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Buyers say Integro must offer more than a fresh start / 3

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AIG set to test its own cover

By DAVE LENCKUS

NEW YORK—Already facing shareholder securities lawsuits over share price volatility related to regulatory investigations, and now heading into the treacherous territory of earnings restatements, leading executive liability underwriter American International Group Inc. will test the mettle of its own coverage.

Since October last year, AIG has faced securities fraud lawsuits over findings arising from New York Attorney General Eliot Spitzer's investigation of insurance industry practices.

Plaintiffs are seeking damages over AIG's alleged involvement in bid rigging and anticompetitive actions with insurance brokerages trying to maximize contingent commission revenues.

They also are seeking damages to cover the earnings impact of AIG's admitted irregularities in how it has accounted for the sale of finite risk and other loss mitigation products. Problems with how the products impacted the balance sheets of two buyers already have led to $136 million in fines for AIG in settlements with the U.S. Securities and Exchange Commission and the U.S. Department of Justice.

AIG renewed its D&O coverage last fall around the time its various troubles began to emerge.

AIG purchased about $125 million of limits, with Great American Insurance Co. of Cincinnati, Ohio, writing the first $25 million layer, according to sources. Marsh Inc., which is also facing lawsuits from shareholders and others over its involvement in the insurance industry compensation scandal, placed the coverage, sources said.

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AIG UNDER PRESSURE

New AIG board members win demand for additional D&O coverage as a condition of service. Page 18

AIG and other D&O insurers impose exclusions on insurer clients amid regulatory investigations. Page 18

Probe widens to encompass AIG-affiliated reinsurer Transatlantic and others. Page 18

Amendments delay vote on asbestos trust fund bill

By MARK A. HOFMANN

WASHINGTON—The Senate Judiciary Committee will continue its markup of the Fairness in Asbestos Injury Resolution Act this week after backers failed to stem a tide of proposed amendments to the measure in time to bring the bill to a vote last week.

Late last month the committee began its markup of the bill, which would create a no-fault $140 billion trust fund to replace the current litigation-based system of compensating victims of asbestos-related disease, but opponents managed to delay the process through parliamentary maneuvers (*BI*, May 2).

Under the FAIR Act, defendant companies would be responsible for $90 billion of the trust fund and their insurers for $46.025 billion, with the remainder coming from existing asbestos compensation trusts. After failing to overcome opposition in the April 28 markup, the bill's chief authors—Sens. Arlen Specter, R-Pa. and Patrick Leahy, D-Vt.—attempted to answer some

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Medicare drug benefits law creates notification duty

Rule not limited to employers with retiree plans

By JERRY GEISEL

WASHINGTON—A looming requirement for employers to inform Medicare-eligible workers whether their group prescription drug coverage stacks up to the new Medicare prescription drug benefit plan may catch many employers by surprise.

According to benefits consultants, many employers erroneously believe the wide-ranging requirement applies to only a limited number of employers.

The requirement, though, which is part of a 2003 federal law that adds a prescription drug benefit to Medicare, affects all employers that offer prescription drug benefits and have employees who are eligible for Medicare.

Under the requirement, by Nov. 15, employers will have to provide to every participant in their health care plans who is eligible for Medicare—chiefly those age 65 and older—with a notice that tells those individuals whether the prescription drug benefits they provide are at least equivalent to the drug benefits that will be available under Medicare Part D.

Benefit consultants say many employers are unaware that the reporting requirement will apply to them. Some employers believe that the reporting requirement applies only to organizations with retiree health care plans or to employers that intend to prove—in order to obtain federal subsidies—that their retiree health care plan prescription drug coverage is at least equal to Part D. Others believe, incorrectly, that the notices have to be provided only to retirees.

"A large percentage of employers who do not

See NOTICES / page 19

Who needs notification

- Retirees and spouses old enough to be eligible for Medicare.
- Employees age 65 and older and spouses 65 and older.
- Individuals eligible for Medicare due to having end-stage renal disease.
- Individuals eligible for Medicare due to disability.

Late News

Gallagher reportedly near settlement deal

Arthur J. Gallagher & Co. is in advanced negotiations with Illinois insurance regulators and the Illinois attorney general's office on a settlement in which the brokerage is expected to pay between $20 million and $30 million, reports *Crain's Chicago Business*, citing people familiar with the talks. State investigators have found evidence that Gallagher steered client premiums to underwriters that agreed to pay it the highest contingent commissions, according to the sister publication of *Business Insurance*. None of the parties would comment.

Former JLT chief to head Aon unit

Steve McGill has been appointed chief executive officer of Chicago-based Aon Corp.'s newly created Global Large Corporate business unit, which targets multinationals. Mr. McGill, who resigned as CEO of London-based broker Jardine Lloyd Thompson Group P.L.C. in late November 2004 after the company issued a profit warning, was most recently employed on a consulting basis at London-based reinsurance broker Benfield Group Ltd. Mr. McGill will be based in London, an Aon spokesman said.

Beecher Carlson buying agency

Beecher Carlson Holdings Inc. is acquiring JBL&K Risk Services, an independently owned agency in Oregon. Portland-based JBL&K, with an estimated $15 million in revenues, 90 employees and about 3,500 local and regional middle-market clients, is Beecher Carlson's second acquisition since Thomas A. Golub launched the large-account brokerage last summer. It acquired captive

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Australian insurers face increased costs

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Changes to Florida's catastrophe fund are expected to help policyholders and stabilize the market. Page 4

MGAs see market climate easing for program options

Reinsurers are more willing to offer capacity to MGA programs, attendees heard at the AAMGA meeting. Page 4

Consumer-driven plans, employer challenges grow

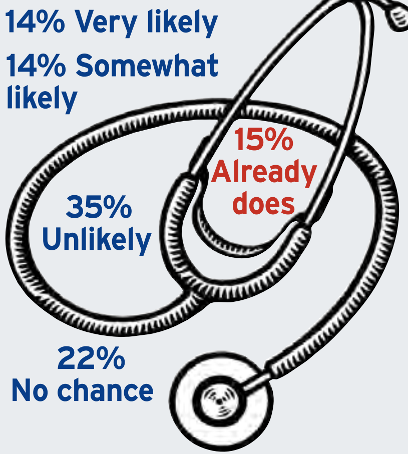
Trends in the market were among the topics at the Consumer-Directed Health Care Conference & Expo. Page 6

Insurer restatements prompt questions

The "year of the restatement" raises hard questions for auditors and regulators, an editorial says. Page 8

Online poll - [5/9 - 5/13]

How likely is it that your company will offer employees health savings accounts linked to high-deductible insurance plans within the next 12 months?



Participate in *BI*'s online polls at *www.businessinsurance.com.*

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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United default spurs reform drive

Legislators prepare proposals in wake of record PBGC loss

By JERRY GEISEL

WASHINGTON—A court ruling last week that will dump billions of dollars of United Airlines pension liabilities onto a federal pension insurance agency puts additional pressure on Congress to stiffen pension funding rules.

Indeed, soon after a federal bankruptcy judge approved an agreement for the Pension Benefit Guaranty Corp. to take over United's four massively underfunded pension plans, congressional leaders announced plans to introduce reform legislation.

The ruling by U.S. Bankruptcy Court Judge Eugene Wedoff in Chicago sets the stage for the biggest loss in the PBGC's 30-year history.

Judge Wedoff cleared an agreement between United and the PBGC in which the PBGC will take over and terminate four massively underfunded pension plans and receive, in turn, United-issued financial securities with a face value of $1.5 billion.

Terminating the United plans will result in a $6.6 billion loss for the PBGC, by far the agency's largest loss, and it will account for more than one-quarter of its $23.3 billion deficit.

The magnitude of that loss and the strong possibility that the agency will be hit with more blockbuster losses as other financially strapped firms file for bankruptcy and try to shed their pension liabilities, has given Congress a new impetus to act before the PBGC finds itself in such a deep financial hole that it would need a taxpayer bailout to honor the benefit commitments it is legally obligated to pay.

In the wake of the announcement, the chairmen of two congressional committees in charge of pension legislation said last week that they are working on measures to shore up pension funding rules.

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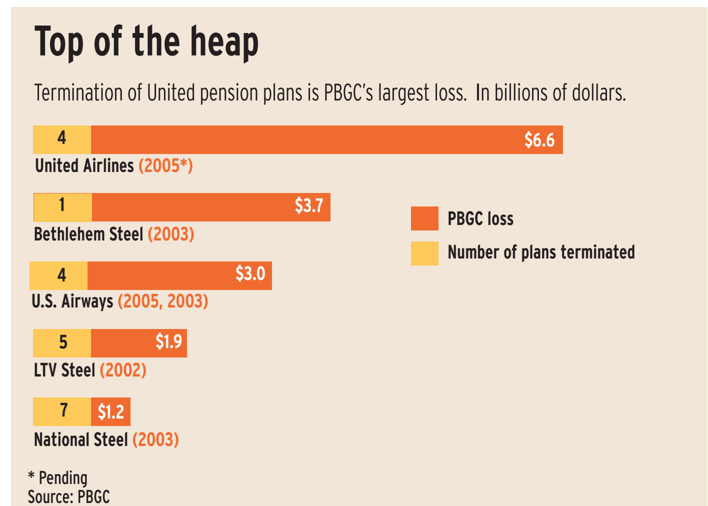

Jury finds fraud in 1991 ELIC acquisition

LOS ANGELES—A jury has found the French buyers of Executive Life Insurance Co. defrauded regulators and policyholders when it acquired the insurer in 1991, significantly depleting the failed insurer's estate.

The jury last week found Artemis S.A. liable on all three counts—conspiracy to commit fraud, intentional misrepresentation and concealment—but only the conspiracy count was accompanied by a finding of harm to the ELIC estate.

The California Department of Insurance had sued all of the parties involved in the ELIC sale in February 1999, seeking $3.7 billion in damages and interest and charging that the group deceived the department when it made its bid for ELIC as part of an auction process orchestrated by then-Commissioner John Garamendi in 1991. The suit alleged that Altus Finance S.A. was controlled by Credit Lyonnais, a French government-owned bank, making the sale illegal under both state and federal law (*BI*, May 10, 1999).

Artemis and its owner, Francois Pinault were added to the department's lawsuit in 2000 after the department learned that the parties had joined the alleged conspiracy in 1992 by purchasing both the insurance business and the junk bonds from Altus, the original buyer.

All of the defendants except Artemis, Mr. Pinault and MAAF Assurances S.A. settled before trial commenced. MAAF defaulted as jury selection began, saying any judgment against it would be unenforceable in France since it does not conduct any business nor have any assets in the United States.

Before moving on to the next phase of the ELIC trial in which damages would be awarded, U.S. District Court Judge Howard Matz dismissed the jury and ordered the remaining parties to the litigation to negotiate a settlement—something he has been encouraging throughout the proceedings. He also said he may recall the jury and begin the damage phase of the trial after he finishes hearing another, unrelated case.

—By Joanne Wojcik

Differentiation key to successful launch of Integro, observers say

By SALLY ROBERTS

While newly launched insurance brokerage Integro Ltd. may give risk managers more options when it comes to choosing a global brokerage, observers say that its long-term success will depend on whether it can differentiate itself from its competitors.

And that will come from its ability to provide clients with access to high-quality and creative risk management and insurance services, not from its status as a startup firm free from ongoing industry investigations, they say.

Earlier this month, Integro's executives announced they had secured more than $300 million in a private securities placement and were looking to hire "seasoned, expert insurance brokers" and begin serving large, complex risk management accounts (*BI*, May 9).

The New York-based brokerage is being launched by renowned insurance company builder Robert Clements and fellow former Marsh Inc. executives Roger E. Egan and Peter F. Garvey, all of whom are well-established and have solid reputations in the industry, several observers say.

"The group putting this together aren't vacationers; they've been in the insurance village basically all their lives, and they know how to transact business," said John Wicher of insurance investment bank John Wicher & Associates in San Francisco.

At the end of the day, risk managers are looking for creativity in solving their insurance needs and that is what characterizes the individuals running Integro, said Mr. Wicher. Mr. Clements, Integro's chairman, "himself about singlehandedly is responsible for Bermuda" as a leading insurance center.

Integro executives say the launch of Integro not only gives risk managers more options in what they consider to be an underserved large-account market but also introduces a "fresh business model" for the insurance brokerage industry, which has been plagued by numerous regulatory investigations into illegal compensation practices.

New York-based Marsh & McLennan Cos. Inc. has been hit the hardest in the industry investigations. It agreed to pay $850 million in restitution to clients earlier this year to settle fraud and bid-rigging charges brought by New York Attorney General Eliot Spitzer against its Marsh Inc. brokerage unit. Several high-profile dismissals and resignations came in the wake of Mr. Spitzer's suit, including the resignation of Mr. Egan, former president and chief operating officer of the brokerage unit. Mr. Egan was not implicated in any of the wrongdoing.

Integro hopes to capitalize on the fact that, as a startup focusing exclusively on primary brokerage business, it is free from conflict of interest perceptions and unburdened by the regulatory investigations.

"We're not only unencumbered by substantial fines and penalties and restitution funds and reputational damage, we're also unencumbered by expensive legacy operating

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Survey cites companies' plans to add CRO posts

By SARAH VEYSEY

A new survey on the evolving role of the chief risk officer in multiple industries found that more than two-thirds of the companies surveyed either have appointed a CRO or plan to add such a post.

