

Business Insurance

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In Brief

O'Hara leaving board of XL

Brian M. O'Hara, chairman of the board of directors and former president and chief executive officer at XL Capital Ltd., said he will not stand for re-election in April. John T. Thornton, a member of XL's board since 1988, also decided he will not run for re-election. XL also announced that Robert S. Parker and Alan Z. Senter, board members since 1992 and 1986 respectively, have decided to retire from the board at the end of 2009. After the retirement of Mr. O'Hara and Mr. Thornton, just before the insurer's annual general meeting, the board will be fixed at 11 directors, XL said in a statement.

Commercial market still stable, Best says

The U.S. commercial lines market remains stable despite economic

See **IN BRIEF** page 22

SPOTLIGHT

CAPTIVE INSURANCE

Captive insurance sector feels impact of worldwide economic turmoil; Utah, Kentucky grow at faster pace than other domestic domiciles; more interest in using captives to fund benefits risks; search for good fronting options gets more challenging; *BI* ranks largest captive managers worldwide. **PAGE 9**

AIG realigns P/C units in bid to keep clients

Company separates insurance operations from troubled parent

By **JUDY GREENWALD**

NEW YORK—American International Group Inc. will likely continue to lose business and employees as it pursues its plan to spin off its property/casualty units into a separate holding company, observers say.

But just how bad those losses will be, and how policyholders will perceive the attempt to separate the property/casualty units from the troubled holding company is uncertain.

The creation of that holding company, AIU Holdings Inc., is part of a major corporate restructuring program announced last week, when AIG reported a \$61.66 billion loss for the fourth quarter of 2008. AIG said it may launch an initial public offering for the unit.

Kristian P. Moor, who is president and chief executive officer of AIG Property Casualty Group, will be president of AIU. Nicholas Walsh, president and CEO of American International Underwriters, will be



PARTING COMPANIES

Plans to separate AIG's property/casualty operations include:

- Creation of a holding company for domestic and foreign property/casualty units.
- Rebranding under AIU Holdings Inc., which will have a board and management team separate from those at AIG.
- Possible sale of minority stake in the business.

its vice chairman.

AIU will include AIG's commercial insurance group, foreign general unit and other property/casualty operations. It will have more than 44,000 employees and 500 products and serve 40 million commercial and individual customers in 130 countries and jurisdictions, AIG said.

"For the first time, there is a common management for the global operation," Mr. Moor told *Business Insurance*. "It will be positioned to run more independently and transparently in the future," and cus-

tomers "will be able to look at our financial strengths and ratings distinct from AIG."

AIU Holdings "will include well-capitalized businesses that hold substantial liquidity and have not required capital funded through AIG's agreement with the U.S. government to support its financial strength," Mr. Moor said.

The IPO is expected to take place in nine to 12 months, said AIG Chairman and Chief Executive Officer Edward Liddy during a conference call last week. "We'll do it as

See **AIG** page 19

Latest move helps allay buyer fears

By **SALLY ROBERTS**

NEW YORK—American International Group Inc.'s decision last week to spin off its property/casualty operations into a separate holding company was welcomed by several risk managers, but some remained concerned about AIG's struggles.

Several insurance buyers contacted by *Business Insurance* expressed support for the move, saying it further distances AIG's insurance operations from its parent's troubles, but others remain skeptical about whether the move will end concerns hanging over the property/casualty operations.

As part of a major restructuring effort, AIG said last week it would create AIU Holdings Inc. (see related story).

The spinoff is part of AIG's latest federal rescue plan that includes up to \$30 billion in additional assis-

See **REACTION** page 20

Sale of ailing life unit could aid Hartford: Analysts

By **JUDY GREENWALD**

HARTFORD, Conn.—As Hartford Financial Services Group Inc. struggles with large losses at its life insurance operations, rumored efforts to sell those operations make sense as a way to remove a major drag on the insurer's earnings, analysts say.

While analysts say Hartford's property/casualty operation remains strong, turbulent financial markets have hammered its life insurance business, where falling equity values have hit investments and Hartford's

variable annuity business.

Talk of a potential breakup emerged last week when Bloomberg News, citing people familiar with the situation, reported that Hartford was negotiating to sell its most of its life operation to Toronto-based Sun Life Financial Inc. The report, which said an agreement was not certain, also noted Hartford had been in talks with MetLife Inc. that ended last month. A Hartford spokesman declined comment on possible negotiations or plans to dispose of its life operations.

A Sun Life spokesman declined

comment on any negotiations with Hartford but said, "Sun Life has made no secret of its aim to...grow and enhance the business, and we look at many opportunities in key markets."

A spokesman for New York-based MetLife declined to comment.

Despite a \$2.5 billion capital infusion from Munich, Germany-based Allianz S.E. in October, Hartford reported a \$2.75 billion loss in 2008, which reflected a \$3.61 billion net realized capital loss. The company reported \$2.95 billion in net income for 2007.

Hartford's life operations posted a \$2.44 billion loss last year, while its property/casualty business had \$92 million in net income. The property/casualty segment had \$10.23 billion in 2008 net premiums written, a 2% decline, and its combined ratio was basically flat at 90.7%.

As losses have mounted on the life side, Hartford has seen its ratings downgraded. Last week, Standard & Poor's Corp. lowered Hartford's counterparty credit rating to BBB

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Business Insurance Europe ceases publication

LONDON—*Business Insurance Europe*, a sister publication of *Business Insurance*, which since 2006 has reported in print and online on European risk management issues, ceased publication this week.

Business Insurance will continue to report on European news and events under its global banner in print and at *BusinessInsurance.com*.

For more information, please visit www.BIEurope.com/readers

NEWSPAPER

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On the Web

CAPTIVES 2009

Online maps highlight captive domiciles

Accompanying *Business Insurance's* Captive Insurance



Spotlight starting on page 9 of this issue, online interactive maps show details about captive domiciles based in North America, Europe, Asia and offshore. Go to www.BusinessInsurance.com/captive2009.

BI VIDEO

New P/C Insights video features automation



Technology expert Rick Hoehne discusses how insurers can automate their processes to save money and

customize coverage offerings. Go to www.BusinessInsurance.com/video.

AIG IN CRISIS

AIG developments all in one place

Business Insurance continues its online coverage of insurer



American International Group Inc. The package includes up-to-date coverage of AIG's federal bailout, ongoing updates on asset sales, stock quotes and more. Go to www.BusinessInsurance.com/AIG.

BI DIRECTORIES

Captive manager, domicile updates

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Business Insurance®

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Guy Carpenter expands with Collins purchase

Acquisition will create world's second largest reinsurance brokerage

By SALLY ROBERTS

NEW YORK—Guy Carpenter & Co. L.L.C.'s acquisition of John B. Collins Associates Inc. gives the New York-based reinsurance broker more scale in the United States and allows it to play "catch-up" to a much larger rival, Aon Benfield Re, analysts say.

The deal, announced last week, combines the world's second- and seventh-largest reinsurance brokers and follows Chicago-based Aon Corp.'s \$1.43 billion acquisition of London-based Benfield Group Ltd. last August.

CARPENTER PLUS COLLINS

Acquisition to combine two of the top 10 reinsurance brokerages worldwide

GUY CARPENTER & CO. L.L.C.

Headquarters: New York
2008 revenue: \$803 million
Employees: 2,200
Offices: 50
Countries: 31

JOHN B. COLLINS ASSOCIATES INC.

Headquarters: Minneapolis
2008 revenue: \$77 million
Employees: 190
Offices: 14
Countries: 3

Source: Company officials

Benfield, which was the world's third-largest reinsurance broker, since has been combined with the

world's largest reinsurance broker, Aon Re Global, to create Aon Benfield. The brokers reported combined reinsurance revenues of \$1.63 billion in 2007.

Terms of the Guy Carpenter/Collins deal were not disclosed.

Collins, a Minneapolis-based reinsurance broker, reported \$77 million in 2008 revenue, up 9.5% compared with 2007, while Guy Carpenter reported \$803 million in 2008 revenue, a 6% drop from 2007.

Growth by acquisition

New York-based Guy Carpenter, a unit of Marsh & McLennan Cos. Inc., is emerging from a 2008 cost containment and restructuring initiative after market conditions and lost business stunted its growth and profitability. As part of those efforts,

Guy Carpenter last year cut its worldwide workforce by 300, or around 10%, and replaced Chief Executive Officer David Spiller with Peter Zaffino.

MMC has not been shy about its ambitions to grow its operations via acquisitions. In late November, MMC said it planned to issue up to \$500 million in stock to fund future deals.

In an interview last week with *Business Insurance*, Mr. Zaffino said Collins was a "very strategic" acquisition for Guy Carpenter and one that will enhance its existing offerings. "They have a very strong, industry-leading medical malpractice portfolio...a very strong crop and agriculture portfolio...a very strong presence in the Florida prop-

See **GUY CARPENTER** page 21

IPC, Max deal creates more diverse reinsurer

By COLLEEN MCCARTHY

HAMILTON, Bermuda—The merger of IPC Holdings Ltd. with rival Max Capital Group Ltd. will result in a financially stronger, more diverse company that's positioned to compete with larger peers, observers say.

Under terms of last week's deal already approved by the boards of both publicly held firms, IPC agreed to acquire Max Capital for about \$912 million in stock. After the transaction closes, which is expected in the third quarter, IPC shareholders would own 58% of the combined company with total assets of about \$10 billion, according to a joint statement.

W. Marston Becker, chairman and chief executive officer of Hamilton, Bermuda-based Max Capital, will be president and CEO of the combined firm, Max Capital Group Ltd.

Pembroke, Bermuda-based IPC's President and CEO James P. Bryce will retire June 30, which the statement described as a "long-contemplated" move. He will continue as nonexecutive chairman of Max IPC Re Ltd., the new name of reinsurer IPC Re Ltd.

Observers say the companies are largely complementary with little overlap and the merged group will benefit from greater scale.

Max Capital, founded in 1999, is a specialty insurer and reinsurer that underwrites excess liability, professional liability, property and aviation coverage primarily for Fortune 1000 companies, as well as property/casualty and excess-of-loss and quota-share specialty reinsurance.

In more recent repositioning, Max Capital established Richmond, Va.-based Max Specialty Insurance

Co. in 2007 as an excess and surplus commercial lines insurer. In 2008, Max acquired Lloyd's of London unit Imagine Group (UK) Ltd. and renamed it Max at Lloyd's.

Max Capital reported \$1.25 billion in gross written premiums and a loss of \$175.3 million, due mainly to investment losses, for 2008.

IPC Holdings, founded in 1993, operated through IPC Re as a property catastrophe reinsurer that also wrote limited aviation, property-per-risk excess and other short-tail reinsurance.

IPC reported gross written premiums of \$403.4 million and a profit of \$90.4 million for 2008.

IPC had been seeking a partner to diversify its monoline business model and its geography, Mr. Bryce said during a conference call.

The combined company can be expected to have strong earnings with more stable underwriting results than would be expected from either company individually, Mr. Becker said during

the conference call.

In addition, the combined entity's stronger platform will allow it to "quickly capitalize on a number of near-term attractive opportunities in the property/casualty marketplace, as well as longer-term opportunities yet to come," Mr. Becker said.

Market experts and rating agencies agreed.

"It's really a win-win" said John Nigh, managing principal with Towers Perrin in New York. "This is a true merger of equals, not a situation where one company will dominate," and policyholders will benefit, he said.

The merger "pushes them up the

See **MAX** page 21



Former General Re Corp. executive Christopher P. Garand, right, arrives at U.S. District Court in Hartford, Conn., last Wednesday. AP

Third Gen Re trial exec receives light sentence

By COLLEEN MCCARTHY

HARTFORD, Conn.—The one-year prison sentence imposed on former General Re Corp. executive Christopher P. Garand for his role in a sham reinsurance deal was the lightest sentence handed down so far in the case, though it's unclear what it means for the remaining defendants.

U.S. District Judge Christopher Droney last week sentenced Mr. Garand to a year and a day in prison, with two years of supervised release, and imposed a \$150,000 fine. Mr. Garand is the third of five former Gen Re and AIG officials to be sentenced since they were convicted in February 2008.

It's the third light sentence handed down in the case and Judge Droney again rejected federal sentencing guidelines, which could have resulted in life in prison, calling them "too severe." In December, Ronald E. Ferguson, Gen Re's former chief executive officer, was sentenced to two years in prison and fined \$200,000, and last month Christian Milton, AIG's former vp

of reinsurance, was sentenced to four years in prison and fined \$200,000.

The judge's consistency in delivering a series of non-guideline sentences bodes well for the remaining two defendants, but "they should not hold out hope for anything less than a year in prison," said Peter Henning, a professor at Wayne State University Law School in Detroit.

Mr. Garand, 61, was Gen Re's senior vp in charge of U.S. finite underwriting from 1994 until August 2005. He and the four other former executives were convicted on charges of conspiracy, securities fraud and making false statements to the Securities and Exchange Commission. Prosecutors convinced the jury that the executives had used sham reinsurance deals to create a bogus loss-portfolio transfer that was designed to help AIG manipulate its financial statements. Previously, Judge Droney ruled AIG shareholders lost more than \$500 million as a result of the scheme.

Judge Droney said that although

See **GEN RE** page 18

Drugmaker loses labeling case

Supreme Court rules FDA approval doesn't pre-empt state action

By MARK A. HOFMANN

WASHINGTON—The U.S. Supreme Court's ruling circumscribing the theory of implied pre-emption of state law by federal rules concerning prescription drugs could reach beyond the pharmaceutical industry, according to legal experts.

The case—*Wyeth vs. Diana Levine*—centered around a warning label on the antinausea drug Phenergan. The label, which was approved by the U.S. Food and Drug Administration, cautioned physicians only about injecting the

drug with the so-called "IV-push" method, but did not forbid it. In that method, a drug is injected directly into a patient's vein.

When musician Diana Levine received the drug via the IV-push method, the injection nicked an artery on her right arm. She developed gangrene and much of her arm was amputated. She sued the drug's maker, Madison, N.J.-based Wyeth.

