

**Mellon exits benefits
consulting business / 3**

**Millennium Hilton settles
9/11 insurance claims / 3**

Business Insurance

www.businessinsurance.com

March 21, 2005

Entire contents copyright © 2005 by Crain Communications Inc. All rights reserved.

\$5

AIG UNDER PRESSURE

Greenberg out as AIG chief

By JUDY GREENWALD

NEW YORK—When—or even if—the other shoe will drop ultimately will determine how American International Group Inc. recovers from the ousting of long-time Chief Executive Officer Maurice R. Greenberg last week.

If the finite risk deal with General Reinsurance Corp. that apparently led to Mr. Greenberg's departure and to the delay in AIG filing its annual financial statement is an isolated incident, then AIG should recover quickly and maintain its position as the world's leading commercial insurer, observers say.

But if more revelations over AIG's use of arcane reinsurance structures emerge as targets of investigations by regulators and prosecutors, then the New York-based insurer and its newly installed chief executive officer, Martin J. Sullivan, could face serious ongoing problems, they say.

The company's release of its 10-K "will be a critical point," said Grace Osborne, a director of rating agency



Maurice R. Greenberg stepped down as CEO of AIG last week amid regulatory scrutiny of his role in a finite reinsurance deal.

Standard & Poor's Corp.

The delay in filing the 10-K came with the announcement last week that Mr. Greenberg was stepping

down as chairman and CEO of the company that he had transformed in his more than 37 years at the helm. In addition AIG announced

PHOTO: AP/WIDE WORLD

last week that its chief financial officer, Howard I. Smith was being placed on leave and replaced, and that vp-reinsurance Christian M. Milton also had been placed on leave. AIG did not disclose the reasons behind the leaves.

Some observers say the executive changes and delayed financial reporting create significant uncertainty as to just how deep AIG's problems are.

Others, though, dismiss these concerns and say it is only natural that Mr. Sullivan and AIG's new chief financial officer, Executive Vp Steven J. Bensinger, would want some extra time to review the financial report before signing off on it.

The main question, say observers, is how far AIG's problems go, if at all, beyond the 4-year-old loss portfolio transfer AIG assumed from General Re, which apparently led to Mr. Greenberg's resignation. That deal is under investigation by the New York attorney general and the

See **AIG**/page 23

Late News

Benfield U.S. CEO Fox on leave

Rodman Fox, the chief executive officer of Benfield Group Ltd.'s U.S. division in New York, has taken a leave of absence for personal reasons, the reinsurance brokerage said. During Mr. Fox's absence, his responsibilities will be carried out by Grahame Chilton, Benfield Group's CEO in London, who will be supported by Paul Karon, president and chief operating officer of Benfield's U.S. arm. In a statement, Benfield said the reasons for Mr. Fox's leave were "unconnected to the performance" of the company. A spokesman declined to provide further details.

U.S. reinsurers' combined ratio worsens

U.S. reinsurers reported a 106.2% aggregate combined ratio for 2004, up from a ratio of 101.2% reported by a similar group of reinsurers in 2003, according to the Reinsurance Assn. of America. The combined ratio for 2004 reflects a 79.8% loss ratio and a 26.4% expense ratio. The 26 reinsurers reported net written premiums of \$28.76 billion in 2004, down 6.1% compared with the similar group in 2003. The Washington-based RAA reported that the reinsurers had \$61.21 billion in policyholder surplus at year-end 2004, up 9.5% compared with the similar group a year earlier.

Swett & Crawford CEO Comer departs

Thomas Comer has left his post as president and chief executive officer of Swett & Crawford Group in New York. A spokesman for Swett & Crawford parent Aon Corp. declined to say why Mr. Comer left or whether his departure is related to Aon's announcement last month that it is exploring the possible sale of its wholesale unit. The spokesman noted that the rest of Swett & Crawford's management team remains in place. Mr. Comer could not be reached.

Aon gets subpoena from Labor Department

Aon Corp. said it has received a subpoena from the U.S.

See **LATE NEWS**/page 27

AIG inside:

New face at the top
Martin Sullivan will bring a change of leadership style to AIG **page 24**

Hank on the Hill
The former AIG chief wielded clout as well as financial muscle **page 24**

A deal unraveled
A complex finite risk deal may have cost Maurice R. Greenberg his job **page 25**

Investigations widen
The AIG deal is one of several Gen Re finite deals under scrutiny **page 25**

Legendary boss leaves stamp on company, wider market

By DOUGLAS McLEOD

NEW YORK—Maurice R. Greenberg may not be indispensable to American International Group Inc., but for decades he seemed that way.

As he built AIG from a company with \$13.4 million in net income in 1969 to one with \$11.1 billion last year, Mr. Greenberg, who resigned under pressure last week as AIG's chief executive officer, stood out in an industry not noted for large personalities.

Famously autocratic, demanding

and short-tempered, Mr. Greenberg, widely known as "Hank," fostered a corporate culture that encouraged decisiveness, required accountability and rewarded success. He was also, less famously, cordial and generous with executives who thrived in that culture, former AIG officials say.

"He was probably the most demanding boss I ever worked for, but probably the fairest guy," said Joseph Wiedemann, a former senior executive of several AIG units. "He rewarded you for the results you

had, and he rewarded you very well."

Known for his minute grasp of AIG's byzantine operations—leaving some startled AIG executives with the impression that he knew more about their businesses than they did—Mr. Greenberg has also been a deft strategic thinker, industry observers say. He led AIG's transformation from a collection of property/casualty and life insurers into a financial services conglomerate, adding retirement products, as-

See **GREENBERG**/page 24

Spotlight

TERRORISM & CRISIS MANAGEMENT

Begins on page 11



Mellon sells benefit consulting unit to ACS

By JERRY GEISEL

DALLAS—Executives at Affiliated Computer Services Inc. say its purchase of the benefit consulting and administrative services unit of Mellon Financial Corp. will benefit employers by enabling ACS to offer a full range of human resources-related services.

Last week, ACS, a huge Dallas-based business process and information technology outsourcing company, announced it was buying

Mellon's HR consulting and services unit, which now has about 3,000 clients, for \$465 million.

Through the purchase, ACS, which has about 47,000 employees and \$4 billion in annual revenues, will become a major player in benefit consulting and health and pension plan administration. The Mellon unit, which is part of Mellon Human Resources & Investor Solutions, generates about \$660 million in revenues. *Business Insurance* last year ranked the unit as the nation's

eighth-largest benefit consultant.

While ACS is a giant in the business process and information technology outsourcing sectors—doing business, it says, with a big chunk of Fortune 500 companies as well as state governments—traditional benefit consulting and employee benefit plan administration has been one hole in the network of services it offers. ACS says its purchase of the Mellon unit will fill that hole.

"We will gain significant expertise in benefit consulting and retirement plan administration," said Lesley Pool, ACS' chief marketing officer.

Howard Fine, managing director-retirement at Mellon Human Resources & Investor Solutions in New York, concurred that Mellon will bring critical benefit consulting and administrative services that ACS now lacks.

"Clients are looking for more-integrated solutions," Mr. Fine said, referring to employer interest in se-

curing benefit consulting, benefit administration and business process outsourcing services from a single vendor.

Mr. Fine said the integration of the Mellon unit into ACS should go smoothly, because there is not much overlap in the services provided by ACS and Mellon. "There is very little redundancy. This transaction can hit the ground running," he said.

ACS says it expects to retain the vast majority of the Mellon unit's staff.

For Mellon, the sale of the unit brings to an end its eight-year stint in the employee benefit consulting business. That run began in 1997, when it purchased Buck Consultants Inc. for \$225 million. Several years later, it acquired Unifi Network, a benefit consulting and outsourcing arm of PricewaterhouseCoopers L.L.P., for \$275 million.

But outside observers say the Mellon unit was losing market share amid uncertainty by employ-

ers about whether its parent was willing to make the financial commitment needed to be a leader in benefit outsourcing.

Mr. Fine acknowledged that Mellon felt that there were other corporate units that had a higher priority for its investment dollars. "This (benefit consulting and outsourcing) was not critical to their long-term strategy," he said.

The ACS-Mellon deal, which is expected to close in a couple of months, is the latest in a series of ownership changes in the benefits arena. Last year, for example, Hewitt Associates Inc. purchased Exult Inc., an Irvine, Calif.-based leader in the HR business process field, to give Hewitt entry in that market. Earlier this year, benefit consultant Towers Perrin sold off its outsourcing business to EDS Corp. of Plano, Texas, amid recognition that it lacked the financial resources to make the investment needed to stay competitive in the outsourcing field.

Millennium Hilton settles 9/11 claims

By RUPAL PAREKH

NEW YORK—CDL Hotels USA Inc., a subsidiary of London-based Millennium & Copthorne Hotels P.L.C., reached a final settlement with a St. Paul Travelers Cos. Inc. unit last week over alleged property damages and lost business at the Millennium

Under the agreement, Travelers will make a final payout to CDL of \$25 million for losses sustained at the 565-room high-rise, the hotel chain said in a statement. Travelers, under the same policy, had previously made payments to CDL amounting to \$50 million.

In addition, under the settlement terms, both parties will drop all related litigation pending in a New York federal court.

A spokeswoman for Travelers declined to comment on the settlement.

Together with nearly \$10 million in losses paid by CDL's primary and first excess carriers on the policy,

Lexington Insurance Co., and Essex Insurance Co. and Greenwich Insurance Co, respectively (BI, Aug. 2, 2004), the total amount paid to owners of the Millennium Hotel for Sept. 11-related damages has reached more than \$85 million.

Hilton in New York as a result of the Sept. 11, 2001, terrorist attacks.

Travelers Property Casualty Corp. provided excess property insurance for all CDL properties in the United States from Jan. 1, 2001, through Jan. 1, 2002.



PHOTO: GETTY

New York's Millennium Hilton suffered property losses from the Sept. 11, 2001, attacks.

South Carolina, Missouri pass anti-forum shopping measures

By MARK A. HOFMANN and MEG FLETCHER

Two states passed tort reform measures last week, while bills to change workers compensation and asbestos litigation practices also were sent to governors.

In South Carolina, lawmakers gave final approval to a bill designed to curb so-called "forum shopping" by attorneys seeking plaintiff-friendly jurisdictions. The bill, H. 3008, would require that a case be heard only in the jurisdiction where the alleged injury occurred or in the jurisdiction of the defendant's principal place of business, except in the case of foreign corporations or nonresident defendants.

The measure would change the state's application of joint-and-several liability so that joint liability

could apply only if a defendant was more than 50% at fault. It also would apply sanctions on attorneys who file frivolous lawsuits. Gov. Mark Sanford is expected to sign the bill today.

Missouri's Legislature last week passed a bill, H.B. 393, that also seeks to prevent forum shopping and to raise the threshold for joint-and-several liability. In addition, the bill would cap punitive damages at \$500,000 or five times actual damages, whichever is greater.

Missouri also passed a workers compensation reform bill, Senate Bill 1, that would, among other changes, modify the definition of an accident to include primarily events where work is the "prevailing" factor.

Changes also give greater emphasis to ailments with objective symp-

toms—those that are readily identifiable—while still allowing for repetitive-trauma claims. The bill also reduces compensation benefits if an injured worker violated safety rules or used drugs or alcohol at the time an accident occurred, or if the worker is receiving unemployment compensation.

Missouri Gov. Matt Blunt is expected to sign both bills.

Meanwhile, Georgia's General Assembly approved H.B. 416, which would permit asbestos injury claims only from individuals manifesting specific symptoms. Claimants who don't show impairment retain the right to file a claim if they become ill. Several other U.S. jurisdictions have taken steps to prioritize asbestos claims.

Georgia Gov. Sonny Perdue has not indicated whether he will sign the bill.

Inside Business Insurance

Nevada may cut fees for RRGs

Insurance department officials in Nevada have proposed slashing the state's fees for risk retention groups by up to 90%. **Page 4**

Pa. county considers employee smoking ban

Montgomery County, Pa. may make not smoking a condition of employment for new hires. **Page 4**

Corporate governance comes to captives

Captive insurers can't afford to ignore federal corporate governance laws, speakers at a top captive conference contend. **Page 4**

Greenberg leaves an indelible legacy

Hank Greenberg's impact on the insurance industry will last despite his exit, an editorial says. **Page 8**

Marsh CEO seeks to reassure U.K. clients

Michael Cherkasky tells U.K. risk managers their interests will remain uppermost for Marsh. **Page 21**

Lloyd's settles with Central Fund reinsurers

Lloyd's of London has settled a disputed reinsurance contract for its Central Fund for £152 million (\$292.7 million). **Page 21**

Online

• The **Datebook** calendar lists upcoming industry seminars and meetings and allows you to add info about your own event.

• Searchable **directories** provide access to all the listings of industry vendors found in *BI's* Market Sourcebook.

• New **Opinion Poll**: Do you think the ongoing investigations of insurance industry business practices will lead to further high-profile management changes at insurers and brokerages during the next six months?

Departments

Advertiser Index	26
Between the Lines	20
Business Resources	20
Comings & Goings-Industry	26
International	21
Opinions	8
Professional MarketPlace	22
Ticker	27
World Updates	21

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

Business Insurance (ISSN 0007-6864) Vol. 39, No. 12, is published weekly by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. \$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). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 40012850, GST No. 136760444, Canadian return address: 4960-2 Walker Road, Windsor, ON N9A6J3. Printed in U.S.A. Copyright © 2005 by Crain Communications Inc.

Nevada RRG proposal would slash groups' fees

State's \$2,450 fee on RRGs would fall to \$250

By JERRY GEISEL

CARSON CITY, Nev.—Risk retention groups could soon see a 90% reduction in the fees they must pay to operate in Nevada.

Legislation drafted by the Nevada Division of Insurance would reduce initial registration and annual fees—now the highest in country—paid by out-of-state RRGs that provide coverage to Nevada policyholder-owners to \$250 from \$2,450.

The fee reduction, which state insurance regulators say is almost certain to win legislative approval, would benefit the 55 RRGs that are registered in Nevada but

are licensed in other states.

Nevada Commissioner of Insurance Alice Molasky-Arman said research conducted by her department found Nevada's RRG fees "were way out of line" compared to other states.

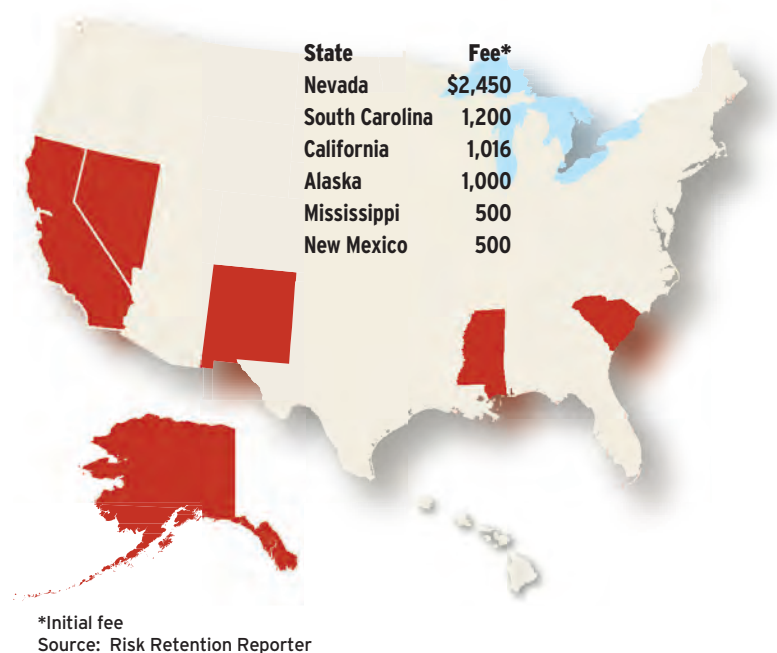
"We don't want to be an obstacle to risk retention groups," she said.

In fact, about 20 states do not impose RRG registration fees, while of the states that do, fees typically range between \$100 and \$300. Annual fees, where imposed, also typically are in the \$100 to \$300 range.

Nevada's move is welcomed by RRGs and their advisers.

See **NEVADA**/page 10

STATES WITH THE HIGHEST RISK RETENTION GROUP FEES



Pa. county considers ban on hiring smokers

By RUPAL PAREKH

NORRISTOWN, Pa.—The decision by a Michigan health benefits administrator to stop hiring smokers earlier this year has prompted an entire county in Pennsylvania to consider adopting a similar ban.

In an effort to shrink the \$24 million the county annually spends on health care for its nearly 3,100 workers, Montgomery County is looking at amending its current application process so candidates who smoke cigarettes would no longer qualify for employment.

The proposal has been pushed in recent weeks by James R. Matthews, chairman of the county board of commissioners, who was inspired by the ultimatum Okemos, Mich.-based Weyco Inc. gave its workers in January: Either quit smoking, or lose your jobs (*BI*, Feb. 28).

Before imposing such a ban, "we need to do our homework in terms of legalities and cost savings on our health insurance," a spokesman for

the county said.

Like Michigan, Pennsylvania is not among the 29 states that, along with the District of Columbia, have enacted state smoker protection laws barring employers from discriminating against employees who smoke, according to the American Lung Assn.

If approved by the county board of commissioners, the new employment law would take effect for hires after Jan. 1, 2006, the county's spokesman said, and unlike Weyco's policy, would not be enforced retroactively. The anti-smoking rule would only apply to new hires.

Additionally, certain exceptions to the policy would be made in cases of "hard-to-fill" positions or veterans returning from posts overseas, he said.

No other county government in the United States, to their knowledge, currently has such a policy against hiring smokers, a spokesman for the Washington-based National Assn. of Counties said.

Sarbanes-Oxley regulations indirectly apply to captives

By MICHAEL BRADFORD

CARLSBAD, Calif.—Corporate governance requirements in the Sarbanes-Oxley Act may not apply directly to captives, but the law's possible application to issues involving the captive must be taken seriously by captive owners, experts contend.

Publicly traded companies that use captives already have to consider how their use of captives is affected by Sarbanes-Oxley and other captive owners will increasingly have to consider the application of the law as they strive to embrace best practices, they say.

In addition, captive owners seeking to purchase directors and officers liability coverage face increased scrutiny from underwriters who are wary of the changing corporate

governance requirements, they say.

"Ultimately, it's the structure and ownership of the captive that's going to determine how Sarbanes-Oxley applies and how these principles of corporate governance are applied," said Aaron M. Kaslow, a partner at Washington-based law firm Muldoon, Murphy & Faucette L.L.P.

He was speaking during a session at the 33rd Annual International Conference held by the Captive Insurance Companies Assn. earlier this month in Carlsbad, Calif.

A single-parent captive owned by a public company "is going to be part of the whole disclosure process that the public company has to go through," said Mr. Kaslow.

For other types of captives, "Sarbanes-Oxley itself may not apply directly, in many situations," Mr.

