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Business Insurance

September 15, 2008

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WILLIS LAUNCHES WHOLESALER TO GIVE RETAIL BROKERS ACCESS TO LONDON / PAGE 3

BARRING MAJOR CAT, REINSURANCE RATES TO KEEP FALLING / PAGE 3

INTEGRO REPLACES EGAN AS CHIEF OF BROKERAGE, PLANS CUTS / PAGE 3

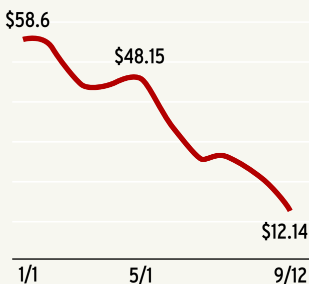
In Brief

AIG shares plummet on mortgage worries

American International Group Inc.'s stock dropped 30.8% last Friday, closing at a 52-week low of $12.14. Shares were down 45.7% compared with their Sept. 5 close. Commenting on the decline, Standard & Poor's equity research analyst Catherine Seifert said, "People are concerned that losses in their credit default swap business and certain other financial services

AIG STOCK TUMBLES

Price has fallen 83.1% since Jan. 1



Source: www.financialcontent.com

See **IN BRIEF** page 29

SECTOR BRIEFING
TRANSPORTATION

Protection and indemnity rates soar, but hull and cargo lines steady as shipping booms; E.U. capital rules have greatest effect on marine mutuals; trucking firms work to lower costs with self-insurance; airline hedges soften the impact of jet fuel prices. Page 11

Sentencing fight looms in finite case

Lengthy jail terms possible

By DOUGLAS McLEOD

HARTFORD, Conn.—Prosecution and defense lawyers in the General Re Corp. finite reinsurance case are about to square off in court over an issue that the defense says could result in virtual life sentences for the five convicted defendants: the extent of the loss caused by a sham 2000 reinsurance deal between Gen Re and American International Group Inc.

Federal prosecutors contend that drops in AIG's stock price after the deal was disclosed in 2005 resulted in shareholder losses of more than $400 million and as high as $1.4 billion. Under federal sentencing guidelines, losses of that size, combined with other factors, result in a recommended sentence of life, though prosecutors have asked only that the sentences be "substantial."

Defense lawyers, meanwhile, argue that the reinsurance deal caused no losses to shareholders and assail the government's sentencing calculations as "draconian."

In Sept. 5 court filings, defense lawyers also asked U.S. District Judge Christopher Droney to reject a presentence report from federal probation officials recommending prison terms of 168 to 210 months, and to impose more lenient sentences than called for in the federal guidelines.

The wide disparity between the government and defense loss calculations will make it tougher for the Hartford, Conn., federal judge to reach sentencing decisions, legal experts say.

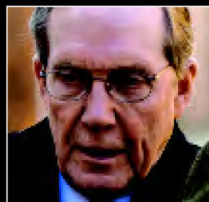
Theodore T. Chung, a former federal prosecutor now with Perkins Coie L.L.P. in Chicago, said it's "rare to see such polar extremes" of prosecution and defense positions.

"It makes it a very, very difficult thing for the judge if there's such a disparity and he's inclined to split the baby," Mr. Chung said. "This (case) doesn't really afford that kind of opportunity. How do you split that baby?"

"What it often does is drive the court into fol-

See **FINITE** page 28

SENTENCES of former Gen Re and AIG executives rest in part on a judge's ruling on actual shareholder losses.



Mr. Ferguson

Mr. Garand

Mr. Graham

Mr. Milton

Ms. Monrad

Former AIG executives settle C.V. Starr dispute

D&O insurers to fund much of $115M pact to end shareholder suit

By MARK A. HOFMANN and DAVE LENCKUS

NEW YORK—American International Group Inc.'s directors and officers insurers will cover much of a $115 million settlement reached last week to resolve a shareholder derivative lawsuit over commissions the insurer paid to companies controlled by former AIG officials, including former chief Maurice R. Greenberg.

The settlement came on the eve of a trial that was set to begin today in Delaware Chancery Court in Wilmington.

Meanwhile, Mr. Greenberg last Thursday began a long-delayed deposition in a civil fraud lawsuit filed by the New York attorney general's office over accounting irregularities at AIG that led to the insurer's 2005 restatement of financial results, according to a spokeswoman for Mr. Greenberg's lawyers, Boies, Schiller & Flexner L.L.P. in New York. The spokeswoman declined to provide details of the deposition.

In the shareholder derivative litigation—which began six years ago—the Teachers Retirement System of Louisiana had sought potentially more than $1 billion from Mr. Greenberg; Howard Smith, AIG's former chief financial officer; and Edward Matthews and Thomas Tizzio, both former vice chairmen of AIG.

The suit, brought on behalf of nominal defendant AIG, accused the four—as well as other current and former AIG directors later dropped from the action—of paying themselves unjustified compen-

See **STARR** page 29

Business rallies to stop Colorado amendments

Changes to benefits, employment law on ballot

By JUDY GREENWALD

DENVER—Organizations representing Colorado employers are fighting four proposed constitutional amendments on November's ballot that they say could devastate businesses in the state.

Observers say the proposals, which need only a majority vote, have a strong chance of winning approval. They would:

- Eliminate "at will" employment in the state and require private employers to have a "just cause" before terminating employees, along with supporting documentation.
- Mandate that all companies with at least 20 employees provide health insurance for workers and their dependents.
- Remove the workers compensation "exclusive remedy" provision, which would let injured workers collect workers comp benefits and still sue their employer.
- Hold corporate officials criminally liable for illegal company activities.

Opponents of the amendments called them a poison pill by labor supporters in a failed strategy to get another constitutional amendment withdrawn, one that would make Colorado a right to work state.

"Unfortunately, it has been a gross miscalculation," leaving "four very poorly drafted anti-business measures moving forward on the

See **BALLOT** page 27

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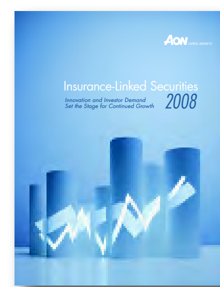

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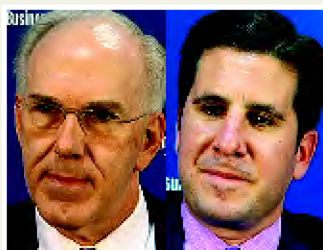

BI VIDEO

New video in the Specialty Risk Series

Watch "Key to profitable underwriting." Rich Marko of Liberty Mutual and Chris Maleno of ACE USA discuss what it takes to underwrite specialty risk profitably. The Specialty Risk Series is sponsored by the Starr companies.

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Business Insurance (ISSN 0007-6864) Vol. 42, No. 37, is published weekly by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. $5 a copy and $97 a year in the U.S. $130 in Canada and Mexico (includes GST). All other countries, $230 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 40012850, GST No. 136760444, Canadian return address: 4960-2 Walker Road, Windsor, ON N9A6J3. Printed in U.S.A. Copyright © 2008 by Crain Communications Inc.

Integro replaces Egan as chief, plans cuts

Layoffs expected as brokerage adapts to sector slowdown

By SALLY ROBERTS and COLLEEN McCARTHY

NEW YORK—Three years after its inception, Integro Ltd. has replaced its chief executive officer and is embarking on its first major cost-cutting initiative as it adjusts to a changed brokerage landscape.

Integro late last week named President Peter F. Garvey to the additional post of CEO following the departure of Roger E. Egan.

Mr. Garvey co-founded Integro in 2005 with Mr. Egan and renowned insurance company builder Robert Clements, who helped secure $320 million in capital to launch the firm.

Mr. Garvey declined to elaborate on Mr. Egan's departure except to say that "Roger and Integro's board agreed that it was time for a change."

Roger Egan, left, last week was replaced as CEO of Integro Ltd. Peter Garvey, who also is president, took over as chief.

In a statement, Mr. Clements, who is Integro's chairman, said that he has "the utmost confidence" in Mr. Garvey leading the firm going forward. "Roger Egan was an exceptional colleague and remains a friend," he said.

Before serving as Integro's CEO, Mr. Egan was president and chief operating officer of Marsh Inc., from which he resigned at the end of 2004 after former New York Attorney General Eliot Spitzer filed a fraud and bid-rigging lawsuit against the company. Mr. Garvey, who replaced Mr. Egan as co-president of Marsh, resigned from the brokerage shortly before Integro's launch.

Now at the helm of Integro, Mr. Garvey said he is shifting the focus of the firm to cost-cutting from heavy investing. That strategy, he said, represents executives' recognition that "we no longer are a startup."

A typical startup, he noted, "invests heavily in a platform and expects hyper-growth in revenues to surpass the costs of building and maintaining that platform."

Although Integro has been around for only three-and-a-half years, it is not immune to the forces of the soft market or difficult economic conditions, he said.

"We anticipate a slowdown in revenue and growth, and like any responsible company, we need to size our expenses to our revenue," Mr. Garvey said. "We're looking at all of our expenses," he said, noting there will be some layoffs.

Mr. Garvey acknowledged that, alongside the soft insurance market and general economic downturn, there have been changes in the brokerage environment since Integro

See **INTEGRO** page 29

Reinsurance rate cuts expected at year end

But large cat loss could halt, reverse trend

By REGIS COCCIA

MONTE CARLO, Monaco—Reinsurance market practitioners gathering last week at the annual Rendez-Vous de Septembre agreed that rates are likely to continue to drop—barring major catastrophe losses.

