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In Brief

CNA to pay \$250M in reinsurance pact

CNA Financial Corp. said it will report a \$110 million aftertax loss, net of reinsurance, in connection with a settlement with Boston-based John Hancock Life Insurance Co. of a dispute involving the personal accident reinsurance market. The settlement, which calls for a one-time payment of \$250 million, involves exposures under four excess of loss reinsurance treaties issued by CNA Reinsurance Co. Ltd., which CNA sold in 1992. In 2000, CNA Re instituted arbitration proceedings against John Hancock seeking rescission of the treaties.

Delphi to freeze two DB plans

Auto parts manufacturer Delphi Corp. will freeze its two pension

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International NEWS

German risk managers and insurance industry companies urge government to continue backstop

program for terrorism losses; risk managers in Czech Republic signing on to new association;

losses from recent deadly fires in Greece largely uninsured. **Page 17**



Buyout funds running dry?

Credit crunch may dampen private equity broker deals

By **ROBERTO CENICEROS**

The rash of private equity buyouts of insurance brokerage firms may slow as a result of the credit crunch driven by the subprime mortgage crisis—particularly highly leveraged deals—some observers say.

And deals that have not yet been completed may be restructured to take account of a higher price of debt and fewer willing lenders, they say.

But insurance brokerages remain highly attractive acquisition targets for investors, so any slowdown is likely temporary, they say.

The effect of the subprime crisis on brokerage acquisitions is most noticeable in the sector that relies on highly leveraged financing, said Steven K. Bolland, president of Gill & Roeser Inc., a New York-based reinsurance intermediary and financial advisor.

While large private equity firms are known for having substantial

amounts of cash, many of the deals still rely on large amounts of debt as the firms seek to spread their risk by participating in more deals than their cash alone permits, Mr. Bolland said.

But subprime mortgage problems are making it difficult to borrow, at least for the moment, he said. "We are seeing people that are saying, 'If I can't borrow the money at terms that are acceptable, why would I want to do the deal?'"

Some deals ultimately may not come together because of finance industry uncertainty and problems such as the inability of banks to syndicate their loans, said John L. Ward, chief executive officer of Cincinnati-based Cincinnati

See **DEALS** page 22

Measure would prohibit sexual orientation bias

Bill's vague language concerns some employers

By **MARK A. HOFMANN**

WASHINGTON—Business groups are concerned that a bill designed to prevent workplace discrimination based on sexual orientation and "gender identity" could have unintended consequences for employers.

A top concern is the Employment Non-Discrimination Act of 2007's definition of gender identity, an issue that was not addressed in previous versions of the bill, last introduced in 2005. According to the proposal, the term "means the gender-related identity, appearance or mannerisms or other gender-related characteristics of an individual, with or without regard to the individual's designated sex at birth." Employer groups say this language is vague and potentially troublesome.

The House Education and Labor Committee's Subcommittee on Health, Employment, Labor and Pensions heard testimony on the bill last week. Among other things, the legislation—introduced by Rep. Barney Frank, D-Mass.—would give the Equal Employment Opportunity Commission the same power of enforcement regarding sexual orientation claims as it has for claims of racial, gender and other existing unlawful types of discrimination under Title VII of the Civil Rights Act of 1964.

The measure provides a limited exemption for religious organizations, and it specifically states that its provisions are not intended to provide preferential treatment or quotas on the basis of sexual orientation or gender identity. One pro-

See **BIAS** page 21

Judge tosses charges of industry conspiracy

Insurer, broker antitrust claims dismissed again

By **RUPAL PAREKH**

TRENTON, N.J.—A New Jersey federal judge has cleared several dozen insurers and brokers of antitrust claims in a class action lawsuit related to industry practices investigated by former New York Attorney General Eliot Spitzer in 2004.

While a significant legal victory for the insurance industry, the decision does not end the dispute. U.S. District Judge Garrett E. Brown Jr. has yet to rule on allegations in the suit involving claims made under the Racketeer Influenced and Corrupt Organizations Act.

Brought on behalf of commercial property/casualty insurance policyholders and employee benefit plan sponsors, the consolidated litigation stemmed from a flurry of lawsuits filed in the wake of industry-wide investigations into bid-rigging

and client-steering allegations.

The consolidated complaint alleged that the companies (see box, page 22) engaged in an antitrust conspiracy in which they allocated clients, fixed prices and restrained trade in violation of RICO and the Sherman Antitrust Act.

In earlier rulings, Judge Brown and a previously assigned judge, Faith Hochberg, rejected conspiracy allegations against the insurers and brokers. Judge Brown earlier this year gave plaintiffs a final chance to amend their filings and bolster their case with supplemental pleadings (*BI*, April 9).

The revised suit, however, still lacks factual support for claims of a widespread conspiracy, Judge Brown stated in his Aug. 31 opinion.

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EMERGING RISK STRATEGIES

'Swarm' to high-tech hub to discuss risk exposures

Business Insurance columnist John J. Hampton, professor of business and dean at St. Peter's College in New Jersey, talks about the value of "swarming" as a model for risk identification within an organization in his latest column. Read this and previous columns at www.BusinessInsurance.com/ERM.



BI DIRECTORIES

Leading Reinsurers directory updated for '07

Business Insurance has updated its directory of Leading Reinsurers Worldwide for 2007. It is available online and can be purchased for download in either PDF or Excel spreadsheet format. For details, go to www.BusinessInsurance.com/directories.

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Business Insurance.

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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UnitedHealthcare, states settle claims probes

By JOANNE WOJCIC

MINNETONKA, Minn.—UnitedHealthcare will pay \$12 million in penalties and overhaul its claims handling practices under a settlement announced last Thursday with 37 state insurance departments.

Total penalties could rise to as much as \$20 million if additional states join the agreement, UnitedHealthcare said.

The Minnetonka, Minn.-based unit of UnitedHealth Group Inc. had been under investigation by 37 state regulators following nationwide complaints about coordination of benefits, appeals and grievances, explanation of benefits

letters, utilization review procedures and other areas of claims handling.

Among other things, the investigations found numerous claims processing errors, such as not applying correct fee schedules and deductibles, according to a statement by the New York State Insurance Department.

New York will receive \$3.7 million from the settlement in addition to \$320,000 from a separate agreement it reached with the insurer based on findings that UnitedHealthcare had violated the state's prompt payment statute and claim appeal rules, among other violations.

Under terms of the larger settlement, UnitedHealthcare will implement a national claims handling improvement plan and undergo collective monitoring of its market practices by the five states that led the investigations: New York, Iowa, Florida, Connecticut and Arkansas. The plan also establishes benchmarks for improving claims accuracy and timeliness, reviewing appeals and handling consumer complaints, with the possibility of additional penalties if it fails to meet those standards.

The agreement, which will be in effect until Dec. 31, 2010, will affect substantially all of UnitedHealthcare's commercial health

plan operations.

In response to the settlement, Kenneth Burdick, UnitedHealthcare's chief executive officer, issued a statement saying: "This new, forward-thinking approach focuses the regulatory process for the states and our company on a practical set of uniform performance standards while providing clearer and more meaningful means of assessing how well we are serving customers. We greatly appreciate the efforts of the five lead states in developing this agreement and believe it breaks new ground in how we can work with states across the country for the benefit of our members and business partners."

U.S. reinsurers' results expected to decline amid softening market

Combined ratio better but premiums fall in first half: RAA

By JUDY GREENWALD

U.S. reinsurers reported strong underwriting results in the first half of 2007, but that is not expected to continue as rates remain weak, observers say.

Widespread softening in property/casualty pricing "suggests that such strong results are not sustainable," said Bruce Ballentine, an analyst with New York-based Moody's Investors Service in New York.

Meanwhile, some observers expect the number of U.S. reinsurers to shrink even further as excess capital leads firms to consider mergers and acquisitions.

The 22 reinsurers surveyed by the Washington-based Reinsurance Assn. of America reported a 90% combined ratio for first half of the year compared with 96.5% reported by a comparable group for the same period last year.

For the 22 reinsurers, first-half 2007 total net premiums written were \$12.23 billion, a 5.8% decline from the year-earlier period total for a comparable group.

The top 10 reinsurers reported \$10.43 billion in first-half net premiums written, a 7% decline from the same period a year ago.

The top 10 reported a weighted combined ratio of 88.8% for the first half of this year vs. 96.2% for the first half of last year.

First-half reinsurer underwriting results were strong for several reasons, including the absence of catastrophic activity, strong investment returns and favorable prior-year reserve adjustments, said John L. Ward, chief executive officer of Cincinnati-based Cincinnati Partners L.L.C.

But, rates continue to weaken, observers say.

"There's continued pressure on rates, both property and casualty," with casualty lines "probably a bit softer than property," although that can change overnight with a major storm, said John Gwynn, managing director at Memphis-Tenn.-based Morgan Keegan & Co.

State-backed capacity now available in Florida may also be a factor in weakening reinsurance rates, said Mr. Ward. That "did free up a tremendous amount of capacity in the reinsurance market, especially in such a concentrated property

See **RESULTS** page 20



Heavy rain led to flooding in Oranjestad, Aruba, in the wake of Hurricane Felix, which Risk Management Solutions estimates will result in insured losses of less than \$200 million.

AP PHOTOS, NASA

Low insured losses seen from latest hurricanes

Insured losses from Hurricane Felix are likely to be less than \$200 million, according to Newark, Calif.-based Risk Management Solutions Inc. The Category 5 hurricane last week struck a sparsely populated area along the border of Honduras and Nicaragua. Felix was the second Category 5 hurricane to make landfall this year, and marked the first time two Category 5 hurricanes

made landfall in the same year since records have been kept. The other Category 5 hurricane, Dean, last month caused damage in Jamaica, the Cayman Islands and portions of Mexico. In addition, Hurricane Henriette made landfall on Mexico's Baja Peninsula last week but caused "no significant structural damage," according to Boston-based AIR Worldwide Corp.



ON OCT. 8, 2007, *Business Insurance* will celebrate its 40th anniversary of publication. Each week until then, *BI* will offer a peek at news we reported during the past four decades.

OCT. 31, 2005 Three new reinsurers gear up in Bermuda and more startups are expected following huge losses from Hurricanes Katrina, Rita and Wilma. The new trio comprises Validus Reinsurance Ltd., Harbor Point Ltd. and an unnamed reinsurance entity formed by investors led by NAC Re and Tempest Re founder Donald Kramer.

NOV. 7, 2005 James N. Stanard, founder and top executive of RenaissanceRe Holdings Ltd., resigns amid investigations into the reinsurer's use of finite risk coverage and possible charges from U.S. securities regulators. Bermuda-based RenRe, founded in 1993, was one of the first property catastrophe specialty reinsurers.

Large companies not prepared for water shortage: Survey

Despite concerns of major problems, few addressing risk

By SALLY ROBERTS

NEW YORK—Despite the growing risks associated with a severe water shortage and its potential catastrophic operational impact, few Fortune 1000 companies are prepared for such a crisis, according to a Marsh Inc. survey released in conjunction with the brokerage's launch of a new center devoted to emerging global risks.

The New York-based brokerage surveyed 101 corporate-level executives in June to gauge their perspec-

tives on eight potential crisis scenarios: natural disasters, terrorist attacks, oil price spikes, climate change, housing market collapse, water shortage, nanotechnology risks and pandemics.

While the respondents expressed varying levels of concern over the perceived likelihood of some scenarios occurring and the impact such crises may have on their businesses, the lack of awareness and preparedness among Fortune 1000 companies for a potential water shortage surprised advisers for the new Marsh Center for Risk Insights.

The Marsh Center, a think tank of global risk experts, will use the survey's findings as a starting point for their work in identifying and communicating the most critical

global business risks (see sidebar, page 19).

According to the survey, while nearly half of the respondents said water is critical or very important to their day-to-day operations, only 6% said they believe it is likely that access to water for manufacturing and drinking will be significantly reduced because of quality degradation or scarcity in the next five to 10 years.

And only 17% said they have taken steps to prepare for such a crisis, despite 41% acknowledging that if they were faced with a severe water shortage it would result in either a complete or partial shutdown of their operations, the survey found.

John Merkovsky, executive director of the Marsh Center, described

READY OR NOT?

Percentage of companies that have prepared for various crisis scenarios:

- 58%** Natural disaster
- 55%** Steep rise in oil prices
- 44%** International terrorist attacks
- 41%** A pandemic disease
- 25%** Global climate change
- 24%** Housing market collapse
- 17%** Reduced access to water
- 12%** Risks associated with nanotech

Source: Marsh Inc.

