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Business Insurance

April 13, 2009

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TARP FUNDS LIKELY AVAILABLE FOR SOME LIFE INSURERS, SAYS TREASURY / PAGE 3

HEALTH MANAGEMENT PROGRAM DELIVERS SIGNIFICANT SAVINGS ON DIABETES CARE / PAGE 3

VALIDUS CHIEF ED NOONAN FIGHTS FOR IPC / PAGE 3

In Brief

Forecasters project average storm season

This year's Atlantic hurricane season should feature average activity, say forecasters at Colorado State University's Tropical Meteorology Project. In its latest forecast, the team predicts 12 named storms will form during the hurricane season, which begins June 1, and six of those storms will grow into hurricanes. The average annual number of hurricanes during the 1950-2000 period is 5.9. Two of the six hurricanes this year are forecast to grow into intense hurricanes with sustained winds of at least 111 mph.

P/C profits fall 96% in 2008

The U.S. property/casualty industry's profits fell 96.2% in 2008 as catastrophe losses and the ongoing financial crisis took their toll on insurer results. Property/casualty insurers earned $2.4 billion in net income in 2008, compared with $62.5 billion the previous year, according to a joint report produced by the Insurance Services Office Inc. and the Property Casualty Insurers Assn. of America. Contributing to the decline was $21.2 billion in net losses on underwriting in 2008, compared with gains of $19.3 billion in the previous year. The industry's combined ratio was 105.1% in 2008 vs. 95.5% in 2007. Policyholder surplus stood at $455.6 billion at year-end 2008, down 12%. Net investment gains fell 50.9% to $31.4 billion.

Beale, Kerner get new roles at Zurich

Inga Beale has been named global chief underwriting officer and Mike Kerner has been named

See **IN BRIEF** page 21

REUTERS

Rescue workers dig through rubble after the magnitude 6.3 earthquake that struck Italy's Abruzzo region last week.

Moderate losses forecast from deadly Italian quake

By MICHAEL BRADFORD

L'AQUILA, Italy—Italy's deadly earthquake is expected to cost insurers far less than the total cost of the destruction and could reignite debate over whether the country's government should put a mechanism in place that provides some sort of protection from catastrophic losses.

The magnitude 6.3 quake that struck the Abruzzo region near L'Aquila on April 6 left more than 280 dead, scores injured and thousands homeless in central Italy. Damage was estimated as high as €3 billion ($4 billion), a small percentage of which is expected to be covered by insurance.

Much of the damage was to homes and is not covered because Italian insurers typically exclude earthquake coverage from residential policies, market sources said. Commercial insurance is available and is expected to cover the bulk of insured damages.

Boston-based catastrophe modeler AIR Worldwide Corp. estimated total damages between €2 billion ($2.7 billion) and €3 billion. Insur-

See **QUAKE** page 17

Credit crunch fuels rush for coverage

Trade credit insurers see rise in demand as bankruptcies grow

By ROBERTO CENICEROS

The worldwide economic downturn is driving demand for trade credit insurance, but buyers are finding a hardening market for the coverage as insurers respond to a sharp rise in claims, several industry experts say.

As more companies file for bankruptcy, more large firms are seeking trade credit insurance protection for domestic and international accounts receivables, but they face restricted capacity and rates that jumped at least 30% for first-quarter renewals, experts say.

In addition to tightening terms and raising prices, some monoline trade credit insurers earlier implemented policy conditions that allow them to reduce limits midterm.

"We have seen quite the hardening of the market," said Brett Halsey, Baltimore-based chief executive officer for the U.S., Canada and Mexico operations of Atradius N.V., an Amsterdam-based trade credit insurer. "So you are seeing higher deductibles, higher coinsurance, higher risk mitigation features within the policy."

Some buyers, meanwhile, are arranging for excess coverage. That is "quite unusual" because more than one insurer on a risk traditionally has not been necessary to fully cover trade credit exposures, said Bryan Squibb, president of AU North America L.L.C., a Chicago-based broker partly owned by Paris-

> **'You are seeing higher deductibles, higher coinsurance, higher risk mitigation features within the policy.'**
>
> Brett Halsey, Atradius N.V.

based L'Assurance Universelle S.A.

But last week, Mr. Squibb arranged coverage for a drink producer with a highly recognizable brand name that bought $180 million in limits from two insurers, with one providing primary coverage and the other providing excess limits.

A year ago the policyholder

See **CREDIT** page 20

Health insurers face headwinds in tough economy

Falling group enrollment, planned cuts in Medicare Advantage funding among key challenges

By JOANNE WOJCIK

Major U.S. health insurers and managed care companies earned sharply lower profits in 2008, some nearly half of 2007 results, as poor stock market performance and lower interest rates chiseled away at their investment portfolios.

The downturn in results may lead some insurers to try and increase premiums, though they will likely meet stiff resistance from employers, some analysts say.

Insurers also were hurt by a shrinking commercial market, while underestimation of the cost stung those that dived headlong into the Medicare Advantage plan business, analysts said.

If U.S. unemployment continues to rise, health insurers are likely to see group enrollment fall further, even after taking into consideration the effects of the 65% COBRA subsidy made available under the American Recovery and Reinvestment Act of 2009, analysts said. Despite help from the federal government, COBRA premiums may be too expensive for the jobless who are living solely on unemployment insurance benefits, they noted.

> **8.5%**
>
> **JOBLESS RATE:** Rising unemployment is expected to erode health insurers' business as their rolls shrink.

Meanwhile, planned cuts in federal funding of Medicare Advantage programs will affect the performance of insurers with a sizable portion of that market after 2010, analysts warned.

While health insurer profit margins hovered in the 9% to 10%

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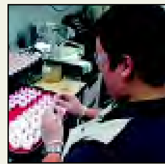

COBRA Q&A

FAQ answers employers' COBRA questions

Business Insurance Editor-at-Large Jerry Geisel answers employers' questions about the new federal law that provides a subsidy of COBRA health insurance premiums to laid-off employees. The online COBRA package includes an updated Q&A section, the guidance released by the Internal Revenue Service on March 31 and more. Go to *www.BusinessInsurance.com.*

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Business Insurance®

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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TARP relief could be in sight for life insurers

Mixed blessing seen in federal funding for troubled companies

By MARK A. HOFMANN

$250 billion

The maximum amount, according to the Government Accountability Office, that had been allocated to the CPP, but only $218 billion is expected to be used. As of March 27, $198.8 billion in CPP funding had been disbursed.

WASHINGTON—A few life insurers may be breathing a bit easier as signs increasingly indicate they may soon receive federal assistance they have sought from the Treasury Department.

But some observers say that while the help generally would be good news for the insurers involved, some might think twice about accepting the funding. They note that some banks that accepted federal aid already have begun paying it back to escape limitations on executive pay and other restrictions.

About a dozen life insurers, including Hartford Financial Services Group Inc., had applied last fall to obtain funds through the Troubled Asset Relief Program Capital Purchase Program. To be considered, they had to own thrift banking institutions. But even those who met Treasury's deadline for applying went months without hearing whether their requests would be met.

Last week, Treasury appeared to indicate that some funds would be released to the industry.

"There are a number of life insurers who met the requirements for the capital purchase program because of their thrift bank holding company status and they had applied within the appropriate deadlines," said a Treasury spokesman. "These companies are among hundreds of financial institutions in the CPP pipeline that will be reviewed and funded as appropriate on a rolling basis."

The impact of opening federal funds to life insurers, while positive, could be limited.

"For any company, access to funds at a reasonable cost in this environment is a positive," said Andrew Edelsberg, vp-life/health for A.M. Best Co. Inc. in Oldwick, N.J. He pointed out, though, that only a few insurers are eligible to participate in the program.

"It seems like it's picking up more interest," said Brian Schneider, senior director at Fitch Ratings in Chicago. "And I would guess that Hartford is probably up at the top of the list of companies that would get money. They've been talking about a little more than $1 billion to $3.4 billion, so those are important numbers for Hartford."

The Hartford, Conn.-based insurer last year bought a Florida savings and loan company to qualify for TARP assistance. Hartford, whose life operations posted a $2.44 billion loss in 2008, has seen its credit

See TARP page 17

'We are extremely disappointed that IPC's board of directors has rejected our proposal in favor of an obviously inferior alternative.'

Edward J. Noonan, Validus Holdings Ltd.

Validus' battle for IPC turning into hostile bid

Reinsurer taking appeal to shareholders to reject Max offer

By COLLEEN McCARTHY

HAMILTON, Bermuda—The takeover battle for Bermuda-based reinsurer IPC Holdings Ltd. turned hostile last week, when Validus Holdings Ltd. said it will lobby IPC shareholders directly, after IPC's board turned down its offer in favor of a deal with Max Capital Group Ltd.

"We are extremely disappointed that IPC's board of directors has rejected our proposal in favor of an obviously inferior alternative," Edward J. Noonan, chairman and chief executive officer of Validus, said in a statement.

Last Friday, Validus filed preliminary proxy materials with the U.S. Securities and Exchange Commission to urge IPC shareholders to reject the merger deal with rival Max Capital.

"While we would have preferred to work cooperatively with IPC, we remain fully committed to our proposal and expect to use all available means to complete our transaction," Mr. Noonan said in a statement.

The Bermuda-based reinsurer made an unsolicited $1.68 billion stock offer for IPC on March 31. Under the terms of the deal, Validus would pay 1.2037 of its shares for each IPC common share, valuing IPC shares at $29.98.

But IPC already had agreed a $912 million all-stock merger deal with Bermuda-based specialty insurer and reinsurer Max Capital, which valued IPC shares at 1.5554 Max shares, or $26.38 a share.

Validus' unsolicited bid has prompted a contentious battle over IPC, with both reinsurers arguing that their deals offered greater shareholder value.

Earlier last week, IPC reaffirmed its commitment to combine with Max Capital and rejected Validus'

See VALIDUS page 17

Diabetes pilot program yields big cost savings

Ten City Challenge going national to help employers, patients

By JOANNE WOJCIK

TEN CITY CHALLENGE BY THE NUMBERS

573 NUMBER OF PARTICIPANTS

14.8 MONTHS DURATION OF PROJECT

$593 PATIENT SAVINGS

$1,079 EMPLOYER SAVINGS

WASHINGTON—A diabetes disease management program conducted by the American Pharmacists Assn. Foundation is being made available to employers nationwide as a result of a series of successful tests.

The program, the Diabetes Ten City Challenge, has yielded substantial savings for employers even after they've waived copayments for participants and paid for individual counseling. Patients also saved money and improved in several key clinical areas associated with the condition, officials said.

Results of the Diabetes Ten City Challenge, which will be published in a peer-reviewed article in the May/June issue of the Journal of the American Pharmacists Assn., show average reductions in per-patient health care costs of $1,079 a year. Aggregate data for 573 participants, who were in the program an average of 14.8 months, showed they saved an average of $593 per year on their diabetes medication and supplies.

The data also identified improvements in blood glucose, cholesterol and blood pressure levels, all of which usually are elevated in diabetes patients. Moreover, the analysis found increases in usage of preventive care, such as flu vaccinations as well as eye and foot exams.

The program is based on the Asheville Project model in which employers waive copayments and deductibles for prescription drugs and related monitoring devices, such as glucose meters, for plan members who agree to receive periodic counseling from pharmacists.

In addition, the employer pays an hourly fee to the pharmacist.

While the Asheville Project, first implemented in 1997, involved just employees and dependents of the North Carolina city and Mission Health & Hospitals, the region's largest health care provider, the DTCC included 30 employers in 10 cities across the United States.

The same process of care used in the Asheville Project and the DTCC will be made available to employers nationwide through HealthMapRx L.L.C., a Reston, Va.-based partnership between the APhA Foundation and Mirixa Corp., said Bud Meadows, senior vp of sales and development at Mirixa. The National Community Pharmacists Assn. sponsors Mirixa.

See DIABETES page 18

G-20 tax haven crackdown targets evasion, not advantages

Little change foreseen in companies' choice of captive domiciles

By SARAH VEYSEY

The Group of 20 industrialized nations' recent pledge to clamp down on tax havens and the Organization for Economic Cooperation and Development's list of jurisdictions that have not fully implemented international tax standards likely will have little effect on companies' choice of domicile for their captive, experts say.

Leaders of the G-20 nations met in London earlier this month to discuss the worldwide economic crisis and financial regulation, among other topics.

In a communiqué, G-20 leaders said they would "take action against noncooperative jurisdictions including tax havens," and said they would use the OECD list as a basis for any action.

The April 2 list names jurisdictions that have "substantially implemented" an internationally agreed tax standard, those that have "committed to" but "not yet substantially implemented" the standard, and those that have not committed to the standard.

The OECD, in cooperation with non-OECD countries, developed the international tax standard, which G-20 finance ministers and central bank governors endorsed in 2004. It requires the exchange of information, on request, in all tax matters to allow enforcement of domestic tax laws.