Last month, the Economist Intelligence Unit Ltd. in London surveyed 137 senior executives with responsibility for risk strategy from 17 different industries around the world. While 45% of respondents to the survey said their company had already designated a CRO or the equivalent, 24% said their company had not yet named a CRO but planned to do so in the next two years.

The remaining 31% of those surveyed said their company had not appointed a chief risk officer or the equivalent and had no plans to do so.

More than half—57%—of the respondents were from the financial services sector, according to the study. About half of the respondents were from Europe, about one-third from the United States, and the remainder from the rest of the world, according to a spokesman for the EIU.

According to the study, 52% of respondents said a key benefit of having a chief risk officer was that it enabled risk management departments to expand to address more risks, while 43% said a key benefit was that it enabled their business to make better investment decisions. A further 42% said a key benefit of having a chief risk officer or equivalent was that it enforced a better standard of governance, while 37% cited a reduction in financial losses as a key benefit.

In addition, 34% of respondents said a key benefit of having a single manager with overall responsibility for risk was that it reduced duplication of risk systems and processes, while 32% said a key benefit was that it enabled the company to meet its compliance goals and deadlines. Twenty-three percent of respondents said a key benefit of having a chief risk officer or equivalent was that it reduced the cost of risk management.

The study is available at *www.eiu.com/CRO.*

Why appoint a CRO?

Among the key benefits specified for having a chief risk officer position:

- Enables risk management departments to expand to address more risks.
- Enables businesses to make better investment decisions.
- Enforces a better standard of governance.
- Reduces financial losses.

Source: Economist Intelligence Unit Ltd.

Cat fund's changes may benefit Florida property owners

By MICHAEL BRADFORD

TALLAHASSEE, Fla.—A property insurance law spurred by the string of major hurricanes that devastated Florida last year makes changes to the state's Hurricane Catastrophe Fund that some insurers claim would protect policyholders in the event that a multiple-storm season was to drain the fund's capital.

The Florida Legislature passed S.B. 1486 in the waning hours of the legislative session that ended May 6. The bill, which Gov. Jeb Bush is expected to sign, addresses the Florida Hurricane Catastrophe Fund as well as several other property insurance concerns that came to light during last year's spate of storms. Florida was raked by hurricanes Charley, Frances, Ivan and Jeanne, which caused nearly $19 billion in insured property damage in the state.

Owners of commercial residential properties such as apartments and condominiums also could benefit from the bill because of restrictions that would keep insurers from canceling or failing to renew coverage on damaged personal and commercial properties in disaster areas. That change would codify a warning issued by the Florida Office of Insurance Regulation during last year's hurricane season that prevented insurers from abandoning policyholders.

After last year's storms, some insurers and policyholders worried that the catastrophe fund's losses would leave it depleted to the point that a bond issue would have been required to rebuild its capital. In order to service such bond issues, assessments would have been charged to all personal and commercial lines policies except workers compensation, medical malpractice and accident and health coverages, meaning that most employers would have borne part of the burden of rebuilding the fund. While no bond issue ultimately was needed, supporters of the recently passed law say it would make such charges less likely if another multiple-storm hurricane season were to hit Florida.

The catastrophe fund provides property reinsurance to the state's insurers, and all property insurers are required to participate in the fund. In the debate leading to the passage of S.B. 1486, at issue was the amount of the insurance indus-

See HURRICANE / page 16

'I' of the storm

Florida property insurance legislation:

- The insurance industry retention remains at $4.5 billion before reinsurance payments are triggered by the Florida Hurricane Catastrophe Fund. The retention applies to each of the season's two largest storms and drops to $1.5 billion for subsequent hurricanes.
- Insurers are prohibited from not renewing or canceling coverage on unrepaired properties or when a hurricane warning is in effect.
- Insurers must offer seasonal and per-occurrence deductibles to commercial residential policyholders.
- Hurricane model data must be disclosed to the Office of Insurance Regulation and the Department of Financial Services.

Errors & Omissions

■ A story in the May 9 issue, "Massachusetts to Tighten Rules on Finite Reinsurance Contracts," incorrectly characterized the American Academy of Actuaries as a regulatory authority. The Washington-based organization is a professional association and advises regulators.

Canadian employers seek options

Pension plan sponsors exploring new designs

By GLORIA GONZALEZ

TORONTO—Although some Canadian employers are opting to switch completely from defined benefit to defined contribution pension plans, the risks involved with managing defined contribution plans mean that the decision to make such conversions is far from automatic.

Instead, several Canadian employers are using other options rather than fully shifting their defined benefit plans to defined contribution formats, according to speakers at the Assn. of Canadian Pension Management's regional conference in Toronto on May 5. And those employers that have developed defined contribution plans say they have spent a great deal of time and effort minimizing the risks associated with the plans.

Benefits consulting firm Towers Perrin did a study of 232 employer clients, comparing their pension plan designs in 2000—before the current pension funding crisis emerged in Canada—to their 2004 plan designs. The study found that, of 119 companies with defined benefit pension plans in 2000, 12 had converted to defined contribution plans, according to Ian Genno, a principal of Towers Perrin based in Toronto.

"You do see some employers saying, 'I'm getting out of the defined benefit business and moving into a defined contribution design,'" Mr. Genno said. He noted, though, that a greater number of these employers—16—shifted from defined benefit pension plans to flex plans or combination plans.

A flex plan is either one in which members have a choice between defined benefits or defined contributions, a plan with multiple defined benefit options with varying levels of employee contributions or a plan with flexible ancillary accounts. A combination plan is one in which members accrue both defined benefit and defined contribution benefits.

These types of plans offer more choices to employees while maintaining the core elements of defined benefit plans, Mr. Genno said. "There are a lot of different directions plan sponsors are moving in, and each plan sponsor has to respond based on their own particular business objectives and the needs of their workforce," he said.

Of the 54 employers that had defined contribution plans in 2000, 50 still had defined contribution plans in 2004, while one switched to a defined benefit plan, two estab-

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Flex, combination plans gain a following

Pension plans comparison of 232 Canadian clients of Towers Perrin

	2000 plan design	2004 plan design
Defined benefits	119	94
Defined contribution	54	66
Flex	30	40
Combination	15	18
Hybrid	3	3
No plan	11	11

Source: Towers Perrin Benefits Data Bank

Market capacity for programs growing but prices firm, MGAs say

By ROBERTO CENICEROS

ORLANDO, Fla.—Policyholders should find more choices and easing rates in the program market as managing general agents find reinsurers are more willing to offer capacity to the market and insurers compete more aggressively for established program managers.

At the same time, buyers could benefit from more market choices and find it easier to obtain higher limits as MGAs are also gaining more authority to bind broader limits across more lines of coverages, say participants at the American Assn. of Managing General Agents' annual meeting, held in Orlando, Fla., earlier this month.

But participants noted that although rates are easing, most notably for some large property accounts, price cuts have not been substantial for small casualty accounts.

Reinsurers' appetite for program business is increasing, said Kevin J. O'Connor, senior vp in New York for Brown & Brown Reinsurance Intermediaries, which specializes in locating issuing insurers and reinsurance for MGA programs.

"Reinsurers who six months ago wouldn't support an MGA concept are now saying, 'Yes, we will support MGAs,'" Mr. O'Connor said.

But reinsurance pricing for property/casualty program business has remained firm, noted David J. Price, executive vp and chief underwriting officer in Farmington Hills, Mich., for Burns & Wilcox Ltd.

Despite the firm reinsurance pricing, though, insurers have provided "enhancements" for the MGAs

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AAMGA coverage continues on page 11

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CEO who banned smokers advises on wellness efforts

By JOANNE WOJCIK

CHICAGO—Employers that become more aggressive in their fight against rising health care costs by mandating healthy behaviors must take care that they don't overstep their bounds and violate anti-discrimination laws.

But desperate times call for desperate measures, according to proponents of the strategy, and, despite the risk of litigation, some employers are forging ahead with policies that force employees to shape up or ship out.

"We're trying to manage costs while employees manage health care," said Howard Weyers, chief executive officer and founder of Weyco Inc., an employee benefit claims administrator with 200 employees in Okemos, Mich., that has become a pioneer in the strategy of making the maintenance of a healthy lifestyle a condition of employment. Weyco recently instituted a policy barring employees from smoking or risk losing their jobs.

"Employees are making lifestyle decisions that affect my bottom line and the other employees' paychecks," Mr. Weyers said at a panel titled "Clash of Rights or Mutual Protection? Employers Right to Mandate Healthy Habits for Employees," held during the combined Consumer-Directed Health Care Conference & Expo and Health, Wellness & Prevention Congress May 4-6 in Chicago.

Weyco's first attempt to change employee behavior was the introduction of an incentive program for employees to lead a healthier lifestyle, Mr. Weyers said.

Weyco's "Lifestyle Challenge" health improvement program focuses on eliminating drug and tobacco use, limiting alcohol consumption, eating in a healthy manner and exercising. Employees who undergo annual health screenings each receive $25 a month toward their portion of health insurance premiums, and they can earn another $65 in cash by exhibiting other healthy behaviors, according to Mr. Weyers.

He said his next workplace targets will be obesity and exercise.

"Today we have about 70% of the people in the program," he said. "I've got to get the other 30% into the program."

In early 2003, "I decided that I was going to take over the management of health care and I'm going to set the expectations," he said.

Mr. Weyers consulted lawyers to find out what he could do, legally, to improve the health of his workforce. "Employees have all the rights. I want to know what rights I have as an employer to manage this cost," he said.

After that initial consultation, the company elected to stop hiring smokers.

"Early in 2003, I finally woke up one day and said, 'We keep bringing people in here; we never question them about tobacco,' so we said, 'We're going to eliminate it,' " Mr. Weyers said. Fortunately, he said, "my attorneys told me there was no statute in Michigan that would prohibit me from making employment decisions based on a person's use of tobacco."

Weyco also banned the use of tobacco on company property in 2003, and in 2004 instituted a $50 per-month tobacco assessment, allowing employees to become exempt by voluntarily submitting to urine tests.

Those who took the test and failed paid $50. Those who took the test and failed but agreed to enroll in a company-paid smoking cessation program became exempt as soon as they tested negative.

In January 2005, Weyco instituted mandatory testing and made tobacco use a cause for firing.

"If you failed, your employment ended," Mr. Weyers said.

The week before testing began, he invited those who didn't want to be tested to leave, "and we had four people leave," he added.

Today the company randomly tests for tobacco use and has a "zero tolerance" policy. Now Mr. Weyers has turned his focus toward his employees' other unhealthy behaviors.

He said he believes such an aggressive approach is warranted and should even be made an adjunct to any quality improvement, customer service and/or employee safety program.

"What you need to do as a company—and I say this to everybody—you have to give the same emphasis to health improvement as we do to quality and customer service," Mr. Weyers said.

Employers can take other measures to encourage employees to adopt healthier lifestyles, other observers say (see related story).

Boundaries on mandates

But there are limits to the extent to which employers can mandate healthy behaviors, said Glenn Patton, a partner at Alston & Bird L.L.P. in Atlanta who specializes in employment law.

For example, employers considering taking a Weyco-like approach may find that laws in their states preclude them from doing so. Some 29 or 30 states have "lifestyle statutes" that protect employees' rights, Mr. Patton explained.

"Some are tailored directly toward smokers rights or issues related to alcohol or obesity," he explained. "Others are more catch-all statutes that say employers are not allowed to take action against employees for engaging in otherwise-lawful off-duty conduct."

"There are also common law tort claims that can be brought," such as assertions of invasion of privacy, wrongful discharge and violation of public policy, Mr. Patton noted, though he said he doubted that any of these would prevail in court.

Finally, there is federal law, in particular, the Americans with Disabilities Act, that may come into play, he said.

For example, while nicotine addiction is not a protected disability under the ADA, the act does prohibit employers from requiring employees to undergo medical exams, and urine tests to detect tobacco use may be considered as such, Mr. Patton said.

"In the short term, there may be employers that follow Weyco's lead," Mr. Patton acknowledged. But the transactional costs of paying lawyers to research whether such an approach would withstand a legal challenge may be too great for large, national employers, he said. It also could reduce the number of eligible job candidates in a tight employment market, he said.

"There has to be a line in the sand so that public health initiatives don't encroach on personal freedom," Mr. Patton said.

The panel was moderated by Willis B. Goldbeck, president and CEO of The Health Project, a nonpartisan nonprofit organization promoting investments in cost-effective health improvement programs. He also was co-chair of the conference.

Conference draws 700

CHICAGO—The 2005 Consumer-Directed Health Care Conference and Expo was attended by about 700 professionals from the health care and employee benefits fields, including health plan executives, agents and brokers and human resource directors.

The CDHCC, which featured more than 100 speakers in more than 40 educational sessions covering virtually all areas of health care, was held concurrently with the inaugural National Health Wellness and Prevention Congress May 4-6 at Chicago's McCormick Place. More than 60 additional speakers led the wellness conference, which included 30 educational sessions.

Next year's combined event also will be held in Chicago during the last week of April. Exact dates are still to be determined.

For more information about the conference, contact Transmarx L.L.C. at 804-266-7422, or visit its Internet site at *www.transmarx.com*.

