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'08 AMONG WORST-EVER YEARS FOR CAT LOSSES, STUDY SHOWS / PAGE 4

U.S. REGULATORS SEEK TO RAISE GLOBAL STATURE / PAGE 3

BUYERS TIGHTEN BELTS

Tough road for risk managers

By NICK WHITFIELD

Shrinking budgets, possible layoffs and continued concern about the financial health of major insurers will make 2009 a challenging year for risk managers in every industry, several risk managers say.

"This is a good time for risk managers to keep a close eye on the adequacy of their loss protections and really think about how the economy is affecting them in their particular business," said Bradley R. Wood, senior vp-risk management for Marriott International Inc. in Bethesda, Md.

In particular, risk managers may have to defend basic safety measures from possible budget cuts.

"As budgets get tighter and labor is stretched, accidents may be on the rise," Mr. Wood said. "That, coupled with fewer transitional-duty workers to get through those times, could bring potential losses."

But cutting back loss control staff could cost organizations more over the long term, said Scott B. Clark, risk and benefits officer for Miami-Dade County Public Schools in Miami.

"You run the risk of losing key personnel who

See **RISK** page 20

Cost-cutting in benefits

Uncertainties shadow health care, retirement plans

By KRISTIN GUNDERSON HUNT

Benefit managers have entered 2009 with a host of concerns regarding their departments' operations and their employee benefits offerings in the wake of the dismal economy.

From curbs on benefits offerings as companies look to cut budgets, to retirement savings issues as workers see their 401(k) accounts shrink, and health care reform as a new administration takes office, benefit managers face numerous uncertainties as the year begins.

Jack Towarnicky, associate vp-benefits planning at Nationwide Mutual Insurance Co. in Columbus, Ohio, said he realizes cuts will have to be made somewhere—he just doesn't know where yet.

"Like many other large financial services firms, the economic downturn means we're likely not going to hit all our financial metrics," Mr. Towarnicky said. "Expense savings are expected throughout the organization, including benefit plans."

However, his organization and others still were able to enhance their benefit packages for 2009. Nationwide did not raise employee contributions for its two most popular health care options from 2008. It did not change dental coverage or rates, or life insurance or rates, and it lowered the cost of vision coverage. He said the

See **BENEFITS** page 20

College grads enter real world with caution

Job opportunities in insurance industry scarce, competitive

By JEFF CASALE

When Eric Tonn took a summer internship with a major brokerage firm in Atlanta, he expected to handle copy machine duties for his first week. He was wrong.

Instead, the insurance broker put him to work on the account of a large client and asked him to put together a standard industry update presentation, which he would deliver three days later. After just coming back from a study-abroad trip in Europe, Mr. Tonn received a crash course in life after college.

"I was blown away," said Mr. Tonn, 21, a senior at the University of Georgia's Terry College in Athens, where he's majoring in insurance and risk management. "They threw me right in there three days into my internship (to) sit there in front of the client and risk manager and present something to them."

The presentation had a few minor glitches, Mr. Tonn said. Nonetheless, it gave him a taste of what's to come in his career in insurance and risk management.

Entering a less-than-ideal job market during a time of economic turmoil, students studying the insurance industry are getting a full dose of reality, in the classroom and during professional training. Though some remain cautiously optimistic about their job prospects, others are keenly aware that opportunities are limited and that competition in the job market will be fierce.

See **SCHOOLS** page 21

In Brief

Mass. ups penalties for lack of health cover

Massachusetts residents who are not covered under a health insurance plan in 2009 face higher financial penalties under newly proposed rules. The maximum penalty for those with incomes exceeding 300% of the federal poverty level would be $89 for each month an individual does not have coverage, or $1,068 for a full year of noncompliance, according to the guidelines proposed by the Massachusetts Department of Revenue. In 2008, the penalty for noncompliance was $76 a month, up to a maximum of $912 a year. Penalties for those whose income is up to 300% of the federal poverty level would remain the same as in 2008. Penalties, though, do not apply to those whose income is less than 150% of the federal poverty level, as such individuals are eligible for free health insurance coverage with premiums completely subsidized by the state.

See **IN BRIEF** page 22

SPOTLIGHT

PEOPLE TO WATCH

Who will make news in risk management, employee benefits and related fields in 2009? *BI* thinks these 10, from inside and outside the insurance industry, representing corporate executive suites and Capitol Hill, will make headlines and be among those to watch this year.

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On the Web

BI VIDEO

Latest video in risk series focuses on ERM

In the latest "Issues in Risk Management" video, enterprise risk management experts Jack Hampton of St. Peter's College and Bob Morrell of Riskonnect discuss the state of ERM and how to use data to visualize risk. Go to *www.BusinessInsurance.com/video.*

BI PHOTO GALLERIES

Expanded audio slide show interviews online

Business Insurance takes a look at the next generation in insurance and risk management on page 1 of this issue and asks upcoming college graduates, profiled in an audio slide show online, about what motivated them to study and enter the industry. To listen to their interviews, click through the article online or go to *www.BusinessInsurance.com/gallery.*

BI DIRECTORIES

Market Sourcebook now available online

Business Insurance's 2009 Market Sourcebook, which comprises data from all of the directories produced in 2008, is available for purchase online. For details and pricing information, 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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AIG sells HSB to Munich Re for $742 million

Sale of first major insurance asset shows difficulties AIG sell-off plan faces: Analysts

By MARK A. HOFMANN

NEW YORK—American International Group Inc.'s recent decision to sell its HSB Group Inc. subsidiary to Munich Reinsurance Co. for $742 million—far less than the $1.2 billion AIG paid for HSB in 2000—shows the difficulties the insurer faces in attempting to sell assets in the current market, analysts say.

The deal, under which Munich Re will acquire Hartford Steam Boiler Inspection & Insurance Co., was announced late last month and is expected to be complete in the first quarter of 2009. In addition to paying $742 million in cash, the Munich, Germany-based reinsurer and insurer will assume $76 million of HSB Group debt.

Meanwhile, the Financial Times reported last week that AIG is preparing to ask the Federal Reserve to relax certain rules on its asset sales as it seeks to sell operations to repay $60 billion in federal bailout funds.

Hartford, Conn.-based engineering insurer HSB Group provides machinery/plant and equipment breakdown insurance, inspection, certification and engineering consulting services. The insurer's gross written premiums were $904 million in 2007, and its average combined ratio since 2003 has been 73.8%.

See **AIG** page 22

REUTERS

Sandy Praeger will head the International Assn. of Insurance Supervisors' New Focus Task Force to explore future goals.

U.S. regulators seek to increase visibility

New reinsurance regulations adopted

By MEG FLETCHER

U.S. state insurance regulators are taking several steps to increase their visibility and involvement in international regulatory affairs.

They want to steer global insurance policy to encourage a proper level "of prudential oversight" and consumer protection in the insurance sector, they say.

While some observers anticipate stronger global regulation, others note that the lack of federal authority for U.S. regulators hinders their effectiveness.

The National Assn. of Insurance Commissioners recently adopted a new reinsurance regulatory framework that non-U.S.-based reinsurers had sought for more than a decade. NAIC regulators soon will begin crafting the details that could potentially reduce collateral requirements for highly rated non-U.S. reinsurers doing business in the United States.

The NAIC also announced two changes that increase its participation in the International Assn. of Insurance Supervisors, a Basel, Switzerland-based group of insurance regulators from 140 countries that develops supervisory standards to ensure policyholders are protected.

The United States gained two votes on the IAIS's enlarged 21-member executive committee, bringing the number of U.S. votes to three. A fourth NAIC regulator, who chairs a technical subgroup, has a nonvoting post on the executive committee.

Also, the NAIC's immediate past president, Sandy Praeger of Kansas, will head the IAIS' New Focus Task Force to explore future goals including developing a supervisory framework for global insurance groups.

The NAIC also complained about several key aspects of the proposed Solvency II directive for European countries, which it said needed to be updated in light of the financial crisis. Solvency II seeks to update

See **NAIC** page 18

Appeals court rules against Unum Group

LTD provider faulted for coverage denial

By ROBERTO CENICEROS

NEW YORK—A unit of Unum Group abused its discretion and operated under a conflict of interest when it denied disability benefits to a cancer sufferer, a federal appeals court has ruled.

The 2nd U.S. Circuit Court of Appeals' Dec. 24 ruling in *John E. McCauley vs. First Unum Life Insurance Co.* stems from long-term disability coverage initially provided by Sotheby's Holdings Inc. for its employees.

Mr. McCauley worked as a senior vp for Sotheby's tax department in 1991 when he was diagnosed with advanced colon cancer, court records show. He eventually

READ documents from this case online at BI's Knowledge Center www.BusinessInsurance.com

required intravenous chemotherapy treatments and surgeries while intermittently receiving short-term disability benefits. In 1994, Mr. McCauley notified Sotheby's he no longer could work because of the effects of his cancer treatments, court records show.

In 1995, Unum Life denied long-term disability benefits to Mr. McCauley under coverage provided by Sotheby's.

He then attempted to return to the workforce and took on new jobs at different companies, court records show. Unum in 1996 also denied long-term disability benefits to Mr. McCauley under conversion coverage he purchased when leaving Sotheby's.

Mr. McCauley sued Unum for bad faith for denying coverage under both policies. But a U.S. District Court in New York granted summary judgment favoring Unum, finding that the insurer's actions were neither arbitrary nor capricious and thus were justified, court records state.

But the New York-based appeals court found that in light of a 2008 U.S. Supreme Court decision regarding plans governed by the Employee Retirement Income Security Act, Unum was operating under a conflict of interest. In *Metropolitan Life Insurance Co. et al. vs. Wanda Glenn,* the Supreme Court ruled in 2008 that lower courts should consider an insurer's potential conflict of interest when reviewing employee benefit denial cases where the insurer is the claims administrator and the benefits payer.

The appeals court also found that "Unum deceptively indicated to McCauley that a medical professional assigned to review his records was a medical doctor when the individual was in fact a nurse, failed to obtain a physician's recommendation, and mischaracterized its rationale for continuing to deny benefits."

Additionally, the appeals court cited past litigation in which Unum benefit denials were found to be unlawful. It also cited "60 Minutes" and "Dateline" news stories that found Unum's tactics to be unscrupulous.

The appeals court therefore reversed the trial court and found Unum's denial of benefits to Mr. McCauley arbitrary and capricious.

"While ordinarily it would be appropriate for us to vacate and remand for further proceedings," the appeals court decision states, "there is no need to do so because the evidence in the record conclusively shows that McCauley is entitled to judgment as a matter of law."

Chattanooga, Tenn.-based Unum Group has not said whether it will appeal. But the insurer said in a statement that it is disappointed the

See **UNUM** page 18

Insured catastrophe losses hit $45 billion in '09: Report

Busy hurricane season, U.S. tornadoes help drive up losses, Munich Re says

By JEFF CASALE

MUNICH, Germany—Catastrophes caused more than $200 billion in economic losses in 2008, while insured losses totaled $45 billion, according to research from Munich Re Group.

Overall losses for 2008 were up more than 143% from 2007, while insured losses during the same period were up 50%, Munich Re's report said.

But while 2008 was a costly year for natural catastrophes, it did not exceed 2005's record $232 billion in economic losses.

The United States was hit by six tropical cyclones this year, including Hurricane Ike, while China suffered a devastating earthquake, causing several thousand deaths and $85 billion in economic losses.

The quake that struck the Chinese province of Sichuan killed 70,000 people and injured 374,000, according to official statistics. Even more deadly was Cyclone Nargis, which struck Asia in May, claiming more than 135,000 lives.