THE BLACK LIST *Four countries blacklisted in the most recent ranking for not committing to the standard have told OECD they intend to commit to the standard.*	THE GRAY LIST *The so-called "gray list" of jurisdictions that have yet to fully implement the standard includes some large captive insurance domiciles.*
Costa Rica	Bermuda
Malaysia	British Virgin Islands
Philippines	Cayman Islands
Uruguay	Gibraltar

Four countries blacklisted in the most recent ranking for not committing to the standard—Costa Rica, Malaysia, Philippines and Uruguay—have told OECD they intend to commit to the standard.

On the so-called "gray list" of jurisdictions that have yet to fully implement the standard are large captive insurance domiciles that include Bermuda, British Virgin Islands, Cayman Islands and Gibraltar.

In the gray zone

But companies with captives in these domiciles or those planning to set up a captive probably will not see any ill effects from those domiciles' inclusion on the gray list, experts say.

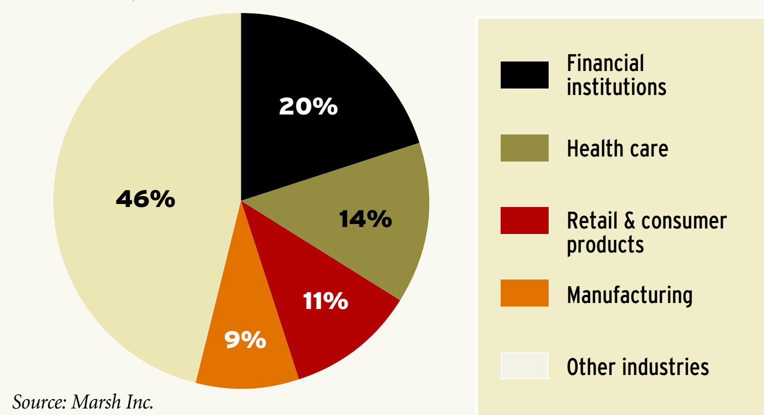
The G-20/OECD action is unlikely to have a major effect on well-established captive domiciles, said Philip Harle, a tax partner at law firm Lovells L.L.P. in London.

The thrust of the G-20 action appears to be clamping down on tax evasion, he noted, rather than eliminating tax advantages of certain

See **G-20** page 21

5,000 CAPTIVE INSURERS WORLDWIDE

Four industry groups represent more than half the world's captives



Source: Marsh Inc.

Virtually every industry deploys captives: Study

Slower-than-expected formations in 2008 blamed on economy

By RODD ZOLKOS

While industries such as financial institutions, health care and retail make greater use of captives than others, virtually every industry group and organizations of various sizes use captives, according to a Marsh Inc. study.

Of the captives examined in Marsh's 2009 Captive Benchmarking Report that's being released this week, 20% had financial institution parents, 14% were formed by health care organizations, 11% by retail and consumer product companies, and 9% by manufacturing entities.

The trend toward captives being used across industry groups is true around the world, according to Marsh, with the exception of health care captives, which are formed almost exclusively by U.S.-based organizations.

Marsh attributed that fact to the size of the private health care system in the United States vs. systems in many other parts of the world that are government- or quasi-government funded, as well as the fact that the U.S. environment tends to be more litigious than elsewhere in the world, leading to a greater demand for insurance capacity in the health care area.

The study found that organizations' captive domicile selections are driven first and foremost by business considerations, such as choosing a U.S. domicile for a captive looking to tap the U.S. government's terrorism reinsurance backstop or a European home for a captive intended to write coverage directly across the European Union, Marsh said.

Once such business issues are addressed, key factors in domicile selection include sophistication of its regulation and infrastructure, the regulatory body's effectiveness and the convenience of its location, Marsh found.

Marsh's analysis showed the captive industry reflects the worldwide effect of the global financial crisis that, along with continuing softness in the traditional insurance

See **CAPTIVES** page 19

Space market pricing steady despite ailing economy, but risks on the rise

Major loss as the year begins puts industry in cautious mindset

By MICHAEL BRADFORD

VENICE, Italy—Space insurers writing coverage on satellite projects years before they are launched are finding themselves insulated from the worst of the current global financial crisis and, barring heavy losses, are expected to provide buyers with steady rates, market experts say.

Experts, however, warn that space is becoming a crowded environment posing significant risks as satellites move in orbits increasingly littered with debris. In February, insurers recorded a loss when a defunct Russian military satellite, Cosmos 2251, collided 485 miles above the Russian Arctic with a functioning U.S. communications satellite, Iridium 33, owned by Bethesda, Md.-based Iridium Satellite L.L.C.

AP/NASA

Rendering of an Iridium satellite that was destroyed when it was hit by a nonfunctioning Russian satellite.

While the U.S. National Aeronautics and Space Administration said the collision was the first known between two satellites, space insurers have long worried about the risk of damage from debris. For the moment, though, they are enjoying a hospitable marketplace on earth.

They are doing well partly because there is a significant gap between the date the coverage is written and when a launch takes place, said Christopher Kunstadter, vp and senior class underwriter-space, at XL Insurance in New York.

"Fortunately for us, the lead time for the programs that we insure is typically up to three years," he said at the 15th International Space Insurance Conference in Venice, Italy, April 2-3. That means the programs space insurers are involved in now and for the next couple of years were arranged before the financial crisis took hold, he said.

"We really haven't seen a lot of effect on the underlying business," Mr. Kunstadter said of the crisis. In fact, he said industry sources have indicated there are more satellites waiting to be sent into space than

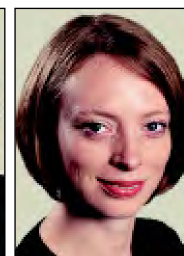
See **SPACE** page 12

BI adds *BIE* veterans, realigns staff

Business Insurance recently made several changes to its staff.

After the closure last month of *Business Insurance Europe*, Michael Bradford, Hugo Foster, Adrian Ladbury and Sarah Veysey have joined the staff of *BI* to continue its coverage of international news.

Mr. Ladbury



Ms. Veysey

Mr. Bradford

Mr. Foster

Mr. Ladbury, previously editor and general manager of *BI Europe*, is now international editor of *BI*, based in London. He is responsible for *BI* special projects serving the international marketplace and will write print and online commentary. Mr. Ladbury can be reached at 44-207-457-1414, or *aladbury@businessinsurance.com*.

Ms. Veysey, previously news editor at *BI Europe*, is now London bureau chief, a role she held previously with *BI*. She is responsible for U.K. and European news coverage online and in print and can be reached at 44-207-457-1425, or *sveysey@businessinsurance.com*.

Mr. Bradford, a senior editor of *BI* in the United States before joining *BI Europe*, will remain in Zurich, Switzerland, and report on global risk management topics as well as European news. He can be reached at 41-434-778-410, or *mbradford@businessinsurance.com*.

Hugo Foster, who served as regional sales manager for *BI Europe*, is now international sales manager for *Business Insurance* based in London. He can be reached at 44-207-

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A MINOR RENOVATION TO THE FACTORY AVOIDED A MAJOR OPERATION ON THE EMPLOYEE.

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Responsibility. What's your policy?

Insurers and brokers court interns

College-age hires provide fresh talent for an aging industry

By MIKE TSIKOUDAKIS

Internship programs remain a win-win for the insurance companies and brokerages that provide them and the college students who are hired for the jobs despite the troubled U.S. economy, officials say.

For insurers and brokers, internships provide a way to bring in fresh talent as the industry's workforce ages. For interns, the programs provide gainful employment in a tight job market and experience in a multifaceted industry.

Companies scout for interns through academic contacts and career fairs sponsored by colleges and universities. The students are interviewed and recruited during the summer months for what is generally a paid, nine- to 10-week program.

"It's all about conversion into new hires," said Christine Lahey, vp of corporate employment for Boston-based Liberty Mutual Insurance Co., who hires about 350 undergraduates a year for the insurer's internship program.

Liberty Mutual offers traditional business-related positions such as accounting, finance and human resources as well as insurance-specific jobs such as handling claims, underwriting coverage, preventing losses and conducting actuarial work.

Mark Henderson, executive vp and chief operating officer for Kansas City, Mo.-based Lockton Cos. L.L.C., sees internships as an opportunity for business and risk

See **INTERNSHIPS** page 10

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Commentary

Communicate to keep stakeholders aboard

REGIS COCCIA

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

I'm an optimist by nature. I choose to believe that if you work hard and focus on the positive, good things will happen eventually. But ongoing economic uncertainty has given me pause.

Evidence of a turnaround is in short supply, and between the continual growth of government relief programs for financial services companies and cutbacks in virtually all industries, a lot of folks are troubled. That's for good reason. There are no real answers to the question, "When will things get better?"

While I have no crystal ball, I have observed that certain practices during times of crisis can either alleviate or exacerbate morale problems.

Consider the following vicious cycle: Businesses in all industries succeed or fail based on the efforts of their employees. Contented employees are productive workers. When employees are worried, productivity suffers. Stress leads to injury or illness, which may spiral into claims. Claims drive costs. Businesses that struggle to balance expenses against revenues have difficult choices to make, usually resulting in lower morale and higher stress.

If that seems as plain to you as it does to me, take heart in a relatively simple solution that applies in good times and bad, but is especially true in tough times. Businesses can't communicate too frequently with stakeholders—be they employees, customers, suppliers or investors.

If there's no way to create certainty in uncertain times, what should the message be? The answer I offer is rooted in history, philosophy and anthropology.

Business practices, communication methods, climatic conditions, accounting standards all change—add to the list your sense of things that do not stay the same—but I contend that human nature itself fundamentally does not change. It's human nature to worry. It's human nature, in a crisis, to lose sight of positive experiences. It's human nature for imaginations to run wild, in the absence of information.

That is why businesses can't afford to operate in a vacuum. Doing so tends to let imagination paint a worse picture than the reality. Businesses need to communicate so stakeholders remain focused and want to stick around.

Let me offer an example. An insurance company reports a larger-than-expected loss, which widens over succeeding quarters. The insurer's stock takes a beating. Analysts downgrade credit and financial-strength ratings. That signals big problems to investors, customers, brokers placing business with the insurer and, far from least, employees. Without clear communication about what caused the problem, what the company is doing to fix it and why stakeholders shouldn't abandon ship, the affected company is issuing a tacit invitation for them to leave. If they do, what future does that company have? Not a pretty picture.

Businesses can't communicate too frequently with stakeholders.

I can't unequivocally state that the economy will recover this year or next or in 2011. I can't offer assurances that major insurance industry companies won't become insolvent. But I have reason to believe that our economy is resilient, that the vast majority of insurance companies are well-regulated and well-capitalized, and that policyholders do not need to worry their insurers are in danger of collapsing. Therefore I remain hopeful. And I hope you can, too.

Worthy of note

Next week in Orlando, Fla., is the RIMS 2009 Annual Conference & Exhibition. I'm pleased to say that *Business Insurance* and RIMS will jointly present the Risk Manager of the Year award and induct three new members into the Risk Management Honor Roll.

The 2009 Risk Management Honor Roll comprises: Raymond J. Alletto of United Rentals Inc., Lori Jorgensen of Microsoft Corp. and Gary W. Langsdale of Pennsylvania State University. The 2009 Risk Manager of the Year is Fred O. Pachón of Select Staffing Inc. Read about their achievements in next Monday's issue and online at *www.BusinessInsurance.com.*

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Business Insurance OPINIONS

Safety at sea a matter for navies to address

NO ONE SHOULD underestimate the courage of the crew of the Maersk Alabama, the U.S. ship seized by Somali pirates last week. The crew retook the ship and its captain bravely offered himself as a hostage to protect his crew.

But the seizure of the Maersk Alabama underscores the rapidly growing problem of piracy, particularly off the coast of Somalia. It shouldn't be the job of private mariners, no matter how individually courageous, to fend off pirate attacks.

As we've argued before, keeping the sea lanes open is a job for professionals. But the international community has been curiously uninterested in tackling the job that can only be finished by the navies of its member states, not unarmed merchantmen. As a result, the pirates have grown bolder and who can blame them? If you know you can seize ships and hostages almost at will and exchange them for handsome ransoms, why not make the effort? That's particularly true when you have no reason to believe you'll face any serious consequences for your illegal acts.

> *If you know you can seize ships and hostages almost at will, why not make the effort?*

Centuries ago, the British Navy proved to the pirates of the Caribbean and elsewhere that committing piracy could bring down some very serious consequences indeed. The infant U.S. Navy helped teach the same lesson to the Barbary pirates in the early 19th century. It's well past time for the international community to follow such examples.

If the task proves to be too difficult or unpleasant for an international operation, then it will fall to individual maritime powers to act, and act decisively even if it means blockading ports from which the pirates sail or taking even more forceful actions. Individual courage alone cannot end this scourge.

Giving a little can mean getting a lot more back

WHILE IT MAY be a tough sell in the middle of a recession, investment in health care can be beneficial for employers as well as employees.