Further information about the CDHCC and the National Health Wellness and Prevention Congress is available at *www.cdhcc.com*.

Try measured method on wellness

Employers can reduce health care costs by changing employee behavior, but they need to take a measured approach, said L. Ben Lytle, chief executive officer and founder of AXIA Health Management in Tempe, Ariz.

Mr. Lytle, a former president of Anthem Inc., said that in implementing a healthful living policy, employers should take a four-pronged approach:

- Make a strategic commitment by engaging the support of upper management and addressing potential legal challenges.
- Strike a balance between expecting employees to improve their health and respecting their personal freedom and privacy.
- Set a return on investment goal and a deadline to achieve it.
- Really understand "the demographics and the cultures and subcultures inside an employee population so you can tailor lifestyle improvement strategies to each particular population segment."

"You have a right to expect everyone to follow certain rules. We already do that with fraud and abuse, and there's no question about it. But it's more difficult" with healthy living requirements "and we've got to be a lot clearer in our communications and our objectives," Mr. Lytle said.

Most employees understand that employers have a vested interest in employee health, he said.

"They'll respond positively to efforts to keep them healthy if you do certain things. First of all, base the improvement off of their personal baseline, not against some 22-year-old athlete," Mr. Lytle said.

"Second, base the factors on solid science. Some things, like smoking, are obvious. But in other areas, such as nutrition, stress and depression management where there's a lot of debate, it's much more difficult and much more challenging," he added.

—By Joanne Wojcik

Pensions: Canadian plan sponsors exploring options to defined benefits

Continued from page 4

lished flex plans and one company ceased to offer a pension plan.

"Generally speaking, a lot of employers that are with defined contribution are staying with defined contribution," Mr. Genno said.

"That's no surprise at all. But we have seen some employers re-examine the principles of defined contribution, and, in a few cases, we have seen employers shift away from defined contribution. They are moving to an environment where defined contribution is still a core element of the compensation package but maybe more flexibility is being offered. So defined contribution is not necessarily the perfect end state," he said.

Mr. Genno noted that the traditional model of plan sponsors bearing all the risks in defined benefit plans and plan members bearing the risks in defined contribution plans no longer applies because of the number of employer risks associated with managing defined contribution plans. "That traditional paradigm is totally combusting," he said. "It's really going out the window today."

Among the risks for defined contribution plan sponsors are those associated with the governance of the plan, the communication with and education of employees about the plan, the establishment of appropriate investment options, the monitoring of the performance of the plan, the regulatory oversight and the risk of litigation.

"Defined contribution plan sponsors themselves face some very significant challenges in managing their plans appropriately," Mr. Genno said.

Setting appropriate investment options was very important when Toronto-based Expedia Canada Corp. created its defined contribution plan last year, said Helene Bouffard, human resources manager for the Canadian unit of the online travel service. Company officials spent a lot of time researching all the fund options and plan managers, eliminating those that appeared to have financial problems or any other red flags, she said.

"We can't believe any more that a defined contribution plan has no risk involved for an employer," Ms. Bouffard said. "We have to do our homework, and we have to do it properly. We wanted to make sure what we were going to offer employees was as safe as humanly possible."

The education and communication aspect is an ongoing challenge for Toronto-based Hudson's Bay Co., which closed its defined benefit pension plans in 1988 and moved all its new employees into defined contribution plans, said Marc Poupart, the retailer's director of pension and retirement programs.

Mr. Poupart noted that many employees in Hudson's defined contribution plans either want the company to advise them or simply choose the default option. "Our board is very reluctant on that, but you almost have to protect members against themselves, which is a concern," he said. "We're trying to get members to become investor-proficient."

Editorial

Restatements raise accountability issues

FEW PEOPLE ENJOY uninvited guests, but we think the insurance industry and its auditors can expect some after the rash of accounting restatements.

As we recently reported, several major insurers, including American International Group Inc. and CNA Financial Corp., are restating their financial results. In AIG's case, the restatement of four years of results was triggered by accounting improprieties that led to the departure of several longtime top executives, not least of whom was former Chairman and CEO Maurice R. Greenberg.

CNA said it is restating earnings to account for reinsurance contracts involving a former Bermuda-based affiliate company. A unit of Zurich Financial Services Group in Australia is delaying its financial reports amid questions about how it should account for finite reinsurance arrangements. And RenaissanceRe Holdings Ltd. of Bermuda is restating three years of earnings after announcing it accounted improperly for finite reinsurance deals.

Fitch Ratings quipped that 2005 is turning into "the year of the restatement." To that we would add "the year of the shareholder suit."

The troubling number of restatements by insurers is already triggering downgrades by rating agencies and shareholder lawsuits. It seems likely that other guests will soon arrive at the party. With this increased scrutiny of insurers' accounting, can stricter regulations be far behind?

Accurate accounting is crucial if insurance buyers and investors are to have a true picture of an insurer's financial strength. If company reports are false, buyers cannot make informed decisions about where to place their risks and investors cannot make informed decisions on whether or not to buy shares in the company.

We think that some tough questions need to be asked, not just of insurance industry executives but also of regulators and auditors.

Finite risk contracts have been used widely by insurance companies in the past, and clearly not all of the deals have been accounted for improperly. Were regulators and auditors asleep at the switch or just duped? Either way, they have a lot of explaining to do.

Fortunately, the restatements are long overdue recognition by insurers of the necessity of honest and clear accounting. We hope that recognition is permanently embraced and this year of restatement will be a singular event.

Letters

TRIA criticism ignores advantages to taxpayers

To the editor: This is in response to Bill Ford's May 9 letter that the Terrorism Risk Insurance Act is a violation of the U.S. Constitution and should not be extended.

Whether one wears their risk manager or taxpayer hat, TRIA has been a resounding success and should be extended. For business, TRIA has been the catalyst towards much-needed catastrophic protection at an affordable cost. For the U.S. taxpayer, TRIA has had no budget or cost impact to date. As taxpayers, should we not prefer the measured, pre-planned TRIA approach in which the insurers assume the primary responsibility rather than a reactive government which would undoubtedly be compelled to underwrite dollar-one compensation funds for future victims of terrorism?

We operate in a global economy today and need more than the domestic insurance markets to effectively conduct business and minimize the taxpayers' burden. TRIA is one of the centerpieces to protecting our national economy. The opportunity window is open now for the risk management community to actively support the extension of TRIA.

Bradley Wood
Marriott International Inc.
Bethesda, Md.

Schillerstrom

Letters

Federal lawmakers fail to see serious pension problem

To the editor: I tend to agree with your assessment of the Pension Benefit Guaranty Corp. striking the best possible deal (*BI*, May 9), given the circumstances it was confronted with in the United Airlines pension disaster, but why was such a "lesser of two evils" choice even necessary?

The reason is plainly obvious: our Congress persons are totally inept when it comes to prioritizing some of the major problems confronting U.S. citizens. Among the greatest issues is the stability of virtually all of our nation's major national/international corporations' pension plan funding, e.g. GM, Ford. Yet we see our senators and representatives holding committee meetings about the use of steroids in baseball as if continued use would lead to the immediate demise of Western civilization as we know it. We see further silliness in the Congress about tacking on pet pork-barrel projects to bills that occasionally actually deal with major national problems and issues. This clearly exhibits a total lack of any sense of priority in the way these elected officials spend their time.

Congress members clearly have no major personal stake in the stability of any of our private corporate pension funds or Taft-Hartley pension plans, because they have their own "private" system whose benefits far exceed those of any current corporate or union-sponsored pension program. Thus, they have nothing personal invested in these plans. And these are the very men and women who pass laws that allow corporations to defer adequate pension plan funding to the point that when a company gets into financial trouble there is absolutely no hope whatsoever that such a company could ever meet their contractual obligations to their employees, so they just dump their obligations on the taxpayers—not the government, the PBGC—the taxpayers. PBGC is now estimated by responsible parties to be about $70 billion in the red, not the $20 billion or so members of the Congress talk about.

Congress needs to always keep in mind that pensions and other benefit commitments to employees are in lieu of higher dollar-amount wages that would otherwise have to be paid to the employees on an immediate, ongoing basis. In light of corporations

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Perspectives

E-waste disposal a growing problem

Risk managers should help develop corporate policy

By Jon Farber

The rapid obsolescence and the declining price of electronic equipment have helped lead to a shorter lifespan for computers and made the worldwide problem of electronic waste—or "e-waste"—even worse. It's important for risk managers to promote the proper disposal of this waste.

The National Safety Council reports that approximately 44 million computers and televisions are discarded in the United States each year, usually in landfills. According to the Silicon Valley Toxics Coalition, U.S. government researchers estimate that three-fourths of all the computers ever sold remain stockpiled or stored.

The effect of e-waste on the environment is a growing concern, as is its ultimate impact on humans. Most of us don't realize it, but computers contain lead, cadmium, hexavalent chromium, mercury and a variety of other hazardous materials.

Right now, there are three major entities that generate e-waste in the United States: individuals and small businesses; large businesses, institutions and governments; and original equipment manufacturers. The country has not yet developed a statutory or regulatory framework for dealing with e-waste. So e-waste is governed by current environmental and state laws, and those laws differ for consumers and businesses.

The Resource Conservation and Recovery Act of 1976 was developed to regulate and control the management of solid and hazardous waste, including computer-generated waste. According to RCRA, each business, government agency and institution that generates at least 220 pounds of electronic discards a month is required to dispose of this material as hazardous waste or have it properly processed through recycling.

The Comprehensive Environmental Response, Compensation and Liability Act, which created the Superfund program, was enacted by Congress in 1980 to locate, investigate and clean up abandoned hazardous waste sites such as abandoned warehouses and landfills. The U.S. Environmental Protection Agency administers the Superfund program in cooperation with individual states and tribal governments.

The absence of a comprehensive e-waste federal law has prompted some states to enact their own regulations. California's Electronic Waste Recycling Act of 2003 assesses an upfront fee for every computer monitor purchased to cover recycling costs. In addition, the law bars the export of e-waste and requires a phase-out of the use of various toxic substances. Besides California, Maine, Massachusetts and Minnesota ban the disposal of computer monitors in municipal solid waste landfills.

There is growing support around the world for a principle known as extended producer responsibility. This principle calls for manufacturers to be financially responsible for the products they manufacture at the end of their useful lives.

> Businesses that don't properly dispose of e-waste could face fines and lawsuits, not to mention negative publicity.

The European Union has embraced this principle in two directives: the directive on waste electrical and electronic equipment and the directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment.

The WEEE directive requires manufacturers to cover the cost of recycling their products at the end of their useful lives. The hazardous substances directive requires that manufacturers eliminate the use of certain toxic compounds from the manufacturing process by July 2006. These directives apply to companies based in the European Union and to those that seek to do business or set up manufacturing operations there.

It's currently legal under U.S. law to export all forms of electronic waste listed as hazardous waste by the EPA provided the material will be recycled. Such exportation of electronic waste has led to international recycling laws. In Japan, manufacturers must recycle appliances, televisions, refrigerators and air conditioners and charge consumers a fee. Taiwan requires the recycling of used computer hardware, including central processing units, monitors, notebook computers and printers. Sweden has a "producer responsibility" ordinance that requires dealers and manufacturers of electrical and electronic equipment to take back, free of charge, pieces of old equipment when customers buy new products.

And the recycling of electronic equipment is catching on in the United States. The EPA is raising awareness of the hazards of electronic waste among the public by establishing voluntary partnerships with industry. The Plug-In To eCycling campaign promotes electronics recycling by working with manufacturers and retailers.

Participating in recycling programs and events is one way businesses can properly dispose of e-waste, and there are others. First and foremost, a business needs to identify the electronic equipment that will require hazardous waste disposal. Then it's important to develop a company policy covering the disposal of e-waste. That policy might include contracting with a vendor. If so, the business should pursue a thorough and complete investigation of potential vendors, including questions about experience, licenses, insurance and references. Businesses can also donate used electronic equipment to charities and for-profit organizations for reuse or resale. Another e-waste disposal option is to return products to their manufacturers. Several computer manufacturers accept the return of old or nonfunctioning computers. Finally, a number of communities have developed computer collection programs run by local solid waste regulators or health departments.

Businesses that don't properly dispose of e-waste could face fines and lawsuits, not to mention negative publicity. Those that choose to develop and implement plans or policies that addresses e-waste disposal will be well on their way to helping to maintain a positive reputation and a healthy environment for their employees and the communities in which they do business.

Jon Farber is vp-global technology underwriting for St. Paul Travelers Cos. in St. Paul, Minn. The views expressed in the article are those of the author and do not necessarily reflect the views of St. Paul Travelers or any of its affiliated insurance companies. This article is for general informational purposes only and is not intended to provide legal advice. You should not act or rely on this information without seeking the advice of your own attorney.

AAMGA: Buyers could benefit as MGAs gain more authority to bind policies

Continued from page 4

with whom they have established relations, Mr. Price added.

Meanwhile, insurers are providing increased commissions for MGAs, said Mr. O'Connor of Brown & Brown.

"I'm not talking about a five-point jump," Mr. O'Connor said. "I'm talking a one- or two-point jump."

Still, several participants stressed that although some insurers are offering more to their existing MGAs, they are not aggressively recruiting new partners.

