

Business Insurance

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In Brief

R-T Specialty can't use AmWINS' client list

A federal court issued an order in favor of wholesale insurance broker AmWINS Group Inc., which accused a former employee of using confidential client information to target and win AmWINS' business accounts for his new employer, Chicago-based R-T Specialty L.L.C. David B. Austin, the former AmWINS employee, and R-T Specialty agreed to a court order barring R-T Specialty's use of records of 266 AmWINS clients for one year.

Caterpillar freezing nonunion pension plan

Construction equipment maker Caterpillar Inc. is freezing its defined benefit pension plan for nonunion employees and sweetening its 401(k) plan. Nonunion employees hired on or

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REINSURANCE: GLOBAL MARKETS

Solvency II deadline looms for reinsurers; quake rates increase for Chile; typhoon data improves. **PAGE 10**

TRANSPORTATION RISKS: MARINE & ENERGY

Deepwater Horizon loss triggers rate hikes; P&I clubs get ready for change in capital rules. **PAGE 17**

HEALTH CARE BENEFITS

Cost-shifting rises in poor economy

Health care reform not expected to halt years-long trend

By **JOANNE WOJCIK**

Average annual premiums for employer-sponsored health insurance grew just 3% this year for family coverage, but employees' share of those costs surged 14%, according to a survey released last week.

The 12th annual Kaiser Family Foundation/Health Research & Educational Trust "Employer Health Benefits" survey found that employee contributions for single coverage grew 15% compared with the 5% increase in annual employer premiums.

As a result, employees paid an average of \$3,997 toward the \$13,770 cost of family coverage and \$899 toward the \$5,059 cost of single coverage this year. By comparison, employees last year paid an average \$3,515 toward the \$13,275 cost of family coverage and \$779 toward the \$4,824 cost of single coverage (see box, page 25).

Since 1999, the share of health

care premiums paid by employees has increased 159%, while the cost of employer-sponsored health care benefits has grown 138%, according to the study.

Drew Altman, president and CEO of the Washington-based Henry J. Kaiser Family Foundation, attributed the recent surge in employee health care coverage contributions largely to the recession, saying that many employers—Kaiser included—are asking employees to take on a greater share of the health care cost burden so their firms can continue to afford to offer the coverage and perhaps avoid layoffs.

"I think it is a recession survival tactic," he said during a Thursday news conference in Washington.

"The continued economic downturn is leading to more burden for employees in terms of what they have to pay for their health insurance," Gary Claxton, vp and director of the Health Care Marketplace Project at KFF, said during the news conference.

Because significant cost-sharing still is permitted under the Patient

See **KAISER** page 25

MARINE



AP PHOTO

Crewmen from a ship hijacked in March by Somali pirates were freed in July after a ransom was paid. More insurers are offering kidnap and ransom cover.

Increase in pirate attacks draws more K&R capacity

By **ZACK PHILLIPS**

As hijackings by Somali pirates persist, new insurers have begun offering kidnap and ransom insurance, observers say.

But the increase in market capacity during the past year has not yet resulted in a significant softening in the price of K&R coverage, the observers say.

Before the start of the southwest monsoon season in June, pirates near Somalia had hijacked 20 ships and attacked 54 other ships in 2010,

according to figures from the International Maritime Bureau's Piracy Reporting Centre in Kuala Lumpur, Malaysia. After monsoon season ends in September, observers expect attacks to increase. Pirates near Somalia use small skiffs that are difficult to operate in inclement weather.

The nature of K&R coverage, which includes a clause voiding the coverage if it's disclosed, makes obtaining specific information on K&R insurers and policies difficult.

See **PIRATES** page 24

WORKERS COMPENSATION

Disability claims mount as job security fears ease

By **ROBERTO CENICEROS**

The economy may be a factor in a spike in worker disability claims as employees who held back out of fear of losing their jobs after the recession began may now feel more confident as the economy begins to

stabilize, several observers said.

It is too early to tell, however, whether a trend is under way, especially because volatility in filing disability claims is common, consultants, insurers and employers agree.

But consultants advising self-insured clients say they are seeing



AP PHOTO

Unemployed people wait for benefits information. Observers say a rise in disability claims shows workers feel more secure in their jobs.

anecdotal evidence that some employers are seeing an uptick in disability claims after a decline in

the rate of filings once the recession began in late 2007.

Employees that are taking such leave now, however, tend to make sure their jobs are protected by their disability status or by laws such as the Family and Medical Leave Act, said Karen English, a partner at Spring Consulting Group L.L.C. in Boston.

"People were saying, 'I better be at my desk because I don't want to be laid off,'" Ms. English said. "Now there is a slight variation of, 'I still better be at my desk or I might lose my job, but if I am out and it's protected for a certain amount of time, then I can do it.'"

A slight increase in behavioral

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MOST POPULAR STORIES Week of August 30, 2010

1. Injured Dallas Cowboys employees to get \$34M
2. Hurricane Earl threatens East Coast
3. Greenberg agrees to \$90M settlement with AIG
4. Hurricane Earl puts East Coast on evacuation alert
5. \$30.4 million award in popcorn flavoring case
6. Hurricane Earl to sideswipe U.S. eastern seaboard
7. BP said to fault staff for mistakes before blowout
8. Striking Coca-Cola workers sue after benefits terminated
9. Jury hits Ford with \$131 million verdict
10. Aon Consulting notifies Del. retirees of data breach

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HEALTH CARE BENEFITS

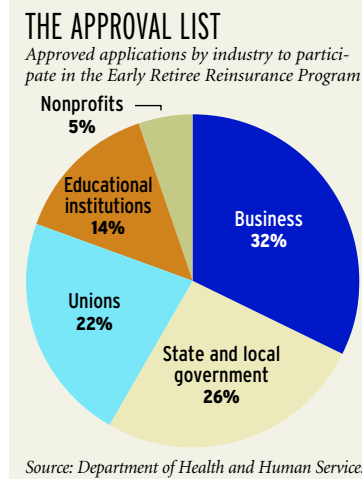
Employers rush to tap early retiree health fund

By JERRY GEISEL

WASHINGTON—Thousands of employers and other retiree health care plan sponsors are flocking to a one-time \$5 billion government program that will partially offset claims incurred by pre-Medicare-eligible retirees and their dependents.

Last week, the Department of Health and Human Services made public the names of about 2,000 employers and other sponsors whose applications to participate in the Early Retiree Reinsurance Program had been approved.

Approvals include corporate giants, such as IBM Corp. and Wells Fargo & Co.; big cities, such as Dallas and Philadelphia; huge union plans, such as the trust created under a 2007 agreement between Chrysler,



Ford and General Motors with the United Auto Workers that allowed

the automakers to unload tens of billions of dollars in retiree health care obligations in exchange for contributions to the trust; and numerous small cities, such as Evergreen Park, Ill., a southwest Chicago suburb with a population of about 20,000.

In all, 32% of the approved applications came from businesses, 26% from state and local governments, 22% from union sponsors, 14% from schools and other educational institutions, and 5% from nonprofit organizations, HHS said.

The list will continue to grow in the weeks ahead as the government regulators review pending applications. HHS hasn't said how many applications, which were released in June, are in the pipeline.

It isn't surprising that interest in the program is so widespread,

experts said.

"It is found money," said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

"This is a welcome way for employers to reduce their retiree health care costs, as long as the federal money lasts," said Frank McArdle, a consultant with Hewitt Associates Inc. in Washington.

Hewitt estimated the reimbursement could save employers \$2,000 to \$3,000 per adult 64 and younger enrolled in their plans.

Under the program—embedded in the new health care reform law—the government will reimburse employers for a portion of health care claims incurred by retirees who are at least age 55 but not eligible for Medicare, as well as retirees' covered dependents, regardless of age.

After a participant incurs \$15,000 in health care claims in a plan year, the government will reimburse plan sponsors for 80% of claims up to \$90,000. The reimbursement applies to claims incurred June 1 or later. In general, the reimbursement must be used to reduce employers' and/or retirees' health care costs.

As part of the health care reform law, Congress appropriated \$5 billion for the program, which was seen as a way to encourage employers to continue their early retiree health care plans until at least 2014. That is when many key provisions of the health care reform law kick in, including establishing state pools, where lower-income individuals can use federal health insurance premi-

See **RETIREE** page 24

FEDERAL LEGISLATION

Flood cover extension tops wish list

Insurers urge congress to extend NFIP, implement reform measures

By MARK A. HOFMANN

WASHINGTON—Congress needs to extend the National Flood Insurance Program during the short session that begins next week, according to property/casualty insurance representatives.

Making sure the program doesn't expire on Sept. 30 tops the industry's to-do list for Congress during its last regular session before the November elections.

Otherwise, the industry's attention is focused on how two new major laws—the Patient Protection and Affordable Care Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act—will be implemented.

Of course, the outcome of the elections will affect implementation of the laws and the approach a new Congress might take to insurance issues.

But for now, "one of the things they've got to do is reauthorize the NFIP," said Tom Litjen, vp-federal government relations for the Property Casualty Insurers Assn. of America in Washington. "That's what we'll be pressing for in the month of September."

If the program lapses, it will create uncertainty in the market, preventing the completion of home purchases "and new policies from being written," said Jimi Grande, senior vp in the National Assn. of Mutual Insurance Cos.' Washington office.

Mr. Grande said he doesn't believe Congress will do anything with natural catastrophe policy during the short session. But he said there are lawmakers "who are waiting for the next natural disaster so that Congress can overreact and implement one of the bevy of current bad policy ideas on the table." These ideas include requiring the NFIP to offer wind coverage, he said.

In addition to NFIP reauthorization, "we're going to be focused on implementation issues" concerning the health care reform and financial services laws, said Leigh Ann Pusey, president and CEO of the Washing-

See **CONGRESS** page 6

CATASTROPHES



REUTERS/LANDOV

Despite flooding in North Carolina, modelers expected limited losses from Earl.

Hurricane Earl weakens as it heads to Northeast

By MARK A. HOFMANN

BOSTON—Hurricane Earl brushed the U.S. Southeast last week, but risk modelers said they did not expect significant insured losses.

In a statement late in the week, Oakland, Calif.-based EQECAT Inc. said it did not expect insured losses in North Carolina and Virginia to reach \$100 million.

Separately, Boston-based AIR Worldwide Corp. did not expect "significant insured losses" in those states. It noted reports of flooding along North Carolina's Outer Banks as well as debris in roads.

"Otherwise, Earl's winds did little structural damage to properties on North Carolina's barrier islands, where buildings are subject to strict design requirements," the Boston-based catastrophe modeler said in a statement. "AIR expects some damage to nonstructural elements, such as signage and awnings. The potential also exists for windborne debris to have broken windows, possibly leading to contents damage."

In a Friday news conference, North Carolina Gov. Bev Perdue said the state had "dodged a bullet" and many of its beaches had reopened for Labor Day weekend.

A weakened Earl moved toward New England, with potential for damage to Cape Cod and elsewhere.

In its analysis, EQECAT noted uncertainty about Earl's potential for damage as it approached the North-

east but downplayed the probability of major damage beyond "localized incidents." "If the winds onshore from this event remain as forecasted, EQECAT will not provide a loss estimate for this event," the modeling firm said.

Earlier, AIR estimated Earl caused \$50 million to \$150 million in insured losses in the Virgin Islands, St. Martin/St. Maarten and Puerto Rico before heading toward the United States.



HEALTH CARE BENEFITS

Employers test health care effectiveness

By JOANNE WOJCIK

DALLAS—A pilot project that launched this week will help nine employer members of the Dallas-Fort Worth Business Group on Health more effectively tailor their benefits to better address worker health and productivity while also lowering overall health care costs.

The Texas Health Strategy Project is one of five initiatives announced in May by the Washington-based National Business Coalition on Health as part of the American Health Strategy Project, which intends to help employers use data from multiple sources to develop and implement value-based insurance designs. Such designs remove barriers that might prevent employees from receiving necessary health

care, such as preventive screenings and maintenance medications.

While the Texas project is under way, the four other projects involving other coalitions—the Midwest Business Group on Health in Chicago, the Oregon Coalition of Health Care Purchasers in Portland, the Pittsburgh Business Group on Health and the Virginia Business Coalition on Health in Virginia Beach—are in various stages of deployment.

Until now, most employers setting up value-based insurance designs have relied primarily on medical claims data, which may or may not provide a complete picture of health risks lurking in their workforces, said Marianne Fazen, executive director of the Texas group.

In addition to medical claims data, employers participating in the

American Health Strategy Project will collect data on family medical leaves, pharmaceutical and prescription drug utilization, short- and long-term disability claims, workers compensation claims, employee assistance program usage, disease management and employee demographics, Ms. Fazen said.

Pfizer Inc., which is financing the project, will analyze the data provided by each employer and devise a matrix that each can use to identify the health risks unique to their employees and redirect their benefits programs to address them, Ms. Fazen said.

The goal is to complete the analyses by year-end so the participating employers can revamp their benefit

See **TEXAS** page 25

REINSURERS

Hurricane season pivotal for reinsurers' results

First-half profits up, but combined ratio worsens in soft market

By JUDY GREENWALD

U.S. reinsurers' first-half 2010 results reflect catastrophes so far this year and the ongoing soft market, while future results hinge on the prospect of an active hurricane season, observers say.

Nineteen U.S. reinsurers surveyed by the Washington-based Reinsurance Assn. of America reported a 98.7% combined ratio for the first

half of this year vs. 93.8% for the same period a year ago. Meanwhile, net premiums written decreased 4.2% to \$12.29 billion.

The reinsurers reported \$4.21 billion in net income vs. a \$406.3 million loss during the same period last year, and \$99.69 billion in policyholder surplus (see chart, page 24).

Bill Bergman, an analyst with Morningstar Inc. in Chicago, said the sector in general reported "modest premium declines, weak rates, possibly sluggish demand" and "meaningful but manageable" catastrophe losses in this year's first half.

Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York, said, "People saw the

Deepwater Horizon losses and the Chilean earthquake losses and wanted to point to this as being a bad year, but it's sort of an average year." The "big question this time of year is hurricane season," he said.

James Auden, an analyst with Fitch Ratings in Chicago, said the losses of those insurers affected by the Chilean earthquake were "not too dramatic," and much of the Deepwater Horizon oil rig losses were insured through the Lloyd's of London markets.

Reinsurers have been more disciplined than primary insurers, say observers.

Paul Newsome, an analyst with Sandler O'Neill & Partners L.P. in

Chicago, said, "I think there are probably more companies who have taken the stance that they're just going to allow the business to go" rather than writing it at lower rates, compared with the primary sector.

James Eck, vp and senior analyst with Moody's Investors Service in New York, said that discipline seems to be holding up on the reinsurance side, but "some of the companies we talk to believe the discipline is starting to slip on the primary side, which I guess ultimately will flow through to the reinsurers."

Meanwhile, reinsurance rates remain weak. "It's a tough picture" insofar as rates are concerned," said Mr. Gallant.

Although rate adequacy in the reinsurance sector may be modestly better than in primary commercial lines, Mr. Auden said rate declines in many segments have made the business less profitable. "Returns aren't going to be great there," he said.

"Casualty rates may be getting to the point where it's going to be very difficult for current accident years to be written under 100 (percent combined ratio) and some companies are exiting certain lines of business. Others are just reducing line sizes," Mr. Eck said.

"We'll have to see what happens."

See RAA page 24

CATASTROPHES



AP PHOTO

Workers spray water on an oil production platform that caught fire last week in the Gulf of Mexico.

Officials probe cause of Gulf of Mexico oil rig fire

All workers accounted for; rig covered by Oil Insurance Ltd.

By ZACK PHILLIPS

HOUSTON—An oil production platform in the Gulf of Mexico caught fire last week and forced 13 workers into the ocean.

