadeal for M&M that didn't pan out

Insurance brokers were busy wheeling and dealing in 2006 as new firms were formed, mergers were made, new owners were considered, merger talks were halted and a blockbuster acquisition offer was rejected.

The year started off with news that veteran insurance brokerage executives Christopher M. Treanor, formerly of Marsh Inc., and John Addeo, formerly of Alliant Insurance Services Inc., were forming a new wholesale insurance brokerage, Mercator Risk Services Inc., with \$20 million in private equity capital.

A few months later, seven veteran former Palmer & Cay Inc. executives, including David E. Paddison,

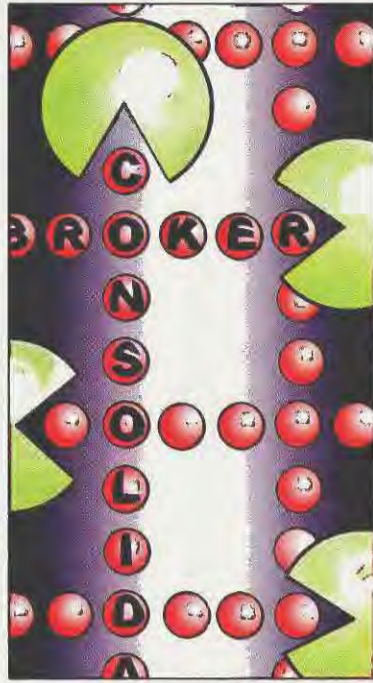
left new parent Wachovia Insurance Services Inc. to form Savannah, Ga.-based brokerage Seacrest Partners Inc. to serve the middle and upper middle market.

Then in October, Robert Lockhart, former president and chief operating officer of Hilb, Rogal & Hobbs Co., formed middle market brokerage Kinloch Holdings Inc. and made its first acquisition—Genatt Associates, a New Hyde Park, N.Y.-based brokerage with \$26 million in 2005 revenues.

But it wasn't only new brokerage formations that kept the intermediaries busy last year.

Kansas City, Mo.-based Lockton Cos. Inc., for one, expanded its international reach in August with its \$170 million purchase of Alexander Forbes International Risk Services, the London-based arm of South African broker Alexander Forbes Ltd.

A few months later, Alexander



Forbes said that a consortium of pri-

mate equity investors made a \$1.1 billion offer to buy the publicly traded Johannesburg, South Africa-based brokerage.

In September, Alliant Insurance Services of Newport Beach, Calif., agreed to pay \$100 million to buy the U.S. property/casualty and employee benefits retail brokerage business of London-based Jardine Lloyd Thompson Group P.L.C.

JLT had been in preliminary discussions the month prior to acquire rival London-based Health Lambert Group, but Heath pulled out of those talks, saying only that a merger would not have been in the best interest of its staff or clients.

Also mulling over new ownership, Briarcliff Manor, N.Y.-based brokerage USI Holdings Corp. said in October that it had formed a special committee of outside directors to review a buyout offer it received from an unnamed private equity firm.

But perhaps the biggest deal among brokers during 2006 was a deal that wasn't.

Overture rejected

A source confirmed to *Business Insurance* in October that Willis Group Holdings Ltd. made an informal offer to acquire the world's largest broker—Marsh & McLennan Cos. Inc.—three months earlier. The move was an apparent effort to capitalize on MMC's challenges following its 2004 fraud and bid-rigging suit and settlement with New York Attorney General Eliot Spitzer.

Although sources saw the deal as a real possibility since it involved financing from private equity powerhouse Kohlberg Kravis Roberts & Co., others say regulators likely would not have approved such a merger, considering that the combined brokerage would control an estimated 40% of the marketplace.

—By Sally Roberts

Sidecars to the rescue in boosting catastrophe capacity

Special vehicles join ILWs, cat bonds as sources of capital

For reinsurers, 2006 could be called the year of the sidecar, as the market increasingly turned to this relatively new vehicle to provide much-needed catastrophe capacity.

Sidecars, which often are capitalized by hedge funds, are specific, limited-purpose companies that typically offer insurers and reinsurers quota share reinsurance contracts, under which they share the risks of certain policies with the underwriter in exchange for a portion of the premiums.

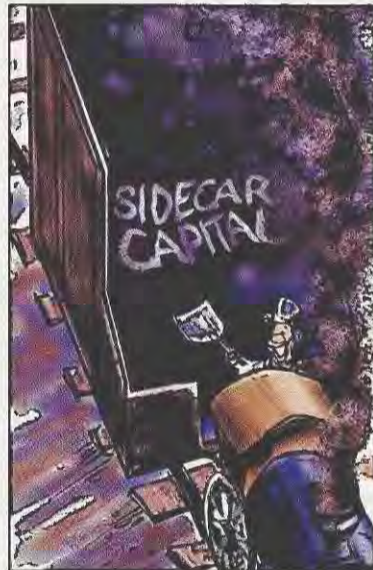
Sidecars offer investors a flexible, temporary equity vehicle with limited exposure to past underwriting.

According to John B. Collins & Associates Inc. in Minneapolis, as of early November, five new sidecars, with roughly \$2 billion in capital, were formed in 2006.

The sidecar has been described as one of the most dramatic developments in the field of reinsurance during the past couple of years.

Attractive features

Investors like them because they can be set up quickly and they attract a significant amount of capital. Even though they may not have any track record in terms of meeting claims obligations, they are still



seen as secure risk bearers by many.

In addition, the underwriting teams that are backed by the sidecars are usually experienced underwriters working for an affiliate insurer or reinsurer.

When the fresh capital is put together with seasoned underwriting talent, the result should be a winning combination, several observers say.

Retrocessional replacement

Sidecars, along with catastrophe bonds and industry loss warranties, to at least some degree have replaced the traditional retrocessional capacity that largely abandoned the market in the wake of the 2005 hurricanes.

These so-called temporary capital vehicles allow reinsurers to cover their own risks even in a tough market, brokers say.

But despite these advantages, growth in sidecars may be nearing an end, some say, as so many have been created since Hurricane Katrina that those likely to form them may have already done so.

Some observers also question whether the use of sidecars, along with other hedge fund-backed products, will continue once the market softens. Although the capital vehicles allow investors to enter the market quickly, they also allow them to withdraw from the market rapidly.

—By Judy Greenwald

Finite reinsurance market survives, but in a diminished form

Probes of deals led to big settlements, exits by top executives

Call it the market that would not die.

The finite market has survived, albeit in modified form, despite numerous regulatory investigations; indictments; restatements; resignations; shareholder lawsuits; and settlements involving insurers, reinsurers, and current and former officials of these companies.

The reason, say observers, is simple: The market fulfills a need.

Genuine risk transfer

The key issue is Financial Accounting Standard 113, which calls for a certain amount of risk transfer to qualify as reinsurance. Absent the risk transfer, such contracts act more like loans and are supposed to be booked as deposits.

But regulators and the insurance

industry have not always agreed on what is considered risk transfer, and this has led to numerous problems for the industry.

Investigations have resulted in criminal indictments of former executives at New York-based American International Group Inc. and Stamford, Conn.-based General Reinsurance Corp.

Deals involving finite risk have also prompted the exits of the top officers of AIG, Bermuda-based RenaissanceRe Holdings Ltd. and Max Re Capital Ltd.

Last month, Schaumburg, Ill.-based Zurich American Insurance Co. finalized settlements with 11 states and the District of Columbia, agreeing to pay at least \$141.8 million to resolve allegations of bid rigging, price fixing and misuse of finite risk products.

Other companies associated with settlements or fines that involved finite risk have included General Reinsurance U.K. Ltd., a unit of Gen Re; St. Paul, Minn.-based St. Paul



Travelers Cos. Inc.; Washington-based Federal National Mortgage Assn.; and Bermuda-based ACE Ltd. Restatements involving finite risk

have included Toronto-based Fairfax Financial Holdings Inc.; Stamford, Conn.-based Odyssey Re Holdings Corp.; and Zug, Switzerland-based Conventium Holdings Ltd.

Post-Spitzer regulation

While many in the insurance industry may be happy to see New York Attorney General Eliot Spitzer's move to the governor's mansion, the industry could well be subject to more scrutiny of issues including finite deals by his successor, Andrew Cuomo.

Regulatory pressures have resulted in a drop in the number of overall finite risk transactions, said John Andre, vp, reinsurance and alternative market ratings for Oldwick, N.J.-based A.M. Best Co. Inc.

The trend is most pronounced in cases when there is a question about whether a particular finite risk contract should be accounted for as a deposit rather than insurance. "Those deals are being approached with more skepticism by cedents,

and the transaction flow has diminished considerably," said Robert DeRose, assistant vp, reinsurance ratings, at A.M. Best.

Nevertheless, some deals survive.

"There's always going to be people who want or need something other than the traditional market," said Dan Malloy, executive vp at Benfield Inc. in New York, with responsibility for specialty lines, including alternative risk transfer and structured reinsurance. "People always want reinsurance."

"Even if the regulators were to try and get rid of all uses of finite, I think it would be very difficult," said Brian Schneider, director, insurance, at Chicago-based Fitch Ratings. "You'll always see degrees of it here and there to the extent that it's an economic benefit to both parties and doesn't distort economic statements."

Finite reinsurance typically is used to smooth losses over a number of years.

—By Judy Greenwald



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THE BENEFITS OF BETTER COVERAGE.