As we report on page 3, results of the Diabetes Ten City Challenge program to improve diabetes care management show that employers who are prepared to spend more on health care now for certain workers are reaping cost savings more quickly than anticipated.

Ignoring conventional wisdom on health care cost control, the employers found that by reducing financial barriers to care, such as copayments for diabetes patients, the overall health care costs of those patients fell quickly.

For years, employers have seen increased cost-sharing with employees as the key to reducing health care expenses. While this certainly can help save money, the approach isn't perfect. Increasing the cost of accessing care clearly can result in deteriorating health for people with chronic conditions, and as those conditions worsen, costs leap.

What is most encouraging about the Diabetes Ten City Challenge is the speed with which the participating employers saw their costs decline. For a relatively modest investment, employers saw substantial cost reductions within 15 months. That is the type of return on investment that even cash-strapped companies should strive for.

WRITE

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

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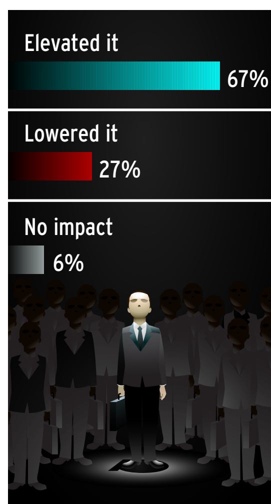
THIS WEEK'S RESULTS

Q What impact has the financial crisis had on the status of risk management?



NEXT WEEK'S QUESTION

Q: Will mergers and acquisitions increase as the economic downturn continues?

BI Online Poll tool is sponsored by Wausau Insurance Cos.

READ

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Climate change debate heats up

It's crucial for policyholders to be clear on terms in the debate over climate change and the liability insurance coverage battles that may ensue, writes attorney J. Wylie Donald of McCarter & English L.L.P.

LETTERS

State's ability to levy assessments is key

TO THE EDITOR: In response to your recent article on guaranty funds ("Guaranty Funds Not Guaranteed for Self-insured Comp Claims," *BI*, March 16) and the question as to whether a state's guaranty fund applies to claims payment obligations of defunct excess workers compensation carriers, we believe the issue should hinge upon the ability of a state's guaranty fund to levy assess-

See **LETTERS** page 19

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Internships: Insurance firms find talent, grow workforce with interns

CONTINUED FROM PAGE 6

management majors to gain direct experience in the industry and the company, "but really, it gives (Lockton) the opportunity to interview them for 10 weeks."

Along with a carefully charted work program, interns are required to take courses in business etiquette and are placed into various social business situations, culminating in individual projects presented to Lockton senior executives.

Of approximately 20 interns hired by the recruiting staff at Lockton's corporate offices, 30% are offered positions and about half of those become associates.

For more than 20 years, Warren, N.J.-based Chubb Group of Insurance Cos. has linked its internship and training programs with the intent of looking from within to hire full-time employees.

"More often than looking externally to supply our future needs, we hire trainees. So interns are an extension of that program," said Angela Alper, talent acquisition manger for Chubb in Warren, N.J.

Although Chubb does not anticipate as many interns this year as prior years, the program is very much active, she said. "Chubb has a tendency to hire more interns and trainees than some of our competitors because we do believe it is worth it," Ms. Alper said.

Rising unemployment has given Chicago-based CNA Financial Corp. the opportunity to expand its program, allowing recruitment of "more people with work experience," said David Ueki, recruiting manager for CNA.

Zurich North America launched its internship program four years ago to change false perceptions of the insurance profession, said Debbie Jandt, manager of university recruiting for the Schaumburg, Ill.-based insurer. "We're more than just insurance. We're trying to get away from the stigma of the briefcase and going from door to door," Ms. Jandt said.

At Itasca, Ill.-based Arthur J. Gallagher & Co., a conscious decision was made this year to maintain the company's internship program and focus on revenue-generating positions, such as brokers.

"This is an important recruiting device for us, and it's focused on producers who we are always in need of," said Terry Hennen, director of corporate branding and communications for Arthur J. Gallagher in Itasca, Ill.

With 157 interns participating nationally last year, Arthur J. Gallagher expects to hire about the same number this year, Mr. Hennen said.

"We view the internship program as a way to bring entry-level talent into the organization," said Liberty Mutual's Ms. Lahey. Successful interns may have job offers in hand as they return for their senior year in college. All interns who return to school with a job offer are awarded a $1,500 grant to use toward educational costs.

"We want to really drive home the point that we're committed to them, and we hope that they are committed to us," said Ms. Lahey, whose goal is to convert approximately 120 interns into full-time employees each year.

"We want them to come away from the program with a very clear understanding of the duties and responsibilities of a Lockton account executive," Mr. Henderson said. "The traditional outlet of going to the insurance companies or going to our competitors to find people is a very flawed model. If we could get to where we 100% promote from within, we will then truly be in control of our own destiny."

Additionally, insurance companies are eager to engage students who might not consider the industry a career.

"Insurance isn't one of the better-known industries to go in," said CNA's Mr. Ueki. "We have to do active recruitment to get people familiar with insurance."

"The whole insurance industry is aging, and we're trying to do something about that," said Arthur J. Gallagher's Mr. Hennen. "Bringing young people in adds a lot of energy to the whole workforce and it's setting us up for the future, too."

Largest undergraduate RMI programs

Ranked by students enrolled in a risk management insurance major in 2007/2008

Rank	University	Undergraduate department	Students in risk management insurance program	Graduates with majors in RMI	Number of undergraduate courses in RMI	Contact
1	Temple University	Fox School of Business, Department of Risk, Insurance and Healthcare Management *sbm.temple.edu/dept/rihm/*	300	90	16	R.B. Drennan *rob.drennan@temple.edu*
2	University of Georgia	Terry College of Business, Department of Insurance, Legal Studies and Real Estate *www.terry.uga.edu/insurance*	283	112	32	Robert E. Hoyt *rhoyt@terry.uga.edu*
3	Georgia State University	Department of Risk Management and Insurance *www.rmi.gsu.edu*	244	40	17	Ednisha Riley *eriley@gsu.edu*
4	Mississippi State University	College of Business and Industry, Department of Finance and Economics. *www.msuinsurance.org*	181	61	7	Edwin H. Duett *eduett@cobilan.msstate.edu.*
5	Florida State University	College of Business, Risk Management/Insurance, Real Estate and Business Law *www.cob.fsu.edu/rmi*	140	42	9	Randy Dumm *rdumm@cob.fsu.edu.*
6	Appalachian State University	Walker College of Business, Department of Finance, Banking and Insurance *www.insurance.appstate.edu*	130	50	6	Karen Epermanis *epermanisk@appstate.edu*
7	University of Mississippi	School of Business Administration, Department of Finance *www.olemissbusiness.com/insurance*	128	53	7	Larry A. Cox *lcox@bus.olemiss.edu*
8	Olivet College	Insurance Program *web.olivetcollege.edu/insurance*	126	30	11	Michael R. Hubbel *mhubbel@olivetcollege.edu, rmi@olivetcollege.edu*
9	Illinois State University	Katie School of Insurance and Financial Services, Finance, Insurance and Law Department *www.katieschool.org, www.cob.ilstu.edu*	115	62	8	James Jones *jrjone2@ilstu.edu*
9	University of Wisconsin-Madison	School of Business, Actuarial Science, Risk Management and Insurance Department *www.bus.wisc.edu/asrmi/*	115	50	8	Joan Schmit *jschmit@bus.wisc.edu*

Source: BI survey
Research by Kevin Edison and Karen Tucker

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This artist's rendering shows the catalogued objects in low-Earth orbit. The amount of debris in space is increasing, posing a significant risk.

Space becomes more risky as debris collects

By MICHAEL BRADFORD

VENICE, Italy—Damage to satellites in orbits growing increasingly crowded with space debris is emerging as a significant risk for satellite owners and their insurers.

The chances that satellites will collide with each other or floating debris have grown in recent years as portions of space have been littered with obsolete equipment and other material. Experts, during panel discussions and speeches at the 15th International Space Insurance Conference in Venice (see box) earlier this month, said the risk of a collision poses thorny legal issues for insurers and policyholders.

"Legally speaking, this is a very complex situation," said Denis Bensoussan, a Paris-based space underwriter with Hiscox Global Markets.

Those issues are coming to the forefront as a result of the February collision of a nonfunctioning Cosmos Russian military satellite and a functioning communications satellite owned by Iridium Satellite L.L.C. of Bethesda, Md.

"The collision in February has no precedent" and determining liability for such an incident has never been done, Mr. Bensoussan said.

As for insurers, the risk of collision has not been a serious worry until recently, he and other conference speakers said.

Christopher Kunstadter, vp and senior class underwriter with XL Insurance in New York, cited a European Space Agency report showing that 94 satellites retired during the past 10 years remain in or near geostationary orbit.

"That's a large number of satellites that are floating around in the geo orbit and remain as threats to the largest assets that we insure," Mr. Kunstadter said.

The Cosmos and Iridium satellites collided in low-earth orbit, Mr. Kunstadter said. That accident and another involving a Chinese satellite in 2007 generated about 3,200 pieces of debris that are large enough to be tracked. "And, obviously, there are quite a few pieces smaller than that," he said.

"There are over $1 billion worth of insured satellites at or below the altitude of the collision, a tremendous amount of exposure that is threatened by the Iridium/Cosmos collision," Mr. Kunstadter said. "That is something to be very concerned about."

Mr. Bensoussan said the February collision raises some unique insurance and legal issues and may require reworking space insurance policies to manage the "newly discovered" risk of collisions.

"In the space insurance market, satellites with physical damage insurance are covered for all kinds of potential satellite failures, including collision," he said. "However, subrogation actions are possible against third parties."

While third-party liability insurance is available to cover damage arising from launches and satellites in orbit, few satellites are covered by such policies and the coverage has never been triggered by a satellite collision, Mr. Bensoussan said. There are uncertainties about some of the definitions contained in the coverage and its duration, he said.

Market sources have said Iridium has a $500 million third-party liability insurance policy that was placed by Aon Corp. to cover third-party claims arising from such a collision (*BI*, Feb. 23).

Managing satellite traffic to avoid collisions is not a well-developed discipline, experts agree.

"There are no enforceable standards," said Richard Denny, senior vp, global networks and engineering at Inmarsat Global Ltd., a London-based satellite operator. "There are no rules of the road for managing our satellites," except for some standards to which some operators voluntarily adhere, he said.

Mr. Denny suggested the space industry adopt rules in the same fashion as those crafted some 40 years ago by the maritime community to formalize rules and codes for military ships operating in close proximity. "It's really been a very successful situation and we really need the same situation in space," he said.

Meanwhile, there is no mechanism to clean up space junk, Mr. Bensoussan said.

"Various international organizations have created guidelines for limiting debris and they should be made mandatory," he said. "A general rule should be to take out what you bring into space."

Space: Experts say market expected to hold steady

CONTINUED FROM PAGE 4

vehicles to launch them.

But others warn the financial crisis could produce some fallout eventually.

"The satellite industry will no doubt be affected by the worsening global economy and obvious decline in consumer spending," said David Keslow, director of business operations at Orbital Sciences Corp., a Dulles, Va.-based satellite manufacturer.

Satellite operators could encounter difficulties devising business plans that attract significant investments on projects that won't pay off for several years, he said.

Large satellite operators, though, are not expected to cut back on orders for new satellites unless the financial crisis worsens, Mr. Keslow said. The four largest operators have indicated that they intend to maintain or expand their satellite fleets, he said.

"TV demand is the key to this," Mr. Keslow said, "as most of their revenues come from video and TV broadcasting."

The space insurance market is made up of a limited number of companies that appear to be on solid footing and able to access capital if necessary, said Benito Pagnanelli, president of Pagnanelli Risk Solutions Ltd., the London-based consulting firm that organized the conference.

While insurer stability is no guarantee that "the global finance tornado will not leave any sign of its violent passage" on insurers, space insurance customers should not be overly alarmed, Mr. Pagnanelli said. The problems created by the crisis largely have affected insurer investments and should make them more careful investors, he said.

The insurance market for space risks remains healthy but cautious, Mr. Kunstadter said.

During the past 10 years, premiums generally have held steady for that business, he said.

In the past two years, there have been some increases in rates for launch risks, Mr. Kunstadter pointed out, and rates for satellites in orbit also have nudged up, albeit in increments that are getting smaller.

Mr. Keslow said the loss history of satellite manufacturers and launch service providers will heavily influence their insurance costs. "We see this as a positive," he remarked, as companies with good loss records will benefit from reasonable insurance premiums.

"Losses have been all over the lot," for space underwriters, said Mr. Kunstadter. "2008 was clearly a good year for the market, but we needed a good year after 2007, which was slightly negative. 2009 has started with a loss, but we'll have to wait and see how the rest of the year develops."

