

Business Insurance

\$5

March 15, 2010

www.businessinsurance.com

**MARSH PLAN TO SELL KROLL,
FOCUS ON CORE BUSINESSES
WINS PRAISE / PAGE 3**

**WTC CAPTIVE AGREES TO PAY
SEPT. 11 RESPONDERS' CLAIMS
FOR ILLNESS, INJURY / PAGE 3**



**MAURICE GREENBERG
TESTIFIES ABOUT GEN RE
FINITE DEAL / PAGE 3**

In Brief

**Bill would allow RRGs
to write property cover**

A bipartisan group of federal legislators introduced legislation last week that would allow risk retention groups to write commercial property coverage. The Risk Retention Modernization Act of 2010 also would provide a federal dispute resolution process in cases where RRGs believe they are being improperly regulated by nondomiciliary state regulators. The Risk & Insurance Management Society Inc. and Self-Insurance Institute of America Inc. hailed the introduction of the bill. About 250 RRGs currently are in operation.

**Ariel Chairman, CEO
Kramer steps down**

Ariel Holdings Ltd. Chairman and CEO Don Kramer has stepped down, the Bermuda-based reinsurer said Friday. George

See **IN BRIEF** page 22

SPOTLIGHT

GLOBAL RISKS: REINSURANCE ANALYTICS

Reinsurers, insurers strive to improve use of catastrophe models; European flooding loss data aids development of predictive software; casualty sector lags property in development of cat models for reinsurance market. **PAGE 11**



Kemper Insurance Cos.' latest financial statements show a rapid depletion of the insurer's surplus. Experts believe that formal liquidation of Kemper, which has been in runoff since 2004, is imminent.

WORKERS COMPENSATION

Kemper runoff saga nearing conclusion

By **ROBERTO CENICEROS**

LONG GROVE, Ill.—Six years after it entered runoff, Kemper Insurance Cos. may be close to the next stage of its windup—liquidation.

The Long Grove, Ill.-based insurer, which has been in voluntary runoff since 2004, earlier this month revealed a steep decline in its surplus, which several observers say indicates that liquidation is near.

But that may be preferred by some policyholders who have been wary of settling liabilities with Kemper without full knowledge of its settlement strategy, which they say has been veiled by the confidential nature of the runoff, some observers note.

In financial statements filed March 1, Kemper reported that its

See **KEMPER** page 18

MERGERS & ACQUISITIONS

AIG to raise \$15.5 billion from sale of life insurer

*After second big deal
in as many weeks,
debt outlook improves*

By **JUDY GREENWALD**

NEW YORK—American International Group Inc. will be better able to focus on its core businesses, including its property/casualty operations, with the sale of two major noncore assets behind it, observers say.

AIG last week said it agreed to sell American Life Insurance Co. to MetLife Inc. for \$15.5 billion. The ALICO deal, along with last month's agreement to sell AIA Group Ltd. to Prudential P.L.C. for \$35.5 billion, will go a long way toward repaying the New York-based insurer's federal debt, observers say.

Observers note that the life insurance units are two of the three biggest noncore assets that AIG is expected to sell. The third—Los Angeles-based airplane leasing unit International Lease Finance Corp.—is likely to be sold either whole, as the economy improves, or piecemeal, observers say (see story, page 20).

AIG has been selling off opera-

AIG 2010 ASSET SALES

AIA
\$35.5 billion

ALICO
\$15.5 billion

ILFC
???

tions to repay the governments' September 2008 financial bailout. AIG plans to retain its core units, which include property/casualty insurer Chartis Inc. and domestic life insurance and retirement services unit SunAmerica Financial Group.

The \$15.5 billion ALICO deal includes \$6.8 billion in cash with the rest in MetLife equity securities, according to AIG. The cash portion of the sale proceeds will be used to redeem preferred interests in ALICO

See **ALICO** page 20

HEALTH CARE BENEFITS

Senate approves another extension of COBRA subsidy

By **JERRY GEISEL**

WASHINGTON—Employers will be dealing with COBRA premium subsidy issues for a lot longer if a newly-passed Senate bill receives final congressional approval.

The House this week is expected to take up H.R. 4213, which the

Senate passed last week, to extend the 65%, 15-month COBRA premium subsidy for involuntarily laid-off workers through year-end. The broader bill also would extend numerous expiring provisions of the U.S. Tax Code and provide pension funding relief.

According to Senate Finance



AP PHOTO

Sen. Max Baucus, D-Mont., backed a bill to extend COBRA benefits.

Committee Chairman Max Baucus, D-Mont., who sponsored the bill, the measure would provide signifi-

cant relief for laid-off workers. "When families know they can count on unemployment and COBRA benefits in this bill, they know they can put food on the table while they continue to look for work."

The COBRA provisions in the Senate-approved bill build on H.R. 4691, a stopgap measure that President Barack Obama signed into law earlier this month that extended the subsidy through March 31.

The two measures also include provisions that effectively overturn Internal Revenue Service guidance that has kept some laid-off employees from receiving the subsidy. The IRS had said that employees whose hours were reduced, making them

See **COBRA** page 18

INDEX

Advertiser Index	21
Business Resources	16
Commentary.....	6
End Page.....	23
Market Moves	10
Opinions	8
Professional MarketPlace	16
Up Close	16

reDEFINING Innovation

As the world of risk continues to evolve, **innovative** solutions are more critical than ever. Without the right tools and talent, it's hard to reach your objectives.

Aon Benfield has a long history of pioneering cutting-edge solutions and tools. From creating the industry's first catastrophe model, to state-of-the-art portfolio optimization strategies, to the first proprietary source of catastrophe capacity, Aon Benfield helps you stay ahead of the curve.

When you partner with Aon Benfield, you receive the most innovative solutions available from the market leader. Aon Benfield invests more than \$100 million annually in tools for clients and employs 450 dedicated analytics experts.

Redefining Innovation.
Learn more at aonbenfield.com.



AON BENFIELD

Business Insurance

Online features & highlights www.businessinsurance.com

VIDEO: WELLNESS DRAWS DOC SUPPORT

In a new video, Cheryl Larson, vp of the Midwest Business Group on Health, talks with *Business Insurance* about the benefits of value-based plan design and the results of a new MBGH-sponsored study showing that physicians are eager to help employers facilitate employee wellness programs.



2010 BENEFIT MANAGER

**NOMINATION DEADLINE
EXTENDED TO MARCH 26**
Nominate someone you know to be the Benefit Manager of the Year. Enter his or her name for the 2010 competition with a brief description of his or her achievements. Go to the Events & Awards tab.

SUBMIT YOUR OWN INDUSTRY EVENTS TO THE ONLINE DATEBOOK

The Datebook is a comprehensive listing of insurance-related conferences, seminars and classes. You can quickly access information on a particular date or simply browse the selections by week. If you are sponsoring an event, you may submit information via our online form to be posted on this site. Access the Datebook on the home page.

MOST POPULAR STORIES Week of March 8, 2010

1. Senate passes COBRA premium subsidy extension
2. COBRA subsidy extension set for full Senate vote
3. Marsh plans sale of Kroll unit: Report
4. Marsh names global risk management casualty leader
5. Risk Management Summit kicks off in New York
6. AIG devises new formula for employee bonuses: Report
7. Greenberg to testify Wednesday on Gen Re
8. Obama targets health insurers, sells reform plan
9. Chartis Europe names president, CEO
10. Democrats move closer to health care deal

JOIN THE DISCUSSION
Comment online on all news, blogs

Consumer-Driven Health Care Plan Provider Directory

Available online under Lists & Data



LOG ON WEIGH IN

BusinessInsurance.com users now have an expanded array of online community tools. Register and log in to customize your personal profile, create blogs, invite friends and join discussions.

WEBINARS AND WEBCASTS

Business Insurance's webinars and webcasts are presented live online and afterward are accessible on demand. Register to attend an upcoming live webinar, or to view archived webcasts and webinars. Go to the Multimedia tab and click through Webcasts/Webinars.



Save on the cost of premium data and research. A Research Center subscription includes free downloads of all directories and rankings, and discounts on special reports. Click on the Research Center tab online.

Business Insurance
**RESEARCH
CENTER**

AGENTS & BROKERS

Marsh restarts effort to offload Kroll

Reported move would boost broker's core business: Analysts

By SALLY ROBERTS

NEW YORK—Analysts reacted positively to a report last week that Marsh & McLennan Cos. Inc. has put its risk consulting and technology unit Kroll Inc. up for sale for about \$1.3 billion.

Quoting sources familiar with the situation, the Financial Times said several private equity firms have responded with bids, including the Carlyle Group, Apax Partners and

General Atlantic L.L.C.

Spokespeople for MMC, Carlyle Group and Apax Group declined comment.

MMC paid about \$1.9 billion to acquire Kroll in July 2004, just a few months before then-New York Attorney General Eliot Spitzer filed fraud and bid-rigging charges against the company. Jeffrey W. Greenberg, who spearheaded the acquisition, stepped down as MMC's CEO shortly thereafter and was replaced by Kroll CEO Michael G. Cherkasky.

While the plan had been to integrate Kroll with other MMC operations, that never occurred and some units began underperforming finan-

\$1.3 billion

The amount Marsh & McLennan Cos. Inc. is reportedly looking to obtain through the sale of risk consulting and technology unit Kroll Inc.

cially. That prompted several shareholders to clamor for MMC to divest the unit, arguing that Kroll was not a strategic fit.

Upon replacing Mr. Cherkasky in January 2008, Brian Duperreault

said before he could make any decisions about Kroll's synergies with MMC, Kroll needed to be better run and operated.

He made fixing Kroll one of his first priorities and quickly installed new leadership, reorganized its operations and sold off various parts (see timeline, page 6).

Kroll, however, has continued to be a drag on MMC's financials.

In 2008, \$540 million in impairment charges to reflect Kroll's reduced value on MMC's balance sheet as a result of a restructuring gave way to a \$73 million 2008 loss for MMC.

See **KROLL** page 6



MICHAEL MARCOTTE

Rep. Scott Garrett, R-N.J., spoke at the recent Risk Management Summit in New York.

Congressman outlines reform prospects

NEW YORK—Dozens of senior risk managers gathered last Monday in New York for the first Risk Management Summit, a two-day networking and educational event that featured expert speakers and executives from leading insurance industry companies.

The Risk Management Summit, presented by *Business Insurance*, was designed by and for senior risk managers from the largest U.S. and European companies, as well as Risk Managers of the Year and members of the Risk Management Honor Roll.

The keynote luncheon speech Monday was given by Rep. Scott Garrett, R-N.J., who commented on various financial services reform measures pending in the House. Companion financial services reform legislation is expected to be introduced today in the Senate.

"We need certainty in the marketplace with regard to regulatory intervention," said Rep. Garrett, the ranking Republican on the House Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises. But he cautioned that "government intervention, while well-intended, often has unintended consequences."

Rep. Garrett said the notion of a systemic risk regulator for financial services, whether through expanding the powers of the Federal Reserve or creating a new regulatory office, could have unintended consequences. "We had 100 hearings last year on regulatory reform. No one, from the administration on down, was able to define what systemic risk is," he said.

"Truly, the systemic risk that we should be addressing is the budget deficit," Rep. Garrett said.

Summaries of other topic experts' comments at the Risk Management Summit will be reported in the March 22 and 29 issues of *Business Insurance*, and in-depth reporting on the insurance industry panel discussions will appear in the April 5 issue. For more information, visit www.BusinessInsurance.com/RMSummit.



AP PHOTO

A worker looks over the site of the 9/11 attacks in New York. WTC Captive Insurance Co. reached a settlement last week with cleanup workers.

CAPTIVES

WTC Captive settles with 10,000 cleanup workers

By COLLEEN MCCARTHY

NEW YORK—WTC Captive Insurance Co. last week reached a multi-million-dollar settlement with more than 10,000 workers claiming illness or injury stemming from the rescue and recovery efforts after the Sept. 11, 2001, World Trade Center terrorist attack in New York.

The settlement—which could be as much as \$675 million—came just months before the first cases were scheduled to go to trial and ended a six-year legal battle that plaintiff attorneys said was "oftentimes highly contentious."

The agreement, which a federal judge still must approve, provides a system to pay compensation to about 10,000 plaintiffs—including police officers, firefighters and construction workers—according to the severity of their illness or injury and the level of their exposure to contaminants at the World Trade Center, officials said during a news conference last week.

Payments will be made by WTC Captive, a federally financed insur-

ance fund established in 2004 with a \$1 billion grant to provide otherwise unavailable liability coverage to the city of New York and about 100 contractors. At least 95% of the plaintiffs must accept the terms within 90 days for the agreement to be binding, in which case the payments would total \$575 million. If all plaintiffs accept the terms, the settlement will total \$675 million, officials said.

Lawyers and officials said they were "confident" the threshold will be met.

"This is a good settlement, and we feel it's the best agreement for our clients," said Marc J. Bern, senior partner with Worby, Groner, Edelman & Napoli, Bern L.L.P., in New York, which represents more than 9,000 litigants. "We are very gratified that the men and women who performed their duties without consideration of the health implications will finally receive just compensation."

However, Mr. Bern conceded that plaintiffs' decision will be a complicated one. "It's still early, but so far

See **WTC** page 19

REINSURANCE

Greenberg testifies on sham deal with Gen Re

Statute of limitations bars prosecution, says former AIG chief

By COLLEEN MCCARTHY

NEW YORK—Former American International Group Inc. Chairman and CEO Maurice R. Greenberg testified last week about a sham 2001 reinsurance deal between AIG and General Re Corp., moving a 2005 civil fraud lawsuit against him closer to trial, legal experts say.

The suit, brought by then-New York Attorney General Eliot Spitzer, accused Mr. Greenberg and former AIG Chief Financial Officer Howard Smith of using the deal to hide losses and inflate reserves at the insurer.

In 2008, federal prosecutors obtained five convictions of former Gen Re and AIG executives, including former General Re CEO Ronald Ferguson. Prosecutors said the bogus deal boosted AIG's loss reserves by \$500 million without transferring any risk.

During the trial, prosecutors said Mr. Greenberg was an unindicted co-conspirator.

Because of the "threat of prosecution," Mr. Greenberg previously exercised "limited use" of the Fifth Amendment in asserting his constitutional right against self-incrimination by refusing to testify in the state fraud suit, according to court documents.

However, in a March 2 affidavit filed in New York State Supreme Court, attorneys for Mr. Greenberg said they are "confident" he no longer faces criminal prosecution

because the statute of limitations expired Feb. 21. As a result, Mr. Greenberg said he looked forward to testifying during a deposition about the matter, which was ordered by Justice Charles Ramos.

Mr. Greenberg testified last week during a deposition by the attorney general's office. Details of that testimony were not revealed.

Messrs. Greenberg and Smith, who both left AIG in 2005 amid investigations into AIG's accounting practices, repeatedly have denied wrongdoing in the deal. Last September, Mr. Greenberg sought a summary judgment to dismiss the case and accused Mr. Spitzer of bringing the suit to promote his political career. In January, Mr. Smith's attorneys filed a similar motion, said Vincent Sama, a partner with Winston & Strawn L.L.P. in New York and Mr. Smith's attorney.



Maurice Greenberg recently testified about a sham 2001 reinsurance deal involving AIG.

While Mr. Spitzer dropped portions of the suit in 2006, attorneys for Mr. Greenberg argue in the affidavit that the remaining allegations are "unfounded."

"Mr. Greenberg looks forward to finally testifying in this case. For five years, he has maintained that he did nothing wrong and that he would be fully vindicated once all the facts came out. We believe that that position has been largely borne out," Lee Wolosky, a partner at Boies, Schiller & Flexner L.L.P. in New York and one of Mr. Greenberg's attorneys, said in a statement last week. "Mr. Greenberg looks forward to moving forward this final case, most of which has already been dismissed, and which now

See **GREENBERG** page 20

RISK MANAGEMENT

Technology rings up vulnerabilities

Internet phone services pack traditional, nontraditional risks

By **JEFF CASALE**

Cyber attacks are lurking around nearly every virtual corner, and the growing use of Internet phone technology could be exposing systems to yet another threat.

As more businesses move their telephone systems off of traditional "land lines" and make calls using Voice Over Internet Protocol technology, the vulnerabilities and risks associated with VoIP should not be overlooked, experts say.

VoIP technology is seen as offering a cost-effective and flexible way for businesses to manage and simplify their communication networks, as it gives the users the ability to place calls over the Internet with the use of a private network.

VoIP users can set up a central facility and then make calls at other locations using simple equipment, including cell phones that can be configured to a company's network. This cuts down on the infrastructure costs associated with traditional phone lines, and expenses related to long-distance calling and other charges.

About 33% of U.S. businesses have adopted VoIP systems, according to Scottsdale, Ariz.-based In-

Stat, a technology research and consultant group and unit of Reed Elsevier P.L.C. In-Stat also forecasted that U.S. business use of VoIP could reach 79% in 2013.

While risk managers have addressed many cyber risks, they may be ignoring VoIP-related exposures—at their peril.

"VoIP hacking is not really a risk that's on the radar for risk managers," said Brad Gow, Philadelphia-based Zurich North America Commercial senior vp of errors and omissions for Zurich's specialties unit. "I wouldn't say it's something they are ignoring, but it's something they're probably not thinking

See **VOIP** page 22



Reinsurers have been hit hard by a pair of late February catastrophes—an earthquake in Chile (above) and Windstorm Xynthia in western Europe.

CATASTROPHES

Quake and storm estimates range from \$3B to \$12B

By **MICHAEL BRADFORD**

Catastrophe modelers last week said insured losses from last month's Windstorm Xynthia in Europe will range from roughly \$1 billion to \$4 billion, and major reinsurers began estimating their exposure to the storm and to the massive earthquake that recently struck Chile.

Risk Management Solutions Inc. in Newark, Calif., last week said Xynthia would cost private-market insurers between €1 billion and 2 billion (\$1.36 billion and \$2.72 billion). Boston-based AIR Worldwide Corp., meanwhile, has estimated that insured losses from the storm would range from €1.5 billion to €3 billion

(\$2.04 billion to \$4.09 billion). The estimate does not include business interruption or infrastructure losses.

In addition, Oakland, Calif.-based EQECAT Inc. said that the mean insured gross loss from Xynthia will reach €994 million (\$1.35 billion). EQECAT said 65% of its loss estimate from the late February storm that claimed at least 62 lives is from damage in France.

Twenty-five percent of the loss occurred in Germany and 10% in Belgium, Luxembourg and Netherlands, EQECAT said, noting that its estimate, does not include damage in Portugal and Spain, which its

See **CASTASTROPHES** page 21

SURPLUS LINES

Veteran wholesaler plans new brokerage

By **SALLY ROBERTS**

DALLAS—Fresh off his two-year noncompete agreement with Crump Group Inc., former CEO Glenn Hargrove is embarking on a new wholesale brokerage venture he says will offer retail brokerages an alternative to traditional wholesale relationships.

Together with Richard Kerr, CEO of online wholesaler MarketScout Inc., Mr. Hargrove plans to launch Dallas-based MarketScout Wholesale in the second quarter and build the operation from scratch by recruiting individuals and teams of people.

MSW will become the wholesale arm of the 10-year-old MarketScout insurance exchange, which is used by more than 40,000 registered retail agents/brokers and other users to access qualified insurers. MSW also will operate independently in the market.

Acquisitions are part of MSW's growth strategy, though not initial-

GLENN HARGROVE



FEBRUARY 2010-PRESENT: MarketScout Wholesale, co-founder and president
2008-2010: Independent consultant

1997-2008: Crump Group Inc., where he held various positions, including president and CEO from 2004 to 2008

1992-1997: Vp of Rapport Insurance Services Inc.

1987-1992: Vp of Excess Office of America Inc.

ly, said Mr. Hargrove, who left Dallas-based Crump in January 2008, roughly two years after Marsh & McLennan Cos. Inc. sold Crump to private equity firm J.C. Flowers &

Co. L.L.C.

