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Late News

Canadian drug reimport lawsuit dismissed

A federal judge dismissed a lawsuit accusing major pharmaceutical companies of violating federal antitrust laws by preventing U.S. consumers from purchasing prescription drugs from Canada. The suit, filed in U.S. District Court in Minneapolis by the Minnesota Senior Federation in May 2004, alleged that Pfizer Inc., Merck & Co., Novartis AG and others were violating state and federal antitrust laws by limiting or threatening to limit supplies to Canadian pharmacies. A lawyer for the plaintiffs said they are reviewing legal options.

Washington proposes comp rate increase

Washington state's Department of Labor and Industries last week proposed increasing workers compensation rates by an average of 3.8% for 2006. The higher premiums would take effect Jan. 1, 2006, and cover anticipated increases in medical costs and wage-replacement benefits paid to injured workers,

See **LATE NEWS**/page 27

Inside

HRH SETTLES

Agreement lets broker keep some contingents.

PAGE 3

CAPTIVE SUED

Bank of America takes its own captive to court.

PAGE 3

DEVASTATION ON THE GULF

KATRINA RAVAGES COAST

Insured losses of up to $35 billion projected

By DAVE LENCKUS and MARK A. HOFMANN

Even as loss modelers rank Hurricane Katrina as the costliest natural disaster in U.S. history and more destructive than the four storms that lashed the Southeast last year combined, exactly how bad losses are may not be known for weeks or longer.

Indeed, loss adjusters—who do not know when they will be able to access many storm-ravaged areas—say they expect that the insurance industry still will be sorting out some Katrina-related losses at this time next year.

"It's going to be a very long, long process" to adjust all of the losses, said Robert O'Brien, a Richmond, Va.-based senior vp with Marsh Inc. who coordinates the brokerage's catastrophe response practice.

Days after the category 4 storm slammed into communities from Louisiana to Alabama on Aug. 29, roadblocks prevented many adjusters and property owners from making preliminary damage assessments.

In New Orleans, authorities mounted a wide-scale evacuation operation after two breached levees allowed additional floodwaters to course through the city a day after Katrina had swept through. In some areas of the city, bull sharks, snakes and rats were spotted in the floodwaters, along with the bodies of flood victims. Approximately 80% of the below-sea-level city was under water last week, and the city's mayor estimated that at least hundreds and more likely thousands of residents died in the flooding.

The U.S. Army Corp of Engineers estimated that pumping the city dry would take at least a month after the compromised levees are plugged.

Other areas of the city plunged into lawlessness, with looters and armed gangs roaming the streets.

In Biloxi, Miss., flooding, washed-out bridges and buckled roads prevented adjusters from entering much of the area, where the gaming industry had sprouted in recent years. Katrina submerged or swept away many of the city's offshore casinos, including one tossed onto a nearby hotel.

Complicating the situation for adjusters and property owners is the loss of cell phone as well as landline phone service in the afflicted areas.

Some property owners have been able to make sketchy loss assessments based on news coverage and aerial

See **KATRINA**/page 25

Hurricane Katrina tore through Gulf Coast states Aug. 29 ripping up properties, including the Isle of Capris Casino in Biloxi, Miss., above, and causing deadly floods in New Orleans and the surrounding area.

HURRICANE KATRINA

Insurers set to absorb huge wind, flood loss

Storm might not turn market

By JUDY GREENWALD

Hurricane Katrina looks certain to be one of the largest insured losses in history. Nevertheless, it may not have a dramatic impact on the insurance market, say many observers.

Four years of hard market rates have left the industry flush with capital, which should enable it to readily absorb Katrina's losses, estimates of which now range from about $9 billion to $35 billion, these observers say.

So while there may be some rate hikes, there will not be a general market hardening as a result of the hurricane.

"It isn't inconceivable that, should we go loss-free from here on, that we could see (property catastrophe) rates flat or even slightly down from last year," said Tim Gardner, managing director and leader of the global property specialty practice for Guy Carpenter & Co. Inc. in New York, which estimates that the catastrophe will cost reinsurers alone $3.5 billion

See **MARKET**/page 26

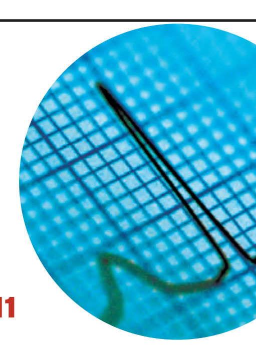
NEWSPAPER

SPOTLIGHT

INTERNATIONAL REINSURANCE

Finite's future, fighting downgrades.

PAGE 11



BI RANKS

REINSURERS

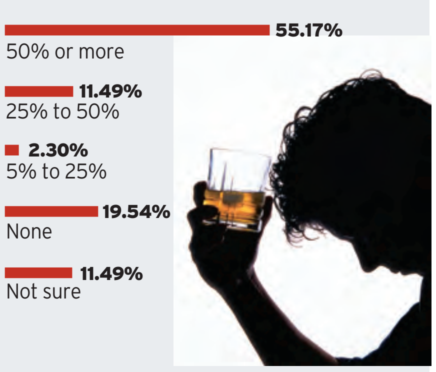
The world's largest reinsurance companies ranking.

PAGE 12

Inside

Online poll - [8/29 - 9/2]

How much of an injured employee's workers comp benefits should an employer be allowed to withhold if an employee was under the influence of drugs or alcohol at the time of the injury?



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Departments

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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HRH settlement allows some contingents

Broker to pay back $30 million to clients

By SALLY ROBERTS

HARTFORD, Conn.—Hilb Rogal & Hobbs Co. will still collect contingent commissions on much of its business despite a $30 million settlement it reached with prosecutors last week over charges that it steered clients to insurers paying the highest contingents.

Under the terms of the settlement with Connecticut Attorney General Richard Blumenthal, the Glen Allen, Va.-based brokerage pledged not to accept contingent commissions on brokerage business, but the settlement agreement sanctioned the continued collection of the controversial commissions on agency business.

The agreement should help ensure that several compensation options are still available to brokerages, observers said.

Mr. Blumenthal last week sued HRH in Connecticut Superior Court in Hartford, alleging violations of the state's Unfair Trade Practices Act and Unfair Insurance Practices Act. His investigation, he said, uncovered several agreements where HRH secretly steered clients to certain insurers in return for undisclosed commissions.

As part of the settlement, which was reached simultaneously with the lawsuit, HRH agreed to establish a $30 million nationwide restitution fund, to enhance its disclosure practices to clients, and to establish a business practices committee of the company's board of directors.

The company also agreed to pay a $250,000 administrative fine to the Connecticut Insurance Department to resolve all issues relating to an investigation into the placement or attempted placement of professional liability insurance in Connecticut for two clients and one prospective client. That investigation led to the May resignation of former HRH President and Chief Operating Officer Robert B. Lockhart (*BI*, May 30).

HRH, the world's 10th largest brokerage, expects to take a third-quarter pretax charge of $40 million to $50 million to cover the costs of the settlement, including the administrative costs associated with the restitution fund, as well as other pending regulatory matters.

HRH settlement agreement

Under a settlement with Connecticut Attorney General Richard Blumenthal, Hilb Rogal & Hobbs Co. agreed to:

- Establish a $30 million restitution fund.
- Enhance disclosure practices.
- Stop taking contingent commissions on brokerage business.
- Retain the ability to collect contingent commissions on agency business.

Mr. Blumenthal

"This $30 million settlement is a major milestone in our fight against improper insurance practices—the first to involve personal lines of insurance and to reveal hidden payments to agents and well as brokers," Mr. Blumenthal said in a statement.

"Consider this major settlement a win for consumers and a warning to the entire industry that such unconscionable schemes must stop," he said. "My investigation into insurance industry abuses is continuing vigorously and aggressively."

The settlement is the latest in a string of agreements reached between insurance brokerages and various state attorneys general who have been investigating industry compensation practices (see box).

But unlike previous settlements, which stipulated the elimination of contingent commis-

See HRH/page 27

Bank sues own captive over WorldCom claim

By DOUGLAS McLEOD

PROVIDENCE, R.I.—Bank of America Corp. has filed bad-faith charges against its own Vermont-based captive insurer and units of Chubb Corp. for their alleged refusal to cover more than $24 million of the bank's $460.5 million settlement of securities litigation with WorldCom Inc. investors.

In a suit filed late last month in U.S. District Court in Providence, R.I., Bank of America charges that its captive and Chubb have wrongly failed to pay a portion of the March settlement that was attributable to securities units of FleetBoston Financial Corp., which Bank of America acquired last year.

Chubb units acted as claims administrators for FleetBoston's captive—now a Bank of America subsidiary known as Bulfinch Indemnity Co. Ltd.—and also reinsured 30% of the captive's $100 million aggregate limit excess of the bank's $10 million retention, according to court filings.

Among the suit's charges is that Chubb put its own interests as a reinsurer ahead of its duties as claims administrator to the captive and to the bank in refusing to pay the loss.

Neither Chubb nor Bulfinch has answered the complaint. A Chubb spokesman said the suit "is without merit and is inappropriate" but declined further comment.

Lawsuits by parent companies against their own captives are unusual but not unheard-of, captive experts note.

In the 1990s, Minneapolis-based General Mills Inc. sued its captive, Gold Medal Insurance Co., after the captive rejected a $168.8 million claim for pesticide contamination of oat grain. General Mills won the coverage case and then joined Gold Medal in pursuing re-

See LAWSUIT/page 24

RAA RANKINGS

For the Reinsurance Assn. of America's ranking of largest U.S. reinsurers for the first half of 2005, turn to **PAGE 6**.

Reinsurance premiums fall in first half

By JUDY GREENWALD

U.S. reinsurers' results for the first half of 2005 reflect downward pressure on rates, increased retentions by primary reinsurers and adverse development from prior accident years, say observers.

But whatever their weakness, the first-half results are likely to look a lot better than the end-year results, which will reflect the losses from Hurricane Katrina, observers warn.

The 26 U.S. reinsurers tracked by the Reinsurance Assn. of America reported $13.21 billion in net premiums written, a 12.0% decrease from the total reported by the similar group for the same period in 2004, according to the Washington-based RAA's survey.

The top 20 reinsurers based on net premiums written recorded $13.10 billion in premiums, down 9.2% from the same period in 2004.

All the reinsurers reported an aggregate 105.8% combined ratio for the first half of 2005, compared with the 96.3% combined ratio reported by a similar group of reinsurers for the comparable period a year ago. The top 20 reported a 105.5% combined ratio, up from 93.1%.

"The continued softness in the top line was evident in the numbers," said Cincinnati-based independent insurance analyst John L. Ward. Primary insurers' greater retentions had an impact on the reinsurers as well, said Mr. Ward.

"The primary insurers are either retaining more business or prices are declining, especially on the casualty side," although reinsurers are trying to maintain discipline and "they're actually not renewing some contracts because the pricing is not adequate," said Yvonne Bernard, managing senior financial analyst at Oldwick, N.J.-based A.M. Best Co.

James B. Auden, senior director at Chicago-based Fitch Ratings, noted the industry's combined ratio was increased by Princeton, N.J.-based American Re-Insurance Co.'s 266.5% combined ratio, which reflected its $1.6 billion reserve boost earlier this year. "That adds roughly 10 points to the combined ratio, so throw that out and things held pretty evenly vs. last year," he said.

But Laline Carvalho, an analyst with rating agency Standard & Poor's Corp. in New York, said, the U.S. reinsurance industry "in general has continued to be an underperformer relative to a number of other regions" worldwide. "The second quarter results sort of continued that trend."

"The 105.8% combined ratio was quite disappointing, considering where we are at this stage in the market, and it highlights that prior years continue to be an ongoing concern for a number of companies in this industry," she said.

"Although you would think '97 through 2001 would have matured," there is "still

See RAA/page 6

Spotlight

Reinsurance: International Markets

BI ranks the leading worldwide reinsurers / 12

London market certain to achieve contract clarity / 19

Reinsurers seek to avoid problems in phase two of new E.U. standards

By SARAH VEYSEY

Now that Europe's reinsurers have issued their first set of financial reports under new accounting rules, they are working to ensure that the second phase of the standardization effort does not create significant difficulties for the market.

