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Business Insurance®

June 29, 2009

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WILLIS SELLS GRAS SAVOYE SHARES TO IMPROVE LIQUIDITY FOLLOWING HRH BUY / **PAGE 3**

EUROPEAN UNION APPROVES CHANGES FOR OVERSIGHT OF INSURERS / **PAGE 4**

In Brief

Panel OKs 401(k) fees bill, adds DB funding relief

Legislation the House Education and Labor Committee approved last week to improve disclosure of fees and other information to 401(k) plan participants became a vehicle for temporary relief from tough funding rules for defined benefit pension plans. Provisions added to the bill include giving employers with defined benefit plans more time to amortize plan losses incurred in 2008 and temporarily providing employers with more flexibility in valuing liabilities. The legislation also would require service providers for 401(k) plans to disclose all fees assessed on participants' accounts.

Former Gen Re exec gets probation in finite case

A former General Re Corp. executive who pleaded guilty to

See **IN BRIEF** page 22

Berkshire sharply cuts cat capacity

By JUDY GREENWALD

STAMFORD, Conn.—Berkshire Hathaway Inc. has drastically reduced its property catastrophe reinsurance capacity because of concerns that large losses could lead to liquidity problems or put more pressure on its ratings, sources say.

REUTERS

According to several brokers, Warren Buffett's Berkshire Hathaway is seeking to relieve pressure on its ratings by reducing cat capacity.

In April, New York-based Moody's Investors Service cut its credit ratings on Berkshire Hathaway from Aaa—its top rating—to Aa2. In March, New York-based Standard & Poor's Corp. revised its rating outlook to negative from stable while leaving the company's AAA rating unchanged.

Omaha, Neb.-based Berkshire Hathaway reported a $1.53 billion loss for the first quarter of 2009, due mainly to losses related to its investment in ConocoPhillips Co.

The Berkshire Hathaway Reinsurance Group reported $3.09 billion in revenues for 2009's first quarter, compared with $984 million for the comparable period a year ago.

Berkshire Hathaway "effectively pulled out of the property cat market in June and July. They're keeping their powder dry," said John Daum, New York-based executive director of Lockton Re, a unit of Kansas City, Mo.-based Lockton Cos. L.L.C.

"Pretty much the sentiment within Berkshire…is not to have any catastrophic claims, particularly for the wind peril. We really saw

See **BERKSHIRE** page 22

REUTERS

Pop icon posed huge risk

By ROBERTO CENICEROS

LOS ANGELES—Insurance underwriters considered the late pop music icon Michael Jackson "fragile" and a difficult risk, which likely influenced the availability of coverage for a sold-out 50-concert stand in London, several entertainment insurance observers said.

"It was well-known that he was quite fragile," said David Foreman, group director of underwriting at Ark Syndicate Management Ltd. in London. "It would be very difficult for him (or the producers of his concerts) to buy insurance. We all know how fragile, physically and otherwise, he was."

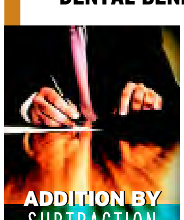
Ark did not provide limits for Mr. Jackson's planned shows, which were set to begin July 13 at the O2 Arena in London. But Mr. Foreman participated in providing coverage for a past Michael Jackson show and was among thousands of people holding tickets for the shows.

See **JACKSON** page 20

BENEFITS MANAGEMENT

BENEFITS ON A BUDGET

DENTAL BENEFITS UPDATE



Employers turn to health plan audits as part of effort to remove ineligible members and cut costs; experts advise companies to tread carefully when announcing cuts in benefits programs to workers; dental benefits utilization holds steady despite impact of recession.

PAGE 10

JOHN M. MANTEL/SIPA PRESS

Former AIG chief Maurice R. Greenberg exits a New York federal court where he took the witness stand in a trial to determine who owns a large block of AIG shares held or sold by Starr International, a company he currently heads.

AIG, Starr shares fight plays out in courtroom

By COLLEEN McCARTHY

NEW YORK—Former American International Group Inc. chief Maurice R. Greenberg was grilled on the witness stand for seven days over the past two weeks in a dispute over the ownership of a large block of AIG shares controlled by Mr. Greenberg's Starr International Co. Inc.

The outcome of the case, which was brought by AIG and is being heard in U.S. district court in New York, hinges on AIG's ability to prove that the two firms, which were once tied closely, had a trust agreement in place, despite the absence of a legal document, experts say.

The block of shares at issue in the case was used to fund a well-known deferred compensation program for select AIG employees until the program was canceled in 2005.

In sometimes testy exchanges with attorneys representing AIG, Mr. Greenberg, who headed both companies for more than three decades and is the key witness in the case, rejected suggestions that his forced 2005 resignation from AIG was the reason he canceled the program.

U.S. District Judge Jed Rakoff previously ruled that the U.S. government bailout of AIG and the circumstances surrounding Mr. Greenberg 's forced resignation cannot be brought up during the trial.

AIG argues the shares were set aside in a trust to back the executive compensation program and sued SICO, alleging SICO improperly converted, or took, the shares and breached its fiduciary duty. The New York-based insurer is seeking $4.3 billion in damages, representing the sale of millions of AIG

See **SICO** page 22

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NEWSPAPER

On the Web

BI BLOGS

Look who's talking: *BI* blogs

You already rely on *Business Insurance*'s editors for the industry news and information you need. Now you can get their unfiltered opinions and observations on the issues that matter most to you and join the conversation with comments of your own. *www.BusinessInsurance.com/section/blogs.*

BI VIDEO

Aon's goals for Man United deal

In a new *BI* Video Update installment, Stephen P. McGill, chairman and chief executive officer of Aon Risk Services, discusses the goals behind Aon's new sponsorship of the Manchester United soccer team. *www.BusinessInsurance.com/section/video-reports.*

THIS WEEK IN BI

Podcast takes you behind the *BI* headlines

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Business Insurance®

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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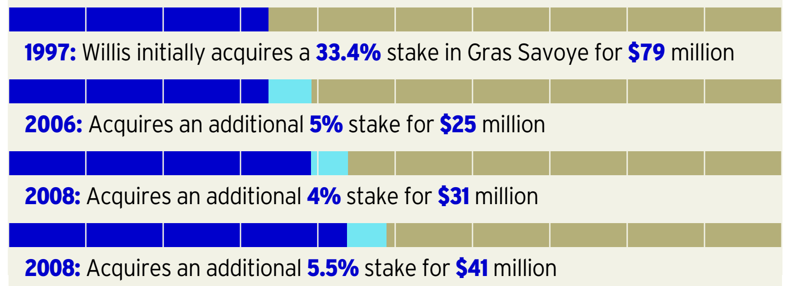
Willis to raise cash with Gras Savoye stock sale

But broker still aims to take majority stake in French partner

By SALLY ROBERTS

BUILDING A STAKE

Since its initial purchase in 1997, Willis has progressively increased its stake in Gras Savoye



LONDON—Willis Group Holdings Ltd.'s decision to try to sell part of its stake in Gras Savoye & Cie could help the brokerage avoid a potential liquidity issue should it be obligated under its agreement to purchase the remaining shares in the Paris-based brokerage, analysts say.

Given Willis' leveraged $2.1 billion acquisition of Hilb Rogal & Hobbs Co. last year and the potential risk of Gras Savoye's shareholders exercising their option to "put" their shares to Willis, the London-based brokerages' potential sell-off is prudent, they say.

Willis gave no reason for its move in its June 17 Securities and Exchange Commission filing, but Willis Chairman and Chief Executive Officer Joe Plumeri told *Business Insurance* that, regardless of whether the broker sells part of its stake, it will continue its partnership with Gras Savoye and pursue a majority stake in the brokerage over time.

"Our goal eventually to own the majority has not changed and will not change," Mr. Plumeri said.

Patrick Lucas, chairman and CEO of Gras Savoye, said Willis' decision will not affect the brokerage's operations, and that Gras Savoye will continue to partner with Willis as it has for more than a decade.

Willis acquired a minority interest in Gras Savoye in 1997 and has the right to increase its ownership to a majority stake over time (see chart, page 18). Willis owns 48% of the voting rights in Gras Savoye and could move to majority ownership beginning in December.

In addition, under two put options, existing Gras Savoye shareholders have the right to put their shares to Willis, which is obligated through 2011 to buy the shares at a price determined by a contractual

See GRAS SAVOYE page 18

Reviews mixed on regulatory overhaul plan

By MARK A. HOFMANN

WASHINGTON—Supporters of wide-ranging insurance regulatory reform have cause for hope and concern as Congress prepares to consider the Obama administration's plan to overhaul regulation of the financial services industry.

Although the administration's June 17 white paper did not devote much space to insurance, it did call for establishing an Office of National Insurance within the Treasury Department. The document said in addition to "monitoring all aspects of the insurance industry," the office would be empowered to work with other nations to represent U.S. interests and "have the authority to enter into international agreements, and increase international cooperation on insurance regulation."

Setting up such an office enjoys widespread support across the insurance industry, and is one of the top legislative goals of the Risk & Insurance Management Society Inc.

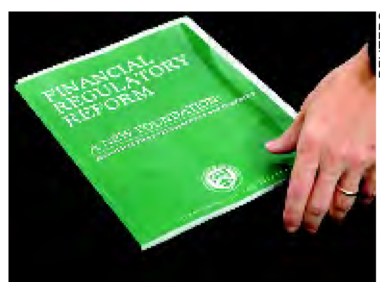
A bill that would establish a similar entity was introduced earlier this year by Rep. Paul Kanjorski, D-Pa., who quickly hailed the administration's endorsement of the idea.

But advocates of even broader federal oversight of insurance note that the administration stopped short of endorsing federal charters for insurers and producers, although the white paper said financial institutions that presented a systemic risk to the economy should be subject to federal regulation through the Federal Reserve Board. Instead of endorsing the OFC, the white paper laid out six principles for insurance regulatory reform (see box). The document mentioned a federal charter for insurers as a possible means to enhance regulatory uniformity.

RIMS "supports the part of the Obama administration's financial regulatory reform white paper which calls for creating an Office of National Insurance within the U.S. Treasury Department," said Nikolas Kapatos, chair of the RIMS external affairs committee and senior vp and enterprise risk manager of Sterling Bank in Houston.

"RIMS has supported the concept introduced as legislation by Rep. Paul Kanjorski," Mr. Kapatos said. "While the white paper stops short of endorsing a federal insurance regulator, we are encouraged that the

See REGULATIONS page 20



REUTERS

SIX-POINT PLAN

The Obama administration has spelled out six principles for insurance regulation in its white paper on financial regulatory reform. The principles are:

- Effective systemic risk regulation with respect to insurance.
- Strong capital standards and an appropriate match between capital allocation and liabilities for all insurance companies.
- Meaningful and consistent consumer protection for insurance products and practices.
- Increase national uniformity through either a federal charter or effective action by the states.
- Improve and broaden the regulation of insurance companies and affiliates on a consolidated basis, including affiliates outside the traditional insurance business.
- International coordination.

Source: "Financial Regulatory Reform. A New Foundation: Rebuilding Financial Supervision and Regulation" at www.financialstability.gov/docs.

Health reform effort picks up momentum

Revised bill cuts cost to $1 trillion, ensures near-universal cover

By JERRY GEISEL

WASHINGTON—Congressional progress in drafting health care reform legislation has been much slower than top lawmakers predicted, but the pace of activity soon could pick up.

Only a few weeks ago, Sen. Max Baucus, D-Mont., the chairman of the Finance Committee, said he expected the committee to begin considering a reform bill in mid-June. Sen. Baucus' panel is widely considered to as have the best chance of hammering out a bill that could pick up some Republican support.

After that, Sen. Baucus said, the full Senate would begin work on the bill sometime in July and complete action just before the August congressional recess.

But the Finance Committee has yet to produce a bill, with Sen. Baucus now not making any predictions on when a bill will be ready for action.

"Sen. Baucus recognized there was a need to slow down," said Chantel Sheaks, a principal with Buck Consultants L.L.C. in Washington.

At the same time, another Senate panel—the Health, Education, Labor and Pensions Committee—has been slowly and with great difficulty considering a measure proposed by panel chairman Sen. Edward Kennedy, D-Mass., and Sen. Chris Dodd, D-Conn.

Republican members of the panel, who are strongly opposed to the measure, have been proposing dozens of amendments—with few, if any, likely to pass—considerably slowing down the committee's con-

AP PHOTO

Sen. Max Baucus, D-Mont., hopes that revisions to a health care reform bill will increase support for the measure.

financial assessment.

