

Business Insurance

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In Brief

Obama signs Fair Pay Act

President Obama last week signed the Lilly Ledbetter Fair Pay Act of 2009, which eases time limits on wage discrimination claims. The Ledbetter Act provides that every paycheck resulting from an earlier discriminatory pay decision constitutes a violation of Title VII of the Civil Rights Act of 1964, as well as the Age Discrimination in Employment Act, the Americans with Disabilities Act and the Rehabilitation Act. The law is retroactive to May 28, 2007. Employer representatives have expressed concern that the law could lead to increased litigation and administrative burdens for many businesses.

Former Willis HRH exec joins Markel

Mike Crowley, most recently president of Willis HRH North America, has joined Markel Corp. as president of its specialty division. Mr. Crowley will be responsible for Markel Insurance Co. and Markel American Insurance Co. Also, Britt Glisson, former president and chief operating officer of Markel Insurance Co., has been named chief administrative officer of Markel Corp. with responsibility for operations in North America, Markel said.

PPG bankruptcy plan includes asbestos trust

A trust funded by PPG Industries Inc. and its insurers would pay out hundreds of millions of dollars in asbestos claims against the firm's 50%-owned Pittsburgh Corning Corp. affiliate under a bankruptcy reorganization plan announced last week. The plan, which still

See **IN BRIEF** page 22



Christian Milton, left, AIG's former vp of reinsurance, arrives at the Abraham A. Ribicoff U.S. Court House in Hartford, Conn., on Jan. 27. Mr. Milton was sentenced last week for his role in a scheme involving finite reinsurance.

Gen Re fraud judge lenient with Milton

Four-year sentence may signal short terms for other defendants

By **COLLEEN MCCARTHY**

HARTFORD, Conn.—A federal judge's decision to impose a prison term far below federal sentencing guidelines for American International Group Inc.'s former vp of reinsurance Christian M. Milton last week demonstrates a pattern that is likely to produce similar results for the remaining defendants, legal experts say.

U.S. District Judge Christopher Droney sentenced Mr. Milton to four years in prison, a \$200,000 fine and two years of supervised release for his role in a fraud scheme involving AIG and General Re Corp. At the sentencing hearing in U.S. District Court in Hartford, Conn., last Tuesday, Judge Droney said the federal sentencing guidelines, which called for life in prison, "were too excessive" for the offense, in

explaining his reason for issuing the non-guideline sentence.

It's the second short prison sentence issued in the case. Last month, Judge Droney issued a non-guideline sentence of two years in prison to former Gen Re Chief Executive Officer Ronald E. Ferguson for his role in the sham reinsurance transaction. Mr. Ferguson also received two years of supervised release and was fined \$200,000.

Because federal sentencing guidelines are no longer mandatory, "the judge seems determined to look at the individual in determining an appropriate sentence," said Peter Henning, a professor at Wayne State University Law School in Detroit. "It's pretty clear that this is his approach" to this case, he said.

Legal experts say while the prison term Mr. Milton received was twice as long as Mr. Ferguson's, the sentence still amounts to a victory for the defense.

"They have to be happy, given what they were up against," said

See **GEN RE** page 21

Employers may see rush for COBRA cover

Proposed legislation would burden firms that laid off workers

By **JERRY GEISEL**

WASHINGTON—Millions of U.S. residents who have been laid off would be eligible for subsidized COBRA health care coverage under legislation racing through Congress, with employers having little time to comply with the numerous and significant requirements laid down by the legislation.

Last week, the House of Representatives and the Senate Finance Committee easily approved massive economic stimulus bills that include a federal subsidy of COBRA premiums for employees who have

lost their jobs.

Under both measures, the federal government would pay 65% of COBRA premiums for employees laid off from Sept. 1, 2008, through Dec. 31, 2009. Under the House bill, premiums would be subsidized up to 12 months, while the Senate measure would limit the subsidy to nine months.

Such a subsidy is needed because COBRA health insurance coverage, in which beneficiaries pay 102% of the cost of coverage provided to employees, is out of reach for many of the unemployed, congressional backers say.

Monthly COBRA premiums of \$400 for single coverage and \$1,200 for family coverage are common, consultants say.

See **COBRA** page 18

Excess casualty MGA welcomed by buyers

Ironshore, C.V. Starr Bermuda venture adds needed capacity

By **SALLY ROBERTS**

HAMILTON, Bermuda—The joint venture managing general agency that was announced last week by Ironshore Inc. and C.V. Starr & Co. Inc. will be a welcome alternative for buyers in the excess casualty marketplace, observers say.

The MGA not only brings together veteran excess casualty experts but, as a combined entity, it also is able to offer larger limits that will be attractive for the Fortune 2000 companies it is targeting, buyers and brokers say. The added competition also may help to keep excess casualty rates stable, some note.

Bermuda-based Iron-Starr Excess Agency Ltd. will act as a specialty lines insurance and reinsurance MGA and initially will write catastrophic excess casualty insurance on behalf of Ironshore and Starr



Shaun Kelly, CEO of Ironshore's U.S. operations, says strong relationships benefit insurance clients.

Insurance & Reinsurance Ltd., an indirect, wholly owned unit of Starr International Co. Inc. SICO is an investment holding company headed by C.V. Starr Chairman and Chief Executive Officer Maurice R.

See **IRON-STARR** page 20

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On the Web

BI AUDIO

InSight podcasts: Buffett, City of Hope, AIA

Warren Buffett biographer Alice Schroeder speaks to *Business Insurance* about the insights she gained into Mr. Buffett's business and investment strategy for insurance while writing her book "The Snowball: Warren Buffett and the Business of Life." *BI* also talks with National Insurance Industry Council President Jerry Sullivan about the council's support of City of Hope and ongoing fundraising efforts. Finally, Lee Ann Pusey talks with *BI* about her new job as president of the American Insurance Assn. and the challenges facing the property/casualty insurance industry in today's political environment. See www.BusinessInsurance.com/audio to access all three podcasts.

COMINGS & GOINGS

Up Close: Deputy counsel to Obama



Neal Wolin, formerly president and chief operating officer of property/casualty

operations for Hartford, Conn.-based Hartford Financial Services Group Inc., has taken the position of deputy counsel to President Barack Obama for economic policy and deputy assistant to the president. Read his profile and see more job appointments at www.BusinessInsurance.com/comingsandgoings.

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Investor fears pressure Swiss Re's stock price

Warren Buffett seen as possible source of additional capital

By JUDY GREENWALD
and MICHAEL BRADFORD

ZURICH, Switzerland—A major plunge in the price of Swiss Reinsurance Co. stock in January reflects investor fear of additional fourth-quarter write-downs stemming from the reinsurer's investment portfolio and the possible need for additional capital, analysts say.

But many observers say Swiss Re is unlikely to be caught up in the same crisis situation faced by American International Group Inc. They also note that, so far, this issue has had no effect on the financial

strength rating of Swiss Re's underwriting operations.

Observers also speculated that Warren Buffett, a partial owner of Swiss Re, may be available as a source of additional capital if necessary.

Swiss Re's stock dropped by about 41% between its close on Jan. 16 and the close on Jan. 23, before recovering somewhat last week, closing Friday at 30.94 Swiss francs (\$26.69) per share.

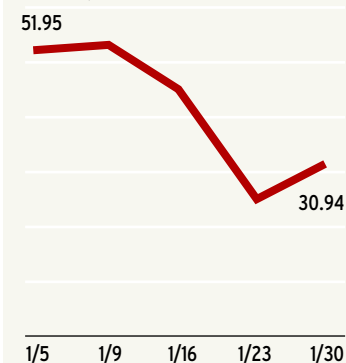
Investor concern is focused around Swiss Re's fourth-quarter results, which are scheduled to be released Feb. 19.

"We saw last week that there are fears about big losses that could show up," said Georg Marti, an equity analyst with Zürcher Kantonalbank in Zurich.

Peter Grant, a credit analyst with Standard & Poor's Corp. in London,

TAKING STOCK

Swiss Re's stock prices since Jan. 5
in Swiss francs.



Source: Swiss Reinsurance Co.

noted investor anxiety in January was not confined to Swiss Re. "The whole sector came under pressure,"

although it is safe to say Swiss Re was "an outlier in terms of the magnitude" of price declines of its stock, Mr. Grant said.

For the nine months that ended Sept. 30, Swiss Re reported a net unrealized capital loss of 5.2 billion Swiss francs (\$4.5 billion) and a net realized capital loss of 2.2 billion Swiss francs (\$1.9 billion).

As part of the net realized loss, Swiss Re incurred an additional loss of 1.5 billion Swiss francs (\$1.3 billion) in mark-to-market adjustments for its exposure to two structured credit default swap transactions, according to Oldwick, N.J.-based A.M. Best Co. Inc.

The reinsurer also reported a net loss of 304 million Swiss francs (\$263.2 million) for the third quarter.

See **SWISS RE** page 20

Medical house calls aim to mend high ER costs

By JOANNE WOJCIK

EVERETT, Wash.—With emergency room utilization on the rise, some Seattle-area employers have begun offering their employees a lower-cost and more convenient alternative: medical house calls.

Microsoft Corp. rolled out its Mobile Medicine program in 2006 on a pilot basis and recently expanded it to encompass all of the software company's 85,000 employees and dependents living in the Puget Sound area.

"Each visit by the Mobile Medicine doctors replaces a visit to the emergency room, therefore saving the company the cost for an ER visit," a Microsoft spokeswoman said. While the typical ER charge averages approximately \$850 in the Puget Sound area, house calls cost up to one-third less, she said.

An August 2008 study by Axene Health Partners L.L.C., a Seattle-based health care consulting and actuarial firm, found that 80% of Microsoft employees who used the house call service would have gone to the ER instead if the service wasn't available.

According to the Centers for Disease Control & Prevention, hospital emergency room use has risen 36% during the past decade. And it's the insured, not the uninsured, population that is fueling most of the growth, according to an October study published in the *Journal of American Medical Assn.* A separate analysis of claims data from large employers conducted by Watson Wyatt Worldwide in 2007 found that, on average, 142 people use the emergency room annually per 1,000 enrollees in an employer-sponsored health plan.

Patients are going to the ER for all

sorts of conditions—most of which do not require such an intensive level of care, experts say—because they have nowhere else to turn. With doctors' offices closed most evenings and on weekends, patients often seek emergency room care because they have no alternative, health care experts concur.

While older generations may recall the old-fashioned house call that was common until the early 1960s, that practice pretty much has disappeared in recent years.

However, spurred by an increase in the reimbursement rate for home health visits from Medicare and Medicaid, medical house call services are springing up

around the country to provide care to homebound individuals. Doctors under contract with Independence Blue Cross, for example, provide around-the-clock house calls to chronically ill people who are at high risk of medical complications, according to the Philadelphia-based Blues affiliate. A handful of medical house call services also

have set up shop in major metropolitan areas to provide lower-cost urgent care to the uninsured or individuals with high-deductible health plans.

Seattle-based Carena, by contrast, is specifically targeting the self-insured employer market so it can build its client base a lot quicker, according to Ralph Derrickson, president and chief executive officer. In addition to Microsoft, Carena has nine employer clients in the Seattle area. It also is conducting a pilot project involving employees of the state of Kentucky.

Carena's newest client, the Everett School Employees Benefit Trust,

See **HOUSE CALLS** page 18



Winter storm Klaus caused extensive damage to the Landes forest near Moustey, France, which is one of Europe's largest timber-growing areas. REUTERS

European storm losses could exceed \$1 billion

Klaus destruction the worst since a trio of 1999 winter storms

By SARAH VEYSEY

Insured losses from winter storm Klaus, which ripped through parts of France and Spain late last month, could be in the billions of dollars, according to preliminary estimates.

The strong extratropical cyclone came ashore in southwestern France and traveled across northern Spain Jan. 24 and 25. The storm left widespread destruction, including damage to buildings, power outages and flooding. It also disrupted travel.

Klaus, packing winds as high as 194 kilometers per hour (120 mph), reportedly killed more than 20 people.

Catastrophe modeling firm EQECAT Inc. said its initial estimate of insured losses in France ranged from €800 million to €2.5 billion (\$1.04 billion to \$3.24 billion), noting that it expects a similar total in

Spain. Meanwhile, catastrophe modeler AIR Worldwide Corp. estimated insured losses ranged from €350 million to €700 million (\$454 million to \$908 million).

The French meteorological office, Meteo France, issued a red alert for five departments in southwest France on Jan. 24 as winds of above 160 kph (100 mph) swept the region. A gust of 184 kph (114 mph) was recorded in the eastern Pyrenees near Perpignan.

In a note to clients, Oakland, Calif.-based EQECAT said gusts up to 194 kph (120 mph) were recorded in Spain, which is equivalent to a Category 3 hurricane.

French authorities declared a state of emergency in eight departments on Jan. 26 because of the risk of flooding following the storm.

"Klaus caused significant damage to electrical and telecommunications lines, and hundreds of thousands of homes remain without service in France," Boston-based AIR Worldwide said in a statement.