Additional windstorm activity following hurricanes Gustav and Ike and Tropical Storm Hanna must be monitored carefully and could halt rate slides, but sources in Monte Carlo, Monaco, suggested that ceding insurers will continue to find favorable conditions at January renewals. While higher limits are easier to buy, reinsurers by and large are not budging on coverage terms and conditions, sources said.

More than 2,000 reinsurance industry executives from around the world gathered in Monaco Sept. 6-11 for the event that traditionally marks the beginning of the January renewal season. Discussions at the Rendez-Vous each September normally set the tone for reinsurance contracts bound during the remainder of the year and in January.

For property treaties, ceding insurers can expect to see rate declines of high single-digit to low double-digit percentages, most brokerage and reinsurer executives said. Catastrophe-exposed accounts, especially those in the peak zones of North American windstorm and earthquake risks, can expect relatively stable pricing, with any decreases likely to be less than 10%.

"If there is no big hit from Ike—and it won't be the last big event we'll see this season—rate decreases will slow to high single digits," said David Priebe, chairman of global client development at New York-based Guy Carpenter & Co. L.L.C.

"Light to moderate catastrophe losses" of $15 billion to $25 billion of ceded loss, or roughly $30 billion to $50 billion of industrywide loss, "are needed to halt the slide in rates," said Bryon Ehrhart, chief executive officer of Aon Re Services Inc. in Chicago.

Ceded losses of "$40 billion to $50 billion would be a heavy year" and reverse price decreases, he suggested. In 2005, an unusually severe year in which seven named storms struck the United States, including

See **RENDEZ-VOUS** page 28

Willis set to launch London wholesale unit

Plans for E&S brokerage in U.S. unclear

By SALLY ROBERTS

LONDON—Willis Group Holdings Ltd.'s plan to launch a London-based global wholesale operation likely will lead the brokerage back into the U.S. wholesale market, observers say.

The London-based broker exited that market in 2005 when it sold its longstanding U.S. wholesale operation, Stewart Smith Group Inc., amid industry concerns over conflicts of interest that could arise from retail brokerages owning wholesale operations in the United States.

Willis, however, has continued to act as a wholesaler, placing international business on behalf of other third parties that include retail brokers, and last week said it has been considering how best to grow that business.

Following its $2.1 billion buyout of Hilb Rogal & Hobbs Co., which is expected to close in October, Willis said it will launch Faber & Dumas, a new London-based wholesale umbrella operation.

While the operation is new, the name date back to 1928, when Willis, Faber & Co. merged with Dumas & Wylie to create Willis, Faber & Dumas Ltd., which eventually became Willis Group Holdings.

HRH's London-based Lloyd's of London broker Glencairn Group Inc. will provide the expertise and platform to launch Faber & Dumas, which will include Willis' "existing third-party portfolio" as well as "other HRH wholesale business," Willis said.

HRH doesn't break out revenue of its individual operations, but upon acquiring Glencairn in December 2006, it estimated Glencairn's 2006 revenue to be $39 million and said it had more than 150 employees in offices in London, Australia, Russia and South Africa.

Glencairn will operate separately under Faber & Dumas and provide specialty wholesale services to retail brokers, direct clients and global ceding insurers in property, accident and health, energy, construction, political risk, cargo and casualty lines of business.

A spokeswoman noted that Willis intends to separate Willis' retail business from Faber & Dumas' business with "strong governance protocols."

Steve Hearn, current chairman and chief executive officer of Glencairn, will continue to run the operation. David Margrett, chairman and CEO of London-based Willis Ltd., will become chairman of Faber & Dumas, Willis said.

In addition to Glencairn, HRH owns surplus lines broker Bliss & Glennon Inc., which reported gross 2007 revenues of $37 million, in addition to other managing general agency operations.

Willis did not disclose plans for Bliss & Glennon and a spokeswoman declined to discuss whether the Redondo Beach, Calif.-based wholesaler will become part of Faber & Dumas.

"Our announcement today is focused solely on Glencairn," the spokeswoman said.

In February 2005, amid industry investigations led by former New York Attorney General Eliot Spitzer, Willis sold Stewart Smith, its New York-based wholesaler, to Charlotte, N.C.-based American Wholesale Insurance Group for an undisclosed sum.

The move, which rivals Aon Corp. and Marsh & McLennan Cos. Inc. followed soon after, was seen as a way for the brokerages to remove any perceived conflicts of interest that could arise from them owning retail and wholesale operations.

See **WILLIS** page 28

Drugmaker product liability shields set for legal tests

Fight centers on right to file suits over damages from drugs with FDA-approved warning labels

By DAVE LENCKUS

Complex legal issues will coalesce in the next several months to shape the future of product liability for makers of pharmaceutical drugs and medical devices.

Those issues include federal agency actions, past U.S. Supreme Court rulings and an upcoming case calling for constitutional interpretations as well as legislation in Congress.

At issue is whether manufacturers that market medical products with warning labels approved by the U.S. Food and Drug Administration are immune from state law product liability lawsuits that claim the companies failed to adequately warn consumers about products' potentially dangerous side effects.

Tens of thousands of plaintiffs currently are pressing product liability claims against medical product manufacturers, and that has scared insurers away from writing product liability coverage for the industry, according to the Washington-based Pharmaceutical Research & Manufacturers of America.

The FDA has sided firmly with manufacturers in recent years, stating in preambles to its regulations that the rules pre-empt, or bar, product liability claims against companies governed by the regulations (*BI*, June 30).

Most recently, the FDA late last month closed a public comment period on a proposed rule that would grant liability immunity to drugmakers that fail to warn that their products could have dangerous side effects on women who are pregnant or breast-feeding.

However, the FDA refused to comment on liability immunity for the manufacturers that it ordered on Sept. 4 to strengthen warning labels on drugs formulated to treat arthritis and Crohn's disease. While the labels already warned that patients could develop fungal infections, the warnings were not as prominent as the FDA now wants. The FDA said 45 of the 240 patients who used the drugs and developed fungal infections have died.

The Supreme Court has been more willing to shield medical device manufacturers than drugmakers, a legal dichotomy that attorneys say is rooted in the U.S. Constitution's Supremacy Clause. Under the clause, federal law and federal agency regulation supersede conflicting state law.

If a federal law or regulation expressly states it pre-empts state law, a court would have to determine only whether the federal law or regulation at issue in a case intended to pre-empt the state law

See LIABILITY page 26

NEWSCOM

The Supreme Court will hear Wyeth's appeal of a $6.8 million judgment concerning anti-nausea drug Phenergan.

Soft market, economy take toll on reinsurers

Profits still strong but trending downwards

By DOUGLAS McLEOD

NEW YORK—Reinsurers' generally strong financial performance weakened slightly during the first half of this year under the dual pressures of sliding rates and falling investment returns.

After a period of firm rates and light catastrophe losses in 2006 and 2007, softening property/casualty rates, credit market turmoil, inflation and other pressures are beginning to affect reinsurer results, industry analysts say.

"The results look relatively strong, but the trend line is deteriorating," said John L. Ward, chief executive officer of Cincinnatus Partners L.L.P. in Cincinnati.

"Overall underwriting results in 2008 will be down from where they were…but they're still going to be solid," said Pano Karambelas, vp and senior analyst with Moody's Investors Service in New York.

Beyond this year, though, continuing soft market pricing and investment income pressures could prove tough challenges for reinsurers, Mr. Karambelas and other analysts agree.

For the first six months of this year, 20 U.S. reinsurers surveyed by the Washington-based Reinsurance Assn. of America reported a combined ratio of 97.5%, a deterioration from the 90.0% combined ratio posted by 22 reinsurers for the same period in 2007 (see chart, page 22).

Net written premium volume for the 20 companies totaled $12.73 billion, up 4% from $12.23 billion for the 22 companies surveyed in the first half of 2007.

For the 10 largest reinsurers, the average weighted combined ratio expanded to 95% in the first half of this year from 88.2% for a comparable group in the same period last year. The top 10 reinsurers wrote net premiums of $10.73 billion, up from $10.15 billion in the year-earlier period.

Analyst descriptions of "relatively strong" and "pretty good" about first-half results indicate that the industry's most recent peak years are behind it.

One cause of the weakening performance is rate competition: July property catastrophe renewals saw pricing reductions of about 15% on a year-to-year basis, even for ceding insurers with Florida exposures, according to a Moody's report on the industry.

Casualty rates, including workers compensation programs, fell between 5% and 15% for July renewals, the Moody's review noted.

Both property and casualty reinsurance prices have remained above technical levels at which reinsurers can expect to make underwriting profits, but "it's been steady declines" in most lines, Mr. Karambelas said.

Declining investment returns added another drag on reinsurers' performance, analysts note.

Part of the problem is the decline in short-term interest rates, which has pushed down investment yields for reinsurers holding short-duration debt, Mr. Ward said. Falling

See RESULTS page 22

Errors & Omissions

• A chart in the Sept. 8 issue incorrectly listed Property Risk Services L.L.C. as the 10th-largest wholesale insurance brokerage. Property Risk Services is a division of AmWINS Group Inc. The 10th-largest brokerage is Bliss & Glennon Inc. with premium volume from property/casualty placements of $250 million.

To see a corrected wholesale brokerage chart, go to *www.BusinessInsurance.com/directories* and click on Insurance Wholesalers.

ADA bill enjoys widespread support

Compromise expected on measure designed to overturn rulings

By MARK A. HOFMANN

WASHINGTON—The House is expected to give final approval this week to a bill that would effectively overturn a series of court decisions that narrowed the scope of the Americans with Disabilities Act.

