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EUROPE PREPARES TO STRESS TEST INSURERS / PAGE 3

In Brief

Bill would establish insurance info office

Rep. Paul Kanjorski, D-Pa., has reintroduced a bill that would create a federal office of insurance information within the Treasury Department. The office would collect and analyze data on insurance, advise the Treasury secretary on domestic and international policy matters, and report to Congress every two years. H.R. 2609 also would establish an advisory group of state regulators, consumer groups and others to advise the head of the office. Rep. Kanjorski introduced a version of the legislation last year.

Surplus lines reform bill reintroduced in House

Reps. Dennis Moore, D-Kan., and Scott Garrett, R-N.J., made good on their promise to reintroduce legislation to streamline the

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BENEFITS MANAGEMENT

BENEFIT CONSULTING & OUTSOURCING

The economy has companies cutting back on consultants and looking for deals when they use them; competitive market keeps TPAs on their toes; electronic medical records seen as way to help employers



save money; *BI* ranks world's largest benefit consultants.

PAGE 10

AIG to replace CEO Liddy, revamp board

New chief will need varied skill set to confront company's many challenges: Analysts

By **JUDY GREENWALD**

NEW YORK—American International Group Inc. faces yet another challenge as it seeks someone to succeed Edward M. Liddy as chief executive officer of the embattled company.

Finding the ideal candidate for that job may not be easy, analysts say. The new chief will have to work to keep the company stable while leading it through its dismantling, all the while facing ongoing public and government scrutiny.

AIG last week announced that Mr. Liddy, CEO and chairman, would step down as soon as his replacement is found. In addition, AIG said it would separate the CEO and chairman roles and would reconfigure its board so a majority of its members will be the six newly elected independent directors announced last week (see box, page 20). The search will be conducted by the new board and the federally appointed trustees of the AIG Credit Facility Trust.

"Working with the board, Mr. Liddy has deter-



AIG chief Edward M. Liddy leaves Capitol Hill after testifying in Congress last week.

mined that, coincident with the reconfiguration of the board, the company should also initiate the necessary actions to install a more permanent team and structure," AIG said in a statement.

Mr. Liddy, a former CEO of Allstate Corp.,

came out of retirement to join AIG in September 2008 at a salary of \$1 a year.

He was the insurer's fifth chief executive since 1919 and its third in a year. He took the position during the federal bailout in September 2008 by the Federal Reserve Board, replacing Robert B. Willumstad. Mr. Willumstad had been installed as CEO in June 2008 after the ouster of former chief Martin J. Sullivan. Mr. Sullivan replaced longtime chairman and CEO Maurice R. Greenberg in 2005. AIG's only other chief has been company founder Cornelius Vander Starr.

Mr. Liddy said in a statement, "Much work remains to be done at AIG, but much has already been accomplished. With the financial assistance of the Federal Reserve Bank of New York and the U.S. Department of the Treasury, we have made substantial progress in stabilizing AIG, reducing the systemic risk that led the government to rescue the company, protecting our policyholders

See **LIDDY** page 20

PBGC deficit sparks fears of bailout

By **JERRY GEISEL**

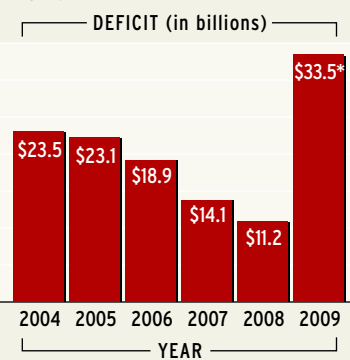
WASHINGTON—The financial position of the Pension Benefit Guaranty Corp. again is rapidly deteriorating, triggering fears that a taxpayer-funded bailout may be needed to shore up the government's pension plan insurer.

The PBGC disclosed last week that its deficit hit a record \$33.5 billion at the end of its 2009 fiscal first half on March 31, compared with \$11.2 billion at the close of fiscal 2008.

The deficit eclipses the prior highest deficit of \$23.5 billion from 2004. Losses from completed and probable terminations, lower interest rates used to value the PBGC lia-

CHANGE IN FORTUNE

The Pension Benefit Guaranty Corp. posted a record deficit for the first half of fiscal 2009, the largest in its 35-year history and ending a recent trend of declining deficits.



*First half of fiscal 2009
Source: Pension Benefit Guaranty Corp.

bilities, and investment losses were key factors contributing to the deficit.

And the worst may be yet to

See **PBGC** page 20

Hartford vows to keep P/C, life units intact

Insurer makes pledge after applying for federal bailout funds

By **JUDY GREENWALD**

HARTFORD, Conn.—Hartford Financial Services Group Inc.'s expected \$3.4 billion in federal bailout funds will give the insurer more financial flexibility and allow it to keep operating as a multiline insurer, say observers.

Hartford released an internal memo last week by Chairman and Chief Executive Officer Ramani Ayer saying the insurer has no plans to sell either its life or its property/casualty businesses, despite earlier reports that the company was attempting to sell assets after suffering significant financial losses as a result of the credit crunch.

The memo was released several days after Hartford announced it had received preliminary approval to receive \$3.4 billion from the U.S. Treasury Department's Capital Purchase Program under the Troubled Asset Relief Program. The insurer

bought a Florida savings and loan company last year to qualify for the assistance.

A company spokesman said negotiations are ongoing as to the funding's terms and conditions. She said similar transactions with other firms have closed within 30 days.

The spokeswoman said there is no connection between the TARP approval and Hartford's announcement that it does not plan to sell any of its businesses, although many observers question that assertion.

In response to a question about how it planned to use the funds, the company said in a statement, "All terms of the actual Treasury investment in the Hartford are subject to final negotiations and approval."

Meanwhile, observers say while the TARP funding will give Hartford much-needed capital, it may come with certain strings attached, including executive salary limits and perhaps some government interference in how it operates its businesses. Several other financial institutions have refused TARP funds.

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Hartford chief Ramani Ayer said, despite rumors to the contrary, the insurer won't sell its life or P/C units.

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Catlin backs expedition to measure Arctic ice

Hazardous journey undertaken to gauge climate change risk

By SARAH VEYSEY

LONDON—Three U.K. explorers tested the limits of their personal risk management during a 73-day Arctic Ocean expedition sponsored by Bermuda-based insurer Catlin Group Ltd.

Team members endured extreme cold, the inability to navigate via visual tools, the risk of polar bear attacks and many other hazards in their quest to measure the depth of floating sea ice in the Arctic Ocean, which Catlin said is the first experiment of its kind.

Catlin sponsored the expedition (see story, page 21.)

Sleeping head to toe in a tent, the explorers had to put up with each other's snoring—though it abated as the trip progressed. More frightening was the night they awoke to the sound of the ice cracking and breaking up beneath them. They barely escaped the patch of ice before it broke.



MARTIN HARTLEY/WWW.MARTINHARTLEY.COM

A team of explorers sponsored by Bermuda-based insurer Catlin recently braved bitter cold and other risks to gather data on ice melt in the Arctic Sea.

Surveyor and expedition leader Pen Hadow, navigator Ann Daniels and photographer Martin Hartley returned to London last week earlier than originally planned. The expedition was cut short because of concern that the spring melt would make it too dangerous for an aircraft to land on the ice and pick them up at a later date.

After returning to London, the explorers shared stories of their trip and explained the scientific importance of the survey.

Mr. Hadow, famed as the first person to trek solo without being resupplied from Canada to the North Pole, said his motivation for putting together the Arctic expedition was a desire to use his skills for

the benefit of science.

The more involved he became in organizing the trip, Mr. Hadow said, the more he began to realize the importance of gathering high-quality data to help scientists better understand what is happening to Arctic sea ice and whether global warming is having an effect.

"Models are only as good as the information you put into them," Mr. Hadow said. While satellite images allowed scientists to calculate how much sea ice had melted, they were not able to actually measure thickness of the remaining ice.

"The devil is in the detail," Mr. Hadow said.

The team's typical routine would be to drill half the day and walk to and from the drilling site.

The drilling was "unimaginably hard" to do and was one of the biggest challenges Mr. Hadow said he faced on the trip.

Despite testing before the expedition, the team's high-tech radar drilling equipment failed in the extreme weather conditions, so all drilling was done manually.

The team made 16,000 observa-

See **ARCTIC** page 21

New CNA chief outlines plans to grow insurer

By RODD ZOLKOS

CHICAGO—When Thomas F. Motamed, CNA Financial Corp.'s new chairman and chief executive officer, talks about his plans for the company, a concept that comes up a lot is consistency.

Consistency in relationships with agents and brokers, consistency in employee tenure and, ultimately, consistency in the way CNA serves the needs of insurance buyers are important to Mr. Motamed.

Another key concept is making Chicago-based CNA more profitable.

For Mr. Motamed, who joined CNA at the start of the year after a 31-year career at Chubb Corp., where he rose from claims trainee to vice chairman and chief operating officer, the path to increased profitability is linked to consistency. To a large extent, the strategic plan he outlined earlier this month is based on building on CNA's historic strengths, rather than any radical changes in approach.

As part of that strategy, CNA plans to expand its strength in the construction and health care markets to other industry segments: business services, commercial real estate, education, financial institutions, manufacturing, professional services, retail, technology and wholesale distribution.

While it acknowledges specialty business as the primary driver of



TOM MADAY

Thomas F. Motamed, CNA's new chairman and CEO, is looking to expand the insurer's risk appetite.

CNA's growth, the plan aims to capitalize on opportunities in the key industry areas to write business such as equipment breakdown, marine, property and umbrella coverage.

"Any vibrant company is one that grows and makes money," Mr. Motamed said. "And as I looked at CNA, I didn't feel that we had a real growth strategy, and there certainly was room for improvement on the profitability side."

Since joining the company to replace Stephen W. Lilienthal, who retired, Mr. Motamed has had discussions with CNA employees across the country and hundreds of agents that led him to the conclusion "that we need to have a broader appetite for risk."

"Historically, CNA was well-known—and is still well-known—in health care and construction," Mr. Motamed said. "And, over time, those have been extremely profitable market segments. So we empowered a group of people within CNA to determine how could we

See **CNA** page 6

Europe to stress test large insurers in 2010

Buyers welcome move to examine financial stability

By MICHAEL BRADFORD

FRANKFURT, Germany—Europe's largest insurers and reinsurers will undergo a stress test next year that will give regulators and buyers a feel for their financial stability, but it will not determine the claims-paying wherewithal or capital adequacy of individual companies.

The Committee of European Insurance and Occupational Pensions Supervisors plans to put insurers and reinsurers through the stress tests in 2010 in conjunction with its fifth quantitative impact study—the next in the series of studies on the potential impact of Solvency II, Europe's risk-based capital regulatory framework proposed for implementation in 2012.

In the same way that the European Union's Economic and Financial Committee is concerned about the financial stability of banks and ordered stress tests for those institutions, it has given Frankfurt, Germany-based CEIOPS a mandate to develop a test for insurers, said Thomas Steffen, chairman of CEIOPS.

Linking the stress test to QIS 5 reduces the burden on insurers and reinsurers because there is some overlap in the types of data that will be submitted for both tests, said Mr. Steffen, who also is head of insurance at the Bundesanstalt für Finanzdienstleistungsaufsicht, the German financial supervisor.

"The industry has to calculate for QIS 5 anyway," Mr. Steffen said. "The idea is not to run (the stress test) on a stand-alone basis, which might overburden the insurance industry."

CEIOPS aims to present a comprehensive look at the financial condition of the European marketplace by submitting insurers and reinsurers to the stress test. It is not setting out to provide a guide to the financial health of individual companies, Mr. Steffen said.

The test will not seek to determine an appropriate level of capital for underwriters or speculate as to whether companies should seek additional capital, he said. "We will not mention individual players."