A Vermont jury held that the injury would not have happened if the label included an adequate warning. The Vermont Supreme Court agreed in 2006, and upheld the nearly \$6.8 million product liability verdict against Wyeth. The drugmaker "could have warned against IV-push without prior FDA approval," the court's majority held.

Wyeth appealed to the U.S.

Supreme Court, holding that the FDA's approval of the warning pre-empted any state action.

A majority of the U.S. Supreme Court disagreed and ruled 6-3 last week in Ms. Levine's favor. The court "cannot credit Wyeth's contention that the FDA would have prevented it from adding a stronger warning," wrote Associate Justice John Paul Stevens. "Wyeth has failed to demonstrate that it would be impossible for it to comply with both federal and state requirements."

The court also rejected Wyeth's contention that a preamble to a 2006 FDA regulation governing the content and format of prescription drug labels, which said state law "frustrated" the FDA's implementation of its statutory mandate. But the statement did not amount to a



Musician Diana Levine celebrated that the U.S. Supreme Court upheld a nearly \$6.8 million verdict against Wyeth for use of a drug that cost her an arm.

pre-emption, according to the court. The court said that when Congress does not directly authorize a federal agency to pre-empt state law, the court has to examine the agency's

explanation of a state law's impact based on the thoroughness, consistency and persuasiveness of that

See **WYETH** page 18



President Obama has nominated Kansas Gov. Kathleen Sebelius, who also is a former insurance commissioner, to be Health and Human Services secretary.

Health care picks show commitment to reform

Kathleen Sebelius' diverse experience seen as advantageous

By JOANNE WOJCIC

WASHINGTON—The choice of Kansas Gov. Kathleen Sebelius as Health and Human Services secretary-designate and Nancy-Ann DeParle as director of the White House Office for Health Reform, followed by last week's health reform summit, demonstrate President Obama's commitment to pursuing a health system overhaul during his administration, observers say.

Shortly after revealing his choices for these two key posts, with only Ms. Sebelius requiring Senate confirmation, President Obama hosted a March 5 gathering of about 120 people representing all facets of the health care system to discuss ways to lower costs, improve quality and achieve universal coverage.

"Today, the president is putting in place a team that is ready on Day 1 to provide the leadership necessary

to achieve health reform," said Karen Ignagni, president and chief executive officer of Washington-based America's Health Insurance Plans in a statement about the selections.

"In selecting Gov. Sebelius...President Obama has again demonstrated his commitment to health care reform," concurred Scott Serota, president and CEO of the Blue Cross and Blue Shield Assn. in Washington, also in a statement.

The nomination of Ms. Sebelius is a strong comeback for the administration after Sen. Tom Daschle's withdrawal because of income tax issues, said Andrew Webber, president of the National Business Coalition on Health in Washington.

"I think it's a good Plan B," Mr. Webber said. "The fact that she comes from a red state and has a history of dealing with Republicans is a plus. The most important thing is the fact that she's got real experience in health care. She was an insurance commissioner and, in that role, she got to know the dynamics of the health care system

See **SEBELIUS** page 18

Buyers criticize guaranty fund plan

By MEG FLETCHER

KANSAS CITY, Mo.—Revisions to a guaranty fund model act that the National Assn. of Insurance Commissioners is slated to adopt next week have raised concerns among insurance buyers.

The New York-based Risk & Insurance Management Society Inc. "has serious concerns with the NAIC proceeding with the new proposal" and plans to write a letter to regulators before the NAIC vote at its March 14-16 quarterly meeting, said Nick Kapatos, chair of RIMS' External Affairs Committee and senior vp and enterprise risk manager for Sterling Bancshares Inc. in Houston.

Specifically, RIMS opposes provisions that would exclude employers with a net worth that exceeds \$50 million from receiving guaranty fund payouts should an employer's insurers become insolvent.

"We believe this exclusion is not

reasonable because these same companies indirectly pay assessments in the form of insurance premiums to insurers who are guaranty fund members," said Mr. Kapatos.

Until late last week, there had been little or no regulatory opposition to the revisions proposed in the Property and Casualty Insurance Guaranty Assn. Model Act as it moved through the organization, said Jim Mumford, first deputy commissioner for the Iowa Insurance Department, who oversaw drafting of the model.

All U.S. states have adopted a general guaranty fund framework, which is a requirement of the NAIC's accreditation program for state insurance departments. However, laws vary significantly among the states.

Most state laws exclude high-net-worth policyholders from receiving payouts for mostly first-party—and sometimes third-party—claims,

although thresholds vary significantly, such as \$5 million in Indiana and \$50 million in several other states, according to a 2008 report by the National Conference of Insurance Guaranty Funds in Indianapolis. Many guaranty funds also have the right to recover from high-net-worth policyholders for third-party claims the funds pay on their behalf.

The NAIC proposal also would expressly exclude self-insured companies from coverage by guaranty funds should their excess insurers become insolvent. "The intent was never to cover them," but some self-insured companies have filed lawsuits challenging state laws on that issue, Mr. Mumford said. One is pending before the Nevada Supreme Court.

Yet, one regulator-proposed option allows guaranty funds to provide coverage to self-insurers or risk retention groups that later buy traditional

See **NAIC** page 18

N.Y. offers sale of Midland Insurance

By ZACK PHILLIPS

NEW YORK—The New York Liquidation Bureau last week released a draft request for proposals from private investors to buy the assets and considerable liabilities of Midland Insurance Co., which has been in liquidation for nearly 23 years.

Bureau officials said they hoped the sale would expedite and maximize payouts of Midland's assets to claimants. After a 45-day public comment period, the draft RFP will be submitted to the New York State Supreme Court for approval.

If the RFP is approved, the bureau will begin accepting proposals from New York-domiciled insurance companies. Firms that demonstrate financial strength and operational stability will be invited to participate in an auction for the Midland estate.

Midland wrote excess coverage for Fortune 500 companies before col-

lapsing in 1986. Its unresolved claims involve thousands of policyholders nationwide, including corporations that paid victims of asbestos exposure, defective breast implants and HIV-tainted blood products.

Most of Midland's major claims are unresolved and the bureau has not collected most of Midland's reinsurance, bureau officials said. Midland has nearly \$1 billion in assets—including roughly \$600 million in reinsurance recoverables—and about \$2.9 billion in liabilities, according to the bureau's figures.

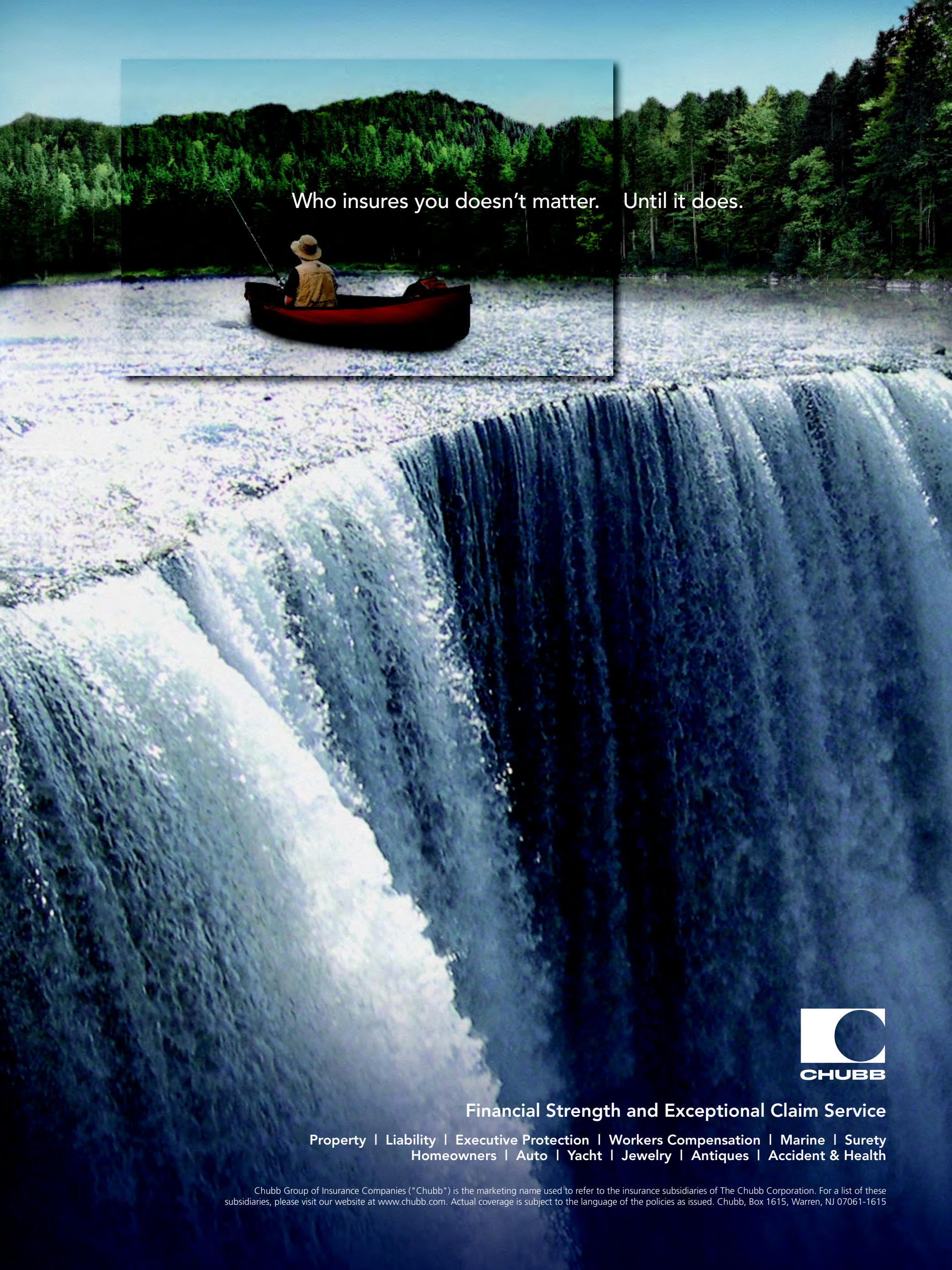
Mark G. Peters, special deputy superintendent in charge of the Liquidation Bureau, said a private firm has several structural advantages that would allow it to pay claimants more than the bureau. For one, a private firm could earn more investing Midland's assets than the bureau, which Mr. Peters said invests primarily in Treasury bonds. Also, a private

firm potentially could secure more reinsurance recoverables because it might have other business activities with Midland's reinsurers.

"The incentives (for) reinsurers to pay us quickly and in full are less than they would be for a company that has an ongoing relationship with them," he said.

Last year, the bureau contracted consulting firm Milliman Inc. to determine the percentage of claims the bureau could afford to pay policyholders, and officials say they will not sell the estate unless the buyer can beat that percentage.

Midland's claimants and reinsurers would be permitted to opt out of the agreement between the bureau and the buyer, and continue to negotiate with the bureau as if the sale never happened, although claimants who opt out would be paid less than those who work with the purchaser, bureau officials said.



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Hartford: Falling equity values hit hard

CONTINUED FROM PAGE 1

from BBB+, the second downgrade in a week. Also downgraded for a second time were the financial strength and counterparty credit ratings of Hartford's property/casualty and life operations to A from A+.

While S&P said the property/casualty side has strong underwriting and earnings and capital reserves that are redundant at the AA level, "we rate the life and the property/casualty operations as a consolidated group," said Damien Magarelli, a director at the New York-based rating agency.

Moody's Investors Service and Fitch Ratings lowered Hartford's ratings last month.

"We continue to be concerned about the exposure in both their investment portfolio and in their variable annuity book," said Moody's Senior Vp Jeff Berg. Moody's lowered the insurance financial strength ratings for the Hartford's lead property/casualty and life insurance operating units to A1 from Aa3.

Since last month's rating action, at least in the equity market, "we've seen continued deterioration in a number of benchmarks, which would lead to lower future profitability in the life operations, and potentially more reserve requirements for the variable annuity business."

Hartford's variable annuity business has been a particular concern.

John L. Ward, chief executive officer of the Cincinnati-based Cincinnati Financial Group, said the insurer "has been fairly aggressive" in offering minimum return guarantees linked to stock market performance.

"So as the stock market has plum-

HARTFORD FINANCIAL SERVICES GROUP

Financial results for life and property/casualty operations, in millions of dollars

	4th quarter 2008	4th quarter 2007	Total 2008	Total 2007
Life net income	\$(807)	\$277	\$(2,443)	\$1,558
P/C net income	\$291	\$349	\$92	\$1,507

Source: Company reports

meted, the capital requirements to honor the guarantees on those annuities has increased dramatically," Mr. Ward explained. "Some companies have not gotten as deep into variable annuities as the Hartford has, and those that have, haven't necessarily been as aggressive with the guarantees," he said.

Given the pressures on the life side, some analysts say a sale of those operations makes sense.

"There is a good chance the Hartford will either divest the life operations or in some way separate it out from the property/casualty operations," Mr. Ward said. "There is pressure on their capital position. There's also pressure from shareholders to take action to improve the value of the stock of the company."

Hartford "has a fairly extensive holding by institutional investors, and those investors appear to be pushing it to do something to unlock the value in the property/casualty operation," Mr. Ward said.

Brian Schneider, director at Chicago-based Fitch, said he is "not surprised" by news that Hartford is considering selling the life business. He noted the rating agency last month lowered the Hartford's property/casualty subsidiaries ratings one notch to

A+ from AA-, but its primary life insurance subsidiaries' ratings by two notches, to A from AA-.

A sale of the life operations would help the property/casualty operation, "assuming they were able to get a decent price for it," he said.

But the price question is a big one, analysts say.

Stewart Johnson, a portfolio manager with Stamford, Conn.-based investment bank Philo Smith & Co., said, "When the market senses there is an immediacy in terms of the need to sell, that's when pricing may start to diverge from what is realistic or fair."

Mr. Ward said because of the condition of the variable annuity business, "Hartford might actually have to put capital into it" in order to have another company take it over. "It's challenging but doable, and they appear to be well down the path of trying to make something happen."

"I think there's still a reasonable franchise value in the Hartford name," Mr. Schneider said. "Obviously, the losses that they had have diminished their ability to run the company in the way they want to, so I guess it depends on how the transfer is structured."