"I can't say market conditions have driven us to all of a sudden go out and look for a bunch of new appointments," said Andrew S. Frazier, president and chief executive officer of Western World Insurance Group in Franklin Lakes, N.J.

Mr. Frazier acknowledged, though, that he is always open to the right opportunity and, in general, he said, "every market is over the crest of the hill and heading down."

"I don't see them running out and giving the pen to a lot more people," Mr. Price said. "I think they want to enhance the existing relations they have."

For example, insurers might give MGAs additional authority to write increased limits or expand existing programs into new geographic areas or into new market segments, he said.

Mr. Price noted, for example, that Burns & Wilcox already provides errors and omissions coverage for several specialty classes of architects and engineers and will soon announce a product for standard architects and engineers, though he declined to name the insurer that will provide the coverage.

Several MGAs and insurers say that surplus lines insurers, rather than helping to create startup programs, are mostly competing for existing programs with proven track records and at least $5 million in premium volume. But Terri Moran, vp and chief marketing officer in San Francisco for the program group of American International Cos., a unit of American International Group Inc., said her company is more open to new ideas than it was a year ago.

"What has changed is we are a little bit more willing to look at startups," Ms. Moran said. "We will do something as small as a half a million dollars if we like the concept and then work with them to build it."

Still, Ms. Moran stressed, the business must be profitable.

> "It's a fairly stable pricing environment right now for program business."
>
> **Terri Moran**
> **American International Cos.**

Bryan W. Sanders, president of Dominion Specialty Group, a unit of Glen Allen, Va.-based Hilb Rogal & Hobbs Co. in Lake Mary, Fla., agreed that market conditions have not softened so much that it is substantially easier for MGAs to obtain new insurer contracts.

Mr. Sanders said that insurers are more receptive to "maybe adjust their target parameters downward in an effort to put some new programs together." They may also be a bit more flexible in the amount of premium volume they require a potential program to amass before they consider insuring it.

"It's loosening up," agreed Letha E. Heaton, senior vp at Evanston Insurance Co., a Deerfield, Ill.-based unit of Markel Corp. "MGAs are getting more authority and have access to more lines."

But "everybody hasn't jumped back in with ridiculous coverage terms and declining rates," said Ms. Heaton.

Several casualty accounts are renewing at expiring rates or slightly above, said Thomas A. Clark, senior vp at Arch Insurance Group in Stamford, Conn. He added that rates are still increasing in some pockets of the market, such as building contractors in California.

Prices remain relatively flat overall for AIG's existing book of program business, with a "slight dip" in property rates, Ms. Moran said. The rates are not dropping similarly to the declines seen in the standard market, she said.

"It's a fairly stable pricing environment right now for program business," Ms. Moran said.

It is harder now to obtain rate increases unless an account has serious loss problems, said Robert S. Giles, president of R.W. Scobie Inc. in Eau Claire, Wis. Certain accounts, such as local intermediate trucking, are moving back into the standard lines market. But long-haul trucking accounts have not, Mr. Giles said.

The generally more competitive program market could attract back some policyholders that had moved to the alternative risk transfer market, some participants said.

In particular, some policyholders that had turned to captive arrangements during the hard market are reconsidering their options, they said.

"They're coming to us directly or they are going to reinsurance intermediaries and saying, 'The captive model that we have in place is very costly for us now; should we look at an alternative?'" explained Lois J. Massa, vp sales executive for GE Insurance Solutions' select markets.

Mr. O'Connor of Brown & Brown said that he had had similar talks with policyholders, though both Mr. O'Connor and Ms. Massa said that, so far, they have held only discussions and have not completed deals to move captive participants to insured programs.

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New president of AAMGA says market is ‘flattening’

By ROBERTO CENICEROS

ORLANDO, Fla.—Brokers are shopping their clients' business around more as standard market insurers begin to write accounts they previously left to surplus lines underwriters, say leaders for the American Assn. of Managing General Agents.

The resulting increase in coverage applications is creating more work for managing general agents, who are seeing some of their business slip away with easing market conditions, the AAMGA leaders said at a press conference during the organization's 79th Annual Meeting, held April 30 through May 5 in Orlando, Fla.

They said, though, that policyholders stand to benefit.

"You will probably see coverages begin to broaden where they constricted as the market got hard," said Joe Hutelmyer, the AAMGA's outgoing president. "You will see more competitors out there, and we are just starting to see the standard markets that basically vanished three or four years ago coming back into some classes of business. There will be a variety of coverages and more potential markets out there."

Supply and demand principles dictate that prices will drop with increased availability, added Mr. Hutelmyer, who is also president of Seaboard Underwriters Inc. in Burlington, N.C.

Currently, though, prices for products handled by MGAs are leveling off rather than turning downward, as the market tries to find appropriate pricing, the AAMGA leaders say. They predict that, in general, prices will remain relatively flat and not drop substantially.

"Instead of a real softening market, it's more of a flattening market," explained Francis Johnson, the AAMGA's new president and the president of Johnson & Johnson Inc. in Charleston, S.C. "We're not seeing any increases, but we are seeing prices become flat."

Any softening is likely to remain selective, depending on factors such as geographic region, product line and account size.

"On a broad scale, we will see some more carriers coming back with more options," said Scott Anderson, the AAMGA's president-elect and executive vp of Concorde General Agency in Fargo, N.D. "The pricing itself is going to be selective by class or by size. It's very attractive to get that large, large account."

The AAMGA leaders say that, with an easing market, retail brokers are increasingly uncertain whether surplus lines underwriters represent their only options for certain risks or if standard insurers would write the accounts. They note, therefore, that surplus lines underwriters are reviewing the same volume of applications they did when market conditions were harder but some of the applications they review are eventually finding homes with standard insurers.

MGAs are prepared to counter any loss in premium volume and maintain their profitability, though, by relying on their established relations with both insurers and brokers and by applying their specialty expertise to new, underserved niches, AAMGA's leaders say.

"Yes, we have to change," Mr. Johnson said. "But at AAMGA, we are still entrepreneurs, so we change. We find other markets, we move to new territories, we find other products."

Lloyd's chairman speaks at AAMGA

ORLANDO, Fla.—The American Assn. of Managing General Agents' 79th Annual Meeting featured a daylong seminar on insurance and business ethics. About 100 meeting registrants participated in the Saturday seminar, a first-ever for the AAMGA.

Nearly 1,400 people registered for the annual meeting, held from April 30 through May 5 at the Grande Lakes Resort in Orlando, Fla.

Fox News commentator Bill O'Reilly presented a keynote address, and Lord Peter Levene, chairman of Lloyd's of London, addressed the AAMGA's awards and business meeting.

The insurance industry must manage its risks better by lobbying for tort reform, manage its business cycle better by making sound underwriting decisions and manage its reputation better by ensuring policy terms are clear, Lord Levene told the meeting.

The AAMGA's 2006 annual meeting will be held May 7 through 11 in Maui, Hawaii. For more information, contact the American Assn. of Managing General Agents at 610-225-1999.

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Between the Lines

Compiled by Joanne Wojcik

Branson deems health care Virgin territory

Sir Richard Branson may soon find that piloting a balloon from Japan to Canada—something he did in 1991—may be easier than navigating today's turbulent health care waters.

The undaunted founder of Virgin Group Inc. is joining forces with Louisville, Ky.-based Humana Inc. to market a Virgin-branded health insurance product that will encourage Americans to get fit through a gym membership incentive program.

PHOTO: MICHAEL BUCKNER/GETTY IMAGES

Sir Richard Branson

It's the latest venture for Sir Richard, who in 1999 was knighted by Queen Elizabeth II for his contributions to commerce. Since founding the hugely successful Virgin Records music label in the 1970s, Sir Richard has expanded the Virgin name into "Megastore" retailing, book and software publishing, film and video editing, health clubs, travel, hotels, cinemas, financial services, telecommunications, rail and air travel.

"From music to airlines to mobile telephony, Virgin gives customers the power to choose and use innovative products that they really want. Humana has done the same in health benefits," said Humana President and Chief Executive Officer Michael B. McCallister in announcing the new venture.

"Virgin life care will create products and services for health care consumers that are liberating, life-enhancing and fun. We at Humana are delighted to be part of this exciting new development," he said.

"Virgin life care will help our customers get a better deal from health insurers while monitoring and improving their own fitness," Sir Richard said. "With this health care alliance with Humana, we'll give customers the value they've been asking for."

The new insurance product will be available early next year.

Derivatives may aid Ethiopian farmers

Can weather insurance save Ethiopia from famine and malnutrition the next time drought strikes?

Under a proposal by the World Food Program, Ethiopian farmers would be able to receive aid financed by weather derivatives so they can recover their livelihoods once weather conditions improve.

Typically during times of drought, farmers in Ethiopia sell their farm equipment and livestock to buy food.

A weather derivative is a financial instrument whose payoff is based on one or more independently measurable weather triggers. For example, in Ethiopia, the contracts would be based on a rainfall index, which correlates with historic drought-induced food needs in the region.

The proposal, involving an $80 million global weather facility created by Kansas City-based Aquila Inc., is one of a series of small-scale weather insurance pilot projects being financed by the International Finance Corp., the private-sector arm of the World Bank.

Regulator steps away from the vehicle

Louisiana Insurance Commissioner Robert Wooley says he's sorry for using state money to buy an expensive new pickup truck and is giving up his new Harley-Davidson Ford F-250 to show his remorse.

Although the purchase was legal, Mr. Wooley came under criticism last month when it was revealed that he had replaced his other designer vehicle, an Eddie Bauer Ford Expedition the state bought him last year—with a new $40,000 pickup truck. He handed the Expedition over to his staff to drive.

In a statement, Mr. Wooley said: "Both the truck and the Expedition have been returned to the division of administration. To the citizens of Louisiana, I offer my heartfelt apology. I am sorry for the truck and how I've handled this entire matter. I've made a mistake...."

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

COMINGS & GOINGS

Mr. Easton

Mr. Brett

Mr. Anderson

Insurers:

Christopher Piety has joined Redwood City, Calif.-based CAMICO Mutual Insurance Co. as director of claims. Previously, Mr. Piety was a partner at law firm Garrett & Tully. CAMICO provides liability insurance for certified public accountants.

Mark C. Cloutier has been named chief claims officer of Hamilton, Bermuda-based Quanta Capital Holdings Ltd. and as president of Quanta Technical Services L.L.C. Previously, Mr. Cloutier was president and chief executive officer of Overseas Partners Ltd.

New York Life Insurance Co. has named **Sheila Kearney Davidson** executive vp in charge of law and corporate administration. Previously, she was senior vp and general counsel for the New York-based company.

Brokers:

The Hays Cos. of Denver has named **Jana Knox** senior vp. Previously, Ms. Knox was a senior vp with Marsh & McLennan Cos. Inc.

Other providers:

Kelly Benefit Strategies in Baltimore has named **Cory Easton** senior vp and senior consultant for health and welfare. Before joining Kelly, Mr. Easton was a sales director for Express Scripts Inc.

John Gaskill has joined Dallas-based MarketScout as senior vp. Formerly, he managed K&K Insurance Group Inc.'s wholesale operations.

SRO Napa, a Napa, Calif.-based managing general agency, has made several senior-level appointments:

- **Stephen N. Brett**, formerly president of SRO Napa, has been named chairman in addition to his duties as CEO.
- **Robert L. Anderson**, formerly executive vp of SRO Napa's casualty division, was promoted to president and chief operating officer.
- **Barbara L. Gray** was named chief financial officer and executive vp of finance and reinsurance. Previously, she was a senior vp.
- **Donn Belzer**, formerly a vp, has been named senior vp.
- **Kathrine Parsons**, formerly a director, has been promoted to senior vp of human resources and operations.

GAB Robins in Parsippany, N.J., has made three senior promotions:

- **William Tepe**, formerly vp and global controller, is the new executive vp and CFO.
- **Janet Turoff**, former senior vp of corporate development, is now executive vp and chief administrative officer.
- **James Arnold** has been named senior vp, general counsel and corporate secretary. Formerly, Mr. Arnold was assistant general counsel and assistant secretary.

Minneapolis-based MinuteClinic has named **Dr. Jim Woodburn** as the company's chief medical officer. Dr. Woodburn previously was the national account medical director of Blue Cross & Blue Shield of Minnesota.

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: Joe Walker, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; jwalker@businessinsurance.com.

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EAP and Dependent Care
Resource & Referral Services Providers ..... May 20
Agents & Brokers .... May 27

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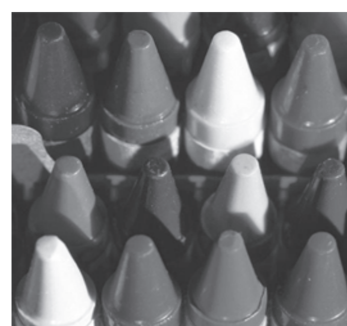

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Ireland mulls mandatory pension contributions

By SARAH VEYSEY

DUBLIN, Ireland—Ireland's government is considering ways to boost retirement savings among Irish workers, including a proposal to make pension contributions compulsory for companies and employees.

Launching Ireland's National Pensions Action Week last week, Séamus Brennan, Ireland's minister for social affairs, called upon the Pensions Board, a government-appointed committee, to consider ways—including compulsory contributions—to help ensure that workers have adequate retirement income.