In addition, no committee votes have been scheduled on that proposal.

And last week, health care reform backers received an unexpected jolt with the Congressional Budget Office reporting that the HELP Committee bill would require $1.6 trillion in new federal revenues over a 10-year period, while the measure still would leave roughly 30 million of the nation's 46 million uninsured without coverage.

Receiving those grim numbers was very "sobering" for congressional reform leaders, Mr. Dennett said.

Those figures sent legislators "back to the drawing board," he added.

But just before legislators left Washington last week for a one-week break, reform advocates received encouraging news.

Sen. Baucus said the CBO estimated that a newly revised proposal would cost $1 trillion over 10 years and ensure near-universal coverage. Details of the proposal have

See HEALTH CARE page 20

AIG putting two life units toward federal debt

Federal Reserve accord reflects tough market conditions, experts say

By JUDY GREENWALD

NEW YORK—American International Group Inc.'s move to give the Federal Reserve Bank of New York preferred interests in two life insurance units in exchange for cutting AIG's debt by $25 billion is a logical strategy in light of market conditions, observers say.

Analysts say the step reflects the current difficulty that AIG faces in getting appropriate compensation for the two units—American International Assurance Co. Ltd and American Life Insurance Co.—either through an initial public offering of stock or a private transaction.

In March, AIG said it planned to establish special-purpose vehicles for subsidiaries American International Assurance, which includes AIG's foreign life insurance units, and American Life Insurance.

Under an agreement announced last week, the Federal Reserve will receive preferred interests in the AIA and ALICO SPVs of $16 billion and $9 billion, respectively. The move positions the units for IPOs, depending on market conditions, according to AIG.

The deal, which is expected to be finalized in the second half of this year, would reduce AIG's $40 billion outstanding balance under the Fed's credit facility by $25 billion. That credit facility is part of a roughly $180 billion rescue package for AIG.

Until then, AIA and ALICO will remain wholly owned subsidiaries of AIG.

On a related front Friday, ALICO Chairman and Chief Executive Officer Rodney O. Martin Jr. told employees in a letter that ALICO is combining its two Western European regions.

Cliff Gallant, an analyst at Keefe, Bruyette & Woods Inc. in New York, said AIG is "being very aggressive" in " moving (the SPV plan) along. If they really are able to accomplish this in 2009, I would say that is ahead of what most people thought was possible."

The move itself is an indication that "it's a very difficult market to sell assets in," said Mark Rouck, Chicago-based senior director with Fitch Ratings.

Marc Steinberg, senior analyst at Oldwick, N.J.-based A.M. Best Co. Inc., said the move is prudent. "Obviously, there's some irrational pricing because of the market conditions," so moving the operations into an SPV "just seems to make sense."

John Wicher of John Wicher & Associates in San Francisco, said: "The life insurance operations are viewed as a real special asset...but the reality is, there's not a private transaction out there, given the size" of the business. This will position the units for an IPO, he said.

See **AIG** page 22

AFP PHOTO

During World Autism Awareness Day in April, 150 baby strollers were set up in New York's Central Park to show the condition's prevalence. Autism affects one in 150 children, according to the U.S. Centers for Disease Control & Prevention.

Mandated coverage of autism gains ground

Questions remain about regulations for new federal parity law

By JUDY GREENWALD

Momentum is growing at the state level to mandate that group health plans offer coverage for autism, experts say.

Legislation that would establish a federal autism mandate also has been introduced in Congress, although action likely will be delayed pending decisions on overall health care reform legislation, observers say.

At the same time, many self-insured employers, who are not subject to the mandates, are offering autism coverage, observers say.

One major question is the degree to which autism coverage will be affected by the Mental Health Benefits Parity and Addiction Equity Act that takes effect for plan years that begin after Oct. 3. Employers still are awaiting U.S. Labor Department regulations on the law.

A second thorny issue is the extent to which therapy for autism is educational rather than medical and, therefore, should not be covered by health insurance and, ultimately, employers.

Children who suffer from autism are characterized by difficulties with social interaction, problems with verbal and nonverbal communication, repetitive behaviors, and narrow and obsessive interests. Symptoms can range from mild to severe. So-called autism spectrum disorders that are considered less severe forms of the disorder, such as Asperger syndrome, also are covered by mandates.

The Centers for Disease Control & Prevention estimated in 2007, the latest data available, that autism affects about one of every 150 children. Some studies indicate its prevalence is increasing, although there is disagreement whether this reflects better diagnoses or if its incidence is genuinely rising. Many parents have blamed the disorder on their children's

See **AUTISM** page 18

Many insurers participate in AIRMIC best practices guide

By STUART COLLINS

The United Kingdom's risk management association expects insurers' claims service levels to improve as more insurers sign up to its best practices guide.

In his presentation at this year's Assn. of Insurance & Risk Managers annual conference in Bournemouth, England, Paul Hopkin, AIRMIC's technical director, said the association was pleased with insurers' response to the claims best practices guide it published in January. The guide can be used by insurers to produce descriptive reports on their claims-handling capabilities, which risk managers then compare with their claims needs.

Five insurers have filed their final reports, and two more are expected to do so soon, said Mr. Hopkin.

AIRMIC welcomed the commitment to the scheme by its seven insurance member partners and says several nonpartner companies have expressed interest in participating.

The reports filed so far should be very useful to risk managers when selecting insurers, formulating service level agreements, and benchmarking service, Mr. Hopkin said. The initiative should improve claims handling as insurers use the guide to identify areas of weakness and to improve performance, he added.

The association wants insurers to be more explicit when describing their claims culture and philosophy, and more focused on their large commercial claims-handling capabilities. Insurers also should be more forthcoming with legacy systems details.

READ more coverage from the conference online at **www.BusinessInsurance.com**

Tighter conditions provide an opportunity for captives

By MICHAEL BRADFORD

LUXEMBOURG—Captive insurers have a rare opportunity in an insurance market that is hardening not because of rising rates, but from stricter underwriting and tightening terms and conditions, experts say.

"There are different ways for the market to harden," said Martine Hecq, manager of special lines and captive tools at Paris-based energy company GDF Suez S.A. "Underwriters are much more concerned about remaining within their underwriting guidelines. That is a way for the market to harden," she said during a panel discussion at the 12th European Captive Rendezvous in Luxembourg earlier this month.

"The hard market is not only about premium rates," said Marc Germeau, Zurich, Switzerland-based director, senior client manager at Swiss Reinsurance Co.'s Industrial Risk Insurer unit. "It's also about terms and conditions. There are some changes and this is a sort of market hardening in my view."

Ms. Hecq said captive insurers are useful not only for maintaining stable rates but in keeping terms and conditions consistent despite market conditions. "I take this as an opportunity," she said of underwriters' tendency to change policy wording. "I see an opportunity for captives to get into the loop for major placements for our companies."

It is unlikely that rates will shift enough to prompt captive owners to send more business to those vehi-

See **RENDEZVOUS** page 21

E.C. regime fosters cooperation

By ADRIAN LADBURY

The European Council of Ministers has approved proposals from the European Commission to fast-track the introduction of a new framework for financial supervision that could significantly change the way the insurance market is regulated, according to experts.

The commission's new regime, planned for introduction this fall, will create a pan-European insurance supervisory body that is intended to foster greater cooperation between national insurance supervisors and mediate any disputes between them.

Lack of trust and coordination between national supervisors has been one of the main stumbling blocks for measures such as Europe's planned new capital adequacy regime Solvency II, according to experts.

The new plan also will see the formation of a European Systemic Risk Board and seek greater regulatory cooperation with the United States and other countries to help

See **EUROPE** page 20

ADRIAN
LADBURY
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Commentary

Systemic risk, finally, rises to top of agenda

It has been quite a couple of weeks for the financial supervisory community as the European Union and United States announced major new plans to make the world a safer place for us all.

The European Council of Ministers and President Obama proposed measures to create high-level bodies with the specific job of systemic risk identification, measurement and, of course above all, prevention.

This is a good idea and would have been useful 10 years ago when people started "atomizing" risk through labyrinthine securitization structures only to find subsequently that nothing at all had been atomized.

Let us hope, at the very least, that these new systemic risk watchdogs can ensure the world's financial institutions do not allow themselves to be convinced risk can be made to disappear in the future by ever more exotic risk transfer mechanisms.

The insurance market learned that a few years back when fancy alternative risk transfer tools failed to deliver and the authorities concluded that many of the structures were little more than accounting and regulatory arbitrage systems.

Now the banks have learned the same lesson.

But the fact that the European Systemic Risk Board is populated by 27 central bankers (the same people responsible for the mess) and only one insurance person—Thomas Steffen, chairman of the Frankfurt, Germany-based Committee of European Insurance and Occupational Pensions Supervisors—is, of course, nonsense.

Henri de Castries, chairman and chief executive of Paris-based AXA Group, was absolutely correct to ask why on earth this was the plan when he spoke at the recent conference in Brussels organized by the Comite Européen des Assurances in the presence of David Wright, deputy director general of the European Commission's Internal Market & Services Directorate General.

Let us hope that Mr. de Castries does not give that one up too easily, because one suspects bankers and their supervisors have much to learn from insurers and their supervisors.

Moreover, the European Union seemed to go one step further than President Obama, who focused more on the needs of consumers.

The Council of Ministers has rubber-stamped a plan submitted by the European Commission to establish a new pan-European supervisory system that gives huge influence to CEIOPS, along with its equivalents in the banking and securities markets.

Solvency II will never work if the 27 European insurance supervisory bodies do not apply the rules in a level, uniform manner.

The Council of Ministers stated that the new European supervisory authorities would be established in an effort to "(upgrade) the quality and consistency of national supervision, strengthen oversight of cross-border groups through the setting up of supervisory colleges and establishing a European single rule book applicable to all financial institutions in the single market."

The three supervisory authorities also will be responsible for the planned regulation of credit rating agencies, another welcome move.

So CEIOPS will be transformed from a slightly obscure group of experts asked to advise the E.C. about how to make Solvency II, Europe's planned new capital adequacy regime, work in practice into a body with teeth designed to make sure it is implemented properly.

This is a good move, because Solvency II will never work if the 27 European insurance supervisory bodies do not apply the rules in a level, uniform manner. If they do not, then all of the supposed benefits that cross-border and diversified carriers should enjoy and pass on to their customers will be lost.

Business Insurance OPINIONS

Health care reform needs to reduce costs

SHOULD HEALTH CARE reform legislation being drafted by federal lawmakers establish a public health insurance plan to give individuals and perhaps employers an alternative to buying coverage from private insurers?

That issue has triggered a war of words between the Obama administration and the health insurance industry and could undermine the ability of lawmakers to reach an agreement on reform legislation.

While President Obama noted he is careful not to draw a line in the sand on the issue, he said a public plan option would be an important tool to "discipline insurance companies." Without it, he suggested, there would be no check on the ability of insurers to keep raising rates.

We're not sure which side is right, but that isn't the point.

For their part, health insurers say a public plan would have certain advantages and eventually would drive them out of business.

We're not sure which side is right, but that isn't the point. The point is that legislators don't need to address that issue now.

What is important is finding ways to expand coverage and make other changes that will enable medical providers to reduce the cost of care they provide.

Those objectives could be accomplished by establishing a public plan. However, enacting comprehensive health care reform legislation will be challenging enough without adding needless controversy, and lawmakers would be wise to discard the public plan option for now.

If it turns out, after reform legislation is enacted and the evidence justifies that a public health care plan is necessary, lawmakers can take action then.

Now is the right time to establish ONI

THE OBAMA ADMINISTRATION'S call for an Office of National Insurance within the Treasury Department couldn't have come at a better time.

As we report on page 4, the administration's white paper on financial services regulatory reform really doesn't have much to say about insurance. Most of the paper's recommendations deal with larger financial services questions, such as who should regulate institutions—possibly including some insurance holding companies, and what powers the regulators should have. All of the recommendations, of course, will have to be translated into legislative language acceptable to Congress and the president.

That's why we say that recommending establishing the ONI couldn't have come at a better time. The debate over financial services regulatory reform is likely to be long and complicated. There's a good chance that insurance issues will be overshadowed by other, larger financial services issues, despite the attention the near-collapse of American International Group Inc. has drawn on Capitol Hill since September.

While we wish the administration had endorsed the idea of an optional federal charter for insurers and producers, we're realistic enough to know that such a controversial break with regulatory tradition is unlikely to be enacted with so many other issues demanding attention.