Kaslow said. "But I think that the best practices that Sarbanes-Oxley represents," will eventually have an impact on group captives, rent-a-captives and single-parent insurers owned by private companies, he added.

The best practices could show up in rules promulgated by the National Assn. of Insurance Commissioners that are later adopted by states, Mr. Kaslow said.

Captive owners looking for D&O coverage are feeling the impact of Sarbanes-Oxley's focus on corporate governance.

The underwriting process an insurer undertook when writing a captive's D&O program used to focus nearly completely on the financials of the captive, said John Ergastolo, senior vp with Arthur J. Gal-

See **CICA**/page 23

Humana drug plan swaps co-pays for fixed payments

By GLORIA GONZALEZ

WASHINGTON—A new prescription drug plan being offered by Humana Inc. puts a twist in the consumer-driven approach to drug purchasing by introducing fixed employer contributions.

Instead of having fixed employee co-payments, the employer contributes at a fixed level for each group of drugs in Humana's RxImpact plan. An employee's contribution to drug costs depends on which group a prescribed drug is in and the cost of the drug, company officials said at the 17th annual National Managed Health Care Congress in Washington.

Humana believed it was important to revamp the tiered co-payment formula, mainly because having fixed co-payments shields members from the full cost of drugs, said Jerrod Helms, corporate sales di-

rector for the Louisville, Ky.-based insurer. "Co-pays are not the answer," he said.

Instead of grouping drugs based on whether they are generics, preferred brand name or nonpreferred brand name, the company's RxImpact plan groups them based on their ability to prevent serious medical episodes and provide long-term or short-term relief for medical conditions. All drugs within a class—both brand name and generic—are categorized in the same group.

In the RxImpact plan, Group A includes drugs with the greatest ability to prevent a serious medical episode in the short term, such as antibiotics and insulin used to treat infections and juvenile diabetes. Group B includes drugs prescribed for treating chronic conditions such as cancer, heart disease and multiple sclerosis. Group C drugs provide symptom relief for

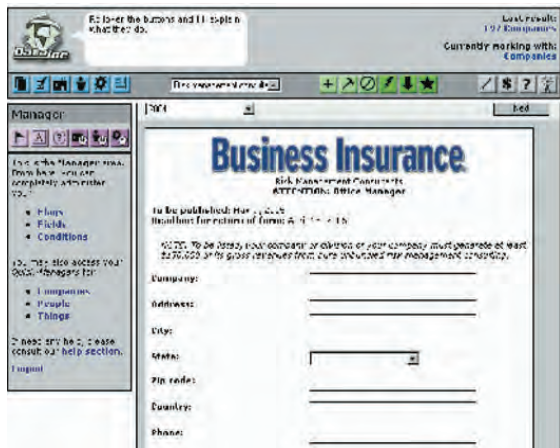
See **NMHCC**/page 26

'Co-pays are not the answer.'

Jerrod Helms
Humana Inc.

New *BI* technology permits online updating of directory info

Business Insurance has upgraded its survey technology to ensure the fastest, most accurate data collection possible for our many rankings and online directories.



After listening to the suggestions of survey participants, *BI*'s new system allows companies to update their directory information online

in a secure environment. Participants now are able to click on links to provide updated information for 2005 directories and view the information *Business Insurance* listed in the previous year. The links will be sent to individuals who have requested a questionnaire for inclusion in any of the 2005 directories. *BI*'s directory department will review all updated data and process it.

The first directory to use the upgraded technology, the Directory of Risk Management Consultants, will be published in conjunction with the May 9 issue. That issue will contain a Spotlight report on enterprise risk management and a

ranking of the 10 largest independent risk management consultants. The deadline for submitting completed questionnaires is April 15.

To be listed as a risk management consultant in this directory, your company—or your division of your company—must generate at least \$150,000 of its gross revenues from unbundled risk management consulting and derive the majority of its revenues from general risk management consulting, rather than specialized risk management consulting services. Unbundled means risk management consulting services that are provided are independent from any other services your company offers, such as engineering, accounting or pollution remediation.

For information about the new and improved data collection process or to receive a directory questionnaire, please contact Directory Editor Kevin Edison at 312-649-5279 or at kedison@businessinsurance.com.

More employers try disease management to cut health costs

By JOANNE WOJCIK

As health care costs continue to ascend at double-digit rates, a greater number of large employers have begun to more aggressively attack the problem through targeted health improvement programs, a survey shows.

Health care costs

41% of employers say they are willing to absorb costs in 2005, compared with **29%** in 2004.

grams, compared with just 14% in 2004, the survey found.

Large employers have begun offering employees financial incentives—such as gifts or discounts, lower co-payments or premiums or flex dollars—to complete health-risk appraisals, use lower-cost and/or higher-quality providers, improve their personal health and use health care services more appropriately.

Among other survey findings:

- Eight percent of large employers now offer health savings accounts, and another 18% plan to offer them in 2006. In addition, 47% of employers surveyed said they are considering HSAs.

- Employers appear somewhat more willing than in previous years to absorb health care cost increases rather than pass them along to employees, with 41% of employers saying they will absorb the increased expense in 2005, compared with 29% last year.

- Nearly one-half of large employers—49%—have moved to a single national health plan from multiple regional health plans, up from 29% in 2004.

- The number of employers providing employees with information on specific health issues has nearly doubled between 2003 and 2005 to 71%.

Copies of the 10th Annual National Business Group on Health/Watson Wyatt Survey Report, "Managing Health Care Benefit Costs in a New Era," are available at www.watsonwyatt.com.

Nearly 70% of large employers are using disease management programs through their health plans this year, compared with 49% last year, according to the 10th Annual National Business Group on Health/Watson Wyatt Survey Report.

Another 28% of the 555 large employers participating in this year's survey are adopting disease management programs through an outside vendor, up from just 11% in 2004.

In addition, the number of employers offering lifestyle behavior change programs through their health plans doubled to 40% this year, and 32% of large employers now offer obesity-reduction pro-

Business Insurance promotes Cenicerros to senior editor post

LOS ANGELES—*Business Insurance* has promoted Roberto Cenicerros to senior editor and Los Angeles bureau chief.

Mr. Cenicerros joined the magazine in 1994 as associate editor in Los Angeles and was promoted to bureau chief in 2000. As senior editor and Los Angeles bureau chief, he will continue to coordinate West Coast assignments and news sources as well as report on a variety of topics, including workers compensation, excess and surplus lines and Latin American markets.

Before joining *BI*, Mr. Cenicerros was a reporter at the Pasadena Star-News in Pasadena, Calif.

"Roberto is a great reporter, and his well-deserved promotion recognizes his high quality of work for *Business Insurance* over more than 10 years," said *BI* Editor Regis Coccia. "We're grateful to have such a talented and experienced staff member based in Los Angeles who contributes a great deal to our coverage of insurance, risk management and employee benefit issues both online and in the weekly magazine."

Mr. Cenicerros can be reached by phone at 323-370-2455 and at rcenicerros@businessinsurance.com.



Mr. Cenicerros

STOP LOSS IS OUR GAME.



Every case we write is personal to us. So is every **TPA** relationship. That's why when you choose **RMTS** for your clients' medical stop loss needs, we'll put our **flexibility** to work for you. Our **stop loss** experience spans three decades. That track record gives us the ability to write customized medical stop loss and group life coverage for even hard to place cases. It also allows us to offer our **TPA** partners coast-to-coast access to some of our nation's best regarded insurers:



- Flexible stop loss and group life coverage for all industry types, including Taft-Hartley groups, government entities, and hospitals
- Establishment of TPA territories minimizing potential marketing conflicts
- Exceptionally competitive rates and commission schedules
- Access to top insurance companies



The Old Mercantile Exchange Building • Six Harrison Street, New York, NY 10013
Tel: 866.341.4203 • www.RMTS.net

Business Insurance

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

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 - Graphics:
Kathy L. Barnes (Chicago)

News Editor: Matt Scroggins (Chicago)

Senior Editors: Michael Bradford (New Orleans);
Roberto Cenicerros (Los Angeles); Meg Fletcher,
A.R.M. (Chicago); Judy Greenwald (San Jose);
Mark A. Hofmann (Washington); Dave Lenckus
(Tucson); Douglas McLeod (New York); Sally
Roberts (Denver); Joanne Wojcik (Denver); Rodd
Zolkos—Industry Focus (Chicago)

Bureau Chief: Sarah Veysey (London)

Associate Editor: Gloria Gonzalez (New York)

Staff Reporter: Rupal Parekh (New York)

Correspondents: Carolyn Aldred (England);
Elizabeth Fry (Australia)

Copy Editor/Graphics: William Murphy (Chicago)

Copy Editors: Mary B. Nick (Chicago); Joe Walker
(Chicago)

Directory Editor: Kevin P. Edison (Chicago)

Assistant Directory Editor: Carrie A. Peinado
(Chicago)

Online Editor: Kathy Downing (Chicago)

Online Producer: Amy R. Kepka (Overland Park)

Executive Assistant/Reprint Manager:
Karen Brown Tucker (Chicago)

Editorial Cartoonist: Roger Schillerstrom
(Chicago)

Advertising Director: Kenneth F. Luker Jr.
(New York)

Director - Business Development: Robert L.
Niesse (Chicago)

Interactive Sales Manager: Chris Crain (New York)

District Managers: Laura Booth (Irvine);
Ron Kolgraf (Boston); William J. McGuire
(Chicago); Robert B. Murray (New York); John L.
Phillips (Chicago)

Classified Advertising Manager: Tina Vasilakis
(Chicago)

Assistant to the Publisher: Pat Ghazvini (New
York)

Advertising Traffic: Monique Murray (New York)

Production Manager: J. Thomas Janka (Chicago)

Circulation Manager: Kevin Scott (New York)

Circulation Coordinator: Craig Bowman (Detroit)

Director of Communications: Ronnie I. Drachman
(New York)

Promotion Manager: Michael Ambrosio
(New York)

Promotion Coordinator: Barbara O'Brien
(New York)

EDITORIAL: Chicago: 312-649-5200; Denver:
303-282-4260; London: 44-207-457-1400;
Los Angeles: 323-370-2455; New Orleans:
985-871-1090; New York: 212-210-0100;
San Jose: 408-774-1500; Tucson: 520-579-1937;
Washington: 202-662-7200

ADVERTISING: Boston: 617-292-4856;
Chicago: 312-649-5276; Irvine CA: 949-255-5355;
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/Group Publisher:
Gloria Scoby

**Group Vice President/Technology, Circulation,
Manufacturing:** Robert C. Adams

Corporate Director/Production & Manufacturing:
Dave Kamis

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; 71121 Minkler St., Abita Springs, La.
70420; Fax: 985-871-4006; 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; 34 Southwark Bridge Road, London SE1 9EU, Fax:
+44-(0)20-7457-1440; 8157 N. Torrey Place, Tucson,
Ariz. 85743. Fax: 520-579-3476; 1746 Cole Blvd., Suite
150, Golden, Colo. 80401. Fax: 303-733-9941; 11133 W.
108th St., Overland Park, Kan. 66210. Fax: 312-280-3174.
77 Franklin St., Suite 809, Boston, Mass. 02110-1510;
Fax: 212-210-0704. 4 Executive Circle, Suite 185,
Irvine, CA 92614-6791. \$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). Kevin Scott, circulation manager. Four weeks'
notice required for change of address. Send sub-
scription correspondence to Circulation Department,
Business Insurance, 711 Third Avenue, New York, N.Y.
10017-5806. Microfilm copies available: University
Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48013.
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: Karen Brown Tucker, *Business
Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-
3806, 312-649-5319, Fax: 312-280-3174.



To subscribe, call 888-446-1422,
or 313-446-0450
outside the United States.
www.businessinsurance.com



Editorial

Hank Greenberg's exit marks the end of an era

THE EXIT OF Maurice R. Greenberg as American International Group Inc.'s long-time chief executive officer evokes mixed emotions.

In part, it is a sad end to one of the most astoundingly successful careers any financial executive could hope to have. AIG and Hank, the nickname by which Mr. Greenberg is widely known, are virtually synonymous. CEO since 1967, Mr. Greenberg built AIG into the world's largest commercial insurer and one of the most admired companies in any industry. As an insurance organization, AIG's accomplishments and underwriting results are striking, if not without equal.

A record of earnings growth made AIG a darling of investors and a standout in the volatile property/casualty insurance business.

But some of the innovative and perhaps questionable financial transactions AIG conducted that may have helped it improve results attracted the attention of New York Attorney General Eliot Spitzer and the Securities and Exchange Commission, which have launched investigations.

Unquestionably, Mr. Spitzer's probe led to Mr. Greenberg's resignation. Given his reputation for knowing minute details of AIG's

myriad operations, it is hard to believe Mr. Greenberg was not aware of at least some possible irregularities that attracted the current scrutiny. Whether these investigations will lead to further settlements and drastic changes at AIG is still an open question.

Maurice R. Greenberg built AIG into the world's largest commercial insurer and one of the most admired companies in any industry. As an insurance organization, AIG's accomplishments and underwriting results are striking, if not without equal.

While Mr. Greenberg's fall from his lofty perch is perhaps sad, it was inevitable. AIG's board of directors had no choice, in response to the probes by Mr. Spitzer and the SEC, in replacing a man whom many have viewed as irreplaceable.

The AIG board, which forced out Mr. Greenberg, wisely recognized that the regulatory and legal world

has changed. Corporate boards today, as a series of high-profile cases have made clear, are held accountable for the actions of the top executives. Directors have a legal obligation to protect the company and its shareholders, not the CEO.

For the time being, Mr. Greenberg will stay on as nonexecutive chairman of AIG and remain a top officer of affiliates C.V. Starr and Starr International. In any case, his influence will continue to guide AIG and, we hope, at least in some areas, the commercial insurance industry. Mr. Greenberg, 79, has been a strong voice for tort reform, open markets and creative solutions to risk. In this, he has been a true friend to risk managers. AIG's operating units are major markets in virtually every commercial line and, in some lines, the only top-rated insurer.

As to Hank Greenberg the man, we confess ambivalence. His often brutal management style offended many and drove out no small number of talented AIG executives, including, perhaps, even his sons.

Yet it is no exaggeration to say he was a financial and insurance genius, whose vision, drive and ambition made AIG what it is. We doubt the insurance world will ever again see the likes of a Hank Greenberg.

Schillerstrom



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

And the beats go on...

To ensure continuing timely coverage, *Business Insurance* has formalized its reporters' beats. This list is not intended to be exclusive but rather to represent core subject areas of importance to *BI* readers. *BI* welcomes ideas and tips on these and other areas. Staff e-mail addresses comprise the first letter of the person's first name, followed by his or her entire surname and "@businessinsurance.com."

Agents/brokers: Sally Roberts.

Asian markets:
Michael Bradford.

Benefits-health care and ancillary benefits: Joanne Wojcik.

Benefits-retirement savings/pensions: Jerry Geisel.

Canada-risk management and benefits: Gloria Gonzalez.

Captives/alternative risk transfer: Michael Bradford.

Claims management:
Meg Fletcher.

E.U. regulatory/legislative:
Sarah Veysey.

Employment practices:
Judy Greenwald.

Environmental risk management: Sally Roberts.

European benefits management:
Sarah Veysey.

European industry operations:
London bureau.

European public entity risks:
Carolyn Aldred.

European reinsurance: Sarah Veysey.

Federal regulation/legislation-benefits:
Jerry Geisel.

Federal regulation/legislation-risk management:
Mark A. Hofmann.

Health care industry operations:
Gloria Gonzalez.

Inland marine/transportation:
Michael Bradford.

Insurance coverage litigation:
Douglas McLeod.

Insurance fraud:
Douglas McLeod.

Latin American markets:
Roberto Cenicerros.

Property/casualty industry operations: Judy Greenwald.

Professional liability:
Dave Lenckus.

Property loss control/catastrophe risks:
Mark A. Hofmann.

Regulation of insurance:
Meg Fletcher.

Reinsurance: Judy Greenwald.

Risk management profession:
Dave Lenckus.

Risk securitization/capital markets risk financing:
Carolyn Aldred.

Runoffs/receiverships:
Douglas McLeod.

Safety/ergonomics:
Meg Fletcher.

Surplus lines/wholesalers:
Roberto Cenicerros.

Tort reform:
Mark A. Hofmann.

Work/life benefits and EAPs:
Sally Roberts.

Workers compensation:
Roberto Cenicerros.

Nevada: Moves to lower fees for risk retention groups

Continued from page 4

ers, who have waged many battles with state regulators over such fees.

"I appreciate and welcome the move on the part of the state of Nevada," said Don Breakstone, senior vp and general counsel in the Chicago office of Attorneys' Liability Assurance Society Inc., a Risk Retention Group. Several years ago, Vermont-domiciled ALAS, along with another RRG, successfully challenged a hefty fee Michigan regulators imposed on out-of-state RRGs.

"This is wonderfully positive,"

said Jon Harkavy, general counsel in the Arlington, Va., office of Risk Services L.L.C., which manages RRGs and captives.

Ms. Molasky-Arman acknowledged that Mr. Harkavy first brought the RRG fee issue to her attention.

The fee issue has long been a contentious one between RRGs and state regulators. The fees, RRGs say, violate the spirit, if not the actual letter, of the Risk Retention Act, the federal law that created risk retention groups, which are special multiple-owner captives. Roughly 190

'A \$100 fee is just as illegal as a \$2,450 fee, but your focus is going to be on the highest fee.'

*Jon Harkavy
Risk Services L.L.C.*

RRGs now operate, according to the Risk Retention Reporter, a Pasadena, Calif.-based publication that tracks the industry.

Buyers say the Risk Retention Act bars states from requirements—ex-

cept those, such as premium taxes, specified in the federal law—on RRGs licensed out of state.

"There is no legitimate basis for the fees," Mr. Harkavy said.

Mr. Harkavy and others say this pre-emption of state law was a deliberate act on the part of Congress, to give buyers a low-cost alternative to the traditional market.

The official position of state regulators has changed somewhat over the years. A 1996 National Assn. of Insurance Commissioners' handbook said the Risk Retention Act does not pre-empt states from

charging RRGs initial or annual fees. A later revision to the handbook, though, says states should have their legal departments review such assessments to determine their legality.

The differing views of RRGs and state regulators on fees has, at times, led to litigation, such as Michigan's attempt to impose a 0.5% fee on coverage written for Michigan policyholders by out-of-state RRGs.

Other fee controversies, though, have been settled more amicably. For example, amid protests from RRGs, Hawaii, in the late 1990s, dropped a \$408 fee it initially imposed on out-of-state RRGs to help fund the state insurance department, while Maryland discarded a \$1,000 anti-fraud fee.

RRGs, though, for practical reasons, haven't challenged every state fee, noting that if the fee is low, it may not be cost-effective to file suit.

"A \$100 fee is just as illegal as a \$2,450 fee, but your focus is going to be on the highest fees," Mr. Harkavy said.