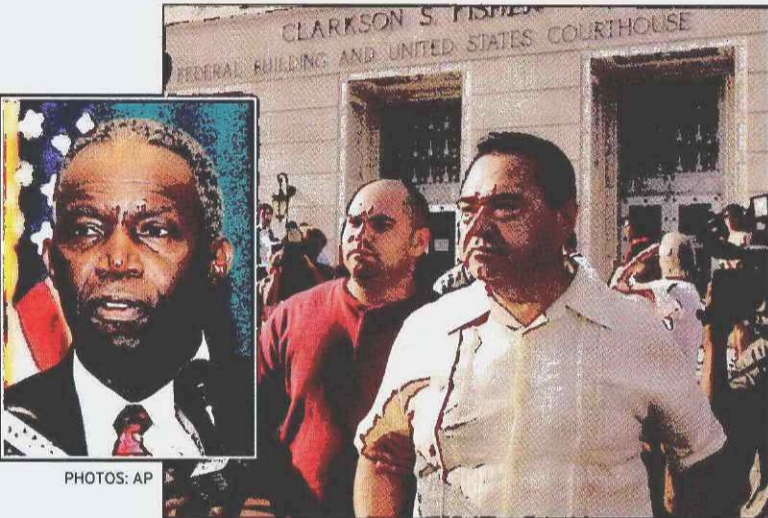
the results on a Webcast last week as some of the "more striking findings" to emerge from the survey.

"The melting of the polar ice caps is going to have a significant impact on water availability" and "businesses are largely ignoring this issue...despite the catastrophic impact reduced water would have" on their operations, he said.

According to a statement by Carol Browner, a principal with the Albright Group and former administrator of the U.S. Environmental Protection Agency, water shortages are already becoming more severe, and businesses should be planning to deal with the issue.

"We are seeing water shortages that are more frequent and severe than in the past. Climate change will most likely exacerbate this

See **MARSH** page 19



PHOTOS: AP

Mims Hackett Jr., left, mayor of Orange, N.J., and a state assemblyman, and Passaic, N.J., Mayor Samuel Rivera were among the 11 New Jersey officials charged last week with taking bribes to influence the awarding of contracts.

N.J. officials arrested in insurance bribe sting

By DAVE LENCKUS

NEWARK, N.J.—In a sting that involved setting up a bogus insurance brokerage, the FBI last Thursday arrested 11 public officials across New Jersey plus another official's top staffer for allegedly taking cash bribes to influence how public entities awarded contracts.

The defendants are accused of taking bribes ranging from \$1,500 to \$17,500 apiece to influence how municipalities and school districts awarded insurance brokerage and roofing service contracts, according to a statement by U.S. Attorney Christopher J. Christie in Newark, N.J.

The defendants include two New Jersey assemblymen, current and former city and school officials, and the chief of staff to the president of the Newark City Council.

As part of the sting, the FBI established phony insurance brokerage and roofing contractor operations that were staffed with government informants and FBI agents, according to Mr. Christie's statement.

The investigation began in mid-

2006 when the FBI developed evidence of corruption within the Pleasantville School District. When the undercover agents approached school officials, the officials allegedly accepted bribes and then referred the agents to other public officials in the state, who accepted bribes and directed the agents to additional public officials, according to Mr. Christie's statement.

Last week, the defendants appeared before a U.S. magistrate in Trenton.

The defendants are: Orange Mayor and state Assemblyman Mims Hackett Jr.; Assemblyman and Passaic County Undersheriff Alfred E. Steele; Passaic Mayor Samuel Rivera; former Passaic City Councilman Jonathan Soto; Passaic City Councilman Marcellus Jackson; Keith O. Reid, chief of staff to the Newark City Council president; and current and former Pleasantville school board members Jayson G. Adams, Maurice Callaway—also a Pleasantville City Council member—James T. McCormick, James A. Pressley, Rafael Velez and Louis Myster.

New York HMO quality report card adds New Jersey, hospital data

Local plans, facilities compared against national averages

By GLORIA GONZALEZ

LAKE SUCCESS, N.Y.—New York health maintenance organizations provided equal or superior medical care to their members compared with the national average for quality performance, while their New Jersey counterparts often provided lower quality care when measured against national levels, according to a new report.

The New York Regional Health Care Report Card, which measures managed care plan and hospital performance, is based on patient care and customer service data from 2005—the latest year for which data is available. The New York State Health Accountability Foundation,



a nonprofit group founded by the New York Business Group on Health, and IPRO, an organization that promotes health plan quality and transparency, jointly released the annual report.

Although the report card has tracked the performance of New York HMOs for eight years, it was expanded this year to include New Jersey HMOs. The report card also featured performance information for New York hospitals, with data on New Jersey hospitals to be added shortly.

The report was expanded because

"consumers and businesses alike are demanding more transparency on health care," said Clare Bradley, senior vp and chief medical officer for IPRO.

HMOs in New York state performed as well or better than the national average in 19 of 23 metrics; New Jersey HMOs met or exceeded the national average in just 10 of 19 metrics.

HMOs in New York state outperformed the national average treating heart conditions and sexually transmitted diseases. For example, 73% of New York HMO members hospitalized for a heart attack received a beta blocker medication for at least six months after hospitalization. In contrast, 70% of heart attack sufferers received the medication on the national level.

In addition, 45% of female members of New York HMOs between

See **HMOs** page 18

Pension reform law spurs sponsors to implement automatic enrollment

Changes have had significant impact in first year: Experts

By JENNA GOTTLIEB

After just a year on the books, the Pension Protection Act of 2006 has changed life for defined contribution plan executives.

The number of defined contribution plans that have—in remarkably short order—adopted automatic enrollment and picked target-date funds as their qualified default option has surprised some industry

experts.

"We expected it to be fairly significant, but we are surprised at just how much plan sponsors have moved," said Robyn Credico, senior consultant at Watson Wyatt Worldwide in Arlington, Va. "There has been a substantial increase in auto-enrollment. Many of our clients are implementing or have implemented auto-enrollment. The PPA has simplified the whole process."

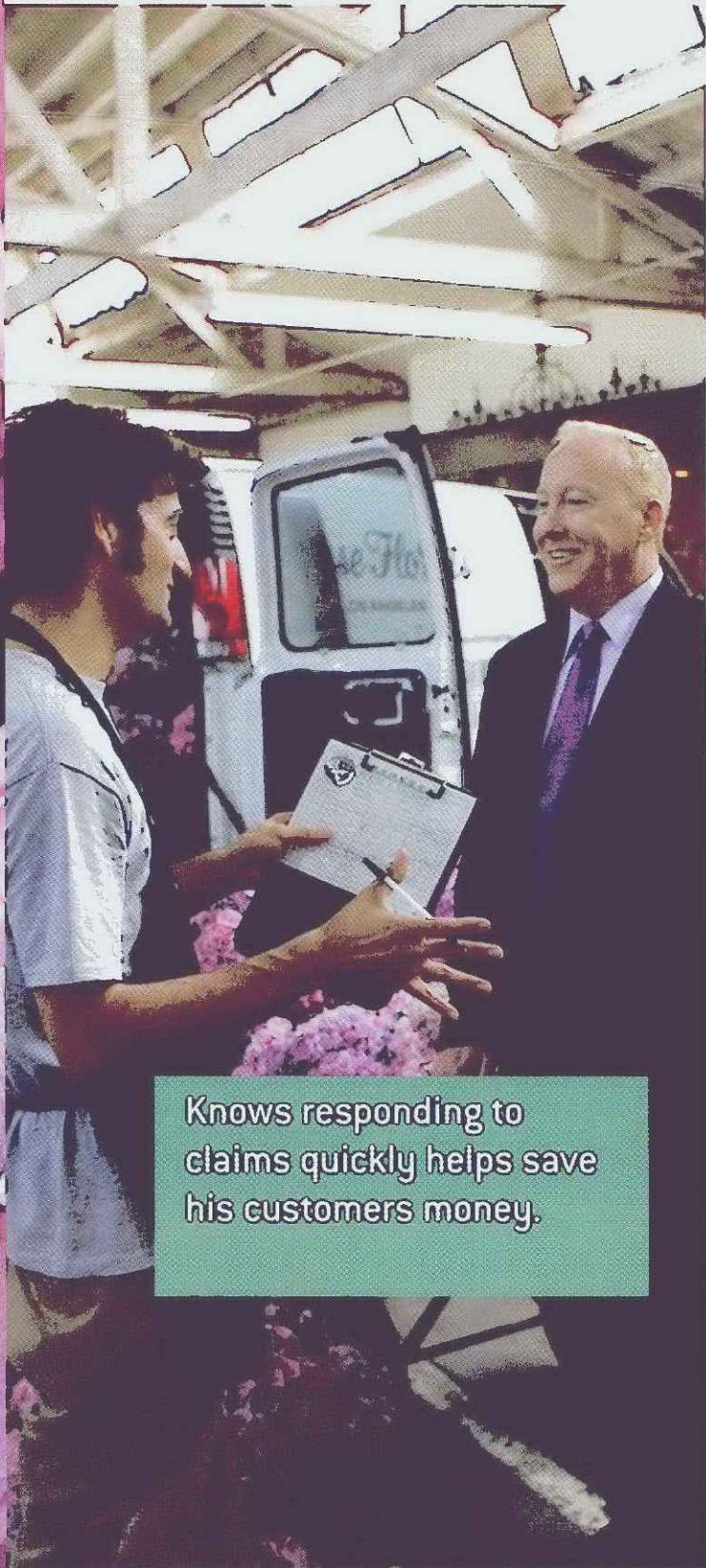
The landmark law offers a safe harbor from nondiscrimination testing for companies that automatically enroll employees in their 401(k) plan and meet certain other requirements, such as the use of a

qualified default option. For defined benefit plans, the PPA, among other things, strengthens funding rules and protects new cash balance plans from age discrimination suits.

According to the Investment Company Institute in Washington, corporate, public and union defined contribution plans hold \$2.7 trillion in assets on behalf of 47 million active participants and millions of former employees and retirees.

The biggest story on the defined contribution plan side is how quickly target-date funds have become the qualified default investment

See **PPA** page 10



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Backstop could cost \$8.4 billion: CBO

By MARK A. HOFMANN

WASHINGTON—The Congressional Budget Office estimates that extending the federal terrorism insurance backstop could cost the government about \$8.4 billion from 2008 through 2017, according to an estimate released last week.

As approved by the House Financial Services Committee in July, the Terrorism Risk Insurance Revision and Extension Act of 2007—H.R. 2761—would expand the backstop to include group life insurance as well as commercial property/casualty coverages.

The measure also would permit the backstop to cover losses caused by acts of domestic terrorism and would extend the program through 2022.

The current program is scheduled to expire Dec. 31.

"There is no reliable way to predict how much insured damage terrorists might cause in any specific year," according to the Congressional Budget Office report.

"Rather, CBO's estimate of the cost of financial assistance provided under H.R. 2761 represents an expected value of payments from the program—a weighted average

that reflects industry experts' opinions of various outcomes ranging from zero damages up to very large damages resulting from possible future terrorist attacks.

"The expected value can be thought of as the amount of an insurance premium that would be necessary to just offset the government's losses from providing this insurance, although firms do not pay any premium for the federal assistance offered" by the program, the report states.

The report is available at www.cbo.gov/ftpdocs/85xx/doc8520/8-02-TRIA.pdf.

Class action granted against Unum

By JOANNE WOJCIK

CHATTANOOGA, Tenn.—A federal judge in Tennessee has granted class action status to a lawsuit that alleges Unum Group violated the Employee Retirement Income Security Act by illegally denying or terminating thousands of group long-term disability claims.

The decision is the latest ruling in the long-running multidistrict litigation that alleges several types of misconduct by Unum or its subsidiaries in handling group LTD claims.

The lawsuit filed in 2003 says that Unum set cost-savings targets to be achieved through the denial and termination of certain LTD claims and used financial incentives to enlist the help of its in-house physicians and claims adjusters in meeting

those goals.

Plaintiffs are not seeking monetary relief, but instead are asking that the court provide "declaratory relief determining the illegality of the conduct alleged and injunctive relief whereby UnumProvident and its subsidiaries are ordered to immediately cease...engaging in the offending practices."

UnumProvident changed its name to Unum Group in January.

The class certified last week includes all plan participants and beneficiaries insured under ERISA-governed LTD policies issued by Unum or its subsidiaries who have had a claim denied, terminated or suspended on or after June 30, 1999.

In response to the ruling, Unum issued a statement saying it is not a decision on the merits of the case

and that that the company has already begun the process of reassessing the denied or suspended claims.