Reinsurers based in European Union member states have reported interim figures under International Financial Reporting Standards for the first time since the initial phase of the project to bring consistency and comparability to the accounting of European insurers and reinsurers began on Jan. 1.

And European reinsurance groups and accounting experts are now holding discussions with the London-based International Accounting Standards Board about the second phase of the project, which could have important implications for reinsurers and insurers, experts say.

The initial phase of the project has not led to any great surprises in reinsurers' accounts, observers said, but much work has gone on to enable companies to present both their 2005 accounts and their 2004 figures under IFRS.

Phase one of IFRS accounting for insurance contracts—which has been mandatory for all publicly listed insurance and reinsurance companies in the European Union from Jan. 1—requires companies to produce more detailed financial statements than many traditionally have.

Among other changes, reinsurers must account for their assets on a so-called "fair value" basis, meaning assets must be recorded at their current market value, rather than at a projected value.

While this approach was already used by many U.K.-based reinsurance companies under U.K. generally agreed accounting principles, it presented more of a challenge for many European reinsurers, said Steven Brice, technical director at

See **STANDARDS** / page 14

Reinsurers find methods of surviving downgrades

By MICHAEL BRADFORD

Reinsurers that manage some quick damage control and consider changes to their business plans have the best shot at survival when a ratings downgrade threatens their operations.

A downgrade from an A-level financial-strength rating to a B-level rating carries potentially heavy consequences for reinsurers, industry experts say, as many brokers and cedents will avoid those downgraded companies or invoke clauses in their contracts to void coverage. And clients generally ask for collateral from downgraded reinsurers, which can exacerbate the financial strain.

Ratings downgrades from the crucial A-level are frequently followed by the downgraded reinsurers exiting the market. In 2002, for example, both Hamilton, Bermuda-based Trenwick Group Ltd. and Cologne, Germany-based Gerling Global Re Group shut down shortly after being downgraded to the B-level.

But such downgrades don't have to spell doom, as Paris-based SCOR S.A. has shown. The company last month regained its A- rating from Standard & Poor's Corp. after being downgraded in 2003.

Converium Holding Ltd. seems also to be proving that there is life after a downgrade after slipping into the B-level ranks last year. The Zug, Switzerland based reinsurer posted a $9.0 million profit for the first six months of this year, compared with a $594.3 million loss during the same period in 2004.

But surviving a crucial downgrade requires quick action, observers say.

One of the first moves a downgraded reinsurer should take, experts say, is to try to counter the negative perceptions that come with the fall from grace.

"When a company gets a downgrade, it obviously hits the headlines," said Simon Barnes, a partner with JLT Risk Solutions in London. "The first thing they need to do is to mitigate that as quickly as possible."

"It is vitally important that they frankly explain this, not only to the brokers, but also that the (chief executive officer) and (chief financial officer) get out and meet as many clients as possible," Mr. Barnes said. "They have to explain what they

See **RATINGS** / page 16

Investigations lower demand for 'structured reinsurance'

By CAROLYN ALDRED

Continued regulatory scrutiny of finite reinsurance and a flurry of subpoenas for insurers and reinsurers has led to reduced demand—and a new name—for the product.

Finite reinsurance—the term previously used to describe reinsurance contracts that limit underwriting risk and take into account investment income—now is called "structured reinsurance," market observers say.

"Finite re is now generally referred to as structured reinsurance. The term finite has wrongly acquired a bad image, similar to that of financial reinsurance because of its 'trial by press,'" said Dan Malloy, New York-based executive vp of financial solutions at Benfield Group.

"Finite reinsurance products are now known as structured transactions," said Jim Bryce, president and chief executive officer of IPC Holdings Ltd. in Bermuda. But even with their new name, the products remain the "unflavor" of the month, he noted.

"The number of structured or finite reinsurance contracts being issued in the current environment is much reduced," said Joseph B. Sieverling, senior vp of the Washington-based Reinsurance Assn. of America.

"There is not much happening" in the structured reinsurance market, agreed Steven Bolland, president of New York-based Gill & Roeser Inc.

"It is very clear that the increased regulatory, reputational and accounting risks make finite reinsurance a more costly and less attractive option now, and far fewer contracts are being written," said Mr. B. sieverling.

Finite contracts have been in the spotlight following investigations this year involving American International Group Inc., General Re Corp., ACE Ltd. and financial guarantee insurer MBIA Inc. At issue is the insurers' accounting for the contracts.

Mr. Malloy, however, noted it is not easy to judge whether demand for the product has changed.

Structured products are unique and combine different elements, such as multiyear periods and multiple lines of coverage and typically include profit commission and risk sharing features as well as a recognition of the value of investment income, he explained. Demand for different products changes during the market cycle, said Mr. Malloy.

For example, loss portfolio transfers are popular in a period of mergers and acquisitions; quota-share

See **FINITE** / page 18

Coming next: Spotlight on Surplus Lines . . . Sept. 12

BI Ranks

Over and under

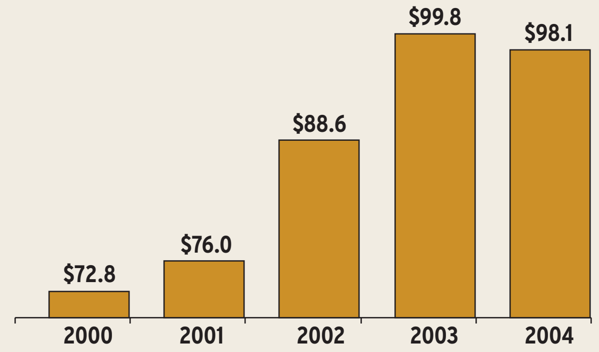
Ranked by combined ratios

Lowest	
IPCRe Ltd.	77.3%
AXA RE	84.1%
Endurance Specialty Holdings Ltd.	87.7%
ACE Tempest Re	87.8%
Berkshire Hathaway Reinsurance Group	88.8%
Highest	
Alea Group Holding (Bermuda) Ltd.	137.0%
American Re Corp.	122.0%
Converium Holding Ltd.	118.2%
Employers Reinsurance Corp.	107.4%
SCOR	104.5%

Source: *BI* survey

Premium growth

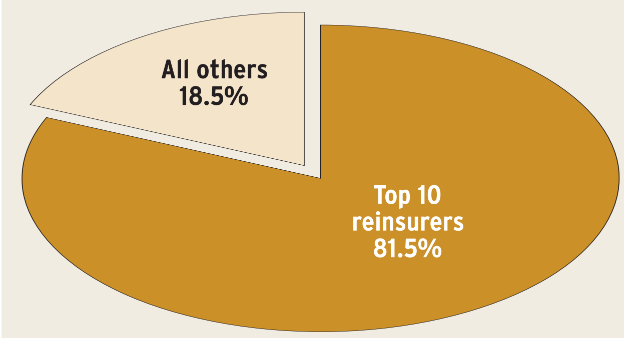
Net reinsurance premiums written by the 10 largest reinsurers, in billions of dollars



Source: *BI* survey

Share of market

Market share of top 10 reinsurers by net reinsurance premiums written in 2004



Source: *BI* survey

World's largest reinsurers

Ranked by 2004 net premiums written

Rank	Company/Address	Phone/Fax/Web site	2004 net premiums written	Percent change	2004 net premiums earned	Percent change	Combined ratio	2004 employees	Principal officer
1	Munich Re Group Koniginstrasse 107, Munich, 80802, Germany	49-89-3891-0 Fax: 49-89-3990-56 *www.munichre.com*	$24,073,749,000 [1]	-0.1%	$26,710,605,000 [1]	4.2%	98.9% [2]	6,612	Nikolaus von Bomhard, chairman-board of management
2	Swiss Re Group Mythenquai 50/60, Zurich, 8022, Switzerland	41-43-285-2121 Fax: 41-43-285-2999 *www.swissre.com*	$23,476,618,800 [3]	2.6%	$23,686,619,400 [3]	3.7%	98.4% [4]	8,359	John R. Coomber, CEO [5]
3	Berkshire Hathaway/ General Re Group [6] 100 First Stamford Place, Stanford, Conn. 06902-6745	203-363-5200 Fax: 203-363-5221 *www.berkshirehathaway.com*	$10,580,000,000	-11.4%	$10,959,000,000	-16.5%	NA	3,200	Ajit Jain, president-Berkshire Hathaway Reinsurance Group; Joseph P. Brandon, chairman/CEO-General Re Group
4	Hannover Re Group Karl-Wiechert-Allee 50, Hannover, 30625, Germany	49-511-5604-0 Fax: 49-511-5604-1188 *www.hannover-re.com*	$9,233,621,277 [1]	0.0%	$9,422,244,368 [1]	2.1%	99.6%	1,093	Wilhelm Zeller, chairman
5	Employers Reinsurance Corp.[7] 5200 Metcalf Ave., Overland Park, Kan. 66202	913-676-5200 Fax: 913-676-5221 *www.geinsurancesolutions.com*	$8,173,000,000	-16.0%	$8,453,000,000	-15.5%	107.4%	3,037	Ron Pressman, chairman/president/CEO
6	Lloyd's of London 1 Lime St., London, EC3M 7HA, England	44-207-327-1000 Fax: 44-207-327-2389 *www.lloyds.com*	$7,282,875,600 [8]	1.4%	N/A	N/A	N/A	N/A	Nick Prettejohn, CEO
7	XL Re XL House, 1 Bermudiana Road, Hamilton, HM 11, Bermuda	441-292-8515 Fax: 441-292-5280 *www.xlre.com*	$4,149,290,000	19.1%	$4,210,383,000	35.6%	100.2%	523	Henry C.V. Keeling, executive vp-XL Capital Ltd./ CEO-reinsurance operations
8	PartnerRe Ltd. 96 Pitts Bay Road, Pembroke, HM 08, Bermuda	441-292-0888 Fax: 441-295-1771 *www.partnerre.com*	$3,852,672,000	7.3%	$3,733,740,000	6.6%	94.3% [2]	913	Patrick Thiele, president/CEO
9	Transatlantic Holdings Inc. [9] 80 Pine St., New York, N.Y. 10005	212-770-2000 Fax: 212-742-9457 *www.transre.com*	$3,749,274,000	12.2%	$3,661,090,000	15.4%	102.0%	465	Robert F. Orlich, chairman/president/CEO
10	Converium Holding Ltd. General Guisan-Quai 26, Zurich, 8022, Switzerland	41-44-639-9393 Fax: 41-44-639-9090 *www.converium.com*	$3,553,000,000	-7.2%	$3,685,100,000	0.2%	118.2% [2]	771	Terry G. Clarke, CEO

1 Euro=$1.2438 (12/31/04). 2 Ratio is for nonlife business only. 3 Swiss franc=$0.8046 (12/31/04). 4 Ratio is for property/casualty group only. 5 Swiss Re Group has announced that Jacques Aigrain will succeed John R. Coomber as CEO in December. 6 Combined figures of Berkshire Hathaway Reinsurance Group and General Re Group. 7 Employers Reinsurance Corp. is a part of the GE Insurance Solutions group of companies. 8 British pound=$1.833 (12/31/04). 9 American International Group Inc. owned 60% of Transatlantic Holdings Inc. as of 3/31/04.
Source: *BI* survey

Visit *www.businessinsurance.com* for more information and access to the full searchable Directory of International Reinsurers.

Standards: Reinsurers seek to avoid problems in second phase of E.U. rules

Continued from page 11

accounting firm Mazars in London.

European reinsurers, he said, have typically held much of their assets in bonds and valued their assets, including bonds, at amortized cost.

In addition, insurers and reinsurers must now disclose:

- Their objectives in managing risks arising from insurance contracts.
- Information about the sensitivity of their profits, losses and equity to variables.
- The concentration of their insurance risks.
- Actual claims compared with previous estimates.
- The impact of reinsurance on claims development, among other requirements.