The 30 largest insurers and reinsurers with cross-border operations will undergo the tests, Mr. Steffen said. A list of those companies has been drawn up but has not been made public. Criteria such as vol-

See **STRESS** page 6



Marie-Gemma Dequae, president of the Federation of European Risk Management Assns. said the stress tests will give risk managers a more complete look at insurers' financial stability.

IRS proposes business hardship changes to 401(k) rules

Agency would allow employers to suspend plan contributions

By JERRY GEISEL

WASHINGTON—Proposed Internal Revenue Service rules would allow employers that make automatic 401(k) plan contributions under a safe harbor provision to suspend or reduce those contributions if they incur a substantial business hardship.

The proposal, which the IRS said is intended to decrease the likelihood that financially distressed employers will terminate 401(k) plans, applies to companies that qualify for a safe harbor by making an automatic contribution to employees' 401(k) accounts equal

to 3% of employees' pay.

By qualifying for the safe harbor, employers do not have to run an IRS nondiscrimination test to determine that average salary deferrals of higher-paid employees do not exceed those of rank-and-file employees by a legally set amount.

The advantage of not having to pass the nondiscrimination test is that higher-paid employees can contribute up to \$16,500 a year for those 49 and younger and \$22,000 for those 50 and older, without regard to how much lower-paid employees put in. That avoids problems such as employers having to return contributions to higher-paid employees, which can be administratively messy, said Robyn Credico, national director of defined contribution plan consulting for Watson Wyatt Worldwide in Arlington, Va.

In addition, employers can "communicate with confidence" to employees how much they can contribute, said Michael Weddell, a principal with Mercer L.L.C. in Detroit.

The IRS proposal is an extension of an earlier rule finalized in 2004

'There is no downside here.'

Cindy Milsted, Hewitt Associates Inc.

that allows employers qualifying for another safe harbor—one where they have to match 100% of employees' deferrals on the first 3% of pay and match 50% of deferrals made on the next 2% of pay. The earlier rules on match-based 401(k) safe harbor plans, though, do not require employers to prove a sub-

stantial business hardship to suspend or reduce contributions.

Like the earlier rules, the new proposal sets other requirements employers would have to meet, including notifying employees. In addition, an employer's 401(k) plan must pass the nondiscrimination test for the entire year in which it suspends or reduces contributions.

Absent the IRS proposal, the only option for employers no longer able to afford automatic contributions would be terminating their plans. That is because of IRS rules that say employers must comply with safe harbor requirements, including continuing contributions, for an entire plan year.

Benefit experts welcomed the proposal as one that aids employers and employees. By knowing they are not locked into their contribu-

tions when the economy slumps, a "barrier is removed" that might have discouraged some employers from moving to an automatic contribution 401(k) plan that qualifies as a safe harbor from nondiscrimination testing, said Bill McClain, a Mercer principal in Seattle.

Additionally, if financially distressed employers continue their plans, employees can still contribute to their retirement. Employers that later resume automatic contributions of 3% then would again be exempt from nondiscrimination testing.

"There is no downside here," said Cindy Milsted, an attorney with Hewitt Associates Inc. in Lincolnshire, Ill.

If adopted, the rules would apply to plans amended after May 18, the date the proposal was published in the Federal Register.

VALIDUS INCREASES OFFER FOR IPC HOLDINGS

	Initial offer	Subsequent offer
	\$1.68 billion	\$1.69 billion
Cash per IPC share	\$0	\$3.00
Exchange ratio per IPC share	1.2037	1.1234
Value per share	\$29.08	\$30.14

*Based on the May 15 Validus closing price of \$24.16 per share
Source: Company filings

IPC spurns improved bid by Bermuda rival Validus

By COLLEEN MCCARTHY

HAMILTON, Bermuda—IPC Holdings Ltd. last week rejected a revised takeover offer by Validus Holdings Ltd., marking the second time IPC has rebuffed Validus in favor of its planned merger with Max Capital Group Ltd.

Validus raised its unsolicited offer to \$1.69 billion for IPC and added a cash component to the deal in an attempt to entice IPC shareholders to vote against IPC's proposed amalgamation with Max Capital. All three reinsurers are based in Bermuda.

Under the new offer, IPC shareholders would receive \$3 in cash per share in addition to Validus stock (see box). The offer marks a 13.2% premium to IPC's closing stock price on Friday, May 15, the last trading day before the announcement, Validus said.

But last week, IPC's board said the increased Validus bid did not constitute a superior proposal to the Max Capital offer and was not in the company's best interest.

"The IPC board continues to believe that our fully negotiated transaction with Max provides compelling strategic benefits, superior value and upside potential for all IPC shareholders," Kenneth L. Hammond, chairman of IPC's board of directors, said in a statement. In addition, he said the amalgamation agreement with Max Cap-

ital has received all regulatory approvals, and the deal is on pace to close immediately after shareholder approval.

In March, IPC agreed to a \$912 million all-stock merger deal with specialty insurer and reinsurer Max Capital, which valued IPC shares at 1.5554 Max shares, or \$26.38 a share.

"We are disappointed but not surprised by the IPC Board's decision," Validus said in a statement, adding Validus had received positive feedback from IPC shareholders on the increased offer.

Analysts say the cash component of the revised Validus deal makes the offer more attractive, but it likely is not enough to thwart an IPC/Max Capital merger.

"It's a slightly better deal but, at the end of the day, it's not a very large change," said Dean Evans, an analyst with Keefe, Bruyette & Woods Inc. in New York.

Mr. Evans said he continues to believe the IPC/Max agreement is a superior offer due to the more diversified entity it would create, and IPC shareholders likely will vote in favor of the IPC/Max combination.

IPC and Max Capital shareholders are scheduled to vote June 12.

Last week, shares of IPC closed at \$25.07, shares of Validus Holdings closed at \$22.01 and shares of Max Capital Group Ltd. closed at \$15.68.

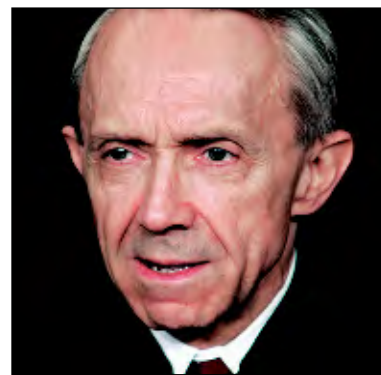
Court rules for AT&T in pension case

By JUDY GREENWALD

WASHINGTON—An employer does not necessarily violate the Pregnancy Discrimination Act by paying pension benefits calculated using standards that are no longer acceptable under that law, even if women on maternity leave before the law took effect received less credited service time, the U.S. Supreme Court ruled Monday.

The plaintiffs in *AT&T Corp. vs. Noreen Hulteen et al.* were four current or former AT&T employees—who had each taken partially uncredited pregnancy leave before the PDA took effect in 1979—as well as their union, the Communications Workers of America. As a result of the uncredited time off, their pension benefits were reduced.

The court ruled that because AT&T's procedures at the time were in "accord with a bona fide seniori-



AFP



UPI PHOTO

Associate Justices David Souter and Ruth Bader Ginsburg wrote the respective majority and dissenting opinions in a ruling centering on pension benefits.

ty system's terms" and were not the result of an intent to discriminate, the company had complied with Title VII of the Civil Rights Act of 1964. The court's 7-2 ruling last week overturned a 2007 en banc decision by the 9th U.S. Circuit Court of Appeals in San Francisco.

"Although adopting a service credit rule unfavorable to those out on pregnancy leave would violate Title VII today, a seniority system does not necessarily violate the statute when it gives current effect

See **AT&T** page 6

Tax issues could drive more moves

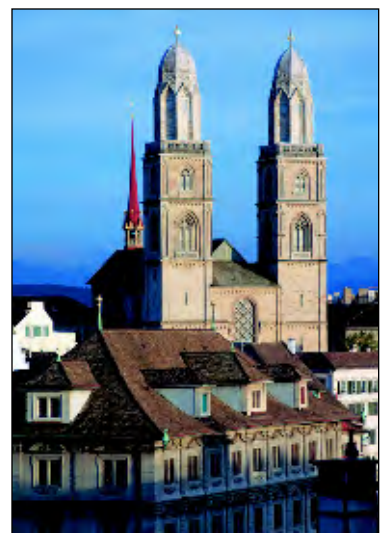
Reputation, clients also driving decisions on domiciles: Panel

By MICHAEL BRADFORD

ZURICH, Switzerland—Insurers and reinsurers with operations in Bermuda must consider several factors, including tax and reputational issues, when weighing whether to redomicile or open offices in other countries, a panel of experts said.

Any efforts by the U.S. government to close tax loopholes that affect insurers and reinsurers in Bermuda could limit the appeal of the domicile and prompt companies to leave, some warn.

Though, if the tax advantages of Bermuda were changed, most insurers and reinsurers on the island could easily redomicile, they said at the 3rd International Reinsurance



Some insurers and reinsurers based in Bermuda have moved operations to Zurich, Switzerland.

Summit 2009 held in Zurich, Switzerland, earlier this month.

If insurers and reinsurers see little

financial advantage to staying in Bermuda, it won't be difficult to leave, said Hans-Joachim Guenther, Zurich-based chief underwriting officer and head of reinsurance for Europe and Asia at Endurance Specialty Underwriting Ltd., a unit of Endurance Specialty Holdings Ltd. based in Pembroke, Bermuda.

"From a theoretical point of view, I believe our industry is simply able to move," said Mr. Guenther. And that is likely, he added, if there are no tax advantages to being in Bermuda.

While not targeting insurers and reinsurers, the Obama administration has pledged to crack down on offshore operations of U.S. corporations operating in tax havens, and the Organization for Economic Cooperation and Development has named Bermuda among jurisdictions that have not fully imple-

See **SUMMIT** page 21



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CNA: New chief outlines growth strategy

CONTINUED FROM PAGE 3

grow the top and bottom lines, in particular focusing on industry segments where we thought we would have a value proposition that would ring true with our agents, brokers and prospective clients."

CNA hopes to cross-sell products within its industry markets, he said, "So, if it's a health care customer, can we sell the property, the casualty and the specialty? Today, we might only be pushing the specialty products."

The strategic plan also calls for expanding CNA's excess and surplus business. "We don't do very much business with wholesalers," Mr. Motamed said. "We felt that that was a good opportunity—where you have freedom from rate and form—that we could start building out a capability there to complement what we do through our normal retail property/casualty operations."

The increased E&S emphasis also will position CNA to capitalize on retail business moving into the wholesale market if the insurance market hardens, he said.

As part of the plan, CNA will open five new U.S. offices during the next year and expand its business in Europe and Canada.

Among competitive advantages

Mr. Motamed believes CNA enjoys are its longevity (the company dates to 1897), the long tenures of many of its employees, brand recognition, and support from agents and brokers. And there's Loews Corp., the holding company that owns 90% of CNA's shares.

"They have been very supportive through the years with capital when CNA needed it," Mr. Motamed said, an especially significant consideration in today's economy, when capital can be tough to find.

Last fall, Loews injected \$1.25 billion into CNA to help the company maintain its financial strength after the insurer took a \$331 million third-quarter loss due to a combination of investment and catastrophe losses.

Brian Schneider, senior director at Fitch Ratings Ltd. in Chicago, said CNA still has investment issues to deal with that he thinks could impede the company's ability to capitalize on some underwriting opportunities. While saying he thinks it will be tough to gauge the success of the company's new plan in today's market environment, Mr. Schneider said Mr. Motamed's approach of building on CNA strengths and successful business areas makes sense.

"I think it's favorable that he's

not looking to make huge aggressive changes to the company," Mr. Schneider said.

