

# Business Insurance

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**CALIFORNIA STORM LOSSES COULD BRING \$600 MILLION IN INSURED LOSSES / PAGE 3**

**CANCELLATION COVER LIKELY NOT IN PLACE FOR GLOBES / PAGE 3**

**INSURANCE GROUPS SEEK REGULATORY REFORMS AS CONGRESS RESUMES / PAGE 4**



## In Brief

### Greenberg won't launch proxy fight with AIG

Maurice R. Greenberg, in a filing last week with the Securities and Exchange Commission, said he does not intend to solicit proxies from stockholders of American International Group Inc., nor does he intend to buy any more shares of AIG or tender an offer for the company. In a November SEC filing, the ex-chief of AIG had said that he and others "anticipate holding discussions with stockholders and third parties" to address certain aspects of AIG's business operations, investment opportunities and direction, sparking speculation about his intentions.

### High court declines pollution law case

The Supreme Court last week declined to review a July U.S. appeals court panel's decision

See **IN BRIEF** page 26

# Testimony begins in Gen Re finite trial

*Key witness describes origin of transaction at center of case*

By **DOUGLAS McLEOD**

**HARTFORD, Conn.**—Federal prosecutors launched their case last week against five former executives of General Re Corp. and American International Group Inc., painting a \$500 million reinsurance deal between the companies as a fraud while defense lawyers argued that their clients never intended to deceive anyone.

Facing a jury in U.S. District Court in Hartford, Conn., Assistant U.S. Attorney Raymond Patricco charged that the five executives



**Ronald E. Ferguson, Gen Re's former CEO, arrives at U.S. District Court in Hartford, Conn.**

engineered a 2000 loss portfolio transfer from Gen Re that included no risk and that was intended only to inflate AIG's loss reserves to counter investor concerns.

The deal "was nothing more than a sham transaction designed to deceive AIG auditors, analysts and shareholders, and these five defendants knew it," Mr. Patricco told jurors. "The defendants knew that what appeared in this contract was a lie."

Defense lawyers countered that the executives believed the deal was legitimate and should not be held responsible for AIG's decision to account for it as reinsurance rather than a deposit—a decision AIG reversed in a 2005 earnings restatement.

Far from being a simple case of fraud, the transaction and the

events surrounding it are "full of confusion and uncertainty and complexity and doubt," Alan Vinegrad, a lawyer for former Gen Re exec Robert Graham told jurors. Mr. Graham, a former senior vp and legal counsel, is accused of conspiracy and securities fraud.

Facing the same charges are Ronald E. Ferguson, Gen Re's former chief executive officer; Christopher P. Garand, former senior vp in charge of U.S. finite underwriting for Gen Re; Elizabeth Monrad, former chief financial officer for the reinsurer; and Christian M. Milton, AIG's former vp for reinsurance.

Witnesses testifying last week included Richard Napier, a former Gen Re senior vp, who outlined the

See **GEN RE** page 6

**COVERAGE** continues next week at [www.BusinessInsurance.com](http://www.BusinessInsurance.com)

## Startup in Bermuda targets asbestos risks

By **JUDY GREENWALD**

**HAMILTON, Bermuda**—A Bermuda reinsurer launched last week that plans to specialize in asbestos liability coverage through a cooperation agreement with Berkshire Hathaway Inc. is likely to get a warm reception in the market, say several observers.

Bermuda-based St. George Re Ltd., which describes itself as a dedicated asbestos liability insurance facility, has \$250 million of its own capacity from three investors.

But under its strategic arrangement with Berkshire Hathaway, which is neither an investor nor a shareholder, St. George Re also will access the Omaha, Neb.-based reinsurer's "significant capacity for those transactions where that is needed," said President Jason Paterniti, who describes Berkshire Hathaway as a "co-insurer."

Mr. Paterniti, a co-owner of private equity firm Global Risk Capital, said St. George Re is in the process of underwriting policies whose total aggregate policy limits exceed \$5 billion, including one deal in excess of \$2.5 billion.

Most of its policies, though, are expected to have limits in the \$10 million to \$50 million range, said Mr. Paterniti. The capacity contributed by Berkshire will depend upon the deal, he said. The company will provide products and premises liability policies.

"We are only in the business to provide what we would consider to be a risk transfer policy," Mr. Paterniti said. Although obviously a policyholder's outside auditors would make the final determination on

See **ST. GEORGE** page 24

## San Francisco wins OK for 'play or pay' law

*9th Circuit panel permits enforcement until ruling issued*

By **JERRY GEISEL**

**PASADENA, Calif.**—An appeals court order allowing San Francisco to implement a law that requires employers to spend a certain amount of money on health care coverage or pay a fee to help fund coverage for uninsured city residents could pave the way for a U.S. Supreme Court decision on whether "play or pay" statutes pass muster.

In a unanimous ruling last week that stunned some benefit experts, a three-judge panel of the 9th U.S. Circuit Court of Appeals in Pasadena, Calif., granted San Francisco's request to stay enforcement of a lower court ruling that found the Employee Retirement Income Security Act pre-empts the city's law.

In granting the stay, Appeals Court Judge William Fletcher wrote that San Francisco has a "strong likelihood" of prevailing in its argument that the law does not violate ERISA, the 1974 federal pension reform law that includes a provision that pre-empts state and local rules and laws that relate to employee

benefit plans.

The San Francisco Health Care Security Ordinance neither requires employers to adopt an ERISA plan or other health plans, nor does it require offering specific benefits in a health plan, the judge wrote.

Because of the "strong likelihood" that the city will win its appeal of the December decision by U.S. District Court Judge Jeffrey White, who ruled that ERISA pre-empts the employer spending portion of the law, San Francisco should be allowed to enforce the law while the case is decided by the full appeals court, Judge Fletcher wrote.

The ruling by the full appeals court is not expected for at least several months.

### Minimum coverage

The 2006 law, challenged by the Golden Gate Restaurant Assn., requires employers with at least 20 employees to spend a minimum amount on health care coverage on behalf of employees or contribute to a city fund to help cover the uninsured (see story, page 25).

Some observers say the odds are high that the appeals court will rule that ERISA does not pre-empt the spending mandate.

See **SAN FRANCISCO** page 25

## SPOTLIGHT

### PROPERTY/CASUALTY MARKET REPORT

Property insurance rates tumble in wake of light cat losses; general liability market softens further; D&O, E&O rates head lower but subprime claims loom; most marine risks see price cuts but some liability rates expected to rise; workers comp rates edge downward. **Page 11**



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## On the Web

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# Canceled awards gala likely not covered

*Golden Globes backer expected to face losses as strike dooms event*

By SALLY ROBERTS

**LOS ANGELES**—The Hollywood Foreign Press Assn. is likely uninsured for any lost income or expenses paid stemming from the cancellation of the 65th annual Golden Globe Awards ceremony, market sources say.

The West Hollywood, Calif.-based nonprofit organization canceled the gala early last week due to the ongoing Writers Guild of America strike against the Alliance of Motion Picture and Television Producers over new media royalties, among other issues. The Writers Guild refused to grant a waiver for its members to work on the Globes and threatened to picket the event. Additionally, many of the nominat-

ed celebrities said they would not cross picket lines to attend.

The typically star-studded ceremony was expected to be aired Sunday on NBC as an abbreviated press conference.

Representatives of HFPA and of Santa Monica, Calif.-based dick clark productions inc., which has produced the Golden Globes ceremony since 1983, did not return calls.

According to industry sources in the U.S. and London markets, while there is insurance coverage to respond to event cancellations, they are unaware of any that was placed for the Golden Globes. As a result, the HFPA, for one, will forgo any profits from this year's event, including a reported \$5 million network payment by NBC to air the telecast. It also won't be reimbursed for any expenses it might have paid out such as securing the venue,

See **GLOBES** page 26



REUTERS

Emily Blunt celebrated backstage at last year's Golden Globe Awards, where she was honored for her performance in "Gideon's Daughter." This year's ceremony was canceled due to the ongoing writers strike. Organizers and others associated with the event are not protected by insurance, sources say.

## West Coast storm losses may hit \$600M: Modeler



REUTERS

Employees of Shoe Warehouse in North Hollywood, Calif., battled flooding last week as a major storm system across much of the western United States caused insured losses that could reach \$600 million.

By JEFF CASALE

Insured loss estimates from a recent West Coast winter storm could reach \$600 million, catastrophe risk modeling firm AIR Worldwide Corp. said last week.

A large portion of the losses occurred in California, but Washington state and Oregon also suffered considerable losses. Boston-based AIR's estimate reflects losses to property, contents and direct business interruption, as well as additional living expenses for residential, mobile home, commercial, and auto exposures.

The estimate does not include crop losses.

The storm, which hit the Pacific Northwest on Jan. 4, dumped large

amounts of snow and rain extending from Washington state to Southern California. The Sierra Mountains near Lake Tahoe, which borders both California and Nevada, received 11 feet of snow in just 72 hours. Meanwhile, high winds at nearby Ward Mountain in Nevada were recorded at 110 mph, with gusts up to 163 mph.

"The track of this large system was fairly unusual in that some of the strongest winds and heaviest snows were over the northern half of California," said Peter Dailey, director of research in atmospheric science with AIR, in a statement.

Mr. Dailey added that typically most Pacific Northwest storms tend to concentrate along the coasts of Oregon and Washington.

## AIG unit settles pollution liability claim for \$42.5M

*Agreement to pay cleanup costs at manufacturing, dump sites once owned by Fruit of the Loom*

By KRISTIN GUNDERSON HUNT

**WASHINGTON**—An American International Group Inc. subsidiary has agreed to pay \$42.5 million in a settlement to clean up several contaminated manufacturing and dump sites formerly owned by Fruit of the Loom Inc., federal officials announced last week.

The sites are in Michigan, New Jersey and Tennessee.

The settlement requires American International Specialty Lines Insur-

ance Co. to make an initial \$30 million payment plus interest from May 15, 2007, and 10 annual payments of \$1.25 million to two Fruit of the Loom trusts, which were set up to receive and distribute the company's remaining assets, including its environmental insurance policies, after the company filed for bankruptcy protection in 1999.

The settlement comes after NWI Inc., one of the Fruit of the Loom conglomerates that Berkshire Hathaway Inc. purchased later, tried to

collect the \$100 million limit of its pollution liability policy obtained through AISLIC to cover its cleanup costs at former manufacturing sites.

In 2005, AISLIC filed suit in federal court in Chicago against NWI, charging the conglomerate breached the terms of its policy when it agreed to transfer its coverage rights to the bankruptcy trusts (*BI*, Nov. 21, 2005).

The Department of Justice intervened with a suit on behalf of the Environmental Protection Agency,

the Department of the Interior, the Nuclear Regulatory Commission and the National Oceanic and Atmospheric Administration.

"Insurers should take note that they may be liable for the cost of cleaning up their bankrupt clients' environmental messes," said Granta Nakayama, assistant administrator for EPA's Office of Enforcement and Compliance Assurance, in a statement. "EPA will keep pursuing companies who pollute the environment."

# Insurance groups focus on regulatory reform for 2008

## Surplus lines reform among top priorities for several lobbyists

By MARK A. HOFMANN

**WASHINGTON**—Hopes are high that the U.S. Senate will approve a measure that would streamline the regulation of reinsurers and surplus lines insurers.

In fact, the Senate could follow the House lead and give its approval to the Nonadmitted and Reinsurance Reform Act relatively early in its upcoming session, observers say. But action on another key risk management-related issue—creation of a system of optional federal charters for insurers and producers—is

much less likely in the new session. Lawmakers also may take up legislation dealing with natural catastrophe policy issues, say observers.

"We anticipate a very active 2008," said Leigh Ann Pusey, chief operating officer of the American Insurance Assn. in Washington.

The Nonadmitted and Reinsurance Reform Act, which won unanimous House support last year, has "a good chance of passing" the Senate provided it doesn't get "enveloped in the political concerns" of an election year, said Ben McKay, senior vp in the Property Casualty Insurers Assn. of America's Washington office.

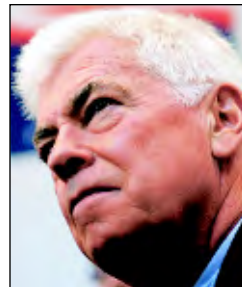
Richard Bouhan, executive director of the National Assn. of Professional Surplus Lines Offices Ltd. in Kansas City, Mo., echoed that opti-

mism.

"We're optimistic," he said. "We do look for hearings" in the Senate Banking Committee. "We think that hearings will be very good on the bill and we are optimistic that it will pass."

"Surplus lines is definitely on the radar," said Beaumont Vance, director-external affairs, of the Risk & Insurance Management Society Inc. in New York. RIMS wants

to make sure that the definition of "qualified risk manager" in the measure is acceptable, said Mr. Vance, who is also senior enterprise



REUTERS

**Some lobbyists see a better outlook for reform since key lawmaker Sen. Chris Dodd, D-Conn., ended his bid for his party's presidential nomination.**

risk manager for Sun Microsystems Inc. in Denver.

Joel Wood, senior vp at the Washington-based Council of Insurance Agents & Brokers, said lawmakers last year dealt with a slew of other insurance related issues, including extension of the federal terrorism insurance backstop. With many of those issues resolved, "I think we have an excellent opportunity in the first

quarter to advance this legislation."

The same is unlikely regarding the OFC, industry observers agreed.

"It's going to be important for the

supporters of the OFC to have some successful hearings this year" on the issue, said Mr. Wood, who supports the OFC. "I'm not suggesting that there's going to be any kind of markup" of legislation to create the OFC, but hearings could set the stage for future action, he said.

The National Assn. of Mutual Insurance Cos. would welcome hearings "as far as looking into the current regulatory system," said Justin Roth, senior federal affairs director in NAMIC's Washington office. He said NAMIC opposes the OFC and believes states have made progress in recent years on regulatory reform.

"We do not support any form of federal regulation that would add

See **LEGISLATION** page 25

## IRS guidance clarifies use of company stock in 401(k) plan matches

### Rule addresses issues arising from reforms in 2006 pension law

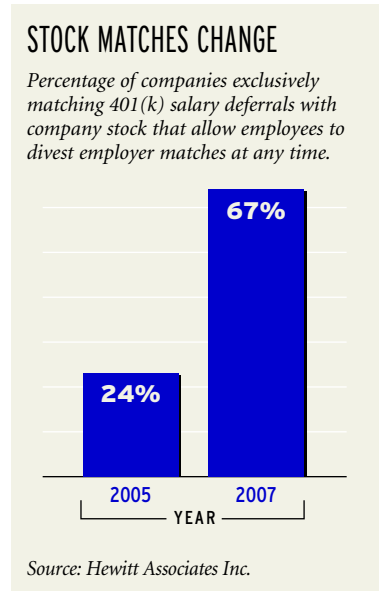
By JERRY GEISEL

**WASHINGTON**—New rules proposed by the Internal Revenue Service provide employers with additional guidance to comply with a provision in a 2006 pension reform law that limits how long employers can require 401(k) plan participants to hold onto company stock contributed as a match.