And under phase one of the standards, European reinsurers are no longer permitted to hold so-called "equalization" or "catastrophe" reserves. Under the catastrophe reserving process, a portion of profits earned in years where there are few losses is sometimes added to reserves to cover catastrophe losses in future years. Such reserves can build up on a tax-free or tax-deferred basis in some E.U. countries.

The banning of such reserves was likely a significant challenge for many European reinsurers, which traditionally have held such reserves, according to Mr. Brice.

The next phase

But with the initial phase of adoption well under way, the reinsurers and accountants are now in discussions with the IASB about phase two of the project, which could be more problematic, some say.

An IASB discussion paper is expected next year, and it will likely be another three years before a standard is developed and implemented, according to Mr. Brice.

Meetings have been taking place between the IASB and insurance and reinsurance industry representatives, sources said, and the IASB has set up an insurance working group.

In addition, the CFO Forum—a discussion group made up of the chief financial officers of major European insurers and reinsurers that was formed in 2002—recently published a set of principles for the second phase of the IFRS project that it hopes the IASB will consider.

Representatives of several large European reinsurers, including Hannover Re Group, Munich Reinsurance Co. and Swiss Reinsurance Co., take part in the CFO Forum's regular meetings.

A spokeswoman for the Comité Européen des Assurances, which represents insurance and reinsurance companies in Europe, said the organization was formulating a response to the CFO Forum's principles and is also in discussions with the IASB.

Mismatch a concern

One issue that the CFO Forum wants the International Accountg Standard Board to address is the mismatch of accounting for assets and liabilities under IFRS standards.

While the phase-one changes require insurers and reinsurers to report assets on a fair-value basis, rules for the treatment of liabilities were left for phase two. That situation created a potential mismatch of asset and liability accounting practices during the interim results reporting, and prompted concerns that the mismatch could continue after phase two if the problem were not addressed.

"Assets and liabilities should be measured on a consistent basis reflecting the way that companies manage risk," the CFO Forum said in its list of principles.

Whether reinsurers will have to account for their liabilities on a fair-value basis is one of the "big ifs " of discussions about phase two, according to Andrew Downe a partner at Deloitte & Touche L.L.P. in London.

Reinsurers and insurers are concerned about the possibility of a mismatch between the way assets and reserves are accounted for under IFRS, and "there is no doubt that the industry really would like to see a basis for accounting in phase two which reflects the way that they do business and not have the possibility an accounting mismatch," said Tim Harris, a partner in the global capital markets division of PricewaterhouseCoopers L.L.P. in London.

The reinsurance and insurance industry is, however, being proactive in the debate about how this potential mismatch will be handled in phase two, he noted.

One other potential challenge for reinsurers being considered by the IASB is a move toward discounting loss reserves for property/casualty business, according to Mr. Harris.

If such a change were adopted, it would mark a major change in loss reserve accounting, he noted.

Introducing the concept of discounting—which takes into account the time value of money and values future cash flow at present values—would be a significant challenge for reinsurers, said Laurent de Caen, a partner in the insurance group at Mazars.

And while it is too early to say what form phase two of the IFRS project for insurance and reinsurance might take, other topics under discussion include the way that reinsurance and insurance companies book their premiums from policy inception, and whether reinsurance profits should be recognized at policy inception, pointed out Mr. Caen.

Ratings: Reinsurers reform, regroup, fight back after being hit by downgrades

Continued from page 11

are doing about it."

A downgraded reinsurer has to "work hard to rebuild confidence with its clients and business producers, keeping them informed about its financial condition and future plans," said Chris Klein, head of counterparty risk at Benfield Group Ltd. in London. "Communication is vital."

When trying to reassure cedents after a downgrade is announced, things become "relationship intensive," said Laline Carvalho, New York-based director and segment specialist for reinsurance in North America and Bermuda for S&P. Although reinsurers often deal with clients through brokers, that "doesn't mean they don't have a strong client relationship" already built through working closely with the cedents, she said.

Security

"Reinsurer security becomes a bigger issue because insurers have seen a lot of failures," said Ms. Carvalho. "So there is more awareness on the part of insurers as to the quality of their reinsurers they are doing business with and the spread of companies."

In many cases, cedents want collateral in the form of trusts, letters of credit or other financial instruments when a reinsurer downgrade is announced, sources say.

Benjamin Gentsch, executive vp responsible for specialty lines at Converium, said that it is required to post collateral for U.S.-based risks because it is a nonadmitted reinsurer. "In places where collateral is not a regulatory requirement, we might offer it to overcome the less desirable rating," he said.

A SCOR spokesman did not respond to requests for details on how that reinsurer has climbed back into the ranks of A-rated companies.

Robert DeRose, assistant vp at A.M. Best Co., said that moves to provide collateral are working to keep clients of SCOR and Converium loyal.

SCOR has benefited from a "certain amount of allegiance" from clients in its home country of France, he said. "In the U.S., there is probably more emphasis on ratings" than there is among insurers in France, Mr. DeRose added.

"But the way SCOR and Converium are holding on to clients is by providing collateral," he said.

Both companies have shown how reinsurers can fight back and make gains when downgraded, Mr. DeRose said. "Both have downsized their operations, and, I would say, have changed their business" approach. "Those two are examples of reinsurers that were downgraded and are fighting their way back."

With image building and collateral issues taken care of, reinsurers have to take a hard look at the kind of business that they are writing after a downgrade, experts said.

"Certainly their ability to write business with a longer tail diminishes because you don't know what the long-term outlook is for the company," said Mr. DeRose.

"When you drop from an A to a B, you have to put a business plan together," said Mr. Barnes of JLT. "You may have to come out of certain lines and concentrate on others."

Business changes

How drastic a business must change depends on the characteristics of the downgraded reinsurer, Mr. Barnes said. "Just because you drop a level doesn't mean you change your whole business plan. It depends on the circumstances" of the downgrade and the type of business the reinsurer already is writing, he said.

In many cases, Mr. Barnes said, reinsurers that over the years have built a good rapport with clients will find a payoff during a downgrade. "Clients will take a view and try to do their best to maintain the relationship, providing the balance sheet is not in a catastrophic state."

Mr. Klein of Benfield said that downgraded reinsurers in some cases have no choice but to change their mix of business, because cedents are "unlikely to place long-tail, high-risk business with a lowly rated reinsurer."

While Converium has stopped writing some long-tail casualty business, Mr. Gentsch stressed that, for the most part, "we tell our underwriters in the ongoing entities to continue to do business as you have before." It is important, he said, that Converium shows its confidence in the capabilities and track record of its underwriters.

"The skills of our underwriters have not changed," Mr. Gentsch said. "We have a lot of feedback from clients who say they want a company like Converium as an ongoing entity."

That's why many didn't choose to trigger the clauses that would allow them to cancel their contracts with Converium after the reinsurer was downgraded, he said.

Ms. Carvalho said the downgrade issue might not be coming up as frequently as in the past. "There has been a halt in the downgrade trend," she said. "In the last six to eight months, it has kind of stopped. There have been some upgrades and positive outlooks" for reinsurers that were downgraded.

Those encouraging signs have appeared partly because "market conditions have improved substantially," Ms. Carvalho said. "We also think we are past the peak of reserve additions for prior years. The trend is that we should see less and less of that."

Finite: Structured deals scarce now, but valued coverage will be revived over time

Continued from page 11

contracts were popular in 2002 and 2003, when many balance sheets were leveraged; while clients are now expressing interest in aggregate stop-loss products, he said.

The result is that transactions may produce very different financial effects for cedents and reinsurers, making comparisons difficult.

"Market conditions will ultimately determine how attractive an alternative product is," he said.

Finite reinsurance "allows companies to maximize their bottom-line returns by reducing their costs of capital," said Juergen Graeber, chief operating officer of Hannover Re's nonlife reinsurance.

A Swiss Reinsurance Co. study estimated that worldwide premiums from finite reinsurance in 2001 totaled $26.5 billion. More recent figures were not available. Market observers estimate finite contracts account for about 5% of worldwide reinsurance.

But, as the amount of risk transferred has fallen, the accounting has been debated. In 1993, the Financial Accounting Standards Board introduced FAS 113, which lets a U.S. cedent account for a contract as reinsurance only if it transfers "significant" underwriting risk, defined as at least a 10% probability that the assuming insurer will suffer a loss of at least 10% of the value of the premium paid.

But, every risk and contract is different, and the 10/10 rule is not appropriate for all risks. As a result, defining and accounting for finite reinsurance is not easy, market sources agree.

"What has changed is that there now is more scrutiny and more disclosure required," Mr. B. sieverling said.

"People are trying to come up with definitions, but it is very difficult in a sector where almost everything is unique," said Mr. Bolland. Meanwhile, "accountants are going to be loath to accept limited risk transfer products."

"A lot of people have pulled out of the market and everything is now under a lot more scrutiny. All contracts have got to pass the 'sniff tests' by the brokers, accountants, lawyers, auditors and regulators," said Mr. Bryce.

"Right now, we are in a period of change where there is no finality about the shape of future guidelines. There is a tremendous amount of analysis being done on contracts and discussion on how the contract is booked," said Mr. Malloy. In the past, few questions were asked about how a cedent or reinsurer would account for the transaction.

Accountants need to find more effective ways of determining risk transfer and accounting for structured contracts, said Mr. Graeber, predicting that auditors will form specialized teams for such contracts.

Hannover Re, which has been writing finite reinsurance since 1978 and represents about 10% of the market, clearly differentiates between reinsurance and deposit accounting and has never backdated contracts or agreed to side-letters, he said.

The issue of finite reinsurance remains controversial and many leading reinsurers and brokers refused to comment on the subject for this article.

> "What has changed is that there now is more scrutiny and more disclosure required."
>
> **Joseph B. Sieverling**
> **Reinsurance Assn. of America**

However, there is also a strong feeling in the market that structured finite reinsurance is a product that, when not abused, is a valuable product for the industry that will continue to develop.

"It's like nuclear radiation. It is now red hot, but it will probably become acceptable again. But while it's radiating, it's better to stand back," said Mr. Bryce. "While investors, banks and shareholders continue to dislike volatility, there will remain a need for structured reinsurance. Insurance is a volatile business and these products help to reduce that volatility."

In the current market, where primary rates are strong but insurers are paying high rates for reinsurance, structured products remain a good buy, Mr. Malloy said.

"There are some very valid business reasons for companies to take on finite reinsurance transactions but they have to be done properly," said Mr. Bolland.

Looking ahead, Mr. Graeber predicts a higher profit potential for financial reinsurers because of likely higher level of risk transfer in such products.

In the future, he expects more clearly defined deposit accounting transactions, riskier reinsurance transactions—with perhaps a 10% chance of a 25% loss—and more attractive margins for reinsurers. He also expects Hannover Re will raise its share of the structured market to 15% to 17.5%.

Mr. Malloy said there remains a "significant interest among reinsurers" to write structured products and that "reinsurers are being very responsive to the changing environment, providing alternatives that will meet the emerging consensus about what is reinsurance and what is not."

London market certain to achieve coverage clarity

By BARBARA COCKBURN

LONDON—London market organizations will achieve contract certainty in insurance and reinsurance transactions, but it won't be easy, observers say.

Agreeing to detailed coverage terms by policy inception will present numerous challenges given the subscription-based structure of placements in London, but regulatory and market pressure to achieve contract certainty should ensure that the goal is attained, they say.

"It's blindingly obvious that we need it and it's crazy we don't have it," said Toby Stubbs, property treaty underwriter at Brit Insurance Holdings P.L.C. in London, referring to contract certainty.

"Contract certainty is clearly the right thing to do and the market is ready for it."

Ian Gale
Willis Re

The main driver behind current efforts to gain more clarity in insurance agreements is a requirement from the U.K.'s insurance regulator that insurers find a market solution to the issue by the end of 2006 or a regulatory solution will be imposed.

In a presentation given in December 2004 that set the deadline, John Tiner, chief executive of the Financial Services Authority in London, said that the "information asymmetry" between policyholders and insurers in the London market should be eliminated, because it creates situations where policyholders sometimes do not know what coverage they have purchased.

The FSA defines contract certainty as being, "achieved by the complete and final agreement of terms (including signed down lines) between the insured and insurers before inception."