The Vermilion oil rig 380, owned by Houston-based Mariner Energy Inc., became engulfed in flames Thursday about 100 miles off the coast of Louisiana.

Officials said all workers were accounted for and reported only one injury.

The U.S. Bureau of Ocean Energy Management is investigating the blaze.

"We are all relieved that the 13 personnel on the platform were rescued safely," agency Director Michael Bromwich said in a state-

ment. "We are continuing to closely monitor this situation, which will be investigated fully."

The rig is covered by Oil Insurance Ltd., according to the energy industry mutual insurer's website.

The Hamilton, Bermuda-based mutual covers its members for property damage, pollution control, well control and other risks. The specific limits and deductibles that Mariner purchased were not known.

An energy industry underwriter said Mariner's main program is a policy through OIL, with an excess property layer of coverage attaching at \$300 million. The rig was valued at about \$32 million, he said.

The fire came four months after the April fire on the Deepwater Horizon oil rig in the Gulf of Mexico. That rig sank, unleashing the worst oil spill in U.S. history.

BP P.L.C., which leased the Deepwater Horizon, last week said its cost of the response to that spill so far was \$8 billion.

PENSION BENEFITS

U.K. pension benefit cuts expected

By SARAH VEYSEY

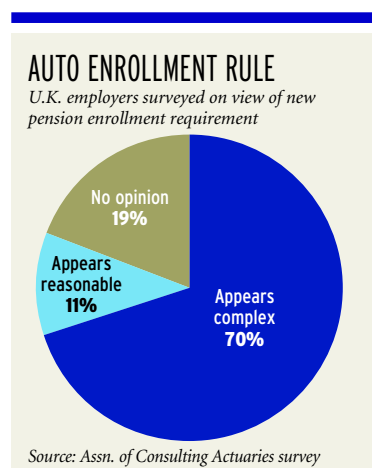
LONDON—More than one-third of large U.K. employers are likely to reduce pension benefits when rules requiring them to automatically enroll employees go into effect in October 2012, a survey found.

The London-based Assn. of Consulting Actuaries found 41% of U.K. employers are "likely" or "highly likely" to reduce future pension benefits due to automatic enrollment.

The ACA surveyed 210 large employers—companies with more than 1,000 employees—during July and August.

According to the study, 16% of employers would be "highly likely" and 25% "likely" to review existing benefits to mitigate the increased cost of higher plan membership caused by automatic enrollment.

The U.K. government rules requiring that all employees auto-



atically be enrolled in workplace pensions are expected to increase membership of employer-sponsored pensions by 35% to 40%, according to survey respondents.

Under the rules that go into effect in October 2012 for larger employ-

ers, employees would be enrolled automatically but could opt out. By 2017, automatic enrollment will apply to companies of all sizes. The rules were first announced in 2006.

While 75% of employers surveyed said they supported the principle, 70% also said the automatic enrollment regulations "appeared complex."

In June, the recently elected U.K. coalition government said it was conducting a review to determine how best to support the implementation of automatic enrollment into company pension plans. Interested parties have until Sept. 30 to offer feedback to the U.K. Department for Work and Pensions.

More than half of the respondents to the ACA survey, a summary of which is available at www.aca.org.uk, said they believe the government should delay implementation of rules.

Webcasts offer insights on new risks

Business Insurance has two free, live webcasts coming up that aim to help risk managers grapple with medical liability risks and electronic data discovery.

• On Sept. 15 at 2 p.m. EDT, *BI* hosts "Urgent Care: Managing Medical Liability Risks After Health Reform." This webcast will explore the impact of the Patient Protection and Affordable Care Act on the health care industry and the medical professional liabilities that will arise.

Expert speakers are Kathryn A. Meyers, director of broking in Aon Risk Solutions' health care practice; and Edward M. Wrobel, a



Ms. Longmore



Mr. McCarrick

director at Towers Watson & Co. *BI* Senior Editor and Western Bureau Chief Roberto Cenicerros will moderate the webcast.

• On Sept. 29 at 2 p.m. EDT, *BI* hosts "Dangerous Data: Perils of eDiscovery and How to Manage Them." This webcast will advise

corporate risk managers how to reduce exposure in the electronic data discovery process.

Expert speakers are Ann Longmore, executive vp of Willis Group Holdings P.L.C.'s executive risks practice for North America; and John McCarrick, an attorney in the commercial litigation department who specializes in electronic discovery at White & Williams L.L.P.

BI Editor Regis Coccia will moderate the webcast.

Both webcasts are sponsored by Zurich. To register for these and other online events, please visit www.BusinessInsurance.com/section/webinars.

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Congress: Back from recess

CONTINUED FROM PAGE 3

ton-based American Insurance Assn. She said the group is keeping an eye on progress being made toward establishing the new Federal Insurance Office in the Treasury Department. She said the insurer group also continues to work with Treasury on implementing other provisions in the new laws.

"Issues 1, 2, 3, 4 and 5" for the Washington-based Council of Insurance Agents and Brokers are implementation of the health care reform law, said Joel Wood, senior vp of the CIAB.

Looking ahead, he said "it's very unclear how far a Republican-controlled House of Representatives could scale back some of the regulatory aspects of the health reform act." While there is "zero chance of repeal as long as President Obama" is in the White House, Congress could use the power of the purse to influence implementation, Mr. Wood said.

The elections are sure to change the composition of Congress and its approach to some insurance issues, said the Washington observers.

"We know we're going to have a significant election year," said the AIA's Ms. Pusey, with the potential for considerable turnover. "The question is: What is it going to mean?" Voters are angry, but she wondered about the cause of their anger and added that "it's clear the economy will dominate" and that anyone elected will have to respond to a stagnant economy.

Ms. Pusey said she believes "the general message is we need to let

the markets work."

There "could be significant impact on the insurance agenda coming out of the 2010 elections," said NAMIC's Mr. Grande.

"There are a lot of incumbents who that are not likely to return," he said. There is likely to be an influx of new lawmakers "who are more interested in helping businesses get started again and promoting competition" instead of imposing more regulations that would harm

'Having been the Charlie Brown to Lucy's football on OFC for many years, I'm not as convinced that it will be a major legislative initiative.'

Joel Wood, Council of Insurance Agents and Brokers

growth, Mr. Grande said.

He also predicted that the Capitol Hill debate over insurance reform will undergo a "paradigm shift." The reaction to the health care reform package and the financial services reform bill should mean the insurance industry "is going to have to take a careful look at whether Washington can be a meaningful source of reform."

The PCI's Mr. Litjen said it's commonly agreed that Republicans will make gains in both houses. "Given

the closer margins everyone expects," passing bills will be more difficult and more gridlock will occur, he said.

Mr. Litjen noted that some members of Congress who wield considerable influence are in tight races. The group includes the chairman of the House Financial Services Committee Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises—Rep. Paul Kanjorski, D-Pa.—and Rep. Earl Pomeroy, D-N.D.

Rep. Pomeroy is a former president of the National Assn. of Insurance Commissioners, who Mr. Litjen called "probably the single-most knowledgeable member of Congress" on insurance and insurance regulation. He also noted that the retirement of Senate Banking Committee Chairman Christopher Dodd, D-Conn., will mean new leadership on that panel.

If Republicans gain control of the House, new leadership may take a dimmer view of an optional federal charter for producers and insurers, said the CIAB's Mr. Wood, who described himself as a "huge fan" of Rep. John Boehner, R-Ohio, who most likely would become speaker of the House.

"Having been the Charlie Brown to Lucy's football on OFC for many years, I'm not as convinced that it will be a major legislative initiative," said Mr. Wood. "Regardless of one's persuasion or desires, if John Boehner is the speaker of the House, I rather doubt he would be enthusiastic about an OFC. He has historically associated himself with the views of the Cincinnati Insurance Cos.," which has opposed federal insurance regulation and a natural catastrophe backstop.

Commentary

Passing finance reform was just the beginning

Now comes the fun part.

Congress wrestled with financial services regulatory reform legislation for months before giving a final OK to the Dodd-Frank Wall Street Reform and Consumer Protection Act this summer. The debate over the bill's shape was sometimes fierce and almost always partisan. Getting the bill to the president's desk involved a monumental effort by the measure's supporters.

But getting the bill passed into law is just the beginning. The measure must now be implemented—a task that will take years and raises more questions about how reform actually will work.

Consider the two provisions of greatest interest to the risk management community. One would create a new federal office of insurance within the Treasury Department. The other would streamline taxation of surplus lines insurers and ease qualified risk managers' access to the non-admitted market as well as streamline how states regulate reinsurers' solvency. In some ways, this is pretty straightforward stuff.

But take a closer look at the federal insurance office. Implementation is up to the Treasury secretary, who must appoint the office's director. Technically, the office came into existence with the enactment of the law, but everybody agrees that actually bringing it into existence is going to take some time.

The law says that the director's office will be a career reserved position in the Senior Executive Service, which means it must be someone with a lot of government experience.

The secretary could choose a career Treasury professional to head the department. This would almost certainly guarantee competence at the top, but given that one of the reasons for creating the office in the first place was to provide needed insurance expertise at the federal level, the in-house pool of potential directors would be relatively small.

The law doesn't specify that the director must come from within Treasury. Lawmakers specifically created the office to fill a perceived void in insurance expertise at the federal level, so if such knowledge isn't readily available within the Treasury Department, then the secretary must look elsewhere. The Commerce Department could present a possible source for a director. And the Overseas Private Investment Corp. might seem a logical source, but OPIC presidents are presidential appointees, not career civil servants.

But no matter who is chosen,



MARK A. HOFMANN

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the choice is likely to stir controversy within the insurance industry itself. During the debate over the reform bill, insurers and producers alike divided over how much power, particularly the power to preempt state laws, the office should wield. Choosing a director with an expansive view of the office's power would alienate one portion of the industry; choosing a director who consid-

'Treasury is not going to send someone with a stick to a recalcitrant state house to beat balking lawmakers into acting.'

ers the office's powers almost purely advisory would not please the other part.

The central question raised by implementing the portion of the new law dealing with nonadmitted insurers is pretty simple—how will the states agree on a formula to allocate premium taxes among themselves? There is no mechanism forcing the states to do so within the year that they've been given to adopt a formula. Treasury is not going to send someone with a stick to a recalcitrant state house to beat balking lawmakers into acting.

But as we've seen with non-domiciliary states trying to regulate risk retention groups in contravention of federal law, a law without an enforcement provision isn't much of a law if states choose to ignore it. Don't be surprised if the same thing happens regarding the nonadmitted insurer provision of the law.

And remember, these two provisions are among the least contentious of the scores contained in a law more than 1,000 pages long. It's going to be a long and strange trip before all of the law is implemented, if it ever is.

Business Insurance Webcasts & Webinars

Business Insurance's Webcasts are developed by *BI* editors to discuss the latest and most pressing issues facing our readers. **Business Insurance's Webinars** are educational and informative presentations by leading companies serving the risk management, employee benefits and commercial insurance communities. Both formats are presented live online and afterward are accessible on demand.

Urgent Care: Managing Medical Liability Risks After Health Reform

Live Online: Sept. 15, 2010 | 2 p.m. Eastern | Free Of Charge

This *Business Insurance* webcast will help risk managers and other health care industry professionals determine what issues they need to consider as the Patient Protection and Affordable Care Act begins to be implemented.

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Business Insurance OPINIONS

Health plan design a way to control costs

IT IS NOT SURPRISING, as the Kaiser Family Foundation reports in a survey, that many employers shifted most of the increase in group health insurance premiums to employees in the past year.

With employers walloped by the economic slump, many cannot afford to absorb the entire increase in premiums for the health care plans they offer employees and their dependents.

Obviously, shifting costs to health plan enrollees has its limits. If employers cannot afford to pay the escalating premiums, employees will be similarly challenged—especially those with low incomes.

Ultimately, if the employment-based health care system is to continue, employers will have to find better ways to hold down cost increases that neither they nor their employees can afford.

We think plan redesign has much potential to hold cost increases to more acceptable levels. For example, there is nothing wrong with employers moving to a high-deductible plan as it gives employees a powerful financial incentive to be more careful consumers of health care services.

Employers—even without the prod of an upcoming requirement in the new health care reform law—also have been moving to enrich coverage in certain areas, such as waiving or slicing copayments for preventive services. They are operating under the assumption that prompt detection of medical problems reduces costs in the long run.

However, plan redesign does little to address underlying forces boosting costs, such as the clout medical providers have gained through consolidation. Despite that, employers have it within their power to do more to hold down increases in health care costs.

Plan redesign has much potential to hold cost increases to more acceptable levels.

Flood program needs more than a quick fix

CONGRESS RETURNS next week with a considerable amount of unfinished business but only a limited amount of time.

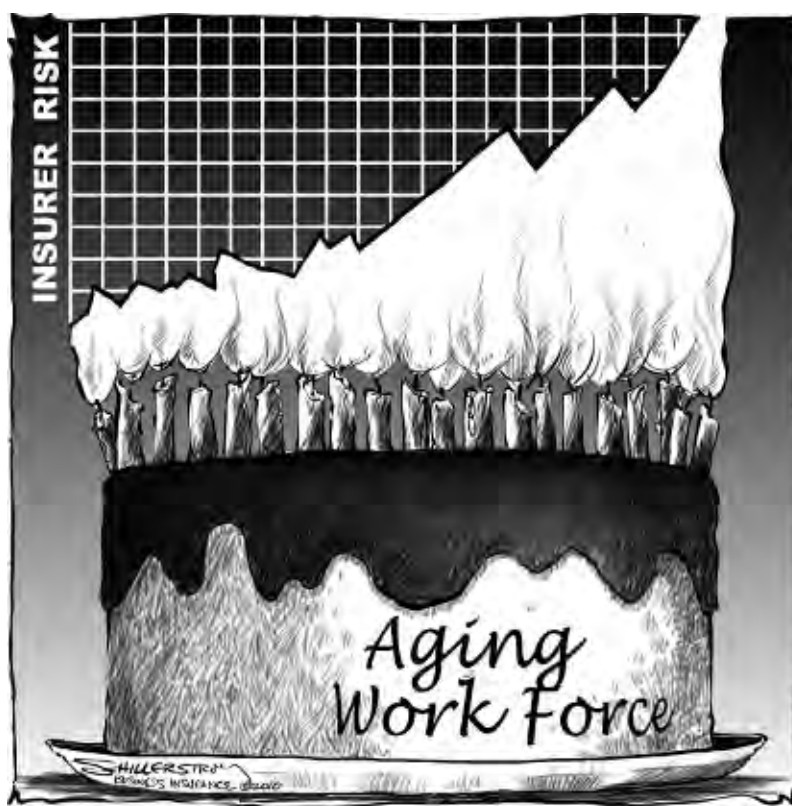
One bit of business that needs to be completed by Sept. 30 is extending the National Flood Insurance Program. This Congress repeatedly has failed to approve a long-term extension of the program, preferring short-term temporary fixes as lawmakers failed to resolve issues such as whether the program should be required to offer windstorm as well as flood coverage.

The result has been predictable—the program has been allowed to temporarily lapse several times. The lapses added uncertainty to an already uncertain real estate market as buyers who must have flood coverage to close a deal simply could not obtain it.

We have no illusion that lawmakers will prove to be any more far-sighted when it comes to the NFIP during the upcoming pre-election session than they have been in the past.

The best anyone can realistically hope for is another temporary fix. The worst would be allowing the program to lapse yet again, quite possibly into next year.

The current Congress soon will be history. We only hope that the next Congress does a better job and gives the program the long-term extension that it needs to be truly effective.



WRITE

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THIS WEEK'S RESULTS

Q What was your reaction to the salmonella-related egg recall?