Under that provision, 401(k) plan participants must be allowed to divest company stock contributed as a match after three years of service and, if they so choose, shift the proceeds to other 401(k) plan investment options.

Congress included the provision in the 2006 Pension Protection Act in reaction to the 2001 collapse of one-time energy giant Enron Corp. and the financial impact that it had on tens of thousands of employees who participated in Enron's 401(k) plan.

The financial impact was especially severe on participants because of the way Enron designed the 401(k) plan. Not only did Enron match employees' salary 401(k) deferrals in company stock, but employees could not divest the stock until age 50. As a result, thousands of employees watched helplessly as the value of Enron stock



held in their 401(k) accounts became nearly worthless as the shares plummeted amid massive Enron financial losses.

To reduce the likelihood of that happening again, Congress, as part of the PPA, mandated that 401(k) plan participants be allowed to divest company stock after three years.

Since enactment of the measure, employers have sought guidance to help them comply and the IRS has provided it.

Under the latest guidance, the IRS says the three-year divestment requirement applies to company stock that is traded on a foreign

See **IRS** page 22

## Insurers anticipate profitable 2008 despite softening market conditions

### But subprime crisis points to future losses for professional lines

By GLORIA GONZALEZ

**NEW YORK**—After a profitable 2007, the property/casualty insurance industry should experience more of the same in 2008, barring an increase in natural catastrophes, insurance executives say.

The industry, though, will face numerous challenges, including the continued fallout from the subprime mortgage crisis, they say.

Last year, the industry benefited from several positive developments, including relatively light catastrophic events, said Evan G. Green-

berg, chairman and chief executive officer of Bermuda-based ACE Ltd. "All things came together," he said at the Property/Casualty Insurance Joint Industry Forum in New York on Jan. 8.

Barring a series of catastrophes, 2008 will be profitable for insurers but the commercial lines sector will have difficulty achieving top-line growth given the softening insurance market, said Ramani Ayer, chairman, president and CEO of the Hartford Financial Services Group Inc. in Hartford, Conn.

Insurers often say they will not trade underwriting profit for market share, but whether they are actually managing their business that way is questionable, Mr. Greenberg said.

If an insurer performs well in serving its customers, that will lead

to good market share and profitability, "but I don't think you get market share by cutting prices," said Thomas J. Wilson, president and CEO of Allstate Corp. in Northbrook, Ill.

The insurance industry will face several challenges that could restrict growth, the panelists said.

The subprime mortgage crisis will be a meaningful event for the directors and officers and errors and omissions insurance markets, which endured a similar experience after the passage of the Sarbanes-Oxley Act, Mr. Greenberg said. At this time, it would be irresponsible for anyone to put a number on potential losses for the industry because the exposures have not

See **OUTLOOK** page 24

## WTC Captive exec plans to step down

By JEFF CASALE

**NEW YORK**—Christine LaSala, president of the WTC Captive Insurance Co., said last week that she plans to resign her position by July 1.

Ms. LaSala, 57, who came out of retirement to take the helm of WTC Captive when it was formed in 2004, made an initial two-year commitment to the WTC Captive board when accepting the post of president in July of that year.

The organization has begun the search for her successor.

WTC Captive, which was set up in New York and managed by Marsh Management Services Inc., was launched after the Sept. 11, 2001, terror attacks to provide otherwise unavailable liability coverage that included general, environmental, professional and marine liability to the city of New York and about 100 contractors who worked to clean up the site.

The captive came under fire in 2006 when lawmakers accused it of mishandling its \$1 billion in Federal Emergency Management Agency funding.

The legislators expressed concerns that the captive was fighting liability claims for city and contract workers who aided in the cleanup of the World Trade Center site after the 2001 terrorist attacks (*BI*, Aug. 7, 2006). The captive has also faced litigation from individual claimants seeking compensation for their injuries.

WTC Captive has maintained that the mandate under which it was created requires the entity to defend its insureds against potentially improper claims.

In a statement, Ms. LaSala—a former managing director at Marsh—said: "After nearly four years at the WTC Captive, I have concluded that this is an appropriate point to resume my retirement."

"We have faithfully performed our mandate to protect the City and the contractors from liability in connection with their heroic efforts in the rescue, recovery and debris removal work that followed the terrorist attack on the Twin Towers of the World Trade Center on 9/11," she continued.

"We have also communicated to the nation's legislators, regulatory officials and the general public our strongly held view that the best way to resolve the thousands of lawsuits filed against the city and its contractors in connection with the debris removal work is not the tort system but the creation of a new, or the reopening of the old, Victim Compensation Fund.

"If the city and the contractors receive the necessary legal protections from current and future liability, the \$1 billion FEMA grant could fund a renewed VCF," Ms. LaSala said.

## Errors & Omissions

A story in the Jan. 7 issue, "Travelers Settles Bid-rigging Claims," mischaracterized a \$6 million payment by Travelers Cos. Inc. as a fine. According to settlement documents, the payment, which will be allocated among the settling states and the District of Columbia, is neither a penalty nor a fine.

## IN THEIR OWN WORDS

**Wilma Miller, Insurance Administrator, Church of God Florida State Offices, Inc.**



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## Gen Re: Testimony begins

CONTINUED FROM PAGE 1

reinsurance deal's development and recounted what Mr. Ferguson told him about his discussions with former AIG CEO Maurice R. Greenberg and Warren E. Buffett, chairman of Gen Re parent company Berkshire Hathaway Inc.

Mr. Ferguson told Mr. Napier, for example, of a November 2000 phone call in which Mr. Ferguson described the structure of the transaction to Mr. Greenberg and told Mr. Greenberg that AIG would not bear any “real risk,” Mr. Napier told jurors. Mr. Greenberg has been identified as an unindicted co-conspirator in the case but has not been charged. Mr. Napier pleaded guilty to a conspiracy charge related to the deal and is cooperating with the government.

The prosecution and defense so far have followed what lawyers say are typical tactics in white collar fraud cases: Prosecutors try to simplify their case as much as possible for the jury, while the defense emphasizes complexities that could create reasonable doubt in jurors' minds.

“It's in the best interest of the defense to get into the weeds, and it's in the government's interest to fly at 30,000 feet and say, ‘It's a very simple fraud case,’” said Philip H. Hilder, a former federal prosecutor who's now with Hilder & Associates P.C. in Houston.

While prosecutors must present a single coherent theory in making their case, the defense may offer a variety of competing theories that may be plausible enough to create reasonable doubt, noted Theodore T. Chung, a former assistant U.S. attorney now with Perkins Coie L.L.P. in Chicago.

In the Gen Re case, prosecutors charge that the loss portfolio deal with AIG, while appearing to transfer \$600 million of liabilities for a \$500 million premium, actually transferred no risk. In an undisclosed side deal, the defendants agreed that AIG would not assume any risk and would return a \$10 million premium payment from Gen Re and pay a \$5 million fee to the reinsurer, the government alleges.

The deal stemmed from AIG's disclosure of a \$59 million reduction of loss reserves in the third quarter of 2000, which triggered a 6.1% drop in its stock price. As a result of the loss portfolio deal, AIG booked \$250 million in new reserves for the fourth quarter of 2000 and the first quarter of 2001, allowing it to report net reserve increases when it otherwise would have reported further declines, the government contends.

Prosecutors last week walked Mr. Napier through the development of the transaction, starting with Mr. Greenberg's Oct. 31, 2000, phone call to Mr. Ferguson seeking \$200 million to \$500 million in reserves for AIG.

“Had you ever seen a company request a specific amount of loss reserves?” Mr. Patricco asked Mr. Napier, who joined Gen Re in 1977.

“No, it's the first time I'd ever seen it,” he replied.

After telling Mr. Napier about the call, Mr. Ferguson told him to talk with Joseph Brandon, now Gen Re's

CEO, Mr. Napier testified. Mr. Brandon—who may be called as a defense witness—offered ideas for structuring the deal, told Mr. Napier to consult with Mr. Garand and later assigned Ms. Monrad to be the “financial point person” on the deal, Mr. Napier said.

Mr. Garand first proposed setting the deal up as a risk-free transaction, and the other defendants agreed to this, Mr. Napier testified.

Many of Mr. Patricco's questions to Mr. Napier related to e-mails and phone conversations among the defendants and other Gen Re officials, including John Houldsworth, the former CEO of Cologne Re Dublin, the Gen Re unit that issued the loss portfolio contract to AIG.

Mr. Houldsworth, whose phone conversations were recorded, has also pleaded guilty to conspiracy and will testify later in the trial.

### Recorded phone calls

One of the calls, played for jurors, took place on Nov. 15, 2000, after Mr. Houldsworth produced a memo discussing aspects of the proposal. Mr. Houldsworth noted in the call that “there is no risk transfer” in the deal, and Ms. Monrad later observed that AIG “may have a tough time getting the accounting treatment they want out of the deal they want to do.”

When Mr. Patricco asked why, Mr. Napier said it was “because the transaction we are discussing here, being risk-free, would not have risk transfer and the reserves could not be properly put on (AIG's) balance sheet.”

Gen Re itself accounted for the transaction as a deposit deal.

Mr. Napier also testified that Mr. Ferguson said he had asked Mr. Greenberg in their November 2000 phone call for a \$5 million fee for Gen Re for the deal. Mr. Greenberg countered by offering Gen Re participation in unrelated AIG business, Mr. Napier said Mr. Ferguson told him.

Mr. Ferguson also recounted a conversation he said he had with Mr. Buffett in which Mr. Buffett said “he'd rather have the fee” than the business Mr. Greenberg offered, Mr. Napier told jurors.

In a statement last week, Mr. Greenberg said there is no evidence that he knew of or participated in a fraudulent scheme connected with the loss portfolio transfer. He confirmed that he had inquired about doing such a deal but had left negotiations and implementation to subordinates.

Mr. Buffett previously stated that he was not briefed on the deal's structure and was not aware of any improper purpose of the transaction. He also called defendants' claims about his involvement “factually incorrect.”

Also testifying last week were Charlene Hamrah, investor relations vp for AIG, and Alice Schroeder, who covered AIG as an analyst with Morgan Stanley. Ms. Schroeder testified she would not have upgraded AIG's stock in March 2001 had she known that AIG's year-end 2000 reserves included \$250 million related to the allegedly sham reinsurance deal.

The trial continues this week.



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# Business Insurance OPINIONS

## Opportunity knocks in favorable market

THIS JANUARY'S RENEWAL season seems to signal good times ahead for insurance buyers.

As we report in our review beginning on page 11, for the majority of commercial property/casualty insurance lines, rates are falling significantly, capacity is increasing and underwriters are competing vigorously to win and to hold on to business. Absent a run of major losses, the soft market is expected to continue through the rest of the year and beyond.

Despite reports of its demise, the insurance pricing cycle is clearly alive and well. Cheaper coverage, especially since the sweeping rate hikes that followed Hurricane Katrina, is always welcome. At this particular point in the cycle, risk managers should be forgiven for thinking that the good old days have returned.

*Risk managers should be forgiven for thinking the good old days have returned.*

Not only are coverage costs slipping significantly, but many risk managers are perhaps better equipped than ever in discussions with their brokers. Following probes into their compensation practices, brokers took various steps to increase the transparency of the placement process, agreeing to disclose much more information to buyers about how their risks were being shopped and who was paying what.

With the upper hand in negotiations with their insurers, and their brokers pledging to reveal just about everything clients want to know, risk managers should be able to take control of their programs and ensure that they get real value for their money.

It's about time.

## EEOC health care rule benefits all retirees

THE EQUAL EMPLOYMENT Opportunity Commission got it right when it issued a final rule last month that essentially exempts retiree health care plans from the Age Discrimination in Employment Act.

The rule ends a lengthy legal battle that began when a federal appeals court ruled that retiree health care plans are subject to ADEA.

Without the exemption and to avoid age discrimination charges allowed under the appeals court ruling, employers would have had to offer the same health care benefits to older and younger retirees or spend the same amount of money on each group of retirees.

In the real world, employers don't provide the same level of benefits to older retirees as to younger retirees. That isn't because of discrimination. It's because retirees age 65 and older are eligible for Medicare, so they don't need the same level of employer-provided coverage as younger retirees.

It didn't take long for the EEOC to figure out what would happen if employers had to meet ADEA requirements. Given the cost of retiree health care coverage, a benefit or cost equalization mandate would have resulted in employers reducing benefits for younger retirees or perhaps eliminating retiree health care coverage altogether.

That certainly would not have been in anyone's interest—not employers that want to provide coverage to retired workers, and not millions of retirees who depend on health coverage from their former employers.

We have little doubt that the EEOC, at least initially, must have been philosophically uncomfortable with embracing a rule that sanctions benefit inequities. But, at least in this case, practicality trumps principle.

Allowing a situation that would have resulted in the reduction or termination of retiree health care coverage hardly would have been in the public interest, and the EEOC, to its credit, recognized that.



### BI beats list

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

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Joanne Wojcik.

#### Benefits—retirement savings/pensions:

Jerry Geisel.

#### Canada—risk management and benefits:

Gloria Gonzalez.

#### Employment practices:

Judy Greenwald.

#### Environmental risk management:

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#### Federal regulation/legislation—benefits:

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#### Federal regulation/legislation—risk management:

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#### Health care industry operations:

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#### Industry Focus:

Rodd Zolkos, Meg Fletcher.

#### Insurance coverage litigation:

Douglas McLeod.

#### Insurance fraud:

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#### Latin American markets:

Roberto Cenicerros.