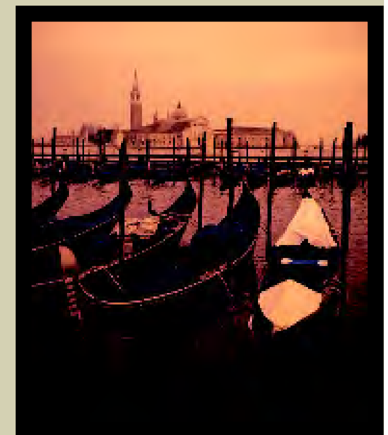
In the February crash of two satellites, market sources have said Iridium has a $500 million third-party liability insurance policy, placed by Aon Corp., to cover third-party claims arising from such a collision (*BI*, Feb. 23).

Heavy space losses occurred in 1998 and 2000 and are reminders of the risks the market faces, Mr. Kunstadter said. "Let's not forget that we did have those years of losses of between $1.5 billion and $2 billion. With $18 billion in insured assets in orbit and 20 to 25 launches a year, we could certainly hit that number again. We need to be very careful."

Pricing in the space market remains soft, which can be uncomfortable, Mr. Kunstadter said. He called it "a dangerous period where we really need to watch what we do and pay a lot of attention to pure underwriting. The investment income is gone and we need to rely on sensible underwriting decisions."

Insurers gather in Venice

VENICE, Italy—A venue where stars gather was an appropriate setting for the 15th International Space Insurance Conference.



The conference, organized by Pagnanelli Risk Solutions Ltd., a London-based risk management consulting firm, was held April 2-3 at the Palazzo del Cinema, the Venice Lido setting for the annual Venice Film Festival.

Topics covered the state of the space insurance market, the emerging risk of space collisions, the need for traffic management in space and other issues. About 300 people attended the conference.

The conference is held every two years, and the 2009 meeting marked the gathering's 30th anniversary. Dates and the location of the next conference have not been set.

More information is available at *www.pagnanellirs.com.*

—By Michael Bradford

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Insurers need to evolve to make it out of crisis

Experts at European Insurance Forum say change is necessary

By MICHAEL BRADFORD

DUBLIN, Ireland—Insurers that emerge from the global financial crisis in the best shape will be those that quickly boost intellectual capital, strengthen management and offer a diversified book of business, market experts say.

During the next two years, insurers will change greatly, said John R. Charman, president and chief executive officer of Pembroke, Bermuda-based AXIS Capital Holdings Ltd.

"I see the emergence of companies that are going to be very, very different—not necessarily in their structure, but in their efficiency, focus, controls and management," Mr. Charman said during a panel discussion at the European Insurance Forum 2009 sponsored by the Dublin International Insurance & Management Assn.

For the next 24 months, insurers must endure "problems on the asset side, which will force their way onto the income statement, or the fact that there has been a reasonable amount of loose underwriting on the primary side over the last three years," Mr. Charman said.

Investment income is unlikely to be much help, he said.

"Companies that come out of that 24-month period are going to have to evolve quickly," Mr. Charman said. "They are going to have to have greater intellectual capital," with strong management and diversified books of business, he said.

Tougher times for monolines

Monoline insurers are unlikely to make it through the financial storm, Mr. Charman said.

Michael O'Halleran, executive chairman of Aon Benfield, a unit of Aon Corp. in Chicago, agreed that changes are afoot. "I feel good about where we are, but we've got to get better at what we do," he said.

"It's not the strongest and the biggest, but the ones that adapt better to their circumstances" that will survive, said Dublin-based Costas Miranthis, CEO of PartnerRe Global, a unit of Pembroke, Bermuda-based PartnerRe Ltd.

"We are going to see capital constrained" and regulation will become more intrusive, Mr. Miranthis said of challenges facing insurers. "It is a new world; the credit crisis has changed things," he said, and insurers will have to rethink their operations on the underwriting and asset sides of the business.

"I think the insurance and reinsurance industry still has quite some way to go," Mr. Charman said. "I don't think we are going to be allowed just to survive. Otherwise, we will be replaced by some other form of capacity."

Crisis brings ideas

The availability of intellectual capital may be less of problem thanks to the economic turmoil, said James Vickers, London-based chairman of Willis Re International, who also was part of the panel.

"If we look back, the insurance and reinsurance industry traditionally has not been seen as one of the most exciting and interesting places" for people to begin their careers, Mr. Vickers said. "One of the things the current crisis will produce is a lot of very clever people wondering why, in the face of all these difficulties, our industry is surviving and prospering reasonably well."

Those people, "who maybe have a slightly different view but have a great intellectual capacity," will help the insurers that recruit them find creative ways to survive and prosper, Mr. Vickers said.

As the insurance market deals with worldwide financial turmoil, it is hoping there are no large catastrophes this year and next year because capital could be hard to replenish, the panelists said.

"It's a scenario that we don't like to think about," said Mr. Miranthis. "I think it would promote risk financing solutions from other sources," he noted, and that likely would mean government-funded coverage.

Mr. Miranthis said if capital were to dry up from catastrophe claims, there would be public pressure to establish government pools or other mechanisms funded with taxpayer money to provide coverage.

"We have to manage our own risks," Mr. Miranthis said of insurers and reinsurers. "This is not just about making money in the short term; this is about the brand of the insurance and, especially, the reinsurance industries."

Buyers need to see value in the product and be assured that insurers and reinsurers have managed their risks to survive catastrophes, said Mr. Miranthis. "And we need more capital."

"It's an undercapitalized industry relative to the risks it takes on," Mr. O'Halleran said of the insurance market. "The reality is that we need more capital today, before the event, as opposed to when the event occurs."

"If (a large catastrophe) happens next year, without changes in the marketplace and the economy, the answer is going to be the government," Mr. O'Halleran said. "If we don't do it, if we can't do it, then the governments must do it."

> 'I see the emergence of companies that are going to be very, very different—not necessarily in their structure, but in their efficiency, focus, controls and management.'
>
> John R. Charman, AXIS Capital Holdings Ltd.

DIMA discusses survival in market

DUBLIN, Ireland—The Dublin International Insurance & Management Assn. felt "Survival of the Fittest" made a proper theme for its European Insurance Forum 2009, given the turmoil in world financial markets and that this year marks the 150th anniversary of the publication of Charles Darwin's "On the Origin of Species."

Under that banner, the conference drew about 175 attendees to the Four Seasons Hotel in Dublin, Ireland, to hear presentations about how insurers, brokers and risk managers are holding up under the challenges of today's marketplace.

Attendees heard presentations on Solvency II, global regulation, the credit crisis, emerging markets and other topics during the March 30-31 meeting.

Dates for next year's event have not been set. For more information on DIMA and the forum, go to *www.dima.ie*.

—By Michael Bradford

Expert says buyers' options of insurers will be limited under Solvency II

By MICHAEL BRADFORD

DUBLIN, Ireland—Solvency II will leave buyers with fewer insurers from which to choose and higher coverage costs, predicts a risk manager and head of a European captive organization.

Multinational companies and medium-size insurance buyers are likely to see fewer companies competing for their business as consolidation takes hold after Solvency II is implemented in 2012, said Guenter Droese, managing director and head of group insurance at Deutsche Bank A.G. in Frankfurt, Germany. Mr. Droese also is chairman of the Luxembourg-based European Captive Insurance & Reinsurance Owners Assn.

Speaking at the March 30-31 European Insurance Forum 2009, sponsored by the Dublin International Insurance & Management Assn. in Dublin, Ireland, Mr. Droese said insurers are likely to manage their capital under Solvency II's risk-based guidelines in such a way that there will be less capacity available for high-risk classes of business.

On the other hand, coverage classes that are less risky are likely to have plenty of capacity, he said.

As a result, competition for some business will lessen, Mr. Droese said. "I'm pretty sure that we will have a reduction in competition; we will have more takeovers and we will have a limited choice of insurers."

A shortage could become particularly acute among lead insurers for global programs, Mr. Droese said.

Losing any such insurers would be painful because there are just seven filling that lead role today.

Insurers that find their capital needs are higher under Solvency II likely will raise coverage costs, Mr. Droese said.

Underwriters also will be regulated more and will endure not only higher capital requirements in some cases but also a raft of expensive administrative burdens when the directive is implemented, he said.

Under Solvency II, insurers will have to prove to regulators that their business is "not risky, as such," because of the capital backing it, Mr. Droese said. "The regulator wants to know that he is not making a mistake."

Apart from the additional workload to meet regulators' demands, insurers will have greater need for actuarial services and face more stringent audit requirements, Mr. Droese said.

Captive managers also will see increased costs, he said.

Captive owners, who will shoulder increased management fees, are worried about onerous capital requirements that they could face under the directive, Mr. Droese said.

For example, he said a colleague at a company with a small captive with a capitalization of about €2.5 million ($3.3 million) and premium income of €3 million ($3.9 million) has calculated that Solvency II would require €12.5 million ($15.6 million) in capital.

Such calculations are "unreasonable" for companies that know their risks well and have accounted for them, said Mr. Droese.

> Under Solvency II, insurers will have to prove to regulators that their business is 'not risky, as such,' because of the capital backing it. 'The regulator wants to know that he is not making a mistake.'
>
> Guenter Droese, Deutsche Bank A.G.

Products & Services

OSHA updates field manual

WASHINGTON—The U.S Occupational Safety and Health Administration has revised its field operations manual and made it available online.

Formerly called the Field Inspection Reference Manual, the 329-page OSHA Field Operations Manual outlines the agency's general enforcement policy and procedures for compliance officers when conducting inspections, issuing citations and proposing penalties.

The manual can used by employers and employees as a consolidated reference about workplace compliance with OSHA rules and further the agency's goal of a safe work environment, OSHA said in a statement.

The manual also contains information about OSHA's free onsite consultation services and compliance assistance.

The manual, providing guidance last updated in 1994, is available at *www.osha.gov/OshDoc/Directive_pdf/CPL_02-00-148.pdf.*

HERO, Mercer roll out updated scorecard

BIRMINGHAM, Ala.—The Birmingham, Ala.-based Health Enhancement Research Organization has teamed with Mercer L.L.C. to launch an updated best practice scorecard of employee health management practices.

HERO Scorecard V3.0 is free online software that can be used as an educational and a comparative benchmarking tool to determine the quality and scope of organizations' programs to manage employees' health, according to a joint statement by the nonprofit research organization and the New York-based consultant.

The scorecard divides best practices into six components: strategic planning, leadership engagement, program level management, programs, engagement methods, and measurement and evaluation.

Users can access the scorecard two ways. The PDF version can be printed, reviewed and used as a teaching tool. The online version allows users to input their employee health management program information.

Organizations that submit data will be provided a free report comparing their program's score with the aggregate score of all responses, all of which are confidential, HERO said.

For information and to access the online tool, visit *www.the-hero.org* and click on the scorecard link or contact Steven P. Noeldner, Mercer principal, at 949-222-1373 or *steven.noeldner@mercer.com.*

NIP offers D&O liability cover for independent directors

AUSTIN, Texas—National Insurance Partners Inc. has launched directors and officers liability coverage for independent directors.

Called X-Protect, the separate policy is designed to protect personal assets of independent directors should they be sued by shareholders, the Austin, Texas, brokerage said. The policy covers independent directors of large private and publicly held organizations with limits up to $10 million. Additional limits up to $30 million are available on an excess basis, the company said.

For more information on the coverage, offered in partnership with Schaumburg, Ill.-based Great American Insurance Group's Executive Liability Division, contact Bill Harrison Jr., president of National Insurance Partners, at *bharrison@nationalinsurancepartners.com.*

Towers Perrin software helps manage financial risk

STAMFORD, Conn.—Towers Perrin has introduced a technology platform it said is designed to help insurance companies recognize and mitigate their financial risks.

RiskAgility is software that provides a centralized environment to run financial models, the Stamford, Conn.-based consulting firm said.

The program offers features that include data management, financial calculations, reporting and analytics. Users can model the effects of reinsurance, calculate aggregate reserve risk using stochastic simulation and optimize reinsurance purchasing decisions. In addition, the program can be integrated with existing IT components, such as databases, security and workflow systems, and reporting engines.

The technology suite includes RiskAgility P&C, which offers financial modeling for the property/casualty insurance industry, the consultant said in a statement.

For more information, contact Lorraine Hritcko, vp of sales, at 860-982-6667 or *lorraine.hritcko@towersperrin.com.*

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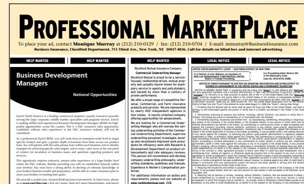

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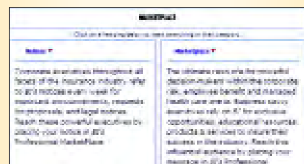

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WORLD TRADE CENTER
BUSINESS RECOVERY AMENDED ACTION PLAN
INVITATION FOR PUBLIC COMMENT

Empire State Development Corporation ("ESDC"), New York State's chief economic development agency, in cooperation with New York City Economic Development Corporation administers the World Trade Center Job Creation & Retention Program ("JCRP"), a grant program funded by the U.S. Department of Housing and Urban Development. ESDC and the Lower Manhattan Development Corporation ("LMDC") propose to amend each agency's JCRP Action Plan by broadening its eligibility requirements and extending the program through 2011. The complete details of the plans are available online at: www.nylovesbiz.com/wtc/AmendedJCRP.asp

ESDC and LMDC welcome the public's comments on its plan to amend JCRP.