In addition, disputes over coverage for the World Trade Center in New York after its destruction in the Sept. 11, 2001, terrorist attacks have focused attention on the lack of contract certainty in the London market and elsewhere.

Following the attacks, the leaseholder of the WTC, Silverstein Properties L.L.C., sued its insurers, including syndicates at Lloyd's of London, for two coverage limits, arguing that the attacks constituted two losses.

As final coverage documents had not been issued before the attacks, which were about two months after the coverage inception date, the parties had to settle the issue in court. Over the course of two trials, some of the insurers' coverage agreements were ruled to have covered the attacks as one event, while others had to pay out two limits. If the verdicts are not overturned on appeal, Silverstein will be paid $4.68 billion rather than the $3.55 billion single policy limit.

Christian Wells, a partner in the insurance and reinsurance group at London-based law firm Lovells, said that the object of the contract certainty initiative is to prevent contracts being finalized after the start of the risk period. "You agree what you are going to insure or reinsure and then sign the document."

Reinsurers and insurers at Lloyd's are working with the International Underwriters Assn. and the London Market Insurance Brokers' Committee in an effort to examine how to improve processes and procedures of contracts. The organizations created the Market Reform Group in 2000 to address the issue of modernization in the insurance market. Contract certainty is one of the issues that the group is considering.

Steve Quiddington, head of business process reform at Lloyd's, and a member of the Market Reform Group, said contract certainty was an issue in 2002 when the London Market Principles slip was implemented to standardize the underwriting process.

The LMP slip was developed in 2002 to ensure that technical insurance terms were the same on all slips used in the market.

One of the difficulties in obtaining market certainty in London is the subscription nature of the market, observers say. Brokers take a slip into the market and sometimes a dozen or more insurers have to sign on the slip before the placement is completed.

Ian Gale, managing director of operations at Willis Re, a unit of Willis Group Holdings Ltd. in London, said the placement process is "messy" but said that some contract certainty changes that have been implemented already have not come without their "growing pains."

"The challenge has been moving the process of contract negotiation and agreeing (to) all the terms and conditions right (at) the very beginning of the transaction, rather than leaving it to the end," he said.

Reinsurance treaty wordings are particularly difficult to agree to prior to coverage inception, as they are lengthy documents and reinsurance renewals usually have "tense, frantic periods of activity in the weeks and months preceding them," Mr. Gale said.

See CONTRACTS / next page

Between the Lines

Compiled by Joanne Wojcik

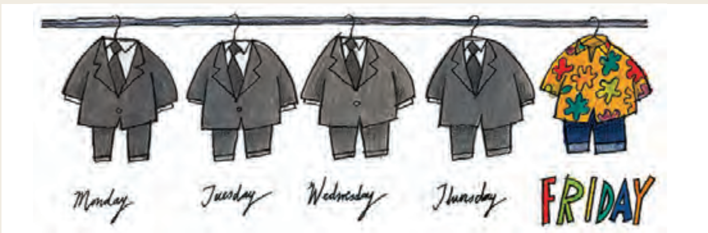
RLI Corp. declares 'Condition 90'

Practitioners from the Bermuda market would have felt at home in Peoria, Ill., this summer, where RLI Corp. gave its home office employees permission to wear shorts whenever the temperature topped 90 degrees.

And because of this summer's record heat, there were 40 days that met that requirement, according to Gary Wright, manager of corporate communications.

"We called it 'Condition 90'" he said. "I can tell you that our associates really appreciated the idea."

"By and large, probably there were more women than guys, but there were a large percentage of guys, too," he said, admitting that he occasionally took advantage of the casual new dress code himself.



The only restrictions were that the shorts not be too short.

"I know we suggested the kind of shorts you might wear to a church picnic, to the boss's house for a barbecue, to the country club golf course," or the kind that insurance executives wear in Bermuda, he said.

But, unlike in Bermuda, no one at RLI's Peoria office topped off their khakis with ties and blazers, Mr. Wright said.

The insurer instituted full-time business casual about five years ago and permits employees to wear jeans on the last Friday of every month.

"We call it 'Blue Friday' and we tell people that if they're going to wear blue jeans, the pact is they have to use part of their day to do a little recycling," he said.

They're probably not on their way to Kansas

When Dorothy tapped them three times while chanting "there's no place like home, there's no place like home," she magically returned to her Kansas farmhouse from the Land of Oz.

But it may take a little help from the Wizard to summon the ruby slippers back to the Minnesota museum from which they were stolen last week.

Though the famous footwear from the film "The Wizard of Oz" are insured for $1 million, they are priceless to the millions of children who visit the Judy Garland Museum in Grand Rapids, Minn., where they have been on loan for the past nine months.

But their next appearance, in October at Oz Museum in Wamego, Kan., could be canceled if they are not returned to their rightful owner, Michael Shaw, a Los Angeles movie memorabilia collector.

According to police reports, the shoes were taken from a glass case in which they were on display after the museum closed. Though the facility is equipped with a motion-detecting alarm, the security firm monitoring the system received no signal indicating a break-in.

The shoes are one of four pairs that Ms. Garland wore while making the 1939 epic. Another pair is in the Smithsonian in Washington.

Chinese pay for insurance with blood

Some say health insurance in the United States has gotten so expensive that it costs an arm and a leg. In Shanghai, such coverage only costs a few pints of blood.

To shore up its supply of the lifesaving liquid, the Shanghai Blood Center is offering donors a year's worth of insurance against death or injury. The policies, which are being underwritten by New China Life Insurance Co., also cover outpatient and emergency treatment for accidental injuries as well as 11 serious diseases, including cancer.

The amount of coverage donors receive depends on how much blood they are willing to give. For example, those who donate 200 milliliters of blood—the most common donation amount—will receive a policy that pays 20,000 yuan ($2,470) for death or disability, 5,000 yuan ($617.50) for accidental injuries and 3,000 yuan ($370.50) for the treatment of serious diseases.

Regular blood donors and those who are willing to give even more than 200 milliliters will receive policies providing up to 160,000 yuan ($19,760) for death or disability.

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

COMINGS & GOINGS - INDUSTRY

Insurers:

New York-based American International Group Inc. has appointed **Christopher J. Swift** as chief financial officer and vp for its life insurance and retirement services operations. Previously, he was executive vp and CFO of AIG American General Life Cos.

Also at AIG, **Louis P. Iglesias** has been named president of AIG Global Risk Management. Previously, he was president and chief operating officer of AIG Environmental Inc.

Mr. Iglesias

Mr. Henthorn

Mr. Lewis

Other providers:

San Rafael, Calif.-based Craford Benefit Consultants has named **Tony Williams** as senior consultant/senior manager of underwriting services. Previously, he was an actuarial consultant for Towers Perrin.

Also at Craford, **Tracey Klapow**, formerly director of client services at Elements Health Plans, has been named manager of client services.

New York-based Buck Consultants Inc. has made several senior-level appointments.

■ **Yvonne Hurlbutt** has been named director of the human resources management consulting practice in Chicago. Previously, she was head of shared services at Lincoln Financial Group.

■ **Jim Donofrio** is a new principal in the retirement consulting practice in Atlanta. Before joining Buck, he was a principal at Tower Perrin.

■ **Linda Bournival** has been named director in the retirement consulting practice in Boston. Previously, she was a consulting actuary with Baseline Consulting Inc.

Martin C. Pentz has been named partner at Foley Hoag L.L.P. and co-chairman, along with Robert S. Sanoff, of the newly formed insurance recovery practice group. Before joining the Boston-based law firm, he was a partner in the litigation department of Nutter, McClennen & Fish L.L.P.

Brokers:

Aon Corp. has appointed **Mike Henthorn** as managing director of Aon Insurance Managers (Isle of Man) Ltd. He will continue to be responsible for brokerage operations.

Pacific Wholesale Insurance Brokers L.L.C., a unit of Insurance Specialty Group L.L.C. has named **Gary D. Ricker Jr.** president of its new office in New York. Previously, he was senior vp at Swett & Crawford Group.

Reinsurance:

London-based Heath Lambert Group has named **Jean-Michel Lewis** as director in the reinsurance practice. Previously, he was a partner at JLT Group.

Contract: London market to achieve certainty

Continued from previous page

To achieve contract certainty, brokers will have to begin the placement process earlier, he said.

According to Mr. Stubbs, contract certainty will bring clarity to the placement process, which is currently blurred by the practice of overplacing coverage. Currently, brokers may place 120% of reinsurance by the inception date and then return to the market to reduce the lines of certain reinsurers to bring the coverage allocation down to 100%.

But Russell Merrett, director of London-based Hiscox P.L.C.'s reinsurance and major property division, said that it is frustrating that contract certainty "is an absolute measure." Given the length of coverage documents, there may be instances where there is contract certainty for almost all the documentation, but the slip would be regarded as not complying with contract certainty requirements because of a minor clause that has not been fully agreed to at inception, he said.

With contract documents exceeding 35 pages, the use of technology will be key to ensuring contract certainty and timely placement, said Alastair Speare-Cole, head of direct reinsurance at London-based Aon Re, a unit of Aon Corp.

"Technology will make contract certainty more easily attainable," but, he added, the London market "doesn't lend itself to technology because of the archaic nature of the U.K. insurance industry, so its introduction will prove challenging."

Mr. Wells agreed that technological changes will be needed to ensure contract certainty. "Administrating certainty will be challenging for brokers and their systems. Bigger brokers are improving their standard wordings to make them almost useable as defaults so that they can discuss variations if necessary."

Mr. Gale suggested that everyone in the industry should begin the process earlier of obtaining agreement to the wording prior to inception. "Thus, we are anticipating the renewal of a program from the moment we finish the previous years' placement."

He added that "contract certainty is clearly the right thing to do and the market is ready for it."

BI 09-05-05 A 21 9/2/05 4:33 PM Page 1

Nova Scotia to introduce comp surcharge

By GLORIA GONZALEZ

HALIFAX, Nova Scotia—Employers in Nova Scotia with poor safety records will face annual workers compensation surcharges beginning in 2008, under an initiative being introduced in the Canadian province.

The Safety Incentive Program by the Workers' Compensation Board of Nova Scotia will introduce a new penalty element into efforts to curb workers comp costs in the province.

The program will complement the province's existing premium rate system, which rewards employers that have good safety records with rate reductions.

The surcharges may help lower average workers comp rates in Nova Scotia by penalizing employers with higher claims costs, thus encouraging them to take steps to improve workplace safety and reduce costs.

Comp rates on the rise

Average workers compensation premium rates for employers in Nova Scotia for the past five years (in Canadian dollars):

2005:	$2.65*
2004:	$2.57
2003:	$2.54
2002:	$2.54
2001:	$2.54

*per $100 Canadian of insurable earnings; Canadian dollar=$.8435

Source: Workers' Compensation Board of Nova Scotia

"What it's doing is making the system even more accountable," said Robert Patzelt, group corporate counsel and risk manager for Bedford, Nova Scotia-based Scotia Investments Ltd.

"Good employers with good experience will benefit from this kind of program because they will be rewarded for engaging in good behavior and those that don't will pay greater penalties," he said. "Our single greatest concern with respect to these programs is that they are effective and providing the desired results."

Under the program, companies whose claims costs are consistently at least 200% more than other companies in the same industry will receive two warnings giving them time to improve their safety performance. If they fail to make the necessary changes after receiving the warnings, a surcharge of up to 20% of the basic rate for companies in their industry category will be imposed during the first year, up to 40% in the second year, and up to 60% in the third year.

Last week, the board sent surcharge warning notices to 264 employers in the province. The annual surcharges come into effect in 2008.

"Our focus on creating a safety culture in Nova Scotia is driven by the desire to reduce the human and financial toll of workplace injuries," said WCB Chief Executive Officer Nancy-MacCready Williams. "By notifying employers of the potential surcharges they could face, we want to get their attention and encourage them to take steps to improve their safety performance."

The initiative is part of an effort by the WCB to deal with the high injury frequency and long duration

See NOVA SCOTIA/page 23

Equitas settlements total $300 million

By SARAH VEYSEY

LONDON—Equitas Ltd. said that it has reached several settlements with policyholders in the past few months that will cost the runoff reinsurer $300 million in total.