2006 Timeline

JANUARY

Risk managers report mixed market conditions as 2006 begins. While rates for many liability lines drop, the hurricane-battered commercial property market hardens significantly as buyers face double-digit increases.

Top insurance and reinsurance executives at the Property/Casualty Insurance Joint Industry Forum call for new approaches to handling

natural catastrophe risks. They disagree, however, on whether a national natural catastrophe fund is needed.

FEBRUARY

A federal grand jury indicts former General Re Corp. officials—Chairman Ronald Ferguson, Chief Financial Officer Elizabeth Monrad, Assistant General Counsel Robert Graham—and Christian Milton,

former vp-reinsurance at American International Group Inc., on a series of criminal counts associated with a finite reinsurance transaction.

AIG agrees to pay \$1.64 billion to settle civil fraud charges leveled by New York Attorney General Eliot Spitzer and New York Insurance Superintendent Howard Mills. The agreement, which also requires AIG to change certain business practices, also resolves a Securities and Exchange Commission lawsuit that repeats many of the state allegations.

The Bush administration announces its support of the Fairness in Asbestos Injury Resolution Act, which would create a no-fault national trust fund to compensate victims of asbestos-related disease. The trust fund bill stalls on the Senate floor before month's end.

MARCH

Silverstein Properties Inc. and several insurers renew a court fight over whether the Sept. 11, 2001, terrorist destruction of New York's World Trade Center should be treated as two occurrences.

In a move hailed by employers, the U.S. Senate confirms Edwin G. Foulke Jr. as assistant secretary of labor for occupational safety and health—the new head of the Occupational Safety and Health Administration.

The U.K. Financial Services Authority, citing progress in reforms within the market, suspends plans to develop rules to ensure that the insurance market gives buyers contract certainty at policy inception.

Continued on next page

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REQUEST FOR PROPOSAL

The West Virginia Public Employees Insurance Agency (PEIA) released a Request for Proposal (RFP) on December 21, 2006 to provide Medicare Advantage-Prescription Drug coverage to the PEIA's Medicare eligible members. The RFP can be found on PEIA's website at www.wvpeia.com. All interested parties are required to attend a bidder's conference on January 4, 2007 and the deadline for proposal submission is February 2, 2007. Questions related to this RFP should be directed to J. Michael Adkins, Deputy Director of Operations, WVPEIA, State Capitol Complex, Building 5, Room 1001 1900 Kanawha Boulevard, East Charleston, West Virginia 25305-0710, Telephone: (304) 558-6244, ext. 230, Fax: (304) 558-4969.

LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT - SOUTHERN DISTRICT OF NEW YORK

In re Petition of Ipe Jacob and Nigel Ruddock as Joint Provisional Liquidators of UIC INSURANCE COMPANY LIMITED, Debtor in a Foreign Proceeding.

In a Proceeding Under Section 304 of the Bankruptcy Code Case No. 96-44385 (JMP)

NOTICE IS HEREBY GIVEN THAT, in connection with the motion (the "Motion") of Ipe Jacob and Richard White (the "Scheme Officers"), the duly appointed foreign representatives and Scheme Officers of UIC Insurance Company Limited (the "Company"), for the entry of an order pursuant to section 304 of title 11 of the United States Code granting recognition and giving effect in the United States to the scheme of arrangement between the Company and its Scheme Creditors pursuant to section 425 of the Companies Act 1985 of England and Wales (the "Scheme") and a permanent injunction, dated November 16, 2006, the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") has entered an order dated December 8, 2006 (the "Order"), among other things:

1. Providing that the Scheme and its terms shall be given full force and effect in the United States, and shall be binding on and enforceable against any person or entity that is a Scheme Creditor (as defined in the Order) including, without limitation, against such person or entity in its capacity as a debtor of the Company, in the United States;
2. Providing that a Valuation Statement (as defined in the Order), including all amounts determined by the Scheme Officers, shall be final and binding on the Company and any person or entity that is a Scheme Creditor, including, without limitation, against such person or entity in its capacity as a debtor of the Company;
3. Permanently enjoining all persons and entities from taking any action in contravention of, or inconsistent with, the Scheme;
4. Permanently enjoining all persons and entities from: (a) repossessing, transferring, relinquishing or disposing of any Scheme Assets (as defined in the Order) of the Company in the United States, or the proceeds thereof, to any person or entity other than the Scheme Officers, (b) commencing or continuing any action or legal proceeding in connection with any Scheme Claim (as defined in the Order) against the Company (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever), including by way of counterclaim, against the Company or any Scheme Assets in the United States that is involved in the foreign proceeding, or any proceeds thereof, and seeking discovery of any nature against the Company; (c) enforcing, in respect of any Scheme Claim, any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order, or arbitration award against the Company, and commencing or continuing any act or action or legal proceeding in connection with any Scheme Claim (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) or any counterclaim to create, perfect or enforce any lien, attachment, garnishment, setoff or other claim against the Company or any of its property in the United States, or any proceeds thereof, including, without limitation, rights under reinsurance or retrocession contracts; (d) drawing down, in respect of any Scheme Claim, any letter of credit established by, on behalf of or at the request of, the Company, in excess of amounts expressly authorized by the terms of the contract or other agreement pursuant to which such letter of credit has been established; and (e) in respect of any Scheme Claim, withdrawing from, setting off against, or otherwise applying property that is the subject of any trust or escrow agreement or similar arrangement in which the Company has an interest in excess of amounts expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, trust, escrow, or similar arrangement has been established;
5. Requiring that all persons and entities in possession, custody or control of Scheme Assets of the Company in the United States, or the proceeds thereof, shall turn over and account for such Scheme Assets or their proceeds to the Scheme Officers;
6. Requiring that all persons or entities that are beneficiaries of letters of credit established by, on behalf of or at the request of, the Company or parties to any trust, escrow or similar arrangement in which the Company has an interest, and which are Scheme Assets, to: (a) provide notice, as the case may be, to Scheme Officers' United States counsel of any drawdown on any letter of credit established by, on behalf of or at the request of, the Company, or any withdrawal from, set off against, or other application of property that is the subject of any trust or escrow agreement or similar arrangement in which the Company has an interest, together with information sufficient to permit the Scheme Officers to assess the propriety of such drawdown, withdrawal, setoff or other application, including, without limitation, the date and amount of such drawdown, withdrawal, setoff or other application and a copy of any contract, related trust or other agreement pursuant to which any such drawdown, withdrawal, setoff, or other application was made, and provide such notice and other information contemporaneously therewith; and (b) turn over and account to the Scheme Officers for all funds resulting from such drawdown, withdrawal, setoff, or other application in excess of amounts expressly authorized by the terms of the contract, any related trust or other agreement pursuant to which such letter of credit, trust, escrow or similar arrangement has been established;
7. Requiring that every person or entity that is a party to any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) in which the Company is or was named as a party, or as a result of which a liability of the Company may be established, to place the Scheme Officers' United States counsel (Chadbourne & Parke LLP, 30 Rockefeller Plaza, New York, NY 10112, Attn: Francisco Vazquez, Esq.) on the master service list of any such action or other legal proceeding, and to take such other steps as may be necessary to ensure that such counsel receives: (a) copies of any and all documents served by the parties to such action or other legal proceeding or issued by the court, arbitrator, administrator, regulator or similar official having jurisdiction over such action or legal proceeding; and, (b) any and all correspondence, or other documents circulated to parties named in the master service list;
8. Permanently enjoining all persons and entities from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration, or any other judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Company, the Provisional Liquidators (as defined in the Order), the members of the Informal Creditors' Committee (as defined in the Order), or their respective directors, officers or agents, employees, representatives, financial advisors or attorneys (the "Pre-Scheme Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, arising out of or relating to any action taken or omitted to be taken as of the Effective Date by any of the Pre-Scheme Parties in connection with the foreign proceedings, the section 304 proceeding or in preparing, disseminating, applying for or implementing the Scheme or this Order; and
9. Permanently enjoining all persons and entities from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration, or any other judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Company, the Scheme Officers, the members of the Creditors' Committee (as defined in the Order), or their respective directors, officers, agents, employees, representatives, financial advisors or attorneys (the "Scheme Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, arising out of or relating to the construction or interpretation of the Scheme or any action taken or omitted to be taken by any of the Scheme Parties in connection with the foreign proceedings or the administration of the Scheme.

Copies of the Order, the Scheme and the Motion are available upon written request to the undersigned counsel:
CHADBOURNE & PARKE LLP • Attorneys for the Scheme Officers • 30 Rockefeller Plaza
New York, New York 10112 • (212) 408-5100 • Attn: Howard Seife, Esq. and Francisco Vazquez, Esq.

LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

In re: Europäische Rückversicherungs-Gesellschaft in Zürich (European Reinsurance Company of Zurich), Debtor in a Foreign Proceeding. Chapter 15 Case No. 06-13061 (REG)

NOTICE OF FILING AND HEARING ON PETITION UNDER CHAPTER 15 OF THE UNITED STATES BANKRUPTCY CODE

PLEASE TAKE NOTICE that on December 21, 2006, Kevin McAtee (the "Petitioner"), in his capacity as the court-appointed foreign representative of Europäische Rückversicherungs-Gesellschaft in Zürich (European Reinsurance Company of Zurich), ("ERZ") in a proceeding under section 425 of the Companies Act of Great Britain pending before the High Court of Justice of England and Wales (the "English Proceeding"), filed a Verified Chapter 15 Petition For Recognition Of A Foreign Nonmain Proceeding And Motion For Permanent Injunction And Related Relief (the "Petition and Motion"), pursuant to chapter 15 of title 11 of the United States Code (the "Bankruptcy Code"), with the United States Bankruptcy Court for the Southern District of New York (the "Court"). PLEASE TAKE FURTHER NOTICE that, among other things, the Petitioner, by the Petition and Motion seeks the entry of an order that recognizes the English Proceeding as a "foreign nonmain proceeding," gives full force and effect in the United States to the proposed Scheme of Arrangement between ERZ and its creditors in respect of insurance and reinsurance business written through and related to the agency of Reinsurance Group Managers Limited (the "Scheme of Arrangement") and grants injunctive and related relief in aid thereof.