The Pensions Board, which was set up under the Pensions Act 1990 to regulate occupational pension plans and to advise the social affairs ministry, comprises representatives of employer groups, labor unions, the insurance industry and the legal profession.

> "There is a lot of tinkering with the current system that could be done before we go down any mandatory route."
>
> **Marie Daly**
> **Irish Business & Employers Federation**

Mr. Brennan said that, of Ireland's workforce of about 2 million, an estimated 900,000 people have neither an occupational nor a private pension.

Mary Hutch, head of information and training at the Dublin-based Pensions Board, said that only 52.4% of the Irish workforce participated in a pension in 2004.

Mr. Brennan has asked the Pensions Board to present the results of its wide-ranging review into Irish pensions by September. The board began its review last March, and Ms. Hutch said the board would present an interim report next month.

Mr. Brennan said last week that he had asked the board to consider, among other things, a system whereby employees, employers and the state would have to contribute to pension plans, with a possible opt-out clause for employees who did not want to participate.

Currently, it is not compulsory for employers to provide occupational pensions, explained Ms. Hutch. But each employer that does not provide an occupational pension plan must provide its staff with access to so-called personal retirement savings accounts, she explained.

PRSAs, created under the Pensions (Amendment) Act 2002, are low-cost investment accounts similar to stakeholder pensions in the United Kingdom. Under a standard PRSA arrangement, the charges levied by providers must not exceed 5% of the contributions paid or 1% of the fund's assets.

While employers are permitted to contribute to PRSAs, they are not required to do so, noted Ms. Hutch.

Marie Daly, assistant director at the Irish Business & Employers Federation, said employers would likely resist the idea of compulsory pensions.

She said the costs to employers of operating pension plans are already high and "there is a lot of tinkering with the current system that could be done before we go down any mandatory route." Ms. Daly, who is a member of the Pensions Board,

See IRELAND / page 14

Hannover Re ranked as top cat reinsurer in Bermuda by S&P

By JUDY GREENWALD

HAMILTON, Bermuda—Hannover Re Ltd. ranks as the top property catastrophe reinsurer among its Bermuda peers, according to an analysis by Standard & Poor's Corp.

In a special report, S&P evaluated the five Bermuda property cat reinsurers that focus on providing short-tail property cat reinsurance on the basis of their competitive position, management and corporate strategy, operating performance, capitalization, liquidity, investments and financial flexibility.

Top cat reinsurers

Ranked by combined ratio percentage

Company	2004	2003	2002
Hannover Re	76.6	25.7	46.6
Montpelier Re	77.8	50.3	67.4
IPCRe	77.9	34.9	34.1
PXRE	98.6	76.2	79.0
DaVinci Re	135.1	64.2	65.5

Source: Standard & Poor's

According to the report, "Peer Comparison: Bermuda Property Catastrophe Reinsurers," Hannover Re Bermuda, which has an AA- financial strength rating, has strengths that include a strategic and significant role in its parent's global strategy, strong competitive position, and extremely strong operating performance.

Weaknesses include a high concentration in property catastrophe reinsurance and an expected volatile operating performance inherent in its business profile.

The strengths and weaknesses of other Bermuda cat reinsurers, in order of S&P's ranking, follow.

IPCRe Ltd.: With an A+ financial strength rating, IPCRe's strengths include its competitive position, management and corporate strategy and earnings. Its weaknesses include its concentrated premium profile, high equity allocation and low reinsurance utilization.

DaVinci Reinsurance Ltd.: With an A rating, DaVinci Re's strengths include consistent capitalization, financial flexibility and its strategic importance to RenaissanceRe Holdings Ltd., which owns 25% of the company. Its weaknesses are its concentrated premium profile, severity-prone catastrophe risks and low reinsurance utilization.

PXRE Reinsurance Co.: With an A rating, PXRE Re's strengths are an improved earnings performance and capital adequacy. Its weaknesses are its volatile historical operating results and limited business review, according to S&P.

Montpelier Reinsurance Ltd.: The strengths of Montpelier Re, with an A- rating, are competitive position, operating performance, capital adequacy and financial flexibility. Its weaknesses are high-severity risks, a limited track record and a concentrated management team.

Copies of the full report are available to subscribers at *www.ratingsdirect.com*. Nonsubscribers can buy a copy for $400 by calling (212) 438-9823, or by e-mailing *research_request@standardandpoors.com*.

Aussie reforms may raise costs for insurers, buyers

By ELIZABETH FRY

CANBERRA, Australia—Proposed regulations for the Australian property/casualty insurance industry are well intended but some of the reforms would likely increase insurers' costs without providing any added protection to policyholders, some observers say.

They acknowledge that the proposals drawn up by the Australian Prudential Regulation Authority, which are intended to "lift standards to a level regarded as good practice," would lead to tighter regulation but they complain that some of the attention to detail would be burdensome and unnecessary.

APRA revealed its proposed regulatory changes for the property/casualty insurance industry earlier this month. The changes follow recommendations outlined by the Royal Commission report on the collapse of HIH Insurance Ltd., which was published in 2002, and APRA's 2003 discussion paper on the need for increased regulation.

Among other things, the proposals would require each insurer to provide regulators with its "risk management strategy" annually as well as in the event of a change in its strategy; detail its reinsurance arrangements; and increase the responsibilities and reporting requirements of its approved actuaries and auditors (see box, page 15).

The thrust of the reforms has been welcomed by observers.

Gayle Tollifson, chief risk officer at Sydney-based QBE Insurance Group Ltd., called the proposals "sensible," but she noted that they would increase the cost of compliance significantly, particularly for smaller insurance companies.

Nonetheless, Ms. Tollifson stressed that QBE strongly supports APRA's reform process. In particular, she applauded APRA's proposals for the increased scrutiny of reinsurance contracts that contain only limited risk transfer. Also, she said she welcomed the draft provision requiring chief executive officers and chief financial officers to sign off on financial declarations.

Ms. Tollifson expressed disappointment, though, that the "financial condition report" that would be required from each insurer would have to be signed not by the insurer's senior management team but by an approved actuary; general insurance actuaries, she said, do not necessarily have sufficient experience and information to sign off on all the aspects of such a report.

Furthermore, "APRA is going

See APRA / page 15

Updates

Georgia probes Lloyd's reinsurance deals

Lloyd's of London has received a subpoena request from the Georgia Insurance Department. Lloyd's said the request asked syndicates at Lloyd's for information about reinsurance contracts in force in 2004. "We are very happy to assist the Georgia department with this information-gathering exercise," Lloyd's said in a statement. "There is no suggestion that Lloyd's syndicates have acted improperly," the statement added.

Munich Re posts increased profits

Munich Reinsurance Co. reported a profit of 688 million euros ($882.3 million) for the first quarter of 2005, a 26.7% increase over the comparable period last year. The Munich, Germany-based reinsurer said that its increased profit was largely due to a focus on underwriting for profitability. In line with this strategy, the company's gross written premiums reduced by 1.9%, to 10.2 billion euros ($13.08 billion), Munich Re said.

Pension funding deficits grow in U.K.

The largest 350 publicly listed companies in the United Kingdom had a pension funding deficit of £76 billion ($145.6 billion) at the end of 2004, up slightly from £73 billion ($130.3 billion) at the end of 2003, according to research by Mercer Human Resource Consulting in London. Mercer said in a statement that, while on the whole investment returns exceeded expectations in 2004, funding levels of companies' pension plans did not necessarily increase as many employers changed their actuarial assumptions to take account of increased life expectancy. Mercer studied the annual reports of FTSE350 companies, the largest 350 publicly traded companies in the United Kingdom.

Net income, premiums up at Hannover Re

Hannover Re Group reported net income of 107.7 million euros ($139.7 million) for the first quarter of 2005, an 11.1% increase over the comparable period last year. In a statement, the Hannover, Germany-based reinsurer said market conditions in most lines of business were still advantageous and that in some lines, such as casualty business, some rates had increased. Hannover Re's gross written premiums grew 6.2%, to 2.62 billion euros ($3.40 billion), in the first three months of 2005.

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Ireland: Compulsory contributions considered

Continued from page 13

said IBEF is supportive of the PRSA structure, which it considers to be a useful, portable savings vehicle.

And while making pension contributions compulsory for employers and employees may increase pension participation, it would not guarantee that employees would save enough retirement, experts say.

If pension contributions and savings were made mandatory, the end result could be that employers and employees would contribute only the minimum amount required, said Derek Hunter, head of the benefits practice at Watson Wyatt Worldwide in Dublin.

The high costs of operating pension plans are prompting some employers to consider moving away from defined benefit pension plans and instead open defined contribution plans, noted Ms. Daly.

The combined effect of a statutory solvency standard for pensions and falling interest rates in Europe has made pensions very costly for some employers, explained Mr. Hunter.

That funding standard, which took effect in 2002, requires companies to demonstrate each year that they have enough assets to cover their liabilities should their pension plans be wound up. Many companies have had to make additional contributions to their defined benefit pension plans to meet this standard, Mr. Hunter said.

He noted that Watson Wyatt has been advising some clients in Ireland about converting their defined benefit plans to defined contribution arrangements.

Latin American risk professional can apply ALARYS towards RIMS fellow

NEW YORK—Risk professionals who have earned the ALARYS Certificate from the Asociacion Latinoamericana de Administradores de Riesgos y Seguros can use it to satisfy the risk management foundation requirement when pursuing the RIMS Fellow designation, the Risk & Insurance Management Society Inc. has determined.

The certificate from ALARYS, an association of Latin American risk and insurance management professionals, is one of four accepted prerequisites for the foundation requirement. The others are the Associate in Risk Management, Canadian Risk Management and Certified Risk Manager designations.

The change is part of an effort by RIMS and ALARYS to promote the RIMS Fellow and increase eligibility for the designation in Latin America.

—By Michael Bradford

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NOTICE IS HEREBY GIVEN that The Mercantile & General Reinsurance Company Limited, a company incorporated under the Companies Acts and having its Registered Office at Level 2, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2ET (the "Company") has presented to the Court of Session in Scotland a petition under section 425 of the Companies Act 1985 for sanction of a scheme of arrangement dated 14th March 2005 (the "Scheme") between the Company and its Scheme Creditors (as defined in the Scheme).

Any person claiming an interest may lodge answers to the petition at the Office of Court, Court of Session, 2 Parliament Square, Edinburgh EH1 1RQ, Scotland not later than 27 June 2005.

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(THE "SCHEME COMPANY")
(IN RELATION ONLY TO THE "SCHEME BUSINESS" AS DEFINED IN THE SOLVENT SCHEME DEFINED BELOW)
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NOTICE IS HEREBY GIVEN that, by an order dated 27 April 2005 made in the High Court of Justice of England and Wales, Chancery Division, Companies Court, at the Royal Courts of Justice, Strand, London WC2R 2LL, in the matter of the above-named company, the solvent scheme of arrangement (the "Solvent Scheme") to be made between the Scheme Company and its Scheme Creditors (as defined in the Solvent Scheme) pursuant to section 425 of the Companies Act 1985, which was voted on and approved by Scheme Creditors during the meeting held on 19 April 2005, was sanctioned. A copy of the Solvent Scheme was lodged with the Registrar of Companies on 6 May 2005 (the "Effective Date"), and the Solvent Scheme became effective on that date. The full text of the Solvent Scheme along with the accompanying Explanatory Statement and all other related documents are available for downloading from the Website located at www.sdopools-solventscheme.co.uk (the "Website").

Scheme Creditors are required to submit completed Claim Forms in respect of their Scheme Liabilities (as defined in the Solvent Scheme) to Axiom Consulting Limited (the "Scheme Manager") at or before 5pm (London time) on 5 September 2005 (the "Bar Date"). Scheme Creditors may securely access, amend and submit their individual Claim Forms through the facilities offered by the Website at www.sdopools-solventscheme.co.uk. Alternatively, any Scheme Creditor who does not wish to access or submit a Claim Form using the Website facilities may obtain a hard copy by contacting any of Paul West, Colin Horwood or John Farrow of the Scheme Manager at Lloyds Chambers, 1 Portsoken Street, London, E1 8DF, United Kingdom (telephone: +44 (0)207 767 2810, +44 (0)207 767 2859 or +44 (0)207 767 2860, facsimile transmission: +44 (0)207 767 2878, e-mail: paul.west@axiomcc.com, colin.horwood@axiomcc.com or john.farrow@axiomcc.com). Completed Claim Forms must be submitted by Scheme Creditors, either by using the facilities offered through the Website or sent to the Scheme Manager by post, by facsimile transmission or by e-mail in pdf format to the postal or e-mail addresses or facsimile number referred to above so that they are received by the Scheme Manager at or before the Bar Date. Claim Forms sent by post or by facsimile transmission should be marked for the attention of Colin Horwood.

In the event that a Scheme Creditor fails to complete and submit a Claim Form to the Scheme Manager at or before the Bar Date, the total Scheme Liabilities of that Scheme Creditor will be valued at an amount equal to the value of any Unpaid Agreed Claims (as defined in the Solvent Scheme) of that Scheme Creditor. If a Scheme Creditor who fails to complete and submit a Claim Form to the Scheme Manager at or before the Bar Date has no Unpaid Agreed Claims, the total Scheme Liabilities owed to that Scheme Creditor will be valued at nil and such Scheme Liabilities will be deemed to have been satisfied in full under the Solvent Scheme.