NEXT WEEK'S QUESTION

Q: How well-prepared is your organization for a major hurricane this season?

LETTERS

Learn new tricks about underwriting dog risks

TO THE EDITOR: Rodd Zolkos' Aug. 23 column regarding dog-bite claims caught my interest. I am not sure why the insurance industry hasn't taken a more analytical approach to underwriting household dogs. As trainers will tell you, aggression isn't breed-specific. Almost any dog improperly socialized, or with dog aggression in its line, will bite. I've seen American Kennel Club-elite Labradors, one of the friendliest breeds, that will take a chunk out of you, and German shepherds who wouldn't bite you if it would save their own lives.

Rather than deny coverage by breed, why not partner with the American Kennel Club and use the Canine Good Citizen Program as an underwriting guideline? The Canine Good Citizen must pass 10 temperament tests—for example, allowing a stranger to approach, demonstrating a lack of dog aggression (very important since so many people get bitten when their people-loving dogs tangle with other, not-so-dog-friendly pooches), and the dog's reaction in a crowd. Evaluators are available in hundreds of locations throughout the United States. People who love their dogs would happily dole out the small cost associated with the evaluation of their dogs rather than face no insurance.

This is not a blanket endorsement of the American Kennel Club, by any means. However, their Canine Good Citizen certification is a strong indicator of Fido's friendliness and steady temperament. When I was a risk consultant to apartment complexes that allowed dogs, I recommended this approach rather than blanket exclusion by breed.

Americans love their dogs. Dogs are not going away. Instead, more owners will deny they own an excluded breed and insurers will be stuck in coverage battles that will do nothing to further the industry's image. I think a more nuanced approach to pet underwriting is a win/win for the industry and for pet lovers everywhere.

Nancy Germond
Phoenix

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**TYPHOON MODELS,
DATA QUALITY
AID FORECASTING**
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Reinsurers foresee Solvency II rush

Some insurers' last-minute efforts may strain resources

By **STUART COLLINS**

Reinsurers already are meeting with some clients to discuss their reinsurance needs under Solvency II, but experts predict there will be a last-minute rush to comply that will strain the available human and capital resources.

Solvency II will enter into force in December 2012, but European regulators and policymakers have yet to decide key details of the rules that will govern insurers, including specifics of the standard formula that will drive capital requirements for many insurers.

That uncertainty and the limited resources of small- and medium-size insurers mean many companies will find it difficult to meet the implementation deadline, consultants say.

"Many of the larger companies have been preparing for Solvency II by developing internal models and improving risk management practices over the last few years and are making good progress with their implementation plans," said Stuart Shepley, a partner in the financial services team at KPMG L.L.P. in London. "However, many of the small and medium-sized companies have not yet carried out the recent quantitative impact study (QIS4) and are unaware of the full implications for their capital requirements under Solvency II."

In the United Kingdom, where preparation for the European Union directive is relatively advanced, insurers have moved on from their gap analysis to validating internal models and focusing on data quality and financial reporting under Pillar II, demonstrating adequate governance, and Pillar III, having adequate disclosure and regulatory reporting, said Bryan Joseph, partner at PricewaterhouseCoopers L.L.P. in London.

However, insurers in some European countries are only now embarking on their gap analysis and the improvements that the analysis shows are needed to comply with the directive, he said.

The lack of preparedness by some insurers is expected to lead to a last-minute compliance rush, which consultants say likely will increase the demand on limited and potentially expensive resources.

The closer the deadline gets, the more insurers will require expensive resources to comply even at the minimal level, Mr. Joseph said. Regulators, insurers and consultants already are competing for a limited pool of experts, and experts with actuarial, risk and specialist data management skills already are in great demand, he said.

Lloyd's managing agents have reported significant growth in actuarial resources during the past three years because of the demands

Continued on next page

NEXT SPOTLIGHT Sept. 13: Cyber Risk Management

Continued from previous page

from Solvency II. A survey published by the Lloyd's Market Association in August found that 382 people are working in actuarial roles in the Lloyd's market compared with 256 in 2007. Managing agents are forecasting that by the end of 2011 the number will increase by another 10%, the LMA said in a statement.

Even well-prepared insurers that use an internal model instead of the standard formula to calculate their solvency capital could suffer, experts say.

"A big challenge will be to get internal models in place and approved by the regulator," said Chris Klein, London-based director of reinsurance market management at Guy Carpenter & Co. L.L.C. "Model approval is critical to many insurers' plans and will have a significant impact on required capital, but there is concern that regulators will not be able to get models approved in time," Mr. Klein said.

Of the estimated 570 insurers in the U.K. that are expected to be affected by Solvency II, more than 110 firms had indicated their intention to join the London-based Financial Services Authority's internal model pre-application process as of Aug. 13, it said.

The limited internal resources of small- and midsize insurers mean they have to seek help from brokers, reinsurers and consultants to understand Solvency II, develop internal models, and establish risk governance controls and systems.

For example, many smaller insurers do not have the resources to create their own internal models, but brokers and actuaries are providing proprietary products that can be customized to suit an individual insurer.

In addition, some insurers are turning to brokers to help devise partial internal models covering only certain segments of their business, such as property catastrophe, said Marc Beckers, London-based head of Aon Benfield Analytics for Europe, the Middle East and Africa, a unit of Aon Corp.

"The standard formula does not adequately reflect the risks a company is running or give as much credit for reinsurance, and so some insurers have approached us for help with creating an approved partial model. This is far simpler than the full internal model, but it can reduce capital by better reflecting the risks an individual company is running," Mr. Beckers said.

Reinsurers also are being approached by cedents keen to how they can use reinsurance to mitigate their risks and lower their required capital, reinsurers say.

"We are now receiving concrete inquiries for potential reinsurance solutions," said Thierry Léger, head of the global client market division at Swiss Reinsurance Co. in Zurich, who said many insurers have increased their efforts this year and are taking practical steps to prepare for Solvency II.

Hannover Reinsurance Co. also is assisting its clients in understanding Solvency II, and helping them determine the drivers for capital needs and to manage the requirements, said Eberhard Muller, chief risk officer and chief actuary at Hannover Re in Germany. "We have

internal projects under way to meet our clients' needs under Solvency II," he said.

The calibration of Solvency II has yet to be finalized, although past quantitative impact studies suggest that insurers using the standard formula may face higher capital requirements than the current rules under Solvency I, said Philippe Brahin, head of regulatory affairs at Swiss Re in Zurich.

"But it is too early to tell what the final implementing measures will be, and so the potential for higher capital requirements are not at the moment a clear driver for reinsurance buying behavior," Mr. Brahin said.

However, there could be greater demand for reinsurance capacity as

a substitute for capital in 2011 when the rules are finalized and companies are able to better assess the amount of capital they will need for the business they are writing, said KPMG's Mr. Shepley. This could lead to a tightening of reinsurance capacity and price increases, he added.

In addition to offering capital relief, reinsurance can help companies mitigate capital charges for underwriting, reserving and catastrophe risk—three main risk categories under Solvency II, said Guy Carpenter's Mr. Klein.

For example, quota-share reinsurance can reduce premium volume, and excess-of-loss reinsurance can reduce volatility in the combined ratio, he said.

Volatility in reserve risk also can be reduced through adverse development or stop-loss reinsurance, while catastrophe risk can be reduced through reinsurance or alternatives such as industry loss warranties and catastrophe bonds, he added.

"Solvency II effectively requires insurers to hold more capital per unit of risk, but reinsurance can reduce that additional cost. Clients are now seeing this as they work through their Solvency II preparation," Mr. Klein said.

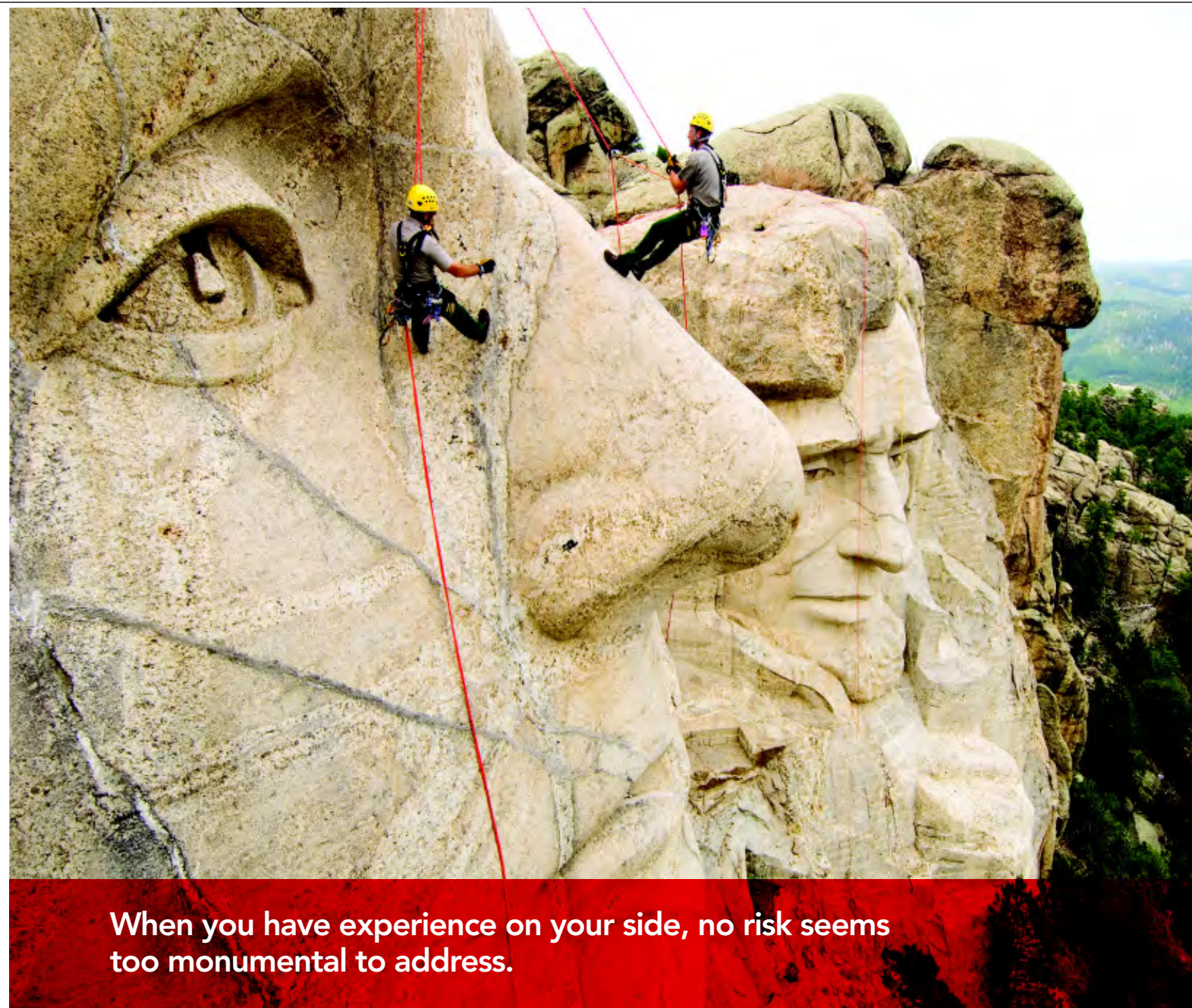
Demand for nonproportional catastrophe reinsurance also is likely to increase under Solvency II, said Hannover Re's Mr. Muller. "Capital requirements under the standard formula are geared to a 1-in-200-

year catastrophe event, while many insurers currently only buy for a 1-in-50 or 75-year event, and could create more demand for reinsurance," he said.

Reinsurance is important under Solvency II, so it should stimulate demand, Mr. Klein said.

"But reinsurers have excess capital at the moment and, assuming there is no large loss, there is sufficient capital to meet any increased demand," Mr. Klein said.

Solvency II also could increase the cost of capital for certain lines of reinsurance, however reinsurers may be able to absorb this cost, he said. "Solvency II is just one of many pressures on pricing, so we will have to see if Solvency II pushes up the price of reinsurance."



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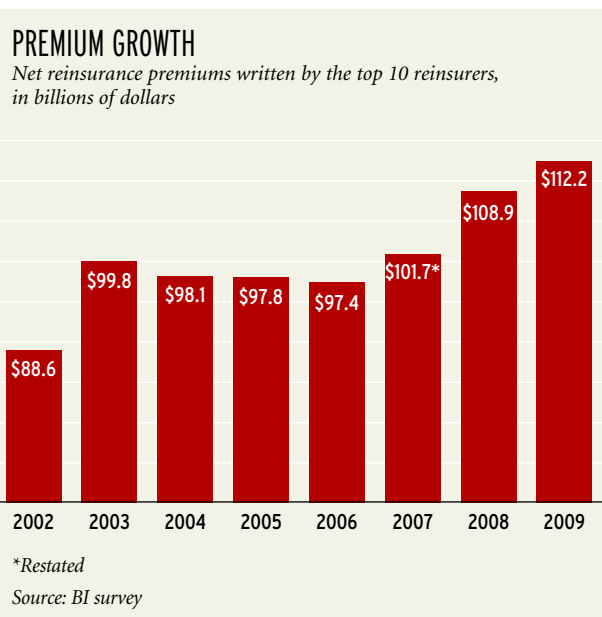
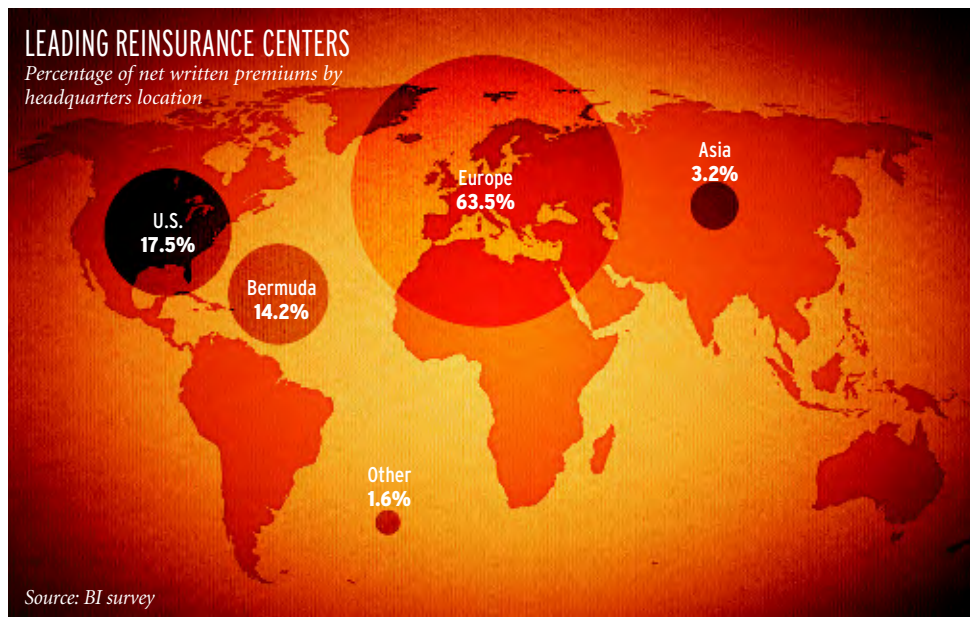
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OVER AND UNDER

Ranked by combined ratio in 2008

HIGHEST	
American Agricultural Insurance Co.	120.1%
Reinsurance Group of America Inc.	101.0%
Alterra Insurance Ltd. ¹	98.7%
SCOR	96.8%
XL Re Ltd.	96.8%
LOWEST	
Tokio Millennium Re Ltd.	35.2%
RenaissanceRe Holdings Ltd.	36.0%
Ariel Reinsurance Co. Ltd.	47.1%
Argo Group	52.3%
ACE Tempest Re Group ²	59.2%