PLEASE TAKE FURTHER NOTICE that the Court has scheduled a hearing (the "Hearing") with respect to the Petition and Motion on January 22, 2007 at 9:45 a.m. (Eastern Standard Time).

PLEASE TAKE FURTHER NOTICE that copies of the Scheme of Arrangement, the Petition and Motion, the Declaration of Kevin McAtee in Support of the Petition and Motion, the Memorandum of Law in Support of the Petition and Motion, and the form of order requested are available to parties-in-interest on the Court's Electronic Case Filing System, which can be accessed from the Court's website at <http://www.nysb.uscourts.gov> (a PACER login and password are required to retrieve a document) or upon written request to the Petitioner's United States counsel (including by facsimile or email) addressed to:

Clifford Chance US LLP, 31 West 52nd Street, New York, New York 10019, (212) 878-8375 (facsimile), Attn: Jennifer C. DeMarco, Esq., jennifer.demarco@cliffordchance.com

PLEASE TAKE FURTHER NOTICE that any party-in-interest wishing to submit a response or objection to the Petition and Motion or the relief requested by the Petitioner must do so in accordance with the Bankruptcy Code and the Federal Rules of Bankruptcy Procedure, in writing and setting forth the basis therefor, which response or objection must be filed electronically with the Court by registered users of the Court's electronic case filing system in accordance with General Order M-242, (a copy of which may be viewed on the Court's website, <http://www.nysb.uscourts.gov>) and by all other parties-in-interest on a 3.5 inch disc, preferably in Portable Document Format (PDF), Word Perfect or any other Windows-based word processing format, which disc shall be sent to the Office of the Clerk of the Court, Room 534, One Bowling Green, New York, New York 10004-1408. A hard copy of any response or objection shall be sent to the Chambers of the Honorable Robert E. Gerber, United States Bankruptcy Judge, and served upon Clifford Chance US LLP, 31 West 52nd Street, New York, New York 10019 (Attention: Jennifer C. DeMarco), United States counsel to the Petitioner, so as to be received no later than 4:00 p.m. (Eastern Standard Time), January 17, 2007.

PLEASE TAKE FURTHER NOTICE that all parties-in-interest opposed to the Petition and Motion or the Petitioner's request for relief must appear at the Hearing at the time and place set forth above.

PLEASE TAKE FURTHER NOTICE that if no response or objection is timely filed and served as provided above, the Court may grant the recognition and relief requested in the Petition and Motion without further notice.

PLEASE TAKE FURTHER NOTICE that the Hearing with respect to the relief requested in the Petition and Motion may be adjourned from time to time without further notice other than an announcement in open court of the adjourned date or dates or the filing of a notice of adjournment on the Court's website (<http://www.nysb.uscourts.gov>) and on ERZ's website (www.rgm-pool.com).

Dated: New York, New York, December 22, 2006
Clifford Chance US LLP, Attorneys for the Petitioner,
31 West 52nd Street, New York, New York 10019, (212) 878-8000, Attn: Jennifer C. DeMarco, Esq., David A. Sullivan, Esq., Sara M. Tapinakis, Esq.

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CONTINUED FROM PAGE 16

Zurich Financial Services Group Inc. agrees to pay \$171.7 million to resolve allegations of bid rigging brought by nine state attorneys general. Later in the month, the insurer agrees to an additional \$153 million settlement to resolve similar charges brought by three other states.

APRIL

Sens. John Sununu, R-N.H., and Tim Johnson, D-S.D., introduce legislation that would allow property/casualty and life insurers—but not health insurers—the choice of being regulated by federal rather than state authorities.

The Tropical Meteorology Project at Colorado State University predicts another unusually active hurricane season for 2006, with 17 named storms forming in the Atlantic Basin. The prediction, fortunately, turns out to be wrong. By the Nov. 30 end of the hurricane season, only nine named storms had formed.

ACE Ltd. pays \$80 million to settle bid-rigging charges brought by New York Attorney General Eliot Spitzer. Within days, Liberty Mutual Group Inc. says it will fight similar charges brought against it by New York and Connecticut authorities.

MAY

The House of Lords rules that U.K. employers' liability for compensation claims from employees who develop mesothelioma should be based on the length of time employers negligently exposed employees to asbestos. Previously, employers faced unlimited liability.

The U.S. Senate fails to proceed with a pair of medical malpractice liability reform bills, killing them for the year.

Berkshire Hathaway Inc. Chairman Warren Buffett tells shareholders that while the company could pay losses stemming from a catastrophic event four times as costly as Hurricane Katrina, such an event-causing \$240 billion in insured losses—would severely impact much of the insurance industry.

JUNE

The National Assn. of Insurance Commissioners considers easing reinsurance collateral rules in favor of a rating approach.

A bipartisan group of House members introduces legislation that would create a uniform system to regulate and tax surplus lines insurers. The measure would also make the domiciliary state of a reinsurer the sole regulator of the reinsurer's solvency. The House Financial Services Committee approves the bill in late July.

The U.S. Supreme Court expands an employee's ability to sue for on-the-job retaliation under Title VII of the Civil Rights Act of 1964. In its unanimous ruling in *Sheila White vs. Burlington Northern & Santa Fe Railway Co.*, the court holds that reassigning an employee to a different job and temporarily

suspending her pay amounted to retaliatory acts for her sexual harassment complaint.

JULY

Risk managers report continued favorable pricing for most liability coverages. The property market, however, continues to exhibit a split personality. Catastrophe-exposed accounts face hard times while accounts in areas such as the Midwest experience rate decreases.

Jardine Lloyd Thompson P.L.C. enters preliminary discussions about a possible takeover of rival brokerage Heath Lambert Group. Heath Lambert terminates the talks within days.

Randal K. Quarles, the U.S. Treasury's undersecretary for domestic policy, calls for insurance regulatory reform during an appearance before the Senate Banking, Housing and Urban Affairs Committee. He does not, however, endorse a specific plan.

AUGUST

St. Paul Travelers Cos. Inc. pays \$77 million to settle allegations of bid rigging and other corporate misconduct brought by three states.

The Michigan Supreme Court bars bundling of asbestos-related personal injury claims. Advocates of asbestos liability reform hail the decision as one that will give priority to claimants who are truly sick rather than those who manifest no illness but fear they will become ill.

In the first major federal ruling on whether Hurricane Katrina's storm surge is covered under a homeowner's policy, a judge in Mississippi holds that an insurer does not have to cover water damage sustained by a policyholder who did not purchase separate flood insurance.

SEPTEMBER

New York Attorney General Eliot Spitzer drops some civil fraud charges against former AIG Chairman and Chief Executive Officer Maurice R. Greenberg and former AIG Chief Financial Officer Howard Smith. In an amended complaint that drops a punitive damage demand, Mr. Spitzer continues to charge that the two misled investors with sham transactions that artificially boosted AIG's reserves.

U.S. Rep. Edward R. Royce, R-Calif., introduces an optional federal charter bill for property/casualty and life insurers.

A three-judge panel of the 6th U.S. Circuit Court of Appeals rules that morbidly obese employees do not have discrimination protection under the Americans with Disabilities Act unless their condition has an established physiological cause.

OCTOBER

The Presidential Working Group on Financial Markets issues a long-awaited report in which it declines to endorse an extension of the federal

terrorism insurance backstop slated to expire Dec. 31, 2007. The group, however, also declines to call for an end to the program.

John Tiner, chief of the U.K. Financial Services Authority, calls on risk managers to push their brokers for greater disclosure of commissions. He adds that the FSA is open to the idea of requiring such disclosure if the market doesn't improve the situation on its own.

Berkshire Hathaway Inc. proposes a multibillion-dollar deal to reinsure and run off the liabilities of Equitas Ltd. Also, a Berkshire unit buys the U.S. operations of Swiss reinsurer Converium Holding Ltd.

NOVEMBER

Democrats win control of the U.S. Congress. Their victory raises hope for swift action on extending the terrorism insurance backstop, but dashes hope for major tort reforms. In New York, voters elect Eliot Spitzer as governor by a landslide.

The United States and Russia reach agreement to give U.S. insurers greater access to the Russian market. The agreement, which also liberalizes trade for other industries, will allow Russia to join the World Trade Organization as early as 2007.

Standard & Poor's Corp. revises its capital model for global insurers and reinsurers. Observers say the new model could increase burdens on some property/casualty insurers and ease them for some life and health insurers.



LANDOV

A federal judge in New Orleans refuses to dismiss coverage suits stemming from damage caused by breached levees in New Orleans following Hurricane Katrina. Insurers appeal the decision.

DECEMBER

The new chairmen of the Senate Banking, Housing and Urban Affairs Committee and the House Financial Services Committee pledge to move swiftly on extending the federal terrorism insurance backstop once the new Congress convenes in 2007. Meanwhile, the Risk & Insurance Management Society Inc. issues a white paper saying that without a long-term solution to the terrorism insurance question in place by the end of 2007, "the country faces a catastrophic exposure to the economy."