"Our strategy is going to be on a very controlled and specific basis," he said, noting that he's identified about a dozen initiatives to build out MSW. "How many we end up doing in the first year is solely dependent upon how many we feel we can do in a rational and controlled manner and put them on a footing for good success going forward."

Mr. Hargrove, who serves as president of the new venture, said MSW is backed by individuals who have made private investments in the firm.

"Our goal is to be a long-term player and to build a quality player and hopefully show people a different way of how wholesalers can operate and bring something different to the table," he said.

To do that, MSW will leverage the technology from MarketScout's insurance exchange in its business

See **WHOLESALE** page 17

SURPLUS LINES

Economy sets pricing: NAPSLO panel

By **SALLY ROBERTS**

SCOTTSDALE, Ariz.—The prolonged soft pricing environment is not expected to turn in 2010, but at least one specialty underwriter said he hopes buyers are spared triple-digit increases when it does turn.

During a question-and-answer session at the National Assn. of Professional Surplus Lines Offices Ltd.'s Mid-Year Leadership Forum this month in Scottsdale, Ariz., specialty underwriters and wholesalers participating in a panel were asked if they feared that a market turn would drive policyholders to the self-insurance market due to the difficult economy.

"I think that's a serious risk we

face," said John Latham, managing director-regional wholesale operations for Markel Corp. in Richmond, Va.

He noted that when pricing has turned in the past, the market has imposed 300% price increases. "We seem to do that time after time, the same way we cut prices five or six years running to get to the same point," Mr. Latham said. "We're probably our own worst enemy in a lot of those cases. I think we've got to somehow learn to create a little more consistency in the peaks and valleys in our industry, but I've been thinking that for over 40 years and I haven't seen a lot of progress."

E.G. Lassiter, chairman and CEO of RSUI Group Inc. in Atlanta, who

also participated in the panel, pointed out that the industry hasn't reacted with too many 200% to 300% price increases—with the exception of 2006, after the previous year's Hurricanes Katrina, Rita and Wilma.

"We're a capital-providing industry; and when supply contracts as it did post those hurricanes, there was not enough global capacity to insure the amount of wind exposure properties that were out there and prices did go up," Mr. Lassiter said. "But overall, that was very, very unusual for that to have occurred."

While he said he doesn't see price increases of that magnitude occur-

See **NAPSLO** page 17

Errors & Omissions

■ A chart in the March 8 issue, "Largest Captive Managers Worldwide," misstated the principal officer for Willis Management. The principal officer of the unit is Tom Coughlin, national partner.

■ Another chart in the issue, "Drive to Fund Employee Benefit Risks Through Captives," had incomplete information on a captive sponsored by SCA Corp. The captive is a U.S. Virgin Islands-domiciled branch of an Ireland captive.

448

A LOT OF THINGS CAN HAPPEN IN A MAJOR STORM.
WE MADE SURE THIS DIDN'T.

SWELL'S SEAFOOD RESTAURANT



SWELL'S
SEAFOOD
RESTAURANT

Catch of
the Day:
Sea Bass
BEEF

When our customer's frozen seafood warehouse was hit by a major storm, it sustained significant roof damage and lost power. Jeopardizing not only the inventory, but the restaurants that depend on it. So while other companies were still assessing the storm's impact, our claims experts were already arranging for repairs and securing refrigerated trucks plus fuel, to preserve the fish. Whether it's responding quickly, keeping you informed, or paying your claims in a timely fashion, we're committed to helping you protect your business before and after adversity strikes. That's our policy. For more information, contact your broker or agent or visit libertymutualgroup.com/property.



Kroll: Marsh starts efforts to offload Kroll

CONTINUED FROM PAGE 3

MMC took another \$315 million impairment charge in the second quarter of 2009 in connection with the sale of Kroll Government Services, the unit's U.S. government security clearance screening business. That charge resulted in a \$193 million loss for MMC in the quarter.

Although MMC reported a \$242 million profit in 2009, Kroll was the worst-performing operation within MMC in top-line growth. Excluding Kroll's corporate advisory and restructuring unit, which was bought out by management in 2008, Kroll's revenues fell 16% to \$667 million.

Meyer Shields, an analyst with Stifel, Nicolaus & Co. Inc. in Baltimore, said he sees the potential divestiture as positive.

"Kroll's business focus has always seemed somewhat out of synch with MMC's spectrum of better-integrated insurance and consulting segments, and last year's weak results suggest limited cross-selling successes," Mr. Shields wrote in a client note.

"Most investors have likely long expected that Kroll would be sold, and we think MMC would be far better off deploying its net proceeds into expanding its small-commercial account insurance (agency) rather than trying to grow or integrate the mostly peripheral Kroll," Mr. Shields said in referring to Marsh & McLennan Agency L.L.C.

"I never thought strategically it was a great fit," said Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York. "If it's noncore, it's somewhat distracting, so I think it probably would be strategically better if it were gone."

Bret Howlett, an insurance ana-

KROLL HISTORY

Major events in Marsh & McLennan Cos. Inc.'s ownership of risk management and technology consultant Kroll Inc.

JULY 2004: MMC pays roughly \$1.9 billion to acquire Kroll.

OCTOBER 2004: Kroll CEO Michael G. Cherkasky replaces Jeffrey W. Greenberg as MMC CEO, shortly after former New York Attorney General Eliot Spitzer filed fraud and bid-rigging charges against MMC.

OCTOBER 2004-DECEMBER 2007: Embroiled in the fraud and bid-rigging lawsuit and subsequent recovery efforts, MMC never fully integrates Kroll and certain Kroll units begin to underperform.

JANUARY 2008: Brian Duperreault becomes president and CEO of MMC, replacing Mr. Cherkasky, and says one of his goals is to fix underperforming operations, including Kroll.

MAY 2008: MMC rebuffs an inquiry from London-based buyout firm B.C. Partners Ltd. to begin negotiations for the buyout of Kroll. Subsequently, Mr. Duperreault says MMC will divest Kroll Government Services Inc., which provides U.S. government security clearance screening services, and Kroll Factual Data Corp., which provides mortgage lender services. He also moves Kroll's corporate advisory and restructuring business into a separate unit. That realignment results in \$540 million in impairment charges in 2008.

JUNE 2008: Ben Allen is named president and CEO of Kroll, succeeding Simon V.

Freakley, who becomes CEO of the corporate advisory and restructuring unit.

JULY 2008: Jules B. Kroll, the founder of Kroll Inc., retires from MMC.

NOVEMBER 2008: Mr. Freakley leads the management buyout of Kroll's corporate advisory and restructuring unit's European business in conjunction with the management buyout of the U.S. side of the unit known as Kroll Zolfo Cooper. Both companies begin operating as separate partnerships under the name Zolfo Cooper.

NOVEMBER 2008: MMC sells U.K.-based restructuring unit Kroll Talbot Hughes to management. The unit is renamed Talbot Hughes McKillop L.L.P.

JUNE 2009: MMC sells Kroll Government Services to New York-based private equity firm Veritas Capital for an undisclosed sum. The unit is renamed KeyPoint Government Solutions Inc. MMC takes a \$315 million impairment charge in connection with the sale.

FEBRUARY 2010: MMC agrees to sell Kroll Laboratory Specialists, Kroll's substance abuse testing business, to Inverness Medical Innovations Inc. for \$110 million in cash. The deal is expected to close in the first quarter.

MARCH 2010: Reports say MMC is accepting bids and seeking about \$1.3 billion the rest of Kroll's operations.

lyst for Standard & Poor's Corp.'s equity research group, agreed.

"Kroll accounted for about 6% of MMC's operating revenues in '09, but it was the company's worst-performing segment with respect to

top-line results. We expect Kroll to be a drag on revenue growth for MMC this year considering its economically sensitive businesses, and would view positively its sale," Mr. Howlett said in a research note.

Commentary

Management gets peek at workers' problems

Until I started watching "Undercover Boss," I don't think I ever fully appreciated the frustration many benefit and human resource professionals feel in trying to persuade upper management to add or expand health and productivity management programs.

The program, which airs on CBS Sunday evenings, follows the CEOs of some of America's best-known companies as they go undercover in an attempt to find out what's working and what isn't in their organizations.

If the experience of the first four CEOs is representative, it appears many top executives are unaware how decisions to cut costs might affect employees' lives and, ultimately, business performance.

Imagine the embarrassment felt by Waste Management Inc. President and Chief Operating Officer Larry O'Donnell when he discovered one of his female garbage truck drivers was forced to pee in a can so she could meet her quota of 300 pickups a day without getting docked. Or consider the chagrin of Hooters of America Inc. President and CEO Coby Brooks when he witnessed the hostile environment created by the manager of a Dallas location by forcing waitresses to eat plates of beans—using no hands, like dogs—to earn the opportunity to leave a few minutes early.

Perhaps more amazing is the fact that in each of the episodes that has aired so far, the leaders are surprised when they meet an employee suffering from a chronic health condition. It is as if they haven't even considered what—or who—could be driving their company's health care costs.

Equally clueless was Dave Rife, one of the owners of Columbus, Ohio-based White Castle Systems Inc., who traded in his suit for a hairnet so he could learn what it's like to be on the front lines of the fast-food chain started by his great-grandfather 88 years ago. During his stint at a White Castle restaurant in Hamilton, Ohio, he talks with an overweight employee who tearfully confides that she recently suffered a heart attack, which she attributed to overeating.

The owner's voice-over says the woman's situation hit close to home, describing himself as "a heart attack waiting to happen" before he lost 70 pounds. Viewers witness an exhibition of his fitness regimen, which includes working out with a trainer and eating a low-fat diet, something he finds a bit chal-



JOANNE
WOJCIC

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

lenging to stick to while working at his family's restaurants.

During breaks, White Castle employees are encouraged to partake of the company's cheeseburgers, bacon cheeseburgers and fries. But when Dave is offered something to eat, he asserts that he can't eat anything fried.

I worked at a suburban Chicago White Castle one summer while in college and can attest that those burgers probably are

I've got to give CBS a hand for letting some at the top of the corporate ladder rub elbows with those at the bottom.

Nominate the 2010 Benefit Manager of the Year

Do you know an outstanding professional employee benefit manager? Give them the recognition they deserve and nominate her or him for *Business Insurance's* 2010 Benefit Manager of the Year award by the extended deadline of March 26.

BI established the Benefit Manager of the Year® award in 2005 to recognize excellence in administering employee benefit programs.

A nominee need not handle employee benefits management responsibilities full time, but he or she must be a full-time employee of the organization whose program he or she directs.

Anyone acquainted with a candidate's work may submit a nomination. All nominations are confidential; only honored candidates will be announced.

An independent panel of judges, representing prior winners, benefit brokerages, benefit consulting firms and other employee benefit service providers, will score nominees, and



the highest-scoring candidate is named the Benefit Manager of the Year.

For more information and to download a nomination form, please visit www.BusinessInsurance.com/BMOY. The nomination deadline is March 26. Profiles of the 2009 and previous winners also are available online.

The winner of the 2010 Benefit Manager of the Year® will be profiled in the June 28 issue of *Business Insurance*.

Insurance
Risk Management

Zurich HelpPoint

**You may not see why you need
environmental liability coverage.
That's the point.**

Zurich HelpPoint is here when you need more than just insurance. Because we understand that no business is immune to the possibility of an environmental liability—whether it's one that accidentally happens under your watch or from a pre-existing problem, the cleanup can be costly. This is why Zurich's team of environmental underwriters, claims specialists, risk engineers and lawyers have been successful at helping businesses identify and minimize their risks for more than 17 years. We know you don't have to see signs of toxins to already be exposed to them. And that's the point.

Visit zurichna.com/hiddenrisks to view the Zurich whitepaper and Webinar.

Here to help your world.



Because change happenz SM

In the United States, coverages are underwritten by member companies of Zurich in North America, including Zurich American Insurance Company. Certain coverages not available in all states. Some coverages may be written on a nonadmitted basis through licensed surplus lines brokers. Risk engineering services are provided by Zurich Services Corporation.

Business Insurance OPINIONS

RRGs more than ready to cover property risks

WE WELCOME and enthusiastically endorse legislation introduced in the House of Representatives last week that would allow the nation's risk retention groups to provide property insurance to member-owners.

The long-expected legislation, introduced by Rep. Dennis Moore, D-Kan., would be the first expansion of the Liability Risk Retention Act since 1986, when lawmakers amended the 1981 law that gave RRGs their special status.

The original law that authorized risk retention groups was a congressional response to the market crisis of the late 1970s, when panic pricing in the commercial market led to huge and unjustified product liability insurance premium increases. The law pre-empted state licensing requirements to ensure that upon being licensed in one state, an RRG could provide coverage immediately to policyholders in any state.

Then in 1986, the law was expanded to allow RRGs to provide all types of commercial casualty coverage except workers compensation. With that expansion of underwriting authority, RRG formations soared. Today, close to 250 RRGs are operating and are a vital source of coverage for employers in a variety of industries.

If there is a good reason why RRGs should not be allowed to write property coverage for member-owners, we haven't heard it. While conditions in the commercial property market have improved for buyers in recent years, passing legislation allow RRGs to fund the coverage will help ensure that they can obtain coverage when market conditions deteriorate.

At the same time, we think more competition in the market can only be beneficial for buyers.

We hope legislators act on the proposal quickly and favorably.

Cat risk fund would raise commercial insurance rates

RISK MANAGERS can be forgiven for not paying much attention to recent congressional maneuvering on the Homeowners' Defense Act.

After all, the bill would have no direct effect on commercial insurance. Instead, it would allow state-sponsored insurance funds to bundle their catastrophic risks in a new National Catastrophe Risk Consortium, which could issue financial instruments linked to the risks or be reinsured through its members. The U.S. government would guarantee state funds' bond obligations.

The proposal would apply solely to personal lines insurance, aiming to guarantee the availability of affordable homeowners coverage.

While we understand the position of the measure's supporters, we question whether it's necessary and believe it could be counterproductive.

First, there's no indication that the market has failed to the extent needed to justify creating a new federal obligation. Private property insurance can be costly, but the U.S. government cannot make additional financial promises as the federal deficit spirals to record levels. Second, and more troubling, is that the proposed facility could encourage construction where it's least justified—in catastrophe-prone areas. Higher concentrations of property values would increase the chances that the next hurricane will be more expensive and damaging than the last.

As such, the facility could directly affect commercial policyholders. They would face higher coverage costs and tax liabilities if the U.S. government had to step in. The best way to prevent that is to keep the federal government out of the insurance guarantee business in the first place.

If there is a good reason why RRGs should not be allowed to write property coverage for member-owners, we haven't heard it.



WRITE

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

Please send your letters to:

Letters to the Editor
Business Insurance
360 N. Michigan Ave.
Chicago, Ill. 60601-3806

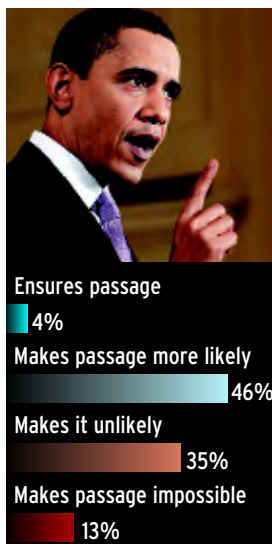
fax: 312-280-3174, e-mail:
rcoccia@businessinsurance.com

VOTE

in the *BI* Online Poll at
www.businessinsurance.com

THIS WEEK'S RESULTS

Q How will President Obama's direct involvement affect the passage of health care reform?



NEXT WEEK'S QUESTION

Q: Should risk retention groups be allowed to cover property risks?

READ

Perspectives and expert analysis online at
www.businessinsurance.com/section/perspectives



Buyers can win defense costs fights

Insurers may assert that they have a right to be reimbursed by their policyholders for defense fees if a court later rules that the insurer had no such duty to defend, says Linda D. Kornfeld, the managing partner of Dickstein Shapiro L.L.P.'s Los Angeles office who represents policyholders in complex coverage matters. However, policyholders can protect themselves from such insurer efforts through several steps, including expressly objecting to reservation-of-rights letters that raise the reimbursement issue, she says.



Vice President/Publisher:
Martin J. Ross III (New York)

Associate Publisher/Editorial Director:
Paul D. Winston (Chicago)

Editor: Regis J. Coccia (Chicago)

Editor-at-Large: Jerry Geisel (Washington)

Managing Editor: Gavin Souter (Chicago)

Assistant Managing Editor - Multimedia:
Kathy L. Barnes (Chicago)

Assistant Managing Editor - News:
Matt Scroggins (Chicago)

Art Editor: William Murphy (Chicago)

Special Projects Editor:
Rodd Zolkos (Chicago)

Senior Editors: Michael Bradford (Zurich)

Roberto Cenicerros (Boise);

Judy Greenwald (San Jose);

Mark A. Hofmann (Washington);

Sally Roberts (Denver); Joanne Wojcik (Denver)

London Bureau Chief: Sarah Veysey (London)

Associate Editors: Colleen McCarthy (New York);

Zack Phillips (New York)

Staff Reporter - Interactive:
Jeff Casale (Chicago)

Copy Editors: Charmain Benton (Chicago);

Ann Reus (Chicago)

Research Director: Kevin P. Edison (Chicago)

Research Editor: Karen Brown Tucker (Chicago)

Online Editor: Katherine Downing (Chicago)

Online Producer: Amy R. Curtis (Olathe)

Editorial Cartoonist: Roger Schillerstrom (Chicago)

Editorial Assistant: Mike Tsikoudakis (Chicago)

Regional Sales Managers:

William J. McGuire (Chicago);

Ron Kolgraf (Boston); Robert B. Murray (New York);

Mary Pemberton (Denver);

Robert A. Raidt Jr. (New York)

Classified Advertising Manager:

Monique Murray (New York)

Assistant to the Publisher:

Pat Ghazvini (New York)

Events Manager: Rebecca Briggs (New York)

Production Manager: J. Thomas Janka (Chicago)

Circulation Manager: William O'Driscoll (New York)

Assistant Circulation Manager:

Craig Bowman (Detroit)

Promotion Director: Michael Ambrosio (New York)

EDITORIAL: Boise: 208-286-1425;

Chicago: 312-649-5200; London: 44-207-457-1400;

Los Angeles: 323-370-2455; New York: 212-210-0100;

San Jose: 408-774-1500; Washington: 202-662-7200

ADVERTISING: Boston: 617-292-4856;

Chicago: 312-649-5286; Denver: 303-898-4043;

London: 44-207-457-1412; New York: 212-210-0133

SUBSCRIPTIONS: Detroit: 888-446-1422

Business Insurance is published by

Crain Communications Inc.

Chairman: Keith E. Crain

President: Rance Crain

Secretary: Merrilee Crain

Treasurer: Mary Kay Crain

Executive Vice President/Operations:

William A. Morrow

Senior Vice President: Gloria Scoby

Vice President/Group Publisher: Christopher Crain

Group Vice President/Technology, Circulation,

Manufacturing: Robert C. Adams

Vice President/Production & Manufacturing:

Dave Kamis

Corporate Circulation/

Audience Development Director:

Kathy Henry

Chief Information Officer: Paul Dalpiaz

G.D. Crain Jr., Founder (1885-1973)

Mrs. G.D. Crain Jr., Chairman (1911-1996)

S.R. Bernstein

Chairman-executive committee (1907-1993)

Published weekly at 360 N. Michigan Ave., Chicago, Ill.

60601-3806, Fax: 312-280-3174, biweb@crain.com. Offices:

711 Third Ave., New York, N.Y. 10017-5806, Fax: 212-210-0704;

Suite 814, National Press Building, Washington, D.C. 20045-

1801, Fax: 202-638-3155; 6500 Wilshire Blvd., Suite 2300, Los

Angeles, Calif. 90048-4947, Fax: 323-655-8157; 967 Bermuda

Court, Sunnyvale, Calif. 94086-6750, Fax: 408-774-1155; 21

St. Thomas St., London SE1 9RY, U.K. Fax: +44-(0)20-7457-

1440; 12524 Acuff Court, Olathe, Kan. 66062, Fax: 312 280-

3174, 77 Franklin St., Suite 809, Boston, Mass. 02110-1510;

Fax: 212-210-0704. \$5 a copy and \$97 a year in the U.S., \$130

in Canada and Mexico (includes GST). All other countries,

\$230 a year (includes expedited air delivery). Four weeks'

notice required for change of address. Send subscription

correspondence to Circulation Department, Business

Insurance, 711 Third Ave., New York, N.Y. 10017-5806.