In addition, the statement added: "We are deciding now whether to seek an immediate appeal to make sure that the case proceeds on the correct procedural path when it gets to the merits of the claims. Several motions that will provide the court with the opportunity to begin addressing the merits await decision and are unaffected by the recent ruling. These additional motions, if decided in the company's favor, would end the case in Unum's favor without a trial."

An attorney for the plaintiffs, Matthew M. Houston with Harwood Feffer L.L.P. in New York, declined to comment.

Questions Answers



Sanford F. Crystal is executive vp at Frank Crystal & Co., a New York-based brokerage established more than 70 years ago to serve Wall Street clients. While the firm now has a wide variety of clients, risk management and insurance for financial institutions remains a specialty. Mr. Crystal spoke with BI Editor Regis Coccia about the company's knack for insuring hedge funds, banks and other entities.

Focused on financials

Q: How does Frank Crystal & Co. view financial institution business? What size clients does the firm pursue?

How we view financial institutions business and how we're actually set up for it is a little bit different from what most of our peers do. Our financial and insurance services group is designed to handle all lines of coverage for financial institutions. That's professional liability, directors and officers liability, fidelity bonding, property and casualty, all integrated in one group. Traditionally, you've seen firms or carriers set it up along product lines. Our approach is...a view that financial institutions are unique. A lot of carriers treat them as a separate area. It makes sense for us to set up along this way and provide a consultative, advisory approach. We need to understand what our clients do, and by having a dedicated financial institutions practice, we're better suited to doing that.

In terms of how we look at the financial institution world and what size client we're going after, we have as clients among the largest financial institutions around. Contrary to our relative size to some of our peers in the financial institution space, we are one of the largest players in the industry, period, and our clientele reflects that. Among our particular strengths is the asset management space, the money management firms, the mutual funds, the hedge funds. We are extraordinarily strong in terms of the size and number of clients we have. Certainly we cover the whole breadth of the financial institutions space in terms of banks, insurance company clients, in addition to the other categories, such as specialty finance companies.

Q: What are some common risks of financial institutions?

As with many companies, the professional liability lines—errors and omissions, directors and officers liability—are very much paramount. Financial institutions typically are not asset-heavy firms. The property is an office exposure. That's not the driver of their exposure. Their real exposure, if they're public, is the directors and officers liability and for all financial institutions, the errors and omissions coverage. That's where you would

have your potentially catastrophic exposures....There's also the regulatory environment. The regulators have certainly been more active in the last several years than they have been historically, and that's driving both significant exposure and potential cost to financial institutions.

Q: Do many of your clients have operational risk managers?

Definitely a minority of our clients do. For us, that's very much ingrained in how we operate and view ourselves as our clients' risk manager. We definitely understand for the majority of our clients they're not spending all of their waking time thinking about insurance issues and what's going on in the insurance marketplace. That's our job. That's part of the reason we've set ourselves up this way, in order to provide better advice and better information to our clients. To do that, you have to understand your clients' business and be able to talk to them in their language and their scenarios of what their exposures are and how to deal with them. In our opinion, you can't be dealing with a manufacturing company today and a financial institution tomorrow and technology firm the next. You won't end up having a good understanding of what your clients do. You can't be effective as a broker—not just in placing their insurance but in giving them that advice and consultative approach—if you don't understand what they do.

Q: Frank Crystal, the firm's founder, was a stockbroker. How did he get into the insurance business?

I can only speculate because I never really had that conversation with him. He has since passed. The firm was founded in 1933. The only logical conclusion I can draw is that wasn't a great time to be in the stockbrokerage business and maybe insurance made more sense. That really goes to the root of the firm. Historically, we developed as a firm providing services to financial institutions. Today, we certainly as a company provide services to a whole host of industries in different product lines, but financial services is still a very significant part of what we do. It's very important to what we do.

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Business Insurance OPINIONS

Industry can't afford additional loss of trust

INSURANCE BROKERS and insurance companies should take little solace in a recent trial court ruling against plaintiffs that alleged leading industry companies violated the Sherman Antitrust Act.

While the federal judge found that plaintiffs did not make a sufficient case to show that insurers and brokers conspired to steer business using contingent commissions, this ruling may be appealed. In addition, the judge as of late last week had not ruled on plaintiffs' charges of racketeering.

If the U.S. district court judge does uphold racketeering charges, that would mean that the industry had maintained a pattern of organized criminal activity. Under federal racketeering law, plaintiffs could pursue treble damages.

Regardless of the ultimate outcome, enough bad deeds were done by a few to sully the insurance industry's reputation.

There's no question that bid rigging and steering accounts is clearly anticompetitive, and deliberate lack of disclosure keeps such egregious conduct hidden.

That's why we believe that the insurance industry should redouble its efforts to operate in a fully transparent way and restructure its business practices so that conflicts of interest are nearly impossible.

There may have been no industrywide conspiracy, but trust was broken when the improper conduct came to light three years ago. The industry is regaining some of what it lost, but it can't afford to let that trust be broken again.

The insurance industry should redouble its efforts to operate in a fully transparent way.

'Gender identity' demands clarification

FEW EMPLOYERS COULD argue with the idea that employment decisions should be made on the basis of an individual's qualifications and experience and not on factors that have no bearing on job performance. Increasingly, employers view sexual orientation as one of those factors that does not affect job performance.

As we report on page 1, members of the U.S. House are considering a measure that would ban employment discrimination based on sexual orientation and "gender identity." While we take no position on the Employment Non-Discrimination Act of 2007, we share the concerns of some national employer groups about the bill's definition of gender identity.

The definition is both broad and vague—"the gender-related identity, appearance, or mannerisms or other gender-related characteristics of an individual, with or without regard to the individual's designated sex at birth." What does that mean in legal terms? What is legally protected, and what is not? The bill's supporters—and more than one-third of the members of the House have signed on as co-sponsors of the bill—need to tighten that language before the measure comes to a subcommittee vote.

After all, employers want to do the right thing by their employees. It's simply sound business practice. But vague legislative language could require years of litigation to arrive at a clear interpretation. Cleaning the language up now would be a service to employers and employees alike.



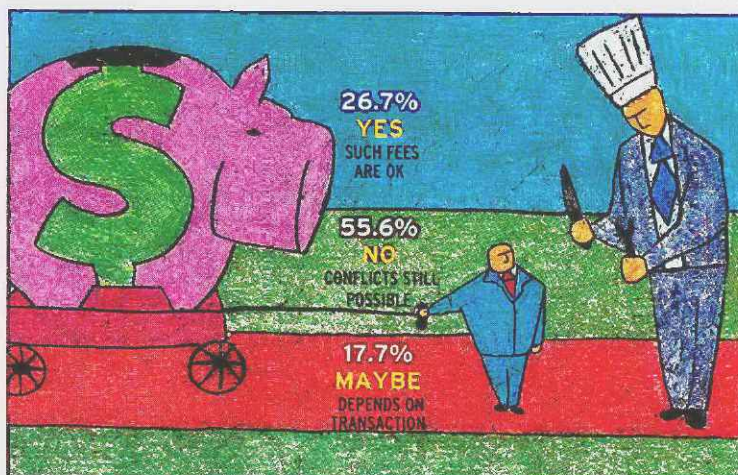
BI beats list

In an effort to ensure continuing timely coverage of risk management, insurance and benefit-related news, Business Insurance has formalized a list of its reporters' assigned beats. This list is not intended to be exclusive but rather to represent core subject areas of importance to BI readers. BI welcomes ideas and tips from readers on these and other areas. Following is a list of the beats and the principal reporters for each:

Agents/brokers: Sally Roberts	legislation-benefits: Jerry Geisel.	cat risks: Mark A. Hofmann.
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Benefits-retirement savings/pensions: Jerry Geisel.	Health care industry operations: Gloria Gonzalez.	Reinsurance: Judy Greenwald.
Bermuda market: Rupal Parekh.	Industry Focus: Rodd Zolkos, Meg Fletcher.	Risk management profession: Dave Lenckus.
Canada-risk management and benefits: Gloria Gonzalez.	Insurance coverage litigation: Douglas McLeod.	Runoffs/receiverships: Douglas McLeod.
Claims management: Rupal Parekh.	Insurance fraud: Douglas McLeod.	Safety/ergonomics: Meg Fletcher.
Employment practices: Judy Greenwald.	Latin American markets: Roberto Cenicerros.	Surplus lines/wholesalers: Roberto Cenicerros.
Environmental risk management: Sally Roberts.	Property/casualty industry operations: Judy Greenwald.	Tort reform: Mark A. Hofmann.
Federal regulation/	Professional liability: Dave Lenckus.	Work/life benefits and EAPs: Sally Roberts.
	Property loss control/	Workers compensation: Roberto Cenicerros.

Online Poll at www.businessinsurance.com

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NEXT WEEK'S POLL: Should gender identity be included in employment non-discrimination law?

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PPA: Plan sponsors rapidly adopt automatic enrollment for employees

CONTINUED FROM PAGE 4

option of choice—especially surprising because the Department of Labor has not yet issued final regulations on the subject.

Target-date funds

Last September, the Department of Labor proposed target-date funds, managed accounts and balanced strategies as appropriate default options for automatically enrolled employees. Excluded were stable value and money market funds, the traditional default options for many defined contribution plans.

TowerGroup in Needham, Mass.,

estimates that allocations to target-date or lifestyle default options will grow to 56% of assets in all defined contribution plans by 2011, up from 11% this year. They currently hold some \$370 billion of retirement plan assets, according to Boston-based Financial Research Corp., a huge increase from \$150 billion at the end of 2004.

In response, numerous money managers have rolled out target-date options, including UBS Asset Management in New York, AllianceBernstein Inc. in New York and New York Life Retirement Services in Boston.

"More assets are going into tar-

get-date funds. Some clients have done a re-enrollment process so a huge amount of assets are rolling into those funds," Ms. Credico said.

Thanks to the automatic enrollment and salary deferral increase provisions of the new law, participant contributions to defined contribution plans are expected to double from previous projections—to \$204 billion in 2011, up from \$103 billion now. Without the auto-enrollment incentives, projected contributions would have crept up to only \$109 billion in 2011, the TowerGroup report said.

Amy Reynolds, a Richmond, Va.-based consultant for Mercer Human

Resource Consulting Inc., said the timing was right for the PPA, and it facilitated investment decisions among plan executives who were hesitant about automatic enrollment.

Reservations overcome

"The PPA opened the door where plan sponsors had reservations about some changes like auto-enrollment. And yes, there has been faster movement than we expected. Some organizations were more conservative and wanted that encouragement from the government," Ms. Reynolds said.

According to Callan Associates

Inc. in San Francisco, 85% of surveyed plan executives said they will implement automatic enrollment in 2007 or are considering it. Callan surveyed executives at large 401(k) plans in March for its 2007 survey on qualified default investment alternatives.

"(The PPA) dominates conversations with clients," said Lori Lucas, defined contribution practice leader for Callan. "With almost every client that I work with, they are talking about moving forward on auto-enrollment. They are very eager to move forward on this because they see the value."

Callan also found that 30% of surveyed plans have stable value or money market funds set as the default for automatic enrollment. If the proposed regulations are adopted without changes, participants in stable value or money market default options will have to be re-enrolled and their assets shifted to an option approved by the Department of Labor.

Callan also found that 70.6% of surveyed plan executives considering auto-enrollment were most likely to use target-date funds as the default option, said Ms. Lucas.

Corporate and public defined contribution plans alike are making plan changes in light of the PPA, even though the law doesn't govern public funds.

Officials at Verizon Communications Inc. in Stamford, Conn., implemented automatic enrollment and increased the company's match to one dollar for every dollar contributed by employees up to 6% of salary, from a dollar-for-dollar match up to 5% of salary. Verizon also added target-date funds managed by Russell Investment Group in Tacoma, Wash., making them the \$9.5 billion fund's default option.

Executives for Cadence Design Systems Inc. in San Jose, Calif., said the company's \$450 million plan will add automatic enrollment in January, also defaulting into target-date funds.

Rogers Corp. in Rogers, Conn., also decided to add automatic enrollment for its \$85 million 401(k) plan after the PPA passed.

"We started a project to look at our whole retirement benefits package and really focused on the DC plan," said Jack Richie, vp-human resources. "We are rolling out significant changes as of Jan. 1, with automatic enrollment for new employees and re-enrollment for current employees."

Rogers participants will be automatically enrolled into target-date funds offered by Prudential Retirement Inc. of Newark, N.J.