According to the German reinsurance giant's report, climate change is contributing to the frequency and severity of natural catastrophes.

"The logic is clear: when temperatures increase, there is more evaporation, and the atmosphere has a greater capacity to absorb water vapor, with the result that its energy content is higher," Peter Hoppe, head of Munich Re's Geo Risks Research division, said in a statement. "The weather machine runs in top gear, bringing more intense severe weather events with corresponding effects in terms of losses."

In terms of the total number of storms and the number of major hurricanes, 2008 was the fourth most severe hurricane season since reliable data has been available, according to the report. Further, the report says the U.S. tornado season was "unusually severe," with roughly 1,700 tornadoes in 2008 causing several billion dollars in insured losses.

Europe saw somewhat more moderate catastrophe losses, the report notes.

In March, a low-pressure system, Emma, hit much of central Europe—including the Czech Republic, Denmark, Germany and Poland—with hail, damaging winds and rain causing $1.5 billion in insured losses, according to the report. Another low-pressure system, Hilal, struck Germany near the end of May, causing $1.1 billion in insured losses.

REUTERS

Construction workers demolish a storefront damaged by Hurricane Ike in Houston on Sept. 17, 2008. Natural cats led to insured losses of $45 billion last year, Munich Re estimated.

ON THE RISE

Employers that applied for the first time and in 2008 received final Labor Department approval to fund benefits through their captives. Benefits funded include life, accidental death and dismemberment and long-term disability.

Employer	Benefits funded	Captive domicile
Cephalon Inc.	Life, AD&D, LTD	Vermont
ConAgra Foods Inc.	Life, AD&D	Arizona
DHL Express*	LTD	Vermont branch of Bermuda captive
Memorial Sloan-Kettering Cancer Center	Life, LTD	Vermont
United Technologies Corp.	Life, AD&D, LTD	Vermont
YKK Corp.	Life, AD&D	Vermont

**And other U.S. affiliates of Deutsche Post A.G.*
Source: Labor Department filings

More employers embrace captive benefits funding

Government OKs record number of proposals

By JERRY GEISEL

WASHINGTON—Memorial Sloan-Kettering Cancer Center last week became the latest employer to receive final authorization from the Labor Department to fund benefits through a captive, in a record year for such approvals.

Memorial Sloan-Kettering will use its Vermont-domiciled captive, MSK Insurance US Inc., to reinsure group term life insurance policies written by Prudential Insurance Co. of America and long-term disability policies written by First Unum Life Insurance Co., a unit of Unum Group.

Licensed in 2003, MSK in 2007 had premium volume of about $14 million, providing coverage for a wide range of risks for New York-based Memorial Sloan-Kettering, which had 2007 operating revenues of about $2 billion.

Earlier last month, two other big employers received final Labor Department permission to fund employee benefit risks through their captive insurance companies.

The department approved United Technologies Corp.'s application to use its Vermont-domiciled captive, United Technologies Insurance (Vermont) Inc., to reinsure group term life insurance, accidental death and dismemberment, and long-term disability policies. The

See **DOL** page 6

Errors & Omissions

- A risk management consulting firm listing in the Dec. 29 Market Sourcebook contained an incorrect address and telephone number. Risk Resources Inc./Corporate Policyholders Counsel can be reached at 185 S. York St., Elmhurst, Ill. 60126 and at 630-617-5100 and online at *www.riskresources.net*.

U.S. authorizes ship war risk cover

Department of Transportation program offers coverage for Black Sea risks

By ZACK PHILLIPS

A little-known U.S. government program offers marine war risk insurance for commercial vessels when private insurance is essentially unavailable.

Late last month, the program through the Department of Transportation's Maritime Administration was authorized by presidential order to write coverage for commercial ships, their cargo or crew for damage arising from war risks in the Black Sea. The transportation secretary must certify that the cost of such insurance is unavailable at reasonable rates commercially.

REUTERS

Ships are docked at the Black Sea port of Poti on Aug. 13, 2008. A U.S. government program offers war risk coverage for commercial ships in the area.

Ed Fitzgerald, director of the program, said the move was prompted by a request from the nation of Georgia in response to the August conflict with Russia around the Black Sea. After Georgia attacked South Ossetia—a Russian-backed, separatist region—Russian forces invaded, seizing the Georgian cargo port of Poti and sinking some ships there, according to press reports. A cease-fire was reached Aug. 15, and though Russian forces withdrew from Georgia in October, Russia since has recognized the independence of South Ossetia.

Mr. Fitzgerald and others say war risk rates skyrocketed after the conflict. The ad hoc nature of war risk makes the market extremely volatile, they note. Underwriters in London keep a list of areas at heightened risk of damage from armed conflicts; typically, shippers traveling through such areas must

See **MARINE** page 18

Market may turn in late 2009: Study

If economic conditions persist, next hard market may last awhile

By SALLY ROBERTS

Underwriting losses and anemic investment returns are putting pressure on rates, and absent a major catastrophe, insurance buyers should expect to start paying more for their commercial insurance beginning in the fourth quarter of 2009 or first quarter of 2010, according to a report from Advisen Ltd.

And while the global recession may delay the onset of the hard market by keeping insurance demand down, once that market sets in, it's likely to last longer than normal, David K. Bradford, New York-based Advisen's executive vp and chief knowledge officer, said in a statement.

"In previous hard markets, price increases attracted new capital investment to the market, and the increase in insurance supply led to short hard market cycles," Mr. Bradford said. "In the current economic environment, where credit markets are essentially frozen, capital to create new insurance and reinsurance capacity may be in short supply."

Advisen notes in its report that embattled insurance giant American International Group Inc. should not be singled out for driving rates down and prolonging soft market conditions, despite assertions to the contrary by some of AIG's competitors—assertions AIG has denied.

According to an Advisen poll of 17 commercial lines brokers, AIG "appears to be competing vigorously, but not irresponsibly," Advisen said. One polled broker, Advisen noted, said that "some insurers are so obsessed with winning AIG customers that they, not AIG, are more

See **ADVISEN** page 6

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TO EASE THE PAIN IN HER BACK, WE REMOVED THE HEAVY LOAD FROM HER SHOULDERS.
When a working mom with a back injury could no longer do her job, she worried about how to support her family. Our Group Disability claims expert partnered with her and her doctor to get an accurate picture of the situation and developed a plan to return her to the workforce. With more than 95 years of managing disabilities, it's no wonder we've received a 97% satisfaction rating from our customers. Whether it's providing timely and accurate payments and claims status updates or creating unique return-to-work solutions, we focus on doing the right thing for both you and your employees. That's our policy. For more information, visit libertymutual.com/groupbenefits.
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Group products offered by Liberty Life Assurance Company of Boston, a member of the Liberty Mutual Group.
Responsibility. What's your policy?
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DOL: Employers embrace captive funding

CONTINUED FROM PAGE 4

REUTERS

Deutsche Post AG, which owns DHL Express, recently received Labor Department approval to fund U.S. employee benefit risks through a Bermuda captive.

group life and AD&D policies will be written by a CIGNA Corp. unit, while the LTD policies will be written by a unit of Liberty Mutual Group Inc.

The fronting insurers will reinsure 100% of the risk with UTIV. Hartford, Conn.-based jet engine manufacturer United Technologies, which last year reported $54.8 billion in revenues, now uses UTIV to fund a wide range of property/casualty risks.

The Labor Department also gave final approval for the U.S. affiliates of German delivery giant Deutsche Post AG, including DHL Express, to fund employee benefit risks through the Vermont branch of a Bermuda captive owned by a Deutsche Post affiliate.

Under the arrangement, the Vermont branch will reinsure long-term disability polices issued by Prudential Insurance Co. of America.

Deutsche Post, which in 2007 had worldwide revenues of about $99 billion, currently uses a captive in Luxembourg and its Bermuda captive to fund various benefit risks of employees outside the United States.

In all, the Labor Department in 2008 gave final approval to six employers seeking to fund benefits in their captives for the first time. The highest previous number of approvals was in 2004, when four employers received Labor Department final authorization to fund benefits through their captives.

Advisen: Market may turn in late 2009

CONTINUED FROM PAGE 4

responsible for cutthroat competition."

As the hard market settles in, not every line of business will increase in price at the same pace, according to Advisen.

The reinsurance market, for example, will firm up sooner than the overall primary market and will place upward pressure on heavily reinsured lines such as excess casualty.

Property insurance pricing, on the other hand, will remain soft through 2009, with premiums in some catastrophe-prone areas continuing to fall into 2010 absent major losses, Advisen predicts.

Premiums already have increased for financial institution directors and officers and errors and omissions liability coverages as a result of the subprime mortgage meltdown and ensuing credit crisis, Advisen said.

And workers compensation premiums, which have largely stabilized as a result of reforms in several large states in 2005 and 2006, are likely to begin to edge higher by mid-2009.

Copies of the full report can be obtained by e-mailing info@advisen .com.

Commentary

History repeats itself

JOANNE **WOJCIK**

Senior Editor Joanne Wojcik can be reached at: jwojcik@businessinsurance.com

A former colleague of mine who went in and out of the insurance publishing business several times during his career once said that every time he returned he felt like he had never left because the issues remained the same.

I could relate to that statement while watching the drama unfold over the federal government's bailout of New York-based American International Group Inc. It reminds me of the demise of Los Angeles-based Executive Life Insurance Co., my first big assignment as a reporter at *Business Insurance*.

Both companies were in dire financial straits because they wanted to capitalize on other people's debt.

In AIG's case, it was partly the company's backing of massive portfolios of mortgage-backed securities, whose value plummeted as the housing bubble burst, that forced AIG into a liquidity crisis. Unlike ELIC, though, AIG's insurance operations remain solvent. In ELIC's case, a cache of speculative "junk bonds," issued by companies with questionable credit strength, whose values sank in the late 1980s, threatened the insurer's solvency.

Interestingly, both companies had a connection to the same Wall Street investment house.

ELIC's risky bonds were sold in the late 1980s to its former president, Fred Carr, by Leon Black, a protégé of the notorious Junk Bond King Michael Milken at Drexel Burnham Lambert Group Inc. At about the same time, a team also comprising Drexel Burnham alumni broke away from the now-defunct investment bank to form AIG's Financial Products unit.

They wanted to capitalize on other people's debt.

Both companies also were rescued by government action.

In the early 1990s, then-California Insurance Commissioner John Garamendi seized ELIC, separated its bad investment portfolio from its insurance operations and then sold both at auction to a bank partially owned by the French government.

Since September, the Federal Reserve has provided AIG up to $152.5 billion in financing—taking a 79.9% stake in the firm—to prevent its bankruptcy. As part of the bailout, the government also is funding the creation of two entities to buy AIG's residential mortgage-backed securities and collateralized debt obligations.

While what becomes of AIG remains to be seen, in ELIC's case, the government-orchestrated sale ended up embroiled in litigation for the better part of a decade.

After discovering that the French government owned a sizable share of Altus Finance S.A., the bank that bought ELIC, California's attorney general and Insurance Commissioner Chuck Quackenbush, Mr. Garamendi's successor, sued the purchasers, eventually recovering nearly $1.5 billion in damages.

California law prohibited entities owned or controlled by a foreign government from directly or indirectly owning or controlling a California insurer. Moreover, federal law prohibited a bank from directly or indirectly owning or operating a U.S. life insurer, except under circumstances that didn't apply in this case.

I doubt that any of those lawsuits would have been filed had the junk bond market not recovered. Thanks to a rebound in bond prices, by 1993 ELIC's junk bond portfolio was estimated to be worth $2 billion more than its $3.25 billion purchase price. In fact, the junk bond market turned into one of the best-performing U.S. markets in 1992 and 1993.

