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INSURANCE BUYING PROCESS FOR U.K. COMMERCIAL RISKS UNDER FIRE / PAGE 4

In Brief

Appeals court upholds dismissal of AIG suit

The 2nd U.S. Circuit Court of Appeals unanimously upheld the dismissal of a shareholder lawsuit that alleged current and former executives and directors of American International Group Inc. ignored warnings that nearly caused the insurer to collapse in 2008. In a summary order in the suit, *In re: American International Group Inc. 2007 Derivative Litigation*, the court last week affirmed a lower court's ruling that shareholders who brought the derivative suit bear the burden of overcoming the presumption that board officials faithfully performed their fiduciary duties.

Firms to appeal asbestos verdict

Owens-Illinois Inc. said it will appeal a \$40 million punitive damages award an Illinois jury levied against it in an asbestos liability case. Owens-Illinois was one of several defendants in a case involving a man who had

See **IN BRIEF** page 21

SPOTLIGHT INDUSTRY FINANCIALS:

YEAR-END RESULTS

Property/casualty insurers' reserves getting thin; second-half gains fuel results of top brokers; catastrophes raise questions for reinsurers; health insurers post surprisingly strong results. **PAGE 9**

CATASTROPHES

Japan quake losses still rising

Modelers' estimates of insured losses reach up to \$35B

By **MARK A. HOFMANN** and **SARAH VEYSEY**

SENDAI, Japan—Insured damage estimates from the earthquake and tsunami that ravaged northeastern Japan reached as high as \$35 billion, catastrophe modelers said last week.

The quake and tsunami left thousands dead and hundreds of thousands homeless. Complicating the rescue and recovery efforts was damage to nuclear reactors.

In assessing losses in the March 11 disaster, Boston-based catastrophe modeler AIR Worldwide Corp. last week estimated that insured property losses would range from \$15 billion to \$35 billion.

In a statement accompanying its preliminary estimate, AIR said it had simulated dozens of scenarios with varying magnitudes, focal depth and rupture width.



AP PHOTO/KYODO NEWS

A police officer examines the debris in Kesenuma in northeast Japan on Friday, a week after a deadly magnitude 9.0 earthquake and tsunami hit the island nation.

CLAIMS:

Business interruption challenges; reinsurance outlook murky. **PAGES 20, 21**

"The losses are most sensitive to rupture dimensions, and become extremely large if the modeled rupture is extended southward towards the Tokyo and Chiba pro-

jectures, which contain a higher concentration of insured properties," AIR said in the statement.

See **QUAKE** page 18

Coverage restrictions expected to limit nuclear claims

By **JOANNE WOJCIK**

SENDAI, Japan—As the nuclear radiation crisis in Japan worsened last week, the prospect of significant economic damages grew. Coverage restrictions, however, likely will mean that insured losses will be limited.

Japanese nuclear power facilities, such as the Fukushima nuclear power complex that was severely damaged by the March 11 earthquake and tsunami, are covered by an insurance pool for nuclear risks, but a sublimit for losses resulting from offshore quakes likely will mean that the Japanese government will pay most of the damage costs, experts say.

Meanwhile, if a similar incident were to happen in the United States, a blend of private coverage and government indemnity also would respond.

Japan's nuclear regulatory agency on Friday upgraded its severity rating of the crisis at the Fukushi-

See **NUCLEAR** page 20

CAPTIVES

Coca-Cola uses captive to fund pension benefits

By **JERRY GEISEL**

ATLANTA—In its latest innovation in funding benefits through a captive, The Coca-Cola Co. is using its Dublin-based captive insurer to fund benefits earned by pension

plan participants in the United Kingdom and Ireland.

Under the arrangement, which Coca-Cola risk management and human resource executives unveiled last week at the *Business Insurance Risk Management Sum-*

mit in New York, Coca-Cola is using Dublin captive Coca-Cola Reinsurance Services Ltd. to reinsure group annuity products written by a top-rated European-based insurer—and purchased by three of its pension plans in the United Kingdom and Ireland.

Coca-Cola executives say the program, which has been in the planning stage for nearly two years, will generate significant operational efficiencies and potential financial advantages.

Instead of dealing with a diverse group of pension plan trustees and investment managers for each plan in different countries, Coca-Cola will be able to consolidate asset management

through the captive.

In addition, if investment results are strong, the surplus generated would accrue to the captive and could be used by Coca-Cola rather than having to remain in the plan.

"This is a fantastic opportunity to bring value to Coca-Cola by expanding the use of a great tool we already had in place," said Laurie Solomon, Coca-Cola's director of risk management.

For plan participants, the arrangement that utilizes annuities assures that their benefits are insured and fully immunized against market volatility, said

See **COCA-COLA** page 6

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slide show

RMS & INNOVATION AWARDS: The 2011 *Business Insurance* Innovation Awards reception and dinner honored the top innovative products from 2010 at last week's Risk Management Summit in New York. To see a slide show of the award presentations, to go www.BusinessInsurance.com/Innovation2011.

MOST POPULAR STORIES

Week of March 14, 2011

1. Insured losses from earthquake in Japan could hit \$35 billion: AIR
2. Japan quake could turn market: Hannover Re
3. Insurer, reinsurer ratings may be affected by Japan losses: Moody's
4. Risk Manager of the Year, Risk Management Honor Roll named
5. Quake, tsunami could cost European reinsurers 8% of premiums
6. Tokyo nuclear facility insured through Chaucer syndicate
7. AIG denies Chartis' Moor full bonus after boosting reserves
8. Reinsurer rates may reverse two-year decline after quake
9. EQECAT estimates Japan insured losses at \$12B-\$25B
10. Mount Fuji-area quake losses about \$500M: Modeling firm

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perspective

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DIRECTORY: Updated for 2011, *Business Insurance*'s Directory of Case Managers is available in the Research Center.

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The world has changed. Again.

As the devastating impact of the Japan Earthquake and Pacific Tsunami continues to unfold, we are again reminded of the evolving nature of risk and the impact a single event can have on our globe. Our thoughts are with all who have been affected. We are grateful that immediately after this event, all Aon colleagues were reported safe and able to help their clients, colleagues and communities in this time of crisis.

Whether your organization is directly or indirectly impacted by these events, Aon is on the ground to help you analyze the situation. We can help you share with your leadership the knowns and unknowns of this evolving tragedy through the lens of your operations. From helping return your colleagues to safer ground to quantifying your unexpected business continuity exposures, we are at your side.

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FEDERAL LEGISLATION & REGULATION

Illinois insurance regulator named as FIO head

Observers welcome key appointment, view McRaith as well-suited to federal post

By MARK A. HOFMANN

WASHINGTON—The appointment of Illinois Insurance Director Michael T. McRaith to head the new Federal Insurance Office is drawing praise from inside and outside the insurance industry.

Observers note that Mr. McRaith has considerable experience as a regulator and an industry understanding that dates back to his days as a private lawyer. The fact that he comes from a large state with a large insurance industry also is a plus, they say. His experience makes him up to the job of representing the United States in international insurance regulatory issues.

The office, which is part of the Treasury Department, was created last year by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The office will advise federal authorities on insurance matters, prepare reports and analysis, and have limited pre-emption power over state laws that affect international insurance arrangements. The office also will oversee the federal government's terrorism insurance backstop program.

In addition, the director will serve as a nonvoting member of the Federal Stability Oversight Council.

Treasury Secretary Timothy Geithner

announced Mr. McRaith's appointment during last week's meeting of the FSOC. Mr. McRaith brings "a huge amount of expertise and judgment" to the FIO post, according to a transcript of Mr. Geithner's comments.

Observers agreed with the Treasury secretary's assessment.

"I think what he brings to the table is, first and foremost, understanding of the state regulatory system and also of the industry," said Howard Mills, director and chief adviser of Deloitte Services L.P.'s insurance industry group in New York and a former New York state insurance superintendent. "That is critical. One of the first challenges as first director of FIO is to set the tone of how the federal government and the state agencies interact."

Mr. McRaith also will set "the tone and tenor that will impact this industry and the way it is regulated for many years to come," Mr. Mills said.

"I think Mike was probably the most unique person qualified to fill the job, because he equally draws respect from fellow state regulators and those of us who would like to see a more assertive federal pre-emptive regime," said Joel Wood, senior vp of the Council of Insurance Agents & Brokers in Washington.



AP PHOTO

Illinois Insurance Director Michael T. McRaith was chosen to head the new Federal Insurance Office created by the Dodd-Frank law.

Mr. Mills said Mr. McRaith, with whom he worked while both were state insurance regulators, enjoys a "well-earned reputation as a very competent and fair regulator." He noted that Mr. McRaith had exposure to the industry as a lawyer before assuming the state regulator job six years ago.

Eli Lehrer, vp of the Washington operations for the Chicago-based Heartland Institute, praised Mr. McRaith in a statement as

"smart, competent and up to the job before him. He has presided over one of the country's better insurance regulatory systems and does a good job."

The CIAB's Mr. Wood noted that the FIO's authority to preempt state insurance regulations is limited. "I don't think he comes at the job from a mindset of intruding onto state turf and he doesn't have a lot of regulatory authority to do so, but he does now have

the bully pulpit and he's smart as hell."

Messrs. Wood and Mills said they believe Mr. McRaith will perform well in representing the United States internationally.

"I think we have a very able federal director now in respect to international agreements," Mr. Wood said.

"In recent years, the National Assn. of Insurance Commissioners has been much more involved internationally and Mike has been a part of that," said Mr. Mills. "I think he has as much international experience as any insurance regulator you'll find in the U.S."

Mr. Wood also said Mr. McRaith's experience in Illinois is a positive factor.

"He comes from the freest-market state in the country with respect to prior approval of rates and forms," said Mr. Wood. "He's going to be nobody's lackey, but he has a deep understanding of the industry based on the pre-eminence of Illinois as a domicile for so much of the nation's insurance activity."

Frank Nutter, president of the Washington-based Reinsurance Assn. of America, also praised the choice. "We believe Director McRaith will bring significant insurance expertise to the office."

He noted, however, that the White House has yet to appoint a voting member with insurance expertise to FSOC and said the administration should move forward with that appointment.

INTERNATIONAL

Most insurers meet Solvency II capital requirements

By SARAH VEYSEY

BRUSSELS—The most recent study of the effects of Solvency II shows that most European insurers and reinsurers are financially sound, but changes may be needed to formulas to assess catastrophe exposures before the new rules go into effect in 2013.

The Frankfurt, Germany-based European Insurance and Occupational Pensions Authority last week published results of the fifth quantitative impact study on Solvency II, in which almost 70% of all companies that will come under the new rules' scope took part. That participation figure was more than double the 33% of European companies that completed the fourth quantitative impact study in 2008.

According to EIOPA, the QIS 5 results show that insurance companies that took part in the exercise hold €395 billion (\$549.17 billion) in excess capital to meet their solvency capital requirements under Solvency II and €676 billion (\$939.84 billion) in excess



'Whilst we remain supportive of Solvency II, the shortcomings identified in QIS 5, particularly around nonlife and catastrophe risk, need to be addressed.'

Sean McGovern, Lloyd's of London

capital to meet their minimum capital requirements under the upcoming risk-based capital regulatory regime.

The QIS 5 results show that most European insurers will be able to adjust to Solvency II without having to raise additional capital, according to Moody's Investors Service Inc.

Philippe Guijarro, a partner at PricewaterhouseCoopers L.L.P. in Edinburgh, Scotland, said the results show that only 15% of European insurers would fail to meet the minimum Solvency II requirements and only 5% would be at risk of losing their licenses.

"This percentage will almost certainly reduce as companies take steps over the next two years to address their capital position," Mr. Guijarro said in a statement.

The study also examined formulas to determine capital requirements under Solvency II. "QIS 5 shows that, while the calibrations in the system are in general accepted as appropriate, EIOPA already is performing additional work in particular in the areas of nonlife and catastrophe modules to improve those calibrations," the regulator said in a statement.

The Comité Européen des Assurances, which represents

insurers and reinsurers in Europe, welcomed the fact that QIS 5 underscored the financial strength of the industry, but it also said adjustments must be made to Solvency II before it goes into effect.

The Brussels-based CEA said current calibrations "result in excessively high capital requirements" for nonlife and catastrophe insurers and should be revised.

Lloyd's of London, which has called for changes to the way its catastrophe exposure is treated under Solvency II, welcomed EIOPA's support of refining formulas to determine required capital.

"Whilst we remain supportive of Solvency II, the shortcomings identified in QIS 5, particularly around nonlife and catastrophe risk, need to be addressed," Sean McGovern, general counsel at Lloyd's, said in a statement.

Fitch Ratings Ltd. said that while QIS 5 showed that the overall capital position of European insurers and reinsurers remains sound, "nonlife and catastrophe insurers will be hoping for more favorable capital requirement cali-

brations under the new Solvency II regulatory regime."

David Prowse, a senior director in Fitch's insurance team in London, said insurers and reinsurers may have to recapitalize or reshape their business models unless those calibrations change.

Colin Murray, a director at Towers Watson & Co. in London, also welcomed EIOPA's statement that it will continue working to resolve outstanding issues in the models under Solvency II. However, he also said time is of the essence.

According to Mr. Murray, QIS 5 did not specifically test governance, risk management and reporting requirements of insurers, issues he said require the industry's attention ahead of the 2013 implementation date.

"Solvency II is not just about risk measurement and quantification," Mr. Murray said. "Successfully responding to this new regulatory regime will depend much on the degree to which companies recognize and respond to their governance and risk management needs ahead of the 2013 deadline."

HEALTH CARE REFORM

Top employers need to offer health cover: Panel

By JERRY GEISEL

WASHINGTON—Despite the costs and administrative burden, several large employers see advantages to continuing to provide health care coverage and avoiding the health care reform law's "play-or-pay" penalties that go into effect in 2014.