The Employees Retirement System of Texas, in Austin, added the Wells Fargo Advantage Dow Jones Target Date Funds to its combined \$1.3 billion 401(k) and 457 plans. A new state law requires that employees hired after next Jan. 1 be automatically enrolled in the state's deferred compensation plans at 1% of monthly salary, unless they opt out.

The funds will become the default option for both plans on Jan. 1, according to a report on the board's Aug. 21 meeting.



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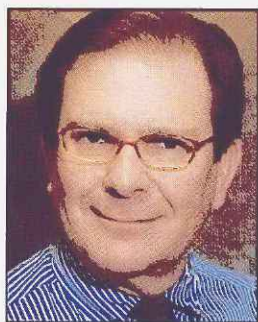
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Business Insurance PERSPECTIVE



Perception of risk tends to be irrational

By Donald J. Riggin

I think it is safe to say that every major corporation in the world purchases excess insurance limits worth hundreds of millions of dollars each year. The rituals of insur-

ance procurement adhere to the, "If we can afford it, we buy it," ethos.

Allow me to put this argument into the proper context. No company should eschew purchasing insurance for improbable catastrophic

events. Even with all of the capital markets' exotic risk transfer products and techniques, insurance is clearly the most efficient way of spreading and financing unmanageable risk.

The question is this: How much insurance is enough? Unfortunately, brokers and consultants usually avoid a direct answer to this question as they believe it might result in legal action against them. "Your honor, my agent said all I needed was \$100,000 in insurance limits," company officials might say. "I didn't know I could have a \$1 million claim." The flip broker or consultant answer usually is, "How much can you afford?" Any risk professional should be able to provide a thoughtful and cogent answer to this question. Unlike the variety of decisions made to finance working-layer risk, deciding whether to buy \$100 million or \$200 million of product liability insurance gets very little analysis aside from its cost.

Marginal utility is a statistical concept that says the more of something you have, the less of it you need (or will use). A set of golf clubs is an excellent example. A full set of golf clubs has total utility—every club has an equally important purpose. For the average golfer, each

Continued on next page

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additional club represents a degree of marginal utility, until the final additional club, which has close to zero utility.

Every company assumes business risks. Despite the inroads made by enterprise risk management, most business risks are not individually financed or effectively managed away. These are the risks inherent in major business decisions—new product lines, mergers and acquisitions, hiring high-priced executive talent, and major construction projects are four examples. These risks might not be individually financed, but they are globally financed by the companies' earnings and paid-up capital. Can these risks result in catastrophic losses? They do every day.

Event risk is another matter altogether. Business risks represent the vast majority of unrelenting possibilities for failure, and event risk pales by comparison. So what do we do? We buy enormous amounts of insurance to protect against a small fraction of the things that could go terribly wrong. Relatively speaking, our perceptions of risks and their consequences tend to be irrational.

Even with all of the capital markets' exotic risk transfer products, insurance is clearly the most efficient way of spreading and financing unmanageable risk.

Take the example of the motorcyclist who wears leather from the neck down but no helmet. He doesn't want "road rash," but spending the rest of his life in a nursing home with severe brain injuries is apparently no big deal.


Let's take a look at this example: For 75 years ABC Manufacturing Co. has had state-of-the-art quality control practices and procedures, as the many industry awards displayed in the headquarters lobby attest. Management understands that the best way to reduce the effects of most business risks is to make intelligent and informed decisions, which produce the best economic outcomes.

The risks are formidable but managers do not worry—they are very good at what they do. Annual incurred product liability losses run between \$200,000 and \$500,000 with the occasional spike. They retain individual losses up to \$500,000, and purchase \$300 million in aggregate limits. Their product liability insurance premiums are considerable; this year they paid \$5 million. Over the past 10 years, they have paid close to \$60 million to various excess insurance companies—on claims-made forms, of course.

Their products are chemicals, so the upper layers can cost almost as much as the lower layers depending on the state of the markets. Using a Monte Carlo-type model with 20

years of losses, management discovered that the statistical chance of incurring annual aggregate losses in excess of \$5 million was about 7.5%. Moreover, the probability of losses exceeding \$50 million was .002%.

The marginal utility of limits in excess of \$5 million is low, but between \$50 and \$300 million it is infinitesimal. Of course, the consequences of most of management's business decisions exceed this probability by many orders of magnitude. So, considering this company's stellar quality control protocols (among other mitigating factors), why do they spend even \$1 for product liability insurance limits exceeding \$50 million? Perhaps the CEO also flouts the helmet law.



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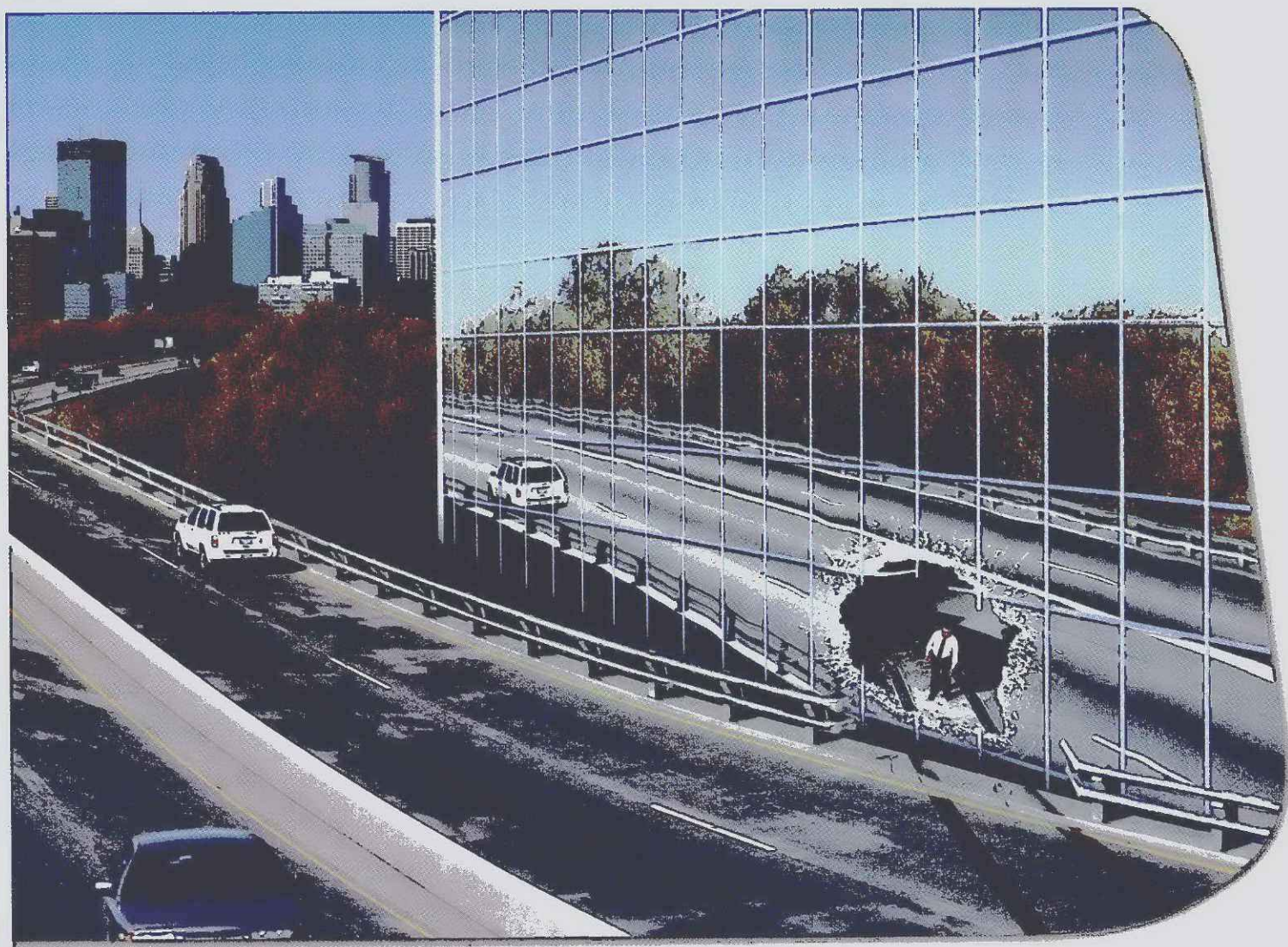
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Business Insurance PERSPECTIVE



William Donnell is head of Americas facultative for Swiss Re in Overland Park, Kan.

Facultative reinsurance is misperceived

By William Donnell

Facultative reinsurance, by its very name, implies flexibility. One is not required to buy or offer it, and it is adaptable to different conditions

and different needs.

Many underwriters, however, don't take full advantage of its flexibility and often limit their performance potential by avoiding facultative reinsurance. Perhaps this is

because many people think of facultative as cumbersome or difficult to purchase.

For the record, facultative is a reinsurance arrangement by which individual risks are offered by an

insurance company to a reinsurer that has the right (faculty) to accept or reject each risk. Fac is perhaps best known for big risks such as airliners and oil rigs, or industrial properties in earthquake zones, but most fac purchases are far less glamorous.

The fac world is indeed highly specialized and limited to a few providers. Fac transactions represent about a \$3 billion market in Canada, United States and Latin America, and four or five major players supply about half the market capacity. In reality, fac deals come in all shapes and sizes. Some come through brokers and some are written through direct relationships.

What's most curious is that many of the articles and commentaries refer to the challenges of doing a fac deal. The perception is: pound for pound, fac is very difficult to do, much more difficult than negotiating a treaty or retaining risk. So, a lot of people simply avoid this market, often with significant consequences.

The truth is that fac has been under-leveraged, under-utilized, under-loved. People are led to believe it involves lots of premium—that is, lots of upfront risk—and lots of negotiation. But that has

Continued on next page

Workers Compensation: Protecting People in the Age of Terrorism

A Business Insurance Online Executive Forum™



Join Business Insurance Senior Editor Roberto Cenicerros on November 14, 2007, along with our expert panel, for a webinar devoted to exploring workers comp in the face of terrorism.

Terrorism has not abated since September 11, 2001, and concentrations of workers in office buildings present significant exposures in the event of another attack. A catastrophic loss could easily result in workers comp losses in the billions of dollars.

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- **David R. Holmquist**, Chief Risk Officer, Los Angeles Unified School District, Los Angeles
- **Mark J. Noonan**, Managing Director and Workers Comp Practice Leader, Marsh Inc., Boston
- **Richard L. Thomas**, Sr. VP and Chief Underwriting Officer, Domestic Brokerage Group, American International Group Inc., New York

QUESTIONS TO BE ADDRESSED:

- What choices do employers have for protecting their workforces from terrorist attacks?
- Should employers avoid concentrations of workers in urban areas?
- What coverages are available to respond to catastrophic workers comp risk?
- How should employers communicate risk mitigation plans to their workers?
- What role should government play in addressing catastrophic workers comp risks?

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begun to change.

Something very dynamic is going on. It involves technology and people. Fac is coming into the 21st century and into its own. Just read the headlines about major brokerages ramping up their facultative expertise, fighting to attract and retain the top talent, and even disputes between providers for client relationships.

Changes in fac are occurring in two general ways. First, capacity transactions are becoming much easier, using technology to achieve simplicity and speed. Second, fac is becoming a more strategic play for many underwriters. This trend is less about technology and more

about people: Fac and insurer underwriters collaborating and getting to better solutions jointly than they could have on their own.

While technology can make fac easier and a little cheaper, collaboration offers tremendous potential. Insurance companies should investigate the potential for collaboration and the inherent economics of fac. It's not a \$3 billion market by accident.

Primary underwriters all know they are in a more demanding environment. It's not just the cycle. The market is structurally far more competitive and more volatile than in the past. Underwriters need agile capacity and solutions-minded services offered by fac. Given the growing complexity of risk in our world,

insurers must look at all ways to balance their portfolios and achieve

Fac is not a required product, but far too many underwriters take 'optional' to mean 'avoid.'

the right mix of risk retention and transfer. Fac presents an attractive alternative to retaining the unusual or tougher "outlier" risks, and is a viable alternative to the effort required to cover these risks in rein-

surance treaties.

One person's tough stuff can be another's portfolio. Still, there are thousands of underwriters out there, and only a small percentage take advantage of facultative.

Here are three ways fac can be a win-win for all involved:

- **Reduced risk volatility:** Facultative reinsurance reduces the exposure to individual risk volatility. It allows the underwriter to solve the client's needs by providing expanded risk capacity.

- **Higher, broader:** By partnering with a facultative reinsurer, an insurer has the ability to provide higher and broader levels of coverage.