Notice of the Effective Date and the Bar Date has been sent by the Scheme Manager to all known Scheme Creditors at their last known addresses along with a preaddressed form for making a Postal Service Request (as defined in the Solvent Scheme) together with confirmation of a unique login ID and password which will permit them to access their individual Claim Forms on the Website. Any person who believes himself or herself to be a Scheme Creditor who has not received notice of the Effective Date or their unique login details should contact any of Paul West, Colin Horwood or John Farrow of the Scheme Manager at the above address.

Any Scheme Creditor who is unclear about or has any questions concerning this Notice, or the action that he or she is required to take, or any Scheme Creditor who wishes to obtain a hard copy of the Solvent Scheme or a Claim Form or any other document contained on the Website should contact any of Paul West, Colin Horwood or John Farrow of the Scheme Manager at the above address.

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APRA: Proposed Australian reforms expected to increase costs for insurers, buyers

Continued from page 13
overboard on the level of detail it is seeking on reinsurance arrangements," Ms. Tollifson said. "It could be inundated with documentation and will lack the necessary resources to absorb the detail it is requesting," she said.

Eamonn Cunningham, vp-global risk management for Sydney-based Westfield Ltd., said he embraced APRA's efforts at greater prudential oversight but complained that the regulator appears to be more interested in establishing world-class corporate governance regulations than determining what is appropriate and necessary in the circumstances. APRA has come up with what is clearly a tough set of standards, he said, but it is "a one-size-fits-all approach for all types of insurers."

Mr. Cunningham said APRA is concerning itself with too much detail, which would require many skilled people to address. Even then, he said, the regulator might not pick up the few serious regulatory problems that occur at insurers.

"I am concerned that all this regulation increases overheads and costs and ultimately corporate Australia will end up paying for this, and I am not sure we will have a commensurate degree of comfort," Mr. Cunningham said.

According to Tony Jackson, an insurance analyst with Sydney-based Macquarie Bank, toughening up the rules would have no real impact on the insurance industry and would merely formalize the lessons that Australian companies have learned after watching the fallout from HIH over the past four years. "We already have a vigorous and demanding capital adequacy framework that is world class and which other jurisdictions are adopting. These regulatory attempts issues do not mean much to the industry," Mr. Jackson said.

Westfield's Mr. Cunningham concurred, noting that some Australian businesses had integrated the lessons learned from HIH's troubles well before the company's collapse. "If you talk to corporate Australia about who saw the writing on the wall, very savvy corporates were making up their own minds regarding insurance companies," he said.

Businesses have until Aug. 5 to comment on the proposals.

Tighter rules for Australian property/casualty insurers

In a consultation document circulated earlier this month, the Australian Prudential Regulation Authority proposed widespread reforms in property/casualty insurer regulations. The reforms cover three broad areas: insurer risk management, reinsurance management, and audit and actuarial reporting. Key points in the proposed reforms include:

Risk management

Each insurer must submit annually to APRA "a risk management strategy" that outlines its systems for identifying, assessing, mitigating and monitoring the risks that may affect its ability to meet policyholder obligations. This document must also be resubmitted when any material changes are made to the strategy. Additionally, each insurer must submit a capital management plan, along with a three-year business plan.

Each insurer must have a risk management function that is appropriate to the nature and scale of its operations.

Each insurer must provide APRA with a declaration on its financial information that is signed by its chief executive officer and chief financial officer.

Reinsurance management

Each insurer must have an effective framework for reinsurance management, which must include, and be documented in, "a reinsurance management strategy" that must be submitted to APRA annually and when material changes are made to the strategy.

Limited risk transfer arrangements will generally not constitute reinsurance for the purpose of calculating reinsurance recoveries. An insurer must seek the prior approval of APRA before entering into a limited risk transfer arrangement.

Each insurer must have accurate and complete reinsurance documentation at, or shortly after, the inception of the reinsurance coverage. Two months after the inception date, the insurer must prepare a declaration specifying the arrangements and whether the coverage is fully placed. Six months after the inception date, the insurer must attest to the documentation of its reinsurance arrangements.

Audit and actuarial reporting

Each insurer must make arrangements to enable its auditor and actuary to undertake their roles and responsibilities, which includes providing an assessment of the overall financial condition of the insurer in "a financial condition report" and "a liability valuation report."

The financial condition report must provide an overview of the key risks and issues faced by the insurer and should form an important input into senior management's decision making.

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PBGC: United default spurs pension funding reform drive in Congress

Continued from page 3

Rep. John Boehner, R-Ohio, who chairs the House Education & the Workforce Committee, said in a statement that the termination of United's pension plans "demonstrates the failure of outdated pension laws to protect the interest of workers and retirees and underscores the need for comprehensive pension reforms."

Rep. Boehner, according to his staff, is expected to introduce a comprehensive reform bill to strengthen pension funding rules and raise premiums employers pay to the PBGC within the next few weeks.

In the Senate, Sen. Mike Enzi, R-Wyo., chairman of the Health, Education, Labor & Pensions Committee, said the United situation highlights the "spectacular shortcomings" of current pension rules. Sen. Enzi will be developing a reform measure over the next couple of months.

Pension experts agree that the United fiasco will put added pressure on legislators to try to hammer out legislation overhauling pension funding rules, as well as boosting PBGC revenues by increasing premiums the agency charges.

The United situation gives legislators an "added impetus. I would think it would spur them to move more quickly," said Douglas J. Elliott, president of the Center on Federal Financial Institutions, a Washington-based public policy institute that focuses on the federal government's insurance programs.

"I think Congress is sensitive that they need to act soon," said Kyle Brown, an attorney for Watson Wyatt Worldwide in Washington.

But experts concur that while the need for congressional action is obvious, it is less certain whether legislators can find a balance—which has eluded them in prior reform efforts—of crafting a measure that tightens pension funding rules sufficiently to reduce the PBGC's exposure to massive losses without making the rules so stiff as to discourage employers from offering plans.

"I suspect it will not be easy," said Janice Gregory, a vp with the ERISA Industry Committee, a Washington-based employer benefits lobbying organization.

"There has to be a willingness for affected parties to compromise," said Lynn Dudley, vp-retirement policy with the American Benefits Council in Washington.

Business groups already accept—to a point—one certain portion of congressional reform legislation: an increase in PBGC insurance premium rates.

"We recognize that premiums will be increased, but we hope the increase will be limited and based on sound policy," Ms. Dudley said.

The base annual PBGC premium is $19 per plan participant, a rate that has not changed since 1991.

Experts also expect that congressional proposals to close the various loopholes left open by earlier reform laws that have made it relatively easy for employers to promise benefits and then not fund them. For example, in the three years prior to the PBGC taking over Bethlehem Steel Corp.'s $3.7 billion underfunded pension plan, the failed steelmaker legally hadn't made any contributions to the plan.

"Past legislation failed to solve a basic problem: keeping the PBGC's exposure to a reasonable level. They should not have this frequency of large losses," Mr. Elliott said.

United's jumbo pension plan problem

Number of plans	Participants	Assets	Liabilities	PBGC loss
4	121,500	$7 billion	$16.8 billion	$6.6 billion

Other airlines' underfunded pension plans

Airlines	Plan underfunding
Delta Air Lines	$5.3 billion
Northwest Airlines	$3.8 billion
American Airlines	$2.7 billion
Continental Airlines	$1.6 billion

Source: Company annual reports

Hurricane: Changes to cat fund may help Florida property owners

Continued from page 4

try retention that would have to be met before the fund would pay claims. Two groups of insurers disagreed on where the retention should be set, but supporters of the version that passed claim it will protect policyholders.

Among the worries of the American Insurance Assn. were proposals to significantly lower the retention; they feared a quick drain of capital from the fund would trigger a bond issue and assessments that would be passed along to policyholders. Instead, the AIA favored leaving the retention at its current $4.5 billion indefinitely; the group also opposed implementing an increase of the retention to $5 billion that had been scheduled for next year.

The Property Casualty Insurers Assn. of America, meanwhile, was calling for a per-season retention of $4 billion, which it maintained would protect the fund's capital while giving insurers quicker access to the reinsurance.

The final version of the bill would leave the initial retention at $4.5 billion, which would apply to each of the two largest storms of the season, and would drop to $1.5 billion for other storms.

"It's our belief that the catastrophe fund ought to be there for the megacatastrophe," said Eric Goldberg, assistant general counsel for the American Insurance Assn. in Washington. Mr. Goldberg noted that proposals from various sources were floated to reduce the retention to as low as $2 billion, which insurers feared would have threatened the fund's survival in a bad storm year.

"The lower the retention, the quicker insurers could tap into it," Mr. Goldberg said, and if it were depleted, he said, "then the bonds are issued."

While the drop in the retention after the two largest storms would be steep, Mr. Goldberg pointed out that the most-recent time four hurricanes struck the state in the same season before last year was in the mid-1800s. "Hopefully, it doesn't happen again," he said.

> "It's our belief that the catastrophe fund ought to be there for the megacatastrophe."
>
> **Eric Goldberg**
> **American Insurance Assn.**

William Stander, regional manager with the PCI in Tallahassee, Fla., said that though his group had wanted the lower retention, "the change they made is better than not having done anything."

Bill Newton, executive director of the Florida Consumer Action Network, said his group supported the $4.5 billion retention, partly because they regarded it as fair to traditional market reinsurers. A lower retention would have meant less insurer participation in that market, Mr. Newton said. "Why should the Legislature put them out of business?" he asked about reinsurers.

Under the portion of the bill that would prevent the nonrenewal or cancellation of coverage on damaged properties, such actions could not be taken until 90 days after repairs were completed.

The bill would also prohibit cancellations and nonrenewals while a hurricane warning is in effect and until 72 hours after it is lifted, a change that Mr. Goldberg said could be problematic for insurers and policyholders. Nonrenewals are sent out as far as 90 days in advance, he pointed out, and if a hurricane warning were to be issued on the 89th day, the coverage would have to remain in place.

"The insured may have gotten coverage from somewhere else by then," he said, which could result in a situation that could leave two insurers on one risk and a property owner with two policies.

Hurricane deductibles would also change under the bill. Insurers would have to offer commercial residential policyholders both a seasonal and per-occurrence deductible. Under some circumstances, underwriters would be allowed to offer commercial residential deductibles as high as 10%.

The bill would bring a number of other changes, including requirements for data disclosure, new notices, coverage checklists for policyholders and others that would mean additional paperwork and expense for insurers. As generally happens, policyholders would likely pick up that tab.

"The cost to issue a policy in Florida is around $100 to $125," Mr. Goldberg said. "All these extra things add expense to the cost to issue the policy. They have to be absorbed somewhere," he added and predicted that would likely end up being the policyholder's burden.

Florida to unveil state-funded hurricane insurance model

By MICHAEL BRADFORD

TALLAHASSEE, Fla.—A state-financed hurricane insurance model due to be unveiled this month aims to take some of the mystery out of how Florida insurers determine residential property rates.

Insurers, though, aren't convinced the new model is needed.

"From our members' perspective, the private models are adequate," said Eric Goldberg, assistant general counsel with the American Insurance Assn. in Washington. "Our members were not pushing for a new public model."

The model, which is being developed for the state by Florida International University's International Hurricane Research Center in Miami and is the first state-funded model to be formed, is expected to be functional sometime this month.

Legislation passed earlier this month calls for Florida insurance companies to provide information that the model will use to generate loss estimates in a manner similar to that produced by private models.

The public model, though, will lay bare the assumptions insurers use regarding hurricane risks and losses to come up with rates. The information will be available to property owners and regulators, who can question their assumptions.

"We had made a lot of noise about opening up the black box, and we finally got that," ponited out Bill Newton, executive director of the Tampa-based Florida Consumer Action Network. "That's huge."

Insurers were not eager to share the data to be used in the model but will be required to under the recently passed legislation, Mr. Newton said.

Mr. Goldberg acknowledged, though, that there could be a use for the model for smaller insurers considering entering the Florida property isurance market.

An Internet-based public model would give newcomers information on loss scenarios without the high cost associated with private models, he noted. "That could be one use for a public model," he said.

Information on the model when it is released will be available at the International Hurricane Research Center's Web site, *www.ihrc.fiu.edu*.

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Asbestos: Amendments delay vote on bill

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of the objections through a 14-amendment managers' package on May 11.

Sens. Specter and Leahy, the committee's chairman and ranking member, respectively, agreed to delay consideration of two of the package's amendments that dealt with the use of specific medical technologies in assessing impairment but brought the rest of the package to a vote. The committee then approved the package on a voice vote.

The managers' package, like an earlier managers' package approved April 28, incorporated a series of amendments offered by committee members and agreed upon by the bill's chief sponsors. Among the components of the May 11 package is a provision that allows insurers to discount their reserves "under the applicable accounting guidelines for generally accepted accounting purposes and statutory accounting purposes for each insurer participant." The provision notes, however, that allowing insurers to discount their fund reserves "shall in no way reduce the amount of monetary payments to the fund by insurer participants."