Health care coverage "distinguishes us as an employer. We like the idea of providing a plan and offering wellness to enable employees to improve the quality of their lives," Pamela French, director of global benefits and integration in human resources at Boeing Co. in Chicago, said at a recent National Business Group on Health conference in Washington.

If coverage is not offered, how does a company continue to be "an employer of choice?" asked Lillian Kandybowicz, vp-human resources at shipping giant Maersk Inc. in Madison, N.J.

"Providing employees with health care plans is extremely important to us," said Judy Verhave, executive vp and global head of compensation and benefits at New York-based Bank of New York Mellon Corp.

Whether to continue offering coverage is an issue many employers have begun to analyze due to provisions in the health care reform law that take effect in 2014.

One provision imposes an annual \$2,000 per employee assessment on all but small employers that do not offer a health plan. In addition, the law provides health insurance premium subsidies for the uninsured with incomes up to 400% of the federal poverty level. The subsidies would be used to purchase policies from insurers offering coverage in state exchanges.

With annual health insurance costs often topping more than

\$10,000 per employee, employers could come out financially ahead if they folded their plans and paid the penalty. Due to the federal premium subsidies, lower-paid employees would be shielded, in some cases completely, from the

compensation they would provide to employees not eligible for federal premiums.

"How do you restructure remuneration?" she asked.

In addition, there is no assurance that lawmakers would not

If coverage is not offered, how does a company continue to be 'an employer of choice?'

Lillian Kandybowicz, Maersk Inc.

financial effects of plan terminations.

But panelists during the March 9-11 NBGH conference noted that the financial issues are not cut and dried. "It is a complex question," Ms. Kandybowicz said.

For example, employers pursuing such a strategy would have to analyze the amount of additional

later increase the \$2,000 per employee penalty for not offering coverage—which Ms. Kandybowicz described as very small compared with employers' current health care plan costs—if large numbers of employers decide to terminate their health care plans.

While the benefit managers said their companies intend to keep

providing coverage, they noted that health care reform will require design changes, particularly to the highest-cost plans.

Boeing's Ms. French said the aerospace giant will make whatever changes are necessary to avoid a 40% excise tax that will be imposed on the most costly plans starting in 2018. Under that provision, the tax will be imposed on premiums that exceed \$10,200 for single coverage and \$27,500 for family coverage.

"Avoiding (the tax) is an imperative," Ms. Verhave said.

Even without the impetus of the health care reform law, employers are taking action to try to hold down health care cost increases to more manageable levels.

For example, Boeing is working to develop programs in which payments made to medical providers would be linked to performance, Ms. French said.

DIRECTORS & OFFICERS LIABILITY

Claim disputes often caused by oversights

Complex coverage creates friction in D&O claims

By SONJA RYST

NEW YORK—Diverse competing interests on both sides of directors and officers liability claims create the potential for numerous disputes in claims for coverage of the costs of defending shareholder lawsuits, a panel of experts said.

"We're seeing continuing claims challenges" by insurers, said William Passannante, co-chair of Anderson Kill & Olick P.C.'s insurance recovery group.

"There's a difference between what some policyholders believe they're purchasing and what the claims person is willing to deliver at claims time," he said at the New York law firm's Eighth Annual D&O Conference.

For example, companies often buy insurance from a primary insurer with additional layers from other providers. What buyers should consider is what to do should there be a claim that could exhaust the primary layer, Mr. Passannante said. Dealing with insurers on all the various layers of a D&O policy can lead to a complicated claims process, he added.

Nicholas Conca, managing principal at Integro Insurance Brokers Ltd. in New York, said when making a D&O claim, it's impor-



'There's a difference between what some policyholders believe they're purchasing and what the claims person is willing to deliver.'

William Passannante,
Anderson Kill & Olick P.C.

tant to prepare all the insurers involved in the coverage as soon as possible.

Joshua Gold, a shareholder at Anderson Kill in New York, said policyholders facing a claim often reach out to their primary insurer first. He recommends setting up regular conference calls with insurers and involving everyone right away when there is a D&O claim.

"If you can get them collared in early, it can help deal with some of the risks," Mr. Gold said.

Competing corporate interests

See D&O page 19

RISK MANAGEMENT

U.K. insurance buyers at risk: Study

Flawed placement process leads to increased disputes with insurers

By SARAH VEYSEY

LONDON—Serious flaws in the U.K. insurance placement process could leave insurance buyers exposed to losses, according to an analysis published last week.

The report, welcomed by the London-based Assn. of Insurance & Risk Managers, found that most U.K. insurance buyers do not fully understand their disclosure duties under U.K. law, and almost two-thirds do not review all of the materials used by brokers to place their insurance.

According to the analysis by London-based research company Mactavish Group and PricewaterhouseCoopers L.L.P., 87% of buyers did not fully understand the extent to which they are required by U.K. law to disclose all facts that may be material to an insurer's assessment of their risk.

Very few buyers were aware that "merely answering the questions posed by brokers and insurers in a full and frank way is not sufficient in law," according to the report, "Corporate Risk & Insurance: The Case for Placement Reform."

Under U.K. law, it is not the responsibility of the broker to define the scope of disclosure of information to underwriters; rather, it is the responsibility of the insurance buyer, according to the analysis.

In addition, the study, which surveyed 600 U.K. companies that buy insurance and more than 100 insurers and brokers, found that 65% of buyers at large

U.K. companies do not review raw materials that are submitted to underwriters to arrange their coverage.

Mactavish also said insurance disputes are on the increase, and pointed to Royal Courts of Justice data that show the number of commercial insurance disputes increased 45% in 2009 compared with 2008.

65%

A study found that 65% of insurance buyers at large U.K. companies do not review raw materials that are submitted to underwriters to arrange their coverage.

The report found that the boards of U.K. companies are failing to properly oversee their insurance arrangements, said Bruce Hepburn, CEO of Mactavish.

The whole system of placing insurance is no longer "fit for purpose" Mr. Hepburn said, as buyers leave themselves open to claims disputes because of inadequate disclosure, among other factors.

For example, Mr. Hepburn said buyers can leave themselves open to having a claim declined because they have not disclosed information that is entirely unrelated to the claim.

"Ignorance of the law is no defense," London-based law firm

Herbert Smith L.L.P. said in its response to the report.

The ultimate objective for all three parties in an insurance transaction should be certainty as to the risk that is being transferred, the law firm said in a statement.

Mr. Hepburn said while the report did not seek to lay blame for failings in the placement process on buyers, brokers or insurers, changes to the system are needed.


One such change, he said, would be for brokers to provide prospective underwriters with details of a buyer's prior-year insurance submission six months in advance of the renewal date. Underwriters then could review those documents, which are likely to bear similarities to the upcoming submission, and pose questions to the buyer.

That way, Mr. Hepburn said, buyers would be better aware of likely underwriter questions and be better prepared to provide full disclosure.

London-based AIRMIC welcomed the Mactavish report, saying it provided "convincing evidence to support our long-held view that the legal framework for commercial insurance is dangerous and unsustainable."

In a statement, AIRMIC described U.K. insurance law as "the most customer-hostile" of any large economy. "It increases the risk of a large claim being refused even when made in good faith."

The report can be requested at www.mactavishgroup.com.



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Because change happenz

Coca-Cola: Captive to fund some pension benefits

CONTINUED FROM PAGE 1

Stacy Apter, senior global benefits consultant with Atlanta-based Coca-Cola.

"We have responsibility for managing investments and, in return, plan members' benefits are guaranteed," Ms. Apter said.

Coca-Cola intends in the near future to extend the program to another of its pension plans in Europe and potentially to plans elsewhere.

The captive pension benefit funding approach follows another Coca-Cola trailblazing captive benefit funding arrangement: the use of its South Carolina-domiciled captive, Red Re Inc., and a special trust to fund health care obligations of retired U.S. employees and their dependents.

Under that arrangement, which the Labor Department approved last year, Coca-Cola plans to use assets in a voluntary employees' beneficiary association to purchase medical stop-loss policies from Prudential Insurance Co. of America to pay claims over the expected lifetimes of roughly 4,000 retirees and dependents. Coca-Cola established the VEBA in 2006 and contributed \$216 million to the trust.

Prudential, in turn, will use the premium that it receives from Coca-Cola to reinsure the risk with Red Re. Coca-Cola is waiting for a private letter ruling addressing certain tax issues from the

icant size, it is a way of addressing risk in a very efficient manner," said Kevin McLaughlin, a principal and senior investment consultant with Mercer L.L.C. in New York.

"We are talking to others about this approach," Towers Watson's Mr. Cole said.

The approach could attract more interest as companies freeze their pension plans, resulting in decreasing benefit obligations and the likelihood that plan surpluses will grow.

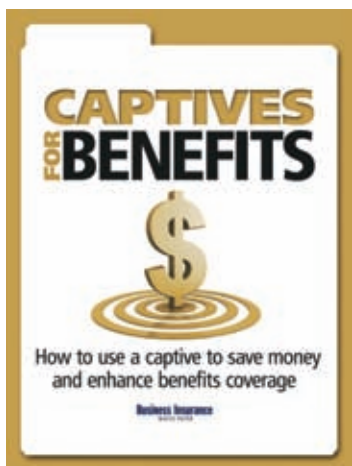
Under this approach, "a surplus does not have to be trapped" in the pension plan, Mr. Cole said.

Still, such an approach will require a significant commitment of corporate time and the involvement and support of senior executives. "You must have drivers to make this happen," said Lorraine Stack, senior vp-captive solutions with Marsh Management Services Ltd. in Dublin. Marsh is the captive manager for Coca-Cola Reinsurance Services Ltd.

Coca-Cola's Ms. Solomon said resources and expertise from several company units were essential in devising its approach to funding pension benefits through the captive.

"Although I report up through finance, the coordination for this whole project was very much a matter of risk management partnering with benefits, along with the total commitment and sponsorship of my boss, Coca Cola's treasurer," Chris Nolan, Ms. Solomon said.

Ultimately, Ms. Solomon said, it is not difficult to "generate interest and buy-in when financial advantages or other efficiencies can be demonstrated."



READ the BI white paper 'Captives for Benefits' at www.BusinessInsurance.com

Internal Revenue Service before proceeding.

"This is part of a larger picture to use captives as a central locus to manage the investment and risks of employee benefit obligations as is financially and legally appropriate," said Mitchell Cole, a director in the Stamford, Conn., office of Towers Watson & Co., which is Coca-Cola's consultant on the captive pension and retiree health care funding projects.

While Coca-Cola and a large energy company in Europe are believed to be the only employers to utilize their captives as a pension benefit funding vehicle, others may not be far behind.

"This is getting a lot of corporate attention. For companies of signif-

Commentary

Basketball tourney less bouncy this year



RODD ZOLKOS

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

Just luck of the draw, perhaps, but once again I find myself sitting down to write this column at the onset of one of my favorite times of year: March Madness, the National Collegiate Athletic Assn.'s Division I Men's Basketball Tournament.

As I write this, I know that while the good teams generally will rise to the top, as events unfold, somewhere along the line a fortuitous bounce or two will end some good teams' seasons—and wreck my brackets.

In past years, I've written about the hand wringing from some quarters about the U.S. productivity lost each year to the tournament, accompanying office pools and online tournament coverage.

Chicago-based global outsourcing consultant Challenger, Gray & Christmas Inc. obliged again this year, estimating that some 8.4 million work hours will be spent viewing games online.

While Challenger estimated last year's March Madness would be responsible for \$1.8 billion in lost productivity, the firm opted not to place a number on the tournament's 2011 economic toll, citing "a lack of updated market research and statistics" previously used to calculate what it acknowledged is "a non-scientific ballpark guesstimate."

The firm also offered a bit of context for the 8.4 million work hour figure, with CEO John A. Challenger noting that with the U.S. workforce logging 3.7 billion work hours weekly—more than 11 billion work hours over the course of the tournament—the 8.4 million hours spent watching games online "is a relative drop in the bucket."

A more unsettling view of the tournament's workplace impact came from a 2011 "Office Betting Survey" by career management and job search information provider Vault.com Inc. According to the Vault survey, 71.5% of respondents have participated in some sort of office pool, with 65% saying they've participated in an NCAA bracket.

Here's where Vault's findings get a bit disturbing. One survey respondent—presumably not an office pool participant—said, "The next time I see (colleagues using work time to focus on office pools), I'm going to put an anonymous note on all the bosses desks to make them aware." This gets dangerously close to workplace

safety territory. Evidently this person has never watched "The Sopranos."

In past years, as I've talked about these assessments of March Madness and the workplace, I've been a bit more flip than I feel like being this year. Then, I jokingly used words like "Armageddon." But, given recent events in Japan, this year I don't feel like tossing

The 8.4 million hours spent watching games online "is a relative drop in the bucket."

that sort of word about so freely.

The earthquake, the tsunami and the ongoing nuclear reactor crisis showed the impact of fortuitous events, and how fragile markets, economies and life itself can be.

All else pales, of course, next to the loss of life. But, as with any such catastrophic event, there are other impacts.

In the commercial insurance world, naturally, there's the question of whether this most recent catastrophe will be a market-turning event. Analysts are busily assessing that impact, looking at potential insured losses vs. industry capital and making their predictions.

Meanwhile, the extent of the tragedy continues to reveal itself.

I'll watch a lot of college basketball over the next few weeks, enjoying it, I'm sure, even as my emotional state rises and falls with the fates of my own favorites and my bracket picks. At the same time, however, like most of you, I'll be watching as other events continue to unfold.

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Agenda at a Glance

7:30 am - 8:30 am

Registration and Networking Breakfast

8:30 am - 8:35 am

Opening Remarks

8:35 am - 9:00 am

PRESENTATION: Investment Outsourcing: What Stays? What Goes?