I wonder if the windfall captured by the French government in the ELIC deal had any influence over federal lawmakers' decision to try to cash in on a potential AIG comeback. Though many conservatives point to the federal government bailout of the financial services industry as a form of socialism, could it instead be a covert form of capitalism? U.S. history has shown that foundering financial markets eventually recover in time.

Still, the government is taking one heck of a gamble, perhaps even greater than the financiers who devised the schemes that pulled these two companies down. In order to recoup the more than $150 billion the U.S. Treasury has infused into AIG thus far, the return on investment would have to be astronomical compared to the measly $2 billion or so the French picked up wagering on ELIC.

Business Insurance OPINIONS

Tough times a chance to step up to the plate

2009 IS FORECAST to be a challenging year for risk managers and benefit managers—hardly a surprise given the ongoing global economic turmoil.

As we report on page 1, buyers are steeling themselves for a year where they must do more with less and find ways to control costs while protecting value for their organizations. Some risk managers are worried about fighting off budget cuts that could come at the expense of safety, while benefit managers worry about meeting federal requirements to boost funding levels of corporate pension plans that have taken a nose dive due to the crash in the equities markets.

Difficult market conditions offer a chance for buyers to prove their worth.

Businesses everywhere are under extreme pressure to meet their objectives, with access to capital limited and consumer confidence low. Profits are much harder to come by, and cost cutting is the order of the day. What's more, the cost of property, liability and health care coverage also is expected to go up.

Tough as that sounds, we think difficult market conditions offer a chance for risk managers and benefit managers to prove their worth. Creative approaches, communicated well, can help professional buyers keep their organizations on track—in good times and in bad.

Health care reformers should look to Mass.

IT ISN'T OFTEN that a state so quickly reaches a broad policy goal through legislation, so Massachusetts' groundbreaking health care reform law is worth noting.

Enacted in 2006, the law was intended to move the state close to universal health insurance coverage within a few years.

With last month's announcement by state officials that 97.4% of state residents—compared with about 95% in 2007 and just under 90% in 2006—now have coverage, that objective clearly has been met.

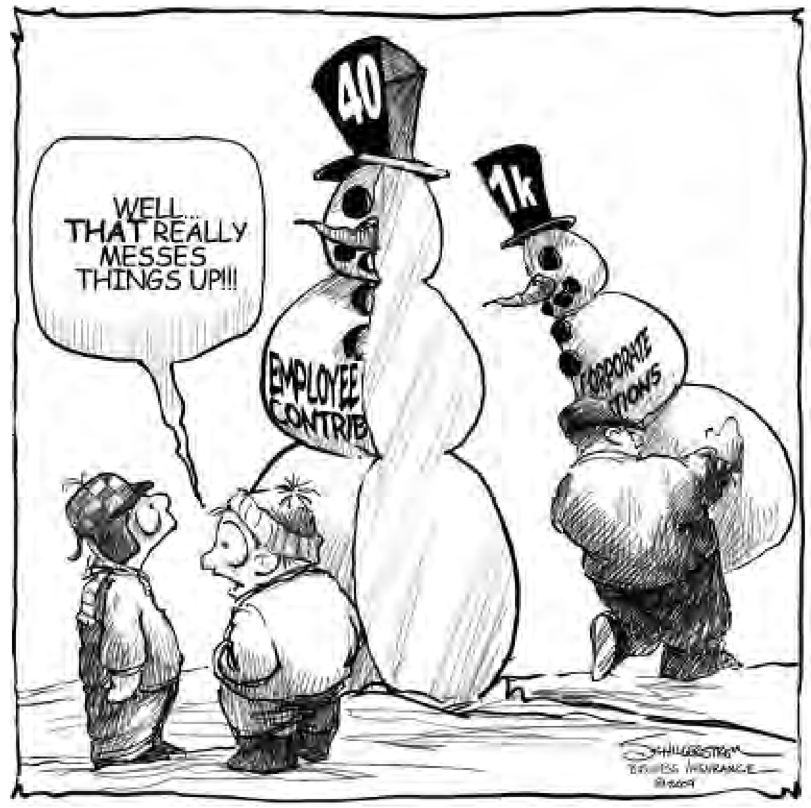
There is no mystery as to how Massachusetts realized that objective. One way was creating a program in which the state subsidizes health insurance premiums, in some cases completely, for about 170,000 lower-income, previously uninsured residents. In addition, the law imposed financial penalties on individuals who were not covered under a health insurance plan—a powerful incentive to obtain coverage—while employers also were subject to assessments if they did not offer coverage.

Just as important, the law was implemented in a careful way in which state regulators took into account the positions of interest groups before making decisions.

We hope the success of Massachusetts in achieving near-universal coverage will not go unnoticed by the incoming Obama administration, which has a similar goal for the entire country.

Massachusetts met its goal for several reasons, not least of which was solid, carefully drafted legislation and a smooth implementation process in which decisions were made only after a consensus was reached.

Those are lessons the new administration would be wise to study.



WRITE

Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters.

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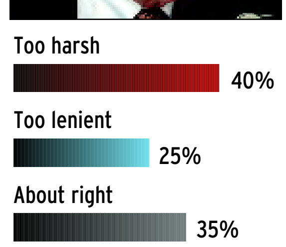
THIS WEEK'S RESULTS

Q How do you view the two-year sentence imposed on former Gen Re chief Ronald Ferguson?



NEXT WEEK'S QUESTION

Q: What's the most pressing health care reform need in 2009?

BI Online Poll tool is sponsored by Wausau Insurance Cos.

LETTERS

Keep Rep. Cummings within his expertise

TO THE EDITOR: Before Rep. Elijah Cummings continues his demagoguing, let's make sure he can even spell the word "insurance."

Were it not for a certain member of his own political party who turned out to be a corrupt, overstepping governor (see definition of "Spitzer" in Webster's Dictionary), American International Group Inc. would not be in this mess.

While I am no big fan of Hank Greenberg's poor people skills relative to treatment of subordinate staff, he did know how to run AIG successfully. It was the largest, most profitable and innovative insurance company. (That's not an oxymoron in this instance). Mr. Spitzer's ego and malfeasance as New York's attorney general and governor destroyed the shareholders' value in the company, when he pursued his baseless vendetta of Mr. Greenberg and several family members as well. Frankly, the shareholders should file a class-action lawsuit against Mr. Spitzer for public officials' liability. Add the taxpayers as plaintiffs in that suit as well, since they would not be on the hook for AIG's bailout if Mr. Greenberg hadn't been wrongly uprooted from the company.

In the meantime, someone with an ounce of intelligence, please keep Rep. Cummings from attempting to preen his "credentials" by involving himself in matters beyond his level of competence.

Bruce Fernandez
Altamonte Springs, Fla.

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PEOPLE TO WATCH

2009

As part of our series of annual review features, *Business Insurance* takes a look at the people and stories that had a significant impact over the past 12 months and identifies some of the people who we think are likely to make headlines this year.

In our Dec. 15 and Dec. 22, 2008, issues we looked at last year's top stories and newsmakers, but in this issue we take a look forward and focus on people likely to make an impact in 2009 in the fields of risk management and employee benefits.

In the following pages are profiles of 10 people whom *BI*'s editors believe are worth watching. They represent commercial insurance industry executives, legislators and regulators.

Ten was chosen arbitrarily. In fact, many more people than we've listed might generate significant news this year. As always, we reserve the right to be wrong. The people profiled may or may not fulfill our expectations, but in any event, we think they are strong candidates to do and say things that risk managers and benefit managers will care about—and want to keep an eye on.

SPOTLIGHT

10 TO WATCH IN 2009

NEXT SPOTLIGHT Jan. 12: Property/Casualty Market Report

LANDOV

Ramani Ayer

Chairman and Chief Executive Officer
Hartford Financial Services Group Inc.
Hartford, Conn.

HIS ROLE: Hartford Financial Services Group Inc. Chairman and Chief Executive Officer Ramani Ayer, who has held the post since 1997, is overseeing a tumultuous time at the insurer. In October, Hartford announced it had received a $2.5 billion capital infusion from Munich, Germany-based Allianz S.E. Subsequently, it reported a $2.63 billion loss for the third quarter that reflected $2.2 billion in investment losses, most of which related to Hartford's investments in other financial services companies negatively affected by the market turmoil. In November, Hartford bought a Florida savings and loan for about $10 million to qualify for up to $3.4 billion in federal bailout funds.

WHAT'S AHEAD: The purchase of the Florida thrift makes Hartford eligible to participate in the Treasury Department's $250 billion Capital Purchase Program, a strategy also used by other life insurers. But some question whether life insurers will be able to convince Treasury that such an infusion will benefit the public at large.

WHAT TO WATCH: Given the considerable competition for government funds from Capital Purchase Program, it is still unclear whether Mr. Ayer will get a cash infusion from the Treasury Department.

—By Judy Greenwald

Tom Daschle

Secretary-designate
U.S. Department of Health and Human Services
Washington

HIS ROLE: President-elect Obama has named Tom Daschle to run a soon-to-be-created White House office for health reform, and has nominated him to be secretary of the Department of Health and Human Services.

WHAT'S AHEAD: Mr. Daschle has said the process of developing a health care reform package will be "open and inclusive," and he clearly understands the difficulty in crafting the right health care reform package and the necessity of doing so.

WHAT TO WATCH: Health care reform is the nation's biggest domestic policy challenge, Mr. Daschle has said. But if health care can be reformed, the benefits will be numerous, including expanding coverage to many of the nation's 45 million uninsured and making businesses more competitive by reducing their costs.

—By Jerry Geisel

LANDOV

LANDOV

Eric Dinallo

Superintendent
New York State Insurance Department
New York

HIS ROLE: New York Insurance Superintendent Eric Dinallo is in his second year of duty leading the state's insurance department. The high-profile regulator recently was tapped to head a group of regulators overseeing the sale of American International Group Inc. assets.

WHAT'S AHEAD: Mr. Dinallo continues to take bold positions in the insurance regulatory arena and has been pushing several key initiatives. In tackling the issue of timely policy deliverance, Mr. Dinallo has called on the industry to devise a system that ensures that 90% of policies written in the state are in policyholders' hands within 30 days of inception. Mr. Dinallo also is working to overhaul the struggling bond insurance industry, and has devised a three-point plan to stabilize the financial guarantee market. After a series of hearings on broker compensation, Mr. Dinallo is working to create new regulations on disclosure requirements for producers and brokers. He also is trying to revive the defunct New York Insurance Exchange—a Lloyd's of London-style marketplace—and is aiming for implementation in 2009.

WHAT TO WATCH: Mr. Dinallo likely will be involved in any debate involving the future of insurance regulation and has been actively testifying before federal and state legislators on the rescue of AIG, regulatory reform hearings, and other topics. In particular, following the hearings on broker compensation last year, several observers expect New York regulators to tackle the issue of supplemental commissions.

—By Colleen McCarthy

Brian Duperreault

President and Chief Executive Officer

Marsh & McLennan Cos. Inc.

New York

HIS ROLE: The former ACE Ltd. CEO came out of retirement in January 2008 to become president and CEO of Marsh & McLennan Cos. Inc. He replaced Michael G. Cherkasky, who successfully brokered MMC's $850 million fraud and bid-rigging settlement with New York authorities in 2005, but was subsequently unable to dig MMC out of its resulting hole.