Microfilm copies available: University Microfilms, 300 Zeeb

Road, Ann Arbor, Mich. 48103. Microfiche copies: Bell &

Howell, Micro Photo Division, Old Mansfield Road, Wooster,

Ohio 44691. Portions of the editorial content of this issue

are available for reprint or reproduction in other media.

For reprints or reprint permission, please contact Lauren

Meslesio/Crain Communications at 212-210-0707 or e-mail

BusinessInsurance@reprints.crain.com.

To subscribe, Call 888-446-1422, or
313-446-0450 outside the U.S.
www.businessinsurance.com





There's a better way to get inside information on benefits.

And a better way to reach benefits decision makers.

2010 BENEFIT INSIDER DEMOGRAPHIC EDITORIAL CALENDAR

Date	Ad Close	Benefit Insider Editorial Content
Jan 18	Published	Rethinking Health Care <i>Bonus Distribution: EHHCC, IBI/NBCH</i>
Feb 15	Published	Benefits for a Diverse Workforce <i>Bonus Distribution: NBGH</i>
Mar 15	Published	Value-Based Plan Design <i>Ranking/Directory: Consumer-Driven Health Care Plan Providers</i> <i>Bonus Distribution: IHPM</i>
Apr 19	Apr 7	Benefits Communications & Technology <i>Ranking/Directory: Employee Benefits Software</i>
May 17	May 5	Benefit Consulting <i>Ranking/Directory: Benefits Consultants/Outsourcing Providers</i> <i>Bonus Distribution: AHIP, World at Work</i>
Jun 21	Jun 9	Supplemental Benefits: Life, Disability, Dental & Vision <i>Ranking/Directory: Dental Plan Providers</i>
Jul 19	Jul 7	Pensions & Savings Plans <i>Ranking/Directory: 401(k) Plan Providers</i>
Aug 23	Aug 11	Health Care Cost Control Strategies <i>Ranking/Directory: PBMs</i>
Sep 20	Sep 8	Prescription Drug Benefits
Oct 18	Oct 6	Alternative Benefit Financing
Nov 15	Nov 3	Wellness Benefits <i>Bonus Distribution: NBCH</i>
Dec 13	Dec 1	Behavioral Health & Work/Life Benefits

Note: Editorial Content and Bonus Conference Distributions are subject to change.

INTRODUCING

Business Insurance

BENEFIT INSIDER

If you're searching for a better view of what's happening in the benefits marketplace, or if you need the leaders in this field to notice your company, take a look at **Business Insurance's** new **Benefit Insider** demographic section.

Each month nearly 28,000 specifically chosen **Business Insurance** subscribers, and nearly 70,000 total readers* will get an inside look at what's happening in the benefit arena. CEOs, CFOs, Benefit Managers, Agents, Brokers and Consultants will get the scoop on everything from health care to pension plans to cost control strategies and much more. And they'll get it all with the agenda-setting editorial leadership they expect from **Business Insurance**.

Get the facts about **Business Insurance's** **Benefit Insider**. Call 212-210-0137 or e-mail Advertising@BusinessInsurance.com.

* As submitted, BPA Circulation Statement, June 2009, Paragraph 3A. Pass-along based on an audience profile of Business Insurance subscribers conducted by Erdos & Morgan, Inc.

Business Insurance

www.BusinessInsurance.com

The Trusted Voice of the Risk and
Benefits Management Marketplace.

NEW YORK: 212.210.0137 • CHICAGO: 312.649.5286
WEST COAST: 303.898.4043 • BOSTON: 617.292.4856
LONDON: +44.207.457.1412

Market Moves

Brown & Brown acquires agency assets

SEATTLE—Brown & Brown of Washington Inc., a unit of broker Brown & Brown Inc., has acquired various assets of a Seattle-based insurance agency.

In a statement, Brown & Brown said it acquired “the insurance agency and brokerage business-related assets” of DiMartino Associates Inc.

Terms of the acquisition were not disclosed.

Gregory P. DiMartino, president of DiMartino Associates, and his staff will continue to operate from their offices in Seattle under the same moniker.

Founded in 1990 and with annual revenues of \$4.3 million, DiMartino Associates specializes in employee benefits.

Not part of the acquisition was DiMartino Financial Services, the Seattle-based financial management unit of DiMartino Associates.

Zurich signs MOU with Korean agency

SEOUL, South Korea—Zurich North America Commercial has signed a

memorandum of understanding with Korea Export Insurance Corp. to provide insurance and other risk management services.

Zurich said it completed the MOU with the Seoul, South Korea-based export insurance agency to support exports and investments globally.

“This MOU establishes a framework for a public/private collaboration that is anticipated to enhance opportunities for Korean investors, exporters and contractors, and promote international trade in established and emerging markets across the world,” Zurich said in a statement.

Zurich, a Schaumburg, Ill.-based unit of Zurich Financial Services Group Inc., said it will provide political risk, trade credit and surety

credit insurance to Korean investors, exporters and contractors through insurance, reinsurance, coinsurance facilities or surety bonds.

Korea Export, which is supported by South Korea’s Ministry of Commerce, Industry and Energy, will manage the transactional risks and facilitate international trade.

Shelter Island returns to independence

SHELTER ISLAND, New York—Shelter Island Risk Services L.L.C. said it has split from its parent company and returned to operating as an independent.

The Shelter Island, N.Y.-based risk management information ser-

vice provider split from Itasca, Ill.-based Gallagher Bassett Services Inc. after five years as its subsidiary, the company said in a statement.

Terms of the separation were not disclosed.

Shelter Island Risk Services was founded in 1994 and led by Richard F. Denning, who is president.

The split has many benefits, such as operating with greater efficiency and “eliminating biases” with consulting firms associated with third-party administrators or brokers, Shelter Island said in a statement.

Segal, subsidiaries move headquarters

NEW YORK—Segal Co. and two subsidiaries have moved their New York headquarters to a new location.

Segal Co., Sibson Consulting and Segal Advisors Inc. have relocated to 333 W. 34th St., New York, N.Y., 10001-2402.

In a statement, the benefits, compensation and human resource consulting firm with 21 offices across North America said its New York phone, fax and e-mail addresses remain the same.

For more information, contact Mary L. Feldman, senior vp of public affairs, at 212-251-5029 or mfeldman@segalco.com.

HealthNow courts self-insured employers

KING OF PRUSSIA, Pa.—HealthNow New York Inc. has formed a unit, HealthNow Administrative Services, providing administrative and outsourcing services.

HNAS specializes in self-funded benefit plans for midsize to large employers, brokers and agents, it said in a statement.

HealthNow said self-insured enrollments constitute a significant and growing portion of benefits plans. HNAS will partner with third-party administrators to provide claims operations and technology to self-insured employers.

“The focus of HNAS responds to the struggling economy and the strong trend of employers searching for options beyond traditional insurance,” HealthNow said in the statement. “These organizations are willing to self-insure and underwriting the risk while outsourcing the back-office operations of managing claims processing, provider networks, utilization review or membership functions.”

HNAS is based in King of Prussia, Pa., with offices in Boston, Dallas and Phoenix.

TO SUBMIT ITEMS

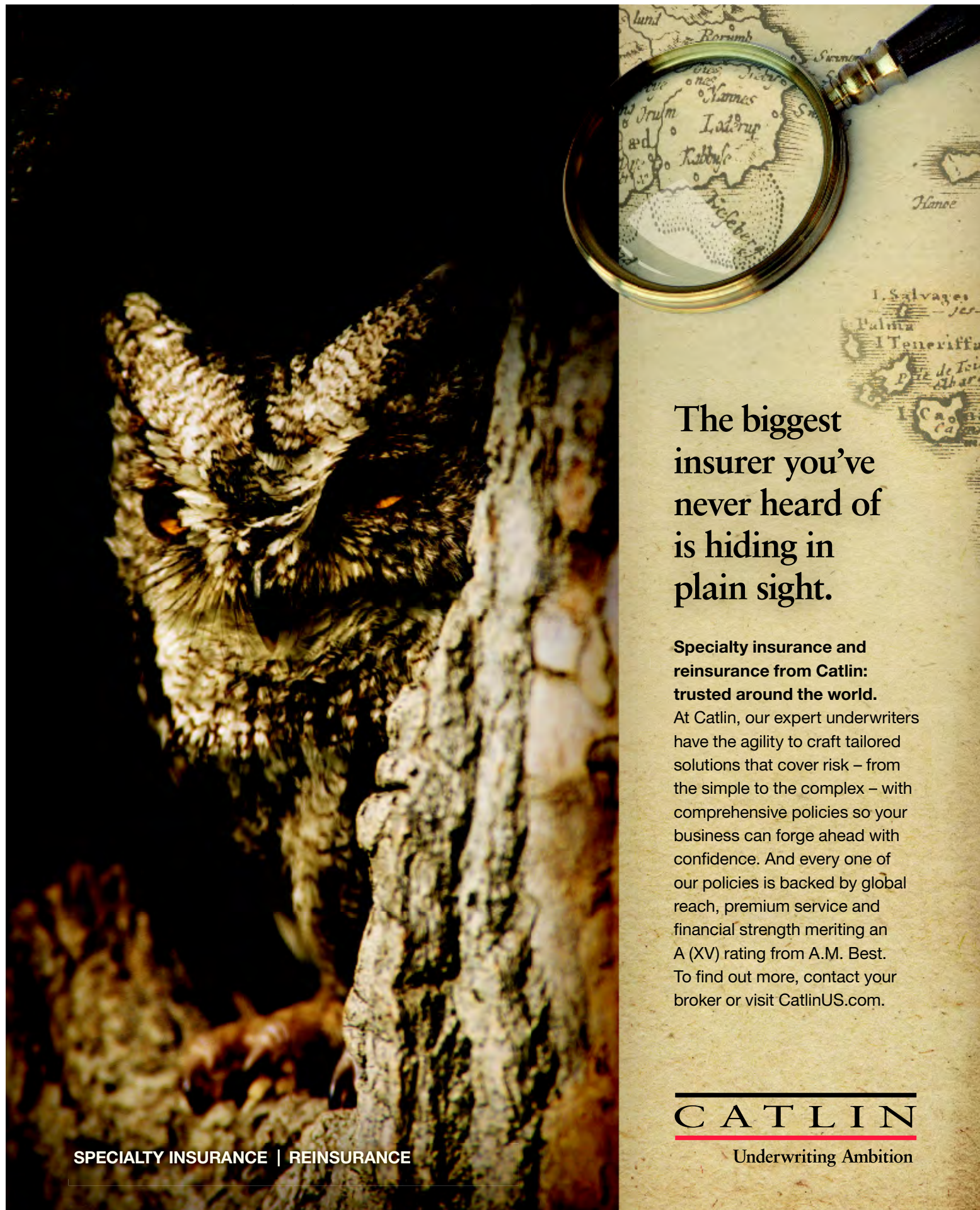
MARKET MOVES

BI’s Market Moves column reports on activities by insurance industry companies and related entities.

PRODUCTS & SERVICES

BI’s Products & Services column reports on new product offerings.

Please send Product & Services and Market Moves news to Mike Tsikoudakis, 360 N. Michigan Ave., Chicago, Ill. 60601 or e-mail mtsikoudakis@businessinsurance.com.



The biggest insurer you’ve never heard of is hiding in plain sight.

Specialty insurance and reinsurance from Catlin: trusted around the world.

At Catlin, our expert underwriters have the agility to craft tailored solutions that cover risk – from the simple to the complex – with comprehensive policies so your business can forge ahead with confidence. And every one of our policies is backed by global reach, premium service and financial strength meriting an A (XV) rating from A.M. Best. To find out more, contact your broker or visit CatlinUS.com.

CATLIN
Underwriting Ambition

SPECIALTY INSURANCE | REINSURANCE



BRAIN STORM

Insurers, reinsurers strive to make better use of catastrophe models

By COLLEEN MCCARTHY

Despite technical and scientific advances in catastrophe models during the past 20 years, observers say the most significant developments appear to be in the form of human capabilities.

That's because a shift is under way among insurers and reinsurers to better understand and more effectively interpret the results of models that simulate the effects of storms and other perils on their risk portfolios.

In addition, many reinsurers who use cat models to help price and structure reinsurance contracts have developed in-house experts to analyze the models and apply their own expertise to the results.

Experts say cat models have become a vital tool for the industry, although events of the past several years have shown they are not perfect predictors of a reinsurer's loss potential from catastrophes.

"In our view, cat models are very valuable because they offer a consistent measurement of risk," said Carl Hedde, head of risk accumulation at Munich Re America in Princeton, N.J. "But it takes a sophisticated user to adjust that measurement and come up with what they ultimately think is the risk."

Like many reinsurers, Munich Re America uses a multiple model approach, combining "vendor models" offered by the three main catastrophe modeling firms—AIR Worldwide Corp., Risk Management Solutions Inc. and EQECAT Inc.—with proprietary models developed in-house to better understand its book of business, Mr. Hedde said. The company also relies on a staff of scientists, meteorologists and engineers to help evaluate scientific data and apply its own quantitative techniques "so we can match up our view of risk with what the models are telling us," he said.

See **MODELS** next page

GLOBAL RISKS:
Reinsurance
Analytics

**THE
BIG
SPOTLIGHT**

**UPDATED VERSIONS
OF CAT MODELS
SET FOR RELEASE**
PAGE 13

**MODELERS GRAPPLE
WITH EUROPEAN
FLOOD EXPOSURES**
PAGE 14

**REINSURERS MODELS
IN DEVELOPMENT
FOR CASUALTY RISKS**
PAGE 14

Models: Insurers, reinsurers strive for better utilization

CONTINUED FROM PREVIOUS PAGE

Cat models were criticized widely for underestimating losses from hurricanes Katrina and Rita in 2005, underscoring the need for more detailed "input" data, also called "exposure data." This includes details about the properties—including exact address, construction materials and type of business—that is required to produce reliable model results of insured losses.

High catastrophe losses in 2004 and 2005 also revealed what some observers said was the industry's over reliance on catastrophe models.

"Too many companies have used them as a way to arrive at an exact answer, but they are not intended to be so precise. They can only give you an indication of what might happen," said Andrew Castaldi, senior vp and head of catastrophe perils, Americas, at Swiss Reinsurance Co. in New York.

But now, users are beginning to put the model results in the proper context, experts say.

"In the past, many users just ran the models once and accepted one result. Now, top reinsurers have built up huge networks of computing resources. They can run the models in parallel, applying numer-

ous stress tests to obtain 20 or 30 alternative perspectives to the model output," said Robert Muir-Wood, London-based chief research officer at Newark, Calif.-based RMS.

Potential stress tests include running the models with variations on the "secondary modifiers," a technical term used to categorize properties included in a book of business. This could include building characteristics, such as whether it has hurricane shutters or the age of its roof, that affect its vulnerability to loss. "They're turning on and off the various switches to see how it might shift the results," Mr. Muir-Wood said.

In addition, "reinsurers are able to run the models in real time so they can see how every new piece of business they are writing fits alongside with the business they already have in their portfolio, and expand or contract accordingly" to avoid concentration of risk, said Mr. Muir-Wood.

"Reinsurers are very interested in building out a more robust system to proactively manage their catastrophe risk," said Chris McKeown, CEO of global analytical and specialty practices at Guy Carpenter & Co. L.L.C. in New York.

"We're spending a lot of time with clients emphasizing the under-

writing systems and asking, 'How do you house that vendor model output in your underwriting system? And how does that interact with your capital model?'" It's a more dynamic approach that allows users "to match up the asset strategy with the liabilities as (they) actively write the business," Mr. McKeown said.

Reinsurers that smooth out the model outputs will be better equipped to evaluate the overall level of capital required to pay potential claims and allocate capital more effectively across their business, experts say.

But data quality continues to be an issue, some reinsurers say. Extra precautions are necessary because reinsurers rely on exposure data from cedents. Although improving, exposure data often is viewed as inadequate due to the absence of a standard approach in capturing and cataloging the data, experts say.

In addition, "everyone makes different assumptions on how they portray their exposures," said Munich Re America's Mr. Hedde.

To address the issue, reinsurers have been taking an active role in devising methods to measure the quality of the data and then adjust the models, Mr. Muir-Wood said. "It's a big concern because, post-

'Everyone makes different assumptions on how they portray their exposures.'

Carl Hedde, Munich Re America

event, many companies end up discovering that there were a lot of undervaluations on the properties, which meant they weren't collecting the correct premium for that business," he said.

Mr. Hedde said reinsurers also engage in "data quality reviews" with many cedents to better understand their approach to collecting exposure data.

The models also are limited by insufficient scientific data. While modelers may have a good handle on catastrophe-prone Florida, other regions like the U.S. Northeast have little historical data. In such cases, modelers build on catastrophe experience globally, experts say.

Efforts also are under way to help users understand and adjust for inherent uncertainties in models.

"Models are based on many assumptions and there is quite a bit of uncertainty inherent in the models and, hence, the model loss estimates," said Karen Clark, president and CEO of Boston-based Karen Clark & Co. and developer of the first hurricane catastrophe model.

Catastrophe models don't always account for other sources of loss caused by an event, experts say. For example, some previous hurricane models didn't account for or didn't adequately account for factors such as storm surge, demand surge, inland flooding and business interruption losses. Although many of these factors are being addressed in updated models, users have recognized the limitations and started incorporating their own view of these risks into the modeling process, experts say.



think smart.

We're a PBM with the expertise to deliver more choices and lower costs.

PrescriptionSolutions®

 A UnitedHealth Group Company

Improving Care. Maximizing Value.

We don't believe in one-size-fits-all. As a leading pharmacy benefits manager, we leverage our strength to negotiate flexible programs and customized pricing for clients. We take an innovative approach to formulary management. And we use our deep knowledge of the industry to develop solutions that really work. *We think smart.*

**Want to improve your prescription plan? Try our *Benefit Maximizer*:
www.benefit-maximizer.com**

1.866.236.4393 pbmsales@PrescriptionSolutions.com www.PrescriptionSolutions.com

Modelers learn from experience

By COLLEEN McCARTHY

Two catastrophe modeling firms are set to release comprehensive updated versions of their hurricane models this year as catastrophe models continue to incorporate the latest technology and scientific data.

Boston-based AIR Worldwide Corp. and Newark, Calif.-based Risk Management Solutions Inc. say they have been working to develop state-of-the-art capabilities and enhancements to their models.

In addition, because every catastrophe event is viewed as an opportunity to calibrate the models, the enhancements incorporate the latest data collected from recent events including the active storm season of 2008—where teams have been able to study how structures performed in the damaged regions and conduct post-event claims analysis to refine the model's vulnerability functions, experts say.

AIR's version 12.0 U.S. hurricane model incorporates recent research in atmospheric science to more accurately estimate wind speed, said Peter Dailey, director of atmospheric science in Boston.

Researchers have been able to gain an improved knowledge of what AIR describes as the 4-D structure of hurricanes, including the storm's evolution, its radial wind profile, the relationship between winds aloft and at the surface, and how long the winds will blow, "enabling us to model wind fields with unprecedented accuracy" Mr. Dailey said.

Aside from maximum wind speed, other enhancements include various characteristics of a storm's strength such as its geographic distribution and how quickly it dissipates once it makes landfall, which helps forecast if a storm is severe enough to produce "inland penetration," he said.

Hurricane Ike—a Category 4 storm that hit Galveston, Texas, in September 2008 and went on to produce record losses in Ohio—served as a costly reminder of inland penetration dangers, he said.