See **KLAUS** page 6

Truck firms struggle to reverse sharp rise in cargo thefts

Insurers working with others to manage risks associated with thefts

By ZACK PHILLIPS

Truck cargo thefts, which cost the U.S. shipping industry tens of billions of dollars a year, have increased significantly in the past year, risk managers and insurers say.

Shippers, trucking companies, insurers and law enforcement officials are collaborating more and adopting a range of risk management tactics to combat organized syndicates of thieves and their black market vendors.

In 2008, U.S. truck cargo thefts, defined as full truckloads stolen, increased 13% from 2007, accord-

ing to FreightWatch International (USA) Inc., an Austin, Texas-based logistics security agency that tracks freight thefts.

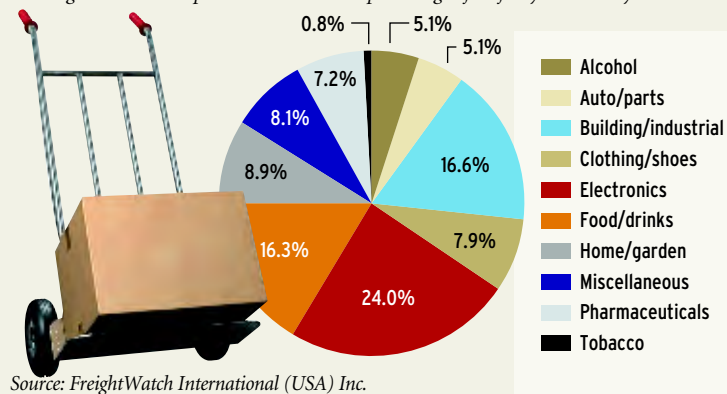
Law enforcement and industry officials estimate that truck cargo thefts cost the U.S. shipping industry \$15 billion to \$30 billion a year, although many analysts say that range understates the losses.

FreightWatch and insurers are quick to urge caution in reading the numbers, because no entity compiled statistics on truck cargo thefts prior to 2006. Even now, industry observers say they are not sure the figures capture all theft; some shippers and trucking companies are reluctant to report thefts out of concern for their reputation and insurance costs.

But insurers and risk managers agree truck cargo theft is a signifi-

CARGO THEFTS

Thefts of full loads of cargo increased 13% in 2008 vs. 2007, with major spikes in alcohol, building materials and pharmaceuticals. The percentage of the thefts by commodity in 2008 were:



Source: FreightWatch International (USA) Inc.

cant problem that has been growing more acute in recent years.

"Over-the-road thefts have been

on fairly significant increase," said Brandon Stroud, vp-loss prevention for North Kingstown, R.I.-based

Falvey Cargo Underwriting Ltd.

The vast majority of cargo thefts come from stealing unattended trucks. Some criminal gangs station themselves at truck stops waiting for a trucker to leave his truck unattended; others monitor manufacturing plants and distribution centers for new shipments and follow a departing trailer until the driver stops and leaves the truck, experts say. Once they have stolen the truck, the trailer or the cargo, the thieves typically move the cargo to another vehicle or unload it into a warehouse.

While pharmaceutical thefts were just more than 7% of truckloads stolen in 2008 (see chart), their number rose sharply and their average value spiked to \$1.5 million to dwarf all other categories in value,

See **CARGO** page 21

Questions & Answers

Leigh Ann Pusey became president and chief executive officer of the Washington-based American Insurance Assn. on Feb. 1. Ms. Pusey, who joined AIA as senior vp-public affairs in 1996, most recently served as the insurer group's chief operating officer and senior vp-government affairs. She previously held several political positions, including communications director for former U.S. House Speaker Newt Gingrich, R-Ga. She spoke recently with Business Insurance Senior Editor Mark A. Hofmann about the challenges facing AIA and the property/casualty insurance industry in today's political environment.



Opportunity, challenges ahead for P/C insurers

Q: What are the biggest challenges facing AIA and the property/casualty insurance industry in general on Capitol Hill?

It's obviously going to be a very busy time in Washington and on Capitol Hill. The financial crisis has certainly generated a lot of that energy along with, obviously, a new administration. But the financial crisis and the resulting lack of confidence in our financial system has really challenged the broader financial services community and, by extension, the insurance community.

For example, I think that there'll be actions by Congress to address that lack of confidence, to address what has emerged as a theme that somehow there was not enough regulation, that an era of free markets brought about deregulation of these important industries that led to and contributed to the excesses in the market and the challenges and the failures of the market today. As a result, I think Congress will feel

compelled to respond. They obviously have been talking about that for several months now and that may well lend itself to a heavier hand-type regulation.

I think there are many in Congress who will try to resist that on both sides of the aisle, recognizing that we have to have smarter regulation, not just more regulation, in order to not only instill confidence in the marketplace but

to, quite frankly, get the market working again.

For that reason, I think that there will be a hearty debate in Congress that will create a lot of challenges for the broader financial community and for insurance, because we believe that insurance will be caught up in that debate—both in terms of short-term goals that might deal with systemic risk

See **PUSEY** page 11



Ruling in drownings case may spark more occurrence disputes: Experts

Illinois high court rules against insurer on cause of deaths

By SALLY ROBERTS

SPRINGFIELD, III.—The accidental deaths of two boys who fell into an excavation pit that was not properly secured and maintained constitutes two occurrences under the landowner's commercial general liability policy, the Illinois Supreme Court has ruled.

In reversing an appellate court decision in *Addison Insurance Co. vs. Donna Fay*, the state high court ruled that although the boys'

deaths resulted from a single continuous cause—the landowner's failure to maintain the property—the insurer did not meet its burden of proving that the injuries were so closely linked in time and space as to be considered one event.

The pro-policyholder ruling surprised some insurer attorneys who said it could lead to more litigation and more inconsistent decisions as the court opened the door to a more fact-intensive consideration when determining the number of occurrence in liability disputes.

The case involved two teenagers who, in 1997, went missing after an evening of fishing at a nearby lake. Their bodies were discovered three days later trapped in wet clay and

sand at the edge of a pool of water in an excavation pit close to one of the victim's homes. The excavation pit was on land owned by Donald Parrish, who operated a business from the property, court papers say.

Medical examiners concluded one of the teenagers died as a result of hypothermia, while the other teenager died as a result of drowning, secondary to hypothermia. The circumstances leading up to the deaths, however, were inconclusive.

The families of the two boys initially brought suit against Mr. Parrish. Addison Insurance Co., Mr. Parrish's commercial liability insurer, agreed to settle the claim for the

See **ILLINOIS** page 14

States look to dissolve monopolies in workers compensation insurance

Private insurers would be allowed to compete for business

By ROBERTO CENICEROS

Debates are under way in Ohio and North Dakota whether to eliminate state-established workers compensation insurance monopolies by allowing private insurers to compete for employers' business.

The two states are among four states, including Washington and Wyoming, with workers comp monopolies. The Wyoming system is considered monopolistic, although certain companies can opt out of purchasing coverage from the state.

In Ohio, state Sen. Timothy J.



Ohio state Sen. Timothy J. Grendell, R-Chesterland, said owners of small businesses have told him purchasing coverage from the BWC is too costly and he supports market competition.

Grendell, R-Chesterland, said he met with several insurers last week as he prepares legislation to allow insurers

to compete against the Ohio Bureau of Workers' Compensation.

The senator said insurers told him they would like to provide coverage in Ohio and he plans to introduce such a bill later this month.

Sen. Grendell said owners of small businesses have told him purchasing coverage from the BWC is too costly and, for ideological reasons, he supports market competition.

But Ohio's workers comp system remains viable, said Tony Fiore, director of labor and human resource policy for the Ohio Chamber of Commerce in Columbus.

During past years' discussions about privatizing workers comp coverage, insurers never showed Ohio employers they could reduce

See **FREE MARKET** page 22

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Responsibility. What's your policy?

Klaus: Storm socks France and Spain

CONTINUED FROM PAGE 3

“Very large claims from utility companies are possible. Business interruption losses may be considerable depending on how long it takes for power to be restored.”

The lumber industry was hit particularly hard, with the storm reportedly felling 60% to 70% of pine trees in parts of southwestern France.

While the region accounts for about one-third of France’s lumber production, only a small percentage of forests are insured against storm damage, according to AIR.

The French insurer association, Fédération Française des Sociétés d’Assurances, said its members had mobilized to help victims of the storm and ensure that policyholders’ situations were addressed as swiftly as possible.

Three major types of insurance are likely to respond to the event, the FFSA said in a statement.

Insurance for damage to buildings, both business and residential, includes storm coverage. That cover does not require an event to be classed as a “natural catastrophe” to be activated, the FFSA said.

Vehicle insurance may include cover for storm damage if the policy includes a guarantee for damage or fire. Anyone who has suffered an injury as a result of the storm may be covered by their accident insurance policy, it said.

Klaus was the most intense and damaging weather to hit the region since windstorms Anatol, Lothar and Martin hit portions of Europe in 1999, experts said. The combined



REUTERS

Children in Santa Coloma de Cervello, Spain, walk by a sports center that was heavily damaged last month by high winds in a major winter storm.

insured losses from the three storms topped €10 billion (\$10.29 billion) in 1999 currency values.

Klaus serves as an important reminder how natural catastrophes can affect the insurance market, experts say.

While Klaus affected a less industrial region of France than did Martin 10 years earlier, Patrick de La Morinerie, deputy chief executive officer of AXA Corporate Solutions, said the 1999 storms prompted installation of an early warning system that system worked well during the January storm.

“People were very well-prepared” when the storm struck during a weekend, he said.

Some industrial areas were affected—in the Basque area, the Landes lumber-producing region and Galicia in Spain, but there were few notifications of claims as of last week, Mr. de La Morinerie said.

He said he expected there to be few aviation or marine losses related to the storm.

The recent storm underlines the importance of an increase in natural catastrophe events, noted Guy Lallour, chief executive of XL Insurance in France.

While insurance buyers’ risks are treated on a case-by-case basis, large losses such as natural catastrophes must shared in the market to some extent, Mr. Lallour said.

Commentary

Bush support for TRIA remains a lasting legacy

Presidential legacies are far from fixed in stone decades or even centuries after the incumbent hands over the keys to 1600 Pennsylvania Ave. to his successor and heads home.

The reputations of some, like Dwight Eisenhower, have grown with the passage of time while those of others, such as Warren Harding, have waned to the point of disappearance. George W. Bush may have left office a few days ago with dismal public approval ratings, but no one can say for sure how he’ll be viewed in 2059. As some of his supporters point out, Harry Truman also left the White House under a cloud of public disapproval yet within fewer than 50 years had achieved the status of one of the greater presidents.

While Mr. Bush’s overall legacy will remain unknown, the outlines of his legacy in regard to risk management issues already are apparent. He pushed for tort reform with varying degrees of success but, ironically, his greatest risk management-related achievement is one he later did his best to repudiate.

That was the creation of the federal government’s terrorism insurance backstop, an idea that emerged within days of the terrorist attacks in New York, Washington and in the sky over Pennsylvania on Sept. 11, 2001. Legitimate fears arose during the confusion after the attacks that construction would grind to a halt in

any potential terrorist target. Lenders would not provide financing to projects that lacked insurance, and underwriters wouldn’t insure what they considered to be an uninsurable risk.

President Bush emerged as proponent in chief of the terrorism insurance backstop as 2001 turned into 2002.

“This is a bill that helps workers and helps strengthen our economy,” said the president in a speech delivered on April 8, 2002. “This is an important piece of legislation. I’ve heard some talk on Capitol Hill that the facts don’t justify this type of legislation, the facts don’t justify the federal government stepping in as a stopgap. They’re not looking at the right set of facts, as far as I’m concerned.”

By taking the position he did, President Bush took on some prominent members of his own party. But after a series of false starts and a good deal of congressional wrangling, both houses passed the Terrorism Risk Insurance Act, which the president signed into law in November 2002, saying TRIA would spur growth and discourage “abusive” lawsuits.



MARK A. HOFMANN

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But when the time arrived to extend the program in 2005, the president’s attitude toward the program created by TRIA had totally changed. Maybe he was looking at a different set of facts. Rather than promote the backstop as a means to encourage economic activity, the administration called for scaling it back to encourage the creation of a private terrorism insurance market. But absent some sort of backstop, no significant private market was likely to emerge.

Despite the presidential

Mr. Bush’s greatest risk management-related achievement is one he later did his best to repudiate.

change of heart, Congress extended the backstop in 2005 and then renewed it in 2007, this time for seven years. Although the administration argued again against extending the backstop except in the most bare-bones manner, President Bush signed the 2007 extension bill without ceremony.

That was too bad, for extension of the backstop was worth celebrating. The terrorism insurance program promotes economic and national security goals. As House Financial Services Committee Chairman Barney Frank, D-Mass., noted on more than one occasion, to abandon development in certain metropolitan areas because of fear of terrorism would hand the terrorists a victory. The backstop helped prevent such a surrender.

Historians will debate the totality of Mr. Bush’s legacy for years to come. But the terrorism insurance backstop, despite Mr. Bush’s apparent about-face on the issue, must be taken as one of the Bush administration’s more significant policy achievements whether or not members of the former administration chose to recognize it as such.