The Senate passed the ADA Amendments Act last week and sent it to the House—which passed its own version of the bill earlier—for concurrence. The bill would instruct courts to interpret the definition of disability under the ADA broadly. Like the House bill of the same name, the Senate measure would make clear that the use of mitigating measures, such as diabetes medication, would not remove an individual from the ADA's protections.

'I expect the House to pass this bill…. and that the president will sign it.'

Rep. Steny Hoyer, D-Md.
House Majority Leader

The chief difference between the bills is in the wording of one section, as the bill's original Senate sponsor—Sen. Tom Harkin, D-Iowa—explained as he introduced the bill shortly before Congress recessed (*BI*, Aug. 11).

"Our bill leaves the ADA's familiar disability language intact: A person with a disability is one who has a physical or mental impairment that 'substantially limits' one or more of the major life activities of the individual," Sen. Harkin said. "It does not substitute the term 'materially restricts' as in the House bill. Instead, the bill takes several specific and general steps that, individually and in combination, direct courts to take a more generous meaning and application of the definition."

The chief sponsor of the House legislation—House Majority Leader Steny Hoyer, D-Md.—welcomed the Senate's move. "I expect the House to pass this bill next week, and that the president will sign it," Rep. Hoyer said at a press conference shortly after the Senate action.

The White House previously indicated its support for the measure.

The bills came in response to a series of court decisions that restricted the scope of the ADA, including holding that the use of mitigation measures placed a person outside

See ADA page 26

Comp breach alleged in 'Troopergate'

Alaskan officials, risk management director cited in union complaint

By ROBERTO CENICEROS

JUNEAU, Alaska—A union representing state troopers in Alaska has called for an investigation into alleged workers compensation-related ethics violations by Gov. Sarah Palin's office and the state's director of risk management.

According to a letter of complaint by the union, Brad Thompson, director of Alaska's Department of Administration Division of Risk Management, may have improperly shared information with an official in the governor's office about a workers comp claim filed by a trooper who is Gov. Palin's former brother-in-law.

Allegations that the governor abused her public office by attempting to have trooper Mike Wooten fired have been dubbed "Troopergate" and have drawn international attention since Republican presidential nominee Sen. John McCain, R-Ariz., named Gov. Palin as his running mate earlier this month.

Alaska's Legislature is conducting a separate probe into allegations that the governor attempted to pressure a former safety commissioner to fire Mr. Wooten, who was involved in a divorce with the governor's sister.

In a Sept. 3 letter to Assistant Attorney General Julie B. Bockmon requesting the ethics violation probe, Public Safety Employees Assn. Inc. provided what it said is a transcript of a telephone conversation between Frank Bailey, director of boards and commissions in the governor's office, and Rodney Dial, a lieutenant in the Alaska Division of State Troopers.

AP PHOTOS

An official for Alaska Gov. Sarah Palin, who is also the GOP vice presidential nominee, is cited in an ethics complaint.

According to the transcript of the Feb. 29 phone call, there had been contact between the governor's office

See TROOPERGATE page 27

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Responsibility. What's your policy?

Court upholds auditor's liability in surplus lines insurer insolvency

By MEG FLETCHER

PHILADELPHIA—The 3rd U.S. Circuit Court of Appeals has upheld a $182.9 million judgment against PricewaterhouseCoopers L.L.P. for negligent auditing in the 1987 insolvency of the Ambassador Insurance Co., a surplus lines insurer domiciled in Vermont, with its headquarters in North Bergen, N.J.

Ambassador wrote some of its commercial, public entity and medical malpractice liability coverage on a surplus lines basis in New Jersey. Its insolvency led to establishment of New Jersey's surplus lines guaranty fund, which is the only one in the United States.

The decisions should allow all Ambassador policyholders to receive full payment for their claims, under Vermont's liquidation laws, according to a statement by Vermont Insurance Commissioner Paulette J. Thabault. As of 2005, most policyholders outside of New Jersey had received 90 cents on the dollar for their claims, while most policyholders that had New Jersey guaranty fund coverage had received 100%, according to reports at that time.

In the recent appeal, New York-based PwC unsuccessfully sought to overturn a 2005 decision by the U.S. District Court Of New Jersey jury that awarded $119.9 million plus prejudgment interest—later determined to be $63 million—against Ambassador's auditors, Coopers & Lybrand, which merged with Price Waterhouse in 1998.

PwC was found 40% guilty of failing to properly audit the insurer's financial statements, which allowed the company to remain in business beyond the point of solvency. The jury also found former Ambassador President Arnold Chait 60% at fault, but his estate was deemed unable to pay.

The lawsuit alleged Mr. Chait engaged in negligent management, breach of fiduciary duty, negligent misrepresentation and fraud, for example by increasing writings in 1983 after being ordered to reduce them, according to court documents.

PwC is liable for the full amount because the New Jersey court decided to apply New Jersey joint-and-several liability laws, which were in effect in 1985 when the lawsuit was filed. Those laws were subsequently changed so that a plaintiff would have to be at least 60% at fault to be held liable for 100% of damages.

The appellate decision included "one of the most important and extensive discussions of auditor liability by a federal appellate court in years," according to a statement from Vermont's attorney, Richard Whitney of Jones Day in Cleveland.

A PwC attorney said the company is reviewing the decision.

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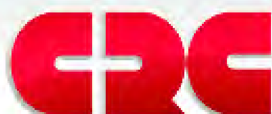

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Commentary

Waiting for the Big Bang

PAUL WINSTON

Associate Publisher and Editorial Director
Paul Winston's commentary appears monthly. E-mail: pwinston@crain.com

I held my breath last week while waiting for the world to end.

I was watching live television coverage of a physics experiment in Europe, in which a giant particle accelerator was being used to smash protons together to recreate the conditions that supposedly existed just after the theoretical Big Bang that created our universe. The reason for the suspense was the much-mentioned risk, albeit infinitesimal, that the experiment could spawn a black hole that would swallow the Swiss countryside, the European continent on which I was standing and the planet in a few short minutes. At least it seemed pretty swift in the computer animation the BBC kept showing every 15 minutes.

The live camera was trained on the command center of CERN, the European Organization for Nuclear Research that operates the Large Hadron Collider, where a lot of scientists also appeared to be holding their collective breath. There were repeated assurances, including from such luminaries of the physics world as Stephen Hawking, that there was no chance of the experiment generating a miniblack hole ("mini" connoting a kinder, gentler force of nature that can swallow planets).

Even if the black hole was a nonstarter, several scientists were geeking out with excitement at the possibility the experiment could create new, previously unknown matter, or even new dimensions. I'd seen enough "Star Trek" to know that's not always a good thing.

So I held my breath on the off chance that some scientist in the hushed room would suddenly exclaim, "Oops!" before my TV blanked out or a rift opened up in the room spewing flying monkeys from the Q Dimension.

Nothing so dramatic occurred; in fact, nothing dramatic happened at all save for some low-key congratulations and genial murmuring. I turned off the TV before the champagne corks started making small bangs in the room.

I had several thoughts as I watched this little drama play out. One was awareness that my last thoughts would have been ironic humor that I was there to witness the Big Oops. Another was whether an agency like CERN that takes such big risks even bothers with the small stuff, like fire sprinklers or workers compensation. Another was whether any company would want to write property/casualty coverage for such an operation (conclusion: It would be a lucrative risk, because if all goes well, the insurer pockets the premium; and if things go badly, no one would be around to collect or pay out on the loss).

Running in the back of my mind during these musings, I also was amazed at the audacity of these scientists taking such a risk, though one they considered a safe bet, on the future of our planet. Didn't they need our permission?

In fact, lawsuits were filed earlier this year seeking to block the experiment, alleging that it was unsafe.

'I was amazed at the audacity of these scientists taking such a risk. Didn't they need our permission?'

One suit, filed in the United States against CERN and U.S. agencies that are working with the European body alleged that the scientists' calculations were flawed and the collider would produce "strangelet" particles that would alter anything with which they came in contact, or create a microblack hole that would grow until the planet was obliterated, or both. The U.S. government called for summary dismissal of the suit, arguing among other things that the hazards alleged were "overly speculative and not credible."

Another suit, filed in the European Court of Human Rights, tried to stop the experiment alleging that it posed a "grave safety risk" to Europe; although that claim was dismissed, another charge that the risks posed by the experiment violate the right to life is pending. I'm not sure what will happen, but it seems like a slam dunk for the defense.

I'm not sure if the experiment last week "worked," but it's safe to say that this point that it did not "fail" as envisioned by some. Now that our planet did not exit the stage with a Big Bang, we can hope that the science involved will shed some worthwhile information on the beginning of the universe, or where it's heading next—and we remain along for the journey (at least until the next audacious experiment).

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Business Insurance OPINIONS

U.S. options available for medical tourists

WE WERE PLEASANTLY SURPRISED to read recently of yet another emerging trend in the health care field: Employers are providing financial incentives, such as waiving copayments and offering travel allowances, to employees who are willing to travel within the United States to undergo surgery at hospitals far from their homes where employers have negotiated lower rates.

It is a domestic variation of foreign medical tourism in which employers give employees the option and financial incentives to have surgery done in countries, such as India, Mexico and Singapore, where the cost of medical services is a fraction of the cost in the United States.

Truth be told, we think foreign medical tourism, while appealing, will always be a niche market. Having surgery can be difficult enough, but having it outside the United States adds a complication that probably will make that option unappealing for most employees, especially those with families.