Commentary

In time of budget cuts, some events worth trip

For every one of the 16 years I've been at *Business Insurance*, the editorial calendar has revolved around certain industry events. Chief among them is the Risk & Insurance Management Society Inc. annual conference and exhibition.

Attending RIMS and seeing many familiar faces has become such a tradition that it comes as a genuine surprise when people say they're not going.

Through the years, reasons I've most often heard for skipping the event have been family emergencies or an inadvertent corporate conflict that couldn't be rescheduled. Many people have been asking me lately whether attendance will be down at the 2009 conference in Orlando, Fla., on April 19-23, due to the economic downturn.

While I have heard a few people say they definitely aren't going, more people than usual have told me they remain undecided. In the past, plans to attend RIMS were inked much earlier. Indeed, *Business Insurance's* planning begins the year before each RIMS. The fact that a lot of folks aren't sure they're going—only six weeks before the Orlando conference opens—suggests that attendance will be lower than last year.

Many businesses have had to slash travel budgets, which is unfortunate. But travel remains a necessity in business today, and we all have to decide the best use of our dollars. I would argue that there are benefits to attending RIMS that exceed the cost.

For starters, the RIMS annual conference is an insurance industry event like no other. It's the largest, drawing more than 10,000 attendees in three of the past five years. It has more than 400 exhibitors. It offers more than 100 educational sessions. But, for me and I'm sure many others, one of the principal advantages is the conference offers the opportunity to network with peers and meet many people in a short span of time. If I had to pick one event at which to connect with leading risk managers, brokers, insurers and consultants, RIMS would be it, hands down.

Are there alternatives to big, in-person conference events? While technology is enabling people to log in to webcasts and attend "virtual" conferences—RIMS itself hosted its



REGIS COCCIA

Editor Regis Coccia's commentary appears monthly. He can be reached at: rcoccia@businessinsurance.com

first-ever such event last November, "RiskLive! RIMS Virtual Conference & Expo"—those aren't substitutes for personal interaction. I was a co-presenter at a session during the RiskLive event and, while the content of the sessions I attended was interesting, I think it will take awhile for people to get used to the virtual environment, which looks

If I had to pick one event at which to connect with leading risk managers...RIMS would be it, hands down.

and feels like a video game. Until the virtual experience feels more like being there in person, it's just not as good as the real thing.

One of the special attractions for attending RIMS is the presentation of the Risk Manager of the Year award and induction of the members of the annual Risk Management Honor Roll.

BI and RIMS are jointly presenting these honors this year, and we're looking forward to celebrating excellence and innovation in risk management. In addition to attending the RIMS awards luncheon on April 20, *Business Insurance* is hosting a breakfast on April 21 for the honorees. The keynote speaker is someone well acquainted with risk management: Maurice R. Greenberg, chairman and chief executive officer of C.V. Starr & Co. Inc.

Are you planning to attend RIMS this year or skip it? Help satisfy my curiosity and drop me a note. Hope to see you in Orlando!

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Business Insurance OPINIONS

AIG's P/C operations set to turn a corner

RECENT NEWS HAS FEATURED American International Group Inc. prominently, with positive and negative implications.

AIG last Monday reported the largest quarterly loss in corporate history, more than \$60 billion. But the company also announced some positive news:

- Access to up to \$30 billion in funds from the federal Troubled Asset Relief Program.
- Affirmation of credit ratings by the major rating agencies.
- Formation of a separate holding company for its global property/casualty businesses, under the name AIU Holdings Inc.

As we report beginning on page 1, these have been greeted as good things for a company that has attracted the world's attention and more than its share of criticism for getting into financial trouble. Federal lawmakers last week responded with tough questions and cast doubt on whether they would support future funding.

We think the new holding company must be considered as welcome news for risk managers, as it provides the core commercial insurance operations with a way to promote the business and retain people and accounts. By itself, AIU would rank as the largest property/casualty insurance entity in the world, by a big margin. If it was in the Fortune 500, AIU would rank 54th.

Size alone is no guarantee AIU will thrive, but it does provide a vast financial base from which to maintain a big appetite for risk, long one of AIG's competitive strengths. What ultimately becomes of AIG remains unknown, but policyholders have reason to remain hopeful that the property/casualty insurance operations will remain stable.

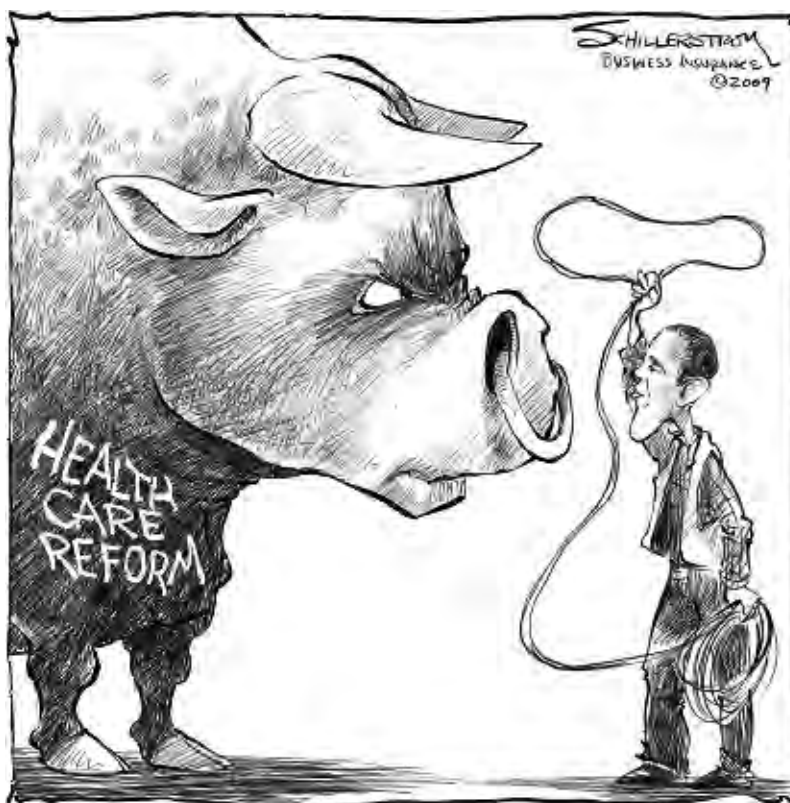
The new holding company must be considered as welcome news for risk managers.

We need healthy debate on systemic risk rules

CAPITOL HILL IS ABUZZ with talk of regulating systemic risk. That's an understandable response to the events of the past few months, when several financial services giants like American International Group Inc. found themselves on the brink of collapse, a situation that financial experts and regulators feared could severely damage the entire global economy.

But while everyone agrees that systemic risk needs to be regulated, there is no single definition of what constitutes systemic risk. As the Property Casualty Insurers Assn. of America recently pointed out in a policy paper, there are at least two ways to measure systemic risk. One way is to decide an institution is "too big to fail." The other is to determine whether an institution is too interconnected to fail. No doubt other definitions will arise as the debate goes on.

Whatever the definition—and the interconnectivity test strikes us as more comprehensive than simply measuring size—the creation of some system of systemic risk regulation at the federal level strikes us as inevitable. As a hearing last week on the subject before a House panel amply demonstrated, there is multitude of opinion on how systemic risk would be regulated, but a consensus that it should be regulated. We say let the debate continue, with as many voices being heard as possible. Doing so presents the best hope that we'll eventually get it right when it comes to regulating systemic risk. The experience of recent months underscores that we can't afford to get it wrong.



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THIS WEEK'S RESULTS

Q How long will it take to achieve universal health care nationwide?



1 year

3%

2-5 years

25%

More than 5 years

30%

Not politically feasible

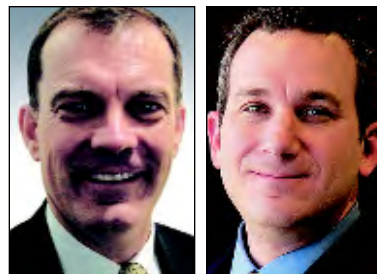
43%

NEXT WEEK'S QUESTION

Q: Would a systemic risk regulator have averted the current economic crisis?

READ

Perspectives and expert analysis online at
www.businessinsurance.com/knowledgecenter



Keeping health care cost down during recession

In the past six recessions, medical prices have tended to rise while most other prices fall, say Michael J. Thompson, principal of global human resources at PricewaterhouseCoopers L.L.P. in New York, and Benjamin Isgur, director of PricewaterhouseCoopers' Health Research Institute in Dallas. As a result, health care costs are likely to be a greater burden during the recession. With the prospect of health care reform also on the horizon, employers should work closely with insurers and other providers to better position themselves during a period of uncertainty.

ONLINE

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COUNTING CAPTIVES

World's largest captive domiciles ranked by number of licensed captives.

DOMICILE	2008	2007
Bermuda	960 ¹	958
Cayman Islands	777	765
Vermont	557	567
Guernsey	370	368
British Virgin Islands	332	392
Luxembourg	262	210
Barbados	229	219
Turks & Caicos Islands	182 ²	173 ^{1,2}
Hawaii	165	163
South Carolina	163	158
Isle of Man	156	155
Dublin	131	131 ³
Nevada	123	108
Utah	122	92
Arizona	106	94
District of Columbia	90	77
Kentucky	67	31
Singapore	63	62
New York	50	44
Switzerland	50	48
Delaware	40	18
Montana	35	30
Labuan	30	31 ¹
British Columbia	17	20
Gibraltar	17 ⁴	19 ⁴
Bahamas	16	16 ³
Vanuatu	16	12
Netherlands Antilles	15	15
Georgia	14	14
Mauritius	13 ¹	13 ¹
Colorado	6	6
Malta	6	5
Jersey	5	5 ³
Panama	5	4
U.S. Virgin Islands	4	6
Alabama	3	2
Missouri	3	2
Tennessee	3	3
Hong Kong	2	2
Arkansas	1	1
Illinois	1	2
Kansas	1	1
Michigan	1	0
Oklahoma	1	1
South Dakota	1	1

1 BI estimate. 2 Excludes credit life insurers.
3 Restated. 4 Pure captives only.

ONLINE: The complete directory of 2009 captive domiciles can be found at www.BusinessInsurance.com/captive2009

Captive insurance industry not immune to bad economy

Credit concerns, cost, capital supply taking their toll on captives

By **RODD ZOLKOS**
and **MICHAEL BRADFORD**

No different from virtually any other business sector, the captive insurance industry is feeling the effects of the economic downturn and the crisis in the financial services industry.

The high cost and short supply of capital, dramatic downturns in the investment markets and concerns about counterparty credit are affecting existing captives and discussion of new formations.

While saying his firm still is seeing considerable captive activity, Gary Osborne, president of USA Risk Group Inc. in Montpelier, Vt., also said, "Capital and collateral are the big holdups."

"Banks aren't giving out letters of credit freely," Mr. Osborne said. "There's an awful lot of interest, but capital and collateral are sort of holding us back a little bit."

Mark Bernfeld, vp in the consultative placement division of Towers Perrin Reinsurance in Boston, suggested that the soft insurance market has been the biggest factor slowing captive formations. "The economy has certainly caused a shortage of capital, which is another thing that has made captive formation more difficult," he said.

Derek Patience, head of office at Marsh Management Services Isle of Man Ltd. in Douglas, Isle of Man, and chairman of the Manx Insurance Managers Assn., said the soft market has slowed new captive formations the past few years in Europe as well, and he's seeing little change in the climate. "Forming new captives is a strategic decision, and evaluating a captive is well down the list of strategic decisions at the moment," he said.

Brady Young, president and chief executive officer of Strategic Risk Solutions Inc. in Concord, Mass., said several conditions have to exist for a company to consider forming a captive. "One, they've got to have risks to which the traditional market doesn't respond," he said. "And two, they've got to have cash."

Mr. Young said some potential captive programs that SRS was working with late last year have "effectively been put on the back burner," most frequently for construction-related or real estate-related businesses.

"The captives that have been hit the hardest are the homebuilder captives because they can't afford to maintain the capital in the captive as well as the collateral they need



'Banks aren't giving out letters of credit freely. There's an awful lot of interest, but capital and collateral are sort of holding us back a little bit.'

Gary Osborne, USA Risk Group Inc.

on their fronting programs," said Nancy Gray, executive director of North American operations at Aon Insurance Managers (USA) Inc. in Burlington, Vt.

Richard E. Rabs, vp-claims and risk management at Veolia Transportation Inc. in Chicago, a company that operates captives in Dublin, Ireland, and Guernsey, said capital always is a consideration in a captive program, though the case for committing capital to a captive should be easier if the traditional markets harden.

"No CFO wants to just throw out money without understanding the full value of it," Mr. Rabs said. "That's a little tougher when the market's soft. Clearly, now as we see the market shift, it's going to be a little easier to justify the expenditure."

While saying the economy isn't posing issues for his company's Cayman Islands-based captive, Scott H. Beckman, vp-risk management and insurance at Oak Brook, Ill.-based Advocate Health Care Network, said he suspects it is for some captives and their parents. "If you start facing some adverse loss experience, do you have adequate capital at the parent to sustain the captive operation?" he asked.

Conservative investment strategies that are typical among captives spared most from serious losses in

the recent market downturn, according to captive industry experts.

"For some years, since the 1990s when there were some problems with bond prices, captives have followed very conservative investment strategies," said Dominic Wheatley, chief marketing officer for Willis Group Holdings Ltd.'s International Captive Practice in St. Peter Port, Guernsey. "I don't think they can get any more conservative than they have been over the last eight to 10 years."

Investment strategies are "certainly on the agendas of the (captive) boards," said Markus Mende, managing director at Aon Global Risk Consulting in Basel, Switzerland. "There have been some investment losses on the captive side, clearly. I don't know if they have changed their investment strategies, but they are more aware of volatility."

Mr. Osborne said he's seen current market conditions make some clients of USA Risk even more conservative investors. "Most of our captives are sitting in Treasuries right now and laddered (certificates of deposit)," he said.

In addition, some parent companies are tapping their captives for cash.

"What we're seeing in our existing captives is some parental borrowing and some dividend payments," said Nicholas S. Dove, president of Quest Management Services Ltd. in Hamilton, Bermuda.