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Business Insurance OPINIONS

Insurers, reinsurers must stay disciplined

NOW IS A TERRIBLE time for insurance and reinsurance companies to report write-downs on investment portfolios, as Swiss Reinsurance Co. has learned recently.

As we report on page 3, Swiss Re posted a net unrealized capital loss of 5.2 billion Swiss francs (\$4.5 billion) as well as a net realized loss of 2.2 billion Swiss francs (\$1.9 billion) for the first nine months of 2008.

The bad news for investors included a 1.5 billion Swiss franc (\$1.3 billion) write-down on the reinsurer's exposure to certain credit default swaps and a nearly 78% drop in profits, to 884 million Swiss francs (\$765.3 million) for the period.

Not surprisingly, the stock market didn't react well, driving Swiss Re shares down by 41% one week last month.

It's important to remember that the economic environment makes it difficult for any company to increase investment returns. That's an acute problem for insurers, which rely on investments to offset underwriting losses.

Swiss Re and others in the industry are pressured by the need to correctly price the risks they take.

"Maintaining underwriting discipline" often is said but less often practiced when markets are competitive. We hope insurers and reinsurers take those words to heart, so they can remain financially strong for their customers.

The economic environment makes it difficult for any company to increase investment returns.

401(k) investors need help to choose wisely

WHAT IS HAPPENING to 401(k) plan participants' account balances is not good news.

Last week, mutual fund provider and 401(k) plan administrator Fidelity Investments reported that the average account balance in 2008 dropped to \$50,200, a 27% fall from 2007 and the biggest year-to-year decrease since Fidelity began tracking such statistics in 1999.

With that decline, the average account balance is at its lowest level since 2002, which means many participants have surrendered the investment gains they earned during the bull market of the past few years.

This isn't surprising because 401(k) plan participants invest heavily in equities, which took a huge tumble last year.

But does this mean, as critics would maintain, that 401(k) plans are a bad idea as they expose unsophisticated investors to big risk?

Undeniably, participants are exposed to risk and account balances have been battered, as the Fidelity study illustrates. That, however, does not mean the plans are flawed. Few said the plans were a bad idea when the stock market was soaring and many participants were seeing double-digit yearly increases in the value of their accounts.

What the numbers illustrate is the importance of investment education. A troubling number in the Fidelity study is that, in 2000, more than one-third of participants had invested all of their 401(k) assets in equities. Even as recently as 2007, 20% of participants still were invested entirely in equities.

Prudence suggests 401(k) assets, no matter the investor's age, be placed in a mixture of risks, including bonds, money market-type funds as well as equities. That's financial education that employers need to do a better job of making available to plan participants.



WRITE

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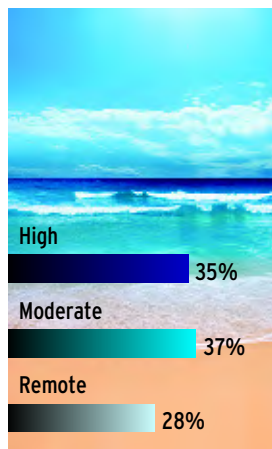
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THIS WEEK'S RESULTS

What are the chances that Congress will act this year to close tax loopholes for companies with offshore operations?



NEXT WEEK'S QUESTION

Will insurers' and reinsurers' investment losses lead to higher rates this year?

BI Online Poll tool is sponsored by Wausau Insurance Cos.

LETTERS

Greenberg's counsel incorrect on history

TO THE EDITOR: I write in response to the letter to the editor ("Greenberg Profile Missed Some Facts," *BI*, Jan. 26) from Nicholas A. Gravante Jr. of Boies, Schiller & Flexner L.L.P., the law firm representing Hank Greenberg, in order to correct certain inaccuracies in Mr. Gravante's letter.

First, Mr. Gravante is incorrect that Mr. Greenberg's departure from AIG was the result of a "dispute with the AIG board regarding the company's response to threats from then-New York Attorney General Eliot Spitzer." Mr. Greenberg was forced to resign as AIG's CEO in March 2005 because he had informed AIG's board of directors that he could not "rule out" taking the Fifth Amendment at an upcoming deposition jointly noticed by the Securities and Exchange Commission and the New York attorney general, and because AIG's outside auditor had determined that it could no longer rely on Mr. Greenberg's certification of the company's financial

See **LETTERS** page 13

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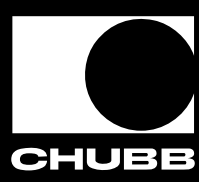
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Questions Answers



Jerry Sullivan is chairman of Gerald J. Sullivan & Associates, the lead company of the Los Angeles-based Sullivan Group of insurance-related companies that specialize in a variety of coverages, particularly surplus lines. For decades, he has participated in the National Insurance Industry Council, which supports the City of Hope. The Duarte, Calif., biomedical research and treatment center is dedicated to the prevention, treatment and cure of cancer and other life-threatening diseases. Mr. Sullivan, who received the City of Hope's Spirit of Life Award in 1997, became president of the council last year. He recently spoke with Business Insurance Senior Editor Meg Fletcher about its ongoing fundraising efforts.

Insurance industry helps build City of Hope

Q: What does the City of Hope mean to you?

The City of Hope is one of the leading institutions in this country that targets the really difficult issue of cancer. It is important to all of us since we all have family or associates who have suffered the scourge of cancer. It's a place where you can get the best treatment, if you need it, or the best information about where to get treatment.

It's an enormously powerful tool. They operate with about 50% clinical services where they actually do treatment, and about 50% cutting-edge research.

Q: How has the insurance industry helped the hospital?

The insurance council itself is made up of a lot of folks in and around the insurance industry, including brokers, actuaries and lawyers. It's just great being able to work with all these various people, all of whom get quite excited about being supportive to City of Hope. So it becomes a cause, if you will, to all of us.

Primarily, our role has been to provide financial support and to get a lot of people to help in that process.

Over the years we've been doing this, we've raised close to \$20 million for the hospital and, needless to say, that's a significant, significant issue.

nificant, significant issue.

Q: How has the insurance industry's fundraising group developed and changed throughout the years?

We started out initially in the late 1970s as just a group from Southern California where the City of Hope is located. It began to expand and we ended up getting people involved from different parts of the country at one time or another. There had been a separate insurance council for the insurance industry headquartered in Chicago and they operated kind of on their own for several years. Those two groups are together and now we operate as a national insurance council.

So that's been quite a change for us, and we've had to learn how to deal with issues across the country and not just being focused on the Western states.

Q: Which insurance industry executives were designated recently as honorees?

Stephen Lilienthal, chairman and CEO of CNA, was our 2008 honoree at a dinner in November in Chicago.

This year our honoree is Jim Weidner, who's CEO of (the Cooperative of American Physicians Mutual Protection Trust) in Los Angeles. He is also vice chair of the

Physician Insurers Assn. of America, a trade group of medical malpractice insurers that are owned by practitioners.

Jim has been a longtime supporter of City of Hope and the national insurance council; and he's already got our campaign up and running for this year's dinner, which we'll be holding here in Southern California on Nov. 14.

Q: Asking companies and individuals to donate to charitable causes, such as City of Hope, can be challenging, especially in the midst of a recession. Are there any particular strategies that you find helpful in trying to raise funds during difficult times?

Raising funds is never easy and, in difficult times, it's just that much more of a challenge. The things that we find that work most effectively are simply making known the enormously positive work that City of Hope does in its research in moving forward the treatment of cancer, which afflicts so many people nationwide. The City of Hope also collaborates with research institutions all across the country. Its research and services reach folks all across the country.



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Pusey: Opportunity, challenges ahead for property/casualty insurers

CONTINUED FROM PAGE 4

and longer-term goals to, in fact, modernize that regulatory structure.

Q: What specific issues will AIA pursue in the new Congress?

I think against that backdrop that we've just been talking about, I think we will certainly be working towards developing some expertise on insurance issues at the federal level. Historically, AIA has done this through advocacy on issues such as an optional federal charter—creating, in fact, federal regulation for those insurers who choose it—much like the dual banking system. And I think that we're going to have to morph that conversation in the backdrop of the current financial crisis. I think we will continue to advocate optional federal charter with an emphasis on developing expertise about the insurance industry at the federal level.

That could be accomplished, in part, through developing an Office of Insurance Information or any other kind of office at the Treasury Department that could gather and collect information on the industry.

More importantly, we would hope to move beyond that into a real debate about how to modernize those financial structures. And so, while we're looking at better ways to regulate banks and securities firms and those unregulated markets and products like hedge funds and other products, we would hope that insurance would be a logical part of that. We'll be pursuing smart regulation vs. just more regulation, and we'll be trying to do that against this backdrop and preserve along the way the tools that insurers need for underwriting.

I think the biggest challenge for the financial services sector in general is the whole confidence question. I think, with respect to insurance, the best consumer protection we can offer customers right now is the safety and soundness of our industry. To the extent that improved and smart regulation can lend itself to that, then that's the best thing we have to offer.

I think "consumer protection" is a buzzword and it's used by folks on all sides of all the debates to mean different things. But clearly this crisis has proved to us, as I think it has to every American who's invested a nickel out there, that the most important thing you can have is confidence in those institutions, confidence that those institutions are going to be around to do whatever you pay them to do, whether that's paying a claim in our case. And to know and have confidence that there's a regulatory structure in place, that's going to help that company prosper so that it's in a position to pay that claim when you need it to.

Q: Speaking of consumers, what advice would you give risk managers who want to get their concerns heard in Congress?

Well, again, I think one of the biggest challenges for the industry is a lack of knowledge about the

'I think, with respect to insurance, the best consumer protection we can offer customers right now is the safety and soundness of our industry.'

Leigh Ann Pusey, American Insurance Assn.

insurance industry, about our products. And related to that is, really, the challenges that risk managers face every day in their role.

Never has their role been more important than, again, this...financial crisis puts the spotlight on the importance of assessing that risk and

those folks are on the front line of that. So I would encourage them to get very engaged even at the local level in town hall meetings. As trite as it may sound, I think engaging with policymakers to not only understand the industry better, but to really perhaps come up with some

creative solutions...as opposed to just saying no to things or perhaps staying out of a debate for fear of the controversy. I think that we have a real opportunity here to inform policymakers at all levels—state legislative and as well as congressional level—about our industry.

There's an interest now. They want to know and the risk managers are in a unique position, I think, to enhance their knowledge and understanding of the industry, so I'd encourage them to get more engaged.

Q: Through events such as the Risk & Insurance Management Society Inc.'s RIMS on the Hill?

Absolutely. They do a great job and they've testified and really been a true voice of the consumer for many of these insurance products. And so when...there are other consumer groups that certainly have their issues, but I think it's always great to have RIMS up there.

I can think of many issues, but the Terrorism Risk Insurance Act comes to mind in particular. They are the true consumer of that product, and it was a very important element of that debate and they were an important part of the coalition working over those many years to ensure that we had a good terrorism insurance program in place.

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Buffett book reveals the man, less clear on investment secrets

'The Snowball' delves into life, work of Oracle of Omaha

By KRISTIN GUNDERSON HUNT

The life and personality of investor Warren Buffett are portrayed clearly in a more-than-800-page, expansive and thorough biography, "The Snowball: Warren Buffett and the Business of Life."

Mr. Buffett permitted author and former insurance industry analyst Alice Schroeder to delve deeply into his life and explore the person and experiences behind the many investment decisions that made the man known as the Oracle of Omaha the richest man in the world. She had access to Mr. Buffett, his family, friends, colleagues and his personal files to tell a fairly unknown side of his story.

While the book's countless anecdotes reveal Mr. Buffett on a personal and professional level and expand on the characters of people with whom he has chosen to surround himself throughout his life, his investment strategies are not laid out nearly as clearly.

One must read carefully between the lines and the detailed accounts of his life and business experiences to realize Mr. Buffett's investment lessons within the book. The information is there, but it easily can be overshadowed by tales about his childhood, complicated relationships with women, and conflicts or avoiding conflicts with business partners.

Lessons he learned from investing in insurance companies such as Government Employees Insurance Co., better known as GEICO, General Re Corp. and National Indemnity Co. also can get lost in the mix, but readers no doubt will pick up on Mr. Buffett's fascination with the insurance industry and understanding that the business is challenging.

Mr. Buffett encountered an unsettling pattern with his numerous and diverse insurance investments.

Soon after investing, the companies would go "straight into a ditch" and then he'd have to "call the tow truck"—or call on management or often hire new management to salvage the disaster, according to the book.

The book does not delve into the recent General Re case and the resulting trials and convictions of company executives, mainly because Ms. Schroeder was a witness during the litigation and is under subpoena from former AIG chief executive officer Maurice R. Greenberg in a related case. As a result, Ms. Schroeder said in the afterword she cannot comment further on the cases at this time. While the situation is mentioned briefly in the afterword, it offers little insight into what happened and how Mr. Buffett escaped involvement.