> *Employers may regain some leverage with hospitals.*

Still, these innovative approaches should be commended.

Indeed, they address, at least in part, one of the drivers of high health care costs. As health care systems have merged in some parts of the country, employers and insurers have lost much of their leverage in negotiating rates with providers operating with little competition. No wonder hospital bills are so high.

By working out deals with hospitals in parts of the country that have lower costs, employers may regain some leverage with hospitals in regions where most of their employees reside. Hospitals worried about losing business are more likely to negotiate their rates.

If health care inflation is ever to be more in line with the overall growth in the Consumer Price Index, employers and insurers are going to have to keep looking at new and perhaps unorthodox strategies, such as overseas and domestic medical tourism, to achieve that vital goal.

Volatile market cycles serve nobody's interests

TALK AT THE ANNUAL Rendez-Vous de Septembre last week in Monte Carlo centered on reinsurance rates heading downward, predicated on the frequency and severity of catastrophe losses.

With Hurricane Ike heading toward Texas and surge from the huge storm affecting much of the Gulf Coast late last week, insurers and reinsurers could be in for a rude awakening. Reinsurance brokers and insurers at the Rendez-Vous agreed that one or more significant loss events could halt or even reverse the decline in rates.

As we report on page 3, some reinsurance market sources said rates can fall further because primary insurers are retaining more of the risks they write and because reinsurers are still making profits. But when aggregate losses pile up, rates will rise, beginning a new underwriting cycle. That often leads to volatility in insurance pricing, which is never a good thing for buyers.

2006 and 2007 were years of unusually low cat activity, and the industry had the luxury of collecting higher premiums without hefty claims, quite unlike 2004 and 2005, when the hurricane seasons were equally unusual because the storms were so frequent and severe.

History may not be on our side, but we hope insurers and reinsurers will work together this year to ensure that the risks they write are priced adequately, to avoid the peaks and valleys in coverage costs that make transferring risk even more challenging than it needs to be.

WRITE

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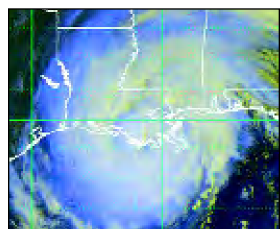
THIS WEEK'S RESULTS

Q Was Hurricane Gustav a good test of the Gulf Coast's readiness?



REUTERS/NOAA/LANDOV

40% Yes. The Gulf is in better shape for future storms.

40% Too early to tell.

20% No. More work is needed.

NEXT WEEK'S QUESTION

Q: In which area is Congress most likely to approve tort reform during the next two years?

BI Online Poll tool is sponsored by Wausau Insurance Cos.

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ADVERTISING: Boston: 617-292-4856; Chicago: 312-649-5276; Los Angeles 323-370-2405; New York: 212-210-0133
SUBSCRIPTIONS: Detroit: 888-446-1422

Business Insurance is published by Crain Communications Inc.
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Published weekly at 360 N. Michigan Ave., Chicago, Ill. 60601-3806, Fax: 312-280-3174, *biweb@crain.com*. Offices: 711 Third Ave., New York, N.Y. 10017-5806, Fax: 212-210-0704; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax: 202-638-3155; 6500 Wilshire Blvd., Suite 2300, Los Angeles, Calif. 90048-4947, Fax: 323-655-8157; 967 Bermuda Court, Sunnyvale, Calif. 94086-6750, Fax: 408-774-1155; 21 St. Thomas St., London SE1 9RY, U.K. Fax: +44-(0)20-7457-1440; 7300 N. San Anna Drive, Tucson, Ariz. 85704, Fax: 520-579-3476; 1746 Cole Blvd., Suite 150, Golden, Colo. 80401, Fax: 303-733-9941; 12524 Acuff Court, Olathe, Kan. 66062, Fax: 312 280-3174. 77 Franklin St., Suite 809, Boston, Mass. 02110-1510; Fax: 212-210-0704. $5 a copy and $97 a year in the U.S., $130 in Canada and Mexico (includes GST). All other countries, $230 a year (includes expedited air delivery). Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, *Business Insurance*, 711 Third Avenue, New York, N.Y. 10017-5806. Microfilm copies available: University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48013. Microfiche copies: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For reprints or reprint permission: The YGS Group, 1808 Colonial Village Lane; Lancaster, PA 17601; 800-290-5460, ext. 160; *BusinessInsurance@ reprintbuyer.com.*

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Rates vary amid shipping industry boom

P&I buyers see double-digit increases, while prices for other marine covers steady or falling

By MICHAEL BRADFORD

Marine insurance buyers are dealing with coverage rates that are way up in some lines of business and flat or falling in others.

While protection and indemnity rates continue to increase at double-digit rates, costs in other liability lines are steady as she goes. Cargo rates are level or falling, and those for hull and machinery coverages, which have remained level, may start ticking up as losses increase.

Meanwhile, capacity is plentiful and competition is fierce with no market-turning events so far this year.

Shipowners paying for those coverages, meanwhile, are riding high during boom times. Strong demand for goods in and out of China are keeping shippers busy, as are construction projects, such as the building boom in the Middle East, that require materials from around the world, sources say.

"Shipping is one of the few industries not yet really affected by the financial turmoil of the past year," said Richard Close-Smith, executive director of Willis Marine in London. "If you judge the industry by the number of ships laid up, there are none laid up now and shipyards continue to be full, with waiting lists" for ships in need of regular maintenance and repair.

"Despite the credit crunch, the amount of goods being shipped is higher than ever," said Nick Gooding, senior cargo underwriter at XL Insurance in London. "More importantly, the values are higher than ever. These are huge values for the market to cope with, (but) the market is capable of insuring these types of values."

While shippers are reaping the fruits of heavy demand for goods around the world, ships in some cases are operated for longer times between maintenance and crew resources are stressed, insurance market experts say. That can lead to more frequent claims, which eventually means higher insurance bills.

"As the industry has been doing so well, it tends to increase claims activity," said Gary Moore, managing principal with Integro Insurance Brokers Ltd. in New York. "We've certainly seen that on the hull side. Hull and machinery claims are increasing and underwriters are concerned."

When ships do need maintenance, some

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Marine: Insurance rates up in some lines, flat or falling in others

CONTINUED FROM PREVIOUS PAGE

shipyards are already busy with heavy backlogs of repairs, market sources say.

"Most shipyards in Europe and Asia are very busy," Mr. Moore said. "It's hard to find a suitable repair yard" in those parts of the world and others where shipping activity is high.

Insurers worry about the quality of repairs performed by some shipyards, market sources say. High steel costs have prompted fears that some shipyards may be using less than top-grade metal to save money, a practice that could have serious consequences for shippers and their insurers in the future.

"The cost of steel is up substantially," said Mr. Moore. "When ships go into a repair yard, if they can find one, they find their repair costs have gone up."

"One of the concerns of the insurance market is that shipyards will cut back on the quality of steel," said Mr. Close-Smith. Some shipyards in China are particularly suspect for that practice, he noted, and insurers worry that the steel may not be as long-lasting as they wish.

The direction of marine coverage costs, meanwhile, depends on the line of business, experts say.

On the P&I side, buyers have been hammered by steadily rising rates in recent years, and ever-increasing claims in that line of coverage mean those costs will continue to increase, industry sources say.

A report released in late August by Willis Ltd. pointed out that P&I rate increases reached double digits at the last renewal in February and are expected to rise another 10% in February 2009.

Capacity for other marine liability insurance coverages remains plentiful and affordable.

"Marine liability is very competitive," said Mr. Moore. "There is an enormous amount of capacity and new competitors have come into the U.S. market in the last six months."

That said, the large oil spill near New Orleans in July could produce a claim big enough to cause rates for coverage written for tugs and barges to spike, Mr. Moore noted.

Apart from P&I rates, the Willis report said the overall marine market was relatively weak. But signs of firming are appearing in some areas, the report said.

The Norwegian Hull Club, for example, is pushing for increases of 10% to 15% and is prepared to lose as much as 30% of its business to get the higher rates, according to Willis.

Ole Wikborg, director of the Norwegian Hull Club in Bergen, Norway, confirmed that the insurer has "cut back on our hull portfolio as a consequence of trying to impose rate increases that buyers don't need to take because there are deals elsewhere."

"Claims are horrendous and getting worse as we speak," Mr. Wikborg said.

"Hull rates have really been soft" in recent years, said Richard Crump, senior partner with maritime law firm Holman Fenwick Willan in London.

"It seems that any time someone tries to make a stand on rates, someone else comes along and says they will write the business at the old rates," he said.

"Hull insurance has always been difficult," said Thomas Artmann, product line manager–marine at Munich Reinsurance Co. in Munich, Germany. "If you look at the market association statistics, for the last eight to 10 years hull insurers have lost money. From our perspective, it's almost uninsurable. That's why Munich Re is extremely selective in this segment."

Price increases in soft marine lines will be hard to get because insurance buyers want lower costs above all, said David Loh, maritime attorney at Cozen O'Connor P.C. in New York. "Insureds are very much focused on pricing rather than service," he said. "Underwriters have to compete on price and that pushes prices lower."

Mr. Loh said he believes downward pressure will continue on marine rates in most classes. "The economy is not helping," he said. And, competition among marine underwriters remains heavy, he said.

Despite the relationship between increased shipping activity and more frequent claims, there no linkage to marine insurance costs, experts said.