Many parent companies are asking, "How much working capital are we tying up in the captive?" said Aon Global's Mr. Mende, and some are pulling out cash that isn't needed in the insurer.

However, as Solvency II draws nearer, European regulators are looking more closely at captives' capital levels, he said. Solvency II's risk-based capital requirements

See **RECESSION** page 12

CAPTIVE INSURANCE

SPOTLIGHT

LARGEST CAPTIVE MANAGERS WORLDWIDE RANKED
PAGE 10

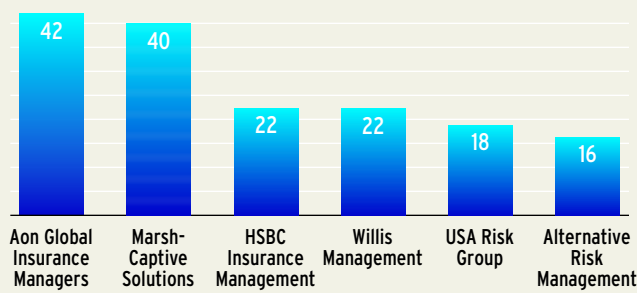
UTAH, KENTUCKY OUTPACE ALL U.S. DOMICILES IN 2008
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INTEREST GROWS IN USING CAPTIVES TO FUND BENEFITS
PAGE 14

FINDING 'GOOD FRONT' GETTING MORE CHALLENGING
PAGE 15

LARGEST MANAGERS OF PROTECTED CELL COMPANIES

Ranked by cell companies managed



Source: BI survey

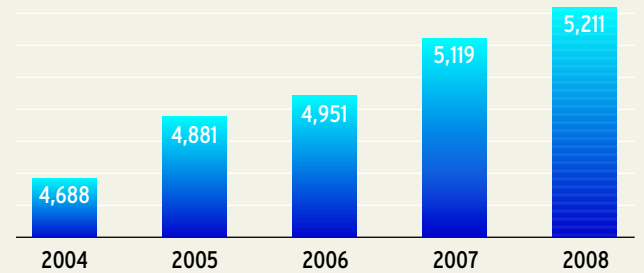
LARGEST MANAGERS BY DOMICILE

Ranked by captives managed in a single domicile at year-end 2008



Source: BI survey

TOTAL CAPTIVES WORLDWIDE



Source: BI survey

Largest captive managers worldwide

Ranked by captives managed worldwide in 2008

Rank	Company/Address	Phone/Web site	Parent	Captives 2008	Captives 2007	Domiciles	Captives formed in 2008	Total staff	Principal officer
1	Aon Global Insurance Managers St. George Court, Upper Church St., Third Floor, Douglas, IM1 1EE Isle of Man	44-1624-692-400 www.aon.com	Aon Corp.	1,269	1,300 ¹	32	51	500	Clive James, group managing director
2	Marsh-Captive Solutions 1166 Ave. of the Americas, 37th Floor, New York, N.Y. 10036	212-345-7769 www.marsh.com	Marsh & McLennan Cos. Inc.	1,120	1,131	31	44	444	Michael Cormier, managing director-Global Captive Solutions practice leader
3	Willis Management 1 Lawson Lane, Suite 410, Burlington, Vt. 05601	802-658-9466 www.williscaptives.com	Willis Group Holdings Ltd.	298	286	19	21	118	James Girardin, executive vp
4	USA Risk Group P.O. Box 306, Montpelier, Vt. 05601	800-872-7475 www.usarisk.com		254	239	14	25	67	Gary Osborne, president
5	IAS Global Captive Group Ltd. 44 Church St., Hamilton, HM 12 Bermuda	441-295-3688 www.ias.bm		200	198	2	8	99	David Ezekiel, president/managing director
6	HSBC Insurance Management 8 Canada Square, London, E14 5HQ England	44-207-991-0273 www.insurancemanagement.hsbc.com	HSBC Holding P.L.C.	194	184	8	12	93	Peter Walker, ² chief executive
7	Atlas Group Ltd. Sagicor House, 198 N. Church St., George Town, Grand Cayman, Cayman Islands, KY1-1107 B.W.I.	345-945-5556 www.atlascaptives.com	Atlas Group Ltd.	170	154	3	31	18	Nicholas Leighton, managing director
8	Alta Holdings L.L.C. 2010 Main St., Suite 650, Irvine, Calif. 92614-7294	949-269-1400 www.altaholdings.com		117	111	4	7	39	Bruce Molnar, CEO
9	Beecher Carlson Insurance Services L.L.C. 1655 Lafayette St., Suite 200, Denver, Colo. 80218	303-388-5688 www.beecherCarlson.com	Beecher Carlson Holding Inc.	104	101	10	11	36	Jason Flaxbeard, senior managing director
10	Active Captive Management 16485 Laguna Canyon Road, Suite 250, Irvine, Calif. 92618-3837	800-921-0155 www.activecaptive.com		99	69	4	33	34	Fred Turner, president

¹ Restated. ² Roy Fellowes will replace Mr. Walker as chief executive effective April 20, 2009.

Source: BI survey

Researched by Kevin Edison and Karen Tucker

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Recession: Economy takes toll on captives

CONTINUED FROM PAGE 9

might make loans from captives to their parents more difficult.

J. Howard Stecker, senior vp at SMART Business Advisory & Consulting L.L.C. in New York, said he would expect regulators worldwide to look closely at captive-parent relationships. "My guess is they're going to scrutinize some of these situations more closely, and they're probably going to be more restrictive on requests for people to take money out," he said.

But many say they believe regulatory scrutiny of captives and their parents remains appropriate. "As

long as the captive has excess capital, there isn't any reason the regulator should be concerned," said Quest's Mr. Dove.

"The regulators have been on top of it," said Aon's Ms. Gray. "I think in general, the regulators are focusing on the strength of the parent company."

Steven Chirico, assistant vp at A.M. Best Co. Inc. in Oldwick, N.J., said regulators worldwide are taking a closer look at all the risk-bearing entities. But the scrutiny on captives is not overbearing, he said, and there have been no legislative changes increasing pressure on captives.

Despite the challenges in the cur-

rent climate, many see opportunities for captives if markets harden as expected later this year.

Richard A. Stasi, chief operating officer Avizent Alternative Risk in Lexington, Ky., which operates a Bermuda-based rent-a-captive facility, said a rent-a-captive option might be a way for entities to gain the captive program advantages while avoiding capital obstacles.

"A rent-a-captive option allows a lot of the clients to not worry about the initial capitalization," Mr. Stasi said. "I think that's definitely going to be more in play with the turning of the market and the financial crisis."

"We are seeing people looking to

significantly expand the role of their captive," said Mr. Wheatley. "There also is a lot of interest in alternative structures, such as protected cell companies and incorporated cell companies, as opposed to full-blown captives."

Mr. Mende said Aon also is seeing interest in protected cell companies—"the incubators that are the first step to a full-blown captive"—as well as reviving dormant captive programs.

Best's Mr. Chirico said he's seeing the economy prompting some companies to move programs such as property into their captives to maximize the return on the program's frictional costs. And employers increasingly are considering funding benefits in captives, he said.

Kentucky, Utah added 67 captives last year

Convenient locations, environment, low cost contribute to increase

By DAVE LENCKUS

Kentucky and Utah far outpaced all U.S. captive insurance domiciles in captive formations last year, which captive service providers attribute to a combination of inviting regulatory environments and convenient, low-cost locations.

Inviting, however, means flexible and accessible—not lax—regulators, service providers say.

Outside of Kentucky and Utah, no U.S. domicile in 2008 reported as many as 20 new captives.

But Kentucky licensed 36 captives, nearly doubling its total to 67, according to Russell Coy II, the captive coordinator for the Kentucky Insurance Department in Frankfort, Ky.

And while Utah's 2007 blistering captive growth rate cooled, the state still licensed 31 new captives last year to push its total to 122, according to Donnie Spann, the captive insurance director for the Utah Insurance Department in Salt Lake City.

By comparison, Vermont—the largest U.S. captive domicile—gained 16 captives during 2008 to end the year with 551.

Among the nation's 25 captive domiciles in 22 states and three territories, Utah now ranks as the fifth-largest, with just one less captive than Nevada, and Kentucky ranks eighth.

While most new captive owners in Kentucky and Utah were small- or medium-sized—writing \$500,000 to \$1 million of premiums annually—both domiciles attracted a Fortune 1000 company. Regulators in both domiciles also said most of their captives are owned by companies in various industries and located in other states.

Captive experts pointed to several factors that boosted Kentucky's and Utah's captive formation rate.

The tide that should be lifting all domestic domiciles above non-U.S. jurisdictions is the Obama administration's "anti-foreign company" stance, said Bruce J. Molnar, the Irvine, Calif.-based chief executive office of captive manager ALTA Holdings L.L.C., which manages captives in Utah and Kentucky and many other domiciles.

But captive service providers and regulators in Kentucky and Utah said they do not suspect their domiciles' captive insurance laws significantly influenced captive growth, because both laws were modeled after Vermont's.

Continued on next page

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CONTINUED FROM PREVIOUS PAGE

Captive experts overwhelmingly attributed both domiciles' successes to the captive regulators there.

"A lot of states have a captive law, but you have to have fertile ground to grow captives, and you have to have someone (in charge) who has a passion to grow them," said captive tax attorney Chaz Lavelle, a partner at Greenbaum Doll & McDonald P.L.L.C. in Louisville, Ky.

From service providers' perspective, keys to solid relationships with regulators are their flexibility and responsiveness, and they rated Messrs. Spann and Coy highly in those areas.

For example, Mr. Spann will consider pure captive organizational structures in which a captive's parent is a family trust, even though the captive insures a corporate entity, said Ann Wick, the Scottsdale, Ariz.-based president of Strategic Risk Solutions (Arizona) Inc., which manages captives in several states. Some family-controlled companies that establish captives prefer that organizational structure, which is not specifically addressed by the state's captive law, Ms. Wick explained.

36 CAPTIVES were licensed by Kentucky in 2008, nearly doubling its total to 67.

31 CAPTIVES were licensed by Utah in 2008 to push its total to 122.

Noting his background as a corporate attorney, Mr. Coy said his department "really looks hard" at captive sponsors' feasibility and actuarial studies and business plans. But, he said, "then we try to be flexible on the way people structure things," including captive ownership and multiple reinsurers for the facilities.

Both regulators also are accessible and swiftly process solid applications, service providers said.

For example, Mr. Coy routinely is reachable by phone day, night and weekends, and Mr. Spann's division processes most applications within two weeks, service providers said.

Service providers in both domiciles noted that the regulators there had their staffs work weekends in December to accommodate captive owners that sought late approval for their captives by the end of the year.

"Sometimes, it's very hard to get responsive people in government," said Fred Turner, the Park City, Utah-based president of Active Captive Management, which manages about half of the captives licensed in Utah and Kentucky last year.

That's why service providers continually recommend certain domiciles to captive sponsors, he said. "If you have something that's working, you keep going where it's working."

Captive sponsors also are becoming increasingly comfortable that Kentucky and Utah will be stable captive regulatory environments regardless of which political party is in power, service providers and regulators said.

Despite their commitment to the

captive industry, regulators in both domiciles can be hard-nosed.

For example, Utah's Mr. Spann said he supported recently toughened solvency standards for captives that underwrite extended auto warranties.

"I don't want to become known as the extended auto warranty state" for auto dealerships across the country because the economic crisis has forced many dealerships out of business, he said.

Mr. Turner said getting risk reten-

tion groups approved in Utah also is challenging.

"They're very good at sticking to what they know, so they're not going to be the domicile for everybody," said Ms. Wick of SRS.

Kentucky's Mr. Coy is "good at turning things down," because he understands that an insolvent captive at this relatively early stage in the domicile's history could ruin its reputation, Mr. Lavelle said.

The domiciles' location in the country's interior and the major air-

ports that service the areas also fostered captive growth there.

Captive managers said Kentucky draws captive sponsors east of the Mississippi River while Utah draws from the western United States.

Indeed, Stuart Ferguson, the Louisville, Ky.-based president of the Kentucky Captive Assn., noted that the association promotes Kentucky as the domicile for Middle America. There is no other domicile nearby that is "really active," said Mr. Ferguson, who also is a manag-

ing director for The Underwriters Group, a regional broker.

But Mr. Lavelle, the tax attorney, foresees even better prospects for Kentucky. "I think the jurisdiction can stand on its own and take (captive sponsors) from all over the nation" because of its "great regulatory environment."

Experts noted both domiciles are in low-cost areas of the country.

"Everybody is looking to cut costs," said Mr. Turner of Active Captive Management.



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Interest increasing in using captives to fund benefits

By **JERRY GEISEL**

As companies seek new ways to cut costs during the deepening recession, corporate interest in funding employee benefit risks through captive insurers will likely accelerate, experts say.

Funding benefits through captives isn't a huge money-saver, but it can cut benefit costs an average 5% to 10% a year compared with buying coverage in the commercial market, experts say.

Such savings are possible because the profit from funding the risk

goes to the captive and not to a commercial insurer.

While the savings are not massive, in tough economic times companies have an even greater incentive "to save money and be as cost-effective as they possibly can," said Karin Landy, a managing partner with Spring Consulting Group L.L.C. in Boston.

"In hard times, companies look for new ways to save," and captive benefits funding can be one of those ways, added Kathleen Waslov, a consultant with Towers Perrin in Boston.

Even before the economy began

to sink, corporate interest in captive benefits funding was on the rise. In 2008, for example, the Labor Department approved a record six applications from employers seeking regulatory approval to fund benefits through their captives.

Interest in the approach is continuing. Since January, two employers have filed applications with the Labor Department to fund benefits through their captives. One was filed by Banner Health, a Phoenix-based health care system that wants to fund life insurance risks through the U.S. Virgin Islands branch of its

Cayman Islands captive.

In addition, Coca-Cola Co. has proposed using its South Carolina captive to fund retiree health care benefits. While the Department of Labor last month rejected the Atlanta-based beverage company's request for rapid review and approval, Coca-Cola still will seek approval of its potentially groundbreaking approach through the regular review process.

"Certainly, there is an uptick in interest," Ms. Waslov said.