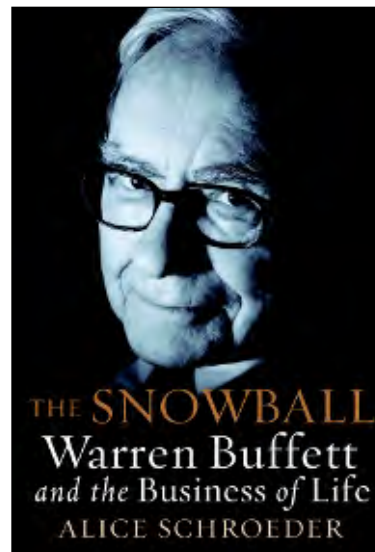
Despite the problems Mr. Buffett



has run into with investing in insurance, readers will sense the man who once aspired to be an actuary still has an affinity for the business because of its statistical nature and how it requires betting against the odds. He even indicates that some peo-

ple might have an insurance gene, which is "made up of one part knack for handicapping mixed with two parts dark skepticism about human nature."

Overall, "The Snowball" is an interesting book that allows readers to get to know the man behind the billions Mr. Buffett has made, even if it doesn't directly tell readers how to make their first million.



"The Snowball: Warren Buffett and the Business of Life"

By Alice Schroeder. \$35. Published by Bantam Dell Publishing Group, a division of Random House Inc., 1745 Broadway, New York, N.Y. 10019. 1-800-733-3000. <http://www.randomhouse.com/bantamdell/snowball/>

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LETTERS

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results. Mr. Greenberg did subsequently take the Fifth Amendment at that deposition in April 2005 and then did so again as recently as last fall at a deposition in the ongoing case brought by the NYAG (referenced in Mr. Gravante's letter) in which the NYAG seeks hundreds of millions of dollars in damages from Mr. Greenberg for securities fraud violations.

As for Mr. Gravante's one-sided mischaracterization of AIG's May 2005 earnings restatement, AIG restated its earnings at that time because it came to the conclusion

that "(c)ertain of AIG's controls...were not effective to prevent...the former chief executive officer...from having the ability...to override certain controls and effect certain transactions (that) appear to have been largely motivated to achieve desired accounting results." Indeed, one of those transactions is the purported assumed reinsurance transaction with Gen Re that led to Mr. Greenberg being named "unindicted co-conspirator No. 1" at the recent federal criminal trial which resulted in the convictions of four former Gen Re executives and one former AIG executive.

The Gen Re transaction and oth-

er transactions also led the SEC to issue a Wells Notice to Mr. Greenberg as part of its own ongoing investigation.

Finally, the evidence at the upcoming trial in March 2009 will show that AIG is entitled to the return of a large block of AIG common stock that had been held in trust for more than three decades by Starr International Co. to be used solely for the purpose of providing long-term deferred compensation for current and future generations of AIG employees.

Among other things, the evidence at trial will include videotapes of Mr. Greenberg—recorded

while he was still AIG's CEO—solemnly promising to AIG employees that those shares were being held for them "in trust" and could not be used by anyone for any purpose other than paying the deferred compensation of AIG employees. Immediately after his departure from AIG in 2005, Mr. Greenberg repudiated his own statements by staging a coup d'état at SICO, replacing its board and converting it into a private investment vehicle which has sold many of the shares held in trust to fund investments in Russian real estate, among other things.

If Mr. Greenberg really means

what he has been saying in statements to politicians and the media about helping AIG and its shareholders, then he should stop trying to deflect blame for his own actions by attacking regulators and AIG, and instead return the shares he wrongfully misappropriated from AIG and its employees (including the proceeds from any sales of those shares), as well as reimburse AIG for the more than \$1 billion it has cost the company and its shareholders to resolve the regulatory investigations stemming from his conduct.

Roberta A. Kaplan

Paul, Weiss, Rifkind, Wharton & Garrison L.L.P.

(Editor's note: New York-based law firm Paul, Weiss, Rifkind, Wharton & Garrison L.L.P. represents AIG.)

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Retiring 'Wausau' brand ends an era

TO THE EDITOR: It was with very mixed emotions that I read about the end of an era as Liberty Mutual retired the venerable Wausau brand and shuttered its direct sales operations to middle-market employers ("Liberty Mutual Retools Middle-Market Business," *BI*, Jan. 26). Hundreds, if not thousands, of independent agents owe a debt of gratitude to Liberty and Wausau for training us in sales and insurance. Liberty and Wausau have been powerful competitors as the direct-dealing alternative to the independent brokerage system.

As an independent broker, I am thrilled that the superior choice we provide to clients has again been recognized; but as a former Liberty Mutual producer and manager, I am saddened by the end of a great selling organization.

I look forward to working with Liberty underwriters going forward and have nothing negative to say. I understand the forces at work here, but feel something more should be said about the end of a system that gave so many of us our start in this business. Selling business insurance is about meeting and exceeding client expectations.

There are many fine insurers out there and brokers are challenged to find the best choices for their clients. Adding the Liberty Group to the broker company mix is certainly a good thing for the brokerage system.

Robert L. Barrese

Executive Vp
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WRITE

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Illinois: High court rules against insurer

CONTINUED FROM PAGE 4

\$1 million per occurrence limit on the policy, but the families argued they were entitled to the \$2 million aggregate limit.

Addison Insurance brought a declaratory action to resolve the issue.

The trial court ruled that the deaths were the result of two occurrences, but an appeals court reversed the decision, concluding that the deaths were so closely linked in time and space as to be one occurrence.

On Jan. 23 the Illinois Supreme Court reversed the appellate court decision, ruling that because it could not be concluded with any certainty the time of either boy's death, or how closely in time the boys had perished, "there is little evidence to support Addison's claims that the injuries suffered by these two boys were the result of a single occurrence."

'Amazed' by ruling

Addison's attorney, Jean Golden of Cassidy, Schade L.L.P. in Chicago, said she believes that the court "drew the wrong inference from the facts presented. I think the most reasonable inference...was that this was one occurrence sufficiently linked in every way."

'Because the facts were the way they were, (Addison) couldn't show conclusively what happened and at what time...they couldn't carry the burden.'

Edward M. Joyce
Orrick, Herrington & Sutcliffe

Randy J. Maniloff, an attorney with White & Williams L.L.P. in Philadelphia, who represents insurers, said he was "amazed" by the ruling.

The court "really did some gymnastics here to make this two occurrences," he said. "I think almost every court" that uses the same cause theory when determining the number of occurrences "would find a single occurrence under these facts."

Richard H. Nicolaidis, Jr., an insurer attorney with Bates & Carey L.L.P. in Chicago, said in an e-mail that the Addison decision could ultimately lead to more litigation as

it sets forth a "fact-intensive approach" to determining the number of occurrences and moves away from "a bright line test."

Furthermore, the court's use of the "time and space" test to limit application of the "cause theory" also "could result in inconsistent decisions by courts applying Illinois law in the context of certain fact patters," Mr. Nicolaidis said.

Addison 'disappointed'

Policyholder attorney Edward M. Joyce, of Orrick, Herrington & Sutcliffe in New York, said "it's obviously a good decision" for policyholders.

The key to the case is that there was coverage; Addison Insurance wanted to argue a limitation and the burden on limitations and exclusions is on the insurer, Mr. Joyce said. "And because the facts were the way they were, (Addison) couldn't show conclusively what happened and at what time...they couldn't carry the burden."

David E. Conner, vp-claims for Addison Insurance, a unit of Cedar Rapids, Iowa-based United Fire & Casualty Co., said "we are obviously very disappointed in the ruling."

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

Financial crisis a 'call to action' for buyers

By MARK A. HOFMANN

NEW YORK—The 2008 financial crisis should serve as a "call to action" for risk managers to demonstrate the value of enterprise risk management, the Risk & Insurance Management Society Inc. said in an executive report released last week.

In "The 2008 Financial Crisis: A Wake-Up Call for Enterprise Risk Management," RIMS says several key enterprise risk management behavioral attributes "could have identified and mitigated these losses for many of these entities."

According to RIMS report, "the financial crisis resulted from a system-wide failure to embrace appropriate enterprise risk management behaviors."

In addition, the report says "there was an apparent failure to develop and reward internal risk management competencies. From the board room to the trading floor, individuals on the front line who were taking—and trading in—these risks ostensibly were rewarded for short-term profit alone."

There also was a failure to use ERM "to inform management's decision-making for both risk-taking and risk-avoiding decisions,"

the report said.

Organizations will have to change the way they think about risk and consider implementing an ERM program or significantly improve an ERM program already in place if another financial catastrophe is to be avoided, said RIMS President Joseph A. Restoule, who also is leader of risk management at NOVA Chemicals Corp. in Calgary, Alberta, Canada.

RIMS does not endorse a particular ERM standard or framework. "Any framework can work effectively...if the organization demonstrates competency in seven behavioral attributes," according to the report. These are: adoption of an ERM-based approach; ERM process management; risk appetite management; root cause discipline; uncovering risks; performance management; and business resiliency and sustainability.

"Enterprise risk management, to be effective, must fundamentally change the way organizations think about risk," according to the report. "When enterprise risk management becomes part of the DNA of a company's culture, the warning signs of a market gone astray cannot go unseen so easily."

The report is available at: www.RIMS.org/ERMwhitepaper.

RIMS Professional Development Calendar

www.RIMS.org/Education

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February 12-13 • San Diego

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February 12-13 • Nashville

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February 19-20 • Raleigh

Minimizing Insurance and Claims Costs
February 23-24 • San Jose, CA

Fundamentals of Managing Market Risk*
February 24-25 • Calgary, AB

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March 12-13 • San Francisco

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401(k) balances at lowest level since 2002

By JERRY GEISEL

Employees' 2008 401(k) plan account balances surrendered investment gains earned during the bull market of the past few years and fell to their lowest level since 2002, according to a study released last week.

Last year, the average 401(k) account balance was \$50,200, down 27% from \$69,200 in 2007, according to the study by Fidelity Investments, a Boston-based mutual fund provider and 401(k) plan administrator. Last year's 27% decline in the value of the average account balance was the biggest year-to-year decrease since Fidelity began to collect such statistics in 1999.

With the fall in the equities markets, participants have been shifting away from investing in stock. In 2008, 16% of participants held all of their 401(k) account balances in equities, down from 20% in 2007 and 37% in 2000.

But the slump in the economy has not led to a surge of loans or withdrawals from 401(k) plans. Last year, 9% of participants took out a loan, down from 9.7% in 2007.

The study is based on an analysis of the account balances of the more than 11 million employees in 17,095 corporate plans serviced by Fidelity.

A summary is available at www.fidelity.com.

Products & Services

WellPoint program targets bipolar disorder

INDIANAPOLIS—Indianapolis-based WellPoint Inc. has expanded its disease management program for members who suffer bipolar disorder.

The Bipolar Condition Care Program aims to provide effective treatment and reduce medical costs by offering services that include education and monitoring by a behavioral health clinician.

About 5.7 million U.S. residents suffer bipolar disorder, which "can be managed through education, lifestyle changes and medication," the health benefits company said in a statement.

The voluntary program includes a tracking system that communicates with members through educational materials and phone calls. It also maintains members' prescription drug and case management history and identifies those who are late in refilling their medications. Support specialists also help participants adhere to their doctor-ordered treatment plans.

The program is administered by Richmond, Va.-based WellPoint subsidiary Health Management Corp. and is available to members in California, Colorado, Georgia, Indiana, Kentucky, Missouri, Nevada, Ohio and Wisconsin.

For more information, contact Susan Keller-Smith, manager of behavioral health condition care, at 858-571-8155 or susan.e.smith@wellpoint.com.

AIG Small Business enhances Web program

NEW YORK—AIG Small Business, a New York-based unit of AIG Commercial Insurance, has enhanced its e-Excess platform to help brokers more quickly process excess casualty insurance submissions.

The Web-based program has added a tool that lets brokers select the "quick quote" option and enter limited data to get a nonbinding indication of the premium, according to AIG.

The program also allows brokers to receive a quote for all limit options simultaneously, with a

maximum single limit of \$10 million.

AIG e-Excess allows quoting and binding excess casualty coverage for small businesses with up to \$25 million in annual revenue.

For more information, contact Richard Stamets, vp-distribution, AIG Small Business, at 908-679-4221 or richard.stamets@aig.com.

Walgreens expands worksite health program

DEERFIELD, ILL.—Deerfield, Ill.-based Walgreen Co. has rolled out a program it says is intended to unify pharmacy, health and wellness services and reduce costs for employers and employees alike.

The Complete Care and Well-

Being program is offered through Take Care Health Systems, a Walgreens subsidiary that provides worksite health and wellness centers.

The program expands services offered by Take Care's employer health centers by allowing members to access comparable medical care and prescriptions at in-store Take Care clinics.

The program includes a discount prescription drug offering available to a company's employees, dependents and retirees. In addition, beneficiaries receive a 15% discount on Walgreens-brand products, the company said.

For more information, contact Peter Hotz, divisional vp and president of Take Care Employer

Solutions, at peter.holtz@takecarehealth.com.

AIG offers package for E&O, data cover

NEW YORK—AIG Executive Liability, a unit of New York-based American International Group Inc., has introduced a policy that packages professional liability and data network security coverages.