Comments may be e-mailed to:
JCRPComment@empire.state.ny.us

Comments may also be sent by mail to:
Empire State Development
Attention: JCRP Comment
633 Third Avenue
New York, NY 10017

Public comments must be received no later than April 30, 2009.

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Enterprise Risk Management
Publishing: May 18
Classified Ad Close: May 12

Contact Monique at 212-210-0129 For Details

UP CLOSE Comings & Goings

ROBERT YARBROUGH

NEW JOB TITLE: Vp/surety manager in Alpharetta, Ga., with Richmond, Va.-based Thomas Rutherfoord Inc.

PREVIOUS POSITION: Vp with Raleigh, N.C.-based BB&T Insurance Services.

GOALS FOR NEW POSITION: Build on the substantial reputation and leadership position which Rutherfoord already enjoys in the surety industry to grow the surety practice in our market.

CHALLENGES FACING THE INDUSTRY: The overall economy and frozen credit markets have had a significant impact on our industry. We are working with our clients to help formulate business strategies to maintain momentum despite the difficulties.

WHAT I WOULD CHANGE ABOUT THE INDUSTRY: There is an inherent lack of efficiency within the surety industry, particularly in resolving claims. We're constantly looking to find ways to improve the quality and speed of communication between our clients, the surety and project owners.

FIRST EXPERIENCE IN INDUSTRY JOB MARKET: I started with CIGNA Bond Services as an underwriter trainee in 1990. My years on the underwriting side of the business have helped me tremendously in managing the relationships between contractor clients and the underwriting community.

OUTSIDE THE INDUSTRY, A DREAM JOB: That's easy, a pro golfer.

Comings & Goings ONLINE

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

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

Allison Martinat
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POSTING THIS WEEK

INSURERS:
- Zurich Financial Services Group
- Brit Insurance Holdings P.L.C.
- Texas Mutual Insurance Co.
- Farmers Insurance Group Inc.
- Global Aerospace Underwriting Managers Ltd.
- QBE Insurance Group Ltd.
- Medical Mutual of Ohio

BROKERS:
- William Gallagher Associates Insurance Brokers Inc.
- Conner Strong Cos. Inc.
- Integro Insurance Brokers

REINSURANCE:
- Guy Carpenter & Co. L.L.C.

OTHER PROVIDERS:
- LWG Consulting Inc.
- Towers Perrin
- Watson Wyatt Worldwide

ASSOCIATIONS:
- Inland Empire Claims Association

Quake: Disaster in Italy may reignite debate over cat loss protection

CONTINUED FROM PAGE 1

ers are expected to pay claims of €200 million to €400 million ($268 million to $536 million), AIR said in a statement.

AIR said an estimated 15,000 buildings were damaged. Meanwhile, Risk Management Solutions Inc. in London said at least 25% of homes and 50% of industrial facilities in the area of the quake were damaged.

Assicurazioni Generali S.p.A., based in Trieste, Italy, and other large Italian insurers had not released claims figures as of late last week.

Discussion may not last

As the stricken region's survivors buried the dead and cleared away the rubble, a decadeslong debate over whether Italy should have a mechanism to make certain its residents are protected from earthquake losses and other catastrophes is expected to be revisited.

The disaster will prompt discussion of how to structure a pool or other mechanism that could provide catastrophe protection, said Benito Pagnanelli, president of Pagnanelli Risk Solutions Ltd., a London risk management consultant with an office in Milan, Italy. "It should be a partnership, with state and private participation," he said of a coverage arrangement that could be put in place.

Mr. Pagnanelli said, however, Italian authorities have long discussed whether to provide some sort of coverage for earthquakes, terrorism and other such catastrophes and threats. While last week's quake is sure to stir debate, the discussion may not be long-lived.

"Italians are very emotional when something happens," Mr. Pagnanelli said. "Then, after about a month of emotion, they are frozen."

"It's a huge problem that everybody is trying to understand how to solve," said Luca Franzi, board member with Milan, Italy-based broker RVA Rasini Viganò S.p.A. With earthquake capacity left solely in the hands of insurers, almost none is being used to write homeowners insurance, he said.

REUTERS
A firefighter inspects earthquake damage to Aquila, Italy's Duomo on April 8. Estimated total damage in the area is between $2 billion and $4 billion.

The Italian government said it will help restore the quake-battered region and will release information on how much money will be used to fund rebuilding homes and business, said Luigi Norsa, president of Luigi Norsa & Associati S.r.l., a Milan-based crisis management consulting firm.

While the largest portion of the damage is to personal property and small commercial operations, the quake resulted in losses for some large businesses.

AIR said that ground motion records were being examined to determine whether an "underlying sedimentary basin" in the region may have amplified the quake's effects.

"Italy is leading the research into property strengthening, since many of its buildings are highly vulnerable to ground shaking—even some of the post-war reinforced concrete buildings—but the costs are high," RMS said in a statement.

> **'The historic center of L'Aquila has been devastated and, as expected, damage to unreinforced masonry buildings is severe. However, damage was not restricted to the oldest structures.'**
>
> Guillermo Franco, AIR

Finmeccanica S.p.A., a Rome-based aviation manufacturer, has five plants in the L'Aquila area. Two were damaged and shut down while evaluating the extent of damage to its facilities and machinery, the company said in a statement.

Last year, Finmeccanica said it has property insurance with earthquake coverage that has limits of €550 million ($737 million) above a small deductible (*BI*, Jan. 14, 2008).

Earthquake insurance is available for commercial buyers and generally is affordable, according to Mr. Franzi. "It depends on which part of Italy you are talking about, but it is not considered an expensive cover," he said.

Historic center destroyed

Much of the damage in L'Aquila was to buildings made from unreinforced masonry, catastrophe modelers said, but the destruction was not limited to those presumably weaker structures.

"The historic center of L'Aquila has been devastated and, as expected, damage to unreinforced masonry buildings is severe," Guillermo Franco, senior engineer at AIR, said in a statement. "However, damage was not restricted to the oldest structures."

Many reinforced-concrete buildings dating from the 1960s and 1970s, before building code provisions were introduced in the region, also suffered heavy damage, Mr. Franco said.

There was some speculation whether building codes were always followed in construction in the region hit by the quake, said Mr. Pagnanelli. Such regulations are not always given proper respect in Italy, he said.

Local response by emergency management personnel to the earthquake was commendable, Mr. Norsa said.

"The building where the emergency management system should have been in place is one that was destroyed," and personnel moved quickly to set up an alternate operations center in a police building, Mr. Norsa said.

"The emergency system responded very well considering the difficulties," he said.

The hospital in L'Aquila was damaged and evacuated, Mr. Norsa said, and patients were transported safely to another facility in Chieti.

TARP: Life insurers may receive federal assistance

CONTINUED FROM PAGE 3

and financial strength ratings downgraded this year (*BI,* March 9).

"To the extent that they can shore up the capital needs of the life company can only help the property/casualty company to be more stable," Mr. Schneider said of Hartford.

"Any receipt of TARP funds would probably add some stability to the rating, depending on first-quarter results," said Andy Davidson, a senior director at Fitch in Chicago who follows Hartford's life operations.

"Treasury has not yet acted on our application," a representative of Hartford said last week in a statement.

"If life insurers are allowed to receive TARP contributions, to me the big benefit would be to stop any ratings downgrades that might be in the works presently," said John L. Ward, chief executive officer of Cincinnatus Financial Group in Cincinnati.

> **'It was opportunistic for the life insurance companies to participate but there might be other issues that would give them pause.'**
>
> Stephanie McElroy, A.M. Best Co. Inc.

"In most cases, we do not expect participation in the CPP to result in upgrades, but it could lead to revisions of outlooks to stable from negative," said Standard & Poor's Corp. said in a statement.

Mr. Ward said it's "ironic the life insurance companies are working so hard to become eligible while some of the first recipients of TARP contributions are working very hard to pay that money back and cut the ties with the federal government."

There are limited funds remaining in the TARP program, and some banks are backing off, said Stephanie McElroy, manager-rating criteria and rating relations at A.M. Best Co. Inc.

According to the Government Accountability Office, a maximum of $250 billion had been allocated to the CPP, but only $218 billion is expected to be used. As of March 27, $198.8 billion in CPP funding had been disbursed.

"Even the insurers that may be able to participate, they may not accept the funds that they have under TARP," because of the restrictions such as limitations on executive compensation that TARP places on participants.

"It was opportunistic for the life insurance companies to participate but there might be other issues that would give them pause," Ms. McElroy said.

Validus: Attempts at IPC takeover become hostile

CONTINUED FROM PAGE 3

bid as being riskier and less likely to meet IPC's diversification goals.

IPC's Chairman Kenneth L. Hammond said in a statement, "IPC's board continues to believe that the combination with Max will create a stronger and more diversified underwriting franchise with less correlated risk. Mr. Hammond also said the combined company will have the "scale and flexibility to better manage capital and take advantage of attractive opportunities in the property/casualty marketplace, as and when they arise."

While the deal appears to be leaning toward Max Capital, it's difficult to predict which way IPC shareholders will vote, said Mark Murray, an analyst at A.M. Best Co. Inc. in Oldwick, N.J.

"With the Max deal there is more investment risk, and with the Validus deal there is more property catastrophe risk, so shareholders will have to weigh what they are most comfortable with," he said.

Max Capital has been moving away from its aggressive investment strategy, but suffered steep losses ($233 million) on alternative investments in 2008. Validus said its combination with IPC would mean less balance sheet risk, as it does not invest in alternative investments.

Mr. Murray said IPC is a well-capitalized firm with an attractive book of business. And, a combination IPC with either rival would allow the combined entity to take advantage of rising reinsurance rates.

A date for the IPC shareholder meeting has not been set yet.

Last week, shares of Max Capital Group Ltd. closed at $16.74, shares of Validus Holdings closed at $23.24; shares of IPC closed at $26.45 on the NASDAQ.

Health: Insurers report sharp profit drop in 2008

CONTINUED FROM PAGE 1

range in 2007 after several prior years of similar good performance, margins of the top 10 health insurers dropped to about 5% and 6% in 2008, where they are expected to remain for the near future.

"We typically look at the sector as being fairly strong. But we had said for several years the 9% and 10% margins weren't sustainable," said Bradley Ellis, a director at Fitch Ratings in Chicago.

Poor investment results were a major contributor to the lower margins (see chart).

"Interest rates are down. Since health insurers have a shorter duration in their investment portfolios than life insurers, they're replacing higher-returning investments with lower-returning investments," Mr. Ellis said.

The decline of the financial markets was particularly problematic for Oakland, Calif.-based Kaiser Foundation Health Plan Inc., which reported a net loss of $794 million for 2008 compared with a net gain of $2.2 billion in 2007.

Although Kaiser was the only one of the top 10 managed care companies to post a net loss for 2008, Stephen Zaharuk, vp and senior credit officer at New York-based Moody's Investors Services Inc., said the rating agency has placed a negative outlook on the entire sector.

"A number of things happening in the health care space are unsettled," Mr. Zaharuk said, pointing to the Obama administration's call for national health reform, cuts in federal funding of the Medicare Advantage program and enrollment losses due to increasing layoffs.

"Earnings were not as good in 2008," said Sally Rosen, managing senior financial analyst with Oldwick, N.J.-based A.M. Best Co. Inc. "But there were other issues besides investment returns. Each one of the companies seemed to have independent issues."

For example, "in the winter of 2007 going into 2008, the flu season was worse in several areas of the country than it had been in several years," she said. "There does not seem to be an increase in medical cost trend, but there is an increase in utilization. We're also seeing an increase in high-dollar claims and claim severity."

Minnetonka, Minn.-based UnitedHealth Group Inc., for example, cut its full-year 2008 outlook by 10% due to unusually high flu costs and reduced investment income. For the year, UnitedHealth's net income fell 36% to $2.97 billion from $4.65 billion in 2007.

Indianapolis-based WellPoint Inc., which reported net income of $2.5 billion in 2008 vs. $3.3 billion in 2007, changed its financial forecast several times last year.

"They had an issue with systems migration," said Wayne Kaminski, a financial analyst at Best.

Ms. Rosen said WellPoint had several legacy claims systems that had to be merged after several acquisitions in 2007 and 2008.