Meanwhile, RMS said its updated hurricane models will include high-resolution, powerful storm surge modeling capability to help determine the impact of coastal flooding associated with hurricanes.

"We're getting very detailed about understanding the interface between the storm surge and the wave action, because it's the combination of surge and wave action which is so important both for offshore platforms and coastal properties in terms of determining whether" they survive an event, said Robert Muir-Wood, RMS' London-based chief research officer.

RMS also has been developing enhanced tools for reinsurers to measure the quality of the exposure data that is being supplied by insurers.

Meanwhile, new visualization tools are being incorporated into AIR's new model to "help connect the decision-makers to science," Mr. Daily said. Using enhanced software tools and a free Google Earth application, users can view an animated

simulation of a storm's history and future projections.

Climate change also is a big area of focus, and catastrophe modeling firms have been working to incorporate the latest scientific data to reflect the potential impact of climate change. So far, this data is reflected in the near-term models that were developed in 2006 to predict U.S. Atlantic hurricane losses during the next five years.

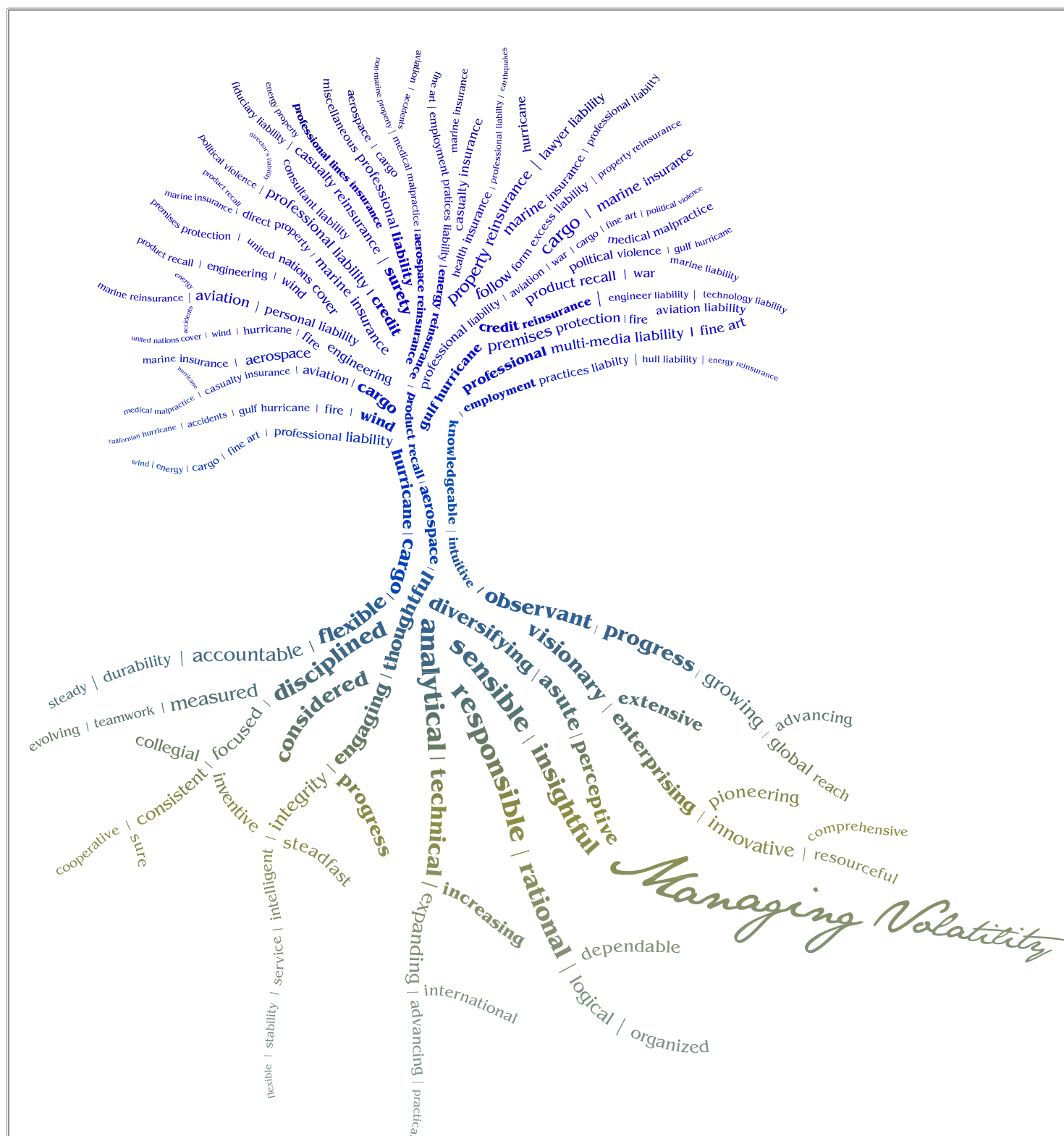
"We've spent a lot of time looking at the National Hurricane Center science and we agree with their identification of cycles in history,

where there have been warmer and more active seasons. Right now, we are currently in warm-water cycle and we do want to help our clients understand the sensitivity, and understand what the risks of doing business in the next few years may be," said Thomas Larsen, senior vp, product management group, for Oakland, Calif.-based EQECAT Inc. Although the near-term models have faced some criticism for overestimating losses last year, EQECAT's near-term model is offered as an alternate product, "to provide an alternate view," he said.



AP PHOTO

Winds from Hurricane Ike in 2008 caused damage as far inland as Ohio. Cat modeling firms are updating their products to try and provide better data on damage potential, including 'inland penetration' of storms.



WE MANAGE RISK through the construct of talent, quantitative assessment and diversification.

As a constantly evolving entity, Ariel Holdings grows from the strength of its roots to design creative risk management solutions.

Risk By Design

ARIEL HOLDINGS BERMUDA
www.arielholdings.com

ARIELRE BERMUDA | ZÜRICH
www.arielre.com

ATRIUM LONDON | SINGAPORE
www.atrium-uw.com

VALIANT NEW YORK | ATLANTA
www.valiantinsurance.com



ArielHoldings



Casualty cat remains tough risk to model

Complicated process hinders development

By MICHAEL BRADFORD

Casualty catastrophe models, the younger siblings of models that help insurers and reinsurers underwrite property catastrophe exposures, need more development before they are widely embraced by reinsurers.

Developing models for casualty catastrophe exposures is more complicated than property exposures. For now, casualty cat models are better suited to primary underwriting operations with significant policyholder information than reinsurance, experts say.

"Casualty cat models are still in their infancy compared to property models," said Andy Rapoport, a Minneapolis-based managing director and casualty modeling expert with Aon Benfield Analytics, in an e-mail.

David Wong, a director at Price-waterhouseCoopers L.L.P. in London, agreed and said casualty cat models have not evolved to the level of property models. Unlike property models offered by third parties that can be used by various insurers, catastrophe models have to be structured to specific insurer portfolios and often are developed in-house, he said.

"Property models have been developing since the late 1980s," said Mr. Wong, who also is a member of the catastrophe modeling group at the London-based Institute of Actuaries. "Most of those being used on the casualty side are proprietary models."

Interest in casualty cat models comes mostly from primary insurers with large exposures and potentially significant concentrations of risk, Mr. Rapoport said. "These companies have typically developed sophisticated approaches to managing property risk and are now trying to deploy the same technologies to understand their casualty exposures," he said.

Guy Carpenter & Co. Ltd. will launch the second version of its casualty catastrophe model in the second quarter of this year, said David Lewin, London-based managing director of casualty for Europe for the reinsurance broker.

While Guy Carpenter's model theoretically could be used by reinsurers, it is better suited for insurers, Mr. Lewin said. "It requires a significant degree of granular detail, so it is more appropriate for insurance companies" that can provide necessary account-specific detail, he said.

"Reinsurers would have to have that same level of detail in their portfolios," said Mr. Lewin. While some do, reinsurers generally do not collect the specific information that could be effectively used by the casualty model, he said.

Continued on next page

Flood models still rare in Europe

Lack of data restricts ability of firms to develop products

By STUART COLLINS

Flood models have improved since catastrophic losses struck Europe in 2002 and 2007, but detailed models are available for only a handful of countries, and a pan-European flood model is still several years away.

Flood models still are relatively new, and experts say recent changes have yielded improvements. Nevertheless, a lack of data has hindered efforts to create broad, robust models.

Updated flood models offered by Risk Management Solutions Inc., which released its first European flood model in 2002, have improved so exposures can be modeled for a specific street or single building, said Clare Souch, vp of natural catastrophe and portfolio solutions in London.

"Updates in 2006 and 2008 were a 'step change,' benefiting from the experience of the 2002 and 2007 floods, advancements in computing, the availability of higher-resolution data and improved methodologies for rainfall simulation," Ms. Souch said.

But with no major European floods since 2007, developmental activity has slowed, said Jens Mehlhorn, head of the flood group at Swiss Reinsurance Co. in Zurich.

"Catastrophe modeling firms are planning pan-European flood models, but this appears to have dropped down their list of priorities. Activity has slowed, but if modeling companies do not develop their flood models now, it will be at least three years before any new models are released," Mr. Mehlhorn said.

Only national flood models are available in Europe, said Mr. Mehlhorn. "But it is important that we have pan-European models, because flooding does not stop at national borders."

For example, August 2002 floods in central Europe occurred on the Elbe and Danube river systems and affected Austria, the Czech Republic and Germany, Mr. Mehlhorn said. Those floods generated an estimated \$3.4 billion in insured losses.

Indeed, modeling companies' ability to gauge flooding losses is limited to just a few countries—the United Kingdom, Germany, Belgium and parts of Austria, said Tobias Ellenrieder of Munich Reinsurance Co. in Munich.

Munich Re has its own models to help fill gaps in outside models' quality and geographical spread, but the reinsurer would like to see modeling companies develop a flood model for all of Europe, noting that many reinsurance treaties are written on a cross-border basis.

Munich Re also would like to see a multiperil model developed for Europe, Mr. Ellenrieder said. "Hydrological and meteorological correlations exist—such as the correlation between a windstorm and coastal flooding or convection storms and flash flooding—but models currently only model just one peril," he said.

AIR Worldwide Corp. in Boston is working toward a pan-European flood model, said Milan Simic, managing director at AIR Worldwide Ltd. in London. It will simulate flooding events across Europe. So far, AIR has a detailed flood model only for the United Kingdom.

'Hydrological and meteorological correlations exist...but models currently model just one peril.'

Tobias Ellenrieder, Munich Reinsurance Co.

Mr. Simic acknowledged that reinsurers are disappointed they do not yet have a pan-European flood model, "but there is a lack of detailed and affordable data—such as digital terrain data—in all European countries. And each country produces its own data, and these do not always mesh well together," he said.

AIR plans to add countries to the flood model where there is greatest demand, he said.

Oakland, Calif.-based catastrophe risk modeling company EQECAT Inc. released its EuroFlood model for Germany in 2006 and added Danube basin river flooding in Austria in 2007, said James Webb, product marketing lead for European products in London. A 2009 update added agricultural and municipal exposures and faster data processing capabilities.

EQECAT already has a pan-European precipitation event set that would aid developing a flood model, Mr. Webb said.

RMS expects to release a unified European flood model in the next two to three years, said Ms. Souch. "We will build the European flood

model in one go and have one release across Europe incorporating the three existing models into the single-event set."

Flood models have improved in recent years but shortcomings remain, said Adam Podlaha, head of impact forecasting-international at Aon Benfield Inc. in London. For example, methodologies that model the link between rainfall and runoff are relatively "weak," he said.

In general, the data quality in flood models needs to improve, said Mr. Podlaha. Models are capable of street- or even building-level resolution, but many insurers still use only postal codes.

The latest flood models have benefited from developments in earthquake and hurricane models, Mr. Mehlhorn said. But in many cases, model resolution quality is not matched by exposure data quality, he said. "The most accurate flood model results can be expected with exposure data on geographical coordinate resolution since the risk of flooding changes within short distances. However, this high (level of) data resolution is not always provided by our clients."

In addition, different flood models provide different results, said Mr. Ellenrieder. "Unfortunately, model results differ because (the providers) use different methodologies, granularity, data and assumptions. And this makes comparison of the results from our flood models with those of brokers and vendors difficult," he said.

As models become more detailed with greater data resolution, "this should translate into greater accuracy and reduce model uncertainty," said EQECAT's Mr. Webb.

Future models likely will include areas that fall outside of flood plain exposures, said AIR Worldwide's Mr. Simic. Like flash flooding caused by heavy rain and inadequate storm drainage, areas that are not flood plains can account for 30% to 50% of overall losses in densely populated countries, he added.

AIR began modeling off-flood plain flooding several years ago, but improvements are expected as more information on groundwater flow, drainage and defenses are incorporated into models in the next four to five years, Mr. Simic said.

"The goal is to model the whole atmosphere in a single model, with better definition of what constitutes a rainstorm or a windstorm," Mr. Simic said. "We are testing the methodology, but development will take another couple of years."

CONTINUED FROM PREVIOUS PAGE

"Reinsurers do not have the direct information on exposures that insurers have," said Mr. Wong. "They are just not close enough to the exposure data and would have to rely on the insurers for that information."

Steve Mildenhall, head of Aon Benfield Analytics Americas in Chicago, said casualty models are based on the same underlying paradigm as property catastrophe models, using hazard, vulnerability and potential losses as components of the modeling process.

"The hazard component produces a range of possible events that could cause a casualty catastrophe," he said in an e-mail. "The vulnerability module describes how each hazard would affect different classes of business," and "the loss component overlays an individual company's actual exposures and policy limits to convert vulnerabilities into a range of possible losses."

Aon Benfield has developed casualty models for workers compensation, directors and officers liability, and other casualty exposures, said Mr. Mildenhall. The models are "in flux" with "considerable ongoing development and customization around each individual client application," he said.

Whereas Guy Carpenter's first casualty cat model, launched in

realistic size and spread of such a disaster scenario," he said.

While it is important to consider historical information in constructing models, a model has to look into the future, he said.

In a product liability claim, for example, the potential impact on the entire supply chain has to be understood. That's why a model must include information to allow projecting the impact of a claim according to complex relationships between multiple parties, Mr. Lewin said.

Zurich Financial Services Ltd. has used casualty catastrophe models since 2003, primarily on risks in the United States, the Zurich-based insurer confirmed. The models, provided by an unidentified third party,

are used to assess and manage exposures within certain tolerance levels and to help plan reinsurance strategies, Zurich said.

"Most major insurers are using them," Mr. Wong said of casualty models. "Compared to five years ago, we are seeing greater use."

The models give insurers some guidance they can use in underwriting, but they have not made a significant impact on underwriting decisions, Mr. Wong said.

"Until there are industry-accepted casualty catastrophe models, these sort of insurer-developed models will have an impact on insurers themselves," Mr. Wong said, but will not cause significant industrywide changes in underwriting behavior.



REUTERS

A terminal roof collapse at Charles de Gaulle International Airport in May 2004 involved more than 200 responsible parties. Historical data from large losses is used to develop models for casualty reinsurance exposures.

EVEN IN THE FACE OF ADVERSITY, OUR APPROACH ENSURES YOUR GLOBAL SUPPLY CHAIN REMAINS IN THE



'Casualty cat models are still in their infancy compared to property models.'

Andy Rapoport, Aon Benfield Analytics.

2008, focused mainly on establishing relative measures of catastrophe risk within a portfolio to build a casualty catastrophe profile, the updated version will allow users to generate loss scenarios and calculate a distribution of loss severity, Mr. Lewin said.

"The scenario question is a very important part of what we are doing here," he said. "We need to assess the potential impact on an insurance portfolio of large, single incidents as well as systemic events."

Developing the model has been an exhaustive process of examining insurer portfolios to identify and connect all the risk components that are rolled into the modeling process, Mr. Lewin said.

Modeling casualty exposures differs from property because the kind of aggregate values that are considered in property risks are not available for casualty exposures, Mr. Lewin said.

Instead, a casualty model must consider a multitude of aspects, including the jurisdiction, trading and service relationships among different parties in determining the likelihood and potential impact of a catastrophe loss, Mr. Lewin said.

Historical data is useful in modeling the potential scope of casualty claims, he said. For example, the collapse of a terminal roof at Charles de Gaulle International Airport in 2004 involved more than 200 potentially responsible parties, Mr. Lewin said. Collecting such information "helps us gauge the

If your insurance company doesn't fully understand your supply chain, it may not be thoroughly covering your risk. And more often than not, that happens to be the case. Property-related supply chain issues are often a blind spot for companies. It's difficult to identify and quantify the risk involved. Yet an unrecognized threat of physical loss to a supplier or even a supplier's supplier can bring business to a screeching halt.

We believe that the majority of loss is preventable. That's why we've created a \$100 million state-of-the-art research campus and employ more than 1,700 engineers around the world working to minimize your risk—including potential issues in your supply chain. In fact, for 175 years we've linked our underwriting to loss prevention engineering. An approach that clearly distinguishes FM Global from insurers that do not base their underwriting on engineering assessments. Which is to say, all of them. Essentially, we work hard to find the blind spots in your blind spots. Just one of the reasons our clients' losses tend to be smaller and less frequent. Underwriting through loss prevention engineering. That's insurance evolved.



» To learn more, visit fmglobal.com/insurancerevolved/clear

Professional MarketPlace

To place your ad, contact Monique Murray 212.210.0129
E-mail: mmurray@BusinessInsurance.com

Business Insurance, Classified Department, 711 Third Ave., New York, NY 10017-4036
Call for details on blind box and internet advertising

ANTI-FRAUD NOTICE

Amalgamated Life Insurance Company is committed to preventing fraud in regard to the insurance coverage it issues. Therefore, Amalgamated Life, as required by the New York State Insurance Department makes the following statement:

Any person who knowingly and with intent to defraud any insurance company or other person, files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any factual material there-to, commits a fraudulent act, which is a crime. They will be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each violation.

Anyone knowing of a fraudulent act should call Mark Schwartz at:
Amalgamated Life Insurance Company
333 Westchester Ave.
White Plains, NY 10604
800-624-5844

REQUEST FOR PROPOSAL

REQUEST FOR QUOTES STATE BOARD OF ADMINISTRATION OF FLORIDA

The State Board of Administration is soliciting competitive responses from individuals interested in offering consulting services to the Florida Commission on Hurricane Loss Projection Methodology (Commission).

The Request for Quotes will be available on March 10, 2010, and may be obtained from the Commission website at www.sbafla.com/methodology under "What's New." The deadline for submitting responses is 2:00 p.m. ET on March 31, 2010.

**Need to Publish
a Legal Notice,
Help Wanted Ad,
Announcement
or RFP**

**For more information
or to place your ad
Contact Monique Murray
at 212-210-0129**

Business Resources

INSURANCE & REINSURANCE MANAGEMENT

DEVONSHIRE

- **Runoff Services**
- **Acquisition of Discontinued Business**
- **Audits, Inspections, Contract Compliance**
- **Commutations and Policy Buybacks**

www.devonshiregroup.com

Business Insurance Marketing Options and Opportunities

RIMS 2010

RIMS Conference Preview

Issue: Apr. 12, 2010
Ad Close: Mar. 31

Risk Manager of the Year

Issue: Apr. 26, 2010
Ad Close: Apr. 14

RIMS Conference Report

Issue: May 10, 2010
Ad Close: Apr. 28

Risk Manager of the Year Breakfast

Tuesday, Apr. 27
Boston, MA

- Sponsorship packages still available.

Official RIMS Show Daily

Publishing: Apr. 26-28, 2010
Ad Close: Apr. 14

**To advertise or for more information, call 212-210-0137
or e-mail Advertising@BusinessInsurance.com.**

UP Comings & Goings CLOSE



JOSEPH PEISER

NEW JOB TITLE: Port Washington, N.Y.-based partner and chief operating officer of Port Washington-based RMI Consulting L.L.C.

PREVIOUS POSITION: Founder of Silver Lining L.L.C., a Glenrock, N.J.-based independent consulting firm.