WHAT'S AHEAD: Mr. Duperreault said he didn't take the job to oversee incremental improvements and results. While he would not give a timetable for MMC's turnaround, he described it as a multiyear process. So far, he's improved morale, put his own management team together, laid off more than 2,000 employees companywide, reduced expenses, launched new initiatives and sold some assets. But more work needs to be done before the business is truly optimized, he has said.

WHAT TO WATCH: While MMC is moving in the right direction, margins at its flagship Marsh Inc. brokerage unit continue to lag its rivals. Not only is more cost-cutting likely in store for the company in 2009 but acquisitions also likely will play a role. MMC announced in November that it plans to issue up to $500 million in stock to fund future deals. Many say they believe MMC will use the capital to build out its new small-client platform Marsh & McLennan Agency.

—By Sally Roberts

Timothy F. Geithner

Secretary-designate

U.S. Treasury Department

Washington

NEWSCOM

HIS ROLE: Barring unforeseen developments, Mr. Geithner (pronounced gyte-nerr) should breeze through the confirmation process to become head of the Obama administration's economic team.

WHAT'S AHEAD: Mr. Geithner, former president of the Federal Reserve Bank of New York, will inherit a patchwork of financial bailout programs for various industries, including some segments of the insurance industry. Although Mr. Geithner was one of the principal architects of the original bailout plan for American International Group Inc., he does not possess much of an additional record relating to insurance matters.

WHAT TO WATCH: Given the economic situation, greater federal involvement in insurance regulation appears inevitable and Mr. Geithner will have a major hand in determining the nature of such regulation. One big question is whether he will follow the financial services regulatory blueprint drafted by his predecessor. That document called for the eventual establishment of optional federal charters for insurers and producers, an issue that has divided the insurance industry for years. While Mr. Geithner has no obligation to follow any part of the reform blueprint, his approach to the OFC could impact insurance regulation far beyond his tenure in office.

—By Mark A. Hofmann

Maurice R. Greenberg

Chairman and Chief Executive Officer

C.V. Starr & Co. Inc.

New York

LANDOV

HIS ROLE: Working to build C.V. Starr's managing general agency and investment business while dealing with the fallout from his 2005 resignation as chairman and CEO of American International Group Inc. Mr. Greenberg left AIG amid investigations of its accounting practices that later led to the insurer's $1.64 billion settlement of fraud charges.

WHAT'S AHEAD: Mr. Greenberg faces an array of legal and business problems. A New York judge last month refused to dismiss breach of fiduciary duty and other charges against him in a civil suit filed by AIG over a large block of AIG stock held by Starr International Co. AIG contends that the shares, which Mr. Greenberg controls, were intended for use by AIG for executive compensation and other purposes. In a parallel federal case, a judge declined to dismiss similar charges earlier in 2008. Separately, the New York Attorney General is proceeding with civil fraud charges against Mr. Greenberg over AIG accounting issues. The attorney general's office reported that a settlement deal fell apart after AIG's near-bankruptcy, a contention that Mr. Greenberg's lawyers deny. The collapse of AIG's stock price, meanwhile, has hurt Mr. Greenberg: He personally holds 60.8 million AIG shares, while SICO holds 210 million and C.V. Starr & Co. 19 million, according to a December Securities and Exchange Commission filing.

WHAT TO WATCH: The litigation over Mr. Greenberg's management of SICO will move forward, along with the New York AG's lawsuit. (Mr. Greenberg was deposed for several days in October in the New York State case, answering questions on several topics but refusing to discuss a sham 2000 reinsurance deal between AIG and General Re Corp.; that deal led to the criminal convictions of five former Gen Re and AIG executives last February, and the sentencing of former Gen Re chief Ronald Ferguson to two years in prison last month.) Mr. Greenberg also can be expected to continue pushing AIG management on issues related to the insurer's restructuring: He criticized the terms of AIG's initial Federal Reserve bailout in a letter to AIG CEO Edward M. Liddy, and has offered his views on various issues in subsequent letters, most recently questioning AIG's decision to buy distressed collateralized debt obligations it had insured at par rather than at a discount.

—By Douglas McLeod

Michael S. McGavick

Chief Executive Officer
XL Capital Ltd.
Hamilton, Bermuda

HIS ROLE: Michael S. McGavick took over the reins at XL Capital Ltd. in May with hopes of turning the struggling Bermuda-based insurer and reinsurer around. Previously, Mr. McGavick was credited with reviving the ailing Seattle-based SAFECO Corp.–where he was president and CEO from 2001 to 2005. In 2006, the longtime insurance industry executive unsuccessfully ran as a Republican candidate for U.S. Senate in Washington state.

WHAT'S AHEAD: Enormous challenges. The hard-hit insurer announced recently that it is reviewing ways to enhance shareholder value and is being assisted in that effort by Goldman Sachs & Co. The announcement came after speculation that XL is seeking to sell some or all of its operations. Analysts say the company could struggle to find potential buyers. In addition, XL recently issued guidance on fourth-quarter investment losses, saying the company expects market value losses in its investment portfolio to be largely in line with the $1.12 billion unrealized and realized losses the company reported for 2008's third quarter.

XL also expects to report approximately $200 million to $220 million in net investment fund affiliate losses from its alternative investment portfolio for its fourth quarter. The news resulted in ratings downgrades by Standard & Poor's Corp. and Fitch Ratings.

WHAT TO WATCH: All eyes will be on Mr. McGavick as he tries to steer XL through turbulent economic conditions and plot a course for the future. Some observers say market turbulence means the company would be more readily sold in pieces. One possible scenario would be for XL to sell its reinsurance business for cash and parlay that capital into its insurance business, analysts say.

Despite the ratings downgrade, S&P said XL still has a strong financial position with $7.2 billion in cash and short-term investments as of Sept. 30. In a statement, Mr. McGavick said XL does not intend to seek additional capital at this time.

—By Colleen McCarthy

LANDOV

Barack Obama

President-elect of the United States

HIS ROLE: Former U.S. senator from Illinois Barack Obama was elected the 44th President of the United States.

WHAT'S AHEAD: President-elect Obama is serious about health care reform. On the presidential campaign trail, he frequently cited the need for comprehensive reform, while outlining his own plan, which includes federal premium subsidies for the low-income uninsured and financial penalties on employers that don't offer coverage to employees. As president-elect, Mr. Obama quickly reaffirmed his commitment to revamp the nation's health care delivery and finance in announcing his intention to create a White House Office of Health Reform and naming Tom Daschle, a former Senate majority leader, to run that office.

WHAT TO WATCH: President-elect Obama has shown a willingness to work in a bipartisan way to win support and he has large Democratic majorities in Congress.

—By Jerry Geisel

Paula Rosput Reynolds

Vice Chairman and Chief Restructuring Officer

American International Group Inc.

New York

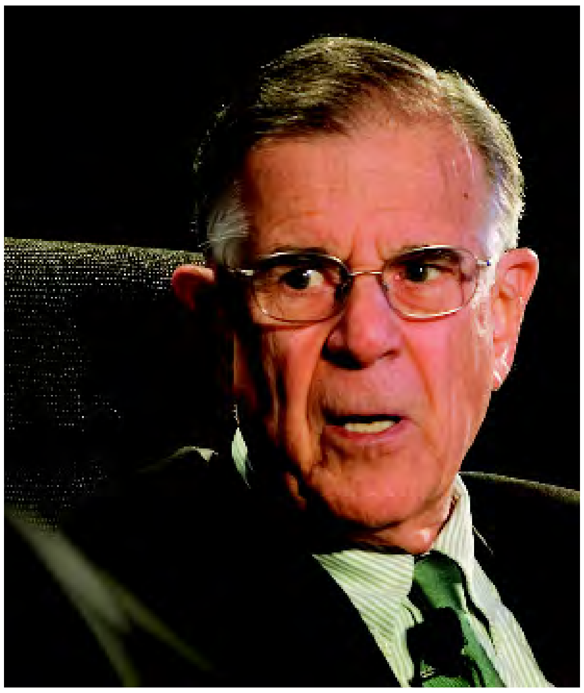
HER ROLE: American International Group Inc. Vice Chairman and Chief Restructuring Officer Paula Rosput Reynolds, formerly chairman, president and chief executive officer of SAFECO Corp., was named to the AIG post in October to oversee divestiture of assets and serve as chief liaison officer with the Federal Reserve Bank of New York.

WHAT'S AHEAD: AIG Chairman and CEO Edward M. Liddy has said the company intends to sell off everything but its core commercial property/casualty insurance and foreign general insurance businesses, while retaining a continuing ownership interest in its foreign life insurance operations. Everything else that does not fit under that umbrella is up for sale. Assets sold so far include engineering insurer HSB Group Inc. to Munich Re Group, a Swiss-based private bank to an investment company and AIG's interest in Omaha, Neb.-based Tenaska Inc. back to the energy producer.

WHAT TO WATCH: There are questions as to how easily AIG's earmarked assets will be sold, how soon, at what price and even whether it may ultimately be forced to sell some of its core operations. Complicating the issue is the departure of some senior AIG executives to competitors, which may diminish competitors' interest in buying the businesses.

—By Judy Greenwald

MICHAEL MARCOTTE



LANDOV

Rep. Pete Stark

Chairman

House Ways and Means Health subcommittee

D-Calif.

HIS ROLE: Rep. Pete Stark, D-Calif., chairman of the House Ways and Means subcommittee has made clear what he thinks of health savings accounts. In 2006, for example, he described HSAs as a means of shifting costs to employees, adding that the arrangements are little more than tax shelters for the wealthy. Last year, he said widespread adoption of HSA-linked insurance plans could result in higher health insurance costs because enrollees, especially those with lower incomes, would delay getting needed care, leading to more expensive treatment at a later date.

WHAT'S AHEAD: With larger majorities in both houses of Congress, Rep. Stark will be in a stronger position to affect HSAs. Last year, he was a key backer of legislation to require HSA trustees, who are chiefly banks, to substantiate that HSA distributions were being used to pay for medical expenses. Such a requirement would have increased administrative costs and led some banks to withdraw from the HSA market, giving enrollees fewer places at which to open their accounts. The Bush administration strongly supported HSAs, but President-elect Barack Obama has not shown the same level of support.

WHAT TO WATCH: The legislative climate in Washington will be a friendlier one for any anti-HSA proposals Rep. Stark is likely to advance.

—By Jerry Geisel

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The passing of a beloved old friend

In past years, I have summarized my thoughts about the property/casualty industry via rhymes and letters. It was time again this year and I opted to work with an article/rhyme that was e-mailed to me several months ago by a friend. The piece made an indelible mark on me given the economic turmoil that surrounds the financial markets and the problems that have engulfed many insurance entities. Some research on the Internet revealed that the article/rhyme appeared in "Mankind" in the 2004 June/August edition and was written by an anonymous author. As I have done with past pieces, I have tinkered with it. The tsunami that has engulfed the financial structure of the United States as well as that of other world economies has been swift, deep and more enduring than what was initially perceived by the prognosticators. There are many people and institutions that share blame for the quagmire, and clearly greed, mismanagement and regulatory failure all have seats at the table. But a thread that clearly weaves its way through all of the participants and institutions, which in my opinion has not yet been properly addressed, is: What happened to good old Common Sense?

Taking STOCK

Myron M. Picoult is an independent insurance consultant. An archive of Mr. Picoult's columns is available online at www.businessinsurance.com. He can be reached at mpicoult@aol.com.

Today we mourn the passing of a beloved
Old Friend, Common Sense, who has been
With us for many years. No one knows for
Sure how old he was, since his birth records
Were long ago lost in bureaucratic red tape.
He will be remembered as having cultivated
Such valuable lessons as:

Living by simple, sound financial
Policies (don't spend more than you earn)
And reliable strategies (adults, not children,
Are in charge).