The policy, Specialty Risk Protector, is offered to businesses with annual revenues exceeding \$500 million.

Coverage includes specialty errors and omissions; event management, to cover costs associated with security breaches; network interruption; cyber extortion; media liability for

publishers and broadcasters; and employed lawyers professional liability, among other things.

Limits up to \$25 million are offered per coverage part and limits up to \$50 million are available in aggregate.

For more information, contact the local AIG office or e-mail executiveliability@aig.com.

TO SUBMIT ITEMS

BI's Products & Services column reports on new product offerings. Please send Product & Services news to: Colleen McCarthy, 711 Third Ave., New York, N.Y. 10017 or e-mail cmccarthy@businessinsurance.com.



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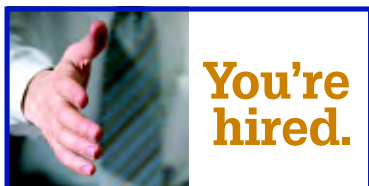
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LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT • SOUTHERN DISTRICT OF NEW YORK

In re Petition of Thomas Klaus Freudenstein, as foreign representative of GLOBAL GENERAL AND REINSURANCE COMPANY LIMITED and GLOBALE RÜCKVERSICHERUNGS-AG Debtors in Foreign Proceedings.	In a Case Under Chapter 15 of the Bankruptcy Code Case No. 08-14939 (RDD) (Jointly Administered)
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NOTICE OF ORDER GRANTING RECOGNITION OF FOREIGN PROCEEDINGS, PERMANENT INJUNCTION AND RELATED RELIEF

NOTICE IS HEREBY GIVEN THAT, in connection with the petitions filed on December 10, 2008 (the "Petitions") by Thomas Klaus Freudenstein (the "Petitioner"), in his capacity as the duly authorized foreign representative, as defined in section 101(24) of title 11 of the United States Code (the "Bankruptcy Code"), of GLOBAL General and Reinsurance Company Limited ("GLOBAL General") and GLOBALE Rückversicherungs-Ag ("GLOBALE," together with GLOBAL General, the "Scheme Companies"), the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") has issued an Order Granting Recognition of Foreign Proceedings, Permanent Injunction and Related Relief (the "Order") (Docket No. 16), which provides, among other things, that:

1. The proceedings respecting the Schemes (as defined in the Order) under Part 26 of the Companies Act 2006 of Great Britain (the "Companies Act") in the High Court of Justice of England and Wales (the "High Court") and the Schemes are granted recognition pursuant to section 1517(a) of the Bankruptcy Code;
2. The proceedings respecting the Scheme of GLOBAL General under the Companies Act in the High Court and the Scheme of GLOBALE General are granted recognition as a foreign main proceeding pursuant to section 1517(b)(1) of the Bankruptcy Code;
3. The proceedings respecting the Scheme of GLOBALE under the Companies Act in the High Court and the Scheme of GLOBALE are granted recognition as a foreign nonmain proceeding pursuant to section 1517(b)(2) of the Bankruptcy Code;
4. Both GLOBAL General and GLOBALE are granted all relief afforded foreign main proceedings pursuant to section 1520 of the Bankruptcy Code;
5. Sections 361 and 362 of the Bankruptcy Code apply with respect to the Scheme Companies and all of the property of the Scheme Companies that is within the territorial jurisdiction of the United States in relation to Claims (as defined in the Order);
6. The Schemes (including any modifications or amendments thereto) are given full force and effect in the United States, and are binding on and enforceable against any person or entity that is a Scheme Creditor (as defined in the Order), including, without limitation, against such person or entity in its capacity as a debtor of a Scheme Company in the United States;
7. All Scheme Creditors are permanently enjoined from taking any action in contravention of, or inconsistent with, the Schemes;
8. Except as otherwise provided in the Order or in the Schemes, all Scheme Creditors are permanently enjoined from seizing, repossessing, transferring, relinquishing or disposing of any property of any Scheme Company, or the proceeds thereof, in connection with any Claims in the United States;
9. In accordance with and to the extent provided in the Schemes, all Scheme Creditors are permanently enjoined from: (a) commencing or continuing any Proceedings (as defined in the Order) (including, without limitation, arbitration, mediation or any judicial, quasi-judicial, administrative action, proceeding or process whatsoever) in connection with any Claim, including by way of counterclaim, against a Scheme Company or any of its property in the United States, or any proceeds thereof, and seeking discovery of any nature against a Scheme Company; (b) enforcing any judicial, quasi-judicial, administrative judgment, assessment or order, or arbitration award obtained in connection with any Claim, and commencing or continuing any Proceedings in connection with any Claim (including, without limitation, arbitration, mediation or any judicial, quasi-judicial, administrative action, proceeding or process whatsoever) or any counterclaim to create, perfect or enforce any lien, attachment, garnishment, setoff or other claim arising out of a Claim against any Scheme Company or any of its property in the United States, or any proceeds thereof, including, without limitation, rights under reinsurance or retrocession contracts; (c) drawing down any letter of credit established by, on behalf of or at the request of, a Scheme Company that relates to a Claim or the Scheme Business (as defined in the Order) in excess of amounts expressly authorized by the terms of the contract or other agreement pursuant to which such letter of credit has been established; and (d) withdrawing from, setting off against, or otherwise applying property that is the subject of any trust or escrow agreement or similar arrangement that relates to a Claim or the Scheme Business in which a Scheme Company has an interest in excess of amounts expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, trust, escrow, or similar arrangement has been established; and
10. In accordance with and to the extent provided by the terms of the Schemes, all persons and entities in possession, custody or control of property of a Scheme Company or the proceeds thereof, are required to turn over and account for such property or proceeds thereof to the Petitioner, such Scheme Company, or the Scheme Manager (as defined in the Order).

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

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UP CLOSE



NEAL WOLIN

NEW JOB TITLE: Deputy counsel to President Barack Obama for economic policy and deputy assistant to the president.

PREVIOUS POSITION: President and chief operating officer of property/casualty operations for Hartford, Conn.-based Hartford Financial Services Group Inc.

ABOUT NEW APPOINTMENT: We are obviously facing a number of economic challenges, and this is an opportunity to be a part of the broader team with the administration and working for this president, who has outlined the importance of getting the economy back where it needs to be, creating jobs and opportunities, straightening out our financial markets. The opportunity to contribute to that is a real honor.

HISTORY: Prior to working at the Hartford, I...was with the Treasury Department for five and one-half years.

INDUSTRY EDUCATION: My eight years at the Hartford have been a great education for me in the insurance industry in general. (I've learned) about the capital markets, about business and the

importance of making sure that our markets function properly, effectively and are also appropriately regulated.

INSURANCE INDUSTRY IMPORTANCE: I think this is a fantastic industry (that is) often misunderstood. It plays an incredibly important role in the functioning of our economy. I think it's an industry that overwhelmingly serves its customers well...I don't think people understand the importance of this industry in the effectiveness of our economy. Our industry is the financial underpinning of our economy. Overwhelmingly, our industry exists to help people out in their greatest moment of need. So often what we do is take people whose lives have been upset because of fire or natural disaster and...we make good on the promise to our customers to be there when they need us. That's where our industry is not as understood at it should be.

ADVICE: I think the keys are hard work, good judgment and building good relationships with colleagues and with outside stakeholders. I think integrity and doing things the right way are all incredibly important ingredients in success.

Comings & Goings

ONLINE

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

TO SUBMIT ITEMS

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

Allison Martinat
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High court ruling in asbestos case a big win for Wis. policyholders

By SALLY ROBERTS

MADISON, Wis.—A Wisconsin Supreme Court ruling that an insurer should pay damages for individual asbestos claimants as separate occurrences and should cover injuries suffered outside of a policy period is a big victory for commercial general liability policyholders in the state, observers say.

In *Plastics Engineering Co. vs. Liberty Mutual Insurance Co.*, the high court ruled that each individual plaintiff's repeated and continuous exposure constitutes a separate occurrence within an insurance policy.

In addition, the court ruled that if an individual was injured during a policy period, an insurer is responsible for all of the damages, even if part of the injuries took place outside of the policy period.

The ruling is expected to shape insurance disputes relating to long-tail exposure claims in the state, observers say. Courts throughout the country have ruled differently on both issues.

The case involves Sheboygan, Wis.-based *Plastics Engineering Co.*, which has been a defendant in hundreds of lawsuits for claims arising from individual's exposure to asbestos-containing products it manufactured from 1950 to 1983.

Boston-based Liberty Mutual Insurance Co. provided primary general liability coverage to the

when an injury spans multiple, successive insurance policies.

On Thursday, the Supreme Court concluded that based on the language of the policies and the facts of the case, each claimant's repeated exposure is one occurrence and that Liberty Mutual must fully defend the lawsuit in its entirety and pay for all sums up to the policy limits that Plenco is obligated to pay because of the injury.

Plenco's attorney, Jeff Davis, a partner with Quarles & Brady L.L.P. in Milwaukee, hailed the decision. It's a very significant ruling for environmental cases going forward, he said.

Liberty Mutual's attorney, John Sullivan, of Post & Schell P.C. in Philadelphia, declined to comment.

Plastics Engineering Co. vs. Liberty Mutual Insurance Co.; Supreme Court of Wisconsin; No. 2008AP333



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Legal Notice

If You Are a Third Party Payor That Reimbursed for OxyContin®

A Proposed Class Action Settlement May Affect Your Rights.

There is a Proposed Settlement of a consolidated class action lawsuit involving OxyContin® Tablets ("OxyContin"). OxyContin is an FDA-approved prescription medication used for the treatment of moderate to severe pain when a continuous, around-the-clock analgesic is needed for an extended period of time.

The lawsuit claims that the Defendants engaged in unfair, deceptive, and unlawful conduct. This includes the alleged "off-label" promotion of OxyContin. The Defendants deny these claims and any liability, but have agreed to the Proposed Settlement to avoid the burden of litigation.

The consolidated lawsuit involved in the Proposed Settlement is *New Mexico United Food and Commercial Workers Union's and Employer's Health and Welfare Trust Fund, et al. v. Purdue Pharma, L.P., et al.* (07-CV-6916-JGK). The lawsuit is pending in the U.S. District Court for the Southern District of New York.

What Is The Class Action Lawsuit About?

The lawsuit claims that Defendants encouraged physicians to prescribe OxyContin:

- For medical indications other than those that were approved by the FDA, and
- Without adequately describing the addictive qualities of the drug.

The lawsuit also claims that the Defendants' conduct caused physicians to prescribe the drug, and caused Third Party Payors (TPPs) to pay for the drug, under circumstances and for purposes for which it was not indicated.

Who Are Class Members?

The Proposed Settlement Class consists of all TPPs in the United States and its territories, that purchased, reimbursed and/or paid for OxyContin from December 12, 1995

through December 12, 2008.

What Are The Terms Of The Proposed Settlement?

Defendants have agreed to pay \$20 million to settle the lawsuit. The Defendants have also agreed to pay up to an additional \$1 million for the costs of notice and administration of the Settlement Fund. Attorneys' fees and expenses and any additional costs of notice and administration will be paid from the Settlement Fund. The remainder will be distributed to TPPs that file a claim.

Who Represents Me?

The Court has appointed attorneys to represent the Class. You may hire your own attorney, if you wish. However, you will be responsible for that attorney's fees and expenses.

What Are My Legal Rights?

- **Remain in the Class and File a Claim:** To remain in the Class and file a claim, you must submit a Claim Form that is signed and postmarked by **May 18, 2009**.
- **Exclude Yourself:** To exclude yourself from the Proposed Settlement, you must send a letter that is postmarked by **March 19, 2009**. If you exclude yourself, you keep the right to file your own lawsuit, but you will not be able to file a claim for money in the Proposed Settlement.
- **Object/Comment:** To remain in the Class but tell the Court if you do not like this Proposed Settlement, you must send a letter that is postmarked by **March 19, 2009**.

Will The Court Approve The Proposed Settlement?

The Court will hold a Final Approval Hearing on May 15, 2009 at 2:30 p.m. At the hearing, the Court will consider if the Proposed Settlement is fair, reasonable, and adequate. The Court will also consider the motion for attorneys' fees and expenses. If comments or objections have been received, the Court will consider them at that time.

For a Notice of Proposed Class Action Settlement and a Claim Form

Call Toll-Free: 1-888-356-0257 Visit: www.OxyContinTPPSettlement.com

Or Write: OxyContin Litigation Claims Administrator, c/o Complete Claim Solutions, P.O. Box 24690, West Palm Beach, FL 33416

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

manufacturer, known as Plenco, from February 1968 through January 1989 and umbrella policies from May 1970 through January 1984 and again from January 1986 through January 1988.

Through 2005, Liberty Mutual paid \$14.3 million in damages related to Plenco's asbestos claims, court papers say. The insurer then argued that it had paid out its applicable limits under the primary policies and sought a declaration as to the total amount it owed under the umbrella policies.

To determine that, a Wisconsin federal court in 2006 ruled that each person's injury resulting from exposure to asbestos-containing products constituted one occurrence under Liberty Mutual's policies. It also ruled that Liberty Mutual was obligated to pay all sums arising from an occurrence and is not entitled to a pro rata contribution from Plenco.