GOALS FOR NEW POSITION: One goal is to expand our consulting business with an eye towards industry specialization. I strongly believe that companies who need risk management and insurance consulting...look to their peers in their industry as opposed to looking at other companies in a certain geographic area or segment. A lot of the brokers are organized by geography or segments, but I think companies look at themselves as part of an industry.

INDUSTRY CHALLENGES: The financial crisis brought systemic risk and sustainability of a company to the forefront. I think those affect our consulting clients because they need to look at their own systemic risk and the systemic risk of their suppliers, of their customers and of their insurance companies.

FIRST MARKET EXPERIENCE: I joined Johnson & Higgins right out of college in 1986...and I loved it. When I signed up for the job interview at my college, Columbia (University in New York), the job description didn't have the word "insurance" in it. It just talked about brokerage and risk management. So I just thought I was going to work for a securities firm. I might not have signed up for the interview had it said "insurance" in the job description. Once I met the people, I loved the people, so I learned to love insurance.

WHAT DID YOU WANT TO BE WHEN YOU GREW UP: I actually wanted to be a diplomat. I loved the idea of being involved in international relations and government. I have always been intrigued by politics and history.

ABOUT:OUTSIDE THE INDUSTRY, A DREAM JOB: I would love to be a history teacher. I find history fascinating, particularly early American history, the Revolutionary War and the Civil War.

MOST PASSIONATE ABOUT: I am most passionate about finding a meaningful way to give back to the community outside of business.

Comings & Goings ONLINE

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

TO SUBMIT ITEMS

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

Mike Tsikoudakis
Business Insurance
360 N. Michigan Ave.
Chicago, Ill. 60601-3806

mtsikoudakis@businessinsurance.com

POSTING THIS WEEK

BROKERS:

- Higginbotham & Associates Inc.
- Marsh Inc.
- Marsh Ltd.
- Marsh & McLennan Agency L.L.C.

INSURERS:

- Endurance Specialty Holdings Ltd.
- Fireman's Fund Insurance Co.
- U.S. Aviation Insurance Group
- XL Insurance
- Zurich North America Commercial

OTHER PROVIDERS:

- Insight Catastrophe Group L.L.C.
- Riskconnect Inc.

Wholesale: Veteran joins new brokerage

CONTINUED FROM PAGE 4

model. "It's not going to be point-click-and-bind status, but we will incorporate a lot of the ease and use of those technologies and platforms," he said.

Moreover, MSW also plans to differentiate the way it serves its clients.

Rather than just provide products and services and market access, for example, MSW is looking to form strategic partnerships with retail brokers and help them build their businesses, Mr. Hargrove said. He noted that, in some cases, MSW may act purely as a consultant to help the retail broker build a new specialty program or specialty operation.

"We want to be with our retailers from the ground up to help them build their business as opposed to offering a set of products and waiting for someone to walk into our storefront and want one of them," he said.

MSW also will take a "more selective approach" with its markets and

will implement a teamwork-based approach and compensation plans with its own producers that are designed to drive institutional value, Mr. Hargrove said.

Mr. Kerr said that the decision to launch MSW was made when "the stars lined up just right and we were able to get Glenn Hargrove on board as president."

"Glenn is a seasoned veteran with incredible experience who can build MSW into a real force by blending traditional methods with the new innovations that are breaking out in insurance distribution," Mr. Kerr said. "Glenn's ability to assemble exceptional teams of

people with new ideas, innovations and a blue-sky approach to building a better wholesale broker was incredibly appealing."

Ken Crerar, president of the Council of Insurance Agents & Brokers in Washington, said, "whenever someone like Glenn gets time off to think about things, they always come back with improvements" to the system. "I think everybody will watch what Glenn does, and it may indeed change some of the game."

Specifically, Mr. Crerar said he applauds Mr. Hargrove's efforts to strengthen relationships between the wholesaler, retailers and underwriters.

"The more focus you have on them, the better results you get in terms of providing" everyone—including the ultimate insurance buyer—what they need, he said.

Gary Heiligman, an assistant vp with Big I Advantage, the Independent Insurance Agents & Brokers of America Inc.'s for-profit arm, said "most wholesalers' focus...is on market access" rather than on the retail agent or broker.

"Small- to midsize agencies could benefit from an entity that provides additional support, there's no doubt about it," he said. But it's not a new concept, he added. There are entities, including the Big I, that offer market access, as well as other services, to retail agencies.

Timothy J. Cunningham, a part-

ner with OPTIS Partners L.L.C. in Chicago, noted that, regardless of its business plan, MSW is "sailing into heavy winds."

"The wholesale space is relatively crowded, the prolonged soft insurance market continues and typically retailers have relationships with wholesalers that are difficult to supplant," he said.

At the same time, he said he doesn't necessarily see the existing wholesale brokerage model as being "broken."

"Good wholesalers deliver value-added, but like any business there's good, mediocre and bad. The retail space remains very fragmented, and one retailer's perspective of value added may not be the same as another's," Mr. Cunningham noted.

NAPSLO: Market turn

CONTINUED FROM PAGE 4

ring with RSUI's long-term clients, those that went to the admitted market and had their programs underpriced may indeed get 200% to 300% increases.

Neal Abernathy, president and CEO of Atlanta-based wholesaler Swett & Crawford Group Inc., said regardless of any price increases that might occur, he thinks the economy will continue to play the biggest role in insurance purchasing, at least in the near future.

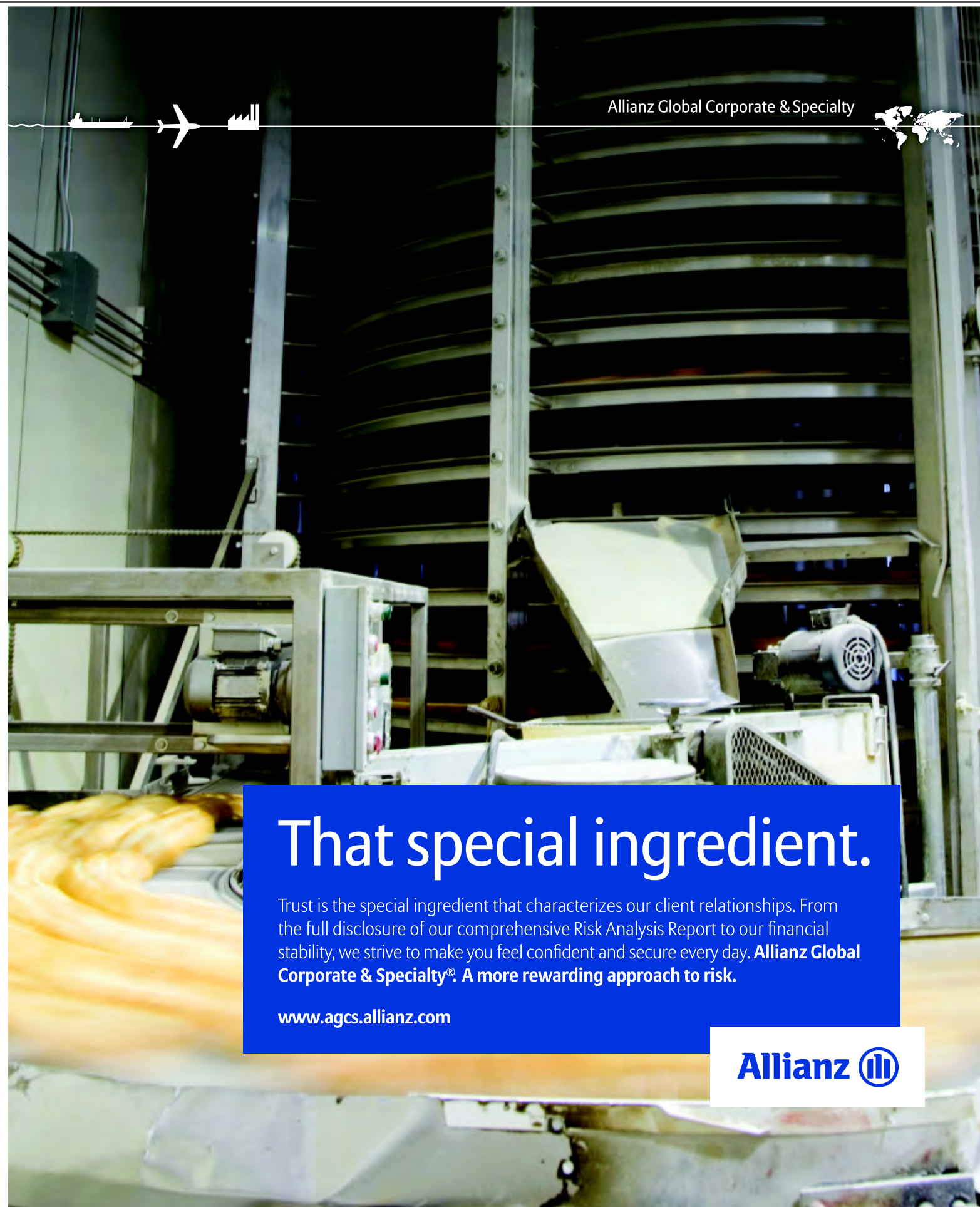
"In the first part of last year, specifically in property, the market was trying to edge its way up and the insured would say, 'I paid \$1 million in coverage last year and the most I can pay this year is \$800,000. I don't care what your price is, I can only pay \$800,000.' I think we'll stay in that environment for a good while," Mr. Abernathy said.

Matthew Power, executive vp of Lexington Insurance Co. in Boston, noted that the insurance industry has been "eviscerated" by the economy in terms of exposures.

"A lot of the key industries that really drive (excess and surplus lines) exposures are very stressed," Mr. Power said, specifically citing the construction and trucking industries. Economic recovery is "going to be a very, very slow process."

"I think that's why we've got to work very hard to cut as much expense out of our transactions as we possibly can," Markel's Mr. Latham said.

"In my career, I've never seen a market where you're dealing with an economy that we're dealing with today," he said. "The economy will bounce back slowly and, when it does, we're going to have to work with insureds. Ultimately, they've got to be able to spread the risk and we have to find a way to efficiently help them do that."



Allianz Global Corporate & Specialty

That special ingredient.

Trust is the special ingredient that characterizes our client relationships. From the full disclosure of our comprehensive Risk Analysis Report to our financial stability, we strive to make you feel confident and secure every day. **Allianz Global Corporate & Specialty®. A more rewarding approach to risk.**

www.agcs.allianz.com

Allianz 

Kemper: Runoff nears end

CONTINUED FROM PAGE 1

lead insurance unit, Lumbermens Mutual Casualty Co., had a surplus of \$8.1 million as of Dec. 31, 2009, a drop from about \$113.2 million a year earlier.

Kemper's American Manufacturers Mutual Insurance Co. unit reported surplus of \$11.2 million at the end of 2009, relatively unchanged from a year earlier. Lumbermens reinsures American Manufacturers, sources said.

The Illinois Department of Insurance approved Kemper's runoff in 2004. Details of the runoff operations under the department's supervision have been kept confidential.

But with Kemper's operating expenses running at about \$5 million a month and its surplus nearing depletion, a liquidation order is expected this year, several sources said.

"Based on their financial statement, it looks like it is imminent," said Francine L. Semaya, an insurance insolvency expert at Nelson Levine de Luca & Horst L.L.C. in New York and immediate past president of the International Assn. of Insurance Receivers.

For commercial policyholders, that means time is running out to negotiate "disengagement transactions" prior to liquidation, said Len Churnetski, chief operating officer in New York for the national casualty practice of Chicago-based Aon Corp.

"Our assessment is that the window for any transaction probably will close in the next two to three months," said Mr. Churnetski, who added that Kemper's surplus has dwindled in part because of an unfavorable reinsurance recovery ruling late last year.

Disengagement transactions release Kemper from liability for paying its insureds' claims and include strategies called insurance policy buybacks (see related story).

Kemper representatives did not return several phone calls seeking comment.

The Illinois Department of Insurance issued a statement saying only that it continuously monitors Kemper's status, and that the runoff is the largest in U.S. history and "serves the best interests of policyholders and claimants."

Several observers agree Kemper runoff operations have been orderly and successful for the array of disengagement options the insurer has made available to policyholders over six years.

"Regardless of if and when Kemper goes into liquidation, what makes this runoff so remarkable is the disengagement transactions and the opportunity for transactional alternatives," said Corinne P. Carr, an insurance regulatory expert and chair of the risk management subgroup at Sonnenschein Nath & Rosenthal L.L.P. in Chicago.

Kemper has about \$1.12 billion in remaining claims liabilities and \$943 million in cash and investments, which is sufficient capital to pay its outstanding liabilities over time, said Mr. Churnetski, who produces a quarterly alert on Kemper operations for Aon staff.

Shortly before it went in to runoff, however, Illinois allowed Kemper to discount its liabilities by reducing the amount of loss reserves on its books to account for interest that it would eventually earn on those reserves. The arrangement allowed Kemper to add \$1 billion in policyholder surplus to Lumbermens at year-end 2003 (*BI*, March 15, 2004).

The discounting arrangement is unusual but the practice helped the insurer remain solvent. Otherwise, it would have gone into liquidation years ago, Mr. Churnetski added.

Kemper had about \$5 billion in outstanding liabilities in 2003, he added.

The liabilities have "gone down almost \$4 billion," Mr. Churnetski said. "This has to be one of the most successful runoffs in history."

While the runoff has been impressive in terms of reducing the number of Kemper policies outstanding, some policyholders have

declined to settle because Kemper's offers "were so far below what the policyholders felt they were entitled to," said Mary Cannon Veed, a partner and insurer insolvency expert at Arnstein & Lehr L.L.P. in Chicago.

While Kemper still has enough money to pay claims, at least on paper, "it's not a very comfortable margin," Ms. Veed said.

Dealings with the insurer have been difficult because of the confidential runoff, Ms. Veed said. Policyholders are not given certain information, such as how much Kemper has reserved for their claims or how much other policyholders have obtained in settlements, she said.

Attorneys estimate Kemper has been settling for between 25 cents and 50 cents on the dollar for a policyholder's claim loss reserves.

"They say in effect, 'Make us an offer for how much less than we owe you, you would accept,'" Ms. Veed said. "You are bidding against yourself and that is unfair."

Rather than settling with Kemper, some policyholders are waiting until a liquidation order is issued, several sources said.

A decision to wait for liquidation or settle beforehand should depend on a cost benefit analysis that includes evaluating whether state guaranty funds for workers compensation claims are likely to pay for the majority of a policyholder's claims, several experts said.

Workers comp claims account for the largest portion of Kemper's outstanding liabilities, totaling about \$600 million, Ms. Veed said.

But some states have net-worth exclusions, which eliminate guaranty fund coverage for companies above certain net worth levels, which range from \$10 million to \$50 million depending on the state, several sources said.

Meanwhile, several Kemper disengagement deals that could remove blocks of commercial claims from Kemper's books remain in the works, Mr. Churnetski said.

Closing such deals would allow Kemper to increase its surplus. But those deals are thinning out in contrast with the number arranged earlier in the runoff, sources said.

COBRA: Senate approves another subsidy extension

CONTINUED FROM PAGE 1

eligible for regular, unsubsidized COBRA coverage, and then were terminated were not eligible for the subsidy.

That's because the initial event to qualify for the subsidy must be involuntary termination, the IRS said. However, the legislation would make such former employees eligible if they meet certain conditions.

Under the stopgap measure, the reduction in hours must have occurred between Sept. 1, 2008, and March 2, 2010, resulting in a loss of employer coverage, with termination of employment between March 2 and March 31.

The comparable provision in the longer extension is similar except that it would apply to a reduction of hours from Sept. 1, 2008, through the date of enactment of the legislation, which isn't yet known, for employees laid off from date of enactment through Dec. 31, 2010.

The 18 months of COBRA coverage would begin when workers' hours were reduced, even if they did not opt for COBRA then. However, their subsidy entitlement would begin when they were terminated, not when their hours were reduced.

Take the case of an employee whose hours were reduced on Jan. 31, 2010, resulting in eligibility for unsubsidized COBRA coverage that the employee declined. Then on March 31, the employee was laid off. In that situation, the employee could receive the 65% COBRA premium subsidy through June 30, 2011, which would be 15 months after April 1, 2010, which is when the individual first became eligible for the subsidy.

Administering the expanded right to subsidized coverage will be challenging, benefit experts say. Employers will have to identify and notify individuals whose hours were reduced as long ago as September 2008.

"It is going to be a significant task," said Andy Anderson, a partner at Morgan, Lewis & Bockius L.L.P. in Chicago.

However, the number of individuals who will be eligible for the subsidy will be relatively small, said Jennifer Henrikson, a legal consultant with Hewitt Associates Inc. in Lincolnshire, Ill.

That is because it would apply only to employees terminated on or after March 2—the date of enactment in the stopgap bill—and on or after enactment of the longer extension bill now before the House.

"The pool of people eligible will be small," said Mike Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York.

If Congress approves the latest bill, it would be the third time legislators have extended the subsidy (see box). It also means that employers would be dealing with subsidy-related issues through June 30, 2012.

Unless the economy improves significantly, observers say additional extensions are likely.

The possibility of an extension

COBRA SUBSIDY

Congressional actions to establish and extend the federal subsidy of COBRA health insurance premiums for laid-off employees

FEBRUARY 2009

AMERICAN RECOVERY AND REINVESTMENT ACT: Establishes a nine-month, 65% federal subsidy of COBRA premiums for employees involuntarily terminated from Sept. 1, 2008, through Dec. 31, 2009.

DECEMBER 2009

DEPARTMENT OF DEFENSE APPROPRIATIONS ACT: Extends the premium subsidy duration by six months, for a total of 15 months, and makes it available to employees laid off through Feb. 28, 2010. Ties subsidy eligibility to date of involuntary termination.

MARCH 2010

TEMPORARY EXTENSION ACT: Extends subsidy to employees who lose their jobs from March 1 through March 31, 2010, and to those who lost group coverage due to reduced hours and later were laid off, with certain conditions.

MARCH 2010

AMERICAN WORKERS, STATE AND BUSINESS RELIEF ACT*: Would extend subsidy to employees let go through Dec. 31, 2010.

**As passed by the Senate*

Kemper insureds reconsider negotiation tactics

Liquidation of Kemper Insurance Co. would cease the insurer's runoff operations, leaving commercial policyholders fewer options for recovering money from their insurance contracts, experts say.

Many policyholders already have opted to settle with Kemper in an effort to recover funds before rigid liquidation rules apply, but some are waiting for liquidation in the belief that they might achieve a better outcome.

Considerations policyholders should weigh in deciding whether to wait for liquidation, experts say, include whether state guaranty funds will pay outstanding insurance claims and the prospect of recouping collateral paid to Kemper.

With recent financial statements showing the insurer's surplus is running low, a window to reach an agreement with the insurer may be closing after six years in runoff, experts say.

"Runoff gives (policyholders) more flexibility," said Francine L. Semaya, an insurance insolvency expert at Nelson Levine de Luca & Horst L.L.C. in New York. "Understand that the rules will change" should Kemper go into liquidation, she added.

Even negotiations already in the works while Kemper is in runoff could come to a halt as liquidation statutes are applied, Ms Semaya said.

The most popular disengagement arrangements used by policyholders involve workers compensation policies under a "buy-up" arrangement or a trust transaction, said Len Churnetski, chief operating officer in New York for the national casualty practice of Chicago-based Aon Corp.

Under a buy-up transaction, Kemper pays a policyholder a percentage of loss reserves it has posted for its policyholder's claims and the insured takes control of its claims handling, sources said.

With the trust arrangement, money Kemper pays the insured is placed into an escrow account to be applied only for paying claims.

Both arrangements require the policyholder to agree to restructure their workers comp policy with an unlimited deductible, Mr. Churnetski said.

Restructuring an existing policy, rather than terminating it, is necessary because insurance statutes prohibit policyholders from buying back statutorily mandated workers comp policies, sources said.