He had a storied career in the insurance business,
Working for one of the largest insurance entities
With a broad spectrum of responsibilities
That included underwriting, actuarial, I-T,
Marketing and customer service.

His insights, pragmatic approach to problems
And deep respect for fellow employees and customers
All served him very well,
And enabled him to rise through the corporate ranks.

On the actuarial side, he knew that
Underpricing was wrong
And that loss leaders don't get you anywhere.

When it came to capital management,
He understood the importance of returning
Excess capital to stakeholders and
To tie capital management to
Enterprise risk management.

On the investment side of the equation,
He had the prescience to realize
Marginal rates of return were critical
And that you don't reach for returns
That look too good to be true.

In the marketing sphere, he instinctively knew
The operation had to be customer-focused
And that companies had to always
Reinvent themselves.

And I-T! Oh, I-T!
He recognized the value of data mining
And the benefits of the Internet, even
When it was in its earliest stages,
To both agents and customers.

He approached underwriting with
Logic and realism, knowing
That he had to truly measure exposures
And ultimate losses, excluding reinsurance.

Alas, a change in top management created a bump in the road
As the team did not appreciate
The candor and out-of-the-box thinking
That Common Sense brought to the table.

Clearly "the new team" was old school,
Fearful of a rising star who called it like he saw it.
And it was just a matter of time
Before Common Sense was furloughed.

Common Sense found himself dispossessed.
The world he had lived in had given way to one
Where criminals received better treatment than
Their victims; where burglars could sue you
For assault if you caught them.

Common Sense lost the will to live when
AIG was brought to its knees, and XL stumbled,
And the financial underpinnings of the country—
The banks, the Wall Street firms, and the financial intermediaries—
Came unglued. Sure, there was greed.

Sure, there was mismanagement and poor regulation.
But what else would you expect, when
Common Sense had been shunned from their companies?

People in their 50s and 60s said, "If only Common Sense were here."
People in their 40s vaguely remembered that name.
People in their 20s and 30s had never heard of him.

No one was watching when Common Sense died.
Companies and common folk were too busy
Coining money and leveraging up, buying
Beyond their means.

There is a rumor that Common Sense breathed his last
At 70 Pine Street, the day after the government
Took control of AIG. There is another rumor that
Common Sense locked himself in the vault of a bank
Hoping to salvage the stocks of financial companies
He'd accumulated over the years.

This is what we know:
He was preceded in death by his parents,
Truth and Trust. His wife, Discretion.
His daughter, Responsibility, and his son, Reason.

He is survived by four stepbrothers:
It's Not My Fault; I Didn't Do It;
I Deserve This; and What's Wrong with Skating on the Edge.

Somewhere, underneath a pile of worthless
Stock certificates and real estate holdings,
Common Sense lies in a shallow grave,
One that's well worth robbing.

Market Moves

Coverage protects small hotels, motels

NOVATO, Calif.—Fireman's Fund Insurance Co. has introduced a coverage line for the hospitality industry to assist small business hotel and motel owners.

The bundled coverage offers protection from losses associated with assets, income and reputation with limits up to $50 million for property coverage and $10 million for liability. The policy covers a range of exposures including off-site event cancellation, communicable disease expenses and personnel replacement expenses. The coverage also addresses crisis management and data security issues, and provides protection for expenses associated with both. Historic property valuation coverage also is available to address exposures associated with owning historic buildings, according to the Novato, Calif.-based insurer. In addition, coverage is available for policyholders renovating or updating according to the Leadership in Energy and Environmental Design standards.

For more information, contact John Braschi, product director, at *john.braschi@ffic.com* or 415-899-3473.

OneBeacon offers liability coverage to companies

CANTON, Mass.—OneBeacon Professional Partners, a member of OneBeacon Insurance Group, is offering employment practices liability insurance for large and small companies.

The policy is available to professional firms with five or more employees, with limits up to $5 million. The coverage can be written with broad definitions of discrimination, harassment, retaliation, workplace torts and wrongful termination, according to the company. In addition, the coverage features protection against harassment or discrimination claims by third parties and offers a choice of counsel for qualified firms. Full prior-acts coverage also is available.

Policyholders also will have access to OneBeacon's risk management services. The coverage joins OneBeacon's line of existing products including lawyers professional liability insurance and property/casualty coverage for small and midsize firms, the company said.

For more information, contact Laurie Sablak, assistant vp, at 860-773-6901 or *lsablak@onebeacon.com or visit www.onebeaconpro.com.*

Markel starts program for crane companies

RICHMOND, Va.—Markel Insurance Co., a division of Markel Corp., has announced an insurance program for small crane companies.

The policy can provide liability coverage for crane rentals, with or

without operators, and also protects general contractors with crane exposure not covered under their general liability policy. The policies will be written by Landsdale, Pa.-based J.C. Stevens Inc. and offer limits up to $1 million per occurrence and $2 million aggregate. Excess liability coverage also is available, with limits up to $5 million.

Key features include "over the road" liability coverage for policyholders that transport cranes on the roadways. The program also offers an auto policy for policyholders that operate in states that require separate auto coverage, according to the company. In addition, the policy provides riggers liability to protect against potential damage to items a crane is lifting, lowering or removing.

For more information, contact Megan Rose, program manager, J.C. Stevens Inc., at 215-368-2900 or *mrose@jcstevensinc.com or visit www.markelinsurance.com.*

Darwin expands, enhances coverage

FARMINGTON, Conn.—Darwin Professional Underwriters Inc., a member company of Allied World Assurance Co. Holdings Ltd., is offering enhancements to its medical malpractice coverage and expanding its coverage to help smaller medical facilities reduce risks.

Darwin's Miscellaneous Medical Facility medical coverage segment will include residential care or group homes, outpatient rehabilitation facilities, treatment centers, home health and hospice care, outpatient and behavioral care, imaging centers, laboratories, medical transport services, staffing services and pharmacies, among others.

In addition, the revised policy includes coverage for defense expenses outside the limits for most coverages, affirmative coverage for punitive damages with provisions for most favorable venue, and employment practices liability insurance. Quotes can be provided within 48 hours. For more information, contact Susan Chmieleski, senior vp-health care product and risk management lead, at 860-284-1300 ext. 1954.

TO SUBMIT ITEMS

BI's Products & Services column reports on new product offerings. Please send Product & Services news to: Colleen McCarthy, 711 Third Avenue, New York, NY 10017 or e-mail *cmccarthy@business insurance.com.*

UP CLOSE Comings & Goings

ERNIE CSISZAR

NEW JOB TITLE: Director of insurance at Chicago-based Bridge Strategy Group L.L.C.

PREVIOUS POSITION: President and CEO of Property Casualty Insurers Assn. of America

CHANGE THE INDUSTRY: I'm a former regulator, and I truly understand our regulatory system and how convoluted, fragmented, costly and intrusive it is. Certainly from a regulatory standpoint, my first wish would be to change the regulatory system, make it more effective and more efficient. But in all honesty, I really think the business model needs some changing. We're just not very good at handling catastrophes on the property/casualty side; obviously our health care system needs some mending; on the life side there are issues with product design and investments. I really think we need to think hard about our business model in every way, from a distribution standpoint, but in particular from a technology standpoint. We're still far too people-intensive and far too paper-intensive.

FIRST EXPERIENCE IN INDUSTRY JOB MARKET: My first introduction to the industry was as a CEO. I am a lawyer by training, but I had actually worked in merchant banking and project finance. I was hired to do a turnaround at a Southeast property/casualty carrier by the name of Seibels Bruce Group Inc. I was hired to do a turnaround of the company, which I did over a five-year period.

ADVICE: Watch the bottom line and spend less attention on the top line. We go askew in this industry when the underwriting practices fall apart, and they tend to do that whenever there is easy money out there. We go through these cycles when we start writing and pricing risks against our own interests. I think that is the malaise in the industry, and we're doing that to ourselves.

ROLE MODELS: In memoriam, I will certainly note (former South Carolina) Governor John West, who brought me to South Carolina years ago and was instrumental (to my) ending up in the industry. He became chairman of Seibels Bruce Group and I became his CEO. He was a man who, in many ways, changed my life. He was a gentleman. He was as honest as daylight. He was a very bright, talented, human being. He had a true feel for people and for listening. I would hope I have as much patience, and the listening skills, and the talent that John brought to the table.

Comings & Goings ONLINE

VISIT ***www.businessinsurance.com/ComingsandGoings*** for a full list of this week's personnel moves and promotions. Check our Web site daily for additional postings and sign up for the weekly e-mail.

TO SUBMIT ITEMS

Business Insurance would like to report on senior-level changes at commercial insurance companies and service providers. Please send news and photos of recently promoted, hired or appointed senior-level executives to:

Allison Martinat
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Chicago, Ill. 60601-3806
amartinat@business insurance.com

POSTING THIS WEEK

BROKERS:
- Camford National Insurance Brokers L.L.C.
- Cottingham & Butler Insurance Inc.
- Barney & Barney L.L.C.
- Gallagher Healthcare

INSURERS:
- Aerospace Insurance Managers Inc.
- Hiscox Ltd.
- Farmers Insurance Group Inc.
- Aviation Insurance Services of Illinois Inc.

REINSURANCE:
- White Mountains Re Ltd.

MANAGED CARE:
- Kaiser Permanente

OTHER PROVIDERS:
- Health Fitness Corp.

NAIC: Regulators want to be involved

CONTINUED FROM PAGE 3

insurance regulatory requirements among European Union member countries to create a single market for insurance coverages.

But countries are split over the issue of group support, which would allow capital adequacy requirement of subsidiary insurance firms to be calculated on a cross-group basis. A Spanish-led group of smaller countries, who are concerned that the group support concept reduces the control of local supervisors over multinational insurers operating in their countries, was successful in having a group support regime deleted from the Dec. 2 draft adopted by the Economic and Financial Affairs Council.

Specifically, NAIC leaders "expressed serious reservations and concerns" about the directive, saying that "recent events have imposed real-world challenges to some premises underlying the Solvency II proposal," according to a letter released in December at the NAIC's quarterly meeting in Grapevine, Texas.

The letter was signed by NAIC President Roger Sevigny of New Hampshire and Ms. Praeger. It was sent to Christine Lagarde, the French minister for Economic Affairs, Finance and Employment who presides over the Council of the European Union's Economic and Financial Affairs Council. Copies also were sent to the head of the European Commission's insurance and pensions unit and to the chairman of the Committee of European Insurance and Occupational Pension Supervisors.

"In the coming months, we are likely to see a shift in the financial regulatory paradigm," the letter said. "We all recognize that this new framework will need to remain committed to consumer protection and balance the respective roles of the public and private sectors in overseeing the safety and soundness of financial institutions."

"To meet this challenge, policymakers must successfully understand and incorporate lessons learned from the current financial crisis. Without question, some of the obvious lessons implicate critical elements of the Solvency II proposal: reliance on institutions' enterprise risk management and use of internal models to set capital requirements; allowance of diversification benefits in a group structure, including unregulated entities; and discriminatory treatment of non-EU insurers," the letter said.

'I think the whole global economic contagion may embolden those who want higher standards.'

Howard Mills,
Deloitte & Touche USA L.L.P.

Also, while many essential components of Solvency II remain undefined, "we question several features of the existing proposal, including the unbalanced focus on capital requirements and management's ability to assess and quantify risks using internal models," the NAIC leaders said in the letter.