On appeal, the U.S. Court of Appeals for the Seventh Circuit stayed the case and asked the state Supreme Court to certify unresolved Wisconsin law: what constitutes an occurrence in an insurance contract when exposure injuries are sustained by numerous individuals, at varying geographical locations, over many years; and whether Wisconsin courts should adopt an "all sums" or pro-rata allocation approach to determining liability

COBRA: Employers face tight deadlines

CONTINUED FROM PAGE 1

"For most folks who have lost their job, this is simply unaffordable," said Sen. Max Baucus, D-Mont., chairman of the Senate Finance Committee. "Helping displaced workers and their families to maintain and afford health coverage is the right thing to do as we work to get our economy back in shape."

The federal subsidy, though, would end if the beneficiary became eligible for health insurance coverage from a new employer or, in the case of older employees, became eligible for Medicare.

The House bill would go even further and extend unsubsidized COBRA coverage to older employees and longer-service employees until they are eligible for Medicare. That extension—a big change from current law in which COBRA coverage terminates after 18 months in such situations—would be available for employees who worked for an employer for 10 years or employees who stopped working as young as age 55.

Unlike the COBRA premium subsidies, which would be temporary and limited to employees who are laid off, the House extension would be permanent and COBRA coverage would be available to individuals who quit or were terminated.

Noting considerable business opposition to the broad COBRA extension in the House bill, Washington lobbyists said it is unlikely to be part of the final stimulus legislation that Congress is expected to approve later this month (see sidebar).

But given that COBRA premium subsidies are in both bills and that the subsidies are a priority of congressional leaders, it is a near certainty that a COBRA premium subsidy provision will be in the final bill, said Paul Dennett, senior vp with the American Benefits Council in Washington.

"It is quite clear that a subsidy

provision is highly likely to be enacted," Mr. Dennett said.

Based on the legislation's current wording and assuming final action this month, the subsidies would be available starting April 1, giving employers just weeks to comply with the new requirements.

"There is no question that employers will be facing a very tight time frame," Mr. Dennett said.



'Helping displaced workers and their families to maintain and afford health coverage is the right thing to do as we work to get our economy back in shape.'

Sen. Max Baucus, D-Mont.

The first and perhaps most challenging priority for employers would be locating and communicating to employees laid off since Sept. 1, 2008, who previously declined COBRA that they have a new right to opt for the health care coverage with the government picking up 65% of the premium.

Under the legislation, individuals

would have 60 days after receiving a notification from their former employers of their new right to receive subsidized COBRA coverage. The coverage would be prospective.

Experts say employers would face the challenge of quickly drafting the new notices, determining who would be eligible for the subsidized coverage and then trying to locate those individuals.

"You are going to have to start to think this through. You are going to have to identify terminated employees and figure out how to locate them. And you are going to have to create new notices," said Andy Anderson, of counsel with Morgan, Lewis & Bockius L.L.P. in Chicago.

In addition, employers would have to notify terminated employees who opted for COBRA about the new subsidy, while notices also would have to be provided to employees who are laid off in the future.

Employers also would have to explain that beneficiaries who become eligible for coverage in a new employer's plan or for Medicare must inform the employer of that change, at which point the federal subsidy would end. Failure to do so could result in a penalty imposed on the beneficiary of 110% of the subsidy provided after eligibility ended.

Under the legislation, the beneficiary would directly pay his or her share of the reduced COBRA premium, while the employer would receive a credit as an offset to payroll taxes owed to the government for the rest.

Payroll systems would have to be modified to accommodate the changes.

Given all that faces them, employers should "start to think of all the administrative issues and be sure their staff and vendors are ready," said Mark Holloway, vp and director of compliance services at Lockton Benefit Group in Kansas City, Mo.

"You have to examine what needs to be done," said Tom Lerche, health care practice leader with Aon

Extension provision unlikely to be in final legislation

WASHINGTON—When final agreement is reached on an economic stimulus package, a provision in the version cleared by the House of Representatives to extend COBRA eligibility for decades, in some cases, is unlikely to be included.

That extension, which business lobbyists successfully fought to keep out of the stimulus measure approved last week by the Senate Finance Committee, would allow those with 10 years of service with an employer or those at least age 55 to retain COBRA coverage until eligible for Medicare at age 65. Under current law, employees who lose their jobs can retain COBRA for 18 months, regardless of their age or length of service.

Lobbyists say the provision is unlikely to survive because of a greater understanding by legislators that such an extension has no connection to the foundation of the legislation: easing the economic burden of the recession on individuals and providing an immediate boost to the economy.

Still, lobbyists aren't letting their guard down.

"We will work very hard to keep this out," said Mark Ugoretz, president of the ERISA Industry Committee

in Washington.

The financial impact of the provision—especially the section to allow employees age 55 and older to retain COBRA until eligible for Medicare—could be significant for some employers.

Employers typically pay out about \$1.50 in claims for every \$1 they collect in COBRA premiums, experts say. That's because of adverse selection in which those willing to pay COBRA premiums are most likely to need and use medical services.

The experience for older employees is even worse because their health care costs, on average, are significantly higher than younger employees, consultants say. Because of their higher costs, affordable coverage in the personal lines market may not exist, making COBRA the most attractive coverage option for older beneficiaries, said Karen Frost, a consultant with Hewitt Associates Inc. in Lincolnshire, Ill.

If such a COBRA extension were enacted, it would be akin to mandating that employers offer early retiree health care coverage, said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

—By Jerry Geisel

Consulting in Chicago.

And employers with lots of laid-off employees should prepare for higher health care costs. With the government paying about two-thirds of the premium, many former employees would be expected to opt for COBRA. While the

COBRA risk pool would improve, employers likely would still pay out more in claims than they will collect in premiums.

"In the aggregate, it will cost you more," said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

House calls: Program aimed at reducing costly emergency room visits

CONTINUED FROM PAGE 3

introduced the house call service last month to its 1,200 employees after Randi Seaberg, director of human resources, read about the success Microsoft was having with it.

To encourage employees to use the house call service rather than seek emergency room care, the Trust lowered copayments to \$50 for house calls, compared with \$100 for ER visits. The incentive payments are derived from the savings each house call generates, Ms. Seaberg said. While a typical ER visit in the Seattle area might cost \$850, the house calls cost only about \$570.

Carena physicians are available 24 hours a day, seven days a week. Employees either call an existing nurse line that refers calls to the Carena patient care coordinator, or they call Carena directly. The Carena patient care coordinator then transfers calls to awaiting physicians who talk to the patients directly,

asking questions to determine whether a house call is necessary, or if the patient should go to the emergency room or wait to see his or her own doctor. In the case of the referrals, there is no charge.

"The cost comes only when the physician is dispatched," Ms. Seaberg said. In addition, the fee is the same regardless of the visit's length. Most house calls last about an hour.

Carena's house call service also provides treatment for occupational injuries at Costco Wholesale Corp. locations.

"The doctors go to the workplace to treat on-the-job injuries," Mr. Derrickson said. "It's the same thing as home visits. The medical care is the same."

Katrina Zitnik, director of workers compensation for Issaquah, Wash.-based Costco, said the service is saving the company lost time and money because the doctors work with supervisors and injured employees to get them back to work



Carena's house call service also provides treatment for occupational injuries at Costco Wholesale Corp. locations.

as quickly as possible.

"They talk to the whole person. It's a different approach to medicine," she said.

Carena has 11 doctors on call in the Puget Sound area, all of which are either board-certified family practitioners or occupational injury

specialists.

Dr. Gary Smithson, a consultant at Watson Wyatt Worldwide and a practicing pediatrician in Los Angeles, said he could see the value proposition for employers in using such a service as a substitution for hospital emergency room care.

"But we have to be careful, though, because there could be more use of it," he warned. If so, "the net effect could be an increase in utilization," and a corresponding increase in costs for employers, Dr. Smithson said. Moreover, if patients are referred to their primary care doctors after being seen by a house call doctor, that could create additional expenses for the plan sponsor, he noted.

"From an analysis perspective, you have to look at total utilization associated with that particular episode of care, not just unit costs," Dr. Smithson said.

However, he said that a house call service could cut down on unnecessary diagnostic testing, which often occurs with emergency room care.

"If we do a true apples-to-apples comparison, there will be fewer X-rays and other tests than in the ER," he said, pointing out that oftentimes emergency departments "do more tests, driving up the cost" for the patient and the employer.



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Iron-Starr: Excess casualty buyers welcome new joint venture MGA

CONTINUED FROM PAGE 1

Greenberg.

As a combined entity, Iron-Starr Excess will offer \$75 million in capacity above attachment points of \$100 million.

Executives from both firms say they are staffing the company and hope to begin underwriting soon.

The joint venture brings together a number of former American International Group Inc. executives, including former AIG Chairman and CEO Mr. Greenberg, and former Lexington Insurance Co. Inc. CEO Kevin H. Kelley, who joined Ironshore as its CEO late last year.

"There's a tremendous amount of respect for the leaders within both organizations and their long history of working together spans decades," said Jeffrey M. Hafter, president of C.V. Starr & Co., the casualty MGA unit of C.V. Starr & Co. Inc. in New York. "When you start looking at both organizations, the focus, the underwriting philosophy, the drive to field the best-skilled team out there and the drive for underwriting profitability and consistency is very much in line with both organizations," he said.

It was those longstanding relationships that helped to build this venture, said Shaun Kelly, CEO of Ironshore's U.S. operations in Boston.

"We feel that in today's insurance environment, strategic relationships can be very important for the entities involved...as well as ultimate

clients," he said. As a joint venture, Iron-Starr Excess can bring more products, more expertise and more capacity to the excess casualty market, he said.

And given the state of the excess casualty market today, the timing was right to launch Iron-Starr Excess, Messrs. Kelly and Hafter said.

"Right now, if you look at the Bermuda marketplace in general, there's a lot of transition going on and a lot of markets out there that are currently participating that certainly have had some financial issues surrounding their companies, not necessarily from an underwriting perspective, but from an investment perspective," Mr. Hafter said. "Risk managers are looking to diversify their placements and their structures so they're not necessarily relying upon a couple of the carriers."

Buyers are looking to build different programs utilizing a number of different insurers, he said.

Indeed, excess casualty buyers are looking to "dilute themselves out of AIG and (XL Insurance) in particular," said Tony Hardy, managing director and head of global casualty for Lockton International, the London-based international operations of Kansas City, Mo.-based Lockton Cos. L.L.C.

"So this new capacity gives peo-



The joint venture Iron-Starr reunites a number of former American International Group Inc. executives, including Maurice R. Greenberg (left), now chairman and CEO of C.V. Starr & Co. Inc., and Kevin H. Kelley, who joined Ironshore as its CEO late last year.



ple a chance" diversify, he said.

Furthermore, it also should have the effect of keeping insurance rates stable, Mr. Hardy said.

"It's looking as if there might be pressure on rates and upward movement...at a time when buyers can least afford it," he said. "The last thing they need is to have another whammy of increased rates, so this might be good news for them."

"We are very intrigued by this," said Leslie Nylund, Willis HRH's

New York-based chief placement officer for North America, Bermuda and London. "Anytime we can offer our clients additional choice and options, it's a good thing. I also think it's staffed with some of the best veteran professionals...in the industry," she said.

In addition, the \$75 million limits will be attractive to buyers, she said.

"I think there are (insurers) that have the ability to quote the capac-

ity at those attachment points, but I don't necessarily think they have the appetite for it," Ms. Nylund said.

Iron-Starr Excess "is a market that clearly understands the space, has the appetite and has the capacity," she said.

Risk managers also welcome the new capacity.

"As a risk manager, I always like new competition in the marketplace for my business," said Lance J. Ewing, vp-risk management at Harrah's Entertainment Inc. "Ironshore-Starr brings to the table an extremely talented insurance underwriting team, but the tale will be told in what business they will write and what they will walk away from and, more importantly, at what price. Hank and Kevin rarely lose money," he said.

"We always welcome new capacity as this helps to provide buyers with additional

options and minimizes pricing disruptions in the market," said Bill Milaschewski, director-risk management for Cabot Corp., a Boston-based global specialty chemical and materials manufacturer. However, "the value in this new capacity depends on other factors in addition to the size of the limits and minimum attachment point, such as the classes of risk that they want to target, financial strength and minimum pricing."

Swiss Re: Investor fears put pressure on insurer's stock price

CONTINUED FROM PAGE 3

ter. For the nine-month period, it reported a 77.9% drop in profits to 884 million Swiss francs (\$765.3 million).

The reinsurer "may return to a modest profit" for the fourth quarter, said Mark Nicholson, an equity analyst for Standard & Poor's Rating Services in London.

"The bigger concern will be valuations in the balance sheet," he said. "That is a more problematical area for the company."

Swiss Re's stock turmoil reflects the reinsurer's relatively large appetite for credit risk compared with some of its peers, said Mr. Grant. In particular, its structured risk portfolio is quite sizeable, he said. The fact that banks are taking substantial write-downs is leading to speculation concerning the magnitude of Swiss Re's own future write-downs, he said.