The package also contains a provision that would allow the administrator of the fund the expanded power to grant hardship adjustments to companies paying into the fund if those payments could force the contributor into bankruptcy. Yet another provision creates a national research and treatment program for mesothelioma, a cancer associated with asbestos exposure.

Sen. Specter noted that about 120 amendments—including those contained in last week's managers' package as well as the earlier multi-pronged managers' package—could be offered before the committee takes a final vote on the bill, which Sen. Specter had wanted to occur last week. But the sheer volume of proposed amendments led the chairman to schedule a continuation of the markup on Wednesday and Thursday in the hope of winning committee approval before the Memorial Day recess.

Meanwhile, the Texas House earlier this month approved a measure that would require claimants in asbestos injury cases to meet specific medical criteria before the claims could proceed. The state Senate had already approved the measure, but will have to consider it again to approve a technical amendment made by the House.

Claimants see less than 50% of asbestos spending: Study

SANTA MONICA, Calif.—Claimants have received only about 42 cents of every dollar spent on asbestos litigation from 1973 through the end of 2002, according to a study made public Tuesday by the RAND Corp.

Thirty-one cents of each of the estimated 70 billion dollars in asbestos- related compensation paid by defendant companies and their insurers over the same period went to defense costs, according to "Asbestos Litigation," prepared by the Santa Monica, Calif.-based RAND Institute for Civil Justice. The remaining 27 cents went to plaintiffs' attorneys and associated costs, according to the study.

RAND estimates that more than 730,000 people filed asbestos compensation claims during the roughly 30 years covered by the study, which drew data from a variety of sources.

The report examines this and other approaches to managing asbestos litigation, and notes that since the federal government will not guarantee the trust fund, "payers' and claimants' representatives need to consider what might happen if the amount originally negotiated proves to be inadequate."

A pre-publication version of the full report is available online at *www.rand.org*.

— By Mark A. Hofmann

Integro: Differentiation seen as key to long-term success of new brokerage

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systems and unencumbered by unrelated business lines that distract management's attention and deplete capital," Integro President Mr. Garvey said in an interview with *Business Insurance* earlier this month.

For the most part, industry observers say there is always room for more competition in the market, but they stress that success for Integro lies in what it will ultimately bring to the table for risk managers. And they note that being unencumbered by industry investigations isn't necessarily a selling point.

"I think, whenever an industry is going through significant turmoil, particularly with industry leaders, there's always opportunity to fill voids and lack of confidence in the market with new players," said Rob Lieblein, president and managing principal with WFG Capital Advisors L.P. in Harrisburg, Pa.

While the opportunity may be there for Integro, the challenge going forward will be to show "what their value proposition is, why they are different and how they create value in the marketplace," he said.

Saying it offers a fresh business model clear of any regulatory investigations is not a long-term selling strategy, Mr. Lieblein said. "That's a selling strategy for right now…not a selling point for 12 months or 24 months down the road."

Buyers skeptical

Risk managers were skeptical about Integro's proposition that it is unencumbered by industry investigations and had varying opinions about whether another brokerage is needed in the large-account marketplace.

With the launch of Integro "you're obviously adding choice, and that's a good thing," said Mark DeLillo, North American risk manager for Taylor Woodrow Inc. in Bradenton, Fla. "As far as not having anything hanging in terms of the investigations, I don't know if that's really a plus or a minus. I think most (brokerages) have put it behind them, for the most part."

"There is always room for healthy competition in any business, and the entrance of a new player should be of interest to risk managers," said Susan Meltzer, assistant vp-insurance and risk management for Sun Life Financial in Toronto. "It is our job to ensure that we are working with brokers who can provide the specific services required by our firms, and we should pay attention to new entrants."

While Integro may not be burdened by restitution funds and class action lawsuits, all brokerages—existing and new—will be affected by the investigations, Ms. Meltzer stressed. "The entire industry needs to respond to a new level of transparency with regard to income, services and business practices," she said.

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>
> **Susan Meltzer**
> **Sun Life Financial**

Sherry Pixler, risk manager for Storage Technology Corp. in Louisville, Colo., said that Integro's position as a brokerage unburdened by industry investigations isn't particularly appealing to her.

"I don't see that as having anything to do with the risk manager's selection of a brokerage house," she said. "I'd be looking at the services that the brokerage house is prepared to offer, and I would expect them to fulfill their obligation to me."

Furthermore, Ms. Pixler said, she doesn't see the need for another large brokerage in the market.

"I think there are still lots of good choices out there. There's not just the big three," she said referring to Marsh, Aon Corp. and Willis Group Holdings Ltd. There are all kinds of brokerages that can serve that market today, she said.

John Phelps, director of risk management at Blue Cross & Blue Shield of Florida Inc. in Jacksonville, said he also doesn't see the large-account market as being underserved. "I feel we are very well served, and we're a Marsh client," Mr. Phelps said.

"As far as (Integro) not having any of the baggage, that might be good in their marketing materials, but the people that I deal with, I feel, are of the highest integrity and always have been," he said.

Mr. Phelps noted, though, that if Integro were to offer something that is "a better mousetrap," he would definitely take a look.

"I'm always on the lookout for things that are in the best interest of my company. I doubt that they have that, though. I think they're just 'another one,'" he said.

Positive reception

For their part, executives from Integro say the response from the market toward their startup has been positive.

"We've heard a fair amount of enthusiasm from potential clients of our firm and potential employees," Mr. Egan, Integro's CEO, told *BI* earlier this month.

"We wouldn't be doing this if we hadn't been encouraged…by large users of insurance who would like more choice, by underwriters who would like a more diverse distribution system…and by brokers themselves who…would also like additional choice about where to practice," Mr. Clements added in the interview.

Letters

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breaching their fiduciary responsibilities to their employees, perhaps the ultimate solution should be eliminate all corporate pension plans and directly pay the employees all of the dollars that corporations would have spent on pension plans, and let the employees invest for themselves at a higher level in 401(k) plans and similar vehicles. But then Congress would have to actually think about passing laws that would allow for additional tax deductions to allow for such a change.

That's entirely too much real work for Congress to consider, because as the seasons change, other athletes may have to be examined by Congress for steroid abuse.

Thomas W. Davis, CIC
Oak Brook, Ill.

Building trust through relationships and diligence

To the editor: *Business Insurance* is part of my self-imposed required reading as risk manager for my company. I always enjoy reading your editorial opinions.

My company is a multistate consumer-owned utility with about $930 million in 2004 gross revenue. I have been the full-time risk manager for over 16 years. I have been employed in the insurance/risk management industry for 36 years.

I read Paul Winston's May 2 commentary, "Risk Managers Must Speak Out," and thought I would offer this risk manager's thoughts. I offer a potentially politically incorrect perspective on the issue of broker compensation/transparency, and I readily acknowledge I may be in a minority position. My remarks are my personal opinions, not necessarily those of my employer.

I believe risk managers have always been capable of securing whatever level of transparency they require. If brokers were less than forthcoming on their compensation arrangements with carriers, then the risk manager has options. The last time I checked, there are other brokers eagerly seeking to represent new clients. As a matter of policy, I have always insisted on knowing the broker's compensation. I always got the information I wanted on a timely basis. If risk managers did not get the information and tolerated that behavior in an open market, maybe a look in the mirror might help in assessing culpability.

Another point comes to mind for me, too. Risk managers ought to know the market for their class of business and which carriers are capable of responding. It is my responsibility to know who the responsible carriers are for my industry. Do you think for a New York minute I would accept a strange carrier in my program without a whole lot of due diligence? I have established personal relationships with many of our carriers' senior people so I know the market independent of what a broker may tell me.

My experience in the insurance/risk management industry has taught me one basic truth. Relationships with brokers are personal in nature and built on trust. If risk managers do not trust the broker across the table, no amount of regulation, fines, transparency requirements or media hysteria will build it.

I used to deal with an occasional broker I discovered did not deserve my trust. Our relationships were short lived.

Evan Mandigo
Director of Risk & Insurance
Basin Electric Power Cooperative
Bismarck, N.D.

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AIG UNDER PRESSURE

AIG: D&O coverage in place

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Great American often offers primary D&O limits to financial institutions, but the insurer typically does not write primary coverage for other large risks, according to market executives.

Warren, N.J.-based Chubb Corp. participates on a low excess layer of AIG's program, according to sources.

A notable D&O insurer, ACE USA of Philadelphia, previously participated in AIG's program but did not write a piece of the current program, according to sources.

Sources could not comment on the precise wording of AIG's coverage, however, some traditional D&O programs contain provisions that would bar coverage for all directors and officers—including innocent executives—if certain key executives are found to have been aware of the problems that triggered the claims, market executives say. AIG has publicly blamed former unidentified senior management—widely presumed to be former Chairman and Chief Executive Officer Maurice R. Greenberg and former Chief Financial Officer Howard I. Smith—for "certain control deficiencies" in the insurer's financial reporting.

Few securities fraud cases are adjudicated, however, and coverage restrictions do not apply in settlements in which the defendants do not admit liability, attorneys noted.

Few D&O programs contain tighter terms that could bar coverage if facts about inappropriate executive acts are established outside of a final adjudication of the matter, market executives said.

Cover for new directors

A new Side A tower of directors and officers liability insurance that sits above the traditional D&O program purchased by American International Group Inc. covers only the newest members of AIG's board, according to sources.

Those new directors are:

- George L. Miles Jr., 63, president and chief executive officer of public broadcaster WQED Multimedia of Pittsburgh.
- Morris W. Offit, 68, co-chief executive officer of Offit Hall Capital Management L.L.C., a wealth management advisory firm with offices in New York and San Francisco.
- Stephen L. Hammerman, 66, who served as deputy commissioner of legal matters for the New York City Police Department from 2002 through 2004. Mr. Hammerman also has served as New York Regional Administrator for the Securities and Exchange Commission and an assistant U.S. attorney in New York.

Within the past couple of months, AIG has added a Side A tower to its program to cover three executives who have joined the embattled AIG board recently (see related story). AIG needed to purchase the tower before the executives would agree to serve, a source said. The tower provides around, but less than, $75 million of limits for only the new board members and excludes coverage for prior acts, sources said.

Side A coverage responds when a corporation is precluded by law or corporate governance rules from indemnifying its executives for losses stemming from securities fraud claims.

Wholesale brokerage ARC Excess & Surplus L.L.C. of Garden City, N.Y., placed the Side A excess coverage, according to sources.

AIG's initial 8% stock price drop after Mr. Spitzer implicated the insurer in the contingent commission scandal triggered class action lawsuits by large institutional investors, including the Ohio Public Employees Retirement System, the State Teachers Retirement System of Ohio, the Ohio Police and Fire Pension Fund and the State of Michigan Retirement Systems.

While AIG's share price rebounded strongly beginning in late October, it began falling steadily again in March as accounting problems over how the insurer treated finite risk and other loss mitigation transactions began to surface (see chart). That has triggered additional securities fraud claims by investors.

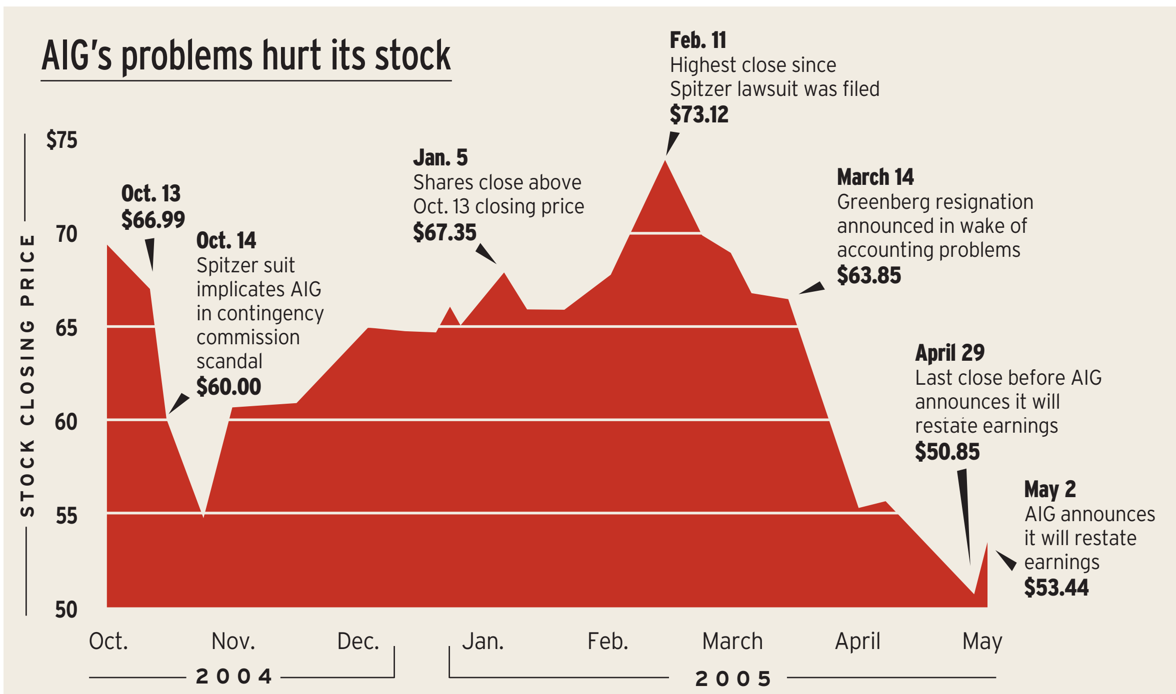
The Washington-based American Federation of State, County and Municipal Employees estimates that AFSCME members and other public employees whose pension funds own approximately 3.8% of AIG's common stock have lost nearly $1 billion over the past six months because of AIG's falling stock price. The AFSCME is not a plaintiff in any of the securities fraud suits filed against AIG.