Nevada's proposal to dramatically lower out-of-state RRG fees comes as the state has become one of the nation's fastest-growing captive domiciles. In 2004, Nevada li-



Our policies range from the simple to the "you've got to be kidding me."

There are no limits to Murphy's Law. There should be no limits to the ways you can protect your clients. At St. Paul Travelers, we offer an industry-leading range of insurance products. More choices. More expertise in every category. More ways to write complex policies. After all, in a world where anything can happen, you need an insurance company that's, well, ready for anything.

**ST PAUL
TRAVELERS**

stpaultravelers.com

'We want to be known for fast, effective and sound regulation of captives and for accessibility.'

*Alice Molasky-Arman
Nevada Division of Insurance*

censed 24 captives, bringing its year-end total to 38. Nevada now has 40 captives, including 12 RRGs.

Ms. Molasky-Arman attributes that growth to the state's attractive business climate and its regulatory attitude toward captives.

"We want to be known for fast, effective and sound regulation of captives and for accessibility," she said. Ms. Molasky-Arman herself has a pro-captive attitude, saying she likes the idea of a business being able to take charge of its insurance destiny.

Nevada is "very keen to come up with business solutions to help clients," said Alison Quinlivan, senior vp/office head for Marsh Management Services in Honolulu.

Nevada captive regulators are "professional and straightforward. They know what they are talking about," said Sanford Elsass, president and chief executive officer in New York for Atlanta-based Uni-Ter Underwriting Management Corp., which manages two Nevada-domiciled RRGs.

And Nevada soon could become even more attractive to captives. The legislative package proposing the reduction in registration and annual fees assessed on out-of-state RRGs also would lower capitalization requirements for single-parent captives licensed in the state, as well as allow sponsored or protected cell captives.

March 21, 2005

11

Spotlight

Terrorism & Crisis Management

Spotlight Editor: Mark A. Hofmann

Market contemplates a world without TRIA

Responses vary to possibility that federal backdrop won't be extended

By MARK A. HOFMANN

If there's one thing risk managers and insurers alike don't like, it's uncertainty.

Yet that's exactly the situation surrounding the future of the Terrorism Risk Insurance Act. TRIA, which provides a federally guaranteed backstop to help insurers cover losses from future catastrophic terrorist attacks, is slated to expire on Dec. 31.

Legislation that would extend TRIA for two years has been introduced in both houses of Congress. But no extension legislation is expected to come to a final vote until the Treas-

ury Department issues a report on the state of the terrorism insurance market. Treasury does not have to issue the report—which will be based on the responses of policyholders and underwriters—until June 30.

That leaves underwriters uncertain of whether they can count on the backstop for policies whose coverage extends into 2006 and beyond. That, in turn, leaves policyholders facing the possibility of having to pay more for less terrorism coverage upon their next renewals.

But while there is concern about what the future may hold, it has not translated into

panic.

And perhaps it won't. Several risk managers asked to comment on the current state of the terrorism insurance market declined to be- cause of ongoing negotiations in the first round of renewals since 2002 when the TRIA backup isn't a given. But D. Terry Fleming, di- rector of the division of risk management for Montgomery County, Md., said that he's al- ready talked to his property insurer, which he declined to identify, about how terrorism would be covered when he renewed the cov- erage midway.

See TRIA/page 14

Focus needed on worker safety abroad

Employers advised to protect employees working and traveling overseas

By MICHAEL BRADFORD

Keeping tabs on employees traveling and working overseas and making sure they are equipped to handle potential security prob- lems is a high priority for some companies.

But many employers could do much more to make sure their workers are safe when trav- eling or working abroad, experts say.

"A significant number of companies don't do enough about overseas travel," said Philip Huntley, Nashua, N.H.-based director of Aon Corp.'s crisis consulting practice. "A good num- ber don't know where their people are going."

Safety is not the only issue that some com- panies are ignoring, others point out.

"Most companies are not doing enough right now, given the way liability issues are evolving," said Neil C. Livingstone, chief ex- ecutive officer of Global Options Inc., a Washington-based risk management services company. "I believe the law is moving toward

companies having an obligation, within rea- son, to assure the safety of employees trav- eling on their behalf."

Mr. Livingstone and other experts say em- ployers with workers who travel abroad or live overseas as expatriates should have poli- cies in place to protect those employees and should make sure they are familiar with the guidelines.

"There's a greater sense of complacency right now," said Mr. Livingstone. "Some com- panies have corporate travel policies," he ac- knowledged, but many "put them in place and say, 'You're on your own.'"

Travel security is "not at the top of the list" of priorities for many companies, agreed Harry Ennevor, executive vp and chief operating of- ficer of E.G. Bowman Co. Inc., a broker and loss control firm in New York that places travel ac- cident insurance for a number of underwriters. "It's still there," he said of interest in security and the coverage, "but it's gotten very cool."

There are a few questions companies can ask themselves to determine the level of risk they face operating or sending personnel overseas, according to Randy Spivey, presi- dent of the National Hostage Survival Train- ing Center in Spokane, Wash. The center pro- vides seminars and other services to help companies deal with the threat of kidnab- pings and terrorism.

Consider "who you are," Mr. Spivey suggest- ed. A senior executive with high visibility who works for a large company, for example, will raise the risk of kidnapping or attack, he said.

"What are you doing? If you're engaged as a contractor to the (Drug Enforcement Ad- ministration), you have a certain amount of risk. If you are a contractor in Iraq, you obvi- ously have risks," he said.

Companies should also understand that the easily recognizable hot spots such as Iraq and Afghanistan are not the only risky places

See TRAVEL/page 19

Vendors a key link in safeguarding supply chain

By JUDY GREENWALD

Companies preparing for the possibility of supply chain disruption face a dilemma.

The current prevailing business philosophy is that companies should run a "lean and mean" operation, with an absolute minimum number of suppliers and often a "just-in-time" inventory system, which schedules ma- terials to arrive just when they are needed in the production process.

But this may run counter to the need to have backup suppliers if there is either a natu- ral or manmade catastrophe. And the memo- ry of the Sept. 11, 2001, terrorist attacks has created a heightened awareness of the need for companies to have at least some safe- guards in place. "It's good to be lean, but there's a dark side of lean, also," said Vinod Singhal, professor of operations management at Georgia Institute of Technology's DuPree College of Management in Atlanta.

As a result, companies must maintain a del-

Tips to avoid disruptions

- Identify and mitigate the risks of critical suppliers
- Find alternative sources of products and services
- Stockpile additional inventory
- Establish crisis management teams
- Transfer risk through contingent business interruption coverage

icate balance between running an efficient operation while retaining the resources need- ed to resume normal operations quickly if dis- asters occur. This process calls for careful ex- amination and analysis of the company's own operations as well as those of its suppli- ers.

Clearly, a disaster—even one that ranks far below the impact of a 9/11—can be devastat- ing to a company's financial results.

A 2003 study of 885 public companies that announced supply chain problems between 1992 and 1999 found that, in the year leading up to the announcement, average operating income dropped by 107%, return on sales by 114% and return on assets by 93%.

Furthermore, companies were slow to re- cover. The study found that sales, total costs and inventories remained flat during the two- year period after the supply chain problem was announced. The study was conducted by Mr. Singhal and Kevin Hendricks, associate professor of operations management at the University of Western Ontario in Ontario, Canada.

A balance must be struck between main- taining a lean operation and being prepared, say observers. Today, because of philosophies including just-in-time inventory, "the supply

See SUPPLY CHAIN/page 17



Inside:

Standalone terror cover available, affordable

If TRIA expires at the end of the year, risk managers won't be left without options for buying terrorism coverage.

Page 12

Crisis management consultants

BI's inaugural list of providers of crisis management consulting services.

Page 16

Records back up claims for business interruption

Documentation is called key to filing a successful business interruption claim.

Page 18

Know before you go

A travel-safety expert suggests precautions that can reduce the odds of falling victim to terrorism.

Page 19

Little demand in Canada for terrorism coverage

With the risk of attack on Canadian soil deemed remote, few buyers opt for terrorism coverage.

Page 20

BI's Directory of Crisis Management Consultants is available in the Directories area of the BI Web site, www.businessinsurance.com.

The searchable online directories allow registered subscribers to find information by using varied search criteria, including company name and revenue.

PDF copies of this and other Business Insurance online directories can be purchased by e-mailing the Crain Information Center at biorders@crain.com.

Standalone terrorism coverage available, affordable

Some say standalone capacity could be exhausted if TRIA is allowed to expire

By GLORIA GONZALEZ

If the Terrorism Risk Insurance Act expires at the end of the year, risk managers will not be left completely without options if they want to buy terrorism coverage.

Standalone terrorism coverage, which is not supported by the government backstop, is available for risk managers and the price of the coverage, though sometimes high, is not always prohibitively expensive, observers say.

However, while there is sufficient

capacity to meet most of today's demand for standalone coverage, the expiration of TRIA could fuel demand to such a level that standalone capacity might be exhausted, some observers say.

When Caesars Entertainment Inc. made its first foray into the standalone terrorism insurance market, for example, Lance Ewing, vp-risk management, found the market to be responsive and the pricing satisfactory.

"I found the standalone to be much easier with regard to the pur-

chase of" terrorism insurance, he said.

High limits for a price

The standalone terrorism insurance market has grown significantly in the last two years, observers say. New York-based American International Group Inc. and Lloyd's of London have traditionally been the main players in the standalone market and still provide a significant portion of the capacity.

AIG's Lexington Insurance Co.

unit provides up to \$100 million in terrorism capacity for property risks and up to \$25 million for casualty coverages, said Charles Benda, practice leader for Lexington's homeland security practice, who works in New York and Boston.

Lloyd's entities offer about \$400 million in terrorism limits, said Ben Garston, partner of London-based MAP Underwriting and chair of Lloyd's Market Assn.'s Terrorism Insurance Business Panel.

But recent increases in capacity in the standalone market have

come from Pembroke, Bermuda-based AXIS Capital Holdings Ltd., Hamilton, Bermuda-based ACE Ltd., Bermuda-based Montpelier Re Holdings Ltd., and a few other players. Omaha, Neb.-based Berkshire Hathaway Inc. can also provide significant capacity—upwards of \$500 million—although its pricing tends to be prohibitive, brokers say.

The influx of new capacity means standalone terrorism coverage with limits of less than \$500 million is generally easy to secure, but securing limits above that level can be difficult and expensive, brokers say.

Policyholders can buy as much as \$1.25 billion in capacity, if they are willing to pay the price, but that kind of demand is rare, said Will Farmer, director of Aon Crisis Management in London. "Generally smaller limits have been the norm

Policyholders can buy as much as \$1.25 billion in capacity, if they are willing to pay the price, but that kind of demand is rare.

*Will Farmer
Aon Crisis Management*

and Berkshire Hathaway has been barely active in the market in the last 12 months," he said.

Generally, pricing for terrorism coverage has fallen significantly from the levels that were charged shortly after the Sept. 11, 2001, terrorist attacks because of the increase in capacity and a better understanding of the exposure, brokers say. "I think the standalone market has become more competitive with TRIA," said Robert Blumber, managing director of Marsh's property practice.

Underwriters develop quotes for specific risks based on a variety of factors, including the location of the insured property, size of the organization and their aggregation of risks in particular geographic areas. "There's no way to quantify the average premium," Mr. Benda said.

A building in Manhattan, for example, could potentially have a premium of 0.20% to 0.25% of its value while the premium for a building in a more remote area could be 0.02% to 0.04%.

Broad cover outside TRIA

Standalone terrorism policies cover terrorist attacks committed for political, religious and ideological purposes and they offer broader coverage than TRIA-backed policies because they cover acts of both foreign and domestic terrorism.

The policies exclude chemical, biological and nuclear risks because this type of terrorist attack "would probably involve so much property we wouldn't be able to pay all the claims," said Mr. Garston of MAP.

Some insurers, however, do offer coverage endorsements that extend terrorism coverage.

See **STANDALONE**/page 20

THE MORE THINGS CHANGE, THE MORE YOU NEED FIRST STATE.

The only constant in today's market is change. Which is why you need a carrier with the experienced staff and financial stability to respond quickly and creatively. We pride ourselves on building long-term relationships risk by risk. Admitted or non-admitted. Primary or excess. Fire or catastrophe business. With talented people, financial strength and a strong commitment to customer service, First State is ideally equipped to provide you with the right coverage at the right time..

FIRST STATE

PROPERTY / PROGRAMS

First State Management Group, Inc. 150 Federal Street, Boston, Massachusetts 02110 An affiliate of The Hartford Financial Services Group, Inc. Atlanta Boston Chicago Hartford Los Angeles New York San Francisco



TRIA: Responses vary to chance act isn't extended

Continued from page 11

"They told us they would offer the coverage whether or not TRIA was extended," said Mr. Fleming. They were offering full limits for the same price as they were last year. Because of our loss experience, they gave us a very competitive rate. We're very happy with what happened—definitely."

Outlook unclear

For others, though, the outlook remains unclear. "Basically, our current policy includes a TRIA endorsement, which adds coverage. For our renewal, we expect that the carrier will attach a conditional TRIA endorsement, extending coverage until at least Dec. 31," said a Midwestern risk manager whose employer declined to be identified.

'I think the general consensus is that there will be some form of TRIA backstop—it may not be universal.'

*Alexandra Glickman
Arthur J. Gallagher & Co.*

"If the government does not renew the coverage, the endorsement will cease to be effective. However, if the government does renew the coverage, any changes to the coverage will be added to the policy by modifying the endorsement. I, personally, believe that the government will renew TRIA," said the risk manager.

"The renewals that we have just bound, which include major real estate holdings in key central business districts, were renewed with full terrorism (coverage) and the understanding by the underwriters that coverage would continue for the full 12 months, regardless of what happened on Dec. 31," said Alexandra Glickman, area vice chairman and managing director of the real estate and hospitality services division of Arthur J. Gallagher & Co. in Glendale, Calif.

"I think the general consensus is that there will be some form of TRIA backstop—it may not be universal," said Ms. Glickman.

Marjorie Young, a vp with E.G. Bowman Co. in New York agreed that so far there hasn't been overwhelming wariness. "Some of the insurance companies are concerned about where they write property insurance and workers compensation. I think everybody has a great deal of faith in the government—no one's expressed any concern, not yet," she said.

But even if the consensus proves correct and TRIA wins a two-year extension, insurers are preparing for a world without TRIA, say insurers and brokers alike. And there is no consensus as to how insurers will respond.

"There's obviously a concern" about TRIA's future, particularly among policyholders in metropolitan areas as well as insurers," said Bob Blumber, managing director-

national property practice for Marsh Inc. in New York.

"More and more underwriters are taking positions," said Mr. Blumber. Some say they won't provide coverage if TRIA isn't extended, and "some are still ironing out their position," he noted.

"It's all over the lot" regarding what insurers will do come 2006 in the absence of TRIA, said Mr. Blumber.

"The market response at this point is anything but uniform," agreed Aaron Davis, a vp with Aon Corp.'s Aon Risk Services in New York. "Certain carriers have com-

mitted to offering terrorism capacity beyond the expiration of TRIA. Other carriers are offering terrorism on a sublimited basis, and a majority of the carriers are still relying on conditional exclusions that will allow them to either exclude the risk altogether or sublimit it, or reprice the terrorism premium post-Dec. 31."

American International Group is "in a little different position than some other companies," noted Richard Thomas, senior vp and chief underwriting officer for AIG's domestic brokerage group in New York. "Under TRIA, we have a very

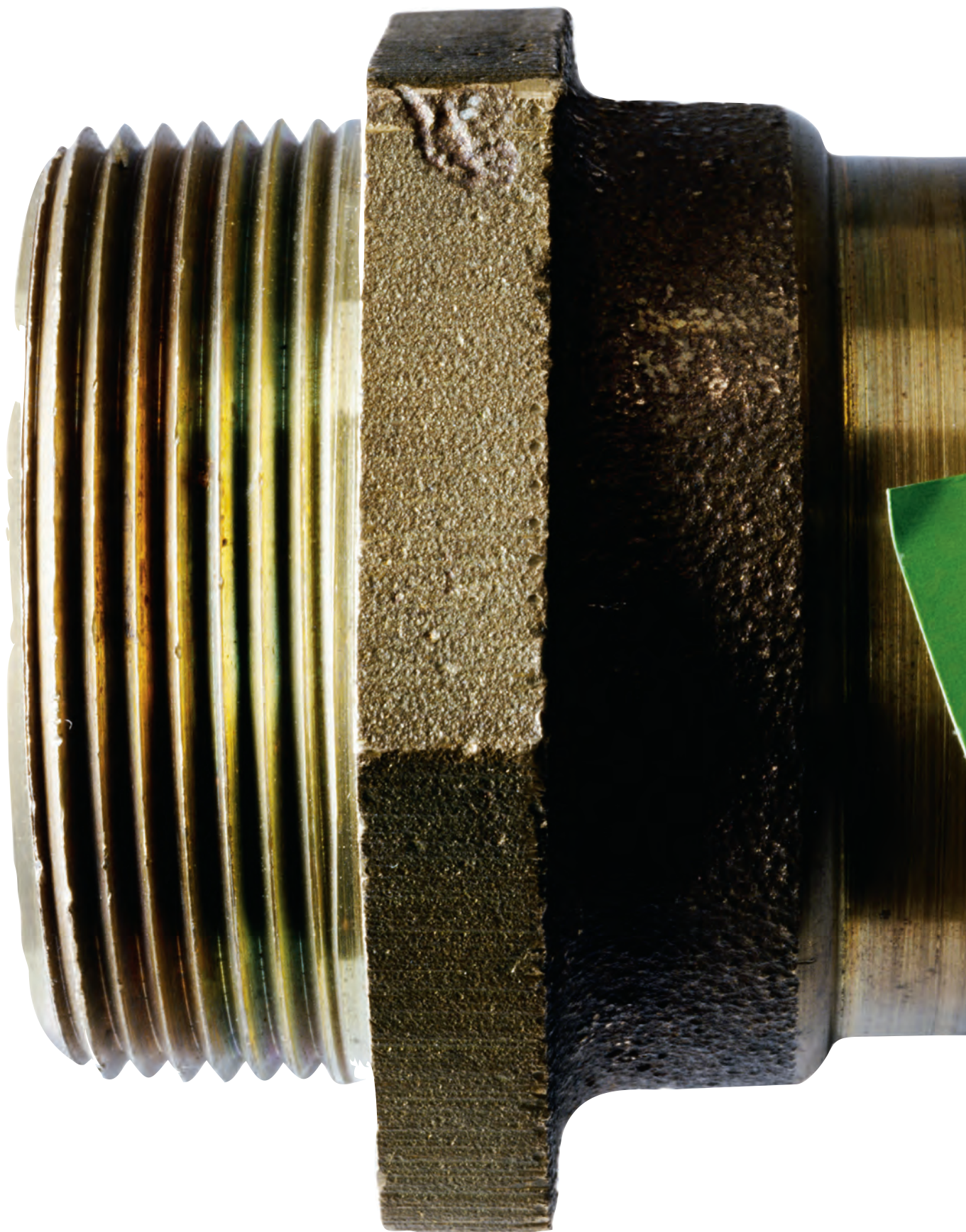
large retention in 2005. Our retention this year is just under \$3.3 billion for terrorism. In other words, we would have to sustain slightly less than \$3.3 billion from a terrorism event before we could recover from TRIA. With a retention that size, we're underwriting to that. Our underwriting today contemplates managing our aggregate exposures for workers compensation and property insurance in the various target areas where we have insureds. Obviously, if TRIA is not extended, we'll continue the practice of monitoring our aggregate exposure by target locations, and there

will be a cap on that," he said.