- **Second opinion:** Fac provides a fresh look at the deal. Imagine the

type of risks that are considered by the facultative underwriter. They are unique and tough risk exposures. The facultative underwriter can pass on knowledge of the risk as well as the pricing for the exposures.

Fac is not a required product, but far too many underwriters take "optional" to mean "avoid" and "flexible" as synonymous with "difficult."

Because of its transactional nature and its focus on the analytics of an individual risk, fac offers another window on the real world. In fact, fac relationships can generate and facilitate the sharing of information and fresh perspectives that are key to understanding and correctly pricing risk.

How to submit an article for BI's Perspective section

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The section is intended to be a forum for readers' opinions and a forum for the discussion of technical topics that do not lend themselves to a news story. Therefore, Perspectives articles should take a point of view, offer advice and/or explain a technical subject. They should not present case studies or promotional information.

All articles for the Perspectives page should address the concerns of the corporate buyer of insurance; i.e., the risk management or employee benefits manager. Material written for only the concerns of brokers or underwriters is not appropriate.

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- If accepted, we will respond with comments and request the full article, which generally should be 800-900 words in length.

- All articles are to be accompanied by color photograph of the author and a brief biography.

- We will notify you of any questions we have about your article or any substantial editing we think is necessary.

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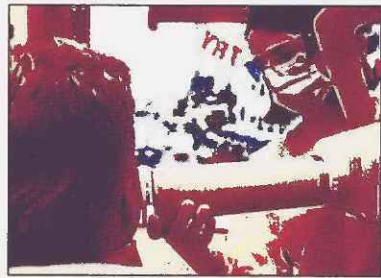
The Institutes and the Chairman and Vice Chairman of the Board of Trustees welcome these three newly elected members to the board. They would also like to thank all past and present board members for their service and dedication.

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Products & Services



Securian Dental expands its PPO product offerings

EAGAN, Minn.—Securian Dental has expanded into the Oklahoma marketplace with the introduction of its new line of preferred provider organization dental benefit products. The dental benefit products target companies ranging from as few as two employees to large corporations and can be purchased on an employer-paid or voluntary basis.

The plans are supported through the DenteMax dentist network, which offers more than 70,000 providers. Each plan design has

varying calendar year maximums and covered services to meet employees' specific needs.

All plans immediately cover 100% of diagnostic and preventative services. Additionally, there are no waiting periods for employer-paid plans, and optional orthodontic coverage is available for groups of 10 or more employees.

Securian Dental is underwritten by Securian Life Insurance Co. and administered by DeCARE Dental Health International L.L.C.

For more information about the plan, contact Gary White, chief sales officer, at 866-222-6507, or by e-mail at gwhite@securiandental.com.

Web portal offers business insurance quotes

NORTH HOLLYWOOD, Calif.—2Insure4Less.com has launched an online center at www.2insure4less.com/business-insurance.aspx dedicated to helping businesses nationwide save on insurance by comparing quotes from various insurance companies.

2Insure4Less.com is free and allows businesses to shop for all types of business insurance, including general liability, commercial auto, workers compensation, group health and life.

North Hollywood, Calif.-based 2Insure4Less.com is owned and operated by Itsol Inc.

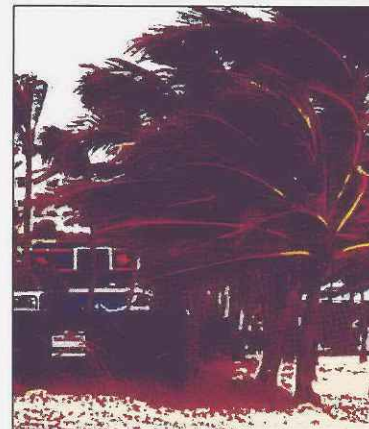
BMS launches product for OIL policyholders

SHELTON, Conn.—BMS Intermediaries Inc. has launched a product for OIL Insurance Ltd. policyholders. The Windbreaker product offers coverage for any potential shortfall due to a named windstorm loss that exceeds OIL's aggregate limit of \$750 million.

Unprecedented losses from Hurricanes Katrina and Rita resulted in two significant changes to OIL policyholders' coverage. Before 2005, the commercial energy market would make a concession to provide drop-down coverage for OIL members, covering a shortfall in limit. Following the hurricanes, however, the commercial market no longer provides this drop-down coverage and OIL has lowered its aggregate limit.

The policy will be underwritten and issued by an A-rated or better company. It will provide a \$50 million aggregate limit for the 2007 wind season as a standard limit, with additional limits available.

The product is available to all OIL members by contacting BMS Inter-



mediaries directly or via their broker.

For more information, contact Michael Cahill, executive vp, at 203-225-7303.

Zurich expands midmarket D&O offering

SCHAUMBURG, Ill.—Zurich North America Commercial, a unit of Zurich Financial Services Group, has expanded its directors and officers liability coverage for middle-market companies in North America.

The enhanced offering, which includes several management liability coverages, is now aimed at private and nonprofit companies with up to \$750 million in assets and

fewer than 1,500 employees. Previously the coverage was aimed at organizations with up to \$500 million in assets.

In addition, the entity coverage under the policy no longer carries a product liability exclusion and the D&O and employment practices liability coverage includes \$1 million in limits for defense costs.

A full line of management liability products is available, including EPLI coverage purchased in conjunction with D&O, fiduciary liability and crime insurance that is offered in one policy form with one aggregate limit up to \$25 million.

Coverage is intended for the following business sectors: manufacturing, retail, services, agricultural and hospitality.

For more information, visit www.zurichna.com.

Self-audit guide issued for retirement plans

NEW YORK—Aspen Publishers, a part of Wolters Kluwer Law & Business, has issued a guide for plan administrators to help facilitate a thorough self-audit of qualified retirement plans.

The manual, "Qualified Plans Self-Audit Guide," provides plan administrators with key legal and regulatory requirements to help avoid any hidden retirement compliance errors, which can result in fines. It provides ways to improve overall plan operations, including cost reductions; identify and correct problems legally; and reduce the risk of Internal Revenue Service and Department of Labor penalties.

The looseleaf guide also covers the Employee Plans Compliance Resolution System, which was codified by the Pension Protection Act of 2006.

To order the guide that is priced at \$259 and is supplemented annually, call 800-638-8437 or visit www.aspenpublishers.com.

ASI introduces coverage for restoration contractors

ATLANTA—American Safety Insurance Services Inc. has introduced coverage for contractors restoring fire- and water-damaged structures.

The combined general, professional and pollution liability policy is aimed at fire, water and disaster restoration contractors who perform operations in accordance with guidelines issued by the Institute of Inspection, Cleaning and Restoration Certification.

Coverage is written on nonadmitted American Safety Indemnity Co. paper, with limits up to \$11 million available. General and pollution liability coverages are on an occurrence form.

For more information, visit ASI's Web site at www.amsafety.com.

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LEGAL NOTICE

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

COMPANIES COURT

NO. 6208 of 2007

IN THE MATTER OF

NRG LONDON REINSURANCE COMPANY LIMITED

and IN THE MATTER OF

NRG VICTORY REINSURANCE LIMITED

and IN THE MATTER OF PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

NOTICE IS HEREBY GIVEN that NRG London Reinsurance Company Limited ("NRG London") and NRG Victory Reinsurance Limited ("NRG Victory") presented an application to the High Court of England and Wales (the "Application") pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA") for an order:

- (1) under section 111 of FSMA sanctioning the scheme (the "Scheme") for the transfer to NRG Victory of the insurance and reinsurance business (the "Transferring Business") effected and/or carried out by NRG London in the United Kingdom; and
- (2) under section 112 of FSMA making ancillary provisions to implement the Scheme.

A copy of the report (the "Report") prepared by an independent expert, Mr David Slater of Watson Wyatt, Fellow of the Institute of Actuaries, in pursuance of section 109 of FSMA and of a statement setting out the terms of the Scheme and a summary of the Report will be made available free of charge to anyone requesting such copies by contacting Mrs Pat Henley, by telephone on +44 (0)1233 722600 or in writing at NRG London's head office at 5th Floor West, Charter House, Park Street, Ashford, Kent, TN24 8EQ, from the date of publication of this notice until the date on which the Application will be heard before the Court.

All claims currently being dealt with by or on behalf of NRG London will, after the proposed transfer be handled by or on behalf of NRG Victory. Future claims arising under the policies comprised in the Transferring Business will be similarly dealt with by or on behalf of NRG Victory. The proposed transfer will secure the continuation by or against NRG Victory of any legal proceedings by or against NRG London that relate to the rights and obligations in respect of the Transferring Business of NRG London.

The Application is directed to be heard before a judge of the Chancery Division at the Royal Courts of Justice, The Strand, London, WC2A 2LL on 28 November 2007 and any person, including any employee of NRG London and NRG Victory, who claims to be adversely affected by the carrying out of the Scheme may appear at the time of the hearing in person or by Counsel. Any person who intends so to appear, and any policyholder of NRG London and NRG Victory who dissents from the Scheme but does not intend so to appear, should give not less than two clear days prior notice in writing of such intention or dissent, and the reasons therefore, to the Solicitors named below.

Dated this 10 September 2007

Clifford Chance LLP of 10 Upper Bank Street, London E14 5JJ, Solicitors for NRG London Reinsurance Company Limited and NRG Victory Reinsurance Limited (Attention: Ref: TACP/PJH/70-40295582)

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International NEWS

Risk management group forms in Czech Republic

By RICHARD MILLER

PRAGUE, Czech Republic—A recently formed risk management association in the Czech Republic is getting off the ground.

The Assn. of Insurance & Risk Management Experts of the Czech Republic o.s.—also known by the abbreviation ASPAR ER—held its founding meeting in June, said Jana Bicanová, the association's chairwoman and director of corporate insurance at Telefónica O2 Czech Republic a.s.

According to Ms. Bicanová, the Czech Interior Ministry registered the association's name and its governing articles last month, both necessary steps in the approval process.

Eventually, the group hopes to join the Federation of European Risk Management Assns., she said.

The goals of the new association are to: provide a professional and educational platform, increase awareness of insurance and risk management, represent the joint interests of members and cooperate with other similar bodies, Ms. Bicanová said.

Ms. Bicanová said the formation of the association resulted from

informal meetings of insurance and risk managers dating back to 1999. Currently, there are 11 members of the association, nine of which are companies.

While some risk management associations offer another tier of membership to insurers, brokers, and risk consultants, the Czech association does not, she said.

"I think it is good for the Czech market, and for promoting risk management and insurance issues," said Pavel Nepala, managing partner at Renomia a.s., an insurance broker for Central and Eastern Europe based in Prague.

Dominik Stros, chief executive of Marsh s.r.o. in Prague, part of Marsh & McLennan Cos. Inc., said the new association would serve as a "common access point" for the risk management community.

"I think it is also good news for the risk management community outside of the Czech Republic," he added. "Risk managers from Western companies investing in the Czech Republic may want to know something which they are not ready to ask the providers they use, and this way they can get in touch with the newly formed organization," Mr. Stros said.

Industry lobbies Germany to extend terrorism backstop

EXTREMUS' future may depend on events in the United States

By ADRIAN LADBURY

BERLIN—Risk managers, insurers and brokers are pressing the German government to back down from its previous announcement that it plans to pull its backstop for terrorism risks.

Buyers and insurance industry representatives hold that there is insufficient good-quality terrorism insurance capacity available in the commercial market and—given the recent arrest of terrorism suspects in Germany—terrorism risks are rising.

The future of the German backstop, EXTREMUS A.G., however, may be linked to the fate of legislation to extend government-backed terrorism coverage in the United States, some observers say.

The fate of EXTREMUS still hangs in the balance, according to Ralf Oelssner, head of the Deutscher Versicherungs Schutzverband e.V., the German insurance buyers' association.

Mr. Oelssner, who is also risk manager for airline Deutsche Lufthansa A.G., last week led a delegation that included representatives of the country's captive brokers association, the risk management institute and the industrial association to meet the Bundesministerium der Finanzen, the federal ministry of finance.



A German police officer watches passengers checking in last November at Frankfurt airport, which along with a U.S. military base were intended targets of an alleged terrorist plot that resulted in arrests last week, authorities said.

The group sought to persuade the finance ministry to reserve its earlier announcement that it does not intend to extend its €8 billion (\$10.90 billion) two-year guarantee for EXTREMUS for a fourth term, from 2008 until 2010.

Mr. Oelssner said after the meeting that it is not clear whether the ministry will back down and that he will now write a paper to the ministry explaining why he and his colleagues believe it should extend the guarantee.