#### Property/casualty industry operations:

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#### Professional liability:

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#### Property loss control/cat risks:

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#### Regulation of insurance:

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#### Surplus lines/wholesalers:

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#### Tort reform:

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#### Work/life benefits and EAPs:

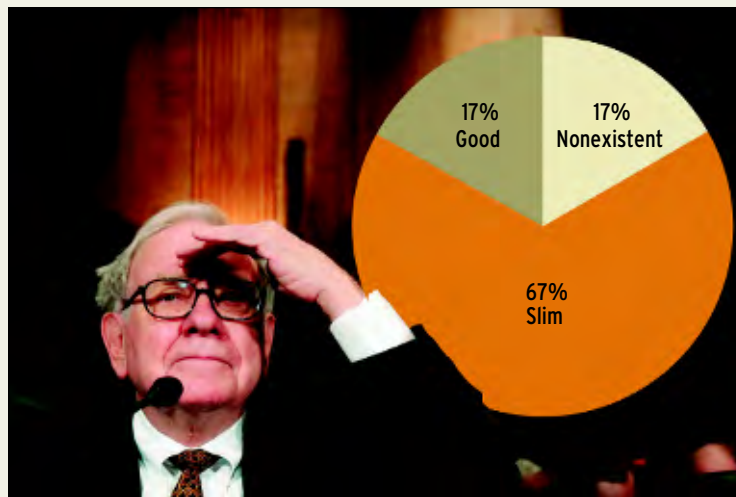
Sally Roberts.

#### Workers compensation:

Roberto Cenicerros.

### Online Poll at [www.businessinsurance.com](http://www.businessinsurance.com)

What are the chances of Warren Buffett eventually testifying in the Gen Re trial?



**NEXT WEEK'S POLL:** How much longer will the current soft property/casualty insurance market last?

BI Online Poll tool sponsored by Wausau Insurance Cos.

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# Soft market pressuring property rates

*Lack of catastrophes, increased capacity help renewing buyers*

By KRISTIN GUNDERSON HUNT

Two mild hurricane seasons in a row and an increase in capacity have pressured pricing for U.S. commercial property insurance, with rate decreases generally in the double digits for renewals this year, experts say.

"The market is in general softening," said Michael Hudson, managing director of property placement for North America at Marsh Inc. in Los Angeles.

While hurricanes Katrina, Rita and Wilma slammed the United States in 2005, no hurricanes hit the mainland in 2006 and only one struck in 2007. Humberto came ashore in Texas last September as a short-lived Category 1 hurricane.

"The lack of events triggered this," Mr. Hudson said.

While commercial property rates vary from company to company, Mr. Hudson said his clients this year are seeing median rate reductions of 12% and some are receiving rate reductions of more than 30%.

Suzanne Douglass, managing director of property in Bermuda for Willis North America, said she has seen rate declines of 15% to 20%. In some cases, rates have dropped 30% to 40%, she said.

In part, declining rates this year are being driven by increased capacity, Mr. Hudson said.

Such conditions have made for a relatively uneventful renewal season for some risk managers, said Carolyn Snow, director of insurance and risk management for Louisville, Ky.-based Humana Inc., which re-



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newed its coverage on Jan. 1. The company saw double-digit rate decreases last year and slightly larger double-digit rate declines for its 2008 property coverage. She said Humana maintained the same coverage and deductibles.

"It's actually a pretty boring renewal, which is a good thing," Ms. Snow said. "We don't look for big swings. We hope for a modest decline in rates each year or coverage improvements."

Ms. Snow said Humana's acquisition of two coastal properties last year and its heavy property concentration in Florida likely affected its inability to obtain more coverage enhancements this year. At the same time, she said, Humana received no additional restrictions in coverage this year.

Willis' Ms. Douglass said some hospitality and gaming risks with large catastrophe exposures are struggling to increase their coverage.

Properties with a poor loss history, those considered at greatest risk of terrorism or areas prone to natural catastrophes can't always get the desired amount of coverage, said Tim Rose, president of Liberty Mutual Group's Liberty Mutual Property unit in Weston, Mass.

"Poor risks or heavily exposed risks really don't change with the market," Mr. Rose said. "A lot of value right on the water is still a lot of value right on the water. A terrorism risk is still a terrorism risk, whether the prices are up or down or capacity is greater or not."

Wayne Salen, director of risk management for Labor Finders International Inc. in Palm Beach Gardens, Fla., said he can attest to the challenges of obtaining insurance such as windstorm coverage.

Despite building the company's Florida headquarters after the hurricanes of 2005 to be a one-story "bunker" with 150 mph-rated win-

dows and emergency power generation, Labor Finders caught no break on rates last year and this year. The company renews its policies annually in January.

Mr. Salen said rates rose 20% for the 2006 renewal and have remained stable. He said prices for windstorm coverage in Florida are still high and few insurers are willing to write the coverage at what he sees as a reasonable amount.

"'Windstorm-resistant' doesn't appear to have (much) bearing on the marketplace (in Florida)," Mr. Salen said. "They look at the value and they look at the location. If you can maintain your current pricing, I think you're doing pretty well down here."

He did say, however, that Labor Finders' headquarters is its only major Florida exposure, and its other U.S. properties have experienced rate declines and coverage enhancements.

Still, for large policyholders and even those with large exposures, increased capacity can be achieved, Marsh's Mr. Hudson said.

George Stratts, Boston-based executive vp of Lexington Insurance Co., a unit of American International Group Inc., said its capacity for terrorism coverage jumped from \$100 million to \$250 million and its builders risk capacity doubled to \$100 million. In addition, Lexington's critical catastrophe capacity for California earthquakes, Gulf Coast and Florida wind damage, and in some cases Northeast wind damage doubled to \$50 million.

Ms. Douglass said some companies with coastal exposures have been able to double the \$50 million to \$100 million range in property catastrophe coverage they obtained

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# Competition heats up, casualty pricing falls

*Insurers offer rate cuts even on tough classes as they seek to grow*

By SALLY ROBERTS

Buyers renewing their casualty programs have gotten another helping of rate decreases, brokers and insurers say.

Intense competition within the casualty market once again pushed primary casualty rates down on average 15% for year-end 2007 renewals, while excess rates fell between 12% and 15%, experts say. This is on top of the average double-digit rate decreases that many buyers experienced at this time last year.

Depending on the risk, some buyers experienced as much as 30% reductions on their casualty pro-

gram renewals, while others with tougher risks, such as large railroads, may have seen rates that were flat to down 5%, they say.

Rate reductions have not been as great on the first layer of excess coverage, or lead umbrella, however, due to the lack of competition—especially on larger accounts, experts say. But rates have still gone down by single digits and more capacity is entering the space, which could impact rates in the future, they note.

And while casualty insurers are for the most part maintaining underwriting discipline as the market continues to soften, some brokers say they have started to see some loosening of terms and conditions.

Overall, the year-end renewal period was definitely a buyer's mar-

ket—a trend that's expected to continue this year.

"It's competitive, but it's still showing some discipline. It's not necessarily a free fall, but certainly things have loosened up over this year," said Luke Mayhook, director of Willis Group Holdings Ltd.'s casualty practice in London, referring to the excess market.

The market has softened from a year ago, said Danya Kazakavich, chief underwriting officer of Liberty Mutual Umbrella, a unit of Boston-based Liberty Mutual Group Inc. "It depends on the size and class of business. The better accounts are seeing better rates, and the more difficult accounts aren't seeing as strong a rate decrease."

"It's very competitive," said Jonathan Zaffino, managing princi-

pal of Integro Ltd.'s casualty practice in New York. "Every indication that you'd expect to see in a competitive market is there. Rates are coming down, there's lots of competition and to a certain degree a bit of a broadening of terms and conditions. The trifecta of issues is coming together to create a very favorable market for buyers."

Even more traditional, tougher classes of business—such as chemical companies—are benefiting from today's market, experts say.

"Our casualty renewal process went very smooth this year," said William Milaschewski, director of risk management at Cabot Corp., a Boston-based global specialty chemical and materials manufacturer, who renews in October. "Although our underwriters were just as thor-

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## Property/ Casualty Market Report

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# D&O market experts at odds over whether rate cuts will stop

By **DAVE LENCKUS**

The directors and officers liability insurance market was softer than it has been in years during Jan. 1 renewals, but market executives disagree over whether the double-digit rate cuts that some accounts experienced will continue throughout 2008.

Many observers foresee further rate cuts ahead. But others predict that insurers' concerns over a spike in securities class action filings in the second half of 2007 could lead to reduced rate cuts and even flat or higher rates later this year.

At year-end renewals, only financial institutions and other risks tied to the subprime mortgage problem—which contributed to the spike in class actions—faced rate hikes.

And some other business classes that traditionally have been problematic risks saw only moderate rate cuts, observers said. They include health care, pharmaceutical, biotechnology and Fortune 200 companies.

The jump in securities claims portend bigger losses for insurers when

those claims are resolved, a process that typically takes about three years. But insurers did not react to that development outside of subprime-related losses during the latest renewal season and instead attempted to maintain or increase their market share in an overcapitalized market.

Brokers estimated that insurers cut rates, depending on the buyer's industry, up to 15%.

Significantly, "We haven't seen any kind of bleed from the sub-

prime problem" into unassociated risks, said Louise Pennington, a managing principal with Integro Insurance Brokers Ltd. of New York.

That was evident with the Dec. 10 renewal for Cisco Systems Inc. of San Jose, Calif. Cisco negotiated a 9% rate cut and improved its coverage even though it sustained a loss—though less than its full limits—since its previous renewal, said Leslie Lamb, global risk and insurance manager.

But broker Mike Rice, chief executive officer of Aon Financial Services, a Denver-based unit of Aon Corp., said insurers began reducing

rate cuts from 20% during the first half of 2007 to 10% to 15% during the second half.

While many buyers also negotiated coverage improvements, many financial institutions faced more restrictive terms and conditions, Ms. Pennington said.

How long underwriters will continue to slash rates on the heels of the jump in securities claims is unclear.

Class action filings during 2007 ballooned 43.1% to 166—including 100 filings during the second half, which ended an eight-quarter long downturn, the Stanford Law School Securities Class Action Clearinghouse of Palo Alto, Calif., and Cornerstone Research of Boston reported earlier this month (*BI*, Jan. 7).

The report blamed the increase on the subprime mortgage problem and stock market volatility. But a researcher said the increase may not suggest a long-term reversal in claims frequency, because subprime-related claims should not be a recurring issue.

For that reason and others, some observers do not foresee a hardened D&O market.

For example, Lou Ann Layton, a managing director and the national D&O practice leader for Marsh Inc. of New York, said she expects insurers will continue to offer flat rates to 15% reductions through 2008. She said that subprime losses are not enough to turn around an overcapitalized market and that the more volatile equities market and the economy would have to perform far more poorly to harden the market.

Tony Galban, a senior vp and the global D&O underwriting manager for Warren, N.J.-based Chubb Corp., predicted that the 2007 increase in claims frequency will affect the market only somewhat in 2008. He said the 2007 claims figures signaled that the frequency trend had reversed and that insurers would respond with higher rates in a couple of years when the new claims are formally resolved. Until then, he predicted, rate reductions will continue but will not be as significant as they were in 2007.

Other brokers and insurers predicted an earlier market stabilization or hardening.

Higher claims frequency could lead to cutbacks on limits and additional exclusions this year, though only on an account-by-account basis, said Brian Inselberg, the New York-based president of two D&O underwriting divisions at National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.

Carl Pursiano, a New York-based senior vp with Liberty International Underwriters, a unit of Liberty Mutual Group Inc., expects rate stability and increases this year, "depending on the product line." Driving insurers' rates will be their increased loss exposures from a more volatile stock market, the broader coverage that policyholders have negotiated and many insurers' reduced reliance on reinsurance, he said.

Aon's Mr. Rice predicted that insurers would first begin stabilizing and increasing rates after June.



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# E&O rates soften in most of professional liability market

By DAVE LENCKUS

Many professional liability insurance buyers with loss-free accounts saw double-digit rate cuts at Jan. 1 renewals, with some negotiating even steeper rate cuts than last year.

Compared with renewals last January and July, there has been some stabilization, "but it's largely just as soft as it was six months ago," said Lisa Butera, president of professional liability division at National Union Fire Insurance Co. of Pittsburgh, Pa., a subsidiary of American International Group Inc. Ms. Butera's New York-based division covers numerous mis-

cellaneous risks, including technology, real estate and media risks.

For miscellaneous risks, which do not include financial institutions, lawyers or health care professionals, rates are down around 10%, said Pat Donnelly, a Chicago-based managing director of Aon Corp. unit Aon Professional Risk Solutions. His group places coverage for a variety of professional risks, including media, consulting, business outsourcing, property management and staffing companies.

In addition, agents and brokers

with annual revenues of less than \$500,000 negotiated rate cuts exceeding 10%, while larger risks largely renewed at their current rates, said Bruce Eisler, a senior vp in New York with Liberty International Underwriters, a unit of Liberty Mutual Group Inc.

Liberty plans to compete more aggressively for all agent and broker accounts this year, he said.

Among dozens of professional segments considered miscellaneous risks, real estate professionals are gar-

nering the greatest underwriter scrutiny because of the subprime mortgage problem, insurers and brokers said.

Insurers are not imposing rate hikes on those risks, but more scrutiny tempers competition for that business, Mr. Donnelly said. That has led to flat renewals for real estate risks, he said.

Only miscellaneous risks with claims, extensive revenue growth or problems with risk controls paid more for coverage, Mr. Donnelly said.

Nonmiscellaneous risks also continue to negotiate sharply lower

rates, market executives said.

For example, midsize law firms—those with 20 to 100 attorneys—that do not have intellectual property, plaintiff mass tort, mergers and acquisitions, or securities practices can expect 15% rate cuts, said Mike Furlong, a senior vp with Swiss Reinsurance Co. in Overland Park, Kan.

The market has softened even further over the past year for lawyers, architects and engineers, said Sandy Cotting, a managing director and co-leader of the professional liability practice with Marsh Inc. in New York. Rates are falling 10% to 20%.

For technology and media risks, rates are falling 10% to 25%, which is a slight acceleration from the first half of 2007, Mr. Cotting said.

The soft market—with up to double-digit rate cuts, depending on a buyer's previous deal—should continue throughout this year barring a significant economic downturn, market executives said.

But, some segments could face problems, LIU's Mr. Eisler said.

For example, he said, further drops in excess coverage rates for lawyers could be stymied if underwriters take big hits in settlements of a series of cases alleging malpractice against law firms that recommended tax shelters that did not comply with U.S. tax law, he said.

In addition, architects and engineers this year should see the results of their recent moves to new design and project management technologies, he said.

Mr. Eisler said a risk of moving away from "tried and true" technologies is that project owners' expectations may not be met.



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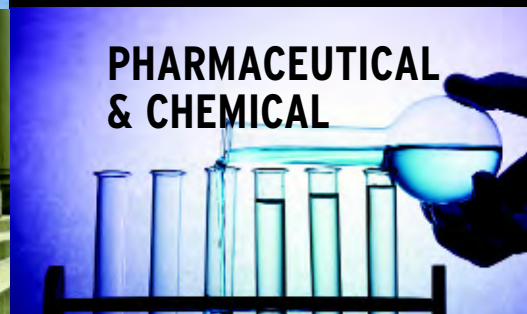
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• Pharmaceutical & Chemical	Jul 28	Jul 16
• Transport, Marine & Aviation	Sep 15	Sep 3
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# E&O rates soften in most of professional liability market

By **DAVE LENCKUS**

Many professional liability insurance buyers with loss-free accounts saw double-digit rate cuts at Jan. 1 renewals, with some negotiating even steeper rate cuts than last year.