Alan Murray, senior credit officer at Moody's Investors Service Inc. in New York, said CNA's growth strategy seems logical for a company that over several years "retrenched, refocused and strengthened its infrastructure."

"It's logical to us that at this juncture they look to evaluate their platform and expand and build on their platform in a go-forward way," Mr. Murray said. "From our point of view, overall the initiative seems like a logical next step for a company that already has a sizable platform in commercial and specialty lines."

Mr. Motamed said he'd like CNA's clients or the agents and brokers it works with to "believe they have a relationship with CNA and that we understand what they need, what they want and that we work toward satisfying their objectives."

"Where we choose to play—whether that's segments or lines of business—we want to be of a mind that we're trying to find solutions, we're trying to find a way to write business at the right level of profitability. And, ultimately, that will turn into long-term relationships and strong relationships with agents, brokers and clients."

Commentary

'The Great Influenza' can teach great lessons

An account of an influenza pandemic that burned around the globe more than 90 years ago probably isn't the first book—or maybe even the 100th book—you'd think would grace a risk manager's professional library. Yet several risk managers I've spoken with in recent weeks have said they'd read John M. Barry's "The Great Influenza" even before the recent outbreak of H1N1 flu.

That's understandable, too, for reasons that have nothing to do with the events of the past few months.

For one thing, "The Great Influenza" is a gripping read, a sort of medical mystery wrapped in absorbing history. You don't need to know about epidemiology to follow the story of the great pandemic, and odds are you'll know quite a bit about epidemiology by the time you've finished. While I can't describe the story of a disease that killed millions as a fun read, it's certainly a compelling one.

Another reason why some risk managers may be reaching for a book like "The Great Influenza" is the increasing interest in the discipline of enterprise risk management. As the view of risk becomes more inclusive, nontraditional risks such as pandemics must become part of an organization's overall risk analysis. Learning how society confronted such a risk nearly a century ago can't help but provide tips for a contemporary organization that is preparing to mitigate a peril.

Of course, if pandemic flu truly manifests itself, public and private entities will find themselves in a much better position to meet the challenge than did their early 20th century predecessors. There are flu vaccines, something that didn't exist in 1918. Public health organizations are far more effective than they were 90 or so years ago. The practice of medicine itself is infinitely more sophisticated than it was back then. And, of course, the global communications network we tap today simply didn't exist.

Communication, or the lack thereof, played a role in the pandemic's spread, at least in the United States. After all, it was wartime, and the administration of President Woodrow Wilson exerted more control over the country than probably any other before or after, and boosting morale on all fronts was key to the war effort. The press downplayed the severity of the pandemic, declining to report the warnings of prominent medical experts about the need to do



MARK A. HOFMANN

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such things as cancel public gatherings, which was unthinkable when the government used mass rallies to promote the purchase of war bonds.

The world is different now, but advances have brought new exposures as well. People can get from here to there much faster than they did during World War I, allowing disease to spread much faster and much wider than in the past. The communications network is rife with

The spread of rumor and misinformation regarding the disease might spread faster than the pandemic itself.

rumor and outright misinformation under the best of circumstances. Given that a pandemic certainly wouldn't count as the best of circumstances, the spread of rumor and misinformation regarding the disease might spread faster than the pandemic itself.

Another point made in "The Great Influenza," a point also made in other places in recent weeks, is worth bearing in mind as well. The flu outbreak of 1918 wasn't a single event. The disease flared early in the year, seemed to die down, and then it exploded, killing millions of people. The ferocity of the disease led people to believe they weren't confronting the flu, but something even more terrible—bubonic plague. Fortunately, we now know that wasn't the case.

Right now, most signs indicate the pandemic scare we've gone through isn't just a dress rehearsal for a real pandemic. But if it does turn out to be a prelude to the real thing, "The Great Influenza" could provide a reasonable indication of how the story ultimately will play out.

Stress: Europe to test insurers in 2010

CONTINUED FROM PAGE 3

ume of business and market share were used to decide which companies made the list, he said.

Insurers already are subjected to stress tests in some European countries and the Assn. of British Insurers says U.K. companies are used to being tested.

"The U.K. regulator has worked closely with the insurance industry and stress testing has been a part of that," said a spokesman for the London-based association. "This is what one expects regulators to do."

Risk managers welcomed the move.

"I think it is a good proposal to have a look at stress tests for European insurers," said Marie-Gemma

'We are interested in having information on the reliability of our partners.'

Günter Schlicht, Deutsche Versicherungs-Schutzverband e.V.

Dequae, president of the Brussels, Belgium-based Federation of European Risk Management Assns.

The stress tests will give risk managers a more complete look at insurers' financial stability, a view that is difficult otherwise since reporting requirements and regulations differ across borders, Ms. Dequae said.

"We are interested in having

information on the reliability of our partners; and elements that contribute to that, in principle, are welcomed," said Günter Schlicht, chief executive of Deutsche Versicherungs-Schutzverband e.V., the German risk management association based in Bonn.

So far, details as to how the stress test will be administered and how information will be used still are sketchy, Mr. Schlicht said, and DVS has yet to consider how it might specifically benefit German risk managers.

CEIOPS still is determining what information it will seek, Mr. Steffen said. It is mapping insurer stress tests already used in some nations to help decide what information is needed across Europe.

AT&T: Supreme Court rules for employer

CONTINUED FROM PAGE 4

to such rules that operated before the PDA," Justice David Souter wrote for the majority.

In her dissenting opinion, Justice Ruth Bader Ginsburg said, "I would hold that AT&T committed a current violation of Title VII when, post-PDA, it did not totally discontinue reliance upon a pension calculation premised on the notion that pregnancy-based classifications display no gender bias."

Attorney Barbara A. O'Connor, a partner with Sweeney & Sheehan P.C. in Philadelphia, said the majority opinion was consistent with the

court's 2007 ruling in *Lilly Ledbetter vs. Goodyear Tire & Rubber Co.*, in which it held that plaintiffs alleging pay discrimination under Title VII of the Civil Rights Act of 1964 must file a complaint within 180 days of the alleged offense. Both court rul-

ings dealt with correcting inequalities retroactively.

The Lilly Ledbetter Fair Pay Act of 2009, which President Obama signed into law in January, reversed that decision by easing time limits on wage discrimination claims.

Observers say while the *Hulteen* decision is fact-specific and applies only to the relatively few companies that had pre-1979 seniority-based benefit plans, it is significant.

Amanda Dealy Haverstick, special employment law counsel with Proskauer Rose L.L.P. in Newark, N.J., said it's important for employers to know that, if they follow the law at the time, they won't get into trouble. "I think that's an important principal that we've confirmed" with this decision.

AT&T Corp. vs. Noreen Hulteen et al.; U.S. Supreme Court, No. 07-543; May 18, 2009.



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Business Insurance OPINIONS

Replace PGBC leader with pension expert

WHAT IS GOING ON at the Pension Benefit Guaranty Corp.?

That's a reasonable question to ask in light of recent disturbing developments involving the agency that guarantees workers' and retirees' basic pension benefits and is partially funded by premiums paid by employers sponsoring defined benefit plans.

The first development involves a PBGC inspector general investigation that found former PBGC Director Charles Millard had inappropriate contacts with investment firms bidding on contracts. Given the opportunity to respond publicly to those findings last week at a Senate Aging Committee hearing, Mr. Millard chose instead to take the Fifth Amendment.

Another development was the PBGC reporting a huge, \$22 billion-plus increase in its deficit at the close of the first six months of its current fiscal year. As of March 31, the PBGC's deficit was a record \$33.5 billion, renewing fears that a taxpayer-funded bailout might be necessary if the agency's financial condition continues to slide.

As for Mr. Millard, we think the broader issue is not whether he is or is not guilty of wrongdoing, but why former President Bush nominated him and the Senate confirmed him in 2007 for the PBGC's top position.

In looking over his professional background, which included a senior position at a real estate investment and management firm, we see nothing that qualified him to run and develop policy at the nation's pension insurer.

Given the huge challenges facing the PBGC—a soaring deficit and more employers phasing out their pension plans—we would hope President Obama nominates a replacement rich in pension experience.

If the agency's worrisome deficit continues to deteriorate, legislators again will have to find that elusive balance of shoring up the agency's financial base without making it so costly for employers to maintain defined benefit plans that it encourages more companies to discontinue their plans.

We hope President Obama nominates a replacement rich in pension experience.

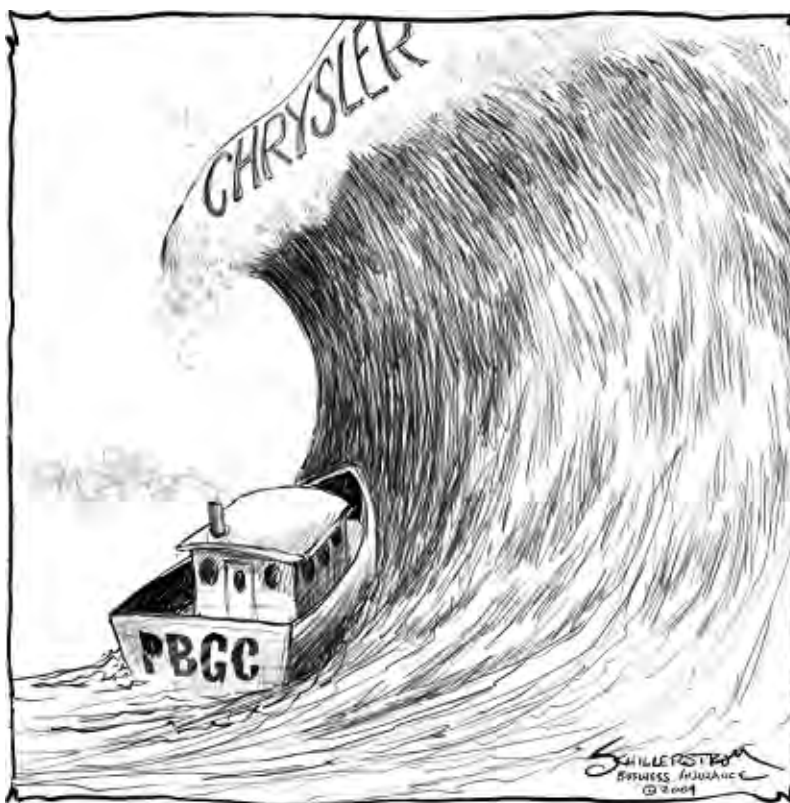
Congress should heed Kanjorski's call to action

ANY DOUBT about the economic crisis leading to some sort of federal oversight of insurance should have been erased recently.

That's when Rep. Paul Kanjorski, D-Pa., chairman of the House Financial Services Committee's Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, said quite plainly that "we can no longer continue to ask the question about whether the federal government should oversee insurance. The answer is clearly yes."

Rep. Kanjorski gave that answer because of problems with the bond insurance market, insurer requests for federal financial aid and the government's decision to provide billions of dollars of financial aid to American International Group Inc. His statement in favor of some role of federal insurance oversight—while stopping short of endorsing an optional federal charter for insurers, as we do—should change the nature of the debate over insurance regulation on Capitol Hill.

The debate no longer can be whether the federal government should regulate insurance, but rather how and to what extent it should do so. That's the real question, and we hope Congress heeds Rep. Kanjorski's call for regulatory reform in time to enact meaningful legislation sooner rather than later.



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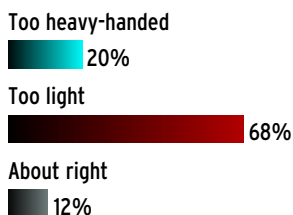
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Q: Where should the next CEO of American International Group Inc. come from?