9:00 am - 9:40 am

WORKSHOP: Tailoring the Appropriate Outsourcing Solution for Your Institution

9:40 am - 10:25 am

PANEL DISCUSSION: The Asset-Liability Connection and Why It Is Important

10:25 am - 10:45 am

Networking Break

10:45 am - 11:25 am

WORKSHOP: Why the Market Could Be Putting the Wrong Price on Volatility - and What That Means for Your Portfolio

11:25 am - 12:05 pm

WORKSHOP: Sources of Opportunity

12:05 pm - 1:30 pm

Keynote Luncheon: The Future of Institutional Investments Outsourcing

Conference Moderator



Chuck Tschampion, CFA
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Keynote Speaker



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Business Insurance OPINIONS

McRaith right choice as director of FIO

IT TOOK A WHILE, but the Obama administration's decision to appoint Illinois Insurance Director Michael T. McRaith to head the new Federal Insurance Office is good news for buyers and insurers.

As we report on page 3, Mr. McRaith enjoys a good reputation inside and outside the industry for his expertise and fairness.

Illinois has a reputation for following a decidedly free-market approach in insurance matters, which is to the benefit of buyers and underwriters. And coming from a state with potentially high-profile terrorist targets, he understands the importance of the federal government's terrorism insurance back-stop program, which he oversees in the new post.

Mr. McRaith's powers in his new job will be limited by law, particularly in regard to pre-empting state insurance regulations. We have said before and will say again that we believe the office should have greater power. But we're also confident Mr. McRaith will make the most of the powers he has, and will set the tone for the way the office operates for years to come.

There is one more key insurance-related post that remains vacant at the federal level. That's the voting position on the Financial Stability Oversight Council reserved for someone with insurance expertise. It's now up to the administration to fill that as well, and we sincerely hope the White House picks someone with Mr. McRaith's credentials to do so.

*We're confident
Mr. McRaith will
make the most of
the powers he has.*

Need for COBRA aid no longer necessary

EVEN IF \$1 billion isn't worth what it used to be, \$34 billion still is a lot of money.

That is roughly what it cost the federal government to provide COBRA premium subsidies to employees who lost their jobs during the Great Recession, according to a report last week by congressional researchers at the Joint Committee on Taxation.

Were those expenditures of federal funds worth it? It was, in our view, for several reasons.

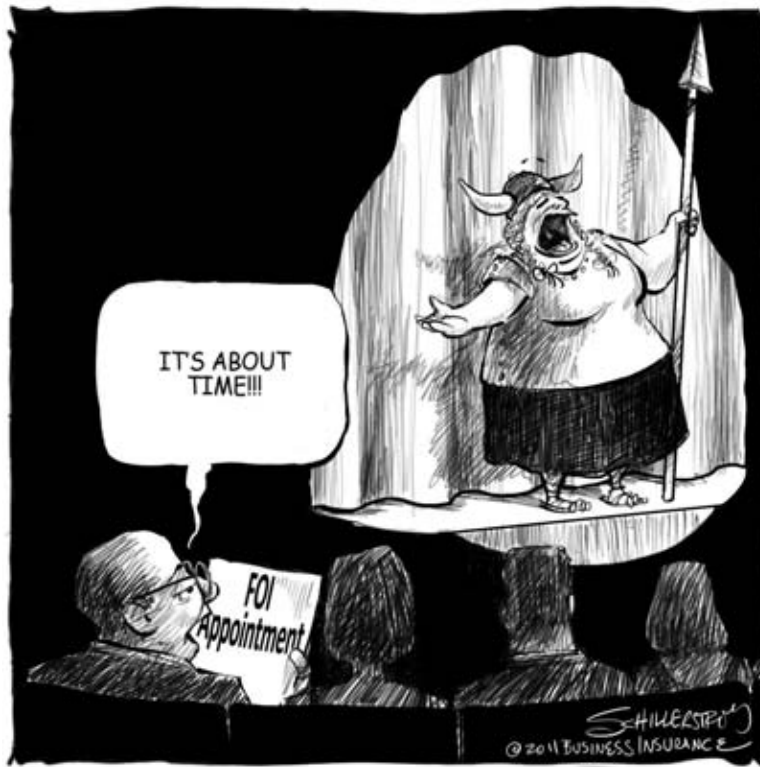
First, premium subsidies assured that millions of laid-off employees retained coverage that otherwise would have been unaffordable and kept them from joining the ranks of the uninsured. That meant most retained the same health care providers and, because they kept coverage, did not have to use hospital emergency rooms to receive services that could be delivered in more cost-efficient settings.

That also meant hospitals and other medical providers were shielded, at least to some extent, from a surge in uncompensated care costs, some of which certainly would have been shifted to employers in higher charges for insured patients.

By having the subsidized coverage, laid-off employees and their families also were more likely to seek treatment for routine medical problems before they developed into more expensive-to-treat conditions.

In addition, guidance issued by regulators was timely and comprehensive.

That said, legislators were right last year to stop extending the subsidies. The cost was huge and, with a gradually improving economy, the need for the subsidy has eased.



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THIS WEEK'S RESULTS

Q Will the soft commercial insurance market end this year?



NEXT WEEK'S QUESTION

Q: Was the COBRA subsidy good use for government funds?

READ

Perspectives and expert analysis online at
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Know your coverage rights

As the aftermath of the Japan earthquake and tsunami unfolds, companies with operations that were affected by the disaster should be aware of their rights under their business interruption policies. This coverage reimburses lost profits and other expenses for a policyholder whose operations are halted due to a disaster. Richard P. Lewis, partner at Reed Smith L.L.P. in New York, offers tips for policyholders to preserve their rights to business interruption coverage.



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Reserves getting thin at P/C insurers

But soft market expected to continue in sluggish economy

By JUDY GREENWALD

Commercial U.S. property/casualty insurers face diminishing reserve redundancies that have boosted results as the soft market continues with no immediate end in sight, observers say.

Meanwhile, catastrophes also loom as an issue, with the year's hurricane season still ahead, although the Japan earthquake is unlikely to have a major impact on the primary U.S. insurance market, observers say.

INDUSTRY FINANCIALS

P/C INSURERS

Ten major property/casualty insurers reported \$21.64 billion in 2010 net income (see chart, page 10). This compares with a \$779.9 million loss for 2009, when American International Group Inc. reported a \$10.95 billion loss for the year and Hartford Financial Services Group Inc. reported an \$887 million loss.

Net premiums written for the largest insurers increased 2.3% to \$128.29 billion in 2010. The group reported a 100.3% combined ratio vs. 96.5% a year earlier.

While there has been some deterioration in operating profits, "We would say that, given the soft market and tough economy, results are adequate for conditions," said James B. Auden, an analyst with Fitch Ratings Inc. in Chicago.

"Reserve redundancies continued to support earnings and kept a lot of companies' combined ratios

below 100%," New York-based Standard & Poor's Corp. Director John Iten said. "On the other hand, you've got pricing, at least on the commercial side, that really hasn't improved much," with single-digit declines continuing in most lines.

Mr. Auden said AIG, which posted a \$4.2 billion net charge to strengthen Chartis Inc.'s loss reserves in the fourth quarter last year, was an "outlier" insofar as reserve development trends. "Just about every other company reported favorable reserve development," he said. This means "while your profits are higher, it's masking some weaker current-year results."

Reserve releases in 2011 will be "down relative to the levels of the last two or three years," but will "not go away entirely for most companies," said Mark Dwelle, an insurance analyst with RBC Capital Markets, a unit of RBC Dominion Securities Inc. in Richmond, Va.,

However, Laline Carvalho, a director at S&P in New York, said, "We don't think that companies will be able to take down more and more reserves."

While there has been favorable reserve development for the 2003-2007 years, reserving was less robust for 2008-2010, particularly in casualty lines, where there have been continued price decreases and business has been more competitive, Ms. Carvalho said. There will be "adverse reserve development in the future if companies take down too much of their reserves," she said.

"Those cushions are no longer there," said Anthony Diodato, group vp at Oldwick, N.J.-based A.M. Best Co. Inc. The concern is insurers are "taking from one accident year to support another acci-

dent year, to the point where nothing's left, and you're going to start seeing reserve strengthening" as a result.

Meanwhile, soft commercial property/casualty pricing is expected to continue. "We don't see any real movement in commercial lines pricing positively in the near term, so we think that

\$21.64B

Ten major property/casualty insurers reported \$21.64 billion in 2010 net income. This compares with a \$779.9 million loss for 2009

\$128.29B

Net premiums written for the largest insurers increased 2.3% to \$128.29 billion in 2010.

current accident year performance will continue to worsen for the sector," said S&P's Mr. Auden.

Amit Kumar, vp at Macquarie Securities Group in New York, said while some of the larger insurers, including Travelers Cos. Inc., CNA Financial Corp. and Chubb Corp., were able to achieve "a modest amount of traction" and increase rates, smaller insurers have struggled to do so. "There's no indication that a market turn is in sight

or imminent on the U.S. commercial side," he said.

"The biggest factor is the economic conditions," Mr. Kumar said. "The economy is still challenged and in a modest recovery mode; and, unless you see a broad-based improvement in exposure, it's difficult for across-the-board rate increases" in nonlife business. "On the flip side, you had loss trends, which have generally remained benign. You had localized catastrophe losses, but on the liability side, except for workers comp, loss trends have been generally within companies' expectations," Mr. Kumar said.

Rates will continue to fall, but in the low single digits, said J. Paul Newsome, managing partner at Sandler O'Neill & Partners in Chicago.

Jim Amen, managing partner with Philo Smith & Co. in Stamford, Conn., said he expects insurers "will hold the line" on rates, with "maybe very, very light" continued softening in the market.

However, RBC's Mr. Dwelle said, "Much will depend, ultimately, on where some of these cat losses come in, but we are expecting at least some firming, generally driven by a firming demand picture and improving U.S. economy."

"Folks continue to shy away from workers comp and some particularly long-tail lines, because the pricing isn't there, and obviously cannot be covered by investment yields," Mr. Amen said. He said he anticipates a "continued shift from longer-tail to medium and shorter-tailed lines."

S&P analysts said asbestos reserves are an area of concern.

"There's been an uptick in the

See **INSURERS** next page

Industry Financials: Year-End Results

SPOTLIGHT

MARKET CHALLENGES

What is the biggest challenge facing the property/casualty sector in 2011?



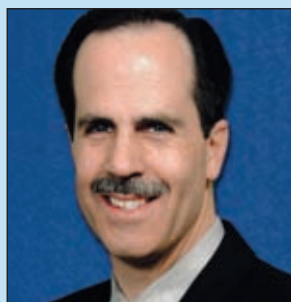
Mark Dwelle
Insurance analyst at RBC Capital Markets, a unit of RBC Dominion Securities Inc. in Richmond, Va.:

"Realizing some amount of rate increases in what still appears to be a rather tepid economic recovery."



Amit Kumar
Vp at Macquarie Securities Group in New York:

Economic conditions. Until there is a broader economic recovery, businesses will not buy expanded or additional coverage.



Anthony Diodato
Group vp at Oldwick, N.J.-based A.M. Best Co. Inc.:

"Pricing and reserve adequacy."

J. Paul Newsome
Managing partner at Sandler O'Neill & Partners in Chicago:

"Dealing with the competitive pricing."

Jim Amen
Managing partner at Philo Smith & Co. in Stamford, Conn.:

"Trying to maintain pricing discipline and acquiring the good business at reasonable rates."

SECOND-HALF GAINS FUEL RESULTS OF TOP BROKERS
PAGE 10

CATASTROPHES RAISE QUESTIONS FOR REINSURERS
PAGE 12

HEALTH INSURERS POST SURPRISINGLY STRONG RESULTS
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Insurers: Reserves getting thin

CONTINUED FROM PREVIOUS PAGE

increase of asbestos reserves," said S&P's Mr. Iten. "While not huge," it has been seen more than in recent years.

Companies that reported increased asbestos reserves include AIG and ACE Ltd., while CNA entered into a deal under which it transferred its asbestos liability to National Indemnity Co. last year.

In addition, the hurricane season now looms after two relatively quiet years, analysts say.

In light of the global catastrophes, "anybody who operates on a wider (geographical) basis has already felt some pretty sizeable losses. That said, this isn't peak season yet," Mr. Dwelle said.

Observers said they anticipate relatively small merger and acquisition deals in the coming year.

"You don't see too often" the big headline-grabbing acquisitions, said Best's Mr. Diodato. But many insurers are looking for specialty lines to augment their business and expand growth opportunities.

As an example, Mr. Dwelle pointed to Toronto-based Fairfax Financial Holdings Ltd.'s acquisition last year of Woodland Hills, Calif.-based workers compensation insurer Zenith National Insurance Corp. in a \$1.4 billion deal and its merger agreement with Southfield, Mich.-based First Mercury Financial Corp. in a \$294 million deal.

PROPERTY/CASUALTY INSURERS' 2010 RESULTS

Largest U.S.-based or U.S.-listed property/casualty insurers that report quarterly results. Ranked by net premiums written, in millions of dollars.