The ONI, which enjoys the support of the Risk & Insurance Management Society Inc. and most insurance industry trade groups, can win approval on its own merits. Given the administration's explicit backing of the idea, we're more optimistic than ever that such approval will be forthcoming.

WRITE

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

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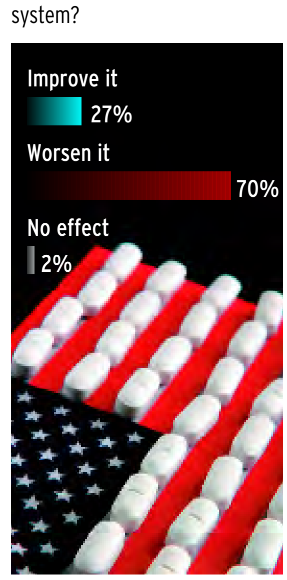
THIS WEEK'S RESULTS

Q What effect would a government-run health plan have on the health care system?



NEXT WEEK'S QUESTION

Q: Would a federal Office of National Insurance help reduce insurance buyers' costs?

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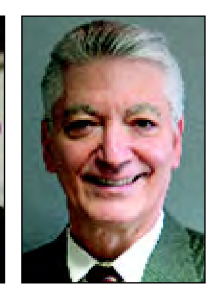

Risk managers: A report from the field

With many forms of "risk management" getting attention, from credit risk to financial to operational to enterprise risk, it is difficult for anyone with risk management in their title to be certain of the nature and extent of their own responsibilities. Recent research shows that the role of the risk manager varies with the nature of the employer and the manner in which it operates. But, for all risk management professionals, certain themes are common, write veteran risk manager and consultant William J. Kelly, above left, and longtime recruiting executive Richard Meyers.

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BENEFITS MANAGEMENT

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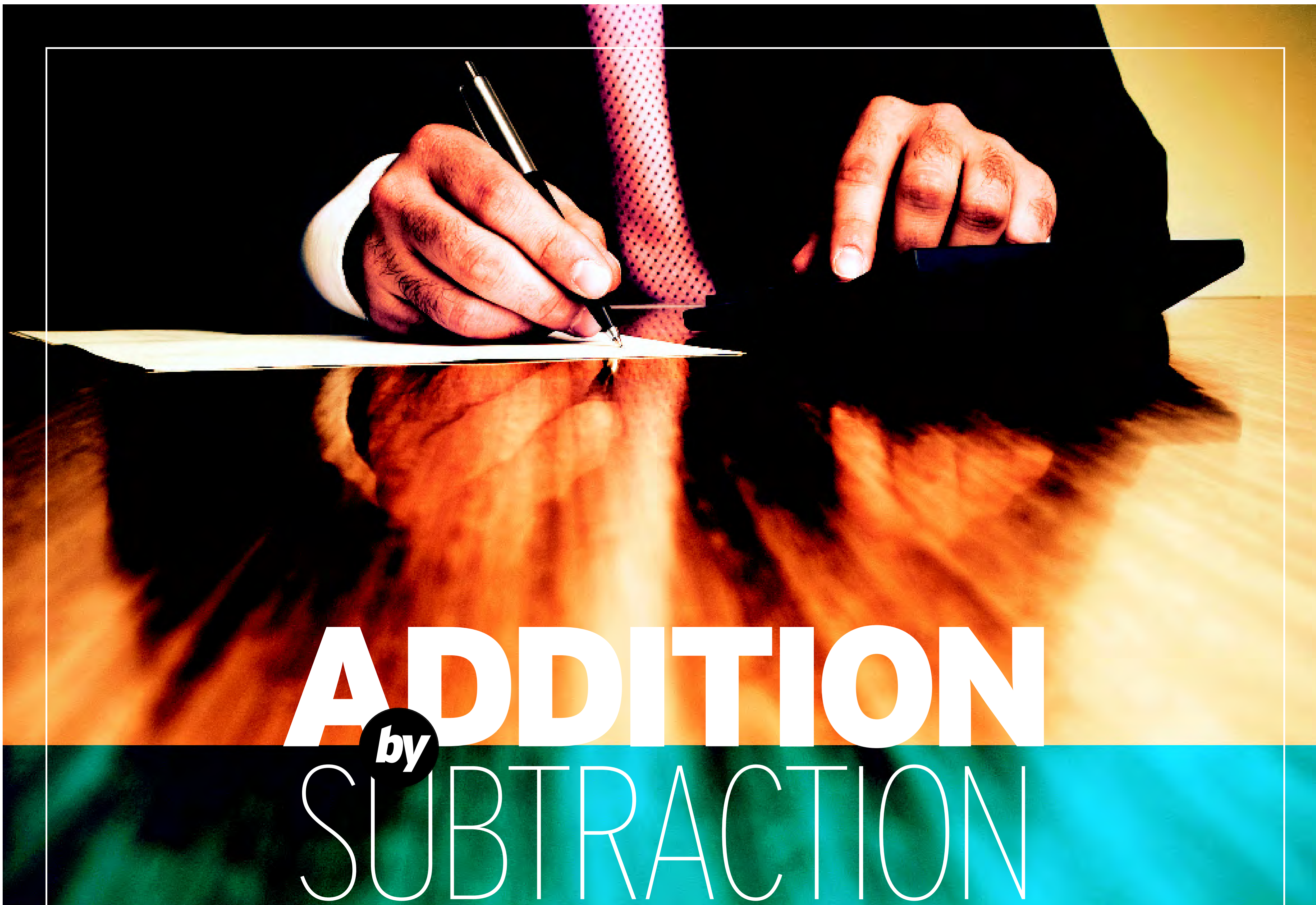

ADDITION by SUBTRACTION

Employers turn to health care plan audits in drive to reduce costs

By KRISTIN GUNDERSON HUNT

Benefit departments seeking to cut costs are looking within, and many are auditing their health care costs with hopes of finding immediate savings.

"With the economy in the tailspin it's in right now, clients are looking at audits as a way to demonstrate that their plans are not leaking money inappropriately," said Greg Mansur, national leader for Watson Wyatt Worldwide's claim audit practice in Los Angeles. "They view them as a good investment."

A variety of health care audits can help benefit managers find savings, experts said, though some audits seemingly offer more dramatic results than others. Dependent eligibility audits, whereby companies review whether the dependents enrolled in their medical benefit program truly qualify, are actually the fastest-growing form of audits companies are doing, health care audit experts said.

According to a survey of 489 large employers by Watson Wyatt, for which results were released in March, 54% of employers conducted dependent eligibility audits in 2008, up from 47% in 2007. Wat-

See **AUDITS** page 14

NEXT BENEFITS MANAGEMENT SECTION: July 27 - Consumer-Driven Health Plans

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NEWSCOM

A FedEx truck is seen in New York. In June, FedEx Corp. sought to help workers realize that benefits cuts were not being made in isolation of other cuts by reducing executive salaries at the same time.

Communicating changes requires delicate touch

Transparency is key when telling workers of benefits cuts

By LOUISE ESOLA

As companies hurt by the recession turn to benefit and workforce cuts, experts say communicating harsh changes must be dealt with delicately and informatively to avoid hurting employee morale.

Salary freezes, salary cuts, shortened work weeks, halting 401(k) matches and layoffs are almost a daily event in many business sectors as employers navigate the tough economy.

Experts say employees are aware of the economic downturn and many are worried about their personal future. But experts say companies still should tread carefully when deciding how to communicate changes that usually mean less money in employees' pockets.

Transparency, without the spin, is a best practice for companies that are scaling back, experts say.

"We want (employers) to be straightforward and empathetic," said Nicole Melton, a Philadelphia-based senior consultant and communication practice leader with Watson Wyatt Worldwide Inc. "Be candid."

"Share the financials with them," said Ken Groh, a Chicago-based vp of the communication group with Aon Consulting Inc. "Show them exactly why you have to do this."

That's what JohnsonDiversey Inc., a Sturtevant, Wis.-based provider of commercial cleaning products and services, did when it decided last year to convert its health care program from a traditional preferred provider organization plan to a consumer-driven plan and its retirement program from a pension to a 401(k) starting this year, said the company's head of compensation and benefits.

Both moves put more financial responsibility on workers.

Todd Blazei, vp of total rewards for JohnsonDiversey, said the company was aware employees might view the changes negatively. That's why the company spent months planning how it would break the news.

In the end, the company disclosed the changes in waves. First, the company's chief executive officer delivered what Mr. Blazei described as an in-depth video presentation discussing the company's struggles in keeping up with rising health care costs and pension obligations.

Then, employees received two newsletters within two months, highlighting the changes to their health benefits and retirement plans. Roughly one month before

Continued on next page

'Employees do understand...We're inundated with the news on how the economy is affecting the world and employees want to know how solvent their company is, but they need to know this information is coming from human beings.'

Nicole Melton, Watson Wyatt Worldwide Inc.

Continued from previous page

open enrollment began, Johnson-Diversey hosted town hall-style meetings, by phone and in person, for employee questions.

By then, the affected 2,000 U.S.-based employees had few questions and concerns, Mr. Blazei said.

"People understood why," he said. "We presented a clear business case for making the changes. Employees heard the same message several times. It wasn't watered down and they got the information."

Experts say such a superinformative method, delivered by those in key leadership positions, is the best way to approach employees with benefits changes. While companies may not have months to prepare, communicate and make benefit changes, they still should make a thorough presentation.

Ms. Melton said one major pitfall for employers to avoid is assuming workers understand why the company is scaling back. Employees, she said, want to see the numbers. Companies that fail this sort of disclosure risk employee morale, she added.

There is a trust factor that gets lost when employers leave their employees out of the loop on specifics, said Mr. Groh. "This is particularly sensitive now because people think they did nothing wrong and they think that it's the greed on Wall Street," he said. "You can see why employees can be angry and demoralized."

That's why experts say leadership visibility is important when a company makes changes. "There's no room for innuendo," said Ms. Melton.

This leads to another pitfall for companies to avoid: the lack of empathy from front-line managers and top executives in initiating such changes, she said.

"Employees do understand... We're inundated with the news on how the economy is affecting the world and employees want to know how solvent their company is, but they need to know this information is coming from human beings," said Ms. Melton. "They want to know how this is affecting everyone in the company."

Memphis, Tenn.-based FedEx Corp. put empathy into play last year when it trimmed executive salaries within weeks of reducing retirement contributions, a company spokeswoman said. The point, she said, was for employees to understand that the economy was affecting the entire company from those who wear pressed suits to those who deliver the packages.

Not all companies, however, will tackle areas such as executive pay when trimming their budgets, and some may be operating in the black while still trimming employee benefits, experts agree. This can muddy the water when getting the message across, Ms. Melton said.

To avoid demoralizing the workforce, Ms. Melton said employers must do a good job in presenting their financial picture to justify whatever changes are made.

"The recession hits various industries at different times," Ms. Melton said. "That's why companies need to let people know the business consequence of inaction." For example, a company could be forced to lay off more workers or go out of business altogether if it keeps compensation and benefits the same, she said.

"Dialogue between employers and employees is a must," Mr. Groh said. "The message has to be, 'We are in this together.' Some companies have come out and said they do not want to lay people off, so instead they are going to a four-day workweek, for example. If you share the information the right way, people will get it."

'Employees do understand...We're inundated with the news on how the economy is affecting the world and employees want to know how solvent their company is, but they need to know this information is coming from human beings.'

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Audits: Employers use health care audits to cut costs

CONTINUED FROM PAGE 10

son Wyatt estimates that 61% of employers will complete such audits in 2009.

The popularity of such audits has been spurred by their immediate results on companies' bottom lines once ineligible dependents—most often ex-spouses and children who have either "aged out" or have dropped out of college, and are therefore disqualified from receiving benefits—are removed from employers' health care rolls and no longer are driving claims costs, Mr. Mansur said. Such audits often reveal that between 3% and 12% of dependents on an employer's plan are ineligible, experts said.

Savings from removing those ineligible dependents are all over the map. Mark Rucci, senior vp of Gallagher Benefit Services Inc. in Princeton, N.J., said employers can reduce their total health care expenditures by 1% to 3% after removing ineligible dependents from their plans. He said larger companies can save millions of dollars.

Dan Priga, principal and national business leader of Mercer Health & Benefits L.L.C.'s performance audit group based in Pittsburgh, said if employers assume a 5% reduction in dependents for every 1,000 dependents audited, and conservatively estimate each dependent costs $1,800, they can expect to save almost $100,000.