¹ Formerly Max Bermuda Ltd. ² Includes all reinsurance business performed by subsidiaries of ACE Ltd.
Source: BI survey

World's largest reinsurers

Ranked by 2009 net premiums written

Rank	Company/Address	Phone/Web site	2009 net premiums written	% change	2009 net premiums earned	% change	2009 combined ratio	2009 employees	Principal officer
1	Munich Re Koeniginstrasse 107, Munich, D-80802 Germany	49-89-3891-0 www.munichre.com	\$32,768,152,500 ¹	7.9%	\$32,575,849,500 ¹	9.4%	95.3% ²	13,309	Nikolaus von Bomhard, chairman-board of management
2	Swiss Re Group Mythenquai 50/60, Zurich, 8022 Switzerland	41-43-285-2121 www.swissre.com	\$21,880,049,600 ³	-7.8%	\$22,657,204,800 ³	-3.9%	88.3%	10,522	Stefan Lippe, CEO
3	Hannover Re Karl-Wiechert-Allee 50, Hanover, 30625 Germany	49-511-5604-0 www.hannover-re.com	\$13,260,098,858 ¹	24.5%	\$12,969,549,560 ¹	24.7%	96.6%	2,069	Ulrich Wallin, chairman-executive board;
4	Berkshire Hathaway Reinsurance Group 100 First Stamford Place, Stamford, Conn. 06902-6745/Gen Re Group 120 Long Ridge Road, Stamford, Conn. 06902	203-363-5200 www.berkshirehathaway.com/ 203-328-5000 www.genre.com	\$12,362,000,000 ⁴	2.0%	\$12,535,000,000 ⁴	13.0%	N/A	3,036 ⁴	Ajit Jain, president- Berkshire Hathaway Reinsurance Group; Franklin Montross IV, chairman/ CEO/president-Gen Re Group
5	Lloyd's of London 1 Lime St., London, EC3M 7HA England	44-207-327-1000 www.lloyds.com	\$9,460,810,100 ⁵	10.2%	\$9,025,434,300 ⁵	7.6%	78.4%	N/A	Richard Ward, CEO
6	SCOR 1 Ave. Charles de Gaulle, Puteaux, 92800 France	33-1-46-98-7000 www.scor.com	\$8,889,136,500 ¹	3.9%	\$8,030,740,500 ¹	3.3%	96.8% ²	1,416 ⁶	Denis Kessler, chairman/CEO
7	Transatlantic Holdings Inc. 80 Pine St., New York, N.Y. 10005	212-365-2200 www.transre.com	\$3,986,101,000	-3.0%	\$4,039,082,000	-0.7%	93.5%	620	Robert F. Orlich, president/CEO
8	PartnerRe Ltd. 90 Pitts Bay Road, Pembroke, HM 08 Bermuda	441-292-0888 www.partnerre.com	\$3,948,704,000	-1.0%	\$4,119,825,000	4.9%	81.8%	1,406	Patrick Thiele, CEO
9	Everest Re Group Ltd. Wessex House, 45 Reid St., Second Floor, P.O. Box HM 845, Hamilton, HM DX Bermuda	441-295-0006 www.everestre.com	\$3,929,761,000	12.1%	\$3,894,098,000	5.4%	89.1%	864	Joseph V. Taranto, chairman/CEO
10	Korean Re 80 Susong-dong, Chongno-gu, Seoul, 110-733 South Korea	82-2-3702-6000 www.koreanre.co.kr	\$2,368,288,000 ⁷	3.5%	\$2,389,250,000 ⁷	4.9%	95.9%	257	Jong-won Park, CEO

1 Euro=\$1.3935 Fiscal year ending Dec. 31. 2 Nonlife business only. 3 Swiss franc=\$0.9208 Fiscal year ending Dec. 31. 4 Combined figures of Berkshire Hathaway Reinsurance Group and General Re Group. 5 British pound=\$1.5661 Fiscal year ending Dec. 31. 6 SCOR Global P&C and SCOR Global Life only. 7 Fiscal year ending March 31. N/A=Not available.

Source: BI survey
Researched by Kevin Edison

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Chile quake highlights region's cat exposure

By JUDY GREENWALD

International reinsurers had a limited exposure to the Feb. 27 earthquake in central Chile that generated upwards of \$8 billion in estimated insured losses.

While a significant part of South America is vulnerable to earthquakes, these areas generally are less heavily insured than Chile (see story, page 14), experts say.

The magnitude 8.8 quake centered off the coast of Maule, Chile, was the fifth-largest earthquake since 1900, according to the U.S. Geological Service. An estimated 75% to 90% of insured quake losses were ceded through reinsurance, but the losses fell within the anticipated range of many international reinsurers, observers say.

Quake models always require some tweaking after a catastrophe, but the Chilean models were adequate and have not required major revisions, say observers, who note that reinsurers often buy multiple catastrophe models from vendors and a few develop their own as well.

While rates on catastrophe policies, many of which renewed midyear, increased in Chile as a result of the quake, the increases essentially were confined within the country's borders. Furthermore, capacity that entered the market after the quake put a damper on the rate hikes that were introduced in Chile itself, observers say.

Although more than 500 people died in the quake, Chile's strict building codes are credited with limiting the damage compared with the much milder 7.0 January quake in Haiti that devastated Port-au-Prince and killed more than 200,000. There was relatively little insured coverage of the Haiti quake, observers say.

Chile has "very strong building codes," said Jason Howard, London-based CEO of Willis Re International & Specialty, a unit of Willis Group Holdings P.L.C. "They're rigorously monitored and, as result of that, buildings withstood the quake reasonably well," he said.

The magnitude of the quake in Chile means a major earthquake is unlikely in that particular region in the near future, experts say. Even though Mexico, the western coast of South America and the Caribbean remain vulnerable to quakes, there is generally little earthquake insurance coverage in those markets.

Estimated insured losses due to the temblor in Chile vary widely. Oakland, Calif.-based EQECAT Inc. estimated insured losses ranged from \$3 billion to \$8 billion and economic damages ranged from \$15 to \$30 billion. The loss represents 15% to 40% of the estimated insured limits for earthquake coverage, according to the risk modeler.

This year's quake was the third major Chilean earthquake in recent years; the others were in 1985 and 1960, the strongest earthquake in the world since 1900 with a magnitude of 9.5, according to the USGS.

The Chilean quake is expected to be the second-costliest in insured loss-

es in the past 30 years, after the Northridge, Calif., earthquake in 1994, according to Swiss Reinsurance Co., which estimated a market loss of \$4 billion to \$7 billion in Chile, somewhat lower than other estimates. Observers said one factor limiting losses was that the country's capital city, Santiago, was largely spared.

Franklin Santarelli, senior director with Fitch Ratings Ltd. in New York, said the Chilean losses were

See **LATIN AMERICA** next page

Chile earthquake coverage part of diversification strategy

Reinsurers' earthquake coverage in Chile is part of their diversification strategy, say observers.

Reinsurers "try to diversify away from hurricanes in Florida or the Gulf of Mexico or earthquakes on the West Coast," said Taoufik Gharib, director at Standard & Poor's Ratings Services in New York.

John R. Berger, CEO of reinsurance at Bermuda-based Alterra Capital Holdings Ltd., said reinsurers diversify away from peak zones "with a vengeance and what the Chilean earthquake really brings home is how there's a lot of risk out there."

International reinsurers "are very exposed in the nonpeak-zone areas," as was seen in Chile, he said. There would have been "some pretty big numbers out there" had the quake happened near Santiago,

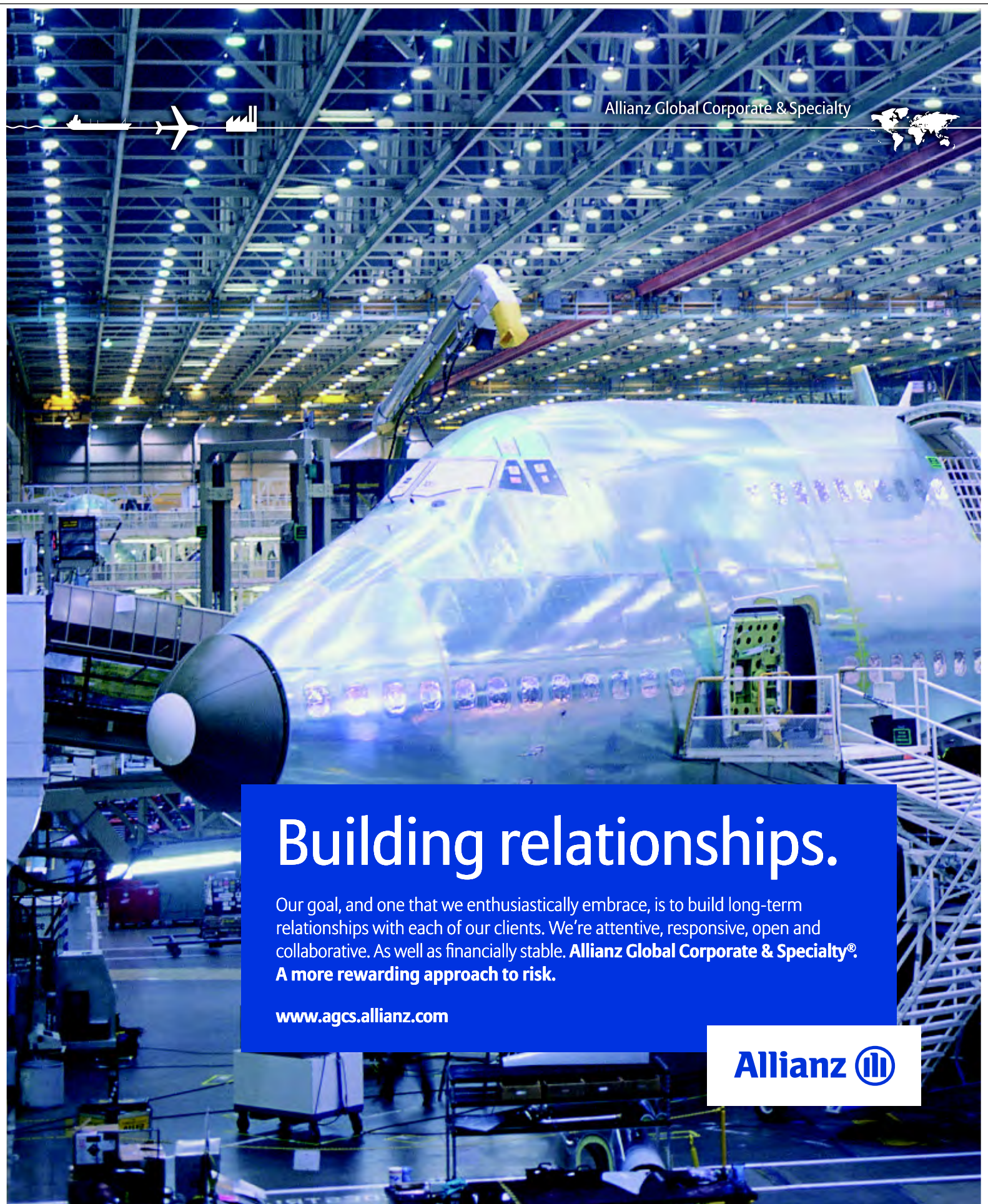
Mr. Berger said.

"I think a lot of companies are seeking diversification for the sake of diversification and writing underpriced business in these nonpeak-zone areas," he said.

However, Bryon G. Ehrhart, CEO of Aon Benfield Analytics in Chicago, said, "Reinsurers certainly understand the risk." They are "eager to diversify, but I wouldn't say they did it in any rash way, where they didn't understand what they were doing."

He said the renewals that came after the quake "were very much orderly. There was sufficient capacity to meet demands, and even competition for those renewals," Mr. Ehrhart said.

—By Judy Greenwald




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Latin America: Chile quake

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However, Taoufik Gharib, director at Standard & Poor’s Ratings Services in New York, said when the Chilean losses are combined with

this year’s other catastrophe losses, reinsurers have already exhausted more than half of their catastrophe budgets for the year.

Furthermore, reinsurers’ second-quarter results indicate that the Chilean loss reduced reinsurers’ earnings by about one-quarter, he said. The losses, though, were “within their risk tolerance, so there were no surprises there,” Mr. Gharib said.

Reinsurers were “adequately and appropriately exposed, according to what they have been doing for the last 10 years” in Chile, said Amador Torrealba, business developer for London-based reinsurance interme-

diary BMS Group Ltd.

Despite the size of the event, “almost no Chilean insurers went through their catastrophe covers,” which is “a really remarkable outcome compared to what occurred in, say, Hurricane Katrina in the U.S., where many insurers went through their reinsurance covers,” said Mr. Ehrhart.

Munich Reinsurance Co. reported about \$1 billion in losses, but they were in line with expectations and “more or less reflected Munich Re’s market share,” said Michael Spranger, earthquake consultant at Munich-based Munich Re.

Observers say the catastrophe models worked relatively well, although any catastrophe provides “an opportunity to evaluate” your

modeling, said Rick Thomas, head of catastrophe underwriting in Zurich for Pembroke, Bermuda-based PartnerRe Ltd., which reported \$334 million in net losses from the combined impact of the Chile earthquake and Windstorm Xynthia in Europe.

“Basically, we have learned new things about how structures behave in Chile,” which “has changed in the last decade because construction practices have varied from what they used to be,” said Guillermo E. Franco, principal engineer at Boston-based modeling firm AIR Worldwide Corp., who said his firm’s model performed well.

Reinsurers have increased their catastrophe rates in Chile as much as 80%, say observers, but increased capacity has moderated the hikes.

Reinsurers were not able to raise rates “as much as they wanted to” because of the soft market, said BMS’ Mr. Torrealba. “When something major happens, new reinsurers come in with more capacity,” he said. “They’re trying to compete because they expect to write business with higher rates.”

Jorge Edwards, Santiago, Chile-based managing director for reinsurance intermediary Cooper Gay (Holdings) Ltd., said, “we saw that the capacity kind of dried up, and then it became very expensive,” immediately after the earthquake. “But we’ve seen other reinsurers coming in” since then, he said.

Mr. Ehrhart said, “I don’t know I would say a lot more capacity has come in.”

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Reinsurance rates increase in Chile

Reinsurance rate hikes caused by the February earthquake in Chile have remained confined to that country, observers say.

While much of the South American region is at high risk of earthquakes, observers say there is little insurance coverage in quake-prone areas of the region.

“Outside of Chile, rates and terms in other parts of Latin America have generally remained unchanged,” said Kevin Lee, vp at Moody’s Investors Service in New York.

There is generally less quake coverage in these other areas, observers say.

Alfredo Gomez, Armonk, N.Y.-based senior vp for Swiss Re, reported estimated pretax losses of \$630 million from the quake.

“In spite of the substantial earthquake exposures in Latin America and the Caribbean, insurance penetration continues to be very low. Therefore, the exposure that reinsurers assume are not part of their key scenarios,” Mr. Gomez said in a statement.

John DeMartini, the Stamford, Conn.-based leader of Towers Watson & Co.’s catastrophe risk management practice, said, “I don’t see very much in the marketplace about reinsurers being overly concerned” about potential losses in other countries in the region besides Chile.

“Probably, it’s because there isn’t a lot of earthquake insurance being written in those countries and, thus, there’s not a great deal of reinsurance being purchased by the companies that are writing (primary coverage), relatively speaking,” Mr. DeMartini said.

“The whole area is susceptible to earthquakes, especially the western Pacific coast going from Mexico to the tip of Chile...where quakes happen regularly,” said Guillermo E. Franco, principal engineer at Boston-based modeling firm AIR Worldwide Corp.