Compared with renewals last January and July, there has been some stabilization, "but it's largely just as soft as it was six months ago," said Lisa Butera, president of professional liability division at National Union Fire Insurance Co. of Pittsburgh, Pa., a subsidiary of American International Group Inc. Ms. Butera's New York-based division covers numerous mis-

cellaneous risks, including technology, real estate and media risks.

For miscellaneous risks, which do not include financial institutions, lawyers or health care professionals, rates are down around 10%, said Pat Donnelly, a Chicago-based managing director of Aon Corp. unit Aon Professional Risk Solutions. His group places coverage for a variety of professional risks, including media, consulting, business outsourcing, property management and staffing companies.

In addition, agents and brokers

with annual revenues of less than \$500,000 negotiated rate cuts exceeding 10%, while larger risks largely renewed at their current rates, said Bruce Eisler, a senior vp in New York with Liberty International Underwriters, a unit of Liberty Mutual Group Inc.

Liberty plans to compete more aggressively for all agent and broker accounts this year, he said.

Among dozens of professional segments considered miscellaneous risks, real estate professionals are gar-

nering the greatest underwriter scrutiny because of the subprime mortgage problem, insurers and brokers said.

Insurers are not imposing rate hikes on those risks, but more scrutiny tempers competition for that business, Mr. Donnelly said. That has led to flat renewals for real estate risks, he said.

Only miscellaneous risks with claims, extensive revenue growth or problems with risk controls paid more for coverage, Mr. Donnelly said.

Nonmiscellaneous risks also continue to negotiate sharply lower

rates, market executives said.

For example, midsize law firms—those with 20 to 100 attorneys—that do not have intellectual property, plaintiff mass tort, mergers and acquisitions, or securities practices can expect 15% rate cuts, said Mike Furlong, a senior vp with Swiss Reinsurance Co. in Overland Park, Kan.

The market has softened even further over the past year for lawyers, architects and engineers, said Sandy Cotting, a managing director and co-leader of the professional liability practice with Marsh Inc. in New York. Rates are falling 10% to 20%.

For technology and media risks, rates are falling 10% to 25%, which is a slight acceleration from the first half of 2007, Mr. Cotting said.

The soft market—with up to double-digit rate cuts, depending on a buyer's previous deal—should continue throughout this year barring a significant economic downturn, market executives said.

But, some segments could face problems, LIU's Mr. Eisler said.

For example, he said, further drops in excess coverage rates for lawyers could be stymied if underwriters take big hits in settlements of a series of cases alleging malpractice against law firms that recommended tax shelters that did not comply with U.S. tax law, he said.

In addition, architects and engineers this year should see the results of their recent moves to new design and project management technologies, he said.

Mr. Eisler said a risk of moving away from "tried and true" technologies is that project owners' expectations may not be met.



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# Reinsurers remain disciplined despite softening market

By JUDY GREENWALD

Reinsurance renewals have remained disciplined despite a softening market that looks to continue pressuring prices through 2008, observers say.

"I was surprised by the market consistency, the fact that everybody tried to hold the line," said Steven K. Bolland, president of New York-based Gill & Roeser Inc., of recent renewals. "Everybody was reasonable. I really didn't see any stupid quotes from everyone. By stupid, I mean undercutting the market."

Others agreed.

"I think it's fair to say that, in the

final analysis, the market was softer, but it was quite orderly," said John N. Gilbert, chairman of Holborn Corp. in New York. "There do not appear to be many loose cannons around."

"It's not a free fall in pricing," said Steve McElhiney, president of Dallas-based EWI Inc. Even so, "I think there's a fair amount of interest by reinsurers just to see business, and so we found them to be very receptive" and accommodating.

"I think we all expected some slip-  
page in rates and we saw it, but clear-

ly it was give and take," said Eric Brosius, senior vp and manager of reinsurance for Liberty Mutual Insurance Co. in Boston.

"My impression is, if you have a softening market, but one that is perceived by both sides as still being profitable, people are willing to soften a little bit," Mr. Brosius said.

"I would say the overall market pricing for reinsurance fell a bit more than what we expected after various conferences this fall," said William H. Eyre Jr., managing director and chief execu-



sheet is strong," he said.

Reinsurance rates have dropped 15% to 30% since July, especially on noncatastrophe business, although rate reductions now are moderating compared with just several months ago, said Richard DiClemente, president and CEO of New York-based THB Intermediaries Inc. Because of abundant capacity, "for the first time you're not seeing dramatic holes" in catastrophe programs, he said.

Probably the biggest decreases were in certain property lines that had the largest increases a couple of years ago, said Mr. Brosius. "There's more bouncing back."

The rate on line for property catastrophe reinsurance declined 9% from last January, said Chris Klein, London-based head of the research and development group at Guy Carpenter & Co. L.L.C.

U.S. national accounts were down an average of 10%, while U.S. regional accounts were down 12%, he said. Regional insurers' decrease was bigger because there is "greater capacity available in the market for smaller programs," said Mr. Klein.

Additionally, Mr. Klein said U.S. rates were down "in virtually all layers in cat programs," with decreases more pronounced in the lower layers where there was somewhat more competition.

Rates on U.S. property per risk business are down about 10%, said Sean F. Mooney, senior vp and chief economist at Guy Carpenter in New York.

On pro rata business, "we're seeing increased (ceding) commissions, but it's very hard to put numbers together on what the range is," because pro rata business is very experience-driven, Mr. Mooney said. "The cedents are receiving increased ceding commissions."

Pricing for casualty business was down 5% to 10%, said Mr. Klein. He added that casualty programs are loss-driven, "so there tends to be wider dispersions of pricing on individual programs."

Retrocessional rates were down about 3% to 4% with ample capacity "for those who were prepared to pay the prices asked by the retrocessionaires," Mr. Klein said.

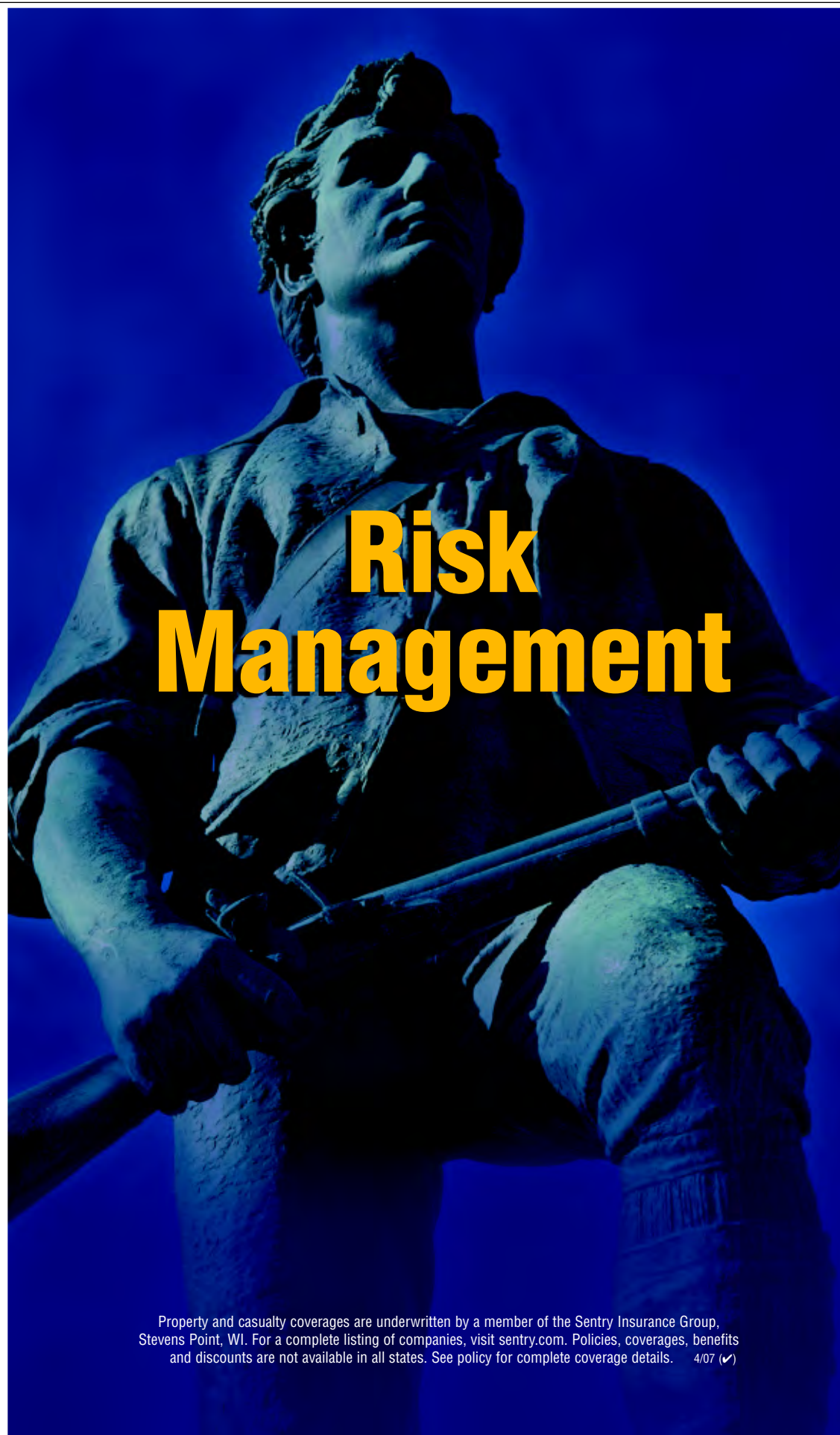
Meanwhile, most observers said insurers are not increasing their retentions at the same rate they were a year ago.

Bryon Ehrhart, president and CEO of Aon Re Services in Chicago, said there was a "big acceleration last year, but this year, I'd say the actual retention in dollars is not up significantly."

Furthermore, "clients continue to look for capital market alternatives to the traditional market," particularly in complex, commercial property business, Mr. Ehrhart said.

Observers say they expect continued softening throughout this year, assuming no major catastrophes. During 2008, the market will continue to see some of the same downward pressure on rates that has occurred at the January renewals, said Mr. Gilbert.

"It would have to be a series of significant (events) or quite a major event" to reverse the trend, Mr. Gilbert said.



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# Most marine rates fall, but P&I prices expected to increase

By GLORIA GONZALEZ

Fierce competition in the marine insurance sector and few catastrophes benefited marine buyers last year, a softening trend that is expected to continue this year.

Rates for marine coverage generally declined last year, with the exception of protection and indemnity club coverage, amid abundant capacity and the absence of windstorms in the Gulf of Mexico, market experts say.

"I guess the biggest thing is we got through a hurricane season without anything happening," said Warren

C. Perkins Jr., vp, risk manager at Boh Bros. Construction Co. L.L.C. in New Orleans. Boh Bros.' hull and marine rates fell 25% last year, after a 76% increase the previous year that forced the company to change insurers, he said.

Hull risks with favorable loss experiences secured double-digit rate reductions during 2007 due to a "fiercely competitive" market, said Martin McCluney, managing director and national hull and marine liability practice leader for Marsh Inc. in New York.

Even risks that are less than ideal benefited from insurer competition that tempered price increases, he said. "It's simply being done by the oversupply of capacity," Mr. McCluney said.

Due to the limits that are required, blue water hull risks are placed on a coinsurance basis and underwriters in London, New York and Scandinavia sometimes have difficulty reaching a consensus on the right price for the product, said David French, president of Starr Marine Agency Inc. in New York. "If I have a concern about pricing in any market, it's on the blue water hull side," he said of changes in rates.

Pricing also is declining on cargo risks, brokers and insurers say.

"What we've seen is a consistent

decline in the pricing on just about every product you buy in the marine insurance business and we place a good portion in the U.S. market for that reason," said Michael Blecher, managing director for Beecher Carlson Holdings Inc. in Los Angeles. "I still like London for certain specialty products, but basically prices are declining all around. It's simply a supply-and-demand issue."

The exception in the generally softening marine market are P&I clubs, which are expected to increase rates between 7.5% and 20% during Feb. 20 renewals to cover a fairly significant acceleration of claims in the range of \$5 to \$50 million, Mr. McCluney said. "All the clubs are raising rates to try to catch up to this," he said.

Among challenges P&I clubs face, for example, are increasing demands by governments that ship-

wrecks be removed due to improved technology.

In general, marine markets should remain in a softening mode barring a series of catastrophic events that either directly impact the marine market or spur reinsurers to impose higher costs or retentions, Mr. McCluney said.

In addition, buyers this year are almost guaranteed to receive the broadest marine policies ever written due to the intense competition, Mr. Blecher said.

Marine insurers will face challenges this year because of the recent lack of natural catastrophes and the influx of capacity, including from private equity firms entering what has been a profitable market, said Michael Civisca, president of the U.S. marine and energy division of Navigators Management Co. Inc. in New York.



## Property: Wind risks toughest to place

CONTINUED FROM PAGE 11

last year. She said while the increased capacity still hasn't allowed companies with coastal exposures to obtain the \$500 million in coverage they could have acquired two years ago, the progress is welcome.

"The loosening of terms and conditions is allowing our clients to gain back some of the coverage they've lost," Ms. Douglass said.

Al Tobin, managing director and national property practice leader for Aon Corp.'s national property practice in New York, said it would take a significant monetary event or series of events for the capacity to substantially shrink again in the near future.

Even in a soft market, though, brokers and insurers say the same

rules apply when it comes to acquiring property insurance: It is vital that buyers provide as much accurate information as possible to potential insurers.

Buyers should provide insurers with precise and comprehensive property location and value information, construction and protection details, any information needed to aid the catastrophe modeling process, up-to-date loss histories and solid engineering information, said Ms. Douglass.

"Anybody who thinks they can slip back into the ways of the past and not provide enough information is doing themselves a disservice," she said.

Brokers say one of buyers' biggest concerns today is finding an insurer

they can rely on for the long term, even if capacity tightens.

Ms. Snow said having a reliable property insurer is a priority for Humana.

"Our philosophy is to find a good company and stay with it and work with it," Ms. Snow said. "When the times are good, it hopefully will share those results with you. We've had a good, steady relationship (with our insurer) and at the end of the day that's all you want."