"The number of companies that apply this year should exceed last

year's," said George O'Donnell, a senior vp with Aon Consulting in Somerset, N.J.

Aside from financial reasons, the track record established by companies that expanded their captives years ago to fund benefits is also driving growth.

"There is an increased awareness" of the approach, said Mr. O'Donnell.

Employers that have funded benefit programs through their captives say they have achieved other objectives, aside from cutting costs. For example, John Wilson, president of Three Rivers Insurance Co., the Vermont-based insurance subsidiary of aluminum producer Alcoa Inc., says benefit funding expands a captive's book of business, reducing volatility. Alcoa received Labor Department approval in 2005 to fund life insurance risks through Three Rivers.

In addition, because the Internal Revenue Service considers benefit risks to be third-party business, funding benefits through a captive can increase the likelihood that a captive will have enough outside business for the parent to take a tax deduction for the property/casualty premiums paid to the captive, Mr. Wilson said. Under IRS rules issued in 2002, a parent can take a tax deduction for property/casualty premiums paid to its captive if at least 50% of the captive's business is unrelated to the parent.

Still, funding benefit programs through captives isn't for everyone, experts acknowledge. For example, commercial rates may be so competitive as to wipe out potential cost savings through a captive.

"Not everyone will save money. You have to understand what your current costs are," said Mitch Cole, a principal with Towers Perrin in Stamford, Conn.

At the same time, getting risk management and employee benefit departments to work together on captive benefits funding projects can be challenging.

Corporate benefit departments may be concerned that "risk management wants to take over the programs," said Suzanne Gallie, senior risk manager in the corporate risk management department at Sun Microsystems Inc. in Broomfield, Colo. Such fears, she said, dissipate when benefit departments understand that a captive funding program changes only the risk funding and not the corporate department in charge of the benefit.

"Once (benefit departments) realize you only want to act as insurer, they view the arrangement" very positively, Ms. Gallie said. Sun uses the Vermont branch of its Bermuda captive to fund life insurance policies.

While life insurance, long-term disability and accidental death and dismemberment risks have been the most popular risks funded through captives, employers are moving into new areas.

For example, Coca-Cola wants to use assets now held in a voluntary employees' beneficiary association to purchase medical stop-loss poli-

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cies from Prudential Insurance Co. of America to pay claims over the expected lifetimes of about 4,000 retirees and dependents.

Prudential would use the premium it receives from Coca-Cola to reinsure the risk with Red Re Inc., Coca-Cola's South Carolina captive insurer. Coca-Cola now uses the captive to fund a wide variety of risks, including benefit coverages outside the United States.

Coca-Cola executives say the approach has many advantages, including adding third-party business to the captive. Outside experts also note that the approach can "unlock" VEBA assets. That's because federal law requires assets

contributed to a VEBA be used to pay benefits or buy insurance that provides the benefits. Employers cannot remove VEBA assets for other purposes, even when a benefit program is being wound down.

Using a captive to fund benefits gives a company greater financial flexibility compared with commercial-market alternatives. For example, investment gains on contributions made to the captive can be paid out as dividends to the parent.

The approach taken by Coca-Cola—assuming the Labor Department approves the transaction—could be appealing to other employers that have put aside substantial assets into a VEBA to fund retiree health care benefits, Mr. O'Donnell said.

GROWING DRIVE

Employers that applied and received Labor Department approval in 2008 and those that have applied in 2009 to fund employee benefit risks through their captives. Benefits funded include life, accidental death and dismemberment, long-term disability and retiree health care.

EMPLOYER	BENEFITS FUNDED	CAPTIVE DOMICILE
Banner Health	Life	U.S. Virgin Islands branch of Cayman Islands captive*
Coca-Cola Co.	Retiree health	South Carolina**
Cephalon Inc.	Life, AD&D, LTD	Vermont
ConAgra Foods Inc.	Life, AD&D	Arizona
DHL Express***	LTD	Vermont branch of Bermuda captive
Memorial Sloan-Kettering Cancer Center	Life, LTD	Vermont
United Technologies Corp.	Life, AD&D, LTD	Vermont
YKK Corp. of America	Life, AD&D	Vermont

*Application pending

**Labor Department denied request for fast-track approval; Coca-Cola now seeking approval through regular review process

***And other U.S. affiliates of Deutsche Post A.G.

Source: Labor Department filings

Finding a 'good front' grows more challenging

Many insurers seeking increased collateral and some raise rates

By MICHAEL BRADFORD and RODD ZOLKOS

The perennial quest by captive insurers to find reliable fronting companies that charge reasonable prices has not become easier in the global financial downturn.

"Fronting is one of the biggest problems facing captives," said Steven Chirico, assistant vp at A.M. Best Co. Inc. in Oldwick, N.J. "The reliability of good fronts continues to be a fairly large problem. You can find fronts, but they are very expensive and unpredictable in the quality and level of experience you (receive)," he said.

As worldwide economic conditions have raised caution flags in every financial services sector, fronting insurers are among risk-takers that want to make sure sufficient collateral is in place to reduce their exposures, sources say. That pinches captives in many ways.

Fronting insurers are increasing collateral requirements, said Markus Mende, managing director at Aon Global Risk Consulting in Basel, Switzerland. "The overall cost of fronting is increasing, whether it is through fronting rates or collateral requirements."

"We are seeing a raising of the bar on security requirements," agreed Dominic Wheatley, chief marketing officer for Willis Group Holdings Ltd.'s international captive practice in St. Peter Port, Guernsey.

Higher collateral requirements are a change of tack that fronting insurers should be careful in taking, Mr. Wheatley added.

"I think they have already pro-

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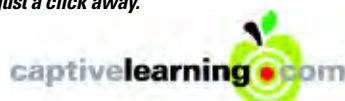
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Fronting: Captives facing higher collateral demands

CONTINUED FROM PREVIOUS PAGE

ted themselves quite a lot," Mr. Wheatley said of fronting insurers' collateral requirements. "If they look to increase that significantly, they may find their clients will simply refuse."

But not all fronting companies have asked for more collateral, according to the insurers.

Brian First, executive vp and chief marketing officer at SPARTA Insurance Holdings Inc., a Hartford, Conn.-based fronting insurer, said he does not see the companies asking for additional security. "It is important that fronting companies stay consistent in their approach to collateral, because captives are long-term entities," he said.

Adequate collateral is important to ensure a captive's viability, he said. "What we are doing is evaluating the exposure risk, but we are also evaluating the credit risk," said Mr. First. "We want to make sure that the captive can pay for its obligations over time."

At Great American Insurance Group, collateral increases are not an issue, said Sarah Comerford, divisional assistant vp in the alternative markets division of the Cincinnati-based insurer. "We have always fully collateralized everything," she said.

The insurers acknowledged that collateral increases would be difficult for captives in today's economy.

"Current economic conditions are straining the capital holdings and overall financial position of many companies.

As a result, business owners once keen on entering into or starting a captive are now giving the idea pause," said Ms. Comerford. "We are seeing fewer group captive startups, though there continues to be interest in the agency captive business model."

"Access to collateral might be an issue for some captives," agreed Mr. First. Without it, they may have problems taking on additional risks, he said.

There are arrangements that can lower collateral requirements, he said. SPARTA and other fronting insurers can provide quota-share reinsurance on working-layer risks that captives typically retain, he said, allowing a reduction in the collateral a captive would need.

Collateral availability is impacting captives more than the rates charged by fronting insurers, according to Brady Young, president and chief executive officer of Strategic Risk Solutions Inc. in Concord, Mass. He said rates actually are becoming more affordable.

"I would say right now the market is pretty aggressive on the fronting fee," said Mr. Young. "People will not charge as much for fronting. I think where the economy is impacting that is on the amount and type of collateral they want."

Veolia Transportation Inc., a Chicago-based subsidiary of Veolia Environment S.A. in Paris, operates a fronted program in its Dublin, Ireland-based captive Codeve Insurance

Co. Ltd. The program provides automobile liability coverage for Veolia's owned and operated vehicles.

Changes in collateral requirements had not been discussed with the captive's fronting insurer as of late last month, said Richard Rabs, vp, claims and risk management at Veolia Transportation. "We have not had that chat yet, but it is coming," he said.

Mr. Rabs said he hopes to be able to keep the collateral at its current level by offsetting increases with reductions gained from a good loss record. "What I hope to do is almost trade collateral—that which is sitting there will not be reduced. I am going to suggest that it is a very good time to have a good relationship with your front," he said.

Mr. Wheatley said fronting companies could brush up on their own relationship skills.

"From where I am sitting, the fronting community has been slow to respond to client needs," said Mr. Wheatley. "They need to wake up to the fact that other options such as direct writing undermine their position as the only available route to the market."

Dissatisfaction with fronting insurers has led some captives to seek ratings from Best, said John Andre,

'I would say right now the market is pretty aggressive on the fronting fee.'

Brady Young, Strategic Risk Solutions Inc.

group vp of the rating agency. If a captive secures an adequate rating, it can write coverage without a front in jurisdictions that require coverage be handled by a rated insurer.

"Captives are not happy with the service they (receive) for the price," said Mr. Chirico of Best, and a big problem with fronting company service is personnel turnover.

"A lot of captives have very specific instructions about what they want from a front," Mr. Chirico said. But during the economic downturn, people who provide some of those services are often the ones who are laid off when staff numbers are downsized, he said.

Large companies tend to be the ones with the biggest turnover problem, said Mr. Chirico, while the smaller fronts are not generally the ones captives complain about in this regard.

Although some captives may have trouble finding the perfect front, they will find an insurer willing to provide the services, sources say.

Derek Patience, head of office at Marsh Management Services Isle of Man Ltd. in Douglas, Isle of Man, said he is unaware of any captives that have been unable to find a front. "I think a captive is pretty much a safe bet, given the conservative nature of the business captives tend to write and the collateral they are required to post."

Market Moves

Eight indie brokers join Willis Networks

LONDON—Eight independent U.K.-based insurance brokers have joined Willis Networks, a broker association owned by London-based Willis Group Holdings Ltd.

Willis Networks includes Willis N2, which is for local brokers placing about \$4 million in annual premiums, and Willis Commercial Network, which is for larger brokers with annual premiums of about \$4 million to about \$35 million.

Doncaster-based ProActive Risk Group Ltd., Rotherham-based Rotherham Insurance Brokers Group Ltd. and Southport-based David Roberts & Partners (Insurance Brokers) Ltd. have joined Willis Commercial Network.

West Yorkshire-based Alliance Insurance Brokers Ltd., Lancashire-based Hepworth Insurance Services Ltd., Keighley-based Ivor Bellas & Co. Ltd., Lancashire-based Hargreaves Perkins Insurance Brokers Ltd. and Shropshire-based Collingwood Richardson & Co. Ltd. joined Willis N2.

Willis Networks members receive technical and sales training, marketing and business development help, and access to other Willis resources, Willis said in a statement.

U.S. Retirement Partners buys five Florida firms

ORLANDO, Fla.—Nonprofit benefits administrator U.S. Retirement Partners said it has acquired a group of five firms that provide retirement planning to teachers across Florida.

Iselin, N.J.-based USRP, a 403(b) benefits administrator, said in a statement that it acquired the Orlando, Fla.-area firms for its national network serving elementary and secondary teachers.

The Orlando firms acquired are J.M. & Associates Inc., Michael A. Borgailo & Associates, Summerfield Financial and BRC Agency; the fifth firm, Retirement Planning Associates, is in Winter Springs, Fla. The group of five firms provides services to nearly every school district in the state, according to the USRP state-

ment.

Joe Avallone, Michael Borgailo and David Payne, who owned the firms that were acquired for an undisclosed sum in February, will join the USRP senior management team, according to the statement.

Industry vets form N.H. intermediary

MANCHESTER, N.H.—Two industry veterans have joined forces to set up insurance services and consulting firm G.L. Insurance Partners L.L.C.

The Manchester, N.H., firm focuses primarily on commercial and professional liability lines, according to a statement on its Web site.

Founders James L. Guerin and George P. Lagos worked together

previously as executives at New Hampshire Insurance Co., a member company of American International Group Inc., and at Syndicated Services Co. Inc., a subsidiary of New York-based reinsurance intermediary Carvill America Inc. Messrs. Guerin and Lagos are principles in the company.

GL Insurance provides consulting, due diligence and operational reviews of managing general agents, program administrators, U.S.-based operations of Lloyd's of London and other underwriting authorities.

Kapnick Insurance acquires Ufer & Co.

ANN ARBOR, Mich.—Adrian, Mich.-based Kapnick Insurance Group has

acquired Ann Arbor, Mich.-based insurance agency Ufer & Co., the firms said. Terms of the deal were not disclosed.

The combination will tap the expertise, capabilities and relationships of the individual family-owned companies, the firms said.

Ufer will retain its name. Kapnick also has offices in Ann Arbor and Southfield, Mich.

FreightWatch launches 24/7 shipment tracking

AUSTIN, Texas—FreightWatch International (USA) Inc., a logistics and security provider, said it has opened a command and control center.

The center will monitor high-value cargo shipments continuously in

North America and provide recovery services and assist local authorities should thefts occur, the Austin, Texas-based company said in a statement.

Cargo thefts cost the industry between \$15 billion to \$30 billion annually, according to industry estimates.

TO SUBMIT ITEMS

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DR. TERESA BARTLETT

NEW JOB TITLE: Senior vp and medical director in Troy, Mich., for Memphis, Tenn.-based Sedgwick Claims Management Services Inc.

PREVIOUS POSITION: Senior manager for integrated health care and disability medical programs for Chrysler L.L.C.

GOALS FOR NEW POSITION: My vision for the new role is one of managing the spectrum of care along the continuum of health...from the well individual to the person who has chronic disease to the catastrophic claims event. We know as a company that the best claim that takes place is the claim that never actually occurs. In the position that we are in, we see our clients' employees when they have an injury or an illness, and at that point in time we can really make a difference in that person's life. We can ensure that they receive high-quality medical care, that they have the access to the physicians and hospitals that they need; and in that moment of time, we can promote health education and medical literacy. This brings about, in my view, a win-win for everyone when we focus on good medical outcomes.