Other insurers "had issues with product design and pricing, mostly Medicare-related. The way it was priced and designed allowed several companies to be selected against," Ms. Rosen said.

For example, Bethesda, Md.-based Coventry Health Care Inc. restated its 2008 forecast twice last year because of Medicare Advantage issues, she said.

"In the first quarter of 2008, they realized their claims turnaround on the Medicare Advantage fee-for-service product was much longer than on their traditional business," Ms. Rosen said. As a result, "their reserving for 2007 was lower than expected." Underreserving affected mostly plans covering large groups enrolled in employer-sponsored retiree benefits plans, she said.

Similarly, Louisville, Ky.-based Humana Inc. "had a pricing issue with one of their Part D plans," Ms. Rosen said. In addition to having underpriced the product, "they ended up having adverse selection" because the plan attracted more sick seniors because it was designed to protect them from exceeding their out-of-pocket maximum spending on prescription drugs.

Although they corrected the pricing for 2009, "they had to ride it out" for all of 2008, Ms. Rosen said.

As a result of these missteps and other issues, Coventry's net income fell nearly 40% to $381.9 million in 2008 from $626.1 million in 2007. Humana's profits fell 22% to $647.2 million in 2008 from $833.7 million in 2007.

Planned cuts in Medicare funding as Congress attempts to balance the budget likely will exacerbate insurer challenges in that business, Mr. Zaharuk said.

"Because of the deficits, the government is going to be looking for every penny," Mr. Zaharuk said. "Quite possibly we're seeing a repeat of what happened to Medicare before," he added, referring to the Medicare+Choice program in the mid-1990s. After the government cut funding, insurers began withdrawing from the market.

To address expected revenue shortfalls, some analysts expect health insurers to try to raise premiums on fully insured business and administrative service fees on self-insured accounts.

"I think you're going to see a more rational pricing environment," said Bridget Maehr, senior financial analyst at Best.

But she doesn't think employers will be willing to just sit back and accept price increases in the current economic environment.

The economy is likely to have a significant effect on health insurers' group business, Messrs. Zaharuk and Ellis predicted.

"In 2008, growth in the group market was flat," Mr. Zaharuk said. "Aetna (Inc.) gained membership, but a lot of other companies lost membership. There's also a loss in the market itself" as a result of layoffs and small employers dropping coverage for their employees due to the cost, he said.

Despite its enrollment gains, Aetna's profits also fell in 2008 to $1.38 billion from $1.83 billion in 2007.

"You're seeing a lot of issues with regards to enrollment," said Fitch Ratings' Mr. Ellis. "Growth has shifted to state-run programs like Medicaid."

10 LARGEST U.S. HEALTH CARE INSURERS BY NET INCOME

INSURER	2008 YEAR-END ENROLLMENT	2008 NET INCOME
UnitedHealth Group Inc.	32,800,000	$2,977,000,000
WellPoint Inc.	35,337,000	2,500,000,000
Aetna Inc.	17,668,000	1,384,100,000
Health Care Service Corp.	12,384,000	745,000,000
Humana Inc.	8,438,000	647,154,000
Coventry Health Care	3,738,000	381,895,000
CIGNA Corp.	11,900,000	292,000,000
BCBS of Florida	4,200,000	132,000,000
Health Net Inc.	6,155,000	95,003,000
Kaiser Permanente	8,600,000	($794,000,000)

Source: Company reports

Diabetes: Program goes national after successful test

CONTINUED FROM PAGE 3

Using its technology, Mirixa will use claims data from employers' third-party administrators or insurers to identify prospective patients and then monitor interventions provided and patients' progress. The program also will match patients with community pharmacist coaches.

Mr. Meadows estimated the program will cost employers "only a couple of hundred dollars annually" in addition to counseling fees, which average about $400 annually per person.

But the return on investment is quick and builds over time, Mr. Meadows said.

"We've had some clients who have been in the program for three or four years, and we see the savings continue to improve because the patients better manage their condition and their medical expenses go down," Mr. Meadows said.

In the first five years after implementation, for example, the city of Asheville and Mission Health saw the average cost of care for their diabetic plan members fall an average of $2,000 per patient per year, growing to nearly $3,000 per patient in the sixth year of the program.

"The second thing is...self-insured employers...are seeing reductions in their reinsurance premiums," Mr. Meadows said.

Although the program has consistently yielded savings for employers, some health benefits experts expressed concern that economic conditions could deter some employers from adopting it.

"I do worry about the timing about getting some commitments in the current economic environment," said Andrew Webber, president of the National Business Coalition on Health in Washington, whose members were among participants in the DTCC. "That's what we're hearing from our coalitions and the individual employers that we talk to."

'It's a very good sign that this program is showing and demonstrating some gain in a short period of time.'

Andrew Webber,
National Business Coalition on Health

However, he said he hoped some employers consider adopting the program because of the short time in which it produced health care cost savings.

"Usually it takes longer" for a typical disease management program to produce savings, Mr. Webber said. "It's a very good sign that this program is showing and demonstrating some gain in a short period of time."

At least one of the DTCC participants has decided to continue the program despite its cost: Pactiv Corp., a Lake Forest, Ill.-based food and foodservice packaging company.

"Pactiv results from 2007-08 in the Diabetes Ten City Challenge have been positive," a company spokeswoman said. "Pactiv participants are still engaged in this program and, as a group, are achieving the clinical outcomes as recommended by the American Diabetes Assn. In addition, preliminary data analysis of the group shows a reduction in the overall health care costs for the group."

Aon U.K. may reduce contribution to pensions

By SARAH VEYSEY

LONDON—Aon U.K., the London-based arm of Aon Corp., is proposing to reduce its standard employer pension contributions in an effort to control costs against the backdrop of the global economic downturn.

Aon U.K. said it was in a two-month consultation with employees about reducing its employer contribution to staff pensions to 6% with an offer to match employee contributions up to a certain level depending on the employee's age group.

Under current arrangements, Aon's standard employer contribution for employees in their 20s is 6% of salary with a minimum employee contribution of 2% of salary. For employees in their 30s, Aon contributes 8% of salary if the employee contributes 2%. For employees in their 40s, Aon's standard contribution is 10% of salary when employees contribute 2%. And for employees in their 50s and older, Aon's standard contribution is 12% when employees pay in 2%.

Under the proposed new arrangement, employees in their 20s and 30s would be asked to make a minimum contribution of 2% of salary and would receive the standard employer contribution of 6%. The company also would match the 2% contribution.

Employees in their 40s would be required to make a minimum contribution of 2% of salary and would receive the standard employer contribution of 6%, and Aon would match employee contributions up to 4% of salary.

For staff of 50 years of age and older, Aon would require a 2% minimum employee contribution, pay the standard employer contribution of 6% and match employee contributions up to 6% of salary.

"In order to protect our business in challenging conditions and to ensure we emerge from the recession strong and successful, no stone is being unturned during 2009 to drive out further cost and to achieve greater efficiencies. The increasing cost of pension provision is one of those costs," Aon said in a statement.

Aon said its proposal would reduce fixed costs but would give the message to employees who consider pension saving a priority: "If your retirement provision is important to you and you are prepared to invest in it, then we will back you and invest in it, too."

In February, Aon announced that it was freezing its defined benefit pension plan for U.S. employees, ending contributions to a defined contribution plan it set up in 2004 and enhancing its 401(k) plan.

Captives: Middle East seen as future growth area, study concludes

CONTINUED FROM PAGE 4

market, led to a downturn in new captive formations in all major domiciles in 2008.

Still, while the pace of new formations was slower than had been anticipated, the captive industry experienced growth in total numbers around the world, Marsh said.

The bulk of the captives in Marsh's survey—581—were in the United States and Canada, with 174 in continental Europe, 90 in the United Kingdom and Ireland, 51 in the Asia-Pacific region, and 37 elsewhere.

Marsh explained the gap between the number of captives in the United States and Canada and elsewhere in the world by noting that U.S. and Canadian companies are at the forefront of captive development and have embraced the use of alternative risk transfer vehicles for decades.

The low number of captives in the Asia-Pacific region is attributable to the "historically risk-averse nature of organizations in this region," Marsh said. But there has been increased interest in captives in the region, according to Marsh, and it should be a key area for captive growth in the future.

With captive laws recently enacted in Bahrain, Dubai and Qatar, the Middle East also should be an area of captive growth in the years ahead, Marsh said.

The Marsh study said there are approximately 5,000 captive companies worldwide, of which Marsh manages more than 20%. The Marsh study looked only at single-parent captives, with the analysis focusing on a sample of more than 900 captives that includes more than 100 not managed by Marsh but whose information is available publicly.

Additional information about the Marsh report, 2009 Captive Benchmarking Report: Single Parent Captives—A Global Analysis, will be available April 15 at *marsh.com*.

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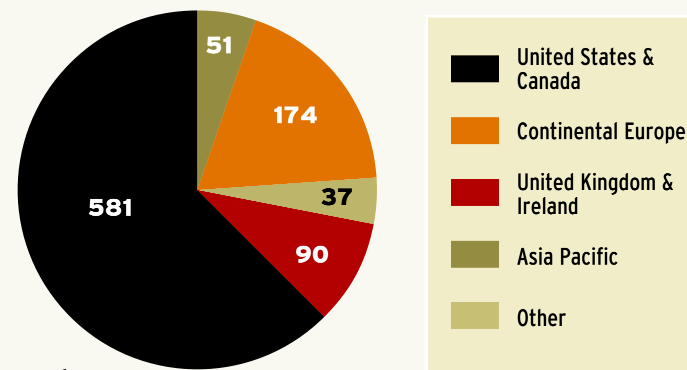

Source: Marsh Inc.

LETTERS

CONTINUED FROM PAGE 8

ments against the excess carrier in question.

Safety National is the largest and longest continual provider of excess workers compensation in America, having provided that service to policyholders since 1942. In addition, we are a licensed, admitted carrier in every state. In states where we or other excess carriers pay or are subject to assessments that go to state guaranty funds, a reasonable expectation exists for self-insureds and their excess carriers that the excess claims of the self-insured policyholder would be covered in the event of the carrier's insolvency unless such claims are specifically excluded from a state's guaranty fund. While we have remained a viable and financially strong carrier since our founding, we would want our policyholders to know they have that security.

Understandably, the patchwork of statutes that differ from state to state make it difficult for self-insured companies to ascertain what is covered under guaranty funds and what is not. We would welcome a more standardized approach as to guaranty fund application to excess carriers and would be happy to work with the National Assn. of Insurance Commissioners to develop model statutes in which self-insured entities and their excess carriers are covered under guaranty funds.

Steve Luebbert
Executive Vp,
Business Development
Safety National Casualty Corp.
St. Louis

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Property/casualty insurers lead in adapting to climate change

However, Ceres study calls for improvement in coverage, services

By JEFF CASALE

Insurers are showing signs of trying to adapt their business models to issues related to climate change, but more work needs to be done as environmental liabilities increase, according to a report by the Boston-based Ceres investor coalition.

From Risk to Opportunity: Insurer Responses to Climate Change 2008, outlines 643 climate-related activities that 244 insurers from 29 countries put in place over the past year to deal with growing exposures resulting from climate change. According to Ceres, insurers "have begun to embrace a more sophisticated approach to climate change," but the industry is "still in its infancy" as far as product development, services and coverage.

"In many ways, insurers are still catching up to their customers, who are rapidly changing the way they construct buildings, design products and produce energy in response to climate change," Evan Mills, the report's author and a scientist at the U.S. Department of Energy's Lawrence Berkeley National Laboratory, said in a statement.

Property/casualty insurers are dictating much of the industry's climate change-related activity in offerings of auto, homeowner and commercial coverage, products and services, according to the April 2 report. Some commercial offerings include coverage for wind and solar power production shortfalls, premium discounts for energy-efficient building renovations, carbon capture and storage insurance.

Life and health insurers, however, are "far behind" other insurance segments, the report states; there has been little to no activity in certain segments, including offshore property, aviation and ocean marine, the report said.

European insurers account for 40% of all climate change-related activities and U.S. insurers account for 37%, the report said. Asian and Australian insurers accounted for the bulk of changes for the remaining 23%. Climate change activities include promoting loss prevention, crafting innovative insurance products, building awareness and public policy participation, and disclosing carbon risks.

The report noted that U.S. insurance brokerages have shown "significant leadership" in instituting climate change insurance initiatives.

"Still, the scope and breadth of insurer response fails to match the scale of urgency of the risks—or the opportunities—facing the industry," Mindy S. Lubber, president of Ceres, said in a statement. "Insurer attention to climate change is hugely important because the insurance industry underlies every aspect of the economy and has the power to transform the global energy system to one that is cleaner and more sustainable."

The full report can be viewed at *http://insurance.lbl.gov/opportunities/risk-to-opportunity-2008.pdf*.

Rep. Elijah Cummings, D-Md., said he is "very pleased" the Troubled Asset Relief Program's special inspector general is auditing counterparty claims paid by AIG.