The Tropical Meteorology Project at Colorado State University predicts that despite 2006's mild hurricane season, 2007 will be an active season with 14 named storms forming in the Atlantic.

Products & Services

Hiscox offers tech E&O policy

ARMONK, N.Y.—Hiscox USA has begun providing technology errors and omissions insurance to U.S. businesses directly from its two New York locations.

The technology E&O coverage will be written on a nonadmitted basis through Hiscox USA's offices in Manhattan and Armonk. The coverage is available to brokers throughout the United States.

Features of the E&O program include:

- Breach of contract due to software, hardware or firmware not conforming to specification.
- Breach of security.
- Liability arising out of breach of contractual indemnity relating to any infringement of intellectual property rights or breach of confidence.
- Defense and indemnity coverage for unfair competition claims in conjunction with intellectual property infringement.
- Duty to defend coverage.
- Software as both the provision of a service and the supply of goods.

For more information, contact Oliver Brew, vp technology, media and telecom underwriting, at 914-273-7448 or oliver.brew@hiscox.com; or Brian Thornton, vp technology, media and telecom underwriting, at 914-273-7449 or brian.thornton@hiscox.com.

Amaxx develops online comp program

MANSFIELD, Conn.—Amaxx Risk Solutions Inc. has developed an online workers compensation cost-containment program, Workers' Comp Kit, which is designed to give employers tools to cut workers comp costs.

An easy-to-use best-practice assessment questionnaire gives users a numeric score and recommendations of steps to take to improve performance and speed employees' return to work.

A 10-module improvement plan offers more than 60 forms, sample letters, sample employee policies and formatted brochures to use in injury-management procedures. All of the documents are available in English and Spanish.

Licenses for large users are available, and the program is available for private labeling.

For more information, visit www.workerscompkit.com or contact Mansfield, Conn.-based Amaxx Risk Solutions at 860-456-5540 or info@workerscompkit.com.

General Star offers loss of rents program

STAMFORD, Conn.—General Star Management Co., a unit of Berkshire Hathaway Inc., has developed a Florida loss of rents

property program.

The program provides stand-alone business interruption coverage for apartment risks in cases where insurers do not provide the coverage. Policy limits of up to \$5 million are available, subject to location and construction.

Coverage is available in select counties in Florida on a nonadmitted basis through General Star's designated surplus lines brokers and will be written by General Star Indemnity Co.

For more information, contact Vp Gary Bliss at 212-859-3952, Vp David Jackson at 404-239-6790, Assistant Vp Regina Corson at 213-236-1722 or visit www.generalstar.com.



AIG Specialty Excess adds liability enhancements

NEW YORK—AIG Specialty Excess, an umbrella and excess casualty underwriting unit of American International Group Inc., has added Accident Site Advisor and Public-Response to its excess liability insurance.

The free enhancements, catering to construction and public entity classes of business, will give policyholders immediate access to the funds and support needed to respond to a casualty crisis.

AIG Specialty Excess has designed Accident Site Advisor for the construction industry and Public-Response for public entities, to help policyholders in the high-risk sectors quickly address a casualty crisis and minimize damage to their finances and reputation. In the event of a significant accident or crisis, a 24-hour toll-free hotline links to AIG claims specialists and activates the response service.

Accident Site Advisor and Public-Response advance up to \$250,000 of the policy limit to immediately defray costs of covered damages following a crisis situation. Also provided is a separate limit of \$50,000 for the fees of a public relations or crisis management firm to help execute a strategic public response and protect the business reputation of the policyholder.

For more information on AIG Specialty Excess, Accident Site Advisor or Public-Response, please contact Lea Spacek, marketing and communications specialist, at 212-458-2696 or lea.spacek@aig.com.

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Climate change seen boosting European winter storms, damage

Swiss Re analysis examines long-term effects through 2085

By RICHARD MILLER

While the threat of severe winter storms in Europe is expected to be low this season, some experts believe that climate change will lead to more frequent and intense winter storms, causing increased damage in the long term.

A recent Swiss Reinsurance Co. report on the impact of climate change on winter storms estimates that claims will increase by 16% to 68% by 2085.

Major storms that are currently viewed as 1-in-100-year events may become 60- or 70-year events in the decades to come, Swiss Re reported. Awareness of the exposure has put pressure on the natural catastrophe insurance market in Europe, said Brian Gray, head of property at Swiss Re.

"The exposure is perceived to be bigger and drives more of the total cost than it used to, in comparison to the old-fashioned fire and explosion risk," Mr. Gray said. "It just increases the focus of the industry and ultimately of the individual risk managers on the storm peril."

Indeed, some risks managers say large companies are already keenly aware of the risk posed by winter storms.

Catastrophe provisions

"If they have any property exposure to that type of natural catastrophe (in Europe), I think they've certainly made provisions for it," said Ralf Oelssner, chairman of the Deutscher Versicherungs-Schutzverband e.V.—the German commercial insurance buyers' association—and director of corporate insurance at Cologne, Germany-based airline Deutsche Lufthansa A.G.

Windstorm Lothar, which caused major damage in December 1999 and resulted in insured losses of about €5 billion (\$5.20 billion), served as a wakeup call for risk managers in Germany, Mr. Oelssner said.

In Denmark, however, winter storms do not rank high among the leading business risks, said Charlotte Enggaard, chairwoman of Dansk Industris Risk Management Forening, the country's risk man-

agement association.

Risk managers are following developments, but "I don't think it is (a risk in) the top 10 in Denmark," said Ms. Enggaard, the risk management director at Carlsberg Breweries in Copenhagen.

With so much attention focused on hurricane risk in the North Atlantic—with predictions for an active season in 2007—David Bresch, Swiss Re's head of atmospheric perils, believes the increasing risk posed by European winter storms is being overlooked.

The changes "are gradual and that makes it even more dangerous," Mr. Bresch said.

In the study, natural perils experts from Swiss Re and scientists from the Swiss Federal Institute of Technology in Zurich combined several climatic models with a model for insured losses. Per year, the

"With so much attention focused on hurricane risk in the North Atlantic—the increasing risk posed by European winter storms is being overlooked."

David Bresch, Swiss Re

change in risk is less than 1%, but over 100 years it is in the order of a 60% change, Mr. Bresch said, "and that is quite something."

The report's findings have been integrated into Swiss Re's underwriting system and already impact its capacity deployment, Mr. Bresch said.

"Now, as the change is small per year, it doesn't have a big impact," he said. Still, Swiss Re intends to discuss the increasing risk with clients, a dialogue that began at this year's renewals, Mr. Bresch said.

Not everyone agrees with Swiss Re's views. Munich Re Group, for instance, agrees that winter storms will become more intense over time. However, some research suggests that the overall number of storms will not increase, with one study predicting a slight reduction, said Eberhard Faust, Munich Re's

head of climate risks in its GeoRisks Research department.

"There is no doubt, of course, that global warming will impact wind storm climatology, so we are completely in the same line with Swiss Re with respect to this," Mr. Faust said. "But with respect to the hazard situation over...the next 10 years, there is currently no scientific study available supporting that this will be the prevailing influence."

Atmospheric pressure

In the nearer term, the North Atlantic oscillation—a fluctuation in atmospheric pressure between the North Atlantic's Icelandic low pressure and the Azores' high pressure regions—will be the most dominant factor on winter climate, according to Mr. Faust and Mark Saunders, professor of climate prediction in the department of space and climate physics at University College London.

"Over the next decade or two, I think the main influence will continue to be the NAO, as it has been since reliable records began," said Mr. Saunders, who is also head of weather and climate extremes at the Benfield UCL Hazard Research Centre in London.

The influence of the NAO over the past decade has translated into fewer winter storms over Europe, he said. "Whether climate change will have an effect on the frequency and intensity of European winter storms I think is still open for debate," he added.

Earlier this year, the Benfield center issued a European winter forecast based on the North Atlantic oscillation. For December through February, it predicted a milder and wetter winter over northwest Europe, with wind speeds 10% to 20% below normal.

Last winter saw wind speeds 40% below normal over most of Europe. "I wouldn't expect any really major damage from wind speed this winter," Mr. Saunders said. "The risk is higher than last winter, but nothing major, in my feeling."

Swiss Re's Mr. Bresch agrees with others that the NAO will be a main factor for climate variability in the short term.

The focus report "The effects of climate change: Storm damage in Europe on the rise" can be found at www.swissre.com.

International NEWS

U.K. employers liability premiums expected to drop further in 2007

Despite improvements in safety, asbestos remains 'a big issue'

By STUART COLLINS

Buyers in 2007 can expect a further fall in employers liability rates in the United Kingdom, a trend that plays against a background of improved safety, but rising concerns, about work-related illnesses, according to brokers and insurers.

"Health and Safety Statistics 2005/06," released by the Health and Safety Commission, shows additional improvement in safety among U.K. businesses.

Specifically, the report shows a reduction in the number and rate of fatal injuries per 100,000 workers during the period and a continuation of the downward trend experienced since the 1980s. The number and rate of nonfatal injuries to U.K. employees was down slightly in 2005-2006, although both have been generally static during the past decade.

There also has been a steady decline in work-related illness, according to the HSC report. The incidence rates for musculoskeletal disorders—such as injury to back or limbs—continued to decline during the 2001-2006 period, as did the incidence of work-related stress, depression and anxiety. The "other illnesses" category also declined "significantly" between 2001 and 2006, with drops in reports of asthma and dermatitis.