Equitas, the runoff reinsurer for the pre-1993 long-tail liabilities of Lloyd's of London syndicates, announced last week that it has recently reached global settlement deals with six policyholders to resolve some of its largest outstanding direct liabilities.

In July, Stamford, Conn.-based manufacturer Crane Co. announced it had reached a $33 million settlement deal with Equitas, with some conditions subject to change depending on the outcome of asbestos reform efforts in the United States (*BI*, Aug. 1).

Equitas surplus

Equitas Ltd. accumulated surplus

Year ended March 31, 2005	£476 million ($899.4 million)
Year ended March 31, 2004	£460 million ($845.4 million)
Year ended March 31, 2003	£527 million ($ 833.0 million)
Year ended March 31, 2002	£679 million ($966.8 million)
Year ended March 31, 2001	£700 million ($1.00 billion)

Equitas last week reported that, in addition to the Crane deal, it has reached settlements with Mercerville, N.J.-based steel and tile flooring manufacturer Congoleum Corp.; Foothill Ranch, Calif.-based aluminum supplier Kaiser Aluminum Corp.; and three other policyholders that asked not to be named.

The size of those settlements was not disclosed, but the total amount the six deals will cost Equitas is $300 million, the company said in a statement.

The deals with Congoleum and Kaiser are subject to conditions relating to the pending bankruptcies of the two companies, Equitas noted in the statement. If those conditions are not satisfied, the settlement amounts, currently being held in trust, will be returned to Equitas, the statement notes.

The most recent settlements bring the number of such deals that Equitas has reached with policyholders to 35 and the amount of payments made through settlement arrangements to more than $2.9 billion, Equitas said.

Earlier this year, for example, Equitas agreed to agreed to settle asbestos and pollution liability claims of Goodyear Tire & Rubber Co. for an immediate payment of $22 million and establishment of a $39 million trust fund for future claims. Other large recent settlements include:

- In March, Equitas agreed to pay $415 million in to a trust to settle the asbestos liabilities of The Babcock & Wilcox Co., a subsidiary of Houston-based McDermott International Inc.
- In January, Dana Corp. and other unnamed policyholders settled with Equitas for $200 million.
- In March 2004, Travelers Property Casualty Corp. settled with Equitas for $245 million.
- In January 2004, Halliburton Co. settled with Equitas for $575 million.
- In April 2003, Honeywell International Inc. settled with Equitas for $472 million. The company is encouraged by these recent successes, said Claims Director Glenn Brace, who added that Equitas believes settlements deals to be beneficial for both sides as they provide certainty and are less costly than individual transactions or litigation.

Mr. Brace said he believed that Equitas would be able to reach more settlement deals before the end of its financial year on March 31, 2006.

PHOTO: AFP

Lucerne, Switzerland, coped with rising water levels of the Reuss River last month amid flooding in the Swiss Alps. The floods hit several countries in central Europe and are expected to result in significant insured losses.

Flooding claims in Europe estimated at $645 million

By SARAH VEYSEY

ZURICH, Switzerland—As European insurers and reinsurers tally their losses from Hurricane Katrina, some also face losses from last month's flooding in the Swiss Alps.

Those floods likely will result in insured losses of more than 800 million Swiss francs ($645.2 million), the Swiss commercial insurance association, the Schweizerischer Versicherungsverband, said last week.

Severe flooding hit parts of Switzerland, as well as Austria, Bulgaria, southern Germany and Romania in late August. More than 30 people are reported to have been killed.

The Zurich-based SVV said that commercial insurance claims are expected to top 800 million Swiss francs. About 160 million Swiss francs ($129.0 million) of that total will be from real property policies, while 125 million Swiss francs ($100.8 million) of business interruption claims are expected.

Household contents and other contents claims are likely to reach 400 million Swiss francs ($322.6 million), the SVV said in a statement, while auto claims are likely to reach 75 million Swiss francs ($60.5 million), and other property claims are expected to total about 45 million Swiss francs ($36.3 million).

As of last week, some reinsurers had begun to estimate their exposure to losses from the flooding.

Swiss Reinsurance Co. estimated losses of about $100 million Swiss francs, a spokesman said.

A spokesman for Munich Reinsurance Co. said the company's losses from the flooding likely would be below 50 million euros ($62.2 million).

Zug, Switzerland-based Converium Holding Ltd., meanwhile, expected losses from the flooding to be in the range of $15 million to $30 million, a spokesman said.

A spokeswoman for Hannover Re Group said the German reinsurer was expecting a loss of about 35 million euros ($43.6 million), net of reinsurance.

Updates

SCOR profits rise in first half

Paris-based reinsurer SCOR S.A. posted net income of 72.2 million euros ($87.4 million) for the first half of 2005, up 18% compared with its six-month 2004 profits, which were restated for comparability under International Financial Reporting Standards. The reinsurer said the improved results were due to a focus on profitable underwriting and an improved investment result, among other factors. SCOR's gross written premiums fell 12% to 1.18 billion euros ($1.4 billion), in line with the company's strategy to focus on profitable underwriting, it said in a statement.

APRA issues paper on reporting standards

The Australian Prudential Regulation Authority last week issued a discussion paper on the treatment of certain capital instruments under Australia's version of International Financial Reporting Standards. APRA proposes that the regulatory framework be changed to allow insurers to directly issue innovative capital instruments that currently must be issued indirectly via special-purpose vehicles. And APRA proposes that the assessment of securitized assets for capital adequacy purposes be considered separately from the accounting treatment of such assets. Interested parties have until Oct. 28 to respond to the discussion paper, which can be viewed at *www.apra.gov.au*.

DWP postpones funding mandate

The U.K.'s Department for Work and Pensions has delayed the implementation of the new funding requirements—which originated from the Pensions Act 2004—for defined benefit occupational pension schemes. Previously scheduled for Sept. 23, they now will come into force on Oct. 31. The DWP said "the slight delay in publishing the regulations arises from the need to take account of the many issues raised by the pensions industry as a result of the extensive consultation the department undertook on draft regulations earlier this year."

Willis relocates Canadian headquarters

Willis Group Holdings Ltd. will move its Canadian headquarters to Toronto from Montreal in a series of organizational changes announced last week. The London-based brokerage said the relocation provides Willis with the opportunity to capture significant market share given the "thriving business community" and "considerable insurance company presence" in Toronto.

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LEGAL NOTICE

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE LIQUIDATION)
OF PINE TOP INSURANCE COMPANY) No. 86 CH 5898

NOTICE TO CEDENTS AND RETROCESSIONAIRES OF
PINE TOP INSURANCE COMPANY (U.S.), IN LIQUIDATION
RE: PROCEDURE FOR ADMINISTRATION OF SETOFF CLAIMS
ASSERTED OUTSIDE OF THE PROOF OF CLAIM PROCESS

In order to expedite the wind up of the affairs of this estate, the Liquidator wishes to value and adjudicate certain cedent claims for set-off asserted outside of the proof of claim process. Therefore, the Liquidator has submitted a plan to the court supervising the liquidation recommending a procedure for the valuation of cedents' claims for set-off asserted outside of the proof of claim process. The court has order the Liquidator to notify all cedents and retrocessionaires regarding the plan and provide them an opportunity to be heard with respect to the plan.

All cedents that have (a) ceded liabilities to Pine Top which have not previously been the subject of a proof of loss, and (b) assumed liabilities from Pine Top, as well as all retrocessionaires, have until November 28, 2005 to send written objections to the Liquidator setting forth their position and the grounds for any objection to the Liquidator's plan. The address to which an objection should be sent is set forth at the end of this notice. Further, if you so desire, you may appear by legal counsel and file a petition for leave to intervene and supporting memorandum. You may also file a memorandum addressing any objections. The Liquidator will report all objections to the plan to the Supervising Court at a hearing to be held on November 30, 2005 at 10 a.m. At that time, any petitions for leave to intervene will be heard and ruled upon and a schedule will be set to brief arguments in support of and in opposition to the plan.

THE PROPOSED VALUATION PROCESS FOR CEDENT CLAIMS FOR
SET-OFF ASSERTED OUTSIDE OF THE PROOF OF CLAIM PROCESS

The Liquidator's plan provides that the Liquidator shall notify all retrocessionaires and cedents that those cedents which have (a) ceded liabilities to Pine Top which have not previously been the subject of a proof of claim filed with the Liquidator, and (b) assumed liabilities from Pine Top, shall have 60 days from the mailing of the notice to provide information concerning any eligible set-off claims asserted outside of the proof of claim process. The process for valuation of cedent claims for set-off asserted outside of the proof of claim process is as follows:

A. The Liquidator shall mail a set-off advice form ("Set-off Advice Form") to each company ("Involved Company" in the singular and "Involved Companies" in the plural) that has (a) ceded liabilities to Pine Top for claims not previously the subject of a proof of loss and which are otherwise eligible for submission to the Pine Top estate, and (b) assumed liabilities from Pine Top. An Involved Company which had previously asserted a setoff claim not the subject of a proof of claim within the meaning of 215 ILCS 5/209 may file a final update thereto in a Set-off Advice Form.

B. The Liquidator shall provide each Involved Company with a Set-off Advice Form in a format consistent with this Order. Each Involved Company shall be required to provide the following information in its Set-off Advice Form:

1. The amount of all loss and allocated loss adjustment expense actually paid, satisfied or deemed absolute by the Involved Company and premium claimed, as of January 16, 1987, for which set off is sought, along with a description of such loss, allocated loss adjustment expense and premium.

2. A copy of each reinsurance agreement or retrocession agreement (collectively, "Reinsurance Agreement") under which set off is sought.

3. Total inception-to-date paid and incurred figures for loss, allocated loss adjustment expense and premium balances reflected in the Set-off Advice Form, by Reinsurance Agreement.

4. The name and contact information of a person who can answer questions about the Setoff Advice Form.

C. Each Involved Company submitting a Set-Off Advice Form must provide details of any security provided by Pine Top, including but not limited to funds held, letters of credit, or a security fund, as well as a copy of the agreement evidencing such security. The Involved Company must respond to the Liquidator's reasonable requests for additional information concerning its Set-off Advice Form, including a request for records supporting the Set-off Advice Form.

D. An Involved Company may not seek any Incurred But Not Reported amounts ("IBNR") or case reserves in a Set-off Advice Form, because they are not "debts" subject to set off under 215 ILCS 5/206. Instead, IBNR and case reserves are potential future debt.

E. Each Involved Company shall have 60 days from the date that the Liquidator sends the Set-off Advice Form to file with the Liquidator a completed Set-off Advice Form. Any Set-off Advice Form received after that 60-day period expires shall not be accepted. For purposes of these filing procedures, a Set-off Advice Form shall be treated as filed as of the date it is actually received by the Liquidator. A Set-off Advice Form shall also be deemed to have been received by the Liquidator as of the postmark date of the U.S. or foreign postal service if it is mailed, or the date of the Involved Company's delivery thereof to a private mail courier, as evidenced by a validly issued receipt from that courier, if transmitted by courier. Any Involved Company that fails to submit a completed Set-off Advice Form within the 60-day period shall be precluded from asserting any set-offs or Set-Off Advices against the Liquidator's reinsurance billings, other than any rights of set-off it may independently have as a result of having an allowed claim in the Pine Top estate, under the proof of claim process.

F. Based upon the information provided, the Liquidator will make a set-off determination ("Set-off Determination") concerning each timely Set-off Advice Form and provide that Set-off Determination to the Court for final adjudication. The Liquidator will also give notice of his Set-off Determination to the Involved Company and to each retrocessionaire of Pine Top ("Affected Retrocessionaire") which the Liquidator determines may have a liability in connection with the Set-off Determination.

G. The Involved Company and each Affected Retrocessionaire may, upon request, review the relevant records of the Pine Top estate which gave rise to the Liquidator's Set-off Determination at a mutually convenient time and place. In addition, each Affected Retrocessionaire that has complied with its contractual obligations to post security for paid losses, case reserves and, where contractually required, IBNR, shall be allowed to exercise its contractual audit rights upon such terms as the Court may allow. Such documentation shall be made available at the office of the Liquidator and at such a reasonable time as allowed by the Liquidator and the Court.