REUTERS

TARP auditing AIG's counterparty payments

By MARK A. HOFMANN

WASHINGTON—The special inspector general for the Troubled Asset Relief Program has initiated an audit of American International Group Inc.'s counterparty transactions in response to a congressional request.

Rep. Elijah Cummings, D-Md., and 26 colleagues in late March sent a letter to Neil M. Barofsky, the TARP special inspector general, seeking an audit.

"We would like to know if assessments were made of the health and total exposure risks of counterparties, such as Goldman Sachs (which, for example, claimed it had no material exposure to AIG), Barclays, Deutsche Bank and others," the letter stated. "If such assessments were made, by whom were they made and what were the criteria guiding the assessments?

"Further, was any attempt made to renegotiate and close out these contracts with 'haircuts?' If not, why not?...In essence, we would like to know if the AIG counterparty payments, as made, were in the best interests of the taxpayers who provided the funding and in the best interests of re-establishing long-term economic stability," the members of Congress wrote.

A haircut means payments to counterparties would be less than 100% of face value.

In a letter dated April 3, Mr. Barofsky said he was "pleased to report that, yesterday, my office initiated an audit based on the request."

He said one of the audit's objectives is to determine the extent to which AIG paid counterparty claims at 100% of face value "and was any attempt made to renegotiate and close out those claims with 'haircuts?'" The other objective is to determine to what extent "were assessments conducted of the health of and total exposure of risks to the counterparties."

Rep. Cummings responded with a statement saying he "was very pleased to receive a response from Mr. Barofsky informing me that his office has opened an audit to further investigate this situation.

"AIG has been the largest recipient of taxpayer assistance during the current economic crisis, and the American people now essentially own this company, holding nearly 80% of its equity," said Rep. Cummings in his statement. "As such, it is critical that we ensure that AIG is spending this money with taxpayers' best interests at heart. The American people deserve to know how their money is being spent."

A representative for AIG declined to comment.

Trade credit: Jump in claims pushes prices up for accounts receivable cover

CONTINUED FROM PAGE 1

would likely have obtained the entire limits from one insurer, said Mr. Squibb, who declined to name the company.

Trade credit insurance traditionally provided protection to companies shipping to foreign markets from the risk of commercial customers not paying for products received under arrangements where they did not prepay or provide cash on delivery.

But it has evolved to protect the accounts receivable of companies providing products to domestic trade partners, Mr. Squibb said, and now is often referred to as accounts receivable insurance.

Economic conditions that are causing bankruptcies and payment defaults along with tightening credit markets are leading more large U.S. companies to seek balance sheet protection through the purchase of the coverage, several sources said.

"Just recently, domestic applications have gone through the roof," Mr. Squibb said. "Everybody is now looking at their receivables and (they are) concerned."

Insurers say that, on average, about 40% of a company's assets are in accounts payable.

Companies also buy the coverage to protect cash flow. And because banks may view insured receivables as stronger assets than uninsured assets when determining a company's credit profile, entities also buy trade credit coverage to improve their financing options.

Accounts receivable insurance arrangements largely have been the domain of chief financial officers and company controllers, sources say. But capacity shortages are leading CFOs to recruit risk managers' assistance, said Dan Riordan, president of Zurich Financial Services Group's surety credit and political risk unit in Washington.

"It's really become a critical issue for a lot of companies," Mr. Riordan said.

Zurich recently began offering the coverage on an excess-of-deductible or excess-of-primary-coverage basis.

European companies have long viewed trade credit insurance as a means to outsource their credit department to insurance underwriters who have the means to qualify a potential buyer's credit worthiness, experts say.

The insurers also collect from the buyers of products or goods should they default on their payments.

In the United States, however, the coverage more often is purchased to protect against an aggregation of risks by key customers, said a risk manager for a Fortune 100 company that buys trade credit insurance for its customer aggregation protection and outsourced credit services.

The risk aggregation has been driven by industry consolidations that leave fewer product purchasers responsible for larger obligations that could be crippling to a supplier should its customers default on payments.

Accounts receivable coverage for key accounts provides policyholders a means to cap their exposure while moving the credit concentration risk off their balance sheets.

Demand for cover is "skyrocketing" in the United States, growing more than 18% annually, according to a report released last month by New York-based Marsh & McLennan Cos. Inc. Various sources say trade credit insurance now generates $750 million to $800 million in annual premiums in the United States. In Europe, the coverage is much more mature and generates more than $4 billion in annual premiums while growth there is about 2% annually.

But as more companies are submitting applications to buy coverage, underwriters are being more selective in who they will provide capacity to because of growing claims activity generated by the ongoing recession, sources said.

Claims volume has tripled over the past year and the dollar amount of the losses has grown by nearly three times, Mr. Halsey of Atradius said.

Some of the monoline trade credit insurers began canceling limits last year as economic conditions deteriorated, sources say.

Some trade credit policies have cancelable limits, allowing insurers to reduce their limits midpolicy term, although the insurers remain responsible for certain losses beyond the cancellation.

Some insurance purchasers see the reduction in limits as a risk management advisory, suggesting perhaps they should not ship to certain high-risk buyers, sources said. But others felt it was perhaps an overreaction by some of the insurers who cut their coverage just when buyers needed it most, sources said.

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News In Brief

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chief executive officer of global corporate in North America for Zurich Financial Services Group. Ms. Beale, who is head of organizational transformation and mergers and acquisitions for the Zurich, Switzerland-based insurer, takes her new role effective June 1. She will retain her leadership role of the Zurich Way, a best practices effort by the insurer, and remains a member of the insurer's group management board. She is based in Zurich. Mr. Kerner, who also takes his new position June 1, currently is global chief underwriting officer and head of group strategy. He is based in New York. Mario Vitale, CEO of global corporate, has been the interim CEO of global corporate in North America since Jan. 1.

Ironshore recruits more AIG execs

Ironshore Inc. appointed two more former American International Group Inc. executives to its specialty casualty unit as it further expands its U.S. operations. Tim McAuliffe was named president of the unit. Previously, Mr. McAuliffe was president of AIG Excess Casualty. In addition, Ben Beauvais will join Mr. McAuliffe as senior vp of Ironshore's specialty casualty unit, the company said. Mr. Beauvais joins from AIG unit Lexington Insurance Co., where he was vp and department head of Lexington's AI Risk Specialist unit. Ironshore added several former AIG executives in recent months, including Ironshore Chief Executive Officer Kevin Kelley, formerly Lexington's CEO.

Cat reinsurance rates rise at April 1: Report

U.S. property catastrophe reinsurance market rates continued to rise at April 1 renewals, extending the upward pricing trend that began earlier this year, according to Guy Carpenter & Co. L.L.C. In a briefing, Guy Carpenter noted national reinsurance program prices rose 10% to 14% on a risk-adjusted basis, with the northeastern United States seeing as much as 6% to 8% increases. Risk-adjusted pricing was up 12% to 14% on average for residual markets. By comparison, reinsurance rates increased 11% on average at the Jan. 1 renewal period, according to Guy Carpenter. Year-over-year pricing continued to rise as prices were up 14% to 16% for higher layers and 10% to 14% in lower layers compared with 2008. Guy Carpenter noted that capacity "substantially impacted" prices.

FSA bars former Gen Re exec

Milan Vukelic, former chief executive officer of General Re Corp.'s alternative solutions unit, has been banned from working in the United Kingdom's financial services industry. The Financial Services and Markets Tribunal ruled in a case brought by the U.K.'s Financial Services Authority that Mr. Vukelic, who served as CEO of the Gen Re unit from August 1997 until October 2002, lacked integrity in structuring three financial reinsurance transactions that the FSA said were put together to allow insurers to hide assets.

Calif. comp board to revisit decisions

California Workers' Compensation Appeals Board decided to reconsider two controversial case decisions. In an unusual announcement, the board said it would reconsider en banc decisions made earlier this year in *Wanda Ogilvie vs. City and County of San Francisco* and in the consolidated case of *Mario Almaraz vs. Environmental Recovery Services* and *Joyce Guzman vs. Malpitas Unified School District*. The board in both cases ruled that a schedule adopted in 2005 for rating permanent disabilities can be rebutted with certain evidence. But the decisions came under fire from payers and the governor for putting upward pressure on workers comp rates.

Noted

Molly Lambert, president and chief executive officer of the **Vermont Captive Insurance Assn.**, has been tapped by Sen. Patrick Leahy, D-Vt., to be the Department of Agriculture's state director for rural development for Vermont and New Hampshire.…**American International Group Inc.** completed the sale of AIG Retail Bank Public Co. Ltd. and AIG Card (Thailand) Co. Ltd. to Bank Ayudhya Public Co. Ltd. Under the deal, AIG will get $45 million in net proceeds, and Bank Ayudhya will assume around $495 million in intragroup indebtedness, an AIG spokesman said.

G-20: Crackdown pledged on tax havens

CONTINUED FROM PAGE 4

jurisdictions, and does not appear to have any direct link to captives.

The general move toward greater scrutiny of tax havens may give some pause to companies considering setting up a captive, but is unlikely to make companies operating captives reconsider that decision, Mr. Harle said.

Operations that are well-run and legitimate have nothing to fear from the G-20 stance, agreed Howard Jones, a tax partner at accountancy firm Mazars L.L.P. in London.

Sanction specifics

While it is too early to be certain of the nature the G-20's threatened sanctions for tax havens, it is unlikely to deter companies from setting up captive insurers, said Mark Cook, senior consultant and head of captives at Towers Perrin in London. He noted the OECD's previous blacklist of tax havens did little to deter companies from setting up captives.

Meanwhile, domiciles on the gray list have made progress in signing information-sharing agreements to satisfy the OECD's requirements. At the end of March, Gibraltar signed a tax information exchange agreement with the United States.

'I look forward to Gibraltar's cooperation with the United States and to this agreement serving as an example for other financial centers around the world.'

Timothy Geithner,
U.S. Treasury Secretary

"I look forward to Gibraltar's cooperation with the United States and to this agreement serving as an example for other financial centers around the world," U.S. Treasury Secretary Timothy Geithner said in a statement.

Domiciles react

Reacting to the G-20 summit, Kurt Tibbetts, leader of government business in the Cayman Islands, said he believed the domicile was "cast in the 'lightest shade of gray' among the financial centers with which we have been listed."

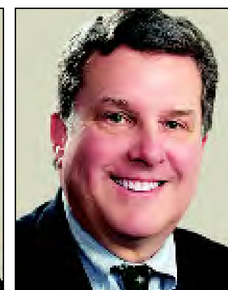
Mr. Tibbetts said the domicile was one of the first to commit to the OECD tax standard in 2000 and has the highest number of tax information agreements—eight—of any jurisdiction on the gray list.

And Bermuda, which already has three tax information agreements in place, is set to sign agreements with seven Nordic countries and New Zealand later this month. This would bring the number of agreements signed by Bermuda to 11, the number needed to remove it from the gray list.

In the coming weeks, Bermuda also plans to sign an agreement with Germany, but a date has not been set.

Ms. Pemberton

Ms. Barnes


Mr. Zolkos

Mr. Murphy

Ms. Reus

Staff: U.S., European operations realigned

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457-1412, or *hfoster@businessinsurance.com*.

Meanwhile, in the United States, *BI* has named Mary Pemberton western region sales manager. Ms. Pemberton, based in Denver, previously was advertising sales director of RCR Wireless. She can be reached at 303-933-1802 or by e-mail at *mpemberton@businessinsurance.com*.

Several *BI* staff members also have taken on new responsibilities.

Kathy L. Barnes, formerly assistant managing editor/graphics, is now assistant managing editor/multimedia, overseeing the production and creation of video, audio and interactive projects for *Business Insurance.com*. She can be reached at 312-649-5485, or *kbarnes@businessinsurance.com*.

Rodd Zolkos, formerly the editor of monthly supplement *Industry Focus*, is now *BI* special projects editor. He also will report on captives and alternative risk financing, while coordinating a variety of projects for print and online. He can be reached at 312-649-7784, or *rzolkos@businessinsurance.com*.

Bill Murphy, formerly deputy graphics editor, is now art editor. He is responsible for the design and layout of the weekly newsmagazine, special supplements and other projects. Mr. Murphy can be reached at 312-649-5440 or *bmurphy@businessinsurance.com*.

Also at *BI*, Ann Reus joined as a copy editor in Chicago. She previously was a copy editor for The Courier News in Elgin, Ill., as well as a copy editor and night editor for the Journal-Standard in Freeport, Ill. Ms. Reus can be reached at 312-649-5313, or *areus@businessinsurance.com*.