	Net premiums written 2010	% Increase (decrease) 2010-2009	Net income 2010	% Increase (decrease) 2010-2009	Consolidated revenues 2010	Combined ratio 2010 ¹	Combined ratio 2009 ¹
American International Group Inc.	\$31,612	3.1%	\$7,786	N/M	\$77,301	116.8%	108.0%
Liberty Mutual Insurance Co.	29,191	3.3%	1,678	64	33,193	101.3	99.9
Travelers Cos. Inc.	21,635	1.4%	3,216	(11.2)	25,112	93.2	89.2
ACE Ltd.	13,708	3.1%	3,108	21.9	16,006	90.2	88.3
Chubb Corp.	11,236	1.4%	2,174	(0.4)	13,319	89.3	86.0
CNA Financial Corp.	5,899	(3.8%)	690	64.7	9,209	94.8	97.4
Hartford Financial Services Group Inc.	5,796 ²	1.4%	1,680	N/M	22,383	89.7 ²	85.9
W.R. Berkley Corp.	3,851	3.2%	449	45.4	4,724	94.5	94.2
Cincinnati Financial Corp.	2,963	1.8%	377	(12.7)	3,772	101.7	104.5
American Financial Group Inc.	2,408	4.2%	479	(7.7)	2,550	89.0	83.0
Cumulative	\$128,299	2.3%	\$21,637	N/M	\$207,569	100.3%	96.5%

¹ Includes dividends. ² Commercial P/C only. N/M-Not meaningful.
Source: BI survey, company reports

Second-half gains fuel top brokers' growth in revenue

Rising insured values, overseas demand boosts sector revenues

By **RODD ZOLKOS**

Despite ongoing soft insurance prices, the world's largest publicly traded brokers' results improved in 2010 along with the economy, leading many to significant growth in revenue.

In particular, the five largest

INDUSTRY FINANCIALS

BROKERS

brokers' results gained ground during the second half of the year and helped drive year-over-year revenue increases, a trend that analysts expect to continue this year as economic headwinds ease and the merger and acquisition climate improves.

New York-based Marsh & McLennan Cos. Inc. remained the world's largest broker, posting 2010 revenue of \$10.51 billion, up 6.9% from 2009. Marsh's net rev-

MARKET CHALLENGES

What is the biggest challenge facing the broker sector in 2011?



Stephen Meyer Shields
Principal at Stifel, Nicolaus & Co. Inc., Baltimore:

"I think it's the somewhat fragile economic recovery, especially if gas prices stay high and make it much more expensive to get anything done."



Cliff Gallant
Managing director at Keefe, Bruyette & Woods Inc., New York:

"No surprise, I think it's still the soft market. It doesn't seem there's any letup...The soft market seems like it's going to continue to grind on and that's a challenge for everybody."



Adam Klauber
Insurance analyst at William Blair & Co. L.L.C., Chicago:

"I think the potential challenge could be one, health care reform, to see what impact that has on commission levels in the benefits business; and two, whatever happens to contingent and supplemental payments as loss ratios on the underwriting side rise up."

enue was \$855 million, up more than 276% from 2009.

Chicago-based Aon Corp. posted the largest percentage revenue increase from 2009, reporting 2010 revenue of \$8.46 billion, up 12.4% a year earlier. Aon attributed the gain to a 12% increase in commissions and fees resulting from acquisitions—notably benefits

consultant Hewitt Associates Inc.—net of dispositions, as well as a 1% favorable impact from foreign currency translation.

Aon's 2010 net income for the year declined 5%, however, to \$706 million. The Chicago-based company noted that 2009 results included recognition of a foreign tax credit carryback, the

sale of Combined Insurance Co. of America and a \$43 million after-tax gain on the sale of Automobile Insurance Specialists. Aon posted a gain in net income from continuing operations, which increased 15% from 2009 to \$733 million.

London-based Willis Group Holdings P.L.C. posted \$3.33 billion in revenue in 2010, up 3.7%

from 2009. Willis' 2010 net income was \$455 million, a 3.9% increase from the previous year.

Itasca, Ill.-based Arthur J. Gallagher & Co. reported \$1.79 billion in revenue in 2010, up 4.6% from 2009. Gallagher's broker-

Continued on next page

CONTINUED FROM PREVIOUS PAGE

age segment saw earnings increase to \$135.5 million in 2010, up more than 9.5% from a year earlier.

Revenue growth was more modest in 2010 at the fifth-largest publicly traded brokerage, Daytona Beach, Fla.-based Brown & Brown Inc. Brown & Brown's 2010 revenue was nearly \$972.2 million, just a 0.6% increase from 2009. Its net income also grew nearly 5.5% to almost \$161.8 million in 2010.

In a statement, President and CEO J. Powell Brown called 2010 "another challenging year" for Brown & Brown, but highlighted the broker's fourth-quarter results, in which revenue increased 7.3% to \$229.9 million from the same period in 2009, and net income increased 35.9% to \$32.1 million.

For Brown & Brown, the problem in this economy largely has been the location of much of its business, analysts say.

"Overwhelmingly, that's just geographic exposure," said Meyer Shields, a principal at Stifel, Nicolaus & Co. Inc. in Baltimore. The broker has a preponderance of business in Florida, Mr. Shields said, where the real estate market remains particularly challenged.

Conversely, having more far-flung business has served global brokers well as some regions' economies advance more quickly than others, analysts say.

"Sort of following a geographic theme, when you follow Marsh, Aon and Willis, they are all international companies," Mr. Shields said. That allows them to benefit from economies in emerging markets that are growing faster than the United States.

Global brokers also benefitted from increased insurance demand in emerging market countries, said Cliff Gallant, managing director at Keefe, Bruyette & Woods Inc. in New York.

"Even during economic slow-downs, the insurance markets are growing," Mr. Gallant said. "So having exposure to international markets is key to long-term growth."

With access to business in South America and Asia, "If you look at the growth rates for the larger brokers—Aon, Marsh and Willis—that's really been helping the organic growth rate" in the past 18 months, said Adam Klauber, an insurance analyst at William Blair & Co. L.L.C. in Chicago. "I don't see any reason why that's going to slow down right now."

With the exception of Brown & Brown's particular geographic challenges, the major brokers in 2010 showed they could build revenue year over year in the absence of a major economic challenge, the analysts said.

"Most brokers were actually producing internal organic revenue growth in the back half of the year," Mr. Shields said. He described economic conditions as "getting less bad," noting that the improving economy is increasing insurable values.

"Certainly as the year progressed, things went well," said

Mr. Gallant. While the largest brokers faced continued head winds from the soft market, conditions improved as the year proceeded, he said. "By the fourth quarter, certainly from the largest companies, we saw positive organic growth," he said.

As insurable values began to grow in 2010, "(insurance) pricing hasn't changed, but at least it's static," said Mr. Klauber. In addition, "acquisitions, which were real slow in 2009 and the first half of 2010, picked up toward the end of last year," he said.

While the ongoing question of when the commercial insurance market will harden remains unanswered, analysts said steps that the major brokers have taken during

the difficult economy should benefit them going forward.

"They've all been pretty good at cost cutting as well, and they've all been investing in new systems," said Mr. Gallant.

"I think one of the advantages of the market downturn...(is) most of the brokers—really all of them—did a pretty good job of rationalizing their expenses," said Mr. Klauber.

The largest brokers will always have certain advantages over other competition, said Mr. Shields.

"For the bigger companies that have more leverage with the insurance companies, they can outthrust and outcompete most of their competition," Mr. Shields said.

2010 BROKER RESULTS

Results for the world's largest publicly traded insurance brokers, in millions of dollars.*

BROKER	BROKERAGE REVENUES	% INCREASE (DECLINE) FROM 2009	NET INCOME	% INCREASE (DECREASE) FROM 2009
Marsh & McLennan Cos. Inc.	\$10,507	6.9%	\$855	276%
Aon Corp.	8,457	12.4	706	(5.0)
Willis Group Holdings P.L.C.	3,331	3.7	455	3.9
Arthur J. Gallagher & Co	1,789	4.6	135.5	9.5
Brown & Brown Inc.	972.2	0.6	161.8	5.5

*Brokerage revenues comprise commissions and fees from placing insurance and reinsurance, wholesale brokerage and consulting services. They do not include investment, fiduciary or noninsurance income.
Source: Company reports

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Outlook unclear for U.S. reinsurers as cat losses loom

Firms tap reserves to support profits as rates keep falling

By JUDY GREENWALD

As with their primary insurer counterparts, U.S. reinsurers are relying on reserve releases to help bolster results and counterbalance the effects of the continued soft market.

But how much longer the soft market will last was thrown into question this month by uncertainty over the level of losses that will arise from the Japanese earth-

quake and tsunami that struck March 4, according to analysts. Nineteen reinsurers surveyed by the Washington-based Reinsurance Assn. of America reported \$23.31 billion in net written premiums, a 2.5% decrease from the total reported in 2009. The reinsurers' combined ratio deteriorated to 95.4%, from 93.5% in 2009.

The group reported \$9.11 billion in net income, which was more than double the total reported in 2009. Significantly boosting 2010 profits was National Indemnity Co., which posted \$5.94 billion in net income in 2010 vs. \$1.51 billion in 2009. Parent com-

pany Berkshire Hathaway Inc. did not specify why National Indemnity's profits increased. However, in its annual report, Berkshire Hathaway detailed some large retroactive reinsurance transactions.

"Reinsurers had a pretty good year," said Mark Dwelle, an insurance analyst with RBC Capital Markets, a unit of RBC Dominion Securities Inc. in Richmond, Va. "They had a number of losses early in the year from the Chile quake, but really made it through the rest of the year with fairly normal levels of cat exposure in 2010. But, they are "off to a much worse start in 2011," said Mr. Dwelle.

While most of the 2010 catastrophe losses were outside of the United States, such as the Chilean quake, the first New Zealand quake and some European windstorms, they did "add up" to higher catastrophe losses, yet prices still declined, said James B. Auden, an analyst with Fitch Ratings in Chicago.

The decline in prices is in part due to lower demand for reinsurance as insurers retain more risk to maintain their revenues, he said. "The challenge is there on the top line," he said.

Nevertheless, most reinsurers still produced an underwriting profit last year, he said, pointing to reserve releases.

J. Paul Newsome, managing

Continued on next page

TOP U.S. REINSURERS' 2010 RESULTS

Ranked by net reinsurance premiums written, in millions of dollars.

Reinsurer	NET WRITTEN REINSURANCE PREMIUMS		NET INCOME (LOSS)	COMBINED RATIO	
	2010	2009	2010	2010	2009
National Indemnity Co. ¹	\$3,913	\$4,364	\$5,941	87.1%	78.2%
Transatlantic/Putnam Reinsurance Co.	3,418	3,589	380	98.5	92.8
Munich Re America Corp. ²	2,915	2,803	590	90.1	98.9
Odyssey America Re/Odyssey Reinsurance ³	1,724	1,775	338	98.8	95.9
Everest Reinsurance Co.	1,703	1,647	218	107.8	89.7
Swiss Reinsurance America Corp. ⁴	1,585	1,655	367	87.4	102.8
Berkley Insurance Co.	1,327	1,226	324	102.3	92.4
General Re Group ⁵	1,312	1,428	220	93.2	93.6
QBE Reinsurance Group ⁶	1,058	825	(2.4)	98.4	99.3
XL Reinsurance America ⁷	701	766	137	106.8	111.8
Totals for top 10 reinsurers	\$19,657	\$20,078	\$8,514	95.1%	92.3%
Totals for all reinsurers	\$23,305	\$23,9068	\$9,109	95.4%	93.5%

1 Underwriting results exclude assumptions from affiliated General Re Group. 2 Includes combined results of Munich Reinsurance America Inc., American Alternative Insurance Corp. and Princeton Excess & Surplus Lines Insurance Co. 3 Includes combined results of Odyssey America Reinsurance Corp., Clearwater Insurance Co., Hudson Insurance Co., Hudson Specialty Insurance Co. and Clearwater Select Insurance Co. 4 Includes combined results of Swiss Reinsurance America Corp., which is impacted by significant affiliated transactions with other members of Swiss Re Group. 5 Data presented is for the North American property/casualty segment of General Re Group. Underwriting results exclude certain intercompany transactions, other adjustments and cessions to affiliated members of Berkshire Hathaway Group. 6 Includes combined results of QBE Reinsurance Corp., QBE Insurance Corp. and QBE Specialty Insurance Co. 7 XL Reinsurance America's net underwriting results consist of its net pooled share of the combined underwriting results of the XL America Group Pool. All pool members are strictly owned subsidiaries of XL Reinsurance America. 8 Total net premiums written shown for December 2009 are those reported in the December 2009 Reinsurance Underwriting Report.

Source: Reinsurance Assn. of America. For further information, contact the RAA at www.reinsurance.org.

MARKET CHALLENGES

What is the biggest challenge facing the reinsurance sector in 2011?



J. Paul Newsome
Managing partner at Sandler O'Neill & Partners in Chicago:

"Dealing with competitive pricing."



Robert DeRose
Vp at Oldwick, N.J.-based A.M. Best Co. Inc.:

"Pricing, capital management and finding the best opportunities against which to deploy capital."



Jim Amen
Managing partner at Philo Smith & Co. in Stamford, Conn.:

"Being able to identify losses coming out of Japan coupled with increased pricing on the rest of its business."

Mark Dwelle
Insurance analyst at RBC Capital Markets, a unit of RBC Dominion Securities Inc. in Richmond, Va.:

"Managing opportunities in a market where (reinsurers) may start to get rate increases."

Amit Kumar
Vp at Macquarie Securities Group in New York:

"Figuring out losses stemming from the Japanese quake and reallocating 2011 budgets in response to it."

CONTINUED FROM PREVIOUS PAGE

partner at Sandler O'Neill & Partners L.P. in Chicago, said reinsurers' results "were fairly mixed again, with some heavy catastrophe losses, but they also benefited from fairly significant reserve releases. The reinsurers, I think, have tended to be more disciplined with their capital than the primary insurers."

"It turned out to be an alright year despite losses," said Robert DeRose, vp, at Oldwick, N.J.-based A.M. Best Co. Inc., noting that results were helped by favorable reserve development.

"When you look at the accident year, it's below break-even, and considering loss events," when "you add all that up, to come up with a small underwriting profit is a pretty good accomplishment," he said.

"Capital has continued to build and premium reserve leverages are really at an all-time low, but there's still quite a bit of excess capacity...as of year-end, but I would say the wild card right now is the impact of the Japanese quake," Mr. DeRose said.

Though, even without factoring in losses from the Japanese quake, to "have any hope of achieving a reasonable return on capital, the pricing dynamic is going to be flat, and maybe improve a little bit," he said.