H. The Involved Company and each Affected Retrocessionaire shall have 60 days from the date that the Liquidator sends its Set-off Determination to submit a written objection to the Set-off Determination ("Set-off Objection"). Any Set-off Objection received after that 45-day period expires shall not be accepted. A Set-off Objection shall be deemed to have been received by the Liquidator as of the postmark date of the U.S. or foreign postal service if it is mailed, or the date of delivery to a private mail courier for delivery to the Liquidator, as evidenced by a validly issued receipt from that courier, if it is delivered by courier.

I. Any Set-off Determination not objected to by the Involved Company or any Affected Retrocessionaire within the 60-day period shall be deemed allowed by the Court.

J. A Setoff Objection by an Affected Retrocessionaire that it cannot determine the financial impact of a Set-off Determination on it shall not be a valid basis of objection.

K. The Liquidator will attempt to resolve through informal negotiations objections to a Set-off Determination. If, during informal negotiation of an Involved Company's objection, a tentative resolution is reached that changes the value of the Set-off Determination, then the Liquidator will provide each Affected Retrocessionaire with at least 30 days notice of the tentative resolution in order to afford them an opportunity to object prior to finalizing the tentative resolution. If no objection from the Affected Retrocessionaire is received within that 30-day period, then the Liquidator will finalize the tentative agreement. An Affected Retrocessionaire's objection to a tentative settlement of a Set-off Determination objection shall also be deemed to have been received by the Liquidator as of the postmark date of the U.S. or foreign postal service if it is mailed, or the date of the Affected Retrocessionaire's delivery thereof to a private mail courier, as evidenced by a validly issued receipt from that courier, if transmitted by courier.

L. Where the parties do not resolve their differences through informal negotiations, any of them may request a hearing before this Court which shall have sole jurisdiction for purposes of hearing any dispute relating to the Liquidator's Set-off Determinations arising from a cedent's assertion of a right to set-off under 215 ILCS 5/206.

M. Each Affected Retrocessionaire shall be bound by any final resolution of a Set-off Determination reached in proceedings for which it had notice and an opportunity to interpose objections.

N. Set-Off Advice Forms, objections to Set-off Determinations, as well as any questions about this plan, should be sent to:

Pine Top Insurance Company, In Liquidation
c/o Office of The Special Deputy Receiver
222 Merchandise Mart Plaza, Suite 1450
Chicago, Illinois 60654

MICHAEL T. McRAITH,
Director of Insurance of the State of Illinois,
as Liquidator of Pine Top Insurance Company

HELP WANTED

Texas Automobile Insurance Plan Association Manager

The Texas Automobile Insurance Plan Association (TAIPA) invites nominations and applications for the position of Manager of TAIPA.

TAIPA, located in Austin, Texas, was created to provide automobile insurance coverage to eligible applicants who seek coverage and are unable to obtain such coverage through the voluntary market. The coverage provided is at limits as required by the Texas Motor Vehicle Safety-Responsibility Act.

The successful candidate, who will perform the duties of Association Manager, will be an innovative and experienced leader with a minimum of eight (8) years progressively responsible management experience in the insurance industry. Demonstrated leadership in the development of employees, policy, objectives and direction is required. Responsibilities include the management of filings and regulation, administrative service, accounting, human resources, information systems, legislative and regulatory liaison, and expense management and control. The successful candidate will be responsible for external relations with diverse audience.

Qualifications include a college degree or a minimum of ten (10) years related work experience at the management level, eight (8) or more years residual market or voluntary market experience at the management level, and knowledge of rules and procedures of automobile insurance residual markets. Must possess strong management skills, excellent oral and written communication skills, organizational and analytical skills.

Reports to a fifteen (15) member Board of Directors.

Salary will be commensurate with experience and qualifications.

Qualified candidates should submit a letter of interest along with a comprehensive resume to:

James Langford
Chair, TAIPA Search Committee
P.O. Box 162890
Austin, Texas 78716-2890

DEADLINE FOR SUBMITTING COMPREHENSIVE RESUME IS OCTOBER 21, 2005

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Assistant Special Deputy Superintendent/Chief Operating Officer

Experienced individual needed for high level management position as the New York Liquidation Bureau's Chief Operating Officer. Candidates for the position must have at least ten years progressively responsible management experience in a large organization of at least 10,000 employees. Qualifications include experience in management accountability tracking and monitoring systems. Insurance liquidation and rehabilitation experience a plus. The candidate must have the ability to formulate and implement policies and procedures, and define objectives in the following areas: Human Resources, Administrative Services, Information Technology, Insurance Fraud and Internal Audit. Minimum qualifications also include a Master's Degree. The position is based in New York City; however, overnight and extended travel is required. Send a cover letter, salary requirements, and detailed resume to: Human Resources Division, New York Liquidation Bureau, 123 William Street, New York, NY 10038 or e-mail **hr@nylb.org**

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HELP WANTED

Lawsuit: Bank of America sues its own captive for bad faith

Continued from page 3

coveries from the captive's reinsurers.

The Bank of America lawsuit "is not a first," said Jon Harkavy, vp and general counsel of Arlington, Va.-based captive management company Risk Services L.L.C.

Coverage in question

The bank's coverage dispute stems from investor lawsuits filed against 17 WorldCom bond underwriters and others following WorldCom's 2002 collapse in an accounting scandal. Among those named were two FleetBoston securities units that underwrote portions of a May 2001 WorldCom bond issue, and a unit of Bank of America, which had not yet acquired FleetBoston at the time of the offerings.

The investor suits alleged that the bond underwriters should have known that WorldCom financial statements included in the offerings were fraudulent.

Earlier this year, Bank of America announced that it would pay $460.5 million to settle the claims on behalf of its own securities operation and those of FleetBoston. The share of the settlement attributable to the FleetBoston units was $33.2 million, according to court filings.

At the time, a bank spokeswoman said that insurance would cover part of the settlement and that the bank had already reserved for the uninsured portion.

Insurance coverage of FleetBoston's part of the deal is now in question, though.

Prior to its 2004 acquisition, FleetBoston had arranged a "combined risk protection program," including bankers professional liability coverage, with its captive, then known as FFG Insurance Co. Ltd. and domiciled in Bermuda.

The program covered claims made against FleetBoston between Oct. 1, 1999, to Jan. 1, 2003, and the bank purchased an endorsement that continued coverage until Jan. 1, 2004, according to court filings.

FFG reinsured a portion of the policy's $100 million aggregate limit, including a 30% quota share ceded to Chubb's Federal Insurance Co.

Policy exclusions

Another Chubb subsidiary, meanwhile, acted as claims administrator for FFG, with authority to make "all decisions with respect to the ultimate disposition of a claim" under the policy, court papers say.

FleetBoston notified Chubb of its potential WorldCom claims in early 2003. In August 2004, Chubb responded with a reservation-of-rights letter on behalf of FFG, citing several policy provisions that could limit or exclude coverage.

Chubb noted, for example, that the policy's definition of "loss" excludes diminution in the value of securities "unless caused by a wrongful act of the insureds in the execution or implementation of investment advice." The captive also would deny claims to the extent that they represent disgorgement of profits or restitution, a copy of the letter included with the lawsuit shows.

Lawsuits filed by parent companies against their own captive insurers are unusual but not unheard of, captive experts say.

The question of whether Bank of America's $460.5 million settlement was reasonable may also be an issue, court filings suggest. In a letter written two weeks after the settlement was announced, a Bank of America lawyer warned a lawyer for Chubb that "we consider any argument...that the...settlement was not 'reasonable' to be specious and raised in bad faith," a copy of the letter shows.

The bank's lawyer noted, among other things, that Bank of America's payment was equivalent on a pro-rata basis to an earlier $2.45 billion settlement by Citigroup Inc.—a lead WorldCom bond underwriter with a much larger share of the offerings—and that subsequent settlements by several other investment banks were either on the same basis or at a "significant premium" to the Citigroup deal.

After adding defense costs and deducting the bank's $10 million retention, FleetBoston's $33.2 million share of Bank of America's $460.5 million settlement resulted in a $24.3 million insurable loss, the bank's court filings say.

Bank of America charges that both Bulfinch—its own captive and successor to FFG—and Chubb have breached the bank's insurance contract by refusing to pay the claim and are guilty of bad-faith claims handling.

The bank also alleges that Chubb interfered with its contractual relationship with FFG by putting its own interests as the captive's reinsurer ahead of its duty to administer claims fairly.

DEVASTATION ON THE GULF

Katrina: Gulf region pounded

Continued from page 1

observations, but they did not expect to have solid loss estimates for perhaps weeks.

Path of destruction

Katrina made initial landfall near Hallendale, Fla., as a category 1 hurricane on Aug. 25. Before crossing the state and moving into the Gulf of Mexico, the hurricane caused between $600 million and $2 billion of insured losses, according to catastrophe modelers.

In the Gulf, the hurricane picked up strength. It hit southeastern Louisiana on Aug. 29 as a category 4 storm, with maximum sustained winds of about 145 m.p.h. Katrina's eye passed east of New Orleans before tearing through the Mississippi Gulf Coast and heading northeast.

Catastrophe modeling firms estimate that Katrina caused a total of between $15 billion and $35 billion of insured property damage (see box).

By comparison, Hurricane Andrew caused an estimated $20.9 billion of inflation-adjusted insured damage in 1992, and the four hurricanes that pummeled Florida last year caused a total of $22.8 billion of insured damage.

Hurricane Dennis, the only other hurricane to make landfall in the U.S. so far in 2005, caused an estimated $920 million of insured property damage, including business interruption losses, in July, according to the Insurance Services Office Inc.'s Property Claim Services unit.

Much of the damage from Katrina is flood-related, so only the commercial risks and homeowners that purchased flood insurance from the National Flood Insurance Program or other sources will be covered.

Marsh's Mr. O'Brien said that a large majority of commercial risks in Katrina's path purchased NFIP coverage as well as excess commercial flood insurance.

Rick Parsons, managing director at Aon Risk Services' Financial and Professional Risk Solutions division in Springfield, Ohio, agreed.

NFIP coverage provides a commercial property up to $500,000 of limits per property, Mr. Parsons said.

Some commercial property policies in the standard market also include flood coverage, the terms of which are negotiated between the buyer and underwriter, he said. "After 9/11, you couldn't get it in package policies; now it's fairly available," he said.

Sometimes, the coverage is available as sublimits, he said. In those cases, risk managers and their brokers must turn to the excess flood insurance market, he said.

Among Louisiana homeowners, though, only 30% to 60%—depending on the parish where they resided—carried NFIP coverage, said Robert Hartwig, chief economist for the Insurance Information Institute in New York. Fewer Mississippi homeowners purchased the coverage, he said.

While mortgage lenders typically require homeowners in flood regions to purchase flood coverage, those banks have no system to ensure that homeowners keep that coverage in force, Mr. Hartwig said.

Those banks will have to swallow a huge uninsured loss when homeowners who cannot afford to rebuild without insurance walk away from their property and loan commitments, Mr. Hartwig said.

Other commercial risks, though, likely will generate a much greater percentage of insured business interruption losses than is typical in large natural disasters, "because we're effectively abandoning a major American city," Mr. Hartwig said.

He noted that business interruption losses accounted for about one-third of the losses caused by the hurricanes last year. Mr. Hartwig said he expects business interruption to account for 40% to 50% of the insured Katrina losses.

But calculating the exact extent of losses will be more challenging and time-consuming than in past losses, adjusters said.

"There's no question, in my opinion, that this is going to stretch the industry," said Thomas Crawford, president and chief executive officer of Atlanta-based Crawford & Co.

Adjusting losses "is not the number one priority right now," said Steven Boyer, a St. Louis-based vp with third-party administrator Gallagher Bassett Services Inc., a subsidiary of Arthur J. Gallagher & Co. Rescuing victims and moving them to safe quarters is the top priority for now, he said.