—By Roberto Cenicerros

'When families know they can count on unemployment and COBRA benefits in this bill, they know they can put food on the table while they continue to look for work.'

Sen. Max Baucus, D-Mont.

will be "linked" to the health of the economy, said Sharon Cohen, an attorney with Towers Watson & Co. in Arlington, Va.

By increasing the number of individuals opting for COBRA, employer costs have risen. That is because COBRA beneficiaries tend to be above-average users of health care services, with employers' collected premiums well below claims incurred by beneficiaries.

For some employers who have laid off large numbers of employees, COBRA costs have become significant, Mr. Thompson said.

Conditions limit appeal of pension funding relief plan

By JERRY GEISEL

WASHINGTON—Provisions in a tax bill approved by the U.S. Senate last week would give employers more time to fund pension plan shortfalls, but conditions attached to the relief could reduce its appeal, experts say.

Under current law, employers must amortize funding shortfalls over seven years. The bill, H.R. 4213, would give employers two alternatives to that schedule.

Under one alternative, employers could amortize funding shortfalls over 15 years for any two plan years between 2008 and 2011.

Under the other alternative, employers would have to pay interest on a funding shortfall for only the two plan years they choose. After that, the seven-year amortization period would begin.

For example, if an employer chose the latter that is known as the “two and seven” funding approach for the 2010 plan year, it would pay interest—roughly 6% based on current rates—on the shortfall in 2010 and 2011, while the shortfall would be amortized over seven years starting in 2012.

Either approach would significantly reduce the cash pension plan contributions employers would have to make compared with current requirements. Pension plans’ funding levels have been battered by the fall in the equities’ markets and low interest rates that have pushed up the value of liabilities.

“Employers desperately need relief and for some employers” the legislation will provide it, said Craig Rosenthal, a partner with Mercer L.L.C. in New York.

But another provision—known as the “cash flow rule”—could seriously erode the financial relief provided by stretching out plan contributions. Those provisions would require employers that utilize either of the temporary funding schedules to contribute extra cash to their plans to equal “excess” employee compensation or “extraordinary” dividends.

For example, an amount equal to compensation in excess of \$1 million paid to any employee would have to be paid to the pension plan. If an employer had 10 employees who each made \$1.5 million, the employer would have to contribute an extra \$5 million to its plan.

Employers adopting the “two-and-seven” approach would be bound by the cash-flow rule for three years, while the cash-flow rule would apply for five years for employers adopting the 15-year amortization schedule.

The cash flow rule, if adopted, “will cloud the potential economic benefits of the funding relief” for some employers, warned Mark Warshawsky, director of retirement research for Towers Watson & Co. in Arlington, Va.

The broader bill is expected to be considered by the House this week.

WTC: Captive settles with cleanup workers

CONTINUED FROM PAGE 3

the feedback has been good. The clients are very relieved that an end is in sight,” he said, adding that he is “urging plaintiffs” to agree to the settlement terms.

To recover under the settlement, workers must submit proof that he or she was present and participated in the recovery or cleanup efforts, as documented by medical history. An independent third-party claims administrator—chosen by lawyers in the case—will be announced in several weeks, officials said.

The settlement also funds special insurance for any plaintiff who later

contracts certain kinds of cancer. Christine LaSala, president of WTC captive, said the policy is a “central element” of the resolution and will be funded by WTC Captive. MetLife Inc. will underwrite the policy with limits up to \$100,000, she said.

While the settlement covers New York and its contractors, it does not cover other private or public entities named in related lawsuits, including the Port Authority of New York and New Jersey.

The settlement would cancel or postpone trials tentatively set to start in May, said David E. Worby, senior partner with the law firm in White Plains, N.Y. However, “if we

do not get the required 95% approval, we’re going to trial.”

At a court hearing Friday, U.S. District Judge Alvin Hellerstein—who has been overseeing the litigation—set a fairness hearing for late this week to allow plaintiffs to comment on the settlement.

WTC Captive came under fire in 2006 when lawmakers accused it of mishandling its funding. In July 2007, injured workers sued WTC captive seeking millions of dollars in damages. Attorneys for the workers argued that the captive’s \$1 billion in funding should be used for medical treatment and compensation of workers injured by their participa-

tion in the cleanup. WTC Captive had argued that its mandate required it to defend its insureds—the city and its contractors—against potentially improper claims.

Mr. Worby said WTC Captive “never once paid a claim for any of our clients. The city refused to pay claims because they argued they had immunity from damages in cases involving a national emergency,” he said. “That is why reaching this agreement is such a massive accomplishment for all of us.”

Ms. LaSala acknowledged it has “been costly to defend litigation” and estimated that WTC Captive had paid more than \$200 million in legal expenses. She said, “We are very hopeful to have the overall process completed within a year.”

Entrepreneurial Insurance Symposium 2010

SAVE THE DATE!

September 14-15, 2010 • Dallas, TX

Join over 400 insurance entrepreneurs, risk managers and strategic investors as underwriting and distribution companies profile their newest concepts. This is a must-attend event for anyone who desires to remain on the cutting edge of insurance innovation.

REGISTER TODAY!

www.eInsuranceSymposium.com/eis10

For more information, please call 972-934-4251

Innovation Partners

AWAC, Business Insurance, Ironshore, Liberty Mutual, Microsoft

Presented by



The only true “think tank” for innovation in the insurance industry

ALICO: AIG sale of ALICO, AIA Group will help focus

CONTINUED FROM PAGE 1

that are owned by the Federal Reserve Bank of New York.

As part of the deal, AIG and the New York Fed reached a five-year agreement on ALICO's slightly more than \$1 billion portfolio of Japanese commercial mortgages, which was a "more troubled asset class" for AIG, MetLife Chief Financial officer William Wheeler said during an analyst call last week.

Under the agreement, MetLife will be responsible for the first \$100 million of losses in the portfolio. Then, "we and the ALICO special-purpose vehicle," which is controlled by AIG and the New York Fed, "will share losses over and above that amount," Mr. Wheeler said. While the agreement covers the full amount of the mortgages' face value, "they're not going to get wiped out," he said of the mortgages.

AIG said with AIA Group and ALICO deals combined, it is on track to generate about \$50.7 billion, which consists of \$31.5 billion in cash to repay the Federal Reserve and another \$19.2 billion in securities it will sell over time to repay the government, after completion of agreed-upon minimum holding periods.

Also last week, AIG conducted a secondary public offering of its remaining 9.2 million shares of Transatlantic Holdings Inc. for \$53.35 per share, or possible gross proceeds of \$490.4 million. The sale of the shares, which account for about 13.8% of Transatlantic's common shares, came after AIG's secondary public offering of 29.9 million common shares in June 2009 that brought AIG about \$1.1 billion.

Including the June Transatlantic stock sale, gross proceeds of asset sales aside from the ALICO and AIA Group deals total more than \$10 billion in cases where financial information was disclosed.

According to AIG's 2009 10-K, as of Dec. 31 AIG had a remaining balance of \$94.76 billion to repay of the \$182.3 billion government bailout package.

Clark Troy, Chapel Hill, N.C.-based senior analyst with the Aite Group L.L.C., a research and consulting firm, reacted positively to the sale. "I don't see any particular downside from AIG's perspective" to the ALICO deal. "They are acquiring a large chunk of MetLife and they do continue to have skin in the game" with the MetLife stock, he said.

Stewart Johnson, a portfolio manager with Stamford, Conn.-based investment bank Philo Smith & Co., said it appears AIG President and CEO Robert M. Benmosche's "strategy to end the fire sale and wait for more reasonable prices may be starting to pay off. It could probably be argued that Met got a decent deal for ALICO, but it's by no means a fire sale price."

He added, "Bob Benmosche used to be the CEO of Met. It certainly looks like he had the phone number of the right person to get the deal done."

Mr. Benmosche was not personally involved in the negotiations, AIG confirmed.

Cathy Seifert, an equities analyst with Standard & Poor's Corp. in New York, said the ALICO deal has "earned AIG a lot of credibility in the eyes of the government to be able to pay off a significant amount of their obligation to the government." It is "good for the company, and I think that it's good for the company's relationships with Washington," she said.

"It's another step in the right direction of paying back the taxpayer," said Bill Bergman, an analyst with Morningstar Inc. in Chicago.

While observers say the next major deal could involve ILFC, John L. Ward, CEO of Cincinnati-based Cincinnati Partners L.L.C. said, "I would not be surprised if there was a break in the action while they regroup and recalibrate their strategy."

Mr. Ward said, "There's still a lot of work to make sure both of these deals close and get through the regulatory hurdles and then...AIG will take a fresh look at their divestiture strategy."

Mark Rouck, a Chicago-based analyst with Fitch Ratings, said AIG's next big cash generators

Aircraft leasing unit at top of sell sheet as AIG raises cash to repay government

LOS ANGELES—International Lease Finance Corp., American International Group Inc.'s aircraft leasing unit, is likely to be the next, and last, major asset to be sold by the insurer, observers say.

But in light of the tough economy, a sale is likely not imminent. It is also possible the unit's planes may be sold off piecemeal, say some observers.

Los Angeles-based ILFC, which owned 993 jet aircraft as of year-end 2009, is seeking to borrow \$1.3 billion by syndicating a \$750 million five-year loan and a \$550 million six-year term loan secured by leases.

According to Moody's Investors Service, \$26.7 billion of ILFC's \$30.1 billion debt as of Dec. 31 matures by year-end 2013.

ILFC reported \$895.6 million in net income in 2009, a 27.4% increase from 2008.

AIG intends to provide support to ILFC through February 2011, according to ILFC's 10-K filing this month. The 10-K states that "without additional support from AIG, or if we fail to obtain secured financing from a third-party lending, in the future there could exist doubt concerning our ability to continue as a going concern."

However, Christopher DeNicolo, an analyst with Standard & Poor's Corp. in New York, said this does not represent a legal commitment. The Federal Reserve also will have a say on this issue, said Mr. DeNicolo.

Prospects are poor for an immediate sale of the entire unit, say observers. Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York, said, "I'm sure if an offer came for ILFC this afternoon...they would do it, but I guess I'm not expecting that any time soon."

Some observers believe ILFC is likely to be sold piecemeal. In its 10-K, ILFC states it is pursuing potential aircraft sales of up to \$3.5 billion.

Stewart Johnson, a portfolio manager with Stamford, Conn.-based investment bank Philo Smith & Co., said, "I'd kind of hoped we'd see a sale of ILFC in one big piece," but in today's environment, financing "is tough to come by."

The other issue for ILFC is it had been able to tap

AIG's former AAA credit rating, "which gave it a funding advantage," said Mr. Johnson. "Without that AAA funding advantage, a new buyer would have to adjust profit expectations."

"Clearly, ILFC is operating in a market where transferring its ownership to another party is difficult," said Mark L. Wasden, vp with Moody's in New York, noting that AIG's efforts to auction the unit last year failed. "In the meantime, ILFC has some fairly profound liquidity issues that it has to deal with," he said.

Mr. Wasden said, "By the time AIG gets around to reinvestigating opportunities to sell ILFC again," which will be after it has sold some assets and has a restructured funding profile, it is likely to be a smaller company. "All of that could make it more attractive" or easier to sell to another party, he said.

He said, however, "I don't see the company selling assets at such levels as to undermine its competitive position. I think through this entire transition, both AIG and ILFC are very interested in maintaining their competitive positions, and so they'll be judicious in terms of what assets they sell and how much they sell."

"But I do think it will be meaningful and it will be necessary in order for the company to generate the liquidity they need in the face of upcoming debt maturities," Mr. Wasden said.

Clark Troy, Chapel Hill, N.C.-based senior analyst with the Aite Group L.L.C., said another possibility is that former ILFC CEO Steve F. Udvar-Hazy, who retired last month, may arrange the financing to purchase ILFC.

"He built the business and the idea that he is going to walk away from what he built, in an industry in which he's regarded as a major player" is unlikely, said Mr. Troy. "I wouldn't be surprised at all to see within the next six months" that he has assembled a team to offer to buy all or part of ILFC.

Mr. Wasden said it is difficult to estimate at this point how much ILFC ultimately will fetch. "It depends on what the composition of the company is when they decide to sell it," he said.

—By Judy Greenwald

could be the sale of \$19.2 billion in Prudential and MetLife securities that AIG acquired with the AIA and ALICO deals, which it plans to sell over time.

Mr. Ward said if those holdings remain strong and appreciate in value, they alone would be "tremendous upside opportunities for AIG,

which is only enhanced by waiting out the full recovery of the capital markets."

Observers say the deals enable AIG to better focus on its core Chartis Inc. property/casualty insurance business.

AIG "needs to be focused on the health of the underlying businesses,

the businesses they intend to keep," including Chartis, S&P's Ms. Seifert said.

Chartis also needs "to adjust to a somewhat smaller premium volume than what they generated historically," said Bruce Ballentine, a vp with Moody's Investors Service in New York.

Greenberg: Former AIG chief agrees to testify about Gen Re deal

CONTINUED FROM PAGE 3

involves three transactions, none of which had a material impact on AIG's financial position."

The civil fraud case, which still is in the discovery phase, may move forward this week, legal experts say. At a hearing Tuesday, attorneys for Messrs. Greenberg and Smith will argue their previously filed motions for summary judgment.

While it's possible the judge could make a determination without a full trial, legal experts say it's unlikely because Mr. Greenberg's testimony would likely provide the "factual dispute" required to send the case to trial.

Legal experts also said they would

not expect the state to drop the case prior to learning the judge's opinion on summary judgment.

"This does make the attorney general's case harder now," said Peter Henning, a professor at Wayne State University Law School in Detroit. In civil suits, a defendant who takes the Fifth Amendment may cause what is known as "adverse inference" in which the court might assume certain facts due to the absence of testimony, he said.

"But now, the state does not have that benefit anymore," Mr. Henning said. "Mr. Greenberg, through his testimony, will be denying any wrongdoing and the state will have the burden of overcoming those statements through circumstantial evidence. It's

'Mr. Greenberg, through his testimony, will be denying any wrongdoing and the state will have the burden of overcoming those statements through circumstantial evidence. It's not impossible, but it will be difficult for the state to prove this.'

Peter Henning, Wayne State University Law School

not impossible, but it will be difficult for the state to prove this."

New York Attorney General Andrew Cuomo's office, which is handling the case, did not return calls seeking comment.

A spokesman for AIG declined comment.

"It's unclear exactly what (Mr. Greenberg) will say under oath, but

I do think (testifying) is a move to put all of this behind (him)," said Fran Semaya, chair of the insurance regulatory practice of Nelson Levine de Luca & Horst L.L.C. in New York, who is not involved in the case.

However, should the case go to trial, it increases the possibility that the parties could reach a settlement, Mr. Henning said.

In January, Gen Re agreed to pay \$92.2 million to settle U.S. Securities and Exchange Commission charges that it entered into a fraudulent reinsurance deal with AIG and Prudential Financial Inc.

In 2006, AIG agreed to pay \$1.64 billion to settle fraud charges related to its practices with state and federal authorities.

Last August, Mr. Greenberg agreed to pay \$15 million to settle civil charges brought by the U.S. Securities and Exchange Commission related to alleged improper accounting transactions that inflated AIG's financial results. Mr. Smith agreed to pay \$1.5 million. The duo agreed to the settlements without admitting or denying guilt.

Castastrophes: Losses could reach \$12B

CONTINUED FROM PAGE 4

windstorm model does not cover. It also does not include losses from storm surge, which were heavy along France's Atlantic coast.

With regard to the other major recent catastrophe, the magnitude 8.8 quake in Chile that killed hundreds and caused significant property damage, modelers had previously projected insured losses ranging from \$2 billion to \$8 billion, with global reinsurers expected to bear the brunt of the losses.

Munich Reinsurance Co. last week estimated that its losses from the Chile quake and from Windstorm Xynthia would total €500 million (\$681.1 million).

Jörg Schneider, chief financial officer of the German reinsurer, said the quake that devastated parts of Chile late last month is expected to result in gross claims of €400 million (\$544.9 million) for Munich Re. Losses from Xynthia, he said, could reach €100 million (\$136.2 million).

Zurich-based Swiss Reinsurance Co. said it expects \$500 million in losses from the earthquake in Chile, as well as \$100 million in losses from Windstorm Xynthia. The reinsurer said in a statement that the Chilean earthquake is "likely to become one of the most expensive ever for the global insurance industry," Swiss Re said in a statement. Swiss Re estimated total economic losses could reach \$15 billion from the quake and that marketwide insured losses could range from \$4 billion to \$7 billion.

Swiss Re said it is common for owners of mortgaged residential, commercial and industrial properties in Chile to buy earthquake insurance.

Meanwhile, Hannover Reinsurance Co. told Reuters that its payouts for the quake and for Xynthia would be €185 million and €40 million (\$252.0 million and \$54.5 million), respectively.

Several other companies also reported preliminary loss estimates last week, including:

- Everest Re Group Ltd., which projected payouts of \$225 million for the earthquake and \$25 million for the storm.

- Flagstone Reinsurance Holdings Ltd. said it expects claims of about \$50 million from the earthquake and up to \$6 million as a result of Windstorm Xynthia.

- PartnerRe Ltd., which said it expects claims of \$220 million to \$320 million from the earthquake and claims of \$40 million to \$70 million from Xynthia.

- Platinum Underwriters Holdings Ltd. said claims from the earthquake in Chile account for most of the \$85 million in catastrophe losses it has sustained so far this year. The estimate, which is net of retrocessional coverage, reinstatement premiums and tax benefits, also includes hailstorm losses in Melbourne, Australia, and claims from East Coast winter storms in the United States, the reinsurer said.

- RenaissanceRe Holdings Ltd. did

not provide estimates but said that the impact of the earthquake and Xynthia on its financial results "will be significant and could be material."

- France's SCOR S.E. estimated its costs from the earthquake at €95 million (\$ million) before tax and said it also expects costs of €27 million (\$ million) from the earlier earthquake in Haiti. SCOR put its pretax Xynthia costs at €35 million (\$ million).

- Validus Holdings Ltd. estimated its Chilean earthquake losses at between \$170 million and \$270 million and its Xynthia losses at \$20 million to \$30 million.

Jeff Casale contributed to this report.



LANDOV

Insured losses from Windstorm Xynthia, which caused flooding in parts of France, have been estimated at \$1 billion to \$4 billion.

Make a big impression (again).

Business Insurance

Always be the

Have you received editorial coverage in Business Insurance?

Have you been listed in one of our exclusive industry rankings?

If your company is featured in Business Insurance, that's great news to share with your employees, clients and prospects. Take advantage of the exposure by spreading the word with editorial reprints, electronic ePrints, content licensing and award materials.

For more information, please call Lauren Melesio at 212-210-0707 or e-mail lmelesio@crain.com.

Business Insurance

www.BusinessInsurance.com

The Trusted Voice of the Risk and Benefits Management Marketplace.

ADVERTISER

INDEX

Issue of March 15

ADVERTISER	PAGE #
Allianz Global	17
Aon Corporation	2
Ariel Holdings	13
Business Insurance	9, 21, 22
Catlin	10
C. V. Starr	24
Devonshire	16
eInsurance	19
FM Global	15
Liberty Mutual Group	5
Prescription Solutions	12
Prudential	12C
Zurich North America	7

News In Brief

CONTINUED FROM PAGE 1

Rivaz, who has been president of Ariel Holdings since 2008, has been named CEO. Mr. Kramer, a Bermuda insurance veteran who founded Ariel in 2005 after raising approximately \$1 billion from private equity investors, will become nonexecutive chairman of the company. Mr. Rivaz will continue in his role as nonexecutive chairman of Ariel Reinsurance Ltd. and Atrium Underwriting Group, the company's two principal operating subsidiaries, the statement said. Privately held Ariel had a market capitalization of \$1.7 billion at year-end, having reported record profits for the recently concluded fiscal year. Mr. Kramer did not immediately respond to a request seeking further comment.