"If you plotted freight rates against insurance rates, there would be no correlation," Mr. Crump said.

Shipowners aren't enthusiastic buyers of marine coverage even during boom times, Mr. Artmann said.

"Even when they are making a fortune, shipowners are still not willing to share that with insurers," Mr. Artmann said. The value of insured goods being transported and insurance premiums have not risen in tandem, he said. "The two are completely unconnected, but we consistently take risks only at adequate premiums."

The disconnect between shipping revenues and insurance premiums is particularly evident in the cargo insurance business. Rates for that coverage continue to fall, Mr. Close-Smith said.

"There is no sign of those rates leveling or going up, partly because losses have been particularly benign in the cargo market. A year ago, underwriters felt cargo rates were as low as they could be, but they have continued to go down and will go down further," Mr. Close-Smith said.

Marine mutuals could feel big impact from Solvency II

Solvency II, the European Union's proposed capitalization regulations scheduled for implementation in 2012, will hit marine insurers with varying degrees of force, but likely will affect mutual insurers particularly hard, experts say.

"It very much depends on who the player is," said Thomas Artmann, product line manager-marine at Munich Reinsurance Co. in Munich, Germany, of Solvency II's potential effect on insurers. "Obviously, Solvency II will affect all insurance companies that fall under the regulations," but could affect some more than others, he said.

"It's certainly going to affect the (protection and indemnity) market," said Richard Close-Smith, executive director of Willis Marine in London. "The mutual clubs are certainly wrestling with it."

Solvency II will introduce a risk-based capital regulatory scheme for insurers and reinsurers in Europe. The European Commission last year adopted a framework directive for Solvency II, which sets down the principles of the regime. The European Council and Parliament are discussing the text of the directive that is to be implemented in 2012.

Mutual insurers could find compliance with Solvency II more difficult than larger, well-capitalized stock-listed insurers, Mr. Artmann agreed. "It's still early days, but Solvency II might have a particular impact on companies that are not strongly capitalized. How they cope with that remains to be seen."

Some mutuals, particularly smaller ones, that may need to boost their capital under Solvency II, are not able to find that relief by accessing capital markets in the same way large companies can, sources say. The mutuals also are expected to have a harder time developing models to calculate capital needs based on their exposures, experts note. And, monoline insurers may miss out on some benefits under Solvency II that will be available for larger companies with more diversified books of business.

Some marine insurers may buy additional reinsurance to fulfill their capital requirements under Solvency II, Mr. Artmann said. "That's an area where we are keen to talk to clients."

Because of the volatile nature of marine insurance, insurers may need to raise additional capital under the new regulations, Mr. Close-Smith said.

"The aim is to protect policyholders and to ensure that there is adequate capital," Mr. Close-Smith said of Solvency II. "By industry standards, the marine market is relatively volatile. I would expect that some underwriters who specialize in marine insurance may find themselves needing to bolster capital."

Marine underwriters he has spoken with have not yet reported a lot of concern regarding how Solvency II might affect the way they write business, Mr. Close-Smith said. With the implementation of Solvency II still four years away, it is not yet affecting today's underwriting decisions, he said.

"I don't think underwriters are particularly focused on Solvency II," said Nick Gooding, senior cargo underwriter at XL Insurance in London. "It has more to do with the allocation of capital and is not something that we on the shop floor get in involved in at all."

By Michael Bradford

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Self-insurance helps trucking firms lower costs

Advantages include reduced collateral, control over claims

By JEFF CASALE

NATIONAL CRASH FACTS

2007 preliminary findings on large truck accidents.

Non-fatal crashes	136,438
Crashes with injury [causing **80,752** injuries]	54,961
Towaway crashes	81,477
Hazmat placard crashes	2,231

Source: Federal Motor Carrier Safety Administration

For trucking companies looking to self-insure their fleets, details of their financial bottom line and safety records are keys to their success.

The trucking industry, like several throughout the United States, has been dogged by high fuel prices and a worsening economy. Those motor carriers looking to trim costs are struggling as even fuel surcharges aren't enough to offset the rising costs of diesel. Gaining approval to self-insure a fleet by the Federal Motor Carrier and Safety Administration may be one way a struggling trucking company can cut costs by saving on its insurance premiums.

By self-insuring, a trucking company can lower traditional insurance costs by reducing collateral requirements that are needed when a large-deductible program is used. They also will have more control over their claims handling, which can help them control costs. It also should be noted that while self-insuring is what some industry experts deem as a viable option, it's not for everyone.

Midsize trucking companies with fleets between 500 and 1,500 trucks can have a hard time proving that they are financially capable of self-insuring the first $1 million in liability limits, the standard requirement of the FMCSA, according to several transportation brokers. And motor carriers with fewer than 500 units, which accounts for the bulk of the U.S. trucking industry, usually don't consider self-insurance an option.

"It's not surprising the larger motor carriers can produce a more favorable package to meet the criteria," said Jeff Toole, an attorney specializing in transportation law with Indianapolis-based Scopelitis, Garvin, Light, Hanson & Feary L.P. "The larger carriers have more resources to pull from and larger risk management programs. So, in a sense, the criterion to gain approval is somewhat self-filtering."

For a motor carrier to be approved for self-insurance according to the FMCSA guidelines, the trucking company must provide a "true and accurate statement of its financial condition and other evidence that establishes to the satisfaction of the FMCSA the ability of the motor carrier to satisfy the obligation for bodily injury liability, property damage liability or cargo liability." Further, the motor carrier has to provide claims and loss data, risk management program information and safety records.

Typical liability limits are $1 million for general goods and $5 million for hazardous materials. Excess insurance can be purchased to put over the top of the self-insured limit.

> **'After years of putting up annual letters of credit, we decided (self-insurance) was a way that we could avoid that collateral.'**
>
> Stan McDaniel, Arkansas Best Corp.

The process to approve, Mr. Toole said, can take as little as 90 days or as long as nearly two years. The key, he said, is to provide the information in an organized and accurate fashion because the scrutiny of the application will be tough.

"You need to be able to show your tangible net worth," said Mr. Toole. "The FMCSA is very interested in that and the reason is obvious: the FMCSA doesn't want to have concerns over a company's ability to pay claims."

Stan McDaniel, director of risk management for Arkansas Best Corp., a trucking company with more than 4,000 trucks, said that after years of working with a large-deductible program, the decision to become a self-insured motor carrier in 1992 was a way to simplify the company's insurance program and provide more flexibility.

"After years of putting up annual letters of credit, we decided that this was a way that we could avoid that collateral," said Mr. McDaniel, who is based at Arkansas Best's corporate headquarters in Fort Smith, Ark.

Relief from the collateral requirement of private insurers is the main reason why motor carriers decide to self-insure, said Al Howze, director of broking for Aon Corp.'s trucking practice in Little Rock, Ark., adding that "it's a $1 million burden that isn't on the (trucking company's)

See **TRUCKING** page 16

Acts of nature. Acts of man.
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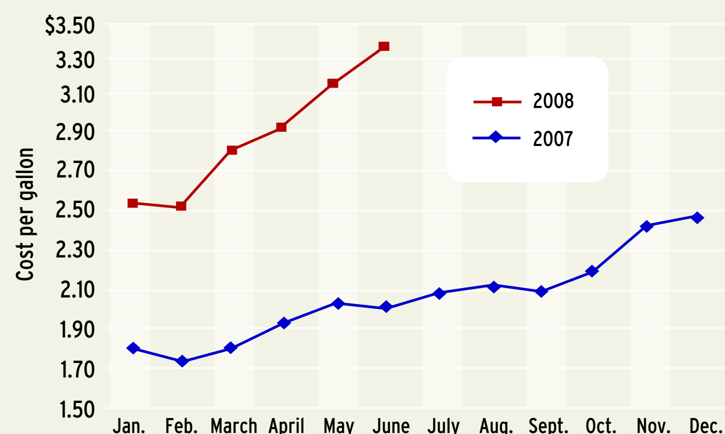

Airlines hitting financial turbulence amid soaring prices for aviation fuel

Global industry set to post a $5.2 billion loss this year, association says

By STACY SHAPIRO

As the cost of jet fuel escalates, causing dozens of airlines to post huge losses or go out of business, one of the most prominent ways to stabilize these soaring fuel costs is by hedging, experts say.

This has been done by many airlines, but experts agree that it is rarely the airline's operational risk manager—who also organizes the company's insurance programs and sorts out passenger compensation and liability issues—who is involved in reducing the jet fuel cost risk. Often it is the chief financial officer and members of an airline's board of directors who work daily to reduce this unstable exposure.

"Within Lufthansa, we don't get involved in this type of exposure," said Reiner Siebert, a member of the group executive insurance board of Cologne, Germany-based Lufthansa A.G.

"We have specialist teams that deal with this on a full-time basis. I believe that there are very few airline risk managers involved in this area," he said.

Brokers have been asked by airline clients to help mitigate the jet fuel price risk, "but we push them along to specialists in that area," said Steve Doyle, a London-based executive director at the Willis Aerospace division of Willis Group Holdings Ltd.

Jeff Poole, director of industry charges, fuel and taxation at the International Air Transport Assn. in Geneva, Switzerland, agreed that mitigating jet fuel costs often is handled by an airline's CFO and its board rather than by risk manage-

See **AVIATION** page 18

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Trucking: Few firms self-insure

CONTINUED FROM PAGE 14

balance sheet."