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ERM crucial in tough economy

Detractors have faulted enterprise risk management's inability to predict today's economic situation, but ERM is more crucial in tough times than when the economy is prospering, says Tom Hettinger, a San Diego-based managing director at actuarial consultant EMB Consultancy L.L.C. Starting by appointing a chief risk officer with genuine clout, he says there are eight steps organizations can take to resolve problems even when the issues raised are a surprise.

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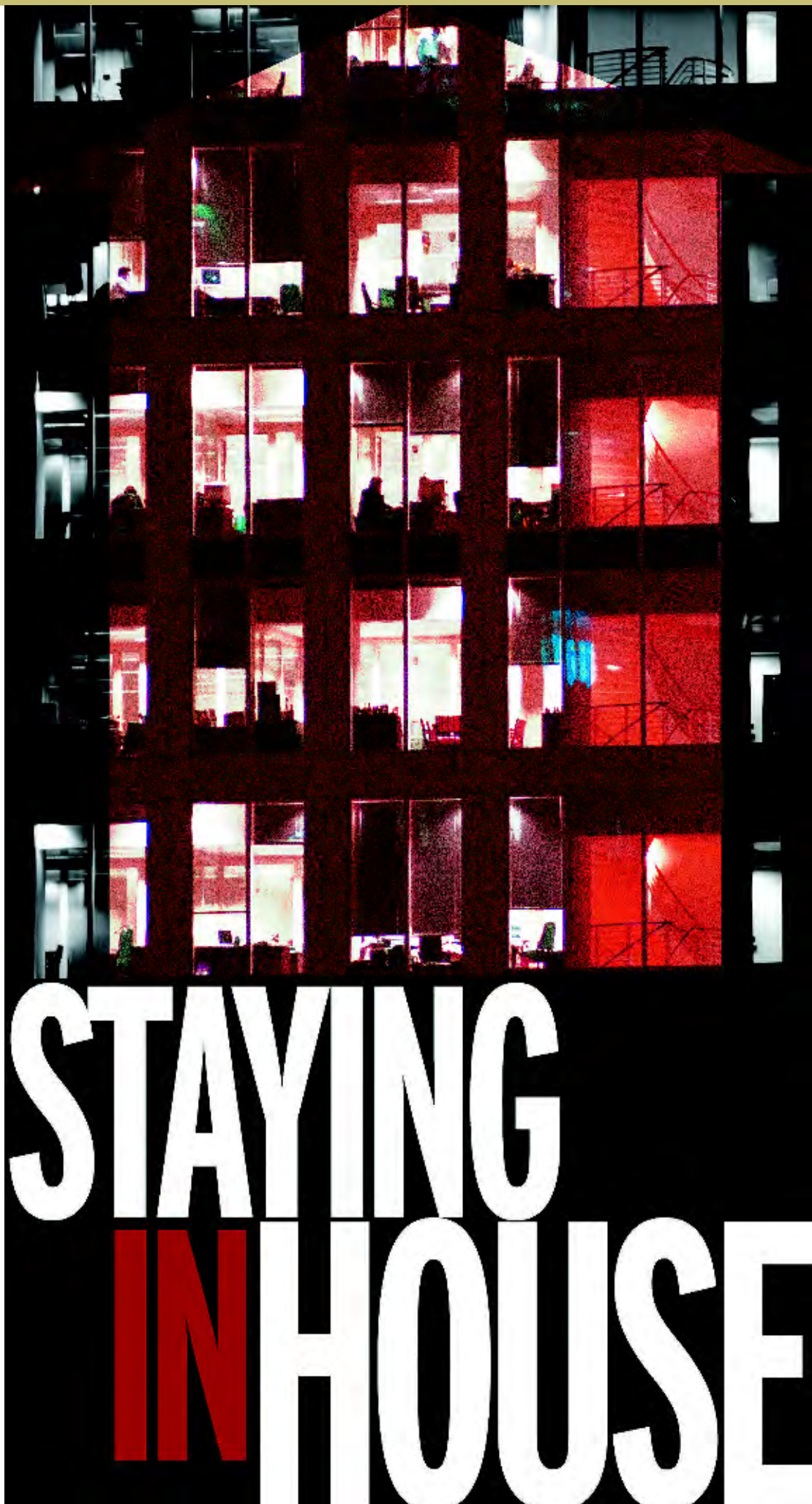
BENEFIT CONSULTING & OUTSOURCING

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BENEFITS MANAGEMENT



Employers scaling back on consultant projects

By LOUISE KERTESZ

Struggling with lean budgets, many employers are delaying consulting projects unless legally required work can't be performed in-house or potential short-term savings outweigh the costs, benefit managers and consultants say.

Employers also are seeking price breaks from their consultants, consultants benefit managers say.

Black & Decker Corp. has made "significant reductions, nearing elimination" of use of consultants, said Raymond Brusca, vp of benefits in Towson, Md. "We're not alone."

The company has eliminated funding this year "for anything that isn't mandatory or legally required," Mr. Brusca said.

"We're still using consultants, but we're trying to be as creative as possible...to see how much work we can do internally and using their services wisely, making sure our time with them is focused. We've sharpened our pencils," said Viola Lucero, senior vp and director of human resources at United Commercial Bank in San Francisco.

"We were already working toward scaling back consulting budgets last year" when aluminum prices fell in advance of the greater market decline, said Erich Squire, senior corporate compensation and benefits specialist at Monterey, Calif.-based Century Aluminum Co. The company has "drastically accelerated" the timeline to bring some projects in-house, he said.

"We've been aggressive and where there is not an immediate cash impact, we have sought to delay or insource" benefit design projects that have a two- to three-year return on investment, said Mr. Squire, who is based in Hawesville, Ky.

"There are a lot of long-term projects we like to do, like developing long-term health and productivity improvement strategies" using Black & Decker's data warehouse, Mr. Brusca said. "Ordinarily, we would do two or three analyses a year. We have really eliminated those across the board. That was the biggest chunk of change. We're going to sit pat with our benefit designs," he said.

Mr. Brusca said he foresees no change in that spending pattern until 2011.

"Employers are more afraid to committing to a longer-term investment. They are reluctant to commit either through hiring employees or through a

longer-term contract with us. They're definitely afraid of 12-month projects," said Jack Abraham, a principal in the Chicago office of PricewaterhouseCoopers L.L.P.

"It is down to the bottom line," said Carl Mowery, managing director, compensation and benefits, at SMART Business Advisory and Consulting L.L.C. in Chicago. "Companies are determining whether the consultant can help them save money both in the short term and the long term and, most important, they are looking for short-term savings."

"We try to find the best solution for the employer" and, although it is rare, SMART has even suggested hiring an employee for a long-term project "to

'We're still using consultants, but we're trying to be as creative as possible...making sure our time with them is focused.'

Viola Lucero, United Commercial Bank

supplant what we do," Mr. Mowery said.

Employers also are taking longer to commit to consulting work.

"The buying decision for them is slowing down as they are seeing budget constraints," said Chris Michalak, executive vp-business development and growth at Aon Consulting in Chicago. "My sense is that clients are being very careful with their spend."

"The process (that) organizations have to go through to ask for money to hire a consultant is taking longer," said Rick Beal, managing consultant for Northern California at Watson Wyatt Worldwide's San Francisco office.

Companies also are pushing for better pricing from their consultants, "very similar to what is happening in the auto industry," where automakers are putting price pressure on their suppliers, Mr. Abraham said.

"We're being as aggressive as possible in working with our consultants to come up with a pricing strategy" for work that can't be done in-house, Mr. Squire said. "There's a feeling that we're all in this together and they

See **CONSULTANTS** page 14

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Employers want to save money while working with TPAs

By **KAREN PALLARITO**

The nation's sour economy has added a new step to the tango of self-insured employers and third-party administrators handling their medical claims.

Employers still want a partner that provides first-rate claims administration and customer service, and many require TPAs to provide sophisticated data-mining tools and care management programs. Experts say employers' efforts to stretch available dollars are keeping TPAs on their toes.

"All employers today, I think pretty much without exception, are trying to figure out ways to save money," said James L. Rivetts, president of JLR & Associates L.L.C., a health care insurance services firm in North Bend, Wash. Whatever they can do, whether it's shifting more costs to their employees or assuming more risk, "that's exactly what they're going to do," he said (see story, page 13).

For self-funded employers, the business of medical claims administration is fairly competitive and the scope of services offered continues to expand to meet marketplace demands, experts said.

"I think that the TPA market offers a broad range of services...that can meet most employers' expectations," said Dan Priga, a principal in Pittsburgh for consultant Mercer Health & Benefits L.L.C.

Self-funding health care benefits remains a popular option among large corporations, according to Mercer's National Survey of Employer-Sponsored Health Plans.

For large employers with more than 500 employees, self-funded health care plans remain fairly stable, with 68% self-funding health care coverage in 2003 and 66% still doing so last year, according to Mercer.

Among small employers with 10 to 499 employees, the rate of self-insurance was 13% in 2003 and 12% last year, the survey found.

When shopping for administrative services, employers generally need to make a choice. They can go with administration services provided by one of the large national insurers or outsource claims processing and other administrative functions to a TPA.

"Most of the large self-funded employers are with carriers or with large national TPAs because the small TPAs just don't have the breadth of services that they need or the networks that they need," said Helmut Braun, chief operating officer of UMR, a unit of United-Health Group Inc.'s United Healthcare. As a large TPA with an insurer relationship, UMR has access to United Healthcare products, including reinsurance and pharmacy benefit management services. UMR also works with outside providers.

Because of their significant market penetration, insurers that provide TPA services generally are able to offer deeper network discounts, experts said. While there are exceptions, "being smaller and having to

rent a network is probably one of the negatives when we're reviewing TPAs against the big players," said Steve May, a senior benefits consultant with consultant Milliman Inc. in Windsor, Conn.

Selecting a national, well-known provider also can be an advantage. "There's comfort in employees seeing Blue, CIGNA, Aetna...those kind of names, because they know who they are," Mr. May said.

However, independent TPAs may have an edge over those connected to insurers—namely, greater flexibility in plan design—depending on

company's needs, experts said.

CoreSource Inc., a TPA subsidiary of Trustmark Mutual Holding Co., often wins business from employers that aren't happy with services provided by their national insurer, said Robert Corrigan, vp of product management and planning. "We have some unusual groups where the broker knows they have some very unusual needs, and they don't even bother shopping it to a lot of other carriers," he said.

Hospital systems, for example, often want to steer employees to their own facilities and doctors, and

they want to decide what to pay those providers, Mr. Corrigan said. Local governments and school districts are another case in point because they often have complex eligibility requirements.

"The more rules they have, the harder it is for the carriers who have more of a standard approach...and it's harder for them to fit in the box, so they come to a TPA," he said.

Employers may feel more comfortable with a local or regional TPA because of the personalized service it offers and the ability to meet face to face to resolve issues,

experts said.

Several years ago, CoreSource, which operates in nine U.S. cities, centralized its claims and customer service operations in an effort to improve efficiency and drive margins. The result? "It was horrible," Mr. Corrigan said of the personal touch that the company lost. "What we realized is that we need those people out there that are local...That's who they bought," he said.

Since then, CoreSource has rede-

Continued on next page

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Continued on next page

ployed its customer service representatives in the field.

Most TPAs offer a similar array of administrative services, including eligibility verification, claims adjudication and processing, utilization review and case management. In recent years, many have added prevention, wellness and disease management—either through relationships with specialty providers or in-house capabilities—to boost their value to employers.

"I think TPAs believe that you have to be able to deal with cost by dealing with the cause of the cost," said Steve Rasnick, president of Self Insured Plans L.L.C., a Naples, Fla.-based TPA.

Claims administrators also are responding to greater demand for data to help identify and manage cost drivers. Employers are mining that information to assess their population's health risks and determine, for instance, whether their wellness program is yielding a return on the investment.