Quick bottom-line gains

The Cleveland Metropolitan School District in Ohio participated in a dependent health care audit in November 2007, finding savings that immediately improved the bottom line as well as future unknown savings, said Ed S. Skinner Jr., executive director of benefits and risk management for the district.

"There was a feeling that enrollment was out of touch with reality," he said. "We needed to look harder at it. The cost factor of insuring individuals not eligible for our plan was also a driving factor" in doing the audit, Mr. Skinner said.

The district's bottom line was dramatically helped by transitioning 291 employees from family coverage to single status, which resulted in annual savings of $2.25 million, he said. It also removed 90 ineligible spouses and 473 ineligible dependent children from the health plan, saving the district from paying out future claims for individuals who should not be on the plan—generating unknown savings, Mr. Skinner said. He said the audit, which offered a 34:1 return on investment, was worth every penny.

"It saved us a ton of money and it provided an opportunity for us to clean up our plan at one time," he said. "Now, we're keeping the plan administration clean so we don't run into this again."

Other fast-growing forms of audits are:

- Eligibility data audits: In these, eligibility information used by third-party administrators is reconciled with the enrollment data in the employer's human resources file.
- Clinical audits: These audits identify and evaluate the health risks of the employee population so those risks can be adequately or proactively managed to save money in the long term, Mr. Rucci said.

Such audits have been less common until recently, and the savings experienced from these audits typically are anecdotal, Mr. Rucci said, but employers are realizing their value within audit programs. With eligibility data audits, employers often find errors on behalf of their TPAs costing them money. Clinical audits are valuable, he said, because employers are trying to keep people healthy to manage their costs long term.

Traditional claim audits, which analyze whether claim dollars are paid correctly and whether the plan design is administered correctly, aren't garnering the same attention as these newer audits because they don't always directly affect the bottom line, but participation in such audits is steady, Mr. Rucci said.

"The value of a claim audit is partially due diligence in monitoring your third-party administrator," Mr. Rucci said. "Companies want an independent assessment as to whether their TPA is doing a good job. The value of a claim audit is not always measured in recovered overpayments" but it does certify the TPA is doing a good job, he explained.

Savings at a cost

Despite the savings companies will see from audits, they come at a cost. On average, the starting price of a dependent eligibility audit is $35,000, Mr. Rucci said, and the price increases based on an employer's size and the project's complexity. For example, some employers have more eligibility rules than others or they have different rules for different groups of employees, such as union and nonunion workers.

On average, eligibility data audits typically cost around $15,000, clinical audits cost about $30,000 and claim audits cost between $35,000 and $40,000, Mr. Rucci said. Still, experts say employers can expect to see a return on investment with each audit.

"Organizations are going to be looking for money, and for a relatively modest investment of conducting an audit, the potential return is pretty good," Mr. Priga said.

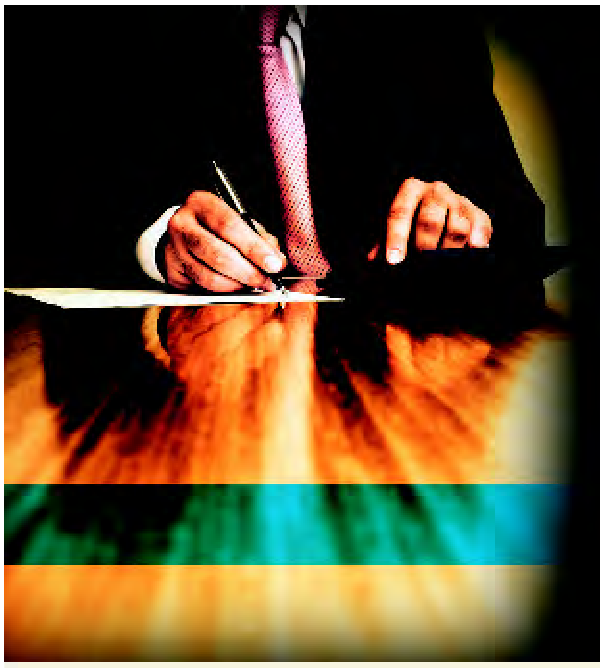
He said his clients often make back the money they spend on dependent eligibility audits within the first two months of removing ineligible dependents from their plans. He also said savings from claim audits vary, but employers will see on average a $3 to $4 return, conservatively, for every $1 spent. Mr. Rucci said claim audits produce a return on investment of three to five times the audit cost on average and pay for themselves over time.

An added bonus of such audits, particularly dependent eligibility audits, is that savings come without reducing benefits offered to employees, said Keith Bird, vp of sales for Suwanee, Ga.-based Impact Interactive, which conducts audits.

"This is a way to find money in the health care program that is being wasted," Mr. Bird said. "They are able to reduce health care costs without having to go to employees and say they need to cut benefits or increase costs. It's one of the last few areas where you can find money sitting on the table."

Watson Wyatt's Mr. Mansur said that, coming into 2009, he thought few clients would have the budgets for audits, but instead he has seen more interest as people realize the effect that audits can have on their spending.

"The economy is a motivating factor in organizations wanting to audit health care plans," he said. "Health care is such a big piece of their overall employee cost today, they want to make sure that money is being handled well."



WHEN TO AUDIT

How often should employers audit their health care programs?

DEPENDENT ELIGIBILITY AUDITS: A companywide audit likely needs to be done only once, experts say. After that, auditing a smaller random sample of employees and ensuring new employees provide proper documentation and verification of their dependents' eligibility on an ongoing basis should suffice.

CLAIM AUDITS: Experts say claim audits should take place every three years. However, larger companies with $30 million or more in annual health care expenditures might want to consider such an audit every year. Plan designs change, the administrator's provider network can change, claim offices or systems can change—all leading to poor claims processing. Also, regular claim audits can keep TPA performance high.

DATA ELIGIBILITY AUDITS: Such audits are recommended every one to three years, depending on results. If an employer's eligibility data audit comes up clean, they can wait three years; if it comes up with numerous problems, a follow-up audit the year afterward is recommended.

Audits of usage of health care benefits require time, money and follow-through

While employers are beginning to grasp the savings resulting from health care audits, they are trying to get a handle on their involvement in the auditing process.

"Audits do take time and energy on employers' part, but vendors take as much off their plate as possible," said Mark Rucci, senior vp for Gallagher Benefit Services Inc. in Princeton, N.J.

Employers' involvement in auditing processes typically occurs upfront. Dan Priga, principal and national business leader for Mercer Health & Benefits L.L.C.'s performance audit group in Pittsburgh, said medical claim audits require employers to collect and make certain documents and financial information available to auditors for review.

For dependent eligibility audits, Mr. Rucci said employers must set parameters and goals for a project, as well as provide dependent data that is the baseline for audits.

Keith Bird, vp of sales for Impact Interactive, an audit company in Suwanee, Ga., said an employer, along with the auditor, should analyze the explanation of its medical plan's provisions and how it operates so everyone is in agreement.

Companies also need to communicate with their employees about upcoming dependent eligibility audits because employees could be adversely affected if they don't follow instructions, Mr. Priga said. Their dependents could lose coverage or employees could be terminated for providing false information. Auditors often will help clients design and implement these communication plans and even provide call centers that employees can contact with questions.

Another critical role for employers during the initial auditing process is thinking ahead and establishing guidelines about handling the many potential complex issues surrounding individuals' circumstances that could stem from audits, Mr. Priga said.

"There are a lot of considerations that need to be taken and decided upon before you even begin the audit so that you have a plan laid out for what you're going to do in those situations," Mr. Priga said. "You don't want to be making those decisions on the fly."

Following these steps, auditors typically take control of the auditing process, collecting data and using their exclusive technology.

Traditionally, dependent eligibility audits have been paper-intensive, requiring employees to provide documentation—tax forms, marriage licenses birth certificates, etc.—to substantiate their dependents' eligibility for health care benefits. Although such documents often still are required, they typically supplement the technology now used for audits.

Some auditing companies use Web-based systems for dependent eligibility audits that take into account a plan's eligibility rules while surveying employees about their families and dependents. The systems then correlate the rules with the employees' responses and determine who is eligible for benefits. Software for claim audits is used to select an unbiased audit sample and measure things such as whether claims are processed correctly or other parameters put into the program, Mr. Rucci said.

Once the audits are complete and auditors report the results, employers become involved again—for example, removing dependents who don't fit eligibility requirements or holding their TPAs accountable for whatever results were found in claim audits.

Experts said audits aren't worthwhile if employers don't follow up afterward by creating standards and processes to address issues that come to light. After an independent claim audit, employers need to ensure their administrator responds to any problems with a remediation plan, said Greg Mansur, national leader for the claim audit practice at Watson Wyatt Worldwide in Los Angeles.

"Staying on top of your TPA really lets them know you care," Mr. Rucci said. "Some employers will just write them a check and (TPAs) never hear from them again. The level of service employers will get from their TPA is related to the amount of audit activity they do and how well they stay on top of their vendors."

Following dependent eligibility audits, employers should change enrollment procedures for incoming employees or new dependents going forward so the health care rolls don't become tainted again, he advised.

"It makes no sense to do an audit and not change your ways," Mr. Rucci said, "because as soon as it's over, the results will just erode again."

—By Kristin Gunderson Hunt

Dental benefits utilization holds up despite recession's toll on workers

By LOUISE KERTESZ

The U.S. recession's effect on the usage of dental insurance ranges from slight rises to small declines, with little change in the cost and design of the benefit, experts and benefit managers say.

The pattern may become clearer later this year, experts say.

A spokeswoman for the American Dental Assn. in Chicago said its survey found more dentists' decreased incomes and gross billings decreased in the fourth quarter of 2008 vs. the third quarter. While a first-quarter 2009 ADA survey saw "a small improvement," the results were "still bad," Wayne Wendling, managing vp of the ADA's Health Policy Resource Center, told ADA News.

In the Midwest, the Chicago Dental Assn. surveyed 305 area residents in February, finding that 22% had a family member who needed dental work but was putting it off because they couldn't afford it.

Of those surveyed, 47% had no dental insurance. That may explain why some insurers and a major employer said they have not seen a significant change in utilization. Dental claims indicate that people with employer-provided dental benefits continue to visit the dentist.

"We have seen (dental) claims stay steady," said Chris McSwain, director of global benefits at Whirlpool Corp. in Benton Harbor, Mich. "There's nothing in our numbers that indicates an economic downturn impact."

"While we hear from dentists that the amount of work being done is less than it was last year, our claim activity does not show that," said Jon Seltenheim, senior vp of customer service operations at dental insurer United Concordia Cos. Inc. in Harrisburg, Pa.

"The dentists that I speak with are saying they are having fewer requests for cosmetic procedures and in some cases are seeing openings in their hygiene schedules, which they rarely see, but it's too early to have any strong conclusions. Hopefully, we'll see some clarity in the middle part of the third quarter," Mr. Seltenheim said.

Kevin Jackson, group vp for underwriting at San Francisco-based Delta Dental of California, New York, Pennsylvania and Affiliates, said dental utilization has increased, but "it's so nascent, I'd be reluctant to call it a trend."

Patti Friedman, senior consultant at Watson Wyatt Worldwide in New York, said, "We're seeing in some cases where an organization has had a lot of layoffs or is considering layoffs, there has been an uptick in utilization. But overall, we don't see utilization going up."

A first-half 2009 national health care trend survey by Buck Consultants L.L.C., which contains dental insurers' renewal projections, showed little change in utilization and rates.

"We have not seen any significant change in the trend rates being used for dental plans, despite what the ADA is reporting," said Tony Rienzi, a principal in Buck's New York health and productivity practice.

Because 100% coverage of preventive dental care is routine in employer-paid benefits, he and others say there is no reason to expect a drop in utilization of those services.

However, Ms. Friedman said providers at onsite employer clinics were reporting fewer visits as employees were reluctant to take time away from work.

Two insurers, however, said plan members had increased their use of preventive dental services.

Alan Hirschberg, vp and head of Hartford, Conn.-based Aetna Dental in Fairfield, N.J., said a slightly higher trend in preventive services can be attributed to programs that give members financial incentives to receive preventive care.

Chris Swanker, vp of group dental and vision for New York-based Guardian Life Insurance Co. of America, said the industry's emphasis on preventive services, plan designs that stretch benefits—including allowing annual maximums to roll over—and fears of layoffs are "driving a fairly substantial increase in utilization."

As for major services, Mr. Swanker said their use is trending about the same and data shows no indication that people have delayed undergoing major work.