Another looming concern, Mr. Hudson said, is the uncertainty surrounding a future disaster.

"I think everybody is concerned when and where the next catastrophe will be and the impact it will have on the insurance market," Mr. Hudson said.

## Casualty: Insurer competition heats up

CONTINUED FROM PAGE 11

ough in understanding the risk as they had been in the past, we did see that they were more willing to accommodate requests that they would not have considered in the past, and they were also willing to provide some pricing concessions," Mr. Milaschewski said, noting that Cabot's casualty premiums declined between 5% to 10%.

In some instances, underwriters are even willing to look favorably on accounts with poor loss histories, experts say.

"There is a kinder, gentler definition of what constitutes a poor loss record," said Anthony DeFelice, managing director of Aon Corp.'s national casualty division in New York. "If you had an aberrant loss that can be adequately explained in terms of what happened and how the loss is not likely to happen again in the future, underwriters are more forgiving than they ever have been in the past to look at that."

"Underwriters are very hungry for business," he said.

While some risks may see up to 30% rate reductions on their primary and excess layers, rate decreases for the lead excess layer, where there is less competition, are not as significant, experts say.

"It's been competitive...but it's not really as aggressively competitive as we often hear," said Christine West, chief underwriting officer of AIG Excess Casualty and AIG Specialty Excess, divisions of American Home Assurance Co., which predominately writes lead umbrella coverage.

Unlike the primary and excess markets, rates are dropping by only single digits for lead umbrella coverage, and terms and conditions are largely holding, Ms. West said.

"The real battleground is in the midexcess arena," noted Willis' Mr. Mayhook.

Though, more capacity is entering the lead umbrella market, experts say.

Hamilton, Bermuda-based Aspen Insurance Holdings Ltd., for one, entered the global excess casualty market in October with a dedicated

team in Dublin, Ireland.

"What's interesting though, is that there are some underwriters that have not yet announced, but we've heard are interested in lead umbrella," Integro's Mr. Zaffino said.

Despite ongoing softening, brokers say underwriters are maintaining discipline.

"While there is pressure in terms of lowering attachment points and granting extensions of coverages, underwriters by and large are maintaining that line of discipline," Mr. DeFelice said. "Most of the pressure has been on the pricing side."

Mr. Zaffino noted, however, that he has started to see some broadening of terms and conditions.

"It's not being thrown in carte blanche," he said. "You do need to have a specific...strategy to address those coverage issues that you think may be problematic. Once those are articulated adequately and presented in the right way, we have seen movement from the market on a variety of different coverage issues."

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# Future pricing for energy hinges largely on catastrophes

By **GLORIA GONZALEZ**

Energy buyers, who experienced double-digit price reductions last year amid a lack of catastrophic windstorm events in the Gulf of Mexico, could see further softening this year in the absence of major storms, observers say.

Moreover, in an effort to avoid the chaos of an unpredictable hurricane season, risk managers last year began moving their renewal dates to the first and second quarters of the year.

"Generally speaking, the fact that there haven't been many catastrophic losses, particularly from a wind variety, is creating a mild to serious softening of the marketplace," said John A. Rathmell Jr., president of Lockton Marine & Energy in Houston.

Energy insurers increased premiums significantly in 2006 in response to 2005 hurricane losses but benefited from a lack of major claims the past two years.

"They paid a fortune in claims in 2005, but they certainly saw a strong uptick in premiums in

**'I believe buyers are very near-sighted, they're myopic. They don't take into consideration the strength of the carrier.'**

Thomas Morelli  
American International Group Inc.

2006," said Reed Wykes, director of risk management for Houston-based Parker Drilling Co.

Unlike 2006 when buyers were willing to pay higher premiums to obtain additional capacity, particularly windstorm coverage, the lack of hurricane losses and strong balance sheets driven by high commodity prices made buyers reluctant to overpay for windstorm coverage during 2007, said Jim Pierce, chairman of Marsh Global Marine and Energy based in Houston.

"There was a dramatic shift in the buyers' mentality and the buyers' willingness to pay up for windstorm capacity," he said.

In 2007, rate reductions of 10% to 15% were common among energy buyers.

The sector's recent profitability has encouraged more insurers to enter the market, with additional capacity coming from the United States, London, Bermuda and Asia. C.V. Starr & Co. Inc.'s Starr Technical Risks Agency Inc. in New York, in particular, is expected to continue building its presence in the market, brokers and buyers say.

Insurers are expressing some frustration about the willingness of buyers, particularly smaller companies, to aggressively price-shop.

"I believe buyers are very near-sighted, they're myopic," said Thomas Morelli, president of Global Energy Casualty for American International Group Inc. in New

York. "They don't take into consideration the strength of the carrier."

Buyers, though, have been careful not to become mesmerized by potential savings and many have decided against adding insurers whose claims-paying ability has not been tested, Mr. Rathmell said.

Risk managers were generally able to secure favorable terms and conditions last year, avoiding attempts by insurers to limit their coverage and at times obtaining modest coverage expansions at low prices, said

Brenna Melvin, senior vp for Beecher Carlson Holdings Inc. in Boston.

Even so, contingent business interruption was constricted as underwriters began to fully grasp the extent of their liability after Hurricane Katrina, brokers and insurers say.

"Contingent business interruption is still very tight and the wordings have changed to be more specific," said Anthony Carroll, chief underwriting officer for Marine Energy Construction at Liberty International Underwriters in Boston.



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# Workers compensation pricing soft, but for how much longer?

By **ROBERTO CENICEROS**

Conditions in the workers compensation insurance market remain competitive yet rational, as many accounts with first-quarter renewals garner price reductions from insurers looking to maintain market share, several sources say.

Competitive pressure is greatest for excess coverage, although desirable accounts also are seeing reduc-

tions at the primary level, they add.

While some observers expected pricing to rise for January renewals, prices are still declining, said Jane A. Keegan, enterprise risk manager for the Port of Oakland in California.

PMX Industries Inc. expects a slight decrease for its Jan. 19 workers comp renewal, said Patrick W. Thompson, credit and risk analyst in Cedar Rapids, Iowa.

"I think the market is softening

slightly," Mr. Thompson said.

While PMX had an excellent loss history the past few years, he said a recent accident made him fear prices might rise for 2008 coverage. Additionally, state-mandated workers comp rates for manufacturers rose in Iowa for 2008 coverage, said Mr. Thompson, who is also president of the Greater Quad Cities Chapter of the Risk & Insurance Management Society Inc.

But PMX's insurer, Wausau Insurance Cos., agreed to ask regulators for an exemption so it can provide PMX with the slight price decrease, he said.

Meanwhile, some of the largest middle-market accounts are moving to guaranteed-cost workers comp programs from large-deductible programs, said Noreen Graham, senior

managing director in Woodland Hills, Calif., for brokerage Beecher Carlson. "So there are definitely some structural changes happening on programs because of the market being so soft," Ms. Graham said.

"There is a little of that going on" among policyholders in the higher end of the middle market and lower end of the large-employer segment, agreed Don Pickens, Boston-based Liberty Mutual Group's executive vp and chief underwriting officer for national markets. For most accounts, terms and conditions are holding steady, he said.

Renewal pricing, meanwhile, is being shaped by insurer profitability, reforms across many states that are helping hold the line on losses and insurer attempts to maintain

market share amid competitive pressures, several sources say.

After three to four years of strong insurer underwriting results, many policyholders are demanding price reductions and insurers are eager to hang on to the business, agreed Karl Amidon, senior vp for Aon Re Global in Chicago. "We know that (insurers) are in the mode to save a renewal, (so) they will cut price," he said.

Some accounts have seen 10% to 30% price reductions, Beecher Carlson's Ms. Graham said. Yet most insurers are not abandoning their underwriting discipline to offer incentives, such as lowering deductible attachment points.

Ms. Graham said she has seen a couple insurers walk away from accounts when a competitor offered a guaranteed-cost program. The insurers that declined to write the business believed the accounts should have had large deductibles. "So some markets are really trying to keep some underwriting guidelines in place," she said.

Yet other insurers that until recently held steady on deductible levels began to lower them because of competitive pressures, she said.

In California, some insurers provided quotes so low that the business is likely to produce a combined ratio of 120 while others remain more conservative in setting prices, said James E. Little, chairman, president, and chief executive officer for Agoura Hills, Calif.-based Employers Direct Insurance Co.

Nationwide, insurers say price declines are generally in the high single digits depending on factors such as the risk's location and account size.

"We are seeing a downward spiral," said Kathy Langner, senior vp and work comp practice leader in Whitehouse Station, N.J., for Chubb Corp. "Every month it gets a little worse."

While primary workers comp underwriters are feeling competitive pressure, pricing pressure is not as dramatic as other lines, such as general liability insurance, said Richard L. Thomas, senior vp and chief underwriting officer for the domestic brokerage group at American International Group Inc. in New York.

Major accounts are staying put with their incumbent insurer. That shows price reductions offered by competitors are not so great that policyholders are willing to suffer the expense and difficulty of moving their business, Mr. Thomas said.

For excess workers comp coverage, however, "there is a lot of pressure on pricing," Mr. Thomas said.

Underlying rates for workers comp coverage, meanwhile, are in "pretty good shape" for most states, he said. Rates have moved in small increments recently, showing that state systems are stable and rates are generally in line with claims costs.

But medical and indemnity costs continue to rise, and frequency that has dropped nearly 50% over the past decade could soon level out, Ms. Langner said. Those factors could temper insurer attitudes toward rate reductions, but perhaps not for another year, she said.

Others, however, see a potential for price increases by midyear.



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## Comings & Goings

### BROKERS:

**Eddie Monteith** has been named senior vp of the financial services specialty team for **Lockton Cos. L.L.C.** in Houston. Previously, he was a senior vp for Marsh Inc. Additionally, Lockton has named **Kenneth McKenna** senior vp of the employee benefits practice team in New York. Previously, he was a senior vp with Aon Consulting.

Woodbridge, N.J.-based **NIP Group Inc.** has named **Lawrence J. Dunn III** chief financial officer. Previously, he was a managing director and chief operational risk officer for a subsidiary of GMAC Financial Services.

**Willis Group Holdings Ltd.** has named **Flavio Piccolomini** chief executive officer for Continental Europe, including the Nordic region. Previously, Mr. Piccolomini, who will be based in Milan, Italy, was CEO of Willis' Italian operations, Willis Italia SpA.

**Aon Corp.** has named three senior-level executives in its Los Angeles office:

- **Michael R. Szot** has been named managing director and executive vp. Before joining Aon, he was a managing director for Willis Construction Practice.

- **Jim Reilly**, a former senior vp at Willis Construction, has been named senior vp.

- **Gary L. Stevens** has been named

senior vp. Previously, he held the same position at Willis.

### INSURERS:

**American International Group Inc.** has made three senior-level appointments in its Foreign General insurance operations.

- **Alexander R. Baugh** has been named London-based managing director of AIG UK Ltd. and regional president of Foreign General's U.K./Ireland division. He succeeds Daniel S. Glaser, who recently was appointed CEO of Marsh Inc. Previously, Mr. Baugh was president of AIG Europe S.A.

- AIG Senior Vp **Julio A. Portalatin** will succeed Mr. Baugh as president of AIG Europe S.A., and president of American International Underwriters continental European region, based in Paris. Mr. Portalatin has served as president of the AIU accident and health division since 2002.

- **Jose A. Hernandez**, previously chief operating officer of AIU's accident and health division, succeeded Mr. Portalatin as president.

New York-based **Valiant Insurance Group Inc.** has appointed Ursula Kerrigan general counsel and senior vp. Previously, she was director of compliance and senior vp at Liberty International Underwriters.

### REINSURANCE:

**BMS Intermediaries Inc.** has appointed **Richard Moody** as a senior vp and aerospace team leader in Princeton, N.J. Previously, he was the leader of Benfield Group Ltd.'s U.S. general aviation initiative.

## UP CLOSE John DiBlanda

**NEW JOB TITLE:** Chief operating officer, chief financial officer of Valiant Insurance Group Inc. in New York.

**START DATE:** Aug. 1, 2007.

**PREVIOUS POSITION:** My previous position was as chief financial officer for Delos Insurance Co., a specialty insurance company.

**REASON FOR THE SWITCH:** I love building organizations and jumped at the opportunity when Gary Dubois, president and CEO of Valiant Insurance, first told me about his mission for Ariel Holdings Ltd. (Valiant Insurance's parent company). I was also thrilled about the opportunity to work with a legend in the business like Don Kramer, chairman of Ariel. He's started several successful companies and I'm excited about the opportunity of working with the Valiant and Ariel teams to build a top-class insurance organization.

**VITAL STATISTICS:** I received my B.S. degree in accounting from



Fairleigh Dickinson University and my master's degree in technology management from Stevens Institute of Technology. Prior to Delos, I served as U.S. COO and global CFO for Gallagher Re Inc. I was a member of the global management group charged with integrating and rebranding the disparate worldwide reinsurance operations of Arthur J. Gallagher & Co. into a coherent global operation. I was also responsible for the sale of John P. Woods Co. Inc. to Gallagher. Prior to Gallagher, I was controller, treasurer and member of the board at Centre Reinsurance Co. and was recruited to establish U.S. operations for this newly formed subsidiary of the Bermuda-based parent company.

**GOALS FOR NEW POSITION:** To help build a top-class insurance organization that will deliver best-in-class customer service. The beauty of this situation is that Valiant doesn't have any legacy issues with older technology or antiquated financial and accounting systems. We have the opportunity to create these systems from scratch, which will give us a leg-up over our competition. That's what I really enjoy doing—you might call it a passion—but I love building companies.

**FIRST TIME IN THE JOB MARKET:** My first job out of college was with KPMG, the international accounting firm. I spent 10 years with KPMG specializing in the insurance/reinsurance area, including almost three years on an international rotation in Bermuda.

**TOP ADVICE:** Enjoy what you do, work hard at it and success will follow.

**OUTSIDE THE INDUSTRY, A DREAM JOB:** I always enjoyed coaching my children's basketball, baseball and soccer teams and feel that teaching would be one of the most rewarding professions.

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## IRS: 401(k) guidance issued

CONTINUED FROM PAGE 4

exchange if it is "officially recognized, sanctioned or supervised by a governmental authority" and the shares are deemed by the U.S. Securities and Exchange Commission as having a "ready" market. Under SEC rules, a security is deemed to

have a ready market if it is included in the FTSE Group World Index. Earlier guidance didn't make clear how the divestment requirement applied to shares traded on foreign exchanges.