Amit Kumar, vp with Macquarie Securities Group in New York, said he is unsure whether the increase in catastrophe losses will lead to higher rates.

"Obviously, we've seen several major catastrophe events in Australia, New Zealand and in Japan. This has led to substantial depletion of capacity. However, it remains to be seen if these losses are enough for a global market turn," he said.

In addition to catastrophe losses, reinsurers will come under pressure from depleted reserves, said Taoufik Gharib, director at Standard & Poor's Ratings Services in New York.

While reserve releases have contributed to the reinsurers' profitability throughout the past three years, "we believe that cushion's shrinking going forward in 2011 and 2012," he said. "Underwriting results will not be as strong, especially on casualty lines, because the companies don't have a lot of reserves" so we may see some reserve strengthening, Mr. Gharib added.

The challenge for 2011, he said, will be soft pricing and the continued low interest rate environment, with catastrophe risk a key factor.

Reinsurers may adjust their capital management strategies as a result of catastrophe losses, said Mr. Auden of Fitch.

"Reinsurers will limit share repurchase opportunities in the near term, given the losses in the first quarter," he said.

Mr. DeRose agreed. Reinsurers "have been very prudent" with their capital management strategies in buying or repurchasing shares, he said. "I think that's probably going to be on hold for the near term until the impact of

Japan is fully digested and the opportunities or lack of opportunities present themselves, said Mr. DeRose.

The income statement for many reinsurers already is in a loss position and there is "another nine months to go" for the year, he said. "There's a good potential for another shock loss to occur. I think companies are going to try to keep their powder dry in anticipation of other events, and other opportunities," he said, adding there is a "quite high" probability of a "more normal" hurricane season after a couple of quiet years.

"There's going to be an increased look at investment portfolios for the reinsurers. Because they're global companies, they

tend to invest on a global basis, and there are lots of global investment issues to watch out for," said Mr. Newsome.

"What's going to happen in the Japanese financial markets? You have continued issues with some of the European countries, and then you have some of the political unrest in other countries in the Mideast." As a result, "I think you'll see companies looking very carefully at where they have their bonds invested," Mr. Newsome said.

Mr. Dwelle said, however, most reinsurers "had portfolios with fairly short durations and fairly good liquidity, and I think they will maintain that policy, at least in the short run."



AP PHOTO

A fishing boat washed away in the tsunami in Japan was stuck in a road at Sendai port last week. Reinsurers still are evaluating the impact of the earthquake and tsunami on the sector.

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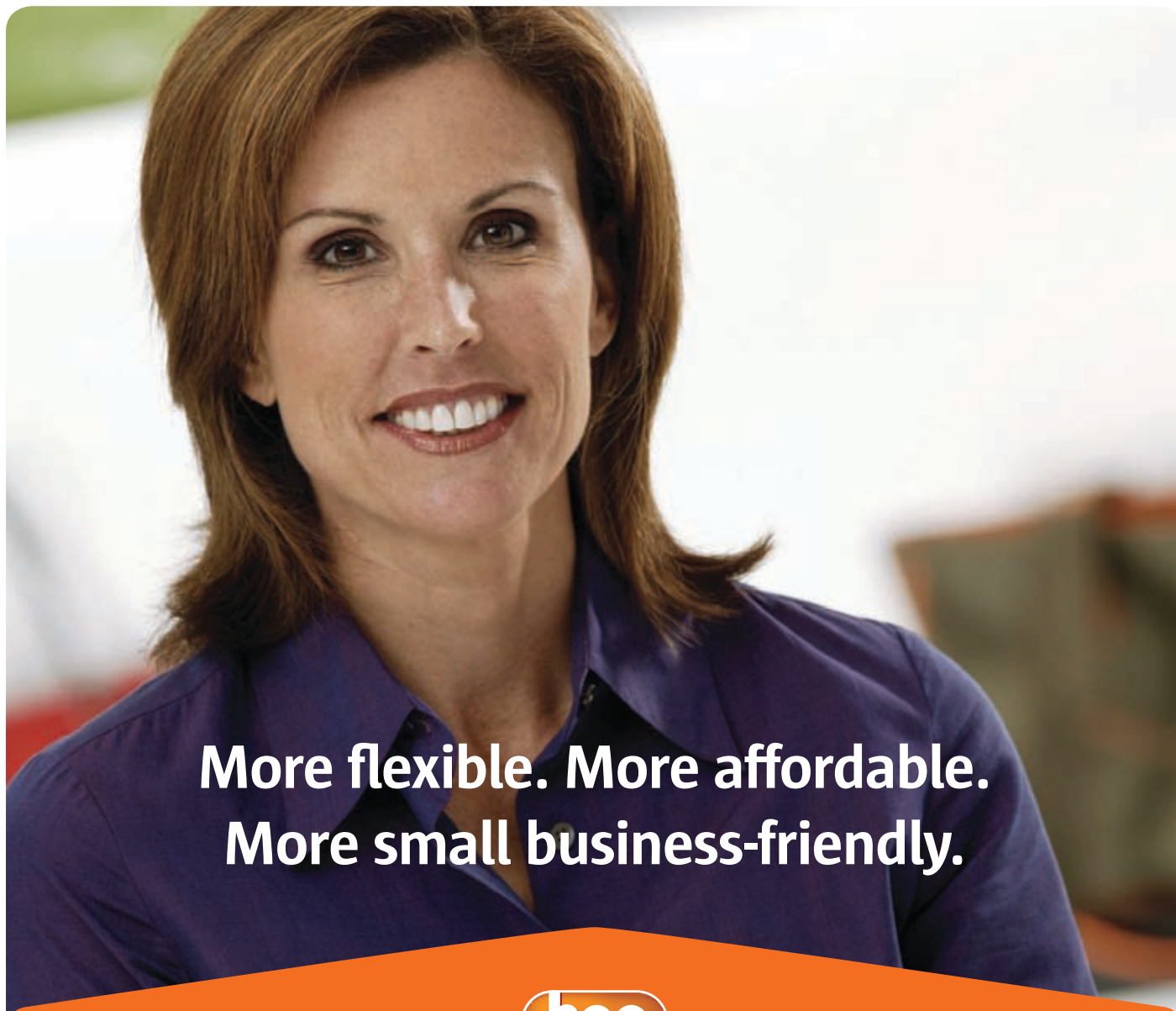
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AP PHOTO

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Health insurers post surprisingly strong results

Gains made in 2010 could evaporate as reforms kick in

By JOANNE WOJCIK

Despite unemployment-driven commercial membership losses during the weak economy, U.S. health insurers appear to be on the mend as some companies' 2010 financial performance beat analysts' expectations thanks to a mild flu season, commercial rate increases, investment gains and lower medical utilization.

While roughly half of the nation's largest health insurers posted lower 2010 revenue compared with 2009, a majority reported higher net income (see chart).

Chicago-based Health Care Service Corp., whose 2010 net income more than doubled to

INDUSTRY FINANCIALS

HEALTH INSURERS

\$1.09 billion from 2009, reported the largest percentage gain of the group. The insurer's 2010 revenue also climbed nearly 13% to \$19.53 billion, making it No. 7 on *Business Insurance's* ranking of U.S. health insurers.

Coventry Health Care posted the second-largest percentage gain in net income, up nearly 82% to \$438.6 million in 2010 from the previous year. The insurer's revenues declined, however, dropping 16.7% to \$11.59 billion in 2010.

Revenue at Minnetonka, Minn.-based UnitedHealth Group Inc., the nation's largest health insurer, grew 8.1% to \$94.16 billion in 2010 from 2009. At the same time, its net income grew 21.3% to \$4.63 billion in 2010. UnitedHealth's enrollment also grew just more than 3% to 33 million members in 2010 from the previous year.

But insurers' financial gains could evaporate quickly if a double-dip recession occurs, resulting in a further loss of commercial



Stephen Zaharuk
Senior vp, Moody's Investors Service Inc., New York

"Everyone recognizes that 2010 was a bit unusual. People may start having babies again or take care of

the elective procedures that were put off. The companies say they've priced for that, but it's unclear whether they have the science to accurately predict."



Bradley Ellis
Director, Fitch Ratings Inc., Chicago

"There's not much information on the utilization of new mandated benefits under health reform, such as coverage for adult children to age

26. This may result in a little bit of a precautionary boost in premiums until the carriers get a better idea of how these benefits are used."



Joseph Marinucci
Primary credit analyst, Standard & Poor's Corp., New York

"Last year, reform was such an overriding variable. Now it's just one of the several things

that companies need to address strategically. Companies certainly aren't discounting risk, but now they're focusing on strategies to succeed in this environment."



Sally Rosen
Managing senior financial analyst, A.M. Best Co. Inc., Oldwick, N.J.

"Near-term capital for the most part improved last year because of earnings. So even if the

earnings do come down this year, capital should be flat or grow slightly, depending on utilization and premium growth."

MAJOR U.S. HEALTH INSURERS

Largest U.S. health insurers ranked by reported revenues, in millions for dollars and enrollment.

Insurer	2010 revenue	2009 revenue	% increase (decrease)	2010 enrollment	2009 enrollment	% increase (decrease)	2010 Net Income	2009 Net income	% increase (decrease)
UnitedHealth Group Inc.	\$94,155	\$87,138	8.1%	33.0	32.0	0.0305	\$4,634	\$3,822	21.3%
WellPoint Inc.	58,802	65,028	(9.6)	33.3	33.7	(1.0)	2,887	4,746	(39.2)
Kaiser Permanente	44,200	42,100	5.0	8.7	8.6	1.4	2,000	2,100	(4.8)
Aetna Inc.	34,246	34,764	(1.5)	18.5	18.9	(2.4)	1,767	1,277	38.4
Humana Inc.	33,868	309	9.4	10.2	10.3	(0.4)	1,099	1,040	5.7
CIGNA Corp.	21,300	18,414	15.7	11.4	11.0	3.6	1,350	1,302	3.7
Health Care Service Corp.	19,528	17,300	12.9	14.8*	12.4	19.4	1,093	514	112.6
Health Net Inc.	13,620	15,713	(13.3)	6.0	6.1	(1.2)	204	49	N/M
Coventry Health Care	11,588	13,904	(16.7)	3.5	3.6	(2.7)	439	242	81.9

N/M—not meaningful
Source: Company reports

enrollment, or if insurance regulators clamp down on future premium increases as part of new minimum medical loss ratio and "rate reasonableness" requirements under the Patient Protection and Affordable Care Act, analysts warn.

Effective with the start of 2011, insurers must spend at least 80% of premiums in the individual and small-group markets and 85% of premiums in large-group market on medical care or pay rebates to

policyholders of any sums below those thresholds. In addition, health insurers in the individual and small-group markets will need to justify rate increases of 10% or more for all rate filings after July 1 this year.

Insurers' financial strength also could erode if health care reform accelerates employers' use of self-funded health plans, or if the individual mandate in PPACA is repealed, analysts say.

The U.S. health insurance

industry's financial future will depend largely on its ability to effectively manage its business through continued political and economic turmoil, analysts say.

"Despite the loss of commercial membership, 2010 ended up being pretty good for health insurers," said Bradley Ellis, a director at Fitch Ratings Inc. in Chicago. "Everyone was expecting a more severe flu season, but overall, utilization was down. This industry is in good shape."

"We didn't expect it to be a good year, but, lo and behold, it was a great year" for U.S. health insurers, said Stephen Zaharuk, senior vp at Moody's Investors Service Inc. in New York.

"In 2009, we were coming off a bit of a shaky year. Investors were shaken up with the economy, government intervention into COBRA, the possibility of an H1N1 flu epidemic. Companies

Continued on next page

MARKET CHALLENGES

What is your outlook for the health insurance industry's financial performance in 2011?

CONTINUED FROM PREVIOUS PAGE

were recasting guidance downward throughout the year," Mr. Zaharuk said.

"In 2010, we expected companies to react with premium increases, but we didn't know if the regulators would allow it. On top of all this, the recession resulted in huge layoffs," reducing commercial enrollment, he said.

But because the flu season ended up being mild, "a lot of built-up reserves from 2009 were released into 2010, and that boosted earnings," Mr. Zaharuk said.

In addition, utilization declined among health insurers' commercial membership.

"People were hesitant to spend money they didn't have. The hospitals reported lower admissions for elective procedures, lower maternity rates. All this contributed to better experience for health insurers," Mr. Zaharuk said.

Because the weak economy reduced income for many households, individuals may have thought twice about going to the doctor or filling a prescription, said Sally Rosen, managing senior financial analyst at A.M. Best Co. Inc. in Oldwick, N.J.

But even though overall health care utilization was declining, insurers still raised premiums to cover anticipated costs of health care reform provisions that took effect at the end of 2010, including extending coverage to adult children up to age 26, covering 100% of the cost of preventive care, and eliminating pre-existing condition exclusions as well as annual and lifetime benefit limits, analysts said.

As a result, "with the lower utilization, we saw prosperous underwriting for four months," said David Mitchell, senior financial analyst at Best. In addition, as the financial markets gained strength toward year-end, "investment income came back" for most insurers, he said.

If PPACA's minimum medical loss ratio requirements were in place during 2010, Mr. Zaharuk said insurers might have been forced to rebate some of last year's financial gains to customers.

Instead, insurers can hold onto that capital to bolster their position heading into the next round of health reforms taking effect this year, analysts said. Some insurers may use any extra cash to diversify their operations, much like Aetna Inc. did in its December acquisition of Salt Lake City-based health information technology vendor Medcity Inc. for \$500 million, analysts said.

Aetna is the nation's fourth-largest insurer with \$34.2 billion in 2010 revenue. Though revenues fell 1.5% for the Hartford, Conn.-based insurer, its net income soared 38.4% to \$1.77 billion in 2010 from 2009. Aetna has 18.5 million members.