"Particularly in the real estate industry, they need to know that the coverage is going to be there, to be able to plan new construction projects going forward," said Mr. Thomas. "Obviously, their business planning extends well beyond the end of 2005."

"Our policyholders certainly value financial integrity, and we intend to make sure that we maintain very strong financial integrity," said Randy Schreitmueller, a vp at Johnston, R.I.-based Factory Mutual Insurance Co., which does business as

Continued on next page



March 21, 2005

Spotlight

Business Insurance / 15

Continued from previous page

FM Global. "What we've done to prepare—we are going forward with a set of provisional renewal conditions. Basically, what it boils down to is terrorism sublimits in the event that TRIA expires." The sublimits depend on geographic location, and they vary from \$100 million to \$250 million." The lower limits apply to locations in major city centers.

Insurer concerns

"From what I'm hearing, people have generally been receptive" to insurer concerns, said Mr. Schreitmüller. "Let's face it; before TRIA, most carriers weren't extending coverage at all."

"I think that concern is starting to build, but it's still not as much a concern as you would expect, whether it's producers or customers," said Tim Rose, president of Liberty Mutual Insurance Co.'s Liberty Mutual Property division in Weston, Mass. "It depends on a few things, such as the level of sophistication of the buyer and what their corporation's view is of their terrorism risk."

"The companies have a lot at stake with extending the backstop. As the year progresses, I believe the pressure will continue to build and as the issue plays out in Congress. There are risks that will be considered unacceptable to carriers because of the exposures that put the insurance company's financial via-

bility at risk," he said.

As an example of risks that could cause workers compensation insur-

'With TRIA's expiration, it will come down to how the insurance industry allocates the limited capacity available to this risk. We would expect to see a decrease in availability.'

Jason Schupp
Zurich North America Commercial

ers concern, Mr. Rose cited large employee concentrations in single

buildings in jurisdictions that have high benefit structures. An exposure on the property side is heavy value concentrations in urban areas or on single risks, or single buildings type of risks and any combination of the two, could be a very substantial exposure, he said.

"We are already seeing a capacity crunch in the market, in particular in Tier 1 cities like New York, Washington and Chicago," in both the stand-alone market and the all-risk market, said Aon's Mr. Davis.

"Carriers are taking a very careful look at their aggregate exposures in their Tier 1 cities, and they're tending to allocate capacity to clients that are already on their books," said Mr. Davis.

"How do you think about a ter-

rorism maximum loss event?" asked Gary Kaplan, executive vp and chief underwriting officer at Zurich North America Commercial in Schaumburg Ill. "It has traditionally been thought of as an uninsurable exposure."

"The most important thing that really hasn't happened is the reinsurance market really hasn't rushed in to fill the void," said Mr. Kaplan.

"Private reinsurance won't be there to replace the federal backstop when TRIA expires," added Jason Schupp, Zurich's assistant general counsel, also in Schaumburg.

Mr. Kaplan said he expects "there would be a movement to exclude terrorism to the extent of the capacity removed by the expiration of the federal backstop."

"We don't see our individual capacity contracting. We currently have in place the discipline to operate in year three of the program or post-TRIA," said Mr. Schupp. "There's just so much capacity to go around. Right now, some of that capacity is federal capacity provided by TRIA. If that goes away, yes, there will be exclusions as the industry adjusts to a lower amount of capacity."

"With TRIA's expiration, it will come down to how the insurance industry allocates the limited capacity available to this risk," said Mr. Schupp. "We would expect to see a decrease in availability."

"We're working with insurance companies to try to come up with alternatives" if TRIA expires, so that underwriters can reserve some capacity for terrorism coverage, at a price, said Marsh's Mr. Blumber.

In some cases, "it will be a matter of whether some of these clients will realize they need terrorism insurance," he said. They have to plan for the worst-case scenario, said Mr. Blumber.

Currently, Marsh is seeing terrorism insurance take-up rates in the 50% range, Mr. Blumber said. Part of the reason is pricing, but clients are also realizing that the risk is there and "it's not something that's going away," he said. "It will be a bigger issue going into 2006."

"A post-TRIA environment does not appear to be very pleasant for either insurers or policyholders," said Mr. Schupp.



When you're dispensing flammable

liquid, you should have a safety

bung on each drum, or everything

you've worked for could blow up in

your face. Which is precisely why

the world's leading companies

find FM Global's engineering

approach the best fit. Because,

unlike insurance companies

that use actuaries to calculate

risk, FM Global's 1,400 engineers

work full-time to minimize risk.

When one incident can cost

millions of dollars in lost revenue

and shareholder value, you might

want to ask yourself: What price are

we willing to pay for *not* having the

right protection? Visit fmglobal.com

to learn more.



Business Insurance®

www.businessinsurance.com

Reprint Services

RMS, Reprint Management Services, is the official and exclusive service provider for editorial reprints of articles and charts appearing in *Business Insurance* and *BI's Industry Focus*.

RMS can provide high-quality reprints in any quantity to meet your needs. Electronic prints, e-prints, can be prepared for posting to Web sites. All RMS products comply with U.S. copyright laws.

For information, to obtain a quote or place an order, contact:

RMS

Reprint Management Services
800-290-5460, ext. 100
businessinsurance-reprintbuyer.com,
industryfocus@reprintbuyer.com,
www.reprintbuyer.com

Crisis management consultants

Companies providing unbundled crisis management consulting services

Company/Address	Phone/Fax/Web site	Parent	Total crisis consulting revenues	Crisis management staff	Total clients	Principal officer
All Hands Consulting 10025 Maple Ave. Columbia, Md. 21046	410-730-5677 Fax: 410-730-7628 www.allhandsconsulting.com	—	\$1,200,000	2	12	Wendy Davis, president
Aon Crisis Management 5 Independence Way Princeton, N.J. 08540	609-720-1027 Fax: 609-720-1135 www.aon.com	Aon Corp.	NA	100	NA	Bill Harrison, managing director
Clayton Consultants Inc. 160 N. Elm St. Escondido, Calif. 92025	760-504-0304 Fax: 760-504-0308 www.claytonconsultants.com	—	\$3,000,000	7	500 ¹	Jack Cloonan, president
Cone Inc. 855 Boylston St. Boston, Mass. 02116	617-227-2111 Fax: 617-523-3955 www.coneinc.com	Omnicom Group Inc.	\$400,000	8	10	Jens Bang, president/COO
Control Risks Group L.L.C. 1600 K St. N.W., Suite 450 Washington, D.C. 20006	202-449-3330 Fax: 202-449-3325 www.crg.com	Control Risks Group Ltd.	\$100,000,000	400	5,000 ¹	Andreas Carleton-Smith, CEO
Disaster Management Inc. 1531 S.E. Sunshine Ave. Port Saint Lucie, Fla. 34952	772-335-9750 Fax: 772-335-9739 www.disastermgt.com	—	\$125,000	1	50	Douglas M. Henderson, president
ESN Consulting L.L.C. 103 Dannon Court Cary, N.C. 27511-4867	919-467-5600 Fax: 919-468-0001	—	NA	5	5	Ellis S. Nelson, president
Kroll Inc. 900 Third Ave. New York, N.Y. 10022	212-593-1000 Fax: 212-593-2631 www.krollworldwide.com	Marsh & McLennan Cos. Inc.	\$750,000,000	4,100	10,000	Simon Freakley, CEO
Specialty Risk Management Inc. 8015 Bronco Lane, Suite 200 Lago Vista, Texas 78645	800-328-7761 Fax: 512-328-2486 www.callsrm.com	—	\$1,200,000	8	230	Pamela J. Ritz, president
Willis 7 Hanover Square New York, N.Y. 10038	800-862-1441 Fax: 973-410-4600 www.willis.com	Willis Group Holdings Ltd.	\$500,000	22	17	Joe Plumeri, chairman/CEO

NA=Not available 1 Estimated
Source: *BI* survey

Visit www.businessinsurance.com for more information and access to the full searchable Directory of Crisis Management Consultants.

Supply chain: Involve key vendors in backup strategy

Continued from page 11

chain can be almost brittle, and it doesn't take much to break," said Tom O'Brien, senior risk modeling consultant with Boston-based AIR Worldwide Corp., a risk modeling company.

This increasingly becomes an issue as companies become more global in scope, said Mr. O'Brien. "It creates a much greater level of concern, from the organization's standpoint, as to what the hazards are." Everyone knows that Florida is vulnerable to hurricanes and California to earthquakes, "but if you're outsourcing something to Asia, do you know what the hazards are there?" he asked.

"There's always tension between trying to be as cost-effective as you can and also having an appropriate backup strategy in place, or safety stock," said Greig Fennell, director of business continuation at Overland Park, Kan.-based Sprint Corp.

Increased awareness

Sept. 11 has also played a role in making companies more aware of this issue, say observers.

Charles R. Lee, Dallas-based managing principal with Tillinghast, said, "Our eyes were thrown wide open, and what many of us never imagined could happen did happen, and it caused a lot of rethinking about all aspects of any organization's business—not just their own business but that of their suppliers."

There are regulatory pressures as well, said Richard Lowery, Minneapolis-based senior vp of the business continuity planning and supply chain practice at Marsh Kroll, a unit of Marsh & McLennan Cos. Inc. The Sarbanes-Oxley Act requires companies to identify any material risk in their financial statements. "I think most internal auditors and external auditors are looking for some form of contingency planning," he said.

The first step is to identify critical suppliers and assess the impact if they "go down or are not able to meet any delivery requirements," said John Neal, Boston-based practice leader for crisis assessment with Liberty Mutual's national marketing business unit.

Involving suppliers in this process is critical, said Michael Morganti, a Norwood, Mass.-based training manager for Factory Mutual Insurance Co., which does business as FM Global. "A good risk manager is looking outside those four walls," he said. "Many of our clients are actually requiring sole source suppliers and (just-in-time) suppliers to provide them with a copy of their business or continuity plan," or asking their insurers to look at copies of the risk analyses that the suppliers' own insurers prepare, "just so they feel comfortable. If you have a company that's making widgets and you need these little thingamabobs from another company, you don't want that thingamabob company to be housed in a wooden building, without sprinklers, in a hurricane zone," he said.

Mitigating these risks could involve finding alternative sources, ensuring additional inventory is located off site "or just transferring the risk through contingency business interruption coverage," said Mr. O'Brien.

Sprint looks at its suppliers "and then we classify them as to what's their significance to Sprint," said Mr. Fennell. "We'll look to see what percentage of the business they represent."

If they are the sole supplier, he said, "then we're going to look to see if we can find alternative sources," in the event of a disruption.

tion.

Sprint also engages its critical suppliers in looking at their own business recovery strategies, exploring the impact of disruptions and determining how they can go about continuing to supply the company with products and services. "We'll work with them on alternative strategies," he said.

In cases where manufacturing is done overseas, Sprint will find out their exit strategies. Furthermore, Sprint is putting in place guidelines as to how much of a particular product is to be produced in a given country. "If that percentage begins

to grow greater than we want it to be, then we engage around what do we want to do about that," said Mr. Fennell.

At Federal Way, Wash.-based Weyerhaeuser Co., "we have redundant mills," said John W. Lambdin, assistant treasurer and director of insurance. "All of them have their customer base," but the capability for excess capacity is built into the system, so if a mill goes down, the one closest to it can make up capacity. "In extreme cases, we may go to a competitor and buy product in order to maintain market share," said Mr. Lambdin.

Similarly, contingency plans for companies in the auto industry call for going to other suppliers or sister organizations. Companies in the auto industry "really try to stay away from stockpiling material just because of the huge cost that's associated here," said Morris Brown, program manager for materials management at Southfield, Mich.-based Automotive Industry Action Group, a nonprofit organization established by auto manufacturers to create standards and provide training in the industry.

Finding alternative sources of
See SUPPLY CHAIN/next page



IF EVERY POLICY WAS
A PUSSYCAT, YOU WOULDN'T
NEED A BROKER LIKE US.

MOST INSURANCE POLICIES ARE PRETTY TAME, UNLIKE THOSE THAT WESTROPE PLACES. WE'RE A WHOLESALE BROKER SPECIALIZING IN SECURING DIFFICULT OR HARD-TO-PLACE POLICIES WITH MAJOR CARRIERS IN THE U.S. AND GLOBAL MARKETS. IF YOU HAVE A SITUATION YOU NEED HELP HANDLING, VISIT WWW.WESTROPE.COM/CAT1 TO FIND A BROKER AT A WESTROPE OFFICE NEAR YOU.



WESTROPE

ENSURING INSURANCE

Supply chain: Planning

Continued from previous page

supply can depend upon the industry, though, said Corey Gooch, Chicago-based senior consultant in enterprise risk management for Aon Corp.

In a heavily regulated industry such as pharmaceuticals, for instance, "you need to be a little more conservative" in stockpiling inventory because "you can't just go out and get a new manufacturing site or a new supplier," while in more-traditional manufacturing, alternatives may be more readily available.

Preparation is important, say observers.

Philip Huntley, Nashua, N.H.-based crisis management consultant for Aon Corp., said in the fast food industry, for instance, suppliers are often required to conduct exercises several times a year to check their ability to know where their product is at any given time and to be able to recall it, if necessary.

The suppliers will bar-code their product, if possible, which "obviously is very important where product recall is concerned, because... you want to make sure to get back all the product that should be recalled, but not go to the expense of recalling products unnecessarily," said Mr. Huntley.

Many companies have estab-

lished crisis management teams to be ready when a problem arises. Dennis C. Banschbach, Chicago-based principal consultant with GE Insurance Solutions' Property Insurance Services Global Asset Protection business unit, said when Chicago-based Sara Lee Corp. had a major fire at one of their textile facilities, which produced socks, "their crisis management team came into play and basically mitigated the loss by outsourcing a lot of that product."

High-performing companies can anticipate the implications to their business "if something happens and understand what scenarios might play out," said Allen J. Delattre, a Los Angeles-based partner in supply chain management, electronics and high tech with Accenture.

During the 2002 U.S. West Coast port lockout in 2002, for instance, these companies were able to develop alternative routes for their products, including going through the Panama Canal and using ports including Charleston, S.C., said Mr. Delattre.

"It was not optimal and it cost them a little more money, but the investment made was far exceeded by the benefit of being able to maintain business continuity," he said.

When losses can't be prevented, produce records to back up claim

By JUDY GREENWALD

Documentation is a major key to filing a successful business interruption claim, but quantifying a loss can be tricky, say claims experts.

Bill Oklesen, Chicago-based director, property claims, for Aon Corp., said one of the easiest ways to capture a loss is to take a three-pronged approach: taking into account business activity prior to the loss, during the time period it takes to recover from the loss, and "then the business operations after all of that impact has ended," said Mr. Oklesen.

"The trick is trying to determine how things would have looked during that loss period if the disruption had not occurred," said Mr. Oklesen.

"When you start putting a claim together to submit to the insurer, the basis has to be explained and documented," said William S. Rodgers, Nashville, Tenn.-based senior vp and consultant with Willis Risk Solutions. That does not mean the

risk manager must submit everything, but when in doubt, produce it, "or at least have it ready." And if the claim is made that a particular operation represents 2% of revenues, "be prepared to demonstrate why 2% is a right number," he said.

Mr. Rodgers also suggested that the claim include, in addition to the hard data, a narrative that explains what happened, its impact and the company's efforts to mitigate the loss. Two or three pages are sufficient, he said. This is useful because even if the adjuster is familiar with the business, "they may need approval from an authority above them who is not."

Another key to filing a successful business interruption claim for a loss is to assure the insurer that everything has been done to minimize its impact, say experts. Companies are obligated by their insurers "to do whatever they can to mitigate that loss," be it through other facilities or through other means, said Mr. Oklesen.

Mr. Rodgers said when people

call him in a panic after a loss, he tells them, "Forget you have insurance." The best approach, in terms of ultimately submitting a successful business interruption claim, is to go ahead and make the best decisions possible to keep the business going, said Mr. Rodgers.

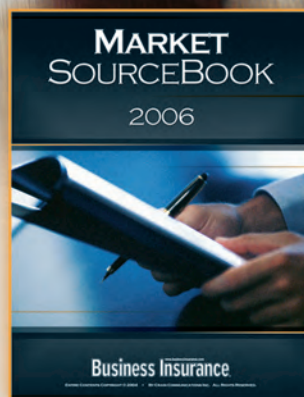
"But make sure you document it well," he said. "So many times you see decisions made that are poorly documented," which becomes a problem six months later when it comes to a settlement.

Michael Hagen, vp and chief adjuster for Johnston, R.I.-based Factory Mutual Insurance Co., which does business as FM Global, said, "I think the primary thing is openness between the parties to begin with. The clients should be very comfortable talking to our adjusters. The adjusters are trained to develop the information that's needed in order to help their understanding of what is needed for the business interruption claim."

"I think those open discussions really help everyone," said Mr. Hagen.

Attract
more
attention.

Attract
more
business.



Business Insurance's Market SourceBook is a business development magnet that will pull corporate decision-makers in your direction.

This indispensable resource is the most comprehensive directory available on services and providers in the commercial insurance industry. No one else offers anything like it. So when your customers and prospects are ready to purchase the products and services they need, **BI's Market SourceBook** will draw them in, all year long.

And with a wide range of special opportunities, advertising in **BI's Market SourceBook** should be at the center of your marketing strategy.

Let *Business Insurance* point you toward some compelling ways to take advantage of this unique opportunity to execute an effective, year-long marketing strategy for 2006 – by advertising in **BI's Market SourceBook 2006**.

Contact Bob Niesse at 312-649-5276 or e-mail bniesse@BusinessInsurance.com.

Publishing Date: December 31
Ad Close: November 7

Business Insurance www.businessinsurance.com

NEW YORK: 212-210-0133
CHICAGO: 312-649-5276

IRVINE: 949-255-5355
BOSTON: 617-292-4856

Travel: Focus on safety abroad

Continued from page 11

to operate, Mr. Spivey said. For example, "some of the higher risk areas are in Mexico, particularly along the border," he remarked.