Having that data helped Collier Mosquito Control District in Naples, Fla. It found some employees were using expensive prescription proton pump inhibitors to treat acid reflux instead of less costly options. So it tweaked its pharmacy benefit design.

This year, in addition to free generics, over-the-counter medicines such as Prilosec also are free, said Stacy Welch, the district's director of

administration. While data on the free medications is not yet available, the district's TPA, Self Insured Plans, estimates that steering participants to lower-cost generic proton pump inhibitors could reduce spending on that type of drug as much as 70%, depending on utilization.

National insurers already have data warehousing and mining capabilities, but it's something employers need to make certain that local and regional TPAs have, Mercer's Mr. Priga said.

"Often, the smaller third-party administrators don't have the resources to be able to do that, so they will link up with partners to perform those services," Mr. Priga said.

While a major consideration in

choosing a medical claims administrator is price, and TPAs typically boast lesser costs than claims-handling operations of large insurers, experts said it would be a mistake to make a decision based on price alone.

Administrative expenses account for about 15% of an employer's health care dollar, Milliman's Mr. May said. Employers need to get a read on discounts the TPA's provider network will achieve, he said.

Having the right network is the most critical part of the equation, UMR's Mr. Braun said.

There's more savings opportunity by having the right network than any other thing they can do," Mr. Braun said.

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Money-saving tips for firms using TPAs

Here are a few tried-and-true strategies to trim health care-related expenses without slashing benefits or shifting costs, experts say:

■ **Compare reinsurance companies.** Make sure your third-party administrator is working with well-regarded reinsurance providers, because spending on stop-loss coverage can run between 8% and 15% of total costs, said Helmut Braun, chief operating officer in the Lexington, Ky., office of UMR, a unit of UnitedHealth Group Inc.

James L. Rivetts, president of JLR & Associates L.L.C., in North Bend, Wash., said he shops for stop-loss coverage every year on clients' behalf. He recently priced stop-loss coverage for a 300-employee company and found that the prices from six companies had a roughly \$50,000 spread from highest to lowest.

■ **Consider assuming more risk.** Mr. Rivetts said he also helped his client reduce fixed costs by \$30,000 a year by increasing the stop-loss amount per individual to \$55,000 from \$50,000. Taking on that additional \$5,000 of risk per man, woman and child is a gamble, Mr. Rivetts admitted, but a worthwhile one because the company would only lose money if it incurred six claims above \$50,000 and below \$55,000. In the time the company has been Mr. Rivetts' client (roughly 6 to 7 years), it never has had six claims exceeding \$50,000, and it doesn't have any claims that look like they will exceed \$55,000, he said.

■ **Switch providers.** In several years of doing business with a local TPA, a West Coast refinery, which asked not to be identified, never received a dime from pharmaceutical manufacturer rebates. When the employer decided to switch to a different pharmacy benefit manager, the TPA claimed it couldn't handle another provider.

"I was ready to take my business away from them if they didn't allow me to switch PBMs," the refinery's human resources manager said. But she eventually convinced the TPA to work with her chosen PBM—one she said has a very transparent policy for sharing drugmaker rebates. "It's my money they are spending to pay bills," she said. "(TPAs) don't want to lose your business, so they're going to talk to you."

—By Karen Pallarito

Employers asking outside advisers to 'remix the risk'

By LOUISE KERTESZ

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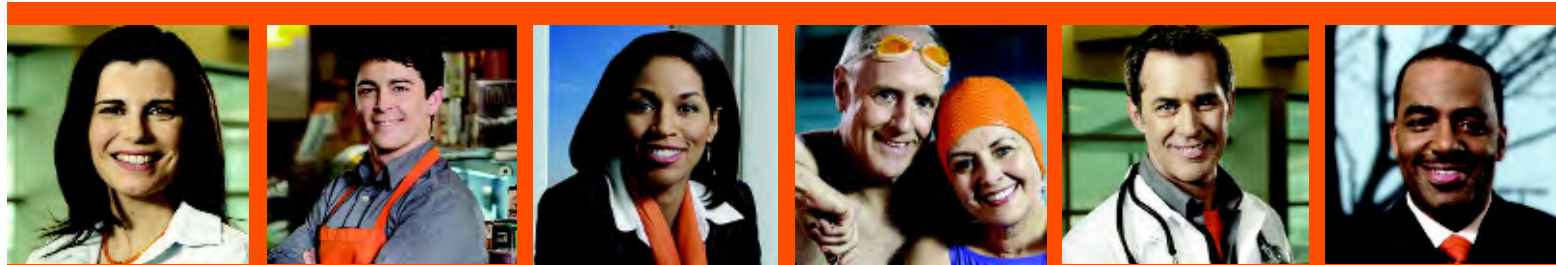
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*Based on actual client studies identifying trend was below average.

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May 25	Benefit Consulting & Technology	(published)
June 29	Benefits on a Budget/Dental Benefits Update	June 17
July 27/Aug 3	Consumer-Driven Health Plans	July 15
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For many employers, the move to consumer-driven plans predates the current economic situation. In 2008, 4.2 million adults with private health insurance were enrolled in such plans.*

Among the many companies that have moved to consumer-driven plans, we can also count ourselves. Harvard Pilgrim Health Care made the transition more than six years ago. Not only has it been a great success for our business and our employees, it has provided us with valuable firsthand experience.

But what exactly are these plans? Could this be the right time to introduce one? And what are the keys to success?

What are consumer-driven health plans?

Consumer-driven health plans are not simply health insurance benefits. They are integrated bundles consisting of some key components:

- A high deductible plan (individual in-network deductibles of \$1,000 or more);
- A tax-advantaged health reimbursement account or health savings account;
- Wellness and decision support programs for employees.

Designed to give employees an incentive to become smarter health care shoppers, these plans do not reduce the value of employee health benefits. Instead, they rearrange the way health care dollars are spent, and they lower premiums when moving from a traditional plan.

Are your clients ready to make the move?

There is, however, one important consideration that will help guide your clients' decision to opt for a consumer-driven health plan:

Are you willing to offer a health plan that requires frequent users to pay a little more so the majority of the employees can realize savings? Or do your clients prefer that all employees share the burden equally?

The reality is that while many employees will come out ahead with consumer-driven health plans, some may have out-of-pocket expenses that exceed the premium savings and the reimbursement account – particularly if they have chronic conditions.

Keys to success.

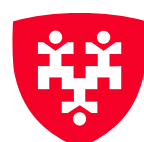
If your clients are comfortable with the idea that the majority of employees will benefit, they should consider the keys to success we at Harvard Pilgrim experienced firsthand, and found to be essential:

- **A three-to-five-year plan.** Turning employees into engaged health care consumers takes time. Start with small steps and gradually expand.
- **Commitment from company leadership.** Employees will be more likely to buy into the idea of consumer-driven health plans if senior leaders take part as well.
- **Employee and family education and communication.** These must be strong from the outset and continue as employees use and experience consumer-driven plans.
- **Wellness programs.** Keep your employees and families healthier, and show them that you're committed to their well-being.
- **Decision support tools.** Plan-cost estimators, cost-and-quality information, and other web-based tools help employees make more informed decisions.

If you think your clients are ready to move to a consumer-driven health plan, we are here to answer their questions and develop a solution that's right for them. We can meet with employees and help them understand how their health plan will change. Online tools will allow your clients to compare and evaluate different options and decide what's right for them. And, as always, you and your clients can count on us to provide the kind of quality service and personal attention that have consistently made us one of the nation's top health plans.

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** *Business Insurance Magazine*, December 12, 2008

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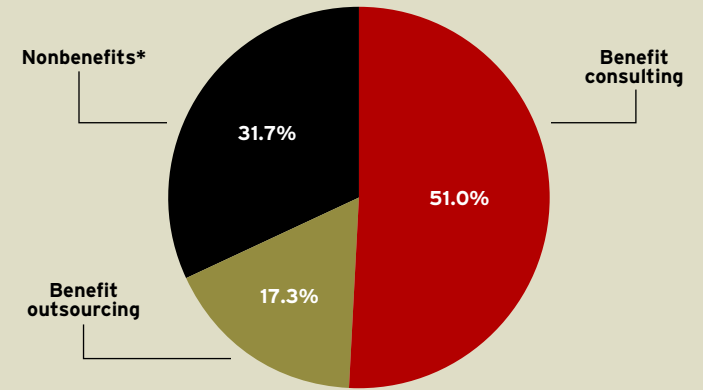
Ranked by number of clients, as of 12/31/2008

COMPANY	Number of Clients
Mercer L.L.C.	25,000
PricewaterhouseCoopers Human Resource Services	17,000
Buck Consultants, an ACS company	4,600
Alexander Forbes Ltd.	4,446
Hewitt Associates Inc.	3,000

Source: BI survey

BENEFIT SERVICES

Percentage of service offered by all companies listed



*Includes claims administration, compensation consulting, insurance commissions and other non-benefit consulting including the brokering and placement of benefits
Source: BI survey

World's largest employee benefit consultants

Ranked by worldwide benefit consulting revenues*

Rank	Company/Address	Phone/Web site	2008 benefit consulting revenues	2007 benefit consulting revenues	% change	% of total gross revenues from benefit consulting	2008 benefit outsourcing revenues	Principal officers
1	Mercer L.L.C. 1166 Ave. of the Americas, New York, N.Y. 10036	212-345-7000 www.mercer.com, www.imercer.com	\$1,916,014,000	\$1,707,633,000	12.2%	53.0%	\$655,292,000	M. Michele Burns, chairman/CEO
2	Watson Wyatt Worldwide 901 N. Glebe Road, Arlington, Va. 22203	703-258-8000 www.watsonwyatt.com	\$1,524,000,000	\$1,398,000,000	9.0%	86.0%	N/A	John Haley, president/CEO
3	Hewitt Associates Inc. 100 Half Day Road, Lincolnshire, Ill. 60069	847-295-5000 www.hewitt.com	\$1,094,323,000	\$945,866,000	15.7%	34.7%	\$1,550,110,000	Russ Fradin, chairman/CEO
4	Deloitte Consulting L.L.P. 1633 Broadway, New York, N.Y. 10019	303-312-4194 www.deloitte.com	\$1,004,418,920 ¹	\$975,164,000 ¹	3.0%	N/A	N/A	Sabri Challah, vice chairman/ global service area leader- Human Capital
5	Aon Consulting Worldwide 200 E. Randolph St., Chicago, Ill. 60601	312-381-4800 www.aon.com	\$998,095,000	\$943,000,000	5.8%	73.8%	\$213,362,000	Kathryn Hayley, Bal Dail, CEOs-Aon Consulting Worldwide
6	Towers Perrin 1 Stamford Plaza, 263 Tresser Blvd., Stamford, Conn. 06901	203-326-5400 www.towersperrin.com	\$901,462,000	\$839,785,000	7.3%	51.0%	N/A	Mark V. Mactas, chairman/CEO
7	PricewaterhouseCoopers Human Resource Services 300 Madison Ave., New York, N.Y. 10017	646-471-3000 www.pwc.com/us/hrs	\$840,000,000	\$800,000,000	5.0%	60.0%	N/A	Michael Rendell, global leader-human resource services
8	Buck Consultants, an ACS company 1 Pennsylvania Plaza, New York, N.Y. 10119-4798	212-330-1000 www.buckconsultants.com	\$430,000,000 ²	\$414,000,000 ²	3.9%	100%	N/A	Jan K. Grude, president/executive managing director
9	Ernst & Young L.L.P.-Performance Reward & Human Capital 1225 Connecticut Ave. N.W., Washington, D.C. 20036	202-327-6000 www.ey.com	\$321,413,000	\$284,082,000	13.1%	100%	N/A	James Bosserman, director-Americas Performance & Reward
10	Alexander Forbes Ltd. Alexander Forbes Place, 61 Katherine St., Sandown, 2196 South Africa	27-11-269-0000 www.alexanderforbes.co.za	\$267,929,300 ^{3,4}	\$305,773,200 ^{4,5}	-12.4%	83.0%	\$46,306,633 ^{3,4}	Anton Ossip, COO

*Excludes revenues from claims administration, compensation consulting, insurance commissions and other nonbenefit services including brokering and placement of benefits.