Mr. Hirschberg said there has been "some trail-off" in use of higher-cost services such as orthodontia, which is covered at 50% up to a certain maximum. "There's a slowdown, not that it fell off the ledge," he said.

As for the future, "We may be seeing some more expensive treatment done in anticipation of an uncertain job market," Mr. Seltenheim said.

Starting late last year, there was a "resurgence" of employer interest in Aetna's dental health maintenance organization plan, Mr. Hirschberg said. "Employers who may not have looked at it before are looking at it and buying it now," he said.

As the economy has tightened, more small employers in New York state have turned to a voluntary dental HMO instead of a standard, employer-paid preferred provider organization dental plan, said Vince Ashton, New York-based executive director of HealthPass, a purchasing cooperative for small businesses whose plans are underwritten by Guardian.

PROFESSIONAL MARKETPLACE

REQUEST FOR PROPOSALS

"The New York State Housing Finance Agency is soliciting proposals for insurance consulting services. To receive a copy of the Request for Proposals, visit the Agency's website at **www.nyhomes.org** and click "Forms, Applications and Resources" and then "RFPs/RFQs". Proposals are due July 27, 2009 at 12 p.m."

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LEGAL NOTICE

NOTICE OF SANCTION OF SOLVENT SCHEME OF ARRANGEMENT

IN THE HIGH COURT OF JUSTICE (IN ENGLAND AND WALES)

CHANCERY DIVISION

COMPANIES COURT

No. 10552 of 2009

IN THE MATTER OF

DEUTSCHE RÜCK UK REINSURANCE COMPANY LIMITED

AND IN THE MATTER OF THE COMPANIES ACT 2006, PART 26

NOTICE IS HEREBY GIVEN that, by an Order dated 16 June 2009 made in the High Court of Justice in England and Wales, Chancery Division, Companies Court, in the matter of the above named company (the "Company"), the solvent scheme of arrangement (the "Scheme") between the Company and its Scheme Creditors (as defined in the Scheme) pursuant to Part 26 of the Companies Act 2006 which was voted on and approved by the Scheme Creditors during the meeting held on 18 May 2009, was sanctioned. A copy of the Order sanctioning the Scheme was delivered to the Registrar of Companies on 16 June 2009, and the Scheme became effective on that date (the "Effective Date").

Scheme Creditors are required to submit completed Claim Forms together with the supporting evidence required by the Scheme in respect of their Scheme Claims (as defined in the Scheme) by 5pm London time on 15 December 2009 (the "Claims Submission Date") to the Scheme Manager, Chiltington International Limited, ("Chiltington"), Holland House, 1-4 Bury Street, London EC3A 5AW, United Kingdom (marked for the attention of David Burns) or by email to druk@chiltington.co.uk, or by facsimile transmission to +44 (0) 20 7621 6344.

If a Scheme Creditor fails to complete and submit a Claim Form to Chiltington prior to the Claims Submission Date, it shall not be entitled to assert any Scheme Claim and it shall not be entitled to receive any payment pursuant to the Scheme or otherwise from the Company in respect of a Scheme Claim. This is subject to the exception that any Unpaid Agreed Claims (as defined in the Scheme) will be deemed to be included on a Claim Form sent to and received by Chiltington before the Claims Submission Date and each Scheme Creditor will be entitled to receive payment under the Scheme in respect of such Unpaid Agreed Claims.

Notice of the Effective Date and Claims Submission Date has been sent to all Scheme Creditors of which Chiltington is aware and for whom it has what it reasonably believes to be current contact details. Any Scheme Creditor who has not received such notice by post or email should contact David Burns at Chiltington, 1-4 Bury Street, London EC3A 5AW, United Kingdom, or by telephone on +44 (0) 20 7621 6354 or by e-mail to druk@chiltington.co.uk.

Any Scheme Creditor who is unclear about this Notice, or the action he is required to take should contact David Burns at Chiltington by telephone, email or letter in accordance with the above contact details. To download the Scheme and Claim Form, please visit the website at www.deutscherueckuk.com.

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Comings & Goings

MARCIA BENSHOOF

NEW JOB TITLE: President of IMA of Colorado, a Denver unit of Wichita, Kan.-based IMA Financial Group Inc.

PREVIOUS POSITION: Chief business officer of Denver-based Pinnacol Assurance.

GOALS FOR NEW POSITION: My goals are to advance the incredible successes that IMA has had as a trusted broker partner to midmarket and large employers. We do that through developing our high-level expertise in industries like energy, technology, life sciences, environmental and construction. We feel that we are uniquely positioned as a large brokerage in Colorado and we have a complete array of services...We cover the full spectrum for employers. We want to help our clients manage their property, their business assets and their workforce.

INDUSTRY CHALLENGES: Certainly the economy is a great challenge, but it's also an opportunity. Our clients are really facing the very challenging economy, and so we are focusing on strong consultative relationships, us being creative and finding outside-of-the box solutions.

FIRST MARKET EXPERIENCE: My first job was (at Philadelphia-based Intracorp in workers compensation and disability management, now a subsidiary of CIGNA Corp.) as a case manager in a managed care environment. I worked with insurance companies and individuals who were injured on the job or in automobile accidents. I was their advocate.

WHAT I WOULD CHANGE ABOUT THE INDUSTRY: I really think it's time to have an integrated approach across the insurance industry, from property and casualty to employee benefits. So often employers work with a whole cast of different players and providers for their property and their casualty insurance, like workers compensation and general liability, and then turn around and work with a different set of providers for their health care and employee benefits. I really think its time to integrate those for employers.

ADVICE: Keep the end user in mind. It's either a business owner or another individual. We can get lost in thinking about insurance and forget that it is a people business.

Comings & Goings ONLINE

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

Allison Martinat
Business Insurance
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amartinat@businessinsurance.com

POSTING THIS WEEK

BROKERS:

- Endurance Specialty Holdings Ltd.
- Willis HRH
- USI Holdings Corp.

INSURERS:

- Markel International Ltd.
- CNA Financial Corp.
- Berkley Accident and Health L.L.C.

REINSURANCE:

- AXIS Capital Holdings Ltd.
- PartnerRe Ltd.

OTHER PROVIDERS:

- Habersham Funding L.L.C.
- Sedgwick Detert Moran & Arnold L.L.P.

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Autism: Movement by states to mandate coverage gaining steam

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vaccines (see related story).

The driving force behind autism mandates is highly active parents.

According to a late May analysis by the Washington-based America's Health Insurance Plans, 29 states appear to incorporate autism in their mental health parity laws, including 13 that explicitly list autism, an autism spectrum disorder or other developmental disorders in the definition of mental health in their respective parity statutes.

Sixteen states and the District of Columbia have separate benefit mandates that require coverage or parity treatment for autism or other developmental disorders, according to AHIP.

Newer mandates tend to focus on autism specifically, said J.P. Wieske, state affairs director at the Alexandria, Va.-based Council for Affordable Health Insurance, which estimates that autism mandates add 1% and could rise to 3% of the cost of insurance.

The mandates typically cover the autism spectrum and require coverage for different therapies, including behavioral, physical, occupational, speech and counseling, said Cathy Stamm, a senior associate with Mercer L.L.C. in Washington. Many allow caps, based either on age or therapy type, she said.

Momentum to offer state mandates is increasing, observers say.

"It's part of the growing trend among states to legislate by diagnosis, covering particular types of diagnoses and conditions and having that covered mostly by insured plans," said J.D. Piro, a Norwalk, Conn.-based attorney with Hewitt Associates Inc.

Advocacy groups—such as New York-based science and advocacy organization Autism Speaks—have been active lobbyists and "successful in talking to governors and others who are willing to push the issues inside states," Mr. Wieske said.

As for the educational vs. medical debate, he said there is "kind of a split between mental health, traditional physical health and sort of educational issues, and autism is probably one of the best examples of that…because there are certainly aspects of all of those within autistic treatments."

AHIP Communications Vp Susan Pisano said as counties and school systems have struggled financially to provide services to the growing number of diagnosed autistic children, in recent years there has been a "move to try to transfer responsibility and get coverage under health care for some services that have traditionally thought to be educational and provided by counties or school systems."

"We really need a discussion about where certain services can best be provided and right now I think what we're seeing is that's being decided on the basis of mandated coverage," Ms. Pisano said.

That question is particularly relevant to one type of therapy, applied behavior analysis, which has been documented to be effective with young autistic children. ABA is an intensive, one-on-one approach that teaches social, motor and verbal behaviors. Some children require more than 30 hours a week, at a cost upwards of $20,000 a year.

In what may be the first case of its kind, a settlement estimated at $1 million was reached in early June in a class action lawsuit against Detroit-based Blue Cross Blue Shield of Michigan for its refusal to cover applied behavioral analysis for autistic children. Plaintiff attorney Gerard Mantese, of Mantese & Rossman P.C. in Troy, Mich., said the agreement calls for policyholder parents who paid for the therapy since May 1, 2003, to be reimbursed. The insurer said it will offer intensive early intervention treatment coverage for autism beginning July 1.

Another issue of concern is "how those state mandates for insured products are going to coordinate with the mental health parity law that goes into effect" for plan years that begin after Oct. 3, Ms. Stamm said.

"The big question is: How does (autism) get treated under mental health parity and is it considered a mental health issue or not? And I think the jury is still out on that," said Patricia Friedman, a senior consultant with Watson Wyatt Worldwide in New York.

Bills have been introduced in the U.S. House and Senate that would federally mandate autism coverage by insured group health plans.

"All of that is going to be subsumed by the discussion on health care reform" in the coming weeks, Mr. Piro said. The outcome of such legislation on the federal level could determine movement at the state level, he said.

Meanwhile, a Marsh/Mercer survey of employers with at least 100 workers found that 62% offered some coverage of autism treatment in 2007, the latest data available. But the coverage may be limited.

According to a spokeswoman for Redmond, Wash.-based Microsoft Corp., it is one of only a handful of firms to cover applied behavioral analysis. Microsoft's benefit covers 80% of the cost and up to three years of coverage, with an annual limit of 60 visits with a certified provider or program manager and 450 visits with a therapy assistant, according to the company.

Debate rages on over whether inoculations are to blame for autism spectrum disorders

It has been a long and bitter confrontation: On one side are the parents who are convinced their children's autism has been caused by inoculations; on the other are the vaccine manufacturers and others who contend there is no reliable scientific evidence to support the allegations.

Vaccine manufacturers have largely been protected from litigation since enactment of a 1986 law that established a no-fault compensation system, including hearings held in a special federal court.

But a Georgia Supreme Court ruling last year that held a vaccine injury case should be heard by a jury could change matters.

Many parents blame their autistic child's condition on the vaccines they received from infancy, contending in some cases that their child was developing normally until receiving such inoculations.

But others point to studies that say otherwise, including a 2004 Institute of Medicine report that concluded "evidence favors rejection of a causal relationship" between autism and either the measles-mumps-rubella vaccine or vaccines containing thimerosal, an organic mercury compound used as a preservative, both of which have been blamed for causing the disorder.

Until 1999, when the American Academy of Pediatrics and the U.S. Public Health Service recommended its removal, more than 30 vaccines contained thimerosal, according to the Institute of Medicine.

Plaintiffs in all vaccine cases can file suit in civil court only after their claim has been processed by the Vaccine Injury Compensation Program, which was established by the National Childhood Vaccine Injury Act of 1986. Cases are heard by the so-called vaccine court, a division of the U.S. Court of Federal Claims in Washington.

In February, the vaccine court ruled against plaintiffs in three test cases of whether MMR and thimerosal-containing vaccines can combine to cause autism. The court is expected to release its judgment soon on the separate issue of whether thimerosal-containing vaccines alone can cause autism.

Observers say there have been relatively few lawsuits filed outside the program. Recent attention has been focused on the Oct. 6, 2008, decision by the Georgia Supreme Court in *American Home Products Corp. vs. Marcelo and Carolyn Ferrari.*

In that decision, the Georgia high court unanimously held the Vaccine Act does not preempt all design defect claims against vaccine manufacturers, providing only they "cannot be held liable if it is determined, on a case-by-case basis, that the injurious side effects of the particular vaccines were unavoidable."

But defendants, who are seeking a U.S. Supreme court hearing in the case, point out that other courts have held differently. For instance, in a Sept. 11, 2008, decision, the 3rd U.S. Circuit Court of Appeals in Philadelphia held in *Russell and Robalee Bruesewitz vs. Wyeth Inc.* that the Vaccine Act expressly pre-empts design defect claims.