The meeting took place the day

before news broke of three arrests in Germany connected with suspected plots for terrorist attacks on Frankfurt Airport and a U.S. military base. EXTREMUS was created in 2002 in the wake of the Sept. 11, 2001, terrorist attacks in the United States and is backed by 16 of Germany's biggest insurance companies.

Currently, companies can buy coverage on the open market up to €25 million (\$34.1 million), most of which is reinsured, said Leo

See **EXTREMUS** on next page



Wildfires swept through parts of Greece, burning 184,000 hectares in late August. Fires raged out of control in the village of Kato Samika.

Despite widespread fires in Greece, insured commercial losses limited

ATHENS, Greece—Insurers are not likely to be scorched by the wildfires that have swept through parts of Greece, claiming more than 60 lives and destroying livestock, vineyards and property, much of it uninsured.

The blazes that burned 184,000 hectares in late August were particularly fierce on the island of Evia and the western Peloponnese peninsula.

Many of the properties consumed

by the fires were uninsured homes, insurance market sources confirmed. Commercial losses appear to be limited to a few small businesses.

"We have talked with our insurers, which represent about 90% of the Greek portfolio, and they have not seen" significant claims, said George Zafirios, chief executive officer of Comergon S.A., an Athens-based insurance broker. The Greek government—and, ultimate-

ly, taxpayers—will foot much of the recovery bill, he said.

Businesses affected by the fires were offered immediate grants of €5,000 (\$6,800) from Greece's Ministry of Economy and Finance to cover expenses.

The fires are suspected to be the work of arsonists, and Greek authorities have offered rewards of up to €1 million (\$1.4 million) for their arrest.

—By Michael Bradford

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TOP 10 U.S. REINSURERS' 2007 FIRST-HALF RESULTS

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

Reinsurer	Net reinsurance premiums written 2007	Net reinsurance premiums written 2006 ⁷	Net income 2007	Combined ratio 2007	Combined ratio 2006
National Indemnity Co. ¹	\$2,240,878	\$2,316,601	\$71,494	59.5%	75.3%
Transatlantic/Putnam Reinsurance Co.	1,813,208	1,675,419	213,901	96.0	95.9
Munich Re America Corp. ²	1,104,824	1,245,080	262,583	102.3	97.9
Everest Reinsurance Co.	1,011,748	1,085,756	682,129	82.7	95.8
Odyssey America Re/Odyssey Reinsurance ³	965,438	986,440	272,870	95.3	93.7
Berkley Insurance Co.	831,346	963,966	135,457	89.9	91.3
Swiss Reinsurance America Corp. ⁴	808,493	1,367,676	481,960	120.7	129.5
General Re Group ⁵	788,554	835,283	352,616	87.6	94.8
Folksamerica Reinsurance Co.	526,583	364,768	26,296	101.2	111.7
PartnerRe U.S. ⁶	341,950	372,986	15,281	105.6	109.1
Totals for Top 10	\$10,433,022	\$11,213,975	\$2,514,587	88.8%	96.2%

1. Underwriting results exclude assumptions from affiliated General Re Group. 2. Includes the combined results of Munich Reinsurance America Inc., American Alternative Insurance Corp. and the Princeton Excess & Surplus Lines Co. 3. Includes combined results of Odyssey America Re Corp., Clearwater Insurance Co., Hudson Insurance Co., Hudson Specialty Insurance Co. and Clearwater Select Insurance Co. 4. Includes the combined results of Swiss Reinsurance America Corp. and Employers Reinsurance Corp. This represents only part of Swiss Re Group's business, and includes a number of impacts including cessions to the parent. 5. All data presented for the North American Property/Casualty segment of the General Re Group. Underwriting results exclude certain intercompany transactions and other adjustments. Underwriting results also exclude cessions to certain affiliated members of the Berkshire Hathaway Group. 6. Includes the combined results of Partner Reinsurance Co. of the United States and its subsidiary PartnerRe Insurance Co. of New York. 7. Total premiums written shown for June 2007 are those reported in the June 2006 Reinsurance Underwriting Report.

Source: Reinsurance Assn. of America.

Results: Soft pricing adds pressure

CONTINUED FROM PAGE 3

market, and so it had an indirect effect on the capacity and how capital was allocated in other lines of business," he said.

Primary insurers' strong balance sheets, which have led them to retain more business, also contributed to the market softening. "That has tended to reduce the demand somewhat for reinsurance," Mr. Ward said.

Furthermore, "The capital markets and alternative markets continue to grow and build significant momentum," which has affected the traditional reinsurance market, said Mr. Ward. As a result, "I see some fairly dramatic softness in the short term."

How much underwriting margins will erode "is really going to be determined by how much discipline remains in the reinsurance segment," said Robert DeRose, assistant vp at Oldwick, N.J.-based A.M. Best Co. Inc.

"We hear reinsurers are commit-

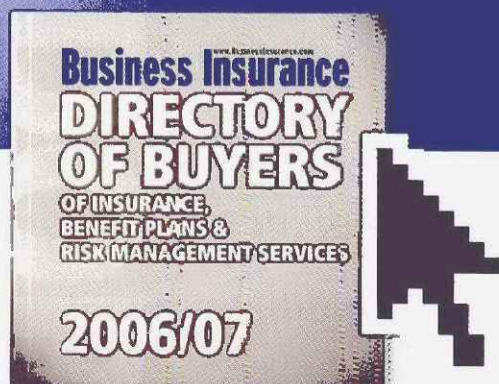
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CONTINUED FROM PREVIOUS PAGE

ted to discipline, but the capacity forces are really starting to heat up," Mr. DeRose said. "Hopefully everyone will hold the line." But the market has been irrational in the past and there is "no reason to believe it will behave otherwise in the future," he said.

Best's Mr. Ballentine said there are some "positive factors" at work as well. These include "improving information systems, which give companies relatively early warning on the adequacy of pricing."

"Many companies seem to be willing to accept a decline in premiums rather than chase the softening market," said Mr. Ballentine, pointing to the sector's decline in net premiums written.

"Some of the new capital that has come into the market, mainly sidecars and the increased use of catastrophe bonds, is temporary capital by design, and it's likely to fade away over the next couple of years, so that could temper some of the excess capacity in the market," Mr. Ballentine said.

The weakening rates will have an effect, observers say.

"I think '07 earnings will be great, but I think 2006, 2007, in retrospect might look like peak earnings years," with deterioration in 2008, said Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York.

As far as net income, 22 reinsurers reported a combined \$2.75 billion in net income for the first half of this year. That compares with \$4.72 billion reported by 23 reinsurers in the first half of last year.

Meanwhile, many observers anticipate more M&A activity.

The reasons for consolidation are

similar to the past, "the most prominent being the great difficulty companies have in growing the top line in the soft-market environment," said Mr. Gwynn. "The grass is greener in the other guy's backyard." Consolidation "usually hasn't worked very well in this industry, but that doesn't mean they can't repeat the mistakes of the past," he said.

James B. Auden, senior director at Chicago-based Fitch Ratings, said as organic growth slows, companies "looking for growth areas will be more likely to consider acquisitions. A lot of companies that had their capital base grow through earnings in the last year or two" are seeking to deploy that capital, he said.

In particular, Class of 2005 startups that raised substantial capital in the post-Katrina market, which are seeking to generate adequate critical mass and develop a long-term operation, are more likely to seek acquisitions, said Mr. Auden.

"It's the opposite of a hard market attracting new entrants and additional capital," said Mr. Ballentine. "A softening market can lead to some exits, and that might be by way of mergers."

However, Mr. DeRose noted the amount of consolidation forecast earlier in the year had not materialized. "I think that CEOs are very cautious and rightly so. I think they're really scrutinizing the potential transactions," and as a result, "you're not seeing as many as had been forecasted."

Moreover, reinsurers have other ways to deploy capital, including restructuring, share buybacks and higher dividends, Mr. DeRose said.

Antitrust: Case dismissed by federal judge

CONTINUED FROM PAGE 1

"While plaintiffs present facts to support the possibility of inadequate disclosures by the brokers to the insureds, the complaints are bereft of allegations to demonstrate that this was more than brokers adopting subpar disclosure methods to protect their own, lucrative agreements," the judge wrote.

In addition, "the adoption of similar disclosure policies and the opportunity to collude through various industry methods is not enough to infer that such a large group of participants engaged in a conspiracy," the ruling stated.

"We are pleased that Judge Brown has dismissed the antitrust claim for the third time," said Mitchell J. Auslander, an attorney for defendant Marsh & McLennan Cos. Inc. and a partner at New York law firm of Willkie, Farr & Gallagher.

Judge Brown's decision doesn't necessarily signal an end to the legal wrangling, antitrust lawyers say.

"This decision could be appealed to the 3rd Circuit" Court of Appeals in New Jersey, Mr. Auslander said.

"I wouldn't be surprised if it was appealed simply due to the magnitude of the case and the fact there had been prior settlements" related to the consolidated class action, said James M. Burns, a partner with and chair of the antitrust practice group at Williams Mullen in Washington. "The plaintiffs' lawyers have a lot invested in this at this point."

Attorneys for the plaintiffs did not return calls seeking comment.

Despite dismissal of the antitrust claims, policyholders' RICO claims

LIST OF DEFENDANTS

Numerous insurers, reinsurers, brokerages and subsidiaries of those companies were named in a consolidated complaint that alleged antitrust violations and other claims. All Companies named, excluding various subsidiaries, were:

ACE Ltd.
Acordia Inc.
American International Group Inc.
American Re Corp.
Aon Corp.
AXIS Specialty Insurance Co.
Chicago Insurance Co.
Chubb Corp.
CNA Financial Corp.
Connecticut General Life Insurance Co.
Crum & Forster Holdings Corp.
Fireman's Fund Insurance Co.
Hartford Financial Services Group Inc.
Hilb Rogal & Hobbs Co.
Liberty Mutual Group Inc.
Life Insurance Co. of North America
Marsh & McLennan Cos. Inc.
MetLife Inc.
National Surety Corp.
Prudential Financial Inc.
Travelers Cos. Inc.
UnumProvident Corp.
U.S. Fire Insurance Co.
USI Holdings Corp.
Wells Fargo & Co.
Willis Group Holdings Ltd.
XL Capital Ltd.

remain pending and Judge Brown is expected to issue a separate opinion on those issues, attorneys say.

However, if the RICO claims against insurers and brokers were to be dismissed, the court likely would dismiss the entire case, including any state claims, said an attorney familiar with the case who did not wish to be named.

Some defendants have already

settled allegations in the suit and the latest ruling will not affect those settlement agreements.

In December, Itasca, Ill.-based Arthur J. Gallagher & Co. agreed to pay nearly \$37 million to end allegations that it, along with other companies, breached federal antitrust law by conspiring to increase premiums for insurers and commissions for brokers.

"This does not affect our settlement, which has been approved by the court, and we still feel it was the right thing for our company," said a spokeswoman for Gallagher.

Zurich American Insurance Co.—the Schaumburg Ill.-based arm of Swiss insurer Zurich Financial Services Group—late last year also settled allegations brought against it in the class action, agreeing to pay at least \$121.8 million in refunds to commercial policyholders nationwide (BI, Dec. 11, 2006).

"Zurich is reviewing Chief Judge Brown's recent decision dismissing the federal antitrust claims asserted in *In re Insurance Brokerage Antitrust Litigation*," a spokesman for Zurich said in an e-mailed statement.

"Zurich was not a party to this motion to dismiss, as we previously settled the claims brought against us in the putative class action as part of an effort to resolve related investigations by several state attorneys general and departments of insurance. This finding has no impact on Zurich's Multi-State Settlement Agreement," the spokesman said.

In re Insurance Brokerage Antitrust Litigation, United States District Court for the District of New Jersey. MDL Docket No. 1663, Civ. No. 04-5184.

Bias: Measure would prohibit discrimination over sexual orientation

CONTINUED FROM PAGE 1

vision, however, would appear to allow states to ignore the Employee Retirement Income Security Act's pre-emption of state benefit mandates on ERISA plans. Rep. Frank circulated a letter after last week's hearing saying that he will seek to have that provision removed.

Nearly 50 major employers have endorsed the bill.

Kelly Baker, vp-diversity for Minneapolis-based General Mills Inc., told the subcommittee that her employer supports the bill because it would help businesses attract and

retain top talent and its enactment would "help create a culture of innovation," she said.

Rep. Robert Andrews, D-N.J., chairman of the subcommittee, framed the issue in terms of global competitiveness. "This country cannot afford to lose any" of its talented workers, he said. "It's more than just a moral imperative; it's an economic necessity."