—By Judy Greenwald

Latin America: Chile quake

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—By Judy Greenwald

Typhoon forecasts improving

Models enhanced, but comprehensive data still lacking

By J. NILS WRIGHT

Insurers and reinsurers face ongoing challenges in accurately underwriting tropical storm risks in Asia as another typhoon season is under way, even though risk modeling continues to improve.

The market for natural peril reinsurance, which includes typhoon coverage, remains soft as reinsurers are well-capitalized and competition is strong due to a mild typhoon season last year. But as building continues unabated in much of the region, global reinsurers are more exposed to catastrophe losses in Asia and prices must harden eventually, brokers say.

While typhoons can happen any time of the year, the most intense activity usually is between June and November, according to the U.S. State Department.

As of Aug. 10, four named typhoons had formed in the western Pacific, the fourth time in 30 years that there have been five or fewer named storms at this point in the season, said Boston-based Peter Sousounis, principal atmospheric scientist at AIR Worldwide Corp. That is in line with forecasts calling for below-normal typhoon activity this year. The average typhoon season sees 16 named storms, but the La Niña weather phenomenon, which is in place this year, tends to limit typhoon formations, experts say.

Pacific typhoons include higher concentrations of rain than Atlantic hurricanes, which cause more wind damage. As a result, most typhoon damage results from heavy rain, flooding and ocean storm surges.

One of the biggest hurdles in underwriting typhoon risks is the quality of data about an area, particularly in emerging markets.

"Asian insurers are first of all not capturing data at the level of detail at which it is available in U.S. and European countries," said Alok Kumar, head of catastrophe perils in Asia for Swiss Reinsurance Co. in Bangalore, India. "Characteristics of the risk which help in doing precise loss potential assessment such as occupancy type, construction type, precise location of the risk, quality of the risk...are usually missing in Asia. That means catastrophe risk assessment in the Asian region is relatively less certain."

Modeling also is made difficult by geography. The Pacific basin has more than 12 million miles of coastline compared with about 7 million miles in the Atlantic Basin, said Bill Keogh, senior vp of strategic initiatives with risk modeler EQECAT Inc. in Hackensack, N.J.

In addition, historical records of typhoons are incomplete, he said.

"In the U.S., you have about 100 years of historical records of hurricane activity, where they make landfall, how often, and how intense and frequent hurricanes are.

In Asia, the best records go back to 1945," Mr. Keogh said. The best records have been kept by Japan, he added.

A key issue for Asian insurers is the risk of typhoons hitting multiple countries, said Will Gardner, Sydney-based head of Aon Benfield Analytics' Asia-Pacific region. "One event may cross the Philippines and go on to China, while another event may hit Taiwan and China, or Vietnam and Thailand. This poses a challenge for regional insurers," he said.

Another challenge for modeling

firms is that four agencies track typhoons in Asia and use different methodologies to forecast the storms.

"Each of them will prepare a different forecast on the intensity of storms and the directions they will take," said Domenico del Re, director at Risk Management Solutions Inc. in London. "These forecasts are significantly divergent. One reason for this is that in the Pacific, they don't do aircraft reconnaissance."

That said, the available data and

See **TYPHOONS** next page



EPA/STR/LANDOV

Typhoon Dianmu, the fourth tropical storm in the Pacific Ocean this year, hit the southern coast of South Korea in early August.



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XINHUA/LANDOV

Typhoon Conson, which hit Sanya City, China, in mid-July, spent most of its fury on the Philippines. After China, the storm weakened when it hit Vietnam.

Typhoons: Data quality, quantity improve

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quality of typhoon risk modeling are improving. In July, Aon Benfield Analytics and EQECAT released enhanced typhoon models. RMS and AIR Worldwide also have typhoon models.

"The level of data provided does vary by (modeling firm), with some making great efforts to differentiate themselves via the provision of detailed data," said William Thompson, executive director of Willis Re Inc. in London. "RMS tends to be the dominant model (in Asia), however both AIR and EQECAT have recently announced the

rollout of enhanced pan-Asian typhoon models which will significantly increase the choices available to both insurers and their reinsurance partners," he said.

In addition, the models have to be flexible enough to keep up with rapid construction in the region, particularly in typhoon-prone southern China.

"In China and South Korea, a significant portion of their industry-wide risk is construction all-risk and erection all-risk accounts for partial developments of construction in buildings," Mr. Sousounis said. "Depending on the phase of completion, a building will have differ-

ent risk characteristics."

Reinsurance capacity for natural perils is stable and pricing is relatively soft in most Asian markets, brokers said.

"In general, there is adequate capacity and appetite," said David Phillips, managing director of JLT Re Asia Pte. Ltd. in Singapore. "At the end of last year for (Jan. 1) renewals, there was a gentle softening of the market. The only market that saw an increase had experienced losses in the prior 12 months and that was Indonesia."

Mr. Phillips said reinsurers took a tougher view on Indonesian risk due to the intensity of 7.5 magnitude earthquake that struck off the coast of Sumatra in a highly quake-prone area. The temblor last September killed more than 1,100 people, injured 2,400, and destroyed or damaged 180,000 buildings, half of them homes. Damage to infrastructure and homes was at the time was estimated at about \$625 million.

But reinsurance pricing remains soft due to abundant supply and strong competition even as loss ratios climb. As a result, a correction is "inevitable," Mr. Kumar said.

"Both the actual loss experience from weather-related perils such as



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typhoon and flood and the losses from catastrophe models indicate that many programs are not sustainable at current price levels," Mr. Kumar said.

But that is not the case in Japan, Willis Re's Mr. Thompson said. "This is a product of continued favorable wind results and the abundant capital in the market chasing the programs," he said.

Coverage for typhoon damage at the primary commercial policy level varies by country.

Reinsurance penetration is the highest in Japan, which along with Australia purchases some of the largest wind programs in the world. That's due to the size of the markets and regulatory requirements on insurers to carry certain levels of reinsurance.

As other markets in the region mature in insurance penetration and as building continues its rapid pace, experts say the market for natural perils reinsurance is expected to grow in Asia.

"If underlying growth in insured assets coupled with consolidation and regulatory oversight continue, the trend in Asia will be for larger wind programs into the future," Mr. Thompson said.

Many of Willis Re's larger clients supplement traditional reinsurance cover with catastrophe bonds and catastrophe swaps, he added.



The Transocean Development Driller III, the rig responsible for drilling the main relief well at the site of the Deepwater Horizon oil wellhead, is seen near the coast of Louisiana last month. Total economic losses from the loss of the Deepwater Horizon have been estimated at \$35 billion.

AP PHOTO

Energy market changes after spill

Insurers raise liability rates, reduce property capacity

By **STUART COLLINS**

Energy insurers have reacted to the Deepwater Horizon loss by raising liability rates as much as 100% and reducing the offshore property capacity they offer for a single exposure by as much as one-third, sources say.

However, further changes are likely, particularly in the offshore liability market, depending on the reaction of reinsurers, potential U.S. regulatory changes and the demand for higher limits.

Towers Watson & Co. estimates that the loss of the oil rig in the Gulf of Mexico and subsequent liabilities will cost insurers \$4 billion to \$6 billion while total economic losses have been estimated at \$35 billion (*BI*, Aug. 3).

Insured losses are likely to be limited because BP P.L.C., which had the operator's license for the rig as part of a joint venture, is self-insured. However, joint operators and contractors on the Deepwater Horizon had insurance limits of \$3.3 billion, according to Towers Watson.

Underwriters already have paid \$560 million for the value of the rig, but it is too early to speculate on the ultimate cost to insurers because there are "so many unknowns" and uncertainties over how liability will be determined, said Jim Pierce, global chairman of Marsh Inc.'s energy practice in Houston.

Brokers say while the loss is significant, it is not comparable to the energy market-turning \$4 billion to \$5 billion of offshore energy losses that resulted from Hurricane Ike in 2008 and Hurricanes Katrina, Rita and Wilma in 2005. The impact of the Deepwater Horizon loss has not spread much beyond

the deepwater offshore market, and other marine lines of coverage are largely unaffected, brokers and insurers say.

"Deepwater Horizon has hardened sentiment in the upstream energy insurance market, but there is a difference between an impact on market psychology and on the actual business," said Mr. Pierce. "There is still plenty of capacity in the upstream market and rate increases have largely been limited to deepwater operations."

He said he had heard talk of upstream energy rates jumping 25% to 50%, but Marsh clients had seen rates hikes of 10% at most.

Underwriters were granting rate reductions on the Gulf of Mexico operators' books of business before the Macondo well loss, but insurers since April have been looking for modest price increases for operational risks such as drilling, fire, explosion and ensuing physical damage, said John Keely, managing director of Aon Risk Solutions' energy prac-

See **DEEPWATER** next page

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TRANSPORTATION RISKS:
Marine & Energy

SPOTLIGHT

P&I CLUBS PREPARE TO MEET SOLVENCY II REQUIREMENTS
PAGE 19

MARINE HULL MARKET FLAT DESPITE BUSINESS REBOUND
PAGE 20

Deepwater: Energy market changes in response to spill

CONTINUED FROM PREVIOUS PAGE

tice in Houston, which is part of Aon Corp.

Liability insurers also have used the loss to look to increase rates, he said.

"There is a valid conversation to have, but I take issue with increases and changes to the liability product when the quantum of this loss is still unknown. BP does not buy this type of cover in the commercial market, and the (liability) loss has not yet hit the market and we do not even know if it will," Mr. Keely said.

Energy underwriters, however, are steadfast in the belief that the

Deepwater Horizon disaster is a market-changing event.

The loss is the biggest nonwind event to hit the offshore energy insurance market since the fire and explosions that destroyed the North Sea platform Piper Alpha in 1988, said Frank Costa, president of Berkley Offshore Underwriting Managers L.L.C. in New York.

"Deepwater Horizon is a significant loss and crystallizes the situation for underwriters in a market that has not been profitable for the past five years following hurricane losses in 2008 and 2005," Mr. Costa said.

The \$560 million paid out for

Deepwater Horizon comes after the \$235 million loss of the Aban Pearl in May off the coast of Venezuela and the \$400 million loss of the West Atlas rig off the coast of Australia in November 2009.

"The combination of losses in the past year alone will exceed the total offshore market premium income, so rates will need to increase," said Simon Williams, head of energy, marine and casualty at Hiscox Ltd. in London.

Rates have already increased 15% to 30% because of Deepwater Horizon, said Dorian Grey, Miami-based president of Chartis Oil Rig, a unit of Chartis Inc. "Underwriters are now

much more conscious of the risks of deepwater drilling and realize that some of the challenges are not being priced into premiums," he said.

Rates may increase further as the reinsurance facilities that sit behind many direct underwriters are renewed early next year, underwriters and brokers say.

"Reinsurers will again be affected by this loss, and I would expect that they will also want to increase prices and retentions when direct underwriters renew their facilities in January," said Mr. Williams.

Despite the loss, overall capacity in the energy sector is not thought to have fallen, and no significant

players are known to have exited the market, brokers and insurers say. However, there has been a relative decrease in capacity, in particular for liability, as underwriters pay closer attention to aggregate limits offered to the various parties involved in an offshore venture, brokers and insurers say.

Bermuda-based excess liability insurers have reduced their capacity dramatically, Mr. Pierce said.

"A company that purchased \$1.5 billion of (offshore liability insurance) at the July 2009 renewals would probably have only been able to secure something in the neighborhood of \$1 billion in July 2010. The reduction is because insurers are being more selective and are more closely examining the aggregation of exposures which may be involved in any one event," Mr. Pierce said.

The Deepwater Horizon loss has fundamentally changed insurers' view of aggregation, said David Croom-Johnson, active underwriter of AEGIS Managing Agency Ltd. in London, the Lloyd's of London-based subsidiary of Associated Electric & Gas Insurance Services Ltd. "We have reduced our liability capacity by one-third to take into account the aggregation of exposures between operators and their contractors."

Insurers also are likely to change their pricing and coverage terms for offshore liability insurance, said Mark Roberts, director of marine and marine energy at specialist energy broker Cogent Resources Ltd. in London. "Each day, underwriters become more resolute in the terms they are willing to give, and they are growing more inclined to say no when they are not happy."

One of the biggest repercussions of the Deepwater Horizon would be the United States changing the way it regulates the offshore energy sector and increasing the federal liability cap from its limit of \$75 million, said Mr. Keely.

Companies already are looking to buy additional liability limits as a result of the Macondo well loss, and Aon is working on a facility to increase the amount of available control-of-well and cleanup capacity, he said.

"This is an interesting time for the offshore liability market," said Colin Sprott, head of marine and offshore energy at XL Insurance in London. "We see higher demand from insureds for higher liability limits, and we expect Congress to increase liability limits under the Oil Pollution Act as well as increasing limits for certification of financial responsibilities."

Rate increases for offshore liability coverage in the Gulf of Mexico have been as high as 100%, though most increases have been in the double-digit range, Mr. Sprott said.

Separate from Aon's initiative and depending on any new requirements, insurers in London are looking at a market solution to increase the amount of liability capacity available, said Mr. Sprott, who also is chairman of the Lloyd's Joint Liability Committee.

"The market will be there to provide capacity for demand for increased limits, but it will cost more than it did 12 months ago," Mr. Sprott said.



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P&I clubs weigh capital requirements under Solvency II

Some mutuals make supplemental calls on their members

By MICHAEL BRADFORD

Protection and indemnity clubs are making sure they have enough capital to meet the requirements of Solvency II, the risk-based capital framework for insurers that is to be implemented at the end of 2012.

P&I clubs are expected to need significant increases in capital compared with other types of insurers, said Raj Ahuja, a partner at EMB Consultancy L.L.P. The London-based nonlife insurance actuarial firm processed information from the Committee of European Insurance and Occupational Pension Supervisors' quantitative impact studies of insurers, determining that Solvency II will mean capital increases of 10% to 120% among all insurers.

On average, P&I clubs' capital needs will nearly double, Mr. Ahuja said.

The mutual insurers are running their own calculations, too, with mixed findings. Some already have

'We do not expect any raises in our rating or premiums to meet the new Solvency II requirements. That is built into our capitalization of the club.'

Ståle Hansen,
Assuranceforeningen Skuld

increased their capital, while others believe they are well-capitalized and can meet the requirements of Solvency II.

Among clubs boosting their capital before Solvency II is implemented, the Luxembourg-based West of England Ship Owners Mutual Insurance Assn. in 2006 announced a release call of \$55 million, all or part of which may be charged to members before Solvency II is implemented.

In 2008, the U.K. P&I Club raised \$100 million by issuing hybrid capital securities in anticipation of increased capital requirements.

Other clubs say they are well-funded to meet higher capital requirements.

"If you compare it with minimum requirements today, the answer is, yes, it will certainly increase capital requirements," said Ståle Hansen, chief financial officer of Assuranceforeningen Skuld, an Oslo-based P&I club. "That doesn't automatically mean we will have to lift the capital level of the club. We have for many years focused on building a strong capital base."

Well-capitalized P&I clubs are not expected to have problems meeting the Solvency II requirements, Mr. Hansen said. Smaller clubs, though, could see "a challenge" in raising

capital to satisfy the requirements, he said.

Alistair Groom, chief executive of Charles Taylor & Co. Ltd., the London-based manager of the Standard Steamship Owners' Protection & Indemnity Assn. (Bermuda) Ltd., pointed out that Solvency II as proposed will allow P&I clubs to count supplemental calls on members towards capital requirements.

"It's not only money in the bank and investments" that will be recognized as capital, "but what can be raised in supplemental calls," he said.

That ability to use supplemental

calls to meet capital requirements has alleviated some Solvency II concerns, said Catherine Thomas, managing senior financial analyst with A.M. Best Europe Ltd. in London.