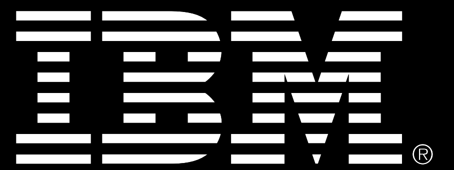
"Letters of credit are a drain on a company's credit line and as those letters of credit build up over time, those companies start to realize there's a lot of collateral out there," Mr. Howze said.

Despite building levels of collateral, he said some trucking companies cannot afford to go through the process to self-insure. According to the FMCSA, in 2006 there were 692,997 active interstate truck and bus companies that are considered eligible for self-insurance approval.

"The list is short in terms of those motor carriers that participate in the program," Mr. Howze said. "The list is probably somewhere around 100 to 150 companies tops. The larger-tier trucking companies, your top-tier largest haulers, those are usually the ones that are approved for self insurance."

Kevin McCarron, senior vp with the transportation practice at Willis of Michigan Inc., said that while middle-tier motor carriers may not be producing the strong balance sheets they were a few years ago that would allow them the option to self-insure, a soft insurance market is still a bright spot for them.

"Really the only thankful thing for motor carriers right now is a soft insurance market," Mr. McCarron said from his office in Novi, Mich. "A hard market would typically allow a motor carrier to dive into some form of self-insurance, but a hard market could unfortunately drive some midmarket transportation groups out of business."



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Aviation: Derivatives help some companies withstand jet fuel prices

CONTINUED FROM PAGE 16

ment staff..

There are two areas that have to be addressed concerning jet fuel risk, Mr. Poole said.

There is procuring fuel, which is done without negotiation on cost by the airline's fuel and purchasing department, he said.

Then there's jet fuel risk management, which includes fuel-cost hedging through purchase of derivatives, and that is dealt with by the airline's financial department and driven by the CFO and the board, said Mr. Poole.

A few airlines have combined all aspects of fuel procurement and risk management into one management team, but this is rare, he said.

Fuel-cost hedging has been around for some time, but there was not as much incentive to use it as there is now when oil prices were lower, said Mr. Poole.

"We're at a time now when fuel prices have gone up dramatically and fuel hedging has come to the fore," he said.

"As always in risk management, hedging is used to stabilize the cost of fuel so that an airline knows what its operational costs will be for the next one or two years," Mr. Poole said.

A number of airlines have hedged successfully and staved off red ink, news reports suggest.

Dallas-based Southwest Airlines Co.'s fuel hedges, in particular, added $511 million to the net income of its second-quarter results in June, when its revenue rose 11% to $2.87 billion and net income rose 15% to $321 million from the same time last year.

Excluding derivatives income, Southwest's profits for the second quarter this year was $121 million, 38% less than the same quarter in 2007, the company stated. The airline also reported that its derivatives through 2012 are valued at about $4.30 billion, which cover 80% of its fuel bill for the second half of 2008 and 70% of next year's expected costs.

However, a number of airlines may not have done well in their fuel-cost hedging, Mr. Poole said.

With oil prices falling, airlines may have purchased hedges at, say, $130 per barrel when the oil price at the time the derivative is due is actually $110 per barrel, a loss of $20 per barrel on the hedge, he said.

In fact, the global airline industry is set to post losses of $5.20 billion at year-end 2008 and $4.90 billion at year-end 2009, as high oil prices take a toll on the industry, according to an IATA forecast in September. This compares with year-end 2007 profits of $5.60 billion before the global airline industry was bashed by high energy prices, IATA stated.

More airlines have "gone bust" in 2008 than the aftermath of the Sept. 11, 2001, U.S. terror attacks, due largely to high fuel prices, according to IATA. More than two dozen airlines worldwide have gone out of business so far this year.

"Fuel prices have turned the airline industry upside down," said aviation plaintiffs' attorney Arthur Alan Wolk of the Wolk Law Firm in Philadelphia. This has resulted in concerns by some that airline safety may be being compromised, he said.

"The fuel prices have caused airlines not to carry as much fuel as they used to, which runs a critical risk of fuel in flights getting down to levels that pilots are uncomfortable with," Mr. Wolk said. "It's resulted in pressures not only that we see—such as in cabin service—but huge pressures to cut costs in every aspect of an airline's operation."

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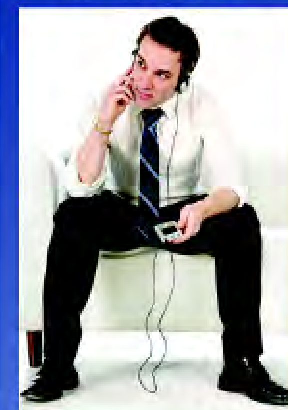

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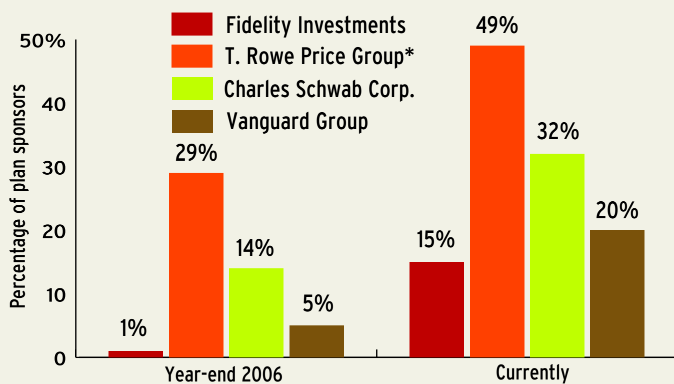
AUTOMATIC ENROLLMENT

Percentage of plan sponsors with automatic enrollment through some of the nation's largest 401(k) managers



*As of June 30
Source: Company reports

Automatically enrolled members stick with 401(k) plan investments

Despite market volatility, most participants stay put in original funds

By LISA SHIDLER

Consider the inertia of today's 401(k) plan participants the vindication of behavioral economics.

Instead of pulling out or frantically switching funds, as many as 90% of participants who were enrolled in their plans automatically—an option made possible by the Pension Protection Act of 2006 and its incorporation of behavioral-economic insights—have remained invested during the market's slump.

Even better, according to financial advisers, few participants have switched from the diversified default funds that were chosen for them automatically.

"(Investor) apathy is helping them in this case," said Scott Pritchard, an Asheville, N.C.-based managing director of Capital Directions Investment Advisors L.L.C. in Atlanta, which manages $750 million in assets. "It's helping them to not look at their accounts and stay the course, which is exactly the kind of behavior they need."

Of the plans with which Mr. Pritchard works, about 50% offer automatic enrollment; the rest are considering it. He said he doesn't have firm data on how many participants stay in default funds, but thinks the figure may be as high as 95%.

Since enactment of the Pension Protection Act of 2006, fund companies have reported seeing a rapid increase in automatic enrollment.

At Boston-based Fidelity Investments, about 15% of client companies offer automatic enrollment, up from 1% in 2006.

Investors who are enrolled automatically or into default funds tend to stay in those funds, said Tom Corra, a senior vp. He said 80% of participants placed in Fidelity's Freedom Funds are still in the funds two years later.

> **Automatic enrollment 'harnesses the power of inertia instead of (having it) work against you.'**
>
> Rachel Weker, T. Rowe Price Group Inc.

"It's really the behavior that the plan sponsor is looking for," Mr. Corra said. "In the past, people have damaged themselves by trying to move money at exactly the wrong time."

At Baltimore-based T. Rowe Price Group Inc., about 49% of the 401(k) plans at client companies used automatic enrollment at the end of June, up from 29% in June 2006.

Meanwhile, over the past two years, participants have stayed in the default investment option 96% of the time.

Automatic enrollment works well because it "harnesses the power of inertia instead of (having it) work against you," said Rachel Weker, vp of T. Rowe Price's technology and product development group in Owings Mills, Md.

Building on the success of automatic enrollment, she said the next step is to encourage plan sponsors to agree to automatic increases. Many participants are automatically enrolled at a low percentage of pay, such as 3%, and the automatic step-ups would help them get closer to the desired 10% savings rate, Ms. Weker said.

At Vanguard Group Inc. of Malvern, Pa., 55 plans used automatic enrollment at the end of 2006. Today, 368 plans have gone automatic, or slightly more than 20% of the plans it administers.

Continued on next page

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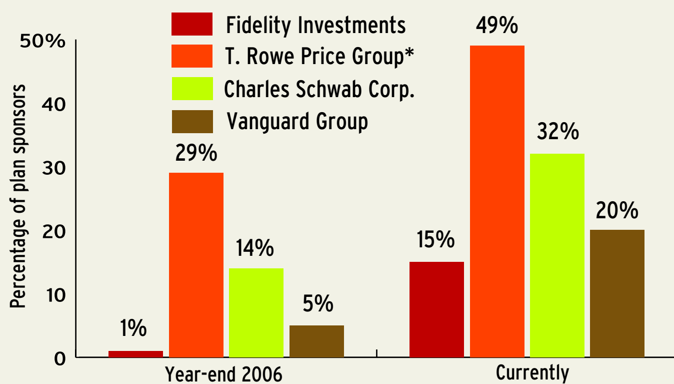

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Rachel Weker, T. Rowe Price Group Inc.

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Vanguard said roughly two-thirds of automatically enrolled participants continue to direct all of their money into default funds after eight months. After two years, 51% are still putting their entire contribution in the default fund. The remaining participants typically add just one other investment choice.

The downside of automatic enrollment is that participants feel the 3% of salary they are saving will be adequate for retirement, said Gerry Mullane, a principal in Vanguard's institutional-investor group.