Employers sending workers abroad should have in place a "safe-travel campaign," Mr. Spivey said. "That means talking about how to travel in groups, how to blend in," and other ways to move safely about in countries where threats exist.

Mr. Spivey agreed that while some companies are much better than others, many give short shrift to travel security. "Most are sending people with little training or preparation," he said, and even at many companies that do have some sort of safe-travel policy, employees are not aware that it's available.

Some employers have let complacency creep in since the 2001 terrorist attacks, Mr. Spivey said. "As you get further away from a crisis point, you tend not to be as vigilant," he said.

Archer Daniels Midland Co. is not one of the companies that have become complacent. When an ADM employee is traveling on business, he or she goes prepared with information on security threats in the region, said Mark Cheviron, corporate vp of corporate security at Decatur, Ill.-based ADM.

ADM uses a travel management company "that's synched up with a

commercial entity" that provides travel security information, Mr. Cheviron said. The travel company sends employee itineraries to the partner firm, and "we get back information on the security climate" of the area where the worker is traveling, he said.

ADM has access to all travel information for its employees so that management knows the details of a business or vacation trip and can quickly find a worker, if necessary. "We can flash up a map of where we have people," said Mr. Cheviron, "both travelers and expats."

If an employee does run into trouble and has to be hospitalized or evacuated, ADM has contracted with vendors who supply such services and quickly assist a sick or injured worker, according to Mr. Cheviron.

Aon's Mr. Huntley said catastrophes such as the tsunami that struck Asia last year and the 2001 terrorist attack on the World Trade Center illustrate why companies should always be aware of where their workers are traveling.

He pointed out, too, that many companies "don't understand that they can become liable if they don't have effective measures" in place to reasonably protect workers.

Employers should hold "secure-travel training" sessions at least once a year, Mr. Huntley said, at corporate

sales meetings or other such gatherings to promote safe-travel awareness.

A number of insurers provide travel accident insurance that covers a range of workforces and exposures. They generally provide evacuation, repatriation of remains, disability and accident insurance.

"We provide business accident plans that cover from five-life groups to hundreds of thousands of lives," said Lloyd Young, New York-based senior vp and chief underwriting officer for American International Group Inc.'s domestic accident and health division.

The cost of coverage "really depends on where you are going and the type of work you are involved in," said Mr. Young. Defense contractors, media personnel and missionaries are among the riskiest and highest priced exposures, he said.

Mr. Ennevor said enhancements can be found in some policies. Extras might include college money for the children of a worker killed overseas or payments to a widowed spouse for the cost of a financial adviser.

Coverage costs essentially are set by Lloyd's of London reinsurers, Mr. Ennevor said. That market reinsures most of the travel and accident coverage and their rates determine the amount charged by insurers, he explained.

Good to know before you go

By MICHAEL BRADFORD

An American tourist has a better chance of dying from poisoning or a lightning strike than from a terrorist attack, according to Neil C. Livingstone, author of "Protect Yourself in An Uncertain World: A Comprehensive Handbook for Your Personal and Business Security."

But for a corporate executive, the odds are significantly higher, in some parts of the world, of being killed or kidnapped by a terrorist, Mr. Livingstone says in his book.

He suggests a number of precautions that can be taken to reduce those odds when traveling abroad. Among the measures listed in his book are:

- Know as much as possible about each country you plan to visit, including its history, religion, geography and government.
- Never lose sight of your passport. Except when leaving it temporarily at a hotel registration desk, always keep your passport with you.
- Update your will and leave be-

hind a list of payments that can be made by your spouse in the event of an extended absence.

- Fly coach. Terrorists generally turn the first-class cabin into their command center.
- Dress casually to avoid drawing attention.
- Avoid aisle seats. Passengers on the aisle generally are subject to the most abuse.
- Be aware of key dates such as religious holidays that terrorists may want to commemorate with attacks.
- Carry a multilingual card listing your blood type and any allergic reactions to medication.
- Don't stay on the ground level of a hotel. Those floors are more vulnerable to attacks. But don't book a room out of the reach of fire-fighting rescue equipment.
- Avoid hotel rooms that share balconies.
- Be cautious on hotel phones. Hotel operators often eavesdrop on conversations.

FOR A REALLY HIGH FLYING LAW FIRM, TURN TO A LEGAL ANGELL.



At Edwards & Angell we are dedicated to our clients' success. Whether your needs entail corporate, litigation or regulatory representation, you benefit from our insurance and reinsurance experience. Talk to us about putting this Angell on your side.

When it comes to Insurance and Reinsurance, we know your business.

Alan J. Levin (Chair) 860-541-7747 (alevin@EdwardsAngell.com)
Nick Pearson 212-756-0275 (npearson@EdwardsAngell.com)
Vince Vitkowski 212-756-0238 (vvitkowski@EdwardsAngell.com)
Mark B. Seiger 860-541-7745 (mseiger@EdwardsAngell.com)
James A. Shanman 203-353-6825 (jshanman@EdwardsAngell.com)
E. Paul Kanefsky 212-756-0225 (pkanefsky@EdwardsAngell.com)
Geoffrey Etherington III 212-756-0237 (getherington@EdwardsAngell.com)
Charles R. Welsh 860-541-7762 (cwelsh@EdwardsAngell.com)
John P. Dearie, Jr. 212-756-0255 (jdearie@EdwardsAngell.com)

Huhnsik Chung 212-756-0222 (hchung@EdwardsAngell.com)
John D. Hughes 617-951-3373 (jhughes@EdwardsAngell.com)
Theodore P. Augustinos 860-541-7710 (taugustinos@EdwardsAngell.com)
Laurie A. Kamaiko 212-756-0277 (lkamaiko@EdwardsAngell.com)
Gayle P. Levy 212-756-0223 (glevy@EdwardsAngell.com)
Jeanne M. Kohler 212-756-0274 (jkohler@EdwardsAngell.com)
Janet M. Helmke 860-541-7749 (jhelmke@EdwardsAngell.com)
Thomas F. X. Hodson 860-541-7709 (thodson@EdwardsAngell.com)
John B. Rosenquest III 860-541-7711 (jrosenquest@EdwardsAngell.com)
Michael P. Thompson 203-353-6806 (mthompson@EdwardsAngell.com)

Edwards & Angell LLP

BOSTON FORT LAUDERDALE HARTFORD NEW YORK PROVIDENCE SHORT HILLS STAMFORD WEST PALM BEACH WILMINGTON LONDON*

*Representative office

Between the Lines

Compiled by Joanne Wojcik



Special effects bring back Hartford icon

Thanks to the magic of Hollywood, The Hartford can bring back its venerable stag icon—missing from television since the 1970s—without worrying about backlash from animal rights advocates.

Rhythm & Hues, a Hollywood special effects company, created a new incarnation of Larry the Stag in a way that allows it to appear in places where it would be difficult, if not impossible, for a real stag to go. The dig-

itized version also never loses its antlers—something that happens every year—or turns aggressive, as is often the case during mating season.

In the first television spot, which debuted March 12, and which will be repeated throughout the National Collegiate Athletic Assn. men's basketball tournament, the life-like stag turns heads as it enters a basketball court with legendary UCLA Coach John



The Hartford's stag, named Larry, is now appearing in digital form.

Wooden providing a voiceover of a locker room speech touting trust, talent and teamwork. A second spot, still in development, will show the stag stunning traders on the floor of the New York Stock Exchange.

The Hartford's new stag is so realistic that it fooled television network executives responsible for approving advertising, according to Michael Johnson, vp of brand management and advertising for the Hartford, Conn.-based insurer.

"Somebody at NBC called and said 'We need a letter from the Humane Society that says you didn't mistreat the animal on the set,'" he said. "We told her it was computer-generated and she said, 'Wow, that's so cool!'"

"I had somebody else call me yesterday and asked if on the spot that aired this weekend if the stag's hooves messed up the basketball court," Mr. Johnson said. "I said, no, we took care of that. It wasn't a problem."

Healthy eating at CIGNA meeting

Perhaps unaccustomed to eating healthy, some of the benefit managers attending CIGNA Corp.'s recent client meeting in Palm Springs found themselves raiding their hotel mini-bars in search of forbidden junk food. Others went home a few pounds lighter.

In keeping with the adage "you are what you eat" throughout its three-day meeting, the Hartford, Conn.-based insurer served food for both body and mind to reinforce the importance of making healthy lifestyle choices. Menus were created under the supervision of Dr. John La Puma, co-author of the New York Times bestseller "The RealAge Diet: Make Yourself Younger with What Your Eat" and "Cooking the RealAge Way." Dr. La Puma conducted a culinary demonstration during last year's CIGNA Client Forum.

Wholesome breakfast choices included whole-grain breads, cholesterol-lowering margarine, coffee with Splenda and soymilk or 1% milk—no cream or sugar—poached eggs with spinach and tomatoes, an Egg Beaters frittata and soybean sausage. The lunch and dinner fare was equally nutritious, loaded with veggies, lean meats and fresh fruit for dessert. At breaks, participants snacked on dried apricots, prunes and string cheese.

There was, however, a slight deviation from this salubrious theme when it came to liquid refreshments. The "Total Health Learning Center," where CIGNA demonstrated its newest health management technology, featured a full bar.

Salut!

Counterfeit drugs estimated at 15%

The U.S. Food and Drug Administration's concerns about the safety of imported prescription drugs may have some merit.

According to an investigative report in PLoS Medicine, a publication of the Public Library of Science, up to 15% of all prescription drugs sold worldwide are counterfeit. The estimate—derived from interviews of regulatory authorities in numerous countries—is more than twice the World Health Organization's 6% estimate.

The problem is even worse in parts of Africa and Asia, where more than half of purchased drugs are fake, asserts the authors who were scheduled to present their findings at the 2nd Global Forum on Pharmaceutical Anticounterfeiting in Paris last week.

Tips and feedback from readers are welcomed. Please send information to jwojcik@businessinsurance.com.

Terror: Coverage available

Continued from page 12

Lexington, for example, offers its BioChem Shield, which is an endorsement to property terrorism coverage for consequences of biological and chemical attacks that result in property damage or business interruption claims, Mr. Benda said.

Lexington has also developed a product for contingent business interruption losses not covered in traditional standalone products. Under the policy, OpShield, an insured can buy coverage for business interruptions losses caused by damages to its suppliers or port.

A key question for the standalone market is how it will be impacted if

'I'm not sure the standalone market, as it stands right now...will be able to respond to the needs of our clients should TRIA go away.'

Robert Blumber
Marsh & McLennan Cos. Inc.

TRIA ends. "I think if TRIA is renewed, it will sort of be a status quo," Mr. Blumber said. "I think what will happen if TRIA is not extended is there's going to be a very significant rush to the standalone

market. I'm not sure the standalone market, as it stands right now with the capacity it has now, will be able to respond to the needs of our clients should TRIA go away."

Brokers are already looking at alternatives, such as reserving standalone capacity, if TRIA expires. The standalone market has offered products that provide an option for coverage—at 20% of the annual premium—that insureds can pick up if TRIA expires, Mr. Farmer said. "I think the smart buyers are trying to reduce uncertainty now by spending money so that whatever happens with TRIA, they'll be in reasonable shape," he said.

Little terror demand in Canada

By GLORIA GONZALEZ

Unlike the U.S. terrorism insurance market, the Canadian market functions without government reinsurance, although there is an underlying assumption the Canadian government would step in and help address losses if there were a terrorist attack on Canadian soil, observers say.

While sufficient capacity is available in the Canadian mar-

ket—provided by foreign insurers such as New York-based American International Group and Hamilton, Bermuda-based ACE Ltd.—the demand for terrorism insurance tends to be limited to companies with properties in major metropolitan areas such as Montreal, Vancouver and downtown Toronto, and to owners of sporting facilities.

Canadian risk managers often see terrorism insurance as a "luxury product," because the

risk of a terrorist attack on Canadian soil is generally considered to be extremely remote, observers say.

"It's not as high on the radar as some of the coverages brought by Canadian companies," said Paul Martin, president of Toronto-based KRG Insurance Brokers Inc. "I don't think Canadians really feel there is a huge exposure for them. I think we feel somewhat insulated from the world when it comes to terrorist attacks."

"Be sure that you return it."

If you're racing through this issue of *Business Insurance* because you "borrowed" it from a colleague, you should have your own subscription. Then you'll be first on the list. You can take as much time as you like with all of *Business Insurance's* exclusive worldwide news of corporate risk, employee benefit and managed health care every week.

**To subscribe, use the card in this issue
or call 1-888-446-1422 toll free.**

Subscription rates in U.S. dollars
for 1 year, 52 issues.

Ask about our special
20% off group rate
for five or more
subscriptions.

U.S.	\$97
Canada*/Mexico	\$130
All other countries by expedited air	\$230

* Price includes Canadian GST.

Business Insurance
www.businessinsurance.com

Subscription Dept.
1155 Gratiot Avenue,
Detroit MI 48207-2912
Outside the U.S., call (313) 446-1662

Business Resources

To place your ad, contact **Tina Vasilakis** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: tvasilakis@BusinessInsurance.com
Business Insurance, Business Resources, 360 N. Michigan Ave., Chicago, IL 60601-3806.

CPCU®

AIC, ARM, IIA,
CLU/ChFC, and
CIC candidates

You'll learn more faster and you'll pass the
first time or your money back. Guaranteed!

www.BurnhamSystem.com

Call 1-888-BURNHAM Now!

**For 2005
BI Rates or
Editorial Calendar**

e-mail
tvasilakis@BusinessInsurance.com

YOUR TARGET AUDIENCE IS HERE...



Where is your ad?

Call (312) 649-5340 to reserve your space.

Business Insurance

March 21, 2005

International

21

Marsh in 'last few days of pain': Cherkasky

By SARAH VEYSEY

LONDON—Michael Cherkasky has personally met with 375 clients of Marsh & McLennan Cos. Inc. since he was named chief executive officer of the besieged brokerage last October, in an attempt to assure them that their interests will remain uppermost as the brokerage strives to move forward.

Speaking to a group of U.K. risk managers in London last week, Mr. Cherkasky said that, despite the inevitable upheaval that will result from Marsh shedding thousands of jobs over the next several months, Marsh realizes the importance of long-term relationships with its clients.

"Clients want long-term relationships, and so does Marsh," he said.

He acknowledged that the brokerage might encounter client-relationship problems in the short term, as some brokers are laid off as part of Marsh's cost-cutting efforts. Mr. Cherkasky added that the layoffs were causing morale problems at Marsh, as employees waited to hear who was being made redundant.

"This is the last few days of pain. It is painful, and it is unsettling," Mr. Cherkasky told attendees at a seminar jointly organized by Marsh and the London-based Assn. of Insurance & Risk Managers. But the layoffs were necessary, he said, as part of Marsh's repositioning strategy.



Mr. Cherkasky

'This is a changing time for us and for the whole industry. But we are convinced that the winds of change give us an enormous opportunity.'

"This is a changing time for us and for the whole industry," he said. "But we are convinced that the winds of change give us an enormous opportunity."

"Because of these very difficult events that have put us through the fire, we have the opportunity to change Marsh much more quickly than

we otherwise could," Mr. Cherkasky said. "We think we can help this industry move forward."

In addition to the layoffs, Marsh announced last month in its settlement of bid-rigging and client steering charges brought against the brokerage by New York Attorney General Eliot Spitzer that it would pay \$850 million into a restitution fund for clients (*BI*, Feb. 7).

U.K. clients are eligible for payments from the fund, provided that their coverage was placed through Marsh's Global Broking unit, Mr. Cherkasky said. In his lawsuit against the brokerage, Mr. Spitzer singled out the now-disbanded Global Broking unit as the center of much of the alleged fraudulent activity at the brokerage.

Mr. Cherkasky said that the restitution fund was a "heavy price" for the brokerage to pay, but a necessary one. "We didn't want to get into litigation with our clients," he said.

Mr. Cherkasky said that Marsh, in addition to attempting to win back the confidence of risk managers, is also striving to regain the trust of the senior executives at client companies to whom risk managers report.

"We apologize to you for making your job harder," he said.

World Updates

U.K. brokers say probe hasn't tarnished image

Most U.K. insurance brokers believe that the public perception of the insurance industry in the United Kingdom has not changed despite the publicity surrounding the investigation into U.S. brokerage practices, according to a survey. Of the 220 respondents to the survey conducted by London-based accounting firm Mazars, 77% said they thought public perception of the industry was unchanged in 2005, while 19% said it had worsened and 4% said it had improved.

ACE launches units for U.K., Ireland

ACE European Group, the London-based arm of ACE Ltd., has created three business units in the United Kingdom and Ireland. ACE Commercial Risks will focus on midsize companies, while ACE Major Risk will focus on multinational businesses, FTSE 500 companies—the largest 500 publicly listed companies in the United Kingdom—and captive business. ACE Affinity Risks will develop group business through binding authority and group purchasing plans, among other things.

Report says actuaries should be regulated

Actuaries in the United Kingdom should be subject to independent regulation rather than the current system of self-regulation, a government-appointed review has concluded. The report recommends that actuaries be regulated by the Financial Reporting Council, an independent U.K. regulatory body that currently oversees corporate reporting and governance.

Insurers to appeal pleural plaques ruling

Zurich U.K. General Insurance and Norwich Union Ltd. plan to appeal a High Court ruling that they should pay compensation awards to claimants with a benign asbestos-related condition known as pleural plaques. The move follows an earlier decision by one of the 10 claimants to appeal the level of the award. The High Court's February ruling was viewed a mixed victory for claimants, because although it found the insurers liable, the awards were low compared with other asbestos-related awards.

Briefly noted

Marsh Inc. has acquired San Juan, Puerto Rico-based broker Ledesma & Rodriguez for an undisclosed sum. The company will be incorporated into Marsh's existing operation in Puerto Rico, Marsh Saldana.

U.K. regulator steps up its probes of finite risk policies

By CAROLYN ALDRED

LONDON—The United Kingdom's financial services regulator is contacting senior insurance executives seeking information on their companies' use of finite risk contracts in light of concerns over how the coverage has been used in the United States.

In a letter sent by the Financial Services Authority on March 16 to insurer chief executives, the FSA seeks information on financial transactions where the actual value of the transaction differs from its value as it is expressed in an insurer's accounts.

The letter also asks the insurers to provide information on the systems and controls that they have in place to scrutinize such transactions and asks the executives to affirm that their companies do not "engage in financial engineering transactions or side agreements" that might obscure their financial position.

The information gathered from insurer's replies will be used for "further targeted work" by the FSA, according to the text of a speech that John Tiner, CEO of the FSA, gave before the Assn. of British Insurers earlier this month.

Ongoing investigations

The FSA has been investigating the use of finite risk coverage for three years, but it is now stepping up its investigations following concerns that have been raised about the use of fi-

nite risk by some companies in the United States, an FSA spokesman said.

In early 2002, the role that finite risk played in the collapse of several insurers—including Independent Insurance Co. Ltd., HIH Insurance Ltd. and Equitable Life Assurance Society—came under scrutiny.