Insurers oppose Homeowners' Defense Act

Insurer and reinsurer groups reiterated their opposition to a bill that would have the federal government guarantee debt issued by eligible state catastrophe insurance programs that cover homeowners insurance, saying it is unnecessary. Two House Financial Services Committee subcommittees held a joint hearing last week on the Homeowners' Defense Act of 2009. Among other things, the bill introduced last May would establish a National Catastrophe Risk Consortium to maintain an inventory of catastrophe risk obligations held by state reinsurance funds, state residual insurance market entities and state-sponsored natural catastrophe insurance providers. It then would issue securities linked to catastrophe risks insured or reinsured through the consortium's members. The U.S. Treasury Department would guarantee the debt.

Slaughterhouse illness caused by injury: Court

A slaughterhouse worker with brucellosis, a blood contamination caused by exposure to a bacteria carried by domestic animals, suffered an injury and not a disease, Iowa's Supreme Court has ruled. In *IBP Inc. vs. Lee Burrell*, the meat packer employer argued Mr. Burrell suffered from a disease, which

barred his workers compensation claim because Iowa has a one-year statute of repose for disease claims. Mr. Burrell worked at an IBP plant from 1987 to 1997 killing hogs, among other jobs, and cut himself on various occasions. Six years after leaving the company, he learned he had brucellosis and filed a claim. While a district court said Mr. Burrell suffered from an occupational disease, a state appellate court found that substantial evidence supported a commissioner's determination that he was entitled to total permanent disability benefits.

Europe considers options for catastrophe coverage

The European Commission is launching an initiative it hopes will lead to improved insurance protection for natural catastrophes, particularly flooding, in Europe. Michel Barnier, E.C. commissioner for internal market and services, announced the initiative last week at a meeting of the European Parliament.

RIMS chooses Los Angeles for 2013 conference

The Risk & Insurance Management Society Inc. said its 2013 conference and exhibition will be held at the Los Angeles Convention Center. The April 21-25, 2013, event will be the association's 51st annual conference. This year's conference will be held April 25-29 in Boston. Next year's gathering will be held May 1-5, 2011, in Vancouver, British Columbia. RIMS 2012 is set for April 15-19, 2012, in Philadelphia.

Property/casualty rates fall in February: MarketScout

U.S. commercial property/casualty insurance rates declined 5% in February compared with a year earlier, MarketScout said. During the past six months, P/C rates have fallen 4% to 5% each month. Insurers of large accounts of up to \$1 million in premiums saw rate declines that ranged from 5% in January to 7% in February, which MarketScout attributed to an abundance of insurers targeting large accounts as well as a reduction in exposures.

Noted

Chartis Europe Holdings Ltd. has named Alexander Baugh to the new position of president and chief executive officer as the insurance group prepares for Solvency II....Jonathan Zaffino has joined **Marsh Inc.** as its U.S. global risk management casualty practice leader in New York.

VOIP: Technology rings up vulnerabilities

CONTINUED FROM PAGE 4

of when they address their network security."

In a November 2009 white paper on VoIP vulnerabilities, McAfee Labs identified several hacking exposures including eavesdropping and "voice phishing," in which spoof calls are used to extract financial information from a consumer or business. The Santa Clara, Calif.-based computer security company also said the risks are increasing as VoIP technology proliferates.

In addition, VoIP systems can be vulnerable to denial-of-service attacks in which hackers attempt to make computer networks unavailable. For example, a hacker could force the network to reset, which would obstruct legitimate communication over the network.

Even routine Internet outages can cause big problems.

"If you're using VoIP, you have to be aware that if the Internet goes down, you will lose your data and voice capabilities as well," said Kevin Kalinich, professional risk solutions co-national managing director for Chicago-based Aon Corp. "There are some pretty nonobvious challenges with a network like this."

"Some of the risks associated with VoIP are not new and have been around for years," said Ivan Acre, chief technology officer and co-founder of Boston, Mass.-based Core Security Technologies. "As the increased interest for VoIP emerges as people look for low-cost ways to operate, the risks will emerge as well."

Alan E. Brill, New York-based senior managing director of technical services for Kroll Inc., a unit of Marsh & McLennan Cos. Inc., said that while there are obvious advantages of a business changing to a VoIP system from standard telephone lines, companies need to weigh the risks and liabilities. For example, technology and software exists that could allow individuals to access sensitive information.

"Risk is evolving at the speed of technology...at the speed of the Internet," Mr. Brill said. "It's really a situation that the risk officer or the risk manager has to monitor."

Mr. Brill said an employee could compromise a VoIP system by using their personal account under a service such as Skype, a software application provided by Luxembourg-based Skype Ltd. that allows users to make calls over the Internet.

Mr. Brill and his colleague Brian Lapidus, New York-based chief operating officer of Kroll's fraud services



VoIP resaler, hacker plead guilty

NEWARK, N.J.—In what is thought to be the first conviction associated with reselling hacked VoIP services, Edwin Pena in February pleaded guilty before a U.S. District Court judge in New Jersey to one count of conspiracy to commit computer hacking and wire fraud, as well as one count of wire fraud.

According to the U.S. attorney's office in Newark, N.J., Mr. Pena posed as a legitimate wholesaler of Internet-phone services, selling deeply discounted plans to customers. Mr. Pena sold more than 10 million minutes of VoIP service that had been stolen from 15 telecommunications providers, valued at \$1.4 million, according to a statement from the U.S. Attorney District of New Jersey.

From November 2004 to May

2006, Mr. Pena worked with Robert Moore, a "professional hacker" in Tacoma, Wash., according to the U.S. attorney's office.

Mr. Moore hacked into the computer networks of multiple VoIP service providers and routed calls made by Mr. Pena's customers through those networks. Mr. Moore, who admitted to conspiring with Mr. Pena and pleaded guilty to federal hacking charges in March 2007, said he scanned the computer networks of unsuspecting companies and other entities in the United States and around the world, searching for vulnerable ports that he could exploit to route calls, according to Erez Lieberman, assistant U.S. attorney for the District of New Jersey.

—By Jeff Casale

division, said risk managers need to set up a policy stating how programs and the network should be used.

"Skype is just the latest entryway into a network, and your business is the one that can take the hit," Mr. Lapidus said.

In what is believed to be the first conviction associated with reselling hacked VoIP services, Edwin Pena in February pleaded guilty to one count of conspiracy to commit computer hacking and wire fraud, and one count of wire fraud (see story). Co-defendant Robert Moore was accused of a form of eavesdropping, or a "man-in-the-middle attack" in which a third party intercepts a call between two VoIP servers, prosecutors said.

Bill McGee, marketing manager for San Jose, Calif.-based Cisco Systems Inc., which provides VoIP equipment, said VoIP lines can be encrypted so that anyone listening in on a conversation would not be able to understand the information being transmitted.

Mr. McGee and Randy Birdsall, technology marketing manager for Cisco's voice technology group, also said Cisco is able to supply security software, separate voice lines from data lines and monitor lines for indications that someone is listening or creating a disturbance.

"There is a fear that you if you use VoIP you will open up your network and create more holes and vulnerabilities, but that's not necessarily true," Mr. Birdsall said.

Harry Emerson, VoIP security technology entrepreneur and president of Flanders, N.J.-based Emerson Development LLC, said the cost advantages of VoIP can draw attention away from the risks.

"Companies just now it seems are aware of the Internet threats VoIP creates, and those threats need to be addressed on a serious level," said Mr. Emerson, who retired from 25 years at AT&T and is co-founder of SurferNETWORK, an Internet broadcasting service.

Business Insurance
BEST places to work
2010

YOUR company
won't **rank** **UNLESS**
it's **registered!**

Issue Date: October 4, 2010
Register by April 30 at www.bestplacestoworkins.com

Business Insurance END PAGE

Contributing: Jeff Casale, Judy Greenwald, Rodd Zolkos



20TH CENTURY FOX

An author in China has lost a copyright suit against "Avatar" director James Cameron, but another suit remains active in Canada.

Copyright blues beset box office hit

Critically acclaimed director James Cameron may not have walked off with an Oscar for "Avatar," but he is walking away from a Chinese plagiarism lawsuit, only to be faced by another one in Canada.

A Chinese court dismissed a Chinese writer's suit, who alleged Mr. Cameron plagiarized 80% of his writing and turned it into the record box office movie, according to Chinese newspaper the Global Times. Officials at two courts in China reportedly refused to accept the breach of copyright case, while a Beijing court dismissed the lawsuit due to lack of evidence.

Zhou Shaomou filed the suit against Mr. Cameron, alleging the plot of "Avatar" was stolen from his "The Legend of the Blue Crow," a 1.2 million-word science fiction novel he wrote in 1997 and published on two Chinese Web

sites in 1999.

According to reports, Mr. Zhou wanted 8% of the revenue from "Avatar."

"'Avatar' is a film based on my fiction, but shot by James Cameron," Mr. Zhou told the Beijing News, "but he never paid me any copyright fees."

A spokesperson for the Greater China office of 20th Century Fox Film Corp., "Avatar's" distributor, told Chinese reporters that the plot for "Avatar" was created two years before Mr. Zhou wrote his book.

Meanwhile, Vancouver, British Columbia, restaurant owner Emil Malak filed his own copyright infringement lawsuit against Mr. Cameron, alleging that the plot and characters in his 1996 story "Terra Incognita" are similar to the movie, according to the Canadian Broadcasting Corp.

HOLLYWOOD TREATMENT OF FINANCIAL NEAR-MELTDOWN

It looks like American International Group Inc.'s troubles may make it to the small screen.

HBO said it plans to make a television movie about the financial meltdown, based on Andrew Ross Sorkin's 2009 book "Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System—and Themselves."

Although the project still is in development, it is probably safe to say AIG will get at least a passing mention in the made-for-TV flick.

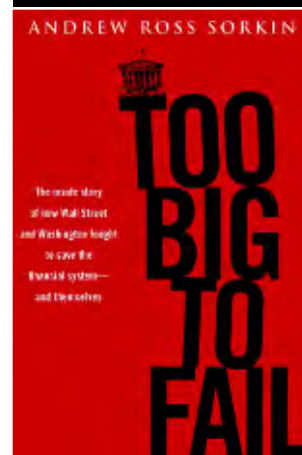
In fact, the book's prologue opens with JPMorgan Chase & Co. Chairman and CEO Jamie Dimon in his Park Avenue apartment's kitchen on Sept. 13, 2008—just days before the Federal Reserve Bank

bailed out AIG—and observes that he was "acutely aware of the new dangers developing" at AIG and how "by his estimation, AIG had only about a week to find a solution" to its problems or falter.

Others profiled in the

book include former Lehman Bros. Holdings Inc. Chairman and CEO Richard Fuld; former Morgan Stanley CEO John Mack, who remains chairman; and U.S. Treasury Secretary Timothy Geithner and Mr. Geithner's predecessor, Henry Paulson.

As of last week, HBO had not revealed details about when the TV movie will air or the actors who will take part in the film.



Man's best friend or just the latest U.K. liability?

The British government is proposing mandatory microchips and third-party pet insurance for dog owners to make sure Fido isn't a threat to the public.

The government is trying to curb people from using their animals in violent attacks. While there is some public support for the idea, most opponents say it would penalize innocent pet owners and that criminals with violent dogs will ignore the law, according to the Associated Press.

"No doubt that some people breed and keep dogs for the sole purpose of intimidating others," British Home Office Secretary Alan Johnson told reporters. "It is this sort of behavior that we are determined to stop."

The microchip would help trace owners of dogs involved in attacks, while the insurance would help compensate victims injured in dog attacks, Mr. Johnson said.

Dog attacks have been on the rise in England and Wales, according to the U.K. Department for Environment, Food and Rural Affairs. DEFRA, which has asked for comments on the plan by June 1, also proposes extending the Dangerous Dogs Act to private property, noting that nearly 6,000 postal workers are attacked by dogs each year.

Most pet insurers offer third-party liability insurance to cover vet fees and emergency care. Several European countries already require dogs to have microchips, while parts of Switzerland and Germany require dog insurance.

"There is nothing that is preventative," K9 magazine Chief Editor Mark O'Meara told the AP. "If you put a chip in a dangerous dog, the bite will hurt you just as much."

SCIENTIST: GIVE HURRICANES A CHILLY RECEPTION

A scientist suggests that something akin to a colossal seagoing game of ring toss might be a way to reduce the strength of hurricanes and the death and destruction they cause.

The technique suggested by Kenneth Caldeira, climate scientist at Stanford University's Carnegie Institution, involves pumping warm water down from the ocean's surface and cooler water up from the depths to lower the ocean's surface temperature.

"If you can cool the ocean's surface, you take fuel away from the

hurricane and decrease its power and strength," Mr. Caldeira said in a video describing the concept on the SmartPlanet Web site.

The wave-driven pumps he envisions are simple devices, involving large floating rings with plastic skirts extending downward to the depths, where the water is cold. Waves overtopping a ring cause water inside to be pushed downward, causing a flow of cooler water toward the surface.

"These rings are capable of pumping really impressive amounts of



Wave-driven pumps would exchange warmer and colder ocean water under one plan to blunt hurricanes' strength.

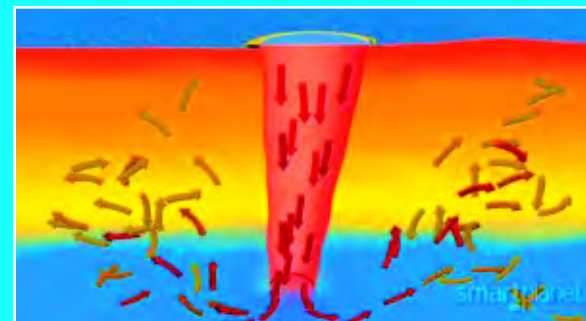
heat downward and bringing huge amounts of cold water upward, and it just takes a few degrees of cooling to make all the difference in the strength of a hurricane," said Mr. Caldeira, who also is a professor (by

courtesy) at Stanford.

Mr. Caldeira, whose research on the ocean pumps is funded by the Bill & Melinda Gates Foundation, concedes that many rings would be needed to influence a hurricane's

strength, and that such a project could cost hundreds of millions of dollars.

But, he suggests, if the approach could save lives and reduce damage, it's worth studying.



CBS INTERACTIVE INC.

Bringing Starr power to alternative energy.

For your energy needs, there's always a Starr Solution.

C.V. STARR & COMPANY (CALIFORNIA)

STARR TECH

STARR MARINE

STARR GLOBAL ACCIDENT & HEALTH

From wind turbines to solar panels, from geothermal to hydroelectric to biofuels, the Starr companies can provide primary, excess, and environmental liability coverage, as well as property insurance products, to help develop the energy infrastructure. C.V. Starr & Company (California), Starr Tech, Starr Marine, Starr Global Accident & Health, and Starr Indemnity & Liability Company have formed a strategic relationship to offer a full suite of energy-related products and services for both alternative and traditional energy projects.

Alternative energy will play a vital part in fueling our future, and the Starr companies are playing their part to insure it.



STARR UNDERWRITING AGENCIES, LLC
A SUBSIDIARY OF C.V. STARR & CO., INC.

cvstarr.com



Starr Indemnity & Liability Company

starr-international.com

Business Insurance Benefit Insider

INSIDE ➔

LARGEST CONSUMER-DRIVEN
HEALTH PLAN PROVIDERS P12BQ&A WITH DR. A. MARK FENDRICK
ON VALUE-BASED DESIGNS P12DFULLY INSURED EMPLOYERS
SLOW TO EMBRACE VBIID P12DFAQ: HEALTH CARE REFORM
WWW.BUSINESSINSURANCE.COM

Health care value rests on design

Beyond dollars spent, approach emphasizes optimum treatment

By KAREN PALLARITO

Ever since Pitney Bowes Inc. slashed copayments on prescription drugs for chronic conditions, benefit managers have taken notice of and mostly self-insured employers have adopted what is known as value-based insurance design.

A value-based approach to designing employee benefits focuses on improving health outcomes by targeting costly diseases, improving participation in wellness and prevention programs, or a combination of interventions. Pitney popularized the concept by lowering copays for medications for chronic diseases in 2002, but experts say that's just the beginning.

"If you think value-based design is about reducing or eliminating drug copayments, you're missing the point. It's about any strategy that gets the optimum care and

treatment to the right people in the right setting," said Randall Abbott, a senior consultant with Towers Watson & Co. in Wellesley Hills, Mass.

Pitney Bowes' foray into the value-based arena began in 1997 when it reduced out-of-pocket expenses for behavioral health and employee assistance program services, said Cyndy Nayer, president, CEO and co-founder of the Center for Health Value Innovation in St. Louis.

Helen Darling, president of the National Business Group on Health in Washington, said the idea really isn't new if the use of, for example, preferred provider networks or three- and four-tier drug formularies is considered. "If that isn't value-based design, I don't know what is," she said.

Ongoing efforts are expanding value-based benefit designs among mostly self-insured employers beyond care for chronic conditions.

For example, Dow Chemical Co. began reviewing and tweaking its health plan in 2007 to more closely align its coverage with evidence-based guidelines by the U.S. Preventive Services Task Force, an arm of



'If you think value-based design is about reducing or eliminating drug copayments, you're missing the point. It's about any strategy that gets the optimum care and treatment to the right people in the right setting.'

Randall Abbott, Towers Watson & Co.

the U.S. Department of Health and Human Services that is comprised of experts. That analysis led Dow Chemical to expand its tobacco cessation and weight management benefits in 2008. This year, smokers who fail to participate in the company's smoking cessation offerings must pay a higher premium.

With the start of the year, Whirlpool Corp. rolled out a two-tiered health plan option that

rewards healthy behaviors. Employees who complete at least one healthy action per quarter, such as having a dental exam or a taking a health assessment, may participate in the plan with lower deductibles and out-of-pocket amounts. They also may earn incentive dollars that can be used to defray medical expenses.

Chris McSwain, Whirlpool's director of global benefits in Benton

Harbor, Mich., said the financial incentive has driven "very strong behavior." In the first 30 days of the year, employees and spouses participated in more than 16,000 actions related to improved health.

"We've had a couple of doctors that have called in here and said, 'What the heck are you all doing at Whirlpool? I've had people I

See **VALUE-BASED** page 12C

Asheville, N.C., spawns a movement while improving the health of residents

By LOUISE ESOLA

Pharmacists are qualified to do much more than just fill prescriptions; they can counsel patients and keep them on track. And companies that foot the bill for medical interventions that keep chronic diseases under control can actually save in the long run by avoiding costlier medical treatments.

Such was the thinking behind a 14-year-old health care movement called value-based insurance design, a benefit model that started in Asheville, N.C., to control emergen-

cy care costs for diabetics.

While value-based insurance or benefits design has caught on with several large self-insured employers and some insurers are testing such designs for fully insured programs (see story, page 12D), experts say they expect the still-difficult economy to slow adoption of such programs because they do not produce immediate savings for employers.

Employers, however, still are thinking about "how they can influence the decisions their employees make," said Andrew Webber, president of the Washing-

ton-based National Business Coalition on Health. "Employers found that employees, especially lower-income employees burdened by the high cost of prescriptions, were not



compliant with their care. Employers are finding that it is in the best interest of companies to start removing barriers to care."

Essentially, this benefits strategy calls for companies to provide work-

ers with chronic conditions the tools and extra money, via incentives such as lowered premiums or waived prescription and doctor visit copayments, to remove financial barriers to highly effective treatments. These steps, according to experts and case studies, help avoid even costlier care in the future.

The latest research shows that value-based health care designs can help companies at least break even, according to a January article in the journal Health Affairs that tracked studies at Harvard University, University of Michigan and other

research.

Such newer data doesn't surprise people like John Miall, a retired 30-year human resources official with the City of Asheville who later founded his own consulting firm, Miall Consulting. He was one of the original drafters of what became the Asheville Project, which launched the movement in 1996.