1 Fiscal year ending May 31. 2 Fiscal year ending June 30. 3 Exchanged at applicable rate, South African rand=\$0.1105. 4 Fiscal year ending March 31. 5 Exchanged at applicable rate. South African rand=\$0.1413.
N/A=Not applicable.

Source: BI survey

Researched by Kevin Edison

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Push for electronic medical records could mean cost savings

By KRISTIN GUNDERSON HUNT

Approximately \$19 billion designated for health care information technology in the economic stimulus package signed into law by President Obama and the push to establish an electronic medical record for every U.S. citizen by 2014 likely will not directly affect employers and their benefits departments, experts say.

However, employers likely will see indirect, longer-term cost savings as more physicians and health care organizations adopt electronic medical records, thereby improving the quality of care and patient health, said Jaime Ferguson, executive director of health information technology strategy and policy for Kaiser Permanente and a member of the Health IT Standards Committee, which also was established under the American Recovery and Reinvestment Act of 2009.

The IT initiative's effect "is somewhat indirect on employers in the sense it's not necessarily going to make our specific companies' benefits cheaper next year," Mr. Ferguson said. "But to the extent doctors can now access information about patients to help treat them better, everybody wants that."

Rather than developing its own electronic medical record system, the government is certifying existing systems to make sure they meet certain standards and are interoperable, Mr. Ferguson said.

The goal for all health record systems is to "speak the same language" so, regardless of the system doctors and health care organizations use, it can "talk" to a different system and share records.

Only a small percentage of U.S. doctors use electronic medical records, according to a New England Journal of Medicine study last year. It found just 4% of nearly 2,800 physicians surveyed had a fully functional electronic record system. Thirteen percent had only a basic system.

With the stimulus package providing up to \$64,000 in incentives for individual physicians and \$11 million in incentives for hospitals that adopt electronic records, as well as potential penalties for Medicaid and Medicare providers that do not go paperless, experts say uptake of electronic medical records is expected to increase.

"It's getting to the point in the medical profession where people realize they simply have to have EMRs," said Steve Raetzman, senior consultant with Watson Wyatt Worldwide in Arlington, Va.

Improving care is the major intent in establishing widespread adoption of electronic medical records, Mr. Ferguson said. They do so by capturing patients' medical history, which then can be shared and analyzed by multiple medical professionals to determine the most effective treatments, he said.

The records are composed of data from a patient's health history that providers document and monitor to manage a patient's care. They are the official records detailing a patient's experience and care at a care delivery organization, and include information such as pre-

scriptions and laboratory test results. They differ from a personal health record, which an individual typically initiates and maintains.

In general, experts say, electronic medical records are not intended to interface with claims data collected by insurers and third-party administrators or with health risk assessment data—data that employers may use to analyze their employee populations and address certain health risks. That's why benefits departments might not see immediate results from an initiative to set up such records.

"I don't think it's so much about

getting more data in the hands of insurance companies and employers," Mr. Raetzman said. "It's about getting more data in the hands of providers who should be able to use that data to manage patients' care more effectively."

Colin Evans, the Portland, Ore.-based chief executive officer of Dossia, a personal health record platform sponsored by eight large employers including Wal-Mart Stores Inc. and Pitney Bowes Inc., said benefits departments will not be affected by this initiative until the investment in technology translates into lower costs.

"Reimbursement reform needs to happen at the national level; Medicare, Medicaid and the health plans need to decide that they will pay doctors for outcomes and not services. If this happens, there will be incentives for providers and plans to innovate because they can get a financial return from that investment," Mr. Evans said.

Delia Vetter, senior director of benefits and programs for EMC Corp. in Hopkinton, Mass., said while the electronic medical record initiative likely won't affect benefits administration, it is worthy of employers' support because of the

long-term cost savings and electronic records' ability to reduce duplicate patient services that increase employers' costs.

"Employers need to support and help to drive adoption and change—whether it's with their workforce or the provider network—because ultimately, they are paying," Ms. Vetter said.

Mr. Raetzman also said better employee health care eventually will translate into savings for employers. Without electronic medical records, significant improvements in the quality and cost of health care are impossible, he said.



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UP CLOSE



ANNE DEFUSCO

NEW JOB TITLE: Cheshire, Conn.-based president and chief operating officer of Meritain Health Inc.

PREVIOUS POSITION: Minneapolis-based chief administrative officer for AmeriChoice, a unit of UnitedHealth Group Inc.

GOALS FOR NEW POSITION: In my new position, I will be working closely with each leadership team to enhance operations and boost client service to help Meritain Health continue its mission to offer customized, self-funded health plans that focus on reducing health care costs for clients by getting employees healthier.

INDUSTRY CHALLENGES: Rising health care costs and creating customized plans to reduce costs for our clients. We also need to

monitor health care reform closely to adhere to new laws and regulations, such as new COBRA premiums under the American Recovery and Reinvestment Act to ensure clients comply and understand.

FIRST EXPERIENCE IN JOB MARKET: My first job was at Ernst & Young, where I served as an auditor. I stayed with them for three years before moving on to Ford Consumer Finance (Co. Inc.)

OUTSIDE THE INDUSTRY, A DREAM JOB: My dream job is to have my own cooking show.

MOST PASSIONATE ABOUT: I am most passionate about my family. I have two beautiful daughters and a devoted husband, who I am learning to play golf with. In my spare time, I enjoy running, cooking and spending weekends working on my garden.

Comings & Goings ONLINE

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

TO SUBMIT ITEMS

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

Allison Martinat
Business Insurance
360 N. Michigan Ave.
Chicago, Ill. 60601-3806
amartinat@businessinsurance.com

POSTING THIS WEEK

- BROKERS:**
- Lockton Cos. L.L.C.
 - Aon Consulting Worldwide
 - Cooper Gay (Holdings) Ltd.
- INSURERS:**
- Aviva North America
 - XL Insurance
 - Chubb Group of Insurance Cos.
 - Harleysville Insurance Co.
 - Ace Ltd.
- MANAGED CARE:**
- Independence Blue Cross
- OTHER PROVIDERS:**
- Conning & Co.
 - Barlow Lyde & Gilbert L.L.P.
 - Paul Davis National
 - Buck Consultants L.L.C.
 - Watson Wyatt Worldwide
- ASSOCIATIONS:**
- Surety & Fidelity Assn. of America

Products & Services

Zurich offers products for construction firms

SCHAUMBURG, Ill.—Zurich North America is offering a portfolio of insurance products to assist construction contractors pursuing infrastructure projects as part of the American Recovery and Reinvestment Act of 2009.

InfraSolutions includes more than 30 insurance products and 70 loss mitigation services to address a range of risks related to infrastructure projects, Zurich said. Coverage includes property/casualty and specialty products, including builder's risk, commercial auto, environmental liability, professional liability and workers compensation.

InfraSolutions is aimed at contractors and project owners, including public-private partnerships that execute highway, bridge, mass transit, airport, water, sewer, energy, utility, hospital and school infrastructure projects with limits that vary.

For more information, contact Nancy Simonson, senior vp with Zurich North America commercial construction, at 952-229-3616.

Lexington offers all-risk property, marine cargo

BOSTON—Lexington Insurance Co., a unit of AIU Holdings Inc., has introduced an all-risk policy for property and marine cargo coverage.

LexPILOT, which stands for property-income loss-ocean transit, is designed for manufacturers, retailers and distribution companies seeking coverage of their facilities and international shipments, the company said. The program is intended to reduce coverage gaps or avoid redundancy through separate policies for real property and marine cargo exposures, Lexington said.

Up to \$1.5 billion is available per occurrence for fixed property exposures with coverage available for earthquakes and floods. Up to \$50 million is available per transit for marine cargo exposures. Policyhold-

ers shipping goods under commercial letters of credit have access to online and on-demand certificate issuance.

For more information, contact Liz Carmody, senior vp, at 617-772-4597 or liz.carmody@aiuholdings.com.

Munich Re to help learn about cat, climate risks

MUNICH, Germany—Munich Reinsurance Co. has introduced a DVD to help risk managers, underwriters and public authorities better understand the risks of natural catastrophes and climate change.

The "Globe of Natural Hazards" DVD enables users to customize data to show them the risks of natural hazards in certain locations. In

putting together the DVD, Munich Re said it had updated all its global hazard maps. Information can be overlapped so that, for example, the risks of earthquake and of tropical cyclone at a certain location can be shown at the same time.

Climate change predictions also can be overlaid, the company said. A database on the DVD contains background information on historical losses.

Munich Re said the DVD should be a useful tool for risk managers whose companies are considering setting up in new locations.

The DVD is free to Munich Re clients and other interested parties.

For more information, contact Andreas Siebert, head of geospatial solutions, at asiebert@munichre.com.

IRMI offering webinars for risk professionals

DALLAS—The International Risk Management Institute is offering a series of continuing education webinars for risk managers and insurance professionals.

Webinar topics cover a variety of topics that include construction risk management, green construction and technology risk. The series begins May 28 with "Additional Insured Endorsements: The Good, the Bad and the Ugly."

The webinars are intended to be practical and provide an economical way for risk professionals to pursue continuing educational alternatives, the Dallas-based research and publishing organization said.

Each program costs \$39, is roughly one hour and includes a question-and-answer portion with presenters.

A complete list of webinars is at www.IRMI.com/webinars. For additional information or to register, contact Millie Workman, director of training and education, at 800-827-4242 or Registration@IRMI.com.

TO SUBMIT ITEMS

BI's Products & Services column reports on new product offerings. Please send Product & Services news to Colleen McCarthy, 711 Third Ave., New York, N.Y. 10017 or e-mail cmccarthy@businessinsurance.com.



FEATURED KEYNOTES:

J. Hyatt Brown
Chairman & CEO - Brown & Brown, Inc.

Scott Carmilani
President & CEO - Allied World

Lance Ewing
Vice President, Risk Management - Harrah's Entertainment, Inc.

Dr. Bob Hartwig
President and Chief Economist - Insurance Information Institute

John Wepler
President - Marsh, Berry & Company

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Liddy: AIG prepares to replace CEO

CONTINUED FROM PAGE 1

and our businesses, and developing a plan to repay American taxpayers."

Now, after being given access to more than \$180 billion in federal aid, AIG has sold some assets and is looking to sell more.

In April, it announced plans to accelerate the spinoff of its property/casualty lines into a special-purpose vehicle, in preparation for the possible sale of a minority stake in the business.

AIG also continues to pursue the sale or spinoff of various other operations, including its foreign and domestic life insurance and aircraft leasing businesses, in an effort to repay federal assistance.

Observers say Mr. Liddy's departure is not a surprise.

"He came in as an interim person," said Cliff Gallant, an analyst at Keefe, Bruyette & Woods Inc. in New York. "He's a good man and he clearly stepped into what he knew to be a very difficult situation, and I think he held handled it with about as much grace as you could have expected," said Mr. Gallant.

The timing of Mr. Liddy's departure is better than it would have been a few months ago, when the company was in a "day-to-day crisis mode," said Jennifer Marshall, a senior financial analyst with Oldwick, N.J.-based A.M. Best Co. Inc.

Still, Mr. Liddy's departure leaves the company with another challenge.

"The most important thing for the company is stability, and I think the sooner you get a permanent person who can lay out a vision for the company, the better," Mr. Gallant said.