Brokers and insurers generally accept that improvements in risk management have led to fewer claims.

While the HSC report shows that accident rates are declining, Simon Collings, head of the employers liability practice at Marsh Ltd. in London, warned that the figures can be misleading and should not be taken

in isolation. Insurers providing liability coverage for large employers argue "with some merit," Mr. Collings said, that accident rates would change with the U.K. economy shifting toward the high tech and service industries.

John Murphy, U.K. and international liability underwriter at Brit Insurance Holdings P.L.C., said safety has improved at U.K. companies. "They are not just telling you they are doing it, you can see they are doing it," he said.

Richard Nicholls, the London-based head of employers liability for large corporate clients at Zurich Financial Services Group Inc., agreed that, in general, there has been an improvement in safety. "From my experience, there has been a great improvement in health and safety at larger companies, although there are still issues with small and medium-sized enterprises," Mr. Nicholls said.

While health and safety improvements are affecting rates, brokers and insurers say the market remains cyclical.

"I do think that the improving trend is being taken into consideration by insurers," Mr. Collings said. He added that premiums have already been declining, but this has been more a reflection of the desire to retain clients than a decline in accident rates.

Mr. Nicholls noted that between 2001 and 2004, the U.K. employers liability market was the hardest in his 30 years in the industry. However, 2005 saw rates level off with reductions in 2006, according to the Zurich underwriter. "We had a 10% reduction across our book, and I expect that will be mirrored by other companies," Mr. Nicholls said, noting that there had been increased competition in the market with new entrants and some existing players becoming

Continued on next page

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Workplace fatalities drop: U.K. report

Since 1974, the lives of some 5,000 workers in the United Kingdom have been saved due to accident prevention measures, according to the Health and Safety Commission. This estimate takes into account the trend toward workers moving to lower-risk service sector jobs and away from heavy industry.

In its report, "Measuring Up... Performance Report 2006," the HSC said there were 614 work-related deaths in 1975 compared with 212 for 2005/06. In spite of the improvements, the HSC said that there is "a great deal more to do."

Six years ago, the regulator set targets for reducing work-related ill health, injuries and days lost. Last month, it said that it was on track for meeting the ill-health and days-lost targets, but would not meet the 10-year target for fatal and major injuries.

The HSC said that regulation must keep pace with the shift toward the service sector in the United Kingdom and the emergence of a more diverse workforce in terms of age, gender, ethnicity and patterns of work. "This means more focus on occupational health issues and continuing to reach workers and employers in various ways," the HSC said in the report.

Possible merger

Separately, the Health and Safety Commission and the Health and Safety Executive could merge into one regulatory body under plans unveiled by the HSC.

The HSC has published a public consultation document on its Web site seeking views on merging the HSC, which has responsibility for occupational health and safety regulations in the United Kingdom, with the HSE, which is responsible for enforcing those rules.

In a statement, the HSC said that it believes that a merger with the HSE would modernize its corporate governance and provide a "stronger voice for health and safety" in the United Kingdom.

The merger would create a health and safety regulator with a more accountable structure, better decision-making ability and membership for representatives from employer and employee backgrounds, the HSC said.

The consultation runs until March 5 and can be viewed at www.hse.gov.uk/consult/live.htm.

"Measuring Up... Performance Report 2006" is available free of charge at www.hse.gov.uk.

—By Stuart Collins

CONTINUED FROM PREVIOUS PAGE

ing more aggressive.

"I don't think that there will be a significant change to market conditions in the next 12 months. I expect rates to reduce" in 2007, he said.

Marsh's Mr. Collings said safety records could have more relevance when the market hardens. "An interesting dynamic will be when the market turns. Clients that are able to demonstrate that the underlying risks are improving will not be open to the same level of price volatility," Mr. Collings said. "It is cyclical and the market will get to a stage where pricing is unsustainable. People are starting to turn down risk, but I don't expect a hard-

ening in 2007."

Even so, existing and potential asbestos-related claims worry insurers. The HSC estimates there are 3,000 to 12,000 occupational cancer deaths per year. An estimated 4,000 of these are thought to be asbestos-related, with nearly 2,000 deaths from mesothelioma alone in 2004.

The new asbestos

"Everybody is twitchy about disease claims," Mr. Collings said. "Disease claims are worrisome for the industry because they are an unknown and because EL is written on an occurrence basis, so claims can be open-ended," he said.

"The insurance industry accepts that it is covering the next asbestos,

and factors in a contingency as part of the premium for unknown losses. Whether this gets squeezed out by competitive pressures remains to be seen," Mr. Collings added.

Zurich's Mr. Nicholls said: "Asbestos is still a big issue for us and the entire industry and will be for many years to come. For many years, people have been trying to identify the new asbestos." Repetitive strain injuries continue to be an issue, he said. In addition, "We have seen an increase in stress claims—not exponential—that have arisen from bullying."

Another issue for employers liability insurance is legal costs. Brit's Mr. Murphy said: "Insurers have never really been worried about fatalities. Rather, the smaller claims,

where legal costs are considerable. Legal costs on average are approaching 50% of an EL claim," he said.

Mr. Nicholls also lists legal costs as a worry. "The main concern is the cost of delivering compensation—that's the real issue today. We have the impact of the National Health Service clawback from January next year, which is expected to add 5% to 8% to injury claims."

Under that change, the state-funded NHS will be able to recoup certain costs of treatment from employees and insurers.

Also on Zurich's radar are nanotechnology, electromagnetic fields and white collar claims. "We have already seen more claims under the Protection from Harassment Act 1997," he said.

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Commentary

An intolerable level of incompetence

If tort reform ever returns to the national or local stage, it ought to exclude organizations that are truly irresponsible.

For example: my former bank—and others like it.

My ordeal began with a phone call from a fantastic customer representative with Alaska Airlines, which has a code-sharing arrangement with Delta Air Lines. She questioned whether I, an Arizona resident, authorized another individual to use my debit card to book travel in the Midwest on Delta for a third person through an Idaho travel agency affiliated with the airlines.

Expletive deleted.

At that point, though, the damage to my bank account was minimal. I jumped on the phone with the bank to make sure it stayed that way.

My instructions could not have been clearer: Cancel the debit card and immediately freeze all activity on the account.

So imagine my surprise when the bank the next day processed thousands of dollars in additional fraudulent transactions that were submitted for payment after my account had been frozen. The bank's explanation: There is no way—technologically or legally—that banks can stop fraudulent activity, even against a frozen account, once a payee accepts a debit or credit card purchase. What if legitimate payments were denied?

Thanks for telling me—a day late and thousands of dollars short.

I then instructed the bank to close the account immediately, transfer all remaining funds to a new account and not link the accounts in any way.

So imagine my surprise when the bank the next day opened my new account to thousands of dollars of additional fraudulent transactions that initially targeted my now-closed account. The bank's explanation: It had to honor the authorized fraudulent transactions somehow.

I decided to go straight to the top of the bank's middle management. The problem was that Borat speaks more eloquently than this guy. When I asked him to clarify a particularly garbled statement, he replied indignantly: "You do realize that you have a checking account with us, don't you?"

Not for long, bank vault boy.

I pulled my funds from the bank and asked when I could expect a reimbursement of the stolen funds. I wanted them back in a cashier's check.

The bank, however, wanted to deposit them into my account,



**DAVE
LENCKUS**

Senior Editor Dave Lenckus can be reached at: dlenckus@businessinsurance.com

which was still under attack. Another bank rep understood my concern about this bit of lunacy and promised to handle the reimbursement as I wished. And two weeks later, there was the reimbursement—in the closed account.

Don't know how that happened, the bank rep said.

Systemic incompetence? I offered.

Meanwhile, my new bank assured me that accounts can be frozen to thwart illegal activity.

Don't know how that happened, the bank rep said. Systemic incompetence? I offered.

A rep still trying to court my business for the former bank asserted that the new bank lied.

So I asked the American Bankers Assn. A spokeswoman said "operational challenges" may not allow some banks to stop fraudulent activity—which means others can stop it. She wouldn't admit it, but that also means some banks—including national institutions—have opted to not be secure.

The ABA spokeswoman said that linking my new account to my closed account as my former bank did was "an unusual case."

No matter, she assured me. Whenever such fraud occurs, the law mandates customer reimbursements within 10 days.

And what do bank customers do if they need those funds in the meantime?

That problem, I was assured, just hasn't arisen.

Well, my dog has never bitten anyone, but I still keep Hannibal leashed when I walk him. That's called risk management.

And if you don't practice it, tort reform shouldn't protect you.

Canadian: Strict rules govern DB plans

CONTINUED FROM PAGE 3

of the members of either group oppose the amendment, the equity requirement will not be satisfied and members of the group will be allowed to contest the legality of the funding method in court, according to a statement by Mercer Human Resource Consulting.

"This is an element of the bill that adds further complexity to the management of defined benefit plans and ultimately gives a bad reputation to defined benefit plans to plan sponsors," Mr. Methot said.

The amendment also requires pension committees to establish and observe specific governance and operational standards. By the end of 2007, such committees must adopt bylaws governing, among other things, the duties and obligations of, and ethics rules that apply to, committee members. The provision will increase administrative costs, Mercer said.

One positive aspect of the amendment for employers is that it allows them to use a letter of credit to fulfill part of their funding obligations. Employers who are not parties to a multiemployer plan will be allowed

to use a letter of credit to fund deficit payments up to 15% for a fiscal year, Mercer said in the statement.