Asheville and its local hospital decided to rein in health care spending for diabetic employees by paying for their medicine and

See **ASHEVILLE** next page

ON THE WEB ➔

VIEW BUSINESS INSURANCE'S NEWS AND ANALYSIS ON EMPLOYEE BENEFITS WWW.BUSINESSINSURANCE.COM

Largest consumer-driven health care plan providers

Ranked by number of covered lives at employer clients in 2009

Rank	Company/Address	Phone/Web site	Health plan name(s)*	Total covered lives	Employer clients	Plan options	Principal officer
1	UnitedHealth Group Inc. 9900 Bren Road E., Minnetonka, Minn. 55343	866-799-1331 www.unitedhealthgroup.com	Definity	2,850,000	25,300	Dental, FSA, HRA, HSA, PPO, prescription drugs, vision	Victoria Bogatyrenko, vp-product development and innovation
2	Aetna Inc. 151 Farmington Ave., Hartford, Conn. 06156	860-273-0123 www.aetna.com	Aetna HealthFund HRA, Aetna HealthFund HSA	1,800,000	17,000	Dental, FSA, HMO, HRA, HSA, indemnity, PPO, prescription drugs, vision	Ronald A. Williams, chairman/CEO
3	CIGNA HealthCare 900 Cottage Grove Road, Hartford, Conn. 06152	860-226-6000 www.cigna.com	CIGNA Choice Fund	1,343,426	1,031	Dental, FSA, HRA, HSA, indemnity, PPO, prescription drugs, vision	Tom Richards, senior vp-product
4	Humana Inc. 500 W. Main St., Louisville, Ky. 40202	502-580-1000 www.humana.com	CoverageFirst, High Deductible Health Plan, Personal Care Account, SmartSuite, SmartExpress	614,000	9,800	Dental, FSA, HMO, HRA, HSA, indemnity, PPO, prescription drugs, vision	Michael B. McCallister, president/CEO
5	Meritain Health 300 Corporate Parkway, Buffalo, N.Y. 14226	800-242-6226 www.meritain.com	-	367,000	142	Dental, FSA, HRA, HSA, indemnity, PPO, prescription drugs, vision	Elliot Cooperstone, CEO
6	Highmark Inc. 120 Fifth Ave., Pittsburgh, Pa. 15222	412-544-7000 www.highmark.com	BlueAccount	228,091	2,745	Dental, FSA, HMO, HRA, HSA, indemnity, PPO, prescription drugs, vision	Steven Nelson, senior vp-corporate marketing and consumerism
7	Medica 401 Carlson Parkway, Minnetonka, Minn. 55305	952-992-2900 www.medica.com	Definity by Medica	172,470	6,595	Dental, FSA, HMO, HRA, HSA, indemnity, PPO, prescription drugs, vision	David Tilford, president/CEO
8	Choice Care Card 76 McNeil Road, Waterbury Center, Vt. 05667	888-244-2000 www.choicecarecard.com	-	165,000	4,000	Dental, FSA, HMO, HRA, HSA, indemnity, PPO, prescription drugs, vision	Jay Hunter, president/CEO
9	Blue Cross Blue Shield of Tennessee 1 Cameron Hill Circle, Chattanooga, Tenn. 37402	423-535-5600 www.bcbst.com	-	161,272	3,698	FSA, HRA, HSA, PPO	Vicky Gregg, president/CEO
10	Harvard Pilgrim Health Care 93 Worcester St., Wellesley, Mass. 02481	888-888-4742 www.harvardpilgrim.org	Best Buy HSA/PPO, Best Buy HMO/PPO	150,000	4,000	FSA, HMO, HRA, HSA, PPO	Bruce M. Bullen, interim CEO

*If different from company name
Source: BI survey
Researched by Kevin Edison and Karen Tucker

Visit www.BusinessInsurance.com/directories for more information and to access the full searchable Directory of Consumer-Driven Health Care Plan Providers. Business Insurance now offers the option to purchase the entire online directory as an Excel file or as a PDF.

Entire contents copyright © 2010 by Crain Communications Inc. All rights reserved.

Asheville: Pioneer spawns a movement

CONTINUED FROM PREVIOUS PAGE

health care counseling. The move, they hoped at the time and later realized, would avoid costly care such as emergency room visits, amputations and dialysis that often can be prevented by properly managing diabetes.

"This whole thing was born out of the frustration that paying for sick care wasn't working," Mr. Miall said. "The sick claims add up and that's the problem. We thought and later confirmed that paying for people when they are well and healthy is how you really save in the long run."

Diabetic workers, making up about 8% of Asheville's workforce, were struggling to pay for their pre-

scriptions and treatment, so they devised ways to save, but they cost the city more in the long run, Mr. Miall said.

Mr. Miall told the story of a diabetic firefighter who tested his blood sugar levels only every other day because the test strips were too expensive. Not uncommon were tales of workers who took their medication every other day or split pills in half to save money, he added.

When the city and hospital decided to waive copays for preventative treatments, such as blood sugar monitoring and medications, and pay for regular one-on-one counseling with pharmacists—a group Mr. Miall described as "one of the world's most underutilized pro-

fessions"—the city eventually saw the savings. Specifically, the city gradually saved between \$1,200 and \$1,872 per patient per year, according to 2003 research published in the Journal of the American Pharmaceutical Assn.

Anecdotaly, Mr. Miall, then the head of human resources and risk management for Asheville, said the city paid for no dialysis treatments between 1998 and 2005, which is when he retired.

"Before that, given our workforce, we always had at least one worker a year in dialysis," he said. "So having no one in dialysis was a big deal for us," Mr. Miall said.

In addition to avoiding expensive interventions, the city also saw a drop in absenteeism and a spike in

productivity, he added.

"What's funny is we just called it the 'diabetes thing.' We didn't know we were changing health care," Mr. Miall said of value-based insurance design that has since grown to more than 100 employers nationwide.

Asheville's experiment was expanded in 2009 to the Diabetes 10 City Challenge, which involved 30 employers in 10 cities. Everyone eventually realized the savings, said Bill Ellis, executive director and CEO of the Washington-based American Pharmacists Assn. Foundation.

"It was an investment in what we called 'well care' and not 'sick care,'" Mr. Ellis said. "More and more employers now are realizing they have to make a better investment. We are seeing a lot of discussion on this in Washington, even."

As a result of the Diabetes 10 City Challenge, employers saved an average of \$1,100 in patient health care costs per year and employees saved an average \$600 per year, according to 2009 research published in the Journal of the American Pharmacists Assn.

But despite the demonstrated savings, the progression of value-based designs in health care could slow, experts say.

"There's some resistance, a reluctance to talk about this because it costs money upfront, especially in a time when employers are scaling back," Mr. Ellis said. "There's emerging data, but there isn't that 25 years worth of data in place for people to make changes. This requires a mind shift—paying for wellness instead of sickness—that employers might not be ready to adopt."

Value-based: Health care approach emphasizes optimum treatment

CONTINUED FROM PAGE 12A

haven't seen in 10 years call up and ask me for a physical," he said. "It's our intention to continue to reinforce those good things during the course of the year through continued 'change management' and 'strategic communications.'"

Many employers already have elements of a value-based health plan design, Towers Watson's Mr. Abbott said, but do not recognize it as such because definitions of what constitutes a value-based approach vary widely.

In a recent journal article, William Encinosa, a staff researcher for the Agency for Healthcare Research and Quality in Rockville, Md., said the Medicare Payment Advisory Commission has recommended trying value-based designs for Medicare Part D, and a Senate bill would set up a test of the concept that he said he believes would improve health and avoid hospitalizations.

Value-based benefits and value-based design are used interchangeably and include a broader range of strategies, such as engaging "C-suite" support.

'City council (members) don't come into office thinking about employee benefits. They come into office thinking about potholes.'

William Bruning,
Mid-America Coalition on Health Care

In Kansas City, Mo., for example, the Mid-America Coalition on Health Care is trying to convince city leaders of the value of health risk assessments and preventive screening. "City council (members) don't come into office thinking about employee benefits," said William Bruning, president and CEO of the coalition. "They come into office thinking about potholes."

In a recent Buck Consultants/Center for Health Value Innovation survey of more than 100 companies of varying sizes, 46% said they've had a value-based design in place for two or more benefit years, and 17% have had it for less than that. Thirty-eight percent said they did not have a value-based design.

Implementation hurdles

While the concept behind a value-based strategy is simple, successful implementation is not, experts caution.

Bridget Eber, a pharmacy consultant with Towers Watson in Chicago, said many factors influence medication adherence, not simply the amount of cost-sharing, and adjusting out-of-pocket contributions may or may not boost compliance. What's more, employers may end up spending more for individu-

als who already were taking their medicines.

"I fear by waiving copays, particularly on drugs, that employers are increasing their drug spend in such a way that they're not going to be able to measure the kind of financial return on investment that they're hoping to find," Ms. Eber said. "If they believe that increasing drug spend will decrease medical costs, honest to Pete, that's a leap because there haven't been any studies that prove that."

Employers and consultants acknowledge that return on investment from value-based strategies is difficult to measure.

Dena Pflieger, global health promotion leader at Dow Chemical in Auburn Hills, Mich., said the company believes the value it receives from its investment in employee health exceeds the cost, but it doesn't formally calculate its return on investment. The prevention strategy is believed to have helped hold health care cost increases to 4.3% a year from 2006 to 2009, said Steve Morgenstern, Dow Chemical's health plan manager in Midland, Mich.

A recent study of one large employer's value-based plan, described in the journal *Health Affairs*, suggests that, at worst, the

program broke even from a "total cost" perspective, including employer and employee spending. While the employer may not have saved money in the short term, researchers said removing barriers to effective treatments should lead to savings because the percentage of patients who failed to take their medications declined about 10% in four of the five drug classes targeted.

A few employers that tried value-based design dropped out. One major reason is they did not do the upfront data analysis needed to precisely target their interventions, consultants said.

The Employers Health Coalition

of Ohio is setting up a data warehouse, representing some 300,000 lives, to help its employer members find trends in areas such as medication adherence, preventive-care compliance and chronic-care spending.

Ultimately, Ms. Nayer of the Center for Health Value Innovation expects employers to engage hospitals, physicians and health plans in value-based strategies that seek behavior change across an entire population.

"Once you begin to do that, you literally begin to change the fabric and the culture of a community," Ms. Nayer said.



Retiree benefit liabilities costly. Who can help transfer the risk?

PRUDENTIAL GROUP INSURANCE

- 92 years of group life insurance experience
- More than \$1.5 trillion in group life coverage¹
- 2nd largest group life carrier²



CONTACT

David Brooker, Vice President,
Prudential Group Insurance,
at 973-668-6372.

Download our free report,
*Risk Financing Solutions
for Retiree Life Insurance* at
www.prudential.com/group

Are FAS 106 liabilities doing a number on your balance sheet?

Prudential answers your SOS with proven solutions to help take the strain off your company earnings. Let us provide a tax-advantaged approach to fund obligations such as life insurance and retiree health, so they don't negatively impact your financial statements. We'll even assume your administrative record-keeping burdens. All of which makes PRU The Rock® your company can rely on.

RETIREMENT SERVICES • INSTITUTIONAL ASSET MANAGEMENT • GROUP INSURANCE



Prudential
Growing and Protecting Wealth®

Who?
PRU

© 2010. Prudential Financial. ¹2008 Annual Statement of The Prudential Insurance Company of America. ²LIMRA, 2008 Annual Surveys of U.S. Group Life, Group Disability, and Group Long-Term Care Insurance. Group Insurance benefits are issued by The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102-3777. PRUDENTIAL, PRU and the Rock logo are registered service marks of The Prudential Insurance Company of America. 0173231-00001-00

Questions & Answers

As more employers embrace the concept of value-based insurance design to improve medication adherence, Dr. A. Mark Fendrick and his colleagues at the University of Michigan Center for Value Based Insurance Design in Ann Arbor have been conducting research to determine how these benefit designs affect health outcomes and employer cost-containment efforts. Dr. Fendrick co-founded the center in 2005 with Michael Chernew, a professor of health care policy at Harvard Medical School in Boston. In an interview with Business Insurance Senior Editor Joanne Wojcik, Dr. Fendrick shared his thoughts on value-based insurance design and described some of the work the center has been performing to support it.



Health care effectiveness, costs drive plan designs

Q: How long have you personally been working in value-based insurance design and what attracted you to it?

Dr. Chernew and I have collaborated for nearly 17 years. Our primary motivation was the lack of appropriate incentives for both consumers and providers of health care to achieve the most health for the money spent.

Initially, the attraction was the lack of alignment between the practice of evidence-based medicine to reimbursement systems. More recently was a concern that one of the most common cost-containment mechanisms used by payers—shifting costs to patients—would lead to adverse clinical effects. We can now say with great certainty that this concern has become reality.

Q: How has the center's work been reflected in the various health reform measures under consideration by Congress?

The Senate health care reform proposal includes concepts of value-based insurance design.

The Patient Protection and Affordable Care Act, which represents a combination of bills passed previously by the Senate Finance and Health, Education, Labor & Pensions committees and will become the vehicle for debate on health care reform in the Senate, allows the secretary of Health and Human Services to develop guidelines to permit health plans to use the concepts of value-based insurance design in providing coverage.

H.R. 3962, the Affordable Health Care for America Act, would allow health benefits plans to modify cost-sharing and payment rates to encourage the use of services that promote health and value.

Q: How might VBID principles be applied in government-funded

health care programs such as Medicare and Medicaid?

Alignment of incentives to produce (better) health at any price should be a goal of both the public and private sector. There is more than enough money in the system. We just need to choose to spend it on health care services—prevention, diagnosis, treatments and monitoring—that have been demonstrated to produce value, with value defined as the clinical benefit for the money spent.

We were very pleased when, last spring, federal legislation was introduced to advance concepts of value-based insurance design in Medicare. (U.S. Sens.) Debbie Stabenow, D-Mich., and Kay Bailey Hutchison, R-Texas, introduced S. 1040, the Seniors' Medication Copayment Reduction Act of 2009, advancing the principles of value-based insurance design in the Medicare population.

This legislation will establish a five-year demonstration program using value-based insurance design to assess the impact of a reduction in copayments or

coinsurance charged Medicare beneficiaries for certain high-value medications on adherence to those medications.

Q: How do you predict VBID will evolve as it is adopted by government and the private sector?

There is great momentum behind the VBID concept in both public and the private sector. While initially limited to prescription drugs, self-insured organizations and health plans have incorporated VBID principles into prevention, diagnostic testing, physician visits, hospital selection and treatments.

Fully insured market has yet to embrace value-based design

Insurers, however, conduct experiments with insured clients

By JOANNE WOJCIC

Value-based insurance design, which many large, self-insured employers have embraced, has yet to make significant inroads in the fully insured market.

Experts blame obstacles that include the need for regulatory approval, restrictive community rating laws, and that small and midsize employers often shop their health coverage annually, either inviting adverse selection or not allowing sufficient time for the benefit changes to positively affect plan members' health.

For these reasons, fully insured employers have been able to offer value-based insurance designs only through wraparound programs in which employers reimburse copayments or the cost of selected health care services via a health reimbursement arrangement or health savings account.

"We're seeing a lot of that because the employer is hoping the increased compliance will reduce their rates if they are in anything other than a community-rated situation," said Bill Lindsay, president of Lockton Benefit Group in Denver. "But that approach is really circumventing the insurance company."

Fortunately, as self-insured employers' value-based design success is becoming better known, at least one insurer is experimenting with VBID in the fully insured market.

Because fully insured health benefit products must be approved by state regulators, "there's a much longer time before they can be brought to market," said Christine Riedl, director of the medical product group at Aetna Inc. in Hartford, Conn.

Ms. Riedl said Aetna, which is monitoring the progress of value-based programs it administers for its self-insured employer clients, is "in the analysis stage" of "whether it would be appropriate for the fully insured market, but we have nothing on file (with any state) at this time."

States that have community rating laws, which set health insurance rates by community and usually govern groups of 50 or fewer, also have discouraged insurers from implementing VBID programs in the fully insured market, said Vince Ashton, executive director of HealthPass, a small-employer purchasing group based in New York.

"Community rating is great because it gives access to coverage to people who otherwise would not be able to get it. But you take away the skin in the game for the employer and the employee. Young healthy employees, older sickly employees all pay the same. There are no incentives for wellness pro-

grams or value-based insurance designs," Mr. Ashton said.

Because small and midsize employers change insurers often, there has been little incentive for insurers to invest in VBID where a return on investment can take several years, health benefits experts note.

"Insurers may be wary of whether the benefits offered under value-based benefits might unintentionally attract a disproportionate number of people with chronic conditions," said Michael Thompson, a principal at PricewaterhouseCoopers L.L.P. in New York. "This doesn't come up with major employers since the population they cover is fixed," meaning they don't move from insurer to insurer, but remain in the same group for as long as they are employed by that employer.

Minnetonka, Minn.-based UnitedHealth Group Inc. introduced a diabetes health plan this year after a successful pilot involving several large, self-insured employers. Although the plan is not yet available to the fully insured market, the insurer might make it available to large employers

'Because a lot of the conditions we're targeting are asymptomatic, there's rampant noncompliance. The patients rationalize they don't need their meds because they feel fine.'

Greg Hughes, Anthem Inc.

with fully insured groups in isolated pockets around the United States, said Mike Beauregard, executive vp in Hartford, Conn.

"It's not the regulatory barriers; it's about the size of the population," and 50 employees is not a sufficient sample size, Mr. Beauregard said.

Despite the impediments, Indianapolis-based Anthem Inc. has decided to take a chance that VBID will work in the fully insured market.

In Colorado, for example, Anthem is offering a product through the state Chamber of Commerce to employers with 51 to 300 employees that guarantees up to a 3% reduction in subsequent-year premiums if plan members participate in screenings and health promotion programs that lead to improvements in their health status.

Although it appears to be more of a wellness product and emphasizes prevention, it is considered a form value-based design, said Gregg Kamas, health risk leader at IMA Corp., which collaborated with Anthem and the state chamber on the product's development.

Anthem also is awaiting regulatory

approval for a VBID product it plans to introduce in the U.S. Northeast later this year, said Greg Hughes, commercial product development director.

"The findings in the (research and medical journal) literature are very compelling. We've also had some pilot groups with outstanding results from both a clinical and financial perspective, generally in the (administrative services-only) space," Mr. Hughes said. "But if it works in the ASO population, it's a natural fit to start doing it in the fully insured market."

Anthem's product will attempt to remove the cost barrier to medication compliance by reducing copayments for high-value drugs and medical services while encouraging plan members to participate in the insurer's condition management education programs, Mr. Hughes said. Initially, it will target five conditions: asthma, diabetes, coronary artery disease, chronic obstructive pulmonary disease and congestive heart failure.

As many as 30% of individuals with chronic conditions don't take their medications because of ignorance about their disease, Anthem estimates.

"Because a lot of the conditions we're targeting are asymptomatic, there's rampant noncompliance. The patients rationalize they don't need their meds because they feel fine," Mr. Hughes said. Hopefully, education, coaching and removing financial barriers will encourage VBID plan members with chronic conditions to better adhere to their treatment plans, he said.

Because of the additional cost of lowering or waiving copayments for prescription drugs and some services, Anthem's VBID product likely will cost a bit more than its standard insurance products, Mr. Hughes said.

"The pricing is still being worked out," he said. "The promise of a value-based insurance design is to make an investment in your employees. When you do that, you are really looking at increasing the plan's cost."

Because the payback likely would take several years, Anthem's VBID product will require employers to enter into multiyear contracts, said Laurie Amirpoor, staff vp for clinical program policy at Anthem in Camarillo, Calif. However, there is a chance that Anthem will share some of the subsequent-year savings with employers, just as it is doing in Colorado. "It's still being evaluated by our underwriters and actuaries," she said.

Regardless of whether employers see a reduction in premiums after several years of implementing a VBID, "one thing fully insured clients will benefit from is the effect on overall productivity," Ms. Amirpoor said. "When their employees are compliant and educated, they'll see decreased absenteeism, disability costs and increased productivity."

READ an unabridged version of this interview online at www.BusinessInsurance.com