"The combination of economic pressures and uncertainties over health reform had an impact in 2009 through the first part of 2010," said Joseph Marinucci, primary credit analyst at New York-based Standard & Poor's Corp. "But the way things are playing

out, we view this as something that has been managed reasonably well. In one year's time, they've gone from being very strongly defensive to having a much more balanced outlook."

However, most industry analysts expect insurer earnings to decline from 2010's strong levels in response to health care reform and an increasing volume of government-sponsored plan members.

Although insurers gained enrollment in Medicare Advantage and Medicaid managed care plans during 2010, those lines typically are less profitable than commercial business, according to analysts.

Moreover, because states have

been strapped for cash due to the economy, industry analysts say they expect states to limit insurance price increases. Likewise, caps on federal Medicare spending likely will keep the lid on increased federal contributions to Medicare Advantage plans.

Some analysts also expect health care reform to accelerate self-funding of health benefits, further eroding insurer profits.

"Even though the margins on that business are consistent, the amount of dollars they collect are lower because administrative fees are much lower than premiums," Fitch's Mr. Ellis said.

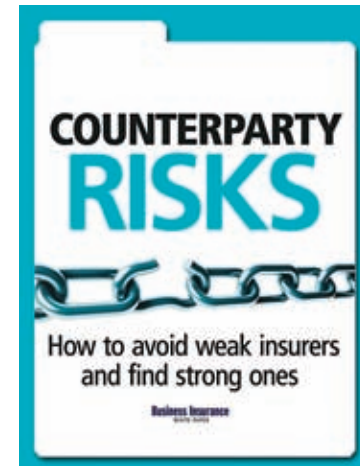
Indianapolis-based WellPoint Inc. cited this as an issue when it reported that the proportion of

self-funded membership grew to 59% in 2010 from 54% in 2009.

WellPoint, the nation's second-largest health insurer, saw its overall membership drop about 1% to 33.3 million members in 2010 compared with 2009. Its revenues also fell 9.6% to \$58.8 billion, while its net income plummeted 39.2% to \$2.89 billion.

Continuing high unemployment also could hamper insurers in 2011. The unemployment rate continues to be "stubbornly high," and job growth has been disappointing, A.M. Best analysts said.

Analysts also are cautioning that health insurer margins could be squeezed should there be a return to normal levels of medical utilization.



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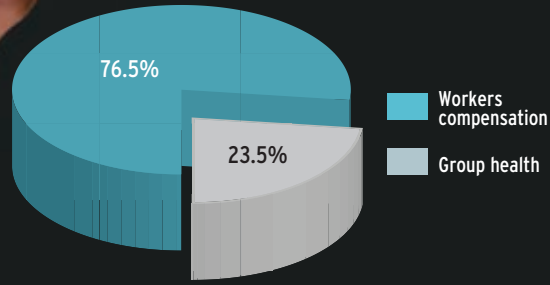
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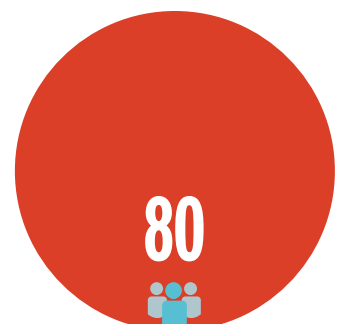
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COVENTRY WORKERS' COMP SERVICES



BROADSPIRE SERVICES INC., A CRAWFORD CO.



AMERICAN HEALTH HOLDING INC.

LARGEST CASE MANAGEMENT PROVIDERS

Ranked by 2010 gross revenues from case management services

RANK	Company/Address	Phone/website	Case management revenues	Total employees assigned to case management	Total cases managed	Principal officer
1	GENEX Services Inc. 440 E. Swedesford Road, Suite 1000, Wayne, Pa. 19087	610-964-5100 www.genexservices.com	\$253,000,000	2,115	371,545	Peter C. Madeja, president/CEO
2	Coventry Workers' Comp Services 720 Cool Springs Blvd., Suite 300, Franklin, Tenn. 37067	858-547-2528 www.coventrywcs.com	\$179,000,000	1,000	268,000	Karen Austin, vp-field case manager
3	Paradigm Management Services L.L.C. 1277 Treat Blvd., Suite 800, Walnut Creek, Calif. 94597	800-676-6777 www.paradigmcorp.com	\$170,000,000	60	1,286	Kevin Fleming, CEO
4	CorVel Corp. 2010 Main St., Suite 600, Irvine, Calif. 92614	949-851-1473 www.corvel.com	\$112,000,000	900	90,000	Daniel Starck, CEO
5	Broadspire Services Inc., a Crawford Co. 1001 Summit Blvd., Atlanta, Ga. 30319	866-625-1662 www.choosebroadspire.com	\$74,989,000	462	84,575	Ken Martino, president/CEO
6	American Health Holding Inc. 100 W. Old Wilson Bridge Road, Worthington, Ohio 43085	866-614-4244 www.americanhealthholding.com	\$22,000,000	150	7,500	Ron Gibb, executive vp/COO
7	M Hayes 225 International Circle, Suite 201, Hunt Valley, Md. 21030	410-628-4050 www.mhayes.com	\$13,600,000	123	7,358	Melinda Hayes, president/CEO
8	MedInsights Inc. 206 Gothic Court, Suite 308, Franklin, Tenn. 37067	615-778-5000 www.medinsights.com	\$11,500,000	54	11,531	Paula Woolworth, executive vp
9	MCMC L.L.C. 300 Crown Colony Drive, Suite 353, Quincy, Mass. 02032	800-227-1464 www.mcmcllc.com	\$5,400,000	54	10,800	Lisa Oskoui, executive vp
10	TRISTAR Managed Care 203 N. Golden Circle Drive, Suite 310, Santa Ana, Calif. 92705	714-571-1800 www.tristarmc.com	\$5,103,568	35	10,545	Tom Veale, president

1 GENEX Services Inc. acquired Intracorp's workers compensation and disability management business in December 2010. 2 MCMC L.L.C. acquired Shorman Solutions in June 2010

LARGEST CASE MANAGERS BY EMPLOYER CLIENTS

Ranked by number of employer clients in 2010

1	GENEX SERVICES INC.*	532
2	BROADSPIRE SERVICES INC., A CRAWFORD CO.	514
3	MEDINSIGHTS INC.	310
4	CORVEL CORP.	250
5	CAMBRIDGE INTEGRATED SERVICES GROUP INC., A DIVISION OF XCHANGING	227

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Source: BI survey. Researched by Kevin Edison and Karen Tucker

Products & Services

Online handbook covers health care reform

ATLANTA—Employee benefits agency Digital Insurance Inc. has published an online handbook about health care reform for employers.

The downloadable handbook helps small to midsize employers understand the new law and how it affects their operations, Atlanta-based Digital Insurance said in a statement.

"Instead of directing clients to sift through government websites loaded with regulations and provisions, we created a resource customized to meet their needs," Kirk Wilks, director of marketing and communications for Digital Insurance, said in the statement.

The handbook is written in a question-and-answer format and provides an overview of health care reform with topics such as grandfathering, tax credits and health insurance exchanges, Digital Insurance said.

"A Digital Insurance Health Care Reform Handbook for Employers" can be downloaded free of charge at <http://go.digitalinsurance.com/forms/HealthcareReformHandbook>.

Hanover designs cover for document managers

WORCESTER, Mass.—Hanover Insurance Group Inc. has developed coverage for record storage and destruction companies.

The coverage provides clients with direct access to specific coverage without going through an insurance wholesaler, the Worcester, Mass.-based insurer said in a statement.

Hanover Document Management Advantage is for small to midsize businesses involved in secure pickup, storage and/or destruction of confidential information.

"With recent stringent legislation addressing the storage, transportation and destruction of confidential information, document management is a rapidly growing business," Hanover said.

Coverage includes professional liability, general liability, commercial property, commercial auto, umbrella, surety bonds and loss-control services.

For more information, contact Mark Canfield, director of niche products at Hanover Insurance Group, at 508-855-3841 or mcanfield@hanover.com.

SEC investigations covered by Chartis

NEW YORK—Chartis Inc. has introduced insurance coverage for company costs stemming from U.S. Securities and Exchange Commission investigations.

Investigative Edge addresses companies' growing concerns around the costs of SEC and relat-

ed investigations, the New York-based insurance unit of American International Group Inc. said in a statement.

Publicly traded companies' risks of costly securities investigations have increased due to financial reform legislation and a heightened level of investigative intensity subsequent to the credit crisis, Chartis said.

"Regardless of the effort to avoid wrongdoing, when issues arise, the costs from the ensuing government investigation can be staggering, irrespective of the outcome," Michael Smith, president of executive liability for Chartis, said in the statement.

Investigative Edge covers legal expenses, discovery costs and

insurance settlements resulting from investigations into insider trading, financial restatements, accounting fraud and reporting violations, Chartis said. It also is available through endorsements for investigations into Foreign Corrupt Practices Act violations and other investigations.

For more information, contact Robert Yellen, chief underwriting officer of executive liability for Chartis, at 212-458-3745 or robert.yellen@chartisinsurance.com.

Hartford disability cover targets small businesses

HARTFORD, Conn.—Hartford Financial Services Group Inc. has introduced stand-alone short-term dis-

ability insurance for owners of small businesses.

The group disability coverage aims to provide business owners the ability to offer competitive benefit packages without increasing their costs, the Hartford, Conn.-based insurer said in a statement.

"Our national survey shows employees at small businesses are not as satisfied with their benefits as workers at midsize and large companies," Ron Gendreau, executive vp of Hartford's group benefits unit, said in the statement. "Many employers are turning to voluntary benefits to help compete with their larger counterparts in attracting and retaining talented employees."

The coverage, which is offered on a stand-alone basis, is available

to companies with 50 to 999 employees and allows employers to offer income protection as an employee-funded benefit.

For more information, contact Mark Belliveau, assistant director of product management for Hartford's group benefits unit, at 860-843-8316 or mark.belliveau@thehartford.com.

TO SUBMIT ITEMS

BI's Products & Services column reports on new product offerings. Please send Product & Services news to Mike Tsikoudakis, 360 N. Michigan Ave., Chicago, Ill. 60601 or e-mail mtsikoudakis@businessinsurance.com.

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UP Comings & Goings CLOSE



PAUL KOEPFF

NEW JOB TITLE: New York-based partner with law firm Clyde & Co. L.L.P.

PREVIOUS POSITION: New York-based partner with law firm O'Melveny & Myers L.L.P.

INDUSTRY CHALLENGES: I think many of the challenges will be disputes over large and serious claims. Pharmaceutical products and medical devices are good examples. Claims that arise (from this sector of business) tend to be challenging. There does not always have to be an injury; there can be an allegation. Heart valves and knee replacements are examples. How those claims get resolved does not always fit squarely with what coverage provides.

INDUSTRY OUTLOOK: In these current, not-the-best economic times, it is much harder to resolve claims amicably. Insurers may not be as forthcoming when the insured is making demands because it's an economic situation rather than what the policy terms provide or what the law says. Oftentimes, we see the insured making inflated claims

because of its economic plight and not necessarily what it's entitled to.

FIRST MARKET EXPERIENCE: My first experience ever was in 1974, where a company then known as Insurance Co. of America, now ACE (USA), they insured a company that made condenser tubes for nuclear power plants. The condenser tubes were meant to cool the heat coming from the nuclear device. They corroded over time. The question was, 'When did they corrode and was that supposed to happen?' That was one of the most cutting-edge cases at the time in New York insurance law. We prevailed. I liked it so much I stayed in insurance (litigation).

ADVICE: Work hard and be dedicated to the practice. Concentrate on one area and don't try to diversify.

MOST PASSIONATE ABOUT: Tennis, golf and family.

CAN'T-MISS TV SHOW: "NCIS." I enjoy the mystery and the way the plot works out. Every night, whether it's a rerun or a new show, I watch it.

Quake: Insured damages in Japan could reach \$35B

CONTINUED FROM PAGE 1

AIR said its Japanese earthquake model did not account for the effects of the resulting tsunami.

In its estimate last week, Oakland, Calif.-based catastrophe modeler EQECAT Inc. projected that the catastrophe would cause between \$12 billion and \$25 billion in insured property damage.

EQECAT's analysis broke down losses by line of business, saying it "encompasses the effects of earthquake shaking, ensuing tsunami and fires, and losses to automobiles, marine, life and personal accident lines."

According to EQECAT, the largest component of insured losses will be covered by the property insurance market. In a breakdown of losses by line of business—excluding losses associated with the ongoing nuclear emergency at power plants in the affected area, EQECAT estimated that earthquake shake losses will range from \$8 billion to \$15 billion, with about 25% ceded to Japanese Earthquake Reinsurance Co. Ltd. Automobile losses will reach as high as \$1 billion; marine losses, \$1 billion to \$3 billion; life insurance losses, \$2 billion to \$3 billion; and personal accident, \$1 billion to \$2 billion.

In a webcast last week, Kent David, EQECAT's manager-consulting services, said the catastrophe caused significant damage to infrastructure in Honshu that would affect Japan's ability to rebuild and recover economically. For example, the disaster created gaps in the country's industrial pipeline for products such as semiconductors. The resulting contingent business interruption losses are extremely difficult to model and, therefore, are not modeled, he said.

A colleague of Mr. David's called the event a "black swan," meaning an extremely rare, unforeseen event that had extraordinary consequences. "We need to get black swan events" into catastrophe models, said Paul Thenhaus, senior seismologist at EQECAT.

Clive Nicholls, a London-based vp with Crawford & Co.'s global markets unit, said the event differs "severalfold" from earthquakes the claims adjuster has faced previously in terms of severity of the earthquake and tsunami as well as the radiation threat.