"That's important," she said. "We've seen a lot of clubs make supplemental calls recently" to boost capital, Ms. Thomas said.

In some cases, P&I clubs provide insurance to their members below cost and rely on investment gains to make up the difference. That has led some clubs to make risky investments, which led to losses during the financial crisis, she said.

Those clubs have moved to more conservative investments and now find themselves relying more on underwriting to produce the income they need, which could mean they will have to raise rates for shipowners, Ms. Thomas said.

A spokesman for Thomas Miller P&I Ltd., which manages the U.K. P&I Club, said in an e-mail that "Solvency II will clearly impose a greater underwriting discipline, which may lead to increased rates in the long term, but rates will be subject to competitive pressure in the usual way."

Mr. Hansen said he does not expect the proposed framework to result in rate increases at Skuld.

"We do not expect any raises in our rating or premiums to meet the new Solvency II requirements," Mr. Hansen said. "That is built into our capitalization of the club," he said of Skuld's rating calculations.

EMB's Mr. Ahuja said he thinks the rating question will be answered later, once the final Solvency II rules are determined.

"It's unclear," he said. "In any situation where there is change, there will be winners and losers."

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Marine hull market competitive

Cargo business seeing uptick after financial crisis ends

By **STUART COLLINS**

Plentiful capacity and increasing competition are keeping pricing in the marine hull market flat despite a slight rebound in cargo business squeezed by the financial crisis, insurers and brokers say.

After several years of poor underwriting results, a short-lived squeeze in Norwegian capacity and expensive capital, underwriters succeeded in raising rates an average of 7.5% in early 2009, said Mark Edmondson, London-based class underwriter for marine hull at syndicate 1882, the Lloyd's of London syndicate that Chubb Corp. launched this summer.

"But by midyear, this momentum had been lost and the market flattened, which is where it has largely remained for the past 12 months," said Mr. Edmondson,

While the economy reduced the client base and insured values, the number of insurers competing for the business increased, said Nigel Fitzgerald, Houston-based marine global practice leader at Liberty Mutual Group Inc. Today, "competition in the marine hull market is aggressive with new entrants and plenty of existing capacity," he said.

Liberty Mutual is among those expanding its marine offerings at Lloyd's; and W.R. Berkley Corp., Montpelier Re Holdings Ltd. and Barbican Holdings (U.K.) Ltd. have entered the marine market via Lloyd's this year, according to the "Review of the Marine Hull Insurance Market" by Jardine Lloyd Thompson Ltd.

For the marine cargo sector, insurance rates remain flat and premium volume is down from pre-financial crisis levels, said Nick Gooding, senior marine cargo underwriter at XL Insurance in London.

"The cargo sector has suffered enormously from the reduction in insureds' turnover because of the

viding additional capacity."

Marine hull insurers remain concerned about a potential rise in claims frequency as shipowners look to cut costs, said Neil Smith, head of underwriting at Lloyd's Market Assn. in London. "The majority of owners maintain their vessels properly, but insurers are concerned that some may slacken off now that the freight market is off its peak."

"If a vessel suffered damage in the past, the owner may have carried on trading, but now they could take the opportunity to get it repaired and claim from their insurers," Mr. Smith said.

Less use of cargo vessels could affect maintenance, Mr. Fitzgerald said. "Machinery damage claims continue to be a significant part of the hull book, but it is too early to say if there has been an increase in (claim) frequency," Ms. Fitzgerald said. "We do see an increase in severity and we are looking into why this has happened."

While there have been few large losses this year, there were several large losses in 2008 and 2009 and insurers still are being affected by attritional machinery damage claims, said Simon Stonehouse, class underwriter for marine at Brit Insurance Holdings N.V. in London and immediate past chairman of the Joint Hull Committee.

"Marine hull insurers have struggled in recent years to meet the required returns on capital, and profit margins are now so slim that most hull underwriters are not able to offer reductions," said Mr. Stonehouse.

Another factor of concern to underwriters is ships steaming slowly to conserve fuel because they are under less pressure to reach their destination.

"Slow steaming is being linked to fires and engine seizures, and there are concerns over potential claims that could arise from the use of low-sulfur fuels, which put added pressures on crews," Mr. Stonehouse said.

"Low-sulfur fuels require adjustments to engines and ongoing maintenance," Mr. Smith said. "If these are not carried out correctly, they would increase machinery damage claims."

While there have been few significant major claims in the marine market this year, the April loss of the Deepwater Horizon mobile drilling unit in the Gulf of Mexico is one of the largest losses ever to hit the marine market and is likely to have implications for reinsurance, underwriters say.

"Hull underwriters looking to improve their net results through reduced reinsurance costs may have to think again, because any suggestion that the marine hull reinsurance will soften has now been dispelled," Mr. Edmondson said. "If Deepwater Horizon is a major claim, no marine line will be immune from the effect of the loss on the reinsurance market, and higher reinsurance costs should, in practice, translate into higher direct rates."



who also is chairman of the London market's Joint Hull Committee.

Due to an increase in machinery damage claims, Norwegian hull underwriters increased rates last year but then lost business to other markets, said Ole Wikborg, director and senior underwriter at the Norwegian Hull Club—Gjensidig Assuransforening in Bergen, Norway.

Then, "more capacity came into the market and some insurers lowered their rates to gain business," Mr. Wikborg said.

Today, underwriters generally are not willing to reduce rates on renewals and are looking for new business to maintain premiums and profits, said Steve Beslity, CEO of Aon Global Marine in London, part of Aon Corp. With new competitors entering the market, good risks are seeing slight rate reductions, he said.

"The hull market suffered a double whammy in 2009 with overcapacity and a reduction in insurable risk as the world fleet was hit by the recession," said Mr. Edmondson. A significant number of vessels were laid up, overall insured values fell, and delivery dates were delayed, he said.

economic downturn. We expect that when statistics are released at the (International Union of Marine Insurance) conference in September, they will show another fall in premium volumes. Until there is a recovery in the global economy, it is unlikely that we will see global cargo premium volumes grow," Mr. Gooding said.

Global marine cargo premiums are down 15% as a direct result of the ailing economy, said Richard Decker, New York-based president of global marine at Chartis Inc. "Japanese exports were down 45% (in 2009) and this was reflected in our premium," he said. Today, "Japanese exports have returned to 80% of their peak in 2008," he said.

The cargo insurance market has been soft for the past three to four years with no sign of changing, said Michael Harding, marine and aviation underwriting manager at Antares Holdings Ltd. in London. "There are some bright spots with cargo premium volumes picking up again and results remain satisfactory for many insurers, but there is still more than enough capacity; and there are new entrants at Lloyd's that are recruiting and pro-

UP Comings & Goings CLOSE



GARY THIEMAN

NEW JOB TITLE: Toledo, Ohio-based senior vp of sales and customer relations for commercial business with Medical Mutual of Ohio.

PREVIOUS POSITION: Toledo, Ohio-based vp and principal with Findley Davies Inc., a privately held human resources consulting, actuarial and administrative services firm.

GOALS FOR NEW POSITION: Grow enrollment and increase our brand recognition. Being a mutual insurance company gives us unique advantages in today's marketplace.

INDUSTRY OUTLOOK: With our industry rapidly changing through health care reform, there is room for innovation and understanding the needs and demands of new customers.

FIRST MARKET EXPERIENCE: Actually, I am having déjà vu

because, ironically, I am coming home. I started out with Medical Mutual's predecessor, Blue Cross Blue Shield here in this Toledo office almost 40 years ago.

CAREER HIGHLIGHT: Prior to having success with Findley Davies, I was an executive vp with Blue Cross Blue Shield of Kentucky (a unit of WellPoint Inc.) and was responsible for sales, marketing, customer service and managed health care programs.

ADVICE: Stay as close as you can to the customer. Do everything in your power to deliver a valuable, high-quality product.

WHAT YOU WANTED TO BE WHEN YOU GREW UP: A high school history teacher.

MOST PASSIONATE ABOUT: Public education and our country's need to deliver a talented workforce for the future.

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

TO SUBMIT ITEMS

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

Mike Tsikoudakis
Business Insurance
360 N. Michigan Ave.
Chicago, Ill. 60601-3806

mtsikoudakis@businessinsurance.com

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 - Lawson-Hawks Insurance Associates
 - Marsh Inc.
 - Willis North America
- INSURERS:**
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 - Berkley Underwriting Partners L.L.C.
 - Endurance Specialty Holdings Ltd.
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- OTHER PROVIDERS:**
- Munters A.B.
- REINSURANCE:**
- Aon Benfield Fac
- RISK MANAGERS:**
- Styron L.L.C.

Market Moves

U.S. Risk acquires wholesaler Unisource

SARASOTA, Fla.—U.S. Risk Insurance Group Inc. has acquired Sarasota, Fla.-based workers compensation wholesale brokerage Unisource Program Administrators L.L.C.

The deal, for which financial terms were not disclosed, doubles U.S. Risk's workers comp premiums and adds four A-rated insurers to its markets, the Dallas-based specialty lines underwriting manager said in a statement.

Through the acquisition, Unisource's 1,900 retail producers will have access to U.S. Risk's product offerings, which include property/casualty, automobile, umbrella and risk management services.

U.S. Risk said the acquisition is part of a national strategy to expand its workers comp products as stand-alone offerings to most industries.

"The acquisition of Unisource represents not only the addition of new workers compensation markets and years of expertise, but more importantly the immediate opportunity to offer the diversity of U.S. Risk's product portfolio to the Florida and Southeast markets," U.S. Risk CEO Randall Goss said in the statement.

Despite the acquisition, Unisource will continue to operate under its current name.

Pittsburgh law firm takes new name

PITTSBURGH—Burns White & Hickton L.L.C. has changed its name as co-founder and Partner David J. Hickton becomes the U.S. attorney for the Western District of Pennsylvania.

The Pittsburgh-based law firm, with eight East Coast offices, changed its name to Burns White L.L.C. in accordance to the state's rules of professional conduct, which requires law firms to change their names if a partner becomes a public official, the firm said in a statement.

The U.S. Senate confirmed Mr. Hickton's nomination by President Barack Obama on Aug. 5.

Burns White, which focuses on litigation, transportation and transactional law, also changed its website URL to www.burnswhite.com.

Perspectives Ltd. acquires EAP

WINFIELD, Ill.—Employee assistance program provider Perspectives Ltd. has acquired Winfield, Ill.-based Creative Care Management Ltd. for an undisclosed amount.

The acquisition, part of a long-term growth plan to acquire similar operations, increases Perspectives' revenue by more than 10%, the Chicago-based EAP said in a statement.

Perspectives said the deal expands the firm's reach in the educational and governmental markets and its presence in the Chicago area to 15 locations, including Creative

Care's Winfield office.

To support business development, Mike Davis, previously CEO of Creative Care, has become vp of account services at Perspectives.

As part of the acquisition, Creative Care will be folded into Perspectives and operate under the Perspectives brand, a spokeswoman for the company said in an e-mail.

Liberty Mutual opens third China branch

HANGZHOU, China—Liberty Insurance Co. Ltd., a unit of Boston-based Liberty Mutual Group Inc., has opened its third branch office in China.

The China Insurance Regulatory Commission last December granted

approval for Chongqing, China-based Liberty Insurance Co. to open a branch in Hangzhou, China, to offer commercial and personal lines products, the insurer said in a statement.

Liberty Insurance Co. is the first foreign property/casualty insurer to operate in Zhejiang, a province of 47 million people nearly 700 miles south of Beijing, according to the statement.

"Liberty Mutual's strategy of being the first insurer to enter markets untapped by foreign companies in China continues to be successful," David Long, president of Liberty Mutual Group, said in the statement.

Liberty Insurance Co. also has an office in Beijing.

The office is at Canhigh Center, 31st Floor, 208 Huancheng North Road, 310006, Hangzhou, Zhejiang Province, China.

Integro buys entertainment agency

NASHVILLE, Tenn.—Integro Insurance Brokers Ltd., the marketing arm of Integro Ltd., has acquired music entertainment industry insurance agency Frost Specialty L.L.C.

As Integro's entertainment risk subsidiary, Nashville, Tenn.-based Frost Specialty will continue to be led by President Robert Frost, who also was named managing principal of Integro and will lead the Nashville, Tenn., office, the New York-based insurance brokerage said

in a statement.

With the addition of Frost Specialty, "Integro has now catapulted to the forefront of entertainment risk specialists," Integro President and CEO Peter Garvey said in the statement.

Financial terms of the deal were not disclosed.

TO SUBMIT ITEMS

BI's Market Moves column reports on activities by insurance industry companies and related entities. Please send news of Market Moves to Mike Tsikoudakis, 360 N. Michigan Ave., Chicago, Ill. 60601 or e-mail mtsikoudakis@businessinsurance.com.

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- John Beckman**
Senior Vice President and Chief Risk Officer, CNA
- Shaun E. Kelly**
President and Chief Executive Officer, U.S. Operations, Transient Services, Inc.
- John L. Linnellean**
President and Chief Executive Officer, Lockton Companies, LLC.

Moderator

Rodd Zolbos
Special Projects Editor, Business Insurance

Registration information will follow.

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REQUEST FOR PROPOSAL

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY (Metro)

REQUEST FOR PROPOSALS

Metro will receive proposals for PS-5310-2583, Risk Management Brokerage Services per specifications on file at the Metro Office of Procurement & Material Mgmt, One Gateway Plaza, Los Angeles, CA 90012 (12th Floor).

All proposals must be received on or before 4:00 p.m., October 29, 2010 Pacific Time at the address listed above, sent to the attention of Maria V. Lechuga. Proposals received later than the above date and time will be rejected and returned to the proposer unopened. A Pre-Proposal conference will be held on Friday, September 17, 2010 at 9:30 a.m., Union Station Conference Room, 3rd Floor located at the address above.

You may obtain a copy of the RFP, or further information, by faxing Maria V. Lechuga at (213) 922-1005.

ANTI-FRAUD NOTICE

Amalgamated Life Insurance Company is committed to preventing fraud in regard to the insurance coverage it issues. Therefore, Amalgamated Life, as required by the New York State Insurance Department makes the following statement:

Any person who knowingly and with intent to defraud any insurance company or other person, files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any factual material there-to, commits a fraudulent act, which is a crime. They will be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each violation.