While using a letter of credit can help certain companies, organizations with significant profitability issues may have trouble securing an affordable letter of credit. "It's not an instrument available to all plan sponsors, but it's good news nevertheless," Mr. Methot said.

The use of letters of credit rather than special payments to fund pension deficits is gaining momentum nationwide after the Canadian federal government adopted a provision allowing it (*BI*, Nov. 13).

Liability protections

Another positive aspect of the Ontario amendment is that it features rules designed to protect and compensate pension committee members in liability matters. Committee members will be indemnified by the pension fund if they have committed no wrongdoing unless they receive compensation under a liability insurance plan. Committee members who are insured and who have committed a transgression, unless it was deliberate or egregious,

may be indemnified by the pension fund up to the amount of the deductible. Mercer anticipates that this change, retroactive to June 14, 2006, will encourage committee members to increase their liability coverage.

This change is positive because pension plan committee members under previous law, could be sued as fiduciaries, Mr. Methot said. Now, if they act in good faith, they are not liable; if they are sued, the deductible can be paid from the fund, which it could not be before the amendment, he said.

Overall, Bill 30 is problematic for plan sponsors because it does not address the issue of asymmetry of pension surplus/deficit ownership, in which sponsors are responsible for paying off deficits, but may not be entitled to plan surpluses.

"If anything, it has accentuated the asymmetry and, therefore, defined benefit plans are becoming more than ever a less effective vehicle for employers to look after the retirement of their employees, which is sad because defined benefit plans are, in many instances, the best tool to manage the retirement of employees," Mr. Methot said.

California: Reinsurer regulations revised

CONTINUED FROM PAGE 4

lation that was enacted in September by the legislature, is to bring the California structure closer to the model law and regulations of the National Assn. of Insurance Commissioners," said Wolcott B. Dunham Jr., an attorney with Debevoise & Plimpton L.L.P. in New York.

Norris W. Clark, a financial and regulatory consultant with Lord, Bissell & Brook L.L.P. in Los Angeles, said the regulations codify "things the department had been doing by administrative guidelines in the past. It provides a clearer roadmap, I think, to the insurance industry as to what the department's requirements are with regards to reinsurance agreements and cessions and assumptions."

Mr. Clark is a former deputy commissioner of financial surveillance

The regulations provide a clearer roadmap 'as to what the department's requirements are with regards to reinsurance agreements and cessions and assumptions.'

Norris W. Clark,
Lord, Bissell & Brook, L.L.P.

with California's insurance department.

Observers say one change introduced in the regulations is creation of a new class of insurer, a "volume" insurer. These are insurers

that are not California domestic insurers, but those with average gross direct premiums written in California in the prior three years that exceed those in their domicile state and equal or exceed 33% of their total U.S. gross direct premiums.

It's similar to the threshold test for "commercially domiciled" insurers under the California Holding Co. System Regulatory Act.

"It changes the definition of who the Department of Insurance has authority over" and broadens the department's extraterritorial controls "so that companies that before were not under the authority of the California Department of Insurance are now under its authority, and will have to comply with these regulations," said Mr. Weissman.

Companies that are not volume insurers, though, "will notice little difference" with the new regulations, said Mr. Clark.

IRS: Agency to resume approving hybrids

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The PPA's legitimization of cash balance plans combined with the 7th U.S. Circuit Court of Appeals ruling in August that found that IBM Corp.'s cash balance plan in particular and cash balance plans in general are not age discriminatory and the IRS' lifting of the moratorium on issuing determination letters, should remove much of the uncertainty surrounding cash balance plans and "give another option to employers that might terminate or freeze a defined benefit plan without replacing it with any-

thing on the defined benefit side," Ms. Jacobson said.

Interim guidance on the PPA's provisions is also helpful, even though additional guidance, which the agency plans to issue this year after a comment period that ends April 16, is needed, pension experts say.

"I think it does clear the way for companies considering the plans to move forward," said Larry Sher, a principal and director of retirement policy at Buck Consultants L.L.C. in New York.

A favorable feature of the interim guidance for plan sponsors is that

they will be able to remove any whipsaw provisions going forward and pay lump sums equal to the account balance to cash balance participants without worrying about an impermissible reduction of accrued benefits, Mr. Sher said.

The IRS did not issue guidance, though, on how whipsaw issues would be handled for prior-year periods, he noted. Whipsaw refers to a methodology used in calculating the value of an account balance that may have entitled employees to a sum greater than his or her account balance depending on the interest rate assumptions applied.

Insurers: Nine-month P/C earnings strong, but buyers also benefit

CONTINUED FROM PAGE 1

vs. 9.8% for the comparable 2005 period.

Helping shore up the industry's financial position was a dearth in natural catastrophes during 2006. According to ISO's Property Claim Services unit, direct insured losses from catastrophes plummeted to \$7.6 billion for the first nine months from a record \$51.1 billion in the first nine months of 2005. Noncatastrophe loss and loss adjustment expenses also declined slightly, to \$201.5 billion for the first nine months of

2006 from \$201.6 billion a year earlier.

"This is a very solid year in terms of profitability. It's due primarily to low catastrophe losses, much less than average for the decade," observed Genio Staranczak, PCI's chief economist, who spoke during a conference call announcing the results last week.

Price reductions

Commercial insurance buyers have been enjoying the industry's good fortune as well, said Greg Heidrich, senior vp of policy development and research for PCI.

"Commercial insurance buyers in almost every market except perhaps one—property catastrophe in the most exposed areas—are seeing price reductions," he said.

"The competition is heavy...so policyholders are already seeing the benefits of that," Mr. Heidrich said. "And then if you look at the new entrants, the new capacity, the innovative products, new ways to spread this risk, I think commercial buyers already have seen a strong trend towards lower prices and they're going to continue to see that for the foreseeable future."

While property/casualty insurers

may have done well so far this year, the industry has a long way to go to make up for past years' underwriting losses, warned Mike Murray, assistant vp for financial analysis at ISO.

"To put this year's results in perspective, even with underwriting profits in 2006, insurers have made money on underwriting in only two of the last 28 years and in just 10 of the past 47 years," Mr. Murray said. "Since 1990, including this year's profits on underwriting, insurers have suffered \$294 billion in net losses on underwriting."

Moreover, while 2006 may have

been a good year for property/casualty insurers, the 13.4% annualized rate of return on surplus through the first nine months still trails the ROE earned by Fortune 500 companies, Mr. Murray said.

"From 1983 through 2005...the Fortune 500 earned a 13.8% average GAAP (generally accepted accounting principles) return on net worth. During the same period, the rate of return for the property/casualty industry was only 8.3%. During those 23 years, the P/C industry only did better than the Fortune 500 in two of them: 1986 and 1987," Mr. Murray said.

Storms: Fresh wintry blast blankets much of Colorado

CONTINUED FROM PAGE 1

though, there were few reports of insured damages.

"It doesn't appear at the outset anything close to what we had in March 2003," said Carole Walker, executive director of the Denver-based Rocky Mountain Insurance Information Assn., referring to the costliest blizzard on record in the state.

libraries, not from DIA. I haven't had a call from anyone yet about damage at this point," said Ray Sibley, director of risk management for the city and county of Denver.

"That doesn't mean we haven't had a couple of things happen and they haven't bothered to call me yet, but at this point, it doesn't look like it's going to be bad from a damage standpoint," he said. Mr. Sibley noted that the 2003 blizzard result-

Insurer profits may hinder TRIA extension

Property/casualty insurers' strong financial results in 2006 could hamper political discussions at the state and federal levels, said Greg Heidrich, senior vp of policy development and research for the Property Casualty Insurers Assn. of America in Des Plaines, Ill.

In Washington, the Terrorism Risk Insurance Act is facing expiration at the end of 2007, and several states are considering caps on personal lines rate increases, Mr. Heidrich said.

"Clearly, it's going to be a factor in a number of discussions. We're anticipating serious public policy discussions in a number of cat-prone states," he said.

If that happens, the industry will be prepared to educate law-

makers on why they should not raid the industry's coffers during good years, he said. "In a very cyclical industry, it is vital for companies to rebuild capital base if next year's storms are terrible," he said.

Mr. Heidrich said there could be dire consequences for insurance buyers if lawmakers decide not to reinstate TRIA.

"The good numbers are going to have an effect on public policy debate, and if you throw in one more uncertainty about the future of TRIA, it's going to make capital providers much less sure about where they will commit capital and where they have sufficient capital to write risks," Mr. Heidrich said.

Mike Murray, assistant vp for financial analysis at the Jersey City, N.J.-based Insurance Services Office Inc., said it is important to reinstate TRIA as soon as possible because policies that are renewed in January could be affected.

"Because the current federal terrorism insurance backstop expires at the end of 2007, the issue will become important much sooner than that because policies typically have a one-year term. So that means that policies that are written towards the end of next month are already going to extend beyond the expiration of the current backstop," Mr. Murray said.

—By Joanne Wojcik

COLORADO WINTER STORM LOSSES:

\$93.3 million	March 18-19, 2003
\$10.5 million	Oct. 24-26, 1997
\$6.4 million	Sept. 20, 1995
\$4.9 million	Dec. 22-26, 1982

In comparison: Colorado's most costly catastrophe was a \$625 million hailstorm that battered the Denver metro area on July 11, 1990.

Source: The Rocky Mountain Insurance Information Assn.