He said Crawford had staff on the ground in Tokyo, and had set up a hub in Singapore with Japanese-speaking personnel to help clients. "It's about the worst combination of logistics that you can imagine. You simply have to keep talking to our people locally and wait until it's safe, whenever that might be," to launch the adjustment process.

Mr. Nicholls said the "massive disruption of the supply chain" could lead to significant contingent business interruption claims globally. "Because of no access, it's too early to understand the full

repercussions," he said.

"The consensus seems to be building that the significance seems to be growing by the hour," said Howard Mills, director and chief adviser of Deloitte Services L.P.'s insurance industry group in New York. He said as of last week, the losses did not seem to be large enough to harden the market. But he said loss reserves are beginning to drain, and that the Japanese losses could be a precursor to a subsequent "substantive event" that will begin hardening the market.

Although the extent of total losses won't be known for some time, several insurers and reinsurers began issuing estimates of their losses last week.

"The ultimate amount of insured losses from this event, as well as the market participants that will bear them, will depend on the types of coverage provided,

its net claims from the earthquake and tsunami to be \$125 million.

"The majority of our estimated net claims from the devastating Japanese earthquake will come from the relatively low exposures in our reinsurance, marine and energy operations in Europe," said Frank O'Halloran, CEO of QBE, in a statement.

Zurich-based insurer and reinsurer ACE Ltd. said its initial estimate of losses from the Japan earthquake was \$200 million to \$250 million.

A spokesman for Lloyd's of London said it was too early to estimate the size of the loss that the market might face, dismissing reports that it could be as much as £31.7 billion (\$50.99 billion).

A market source who asked not to be named said an estimate of about \$3 billion in losses for the Lloyd's market as a whole "sounds plausible."

"While we expect this loss to be significant, it is still too early to provide a reasonable or reliable estimate considering the fluidity of the situation," Joseph V. Taran-



REUTERS

Two girls ride their bicycles near debris that resulted from the March 11 earthquake and tsunami in Japan.

the amount of reinsurance purchased and the structure of reinsurance programs," according to Moody's Investors Service Inc. analysts James Eck, a vp and senior credit officer in New York, and Kenji Kawada, a vp and senior analyst in Tokyo.

In a statement, the Moody's analysts said "an additional wild card is the potential for business interruption losses, which are influenced by damage to power and transportation infrastructure."

"We believe that estimating claims will be a protracted process," the Moody's analysts said.

Insurers most likely to be affected by losses are domestic Japanese companies, Japan Earthquake Reinsurance Co. Ltd., international insurers, global reinsurers and Lloyd's of London companies, retrocessionaires and catastrophe bond issuers, Moody's said.

Paris-based reinsurer SCOR S.E. said it believed that its maximum pretax loss from the earthquake and tsunami would be €185 million (\$257.2 million). It said its preliminary view was that losses likely would be less than that total.

Australian insurer QBE Insurance Group Ltd. said it estimated

to, chairman and CEO of Hamilton, Bermuda-based Everest Re Group Ltd., said in a statement. "Nonetheless, given the strength of our balance sheet and our core earnings, we have ample capacity to withstand the events that occurred during the first quarter and to continue to support our clients."

Pembroke, Bermuda-based RenaissanceRe Holdings Ltd. said on its website that its "current initial assessment is that the net negative impact of the Tohoku earthquake on the company's results will be material."

"We insure several hundreds of locations in Japan, but we don't have a loss estimate yet," said Jon Hall, executive vp of Johnston, R.I.-based Factory Mutual Insurance Co., which does business as FM Global. "The primary reason is the nuclear radiation situation and the infrastructure issues. We've talked to 165 facilities and we know some have damage, but until you physically can see things, you can't get an estimate." He said some locations have reported that they sustained no damage.

He said such events result in "creep in numbers" as losses mount.

Comings & Goings

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TO SUBMIT ITEMS

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

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- Clements & Co.
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AGENTS

- Assured Agencies L.L.C.

OTHER PROVIDERS

- Progressive Medical Inc.
- Chadbourne & Parke L.L.P.

D&O: Oversights lead to claim disputes

CONTINUED FROM PAGE 4

also can complicate claims, panelists told attendees at the New York conference this month.

Mr. Gold cited an example of difficulties that can arise for a company heading toward insolvency that doesn't have enough insurance to cover all of its losses. The previous management may fight to preserve coverage for the cost of litigation filed against them while the new management wants to protect themselves and the company to which they have an obligation, he said.

Susanne Murray, executive vp at Alliant Insurance Services Inc. in New York, said she's seen claims involving executives who have left the company. The former employer might try to say, "Hold off on paying him," or "Pay these others first," or "Don't pay him anything," she said. That

'It's understandable that the carrier wouldn't just let anybody lop off somebody in the middle of a claim.'

Susanne Murray,
Alliant Insurance Services Inc.

puts the insurer in the position of not allowing its client to direct "willy-nilly" the allocation of proceeds from a claim, she said.

"It's understandable that the carrier wouldn't just let anybody lop off somebody in the middle of a claim," Ms. Murray said.

Sometimes, it's tough to know in advance what will be covered when a claim is made.

For example, most courts have held that fees for plaintiffs attorneys were part of the damages that insureds could claim under their D&O coverage, Mr. Passannante said. However, a New York state appellate court changed that, he said.

In the case, *XL Specialty Insurance Co. et al. vs. Loral Space & Communication Inc.*, the appellate court ruled in mid-February that XL, Arch Insurance Co. and U.S. Specialty Insurance Co. didn't have to pay all the fees of plaintiffs counsel



in two lawsuits involving the New York satellite communications company.

Although the insurers had to pay fees to plaintiffs attorneys for some matters, they didn't have to do so for those that didn't meet the definition of a securities claim,

according to court documents.

This adds uncertainty for directors and officers, Mr. Passannante said. "I know I'll hear about this appellate division case every time this comes up for the next five years," he said.

Ms. Murray said insurers generally want to pay some claims and don't want to sue their clients.

"Generally speaking, there's a reluctance for the carrier to attempt to chase down the company (in court), but practically speaking, you have to assume they will if they can, and you need to address it in that regard," Ms. Murray said.



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Japan disaster's impact on soft market unclear

Some reinsurers' catastrophe budgets may be wiped out

By JUDY GREENWALD

SENDAI, Japan—As the crisis in Japan continues, total insured losses, the amount that is reinsured internationally and the disaster's impact on the soft market remain unclear.

Property damage claims caused by the quake and tsunami generally are not expected to directly affect most U.S. insurers, although U.S. companies that depend on Japanese businesses, such as automakers and high-tech businesses, are expected to tap their business interruption coverage, observers say (see story, page 21).

It will take time for reinsurers to determine their losses, said Jim Amen, managing partner with Philo Smith & Co. in Stamford, Conn. "Companies that don't have exposure will immediately come out" and say so. For reinsur-

ers that have claims, "it will be a while," he said.

Steven K. Bolland, president of New York-based reinsurance intermediary Gill & Roeser Inc., said there is a lot of Japanese earthquake exposure in the international market. "I would be surprised if it didn't impact the market," he said.

Robert DeRose, vp at Oldwick, N.J.-based A.M. Best Co. Inc., said much of the insured losses will remain within the Japanese market, although the international insurance and reinsurance markets also will be affected. "My guess is that after the event is tallied up" there still will be a "good level of excess capacity," he said.

However, he said, "If Japan becomes such a compelling pricing environment, a lot of capacity that supports other regions of the world may actually migrate over to Japan, which could actually elevate the pricing in the U.S. But it's still very early" to determine that. "In the worst-case scenario, things will stay the same." Mr. DeRose said.

"Reinsurers' catastrophe bud-

gets for 2011 either have been significantly impacted or even exhausted, so there's nothing left," said Taoufik Gharib, a director at Standard & Poor's Ratings Services in New York. "Property/casualty rates could go up because of the severity and frequency of the losses we've experienced so far this year," with results of Japan's April 1 renewals of quake coverage spilling over into other regions.

Earnings could take hit

While the catastrophe is unlikely to affect reinsurers' capital positions in general, "we may see some companies entering losses for the first quarter, and others may see even a full year of earnings wiped out by the events of the first couple of months of 2011," Mr. Gharib said.

Laline Carvalho, a director at Standard & Poor's Corp. in New York, said the disaster in Japan could have a "small impact on earnings" on some global reinsurers and "as much as no earnings for the year" for others.

Mark Dwelle, an insurance analyst with RBC Capital Markets, a unit of RBC Dominion Securities Inc. in Richmond, Va., said, "At least so far as we know right now, I think it is likely to firm rates up in the short run. Depending on where the final losses come in and how widely they're distributed will determine the magnitude of the rate increases and the longevity of those rate increases."

J. Paul Newsome, managing partner at Sandler O'Neill & Partners in Chicago, said he expected the disaster to have "a fairly minimal impact" on reinsurance pricing. "We will see some fairly significant earnings charges from the Bermudian reinsurers and the large global reinsurers. However, I don't think you're going to see large enough charges to materially affect their capital base or their solvencies," he said.

James B. Auden, an analyst with Fitch Ratings in Chicago, said based on estimates of \$15 billion to \$35 billion in insured losses, "reinsurers are well capitalized and can withstand this sort of

loss." A good portion of the losses will remain within the Japanese primary market, and reinsurers' losses will be "manageable and within their ability to absorb it and still have adequate capital going forward," Mr. Auden said.

Philo Smith's Mr. Amen said one unexpected source of reinsurance coverage could be primary insurers, some of which have assumed reinsurance books of business for several years—a strategy they may rethink due to the disaster in Japan.

Meanwhile, observers say some primary insurers with a more international focus also could be affected by the quake losses, such as New York-based American International Group Inc. and Zurich-based ACE Ltd.

AIG's Chartis Inc. unit said in a statement that it will take time for insurers "to be able to assess the full magnitude of the event."

ACE said in a statement that it estimates its net after-tax first-quarter losses in insurance and reinsurance related to the Japanese quake range from \$200 million to \$250 million.

Nuclear: Coverage rules likely will limit payouts

CONTINUED FROM PAGE 1

ma complex to that equivalent to the 1979 partial core meltdown that occurred at Three Mile Island near Harrisburg, Pa. Japan's Nuclear and Industrial Safety Agency also raised the concern level to five from the previous four on a seven-level international scale for evaluating nuclear accidents, citing "serious damage" to radioactive fuel at the complex's reactors. Chernobyl, the 1986 incident in the former Soviet Union that is considered the world's worst nuclear accident, ranked a seven on that scale.

Under Japan's 1961 Law on Compensation for Nuclear Damage, which was amended in 2010, power plant operators' liability for accidents such as those after the earthquake and tsunami is limited to 120 billion yen (about \$1.5 billion), with the Japanese government assuming responsibility for any third-party damage or bodily injury claims beyond that amount.

To meet the requirements of the law, Japanese nuclear power plant operators buy property and liability insurance from the Japan Atomic Energy Insurance Pool. JAEIP provides nuclear property, nuclear liability, general liability and terrorism coverage to nuclear power plant operators. However, JAEIP does not sell the utilities coverage for earthquake damage, tsunami damage or business interruption, leaving the Japanese government responsible for those costs.

As a result, international mar-

kets do not expect significant insurance losses from the incident.

In a statement, Zurich-based Swiss Reinsurance Co. said property policies exclude nuclear contamination.

"Overall, there is unlikely to be a significant impact on the property/casualty insurance industry as a result" of nuclear plant damage and possible radiation leaks, Swiss Re said in the statement.

Lloyd's of London insurer Chaucer Holdings P.L.C. said last week that its nuclear syndicate 1176 is on a panel of insurers that provide coverage to Tokyo Electric Power Co., which owns two of the three reactors affected by the earthquake and tsunami, though it does not cover property damage or business interruption risks for either reactor.

Chaucer provides property coverage for a third affected plant, Onagawa, which is owned by Tohoku Electric Power Co., but the coverage excludes earthquake and tsunami damage. Therefore, Chaucer said, it does not expect syndicate 1176 to suffer major losses from the earthquake.

If a nuclear incident similar to that occurring in Japan were to happen in the United States, the U.S. Price-Anderson Act limits liability for nuclear power plant operators to \$12.6 billion.

Price-Anderson, first passed in 1957 and renewed several times since then, also authorizes the Nuclear Regulatory Commission or the Department of Energy to indemnify nuclear facilities for damages that exceed any required



REUTERS/TOKYO ELECTRIC POWER

Military helicopters and fire trucks have been dousing the No. 4 reactor at the Fukushima Daiichi nuclear power complex in an effort to cool the overheating facility.

financial protection.

In addition to liability coverage, the NRC requires U.S. nuclear power facilities to purchase at least \$1.06 billion in property insurance.

Laws in Japan and the United States also channel liability of suppliers, such as General Electric Co., the manufacturer of the Fukushima reactors, to facility operators.

Meanwhile, U.S. nuclear power plant operators buy liability coverage from Glastonbury, Conn.-based American Nuclear Insurers and property insurance from Wilmington, Del.-based Nuclear

Energy Insurance Ltd.

ANI, a joint underwriting association comprised of stock and mutual insurers, covers 104 U.S. nuclear reactors at 65 sites throughout the United States, which has the most nuclear reactors of any nation.

ANI liability coverage is written in two layers, according to company spokesmen. The Facility Form Policy provides \$375 million in coverage, while the Secondary Financial Protection Program adds coverage up to maximum liability limits set by Price-Anderson.

For property coverage, U.S. nuclear power facilities participate

in NEIL, a mutual insurer that was formed in Bermuda after Three Mile Island in 1979. In 1988, the company moved its operations from Bermuda to Wilmington, Del.

For example, Raleigh, N.C.-based Progress Energy Corp. has coverage from NEIL for its Crystal River, Fla., plant that has been shut down since 2009 when a portion of the building housing the reactor was damaged. No radiation leaks were reported at the site, which is scheduled to reopen in April, according to a company spokeswoman. Progress Energy's NEIL coverage provides up to \$4.5 million per week in indemnification to the utility after meeting a \$10 million, 12-week deductible, she said.