Later that year, the FSA issued a consultative paper questioning the use of "financial engineering" and how it might be used to obscure the underlying conditions of a company.

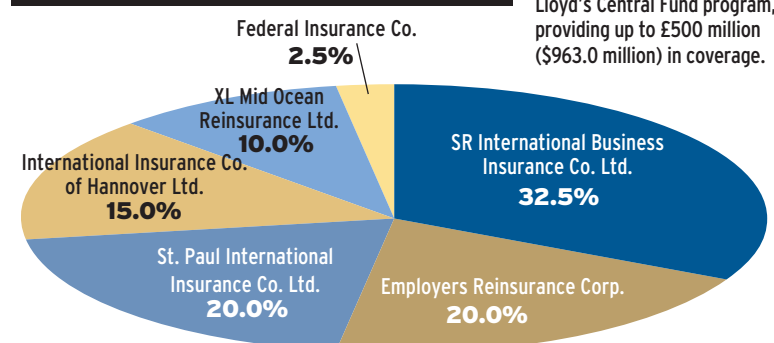
In 2004, the FSA banned six former executives of Chiyoda Fire & Marine Insurance Co. (Europe) Ltd., which is now known as Aioi Insurance Co. of Europe, from working in the U.K. insurance market for allegedly using financial reinsurance to distort the insurer's financial reports (*BI*, Feb. 9, 2004).

Financial and finite reinsurance has frequently been used in the past to smooth earnings through retrospective reinsurance coverage. Its use has sometimes been questioned, though, in part because of the possibility that it may be used to conceal poor financial results and because of controversy over whether finite contracts should be accounted for as insurance or as a loan. Most recently, American International Group Inc.'s use of finite risk coverage has come under regulatory scrutiny (see story, page 25).

While finite coverages have

See FINITE RISK/page 22

CENTRAL FUND REINSURANCE PROGRAM



Six reinsurers participated in Lloyd's Central Fund program, providing up to £500 million (\$963.0 million) in coverage.

Lloyd's, reinsurers settle on Central Fund Deal reached on longtime dispute

By SARAH VEYSEY

LONDON—Lloyd's of London announced last week that it had settled a long-running dispute with the former reinsurers of its Central Fund for £152 million (\$292.7 million).

Under the terms of the settlement, arbitration proceedings between Lloyd's and the six reinsurers will cease, according to a Lloyd's statement. No further details of the settlement agreement were disclosed.

A spokeswoman for Swiss Reinsurance Co., the lead reinsurer on the disputed contract, confirmed that an agreement had been reached but declined to give any further details. The dispute arose after the six reinsurers of the Central Fund, which is financed by levies on syndicates and is intended to meet the liabilities of syndicates if they are unable to do so, stopped paying claims on the policy.

Sources said that the reinsurers had ceased to pay claims because of a dispute over whether Lloyd's was within its rights to use the policy to make payments into U.S. trust funds. Because Lloyd's is classed as an alien reinsurer in the United States, it must hold collateral in

trust funds there.

Those sources said that in the arbitration process, Lloyd's was seeking to recoup claims of about £477 million (\$918.7 million) against the policy.

The policy, purchased in 1999, was intended to meet unrecovered losses to the Lloyd's Central Fund when those losses exceeded £100 million (\$192.6 million) in any one year, subject to a £350 million (\$674.1 million) limit. The aggregate maximum payout over the policy period was £500 million (\$963.0 million).

SR Business International Co. Ltd., a unit of Swiss Re, led the policy with a 32.5% share. The other five insurers on the policy were: Employers Reinsurance Corp.; St. Paul International Insurance Co. Ltd.; International Insurance Co. of Hannover Ltd., a unit of Hannover Re; XL Mid Ocean Reinsurance Ltd.; and Chubb Corp. subsidiary Federal Insurance Co.

In January, Lloyd's announced that an arbitration panel had found that Lloyd's had correctly interpreted the wording of the policy. But it also said SR Business International was entitled to avoid the contract

See LLOYD'S/page 22

Finite risk: Stepped-up probe

Continued from page 21

been popular in the past in the United Kingdom, their use now is more limited, said Rob Jones, a London-based analyst with Standard & Poor's Corp.

"We've seen insurers, particularly life insurers, using new forms of debt raising recently such as bonds and securitization" rather than using financial reinsurance, he said.

"Financial reinsurance...is a useful tool,

particularly for companies with potential volatility in their accounts and for their shareholders," explained Chris Waterman, senior director at rating agency Fitch Ratings Ltd. in London.

But financial services regulators as well as analysts are concerned that the smoothing effect of finite risk products can distort the insurer's underlying balance sheet strength, he said.

Lloyd's: Settlement reached

Continued from page 21

because of the way that Lloyd's presented the risk.

Lloyd's would not comment about any possible future action against the brokers.

"Until now, we have focused on the arbitration proceedings. At this stage we are not in a position to comment about any further implications of the settlement," it said in a statement.

Lloyd's said Monday that the potential fi-

nancial impact of the settlement on the Central Fund would be £226 million (\$435.3 million), an improvement on the £276 million worst-case estimate in the event of the policy being completely voided.

A.M. Best Co. said that its A rating on the Lloyd's market remained unchanged because the settlement falls within the range of possible outcomes the rating agency had factored into its rating.

Professional MarketPlace

To place your ad, contact **Tina Vasilakis** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: tvasilakis@BusinessInsurance.com
Business Insurance, Classified Department, 360 N. Michigan Ave., Chicago, IL 60601-3806. Call for details on blind box and internet advertising

HELP WANTED

Casualty Positions

Casualty Positions Available at Great American Custom Insurance Services, Inc. Leading writer of extensively reinsured primary and excess commercial lines offers the following employment opportunities:

Executive Underwriter Underwriting Operations Unit Manager Underwriting Support Technician

We are based in Los Angeles and offer an employee-friendly working environment and excellent compensation/benefits package, including retirement savings and company matched 401(k).

Please submit your resume and cover letter to:

Recruiting@GAMCustom.com

Or: Great American Custom Insurance Services, Inc.
Attn: Human Resources/BusIns 3.21.05
725 S. Figueroa St. Suite #3400
Los Angeles, CA 90017

<http://www.GAMCustom.com>

EOE

HELP WANTED

HELP WANTED

HELP WANTED

LEGAL NOTICE

key strategies

L.L.C.

"The Risk
Management
Career
Experts"

Executive Recruiting • Career Coaching

- Corporate Risk Management
- Insurance Brokerage
- Risk Management Consulting
- RMIS

100 Eagle Rock Ave. East Hanover, NJ 07936

Tel. 973-887-2300 Fax 973-887-4334

www.keystrategies.com

- Mike Tannenbaum
- Barry Citron

HELP WANTED

HELP WANTED

LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE PETITION OF DAN YORAM
SCHWARZMANN, AS ADMINISTRATOR OF
FOLKSAM INTERNATIONAL INSURANCE
COMPANY (UK) LIMITED,
DEBTOR IN A FOREIGN PROCEEDING
CASE NO. 02-14070 (PCB)

NOTICE IS HEREBY GIVEN THAT ON MARCH 9, 2005, THE BANKRUPTCY COURT ENTERED AN ORDER (THE "ORDER") CONTINUING THE PRELIMINARY INJUNCTION ORDER PURSUANT TO 11 U.S.C. §304 ORIGINALLY ENTERED IN THIS CASE ON SEPTEMBER 9, 2002. THE ORDER SHALL REMAIN IN EFFECT PENDING A HEARING SCHEDULED TO BE HELD ON SEPTEMBER 8, 2005 AT 2:30 P.M. (THE "RETURN DATE") BEFORE THE HONORABLE PRUDENCE CARTER BEATTY, UNITED STATES BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT LOCATED AT ONE BOWLING GREEN, NEW YORK, NEW YORK. ALL PAPERS SUBMITTED FOR THE PURPOSE OF OPPOSING THE CONTINUATION OF THE ORDER AFTER THE RETURN DATE SHALL BE FILED WITH THE COURT, WITH A COPY TO THE CHAMBERS OF THE HONORABLE PRUDENCE CARTER BEATTY AND SERVED ON COUNSEL FOR THE PETITIONER LISTED BELOW, SO AS TO BE RECEIVED AT LEAST FOURTEEN (14) DAYS PRIOR TO THE RETURN DATE. ANY PERSON WISHING TO OBTAIN A COPY OF THE ORDER SHOULD CONTACT COUNSEL TO THE PETITIONER.

CHADBOURNE & PARKE LLP
ATTORNEYS FOR THE PETITIONER
30 ROCKEFELLER PLAZA
NEW YORK, NY 10112
(212) 408-5100
ATTN: HOWARD SEIFE, ESQ.
FRANCISCO VAZQUEZ, ESQ.

More job openings posted online at
www.BusinessInsurance.com/Recruitment

HELP WANTED

HELP WANTED

INNOVATIVE. EXCITING. DIFFERENT. we're redefining insurance.

Progressive philosophies, a lively and exciting environment and a dynamic customer focus that has changed the insurance industry... that's Commerce Insurance Services. As a subsidiary of Commerce Bancorp, we think fast, move fast and we will take your career to heights you've never imagined. Formed in 1996 to serve New Jersey, Delaware and Eastern Pennsylvania, our customer base has already surpassed 125,000 people. With over 500 employees, revenues in excess of \$70 million, we have become one of the largest and fastest growing insurance brokers in the nation.

BENEFITS TRAINING MANAGER

This position is responsible for the development, facilitation and coordination of all Health continuing education courses, designation programs and training for all Commerce Insurance Services Benefits' employees.

The ideal candidate will possess a Bachelor's degree and a minimum of 8 years health insurance industry experience. Life and Health licenses with a minimum of CEBS designation are required. Must possess strong presentation, consultative, facilitation, motivational, interpersonal and collaborative skills to build and maintain proactive involvement with all skill levels of staff.

INSURANCE EDUCATION MANAGER

This position is responsible for the development, facilitation and coordination of all Property, Casualty and continuing education courses for all Commerce Insurance Employees.

The ideal candidate will possess a Bachelor's degree and a minimum of 7 years insurance industry experience. Property and Casualty licenses with CPCU, CIC or AAI designation are required. Must possess strong presentation, consultative, facilitation, motivational, interpersonal and collaborative skills to build and maintain proactive involvement with all skill levels of staff.

To find out more information about these positions, qualified candidates should call: (877) 396-3800 and ask for John Kulikowski.

**Commerce
Insurance
Services**

EOE, m/f/d/v. Pre-employment background check required.

INSURANCE

NATIONAL ACCOUNT EXECUTIVE Insurance

We are currently seeking an experienced insurance professional to join our sales staff. Position will be based in our Fullerton, California office.

Our company is a well-positioned, A+ rated specialty insurer of large motor carriers. We are currently seeking individuals to prospect for new business as well as service existing accounts.

The qualified candidate will be a positive, well-organized and self-motivated individual ready to take on new opportunities. Commercial Casualty Insurance experience is necessary. Overnight travel throughout the country is required.

We offer a professional environment; medical, dental, and life insurance; 401k; profit sharing and a company car.

To be considered, send us your qualifications and reasons why you can make a difference to:

Baldwin & Lyons, Inc. Protective Insurance Company
1099 North Meridian
Indianapolis, IN 48204
Fax: 317-632-9444

Email: employment@baldwinandlyons.com

Equal Opportunity Employer



Director of Underwriting

Illinois Casualty Company, a successful, growing insurer specializing in insurance protection for the food and beverages industry has an employment opportunity for an Underwriting Director in our Rock Island, IL office. The successful candidate will possess a four-year degree in insurance or a related field and a minimum 8 years commercial lines underwriting management experience.

We offer an excellent work environment with an exceptional benefits package and competitive salary. Qualified applicants may apply online at www.ilcasco.com.



For 2005 BI Rates or Editorial Calendar

tvasilakis@BusinessInsurance.com

LEGAL NOTICE

IN THE SUPREME COURT OF BERMUDA
CIVIL JURISDICTION

NO. 29 OF 2003

NOTICE OF TERMINATION OF
SCHEME OF ARRANGEMENT
BETWEEN

**BNIB INSURANCE COMPANY
LIMITED**

(IN LIQUIDATION)

AND ITS SCHEME CREDITORS
dated 7th February 2003 (the "Scheme")

Take notice that the Scheme in relation to BNIB Insurance Company Limited (In Liquidation) was terminated in accordance with its terms on the 24th day of February, 2005.

Dated this 24th day of February 2005

D. GEOFFREY HUNTER
PAUL A.B. EVANS

Scheme Administrators

**Need a
Legal Notice
published?**

tvasilakis@BusinessInsurance.com

AIG UNDER PRESSURE

AIG: Greenberg ousted as longtime chief of insurance giant

Continued from page 1

Securities and Exchange Commission (see story, page 25).

Meanwhile, observers say the change in leadership should have no immediate significant impact on commercial insurance buyers. Although the issues surrounding AIG are likely to be a distraction for its new management for at least the near future, the insurer is expected to remain a powerful, financially strong and innovative insurer.

Changes, delay

In addition to elevating Mr. Sulli-

van to the CEO role, AIG also named Donald P. Kanak as executive vice chairman and chief operating officer, focusing on Asian business. Previously, Mr. Kanak was vice chairman and COO. Mr. Bensinger had previously served as senior vp, treasurer and comptroller.

Mr. Greenberg, who has been AIG's chief executive since 1968, will remain with the insurer as nonexecutive chairman.

Commenting on Mr. Greenberg's departure from the CEO role, Frank G. Zarb, chairman of the board's executive committee, said in a statement that while the board appreci-

ates Mr. Greenberg's "enormous contributions" over the years, it concluded that it is now in the "best interest" of AIG's shareholders, customers and employees "to turn to a new generation of leadership."

In announcing the changes, AIG also said it would delay filing its annual report, which was expected to arrive last Wednesday, because of the executive moves and its "ongoing internal review of the accounting for certain transactions" amid regulatory inquiries. The company hopes to complete that review within the next couple of weeks, Mr.

Bensinger said during a conference call with analysts Tuesday.

AIG announced in February that it had received subpoenas from New York Attorney General Eliot Spitzer and the Securities and Exchange Commission "relating to investigations of nontraditional insurance products and certain assumed reinsurance transactions and AIG's accounting for such transactions."

Prior to the current investigations, AIG last year agreed to pay \$126 million in penalties and disgorgement payments to the U.S. Department of Justice and the SEC

to settle charges over certain structured financial transactions between AIG units and Pittsburgh-based PNC Financial Services and Plainfield, Ind.-based Brightpoint Inc., a mobile telephone distributor (BI, Nov. 29, 2004).

As part of that settlement, AIG also agreed to the appointment of an independent consultant to review certain transactions from 2000 and 2004 to determine whether they violated accounting rules or were used to manipulate financial results.

Following the announcement of
See AIG/page 27

Insurance industry scandals fuel captive growth

Risk managers seek alternative coverage as commercial market reels

By MICHAEL BRADFORD

CARLSBAD, Calif.—The scandals surrounding the insurance industry, ongoing corporate governance concerns and a continuing move towards enterprise risk management are a boon to captive formations, a panel of experts said.

As companies seek greater transparency and increased control of their exposures, captive formations will continue apace, they said.

The upheaval of the insurance industry investigations by New York Attorney General Eliot Spitzer and concerns over the Sarbanes-Oxley Act have helped some companies make the decision to form captives or send more business to existing captives, according to J. Brady Young, managing director of Strategic Risk Solutions, a captive management company in Waltham, Mass.

At the 33rd Annual International Conference held by the Captive Insurance Companies Assn. in Carlsbad, Calif. earlier this month, Mr. Young and a panel of insurance industry professionals discussed the future of captives in an unsettled insurance world.

"There's always a crisis," said Seamus Tivnan, managing director at Marsh Captive Management Ser-

Heavy rainfall ends in time for 33rd annual CICA conference attendees

CARLSBAD, Calif.—Heavy rainfall departed Southern California just in time for the Captive Insurance Cos. Assn.'s 33rd Annual International Conference.

Attendees could see the remnants of the region's heavy rains as sandbags remained near street drains and held down plastic draped over some hillsides near the La Costa Resort and Spa, site of the conference held March 6-8.

Inside, approximately 420 attendees heard speakers discuss tax issues related to captives, the impact of the Sarbanes-Oxley Act on insurance companies, issues affecting risk retention groups and other topics.

Next year's conference is scheduled March 8-10 in Orlando, Fla. Conference details will be posted later this year at www.cica-world.com.

vices (Cayman) Ltd. in Georgetown, Grand Cayman, and issues that affect the traditional market often spur captive growth. He pointed to the health care coverage crisis in the U.S. as an example.

About 10 years ago, most Cayman captive managers thought that all the health care captives that would ever form there were in place, Mr. Tivnan recalled. "And since then we've probably added 100 health care captives," he said,

as the crisis continued.

Other concerns, such as those over corporate governance legislation, are also providing an incentive for using captives.

"A lot of our larger clients have established (chief risk officer) positions to try and look at risk holistically, not just insurable risk," said Mr. Young. Some of those clients are "very interested in using the captive as kind of a warehouse for all retained operational risk," he

said.

In such cases, a captive can be used to retain contingent liabilities that auditors at many companies are uncovering as they work to identify potential exposures under legislation such as the Sarbanes-Oxley Act, Mr. Young said.

"We just set up a captive for a utility client," Mr. Young said, because the chief risk officer for the parent wanted to fund retained operational risk in the insurer.

And, partly as a result of so much attention on contingent commissions paid to brokers by insurers, an additional benefit the utility company expects from the captive is transparency in the insurance transaction, Mr. Young noted.

"Because of the Spitzer investigation," he said, captive owners want "more access to the principals taking the risk, more direct access to the capital" and "they don't want to go through three intermediaries, paying along the way."

"It's a search for transparency," Mr. Young said, where it is clear "what is actually happening with the risk and what is actually happening with the premium."

Captives have been able to roll with the punches aimed at the insurance market and will continue

to thrive, said P. Bruce Wright, a partner with LeBoeuf, Lamb, Greene & MacRae in New York.

"Captives have gone through all sorts of turmoil over the years in the insurance industry and people have come up with constructive ways to use them to address myriad problems...There may be some changes in how they are used or why they are used, but I think they will continue to be utilized to address problems with risk funding or insurance issues in the marketplace," he said.

Larry L. Smith, vp—corporate risk management at MedStar Health Inc. in Columbia, Md., said captives will grow as "over time, people who have captives get used to the concept of self-insurance and realize they can, in fact, manage their risks, drive their costs down and do it more effectively than by transferring it to the commercial market."

That realization will lead captive owners to consider funding additional exposures in their captives, he said.

Also on the panel was Gregory P. Lang, senior vp with Munich-American RiskPartners in Princeton, N.J. The moderator was D. Hugh Rosenbaum, London-based retired principal with Tillinghast-Towers Perrin.