But the panel's top minority member, Rep. John Kline, R-Minn., said the measure should be considered very carefully. "Would it have the intended effect of preventing discrimination? Would it create unnecessary burdens on employers and employees or open the door to frivolous litigation?" he asked.

When Rep. Frank introduced the bill, he said he had a commitment from House Speaker Nancy Pelosi to bring the bill, which has more than 160 co-sponsors, to the floor this year.

While major employer groups support the legislation's goals, they have yet to endorse or oppose it. A spokeswoman for the National Assn. of Manufacturers in Washington would only say that the group is "neutral" on the bill.

The Society for Human Resource Management "supports fair employment practices across the board



Rep. Barney Frank, D-Mass., introduced the nondiscrimination bill

ENDA'S OBJECTIVES

Purposes of the Employment Non-Discrimination Act of 2007:

- To provide a comprehensive federal prohibition of employment discrimination on the basis of sexual orientation or gender identity.
- To provide meaningful and effective remedies for employment discrimination on the basis of sexual orientation or gender identity.
- To invoke congressional powers, including the powers to enforce the 14th Amendment to the U.S. Constitution, and to regulate interstate commerce and provide for the general welfare pursuant to Section 8 of Article I of the Constitution to prohibit employment discrimination on the basis of sexual orientation or gender identity.

without regard to a person's sexual orientation or sexual preference," said Michael Layman, manager-labor and employment policy for the Alexandria, Va.-based group.

But, he said, "We certainly have some concerns with the way" the bill is drafted.

"For starters, the bill incorporates gender identity for the first time along with sexual preference or sexual orientation," Mr. Layman said. "The question, in practical terms, is what does gender identity mean? There is a relatively vague definition in the text of the bill, but we are concerned that the definition will present significant challenges on a day-to-day basis to employers in fulfilling the requirements of the bill."

The U.S. Chamber of Commerce "hasn't taken a position at this time," said Mike Eastman, executive director-labor policy at the Washington-based group. "We have looked at the bill carefully, and we certainly do have some concerns with it that we hope can be addressed through the legislative process." The inclusion of gender identity "complicates the bill. A lot of things flow from that," he said.

"Gender identity—what does that mean?" asked Mr. Eastman.

A prominent employment lawyer called it "an aggressive bill."

"Many states don't have any prohibition at all on sexual orientation," said Phil Berkowitz, a partner at Nixon Peabody L.L.P. in New York. "It prohibits discrimination on the basis of gender identity," whether that identity is actual or perceived, he said.

"It really does aggressively seek to legislate social notions," said Mr. Berkowitz.

"The lack of a strict definition (of gender identity) will lead at the beginning, after enactment of the law, to litigation searching for the definition of who is and who is not covered," said Gerald L. Maatman Jr., a partner at Seyfarth Shaw L.L.P. in Chicago.

But he said that the law also could work to the benefit of employers.

"Enactment of a federal law would assist employers in carrying out their employment practices compliance programs," because bans on sexual orientation-based discrimination are currently confined to local and state laws, where such bans exist at all, he said. "That patchwork quilt of laws presents compliance issues for employers with multistate and national operations, though most compliance-minded employers already prohibit such practices as a matter of personnel policy."

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harmful by the drug, which was pulled from the market in 2004 after being linked to heart attacks and strokes in long-term users.

Maryland governor names insurance commissioner

Maryland Gov. Martin O'Malley has named Ralph S. Tyler as Maryland's insurance commissioner. Mr. Tyler, 60, currently is chief legal counsel for the governor's administration. The appointment is the subject of confirmation by the Maryland state senate. Mr. Tyler previously practiced law in Maryland and the District of Columbia as a partner in the Baltimore office of the international law firm of Hogan & Hartson L.L.P. He will replace interim Commissioner Peggy Watson, who will continue serving as the governor's deputy chief of staff.

Marsh exec joins Integro

Timothy J. Mahoney, Marsh Inc.'s chief executive officer of the Americas, has left the brokerage to join Integro Ltd. Mr. Mahoney, an 18-year veteran of Marsh most recently with responsibilities for managing operations in the United States, Canada and Latin America, will serve as an executive vp at Integro, the New York-based brokerage said. He will report to former colleague Peter Garvey, Integro's president.

UnitedHealth, Sierra deal gets OK in California

The California Department of Insurance approved UnitedHealth Group Inc.'s proposed acquisition of Sierra Health Services Inc. UnitedHealth's proposed \$2.6 billion acquisition of Las Vegas-based Sierra has now received all necessary state approvals, although Nevada Gov. Jim Gibbons asked the state's attorney general to examine the transaction a day after it received approval from Nevada's Division of Insurance.

Noted

PartnerRe Ltd. will establish a representative office in Beijing after receiving approval from the China Insurance Regulatory Commission....**Commercial U.S. property/casualty insurance rates** declined an average of 14% in August vs. August 2006, MarketScout reported....**CIGNA Group Insurance** appointed Dr. Allen Woolf as its chief medical officer. He will manage clinical aspects of the insurer's programs that help promote health and wellness, absence management and productivity.

Deals: Subprime crunch looks to slow acquisitions

CONTINUED FROM PAGE 1

Partners L.L.C., an advisory and private investment firm specializing in the insurance industry.

"There is no question that the credit markets have been disrupted and there is a distinct lack of liquidity in the PE market these days," Mr. Ward said.

The problem could be short-lived, however, because private equity firms continue to thrive and they are successful at raising new capital, Mr. Ward added.

However, not everyone agrees that the pace of deals is likely to slow.

Plenty of capital remains available, especially for "high quality" private equity firms, said John Wepler, president of Marsh, Berry & Co. Inc. in Willoughby, Ohio.

Buyers outnumber sellers

Additionally, there are still more buyers than sellers of insurance brokerage operations, and some private equity firms are settling for lower returns to make deals happen, he said.

According to Jamie Inglis, a partner with insurance investment adviser Philo Smith & Co. in Stamford, Conn., any impact on brokerage acquisitions will likely be restricted to those deals that involve the smaller private equity firms.

Those investors are likely more heavily reliant on debt to structure their deals, Mr. Inglis said.

But several private equity firms are still eager to invest in insurance operations, he said.

"The private equity firms that we know...are still showing quite a bit of interest in this area," Mr. Inglis said.

Smaller deals are being affected by the credit crunch, said Edward J. Bowler, senior vp of corporate development for USI Holdings Corp. in Briarcliff Manor, N.Y.

"All of a sudden the list of potential competitors that acquire agencies has dramatically dropped," said Mr. Bowler.

Before, "when we would be looking at a \$25 million revenue piece, there could have been multiple private equity firms looking at that to use as a platform," Mr. Bowler said. "They are gone from the marketplace right now."

In addition to future deals, those deals that are already in the works

could be affected by the subprime crisis, observers say.

Those deals already in progress that have secured the necessary financing will be finalized, Mr. Ward said.

Additionally, deals involving insurers won't be affected because they can take up to a year to close.

"Any short-term disruption in the financial markets wouldn't have an effect," on those deals, agreed Mr. Inglis of Philo Smith.

With the cost of credit up, though, some buyers can't afford to leverage the amount of debt they could before subprime loans roiled lenders, and those buyers are renegotiating the purchase price with the sellers.

"There are a large number of deals in the works (for regional-size brokers) where it is clearly impacting the purchase price," said Mr. Wepler of Marsh, Berry.

The restructuring of deals outside of the insurance industry, like last month's widely reported restructuring of Atlanta-based Home Depot Inc.'s sale of HD Supply, its wholesale distribution unit, will be repeated in the insurance industry, said Timothy Cunningham, a principal with OPTIS Partners L.L.C. in Chicago.

Home Depot had to reduce its price by nearly \$2 billion, retain a 12.5% equity stake in HD Supply, and guarantee a \$1 billion loan in order to finalize the sale to a private equity firm.

Trickle-down effect

"I think any of these PE deals in the last couple, three or four weeks are, if not on the bubble, going to be restructured," Mr. Cunningham said.

"Everyone has pulled back on their loan terms and that has trickled down," Mr. Cunningham said. Past private equity fund purchases include the \$1.4 billion buyout of USI Holdings Corp. and the \$1.9 billion buyout of Chicago-based Hub International Ltd., both of which were publicly held, and the \$1.1 billion buyout of Newport Beach, Calif.-based Alliant Insurance Services Inc. by the Blackstone Group.

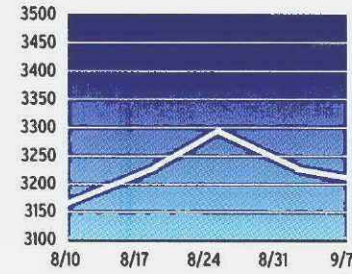
A spokesman for New York-based Blackstone said that deal closed last month, but he declined to discuss terms of the deal or whether credit issues would impact any future insurance acquisitions.

Stock Index

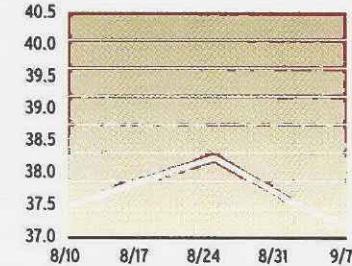
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Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.BusinessInsurance.com.

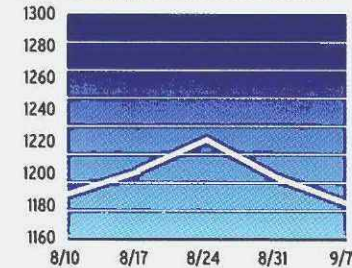
BI STOCK INDEX



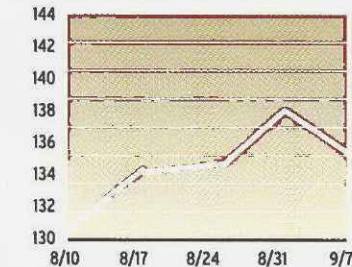
BI BROKERS INDEX



BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	3202.97	-1.25%
DOW JONES	13113.38	-1.83%
S&P 500	1453.55	-1.39%

LARGEST GAINS

Argonaut Group Inc.	55.92%
SCOR S.A.	4.26%
Fairfax Financial Holdings	2.79%
Willis Group Holdings Ltd.	2.26%
Endurance Specialty Holdings	1.86%

LARGEST LOSSES

Philadelphia Consolidated	-7.40%
PMA Capital Corp.	-6.97%
NYMAGIC Inc.	-6.72%
CNA Financial Corp.	-5.53%
MBA Inc.	-4.62%

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

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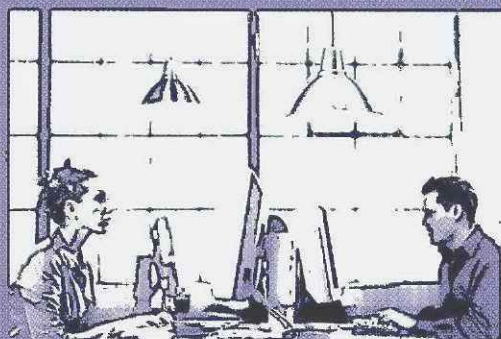
plans and shift some pension liabilities to former parent General Motors Corp. under a bankruptcy reorganization proposal and an agreement reached with GM last week. Delphi said the said two pension plans for hourly and salaried employees would be frozen, with participants not earning any new benefits, starting on the first month after the reorganization plan receives final approval. Delphi would transfer \$1.5 billion in liabilities to the hourly plan to GM. In return, GM would receive a \$1.5 billion note from Delphi. As of the end of 2006, the two plans combined underfunding was about \$4.2 billion, with \$14.9 billion in liabilities and \$10.7 billion in assets, according to a Delphi filing with the Securities and Exchange Commission. Delphi, which also will end its health care plan for hourly retirees, said it will replace the frozen pension plans with defined contribution plans.

NAIC proposes change to reinsurer rules

The National Assn. of Insurance Commissioners is seeking comment by Sept. 21 on a new proposal to modify the regulation of non-U.S. reinsurers. Under the proposal, a new Reinsurance Supervision Review Department would determine the extent to which regulation in other jurisdictions is deemed functionally equivalent to U.S. regulation. Those determinations would be a factor in assessing a non-U.S. reinsurer's collateral requirements for U.S. risks. Other factors would include the reinsurer's individual financial stability.

Court unwinds class action by insurers over Vioxx

The New Jersey Supreme Court has reversed a lower court ruling that had granted nationwide class action status to health and maintenance organizations seeking reimbursement of payments made for the arthritis drug Vioxx. As a result, such third-party payers will be required to pursue their claims individually. In addition to the insurer and HMO suits, Vioxx maker Merck & Co. inc. faces tens of thousands of other lawsuits filed by former Vioxx users who claimed to have been



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Fraud ring exposed when numbers don't add up

When staging a bus accident to make insurance claims for bogus injuries, it seems like a no-brainer that the number of passengers in the police report should match the number of passengers seeking medical care reimbursement.