On June 8, the U.S. Supreme Court sought a brief on the Georgia case from the U.S. solicitor general, which observers say enhances its chances of being heard. Observers note, however, that even if plaintiffs win the pre-emption issue, they must convince a jury there is a link between vaccines and autism.

"They have a long, long way to go, regardless of whether the Supreme Court acts or doesn't act," said Russell O. Stewart, a partner with Faegre & Benson L.L.P. in Denver.

—By Judy Greenwald

Gras Savoye: Willis' decision to sell could help it avoid liquidity issues

CONTINUED FROM PAGE 3

formula based on earnings and revenues.

As of Dec. 31, 2008, family shareholders owned a 42% stake in Gras Savoye worth $285 million, SEC documents show. Gras Savoye management owned the remaining 10% stake in the firm; it was worth about $67 million at the end of last year but cannot be exercised until Jan. 1, 2011, the documents say.

Concerns over whether Willis might be obligated to take a majority stake surfaced earlier this year when AXA Corporate Solutions notified Willis that it intended to put its 4% ownership of Gras Savoye to Willis.

Ultimately, AXA sold its shares—valued at about $25 million—back to Gras Savoye and to family shareholders rather than Willis.

Mr. Plumeri addressed the issue on Willis' first-quarter analyst call in April.

"One of the top-of-mind issues at present is Gras Savoye putting their shares to us and further putting some tension and pressure on our balance sheet," he said. "Hopefully by virtue of Gras Savoye and the families buying the 4% from AXA, it gives some sense that that is probably not going to be in the wind, although we are very strongly committed to a partnership in the future with Gras Savoye."

Analysts say a potential sell-off of part of its stake makes sense for Willis.

"The timing isn't right now" for Willis to buy Gras Savoye, said Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York.

To finance the HRH deal, Willis purchased a 12-month bridge loan, which pressured its stock, Mr. Gallant said. While Willis found permanent financing, it was expensive, he said.

"The worry with Gras Savoye would be if the (existing shareholders) decided to put their shares to Willis, essentially forcing Willis to buy them. They might have to borrow money to do it and that would be more expensive debt that investors don't want to see right now," Mr. Gallant said.

"Do I think it's going to happen?" said Keith Walsh, an analyst with Citigroup Research in New York, of whether Gras Savoye shareholders would put their shares to Willis. "I don't and I don't think Willis' management team necessarily believes that's going to happen. But at the same time, could it happen? Yes. And do they have $285 million lying around? At this point in time, that would be very difficult for them. They still have a high level of debt, and cash flow in the short term is very difficult for every company right now."

Mr. Walsh said it's conceivable that Willis could sell its 48% stake in Gras Savoye and then buy the 42% stake under its put/call arrangement.

Meyer Shields, an analyst with Stifel, Nicolaus & Co. Inc. in Baltimore, said it's possible that Willis will seek to sell part of its stake in Gras Savoye to another firm that could strengthen the brokerage's operations and make it a more attractive buy for Willis down the road.

Mr. Plumeri alluded to such a scenario in the interview. "We might want to embark upon a strategy where we have other partners that help us build Gras Savoye and help Gras Savoye build so that, in the future when we do take a majority share, they're in a better position and our partnership is in a better position," he said. "But nothing has been determined yet."

Gras Savoye does not divulge its operating margins, but analysts say they are below Willis' historical margins.

Zack Phillips and Michael Bradford contributed to this story.

Products & Services

Allied World Assurance adds to professional liability suite

PEMBROKE, Bermuda—Allied World Assurance Co. Ltd. has added to its suite of Darwin-branded professional liability insurance products.

The Pembroke, Bermuda-based insurer now offers, as part of its errors and omissions coverage, insurance company professional liability coverage.

The coverage is aimed at insurers with annual gross written premiums up to $2 billion. The coverage provides limits up to $10 million, with excess capacity available.

In addition, Allied has renamed and enhanced its alternative risk transfer structures product, which provides coverage for smaller insurers and other organizations. Now named private risk-transfer organizations cover, the product offers E&O coverage with optional directors and officers liability and employment practices liability coverage.

For more information, contact Nicole Haggerty, senior vp, at *nhaggerty@darwinpro.com*.

Firm announces service to aid Medicare compliance

CINCINNATI—Medicare lien resolution provider Garretson Firm Resolution Group Inc. said it has established a service to help claimants comply with settlement reporting regulations outlined in the Medicare, Medicaid, and SCHIP Extension Act of 2007.

Medicare Compliance Connection is meant to streamline the process through which insurance companies, self-insured companies and insured defendants report their settlements to Medicare. Such so-called "required reporting entities" can input claimant information into the Web-based program, which sends it to Medicare in the correct format.

The law, which goes into full effect on Jan. 1, 2010, carries a fine of $1,000 per day per claimant for failure to comply with its reporting procedures.

For more information, contact Marlene Wilson at *mwilson@garretsonfirm.com* or 704-559-4300.

FM Global releases updated software

JOHNSTON, R.I.—Commercial property insurer Factory Mutual Insurance Co., which does business as FM Global, has updated its Risk Markbrand risk management software.

The new version enables users to run hypothetical scenarios to determine how policyholders would be affected by losses due to fire, natural disasters, equipment breakdowns and those caused by people.

It also enables users to compare their properties to others in FM Global's client base, and offers risk-reducing recommendations for each facility.

For more information, visit *www.fmglobal.com/riskmark*.

Swett & Crawford offers equipment breakdown cover

ATLANTA—Wholesaler Swett & Crawford Group Inc. has partnered with CNA Financial Corp. to offer equipment breakdown coverage.

Policies will cover boilers, pressure vessels, electric equipment, computers and data processing equipment, as well as mechanical and electrical machines, including air conditioning and refrigeration equipment. The policies can include up to 50 locations per account with limits of $10 million per location, and are available on a stand-alone basis.

Swett offers a $100,000 sublimit on expediting expenses, water damage and contamination from ammonia and hazardous waste.

For more information, contact Margaret Zechlin, director of program development, at 415-951-8491 or *Margaret_Zechlin@Swett.com*.

Chubb adds features to software program

WARREN, N.J.—Chubb Group of Insurance Cos. has added several new features to its risk management information system, a software program provided to Chubb policyholders.

The Business Intelligence Dashboard will provide snapshot views of recent activity, the top five open claims, metrics by policy year, and a listing of the frequency and severity of claims by state.

It also began offering a service that automatically generates reports to be delivered to users via e-mail.

For more information, contact Amy Goodell, RMIS client services team leader, at 908-572-4377.

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@business insurance.com*.

ADVERTISER INDEX

Issue of June 29

Regulations: Reviews mixed on insurance regulatory overhaul plan

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administration is neutral on the federal charter and suggests it is one solution to the current fragmented and inconsistent system of regulation at the state level."

The paper represents a "good opportunity" for reform, said Joel Wood, senior vp of the Council of Insurance Agents & Brokers in Washington, which supports an OFC. While there are concerns that insurance "will be the stepchild" because of the scope of legislation dealing with financial services systemic risk, Mr. Wood said he remained optimistic that "we'll have an opportunity in the fall to make our case."

An OFC foe, Charles Symington, senior vp of the Alexandria, Va.-based Independent Insurance Agents and Brokers of America, said the group "is very pleased that President Obama did not recommend creation of a federal charter for insurance as part of his white paper to modernize financial services regulation. In the past, the IIABA has worked with federal policymakers on ways to increase insurance knowledge in Washington, and also deal with certain international insurance issues without creating a new federal insurance regulator."

An outside observer said the paper's endorsement of the Office of National Insurance "does matter, but its importance is going to be limited."

Larry Mirel, a partner in the Washington law firm Wiley Rein L.L.P. and a former District of Columbia insurance commissioner, added that while the office will enhance federal insurance expertise and oversight, "I don't think it will result in much of a change in the way in which insurance is regulated. We still have a state regulatory system; this will not change the system."

Allowing an Office of National Insurance to tap state regulatory expertise will be critical, another insurance legal expert said.

"I believe that the ONI is a good thing," said Francine L. Semaya, chair of Blue Bell, Pa.-based Nelson Levine de Luca & Horst L.L.C.'s insurance transactional and regulatory practice group in New York and chairman of the American Bar Assn.'s tort trial and insurance practice section's task force on federal involvement in insurance regulation modernization.

"I believe it is right thing to do, and if they're going to be looking at which insurance groups present a systemic risk, they really need the input of the existing domestic regulators," said Ms. Semaya, who added that involving state regulators in the office would enhance its credibility.

A longtime Washington lobbyist with no ties to the insurance or financial services industries expressed some skepticism about the administration's call.

"Members of Congress have to be responsive to their grass-roots constituents," said Thomas Blank, vice chairman of Washington lobbying firm Wexler & Walker Public Policy Associates and a former federal official. "I think there's a growing sentiment across the country that maybe we're overreaching on economic intervention," which would cause lawmakers to view additional intervention cautiously.

Health care: Reform momentum picks up

CONTINUED FROM PAGE 3

not yet been released.

With those new estimates, "I'm even more confident in our ability to move forward," Sen. Baucus said at a news briefing.

While lawmakers will be out of town, Finance Committee staffers will remain in Washington, working to assemble a bill that will attract widespread support.

"Staff is actively engaged on a daily basis. If an agreement can be reached behind the scenes, a committee markup won't have to take that long or be that difficult," said Frank McArdle, a consultant with Hewitt Associates Inc. in Washington.

In fact, while the legislative timetable may have slipped, "The fast-moving reform train has not derailed," Mr. McArdle said.

Observers say the factors driving reform—a president for whom enactment of reform legislation is a top legislative priority and Democrats having substantial control of both branches of Congress—haven't changed, making the odds of a bill being enacted very high.

"Too many people have invested too heavily for them to come up empty-handed," Mr. McArdle said.

> **'We are much closer on the scores for a health care reform package than we were at this point last week. We have options the Congressional Budget Office tells us would cost under $1 trillion and are fully paid for.'**
>
> Sen. Max Baucus, D-Mont.

Still, decisions on many key issues have yet to be made. Observers say legislators are trying to decide up to what level income federal health insurance premium subsidies would be available to the uninsured.

Other key issues before legislators is how an employer health coverage mandate would be structured and what portion of employer-paid health insurance premiums would be included as taxable income to employees.

Europe: E.C. regime fosters cooperation

CONTINUED FROM PAGE 4

prevent future crises and create greater consistency in international insurance regulation.

Several leading European and international insurance executives, supervisors and representatives of the European Commission who were at a meeting organized by the Comite Européen des Assurances in Brussels on May 19, the day the plan was agreed by the Ministers, voiced support for the plan.

David Wright, deputy director general of the E.C. Directorate General for Internal Market & Services, said, "One of the big things that we have to improve is the lack of trust between the home and state regulators. This lack of trust has held back Solvency II. What we need is a system of insurance guarantee schemes and mechanisms for resolving disputes. The new system has the ability to resolve disputes and this will be critical to build trust."

All speakers supported the creation of the Systemic Risk Board to try and help prevent a repetition of the recent crisis and they welcomed a similar initiative recently announced in the United States.

But significant concerns also were raised about the apparent lack of representation from the insurance sector on the Systemic Risk Board.

The ESRB will be composed of 27 representatives of European central banks.

Thomas Steffen, chairman of the Committee of European Insurance & Occupational Pensions Supervisors and chief executive director of Insurance & Pension Fund Supervision at the German federal financial supervisory authority Bundesanstalt für Finanzdienstleistungsaufsicht is the only member of the new body who represents the insurance sector.

CEIOPS will take the role as the new European Supervisory Board for insurance under the new system.

Henri de Castries, chairman and chief executive officer of Paris-based AXA Group, said the insurance industry should have more representation on the board.

"Central bankers have had a lot of opportunities to be together in the past and this has not prevented us (from) being in the current crisis. Therefore, if you want to create a strong new system, it needs a balanced board of representatives of central banks and insurance supervisors but not 27 to one," said Mr. de Castries.

He also said the board should include academics and others with practical experience in the market.

Mr. Wright said he was aware of the concern about lack of representation, but said the insurance sector would have a strong voice on the board.

"Some people think that the board is too dominated by central bankers with only one representative of the insurers. They say that this is a central bank stitch-up. But this is not the case. The chairman of CEIOPS will have voting rights on the board, CEIOPS will be strengthened and there will be a number of safeguards. CEIOPS will be able to resolve disputes…and will be a much refined animal. Anyone who thinks that insurance has been forgotten about and it is a byproduct is mistaken."