"People will take that 3% as an endorsement from the employer," he said.

"While they might think of saving 5%," they often stay with the 3% default because that is what their employer chose for them, Mr. Mullane said.

Dean Kohmann, vp of 401(k) plan services at Charles Schwab Corp. in San Francisco, echoed the same concerns, writing in an e-mail that many participants who are automatically enrolled feel no need to make changes.

At Schwab, 32% of plans use automatic enrollment, up from 14% in 2006. About 85% of investors remain in the default funds that were selected for them, Mr. Kohmann said.

Before the adoption of automatic enrollment, the top questions from 401(k) participants concerned asset allocation, said Elizabeth Davidson, founder and chief executive of Financial Finesse Inc. in Manhattan Beach, Calif., which provides financial guidance and education to plan participants at 400 companies. Now those questions are rarely asked, she said.

"The biggest contributor (to the change) has been the psychology of automatic enrollment," Ms. Davidson said, noting that once the plan is set, participants don't feel a need to do anything.

> **'I was blown away by how happy the people were' with automatic enrollment.**
>
> Steve Dimitriou, Mayflower Advisors L.L.C.

"If they're in a fund that's already being changed, they feel they don't need to change it," she added.

Smaller companies also are joining the automatic trend.

In 2006, just 2.5% of small plans offered through Indianapolis-based OneAmerica Financial Partners Inc. offered automatic enrollment. Currently, 7.5% of plans offer it, said Bill Yoerger, a senior vp, who expects the figure to reach 10% by the end of the year.

"Our sense is that participants who use the (qualified default investment alternative) have stuck with it due to the convenience and the 'do it for me' approach," Mr. Yoerger said.

"If participants paid close attention to the (default) funds, they might be surprised to learn that many of the funds are more aggressive than they had envisioned," said Steve Dimitriou, managing partner of Mayflower Advisors L.L.C. in Boston, which manages $500 million in assets.

"There's certainly an ingrained mentality of 'set it and forget it,'" he said. "It leads to more people not looking at statements."

Mr. Dimitriou said he always thought that participants would be annoyed to be enrolled automatically, but said he's surprised by how pleased they are.

"I did it in a manufacturing plant, and I was worried that it wouldn't be well-received," he said. "I was blown away by how happy the people were."

Lisa Shidler is a reporter at Investment News, a sister publication of Business Insurance.

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Reinsurer	Net reinsurance premiums written 2008	Net reinsurance premiums written 2007	Net income 2008	Combined ratio 2008	Combined ratio 2007
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Transatlantic/Putnam Reinsurance Co.	1,856,734	1,813,208	166,576	94.2	96.0
Munich Re America Corp. [2]	1,089,085	1,104,824	311,644	105.2	102.3
Odyssey America Re/Odyssey Reinsurance [3]	963,497	965,438	291,093	98.5	95.3
Swiss Reinsurance America Corp. [4]	857,885	808,493	345,047	108.5	120.7
Everest Reinsurance Co.	788,316	1,011,748	89,331	102.5	82.7
XL Reinsurance America [5]	708,360	248,426	70,861	83.3	88.3
General Re Group [6]	673,557	788,554	167,848	110.1	87.6
Berkley Insurance Co.	669,146	831,346	178,992	93.9	89.9
PartnerRe U.S. [7]	395,194	341,950	19,386	108.9	105.6
Totals for Top 10	**$10,727,465**	**$10,154,865**	**$2,678,836**	**95.0 %**	**88.2 %**
Totals for all companies	**$12,729,593**	**$12,233,768**	**$2,679,345**	**97.5 %**	**90.0 %**

1. Underwriting results exclude assumptions from affiliated General Re Group. 2. Includes the combined results of Munich Reinsurance America Inc., American Alternative Insurance Corp. and Princeton Excess and Surplus Lines Insurance Co. 3. Includes combined results of Odyssey America Reinsurance Corp., Clearwater Insurance Co., Hudson Insurance Co., Hudson Specialty Insurance Co. and Clearwater Select Insurance Co. 4. Includes the combined results of Swiss Reinsurance America Corp. and Westport Insurance Corp. (formerly Employers Reinsurance Corp.), which are affected by significant affiliated transactions with other members of the Swiss Re Group. 5. XL Reinsurance America's net underwriting results consist of its net pooled share of the combined underwriting results of the XL America Group pool. All pool members are wholly owned subsidiaries of XL Reinsurance America. 6. All data presented for the North American property/casualty segment of the General Re Group. Underwriting results exclude certain intercompany transactions and other adjustments. Underwriting results exclude cessions to certain affiliated members of the Berkshire Hathaway Group. 7. Includes the combined results of Partner Reinsurance Co. of the U.S. and its subsidiary, PartnerRe Insurance Co. of New York.

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

Results: Lower rates, investments hit reinsurers' first-half performance

CONTINUED FROM PAGE 3

also hurt some reinsurers, more often European companies that tend to invest more heavily in equities than their U.S. counterparts, he said.

A bigger concern, though, is the extent to which reinsurers may have to write down the value of real estate-exposed assets affected by the subprime mortgage-induced credit market turmoil, industry observers say.

In a report this month, Chicago-based Fitch Ratings noted that while reinsurers' profitability and capital adequacy have "held up fairly well" during the credit crunch—especially compared with the banking industry—"their large investment portfolios essentially guaranteed that they would be unable to escape the turmoil unscathed."

A Fitch survey of institutional investors completed in June found that most respondents believe the credit markets are unlikely to stabilize until 2009 at the earliest, suggesting that reinsurers will operate "in uncertain financial markets for the foreseeable future."

One outgrowth of reinsurers' investment troubles is a possible slowdown in reinsurance rate-cutting. Underwriters may be less inclined to write unprofitable business if they know investment income won't make up for losses, observers note.

'Pressure on the investment side in some ways imposes discipline on the underwriting side.'

John L. Ward,
Cincinnatus Partners L.L.P

"Pressure on the investment side in some ways imposes discipline on the underwriting side," Mr. Ward said.

Another factor that could keep rate competition in check is the fluidity of reinsurance capital, he added. Reinsurers have been very successful raising capital when the market needs it—usually as rates are rising—and removing capital when returns are falling. Throughout last year as the latest soft market cycle developed, many reinsurers bought back their own stock or returned capital to investors in the form of dividends, analysts say.

These moves have the effect of "limiting capacity for expansion in an unfavorable market and reinforcing the need to maintain rigor in underwriting decisions," Moody's noted in its report.

Meanwhile, reinsurers will be grappling with inflation, analysts add. This includes not only the "social inflation" that pushes up reserves for long-tail casualty claims, but also recent spikes in commodity prices for oil, steel, concrete and other raw materials for construction, according to Moody's.

Rapidly rising commodity costs could boost property losses should there be a major catastrophe, and most catastrophe models do not account for commodity price spikes other than those caused by a demand surge after an event, Moody's report says.

On the other hand, the danger of a commodity-related rise in cat losses may be partially offset by declining real estate values, the report adds.

Predictions about reinsurers' near-term prospects all assume, though, that no market-turning megacatastrophe strikes this year.

"Although industry balance sheets are strong, recent history illustrates the pain that soft casualty markets can inflict on required capital year after year, and how large-scale catastrophes can remove massive amounts of capital from the market in the blink of an eye," noted a Sept. 1 reinsurance market report by A.M. Best Co. Inc. of Oldwick, N.J.

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Employers continue to freeze DB plans

By JERRY GEISEL

The number of large employers that have frozen at least one of their defined benefit pension plans continues to increase, according to a survey.

Of the 624 employers on the 2008 Fortune 1000 list that sponsor defined benefit plans, 27% have frozen at least one of those plans, according to benefit consultant Watson Wyatt Worldwide of Arlington, Va., which analyzed Securities and Exchange Commission filings. That's up from 2007, when 21.6% of 638 Fortune 1000 companies had frozen at least one of their defined benefit plans.

In 2004, as the corporate drive to freeze defined benefit plans was gathering steam, only 7.1% of 633 Fortune 1000 companies with defined benefit plans had one or more frozen pension plans, according to the survey.

In a freeze, a company continues its pension plan, but future benefit accruals stop for either some or all participants.

Typically, employers who freeze their defined benefit plans enhance their defined contribution plans for affected participants.

Employers freezing their pension plans have done so for a variety of reasons, including reducing retirement plan costs and the volatility of required contributions, which for defined benefit plans can fluctuate significantly due to changes in interest rates and investment results.

Fortune 1000 employers that have frozen defined benefit plans in recent years include Hewlett-Packard Co., IBM Corp. and Sears Holdings Corp.

The survey is available at *www.watsonwyatt.com.*

UP CLOSE Comings & Goings

JENNIFER WILLIAMS

NEW JOB TITLE: Leesburg, Va.-based president of the Minneapolis-based National Risk Retention Assn.

PREVIOUS POSITION: Director of business development and communications for Leesburg, Va.-based Armfield, Harrison & Thomas Inc.

VITAL STATISTICS: I am a certified association executive.

GOALS FOR NEW POSITION: My first goal is to meet the members and to talk with the members and learn everything I can about the industry, like what the challenges are on a day-to-day basis for our members, what they like best about NRRA and what they would like to see changed. My first goal is self-education so I know what's working and what's not. My second goal is to increase the membership of NRRA, to increase the ROI the members get from joining and to find out how to make the association more relevant to the members. My third goal is to refine and better communicate the NRRA story and, primarily, to demonstrate the financial impact of NRRA's advocacy program.