Although NEIL does not provide any direct property insurance to the Japanese nuclear power industry, for many years it has provided reinsurance capacity to support coverage underwritten by JAEIP, according to a statement on NEIL's website.

NEIL provides facultative reinsurance pertaining to JAEIP's nuclear property and terrorism risks, and reinsures JAEIP's liability risks via a quota share treaty. However, the property and liability policies issued by JAEIP specifically exclude "earthquake volcanic eruption or tsunami," thereby limiting the exposure of the Japanese insurance pool and NEIL.

But there are implications for NEIL flowing from these recent events, it noted in its statement. For example, JAEIP is one of the larger reinsurers participating in NEIL's ceded \$1.25 billion reinsurance treaty.

Sarah Veysey contributed to this report.

Complicated claims process ahead in Japan

By JUDY GREENWALD

Corporate policyholders that do business with companies in Japan face a complicated process when they attempt to tap their contingent business interruption coverage because of the intertwining nature of the disasters that have struck the nation, observers say.

Many U.S. corporations receive critical components and materials from Japan, and experienced risk managers likely have contingent business interruption coverage as part of their business interruption coverage, observers say.

"If you're a company sitting in the Midwest and you've got a component of your product that comes out of Japan, you may not be able to get the product. In that case, you're going to want to pursue contingent business interruption coverage," said Nancy Sher Cohen, a partner with law firm Proskauer Rose L.L.P. in Los Angeles.

The catastrophe also will affect U.S. companies that sell products in Japan, "where clients are no longer there" or do not need the product right now, said Duncan Ellis, New York-based property practice leader for Marsh Inc.

Sorting out business interruption claims in Japan is not likely to be a simple process.

"This is going to be one of the most complicated catastrophes that I've seen," said William Okelson, Chicago-based director of property claims for Lockton Cos. L.L.C. There are "so many variables," including the original quake, the tsunami, resulting fires, nuclear power plant dangers and the government rationing of electricity.

Mr. Okelson noted, for instance, that triggering coverage for a service interruption generally requires there be physical damage of a type that is insured under the policy. "The whole factor of the government coming in and dictating when and where power can be distributed just adds one more potential problem and hurdle for recovery of a business interruption claim," he said.

Tom Teixeira, London-

based executive director of Willis Global Markets International who leads Willis' supply chain interruption capabilities, said risk managers face two scenarios.

The first is that high-tech firms that have "companies that manufacture unique components, products and ingredients" in Japan. There is "a lot of risk there and we still don't know how bad it is." If "suppliers disappear overnight due to natural peril, it will have a massive (business interruption) effect on major customers," he said.

Under the second scenario, there is a "lot of interaction between different components and parts" of the supply chain. "If one supplier disappears overnight, it has cascade effect across the supply chain between various components."

'This is going to be one of the most complicated catastrophes that I've seen.'

William Okelson, Lockton Cos. L.L.C.

Eventually, he said, "the customer ends up with no supplies at all." Mr. Teixeira said it could be a smaller supplier that causes the problem.

"It's going to take anywhere from 30 to 60 days to really ascertain what the particular exposure is to the insurance industry," said Tal Piccione, chairman and CEO of intermediary U.S. Re Cos. Inc. in Pearl River, N.Y.

Risk managers doing business with companies in Japan should conduct a risk analysis right away, he said.

Local, admitted policies in Japan are supplemented by master policies that apply on a nonadmitted, difference-in-conditions basis, said Mr. Ellis.

"I would just caution people to make sure that you understand the facts around your specific loss, and also make sure you're reading your (policy) wordings, because everything's going to be a little bit different depending on how

somebody perhaps amended the wording of a specific exposure or amended the wording for a specific supplier.

"If you're very aware of a very specific supplier of a product, you may have written in a specific sublimit, or limits in your program to address that," Mr. Ellis said.

Receiving payment for a claim, however, will not necessarily go smoothly. Linda D. Kornfeld, a partner with Jenner & Block L.L.P. in Los Angeles, said most business interruption policies "have fairly specific procedural requirements that insurers will argue must be strictly complied with in order to protect the coverage.

"As policyholder counsel, we may have a different view on how strict compliance needs to be, but policyholders would prefer not to be in a situation later in the coverage discussion where there's some argument that they have complied with it," she said.

For instance, there is the issue of "proof of loss," a document that insurers frequently require 60 to 90 days after the loss, Ms. Kornfeld said. But "it's going to be difficult to know with any degree of certainty the full nature of the loss" under the circumstances in Japan, "so we advise clients to the extent there's difficulty complying with the time restrictions that are set forth in these policies that the insured communicate with the insurers and obtain an agreement" for an extension.

"The other thing we advise our clients is, immediately, they should be reviewing their policies and identifying all procedural requirements, making sure they're aware of those requirements so that they can use their best efforts to comply, or talk to their insurer if they're not going to be able to comply," Ms. Kornfeld said.

Another challenge, she said, is proving the amount of lost profits. "Early in the process, it's also important to maintain adequate records and have the right professionals involved to document the lost profits in order to assist in the ultimate proof of the claim," she said.

News In Brief

CONTINUED FROM PAGE 1

never worked for the company or in any of its facilities. The plaintiff suffered from mesothelioma, which he alleged he contracted as a result of being exposed to asbestos while working as a pipefitter in several locations. He alleged that Owens-Illinois, Honeywell International Inc. and Pneumo Abex conspired to conceal information about the health risks posed by asbestos.

FERMA protests Brazil's new reinsurance rules

The Federation of European Risk Management Assns. called for the withdrawal of new reinsurance regulations in Brazil that FERMA says will reduce capacity, drive up insurance costs and potentially threaten coverage of major infrastructure projects for the 2014 FIFA World Cup and 2016 Summer Olympic Games. The regulations that are to go into effect March 31 would prohibit insurers from ceding business to affiliated, intragroup reinsurers.

Bill would let RRGs write commercial property

Sen. Jon Tester, D-Mont., plans to introduce legislation that would allow risk retention groups to offer commercial property coverage. RRGs are barred from writing property coverage, but Sen. Tester said he is preparing a bill that would broaden RRGs' allowed offerings.

COBRA premium subsidy cost U.S. \$34B: Analysis

Measures Congress passed in 2009 and 2010 that established, expanded and extended COBRA premium subsidies for laid-off employees cost the federal government more than \$34 billion, according to the Joint Committee on Taxation. The first and most costly COBRA subsidy provided a 65%, nine-month, federal premium subsidy for employees let go from Sept. 1, 2008, through Dec. 31, 2009.

Calif. commissioner intervenes in suit

California Insurance Commissioner Dave Jones said he is intervening

in a whistle-blower lawsuit against drugmaker Bristol Myers-Squibb Co. regarding alleged health insurance fraud and kickbacks provided to doctors to increase sales. Mr. Jones is seeking a monetary judgment against BMS for the "disgorgement" of millions of dollars in unlawful profits the company made as a result of the alleged kickbacks. In a whistle-blower action filed February under seal in Superior Court in Los Angeles, former employees of BMS allege it bribed doctors to prescribe its drugs and provided illegal kickbacks to doctors to increase the company's pharmaceutical sales in California.

Bill would modify Mont. captive law

A bill sent to Montana Gov. Brian Schweitzer would allow the formation of incorporated cell captives and special-purpose captives in the state. The bill also would modify Montana's existing captive law by reducing the required capital and surplus for association captives to \$500,000 from \$750,000. And it would provide that the amount of capital and surplus for special-purpose captives would be set by the state's insurance commissioner based on the company's business plan, feasibility study and pro forma documents, including the types of risks to be insured.

Plan to streamline agent licensing praised

The introduction of a bill that would streamline agent licensing is drawing praise from major producer associations. The National Assn. of Registered Agents and Brokers Reform Act—also known as NARAB II—would establish a nonprofit corporation to streamline licensing for nonresident agents and brokers, while maintaining state regulation of licensing.

Wash. sets up network for injured workers

Washington state Gov. Chris Gregoire has signed into law a bill that directs the state's Department of Labor and Industries to establish a statewide medical provider network for injured workers. The new law is expected to cut \$218 million in spending over four years from Washington's monopoly workers compensation system by setting up a network of doctors who meet certain standards and apply best practices.



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Rugby player tries his hand as Lloyd's underwriter

Former England rugby captain Steve Borthwick recently swapped his uniform for the pinstripes of Lloyd's of London on a work placement.

Mr. Borthwick, who captained the England team from 2008 to 2010, took part in the personal development program run by his club, Watford, England-based Saracens RFC, that aims to prepare players for life after rugby.

During the several days he worked at Lloyd's in February, Mr. Borthwick learned about underwriting, risk management and regulation, and worked with underwriters and brokers at an underwriting box—the desks used by underwriters in the underwriting room at Lloyd's.

"It is so important for professional sportsmen to experience activities outside of their sport and be part of a business. For me, there is no better place to have experienced

Former rugby star Steve Borthwick said working at Lloyd's of London gave him real-life experience.

that than at Lloyd's," Mr. Borthwick said in a statement. "Hopefully, I'll still be playing for a few years yet, but it's been a privilege to have this opportunity."

Lloyd's has a longtime involvement with rugby, which at times is jokingly described as "a thugs' game played by gentlemen." As well as providing event cancellation coverage for major tournaments, Lloyd's provides personal accident coverage for professional players.

Last year, another former England captain, Lawrence Dallaglio, spent some time sitting on at underwriting box. Now he is a rugby ambassador for Amlin P.L.C., which sponsors rugby cup competitions.

Shoe maker calls a foul on superstars

When starting a business, it's important to have a good name and brand—hopefully not one that's already in use or dangerously close to a well-known marque.

New York resident Aaron Fraser is suing LeBron James and Michael Jordan for \$150 million each, according to TMZ.com, alleging that the basketball superstars ruined his business—Lebron Jordan Inc.—when reps for Messrs. James and Jordan at Nike Inc. and at Live Nation Worldwide Inc. threatened to sue Mr. Fraser and LJI unless it stopped selling shoes under that name.

Instead, LJI filed a lawsuit in New York federal court this month asserting that it has every right to market shoes under the "Lebron Jordan" name, TMZ reported, adding that the negative publicity by Messrs. James and Jordan cost LJI \$900 million.

Mr. Fraser—who also runs a network of 11 online dating sites, according to the Portland Business Journal—doesn't think there should be any confusion between LJI and the basketball superstars.

"I made it perfectly clear in the press release," Mr. Fraser told the Portland Business Journal. "These are not Michael Jordans. These are not LeBron James. These are Lebron Jordans."

"Lebron Jordan Inc. is a subsidiary of Gotham Dating Partners Inc. and is in no way affiliated with Nike, Jumpman, Michael Jordan or LeBron James," according to the LJI press release.

Mr. Fraser told the newspaper that LJI is named after his two godsons.



LEBRONJORDAN.COM

Shoes made by Lebron Jordan Inc. have no relationship to NBA superstars Michael Jordan or LeBron James, according to the company's owner.

'Workers Comp' TV pilot taps real-life claims

A TV pilot starring Morgan Fairchild could resemble a cross between the "The Office" and a workers compensation claims management unit.

Filming the 30-minute comedy titled "Workers Comp" is to start next month in Florida. It centers on a family-owned insurance business and the bizarre workers comp claims it manages.

The script is based on real workers comp claims that Castille Landon, one of the project's co-writers, heard about growing up as the child of a mother who operated a professional employer organization, she said.

"As a writer, I don't think I could make up something that's as zany as what has happened in real life," Ms. Landon said in an interview. "My mom would come home and tell me stories. It seemed like such an easy



AP PHOTO

Morgan Fairchild plays the owner of a claims management agency in a TV pilot.

thing to parlay into a script."

The project drew investors in part because it is set in a workers comp office, something not done previously on TV, said co-writer Harrison Sanborn. "There are some really interesting claims and crazy claims and I think people want to see something new and interesting," he said.

The script is character-driven and somewhat resembles "The Office," Ms. Landon added.

"Unlike 'The Office,' we do incorporate more of the workers comp aspect," said Ms. Landon. She also stars in the pilot, for which a TV network has not yet been chosen, as the daughter of the operation's owner, played by Ms. Fairchild.

'INSURANCE GUY' TOUTS SOCIAL MEDIA TOOL

Man may not live by bread alone, but tell that to the Foremost Insurance Guy.

After misreading an e-mail from an insurance agent wanting to learn more about the insurer's "bread" of product, Jeff Bair, also known as the Foremost Insurance Guy, proudly depicts the Grand Rapids, Mich.-based insurer's product line in the shape of baked goods.

"It's 'breadth' of product," corrects one of his eavesdropping office mates in an online video available on Facebook.

"I don't even think that's a word," Mr. Bair objects. "What's the definition?" He then asks his annoyed co-worker to "use it in a sentence."

The cubicle banter—or perhaps the aroma—attracts the interest of a hungry passerby.

"What are you guys doing, making sandwiches?" he asks.

The linguistically challenged Mr. Bair tosses him a bagel.

The offering is one in a series of witty videos released in conjunction with the launch of the Foremost Social Media Suitcase, a tool for insurance producers intended to simplify online marketing.

In other videos, Mr. Bair attempts to illustrate Foremost Insurance Co.'s diverse product line using a series of collector plates and hand puppets.

Foremost Insurance also encourages Facebook friends to interact with Mr. Bair by e-mailing him questions directly. If selected, questions will be answered by Facebook post, video or e-mail.

Foremost plans to continue expanding the video series available at www.Facebook.com/ForemostInsuranceGuy.



In humorous videos backing Foremost Insurance Co.'s social media tools for producers, Jeff Bair plays the Foremost Insurance Guy.

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