And finding a replacement as CEO may be difficult, given AIG's situation, analysts say.

"You're going to need somebody who's had a unique set of experiences," said John Wicher of John Wicher & Associates in San Francisco. AIG "is going to need somebody who is forward-looking and inspiring and can re-energize the employees, the broker community and others that the AIG which they knew and loved is going to be reinvigorated," said Mr. Wicher.

"The flip side is, because of the public ownership, you're going to need someone who can navigate the very difficult politics of all of this," as well as someone capable of unwinding nonstrategic assets and AIG's large derivatives positions.

"Then you ask yourself, who in the world would want that job?" said Mr. Wicher.

Bill Bergman, an analyst with Morningstar Inc. in Chicago, said, "They're going to be looking for someone with good expertise and experience in restructuring, including the legal aspects of restructuring a large enterprise," as part of the skill set of the new CEO.

Some names already have surfaced as possible candidates. Mr.

AIG BOARD OF DIRECTORS GROWS

Six new independent nominees will stand for election as directors on American International Group Inc.'s board on June 30. They are:

- Harvey Golub, former chairman and chief executive officer of New York-based American Express Co.



- ▲ Arthur C. Martinez, former chairman, president and CEO of Sears, Roebuck & Co.

- Laurette T. Koellner, retired senior vp of Boeing Co.

- Independent consultant Christopher S. Lynch

- Robert S. Miller, executive chairman of Delphi Corp.

- Douglas M. Steenland, former president and CEO of Northwest Airlines Corp.

Gallant said he has heard AIG's vice chairman and chief restructuring officer Paula Rosput Reynolds is a candidate. "That makes sense. She has an insurance background" and has led other industries as well, said Mr. Gallant.

Mr. Gallant said if the property/casualty operations are to remain an ongoing concern, "clearly, someone with an insurance background would make sense."

The candidate need not necessarily come from the insurance industry, but could be someone from financial services who brings a "fresh look" to the company, said Mr. Wicher.

In addition, given the political pressure on AIG, "they're going to want somebody who's going to be user friendly in Washington, D.C.," said Richard V. Smith, senior vp at Sibson Consulting, a wholly owned subsidiary of Segal Co. in New York.

Particularly for the chairman post, "Clearly, it's going to be somebody with a lot of experience, who I think understands how Washington works, because I think the chairman is going to have to spend a lot of time with the U.S. government" as AIG's shareholder, said Mr. Gallant.

John Challenger, CEO of Challenger, Gray & Christmas Inc., an executive recruiting firm in Chicago, said AIG might decide to select a chairman who will act as the company's "public face," while hiring an insurance expert as CEO who will "be kept out of the public eye, if you could do that."

However, Mr. Smith said, "I believe they probably already have their chairman, just haven't announced it," and it is either one of the newly appointed board members or an existing board member. "I don't think there'll be a dual search here," he said.

An AIG spokeswoman had no comment.

Hartford: Squelches sale talk

CONTINUED FROM PAGE 1

In last week's internal memo—which makes no reference to the TARP funding—Mr. Ayer said the insurer already has taken several actions to improve its financial position, including securing a \$2.5 billion capital infusion from Munich, Germany-based Allianz S.E., cutting its common stock dividend and moving to restore its global annuity business, among others.

"We have concluded that the best way to deliver long-term value to our shareholders is to return to our historical strengths as a U.S.-centric insurance company with a focus on our strong portfolio of protection businesses, primarily property and casualty, group benefits and life insurance," said Mr. Ayer.

"We will also continue to operate strong wealth management and retirement businesses, including mutual funds, retirement plans and a restructured annuities business. As a result, we will move forward with both property and casualty and life businesses."

Reports last month said Hartford's failure to sell its troubled life insurance business might force it to sell its profitable property/casualty business. The reports said Hartford was seeking a buyer for its property/casualty operations with Travelers Cos., ACE Ltd., MetLife Inc. and Munich Reinsurance Co., and that the insurer had retained Goldman Sachs & Co. to assist in the sales

process. Earlier, there were reports that Hartford was negotiating to sell most of its life operations to Toronto-based Sun Life Financial Inc., but no deal was announced.

Despite the Allianz capital infusion, Hartford reported a \$2.75 billion loss for 2008, which led to rating agency downgrades. For first-quarter 2009, it posted a \$1.21 billion loss vs. \$145 million in net income in the year-earlier period.

Many observers say at the very least, the TARP funding has made Hartford's decision easier to keep its business intact. "The TARP fund takes the necessity to sell the businesses off the table, and that certainly makes it easier to pursue a course where they can get themselves back on track as is," said Stewart Johnson, a portfolio manager with Stamford, Conn.-based investment bank Philo Smith & Co.

However, Thomas Rosendale, assistant vp at Oldwick, N.J.-based A.M. Best Co. Inc., said, "It could have played a role in their decision, but I don't know that they wouldn't have come to the same conclusion anyway."

The funding will provide Hartford with greater financial flexibility, although how it will use the funds is unclear, say observers.

"We knew there was some concern about franchise value, so I think having the capital certainly helps them to better address" those issues going forward, said Brian Schneider, senior director at Fitch

Ratings in Chicago.

The TARP funding will have a mixed impact, said Paul Bauer, vp with Moody's Investors Service in New York, which last week changed the outlook for Hartford's ratings to developing from negative. "It provides a fairly large amount of funding at a relatively low cost for at least the next five years, so that's positive. The negative is some of the more intangible questions," such as whether accepting TARP funding has a stigma attached to it leads to increased political scrutiny, he said.

"The biggest issue is going to be the salary constraint," required under TARP, said Mr. Johnson. "However, there could be other limitations in terms of their ability to do (merger & acquisition) deals and other transactions."

Asked about this issue, the spokeswoman responded in an e-mail that "applying for participation in the (Capital Purchase Program) was a prudent step for The Hartford, particularly given the continued economic uncertainty. The investment will not fundamentally change the company's operations."

Bret Howlett, an equity life insurance analyst at Standard & Poor's Corp. in New York, said while the TARP funding will be a "net positive" for Hartford, "I don't think it's entirely solved the issues with the Hartford, however. Their investment portfolio, in our view is riskier" than that of other life insurers "and they remain exposed to equity markets in the form of pretty aggressive guarantees on their variable annuities."

PBGC: Future looks murky

CONTINUED FROM PAGE 1

come. According to PBGC estimates, auto sector pension plans alone are underfunded by about \$77 billion, \$42 billion of which would be guaranteed by the PBGC if those plans failed.

But it isn't just ailing auto companies and their massively underfunded pension plans that pose a threat to the PBGC, whose insurance programs are funded by premiums paid by employers with defined benefit plans. At a Senate Aging Committee hearing last week, an official of the Government Accountability Office said large pension plan terminations from employers in a variety of industries could hit the PBGC.

"While the events surrounding the automakers and their plans are clearly an area of concern for the PBGC, the recession has likely affected many industry sectors," said GAO Director of Education, Workforce and Income Security Barbara D. Bovbjerg. While past big claims were concentrated in industries such as steel and airlines, "There is cause for concern that future claims will come from a much broader array of industries."

The PBGC "will be challenged as never before" due to a declining economy, Ms. Bovbjerg said.

Some legislators and others warn that a taxpayer-funded bailout is a potential scenario.

"We must get the PBGC back on track" or face a bailout, said Com-

mittee Chairman Herb Kohl, D-Wis.

Ms. Bovbjerg noted that if the PBGC's accumulated deficit continues to rise and liquidity declines, pressure could build for the federal government to provide PBGC with financial assistance to prevent benefit reductions or "unsustainable increases" in PBGC premiums paid by employers with ongoing plans.

The current base annual premium of \$34 per plan participant is indexed to increases in national average wages. Sponsors of underfunded plans pay an additional premium.

At the moment, there is little interest in Congress in hiking employer premiums, which legislators last significantly increased in 2005 as part of a broader measure, Washington observers say.

Lawmakers understand that a premium hike would be "counterproductive" as it would accelerate the move of employers from defined benefit plans, said James Klein, president of the American Benefits Council in Washington.

It isn't just the big liabilities that the PBGC takes on when companies fold underfunded pension plans that pose a threat. The PBGC also faces declining premiums as more companies freeze their plans and the number of participants declines.

Yet another threat to the agency's premium income, which in fiscal 2008 was more than \$1.4 billion, is that when interest rates rise, employers with fully funded plans might find it financially attractive to termi-

nate the plans and purchase annuities from commercial insurers that would then provide the benefits.

The issue in the long term is whether other defined benefit plans will exist from which the PBGC would collect premium income needed to pay benefits to participants in plans the agency has taken over, said Dallas Salisbury, president and chief executive officer of the Employee Benefit Research Institute in Washington. "The real problem is when the (PBGC's) assets run out," said Mr. Salisbury, who also testified at the hearing.

Others, though, say worries about the PBGC's finances are overstated.

The current size of the PBGC's deficit is not a cause for alarm, said Mark Warshawsky, former assistant secretary of tax policy at the Treasury Department and now director of retirement research at Watson Wyatt Worldwide in Arlington, Va.

Interest rates are cyclical, and if rates shoot up from their current low levels, the size of the PBGC's deficit would decline significantly, he said.

The deficit figure is just "a snapshot" in time and can give a skewed perspective of the agency's financial condition, Mr. Klein said.

In addition, the PBGC's deficit includes losses from plan terminations that the PBGC considers "probable," and that is based on the PBGC's judgment, Mr. Warshawsky said.

Between 1987 through 2007, 80% of pension plans the PBGC initially classified as probable eventually were taken over by the agency.

News In Brief

regulation of surplus lines insurers. The Nonadmitted and Reinsurance Reform Act, H.R. 2571, would make it easier for risk managers to access the surplus lines market and would set a uniform system of surplus lines premium tax allocation and remittance. It also would ease the regulatory burden on reinsurers. Similar versions of the reform measure won approval twice before in the U.S. House of Representatives, but never reached the Senate floor.

Baucus optimistic on health reform passage

The odds are very high that the U.S. Senate will pass sweeping health care reform legislation this summer, a key lawmaker said last week. Sen. Max Baucus, D-Mont., who chairs the Senate Finance Committee, said the chances of approval are "very, very high. If you want me to put a percentage on that, I'd say it's about 75% to 80%."

AIG investors to get funds from SEC fraud pact

The Securities and Exchange Commission approved distribution of more than \$843 million to American International Group Inc. investors in connection with the insurer's 2007 settlement of accounting fraud charges. In a statement, the SEC said the funds will be paid from a so-called "fair fund," which allows "ill-gotten gains" and civil penalties to be distributed directly to investors. AIG in 2006 agreed to pay around \$800 million—including \$100 million in penalties—to settle charges it used "a variety of sham transactions and entities" to falsify its financial statements for several years ending in 2005, the SEC statement notes.

Obama orders review of pre-emption in rules

The Obama administration directed federal agencies to review regulations issued during the past decade to see if federal pre-emption of state law is legally justified. The

Bush administration backed federal pre-emption of state laws affecting some federally regulated products. But the Obama administration is taking a different approach. Federal agencies and departments at times have held that their regulations preempt state law, "including state common law, without explicit pre-emption by the Congress or an otherwise sufficient basis under applicable legal principles," according to a White House memo signed by President Obama.

NOAA sees near-normal Atlantic hurricane season

This year's Atlantic hurricane season should feature near-normal activity, the National Oceanic and Atmospheric Administration said last week. There is a 70% chance that nine to 14 named storms will form during the 2009 Atlantic hurricane season, U.S. Commerce Secretary Gary Locke said. Four to seven of the named storms could grow to hurricane-strength storms, with one to three of those becoming major hurricanes packing sustained winds of at least 111 mph, Mr. Locke said.