And, last month, AIG announced that those accounting problems would force it to restate more than four years of financial reports, likely cutting stockholders equity by $2.7 billion, or 3.3%.

Restatements virtually guarantee a D&O securities lawsuit against the company that is restating its financial reports, said Elaine Buckberg, a New York-based vp of NERA Economic Consulting, a unit of Marsh & McLennan Cos. Inc. That's because under the rules governing restatements, a company essentially should have known it was filing erroneous figures when it filed its original reports, she explained.

That gives plaintiffs a huge incentive to file lawsuits, attorneys said.

AIG's share price has stabilized since the insurer first announced that it would restate its earnings. But potential plaintiffs can wait to file suit until after they see how the share price responds when AIG formally issues its restatements, said insurer attorney Arthur J. Washington, a partner with Mendes & Mount L.L.P. in New York.



AIG, other insurers face additional exclusions on D&O cover renewals

When American International Group Inc. and other insurers renew their own directors and officers liability insurance in the months ahead, they will find D&O underwriters—including AIG—getting tougher on their peers, according to brokerage and insurer executives.

Many insurers will face new exclusions that will bar coverage for the kinds of claims that are besieging AIG currently (see related story), market executives say.

The exclusions vary from insurer to insurer, and some insurers are trying to pull all exclusionary language into a single provision while others are addressing each coverage concern separately, market executives say.

The top five-to-10 D&O insurers that write primary coverage are trying to exclude coverage for any type of claim related to contingent commissions, bid rigging and the use of finite insurance or any product designed to help buyers smooth insurers earnings or financial results, said Tom Orrico, a New York-based managing director of the financial institutions practice in Marsh's FINPRO unit.

The provisions are "absolute exclusions," Mr. Orrico noted. But, while all of the top primary underwriters are turning to such exclusions, not all have drafted their final language, he said.

AIG is the largest underwriter of primary D&O coverage in terms of premium volume and is second in policy count, according to a 2004 D&O market survey by the Tillinghast unit of Towers Perrin.

The exclusions will force buyers that have any hint that they may face such claims to put their expiring policies on notice within the allowable reporting period or face losing coverage for such claims, Mr. Orrico said.

Not all buyers, though, should expect insurers to impose the exclusions, according to market executives.

"We've taken it on a case-by-case approach for each individual client," said Rich Edsall, a vp at Chubb Specialty Insurance, which has a series of exclusions that address its underwriting concerns.

"We've had victories and losses in that area" for insurance company buyers of D&O coverage, noted Steve Shappell, director of the legal and claims practice in the Denver-based Aon Financial Services Group, a unit of Aon Corp.

—By Dave Lenckus

Probes widen to encompass Transatlantic, Gen Re execs

By DOUGLAS McLEOD

NEW YORK—Regulators investigating finite risk products and American International Group Inc.'s financial reporting have issued additional subpoenas, while the Securities and Exchange Commission has notified several current or former General Re Corp. officials that they may be sued for securities law violations.

Transatlantic Holdings Inc. disclosed last week that the New York Insurance Department has subpoenaed information regarding its dealings with a Cayman Islands-based medical malpractice reinsurer owned by a former official of Arthur J. Gallagher & Co.

The Cayman Islands reinsurer, Sunrise Professional Indemnity Ltd., is controlled William F. Galtney Jr., the former chairman and chief executive officer of Gallagher Healthcare Insurance Services Inc., according to an SEC filing by Everest Re Group Ltd.

Since 2002, Houston-based GHIS has produced business for Everest, which then reinsured 82% of its risk with Transatlantic, a majority-owned affiliate of AIG. Transatlantic in turn retroceded up to 100% of the business to Sunrise, according to the Everest filing.

Mr. Galtney—now chairman of Oxford Insurance Services Ltd., a Houston-based managing general agent and surplus lines broker that does business with Everest and GHIS—said he believes the Transatlantic subpoena is part of an ongoing probe into offshore companies that AIG controlled but failed to report as related entities.

AIG recently conceded that two such offshore reinsurers—Union Excess Reinsurance Co. Ltd. of Barbados and Richmond Insurance Co. Ltd. of Bermuda, which assumed most or all of their business from AIG—should have been consolidat-

See PROBE / next page

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Notices: Many employers unaware of requirement

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provide retiree medical coverage are not aware of this," said Henry Saveth, an attorney with Mercer Human Resource Consulting in New York.

"I think this is going to catch many employers, especially smaller firms, by surprise," added Michael Morfe, a vp with Aon Consulting in Somerset, N.J.

The reporting requirement applies to any employer that offers prescription drug coverage and has plan participants eligible for Medicare. There is not, unlike many other federal benefit laws, a small-employer exemption.

And the notice would have to go not only to employees and retirees but also to their family members if those members also are eligible for Medicare. That could pose tracking problems for employers who have not maintained records on the age of all employees' and retirees' dependents.

The purpose of the notice is to help health care plan participants decide whether they want to enroll in Medicare Part D, which begins next January.

Additionally, if the employer plan provides benefits that are at least equal to those provided under Part D, individuals will be considered to have so-called "creditable coverage." If the employer coverage is creditable, individuals can delay enrolling in Part D from the time they first become eligible and avoid a late-enrollment penalty. That penalty is 1% of the monthly Part D premium—now expected to be about $35—for each month enrollment is late. That penalty would be assessed for as long as beneficiaries pay Part D premiums.

The U.S. Centers for Medicare and Medicaid Services soon is expected to issue a model notice that employers could adopt and distribute to Medicare-eligible individuals that explains whether employer-provided coverage is equal to Part D and is, as a result, creditable.

In order to determine if their coverage is equal to Part D, employers will have to compare the benefits their prescription drug plans provide with that of Part D.

Benefit consultants are expecting guidance from CMS so that employers, in many cases, would not have to retain actuaries to make such determinations.

For example, CMS might provide safe harbors in which employer plans whose designs fit in would automatically be considered creditable coverage without the need for further actuarial certification, said Cara Jareb, a consultant with Watson Wyatt Worldwide in Washington.

With Part D's high cost-sharing requirements, many employer-sponsored plans likely would prove more generous. Under Part D, enrollees will receive, after a $250 deductible, coverage for 75% of the next $2,250 in prescription drug expenses. After that, the next $2,850 in expenses will be excluded and then Part D will pay 95% of prescription drug expenses exceeding $5,100.

Still, some employer plans may offer less extensive coverage. For example, under a high-deductible insurance plan linked to a health savings account, the deductible for all health care services, including prescription drugs, will be, after the end of a two-year transition phase expiring in December, $1,000 for individual coverage and $2,000 for family coverage.

Lower or no cost-sharing requirements for prescription drugs that are preventive in nature, such as cholesterol-lowering medications, would be allowed, though, under guidance the Treasury Department issued last year.

Probe: Transatlantic, Gen Re execs drawn in

Continued from previous page

ed in its financial statements.

Sunrise's situation is not similar to those cases despite the Cayman company's having assumed all of its business from Transatlantic, Mr. Galtney said.

Spokesmen for the New York department and Transatlantic declined to comment.

Meanwhile, amid its investigation of General Re's $500 million loss portfolio retrocession to AIG in 2001, the SEC has notified several current and former General Re officials that they may face civil enforcement actions. AIG recently conceded accounting improperly for the portfolio deal as insurance.

One so-called "Wells" notice went to Elizabeth A. Monrad, who left General Re as chief financial officer in 2003 to become CFO of New York-based TIAA-CREF. Ms. Monrad last week took a leave of absence from TIAA-CREF.

Richard Napier, a Stamford, Conn.-based General Re senior vp, and John Houldsworth, chief underwriter of its Cologne Reinsurance Co. (Dublin) Ltd. branch, also received Wells notices, according to newspaper reports citing sources familiar with the matter.

Ms. Monrad, Mr. Napier and Mr. Houldsworth could not be reached.

Other insurers, separately, reported receiving subpoenas related to probes of finite risk and other loss mitigation products. They include Chubb Corp., which was subpoenaed by federal prosecutors in New York; and General Electric Co., which was subpoenaed by the SEC. The GE subpoena also applies to GE affiliates Genworth Financial Corp. and GE Life & Annuity Assurance Co.

BI Stock Index [5/9 - 5/13]

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

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

Index	Value	Change
BI Stock Index	2295.95	-2.43
Dow Jones	10140.12	-1.98
S&P 500	1154.05	-1.48

Largest gains

Company	Change
PMA Capital Corp.	3.32%
Meadowbrook Insurance Group	2.69%
American Safety Insurance	2.22%
Partner Re. Ltd.	1.92%
Philadelphia Consolidated Holdings	1.54%

Largest losses

Company	Change
Unico American Corp.	-8.64%
Tower Group Inc.	-8.02%
Axis Capital Holdings Ltd.	-5.63%
CNA Surety	-5.49%
Argonaut Group	-5.24%

Weekly change by market segment

Segment	Change
Brokers	-3.12%
Insurers/Reinsurers	-2.36%
Managed Care Organizations	-2.42%

Source: FinancialContent Inc. *(http://financialcontent.com)*

Late News

Continued from page 1

management and risk management consulting firm RiskCap Inc. last year. The addition of JBL&K will bring Beecher Carlson's projected 2005 revenues to roughly $45 million and will add employee benefits business.

Congoleum, insurers settle asbestos dispute

Subsidiaries of American International Group Inc. have agreed to pay embattled flooring manufacturer Congoleum Corp. $103 million to settle a coverage dispute over asbestos-related claims. The settlement resolves Congoleum's claims against units of AIG that provided excess insurance coverage under policies carrying a total of $114 million in liability limits for asbestos bodily injury claims, Congoleum said. Liberty Mutual Insurance Co., which provided primary liability insurance that included coverage for asbestos-related claims, last year agreed to pay a total of $15.4 million to Congoleum, according to the company's bankruptcy documents.

U.K. court turns away case against Lloyd's

A judge in the U.K. High Court has refused applications made by a group of former individual investors to bring two claims of "misfeasance in public office" against Lloyd's of London. In the case, a group of names sought to assert that Lloyd's was guilty of misfeasance—a charge relating to a lack of good faith—in concealing the amount of asbestos liabilities threatening the market in the 1980s and recruiting new investors in an attempt to absorb those liabilities. In 2000, the High Court ruled in *Jaffray vs. Lloyd's* that Lloyd's had not recruited names fraudulently.

Regulators examine reinsurance rules

Insurance regulators are proposing reporting guidelines for property/casualty insurers designed to bolster oversight of reinsurance transactions. Led by New York, regulators meeting in Chicago to discuss the proposals recommended that there be increased scrutiny of ceding insurers that participate in reinsurance contracts for which an insurer recorded gains or losses in some financial indicators that exceeded 3% of its policyholder surplus. There currently is no threshold for such disclosures. New York regulators also urged that an insurer's chief financial officer, as well as its chief executive officer, be required to attest under threat of perjury that the company's reported reinsurance contracts do not include side agreements and that it can document risk transfer.

S.C. approves benefits parity

Health insurers would have to provide coverage for severe mental health conditions, including bipolar disorders, depression, paranoia and schizophrenia, on the same basis as other medical conditions under legislation given final approval last week by the South Carolina Legislature. The measure, S. 49, would apply to all group policies written by insurers, except policies covering employers with 50 or fewer employees. The bill would take effect June 30, 2006, and would apply to policies issued or renewed on or after that date. More than 30 states now have similar or more comprehensive mental health care parity laws.

AIG faces lawsuit over 401(k) losses

American International Group Inc. is facing a lawsuit that claims the insurer led employees to invest in the company's 401(k) savings plan while concealing improper activities that drove down the value of AIG stock in the plan. The suit, filed in U.S. District Court, says AIG's financial officers have breached their fiduciary responsibilities since Nov. 1, 1998, by leading employees to invest in its stock while claiming strong growth and positive results but failing to disclose the company's involvement in contingent commissions paid to brokers and other activities that led to overstatements of AIG's income and revenue. A spokesman for AIG declined to comment.

N.Y. rating board revising comp rate hike request

The New York Compensation Insurance Rating Board plans to file an updated proposed rate increase for workers compensation rates to replace an earlier 9.5% rate increase proposal, though it is unclear how large a rate hike it will now seek. The board recently withdrew its latest 2004 rate request of 9.5%—down from an original 29.3% request—after the New York Insurance Department failed to act on it.

ACE names new chief auditor

ACE Ltd. has tapped its senior vp of financial reporting, Julie Schaekel, for the position of chief auditor, Ms. Schaekel, who joined Hamilton, Bermuda-based ACE in 1998, replaces Jeanette Hughes, who has left the company. A spokesman for ACE declined to comment on the reasons for Ms. Hughes' departure.

At *BusinessInsurance.com*

New **Online Poll**: Do you think the termination of United Airlines' massively underfunded pension plans will lead Congress to tighten pension funding rules?

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