The spring blizzard, which dumped seven feet of wet, heavy snow in the mountains and nearly 32 inches in Denver over a three-day period in March 2003, resulted in insured losses of more than \$93.3 million from 28,000 claims filed, according to the RMIIA.

From late last month's storm, "at this point, even from the large carriers, we're only seeing several hundred claims, which doesn't amount to large insured damages," Ms. Walker said. Most of the claims are from homeowners and renters, and the majority are coming from the Denver metro area and Colorado Springs, she said. Claims range from leaking roofs to frozen and burst pipes to cars sliding into homeowners' garages.

While it will obviously result in millions of dollars of losses, it doesn't look like it will reach the \$25 million threshold, which is the Insurance Services Office cutoff for a catastrophe, Ms. Walker said. However, "that could change as we move into the next storm," she noted.

"I haven't had one phone call yet: not from parks, not from

ed in close to \$1.5 million in damage citywide.

Total damage from the 2003 blizzard was much higher, as the RMIIA figure excluded large commercial building losses. The lion's share of the damage came from collapsed roofs, porches, awnings, carports and outbuildings, RMIIA said.

By comparison, Colorado's most costly catastrophe was a July 1990 hailstorm that caused \$625 million in insured damage, RMIIA said.

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News In Brief

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eligible clients that bought retail insurance from 1994 to 2005 and \$8.85 million in plaintiffs' attorney fees.

Brazil closer to opening reinsurance market

Brazil may open its reinsurance market to foreign competition after its Senate on Dec. 20 sent a bill to President Luiz Inacio Lula da Silva that would gradually increase competition for IRB-Brasil Resseguros S.A, the government-controlled reinsurer that has held a monopoly for decades. Industry executives said the legislation would encourage development of new insurance products, thus aiding buyers.

MMC agrees to sell Putnam unit: Report

Marsh & McLennan Cos. Inc. has

agreed to sell its Putnam Investments subsidiary to Montreal-based Power Corp. of Canada for \$3.9 billion, The Wall Street Journal reported Friday. The deal is expected to be announced in early 2007 pending fund-investors' approval, the report said. Calls to MMC and Power Corp. were not returned immediately. Analysts at New York-based Bear, Stearns & Co. Inc. said a straightforward sale of Putnam would be fully taxable and therefore likely negative for MMC shares, but that proceeds could be used for share buybacks and/or debt reduction and could make a buyout of MMC more attractive.

Comp insurer approved in N.Y.

Workers compensation provider Majestic Insurance Co., a unit of CRM Holdings Ltd. of Bermuda, has obtained approval to write business in New York. San Francisco-based Majestic currently writes business in 15 states, largely on the West Coast. The new license will allow parent CRM to offer a wider array of service to brokers in New York, the company said. Separately, CRM announced management changes, including the promotion of Daniel Hickey from co-chief executive officer to CEO of CRM, following the departure of

Martin Rakoff, former co-CEO.

Interboro to emerge from rehabilitation

Interboro Mutual Indemnity Insurance Co. of New York, a provider of general liability and workers compensation, among other coverages, is expected to emerge from three years of insolvency, demutualize and restart as a stock company in early 2007 following an influx of capital from an investor group, the New York state

insurance department said. Interboro would be the first rehabilitated insurer to demutualize in New York, the department said.

Former XL Re executive dies of cancer Dec. 24

Keith L. Shroyer, former president and chief underwriting officer of XL Re Latin America, died Dec. 24 after a two-year battle with brain cancer, XL Capital Ltd. announced. He was 57. Mr. Shroyer, an American who

spoke Portuguese and Spanish fluently, spent his entire 30-year career in reinsurance in Latin American business. He worked at XL Re Latin America from that division's launch in 1997 until his retirement in 2003. He is credited with building a network of regional offices that boosted XL's presence in the area. Before joining XL Re, Mr. Shroyer worked for American Re-Insurance Co. and American International Group Inc. Mr. Shroyer is survived by his wife and four sons.

Starr: International charity established

CONTINUED FROM PAGE 1

er charitable institutions around the world.

The fund's first major grants, announced last month, included \$4 million to Doctors Without Borders/Médecins Sans Frontières to support international humanitarian work and \$1 million to support various Swiss charities.

Battle over shares

The new foundation also could be the latest twist in an ongoing feud between the formerly linked Starr companies and American International Group; a portion of

the funds for the new foundation comes from AIG shares owned by SICO.

The Starr International Foundation is the sole stockholder of Starr International AG, a Swiss charitable corporation that holds all of the authorized shares of nonvoting SICO common stock.

SICO, in turn, is a significant shareholder in AIG. According to a 2006 proxy statement from AIG, the Starr Group—which includes SICO and the C.V. Starr agencies—owns 396.1 million, or 15.2%, of AIG's shares.

The ownership of that common stock continues to be hotly disputed.

In October 2005, AIG sued SICO for control of the shares in a counterclaim to a July 2005 complaint by SICO against AIG over ownership of a \$15 million art collection, among other things. SICO responded with a suit denying its obligation to surrender control over its AIG stock.

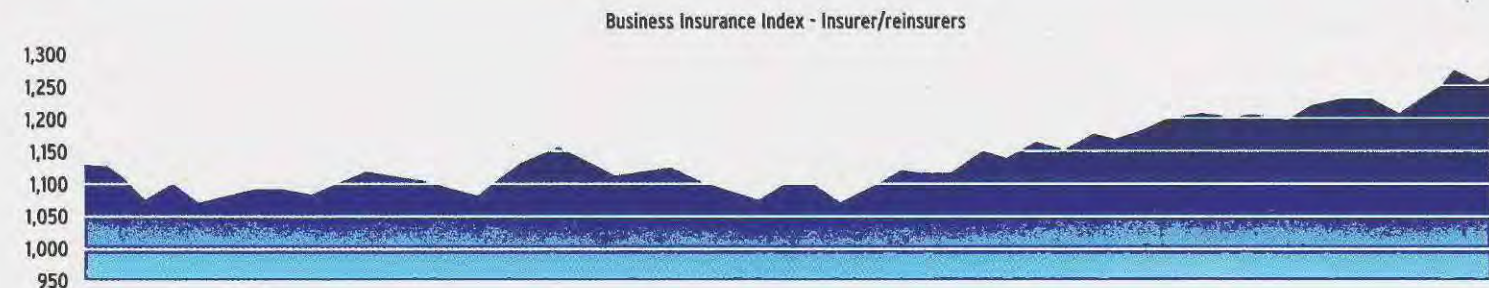
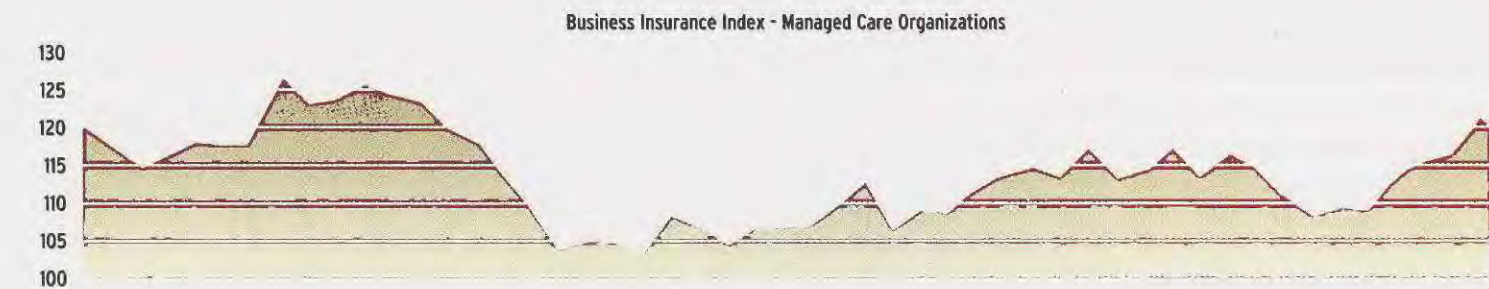
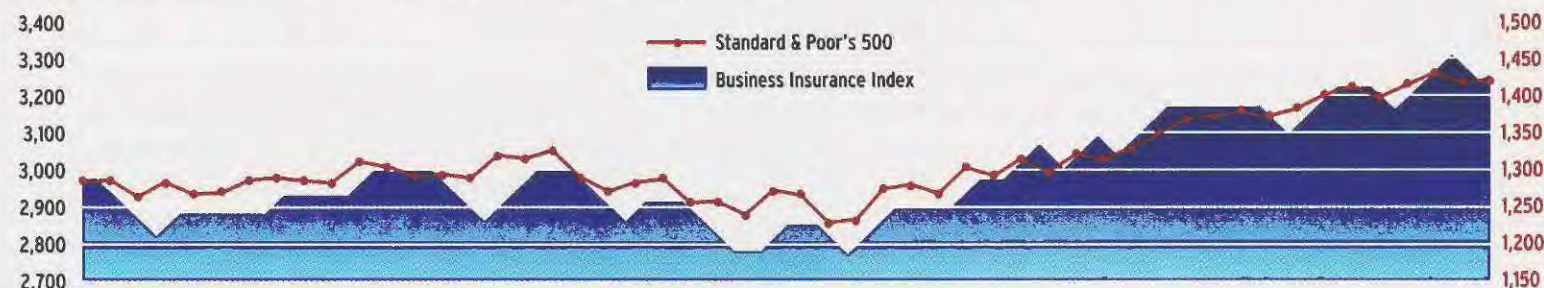
What remains to be seen is whether the creation of the new charity impacts the ongoing legal battle over the AIG shares.