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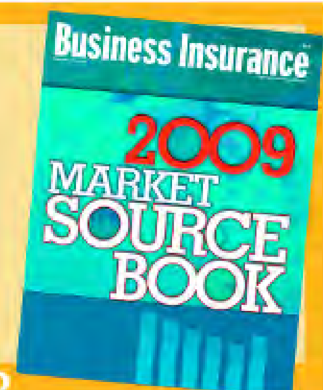

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Contributing: Jeff Casale, Sally Roberts, Sarah Veysey

Ballplayer pitches in to promote health law

Making a pitch to keep Massachusetts residents healthy, Boston Red Sox knuckleballer Tim Wakefield and state agency Commonwealth Care celebrated the third year of the state's health care reform law last week at Fenway Park.

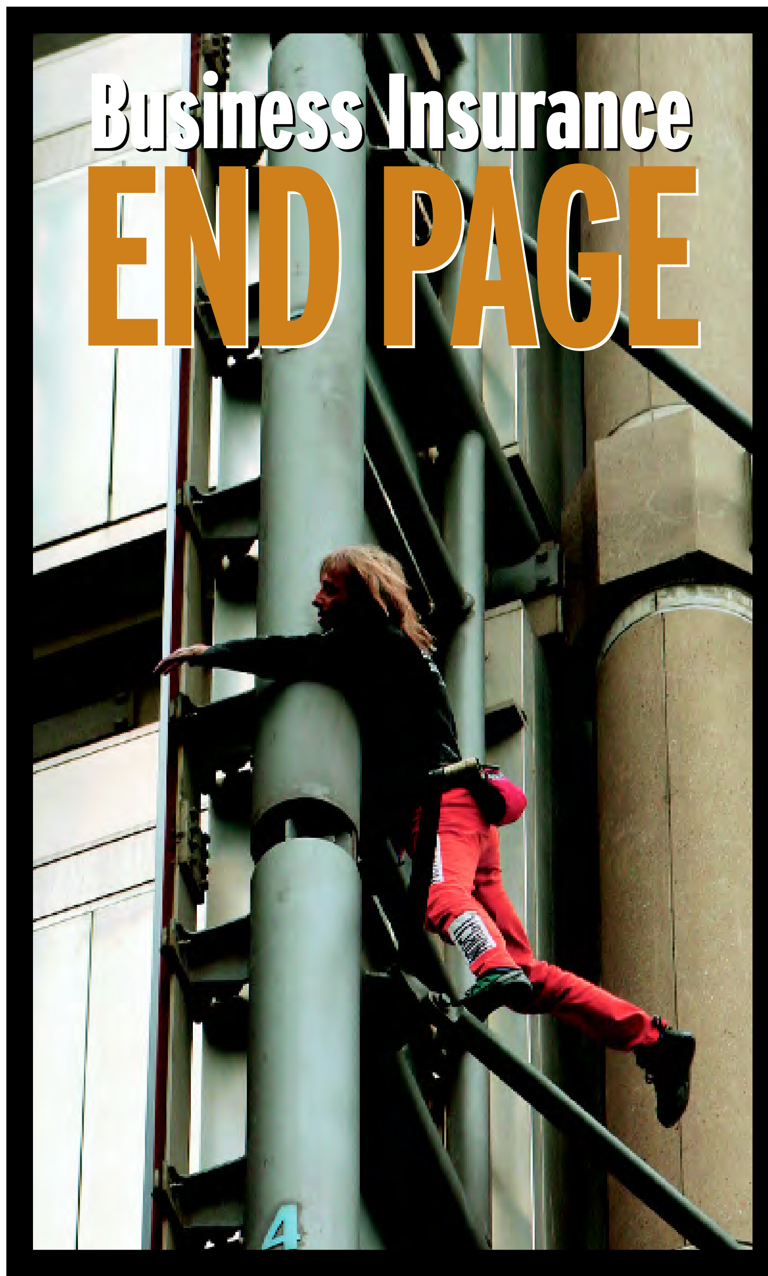
Cancer survivor Jaclyn Michalos joined Mr. Wakefield and members of the Commonwealth Care program to throw out the ceremonial first pitch prior to a Red Sox game against the Tampa Bay Rays.

Massachusetts' groundbreaking 2006 health care reform law, whose main goal was to move the state to near-universal health coverage, subsidizes health insurance premiums for low-income residents and imposes financial penalties on both individuals lacking insurance and employers who do not offer coverage.

Last year, 97.4% of Massachusetts residents had health insurance, according to a survey conducted for the Massachusetts Division of Health Care Finance and Policy. In 2006, less than 90% of Massachusetts residents were covered, according to the U.S. Census Bureau.

ICON SMI

Boston Red Sox pitcher Tim Wakefield was part of ceremonies to mark the anniversary of Massachusetts' landmark health care reform law.



REUTERS

French daredevil Alain Robert was arrested last week after scaling the Lloyd's building in London as part of a protest on climate change.

Le Spider-Man crawls up Lloyd's

Many workers in London, particularly those in the financial district, were warned to dress down to avoid attracting attention when the leaders of the Group of 20 industrialized nations came to town earlier this month.

Hundreds of demonstrators took to the streets to protest the global economic crisis and climate change, among other issues, as G-20 leaders met in London.

But workers at Lloyd's of London probably were not prepared for a surprise visitor to the iconic Lloyd's building.

As part of a protest against climate change, Alain Robert, an urban climber known as the French Spider-Man, was arrested April 2 for "aggravated trespass" as he attempted to scale the Lloyd's building. Mr. Robert reached the ninth floor of the 14-story building and unveiled a banner saying there are 100 months to save the planet.

He was arrested when he climbed back down.

Mr. Robert is well-known for his ascents of various international landmarks, including the Eiffel Tower in Paris, the Sydney Opera House and the Sears Tower in Chicago.

It's not the first time Mr. Robert has climbed the famous Richard Rogers-designed Lloyd's building. In May 2003, he reportedly was paid $18,000 to promote "Spider-Man," starring Tobey Maguire as the hero, for movie's premier on a British television station.

The French Spider-Man's feats come despite a 66% disability due to vertigo, according to Mr. Robert's Web site.

Graverobbers? Fake funerals yield payouts

Some people will do anything to make a buck these days, even stage fake funerals for fictitious people to cash in on their life insurance money.

California residents Faye Shilling, 60, and Jean Crump, 67, who were arrested last week on federal fraud charges, are scheduled to be arraigned today in Los Angeles on a five-count indictment alleging mail and wire fraud.

During a three-year period ending in January 2007, the two women are accused of defrauding multiple insurers and several lending companies that advance cash to cover funeral expenses out of more than $750,000, according to the U.S. Attorney's Office for the Central District of California.

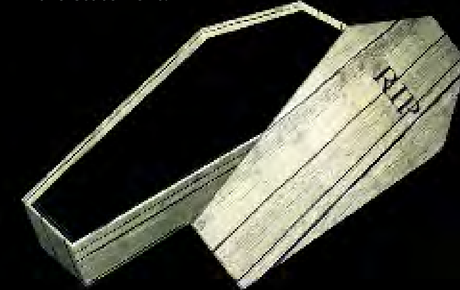
According to the indictment, the women purchased two life insurance policies for two fictitious people and then, after the policies matured, prepared false and misleading proof-of-death documents to collect on the policies. The defendants went so far as to purchase burial plots and hold funerals.

In one instance, they are accused of filling a casket with various materials to ensure the proper weight and, in another, cremating fake remains.

Two other defendants already have pleaded guilty in the scheme that remains under investigation by the FBI, the U.S. Attorney's Office said in a statement.

If convicted on all five counts, each woman could face up to 100 years in prison.

"This case demonstrates in shocking detail how far some white-collar criminals will go to facilitate their frauds," U.S. Attorney Thomas P. O'Brien said in the statement.

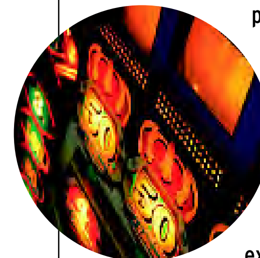


Gambling addict bets big on lawsuit

A Canadian who lost hundreds of thousands of dollars gambling is seeking $3.5 billion from Ontario Lottery & Gaming Corp., arguing it failed to enforce a voluntary self-exclusion program.

Peter Dennis of Markham, Ontario, argues staff at various establishments allowed him to keep gambling despite his authorization that they could to stop him at the door or throw him out, according to reports.

The program, which began in the mid-1990s, authorizes gambling facilities in Canadian provinces to use their "best efforts" to keep gamblers who admit they have a problem out of such facilities.



Mr. Dennis' proposed class action filed last week in Ontario Superior Court appears aimed at the company's ability to profit from addicts for failing to enforce the self-exclusion program, according to reports.

The suit says Mr. Dennis has gambled away more than $500,000 since August 2000, $200,000 of that after signing the self-exclusion form.

He has since lost his job for failing to repay money he had borrowed from a client, the report said.

"To presume that this one program is designed as a policing program to keep people out is just wrong," Rob Moore, senior vp with Ontario Lottery & Gaming told the Canadian Press. "It was not in its intent...for us to exclude people or to stop people from coming into our facilities."

"It is quite dangerous and misleading to think that one could transfer the responsibility they have once they've confirmed they have an addiction onto a third party," he said.

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BUYERS TIGHTEN BELTS

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Cost-cutting in benefits

Uncertainties shadow health care, retirement plans

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PEOPLE TO WATCH

College grads enter real world with caution

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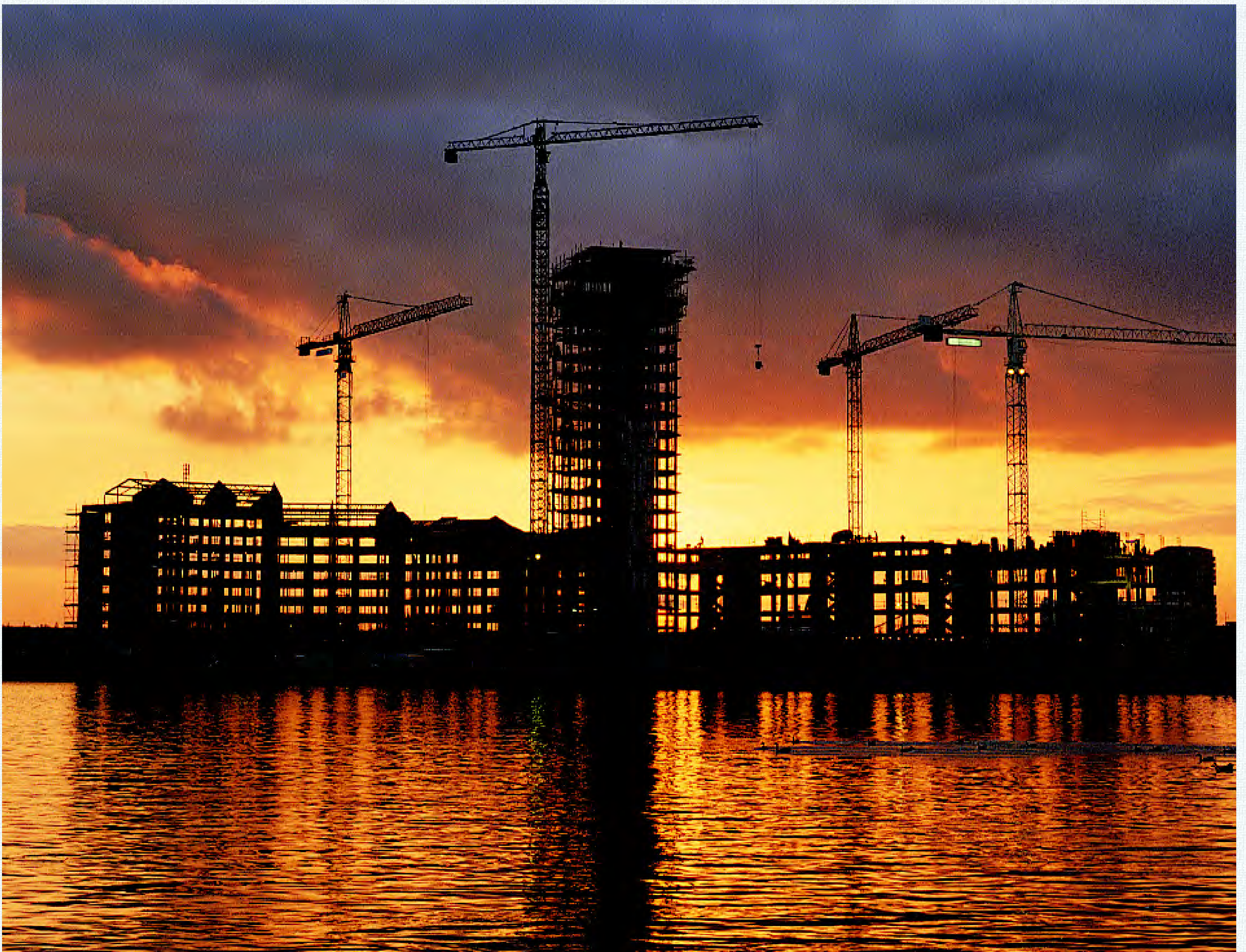

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