CICA: Sarbanes-Oxley regulations can affect captives

Continued from page 4

lagher & Co. in Chicago. "I'd say that has shifted down to about 50% financial analysis and now a lot of the underwriting process focuses very, very much on corporate governance."

Even if a captive is not "bound by Sarbanes-Oxley," he said, underwriters want to know "what are you doing from a corporate governance perspective? Do you have good safeguards in place? Do you have good checks and balances in place? Is there independence on the board or are you merely rubber-stamping everything that happens? What sort of auditing takes place?"

In most cases, captives have not yet faced with those questions from underwriters, "but I suspect they will be an ever-growing underwriting concern," said Mr. Ergastolo.

Captive owners need to take steps apart from buying insurance to make sure their directors are protected, the panelists said.

Orientation programs

"It's extremely important in this environment for a board to be proactive," said Debbie Lambert, a Raleigh, N.C.-based partner with accounting firm Johnson & Lambert Co. That means board members

have to be educated, she added.

"Board orientation programs are key," Ms. Lambert said. It is important to have board members attend industry conferences, for example, and hear presentations at board meetings on topics such as regulatory compliance, actuarial and accounting issues or tax matters, she suggested.

"It is important," Ms. Lambert remarked, that board members "understand those issues" and their implications for captives.

Structure board meetings so that there is sufficient time to thoroughly cover all issues, she advised captive owners. "I think it is really im-

portant to build some flexibility into board meetings to allow time for open questions and discussion," Mr. Lambert said.

Protecting directors

When it comes time to buy D&O coverage to protect the directors, the process involves more than having a broker shop for the best rate, according to Mr. Ergastolo.

Some insurers, he said, are very skittish about taking on the exposure. Gallagher has had to work hard to inform some insurers about how captives are structured "because there are some carriers that

literally will not write brand new captives," which is probably safer than writing coverage for an established captive, Mr. Ergastolo said.

"Most underwriters in the financial institution division, where this product is written, simply don't understand captives," he said. "So you really have to build it from the ground up, give them Captives 101 and make them comfortable with it so they can write the coverage."

Also on the panel was Michael B. Evans, senior vp and chief risk officer at Sutter Health in Sacramento, Calif. Arthur D. Perschetz, an attorney with Muldoon, Murphy, was the session moderator.

AIG UNDER PRESSURE

Greenberg used clout to AIG's advantage

When Hank Greenberg spoke in Washington, people listened.

Even though the American International Group chairman rarely appeared before congressional committees, administrations and lawmakers of both parties heeded his counsel on a variety of issues. His name was mentioned as a potential commerce secretary in both Republican and Democratic administrations.

"He certainly was the 800-pound gorilla, albeit in a much leaner package," said Joel Wood, senior vp for the Council of Insurance Agents and Brokers in Washington. "There was rarely a major issue to the industry where he didn't make his presence felt. He wasn't imperial, he was hands-on, and particularly aggressive whenever he felt that some in the industry—be it on Superfund or asbestos—were seeking public policy solutions that he thought would disadvantage AIG. He was not the kind of executive who comes into town only to testify at a high-profile hearing and then leave the underbrush to subordinates."

"He was clearly a leader on public policy issues, including terrorism, asbestos and Superfund. He had an extraordinary ability to reach policymakers at the highest level of government," said Julie Rochman, a senior vp at the American Insurance Assn.

"I'll never forget one critical meeting of many players within the industry who were in opposition to a particular proposal to create a resolution fund for Superfund claims," said Mr. Wood. "We had a big meeting lined up with then-Treasury Secretary Lloyd Bentsen, and Mr. Greenberg was an articulate spokesman for the group. I'll never know exactly what happened, but apparently, immediately after the meeting, the Treasury Department refashioned the fund's payment mechanism to exclude a lot of lines of insurance where AIG prevailed. Now that's clout. At the end of the day, the fund was never enacted, and that, I'm sure, suited Mr. Greenberg just as fine."

"You felt his presence after the fact as opposed to before," said Jon Harkavy, vp and general counsel for Risk Services L.L.C. in Arlington, Va. "He wasn't very visible per se, but after something happened and you deconstructed it, you sort of knew that AIG at some point was there."

—By Mark A. Hofmann

Observers expect few changes at AIG with Sullivan's promotion

By JUDY GREENWALD

Martin J. Sullivan's leadership style as chief executive officer of American International Group Inc. will be very different from his predecessor's, but in substance there will likely be little if any change in how the company operates, say observers.

Observers note that Mr. Sullivan, 50, has long been viewed as a possible successor to longtime Chief Executive Officer Maurice R. Greenberg, 79, who resigned last week.

Mr. Sullivan joined the finance department of AIG's nonlife company in the United Kingdom, American International Underwriters, as a teenager in 1971. He rose through the ranks in the United Kingdom before moving to New York as chief operating officer of AIU in 1996 and then being named co-chief operating officer and vice chairman of AIG in 2002 (see box).

Observers say Mr. Sullivan is thoroughly versed in AIG's way of doing things, and will continue along the same path set by his predecessor.

He is likely, though, to introduce a more collegial style of leadership, in part because of his personal style, and also because he is less familiar with the company than Mr. Greenberg, which makes the latter's more authoritarian approach less feasible.

People who have worked with Mr. Sullivan emphasize his genial personality and less aggressive approach than other senior AIG executives.

Accompanying that less severe style is an excellent business sense, they say.

He is "very rational" and a person who deliberates carefully over business decisions, said a Lon-



director of AIG Europe (UK) Ltd.

1991: Named chief operating officer of the unit.

1993: Promoted to president of AIU's UK/Ireland Division and Managing Director of AIG Europe (UK) Ltd.

1996: Appointed COO of AIU in New York. Named president of the unit in 1997.

May 2002: Elected vice chairman and co-chief operating officer of AIG and joins the company's board as a leading candidate to succeed Maurice R. Greenberg as the company's head.

March 14, 2005: Named chief executive officer of American International Group Inc.

RISE TO THE TOP

Martin J. Sullivan, 50.

1971: Joined American International Group Inc. in the finance department of American International Underwriters in U.K. subsidiary.

1974: Joined AIU's property department and held several underwriting and managerial assignments in the U.K. and Ireland.

1983: Named property manager for the U.K. and later regional property manager for the U.K. and Ireland.

1988: Promoted to manager of AIU's London office and regional marketing manager for the U.K. and Ireland.

1989: Appointed assistant managing

director of AIG Europe (UK) Ltd.

don underwriter who had dealings with Mr. Sullivan during his time in London. "I think Martin's very, very talented," said Frederick J. de Grosz, president and chief executive officer of Redwood City, Calif.-based ABD Insurance & Financial Services, who describes him as a "quality executive."

"He seems to be pretty straightforward," said Grace Osborne, a Standard & Poor's Corp. director in New York.

Alan Murray, senior credit officer at Moody's

Investors Service in New York, said he is "direct, straightforward."

Observers note Mr. Sullivan's focus has been on property/casualty, and he is somewhat weaker on the life and investment side of the business, which has become an increasingly important business sector for AIG over the past several years.

Mark Lane, a principal and research analyst with William Blair & Co. in Chicago, said, "He doesn't have a broad grasp, or a firm understanding of all the operations, but very clearly they have a lot of other talented executives within those businesses." Furthermore, he noted, Mr. Greenberg remains as nonexecutive chairman of the company, "which should help aid" in the process of getting a better understanding of all the different businesses.

"Certainly, there will be a different style" said Mr. Murray. "I think Hank Greenberg has a unique style to his leadership and it's taken the company a long, long way, very successfully."

Times have changed, though, and matters of transparency, governance and communications are more im-

portant today than they were, said Mr. Murray. "But the core operating disciplines of the company, which are profit focused, efficiency and accountability, those are not going to change," he said.

"I don't know they're going to find another Greenberg," said John Sarich, Omaha, Neb.-based insurance industry marketing manager for FileNet Corp., an enterprise content vendor. But, "it's not like they have to be turned around," he said. Like a ship at sea, "they're still full steam ahead."

Greenberg: Leaves his mark on company

Continued from page 1

set management and consumer and aircraft financing operations in a series of multibillion-dollar acquisitions.

He also pushed an international expansion that saw AIG—which traces its beginnings to Shanghai in 1919—become the first foreign insurer to open offices in Communist China and one of the first to enter Eastern Europe and countries of the former Soviet Union.

Mr. Greenberg's combativeness, though—a posture that served AIG's interests well during its expansion and in earlier confrontations with regulators—may have sped his departure, as AIG faced mounting pressure from New York Attorney General Eliot Spitzer and the U.S. Securities and Exchange Commission over issues ranging from AIG's role in alleged bid rigging by Marsh Inc. to the insurer's own reinsurance transactions.

"It's wrong to talk in the past tense" about Mr. Greenberg, who for now remains AIG's nonexecutive chairman, observed Myron Picoult, an independent insurance

consultant in New York.

Mr. Picoult added, though, that "there's only been one Hank Greenberg. I doubt if you'll ever see the likes of him again."

While driven to see AIG rise above its competitors, Mr. Greenberg has seemed reluctant in various interviews to talk about the sources of that drive.

A few biographical details are widely reported: He grew up during the Depression on a farm in upstate New York, leaving at age 17 to join the U.S. Army and landing in Normandy during the Allied invasion of Europe in 1944. After the war, he returned to the United States to complete college and graduate from New York Law School in 1950. Still a member of the Army Reserve, he served in the Korean War, rising to the rank of captain and winning a Bronze Star.

Beginnings at AIG

After a stint at Continental Casualty Co., Mr. Greenberg was recruited in 1960 by Cornelius Vander Starr, who had launched the Shang-

hai insurance agency that became AIG and who was looking for someone to build an international accident and health operation.

Two years later, Mr. Greenberg was named president of American Home Assurance Co. and quickly turned the insurer upside down, scrapping the expensive agency force that had limited its underwriting control and turning it into a broker market for large commercial risks. By 1967, Mr. Greenberg had been named AIG's president and CEO, and Mr. Starr declared him his successor shortly before he died and shortly before AIG became a publicly traded company in 1969.

Over the next 35 years, Mr. Greenberg oversaw AIG's explosive growth. In 1969, the company wrote net property/casualty premiums of \$245.5 million and life premiums of \$38 million; last year, net property/casualty premiums totaled \$41.9 billion, life premiums reached \$28.4 billion and AIG's overall revenues amounted to \$98.61 billion.

The 1980s saw AIG's rapid expansion into financial services, with the

acquisition or startup of asset management, currency and commodity trading and finance units. In 1994, AIG acquired 20th Century Industries, moving into personal lines; four years later, in an \$18 billion deal, AIG acquired SunAmerica Inc., putting it in the retirement savings business. Its biggest acquisition, in 2001, was the \$23.2 billion takeover of life insurance and pension company American General Corp.

Another milestone came in 1992, when AIG became the first foreign insurer to be granted a license to operate independently in Shanghai. AIG had closed its offices in China in 1950 after the Communist takeover. Its return was the culmination of a long campaign by Mr. Greenberg that included a 1980 joint venture with the state-run People's Insurance Co. of China and the 1990 formation of an international business advisory council in Shanghai to consult with the government on financial services development. Shanghai's mayor at the time—Zhu Rongji, later China's premier—appointed Mr. Greenberg

See GREENBERG/next page

AIG UNDER PRESSURE

AIG finite deal at center of probe

Greenberg said involved in loss portfolio transfer from Gen Re

By SALLY ROBERTS

NEW YORK—An investigation into the accounting treatment of a finite risk insurance transaction that Maurice R. Greenberg had direct involvement in may have been the last straw for the board of directors of American International Group Inc., which urged the longtime chief executive to step down last week.

New York Attorney General Eliot Spitzer and the Securities and Exchange Commission have been investigating a retrocessional loss portfolio transfer contract assumed by AIG from General Re Group that was orchestrated by Mr. Greenberg, sources close to the investigation say. Specifically, regulators want to know whether AIG correctly accounted for the transaction as reinsurance or whether the deal was more of a loan made to boost the insurer's reserves.

Although AIG has been grappling with several regulatory pressures recently, it is this latest deal that may have ultimately cost Mr. Greenberg his job.

"I think what happened here...is the board of directors, particularly the outside members, got the idea that Spitzer and the SEC knew more about this particular transaction and Hank's direct personal connection to it than they knew themselves, and that made them really nervous," a source close to the matter said. "I think a lot of the pressure for Hank Greenberg to leave was coming from the outside directors who were trying to protect the integrity of the company."

Mr. Greenberg was set to be deposed as part of the investigations last Thursday, but officials are no longer interested in the deposition, a source close to the matter said.

Officials declined to comment on reports that they've obtained evidence about the deal from General Re's Dublin office, where the loss portfolio transfer originated.

General Re also has received requests from the

SEC and Mr. Spitzer's office seeking documents and information relating to nontraditional or loss mitigation insurance products. The company said it is cooperating with both requests. The reinsurer did not return phone calls seeking comment on the AIG transaction.

AIG declined to comment on specifics of the investigation.

"Obviously, with regard to any regulatory issues, I would like to get these behind us as soon as possible and move forward," Martin J. Sullivan, AIG's new CEO, said last week on a conference call when asked about his priorities in the next six months.

'It would be a pretty atypical transaction to do a (loss portfolio transfer) where the premium equaled the loss.'

Norris Clark
Lord, Bissell & Brook L.L.P.

A source close to the investigation said it is unclear what direction the investigation will take.

AIG last week placed Howard I. Smith, its chief financial officer, and Christian M. Milton, its vp-reinsurance, on administrative leave. The company would not comment on the reasons behind the moves.

The transaction in question was initiated in late 2000, when Mr. Greenberg contacted General Re's then-CEO Ronald E. Ferguson to discuss the possibility of AIG assuming a loss portfolio transfer from General Re, the source close to the investigation said.

Loss portfolio transfers are a retroactive finite risk product where a reinsurer assumes responsibility for all loss reserves for a line of coverage or book of business.

It is unknown what line or book of business AIG

assumed from General Re, although it originated out of General Re's Dublin office, sources say.

AIG booked as income \$500 million in premium for the loss portfolio transfer and then added \$500 million in reserves against future claims to its balance sheet, sources say.

Investigators are trying to ascertain whether AIG correctly accounted for the transaction as reinsurance, given that the expected losses from the transfer equaled the premium, or whether AIG was simply trying to boost its reserves without negatively affecting its bottom line.

"It's that old 'Which side of the line are you standing on? Is it insurance or is it a loan?' Here it appears to be more of a loan," a source close to the investigation said.

In order for a finite risk contract to be accounted for as reinsurance, there must be risk transfer and there must be a reasonable possibility for the assumption of loss.

Finite risk experts say at first glance, the transaction does raise red flags.

"In my experience, it would be a pretty atypical transaction to do a (loss portfolio transfer) where the premium equaled the loss," said Norris Clark, a financial and regulatory specialist in the Los Angeles law firm of Lord, Bissell & Brook L.L.P. "I have not seen any of those in the past."

In typical retroactive finite deals, the assets or premiums transferred from the ceding company are less than the expected losses assumed by the reinsurer, Mr. Clark said. The reinsurer is then expected to make up for any premium shortfall with investment income.

When a reinsurer books premium income for the same amount it reserves, there is zero impact on net income, said Donald Light, a senior consultant with San Francisco-based Celent Communications. "It can be read as saying 'I have a problem: I don't want to change my net income, but I do want to strengthen reserves, how do I solve the problem?'" Mr. Light said.

Gen Re faces several probes of reinsurance transactions

By SALLY ROBERTS

In addition to being at the center of the investigation into a 4-year-old finite risk transaction with American International Group Inc., General Re Group is the subject of several other investigations.

The Stamford, Conn.-based subsidiary of Berkshire Hathaway Inc., for example, continues to cooperate with an ongoing investigation by the U.S. attorney in Richmond, Va., relating to its former client Reciprocal of America, a Glen Allen, Va.-based malpractice insurer that was seized by Virginia regulators in 2003 and subsequently put into liquidation (*BI*, March 7).

In December 2004 and on several occasions since then, the U.S. attorney in Richmond and the Department of Justice in Washington have requested additional information concerning ROA and its related Bermuda-based captive, First Virginia Reinsurance Ltd., according to a U.S. Securities and Exchange Commission filing. They also are seeking information related to General Re's finite reinsurance business.

ROA had three related Tennessee-domiciled risk retention groups, also now in liquidation, that reinsured virtually all of their business with ROA. In turn, ROA retroceded most of the business to General Re, which acted only as a fronting reinsurer, ceding the business to First Virginia.

In addition to the federal investigation in Virginia, General Re remains a focus of an investigation by the liquidator of the defunct Sydney, Australia-based insurer HIH Insurance Ltd (*BI*, March 14).

HIH's liquidator—Tony McGrath of Sydney-based McGrath Nichol & Partners—recently confirmed that he is still investigating a range of claims against various parties that may have contributed to the insurer's 2001 insolvency.

Mr. McGrath has contacted Berkshire units General Reinsurance Australia and Kolnische Ruckversicherungs-Gesellschaft, notifying them of "claims it intends to assert arising from insurance transactions" that General Re Australia entered into with FAI Insurance Ltd., notes Berkshire's annual report.

HIH's 1999 takeover of FAI, which eventually became insolvent, has been cited as part of the reason for HIH's unraveling. General Re Australia last year agreed to pay \$27.2 million Australian (\$19.9 million) to HIH's liquidator to settle charges that reinsurance contracts it wrote were designed to hide FAI's true financial condition. General Re did not return calls seeking comment.

Continued from page 24
chairman of the council.

Mr. Greenberg managed AIG's expansion and its ongoing business in a style that industry observers say is not likely to be duplicated.

"It's amazing—not only what he created but his absolutely phenomenal grasp of what was going on in his company," Mr. Picoult said.

Mr. Greenberg kept a sharp eye on his managers' performance and was not shy about dressing them down in blunt language for mistakes. At the same time, though, AIG's various units operated independently, and Mr. Greenberg expected his executives to run their own businesses.

"He spawned a very tough culture, but it's a culture of decision makers," Mr. Picoult said. "You're paid to make decisions at AIG."

William L. Munson, who held several senior management positions in 13 years at AIG, contrasted the company's trajectory with that of Home Insurance Co. Home—now in liquidation—was the first U.S. insurer to open an office in Germany in 1870, was operating in China in the early 1900s and was the largest U.S. insurer in the 1940s, he noted.

"Look at Home and look at AIG today," Mr. Munson said. "What's the difference? Management."

"He was a tough taskmaster," he said of Mr. Greenberg. "Very quick, very tough, very decisive...You didn't see him make a bad decision when he had the right information."

A different side

He was also generous to loyal AIG employees in ways that went beyond compensation. Mr. Wiedemann recalled that Mr. Greenberg was the first person he heard from after Mr. Wiedemann's wife suffered a stroke while the two were traveling. Mr. Greenberg offered a private jet to return them to New York and made an appointment for Ms. Wiedemann with his own cardiologist, Mr. Wiedemann said.