Anyone knowing of a fraudulent act should call Mark Schwartz at: **Amalgamated Life Insurance Company** 333 Westchester Ave. White Plains, NY 10604 800-624-5844

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Contact Monique Murray at 212-210-0129 For Details

LEGAL NOTICE

IN THE MATTER OF THE REHABILITATION OF COLONIAL COOPERATIVE INSURANCE COMPANY, New York Supreme Court, Index No.: 400236/10 NOTICE

By order of the Supreme Court of the State of New York, County of New York (the "Court"), entered March 1, 2010 (the "Rehabilitation Order"), Colonial Cooperative Insurance Company ("CCIC") was placed into rehabilitation and the then-Superintendent of Insurance of the State of New York ("Superintendent") was appointed rehabilitator. The Superintendent hereby gives notice that he has submitted a petition ("Petition") to the Court for an order ("Liquidation Order"):

(1) converting CCIC's rehabilitation proceeding to a liquidation proceeding; (2) appointing the Superintendent and his successors in office as liquidator for ("Liquidator") of CCIC; (3) vesting title to all CCIC's property, contracts and rights of action with the Liquidator; (4) confirming the permanent injunctions provided for by insurance law Section 7419, including enjoining and restraining all persons from transferring CCIC's business, wasting or disposing of its property, interfering with the Liquidator or the proceeding, or commencing or prosecuting any action, obtaining any preferences, judgments, attachments or other liens, or making any levy against CCIC, its assets or its debt thereof; (5) granting injunctive enjoining and restraining all parties from commencing or instituting any actions or proceedings against CCIC, the Liquidator or the New York Liquidation Bureau, its employees, attorneys or agents with respect to any claims against CCIC; (6) all parties to actions, lawsuits and special or other proceedings in which CCIC is obligated to defend a party pursuant to an insurance policy bond, contract or otherwise, from proceeding with any discovery, court proceedings or other litigation, or procedures, including but not limited to conferences, trials, arbitrations for judgment or proceedings or settlement or judgments, for a period of 180 days from entry of the Liquidation Order and for all persons who have first party or New York Comprehensive Automobile Insurance Reparation Act (No Fault) policyholder loss claims, from presenting and filing claims with the Liquidator for a period of 90 days from entry of the Liquidation Order; (6) authorizing, permitting and allowing the Liquidator to sell, assign, transfer any and all stocks, bonds or securities of CCIC at market price or at the best price obtainable at private sale; (7) terminating all contracts and agreements, unless otherwise expressly assumed by the Liquidator and being liability thereunder as of the date of entry of the Liquidation Order; (8) requiring that all persons or entities having property, including but not limited to, insurance policies, claims files, records and papers, software programs and/or data, records and/or information in digital or electronic form, including but not limited to, data files, with the Liquidator's request and direction, assign, transfer, turn over and deliver such information to the Liquidator; (9) requiring judicial immunity to the Superintendent in his capacity as Liquidator of CCIC and his successors in office and their agents and employees and extending such immunity to them for any cause of action or procedure against them, individually or jointly, for any action or omission of any one or more of them when acting in good faith in accordance with the orders of this Court, or in the performance of their duties pursuant to Article 74 of the Insurance Law and (10) granting such order relief as is just.

The order to show cause further provides that the injunctions provided for in the Rehabilitation Order remain in effect pending a hearing on the Superintendent's Petition.

A hearing is scheduled on the Petition on the 30th day of September, 2010 (the "Return Date") at 9:30 a.m. at the Courthouse, 60 Centre Street, New York, New York, at AS Part 10.

If you wish to object to the Petition, you must serve your objections and all supporting documentation ("Answering Papers") upon the Superintendent so as to be received by the Superintendent at least seven days prior to the Return Date, and by submitting copies of the Answering Papers, with affidavits of service on the Superintendent, to the Court at AS Part 13, in the Courthouse located at 60 Centre Street, New York, New York, on or before the Return Date. Service of Answering Papers on the Superintendent shall be made as follows: (a) at the following address:

Superintendent of Insurance of the State of New York as Rehabilitator of Colonial Cooperative Insurance Company 123 William Street New York, New York 10038-3889 Attention: John Pearson Kelly, Esq., General Counsel The Petition and supporting papers are available for inspection at the office of the New York Liquidation Bureau at 123 William Street, New York, New York, County of New York, New York, August 20, 2010 James J. Wynn, Superintendent of Insurance of the State of New York

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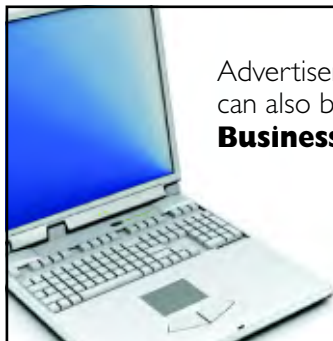
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Claims: A trend or just typical volatility as disability filings spike?

CONTINUED FROM PAGE 1

health-related claims may be driven by employers' need to squeeze more productivity out of smaller workforces, said Kenneth Cope, absence management practice leader for Hewitt Associates Inc. in Fort Lauderdale, Fla.

"You couple that with the economic challenges out there for most people and you start building the case to see there is a good opportunity that that is taking place," Mr. Cope said.

Employers also are seeing an increase in workers taking FMLA leaves, said Mary Tavarozzi, North American practice leader for absence and disability management consulting at Towers Watson & Co. in Tampa, Fla.

"We went through a brief period where requests for FMLA, and particularly intermittent time off, slowed," Ms. Tavarozzi said. "But what I am hearing from my clients and seeing in the early 2010 data is that FMLA leaves are going way up again. I think that is definitely a sign people are feeling their job is secure."

Several disability insurers that reported increased claims incidence during this year's second quarter emphasized in calls with stock analysts that there is no evidence of a trend or that the economy caused the increase.

For example, Unum Group, the nation's largest disability insurer, told analysts during an Aug. 4 call that a "slightly higher" claims incidence it experienced for the second quarter over the first quarter is "within normal volatility."

But Hartford Financial Services Group Inc. reported that its disability experience shows that claims could be rising to normal levels after dropping.

"The industry is experiencing higher disability claims frequency and we saw similar trends in the second quarter," Christopher J. Swift, Hartford's chief financial officer, told analysts on Aug. 5. "We have closely reviewed our disability claims experience and the increased claims frequency is not correlated with any industry or plant size. This suggests that the overall frequencies may be returning to historical levels."

However, several observers said

that only certain industries are affected.

The retail industry, for example, has seen claims rise after decreases shortly after the recession's start, said Greg Vandam, general manager of group benefit claims at Liberty Mutual Group in Boston.

The disability insurance industry is "starting to see an increase," Mr. Vandam said. "Certain segments are starting to climb back up."

There also were reports of disability claim increases in the education and manufacturing industries, sources said.

Historically, recessions cause spikes in short- and long-term dis-

ability claims as workers who fear losing employer-sponsored health coverage along with their jobs pursue elective surgeries and other medical treatments they otherwise would have postponed, observers said.

But the current ailing economy may have suppressed claims, which helped insurers reduce their pricing to compete for employers' business, said Jeff Schuh, vp and actuary for group disability at Reinsurance Group of America Inc.'s U.S. group reinsurance practice in Minneapolis.

After the recession commenced, some insurers "actually had their

best year ever" because long-term disability claims declined instead of increasing as expected, Mr. Schuh said.

The recession, considered the worst since the Great Depression, may have pushed workers to behave differently than past economic downturns, several observers agreed.

With many workers' mortgages underwater and their 401(k) investments down substantially, they may have thought it was better during the current economy to remain at work instead of risking losing jobs while out on a disability claim, Mr. Schuh said.

"I think their financial safety net was ripped away and they felt a little bare," Mr. Schuh said.

Industry data does not exist to support the theory that the recession initially caused a drop in claims, Mr. Vandam said. But there is a general industry belief that the theory holds true, he added.

"What the insurance industry observed in this recession is that it behaved very differently from any other in that the spike (in disability claims) didn't come," Mr. Vandam said. "In this recession which was so deep and so scary...people were choosing not to have those elective surgeries."

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Business Insurance

RAA: Results to hinge on hurricanes

CONTINUED FROM PAGE 4

At some point, the cycle will turn for casualty, but it doesn't appear it's going to happen anytime soon," Mr. Eck said.

Observers are unsure, though, as to when the market will harden.

Greg Reisner, senior financial analyst at Oldwick, N.J.-based A.M. Best Co. Inc., said views as to when the cycle will turn depend "on how optimistic you are. Some people say it could be in the next six months; other people are saying 18 months."

"If you look at the catastrophe losses, we've had close to \$25 billion or so in the first six months," said Amit Kumar, vp with Macquarie Securities Group in New York. "That has not been enough to result in any meaningful changes in rates, except for impacted segments."

A major hurricane could alter the industry by removing the excess capital, he said.

"The big issue will be what happens at (Jan. 1) renewals" when there will be "even more capacity" in the absence of any major hurricane losses this year, Mr. Kumar said.

"My view is that you need another \$20 billion or so to maybe at least halt the (rate) declines and \$40 to \$60 billion in losses would completely reverse the course of the market." Barring that, Mr. Kumar said, the market will "continue to be really soft."

Discussing the possibility of mergers and acquisitions among reinsurers, Fitch Ratings' Mr. Auden said, "For some time, we thought there could be more activity in Bermuda," and that it is a "likely

Pirates: Marine K&R seeing new insurers

CONTINUED FROM PAGE 1

As Somali piracy has remained intractable, the market for marine K&R insurance—previously a niche field—has seen new market entrants. Two years ago, there were only two or three specialist markets at Lloyd's of London that offered K&R to ship owners and maybe two or three outside of Lloyd's, said David Partner, a London-based broker at Miller Insurance Services Ltd.

"We've probably seen four, five new entrants over the past year and a half into this area of business," Mr. Partner said.

Guillaume Bonnissent, a special risks underwriter at Hiscox Ltd. in London, said that three or four new players have entered the K&R market during the past year or two. He and other observers said many of the new market entrants are smaller players.

In some cases, marine insurers have begun to offer K&R cover in addition to the traditional hull and war risk coverages, observers said.

"If (insurers) have major clients that are already working with them on the hull and war (risk) side, per-

spot for acquisitions." The potential is still there, he added.

"My sense is as pricing continues to go down, I think we can see another round of tie-ups, mergers or acquisitions," said Mr. Eck. "That would be something that's going to depend on how companies look at the market once we get through this

year." It "may be one way to try to improve a company's diversification." Another possibility is to "put two companies together and pay a special dividend."

"From companies we talk to, we think the conditions are still ripe for it; and if conditions get a little worse," it may increase M&A

efforts, Mr. Eck said.

However, Taoufik Gharib, director at Standard & Poor's Ratings Services in New York, said the fact that stocks are trading below book value "does not help" in acquiring other companies. Furthermore, companies must be sure they are comfortable with the reserve positions of

potential acquisitions.

Mr. Gharib predicted that, instead, "we'll see companies buy books of business, acquiring teams of underwriters or adding, maybe, to their existing teams" in cases where reinsurers do not have certain products or wish to offer a full gamut of products to the market.

haps their clients may want the continuity of having K&R insurance through the same company," Mr. Partner said.

But despite the increase in capacity, observers said pricing has remained about the same.

One reason is that the frequency and severity of losses has increased during the same time period. Two years ago, most observers put the average ransom payment at about \$2.3 million. One observer said that figure is up to \$4.3 million.

"If it were five years ago and there were five new entrants into this market, it definitely would have diluted the pricing," Mr. Partner said. "But the limit of ransom demand is on the increase."

Thomas Brown, managing director of Seacurus Ltd., a dedicated marine K&R broker, said the largest, most experienced underwriters have doubled rates in the past year in response to some significant losses.

"I think it was a move by some of the large players to try to harden the overall market," Mr. Brown said.

Mr. Brown said he thinks it will not be clear until the fourth quarter

of 2010 whether newer players will follow suit with higher prices. But he said he doubts it.

"I tend to think underwriters are now better educated (and) most market underwriters are less likely to quote on high-risk inquiries where it's obvious that there is no real risk management going on onboard," he said. "Whereas before, nearly all risks presented to the market could find a home, that's not true today."

Mr. Bonnissent said Hiscox can write up to \$50 million in limits. Hiscox writes 65% to 70% of the K&R market worldwide, he said.

Mr. Bonnissent and other observers declined to discuss prices, citing the extremely sensitive nature of such policies. In the past, observers have said that K&R coverage can cost about \$30,000 for a single voyage through the Gulf of Aden near Somalia, for example.

Observers also said K&R underwriters largely no longer subrogate against other insurers.

When a ship is hijacked, the ship owner pays the ransom and seeks reimbursement, often through a process called "general average."

TOP U.S. REINSURERS' FIRST-HALF 2010 RESULTS

Ranked by net reinsurance premiums written. All amounts in thousands of dollars.

Reinsurer	Net reinsurance premiums written 2010	% Increase (decrease)	Net income (loss) 2010	% Increase (decrease)	Policyholders surplus	Combined ratio 2010	Combined ratio 2009
National Indemnity Co. ¹	\$2,324,580	(10.5%)	\$3,212,620	N/M	\$61,047,726	82.6%	80.4%
Transatlantic/Putnam Reinsurance Co.	\$1,723,993	(7.7)	\$152,056	48.9	\$4,035,632	102.6	93.4
Munich Re America Corp. ²	\$1,441,903	18.8	\$167,733	N/M	\$4,034,754	100.5	98.8
Swiss Reinsurance America Corp. ³	\$1,105,879	6.6	\$16,678	(96.0)	\$4,848,289	103.2	98.4
Odyssey America Re/Odyssey Reinsurance ⁴	\$852,636	(5.1)	\$77,214	(29.7)	\$3,456,620	105.2	95.9
Everest Reinsurance Co.	\$803,209	(3.0)	\$78,548	(49.2)	\$2,587,293	111.5	87.5
Berkley Insurance Co.	\$683,983	4.7	93,549	80.3	2,377,811	98.4	95.5
General Re Group ⁵	\$666,497	(2.6)	\$110,639	2,213.2	\$9,481,082	100.5	97.6
QBE Reinsurance Group ⁶	\$533,272	42.6	(\$16,374)	N/M	\$560,155	98.8	98.3
Partner Re U.S. ⁷	\$313,598	(18.7)	\$63,183	N/M	\$808,468	101.9	102.2
Totals for top 10	\$10,449,550	(0.9%)	\$3,955,846	N/M	\$93,246,830	98.2%	92.0%
Totals for all companies	\$12,289,873	(4.2%)	\$4,205,492	N/M	\$99,692,863	98.7%	93.8%

¹ Underwriting results exclude assumptions from affiliated General Re Group. ² Includes combined results of Munich Reinsurance America Inc., American Alternative Insurance Corp. and Princeton Excess & Surplus Lines Insurance Co. ³ Includes combined results of Swiss Reinsurance America Corp., which is impacted by significant affiliated transactions with other members of Swiss Re Group. ⁴ Includes combined results of Odyssey America Reinsurance Corp., Clearwater Insurance Co., Hudson Insurance Co., Hudson Specialty Insurance Co. and Clearwater Select Insurance Co. ⁵ All data presented for the North American property/casualty segment of the General Re Group. Underwriting results exclude certain intercompany transactions, other adjustments and cessions to certain affiliated Berkshire Hathaway Group members. ⁶ Includes combined results of QBE Reinsurance Corp., QBE Insurance Corp. and QBE Specialty Insurance Co. ⁷ Includes combined results of Partner Reinsurance Co. of the U.S. and subsidiary PartnerRe Insurance Co. of New York and excludes all inter-company transactions.

Source: Reinsurance Assn. of America. For further information, contact the RAA at www.reinsurance.org.

Retirees: Rush to fund

CONTINUED FROM PAGE 3

um subsidies to purchase coverage.

The program is authorized to continue through Dec. 31, 2013, or until the \$5 billion runs out, which the Employee Benefit Research Institute in Washington has projected will occur sometime next year.

Some say an additional appropriation of funds is unlikely.

"Right now, money is scarce and no one is talking about adding more funds. Whether that changes will depend on the composition of Congress" after the November elections and the state of the economy, Mr. McArdle said.

The program's next step is the release of application forms for approved plan sponsors to file reimbursement claims. Government regulators said those forms will be made available sometime this month, but haven't been more specific. Reimbursement checks should begin to flow sometime in October, regulators have said.

Under general average, the hull, cargo and other interests involved in a ship's voyage contribute their proportionate share to expenses incurred to save the ship. Brokers say K&R insurance, which provides immediate indemnification, was meant to replace the general average process, which is uncertain and often takes a long time to complete.

But in the past, K&R underwriters often subrogated against the hull, cargo and war risk insurers, after they indemnified the ship owner. Ship owners disliked this practice because it meant the ransom payment counted on their loss record, which could increase hull and war risk premiums significantly.

"It was felt by the customer who was purchasing the policy that there wasn't much point in buying (K&R) if it was still going back to general average," Mr. Partner said. "They might be getting their money quicker through the K&R policy claim payment, but it was still affecting the other insurances they were buying."