Once that effort has been completed and adjusters—who will be offered inoculations against various diseases—are allowed into storm-damaged areas, covering the breadth of the area that Katrina hit will be a daunting task, adjusters said.

"I think the widespread devastation is a lot different than we've had in the past," Mr. Boyer said.

"In my working lifetime, the closest thing was Andrew. But that was not as widespread or as devastating," he said. While Andrew demolished Homestead, Fla., "people could move around the area," unlike in New Orleans and Biloxi, he said.

In addition, the disruption in cell and landline phone service has created problems in communicating with clients and home offices.

But Crawford is using two satellite trucks that will provide its adjusters wireless phone service and wireless Internet communication, Mr. Crawford said.

Adjusters say their troops are mobilized and ready to start work in the hardest hit regions when they become accessible, but that they will focus on those areas they can reach in the meantime.

When adjusters get there, they will face a central question, said Franklin Horowitz, president of Claims International Inc., a Voorhees, N.J.-based adjuster. "The question is: Is it wind or is it flood?" In some cases, a business could buy wind and flood coverage, with different limits, from different insurers, he said.

"There will also be 'meteorological issues,'" said Mr. Horowitz, such as determining "when did the wind come in? When did the flood come in?" and "Were windows blown into the house, or were they blown out of the house."

The phone service outages could mean some heavy, but insured, extra expense losses for the phone companies themselves, according to Alfred Tobin, managing director-property syndication at Aon Risk Services Inc. in New York.

For the telecommunications industry, those losses likely will total in the "tens of millions of dollars" after deductibles, Mr. Tobin said.

Cell and landline phone companies were scrambling to restore service where possible last week, representatives reported.

For example, Sprint Corp. of Reston, Va., could not access many flooded cell sites in New Orleans to replace or refuel generators.

In addition, it could not access some landline facilities. Wireless service ultimately depends on one or more switching operations involving operating landlines, a spokeswoman said.

Cell and landline phone companies typically retain 3% to 5% of their windstorm-related losses, and most purchased flood insurance, Marsh's Mr. O'Brien noted.

But, in most cases, the extremely tough market for transmission and distribution lines has forced phone companies to self-insure that asset, he said.

But unlike most industries caught up in a natural disaster, national cell phone companies likely will not generate business interruption claims, Mr. Tobin noted. That's because cell phone usage increases dramatically around the time of a catastrophe, which leads to revenue spikes. As a result the phone companies don't experience a loss of profit in their coverage period.

Energy sector hit

Oil and gas companies also had few solid loss figures, but one broker expected that the insured damage to offshore operations would be significant.

"Based on the path of the hurricane, and the location of offshore rigs and platforms, we expect that the damage will be similar to Hurricane Ivan, which generated roughly $2.7 billion in total offshore losses" last year, said Joel Phipps, a senior vp at Aon Risk Services in Houston.

Irving, Texas-based ExxonMobil said on Aug. 30 that its offshore Eastern and Central Gulf of Mexico platforms, as well as its onshore and offshore Mobile Bay operations, remained shut down. It said that it had evacuated about 430 employees and contractors from its platforms before the hurricane struck.

Houston-based Apache Corp. reported that it had lost the use of eight of its gas and oil platforms in the Gulf of Mexico. The company said that it had $150 million in business interruption insurance "to help defray the cost of an extended shut-in," or cessation of operations.

A source said the losses would exceed the company's property and business interruption coverage.

As of last Thursday afternoon, nearly 52% of oil platforms and 48% of oil rigs in the Gulf of Mexico were still evacuated.

Lost gas and oil production from Aug. 26 through Sept. 1 totaled 1.2% and 1.4%, respectively, of annual production from the Gulf, according to government reports.

Casinos destroyed

In Biloxi, brokerages reported that about six casinos moored in the Gulf were destroyed and that others in the area survived but were damaged.

News video showed one facility, the Grand Casino, completely submerged.

Business interruption coverage for casinos typically carries a deductible of five to 20 days, according to Dana Berry, director of hospitality and gaming for Aon Risk Services Inc. of Chicago. After the deductible, coverage is based on annual profit prorated on a daily basis, though some policies provide additional coverage for losses that occur during peak seasons, Mr. Berry said.

Policies, which vary from risk to risk, also may include coverage for ordinary payroll, Mr. Berry said.

Casino management and state gaming officials could not be reached for comment because of phone outages.

But according to the Mississippi Gaming Commission's Web site, casinos in the state's Gulf Coast counties generated nearly $769.6 million of gross revenues from January through July, with a minimum of about $101 million of monthly revenues.

Brokers reported that the storm surge swept the Silver Slipper Casino from its moorings and pitched it onto a nearby Holiday Inn.

An Atlanta-based spokeswoman for InterContinental Hotels Group P.L.C. said the management for that Holiday Inn franchise was among those for 30 affiliated hotels in Katrina's path that InterContinental had been unable to reach. The hotel chain was able to reach about 50 other hotels in the storm's path, which sustained various degrees of damage.

Hotel franchises arrange their insurance individually, according to the spokeswoman.

Among other losses:

- The Hyatt Regency New Orleans is likely "well covered" for its damages, which have not been estimated yet, said James Mead, an executive vp and the chief financial officer for the hotel's owner, Strategic Hotel Inc. of Chicago. The storm blew out more than 500 windows in the hotel, which suffered extensive water damage from wind-driven rain, he said.

The hotel, which is adjacent to the SuperDome, is serving as the home to the mayor and his office as well as to some hotel employees and their families, Mr. Mead said.

- Dallas-based Tenet Healthcare Corp. reported that its five hospitals

See KATRINA/next page

CSU meteorologist Gray predicts more hurricanes

FORT COLLINS, Colo.—Hurricane forecaster William Gray continues to foresee unusually high hurricane activity during the next two months.

"We are continuing the bad news by predicting above-average activity for September and October," said Mr. Gray and his team of meteorologists at Colorado State University in Fort Collins in an updated forecast released last week.

In the forecast, the team predicts that four hurricanes—two of them intense—will form in September. Two additional hurricanes, one of which be intense, will form in October, the team predicts.

"This year should be one of the most active and is already the most destructive hurricane season on record," said the forecast.

—Mark A. Hofmann

HURRICANE KATRINA

Modelers' estimates

Catastrophe modelers' current estimates of Hurricane Katrina's insured damage, including Florida, range from $15 billion to $35 billion.

- **Risk Management Solutions Inc.:** $20 billion to $35 billion.
- **AIR Worldwide:** $17 billion to $25 billion.
- **EQECAT:** $15 billion to $24 billion.

Most costly U.S. hurricanes before Katrina

Ranked by estimated insured losses in inflation-adjusted dollars

Hurricane	Year	Insured loss* (billions)
Andrew	1992	$20.33
Charley	2004	$6.76
Hugo	1988	$6.23
Ivan	2004	$6.00
Frances	2004	$4.40
Georges	1998	$3.27
Jeanne	2004	$3.25
Opal	1995	$2.53
Floyd	1999	$2.17
Iniki	1992	$2.10

* Expressed in 2003 dollars; Charley, Ivan, Frances and Jeanne in 2004 dollars.

Source: Insurance Services Office, Insurance Information Institute

DEVASTATION ON THE GULF

A oil drilling platform was washed ashore on Dauphin Island, Ala., by Hurricane Katrina.

PHOTO: AFP

Premium hikes likely in Gulf energy sector

By SARAH VEYSEY

Energy insurance premiums will likely increase as a result of losses from Hurricane Katrina, though rate hikes may be limited as Gulf of Mexico coverage rates have already seen some significant increases over the past year, observers say.

The extent of damage to offshore oil and gas platforms and onshore energy facilities remained unclear last week, but energy insurers are bracing for sizable claims.

It is too early to assess the size of insured energy losses caused by Katrina, but the loss to the market likely will be significant, said Julian Taylor, a board director and head of the energy/global asset and consulting business units at London-based broker Miller Insurance Services Ltd.

It is unclear what effect the loss will have on insurance rates, though.

Capacity for Gulf of Mexico energy insurance risks had been decreasing over the past 12 months, because of more than $2 billion in energy losses from Hurricane Ivan last year, and there have been premium increases for Gulf of Mexico business. Energy rates also increased in the hard insurance market that followed the Sept. 11, 2001 terrorist attacks.

Still, some rates will likely increase next year, Mr. Taylor said. "The (energy) market will probably be tougher for windstorm exposures."

Oil industry mutuals will sustain large losses from Katrina, and many self-insured limits likely will be surpassed, said a London market energy broker source, who asked not to be named.

Lloyd's of London said in a statement that it "expects to receive significant insurance claims as a result of Hurricane Katrina, predominantly in relation to offshore energy installations in the Gulf, property damage and business interruption."

Doug Kline, senior vp and chief operating officer of mutual insurer Oil Insurance Ltd. in Hamilton, Bermuda, said "A number of our members have business operations both offshore and onshore in that region." Policyholders have been contacting the company with damage-related reports, he said, "but we don't have any information yet for the extent of losses that we face from the hurricane," and it could be "weeks, if not months, before we'll know."

Meanwhile, citing the company's potential exposure to Katrina, New York-based Standard & Poor's put the company's A+ financial strength and counterparty credit ratings on review with negative implications.

Rupal Parekh contributed to this story.

Katrina: Gulf region pounded

Continued from page 25

in the New Orleans area and one in Biloxi, Miss., "suffered considerable water and wind damage from Hurricane Katrina, and three of them have been forced to evacuate all patients and staff."

Tenet said that while it did "not yet have an estimate of the damage or other financial impact caused by the hurricane," it "anticipates that the cost will be significant even after taking into account its existing insurance coverage for property damage and business interruption."

- Bentonville, Ark.-based Wal-Mart Stores Inc. reported that 38 of its stores remained closed late last week. But that "number is a very fluid one," a spokeswoman said. She noted that one store in New Orleans had been the target of looters.
- Las Vegas-based Harrah's Entertainment Inc. reported that its estimated uninsured operating loss from the closure of casinos in New Orleans and the Mississippi Gulf Coast would amount to approximately 0.5% of annual earnings before interest, taxes, depreciation and amortization.

Market: Major disruptions unlikely from Katrina

Continued from page 1

to $5.5 billion.

In addition to property coverage, other commercial lines affected by the hurricane include business interruption and possibly environmental liability. The petrochemical, marine, energy, hospitality, health care, retail and gaming industries, as well as universities, are among those hardest hit (see sidebar).

Swiss Reinsurance Co., which estimates Katrina will cost the industry about $20 billion, said it expects its own claims to total $500 million.

A Munich Reinsurance Co. spokesman said the company expects hurricane claims of up to 400 million euros ($492.0 million). Zug, Switzerland-based Converium Holding Ltd. said its losses likely will be in the $10 million to $20 million range.

Hannover, Germany-based reinsurer Hannover Re Group said it expected losses of about 250 million euros ($311.2 million) from the hurricane.

On the primary side, Birmingham, Ala.-based Vesta Insurance Group Inc. said its preliminary estimate of gross losses is in the $500,000 to $1.2 million range.

Many other firms, though, said last week it was still too early to venture any estimates.

Hurricane Katrina made landfall on Florida's east coast on Aug. 25, then made a second landfall on Aug. 29 east of New Orleans before charging through Louisiana, Mississippi and Alabama.

Observers say that, because the two landfalls were more than 72 hours apart, the hurricane is likely to be considered two separate events by insurers, although this may be ultimately insignificant because it caused relatively little damage in Florida, with some estimating the total there to be about $2 billion.

Another issue that may affect businesses is whether the cause of the damage is determined to be flood or wind. Flood is typically not covered in standard insurance policies, although most large corporations have such coverage through their all-risk or difference-in-conditions policies, say observers.

Another consideration, say observers, is that neither Louisiana, Mississippi nor Alabama have catastrophe funds to pay compensation on the same scale as does Florida.

Meanwhile, still looming over the insurance industry is the fact that it is still only the beginning of what some predict may be a high-frequency hurricane season.

Unknown losses

"At this point, it's like asking how the loss is going to be while sitting next to a burning building," said Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York.