Several speakers also voiced support for greater cooperation between international supervisors.

Jane Cline, president-elect of the National Association of Insurance Commissioners and West Virginia insurance commissioner, said, "We in the U.S. are committed to working on international standards and financial coordination and cooperation. We at the NAIC have worked hard at that. We supported the creation of the Office of Insurance and look forward to participating in the debate and focus on systemic risk regulation."

But Ms. Cline also said U.S. supervisors have some concerns about Solvency II.

"We do struggle with what Europeans mean by convergence. We do have standard policy regulations in place and have a tried and trusted system in place as opposed to Solvency II," she said.

Jackson: Pop icon posed huge risk

CONTINUED FROM PAGE 1

Before joining Ark, Mr. Foreman was chief underwriting officer of Wellington Underwriting.

London-based Robertson Taylor Insurance Brokers Ltd. placed contingency insurance for some of the London concerts for Los Angeles-based AEG Live, an entertainment conglomerate and producer of the planned shows, sources said.

Robertson Taylor, which specializes in placing coverage for music and entertainment risks, is a unit of Oxygen Holdings P.L.C. A spokeswoman for Oxygen declined comment.

Some contingency coverage for the tour was written by Lloyd's of London syndicates, several London sources said.

The losses to the contingency market—which includes event cancellation coverage—are likely to be limited, though, because underwriters declined to cover the entire tour, sources said. Instead they provided coverage for a limited number of Mr. Jackson's initial performances.

"We can confirm that some insurance for Michael Jackson's concert has been placed in the Lloyd's market, but any losses are not likely to be significant," a Lloyd's spokesman said.

Talbot Holdings Ltd., which manages Lloyd's syndicate 1183, confirmed in a statement that it underwrote some of the Michael Jackson contingency coverage but said its maximum exposure net of reinsurance was less than $3 million. Talbot is a unit of Validus Holdings Ltd.

Reports indicated AEG would self-insure the shows if it could not obtain insurance.

Mr. Jackson died suddenly last week in Los Angeles, where he reportedly was rehearsing for the London shows. The 50-year-old reportedly suffered cardiac arrest. The Los Angeles coroner's office conducted an autopsy Friday and ordered tests, including toxicology, that a spokesman said would take four to six weeks to complete.

The singer, known as the King of Pop, produced a string of hits starting in the early 1970s and his 1983 album "Thriller" remains the highest-selling record of all time.

Concert producers, ticket distributors and merchandise vendors typically buy insurance to protect against losses that result when a show fails to go on, either because of problems with a performer or the venue.

But underwriters typically require proof of insurability through a medical examination before providing the size of limits that would have been sought by producers of Mr. Jackson's tour, said Brian Kingman, managing director in Los Angeles for Gallagher Entertainment, a unit of brokerage Arthur J. Gallagher & Co.

The outcome of such an exam would shape policy terms and conditions such as potential coverage exclusions that would determine any payout, Mr. Kingman said.

AEG said that Mr. Jackson successfully underwent such a medical examination, and friends reportedly said he recently appeared in good physical condition.

Underwriters also are concerned about longer tour schedules because the likelihood of problems mounts over time, especially for large and complex productions, said Mary Craig Calkins, a partner specializing in entertainment industry and insurance recovery at Howrey L.L.P. in Los Angeles.

Nontraditional risk-transfer tactics show resurgence despite economy

By MICHAEL BRADFORD

AMMAN, Jordan—Several elements of the nontraditional insurance and reinsurance markets are poised for growth having survived the global financial meltdown, a panel of experts said.

Insurance-linked securities, takaful coverages and a shrunken bond insurance market are riding out the crisis with some bruises but panelists at the the International Insurance Society Inc.'s 45th Annual Seminar held June 7-10 in Amman, Jordan, were optimistic about their recovery.

Demand for insurance-linked securities is on the rise, said Alison McKie, managing director in the London office of Swiss Reinsurance Co. "We continue to have inquiries from banks and money market funds who want to invest. They see it as a diversified, natural addition to their portfolios."

The economic crisis dampened the issuance of ILS products in the past year, Ms. McKie said, but $1.2 billion in natural catastrophe bonds have been issued this year. "We very much see this as a market that is coming back and will continue to be needed in the industry," she said.

Thriving in the bond insurance market has been a difficult accomplishment as the crisis has taken hold, but Hamilton, Bermuda-based Assured Guaranty Ltd. avoided much of the fallout that hurt its competitors, said Howard W. Albert, the company's chief credit officer.

"The big thing that caught our industry was the same thing that caught (American International Group Inc.); it was collateralized debt obligations of asset-backed securities," Mr. Albert said of the complex financial arrangements that triggered huge losses at AIG and in the bond insurance market.

"We didn't do them," Mr. Albert said of Assured's involvement with CDOs. "This is an area where, when something goes wrong in a pool of similar mortgage-backed securities, it's fairly likely that it's going to go wrong across the entire pool," he said. "It's really unlikely that when a mortgage crisis is going on, one mortgage-backed security is going to perform well and another is going to perform poorly."

When the damage from CDOs began to ripple through the bond insurance market, some bond insurers were downgraded by rating agencies and have all but stopped underwriting, said Mr. Albert.

Assured, however, recently announced its acquisition of New York-based Financial Security Assurance Holdings Ltd., another bond insurer that avoided CDOs.

"I guess we're left with the responsibility of figuring out where this industry goes next and helping to pull it into whatever the next phase of its life is going to be," Mr. Albert said. He advised other insurers to exercise patience and caution when offered deals they don't fully understand or suspect could go wrong, which he conceded can be hard to do in a competitive market.

Ms. McKie pointed out that troubles in the bond insurance market have led to a decline in insurance-linked securities tied to the life insurance market.

Life ILS products are so complex that investment funds need help from bond insurers in analyzing the transactions, she said. "As soon as that market started to break down," said Ms. McKie, ILS deals stalled because of the lack of expertise bond insurers could provide.

Another nontraditional coverage—takaful insurance—is gaining in popularity around the world, according to Zeid Ayer, chief investment officer at CIMB-Principal Islamic Asset Management Co. in Kuala Lumpur, Malaysia. "This industry has tremendous potential," he said. Takaful premiums were $2.4 billion in 2007 and are expected to grow to as much as $7.7 billion by 2012, he said.

Takaful coverages, which conform to Islamic law, increasingly are being purchased by non-Muslims, said Mr. Ayer. He said buyers are attracted to the ethical component of the insurance, which cannot be written on risks that do not comply with the teachings of Islam.

READ more coverage from the conference online at www.BusinessInsurance.com

MICHAEL BRADFORD

300 attend annual insurance seminar

AMMAN, Jordan—The International Insurance Society Inc.'s 45th Annual Seminar was the first to be held in the Middle East.

The IIS selects a distinct location for each year's seminar, Brian Duperreault, chairman of the IIS and president and chief executive officer of Marsh & McLennan Cos. Inc., told attendees in opening the June 7-10 meeting in Amman, Jordan.

"We do this so we can draw attention to specific markets, but also to highlight the unifying factors that define our industry and the issues we face," Mr. Duperreault said.

The seminar drew about 300 participants to hear insurance executives, academics and others discuss issues around conference theme "Maintaining Sustainability in a Changing World."

Next year's seminar will be held June 6-9 in Madrid, Spain.

More information on the IIS is available at *www.iisonline.org*.

—By Michael Bradford

Rendezvous: Market in flux

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cles anytime soon, the panelists agreed.

Pierre Cambier, general manager with Royal Sun Alliance (Global) Ltd. in Brussels, Belgium, pointed out that most insurers are watching their capital decline. "So they are looking for cash. I think there is a consensus among most insurance companies that we are at the end of the soft market." Still, he said, "we haven't seen much of a hardening market."

Mr. Germeau said the financial crisis has hammered insurers on the asset side and large equity losses might lead to a spike in insurance rates if circumstances were different.

"One of the reasons why there is not a brutal hardening of the market is because of the state of the economy and this sort of downturn where the demand for insurance is decreasing," Mr. Germeau said.

Other factors that have kept the market relatively soft are respectable insurer combined ratios and low inflation, Mr. Cambier said. "Unless there are major cat losses coming or a worsening of the financial situation worldwide, I'm not sure that the market will significantly harden in the coming months," he said.

That's a general statement, he said, because certain lines have seen higher rates. "Obviously, credit insurance is in terrible shape," Mr. Cambier said. "The cat market has increased and will probably continue to increase. But I think for the property/casualty market, for normal exposures, we will see sort of a flattening market" if catastrophic losses remain low, he said.

165 join European Captive gathering

LUXEMBOURG—European captive owners joined insurers, brokers and others captive market participants June 16-17 at the 12th European Captive Rendezvous in Luxembourg.

The conference, organized by London-based Risk and Insurance Research Group Ltd., drew about 165 participants to hear discussions on insurance market trends, alternative captive structures, regulatory issues and the effect of Solvency II.

A date for next year's conference has not been set.

More information will be available at *www.rirg.com*.

—By Michael Bradford

Tomas Wittbjer, Luxembourg-based global head of insurance at IKANO S.A., which provides insurance services to furniture retailer IKEA Group, said he has seen evidence of firming prices for catastrophe-exposed property insurance.

IKEA has a large property exposure and its coverage costs increased 15% at renewal in May, "I suppose mainly due to the cat exposure," Mr. Wittbjer said. "For me, there is a sort of a hardening of the market."

Mr. Germeau said reinsurance rates have generally risen 5% to 10%.

READ more coverage from the conference online at www.BusinessInsurance.com

News In Brief

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charges in a bogus 2001 finite reinsurance transaction between Gen Re and American International Group Inc. has been sentenced to two years' probation and fined $5,000, according to reports. John Houldsworth, former chief executive officer of Gen Re's Cologne Re Dublin unit, also reportedly was ordered to perform 400 hours of community service. He pleaded guilty in 2005 to conspiracy and cooperated in the government's case against other former Gen Re and AIG officials accused in a sham loss-portfolio transfer to help AIG manipulate its financial statements.

High court raises bar on age bias suits

In a decision hailed as a major victory for employers, the U.S. Supreme Court ruled plaintiffs in age discrimination cases must prove age was the determining factor in an adverse job action, not one of several motivating factors. The ruling came in *Jack Gross vs. FBL Financial Services Inc.*

SEC won't take action in Fairfax finite probe

The U.S. Securities and Exchange Commission will not seek any enforcement action against Fairfax Financial Holdings Ltd. relating to its four-year finite risk investigation into the Toronto-based insurer and reinsurer. In a statement, Fairfax said it was informed by the SEC regional office that its investigation was complete and that it does not intend to recommend any enforcement action. An internal review of its finite risk contracts prompted Fairfax to restate several years' financial results for its Odyssey Re Holdings Corp. subsidiary.

CIGNA COO Cordani tapped as next CEO

H. Edward Hanway will retire as chief executive officer of CIGNA Corp. at the end of 2009 and be succeeded by David M. Cordani, now president and chief operating officer of the Philadelphia-based health insurer.

Travelers shielded from new Manville claims

The U.S. Supreme Court ruled 7-2 that new asbestos lawsuits against an insurer that helped fund a trust to settle its asbestos liability claims are barred. In *Travelers Indemnity Co. et al. vs. Pearlie Bailey et al.*, the court upheld a decades-old agreement that has become an oft-replicated model in asbestos liability cases.

AIG: Two life units going toward federal debt

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Bill Bergman, an analyst at Morningstar Inc. in Chicago, said, though, he questions "to what extent the government's getting fair value for reducing the debt that AIG has to the Federal Reserve Bank of New York. That's a tough call," and will not be known until " three or four years down the road."

In other AIG-related developments:

- AIU Holdings, AIG's commercial property/casualty division, is close to settling on a new name as part of its review of the company's brands and its effort to distinguish itself from AIG. The new name is expected to be revealed next month, according to sources familiar with the project.
- AIU also named Robert S. Schimek as its global chief financial officer, a new position. Mr. Schimek, who joined AIG in 2005, most recently held the title of AIU's executive vp and chief financial officer, but in that position was in charge only of AIU's property/casualty business, a spokeswoman said.
- Alain Karaoglan, a former Banc of America Securities L.L.C. managing director, has been named senior vp-divestiture for AIG. He reports to Paula Rosput Reynolds, AIG vice chairman and chief restructuring officer. He succeeds Phillip Jacobs, who left AIG to join another company
- AIG agreed to sell its shares of its consumer financial operations in Mexico. AIG Universal, S.A. de C.V. SOFOM E.N.R. and Markcenter Services S. de R.L. de C.V. are being sold to Desarrollo de Negocios Integrados S.A. de C.V. and Inversiones DNI S.A. de C.V., respectively, for an undisclosed amount.