Additionally, the proposed rules make clear that employers can impose restrictions to limit short-

term trading in employer securities. For example, an employer could limit the purchase of company stock if a participant sold shares a short time earlier.

Also, employers are allowed to limit—as a percentage of the employee's total 401(k) account balance—company shares that employees can hold.

The divestment requirement imposed by Congress came as

employers on their own were easing restrictions on divesting company stock, said Pam Hess, director of retirement research at Hewitt Associates Inc. in Lincolnshire, Ill.

Negative publicity resulting from the Enron crash and increased awareness of the need for employees to diversify 401(k) plan investments helped spur employers to loosen stock divestment restrictions, said Lisa Arko, senior consul-

tant with Watson Wyatt Worldwide in Philadelphia.

If a company goes broke and employees are heavily invested in company stock, the employees can lose income and their retirement plan savings, said Alan Vorchheimer, a principal with Buck Consultants L.L.C. in New York. That problem is eased if employees are not locked into company stock, he said.

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## LEGAL NOTICE

### IN THE MATTER OF THE REHABILITATION OF FRONTIER INSURANCE COMPANY SUPREME COURT, ALBANY COUNTY INDEX No. 97/06

## NOTICE

The Superintendent of Insurance of the State of New York as Rehabilitator (the "Rehabilitator") of Frontier Insurance Company ("Frontier") hereby gives you notice that he has presented to the Supreme Court of the State of New York a Petition and Order to Show Cause seeking approval of settlement between Clarendon Insurance Group, Inc., Clarendon National Insurance Company, Clarendon America Insurance Company, Harbor Specialty Insurance Company and Clarendon Select Insurance Company (collectively "Clarendon") and Frontier as set forth in the petition. A hearing is scheduled on the Order to Show Cause on February 4, 2008 at 9:30 a.m. before the Supreme Court of the State of New York, Albany County at the Court of Claims, 7th Floor West, Justice Building, Albany, New York 12223. If you wish to object to the Petition, you must serve a written statement setting forth your objections and all supporting documentation upon the Rehabilitator at the address appearing at the end of this notice, and the Clerk of the Court, on or before January 30, 2008.

The Petition and exhibits attached thereto are available for inspection at the address appearing at the end of this Notice. The Petition is summarized below. In the event of any discrepancy between the summary herein and the petition, the petition controls.

## The Petition

In an Order to Show Cause dated August 27, 2001, the Court appointed the Superintendent of Insurance of the State of New York as temporary Rehabilitator of Frontier. On October 15, 2001, the Superintendent was appointed as Rehabilitator and directed to take possession of Frontier's property, conduct its business and rehabilitate the company. The Rehabilitator discusses, in the Petition, the history of Frontier's 1999 and subsequent relationship (the "business") with Clarendon, the disposition of Trust Funds dedicated to secure the Clarendon business, course of performance and disputes between Clarendon and Frontier, and the history of litigation in this court between Clarendon and Frontier and a proposed settlement between Clarendon and Frontier for which the Rehabilitator seeks approval from the Court.

Requests for further information should be directed to Christopher DuBois, Esq., attorney for the Rehabilitator at (845) 807-5265.

Superintendent of Insurance  
of the State of New York as Rehabilitator  
of Frontier Insurance Company  
195 Lake Louise Marie Road  
Rock Hill, New York 12775  
Attn: Christopher DuBois, Esq.

## LEGAL NOTICE

### IN THE MATTER OF THE COMPANIES ACT, 1981 AND IN THE MATTER OF CLAYTON PARTNERS LIMITED IN LIQUIDATION IN MEMBERS' VOLUNTARY LIQUIDATION

NOTICE IS HEREBY GIVEN that the creditors of the above named Company, which is being voluntarily wound up, are required on or before 31 January 2008, to send their full names, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their attorneys (if any) to the undersigned, at PricewaterhouseCoopers Advisory Limited, P.O. Box HM 1171, Hamilton, HM EX, Bermuda, being the Joint Liquidators of the said Company, and if so required by notice in writing from the said Joint Liquidators are personally, or by their attorneys, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

PETER C B MITCHELL & NIGEL J S CHATTERJEE  
Joint Liquidators  
2 January 2008

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## LEGAL NOTICE

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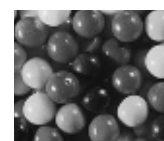


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February 25

**Diversity Officer  
Roundtable**

Ad Closing February 19

TO RESERVE SPACE IN AN UPCOMING ISSUE CONTACT TINA VASILAKIS AT 312-649-5340.

# International NEWS

## SCOR renews alliance with U.K. doctor group

*Med mal agreement renewed for 10 years*

By BEN NORRIS

**PARIS**—SCOR S.E. has renewed its strategic alliance for medical malpractice business with the London-based Medical Defence Union Ltd.

Under the 10-year agreement, which commences on April 1, Paris-based SCOR will provide professional indemnity insurance to the members of the MDU, who are doctors, dentists and other health care professionals operating in the United Kingdom.

The MDU previously was a joint venture partner of Zug, Switzerland-based Converium Ltd., which was acquired by SCOR last year.

"The ongoing business relationship with such an important and highly valued client clearly proves SCOR's ability to effectively consolidate SCOR and Converium,



Mr. Kessler

SCOR GROUP

thereby taking advantage of capital management and diversification benefits for itself and its client," Denis Kessler, chairman and chief executive officer of SCOR, said in a statement.

## String of recent deals structure coverage for European risks

By MICHAEL BRADFORD

**ZURICH, Switzerland**—Swiss Reinsurance Co. has placed a €200 million (\$293.4 million) catastrophe bond covering windstorm events in France.

The transaction is part of a three-year reinsurance agreement between Swiss Re and Groupama S.A. The Zurich, Switzerland-based reinsurer's Swiss Re Capital Markets structured and placed the securitization that forms part of a program of up to €800 million (\$1.17 billion) in coverage for Paris-based insurer Groupama.

The cat bond will pay claims triggered by a parametric index based on wind speeds at various locations and calculated by risk modeling company Risk Management Solutions Inc.

Other cat bonds have been placed in recent months to address European windstorm exposures.

For example, SCOR S.E. in November arranged for a cat bond that will provide it and its affiliates with an additional €160 million (\$237.4 million) of reinsurance coverage for European windstorm and



REUTERS

Windstorm Kyrill struck Europe in January 2007 with hurricane-force winds. Several recent cat bonds have been designed to cover European storm risks.

Japanese earthquakes. The bond, whose losses are determined through modeling, covers first and subsequent Europe windstorm or Japan earthquake events for the risk period from Nov. 30, 2007, to Dec. 31, 2010.

In addition, Allianz S.E. that month closed its first catastrophe bond transaction related to windstorm risks in seven European countries.

Issued through a Cayman Islands

based special-purpose entity, the cat bond transfers to investors the risks of windstorms in Austria, Belgium, France, Germany, Ireland, the Netherlands and the United Kingdom.

The bond has two tranches with an aggregate volume of €200 million (\$291.3 million) and represents the first series under a program with an initial maximum size of €1 billion (\$1.46 billion), Allianz said.

## Supply-chain risks misunderstood, mismanaged: Report

*Economic forum says companies must develop effective risk management, mitigation strategies to address issue*

By ADRIAN LADBURY

Fast-rising supply chain risks are poorly understood and managed by most companies, according to the World Economic Forum.

Ahead of its annual meeting later this month in Davos, Switzerland, the WEF said in a report it believes that the recent "economic optimization" of supply chains has produced much new wealth.

But the group said that this process has simultaneously produced a geographic concentration of risk that has enhanced systemic vulnerability.

**The World Economic Forum said in a report it believes that the recent "economic optimization" of supply chains has produced much new wealth.**

"Mismanagement of supply chains may result in them serving as a transmission mechanism of global risk, amplifying the disruptive impacts of a local risk event at the systemic level and producing consequences far beyond the corpo-

rate sector," the WEF said in its annual "Global Risk Network Report," released last week.

The report further states that despite the importance of supply chain risk at company and government levels, the vulnerabilities to

the chain remain poorly managed.

WEF said it believed that this is partly because the risks are obscured as companies and governments are indirectly exposed to a "global risk disruption" through a complex range of sub-supplier arrangements and wider risks such as natural catastrophes and pandemics.

The development of an effective risk management and mitigation strategy to tackle supply-chain risk can be "daunting," said the WEF.

But David Nadler, vice chairman of Marsh Inc., the New York-based brokerage that helped WEF produce and launch the report along with

Zurich-based Swiss Reinsurance Co., said that companies should understand, review and quantify supply chain risk.

The report also discusses other emerging global risk concerns, including systemic financial risk, food security and energy supply exposures.

The Geneva, Switzerland-based World Economic Forum is an independent foundation with 1,000 member companies that provides a framework for discussion and action on global issues. Its full report is available at [www.weforum.org/en/index.htm](http://www.weforum.org/en/index.htm).

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## Commentary

# Animal stories teach valuable risk lessons

In my younger days, a radio personality named Larry Lujack was the king of Chicago Top 40 radio. In addition to spinning the hits, he routinely offered a variety of amusing shtick, the most amusing, perhaps, a regular feature called Animal Stories.

I'm not sure whether there's still such a thing as Top 40 radio, but evidently there are still a lot of animal stories out there. Two in particular have caught my attention lately, both worth considering from a risk management perspective.

The first is a story that made the rounds just before Christmas involving three joggers in Alaska who found themselves surrounded by a pack of wolves.

According to the account, seven or eight wolves came out of nowhere to surround the three women and the two dogs trotting with them. Evidently the wolves exhibited the kind of behavior one might expect from a pack of wolves—a lot of circling and howling.

The joggers reported being terrified by the experience, which doesn't seem to be an unreasonable reaction to being surrounded by a pack of wolves.

At the time of the encounter, the joggers were about a mile-and-a-half from their cars, but made their escape unharmed by walking backwards away from the wolves, screaming and waving and occasionally spraying pepper spray.

Unfortunately, one of the dogs wasn't so lucky and was attacked by three of the wolves and had to undergo surgery to treat its wounds. According to one report I saw, the joggers' dogs were leashed because of warnings of wolf attacks in the area.

I feel bad for the dog—it deserves better than to have an owner that dragged it into an area posted with wolf warnings. As for the joggers, I can't help but feel they're more than a little responsible for exposing themselves to the possibility of ending up wolf chow.

A report of this incident I saw on CNN talked about the wolf warnings in the area, showing a warning sign on a road barrier. Despite the wolf warnings, though, the joggers wandered into the area, only to later relate a tale of their horror at encountering...WOLVES! I think Darwin had a term for this: natural selection.

The other animal story that's interested me lately is that of the Christmas day tiger attack at the San Francisco Zoo in which one



**RODD ZOLKOS**

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

young man died, two others were injured and the tiger was ultimately shot and killed.

Two elements of the tale received a lot of attention. One was the fact that the wall surrounding the tiger's habitat was apparently short of the accepted standard height. The other angle receiving a lot of play was whether the victims might have provoked the attack by taunting the animal, though San Francisco

**The joggers wandered into the area, only to later relate a tale of their horror at encountering...WOLVES!**

co police later said there was no evidence they'd done so.

To my way of thinking, this story's a little different than the wolf saga. If the wall wasn't as high as it was supposed to be, it doesn't matter whether these guys were taunting the tiger.

Sure taunting any animal is reprehensible behavior. You would think anyone with the supposedly superior brain power bestowed on humans would be inclined to behave humanely toward other living creatures. Of course, you would be wrong.

Still, if you're a zoo operator—someone who's inviting folks to take a look at wild animals in a park in the middle of a populated area—unless you're say, Nero, it seems to me you're responsible for protecting your guests from attacks by the wild animals you've put on display.

So the moral to these animal stories seems pretty straightforward. Zookeepers are responsible for the safety and well-being of their animals and visitors. But, if you decide to go jogging with wolves, you're on your own.

# St. George: Startup offers asbestos cover

CONTINUED FROM PAGE 1

that, "all of our products are structured with the intention of being risk transfer policies."

St. George Re is offering both excess liability coverage and ground-up coverage. To date, about 20% to 30% of the business it has seen is for ground-up coverage, with the most of the remainder having at least some element of excess liability coverage, said Mr. Paterniti.

St. George Re's clients will most likely be firms that were not asbestos producers themselves, but used asbestos in their products, such as brake pad manufacturers, he said.

According to Mr. Paterniti, St. George Re initially will focus on U.S. claims, but has plans to expand beyond the United States.

Its policyholders likely will be companies that did not purchase sufficient coverage in earlier decades when it was available and are now finding themselves either underinsured or with coverage that "doesn't respond to asbestos, either because of exclusions or merger activity," said Mr. Paterniti.

Through Bermuda brokers, St. George Re will work either directly with the U.S. corporate policyholders or their captives, but will also be available to provide reinsurance to commercial insurers with two or three large risks, but will not provide general aggregate portfolio coverage, said Mr. Paterniti.

In addition to coverage, the company will also provide claims analysis, loss projection, allocation model and risk management valuation and pricing. It has a proprietary database containing millions of claims records, which enables it to monitor trends, according to the company.

The reinsurer has not yet been rated by any rating agency, said chief

executive officer Colin R. Barnes, who formerly worked for Global Risk Capital. "Our plan is to get a few transactions on the books, and then go to the rating agencies with that under our belts, because we feel we'd have a better dialogue with the rating agencies at that time," he said.

Berkshire Hathaway is already involved in the asbestos liability market through its deal with Equitas, the runoff reinsurer for Lloyd's of London syndicates' pre-1993 long-tail liabilities, under which a Berkshire unit reinsured Equitas' liabilities as part of a complex transaction.

"Berkshire Hathaway likes to describe itself as being massively capitalized, but their overall structure is one of running a fairly tight ship, and they simply don't have the human assets, nor do they desire to build at this time the infrastructure necessary to accommodate handling a large volume of medium to small transactions," Mr. Paterniti said. St. George Re will provide the underwriting expertise, he said.

Berkshire Hathaway did not return a call seeking comment.

St. George Re's investors are San Diego-based Context Capital Management Inc.; Greenwich, Conn.-based Plainfield Asset Management L.L.C.; and Seattle-based Silver Creek Capital Management L.L.C.

Observers say St. George Re is likely to be welcomed in the market, particularly in light of its relationship with Berkshire Hathaway. "Obviously, we'd welcome any innovations or new enterprises to address the issue of asbestos risk, and having the backing of a compa-

ny like Berkshire Hathaway, with its extraordinary capital base, to be a method of risk transfer is definitely welcome," said Sean F. Mooney, senior vp and chief economist at reinsurance intermediary Guy Carpenter & Co. L.L.C. in New York.