FIRST EXPERIENCE IN THE INDUSTRY JOB MARKET: It was working for the state of Michigan implementing for the first time a workers compensation fee schedule. I worked for Chrysler (at that time). (Moving from the medical field to the insurance industry), the business folks that I interacted with were surprised that I was comfortable challenging the medical profession...In those days, there was a great deal of, "Don't question the doctor. Whatever the doctor says is correct."

WHAT I WOULD CHANGE IN THE INDUSTRY: I think my dream for change would be to find a way to remove the barriers that employers face when they are trying to return an ill or injured employee back to the workplace....With so many job cuts, I think it makes this such a challenge.

ADVICE: Work hard, appreciate your team members and try to learn new things every day.

OUTSIDE THE INDUSTRY, A DREAM JOB: When my children were young, I loved reading to them and dreamed that one day I could write books that would entertain and enlighten young people.

Gen Re: 3rd exec sentenced

CONTINUED FROM PAGE 3

Mr. Garand played an important role in the sham transaction, he was "not a central figure." However, he knew the scheme was illegal and "fell far short of discharging his responsibility to investors," the judge said.

Prosecutors had asked for significant prison time.

Mr. Garand's attorney, Robert J. Cleary of Proskauer Rose L.L.P. in New York, asked the judge for leniency, citing Mr. Garand's limited role, personal history and commitment to community service.

And Mr. Garand addressed the judge prior to sentencing, asking for "mercy and compassion," saying his family has already suffered great pain. "As for AIG's loss portfolio, I am deeply distressed at having had any role in the entire episode."

Mr. Garand's wife and two former associates made emotional pleas, describing him as an honest, hum-

ble man devoted to his family.

The judge said Mr. Garand's participation in the deal, was "particularly tragic, given his personal history and character."

Experts say appealing to the judge on behalf of the defendants' personal history and character has been a successful strategy. "He's clearly influenced by the presentations of the defense," Mr. Henning said.

The remaining two defendants—Elizabeth Monrad, Gen Re's former chief financial officer, and Robert Graham, former Gen Re senior vp and legal counsel—may adopt a similar strategy, Mr. Henning said, and "could be successful."

But the judge is also likely to weigh what he feels were the defendants' roles in the deal and "that could go either way," said Ellen Podgor, an associate dean and professor at Stetson University College of Law in Gulfport, Fla.

"It's just too difficult to predict," she said.

ONE YEAR AND ONE DAY

Legal experts say Christopher P. Garand's sentence will mean that he will serve it in federal prison. Had he been sentenced to a year or less, he may have been eligible to serve his sentence at a halfway house. But as the sentence is more than a year, he may be eligible for parole.

Mr. Henning said "given both Monrad's and Graham's background, and area of expertise, the judge may feel they were in different positions," and therefore more culpable than Mr. Garand.

Ms. Monrad is scheduled to be sentenced on April 2, and Mr. Graham's sentencing is set for April 30.

Mr. Ferguson is free on bail while he appeals his conviction. Mr. Milton, who also is appealing his conviction, was ordered to report to federal prison March 25.

Mr. Garand's attorneys have asked the judge to allow him to remain free pending appeal. He is due to report to prison on April 22.

Wyeth: Drugmaker loses labeling case

CONTINUED FROM PAGE 4

explanation. The court said the 2006 preamble didn't meet that standard.

In a concurring opinion, Associate Justice Clarence Thomas questioned whether implied, rather than express, pre-emption could exist.

The decision certainly reins in implied pre-emption, product liability experts say. "It does put down a real roadblock on implied pre-emption," said Victor Schwartz, a partner with Shook, Hardy & Bacon L.L.P. in Washington. "It does not mean the death knell for all agency pre-emption, but the agency will have to have engaged in clear reasoning and authority for taking a position that its regulations are preemptive," said Mr. Schwartz, who also is general counsel of the Amer-

ican Tort Reform Assn.

A defense attorney specializing in prescription drug cases agreed.

"It's quite significant, but I wouldn't call it sweeping," said James M. Beck, counsel with Dechert L.L.P. in Philadelphia. "It all comes down to what the facts are



going to be. If the facts show that there is actually significant affirmative FDA action having to do with the particular risk, then there's a shot at pre-emption; if there's not and as the court certainly interpreted *Levine*, there's not going to be pre-emption."

He said the ruling could reach beyond pharmaceuticals. "Where it might come in is with other prod-

ucts under similar schemes," Mr. Beck said. He added that the decision might cool congressional ardor to scale back pre-emption.

Sol Weiss, a plaintiffs' attorney and shareholder with Anapol Schwartz P.C. in Philadelphia, called the decision "remarkable."

"You got a 6-3 decision. You have Justice Thomas basically saying 'I don't think you can have implied pre-emption' and you've got Justice Stevens and the majority saying that there is again a presumption against implied pre-emption."

"I think this has the opportunity to be a very widely understood opinion that basically refocuses all pre-emption on congressional intent," Mr. Weiss said. "That's very big."

Wyeth vs. Diana Levine; U.S. Supreme Court. No. 06-1249; March 3, 2009.

Sebelius: Positive pick

CONTINUED FROM PAGE 4

and who the key players are."

Mr. Webber added that the choice of Ms. DeParle also was smart because "she knows her way around Washington," having served as director of the Health Care Financing Administration under the Clinton administration. "She has walked the halls of Congress and had to testify all the time. That experience will help during the reform debate that she'll be managing."

Ms. DeParle's private-sector experience also is likely to serve her well, said Peter Lee, executive director for national health policy for the Pacific Business Group on Health in San Francisco.

"Reform needs to be practical. Having someone like Nancy-Ann communicates that this administra-

tion is interested in making it practical so that it can actually be implemented," Mr. Lee said.

Since her departure from HCFA, Ms. DeParle has worked as a research fellow at Harvard University's Kennedy School of Government, taught at the Wharton School of Business, acted as an investment adviser at J.P. Morgan Partners L.L.C., and been a member of the boards of directors at medical device manufacturer Boston Scientific Corp. and medical technology firm Cerner Corp.

"Her private-sector experience is a nice complement to all of the government experience she has had," said Paul Ginsberg, president of the Center for Studying Health System Change in Washington.

"You have a political leader who has had to work across the aisle in the secretary and an inside White House person who understands the financial nuts and bolts of how this actually works, which is essential," said Bruce Boissonnault, president and CEO of the Niagara Health Quality Coalition in Williamsville, N.Y.

NAIC: Buyers are critical

CONTINUED FROM PAGE 4

insurance. The model requires that the assuming insurer give the fund three years' worth of retroactive contributions before paying its claims.

"That is the NAIC's intent, but I'm not certain that (the model act) does that," said Barbara Cox, the NCIIF's vp of legal and regulatory affairs. "It's never been interpreted and I hate to anticipate how a court would rule."

The NCIIF "is concerned" about language that would allow the receiver of an insolvent insurer to revisit a guaranty fund's determinations about claims, which could delay paying claims and increase costs, she said.

When asked about this, Mr. Mumford said that is a proper function for receivers who are liquidating claims.

Comings & Goings

ONLINE

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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:

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POSTINGS THIS WEEK

BROKERS:

- Willis Group Holdings Ltd.
- Regions Insurance Group Inc.

INSURERS:

- Genworth Financial Inc.
- Ambac Financial Group Inc.
- Delta Dental Plans Assn.

OTHER PROVIDERS:

- Vertafore Inc.
- Buck Consultants L.L.C.
- Hewitt Associates L.L.C.
- Fringe Benefit Group

ASSOCIATIONS:

- British American Business Council of Orange County, Calif.

Spinoff: AIG unites P/C units to hold business

CONTINUED FROM PAGE 1

soon as practical," he said.

While about 20% of the business is expected to be spun off initially, observers say they expect AIG to ultimately spin off the entire company. "I think they probably have to do that, given what's going on," said Ann V. Kramer, an insurance recovery attorney with Reed Smith L.L.P. in New York.

John Wicher, of John Wicher & Associates Inc. in San Francisco, said, "It seems to me to be all positive." Isolating the insurance operations "appears to be a very sensible way of overcoming concerns" about its financial health, and establishing AIU is a step toward creating "a very crisp market identity, separate and distinct from the holding company."

But observers question how successful AIG's plan is likely to be in developing a separate identity for the spinoff, and how much the property/casualty operation is likely to continue to suffer from policyholders' perceptions about the parent company.

John L. Ward, CEO of Cincinnati Partners L.L.C. in Cincinnati, said, "I think there is still a fair amount of uncertainty, and I would think that policyholders not currently with AIG will not rush to go back to AIG at this point."

Policyholders are fine-tuning their AIG coverage, say observers. Mark Rouck, Chicago-based director at Fitch Investors Service, said, "AIG had big market shares in a lot of different business lines, and so you might have a situation where an insured is saying, 'Maybe we'll buy our workers comp coverage from AIG still, but buy excess liability coverage from a different carrier.'"

With so much negative coverage about AIG, "even if a risk manager wants to maintain their relationship with AIG," management is questioning it, said Ms. Kramer of Reed Smith.

Cathy Seifert, an equity analyst with Standard & Poor's Corp. in New York, said, "I do think there are plenty of competitors that will be able to take market share" from AIG. The question is "how desperate, how aggressive does AIG become with pricing on the P/C business?" said Ms. Seifert, noting AIG's 16.3% decline in net premiums written in the fourth quarter. "I think that's going to continue," she said.

However, "even with a fair amount of incentive," to place business with AIG, "I think a business seeking to lay off liability there is going to think long and hard before they place business" with the property/casualty operation. "I can't imagine how this doesn't continue to impact their standing in the market," Ms. Seifert said.

Jim Amen, a partner with Philo Smith & Co., a Stamford, Conn., boutique investment bank specializing in insurance, said, "There's a lot of policyholders that are multi-year, which they can probably hold onto, but for the most part, I would assume 50% of the business would probably go elsewhere."

BAILOUT TIMELINE

American International Group Inc. has received U.S. government help four times since September 2008.

SEPTEMBER 2008: AIG signs a definitive agreement with the Federal Reserve Bank of New York for a two-year, \$85 billion revolving credit facility in return for a 79.9% government stake in the insurer.

OCTOBER 2008: Credit agreement for \$37.8 billion put in place.

NOVEMBER 2008: Revised plan includes a \$60 billion credit facility, buying AIG preferred shares and warrants, and setting up two special-purpose entities.

MARCH 2009: A series of changes result in:

- Improved terms on U.S. Treasury preferred stock investment.
- New standby equity capital facility, allowing AIG to raise up to \$30 billion in capital.
- Transfer of preferred equity ownership in American Life Insurance Co. and American International Assurance Co. Ltd. to the Fed in return for reducing the outstanding balance, up to \$26 billion, of the Fed's senior secured credit facility. AIG expects to securitize blocks of its domestic life business to reduce its outstanding balance by as much as \$8.5 billion more.
- Reduced interest rate on the Fed's senior secured credit facility, saving AIG an estimated \$1 billion in interest per year.
- Continued availability of at least \$25 billion via the Fed's credit facility.

John Q. Doyle, president and CEO of AIG Commercial Insurance, said during a webinar sponsored by the Risk & Insurance Management Society Inc. last week that AIG Commercial Insurance's client retention levels were down 5% in the fourth quarter of 2008, but have "improved modestly" so far in 2009.

AIG also is likely for now to continue to lose valuable employees, observers say. Last week, for instance, New York-based Starr International Co. Inc. announced Charles H. Dangelo, AIG's chief reinsurance officer and president of AIG Global Risk Management, said will join Starr subsidiary Starr Indemnity & Liability Co. as president and chief executive officer.

However, Mr. Amen said "as they go along the IPO route" the property/casualty operations will be able to attract talent back to the business, due to the potential financial benefit of participating in an IPO.

Mr. Doyle said the North American insurance units have lost fewer than 60 employees at the level of vp or higher. That is "a few more" than it would have liked, he said.

For now, AIG's prospects remain bleak, many observers say. "I don't see it as a viable source of competitive strength much longer," said Bill Bergman, an analyst with Morningstar Inc. in Chicago. "They still have a problem with customers, and it's going to be very, very difficult to turn around," said Mr. Bergman.

Dennis Gambill, a consultant

Future of AIG not clear, but it probably will ask for more government help: Observers

While the outlook for American International Group Inc. remains unclear, there are two things about which many generally agree: AIG is likely to seek more funding from the federal government, and AIG eventually will be a much smaller company.

AIG announced a \$61.66 billion loss for fourth quarter and a \$99.29 billion loss for the year. The losses were attributable to a combination of restructuring, market disruption and accounting charges as well as repaying part of its existing federal loan.

Simultaneously, AIG said it was asking the federal government for funding for a fourth time (see box). Paul Kanjorski, the chairman of the House Financial Services Subcommittee on Capital Markets, told reporters after his subcommittee held a hearing on systemic risk, "One of the reasons we had to rescue AIG was the fact that it was going to bring down Europe."

The insurer also announced a broad package of measures, among them the formation of AIU Holdings Inc., a general insurance holding company that would include its commercial insurance group (see story, page 1).

The latest announcement "is another sign that the original estimates" for the help that was needed "were unfortunately low," said Bill Bergman, an analyst with Morningstar Inc. in Chicago.

It is possible the capital needs were larger than originally acknowledged, he said. "We've also had intensifying economic weakness and problems in related financial markets that weren't necessarily foreseeable the first time the first bailout package was announced," he said.

Mark Rouck, Chicago-based director at Fitch Ratings, said the latest plan enhances the company's liquidity and reduces the preferred dividend requirements of the previous agreement, which reduced AIG's financial leverage.

On the negative side, said Mr. Rouck, "some of the things they announced were required due to the company's weak operating performance and inability to sell assets within the time frame that they had laid out originally when they started entering into these agreements with the government."

"I don't think there's a market out there for the AIG assets that they're trying to sell, or if there is a market, that market is waiting for a fire sale, and not a more rational, fair value sale," said David W. Steuber, an attorney with Howrey L.L.P. in Los Angeles and co-chairman of its insurance recovery practice.

"This is really a matter of AIG trying to buy some more time so they can get into a position where they can try to sell some of their assets at a better price, so they can pay off their loans," Mr. Steuber said.