"Since the AIG shares are a subject of pending litigation, we won't comment," a spokesman for AIG said.

A spokeswoman for Mr. Greenberg declined to comment.

Year End Stock Index

Yearly data for all 85 companies that comprise the BI Stock Index can be found at www.businessinsurance.com.



Stock Index

[12/26 - 12/29]

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	▲
3245.39	0.35
DOW JONES	▲
12463.15	0.97
S&P 500	▲
1418.30	0.53

LARGEST GAINS

CMA Surety Corp.	5.65%
PMA Capital Corp.	4.18%
Navigators Group Inc.	3.24%
HCC Insurance Holdings	2.82%
Argonaut Group Inc.	2.74%

LARGEST LOSSES

PXRE Group Ltd.	-5.73%
Baldwin & Lyons Inc.	-2.59%
Fairfax Financial	-2.41%
Harleysville Group Inc.	-2.16%
Axis Capital Holdings Ltd.	-1.85%

Source: Financial Content Inc. <http://financialcontent.com>

Business Insurance

END PAGE



Dieters put good health before looks

More than half of U.S. adults think they should lose some weight, so it should come as no surprise that a majority are resolving to shed pounds during the new year.

According to a survey conducted for New York-based Weight Watchers International Inc., women are more likely than men to go on a diet. The survey found that 61% of female respondents and 50% of male respondents said they plan to shed a few pounds during 2007.

Of those seeking to slim down, 92% said feeling better was the No. 1 motivational factor, while 87% desire to look better and 70% will do so to improve their health.

Roughly half say they are inspired by the desire to reverse the damage of their holiday eating binge.

Unfortunately, nearly two in five U.S. residents say they have cheated or given up on a weight-loss program in the past.

Of those, 79% blame their failure to lose weight on waning motivation, while 77% say cravings for forbidden foods usually lead them to break their healthy New Year's resolutions. And 57% say they usually give up if they do not see results quickly enough.

While women are more likely to go on a diet in the first place, women also are more likely to cheat or give up on a diet than men—47% and 27%, respectively.

'Disinhibited' libido merits £3M award

A former U.K. warehouse employee who claimed that a work-related accident triggered his infidelity and wrecked his marriage has been awarded more than £3 million (nearly \$6 million) in damages by a London court.

Stephen Tame, 29, claimed that the head injuries he suffered in a 2002 fall at Professional Cycle Marketing left him with an overactive libido and a "disinhibited" personality disorder that cause him to seek out prostitutes and pornography.

Mr. Tame had been married less than a year when he fell from a gantry while working at a bicycle warehouse in 2002 and spent nearly two months in a coma.

In awarding the compensation, Judge Michael Harris of London's High Court pronounced: "His life and the life of his young wife were shattered."

Lawyers for Professional Cycle Marketing, based in Essex, England, had accepted liability but argued that Mr. Tame exaggerated the severity of his injuries.



Contributing: Roberto Cenicerros, Rupal Parekh, Joanne Wojcik

Lobsterman pinched in workers comp fraud

It wasn't a red flag so much as something that turns red when cooked—lobsters sold by a Lamoine, Maine, resident while he was collecting workers compensation benefits—that led investigators to set a trap of their own.

William Fennelly began collecting incapacity benefits for a back injury suffered in 2000. Two years later, the benefits stopped when Mr. Fennelly reported earnings from another company. Mr. Fennelly soon filed another back injury claim.

However, both companies were insured by Maine Employers' Mutual Insurance Co., whose investigators discovered that the man had lobstering and fishing licenses, the Portland-based insurer said.

That led to a lobster "pound" where Mr. Fennelly sold his catches. Not only was he fishing commercially, but Mr. Fennelly also was

employed by the Town of Lamoine Transfer Station and as a sternman aboard another boat.

While the man denied working or having bank accounts, MEMIC said it found two such accounts in addition to three deposits—a workers comp benefit check and paychecks from two employers—that all were made the same day.

In December, a judge decided Mr. Fennelly should report to jail later this month to serve a seven-month sentence for perjury.

MEMIC's announcement of Mr. Fennelly's sentencing may have exceeded the legal limit for puns, however.

The announcement read: "As investigators trawled deeper, the truth got murkier" and "an almost three-year case of 'something's fishy' finally ended...with the sentencing of William Fennelly."

Birthday 'bomb' failed to detonate

Sometimes, the best risk management strategy for a company is guarding against disgruntled employees, say federal prosecutors in Newark, N.J.

Authorities last month arrested a systems administrator for Medco Health Solutions Inc. for allegedly planting a "logic bomb" in the Franklin Lakes, N.J.-based pharmacy benefit manager's computer network.

A logic bomb is computer code that is triggered by an event, such as a date, to destroy data in a computer system.

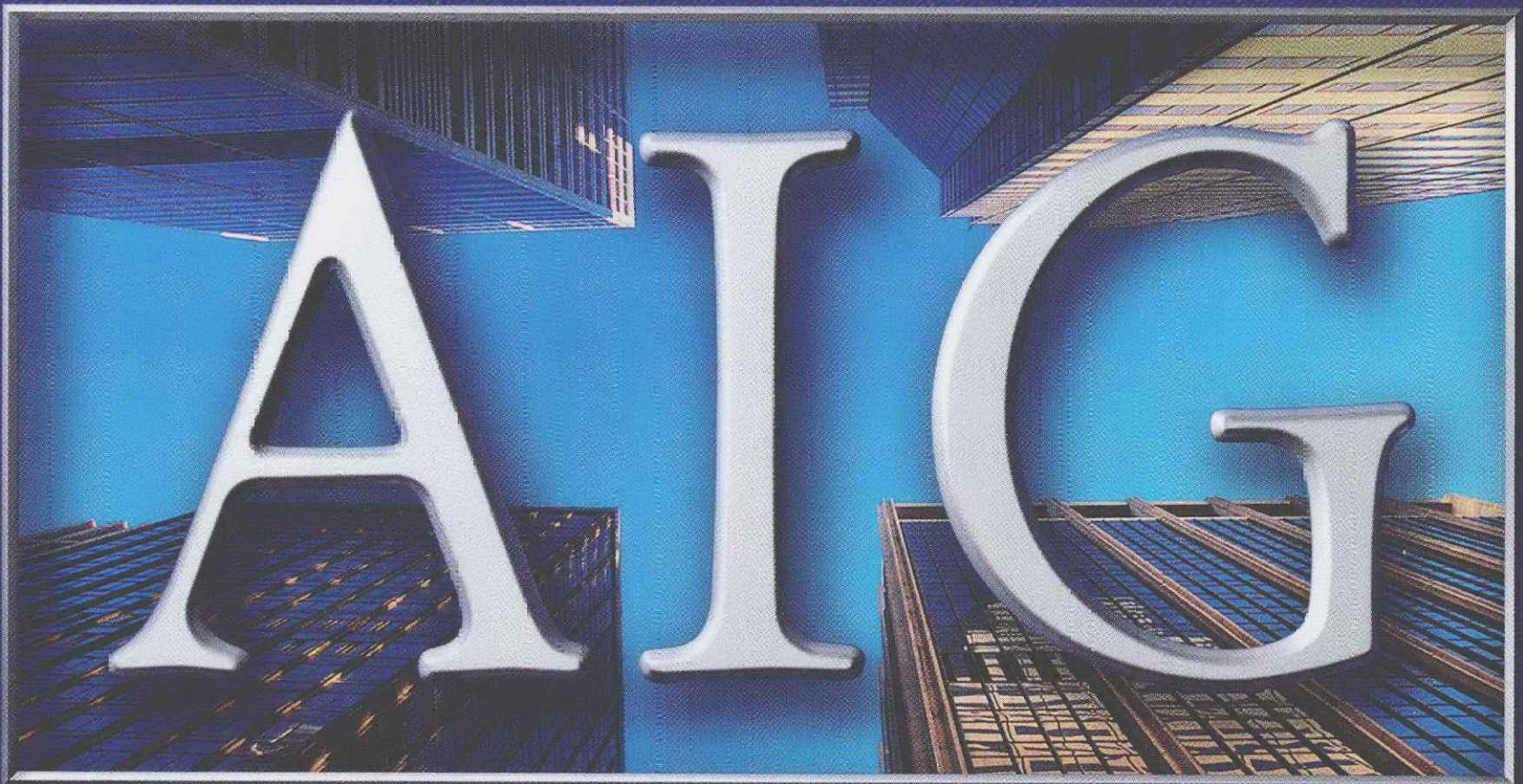
A two-count fraud indictment alleges that former employee Yung-Hsun "Andy" Lin could have wiped out critical data—including a database containing potential drug interaction conflicts for patients' prescribed medicines—stored on more than 70 Medco servers, according to the U.S. attorney's office for the District of New Jersey.

Prosecutors charged that Mr. Lin, who was fearful of being laid off amid a corporate restructuring, planted the code and then revised the faulty "logic bomb" even though he kept his job.

Fortunately for Medco and its clients, Medco found the logic bomb and disarmed it before it detonated on the intended day—Mr. Lin's birthday. However, "the potential damage to Medco and the patients and physicians served by the company cannot be understated," said U.S. Attorney Christopher J. Christie in a statement.

"Companies and law enforcement must be extremely vigilant to guard against disgruntled employees with the knowledge and position to wreak such havoc," Mr. Christie said.





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