Berkshire Hathaway's involvement is very positive "from the standpoint of our clients because it stands for security," said Mike Merlo, chief counsel and executive vp at Aon (Bermuda) Ltd.

"Any more capacity and any more expertise that comes into the field is something that would be welcome," said Bruce MacDonald, senior consultant at Needham

Heights, Mass.-based Albert Risk Management Consultants.

However, Mark Rouck, senior director with Fitch Ratings Ltd. in Chicago, said "although there's certainly a demand for this type of product, it's not as hot an issue as it was, say, five or six years ago."

"It sounds like an interesting idea, and if it's priced right it could go far, but it's unclear" whether it will lead to more asbestos litigation, curtail some of it, cause more settlements or result in fewer, said Cheryl P. Vollweiler, an attorney with Wilson Elser Moskowitz Edelman & Dicker L.L.P. in New York.

"The company who buys the policy still remains liable," said Steven Kazan, an attorney with Kazan, McClain, Abrams, Lyons, Greenwood & Harley P.L.C. in Oakland, Calif. "Whether Wall Street would consider this kind of coverage sufficient to remove the sort of asbestos cloud or overhang is something I leave to the people on Wall Street."



Mr. Barnes

# Outlook: Subprime crisis may cause losses

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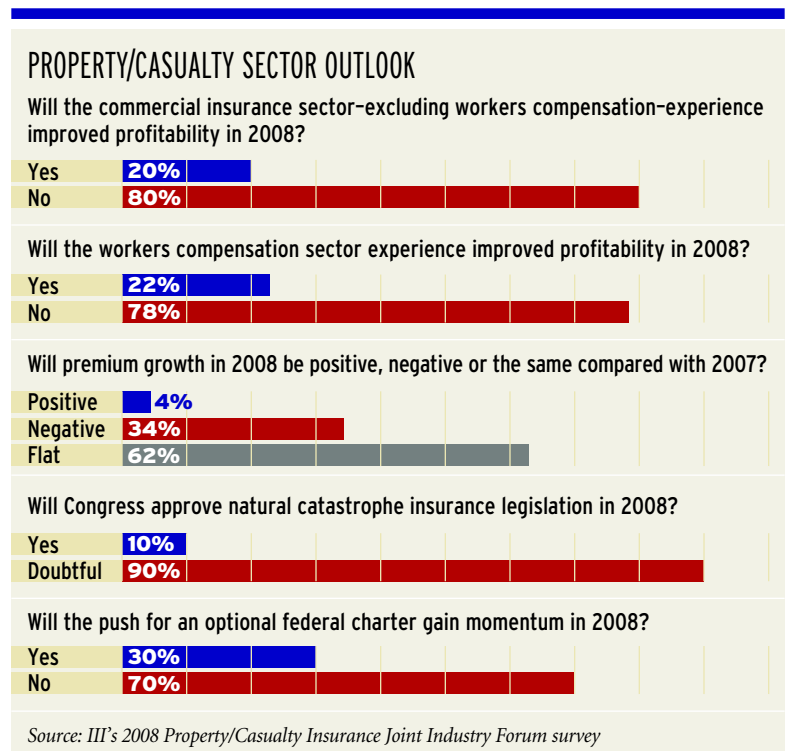
been fully revealed, he said. "It's still unfolding," he said.

The subprime crisis is going to generate financial losses of about \$150 billion, which will lead to lawsuits as people seek to recover their losses, Mr. Ayer said. It is too early to predict the impact the crisis will have on the insurance industry, Mr. Ayer said. "I think it's going to take a while for this to get unscrambled, and as it gets unscrambled, you will see litigation," he said.

The growing probability of a recession could create balance-sheet issues for insurers and impact workers compensation claims frequency if the recession persists, Mr. Ayer said. The probability of a recession, though, remains low, and Hartford believes the economy will recover soon, he said.

Meanwhile, regulation of the insurance industry needs to be modernized, possibly via an optional federal charter, as varying state regulations continue to create challenges for insurers, Mr. Greenberg said. "It's a broken system."

Merger and acquisition activity



will continue in 2008, according to the panelists, several of whom conducted major deals last year. ACE and Munich Re Group purchased

the remaining underwriting operations of Combined Insurance Co. of America, a unit of Chicago-based Aon Corp.

# San Francisco: Court allows city to implement 'play or pay' mandate

CONTINUED FROM PAGE 1

In saying that the chances are strong that the city will prevail, the appeals court is sending a signal that it will uphold the statute, said Kathleen Murray, a principal with Mercer L.L.C. in San Francisco.

"I think this is a strong indication of how (the appeals court) will end up ruling" on the ERISA pre-emption issue, said Andy Anderson, of counsel with Morgan, Lewis & Bockius L.L.P. in Chicago.

Others, though, note that it is far from certain how the appeals court will rule. It is possible, for example, that judges other than the three who granted the stay will decide the ERISA pre-emption challenge.

If the appeals court does uphold the San Francisco health care spend-

ing requirement, it would create a split among appeals courts on whether ERISA pre-empts such laws and increase the likelihood that the Supreme Court would take up the issue, experts say.

Last year, the 4th U.S. Circuit Court of Appeals ruled that a Maryland law, which required employers with 10,000 or more employees in the state to spend at least 8% of payroll on health care coverage or pay the difference to a state fund, violated ERISA pre-emption provisions. Because of the way the Maryland law was written, it would have applied only to giant retailer Wal-Mart Stores Inc.

"This is looking more and more like it will end up before the Supreme Court," said Paul Dennett,

vp-health policy at the American Benefits Council in Washington. The 9th Circuit panel's order comes at a time of increased interest by states and other governmental bodies—trying to reduce the number of uninsured—to put pressure on employers to offer health insurance coverage by slapping them with penalties if they do not.

"States really are moving ahead in this area," said J.D. Piro, an attorney with Hewitt Associates Inc. in Norwalk, Conn. For example, the California Senate now is considering a measure—similar to the San Francisco statute—that would require employers to make health care expenditures at least equal to certain percentages of pay.

Additionally, Massachusetts and Vermont passed legislation in 2006 that requires all but small employers to either offer health insurance coverage or pay an annual fee.

## Administrative burden

One of the biggest concerns that large, multistate employers have about such mandates is how they affect them administratively. Tracking the requirements and filing compliance reports is expensive and time-consuming, said Eugene Scalia, a partner with Gibson, Dunn & Crutcher L.L.P. in Washington.

"Imagine if 50 states and 100 municipalities have such requirements and those requirements vary. There is no way that employers can stay on top of that administratively," said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

Additionally, employers worry that what begins as a modest health care spending requirement later could be significantly increased. "It is an opening wedge. If a city is allowed to impose a \$1.76 per hour requirement, who is to say that it won't later bump it up to \$5 per hour," said William Kilberg, a senior partner with Gibson, Dunn & Crutcher in Washington.

*Golden Gate Restaurant Assn. vs. City and County of San Francisco et al., No. 07-17370, Jan. 9, 2008.*

## Costs depend on the number of employees

**SAN FRANCISCO**—San Francisco's Health Care Security Ordinance, which was passed in 2006 and now has partially gone into effect, imposes a health care expenditure requirement on employers.

The law leaves it up to employers to decide how they will make the expenditure, which this year is as much as much as \$1.76 per hour per covered employee and will increase in succeeding years.

For example, the expenditure can be for an employer's group health insurance premium contri-

bution and/or its contribution to employees' health savings accounts. Employers that do not offer health insurance coverage can satisfy the spending requirement by contributing to a city program that provides coverage to the uninsured.

In calculating the amount of their health care expenditures on a per employee basis, employers must include employees who have worked at least 90 days and at least 10 hours a week.

This year for employers with at least 100 employees, the required

health care spending requirement is \$1.76 per hour. For organizations with between 50 and 99 employees, organizations must spend \$1.17 per hour per employee.

For employers with between 20 and 49 employees, the spending requirement kicks in on April 1 and will be \$1.17 an hour per employee.

The law exempts employers with fewer than 20 employees from the health care spending requirement.

—By Jerry Geisel

**'If a city is allowed to impose a \$1.76 per hour requirement, who is to say that it won't later bump it up to \$5 per hour.'**

William Kilberg, Gibson, Dunn & Crutcher

## EMPLOYER MANDATES

*How legislation requiring employers to provide or pay for employees' health care coverage have fared*

**1988:** Massachusetts passes legislation imposing a \$1,680 per employee tax on employers. The tax is to be offset by each dollar an employer spends per employee on health coverage.

**1996:** The Massachusetts law, which never was implemented, is repealed by legislators.

**2003:** California passes a measure requiring employers to either pay 80% of employees' health insurance premiums or contribute to a state fund.

**2004:** California voters repeal the health care spending law.

**2005:** Suffolk County, N.Y., approves a measure to require large retail stores selling groceries to make health care expenditures for employees that are equal to a "public cost rate" determined by the county.

**2006:** Massachusetts passes legislation imposing a fee up to \$295 per employee on employers that do not offer health care coverage meeting certain standards.

**2006:** Maryland legislators override a gubernatorial veto and approve a measure to require employers with at least 10,000 employees in the state to spend 8% of payroll on health benefits or pay the difference to a state fund. The law applies only to Wal-Mart Stores Inc.

**2006:** A U.S. District Court judge rules that Maryland law is pre-empted by Employee Retirement Income Security Act. An appeals court later affirms lower court ruling.

**2006:** The San Francisco City Council approves a measure requiring employers to make a health coverage contribution of up to \$1.76 per employee

per hour. Employers can satisfy spending mandate in a variety of ways, including paying health care premiums or making a contribution to a city fund. The law is later challenged by a restaurant trade group.

**2007:** Federal judges strike down both Suffolk County, N.Y., and San Francisco spending mandates in rulings that say the laws are pre-empted by ERISA.

**2007:** The California Assembly approves measure to require employers to spend up to 6.5% of payroll for employee health coverage or contribute to a state fund. The measure is pending before the state Senate.

**2008:** An appeals court lets San Francisco enforce an employer health care spending mandate while it reviews a lower court ruling. The court says there is a "strong likelihood" that law is not pre-empted by ERISA.

## Legislation: Industry focuses on regulatory reform

CONTINUED FROM PAGE 4

an additional layer of bureaucracy," Mr. Roth said. It is "very unlikely (that) Congress would go beyond hearings due to the fact that the insurance industry is so sharply divided. Congress tends not to pass massive reform of an industry when the industry is as divided as it is on this issue," he said.

"We think that the equilibrium that keeps this issue in stasis continues," said the PCI's Mr. McKay. "There's been no change in that equilibrium, therefore there's not likely to be any change in result from last year."

Terrorism insurance remains an issue for RIMS, Mr. Vance said.

Even though "TRIA passed, it's still going to be on our list because we still want to monitor the impact

**'With huge storm and catastrophic losses, anything is possible, all bets are off.'**

Ben McKay, Property Casualty Insurers Assn. of America

on the terrorism risk insurance market," he said. He noted that the Government Accountability Office is expected to issue a report on insuring against nuclear, biological, chemical and radiological terrorism. Congress also may move on natural disaster issues, several observers said.

"In terms of legislative priorities,

it would really be catastrophe-related proposals that have been adopted by the House," such as adding windstorm coverage to the National Flood Insurance Program, said Frank Nutter, president of the Washington-based Reinsurance Assn. of America. The RAA opposes that addition but supports Senate Banking, Housing and Urban Affairs Committee Chairman Chris Dodd, D-Conn., in his call for a commission to study cat risks, he said.

The idea of a national cat fund is not likely to become law this year absent a huge storm, said PCI's Mr. McKay. "With huge storm and catastrophic losses, anything is possible, all bets are off."

"I think the industry is going to continue to be challenged on the issues" regarding natural catastrophe and property insurance, said Ms. Pusey. "AIA looks forward to

working with Congress on solutions that maximize the private-sector capacity in the area."

Sen. Dodd's decision to drop his bid for the Democratic presidential nomination may affect the banking committee agenda, observers said.

"Despite Chairman Dodd running for president, the Senate Banking Committee accomplished a lot of work last year, including the passage of TRIA and passing meaningful flood reform," said Mr. Roth. "So NAMIC believes with Chairman Dodd's campaign coming to an end, he will continue the good work that the committee began last year."

"I think the committee has functioned quite well and, as much as I mourn his loss from the campaign trail, I'm excited for several issues that may advance under his leadership this year," Mr. Wood said.

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# News In Brief

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holding that a Canadian company that disposed of hazardous waste in British Columbia is subject to U.S. pollution law. The 9th U.S. Circuit Court of Appeals ruling in the case—*Teck Cominco Metals Ltd. vs. Joseph A. Pakootas*—was the first of its kind in a federal appeals court, and exposed foreign companies to Superfund liability for waste disposed beyond U.S. borders (*BI*, July 10, 2007). The appeals court said Teck Cominco was liable because the pollutants migrated south and contaminated the Upper Columbia River in northeastern Washington.

## XL Re to use sidecar for property cat, retro

XL Re, a unit of Bermuda-based XL Capital Ltd., entered into a quota share reinsurance treaty with a new sidecar, Bermuda-based Cyrus Reinsurance II Ltd. Under terms of the treaty, Cyrus Re II will assume a 10% cession of certain lines of property catastrophe reinsurance and retrocession business underwritten by the ceding companies for the 2008 underwriting year. Cyrus Re II has put about \$136 million into a trust to support its coverage. The lead investor in Cyrus Re II parent Cyrus Reinsurance II Holdings SPC is investment firm Highfields Capital Management L.P.

## Consultants to review N.D. comp system

North Dakota's workers compensation agency board voted to have two outside consultants examine its management and handling of claims. The board of the state's Workforce Safety and Insurance Agency accepted bids from Marsh USA Inc. and Henry Neal Conolly, a former executive director of New York's State Insurance Fund, to review WSI's handling of benefits claims and management and personnel practices. The examinations stem from an October 2006 audit by the North Dakota Office of the State Auditor.

## White Mountains buys out sidecar now in runoff

White Mountains Insurance Group Ltd. last week said its White

Mountains Re unit is acquiring a sidecar, Helicon Reinsurance Co. Ltd., that provided it retrocessional coverage, for about \$150 million. Bermuda-based White Mountains is also acquiring about \$14 million of unearned premiums through this transaction. Helicon Re provided quota share retrocessional coverage to White Mountains Re in 2006 and 2007, but White Mountains Re did not renew the quota share for 2008, and the sidecar was put into runoff.