U.S. regulators also complained about "inappropriate political comments from members of the EU Parliament, who…disparage the state-based system of insurance regulation in the U.S." Such comments have led "to the introduction of language in Solvency II that will impede progress toward a shared goal of achieving mutual recognition of U.S. and EU insurance supervision," the letter said, but it did not provide any details.

State insurance regulators then volunteered to work with global regulators to resolve their numerous concerns.

"I think the whole global economic contagion may embolden those who want higher standards" and favor increased regulatory scrutiny, said Howard Mills, a New York-based director and chief adviser for the insurance industry group of consultants at Deloitte & Touche USA L.L.P. The economic crisis "should also increase cooperation among regulators," he said.

But David Snyder, assistant general counsel with the Washington-based American Insurance Assn., asked whether the NAIC's primary motivation was a desire to maintain its prerogatives at a time when the U.S. lawmakers are expected to review the nation's regulation of financial services.

"Despite the strong efforts of some regulators, the state regulatory system is structurally incapable of representing U.S. interests effectively, because it must defend the inefficient U.S. regulatory system and it lacks the legal authority to bind the United States," he said. Real progress can be made only through negotiations by federal authorities, he said.

It is important to understand that "there is a conspiracy of silence around Solvency II" and "dissent is certainly discouraged," said Morag Fullilove, a Brussels, Belgium-based consultant with the Fullilove Consulting Group."The companies in Europe want it so much, but it is potentially fragile," she said. Supporters of Solvency II fear more debate could hinder the passage of the proposed requirements.

"Many advocates consider Solvency II to be a more efficient and effective approach to determining insurer solvency than NAIC's older risk-based capital approach," Ms. Fullilove said. It is less formulaic and requires the insurer itself to actively participate in assessing its financial condition.

Marine: Program helps keep rising rates at bay

CONTINUED FROM PAGE 4

pay an additional premium, which can inflate immediately.

Pricing actions in the war risk market "are immediate, excessive and reactionary," said Shawn F. Kucharski, vp of Willis Marine, a division of London-based Willis Group Holdings Ltd. "You can easily see a 30% to 40% increase in war risk rates overnight on a substantial (conflict). But those are initial, reactionary steps. The markets also come back down."

The Maritime Administration, or MARAD, program helps temper escalating rates by offering cheaper, competing insurance, Mr. Fitzgerald said. During the first Persian Gulf War, the administration undercut commercial underwriters by 30%, he said.

"If the government and…shipowners felt that the commercial underwriting rates were getting out of hand, we use our program to somewhat dampen the effect," Mr. Fitzgerald said. "Usually what happens after we activate is things calm down and (our) authority is not generally needed."

So far, no commercial ship owner has bought MARAD's war risk cover for the Black Sea, and rates there have tempered, Mr. Fitzgerald said.

The program also offers war risk insurance to U.S. government-owned and -chartered vessels worldwide. During the first Persian Gulf War, in early 1991, the administration insured 388 military vessels with a total value of more than $20 billion. Mr. Fitzgerald said a subsequent Navy analysis concluded the military saved $45 million in premiums compared to what they would have paid through the commercial market. He said the price of war risk cover in the Persian Gulf skyrocketed by 500 times during the war.

"Not 500%, 500 times," Mr. Fitzgerald said. "What would cost you $1,000 one day, would cost you $500,000 the next day."

While government risks insured by MARAD are funded by an indemnity agreement from the Department of Defense, commercial risks are backed by a $45 million fund, built up from collected premiums, to cover losses.

The commercial insurance program is activated only occasionally and is seldom used by shippers.

For example, during the first Persian Gulf War, the administration

'Usually…after we activate…things calm down and (our) authority is not generally needed.'

Ed Fitzgerald,
Department of Transportation

insured four commercial vessels before deactivating the program in 1991, Mr. Fitzgerald said. It was invoked again for the Middle East after the Sept. 11, 2001, terrorist attacks. The program since has insured 125 vessels—mostly ships chartered by the Department of Defense—and no commercial vessels, he said.

Mr. Kucharski said war risk rates escalated overnight after Israel and Lebanon went to war in 2006, though the market came back down, before the conflict ended. He believes MARAD's program has a tempering effect on commercial rates.

"I think what happens is when MARAD authorizes the availability of funds to (offer war risk insurance) the private markets loosen up so it's not needed," he said.

Most underwriters contacted for this story had not heard of the government program.

Unum: Court faults denial of coverage

CONTINUED FROM PAGE 3

New York-based court did not allow it to introduce evidence of claims management improvements it has made since its underwriting unit handled Mr. McCauley's claim 13 years ago.

Lawyers said the decision is significant.

The 2nd Circuit, which is known for often siding with insurers, set an example for other courts nationwide by denouncing arbitrary and capricious claims-handling practices, said Eugene R. Anderson, shareholder at Anderson Kill & Olick P.C. in New York. Mr. Anderson represented Mr. McCauley.

And even though the decision went against Unum for its specific actions, it could prove helpful for employers' disability plan administrators, said Andy Anderson, an ERISA attorney at Morgan, Lewis & Bockius L.L.P.'s Chicago office.

The appeals court, after the Supreme Court's ruling in *Metropolitan Life vs. Glenn*, abandoned a rigid standard it had historically applied before granting disability conflict of interest cases a de novo review, Andy Anderson said. A de novo review is a full, trial-like review.

Even though the previous standard could be difficult for plaintiffs to meet, under a new standard adopted in the *McCauley* decision, that process may become even more difficult, he said. Under the new standard, insurers can present additional evidence of their claims handling practices, making the existence of a potential conflict of interest only one factor in determining whether a de novo review is appropriate, he explained.

Plan administrators prefer for courts to go no further than determining whether a claims handling decision is arbitrary and capricious rather than pursue a full de novo review. Proving that a claims decision is arbitrary and capricious is a difficult standard for plaintiffs, Morgan Lewis' Mr. Anderson explained.

John E. McCauley vs. First Unum Life Insurance Co.

Benefits: Many uncertainties face employee benefit managers

CONTINUED FROM PAGE 1

company still is matching a portion of contributions to health savings accounts and it didn't reduce its 401(k) match. It continues to enroll new hires in its defined benefit pension plan as well.

Kathy Dupree, benefit manager for Core Laboratories in Houston, said her company added more benefits too, enhancing its wellness program and adding a smoking cessation program. She said the organization was able to take such actions without increasing employees' rates. Mr. Towarnicky and Ms. Dupree acknowledged many other companies and benefits departments were unable to do the same as a result of the poor economy.

Thomas Grass, a Los Angeles-based Watson Wyatt Worldwide managing consultant for southern California said the lagging economy probably will have more of an effect on human resources departments overall than benefits departments specifically, but he said it could affect benefits departments' operations via staffing reductions.

"People are tightening their belts when it comes to staffing," Mr. Grass said. "Everybody is asking everybody to do more with less, and human resources is certainly being asked to do the same thing."

Just as benefits managers are waiting to see how their benefits departments will be affected by the economic downturn, they are pondering if and when health care reform will occur and how their organizations will be affected, said Chantel Sheaks, a principal with Buck Consultants L.L.C. in Washington.

"I think for employers, when they're doing their planning and looking forward, it's very difficult in this political climate to really plan on the health care side for next year," Ms. Sheaks said. "Many employers have to plan as if nothing is going to happen."

Chris Cannova, director of compensation and benefits for the Archdiocese of Chicago, said while he is interested to see how President-elect Barack Obama's health care strategy plays out, he isn't counting on any immediate drastic changes and he planned for the year ahead accordingly.

"I'm taking a wait-and-see approach," he said. "I don't know how that strategy will evolve, but I think it would be great if we achieved some level of health care reform."

Ms. Dupree also said she does not expect immediate health care reform. She said during the next year, however, she expects insurance companies to start losing money if the marketplace doesn't correct itself, thereby affecting employers' health insurance plans.

She said insurance companies likely won't be able to subsidize some of the ancillary services like wellness programs or smoking cessation programs, ultimately changing their product offerings. Additionally, they might have to increase costs for their medical plans, causing companies to drop

MICHAEL MARCOTTE

'I'm worried fewer people will be prepared...for retirement, and...they'll get discouraged.'

Jack Towarnicky,
Nationwide Mutual Insurance Co.

their plans, make them more restrictive or increase employees' premiums. As a result, she said many employees will forgo their insurance, further increasing the uninsured population.

"From a health care standpoint (the trend in 2009) is not going to be the advent of a new product or the increase of health reimbursement arrangements, it's going to be this tremendous trickle-down effect that's going to hit employees who are already so strapped they can't afford (coverage), adding to the uninsured problem we already face."

The economy isn't only affecting health care plans, benefit managers said. Mr. Towarnicky said he is worried the state of the economy is going to hit employees' plans for retirement and their savings habits.

"I'm worried fewer people will be prepared or on track for retirement, and I'm afraid they'll get discouraged," he said. "It will change their behavior and they'll reduce their savings. They'll conclude a financially secure retirement is not obtainable or achievable."

Mr. Towarnicky said he is particularly concerned about possible support from elected officials to waive the 10% early distribution tax penalty on 401(k) plans, therefore encouraging withdrawals from retirement accounts. He said a modest 401(k) loan program would be preferable, enabling employees to access money for short-term needs while requiring repayment of the loan in the long term.

"I'd like to see more focus on improving loan provisions so they foster repayment vs. making it easier to take a distribution," he said.

To help mitigate employees' potential "knee-jerk reactions" to the economy, such as pulling money out of their retirement plans or reducing their contributions, Mr. Cannova said the Archdiocese of Chicago is implementing communications plans and offering education seminars during 2009 to help settle employees' concerns.

Guaranteeing employees' retirement accounts are transparent is another way to ensure they are getting the best return on their investments. Benefits experts said fee disclosure legislation is likely or will be a priority in 2009. Ms. Sheaks said employers and employees want clarity on the fees associated with their investment vehicles.

"I don't think there is any employer who disagrees there should be transparency, and that you should know what the fees are," Ms. Sheaks said.

Mr. Cannova also said getting fee disclosure issues to the forefront is a step in the right direction. He said vendors need to clearly disclose how much employees or companies are paying for the services they provide.

Ms. Dupree said she would like to see more transparency regarding fees from service providers and mutual funds to plan sponsors and from plan sponsors to participants.

"I'd like to know more as a plan sponsor," she said. "I have no reason to believe that my participants should not have this information readily available to them. They should know everything that goes on with their 401(k)."

Despite the myriad concerns benefit managers face, they acknowledge that the economic downturn and having a new Congress at the helm means reform or any meaningful action in the benefits arena during 2009 is probably unlikely.

"I think what we're going to see the new Congress paying attention to right away," Mr. Grass said, "has a lot more to do with the economy than with employee benefits."

Risk: Risk managers say new year brings with it challenges, concerns

CONTINUED FROM PAGE 1

oversee certain safety and risk programs," he said. "It's going to be crucial to make the point that the salaries that they're providing for them could prevent claims down the way. There are moral hazards that come with not having the managerial checks and balances that you'd have when fully staffed."

In general, layoffs may lead to an increase in liability claims.

"Reductions of workforce may place employers at a higher degree of risk for employment practices claims," said Mr. Wood of Marriott.

"Any time you have to put people on the street, you have a rise in (discrimination) claims," agreed Mr. Clark.

Some experts also contend that a tight economy and the specter of layoffs may contribute to an increase in the cost and duration of workers compensation claims. Empirical evidence, however, is scarce, and risk managers are divided on whether layoffs actually cause an increase in claims.

"I believe that we are seeing an increase in workers comp claims, but I'm not sure we're seeing a direct link to the economy," said Al Gorski, manager of risk management for the Orange County Transportation Authority in Orange, Calif. "People on workers comp are not exempt from getting laid off—I'm just not sure they're engaging in anything fraudulent with workers comp."