Risky bond portfolio

Swiss Re's bond portfolio "is of a slightly riskier nature than most companies," said Mr. Nicholson. He noted that 34% of Swiss Re's corporate bonds are BBB-rated. That is relatively high percentage, with 10% a more typical amount for similar companies, Mr. Nicholson said.

Another 14% of the bond portfolio is rated below BBB, he said. At least until recently, it has been unusual for major insurers to have more than 5% in that category, Mr.

Nicholson said.

He noted, however, that Swiss Re reported it has significantly increased the hedges that protect its corporate bond portfolio. "Should that hedging be effective...then much of the losses that the market has priced into the current share

Societe Generale has not been 'enthusiastic about (Swiss Re's) strategy over the past two, three years because their risk profile has increased a lot.'

Birgit Roeper-Gruener
Societe Generale

price...might be overstated," said Mr. Nicholson.

But Birgit Roeper-Gruener, a London-based analyst with Societe Generale, said her firm has had a "sell" recommendation on Swiss Re stock for the past 11 months because of concerns that include asset quality and capital.

Societe Generale has not been "enthusiastic about (Swiss Re's) strategy over the past two, three years because their risk profile has increased a lot," she said.

A spokesman for Swiss Re said the reinsurer had investments in hybrid debt and preferred shares with a market value of around 1.5 billion Swiss francs, of which about 400 million Swiss francs (\$346.3 million) were in United Kingdom banks. But these investments are less than 1% of its total balance sheet, said the spokesman, who had no further comment on the stock volatility or on the company's fourth-quarter outlook or Mr. Buffett's possible involvement.

There has been some concern that Swiss Re, which suffered a 24% drop in its shareholders' equity in the first nine months of 2007, may need additional capital.

But Mr. Nicholson said the company is "some way from that" unless there is a "very significant hit to their balance sheet in the final quarter." Furthermore, many of those losses will be, for the time being, unrealized, and the company continues to be rated a "relatively high" AA- by S&P "which would suggest a good degree of capital strength," he said.

Swiss Re now has "had sufficient surplus capital to absorb the distress experienced in its portfolio," said Mr. Grant.

However, "one tends to feed the other," he said. "I think if there were to be very substantial write-downs on the asset side of the portfolio," they could be drastic enough to influence the overall view of Swiss Re's capital adequacy and its

financial strength.

In general, the longer certain asset classes remain under the pressure, the more difficult it would be for any organization "to withstand the strain on its capital position," said Mr. Grant. There obviously comes a point "where the stress will start to fundamentally influence our view of the financial strength from the policyholder's standpoint."

Stefan Schumann, an analyst with Vontobel Group in Zurich, said, Swiss Re's reinsurance business "is doing quite well," a fact that has been overlooked by observers who are focusing instead on the company's investments in collateralized debt and other instruments. Such investments are only a small part of Swiss Re's portfolio, Mr. Schumann said. "It shouldn't be life-threatening."

Buffett's role

But Mr. Buffett may come to the rescue if necessary, some observers said. Last year, Berkshire Hathaway Inc. took a 3% stake in Swiss Re and assumed a 20% share of its property/casualty business under a proportional reinsurance contract.

"We would expect Berkshire Hathaway to be keen to protect that business and be willing to support Swiss Re in some capacity over the near term," Andrew Broadfield, a London-based analyst with Morgan Stanley, said in an investors' note last week.

A Berkshire Hathaway spokesman

could not be reached for comment.

In any case, Swiss Re's situation is not as dire as AIG's, analysts say. Mr. Marti said Swiss Re's situation differs in that the reinsurer is not as heavily involved in the credit default swap business as AIG was when its financial difficulties arose.

"Swiss Re is active in the CDS business, but their exposure is much lower," said Mr. Marti. "But nonetheless, there is an exposure" that concerns investors, he said.

"I think the size of its credit default exposures are a fraction of what AIG's were, and it hasn't gone into a death spiral in the way AIG did," said another analyst, who asked not to be identified.

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Gen Re: Lone AIG executive charged in case sentenced to four years

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Michael Cornacchia, a New York criminal defense attorney and former assistant U.S. attorney.

Mr. Milton, 61, along with four executives from Gen Re, was convicted in February 2008 on charges of conspiracy, securities and mail fraud, and making false statements to the U.S. Securities and Exchange Commission. The jury found that the defendants had created a sham finite reinsurance transaction for the sole purpose of helping AIG manipulate its financial statements to falsely inflate AIG's reported loss reserves by \$500 million in 2000 and 2001.

The deal, aimed at countering stock analysts' concerns about AIG, transferred no risk to AIG and included an unwritten side agreement that AIG would refund Gen Re's \$10 million premium and pay it a \$5 million fee, the government charged.

In November, Judge Droney ruled that AIG shareholders lost more than \$500 million as a result of the phony deal. The loss amount was the largest single factor in setting the federal sentencing guidelines.

Although Judge Droney imposed a substantially lower prison sentence than the guidelines called for, "four years in prison is not exactly a slap on the wrist," Mr. Henning said.

Judge Droney indicated that the sentence imposed was designed to "send a message to the business community that this conduct cannot be tolerated by an officer of a large public company."

"Mr. Milton's participation in the

REMAINING DEFENDANTS



ELIZABETH MONRAD, former Gen Re chief financial officer, is to be sentenced Feb. 12 on charges including conspiracy, securities and mail fraud.



CHRISTOPHER P. GARAND, former Gen Re senior vp in charge of U.S. finite underwriting, is scheduled for sentencing on March 4.



To read full coverage of the trial over a sham reinsurance deal between Gen Re and AIG and see court papers related to the case, go online to www.BusinessInsurance.com.



ROBERT GRAHAM, former Gen Re senior vp and legal counsel, does not yet have a sentencing date for his conviction in the case.



RONALD E. FERGUSON, former Gen Re chief executive officer, is free on bond while appealing his conviction and two-year sentence.

fraud was critical to its success," said Judge Droney, adding that the former executive's actions demonstrated a "stunning lack of judgment that lasted for quite some time."

However, Judge Droney said, unlike many other white-collar criminals, Mr. Milton was not motivated by personal gain.

Prosecutors had asked for an "appropriate" sentence to reflect the serious nature of the offense and "convey deterrence" for other would-be criminals.

Before the sentence was read, Assistant U.S. Attorney Raymond Patricco said, "manipulating the financial statements of a public company is a very serious offense," and "Mr. Milton was at the heart of it as AIG's point person."

Defense attorneys asked Judge

Droney for leniency and cited Mr. Milton's history of integrity in the insurance industry for the past three decades. More than 70 letters from former colleagues of Mr. Milton were sent to the judge on his behalf.

The letters described an "extraordinary and compassionate individual," said defense attorney Fred Hafetz of Hafetz & Necheles in New York.

In addition, Mr. Hafetz asked the judge to consider Mr. Milton's family and the pain they would suffer due to the "likelihood of deportation" after the incarceration of Mr. Milton, who is a British citizen. According to Mr. Hafetz, U.S. authorities have indicated that Mr. Milton may be deported to the United Kingdom.

Mr. Milton declined to comment during the hearing. He was ordered to report to the Federal Bureau of Prisons on March 25.

Defense lawyers said they are preparing an appeal. Mr. Hafetz declined to comment on the sentence, but said "there are very strong issues for Mr. Milton on appeal."

The defense had argued during trial that, because none of the stock declines could be linked clearly to the Gen Re deal, the loss amount to shareholders was zero (*BI*, Nov. 10, 2008).

Observers say the three other former Gen Re executives awaiting sentencing likely will receive non-guideline sentences. "The judge is not likely to impose a life sentence" for any of the remaining defen-

dants, Mr. Henning said. "A sentence of two to four years would not be surprising," he said.

Also convicted in the case were Elizabeth Monrad, former Gen Re chief financial officer; Christopher P. Garand, former Gen Re senior vp in charge of U.S. finite underwriting; and Robert Graham, former Gen Re senior vp and legal counsel.

Ms. Monrad is scheduled to be sentenced on Feb. 12. Mr. Garand is scheduled to be sentenced March 4. A sentencing date for Mr. Graham has not been set. Meanwhile, Mr. Ferguson is free on bail while he appeals his conviction.

According to the U.S. Department of Justice, the investigation is ongoing, although a spokesperson declined to comment on the likelihood of additional charges.

Cargo: Concealed tracking systems recommended to thwart thieves

CONTINUED FROM PAGE 4

said Dan Burges, director of consultancy intelligence at FreightWatch.

Geographic hot spots for pharmaceutical thefts last year included Atlanta; Dallas; the Los Angeles area; Memphis, Tenn.; Miami; New York; and the states of Ohio, Pennsylvania, Tennessee and Virginia, Mr. Burges said.

Prevention in focus

In recent years, law enforcement task forces and regional industry groups devoted to cargo theft have formed; and insurers, underwriters and shippers have begun to set up internal units focusing solely with cargo theft prevention.

Shawn Driscoll, director of security at Phoenix-based Swift Transportation Co. Inc., heads the trucking company's team of four ex-police officers devoted to preventing cargo theft.

"These groups doing these thefts...know what they're doing," Mr. Driscoll said. "They're waiting for you to make a mistake, to drop your load, for the driver to leave (or) not put the lock on....If you let your guard down, they'll get your load. We know that and we take preventative steps."

Loss control specialists and risk



managers say tactics that shippers and transportation companies can use include increasing physical security and surveillance at warehouses and distribution plants as well as screening employees, drivers and transportation partners. Thefts at times involve someone inside the company who relays information about shipment departures and locations, experts

say.

Many risk management tactics revolve around the maxim that "cargo at rest is cargo at risk." Loss control specialists urge a policy prohibiting drivers from dropping off trucks at any unsecured location for any reason.

Barry Tarnef, a loss control specialist at Warren, N.J.-based Chubb Group of Insurance Cos., said more

than half of cargo thefts happen between Friday night and Monday morning, so he advises shippers to avoid long-distance deliveries shipped during the weekend. "The reality is that there are very few secure truck parking areas in the U.S. and most people don't have a driveway to drop the truck," Mr. Tarnef said.

200-mile danger zone

Loss control specialists also advise that companies instruct departing truck drivers to travel 200 miles or more before stopping for the first time. Most truck cargo thefts occur within 200 miles of origin, Mr. Burges said.

"Some of the cargo thieves have been known to follow loads hoping they'll stop after a short distance to get dinner and get ready for the long haul," said Scott Cornell, who heads a special investigative unit on cargo security at Hartford, Conn.-based Travelers Cos. Inc. and sits on the Florida-based National Commercial Vehicle and Cargo Theft Prevention Task Force.

W. Michael McDonald, vp of risk management at Quality Distribution Inc., a Tampa, Fla.-based bulk hauler, said his firm's thefts decreased dramatically after installing a satellite tracking devices on its trailers.

Mr. Burges said cargo thieves often know how to disable basic vehicle tracking systems. He and others recommend a concealed tracking device planted inside the cargo so even if thieves unload and dump trucks, investigators still may recover the freight.

Thieves "would have to literally go through every box to know where it's at," Mr. Driscoll said.

Observers attribute the recent rise in cargo thefts to a variety of factors including the recent economic downturn and ease with which criminals can sell stolen goods in the black market or online. Also, it is considered a nonviolent property crime that often does not generate jail sentences. Using a gun or knife to steal cargo is considered hijacking or armed robbery, and only happens in 3% of freight theft cases, Mr. Burges said.

The 2006 reauthorization of the USA PATRIOT Act directed the FBI to begin tracking cargo theft as a separate category in its uniform crime reports, and Mr. Cornell said the FBI and local police departments will do so this year.

Compiling accurate statistics is the first step toward stiffening the punishment for nonviolent cargo thefts, Mr. Cornell and other experts say.

News In Brief

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must be approved by a bankruptcy court, would use the trust to resolve all future personal injury claims against PPG for asbestos exposure from products manufactured, distributed or sold by Pittsburgh Corning. In a statement, PPG said it would give the trust \$825 million in cash payments over a 15-year period, about 1.4 million shares of PPG stock or the cash equivalent, and all its shares in Pittsburgh Corning and Pittsburgh Corning Europe. The firms' insurers would give the trust \$1.6 billion in cash payments ending in 2027, according to the statement.

Calif. high court rejects pre-emptive lawsuit

California's Supreme Court ruled last week that a state consumer protection law does not allow consumers that have not suffered damage to file pre-emptive lawsuits against businesses. The unanimous ruling in *Pamela Meyer vs. Sprint Spectrum L.P.* stems from assertions that the terms of a cellular telephone company's binding arbitration agreement are unconscionable under the California Consumer Legal Remedies Act. "We conclude that a plaintiff has no standing to sue under the CLRA without some allegation that he or she has been damaged by an alleged unlawful practice," the Supreme Court said in its opinion.

Ind. comp board rejects collateral reductions

The Workers' Compensation Board of Indiana said it recently received about a dozen employer requests to reduce the amount of surety bonds posted as collateral. "While we are aware of the widespread domino effect of our economic downturn, we are unable to address these requests midyear," the board said in a statement. "If a reduction would be appropriate according to the financial data submitted with a renewal request in June, it can be done at that time."