SICO: Greenberg grilled

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shares since Mr. Greenberg left the insurer, and the return of more than 185 million shares that SICO controls. The stock was transferred to SICO as part of a 1970 reorganization of AIG and its affiliates.

New York-based SICO argues that the shares were placed aside for several purposes, including protecting AIG from a takeover bid. SICO presented a trust agreement showing the establishment of Starr Charitable Trust with the Bank of Bermuda in 1970. At the time, the trust and SICO were based in Bermuda.

In testimony last week, Mr. Greenberg said that AIG's compensation program made "many, many millionaires" among AIG executives, but he maintained the program was "not cast in concrete" and could be amended at any time.

In addition, Mr. Greenberg said terminating the plan was the result of a "mutual agreement" between the parties, but conceded he never spoke with his successors at AIG about canceling the plan.

AIG's attorney, Theodore V. Wells Jr. of Paul, Weiss, Rifkind, Wharton & Garrison L.L.P., attacked Mr. Greenberg's credibility and accused him of making false statements.

"Is it the truth that the reference to a mutual agreement is a false statement?" Mr. Wells asked.

"Not to my knowledge," Mr. Greenberg replied.

AIG rested its case last week after Richard Beattie, an attorney who represented independent AIG directors in 2005, rejected Mr. Greenberg's assertion that Mr. Beattie had advised Mr. Greenberg to end the compensation program for "reasons of corporate governance." Mr. Beattie is chairman of Simpson Thacher & Bartlett L.L.P. in New York.

Mr. Greenberg also defended his use of the disputed shares since 2005 and said SICO used the $4.3 billion in proceeds from AIG shares that were sold to "diversify its portfolio" and invest in "a variety of opportunities," including private equity funds, real estate and health care companies.

"SICO also invested in new insurance companies, some of which compete with AIG, right?" Mr. Wells asked.

"We did, but that was our right," Mr. Greenberg replied.

In its defense, SICO presented documents last week relating to the 1970 AIG reorganization, including proxy statements and amended articles of incorporation that "do not contain any language related to a trust or obligation by SICO to use any of the shares to benefit AIG employees," said David Boies of Boies, Schiller & Flexner L.L.P., who represents SICO.

But AIG tried to show there was an oral contract based on numerous videotaped speeches, transcripts and interviews by Mr. Greenberg in which he spoke of using the AIG stock for "the benefit of future generations of AIG employees."

"We put these shares in a trust and that trust cannot be broken by anybody," Mr. Greenberg told participants of the SICO plan, as it was called then, in a 1996 speech played for jurors. He added that the trust account is set up "so that no one group of individuals can ever raid it." In a 2000 speech, Mr. Greenberg said there was enough stock in the trust to provide compensation for "a couple of hundred years."

When questioned on the stand by Mr. Wells, Mr. Greenberg said he was "exaggerating" about the length of time and said he used the term "trust" loosely.

The videotaped speeches and other transcripts likely will help AIG support its claim and be important in establishing intent, said Fran Semaya, chair of the insurance regulatory group of Nelson Levine de Luca & Horst L.L.C. in New York, who is not involved in the case.

Ms. Semaya, speaking personally and not representing her firm, said "a trust is a fiduciary relationship, and you can have one without a contract."

While AIG does face a challenge, "there is case law that you can prove a trust exists without legal documents." But she said "the documents will speak for themselves."

Other observers say the fact the case has reached trial indicates the judge's view that there are substantial "issues of fact" on both sides.

The court also heard testimony last week from two former outside directors of AIG: Carla Hills, a former U.S. Secretary for Housing and Urban Development who served as a board audit committee member at AIG from 1996 through 2006, and Frank Zarb, a former interim chairman of AIG.

Mr. Zarb testified that AIG and SICO did not enter into a mutual agreement to end the compensation plan. Meanwhile, Ms. Hills testified that a trust did not exist as defined by AIG.

AIG has said it would use the proceeds of any judgment to help repay its federal bailout package.

The trial continues this week.

Berkshire: Property cat capacity cut

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them withdraw fairly significantly out of the wind-exposed cat business," he said.

Berkshire "doesn't want to have any volatility built into their earnings this year" in the interest of capital and ratings preservation, he said.

Rod Fox, chief executive officer of intermediary TigerRisk Partners in Greenwich, Conn., said: "My understanding is, with their Swiss Re transaction, and their balance sheet, that they have cut back their cat capacity, but I think they will still write some business for clients."

Swiss Re announced in February that Berkshire would invest 3 billion Swiss francs ($2.78 billion) in the reinsurer in the form of convertible notes with a 12% interest rate. The Zurich-based reinsurer said it was also purchasing from Berkshire adverse development loss coverage for its property/casualty claims reserves for 2008 and prior years.

Ajit Jain, the Stamford, Conn.-based president of Berkshire's Reinsurance Group, declined to comment on whether Berkshire had reduced its property cat capacity.

Joseph M. Fedor, executive vp of intermediary US Re Group in New York, said the principal reason for the withdrawal is "they supported the cat market mostly because they had a large amount of liquidity in the past, and that has shrunk."

In addition, "they probably feel that the primary rates are under pressure, therefore the reinsurance rates are going to come under pressure," he said.

Berkshire's withdrawal from property cat reinsurance is expected to be only temporary, said Steve McElhiney, president of Dallas-based intermediary EWI Inc.

Berkshire has been a longtime supplier of property cat capacity to insurers worldwide. It has a reputation of providing large amounts of capacity, backed by top ratings, that comes with an expensive price tag.

For the first quarter, Berkshire reported $2.01 billion in other-than-temporary impairments of investments, which related primarily to its investment in ConocoPhillips. It also reported $986 million in derivative losses, which it said primarily relates to an increase in its potential loss under its high yield credit default contracts.

Business Insurance END PAGE

Contributing: Jeff Casale, Judy Greenwald

Password rule for job applicants gets backspaced

People applying for jobs with Bozeman, Mont., no longer have to provide their Internet user names and passwords when seeking employment with the city.

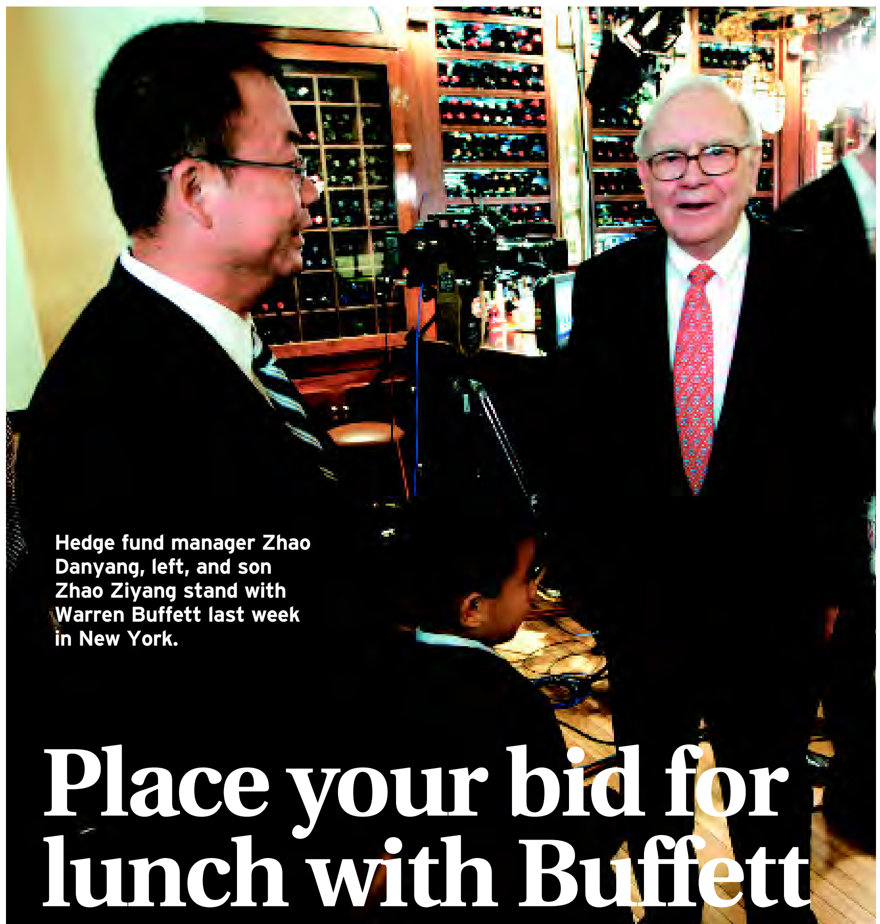
Faced with a major outcry, the city has formally eliminated a hiring policy that had asked applicants to provide their user names and passwords for personal and business Web sites including Facebook, Google, Yahoo!, YouTube and MySpace, according to news reports.

Although the policy reportedly had been in place for several years, it came to light recently when a local TV station learned about it from an anonymous viewer, according to the reports.

A city commissioner described the policy as an "egregious violation of privacy," according to the Billings Gazette.

City Manager Chris Kukulski put out a four-page memorandum last week saying he had decided to stop seeking the information for all positions and that no one was ever denied a job for failing to disclose user names and passwords on password-protected Internet sites.

"This was an honest mistake. Human resources, our police and fire departments were doing something they believed was consistent with our core values," Mr. Kukulski said in the memo. "This practice is no longer being employed."



REUTERS

Hedge fund manager Zhao Danyang, left, and son Zhao Ziyang stand with Warren Buffett last week in New York.

Place your bid for lunch with Buffett

People who'd like to chat with the Oracle of Omaha over steaks, burgers and ice cream sometime next year can bid to have lunch with Warren Buffett, the chairman and chief executive officer of Berkshire Hathaway Inc.

Mr. Buffett holds an auction every year in which anyone can bid to have a power lunch with him.

The proceeds of the donations go to the Glide Foundation, which provides a variety of social services to San Francisco's poor and homeless.

The winner of last year's bidding, Chinese investment manager Zhao Danyang, chowed down last week with Mr. Buffett at Smith & Wollensky in Manhattan. Mr. Danyang of Hong Kong-based Pure Heart Asset Management Co. Ltd. won that New York lunch with a record winning bid of $2.1 million.

The auction for next year's lunch ran last week on online auction site eBay Inc. As of press time, the bid had topped $800,000.

The winner will be able to take up to seven friends to dine with Mr. Buffett at the same Big Apple restaurant.

The winner also must pick up the tab and leave a tip, but stock tips are optional.

City's dress code a modest proposal in Sunshine State

Wearing underwear, using deodorant and covering wounds are definitely "in" for employees of Brooksville, Fla., but tattoos, halter tops and abdomen-revealing clothing are definitely "out" under a new city dress code.

Workers in the city about 50 miles north of Tampa, Fla., also are not permitted to have body piercings anywhere other than in their ears, according to news reports.

The city council recently approved the code on a 4-1 vote. The lone dissenter was Mayor Joe Bernardini, who pointed out possible enforcement challenges.

"They said you had to wear undergarments," news reports quoted Mayor Bernardini as saying. "Who's staring to see if that person doesn't have underwear on?"

Multiple violations of the policy that bans "distracting, offensive or revealing" clothing, which also includes Spandex, could result in termination.

City Manager Jennene Norman-Vacha said the code, which is part of Brooksville's revamp of its personnel policies, "is there if something becomes an issue or problem. Then we want to be able to address it."

'INSURANCE DEPARTMENT' SCAMMERS TARGETING AGENTS

Being an imposter is nothing new, but posing as an Oklahoma Insurance Department employee is certainly out of the norm.

Oklahoma Insurance Commissioner Kim Holland last week warned insurance producers and adjusters to be on the lookout for people posing as state insurance department employees, whom the department described as "scammers" and "fraudsters" seeking personal information.

The Insurance Department said in a statement that it had received reports of individuals calling insurance agents, saying they were employees of the state office and requesting that the agents fax them personal tax information.

The same situation happened earlier this month in Nevada when impostors called agents and told them their licenses were going to be suspended for filing "improper paperwork."

However, the Nevada impostors said the issue could be fixed with a little personal information—such as birth date and Social Security, credit card and telephone numbers.

No worries, though, the Oklahoma Insurance Department said. The only way Oklahoma's insurance agency it would request that type of personal information would be in writing, it said.