Along with internal risks, some risk managers worry that problems at high-profile insurance companies, such as American International Group Inc. and XL Capital Ltd., could affect their programs in 2009.

Concerns about the security of commercial insurers is leading some policyholders to look for alternatives, said Lewis Leigh, executive director of the Renton-based Washington Cities Insurance Authority, a property/casualty insurance pool of about 100 municipalities.

"Whenever there's uncertainty in the private sector, we pick up more members," Mr. Leigh said. "We're seeing new business because of the private sector uncertainty.

"On the other hand, we have to do business with the private insurance industry for our excess layers and reinsurance, so we're just as concerned as everyone else," Mr. Leigh said. "We have to ask: Is AIG OK to do business with?"

Mr. Gorski, of the Orange County Transportation Authority, said that such high-profile problems can cause unease among senior managers outside of risk management departments.

"Our board was certainly concerned about AIG," Mr. Gorski said.

'It's going to be crucial to make the point that the salaries that they're providing for them (the loss control staff) could prevent claims down the way.'

Scott Clark,
Miami-Dade County Public Schools

"The rest of the organization hears about it on the news, and it's hard to separate the two parts of AIG—the financial side and the insurance side. Even though the insurance side is highly regulated and sound, it's still hard to convince the board to go with an insurer they've heard such bad things about."

Mr. Clark, of Miami-Dade County Public Schools, had a similar take. "We have to make sure insurers are not compromised," he said. "The rating agencies now are making sure" that Mr. Clark's organization looks closely before "entering into an insurance arrangement with a company that's going to be downgraded or even sold."

While several insurers may be concerned with allaying fears about their security, insurers in general are being more diligent in how they assess risks, Mr. Gorski said.

"Looking at the renewal for our property/casualty coverage on a toll road, the application requirements have been a lot more than in prior years," Mr. Gorski said. "Even our workers compensation carrier has asked for a lot more information, being very thorough about payroll records."

Overall, risk managers agree that uncertain economic times in 2009 will present challenges, but also will present an opportunity for risk managers to demonstrate their value to the organization.

"There's no doubt that risk managers will be challenged in the safety area to do more with less, but it's an area that has to remain a priority for organizations, and clearly the risk manager can provide a lot of value toward that goal," Mr. Wood said.

Some risk managers also expect rates to rise for certain lines of coverage.

"I think that, in the property insurance market, while we didn't have a particularly horrible hurricane season, we had two significant storms (Hurricanes Gustav and Ike) with significant losses," Mr. Clark said. "Those of us in cat-prone areas are going to see things going back to a harder market, with possible premium increases."

ADVERTISER INDEX

Issue of January 5

Students finding market for skills in risk, insurance

By JEFF CASALE

The role of insurance and risk management is evolving at the college level, with universities offering more courses and putting greater emphasis on such fields' role in business—and students are taking note.

Significant problems in financial markets, weeks of job losses and mounting economic uncertainty have some colleges and universities using this time to highlight the need for better risk management and the opportunities the field provides. While a major in actuarial science, insurance and risk management may not have been broadly appealing to students three to five years ago, professors and curriculum directors say that is changing.

Some schools, such as Indiana State University College of Business in Terre Haute, have made risk management a focus since opening its Gongaware Center for Insurance Management Development in 1999. Others, including the St. John's University's Peter J. Tobin College of Business in New York, have eagerly expanded existing programs. And though majors such as finance and marketing remain two of the most popular career paths for business school students, insurance and risk management has been gaining ground.

AP PHOTOS

The University of Pennsylvania's Wharton School is seeing more interest in insurance and risk studies.

"It's a niche," said Robert Meyer, professor and co-director of the risk management and decision processes center at the University of Pennsylvania Wharton School of Business in Philadelphia. "It's not a field that people first think about going into when they get into business schools. Often what happens is that a student will take a course in insurance and find it interesting, and they find out that there is a market for that."

Insurance and risk management programs at Illinois State University's Katie School in Bloomington, Ill., and the University of Wisconsin-Madison's College of Business both have been at capacity for the past several years. Meanwhile, professors at Terre Haute, Ind.-based Indiana State and the University of Georgia's Terry College of Business in Athens, have seen a rise in student interest.

Robert Hoyt, insurance and risk management department head at the Terry College, said applications from the fall 2007 semester to the fall 2008 semester rose 30%. While Mr. Hoyt said it's too early to predict whether this trend will continue, he said it demonstrates how insurance and risk management is becoming a more integral part of business school curriculums.

"Recent (market) developments have increased the interest in risk management," Mr. Hoyt said. "I would say it has increased what I call 'teachable moments.' Both enterprise risk management and the traditional ways of risk management are being applied in these situations…and I think that the expanding needs of risk management allows for a good career."

The economic climate and job market have provided professors with a timely discussion topic.

"The current economy allows the curriculum to have more life and utilize these examples to highlight the fundamentals of risk management," said Joan Schmit, professor and chairman of the Department of Actuarial Science, Risk Management and Insurance Department at the University of Wisconsin-Madison. "This is one of the widest experiences, in that it is affecting the entire economy, and I would argue that the fundamentals (of risk management) haven't changed. The scenarios have changed and the tools have changed, but the fundamentals have not."

Terrie Troxel, professor and executive director of the Gongaware Center for Insurance Management Development at Indiana State, agrees with Ms. Schmit's outlook and adds that students are learning that in order to have a functioning economic system, "a vibrant insurance and risk management system is required."

"The financial crisis makes people very aware of managing enterprise risk at the higher level," Mr. Troxel said. "On the other side, when you talk about cost cutting, students see the traditional insurance purchaser has some pressures on them as well."

Schools: Industry job prospects scarce

CONTINUED FROM PAGE 1

Insurance and risk management doesn't have the allure of traditional business school subjects like finance, marketing and accounting, but for students who like the challenge of identifying and managing risks while developing dynamic business relationships, insurance and risk management is an option, educators say.

"I didn't come to college wanting to study (insurance and risk management) by any means, but I took some introductory courses and found it interesting," said Leslie Curtis, 21, also a senior at UGA. "At the time, I really didn't know what you could do with this major. I liked the nerd aspect of crunching numbers (and that) I also still would be able to go out and meet people."

For students like Ryan Doyle, a 21-year-old senior at Illinois State University's Katie School, the trail into insurance was already blazed. Mr. Doyle's father and older brother both pursued careers with Itasca, Ill.-based brokerage Arthur J. Gallagher & Co. Though insurance wasn't his first career choice, Mr. Doyle said that family knowledge of the industry and opportunities provided through the Katie School guided his decision.

'The current financial situation has forced (us) to look at…how we're going to make ourselves more marketable.'

Danielle James,
St. John's University student

"I took my dad's advice and kept plugging myself into opportunities outside the classroom," Mr. Doyle said, networking through Katie School events and the insurance business fraternity Gamma Iota Sigma.

Insurance and risk management has been tapped as an area in where business schools at colleges and universities can expand. Robert Hoyt, insurance and risk management department head at the UGA's Terry School, said that he's already seen a 30% jump in enrollment into the IRM major from Fall 2007 to Fall 2008.

At the University of Wisconsin-Madison business school, Joan Schmit, professor and director in the department of actuarial science, risk management and insurance, said that both the interest and quality of the students applying to the major is improving.

"We've been at capacity, so it's hard to say if we're seeing an increase of applicants," said Ms. Schmit, but noted that there is a rising interest in the university's insurance and risk management master of business administration program. "What I can say is that the applicants are getting better. We're seeing some impressive students that would like to get into the program."

What the students do outside of the program after graduation is less clear. A faltering economy has meant hiring freezes or layoffs at many companies. Students once heading into what was perceived as the stable insurance industry now must compete for dwindling jobs in a pool filled with seasoned underwriters, brokers and executives.

"It's definitely a little hectic right now," said Vanessa Contreras, 21-year-old senior at Illinois State University in Bloomington, who is in the middle of interviewing with companies such as Travelers Insurance Cos. and Zurich Financial Services. "I'm a little nervous because a lot of companies who had jobs are now cutting those opportunities," she said.

Geography is playing a key role as students hunt for jobs.

For some, like Duane Woolery, a 28-year-old MBA student at UW-Madison, and Danielle James, a 22-year-old senior at St. John's University's School of Risk Management, Insurance and Actuarial Science at the Peter J. Tobin College of Business in New York, relocation to cities outside their hometowns near New York is something that they are considering.

"The current financial situation has forced (us) to look at our game plan and how we're going to make ourselves more marketable to those insurance companies who are still hiring," said Ms. James, who is hoping to land a job as an underwriter. "Being open to opportunities with companies that are hiring in different states is something that we have to be right now."

COURTESY OF INDIANA STATE UNIVERSITY

Jacqueline Zuerner Pittman, left, traveled to Swiss Re in London last spring as an Indiana State student.

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For Jon Lough, a senior at Indiana State University's Gongaware Center in Terre Haute, staying local might be his ticket to success. Though he knows the insurance market is bigger in areas like New York or Chicago, he thinks some smaller markets will have the better opportunities.

"I think it really depends on where you're looking geographically," said Mr. Lough, who has interviewed with Kansas City, Mo.-based brokerage Lockton Cos. Inc. "Chicago may not be hiring right now, but other areas are aggressively seeking people to replace employees that will be retiring."

Many of these students hope that is the case.

News In Brief

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P/C sector set for underwriting loss

The U.S. property/casualty industry is on pace to post its first year-end underwriting loss since 2005, having recorded an underwriting loss of $8.7 billion for the first nine months of 2008, according to a research report by A.M. Best Co. Inc. The segment's combined ratio for the first nine months was 105.4% compared with 92.2% a year ago, when the industry recorded an aggregate underwriting gain of $9.9 billion. Softening market conditions combined with higher catastrophe losses were the two main factors behind the decline, Best said in the report, adding that large mortgage and financial guarantee underwriting losses also contributed to the industry's underwriting decline. Net premiums written for the entire U.S. property/casualty industry fell 0.6% to $339.3 billion for the first nine months of this year. Net income for the industry during the nine-month period tumbled 85% to $7.3 billion.

Mission policyholders get another $121 million

California Insurance Commissioner Steve Poizner said last Tuesday that California's Conservation and Liquidation Office recently distributed $121 million to policyholders and claimants from the estate of Mission Insurance Cos. Mission was a nationwide workers compensation writer throughout the early 1980s, the commissioner said in a statement. It encountered financial problems, however, when market competition caused insurance prices to decline. Formal court conservation proceedings began in 1985, and liquidation started two years later, the commissioner said. The recent distribution brings the total amount of Mission distributions to $1.5 billion.

N.Y. medical education assessment increases

Employers with workers living in New York must pay more in 2009 to help fund a state pool used to pay for graduate medical education, among other things. The pool is funded by a so-called covered-lives assessment on employers with employees in New York. The highest assessment is imposed on employers with employees living in New York City. Their annual assessment increases in 2009 to $543.20 for employees with families, up from $494.50, while the annual assessment for employees choosing single coverage rises to $164.61 from $149.95. The amount of the assessments is lower in other parts of the state. For example, the annual assessment for family coverage in 2009 is $102.08–up from $87.28–per employee for employers with employees living in Western New York, which includes Allegany, Erie and Niagara counties, while the assessment per employee for those choosing single coverage is $30.93, up from $26.54.