The company is obviously "still very much in trouble at this point," even after compartmentalizing its businesses, he said.

"There's a toxic business there, and that's the financial products business, and unfortunately, that business is a cancer," said Cathy Seifert, an equity analyst with Standard & Poor's Corp. in New York. "It's metastasizing to the other businesses, and I think everyone—shareholders, policyholders and taxpayers—would be better served if there was

more of a cutout or carve out made of the financial products business."

"At this point, there are so many unknowns it's hard to have a lot of confidence, one way or the other" as to the plan's success, although "there's clearly still some great value in the company," said Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York.

Observers generally agree that AIG ultimately will be a much smaller company. The holding company will not continue "to exist in its current form much longer," said Mr. Bergman.

It is beginning to look like "there may not be anything at the end of the day if the bailout comes to a (close) and they work through all these problems," said John L. Ward, CEO of Cincinnati Partners L.L.P. in Cincinnati. "There may not be anything that remains."

"It's really tough to say at this point," he said. "I think even the people running the show will be the first to admit there's plenty of uncertainty in the short term on this."

"I don't think we're going to have AIG as we know it," said Ann V. Kramer, an insurance recovery attorney with Reed Smith L.L.C. in New York. "They seem to be in the process of dismantling," with units going off in different directions and obviously they're winding down AIG Financial Products...so there's not going to be what we know as AIG in a few years."

There will "be an evolution" and what's left will be different, said Jennifer Marshall, a senior financial analyst with Oldwick, N.J.-based A.M. Best Co.

"It will be smaller and simpler," said Jonathan Terrell, president of Washington-based Kenesis Corporate & Information Consulting L.L.C., which specializes in litigation support and insurance-related asset and liability management.

"I'm sure there'll be a core" of AIG that will be in liquidation and runoff mode "for tens of years to come, but I think the key operating units are really very sound operations," which will either be spun off in IPOs, or sold over time, said Jim Amen, a partner with Philo Smith & Co., in Stamford, Conn.

One lingering question is whether additional federal help is needed. "I don't think anybody thinks AIG has finished going to the well," said Ms. Kramer.

"There almost, without a doubt, will be another variation on the bailout theme," said Mr. Ward. "It may not necessarily be more money, but there will certainly be another adjustment as the market conditions continue to unfold, because there's too much that's unknown at this point, and it's a rapidly moving economic climate right now, and things are going to change."

With the structure of the bailout "I would not be surprised to see another iteration of some sort of government assistance...coming to the fray," said Ms. Seifert.

"It really depends on how quickly the economy starts turning," said Mr. Amen. If it is not for two years, more help may be needed, but if it turns in a year, it may not be, he said.

—By Judy Greenwald

with the Darnielle Insurance Agency in Billings, Mont., and an insurance industry veteran, said he believes the insurance companies' image has been hurt by what has happened at the holding company level. "They could do the spinoff and it'll fly for a while, but it's going to be like a wounded bird. It's going to drop someplace soon," he said.

But Jonathan Terrell, president of Washington-based Kenesis Corporate & Information Consulting L.L.C., which specializes in litigation support and asset and liability management, said the future "really depends on whether the insurance

buyers collectively are going to behave rationally."

If they do so, there is no reason to believe AIG's property/casualty operations "will not survive and prosper," said Mr. Terrell. "But if everyone panics, and stops accepting AIG policies and makes their decisions on what they think that everyone else is going to do" then matters could go against AIG. "If there's a collective loss of confidence, you don't want to be the only person renewing," Mr. Terrell said.

He also noted, "It's not like you can cover the risks AIG has traditionally covered with every carrier.

People need AIG in their programs."

Meanwhile, "AIG is offering, on at least some of its policies, an endorsement that permits the policyholder to cancel the policy without penalty if the AIG insurer has their credit rating downgraded below a certain level," said Richard Shore, an attorney with Gilbert Oshinsky L.L.P. in Washington, an insurance recovery and litigation firm.

"The policyholders should avail themselves of that and should insist on that," he recommended.

Regis Coccia contributed to this article.

Reaction: Spinoff draws mixed reviews

CONTINUED FROM PAGE 1

tance and relaxed terms on funds already borrowed.

In a webcast on the issue organized by the New York-based Risk & Insurance Management Society Inc., John Q. Doyle, president and chief executive officer of AIG Commercial Insurance, last week described the spinoff as “an important step forward for customers” to further distinguish the strengths of AIG’s insurance operations from the challenges the holding company is having.

Several risk managers applauded the move.

“Pulling the insurance out of AIG parent and (putting it) under one, worldwide insurance company banner is one of the smartest things that could be done,” said Lance J. Ewing, vp-risk management at Harrah’s Entertainment Inc. in Memphis, Tenn., who is also a member of AIG’s client advisory board.

“The issue will be what the rating agencies and the customers can come to expect from the newly formed company. Kris and Nick have been leaders in this space,” said Mr. Ewing, referring to AIG executives Kristian P. Moor and Nicholas Walsh, who were named president and vice chairman, respectively, of AIU Holdings.

“Now they will have to stand on their own, which may not be the worst medicine to swallow,” Mr. Ewing said.

Bill Milaschewski, director of risk management at Cabot Corp. in Boston, described setting up a separate holding company as “a good move to protect the value of the commercial insurance operations.”

Doing so, he said, ensures that buyers perceive the distinction between the continuing financial problems faced by the parent and the sound financial performance of its commercial insurance operations.

“It is important to risk managers that AIG’s commercial insurance operations be able to retain their key people and customers in order to remain a strong competitor in the commercial insurance market,” Mr. Milaschewski said.

‘It would be a good thing if AIG, especially the core group, continues to be a strong market. It’s healthy for the market to have good strong players.’

Carolyn Snow, Humana Inc.

Carolyn Snow, director-insurance risk management at Humana Inc. in Louisville, Ky., added: “I think, overall, based on my discussions with my broker and other people, that it’s good news for AIG and probably good news for risk managers.”

“It would be a good thing if AIG, especially the core group, continues to be a strong market. It’s healthy for the market to have good strong players, companies that have talented people and good products,” Ms. Snow said.

“We met twice with senior management from the AIG core group, and we’re going to continue to monitor the situation and stay close to it, but overall, I think the initial news is good news,” she said.

Carol Arendall, senior director of risk management for OfficeMax Inc. in Naperville, Ill., also is pleased with the spinoff.

“It’s probably the best possible scenario for the insurance piece,” she said. “I think we envisioned that down the tunnel anyway as they sold off other pieces.”

Concerns remain, though. “What I’m struggling with the most” is whether this direction will change, Ms. Arendall said.

“There’s been three stories in six months and I just want one story. I was there in New York in September and they told me one thing; and then I went to the meeting they held in Chicago in November and they said, ‘This is really what we’re doing now;’ and now it’s another story,” she said.

“It almost seems to be a case of when will it end?” said Wayne Salen, director-risk management for Labor Finders International Inc. in Palm Beach Gardens, Fla., noting that the latest AIG development “is a concern.”

In the long run, “how they actually perform is the biggest concern,” Mr. Salen added.

Another risk manager who asked not to be identified said he remains skeptical.

The risk manager said that given everything that has transpired with AIG’s financial condition, he plans to move his company’s business away from the insurer even if it costs more.

Greenberg sues AIG over \$2B loss

Insurer says securities fraud lawsuit is without merit

By MARK A. HOFMANN

NEW YORK—Former American International Group Inc. Chairman and Chief Executive Officer Maurice R. Greenberg has sued AIG and others, alleging that securities fraud cost him \$2 billion as a result of AIG’s near-collapse.

“I was hurt very badly,” Mr. Greenberg said last week during an appearance on CNBC.

Aside from AIG, the suit filed in U.S. District Court for the Southern District of New York names as defendants former AIG President and CEO Martin J. Sullivan; former AIG Chief Financial Officer Steven J. Bensinger; former AIG Financial Products CEO Joseph Cassano; and AIG directors Stephen F. Bollenbach, George L. Miles Jr., Morris W. Offit and Michael H. Sutton.

The suit holds that the defendants made “material misrepresentations and omissions concerning multibillion-dollar losses in (AIG’s)

portfolio of credit default swaps.” Mr. Greenberg said the alleged fraud caused him to “acquire, at an artificially inflated price, stock in AIG awarded to him by Starr International Co. Inc., as part of the deferred compensation profit participation plans.”

Mr. Greenberg seeks to recover the difference between the price at which he acquired AIG shares in early 2008 and “the true and fair value of these shares had defendants not engaged in material misrepresentations and omissions.”

AIG promised to fight the suit. “This suit is without merit and we will defend ourselves vigorously,” an AIG spokesman said.

AIG’s London-based AIG Financial Products’ exposure to credit default swaps is blamed for bringing the insurance holding company to the brink of collapse last September. The U.S. government took a 79.9% stake in AIG in an effort to save the company from

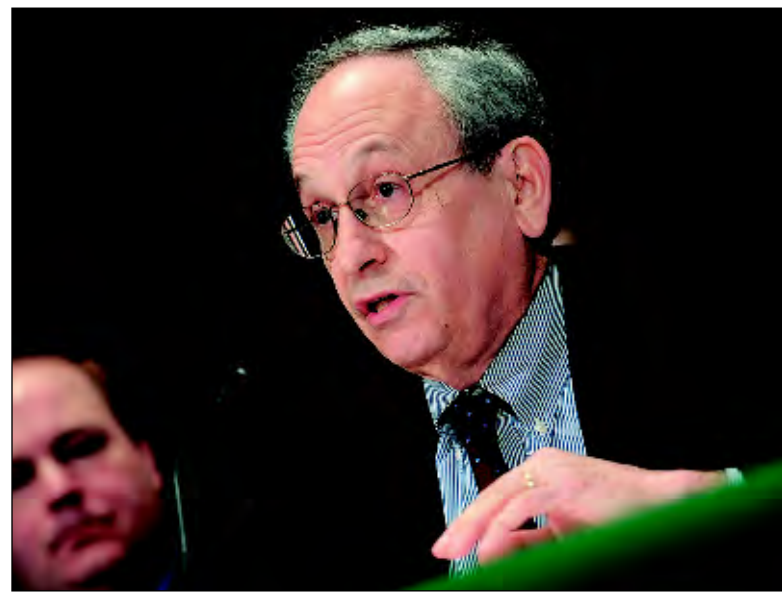
bankruptcy, and has provided additional financial aid since then.

Meanwhile, AIG won a victory last week in federal court when a judge denied an attempt by Starr to dismiss one of the remaining counterclaims brought against it by AIG in a dispute over Starr’s ownership stake in AIG.

The dispute involves allegations by AIG when Mr. Greenberg controlled both AIG and Starr. Starr used a considerable amount of its shares in AIG to pay deferred compensation for certain AIG executives.

AIG issued a statement in response, saying: “We are pleased by the court’s ruling that AIG is entitled to proceed to trial on its claim that SICO, at the direction of Hank Greenberg, unlawfully converted the AIG shares in dispute. We look forward to a full public hearing on the facts and theories of this case.”

Starr also responded. “AIG is prosecuting claims against Starr International for only one purpose: To add hundreds of millions of dollars to a bonus pool available to AIG’s top 700 executives,” Starr said in a statement. “Starr is confident that it will prevail at trial.”



Donald L. Kohn, vice chairman of the Board of Governors of the Federal Reserve System, repeatedly cautioned against revealing the identities of the counterparties in the AIG transactions.

Senators questioning further bailout of AIG

Dodd seeks names of counterparties to AIG transactions

By MARK A. HOFMANN

WASHINGTON—Congressional resistance to further federal aid for American International Group Inc. may be growing.

In fact, during a hearing on AIG before the Senate Banking, Housing and Urban Affairs Committee last week, some senators said they would not agree to any more federal money being used to stabilize the company.

Some senators indicated they would be particularly resistant if the federal government continues to refuse to disclose the identities of holders of AIG’s credit default swaps and corresponding securities that are being paid at par. The fact that AIG just received an additional \$30 billion in federal backing made some senators even more skeptical of the company’s long-term outlook.

“It’s not clear who we’re rescuing—whether it is whatever remains of AIG or its trading partners,” said Banking Committee Chairman Christopher Dodd, D-Conn. “This committee would like to know—and the taxpayers have a right to know—who they are effectively funding and how much they have already been given. Again, AIG’s trading partners are not innocent victims here; they were sophisticated investors who took enormous, irresponsible risks with the blessing of AIG’s triple-A rating.”

But one of the witnesses—Donald L. Kohn, vice chairman of the Board of Governors of the Federal Reserve System—repeatedly cautioned against revealing the identities of the counterparties in the AIG transactions. “There are literally millions of counterparties to AIG,” he said at one point. Disclosing identities of the counterparties would cause “serious damage” and discourage people from doing business with

companies that received federal aid, he said.

“You’re telling me the American people shouldn’t know who the counterparties are?” said Sen. Jim Bunning, R-Ky., an outspoken critic of various government bailouts of financial institutions. Sen. Bunning said he would fight any further aid to AIG.

“I will stop you from wasting money on a lost cause—and that’s what AIG is: a lost cause,” he said, pressing Mr. Kohn for an estimate of how much money AIG ultimately will lose. Mr. Kohn could not provide a number.

Perceived regulatory failure to prevent AIG’s near collapse last September came under fire.

“I’m angry as hell at what AIG has been able to get away with and mad at regulators (who were) asleep at the switch,” said Sen. Robert Menendez, D-N.J. Noting that AIG has received four rounds of federal aid so far, he asked “when’s the fifth and how much?” Like Sen. Bunning, he raised the possibility that lawmakers would try to block additional funds.

Sen. Menendez also raised the possibility that federal backing of AIG put it at a competitive advantage with its competitors in the property/casualty insurance industry. New York Insurance Superintendent Eric Dinallo said that while his office has received some complaints from competitors, he said some insurance rates are subject to prior approval and therefore would not be affected.

The third witness, Scott M. Polakoff, acting director of the Office of Thrift Supervision, admitted that his agency had responsibility for overseeing some of AIG’s operations and had reported problems to AIG management. But he said OTS and others had failed to recognize the liquidity risk that AIG’s exposure to credit default swaps presented. He said that credit default swaps should be regulated and that some sort of systemic risk regulator with broad powers should be established.