Argo forms excess casualty reinsurance unit

Argo Group International Holdings Ltd., an excess specialty property/casualty insurance underwriter, has established a casualty and professional risks reinsurance operation, Argo Re. Argo also named Nigel Mortimer, a former director of product development for XL Insurance, as chief underwriter of the new line. Joining Mr. Mortimer is a team of underwriters formerly with XL's casualty and professional lines.

Sprint Nextel suspends 401(k) plan match

Financially ailing wireless communications provider Sprint Nextel Corp. is suspending its 401(k) plan match for 2009 as part of a drive to reduce costs by \$1.2 billion. Last year, Sprint Nextel matched 100% of employees' salary deferrals, up to the first 5% of pay. The suspension of the match is part of several other cost-cutting moves that include laying off about 8,000 employees by March 31.

Court clarifies Title VII retaliation rules

Employees who cooperate with an internal investigation of sexual harassment are protected from retaliation under Title VII of the Civil Rights Act, the U.S. Supreme Court held last week. The case—*Vicky S. Crawford vs. Metropolitan Government of Nashville and Davidson County, Tenn.*—involved a school system employee who alleged she was terminated because she agreed to be interviewed about allegations of sexual harassment made by several employees against a director. The school system took no action against the director, but fired Ms. Crawford, alleging embezzlement and drug use, in early 2003.

AIG expands role of general counsel

American International Group Inc. has named Anastasia Kelly as vice chairman, with responsibility for communications, corporate affairs and human resources. Ms. Kelly, AIG's executive vp, general counsel and senior regulatory and compliance officer, will take on her new duties in addition to overseeing the New York-based company's global legal, regulatory and compliance efforts. She joins Vice Chairmen Paula Rosput Reynolds and Richard Booth, who are responsible for AIG's asset sales and administrative functions, respectively.

Florida comp rates to rise 6.4%

Florida Insurance Commissioner Kevin McCarty said he would approve a 6.4% workers compensation rate increase effective April 1. His action is "technically a

denial" for an 8.9% rate increase that NCCI Holdings Inc. sought to compensate for an Oct. 23 Florida Supreme Court decision that eliminated caps on attorney fees, the commissioner said in a statement. "It's very early to know for sure what the full impact of the Supreme Court's decision on workers compensation rates will be," Commissioner McCarty said. "But if history holds true, we will see these rates start to go up."

NAIC rejects reserve relief for life insurance sector

Leaders of the National Assn. of Insurance Commissioners last week rejected a life insurance industry request to make immediate adjustments in existing NAIC solvency framework components that affect life insurers' capital and surplus requirements. The NAIC Executive Committee voted 16-1 against recommendations by its Capital and Surplus Relief Working Group. That group was formed last month after the American Council of Life Insurers asked for relief from what it said were overly conservative reserving requirements.

Reinsurer SCOR places \$200 million cat bond

In what appears to be the first cat bond deal of 2009, French reinsurer SCOR S.E. has placed a \$200 million catastrophe bond covering U.S. windstorms and earthquakes, according to Standard & Poor's Corp., which assigned preliminary ratings to the notes. The bond will provide Paris-based SCOR with multiyear protection issued by special-purpose vehicle Atlas Reinsurance V Ltd.

Free market: States look to eliminate monopolies

CONTINUED FROM PAGE 4

their costs, he said. "No one has come forward to show us how they can do it better than (under) the current system," Mr. Fiore said.

Yet Sen. Grendell's effort comes as Ohio employers fear that advantages they have enjoyed may be eroding. Those advantages include BWC discounts for employers participating in group pools, but recently the discounts have been "whittled away," Mr. Fiore said.

Additionally, because of BWC operational decisions, employers have not seen a return of surplus from the insurer in the form of dividends or discounted rates for sever-

al years, Mr. Fiore added. Now, because of recent investment losses, the insurer's surplus has diminished, he said.

Without discounts and surplus returns, Ohio employers may stop funding loss reduction measures such as defending against unwarranted claims, Mr. Fiore said. That could increase costs for all employers and increase calls for privatizing the system.

In a statement, the BWC said the current system "has a number of benefits that a private workers compensation product would not have." Those include government accountability standards and a tax-exempt status, which it said pro-

vides savings that can be passed on to policyholders.

Meanwhile, in North Dakota, state Rep. Dan Ruby, R-Minot, said he introduced legislation in January that would allow private insurers to compete against North Dakota Workforce Safety & Insurance, the state-established entity from which all employers must purchase coverage. He said he will amend H.B. 1408 to allow large employers to self-insure.

North Dakota companies would benefit from insurer competition and the needs of injured workers might be better met, Rep. Ruby said. But he also said the Bismarck-based North Dakota Chamber of Commerce opposes his bill and few, if

any, North Dakota employers are large enough to self-insure.

"To be honest, this is going to be a tough sell," Rep. Ruby said. "Actually, our fund is in good shape and we are told often North Dakota is the lowest-cost (workers comp) state among all states."

In Oklahoma, state Sen. Clark Jolley, R-Edmond, has introduced S.B. 1231 that would set up a task force to study converting CompSource Oklahoma into a private mutual insurance company.

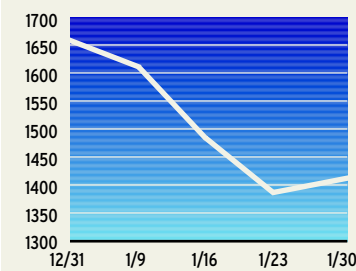
Last April, Gov. Brad Henry signed legislation that allows the state insurer to provide coverage for Oklahoma-based businesses that have employees in other states.

Stock Index

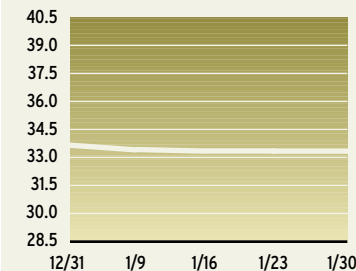
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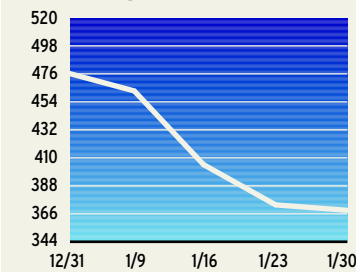
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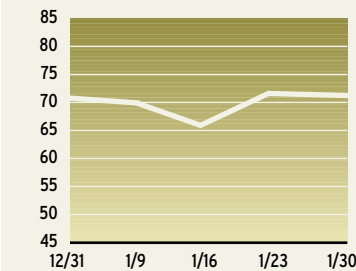
BI BROKERS INDEX



BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	1415.16	▲ 1.43%
DOW JONES	8000.86	▼ -0.95%
S&P 500	825.88	▼ -0.73%

LARGEST GAINS

Gainsco Inc.	75.61%
ING Groep N.V.	18.32%
AEGON N.V.	15.88%
CIGNA Corp.	11.86%
MBIA Inc.	8.43%

LARGEST LOSSES

Selective Insurance Group	-21.28%
Allmerica Financial	-18.84%
Allstate Corp.	-18.63%
XL Capital Ltd.	-12.65%
Zenith National	-11.32%

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



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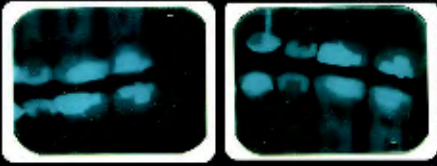
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TODAY'S SPECIALS



Mass. AG takes a bite out of crime spree

If it isn't exactly a case of a man biting off more than he could chew, the tale of Brookline, Mass., resident Tod Schaffer comes close to being so.

According to the Massachusetts attorney general's office, Mr. Schaffer broke his tooth in 2002 when he bit into a piece of plastic in a salad at a Boston restaurant.

That is not in dispute. In fact, Mr. Schaffer received a settlement from the unnamed restaurant within a week, the state agency said.

Mr. Schaffer, however, apparently decided his experience in one restaurant might be a ticket for a gravy train involving others.

A Suffolk County, Mass., grand jury has accused Mr. Schaffer of falsifying his dentist's note and submitting it to the insurers or self-insured operations of 21 other restaurants in and around Boston between November 2002 and May 2006.

Claiming his injury occurred when he bit down on plastic, glass or even rocks in meals, Mr. Schaffer allegedly used the forgeries to collect \$36,000 in payouts from 10 restaurants. He either withdrew his claims or was denied payment by the others. He is accused of insurance fraud, larceny and attempted larceny.

The state said it was an investigator at Cincinnati-based Great American Insurance Co. who noticed the similarity of the claims and reported them to the Insurance Fraud Bureau of Massachusetts.

No doubt Mr. Schaffer's ruining his decision, because it appears as though the crime has come back to take a bite out of him.

Business Insurance END PAGE



Court says cheer at your own risk

Cheerleading may seem to be a safe recreational activity, but in Wisconsin it's a contact sport—like hockey or football—that can cause serious injuries.

The Wisconsin Supreme Court reached this conclusion in reviewing a 2006 lawsuit by a 14-year-old cheerleader who hit her head when another cheerleader failed to catch her during a practice. In addition to suing her teammate, Brittany Noffke sued her coach and the Holmen Area School District for damages.

"Cheerleading involves a significant amount of physical contact between the cheerleaders that at times results in a forceful interaction between the participants when one person is tossed high into the air and then caught by those same tossers," Justice Annette Ziegler wrote in the unanimous decision.

Therefore, cheerleaders are immune from negligence actions under a Wisconsin law that prevents participants in recreational contact sports from suing for unintentional injuries, the court ruled Jan. 27.

The court also ruled that the teacher

and school district were immune from liability under a statute that shields governmental agencies from lawsuits over the actions of their employees.

"This is the first state to rule that cheerleading is a contact sport," said Kara Burgos, an attorney at Moen Sheehan Meyer Ltd. in La Crosse, Wis., who represented defendant Kevin Bakke and his insurer, American Family Mutual Insurance Co. At the time of the accident, Mr. Bakke was 16.

Because it was the first time a court has addressed whether cheerleading was a contact sport, Ms. Burgos said she resorted to citing cases involving injuries from paintball and "kick the can" games as examples of other types of contact sports comparable to cheerleading.

The ruling "creates a broad definition of what constitutes a contact sport in Wisconsin," acknowledged Tracy Tool, who is with Eau Claire, Wis.-based Bye, Goff & Rohde Ltd. and represented Ms. Noffke.

Contributing: Roberto Cenicerros, Mark A. Hofmann, Zack Phillips, Joanne Wojcik

Marx imposter not laughing all the way from the bank

A 71-year-old financial adviser whose personal finances apparently had soured is accused of donning a Groucho Marx mask and arming himself with a knife to rob a Peekskill, N.Y., bank.

Edward "Martin" Solomon was being held last week in the Westchester County jail at Valhalla, N.Y., on charges of robbery and grand larceny after being unable to post \$100,000 bond, reports said.

Mr. Solomon—wearing the Groucho Marx mask with nose, glasses and a bushy mustache—reportedly forced his way behind the counter at a Trustco Bank branch and took about \$5,900 in mid-January. He was arrested at his Manhattan office the next week.

Mr. Solomon retired two years ago from Prudential Financial Inc. but was permitted to keep working with established clients, a company spokesman told the Associated Press.

A local newspaper reported that, during a court hearing, Mr. Solomon's attorney noted that his client's Ossining, N.Y., home was "heavily mortgaged" and both of his vehicles were leased.

"I would imagine everyone who knows him is completely surprised he would have resorted to this for whatever reason," Peekskill police Lt. Eric Johansen told the New York Times.

The grandfather is due back in court on Feb. 5.



Separation of church and state...of undress?

An information technology employee for the Ohio Bureau of Workers' Compensation allegedly spent a majority of his work days viewing Internet pornography sites and conducting church business.

According to an investigation report from the State of Ohio Office of the Inspector General, Jeffrey Adkins allegedly visited "sites that were sexually oriented, and he was viewing and downloading videos, images and audio files several hours per day."

He also sent and received "scores" of e-mails and used state computers and software to create and store flowcharts and other work related to his unpaid position as a church technology director, the report states.

A 2008 state investigation of Mr. Adkins' Internet usage at work revealed he visited at least one sexually oriented Web site on at least 67 days of 100 that he reported for work, the report states. His computer files and folders showed he opened

and or stored at least 318 sexually oriented movies, 11 adult audio files, and more than 1,200 adult photos.

No wonder he requested high cubicle walls for maximum privacy, a former supervisor told investigators.

Mr. Adkins' Internet habits went undetected for several years as Mr. Adkins earned \$97,000 annually while he received favorable performance evaluations and was well respected by peers and managers.

When confronted with the evidence,

he resigned, the report states.

The Inspector General credits the Bureau of Workers Compensation's technology personnel for eventually identifying and reporting Mr. Adkins' misconduct. But the Inspector General also questions why it was overlooked for so long and makes recommendations for improving oversight.

The Inspector General referred the matter to prosecutors, citing theft of time and misuse of state resources.





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