"This may be something that really stretches out into the fourth quarter before we really get a good sense of the losses," said James Eck, assistant vp and analyst with Moody's Investors Service in New York.

There is general agreement, though, that Katrina is unlikely to lead to any widespread insolvencies in either the primary or reinsurance sectors. "I wouldn't see the kind of thing like an Andrew, where it caused solvency issues," said Larry Spoolstra, a Barrington, Ill.-based chief underwriting officer for North American and Asian Pacific reinsurance business for GE Insurance Solutions.

"Modeling is much more robust than it was at the time when Andrew took place (in 1992)," although there remain uncertainties, including the demand surge in the cost of repairs, for material and labor, he said. Some observers also say modeling may have failed to take into account the looting now going on in New Orleans.

Certainly large national companies with a presence in the region "had size or diversity in their basic operations sufficient to absorb any losses they are likely to incur and/or they had risk mitigation procedures in place," as well as effective reinsurance programs to augment them, said Thomas Upton, an analyst with Standard & Poor's Corp. in New York.

In the reinsurance sector, losses are expected to penetrate reinsurance covers to a much greater degree than they did with last year's four smaller hurricanes.

Katrina's impact on pricing will depend on where within the range now being suggested total losses fall, said Mr. Gallant. If it were at the lower end of the range, "the impact would be very specific to that region. We would expect pricing increases in that part of the world, but not beyond that," he said.

If total losses reach the mid-20s in billions, "we could see more of a global shift in pricing in the property and catastrophe lines of business." It will not be across all lines of business, however, he said.

Ann Northrop, senior insurance analyst with Chicago-based Zacks Investment Research Inc., said Katrina will "move some capital from the industry, and you'll see rate increases in certain areas for certain lines," but in general rates will continue to decelerate and the hurricane will have a minimal impact.

Meanwhile, none of the hurricane-related catastrophe bonds are expected to hit their attachment points as a result of Katrina, although there is some uncertainty related to whether water damage would be covered under federal flood insurance and "what will be part of just the normal insurance policy terms," said S&P analyst Grace Osborne.

But there is already some evidence of price hikes, said Aaron Davis, vp in Aon Corp.'s property syndication group in New York. Mr. Davis said he has already seen "some reaction from the markets in terms of higher pricing and restricted capacity" on post-Katrina windstorm accounts.

"Given the size of this loss, that reaction could well spread to commercial property renewals in general," he said.

But brokers at Marsh Inc. are still being told to "be aggressive on renewals," said Bob Howe, New York-based managing director, global property placement.

Reinsurance rates

Hurricane Katrina undoubtedly will have an effect on reinsurance pricing when business renews later this year, said Russell Merrett, treaty underwriter and principal at London-based Hiscox P.L.C.'s syndicate 33. Already some buyers are looking to buy backup covers in the event that their existing reinsurance is wiped out by losses from Hurricane Katrina, he noted.

Richard DiClemente, president and CEO of New York-based THB Intermediaries Inc., said, "We would expect there would be either some stabilization or some kick-up in coastal property pricing."

Patrick J. Denzer, president and CEO of reinsurance intermediary John B. Collins Associates Inc. in Minneapolis, said, "We believe the loss will be readily absorbed by the reinsurance market, and we think at most what will happen is the rates will stabilize," he said. "We believe the industry has enough capital to absorb a loss this size."

A.M. Best has said that even high-end estimates for Katrina-related losses represent only about 6% of surplus as of June 30, 2005.

The $15 billion in damage caused by Hurricane Andrew accounted for about 10% of the industry's capital at the time, said Peter C. Streit, an analyst with Williams Capital Group in New York, "so even in comparison...it's less of an event than Hurricane Andrew was," he said.

Steven Bolland, president of reinsurance intermediary Gill & Roeser Inc. in New York, said, "You have to start losing capital before it's an event that's going to change pricing models, and the preliminary estimates I've seen from reinsurers doesn't indicate there's going to be a significant loss of capital within the reinsurance industry."

As a result, said Mr. Bolland, "I would imagine it would probably slow down or halt the softening of the market, but I don't see, if the current projections work on through, as it being an event like a 9/11 that immediately turns the market."

But James P. Bryce, president and CEO of property cat reinsurer IPC Re in Hamilton in Bermuda, disagreed. "I believe this will be a market-turning event," he said.

"There has been all the loss activity we've had in '04 and '05 yet to date, and we still have October and September as very active hurricane months," he said.

Rupal Parekh and Sarah Veysey contributed to the story.

HRH: Connecticut settlement allows contingents on agency business

Continued from page 3

sion income on retail brokerage and agency business, HRH reached an agreement whereby it will continue to collect contingent commissions on its traditional agency business as long as it fully discloses to clients that it is doing so.

Toward that end, HRH has established a "customer bill of rights" document for agency clients to sign that explains its role and how it is compensated.

'Unique' settlement

The settlement bars the brokerage from collecting contingent commission on brokerage business, which HRH defines as business where is typically is paid by policyholders. HRH had voluntarily ceased collecting such commissions in January.

In 2004, HRH collected $42.4 million in contingent commission income. About 95% of that income came from traditional agency commission-based business, which is based on the accounts' profitability.

Mr. Vaughan

On a conference call with analysts last week, HRH Chairman and Chief Executive Officer Martin L. Vaughan III said the settlement is "unique" and "sets a new industry standard for compliance and disclosure."

"Most importantly, it clearly defines the distinction between fee-based brokerage business, where we are paid by our client, and the traditional agency business, where we're licensed, contracted and paid by the underwriters in the form of a commission," Mr. Vaughan said.

"We worked hard to explain and try to convince (Mr. Blumenthal's office) of the difference between broker business and traditional agency business and to try to indicate to them in a very straightforward, truthful fashion how if the restrictions were too steep, there would be a lot of small clients that we may not be able to care for any longer," Mr. Vaughan said. "And they listened to us, and we reached an agreement."

Cost of a crisis

In settlements with prosecutors in several states in 2005, five brokerages have agreed to make significant restitution to their clients.

Marsh & McLennan Cos. Inc.	$850 million
Aon Corp.	$190 million
Willis Group Holdings Ltd.	$51 million
Hilb Rogal & Hobbs Co.	$30 million
Arthur J. Gallagher & Co.	$27 million
Total	**$1.15 billion**

When asked on the analyst call whether the settlement in essence establishes a two-tiered system within the market where some brokerages do not accept contingents and others do, Mr. Vaughan said: "I think this agreement speaks for itself."

For their part, observers say they are supportive of a multi-tiered market when it comes to contingents.

"As we have argued all along, multiple systems or models are a good thing," said Ken Crerar, president of the Washington-based Council of Insurance Agents & Brokers.

"I think that at the end of the day, if a firm decides it's not going to take contingent commissions or if a firm decides it is going to, they still have to compete in a marketplace where multiple ways of doing business works."

"I just don't see any movement on the part of attorneys general, insurance commissioners or insurance companies to get rid of contingent commissions across the board," said Bobby Reagan, president of Reagan Consulting Inc. in Atlanta.

"I think the general sense is there is absolutely nothing wrong with an insurance company 'incenting' superior behavior and performance. And the fact there is a potential for conflict of interest doesn't say it's wrong."

As long as brokers agree to full transparency, "the insured can decide what makes sense in their given situation," he said.

A good deal

Overall, analysts say that in light of the allegations, HRH struck a good deal with the attorney general.

"When you're going up against what I would deem an aggressive AG who wants you to give up contingents, and you're able to settle for an amount that's really equivalent to what everyone else is settling for and continue to get them: That's a pretty good deal relative to the others," said Nik Fisken, an analyst with Stephens Inc. in Little Rock, Ark.

"It removes a large overhang on HRH," said John Keefe, an analyst with Ferris, Baker Watts Inc. in Richmond, Va.

"It was by no means certain that HRH would be able to trade forward and accept contingent commissions on traditional retail business. It can now."

Late News

Continued from page 1

according to a statement from the department, which manages the state's monopoly workers comp insurer, the Washington State Fund.

Chubb Re closing Bermuda office

Chubb Re (Bermuda) Ltd., is leaving the island and relocating its Bermuda-based staff to the reinsurer's headquarters in Bernardsville, N.J. A spokesman for Chubb Corp., the parent company of Chubb Re, declined to comment on the reasons for the move but noted that only a few employees will be affected. Chubb will continue to operate in Bermuda through its Hamilton-based Chubb Atlantic Indemnity Ltd. unit.

Proposal would levy fines for late payments

California lawmakers have advanced a bill that would fine employers in California for failing to pay workers compensation benefits within 10 days of a court award. Under S.B. 1023, employers would have to pay $2,000 plus the amount owed for a first enforcement action and $5,000 for each subsequent action. The bill passed the state Assembly and now heads back to the Senate for concurrence with assembly modifications. To obtain penalties, an employee would have to prevail in an enforcement action.

Florida comp rates may be reduced again

NCCI Holdings Inc. proposed a 4.5% average workers compensation rate reduction in a filing with the Florida Office of Insurance Regulation. If approved, the rates would be effective Jan. 1, 2006, said NCCI. It is the third consecutive decrease for which the NCCI has filed since Florida implemented reforms in 2003. In October 2003, regulators approved a rate cut of 14%, followed by another 5.2% decrease in January of this year.

White Mountains queried by Massachusetts AG

White Mountains Insurance Group revealed in a Securities and Exchange Commission filing that it has received a "civil investigative demand" from the office of Massachusetts Attorney General Tom Reilly over broker relationships with its Boston-based OneBeacon Insurance Group unit. A White Mountains spokeswoman noted that the Bermuda-based company believes the request "is consistent with the ongoing industrywide investigations" over brokerage compensation practices. White Mountains has acknowledged receiving similar requests from the attorneys general of Connecticut and New York and is cooperating with all of them.

South Dakota burn victim not entitled to comp

A man burned from an explosion while helping firefighters ignite a controlled burn is not entitled to workers compensation benefits, South Dakota's Supreme Court ruled. In *Jerome Woodcock vs. City of Lake Preston*, Mr. Woodcock accompanied his volunteer firefighter son to ignite a building without being asked. The city argued he was not entitled to benefits because he was not pressed into emergency service. The South Dakota Department of Labor agreed, ruling no employment contract existed. The Supreme Court confirmed the decision on appeal.

XL buys casualty business from Argonaut

By ROBERTO CENICEROS

STAMFORD, Conn.—XL America Inc. has agreed to buy a substantial portion of Argonaut Insurance Co.'s U.S. risk management book of business.

Stamford, Conn.-based XL America, a unit of XL Capital Ltd. in Bermuda, will immediately begin offering quotes to selected Argonaut clients, according to an XL statement. To ensure a smooth transition during renewals, XL said that Argonaut clients will continue to have access to San Antonio-based Argonaut's claims management and loss control services.

Joseph Harris, XL America's chief casualty underwriter for U.S. Risk Management, will lead the company's transition team, said Dennis Kane, XL America executive vp.

"In addition to expanding our U.S. risk management business, the integration of Argonaut's casualty customers presents us with the opportunity to expand XL America's underwriting and customer service capabilities particularly on the West Coast," Mr. Kane said.

Terms of the deal were not disclosed.

At BusinessInsurance.com

New Online Poll: Do you think losses stemming from Hurricane Katrina will drive property insurance rates higher?

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

BI Stock Index [8/29 - 9/2]

Up-to-the-minute data for all 85 companies that comprise the *BI* Stock Index can be found at *www.businessinsurance.com*

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

***BI* Stock Index**	2597.45	0.06
Dow Jones	10447.37	0.48
S&P 500	1218.02	1.07

Largest gains

American Safety Insurance	14.30%
SCPIE Holdings	10.25%
Willis Group Holdings	9.58%
Hilb, Rogal & Hobbs	8.50%
Hub International	5.90%

Largest losses

PXRE Corp.	-14.28%
Axis Capital Holdings	-8.01%
Aspen Insurance Holdings	-7.96%
MBIA Insurance Group	-5.85%
St. Paul Travelers	-5.14%

Weekly change by market segment

Brokers	5.51%
Insurers/Reinsurers	-0.46%
Managed Care Organizations	2.07%

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