News In Brief

CONTINUED FROM PAGE 1

and financial market conditions, according to A.M. Best Co. Inc. Rates will continue to remain soft, Best said in a statement, adding that competition among insurers is expected to remain strong throughout 2009. The Oldwick, N.J.-based ratings agency also said it expects "an overall slowing of rate decreases and a flattening of rates for most lines of business." Rating upgrades and downgrades are not expected to move a lot during the next year, Best said.

Buyers form group for retail, restaurants

Risk managers in the restaurant and retail industries have joined to form a new group designed to help them reduce claims. The National Retail & Restaurant Defense Assn., based in Niles, Ill., is intended to help risk managers, insurers and defense attorneys share information and learn about claim trends, said Carol Arendall, senior director-risk management at OfficeMax Inc. in Naperville, Ill., one of the group's founders. The association has 55 members so far but is seeking to grow, Ms. Arendall said. Members include risk managers, corporate counsel, insurance executives and third-party claims administrators. For more information, visit www.joinnrrda.com.

NFIP extended until March 11

The National Flood Insurance Program has been extended through March 11. The program was slated to expire Friday shortly before midnight. The omnibus spending bill before the Senate would have extended the program through September, but supporters of the spending bill late Thursday found themselves short one vote of the 60 needed to block a filibuster on the bill. The Senate is expected to take up the omnibus bill again today.

Wyoming to increase workers comp benefits

Wyoming Gov. Dave Freuden has signed into law a bill that would provide annual cost-of-living increases for workers compensation

permanent disability cases. House Bill 54, sponsored by a Joint Labor, Health and Social Services Interim Committee, adjusts permanent disability benefit increases by 3% or an amount equal to increases in the Consumer Price Index, depending on which is less. It also increases death benefits.

Financial D&O rates up nearly 50%: Aon

Directors and officers liability insurance prices for the Standard & Poor's 500 Index's financial sector rose nearly 50% in the fourth quarter of 2008, compared with the same period of 2007, according to a report released by Aon Corp.'s financial services group. The report shows other sectors in the S&P 500 saw a 6.3% decrease in D&O rates. The average price for \$1 million in D&O coverage limits increased 3.2% in the fourth quarter of 2008 compared with the fourth quarter of 2007. It is the first time in 21 consecutive quarters that the prices have increased year over year, according to Aon.

Some employers plan to drop health cover

Nineteen percent of employers responding to a Hewitt Associates Inc. survey say they plan to stop offering health benefits during the next three to five years, nearly five times as many as the 4% that said they were planning an exit strategy last year. For those employers planning to continue to provide health benefits, keeping employees healthy has become the primary workforce issue in 2009, up from the No. 2 position in 2008, according to Hewitt's survey, "The Road Ahead: Emerging Health Trends 2009." In addition, more employers are targeting specific health conditions within their employee populations than in previous years. Specifically, employers are targeting asthma, cardiovascular disease, depression and diabetes.

P/C rates still falling

Property/casualty insurance rates fell 8% on average in February compared with February 2007, MarketScout reports. General liability and business owners' policies experienced the greatest rate reductions at 9%. "Other lines of coverage experienced rate reductions of 4% to 7%, but the composite reduction was 8% because of the large volume" of general liability and business owners policies, MarketScout said.

Max: Deal with IPC creates more diverse reinsurer

CONTINUED FROM PAGE 3

ladder in terms of size and ranking in the Bermuda marketplace," said Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York. The firm should be well-positioned to take advantage of rising insurance and reinsurance premiums, he said.

Last month, Fitch Ratings said Bermuda-based companies are likely to benefit from the difficulties of American International Group Inc. as policyholders spread their risk among more companies.

In addition, analysts say the merger is consistent with Max Capital's strategy of shifting more risk into underwriting opportunities and reducing risk exposures of its assets. Mr. Becker said the combined investment portfolio will be restructured to the new Max targets that aim to put 10% to 12% of assets in alternative investments, with no more than half of that in hedge funds.

Neither A.M. Best Co. Inc. nor Fitch Ratings issued downgrades because of the deal, but both

expressed concern. Fitch revised its rating outlook of IPC to negative from stable, largely because of capital declines due to investment losses. Oldwick, N.J.-based A.M. Best, which placed IPC's ratings under review, said because each firm conducted January renewals independently, the property catastrophe exposures of the combined business would have to be aggregated and analyzed to determine any correlation risks.

Analysts say the stock-only deal is somewhat unusual but reflects economic reality.

While M&A activity in the insurance industry has slowed due to uncertainty in the investment markets and tight credit, observers say similar stock-only transactions may follow suit.

"It's certainly tough to come up with cash right now," Towers Perrin's Mr. Nigh said. "This (type of deal) could be a template for other companies that are having issues with their share price or issues with their capital" but still have compelling reasons for combining, he said.

Guy Carpenter: Expands with purchase of Collins

CONTINUED FROM PAGE 3

erty catastrophe market and a very attractive regional book of business," he said.

Just as important, Mr. Zaffino said, was Collins' sales culture and people, which he described as "very impressive."

Upon completion of the deal, which is expected to close in the second quarter, John Collins, chairman and founder of the company, will become vice chairman of Guy Carpenter. Patrick Denzer, Collins' CEO, will become chairman of Guy Carpenter Americas.

Analysts said they like the combination.

"We're at a point now where the earliest (increases) in reinsurance rates have been for U.S. property/cat," said Meyer Shields, a principal with Stifel, Nicolaus & Co. Inc. in Baltimore. "Hurricane Ike was a really, really big deal and we're starting to see rate increases that are really significant in that space. To

the extent that this allows Guy Carpenter to capitalize on it, I think it's a good thing."

Mark Lane, research analyst with William Blair & Co. in Chicago, noted that the deal is a way for Guy Carpenter "to build some scale and also to show clients and its best employees that it's committed to this business and is willing to make investments in it."

"It's not the perfect strategic deal, but it will allow them to benefit from some scale and to play catch-up to their bigger, more powerful rival," Mr. Lane said, referring to Aon Benfield Re.

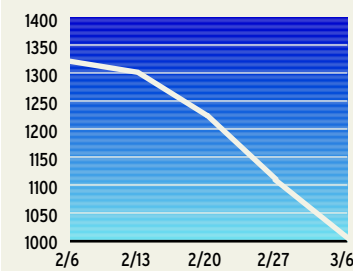
"It offers some complementary geographies and gives them a little more...size," agreed Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York. "With Aon's acquisition of Benfield and Willis always having a pretty big reinsurance presence, I think Guy probably felt like it needed to stay in the game. I think this helps them do that."

Stock Index

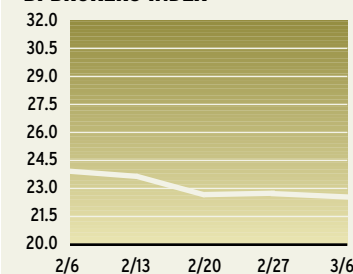
[3/2-3/6]

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

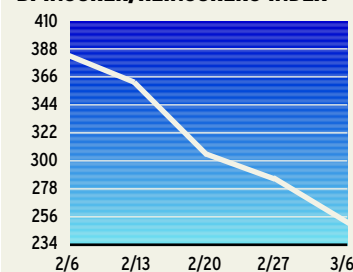
BI STOCK INDEX



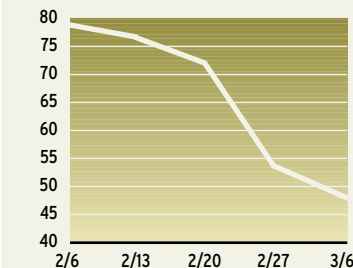
BI BROKERS INDEX



BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	1010.44	↓ -10.52%
DOW JONES	66.26.94	↓ -6.17%
S&P 500	683.38	↓ -7.03%

LARGEST GAINS

Gainsco Inc.	22.50%
Tower Group Inc.	10.25%
Aon Corp.	4.03%
United Fire & Casualty	3.42%
Marsh & McLennan	2.23%

LARGEST LOSSES

Hartford Financial Services	-40.66%
Lincoln National Corp.	-37.14%
Ambac Financial Group	-35.59%
MetLife Inc.	-33.80%
AEGON N.V.	-31.44%

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

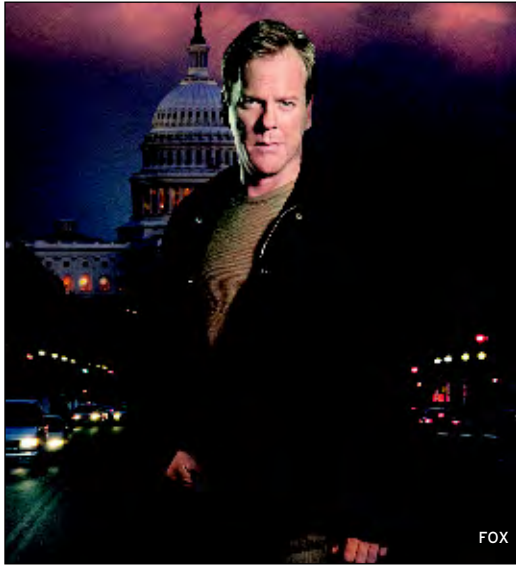
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Making the world a better place in '24' hours or less

While Agent Jack Bauer is trying to save the world from terrorists, the producers of the action-packed show "24" are trying to save the planet.

20th Century Fox television network announced last week that "24" is going green, becoming the first "carbon neutral" television series. Producers of the show, along with consultants, measured the carbon-dioxide output from the show's production and found ways to reduce their carbon footprint.

According to Fox, the show is using biodiesel fuel in trucks and generators and has installed energy-efficient light bulbs in bathrooms and kitchens used by the show's production crew. Fox said it reduced the show's carbon footprint by 43% by reducing emissions from electricity alone.

Additionally, the producers reportedly are buying carbon offsets to make up for the emissions of carbon dioxide generated as a result of explosions and car chase scenes in the show. Producers said they bought enough credits to offset 1,291 tons of carbon dioxide.

Still, Fox says this isn't just a way for them to get pro-environment-types to warm up to their generally conservative platform.

"No one is kidding themselves that viewers want to see Jack Bauer stop in the middle of an action scene and deliver some line about the environment," Dana Walden, a chairwoman of 20th Century Fox Television told the *New York Times*.

Business Insurance END PAGE

Contributing: Jeff Casale, Mark A. Hofmann, Matt Scroggins



Homer Simpson plays risk manager on a recent episode of "The Simpsons" where he forgets to mail his insurance premium.

D'oh! Simpsons' lives dangerous without insurance

Homer Simpson is no stranger to hazards, thanks to his job as a safety inspector at the Springfield Nuclear Power Plant.

But on a recent episode of "The Simpsons," Homer must turn full-fledged risk manager after forgetting to mail his insurance premium, causing his coverage to lapse and exposing him to liability for any injuries that occur in the Simpson home.

"For the first time in my life, I'm financially responsible for my own actions!" Homer laments as he realizes his predicament.

In a panic familiar to insurance buyers, he races to the local office of Blue Umbrella Insurance, where he finds out that he'll have to go bare until the office reopens at 3 p.m.

Making matters worse, Homer learns his wife, Marge, is hosting a meeting of her book group that afternoon, so he sets about planning how to keep everyone safe until his coverage kicks in again.

Of course, with just seconds to go, a dropped knife initiates a Rube Goldberg-esque chain of events, forcing Homer to leap into action to avert one injury after another.

Spoiler alert: Just as Homer believes his loss control efforts have succeeded, the knife flies through a window and strikes an unlucky passer-by—Homer's boss, Mr. Burns—just as the coverage period begins at 3:01 p.m.

"Woo hoo!"

iPod listener 'burnin' down the house'

Perhaps iPods should be added to the list of potential fire hazards.

Not that the iPod itself has a tendency to burst into flame, but rather that it can so distract its listeners that they don't realize that other things are happening, such as the house being on fire.

That's what a Pomfret, Conn., man reportedly told fire officials.

Andrew Riley was listening to music on his iPod when a fire broke out on the upper floor of his house, the Associated Press reported. Mr. Riley later told Pomfret Assistant Fire Chief Edward Bates that he neither smelled smoke nor did he hear the smoke alarm when the fire broke out in late February on an upper floor.

Only a telephone call from his alarm company alerted him to the fire, to which he responded by heading upstairs and closing the door to the burning room.

Firefighters arrived and put out the blaze that damaged an office and an exercise room, and reportedly blamed the flames on an electrical problem in the exercise room.

AP didn't report what music on the digital music device made by Apple Inc. so enthralled Mr. Riley that he failed to notice that his residence was on fire. Maybe it was the Talking Heads' "Burning Down the House."



Three of the 10 co-winners of the \$216 million Mega Millions lottery, Bob Space, 60, of Toms River, N.J., left, Oscar Oviedo, center, of Stewartsville, N.J., and Jerry Solas of Hillsborough, N.J., laugh during a news conference where they all work at Chubb Corp. in Whitehouse Station, N.J.

Lucky Chubb workers hit \$216 million lotto jackpot

With the financial market crumbling, layoffs mounting and employee morale in the dumps, playing the lottery is one way to hedge your bets.

This is especially true if you win.

According to news reports, 10 co-workers from Chubb Corp. last week won the \$216 million Mega Millions jackpot. The employees work at Chubb's Whitehouse Station, N.J., office.

Robert Space, who bought the quick-pick tickets on behalf of the 10-person pool of Chubb workers, reportedly first called his wife on realizing the group had the winning ticket.

Then he sent an e-mail saying, "We won the big one."

Regular player Oscar Oviedo was surprised

when Mr. Space insisted he immediately pay the \$5 he owed for last week's pool purchase. Then Mr. Space said, "OK, thanks. You're a millionaire," Mr. Oviedo reportedly said with a laugh.

The winning ticket was purchased at Singin Oil, a gas station in Toms River, N.J., according to New Jersey Lottery officials. The store's owner will collect \$10,000 for selling the winning ticket, according to reports.

The 10 Chubb employees either will share a \$216 million annuity from the Mega Millions jackpot, the second-largest in New Jersey history, or a onetime payment of about \$14 million apiece.



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