"Most people didn't see that side," he said.

Indeed, the tough attitude was more in evidence and has long been a subject of mordant humor among AIG veterans.

Brian Duperreault, chairman of Bermuda-based ACE Ltd., spent 21 years in various senior positions at AIG before joining ACE. In January, when accepting an industry award in New York, he singled out Mr. Greenberg.

"If there's anybody I need to thank it would be Hank...I learned a

lot from him, especially how stupid I was," Mr. Duperreault joked.

Mr. Greenberg's combative nature and iron grip on the helm at AIG contributed to the steady departure of senior executives over the years; AIG became known for producing executives who, like Mr. Duperreault, left to head other companies.

Among that group were two of Mr. Greenberg's own sons, Jeffrey and Evan. Both rose to upper management positions after years at AIG and were considered at varying times to be Mr. Greenberg's likely successor. Jeffrey quit in 1995 and later became CEO of Marsh & McLennan Cos. Inc., a position he was forced to resign last year by Mr. Spitzer's fraud and bid-rigging charges against the broker. Evan followed Jeffrey out the door in 2000, later becoming CEO of ACE.

Demanding with employees and hard on competitors, Mr. Greenberg was also, until recently, able to face down regulators that he felt were interfering unjustifiably in AIG's business.

One of his most widely publicized run-ins grew out of investigations in the 1990s of Coral Reinsurance Co., a Barbados reinsurer that AIG helped form specifically to reinsure its units but that it claimed not to control.

Regulators in Pennsylvania, New York and Delaware labeled the Coral reinsurance "window dressing" designed to boost AIG's surplus, but the insurer emerged largely victorious after months of battling regulators' objections: it suffered no penalty other than being required to unwind its business with the reinsurer.

AIG's success in wearing down opponents may have led Mr. Greenberg to underestimate the seriousness of the series of inquiries that began more than a year ago and that has included settlements with the SEC over allegedly fraudulent financial insurance transactions and Mr. Spitzer's ongoing investigation. The rising pressure reportedly led AIG's board to demand Mr. Greenberg's resignation as CEO last week.

Regardless of the outcome, the culture Mr. Greenberg created in four decades at AIG is unlikely to change quickly under new CEO Martin J. Sullivan, observers say.

"There's nothing that says that culture cannot be sustained," Mr. Picoult said, adding that Mr. Sullivan, while more genial than Mr. Greenberg, may prove "just as tough or tougher than Hank."

"The culture that he laid out for the company will take a long time to wear off," Mr. Wiedemann agreed.

Panel considers consequences of removing reimportation ban on prescription medication

By GLORIA GONZALEZ

WASHINGTON—Repealing the ban on prescription drug reimportation may result in lower U.S. drug prices but could have major consequences for other countries and for the research and development expenditures of drug companies, some industry observers say.

Panelists discussed the consequences of removing the ban on reimporting prescription drugs from Canada and other countries at the 17th annual National Managed Health Care Congress in Washington.

Federal legislation introduced earlier this year that would lift the ban on prescription drug reimportation has widespread bipartisan support in Congress, and several states have already begun or are considering reimportation programs.

"I think the political inevitability of removal of the ban is something we have to face," said Ron Kocher, pharmacy benefit consultant for the Irving, Texas-based Pharmaceutical Strategies Group.

There are two likely outcomes that will occur if the ban is lifted: ei-

ther drug prices in other countries will increase to levels closer to U.S. prices and remove the incentive for reimportation or U.S. prices will decrease dramatically. Both scenarios, observers say, are problematic.

If drug prices in Europe, for example, rose to the levels of U.S. prices, countries such as Slovenia and Poland would be priced out of the market, said John Calfee, resident scholar at the Washington-based American Enterprise Institute for Public Policy Research.

There would also be immediate problems with drug supplies in Canada and other countries because demand from the U.S. market is greater than supplies in these countries, Mr. Calfee said.

Foreign governments would then be forced to act to prevent drug shortages, he said. "If Canada wanted to, they could prohibit the export of their drugs," Mr. Calfee said. "I think we would see the same thing in the European nations."

The pharmaceutical manufacturers also would try to prevent reimportation via no-resale contracts and supply limits, said Roger Pilon, vp for legal affairs for the Washing-

ton-based Cato Institute. If these methods failed, drug companies would try to raise prices in other countries, he said. But raising prices abroad could be difficult since for-

'I think the political inevitability of the removal of the ban is something we have to face.'

Ron Kocher
Pharmaceutical Strategies Group

ign government officials could simply refuse to pay more for the drugs, he said. They could also utilize trade regulations that allow countries to override patents on medications in emergency situations and produce the drugs themselves, Mr. Pilon said.

The other option would be to lower prices in the United States, but the implications for R&D expenditures may be significant, observers say.

"If U.S. prices really went down,

then you have to wonder what the payoff would be for researching and developing new drugs," Mr. Calfee said. "If you're going to move the U.S. market more towards the model where the payoff is quite small, are we going to continue to get the nifty drugs that are now under development?"

Americans pay more for prescription drugs because other countries have price controls, forcing the U.S. market to fund the majority of R&D expenditures, even though some European countries have the resources to pay higher drug prices, Mr. Pilon observed.

"It's not as if the poor Germans, Swiss and French can't afford to pay their fair share of research and development," he said.

Importing foreign price controls via legalized reimportation is not the answer because of the potential

impact on R&D expenditures, said Geraldyn Ritter, vp, international affairs, for the Washington-based Pharmaceutical Research and Manufacturers of America.

Ms. Ritter cited a report by the U.S. Department of Commerce that estimated that foreign price controls reduce R&D expenditures by between \$5 billion to \$8 billion annually.

"The free-riding syndrome is real, and Americans and the U.S. government should be mad about it," she said. "We think we need a trade policy that takes these foreign restrictions and distortions in the marketplace seriously. Foreign governments need to stop the free-riding off U.S. R&D and adopt realistic budgetary practices that don't rely on politically convenient but short-term fixes aimed at foreign imports."

Comings & Goings



Mr. Bothwell



Ms. Melvin



Mr. Good

Insurers:

Harleysville Group Inc. has appointed **Debbie Neuscheler-Fritsch** senior vp of performance excellence. Before joining the Harleysville, Pa.-based company, Ms. Neuscheler-Fritsch was a consultant for QPM Solutions.

Brokers:

Atlanta-based Beecher Carlson Holdings Inc. has made several senior-level appointments.

• **Noreen Graham** has been named managing director of the Los Angeles office. Previously, she was an alternative risk financing specialist with Arthur J. Gallagher & Co.

• **Robert J. Bothwell**, a former principal at William Gallagher Associates, has been named managing director of a new Boston office. Mr. Bothwell will continue to lead the company's national energy practice.

• Also in the Boston office, **Brenna C. Melvin** has been named senior vp. Previously, she was a marketing director for WGA.

Henry Good, a former director of insurance for Rohm & Haas Co., has been named a risk management consultant for the Applied Risk Management Group of ABD Insurance & Financial Services in Redwood City, Calif.

Itasca, Ill.-based Arthur J. Gallagher & Co. has named **David Mair** a vp in the public and non-profit practice. Mr. Mair is a former president of the Risk & Insurance Management Society Inc. and a former risk manager for the U.S. Olympic Committee.

Other providers:

Kevin Bachler in Chicago and **Heidi O'Brien** in Los Angeles have both been promoted to senior vps at Mullin Consulting Inc. Both formerly were vps.

NMHCC: Humana drug plan

Continued from page 4

medical conditions such as allergies, while Group D drugs address conditions that "may improve a person's psychological, emotional and physical well-being" such as obesity, sexual dysfunction and acne.

Scale of costs

Employer contributions to drug costs are done on an allowance system, with different funding levels for each group and out-of-pocket maximums. Under one Humana plan, for example, Group A drugs are covered at \$35, Group B drugs are covered at \$25, Group C drugs are covered at \$15, while Group D drugs are covered at \$5.

In this plan, an employee filling out a prescription for birth control pills—covered in Group A because

they lower pregnancy costs—will have a company-provided allowance of \$35 toward the cost of the drug. If the member chooses a brand-name drug that costs \$42, the member pays \$7. But if the member chooses a generic drug that costs \$27, the member pays nothing and the extra \$8 goes back into the allowance budget, rewarding the member, who can use the amount toward the purchase of a future medication, said Betsy Warren, director, clinical programs, for Humana.

Members get a real incentive for choosing lower-priced drugs because they can save on out-of-pocket expenses, she said. In fact, 59% of the time the member pays nothing for his or her medications.

The member's out-of-pocket maximum under this plan is \$75, meaning that if the member pays

\$75 for a prescription for a drug in Groups A, B or C, the plan will pick up the rest of the cost of the drug. But 99% of drug claims are for less than \$75, Ms. Warren noted.

Humana launched a test program within its employee population in 2003 with 4,000 members. Use of the RxImpact plan led to a 46% decrease in per-member, per-month drug costs for Humana and an 8% increase in generic utilization, she said.

The insurer launched its new prescription drug plan on the commercial market on Jan. 1 and currently has 18 commercial clients, Mr. Helms said.

NMHCC conferees address wide range of session topics

WASHINGTON—About 3,000 people attended the 17th annual National Managed Healthcare Congress conference in Washington on March 7-9.

The conference featured sessions on consumer-directed health plans, care/disease management programs, Medicaid and Medicare insurance programs and legislative issues related to health care.

Next year's conference will be held April 24-26 at the Convention Center in Washington. For more information, visit www.nmhcc.com.

MAKE THE CONNECTION



Business Insurance provides a broad and comprehensive listing of industry-related Web links available on its site.

If you are searching for information on risk or benefits management, insurers, reinsurers, brokers, consultants or other industry service providers, BI's Links is your best resource.

If you provide commercial insurance services or information, submit your online request for a free link now.

To access BI's Links, go to BusinessInsurance.com/Links.

ADVERTISER

INDEX

Issue of March 21

ADVERTISER	PAGE #
Ace Insurance Group	13
Aetna Corporate	9
Aon Corporation	2
Burnham System	20
Business Insurance	18
CNA	5
Edwards & Angell, LLP	19
Fireman's Fund	7
First State Management	12
FM Global	14/15
Lexington Insurance	28
RMTS LLC	6
St. Paul Travelers	10
Westrope & Associates, Inc.	17

Late News

Continued from page 1

Department of Labor regarding compensation arrangements in connection with clients' employee benefit plans. Aon said it is cooperating with the investigation. Marsh & McLennan Cos. Inc. previously reported receiving a subpoena from the Department of Labor seeking documents pertaining to services provided to employee benefit plans. MMC and Aon both have settled with New York Attorney General Eliot Spitzer in connection with his investigation of industry practices.

MMC names Erburu as nonexec chairman

Marsh & McLennan Cos. Inc. has named Robert F. Erburu as nonexecutive chairman. Mr. Erburu, who has served on MMC's board since 1996, was chairman of The Times Mirror Co. from 1986 to 1996. Mr. Erburu became lead director of MMC when former Chairman and Chief Executive Officer Jeffrey W. Greenberg stepped down in the wake of New York Attorney General Eliot Spitzer's lawsuit against the company.

Utah eliminates tax on captive premiums

Utah Gov. Jon Huntsman Jr. last week signed legislation that eliminates premium taxes paid by captive insurance companies licensed in the state. The measure, H.B. 191, gives authority to the state insurance commissioner to set an

annual fee paid by captives. State insurance department officials earlier said they expect the fee to be about \$5,000. Currently, Utah has two captives.

ACE faces spate of subpoenas

ACE Ltd. has received a total of 43 subpoenas and requests for information in connection with various investigations of insurance industry practices, the Bermuda-based insurer reported last week in a Securities and Exchange Commission filing. ACE said that it is cooperating with the requests from 10 attorneys general and various state regulators as well as the SEC, and that its own internal investigation is continuing. Two ACE employees have been fired and three others suspended since ACE began its investigation, the filing notes.

Clements to step down as chairman of Arch

Robert Clements will step down as chairman of Arch Capital Group Ltd. on April 1.



Mr. Clements

Vice Chairman Paul Ingrey, who joined Arch in 2001 as chairman and CEO of its reinsurance operations, will assume the role of chairman. Mr. Clements, the founder of Hamilton, Bermuda-based

company and a former senior executive at Marsh & McLennan Cos. Inc., will continue to provide consulting services. Arch said the changes are "in line with the succession plan the company has in place."

Conseco settles ERISA class action

Conseco Inc. has agreed to pay \$10 million to settle a class action lawsuit filed by participants in its 401(k) plan over stock losses related to company's 2002 bankruptcy. The suit charges Conseco and some current and former officers with breaching their fiduciary duties by allowing plan participants to continue investing their savings in company stock without divulging Conseco's true financial state. Conseco, which emerged from bankruptcy in 2003, says in its annual report says it expects that a "substantial" portion of the sum will be paid by RLI Insurance Co., despite counterclaims filed by RLI disputing liability under the policy. RLI had no comment.

Munich Re returns to profit in 2004

Munich Reinsurance Co. reported a profit of 1.83 billion euros (\$2.44 billion) for 2004, compared with a loss of 434 million euros (\$579.2 million) in 2003. The 2003 loss was blamed largely on a tax charge and reserve strengthening at the company's U.S. operation. Munich Re's gross written premiums declined 5.8% to 38.01 billion euros (\$50.7 billion) in 2004, due to more

selective underwriting.

NAIC adopts policy on conflicts of interest

The National Assn. of Insurance Commissioners has adopted a conflict of interest policy for the 21 commissioners serving on its Executive Board. The broad policy, adopted at the NAIC's quarterly meeting last week in Salt Lake City, requires written disclosure to the NAIC of gifts or entertainment in excess of \$50 and applies to commissioners as well as their spouses, parents, siblings, children or member of the commissioner's immediate household.

IRMI offers construction insurance designation

A new professional designation, which aims to increase expertise in construction insurance and risk management, has been made available to insurance intermediaries and risk managers. The Construction Risk & Insurance Specialist program is offered by the International Risk Management Institute and is a continuing education program made up of five courses accessed at www.cris-ce.com.

Check out BusinessInsurance.com

Items in the Late News column originally appeared in *BI's* Daily News feature on www.businessinsurance.com. Visit the *BI* Web site to sign up to receive *BI's* Daily News by e-mail.

Online Poll

[3/14 - 3/18]

Do you think employers not offering health care coverage should be required to pay a fee to the government to help subsidize coverage for the uninsured?

64.2% YES
30.8% NO
5% Do not know



BI Stock Index

[3/14 - 3/18]

Up-to-the-minute data for all 87 companies that comprise the *BI* Stock Index can be found at www.businessinsurance.com

Percentage change of *BI* Stock Index vs. key indicators

BI Stock Index 
2422.87 **-1.67**

Dow Jones 
10629.67 **-1.34**

S&P 500 
1189.65 **-0.87**

Largest gains

Argonaut Group	5.12%
NYMagic Inc.	4.03%
Partner Re Inc.	1.78%
Baldwin & Lyons Inc.	1.61%
PMA Capital Corp.	1.50%

Largest losses

AIG	-7.65%
PacificCare Health Systems	-6.79%
Humana Inc.	-5.39%
CNA Financial Corp.	-5.05%
Aon Corp.	-4.24%

Weekly change by market segment

Brokers	-1.59%
Insurers/Reinsurers	-2.27%
Managed Care Organizations	-1.34%

Source: FinancialContent Inc.
(<http://financialcontent.com>)

AIG UNDER PRESSURE

AIG: Dealing with departure of Greenberg

Continued from page 23

Mr. Greenberg's departure, the leading rating agencies re-evaluated the highly rated insurer. A.M. Best Co. and S&P placed their financial strength ratings on AIG's insurance operations under review with negative implications. In addition, Moody's Investors Service revised the outlook on AIG's long-term debt ratings to negative from stable, and Fitch Ratings downgraded AIG's long-term debt ratings to AA+ from AAA.

Extent of problems?

Donald Light, a San Francisco-based senior analyst with Celent Communications, a business and technology research and consulting firm, said the issue will be manageable if the General Re deal is the only outstanding transaction that is questioned by investigators. The insurer would likely pay an affordable fine or restitution and move on, he said.

"The more scary scenario is that the AIG-Gen Re transaction is not a single case that they have, that there's multiple other transactions," he said. Even more damag-

ing would be a scenario where any other deals are discovered over time and AIG has to revise its financial reports more than once, said Mr. Light. "That gets very ugly" from both an investor and an insurance buyer point of view, "so there's a big value placed on doing one revision and getting it right," said Mr. Light.

Joyce Sharaf, managing senior financial analyst at Best said, "We are concerned for both the known, negative issues, as well as the unknown issues that could potentially arise."

"Our concern is whether what we understand to be a strong balance sheet is truly a strong balance sheet and we'll be more comforted when the new management team signs off on the 10-K," she said. Best can then evaluate any "remaining issues that are hanging over the company," said Ms. Sharaf.

Mark Lane, a principal and research analyst with William Blair & Co. in Chicago, pointed to Mr. Smith's departure as a concern.

"We're dealing with incomplete information, right now, and we don't understand exactly what impact the regulatory investigations

are going to have." The CFO's departure "is more disturbing to investors than the change at the top, because we really don't know what that means," said Mr. Lane. Furthermore, "We don't have a firm understanding of the potential for earnings restatement here, and how material that could be" in light of the delayed 10-K.

John Ward, a Cincinnati-based independent insurance analyst, said the AIG-Gen Re transaction "which is getting all the focus now, by itself does not appear to be a material transaction to AIG's operations."

He added Mr. Greenberg's resignation "is a cumulative effect of a lot of the issues surrounding AIG in recent months, and in this day and age of corporate governance, the directors feeling they just had to take action because of the cumulative effect of what's happened."

Other observers say there is little significance to the delayed 10-K filing. James Inglis, managing director at Philo Smith & Co., a Stamford, Conn.-based boutique investment bank that specializes in the insurance industry, said AIG typically files its 10-K right up against the

deadline and its delay now "doesn't mean there's a huge problem. It's just the nature of what's come up" in recent weeks.

It could be just a matter of the lawyers "simply working on wording," said John Wicher, of San Francisco-based John Wicher & Associates, an insurance investment bank. "I don't think you should read too much into it."

Little change expected

Meanwhile, brokers say risk managers should expect little change in AIG's operations, at least in the near future.

"Obviously commercial buyers are always concerned about the quality, but AIG is a world leader in this business," said John E. Cay III, chairman of brokerage Palmer & Cay Inc. in Savannah, Ga. "It will weather this storm, and I believe you will see that the quality is restored."

"Frankly, I'm not sure we're going to see much change or impact," said broker David L. Eslick, chairman, president and CEO of Briarcliff Manor, N.Y.-based USI Holdings Corp.