USAA boosts cat bond to \$250M

A catastrophe bond placed by USAA Group will provide \$250 million in protection for the military insurer, which is \$100 million more than originally was planned, according to Goldman Sachs & Co., which arranged the transaction. The bond will be sold via Cayman Islands-based special-purpose vehicle Residential Reinsurance 2009 Ltd. and will provide USAA and its subsidiaries with three years of protection against U.S. hurricanes, earthquakes, thunderstorms, winter storms and wildfires. If successful, Residential Re will take new cat bond issuance so far in 2009 to \$1.22 billion.

Minnesota comp group calls for assessment

The board of the Minnesota Workers' Compensation Reinsurance Assn. voted to assess insurers and self-insured employers \$268 million to help plug a \$424 million deficit. The potential assessment still must be approved by the Minnesota commissioner of labor and industry and reviewed by the Minnesota commissioner of commerce.

Arctic: Explorers overcome adversity

CONTINUED FROM PAGE 3

tions and took 1,500 measurements of the thickness and density of the ice and snow.

Analysis of the findings will be presented at the U.N. Climate Change Conference in December.

While the results have yet to be processed, Mr. Hadow said the average thickness of sea ice over the course of the survey was 1.774 meters (5.8 feet), which suggests most ice measured was "one-year ice" and not the thicker, older ice the trio expected to find along at least part of their 434-kilometer (270-mile) route.

Ms. Daniels described being in the Arctic as an "amazing privilege" and well "worth all the pain and two years' preparation" the expedition entailed.

One of the biggest challenges of the trip was the extreme cold, Ms. Daniels said: "It is all-consuming. You are fighting for survival and never relax a muscle."

As navigator, her role was to get herself and her colleagues across the ice safely. This, she said, was one of the biggest thrills of the trip—the "buzz" of making a decision about the best way to cross the ice.

Hugely challenging was navigating during whiteouts of blowing snow that eliminated all visual clues to direction and distance, she said.

Because of the explorers' proximity to the magnetic North Pole, compasses would not work. When whiteouts hit, Ms. Daniels said she navigated using "skill and instinct"—a major challenge but one she "loved."

Another responsibility was the team's food. The food needed to be as light as possible, so as not to add too much weight to the sleds the explorers had to pull, but it also had to be high in calories and—if possible—tasty, Ms. Daniels said. The team ate dehydrated meals for breakfast and supper, with bags of snacks containing chocolate, nuts, cookies and more to eat during the day.

Before the trip, Ms. Daniels assembled 40 dehydrated meals and then hosted a dinner party at Mr. Hadow's house at which each team member picked his or her favorite five dishes. Those dishes were the ones taken on the trip.

Food, she said, becomes emotion-



MARTIN HARTLEY/WWW.MARTINHARTLEY.COM

Martin Hartley (from left), Ann Daniels and Pen Hadow, leader of the expedition that measured thickness of Arctic Ocean sea ice and snow.

Relevant research, branding won Catlin Group's backing

LONDON—Stephen Catlin, chief executive of Catlin Group Ltd., and his head of marketing wanted to find a way to raise global awareness of the Bermuda-based insurer's brand.

But Mr. Catlin did not want to sponsor a sporting event or the like; rather, he said he wanted to do something "worthwhile and relevant."

So when the company was approached two years ago about an expedition to measure the thickness of Arctic Ocean sea ice, Catlin saw an opportunity to boost awareness of its brand and awareness about an important issue, Mr. Catlin said.

The expedition was unique in that no one actually has measured the thickness of Arctic Ocean sea ice before, so the results "will provide real, hard, new data to scientists," Mr. Catlin said.

The insurer, which backed

the expedition, did not become involved to make any form of ecological point, he said. But as a "scientific underwriter," the company has an interest in making the most accurate data available so it can make better decisions, he said.

The company certainly would consider getting involved in a similar project in the future, Mr. Catlin said.

A byproduct of Catlin's involvement in the Arctic expedition has been employee engagement. Catlin's staff has been very supportive of and excited by the expedition, Mr. Catlin said.

In terms of recruiting new employees, Mr. Catlin said a recent round of interviews with graduates showed that corporate responsibility is high on the agenda of prospective employees.

—By Sarah Veysey

ally important on a trip of such length and difficulty because of the lack of other comforts, so it was important food be of good quality.

Despite the hardships they suffered on the expedition, Mr. Hadow

and Ms. Daniels said the experience had been an amazing one and they hoped to remain involved in work to determine the effects of melting Arctic sea ice in the years to come.

Summit: Some insurers leaving Bermuda to be closer to customers

CONTINUED FROM PAGE 4

mented international tax standards.

"The tax environment is one of the key drivers for the profitability of our business and it's passed on through our pricing," said Mr. Guenther. If tax advantages of operating in Bermuda change and other jurisdictions provide such breaks, "then I think our business will start to move," he said.

It isn't difficult to relocate insurance market operations because they are not unwieldy like manufacturers that have to move heavy equipment, Mr. Guenther said.

Some Bermuda companies

already have moved to regulatory jurisdictions in Europe.

"Based on political reasons related to the evolution of U.S. politics, we didn't think that staying as a Bermuda company made sense, and when we considered jurisdictions, Switzerland stood out as probably the best one to be in on the continent," said Mark Byrne, chairman of Flagstone Reinsurance Holdings Ltd.

Flagstone last year merged its Bermuda and Switzerland operating units into a single Swiss company in Martigny. A Flagstone branch continues to operate in Bermuda.

There were other reasons for moving its headquarters, Mr. Byrne

said. "Clearly, it is more efficient to have our capital consolidated in one place than have it split between two, which was how it worked before. Second, there are many parts of the world where, if you knock on a door and you are from a Swiss company, you're better received than if you are from a small island they haven't heard of."

Bermuda is understood around the world to be a well-regulated jurisdiction for property catastrophe reinsurance, Mr. Byrne said. "But if you are trying to sell aviation reinsurance in India, it's better to have a Swiss business card."

Some Bermuda companies have

opened operations in Europe to better serve clients or reach new markets, panelists said.

Helmut Söhler, chief executive officer of Arch Reinsurance Europe Underwriting Ltd., said new markets drew Arch to Switzerland three years ago, but "what we do there...we still do from Bermuda."

Arch set up its Zurich operation as a branch of its Dublin, Ireland, company as a way to attract more middle- and small-market insurer clients in Europe, he said. "For a regional company, the idea of reinsuring with a company somewhere on an island in the Atlantic in a different time zone with people com-

ing from a different culture was strange. So the reason to go (to Zurich) in 2006 was to cover that market."

Endurance also set up its Swiss operation partly for cultural reasons.

"What we decided at Endurance...was that we needed to change the business model in order to bring ourselves closer to clients," said Mr. Guenther. That meant Endurance needed to open an office where it could hire locals who know the language and have knowledge of the local market as a way to give the company more "cultural closeness," said Mr. Guenther.



Golf at your own risk, court says

Golfers play the game at their own risk, a New York appellate court has ruled.

According to a decision last month by a divided court, longtime friends Dr. Azad Anand and Dr. Anoop Kapoor were golfing in October 2002 when Dr. Kapoor hit a ball that struck Dr. Anand in the eye and caused a serious injury.

According to the opinion, while Dr. Kapoor maintained he shouted out a warning to Dr. Anand when he realized the ball was headed in his direction, neither he nor another player nearby heard any warning.

Dr. Anand turned and was hit in the eye.

The appellate court agreed with a lower court in its 3-1 decision, which upheld dismissal of the suit. "Being struck by an errant golf ball was an inherent risk of the game of golf," a situation that applies to many other sports, the court ruled.

The opinion did not disclose whether Dr. Anand and Dr. Kapoor plan to exchange Christmas cards this year.

Business Insurance END PAGE

Contributing: Jeff Casale, Judy Greenwald, Mark A. Hofmann



AP PHOTO

Basketball great Elgin Baylor takes a hit during a game in 1970. He is suing Lexington Insurance Co. and others over a leaky roof on his mansion.

Ex-NBA player drowning in leaky roof problems

Elgin Baylor, probably best known for his ability to rain down jump shots during his illustrious 14-year career in the National Basketball Assn., now is trying to keep from getting rained on himself.

Mr. Baylor, 74, filed a lawsuit in Los Angeles County Superior Court last week that alleged Lexington Insurance Co. failed in its due diligence to investigate his claim of faulty roof construction and that led to a leaky roof at his Beverly Hills, Calif., mansion, reports say.

Mr. Baylor also named Northridge, Calif.-based Norman Construction and Rick Norman as defendants in the suit, alleging poor improvements made by Norman led to the water damage in

his home.

According to the suit, Mr. Baylor hired Norman in 2005 to renovate his roof and other parts of his home. After a storm in 2008, Mr. Baylor noticed water was trickling into parts of his home. Mr. Baylor claims Boston-based Lexington paid him for the damage, according to news reports, but a couple of months later, Lexington wanted to test the roof for leaks.

In the lawsuit, Mr. Baylor alleges Lexington "failed to repair damages from the testing, leaving holes and openings in the structure." Mr. Baylor claims that as of February, the holes still were not repaired and rain since has caused more damage to his home.

Former MMC exec Cherkasky up to new challenge

Michael Cherkasky isn't afraid of big challenges.

After all, he was brought in as chairman and chief executive officer of Marsh & McLennan Cos. Inc. in the wake of a bid-rigging scandal bird-dogged by then-New York Attorney General Eliot Spitzer. He successfully brokered MMC's \$850 million bid-rigging settlement with New York before being ousted in late 2007 after MMC posted disappointing financial results.

Mr. Cherkasky went on to become CEO of U.S. Investigations Services Inc., which supplies such services to the federal government. But earlier this month, Mr. Cherkasky agreed to tackle a new challenge when New York Gov. David A. Paterson asked him to serve as chairman of the state's Commission on Public Integrity.

In announcing Mr. Cherkasky's appointment, Gov. Paterson noted the state inspector general had just issued a report highly critical of the commission.

"The inspector general's report indicates that the commission's executive director wrongfully disclosed confidential information, compromising the commission's independence," Gov. Paterson said in a statement. "It also indicates that the commission failed to remedy or even recognize these breaches of confidentiality. We must do everything possible to ensure full transparency, accountability and oversight when it comes to the actions of public officials."

That's a pretty tall order, given the political scandals that have rocked Albany in recent years, including the resignation of Gov. Spitzer after he admitted he had patronized prostitutes. But it's a challenge Mr. Cherkasky appears willing to accept.

Be assured, he's not doing it for the money. The chairman of the commission receives no salary.



REUTERS

Michael Cherkasky agreed to serve as chairman of New York's Commission on Public Integrity.

Beer could be remedy for uninsured Americans

Beer, which can be decidedly unhealthy when consumed in large amounts, may well be a source of health care for those who are uninsured.

In order to provide health insurance for all, Congress is looking at ways to raise money for the more than 50 million uninsured U.S. residents, including slapping an additional 48-cent tax on a six-pack of beer, according to the Associated Press.

The cost of insuring the uninsured could reach \$1.5 trillion in the next 10 years, according to the report.

The Senate Finance Committee, a group tasked with looking at spending cuts and tax

increases as ways to close the gap, knows taxing beer alone will not make the difference.

Sen. Max Baucus, D-Mont., chairman of the committee, and ranking committee member Sen. Charles Grassley, R-Iowa, last week released a series of policy options on funding health care for the uninsured.

The lawmakers' so-called "lifestyle" tax proposals target people's choices that contribute to rising medical costs, such as obesity and alcohol abuse.

Aside from beer, the senators' written proposal said taxes on wine and hard liquor also could be raised in addition to adding federal tax on soda and other sugary drinks.



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