S.F. health spending requirement rises

Employers with employees working in San Francisco have to pay more in 2009 to comply with the city's health care spending law, while the law's requirements will apply to more employees. Beginning on Jan. 1, 2009, employers with 100 or more employees must spend $1.85 per hour per covered employee on health care, up from $1.76 in 2008. Employers with between 20 and 99 employees must spend at least $1.23 per hour per covered employee, up from $1.17. Employers with less than 20 employees are exempt from the requirement. That spending requirement can be satisfied in a variety of ways, including payment of employees' health insurance premiums and contributions to health savings accounts and health reimbursement arrangements. In addition, the spending requirement now applies to employees working at least eight hours per week. In 2008, the spending requirement applies to employees working at least 10 hours per week.

AIG: HSB sold to Munich Re for $742M in sell-off plan

CONTINUED FROM PAGE 3

The sale of HSB Group marks the first major deal in AIG's restructuring efforts aimed at repaying federal bailout loans. But analysts noted after the deal was announced that that the $742 million is a tiny fraction of the more than $150 billion AIG has received in federal aid.

"It's a very small start," said Mark Lane, a principal and research analyst at William Blair & Co. in Chicago. "It was a stand-alone operation; it was probably one of the easiest ones to sell. They sold it for a third less than what they bought it for more than eight years ago. It's a good deal for Munich, it's a nice specialty add-on. They bring some strength to HSB policyholders."

"We believe the positive catalyst created by AIG's ability to execute this sale may be offset by the fact that AIG acquired HSB" for $1.2 billion in 2000, Cathy Seifert, an equity analyst with New York-based Standard & Poor's Corp., said in a written analysis issued the morning the deal was announced. "We also note AIG is indebted to the Fed for over $150 billion; we remain skeptical that AIG will generate enough asset sales to fully repay this obligation."

"It's a sign of the stressed marketplace, I would suspect," said Bill Bergman, an analyst with Morningstar Inc. in Chicago.

"Munich Re is a well-capitalized and well-respected institution," said Mr. Bergman. "The fact that the deal was consummated at all is a positive step for AIG, Munich Re and the U.S. taxpayer."

"They are serious, and they're going to have to try to repay the loan," said Mr. Bergman. "There are a lot of companies that they're going to need to sell off, and it's unfortunate that they're going to have to sell off some of their best assets at prices that wouldn't reflect what they would have obtained in a better marketplace."

"It is a strong company that AIG is selling, in terms of its business, its business profile and the returns that Hartford Steam Boiler has produced," said Andrew Colannino, vp in the property/casualty division at Oldwick, N.J.-based A.M. Best Co. Inc. "It is a relatively small part of AIG, but it does signal that AIG is starting to sell its assets to meet its obligations."

John L. Ward, chief executive officer of Cincinnatus Partners L.L.P. in Cincinnati, said: "It's a logical acquisition for Munich Re, given their specialty orientation. It's a very favorable valuation from Munich Re's perspective. It was good deal for Munich Re."

But "from AIG's perspective, it may relieve some pressure to announce divestures, but it doesn't go too far in helping AIG pay down the government loan," he said. "It's a very small step toward the goal line," adding that this is a "challenging time to be selling big assets."

Last Wednesday, the Financial Times, citing people close to the situation, reported that AIG preparing to ask the Federal Reserve to relax rules on its asset sales.

AIG is examining options such as permitting installment payments and allowing bidders to pay for assets with a greater proportion of shares, in an effort to boost competition for it assets and eliminate the perception that the company faces a fire sale, the paper said.

Under current rules, bidders for AIG assets must pay at least 90% of the price in cash, the paper noted, adding that no discussions have taken place with the Fed so far.

An AIG spokesman declined to comment.

In addition, AIG last month said that it had sold an additional $16 billion in collateralized debt obligations to a special purpose vehicle backed by the Federal Reserve Bank of New York, the insurer said Wednesday.

So far, Maiden Lane III L.L.C. has purchased $62.1 billion of collateralized debt obligations from the insurer, canceling the associated credit default swap contracts, AIG said in a statement.

The vehicle was created last month by the Federal Reserve Bank of New York and AIG to relieve pressure on AIG's liquidity issues in connection with credit default swap contracts. Under the terms of the loan, the Federal Reserve said it would lend as much as $30 billion to the entity, while AIG would lend $5 billion.

AIG continues to analyze ways to eliminate its exposure to an additional $12.3 billion in credit default swap contracts it sold to investors, the company said.

Recently, AIG relieved about $39.3 billion in residential mortgage-backed securities with its sale to another Federal Reserve Bank of New York-backed vehicle, Maiden Lane II L.L.C.

Matt Scroggins and Colleen McCarthy contributed to this article.

Stock Index

[12/29-12/31]

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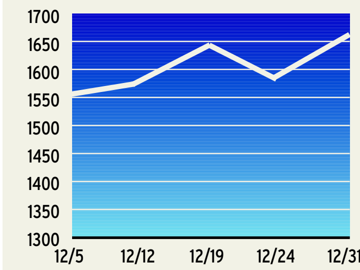

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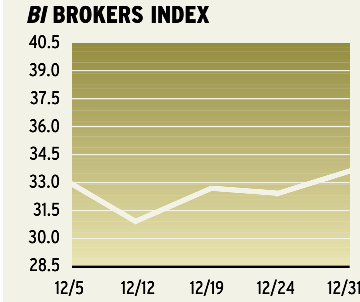

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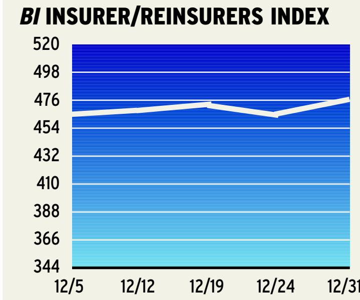

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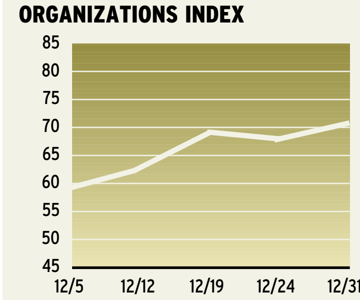

Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	1654.02	1.22%
DOW JONES	8842.34	2.01%
S&P 500	903.25	1.64%

LARGEST GAINS

Unico American Corp.	16.64%
Towers Group	13.10%
EMC Ins. Group Inc.	11.11%
NYMAGIC Inc.	8.25%
American Safety Ins.	7.22%

LARGEST LOSSES

GAINSCO Inc.	-7.84%
AEGON N.V.	-7.07%
Aetna Inc.	-3.58%
ING Groep N.V.	-3.50%
Wellpoint Inc.	-2.60%

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

Business Insurance END PAGE

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Another leg added to pants suit saga

Former District of Columbia Administrative Law Judge Roy L. Pearson Jr. has pressed his seemingly endless suit against a dry cleaner that he alleged lost a pair of suit pants close to the legal limits.

Mr. Pearson made worldwide news a few years ago when he sued Custom Cleaners, a Washington mom-and-pop business, for $54 million for allegedly losing a pair of his pants. Mr. Pearson brought the suit under a Washington consumer anti-fraud law, which he held the dry cleaner had violated because the establishment posted signs saying "Satisfaction Guaranteed" and "Same Day Service." The fact that the pants had been found within days of their disappearance did nothing to quell Mr. Pearson's dismay.

AP PHOTOS

Roy L. Pearson Jr. is headed back to court over a pair of pants.

The case drew so much attention that Mr. Pearson managed to unite tort reformers and the trial bar in opposition to his case. In 2007, Washington Superior Court Judge Judith Bartnoff also found Mr. Pearson's arguments less than persuasive and not only denied him any damages but ordered him to pay the dry cleaner's court costs. Mr. Pearson appealed. In the meantime, city officials decided not to reappoint Mr. Pearson to his job, which generated another suit in which Mr. Pearson sought $1 million in damages as well as reinstatement by the city.

Late last month, a three-judge panel of the appeals court unanimously agreed that Mr. Pearson had proved no fraud. In fact, according to the Washington Post, "the judges said Pearson's argument that Customer Cleaners and its owners, Soo and Jin Chung, intentionally committed fraud with their signs 'defies logic.'"

That should be the end of the matter. But the Post pointed out that Mr. Pearson can either seek a review by the whole nine-judge appeals court or skip the intermediaries and seek review by the U.S. Supreme Court. In a case that defied logic to begin with, don't be surprised if Mr. Pearson decides that the only logical conclusion to the matter is a trip to the Supreme Court.

Burress has wild ride in 2008

It's not like New York Giants wide receiver Plaxico Burress doesn't have enough to worry about.

After all, a few weeks ago he managed to shoot himself accidentally during a visit to a Manhattan nightclub. That led to felony weapons possession charges plus a four-game suspension and a trial date in March.

That should be enough legal troubles for anybody, but now Mr. Burress may be facing legal woes of a decidedly more prosaic variety. According to published reports, a Miami woman named Alise Smith claims that Mr. Burress rear-ended her on the Florida Turnpike, which resulted in injuries to Ms. Smith. And Ms. Smith's lawyer, Gregory Dell, told the South Florida Sun-Sentinel that Mr. Burress' car insurance had expired three days before the accident because he'd failed to pay the premiums.

Ms. Smith has filed a civil suit against the football star, seeking more than $15,000 for medical bills, lost wages and damage to her vehicle.

If Mr. Burress wishes to make a New Year's resolution, even a few days late, a good one would be to leave the gun at home and have proof of up-to-date insurance before venturing out in public. That would be a far sounder policy than the opposite course that Mr. Burress insisted on following in 2008.

A woman has sued New York Giants player Plaxico Burress after a car crash. His insurance expired three days before the accident.

Snowman heats up holiday season

A jumbo-sized snowman snow globe seems harmless—until it causes something in your home or office to catch fire.

The U.S. Consumer Product Safety Commission recently announced a recall of 7,000 jumbo-sized snowman snow globes made by Kansas City, Mo.-based Hallmark Cards Inc. The

HALLMARK

decoration can act as a magnifying glass when exposed to sunlight, the commission said in a release, causing the materials surrounding it to catch fire.

Hallmark said it received two reports of the snowmen catching fire but that no one was injured in either case.

The snowman-shaped snow globes were sold at Hallmark Gold Crown stores nationwide during the months of October 2008 and November 2008 for about $100. Consumers who bought the snow globes can return them to any Hallmark Gold Crown store for a full refund.

Doctor cuts fat from gas costs

A Beverly Hills medical doctor's reported efforts to convert patients' liposuction fat into biodiesel fuel might well have captivated the imagination not just of lawyers but also surplus lines underwriters, who have been on the hunt for emerging biotech and alternative fuel companies to insure.

But the doctor recently closed his office amid several patient lawsuits and a state investigation into his Rodeo Drive practice, according to news reports.

The state is reportedly investigating claims that the doctor, Craig Alan Bittner, allegedly made on his Web site that he converted his patients' fat into "lipodiesel" to fuel his and a girlfriend's sport utility vehicles.

In addition to sounding too bizarre to be true, converting human fat into automobile fuel is in fact illegal in California. An attorney representing a former patient suing Dr. Bittner said he initially suspected the lipodiesel allegation was fake and laughable.

But the attorney, David Skilling at the San Diego firm of Gaston & Gaston, said he now thinks the stories may be true, although proof has yet to emerge. Mr. Skilling changed his mind after seeing a photo on the Web site that Dr. Bittner no longer maintains.

Mr. Skilling's client is among several plaintiffs suing Dr. Bittner for medical malpractice among other allegations. He said his client was operated on in Dr. Bittner's office by someone who "was more of a receptionist" than a medical professional trained and licensed to perform liposuction.