Brokers say they and ship owners have convinced K&R insurers to largely discontinue that practice. But Mr. Brown said two markets now seek to retain subrogation rights against cargo interests.

Kaiser: Health care cost shift continuing

CONTINUED FROM PAGE 1

Protection and Affordable Care Act, Mr. Claxton said he expects the trend of greater health benefit cost-sharing with employees will continue in the next few years.

The survey, however, was unable to gauge the effects of PPACA on employer-sponsored health benefit costs because much of it was conducted before the reform measure became law earlier this year, he said.

While employee contributions to the cost of coverage grew significantly, the scope of that coverage eroded somewhat, Mr. Altman noted.

In particular, the percentage of employees enrolled in plans with deductibles of \$1,000 or more grew to 27% this year from 22% last year, while the percentage with deductibles of \$2,000 or more for single coverage grew to 10% this year from 7% last year.

"Insurance in this country is gradually changing, becoming less comprehensive, so that what workers get today is less comprehensive than what their parents got," Mr. Altman said.

In a first during the 2010 survey, respondents were asked whether they review performance indicators on health plans' clinical and service quality. While 34% of employers with 200 or more employees said they reviewed such performance indicators, only 5% of small employers did so.

Megan McHugh, director of research at HRET, described the numbers as "troubling."

"Employers are not holding health plans accountable for the quality of care" their employees are receiving, Ms. McHugh said. "Firms might simply be choosing health plans based on price."

Experts also were pessimistic about the findings.

"These data illustrate a trend that has been coming and will only get worse," Helen Darling, president of the Washington-based National Business Group on Health, said in an e-mail. "Employers' costs are still rising and most of them still pay for 75% to 80% of employees' health benefits and way more than half of their dependents' costs as well."

"Until all of us drive down the costs of medical care together, including by taking care of ourselves so we don't need so much care, we will have these challenges, and we will not have sustainable job growth either in the private or the public sectors," she wrote.

"The strong shift in premium contributions reflects increasing desperation on the part of employers to address rising health insurance premiums," Paul Ginsburg, president of the Center for Studying Health System Change in Washington, wrote in an e-mail. "Despite a relatively small premium increase, the trend of health care becoming less and less affordable continues," he wrote.

Andrew Webber, president and CEO of the National Business Coalition on Health in Washington, said in an e-mail that the study shows continuation of "a trend that started well before the current recession. The more central issue for employers is not whether increasing cost-sharing for employees continues, but how to do this in a thoughtful way through value-based insurance design strategies."

Other findings include:

- The percentage of firms offering health care coverage grew to 69%. The increase was the greatest among firms with three to nine workers, growing to 59% from 46% last year. While on the surface this appears to be good news, researchers said the increase was an aberration that could be attributed to the fact that only firms still in business were interviewed, and that most of those that went out of business during the recession did not offer health care coverage.

- Although preferred provider organization plans still dominate with 58% of employees enrolled in them, the percentage of employees enrolled in high-deductible health plans has grown to 13%. Meanwhile, enrollment in health maintenance organizations shrunk to 19%, while point-of-service plan enrollment fell to 8% and traditional indemnity plan enrollment held at 1%.

- Thirty-four percent of employers with 1,000 or more workers offer high-deductible health plans compared with 21% of those with 200 to 999 workers and 15% of those with three to 199 workers.

- The percentage of firms with 200 or more active workers offering retiree health benefits dropped to 28% in 2010 from 30% in 2009.

- Thirty-one percent of employers with 50 or more workers changed their mental health benefits in response to the Mental Health Parity and Addiction Equity Act.

The survey, which was conducted between January and May of 3,143 randomly selected nonfederal public and private employers, is available at www.kff.org/insurance/8085/index.cfm.

PREMIUMS & CONTRIBUTIONS

Average annual employer premiums for single and family coverage and employee contributions 2006-2010

YEAR	SINGLE PREMIUM	EMPLOYEE CONTRIBUTION	FAMILY PREMIUM	EMPLOYEE CONTRIBUTION
2010	\$5,049	\$899	\$13,770	\$3,997
2009	\$4,824	\$779	\$13,375	\$3,515
2008	\$4,704	\$721	\$12,680	\$3,354
2007	\$4,479	\$694	\$12,106	\$3,281
2006	\$4,242	\$627	\$11,480	\$2,973

Source: Kaiser Family Foundation/Health Research and Educational Trust 2010 "Employer Benefits Survey"

Texas: Pilot on benefits

CONTINUED FROM PAGE 3

designs for the 2012 plan year, she added.

The project then will continue for three years so the participating employers can monitor how well their newly implemented value-based benefits designs are working, she said.

"Our major goal is to be able to improve the health of our employees and their families and to have a more cost-effective health care plan," said Janie Britton, human resources business partner at Interstate Battery System of America Inc., a Dallas-based employer participating in the Texas Health Strategy Project.

Other participating employers are Archon Group L.P., Brinker International Inc., city of McKinney, City of Mesquite, Energy Future Holdings Corp., the Federal Reserve Bank of Dallas, Haggard Clothing Co. and Triumph Group Inc.'s Triumph Aerostructures unit.

Although Ms. Britton said she receives "a lot of claims data from our insurance provider, broker,

health risk assessments and disease management programs, it's really hard to interpret," which is why the matrix will help determine what changes need to be made to Interstate Battery's health plan to achieve those goals.

Interstate Battery, which provides coverage to 2,900 workers and their dependents, has had a consumer-driven health plan in place for five years using a health reimbursement arrangement funding single coverage at \$600 and family coverage at \$1,200 annually.

In addition, Interstate Battery covers wellness and preventive benefits at 100%, awarding points to employees for completing health risk assessments, annual physicals and exercising at least 12 times per month. Under the program, employees use the points to purchase prizes, Ms. Britton said.

This real objective behind the American Health Strategy Project is to provide "the proof of concept" that value-based insurance designs can improve the health of the pop-

ulation served while also lowering health care costs for employees and employers, Ms. Fazen said.

"The intent is to help employers understand value-based benefit design is more than just waiving copays," Ms. Fazen said. "It will give employers the tools and a model to collect data from multiple different sources" that will enable "a picture to emerge of what the health risks and costs really are in their workforces."

For example, the matrix will give employers a better idea of what diseases are most common among their employees and dependents, she said.

Eventually, the data from the nine employers, which collectively cover approximately 60,000 individuals, will be aggregated to enable employers throughout the community to perform benchmarking to see how they compare with others, Ms. Fazen said.

The participating employers represent a cross-section of public and private self-insured and fully insured employers in the Dallas-Fort Worth area, including those in the manufacturing, retail and hospitality industries.

News In Brief

CONTINUED FROM PAGE 1

after Jan. 1, 2011, will not be eligible for the defined benefit plan.

Coca-Cola to restore strikers' benefits

Approximately 500 striking Coca-Cola Enterprises Inc. workers in Washington state will have their health benefits restored when they return to work and contract talks resume, a company spokesman said. However, the company maintains it was within its legal rights to suspend the workers' health benefits during the work stoppage, which began Aug. 24. The spokesman also said when the health benefits are restored, workers' contributions will be prorated to reflect the temporary lapse in coverage.

Aon Consulting notifies retirees of data breach

Aon Consulting Inc. inadvertently revealed the Social Security numbers, dates of birth and genders of about 22,000 retirees from the state of Delaware, the consultant said. The data, which did not include individuals' names, appeared on the state's website between Aug. 16 and Aug. 20 in a vision benefits request for proposals that Aon had prepared for the state. The information was discovered later and removed, according to the consultant's parent, Aon Corp.

Injured Dallas Cowboys employees to get \$34M

Two Dallas Cowboys employees injured in the May 2009 collapse of a practice facility during a thunderstorm will receive about \$34 million in a settlement with companies that owned the complex. Under the two settlements, Richard Behm and his family will receive more than \$24 million and special teams coach Joe DeCamillis and his family will receive more than \$9 million.

Reinsurance outlook stable, challenged

The worldwide reinsurance industry is expected to remain profitable this year, but a series of challenges could prompt reinsurers to focus on underwriting discipline, a rating agency said in an analysis. Fitch Ratings Ltd. said its outlook for reinsurers is stable and the industry is likely to remain profitable this year. Fitch said it expects the industry to post a combined ratio below 100% for the year—absent any major catastrophes.

AIG's Asian life unit files IPO papers: Reports

American International Group Inc. unit American International Assurance Co. reportedly has submitted preliminary documents to

the Hong Kong Stock Exchange for an initial public offering. The filing means AIG may intend to hold the IPO in late October or early November, according to reports. AIG had planned to sell the Asian life insurance operation to British insurer Prudential P.L.C. in a \$35.5 billion deal, but it collapsed in June. Subsequently, there were reports AIG that has held talks with potential investors to sell part of the operation.

Direct-action ruling seen as influential

A ruling that says, under Rhode Island law, individuals seeking to recover damages from a bankrupt company cannot directly collect from excess insurers if the company has not exhausted its self-insured retention likely will be significant nationally, said an attorney in the case. A federal judge ruled that Rhode Island's "direct action" statute allows tort victims to recover damages directly from the liability insurers of a bankrupt firm.

N.Y. work comp board proposes 30% hike

The New York State Workers' Compensation Board proposed a 30% increase in workers compensation medical provider fees. Health care providers treating injured workers have not seen a rate adjustment since 1996, board Chairman Robert Beloten said in a statement.

Nebraska insurance director to step down

Nebraska Department of Insurance Director Ann Frohman plans to step down in October to pursue private-sector opportunities, according to the state's governor. Gov. Dave Heineman said Ms. Frohman will resign the post she has held for three years effective Oct. 29.

CNA, RSA enter global network agreement

CNA Financial Corp. said it has entered into an agreement with RSA Insurance Group P.L.C. that will expand CNA's global reach through RSA's network. The new relationship between the insurer and RSA will provide CNA's U.S.-based clients with access to RSA's global network, including India, South Africa, Australia and several Latin American countries.

New CEO plots growth strategy for BMS

BMS Associates Ltd., the London-based holding company for insurance and reinsurance brokerage BMS Group Ltd., named a new CEO last week. Carl Beardmore, who succeeds John Spencer who resigned in January 2008, said he plans to double the firm's brokerage business by 2015 and that BMS is in the process of recruiting new brokerage teams. Based in London, Mr. Beardmore has been involved with BMS for eight years as a consultant and non-executive director, the reinsurance brokerage said in a statement.

ARSON AGENT UNDER FIRE IN FRAUD PROBE

Is it a case of the fox being assigned to watch the henhouse?

Bridgeport, Conn., residents may ask that question after the arrest of their city's top arson investigator. The charge? Arson, as well as fraud and insurance fraud, according to the Connecticut Post.

The newspaper reported that Kimberly Biehn, a detective and member of the police department's identification unit, reported her 2003 Mercedes-Benz stolen in December 2008. Later, the car was found burning in Waterbury, Conn. The fire totaled the car and Ms. Biehn submitted a claim to her insurer, which covered the loss.

She reportedly owed \$17,000 on the car.

When police investigated the fire, they found a DNA sample that matched that of a man with a history of criminal convictions.

Waterbury Police Capt. Christopher Corbett said that in course of questioning the man—Samuel Encarnacion—authorities determined that he had torched the car at Ms. Biehn's request so she could collect the insurance.

Ms. Biehn, who was suspended without pay, is free on bond.

Capt. Corbett said Ms. Biehn agreed to surrender late last month when she learned there was a warrant for her arrest.



Business Insurance END PAGE

Contributing: Jeff Casale, Mark A. Hofmann, Joanne Wojcik



AETNA

Aetna Inc.'s Healthiest Chef competition will tour 10 cities across the country, ending in Los Angeles, where chef Bobby Flay will complete the judging.

Celeb chef weighs in on cook-off

Celebrity chef Bobby Flay may not be the best judge of healthy cuisine, being the owner of Bobby's Burger Palace, but that didn't disqualify him from weighing in on Aetna Inc.'s "Healthiest Chef" competition.

His favorite dish so far?

"I'm hearing a lot about the turkey burgers," he said during a preliminary match held Sept. 1 among six Aetna employees at the insurer's Hartford, Conn., headquarters.

The six were chosen by the Culinary Institute of America of Hyde Park, N.Y., from 205 contestants.

Although the goal of the competition is to increase the use of fruits and vegetables and limit fat, it was blue cheese turkey burgers on whole wheat buns that won the employee-only cook-off that day.

Still, the Aetna Healthy Food Fight is expected to heighten awareness of what makes a meal healthy among Aetna's 19 million medical members and perhaps the nation as a whole.

"We believe that this campaign will create a community-based dialogue around healthy eating and healthy living that will live well beyond the campaign itself," Frank McCauley, head of Aetna's local employers and consumer business, said in a statement.

The competition now is open to the public. There will be local cook-offs in 10 cities across the country, starting in Rockaway, N.J., and ending in Los Angeles, where Mr. Flay will complete the judging.

The overall winner will take home the title of America's Healthiest Cook and \$10,000 in kitchen appliances.

Carrot campaign aims to take bite out of junk food

"If you can't beat 'em, join 'em," goes the old saying that could apply to carrot growers as they look to stake their claim in school cafeterias and lunch boxes across the country.

Several carrot growers reportedly are embarking on their first-ever marketing campaign that will pit them against their junk food rivals. The idea is to tell parents and kids that baby carrots should be the snack of choice.

Baby carrots will be packaged in eye-catching bags, USA Today reported, in an attempt to entice students looking for a snack and getting them to choose carrots instead of salty and fatty snacks.

Employers fighting rising health care costs will no doubt welcome the attempt to instill the wellness mantra before kids enter the workforce.

"It's not an anti-junk-food campaign," Jeff Dunn, CEO of Bakersfield, Calif.-based Bolthouse Farms Inc. told the newspaper. "It takes a page out of junk food's playbook and applies it to baby carrots."

The \$1 billion baby carrot industry is considering ideas such as selling the vegetables out of school vending machines, as well as airing TV spots.

Frito-Lay North America Inc., a division of



CRISPIN PORTER + BOGUSKY

Bolthouse Farms Inc.'s baby carrots will be packaged in eye-catching bags.

PepsiCo Inc. and maker of Cheetos, Doritos and Fritos, told reporters it doesn't feel threatened by the baby carrot attack.

"We're happy to serve as an inspiration," a spokesman for Frito-Lay said. "We know people don't eat enough fruits and vegetables. We applaud any effort to provide consumers with a wider range of snacking options."

HAIR-RAISING POLICY FOR LOCKS

The comparisons between biblical strongman Samson and Pittsburgh Steelers All-Pro safety Troy Polamalu typically stop at their hair.

Both feature long locks, from which they presumably gain their strength and Mr. Polamalu gains endorsements.

The Head & Shoulders shampoo spokesman's locks reportedly are insured for \$1 million through Lloyd's of London, which would protect him against any on-field disasters. Head & Shoulders parent company Procter & Gamble Co. is paying the premium for the long-haired, hard-hitting safety.

"He has an income stream that comes from one particular part of his body that is clearly identifying and thus can be justified (to insure),"

Jonathan Thomas, accident and health underwriter for the Watkins Syndicate at Lloyd's, told the Pittsburgh Post-Gazette.

Mr. Polamalu's hair is a symbol of his heritage, where Samoan warriors considered long tresses as a way to soften the blow from an enemy weapon.

Some of the reported policy details include that Mr. Polamalu would have to lose at least 60% of his hair to be compensated and that his hair is insured against only on-field events.

Further, hair loss or damage cannot be from natural causes. In other words, male-pattern baldness would not be covered.

Pittsburgh Steelers safety Troy Polamalu's hair reportedly is insured for \$1 million.



AP PHOTO



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