## XL executive Tobin to retire

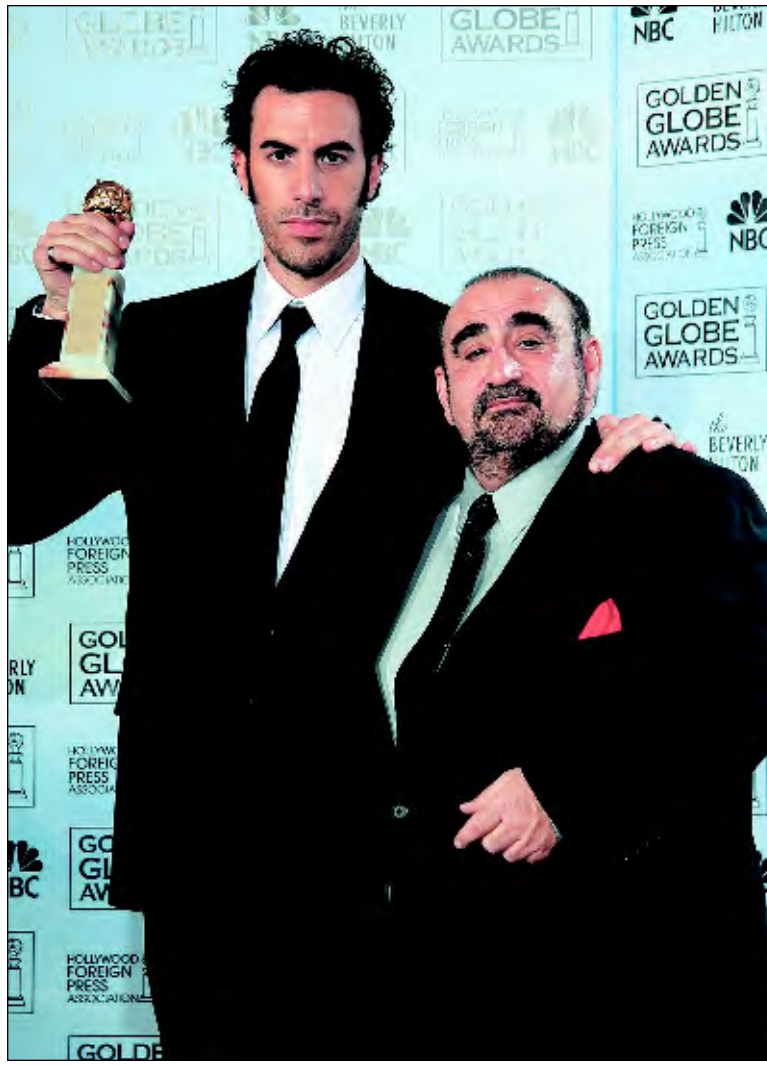
Clive R. Tobin will retire as chief executive officer of insurance operations at XL Capital Ltd. and be succeeded by David B. Duclos, currently the unit's chief operating officer. Mr. Tobin's retirement is effective April 1, XL said in a statement. He, however, will remain with XL and assist the insurer and reinsurer with strategic opportunities and emerging markets. He also will become vice chairman of XL Insurance (Bermuda) Ltd.

## Employers Holdings to buy AmComp

Employers Holdings Inc., a holding company for workers compensation specialty insurers, said it has agreed to buy AmComp Inc. North Palm Beach, Fla.-based AmComp is also an insurance holding company with units that provide coverage for small to midsize employers in 18 states. The deal is valued at about \$230 million, including assumption of \$37 million in debt. Reno, Nev.-based Employers said the acquisition will expand its workers comp operations to 26 states. The deal is expected to close during the second quarter and is subject to various conditions, including regulatory approval and approval by AmComp stockholders.

## Nevada may cover domestic partners

Nevada's Public Employees' Benefits Program board has voted to expand health care benefits to include the domestic partners of its employees and retirees. It also voted to ask Nevada Gov. Jim Gibbons to seek legislative approval of the funding necessary to extend the state's insurance subsidy to domestic partners and their children. It is estimated that expanding the subsidy to both same-sex and opposite-sex domestic partners would add about \$3 million to the \$260 million the state currently pays for health benefits for the 40,000 employees and dependents enrolled in the plan.



Sacha Baron Cohen (left) won a Golden Globe last year for his performance in "Borat," a movie in which Ken Davitian (right) co-starred. The 2008 award ceremony was canceled last week.

## Globes: Likely uninsured

CONTINUED FROM PAGE 3

food, security and red carpet rental. The show's production reportedly costs between \$1 million and \$2 million.

Some other high-profile award shows have had to forgo coverage in recent years, sources said.

"The Academy Awards always used to buy (event cancellation) coverage but they haven't bought it since pre-9/11 because rates went way up after" the 2001 terrorist attacks, said one specialty underwriter who asked not to be named.

"I've never heard in my 20 years (in the business) that anyone had the Golden Globes' insurance," said LeConte Moore, a managing director of DeWitt Stern Group Inc., a New York-based brokerage specializing in the entertainment and media industries.

Event cancellation coverage typically would respond to a strike-related cancellation, as long as the labor action was outside the policyholder's control, Mr. Moore said. For

example, a policyholder would have to demonstrate it had nothing to do with influencing the strike and that the cancellation was "made necessary" because of the strike, he said.

NBC, which reportedly pulls in between \$15 million to \$20 million in advertising revenue from the three-hour live telecast, may have taken the biggest hit as a result of the show's cancellation. Some of the show's sponsors had pulled out last week, according to reports.

A spokesman for General Electric Co., which owns NBC, did not return phone calls seeking comment on whether NBC purchased a contingency policy to cover potential losses from the show's cancellation.

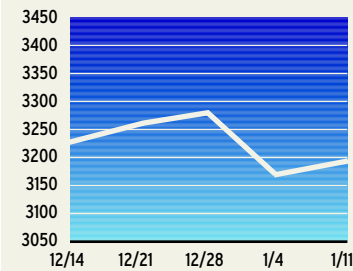
Experts doubt NBC purchased such cancellation coverage, though. "The networks don't buy it as much as the different organizers that run" awards shows, which are more reliant on the television contracts for their annual budgets, said the specialty underwriter.

## Stock Index

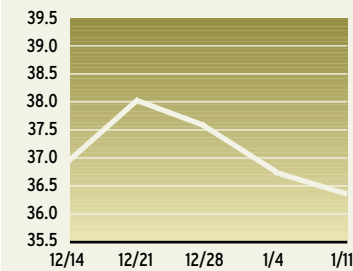
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Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at [www.IndustryFocus.com](http://www.IndustryFocus.com).

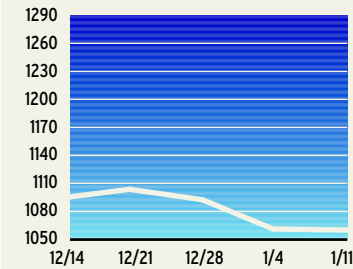
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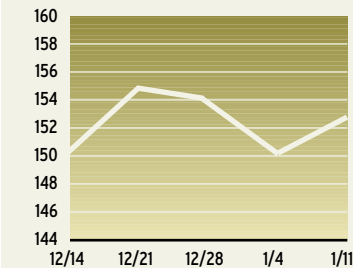
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### BI INSURER/REINSURERS INDEX



### BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

<b>BI STOCK INDEX</b>	3195.26	▲ 0.79%
<b>DOW JONES</b>	12606.30	▼ -1.51%
<b>S&amp;P 500</b>	1401.02	▼ -0.75%

### LARGEST GAINS

Health Net Inc.	8.09%
Humana Inc.	6.05%
Aspen Insurance Holdings	4.74%
AFLAC Inc.	4.68%
Aetna Inc.	4.36%

### LARGEST LOSSES

Gainsco Inc.	-13.58%
Ambac Financial Group	-10.28%
Tower Group Inc.	-7.23%
SCOR S.A.	-7.08%
MBIA Inc.	-5.52%

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



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# Business Insurance

## END PAGE

Contributing: Jeff Casale,  
Mark A. Hofmann, Joanne Wojcik

## Hospitals try to feel financial pulse rate of patients

A credit scoring system similar to that being used to judge consumers' ability to repay loans may soon determine patients' medical credit worthiness.

The so-called "medFICO" score is being developed by Healthcare Analytics Inc., a Waltham, Mass.-based health technology firm, with \$30 million in funding from Tenet Healthcare Corp., a Dallas-based hospital system; North Bridge Venture Partners, a Marlborough, Mass.-based venture capital firm; and Fair Isaac Corp., the Minneapolis firm responsible for the original FICO score.

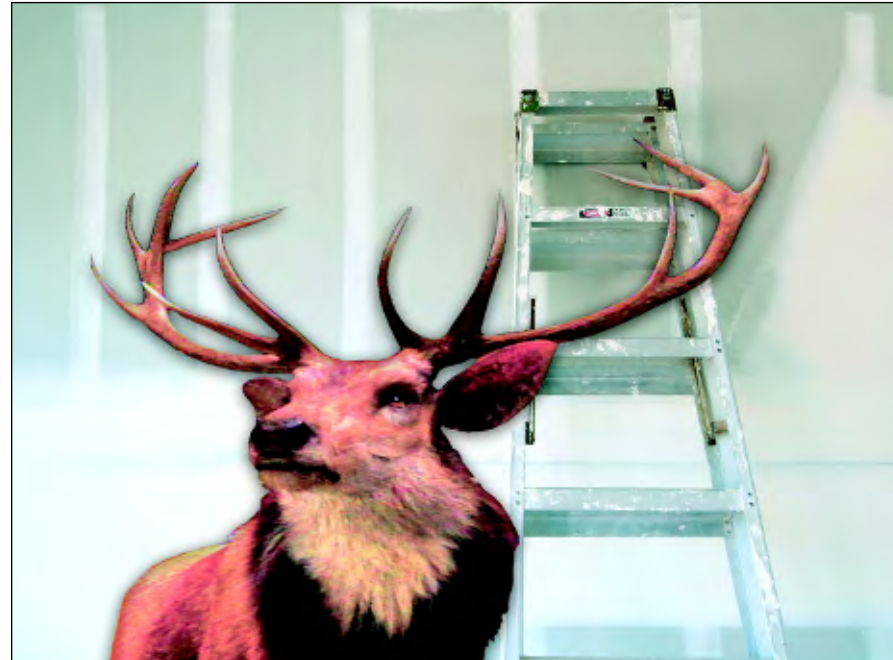
HAI said the medFICO score may debut this summer in some U.S. hospitals, but consumer advocates are raising questions that could delay the launch. Their primary concern is whether patients with low medFICO scores would either be denied care or receive lower-quality care, said Linda Foley, founder of the Identity Theft Resource Center in San Diego.

A spokesman for HAI, however, said the score would be used only after a patient is released from a hospital to determine what form of relief a hospital should grant if the patient cannot pay the bill.

"They could check the patient's credit report and get the same information," said Ms. Foley, who objects to a separate medical credit scoring system. "Will this come under the Fair Credit Reporting Act because it's based on payment history? Will we be able to review it and correct errors? We have more questions and are still waiting for the answers," she said.

Hospitals and doctors are allowed to report health care debts to credit reporting agencies, but under FCRA such reporting must be done in a way that does not reveal personal medical information.

A spokesman for the Federal Trade Commission in Washington said the agency is aware of medFICO but declined to comment on whether any enforcement action would be taken. He did point out, however, that the FTC filed charges against Eden Prairie, Minn.-based Ingenix Inc. and Seattle-based Milliman Inc. when the FTC thought the consumer medical profiles the companies provided were being misused when determining eligibility for life and health insurance. The charges were settled in last September.



## Employee of Hartford renovates bank account

A Connecticut insurance company employee didn't just rearrange the furniture, he sold it.

Todd Olynciw was accused of defrauding Hartford Financial Services Group Inc. of nearly \$900,000 during a seven-year renovation project. He pleaded guilty Jan. 2 before a federal judge in Bridgeport, Conn., to charges of mail fraud and tax evasion.

Prosecutors said Mr. Olynciw was a project manager with the Hartford, Conn.-based insurer, overseeing a renovation project from July 1998 through July 2005 that included removal and installation of furniture and flooring in Hartford's home offices.

Mr. Olynciw admitted he received about \$400,000 in illegal kickbacks for steering some of the work and transferring furniture to two people and six entities throughout the project. It was part of a fraud scheme in which he would receive payments of about 45% to 50% of the resale price of the furniture, according to court documents.

Prosecutors said Hartford lost more than \$875,000 as a result of the scheme. They also said Mr. Olynciw failed to report the income on his personal income tax returns.

Mr. Olynciw, who faces up to 25 years in prison, is scheduled to be sentenced March 24.

## \$3 quadrillion sought from Army Corps

Where's sovereign immunity when you need it?

That's a question the Army Corps of Engineers has every right to ask as it continues to confront lawsuits stemming from Hurricane Katrina losses.

According to an Associated Press report, the Corps has received at least 247 claims in excess of at least \$1 billion apiece so far. The Corps released the zip codes, but not the names, of the 247 claimants, and 15 were identified as being businesses. Several of those businesses are insurers, according to the AP report.

The 247 claims seeking at least \$1 billion are simply the largest of nearly a half-million claims filed against the federal government so far over damage suffered after levees and flood walls failed before the fury of the 2005 hurricane.

But one claim far outstrips the others. An unidentified claimant in Baker, La., is seeking \$3 quadrillion in damages. That's "3" followed by 15 zeros. Given that the nation's estimated gross domestic product is somewhere around \$14 trillion, he or she would have to wait quite a while for a payout.

## Meth liability crystal clear

The Toronto Globe and Mail recently reported that a Saskatchewan woman won a precedent-setting lawsuit against an acquaintance who allegedly sold her a dose of crystal methamphetamine that nearly killed her.

According to the paper, 23-year-old Sandy Bergen said that Clinton Davey had sold her the crystal meth in Biggar, Saskatchewan, in 2004. Ms. Bergen claimed that Mr. Davey sold her the drug even though he knew of its highly addictive and harmful nature, and did so not only to turn a buck but to intentionally cause her suffering as well.

Ms. Bergen also sought Mr. Davey's unknown supplier and when Mr. Davey refused to identify his connection, thus giving rise to a threatened contempt of court charge, Mr. Davey dropped his defense. That, for all practical purposes, amounted to an admission of liability.

How large an award Mr. Davey will have to pay will be determined by another hearing, but

Ms. Bergen is seeking more than \$50,000, according to court documents.

"It's a precedent-setting lawsuit and I'm really happy," Ms. Bergen said, according to the paper. "Now drug dealers can be held liable in that they could lose all their assets and all the money they make from selling drugs."

And as a result, at least one Canadian plaintiff could potentially end up with quite a stash of cash from using drugs.



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