But brains didn't seem to be part of a scheme allegedly concocted by a group of individuals in a staged 2004 chartered bus accident in Philadelphia, for which nearly \$30,000 in phony medical bills were sent to the insurer of Wertz Motor Coaches Inc. based in Marcus Hook, Pa.

The problem was the police report listed 21 passengers while Wertz's insurer—Long Beach, N.Y.-based Lancer Insurance Co.—received insurance claims for 29 passengers involved in the bus-car crash, according to Pennsylvania Attorney General Tom Corbett, who last week brought charges of insurance fraud, conspiracy and theft against a dozen people.

According to the criminal complaint, the owner of the car that crashed into the bus was a cousin of bus passenger Shahiedah Nicholson, who sought medical treatment totaling nearly \$5,000 for 53 alleged therapy sessions for lower back pain.

Ms. Nicholson's sister, aunt and uncle also filed insurance claims even though they were not on the bus at the time of the accident. In all, the 12 billed Lancer for \$29,556 in medical claims, of which the insurer had paid \$26,022, said Mr. Corbett, who added that the investigation is ongoing.



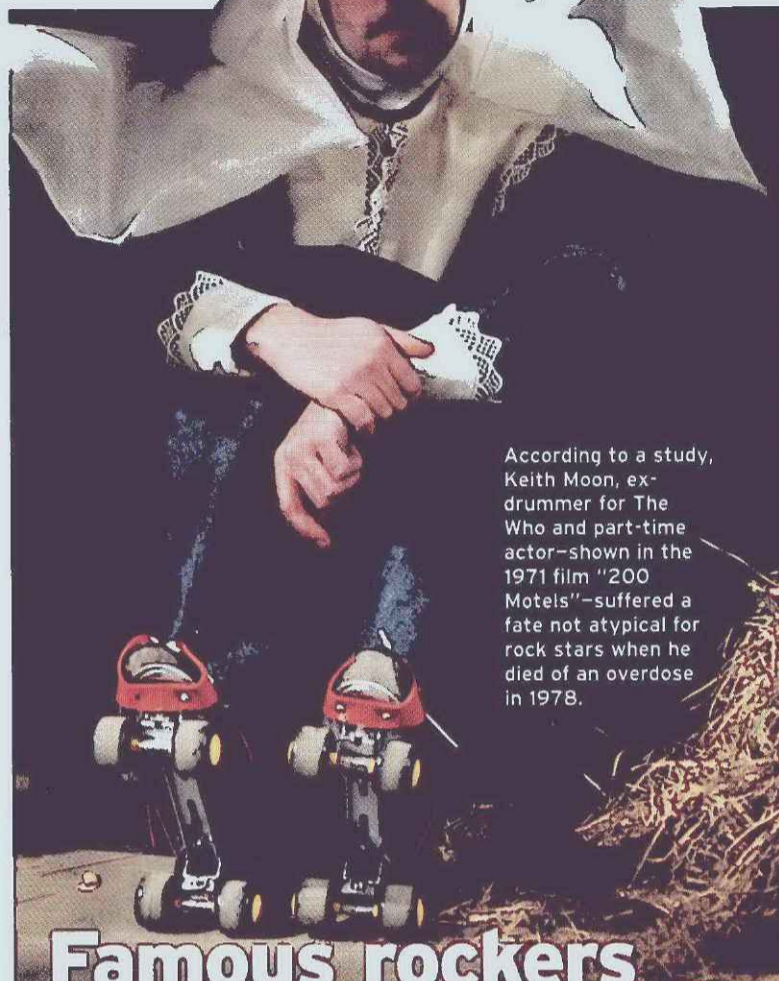
Safety workers try exercise on virtual training ground

Could today's video-game playing couch potato become tomorrow's crackerjack first responder?

If a project undertaken by researchers at the Department of Energy's Sandia National Laboratories and the University of Southern California's GamePipe Laboratory pans out, that might be the case.

The three-year effort is officially known as the Game Technology-Enhanced Simulation for Homeland Security, but it's informally referred to as Ground Truth, according to information on the Sandia Labs Web site. In some ways, it's akin to Sim City, a city-building simulation game, with a serious twist—helping emergency incident commanders

Business Insurance END PAGE



According to a study, Keith Moon, ex-drummer for The Who and part-time actor—shown in the 1971 film "200 Motels"—suffered a fate not atypical for rock stars when he died of an overdose in 1978.

Famous rockers are shooting stars

Rock and pop stars are far more likely to climb the stairway to heaven earlier than their less-famous counterparts, according to a study in the Journal of Epidemiology and Community Health.

Researchers at Liverpool John Moores University studied 1,064 North American and European rock and pop stars and found that, between two and 25 years from the onset of fame, musicians' risk of an early death was two to three times higher than the rest of the population.

The study released Sept. 4, titled "Elvis to Eminem: quantifying the price of fame through early mortality of European and North American rock and pop stars," zeroed in on the years 1956 through 2005, finding that 100 of the more than 1,000 celebrities studied died relatively young.

Of those deaths, 25% were related to drugs and alcohol. Other causes of death included murder and suicide, according to the study.

Lead researcher Mark Bellis said the study shows the stereotype of rock stars is true—that recreational drugs and alcohol-fueled parties take a toll.

"The music business would do well to take the health risks of substance abuse and risk-taking behaviors more seriously," wrote Mr. Bellis. "This is not only because of the long-term effects on the stars themselves, but also because of the influence these stars exert on others."

make the best use of their resources.

According to the Sandia posting, Ground Truth's current scenario involves a chlorine spill. Exercise participants move pieces representing firefighters, police and others in the simulation to best mitigate the incident's impact. An onscreen "progress thermometer" allows players to see how successful their actions are.

The whole simulation runs about 20 minutes.

Ground Truth's designers hope to include public safety personnel who actually respond to emergencies in future scenarios. Right now, it may be just a game, but in the future, Ground Truth may prove to be a lifesaver indeed.



CIGNA Healthcare President David Cordani, left, and Senior Vp Gary Earl.

Café owner changes habits after cycle ride

A band of bicyclists peddling cross-country stopped at Walt's Café in Huntingdon, Pa., in 2005, convincing owner Walt DeArmitt that it was time to go on a diet.

"I weighed 424 pounds," he recalled.

Since then, he's lost nearly 200 pounds, overcome diabetes and even changed his restaurant menu to include healthier options. A T-shirt hangs on a Walt's Café wall as a reminder of the difference the brief encounter made in his life.

"I don't know why, but it worked," said Mr. DeArmitt, who lost the weight with neither medication nor surgery. "I just used my mind."

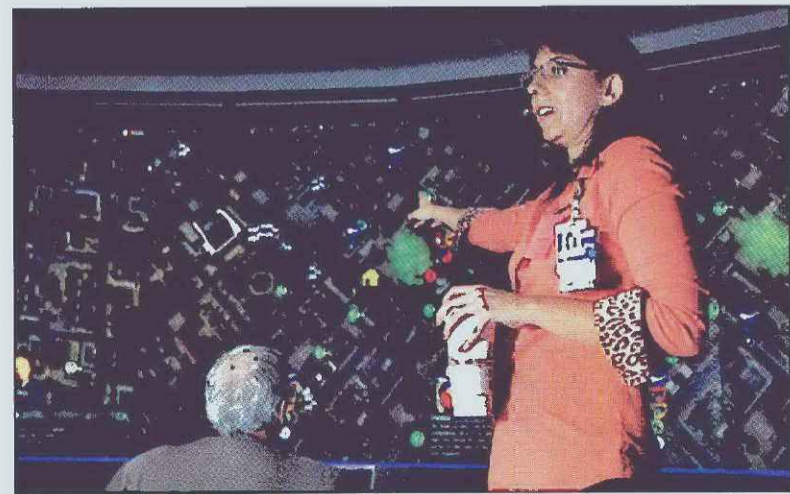
This is the kind of impact Gary Earl, former corporate vp of benefits at Caesar's Entertainment Inc. and now senior vp at CIGNA Healthcare, hoped to achieve when he launched the Health Awareness Tour, riding with a handful of bikers 3,100 miles from California to New Jersey to spread the good health message.

Now in its third year, sponsor Philadelphia-based CIGNA Corp. is expanding the event. Beginning Sept. 10, more than 80 CIGNA employees will ride a collective 3,100 miles in seven five-day bicycle tours stopping in 30 cities.

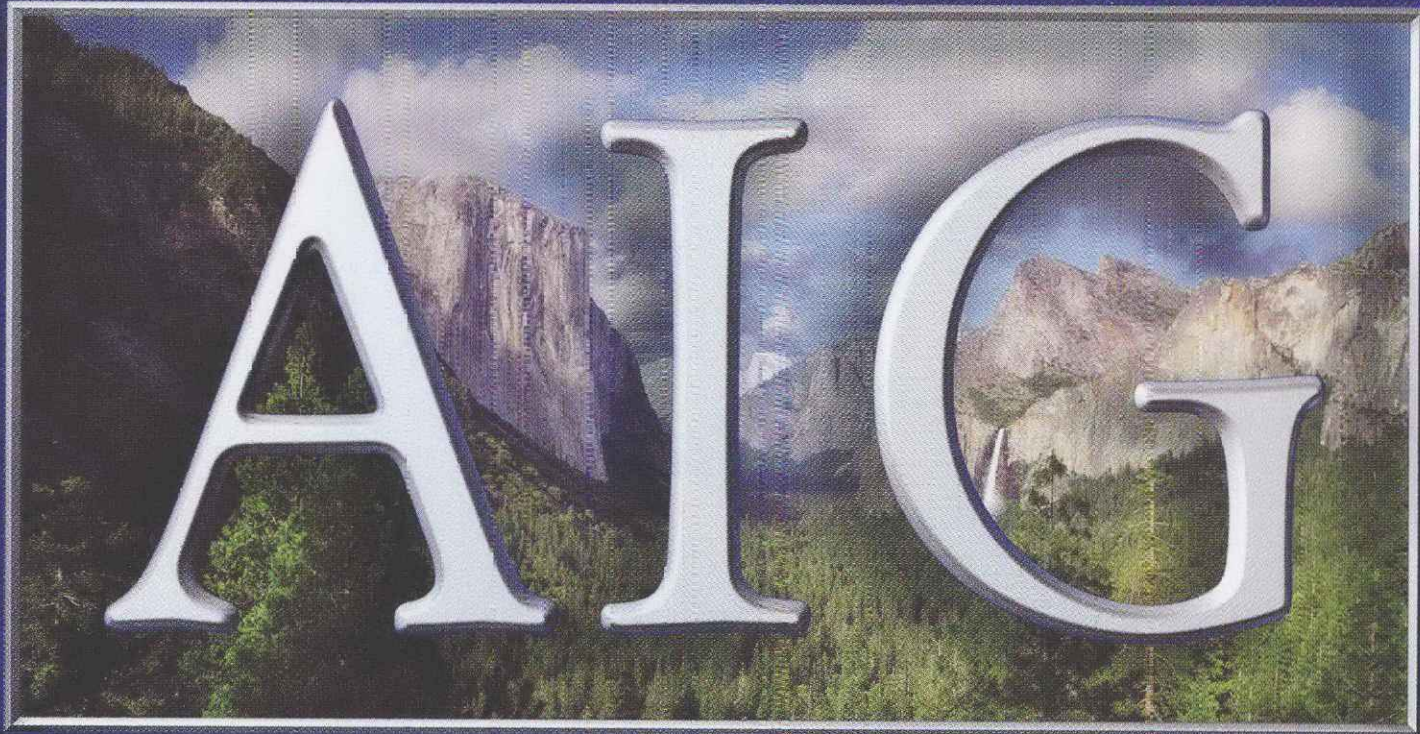
Participants will distribute fluorescent green wristbands embossed with the message "Shifting Gears to Better Health" and "commitment cards," on which people can write health-related promises and rewards to give themselves for achieving those goals.

"The road to meaningful and sustainable health improvement is measured in inches, not miles," Mr. Earl said. "Similar to learning to ride a bicycle, it is the small, achievable steps that provide us the hope and confidence needed to achieve our goals in life."

"Everyone can take a first step (or pedal) toward living a healthier life," he said.



Donna Djordjevich of the Department of Energy's Sandia National Laboratories is a major force behind a game to train emergency responders in the real world.



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