FIRST EXPERIENCE IN THE INDUSTRY: My first job was writing for a truck stop magazine and it was an industry I knew nothing about. I had to rely on the people who had been there to educate me on what needed to be done. (In insurance), I later worked for an association called NATSO (National Assn. of Truck Stop Owners), which is the association that represents the truck stop industry. While I was working there, a major component of my job was coordinating their benefits and insurance program. I did that and I did some research on captives because the association was considering putting together a captive, which ended up not happening.

ADVICE: I would say to really listen to customer complaints. When a customer, client or member takes the time to complain, you have to get over the fact that they are complaining and really see that they are taking the time to tell you what's wrong with your business.

OUTSIDE THE INDUSTRY, A DREAM JOB: Honestly, this is my dream job. But if I had to pick something else, I would say travel writer. When I was growing up, my father worked for Eastern Airlines and we got to travel the world for free, until they went out of business of course. That was such a wonderful life and I always wondered if I could support myself as a travel writer.

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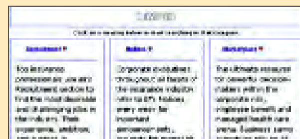

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International NEWS

Lloyd's names face limit on future legal actions

Some investors must obtain court OK to sue

By SARAH VEYSEY

LONDON—The United Kingdom's High Court has granted Lloyd's of London civil restraint orders that will prevent about 50 former individual investors in the market from bringing cases against Lloyd's without the permission of a judge.

The move stems from a long-running dispute between Lloyd's and numerous individual investors, known as Lloyd's names. The names have brought several suits in an effort to avoid making payments to the Lloyd's market, charging that Lloyd's executives fraudulently concealed the extent of expected asbestos-related losses in recruiting investors in the 1980s.

The High Court granted the orders, which will prevent certain names, "without first obtaining the permission of the court, from bringing further legal action relating to their underwriting at Lloyd's," Lloyd's General Counsel Sean McGovern said in a statement.

While there are no new cases pending, the order will prevent the names—either individually or collectively—bringing cases without approval, according to a spokeswoman for Lloyd's.

"This follows the striking out of their most recent action against Lloyd's, the latest in a line of failed cases," added Mr. McGovern.

In that case, the High Court in London ruled that Lloyd's did not conceal information about the exact nature of reinsurance-to-close deals underwritten in the early 1990s from a group of Lloyd's names (*BI,* July 14).

The names, who underwrote with unlimited liability at Lloyd's, claimed in their suit that a brochure provided to them when they began underwriting—and that subsequently was amended annually—indicated that "reinsurance to close" meant that the contracts with policyholders were novated, or ended their liabilities at the end of each underwriting year. The names argued that they believed they could resign from Lloyd's and their estates could be distributed without residual exposure.

The High Court judge ruled that Lloyd's did not deliberately conceal from the names the nature of reinsurance to close and ordered that the names pay funds they owed to Lloyd's, as well as legal costs.

More softening forecast for Canadian P/C market

By ZACK PHILLIPS

Canada's property/casualty sector is stable, but the market will continue to soften, according to a report from A.M. Best Co. Inc.

According to the rating agency, pricing is down across all major commercial lines. Rates will continue to fall due to strong capitalization and competition and despite harsh weather in 2007 and 2008, rising claims costs, volatile equity markets and dwindling investment returns, the report says.

Net underwriting income for the Canadian P/C industry decreased 18% from 2006 to 2007, according to the report.

Incurred claims are outpacing premiums, which grew only 1.1% in 2007.

Oldwick, N.J.-based Best reported that already in 2008, nine Canadian P/C firms have suffered downgrades in financial strength, compared with one in 2007, although upgrades are still outpacing downgrades.

As pricing continues to soften, firms are under more pressure to gain market share, making consolidation likely, the report says. Commercial property represented 14.5% of the Canadian P/C market in 2007.

Allianz sharpens insurance focus

Sale of Dresdner Bank removes distraction, drag on earnings: Analysts

By MICHAEL BRADFORD

AP PHOTOS

From left, Martin Blessing, chief executive officer of Commerzbank A.G., Michael Diekmann, CEO of Allianz S.E., and Herbert Walter, CEO of Dresdner Bank A.G., talk about Allianz's sale of Dresdner to Commerzbank.

MUNICH, Germany—Allianz S.E. has eliminated a drag on its core insurance business with the sale of Dresdner Bank A.G. to Commerzbank A.G., experts say, while at the same time broadening its distribution network as the largest shareholder in the new bank that will be formed from the transaction.

Insurance market sources say commercial policyholders of Allianz should not expect big changes in the way their business is handled as a result of the insurer's decision to shed the money-losing bank. Most of the business that will be handled through the new distribution network will be personal lines insurance.

Allianz, meanwhile, says it will benefit from access to millions more potential customers and could attract new business from the stable of corporate and institutional clients at Commerzbank.

Allianz, based in Munich, Germany, agreed last week to sell the bank to Frankfurt, Germany-based Commerzbank for €8.8 billion ($12.73 billion). In addition, the deal calls for up to €975 million ($1.41 billion) to be placed in a trust to cover potential losses on asset-backed securities at Dresdner Bank.

Under the terms of the deal, which is expected to be completed by the end of next year if approved by regulators, Allianz will own nearly 30% of the new Commerzbank operation. That stake will make it the largest shareholder in the bank and provide access to a broad distribution network for the insurer's products.

Commerzbank said in a statement that it will offer Allianz insurance products exclusively through its branches to around 11 million customers. As a result, the bank's previous partnership with Trieste, Italy-based Assicurazioni Generali S.p.A. to distribute insurance products will expire in 2010.

An Allianz spokesman said the new distribution arrangement will give the insurer access to around five million additional potential clients.

The spokesman said the sale of the bank was a move by Allianz to act during a "window of opportunity in German banking consolidation." The insurer remains in the banking business, he pointed out, but in a way that gives it expanded access to potential insurance clients.

Apart from the 11 million customers of the new bank that Allianz can reach under the new arrangement, there are 100,000 corporate and institutional clients of Commerzbank, the spokesman said. There is the potential for some of those clients to become Allianz policyholders, he said.

Experts say whatever the motivation for the sale of Dresdner Bank, Allianz can now pay more attention to underwriting without the bank under its wing. The insurer appears to have struck a good bargain, they say.

"For someone to come along and offer what seems to be a very good price for the unit giving them the biggest problems, it was like Christmas came early," said Vasilis Katsipis, general manager-analytics at A.M. Best Europe Ltd. in London.

Distraction

Dresdner Bank was diverting management time and energy away from insurance issues, he said. "It certainly was a distraction they could have done without."

"It was one of the areas where Allianz was facing significant problems," said Mr. Katsipis. "It was taking a lot of effort by management to try and turn it around, and make it profitable."

"The operating performance of Allianz, if you exclude Dresdner, has been very resilient," he said. "The problem has been, up to now, you couldn't exclude Dresdner."

"They did have repeated setbacks in the banking segment, which overshadowed their strong performance in their insurance and asset management operations," said Karin Clemens, a Frankfurt, Germany-based credit analyst with Standard & Poor's Corp.

S&P reaffirmed its AA financial strength rating of Allianz following the announcement of the bank's sale. The rating service said the affirmation reflects the expectation that the transaction should have a slightly positive impact on the insurer's risk-based capital adequacy and that Allianz should benefit from the distribution arrangement with the new bank.

Moody's Investors Service affirmed its Aa3 financial strength rating of Allianz following the announcement of the bank's sale. In doing so, Moody's cited the opportunity the insurer has to refocus on underwriting.

"In terms of exposure to banking business, although Allianz will remain somewhat exposed to further losses in Dresdner through its sizeable stake in Commerzbank, the performance of Commerzbank should be considerably less volatile," Moody's said in a statement.

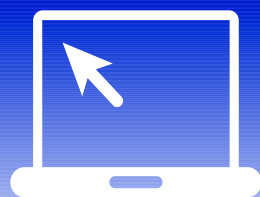
"In addition, the management of Allianz will now be free to focus more on its core business areas, which are performing very strongly despite the weaker financial markets," Moody's said.

Because Allianz largely distributes personal lines products through its outlets in banks, commercial buyers are not expecting immediate changes, if any, in their relationships with the insurer as a result of the deal.

"We would not expect to see any immediate consequences," said Gunter Schlicht, managing director at the German risk management association, Deutscher Versicherungs-Schutzverband e.V.

"I don't think we'll see a difference on the commercial side," said Mr. Katsipis. And, any boost from the realignment of the insurer's distribution system is likely to show up later, rather than sooner, he said.

"Mainly because of the impact any merger has on the sale of insurance, we wouldn't expect a significant impact for the next 12 months," said Mr. Katsipis.



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Liability: Manufacturer shields challenged

CONTINUED FROM PAGE 4

that a defendant is challenging.

That concept came into play in February, when the high court ruled in *Riegel vs. Medtronic Inc.* that the Medical Device Amendments of 1976 to the federal Food, Drug, and Cosmetic Act expressly bar state court lawsuits against device manufacturers (see box).

Drugmakers, however, have no such expressly stated liability shield in the FDCA, attorneys note. Instead, drugmakers argue they are immune from liability under the legal concept that pre-emption of state-allowed claims against them is implied.

That argument would require a court in a product liability case to find that at least one of three scenarios exist: Congress left no room for state regulation on the issue, the pertinent state law in the case conflicts with federal law or enforcing the state law would frustrate federal objectives.

Without comment, the Supreme Court in March narrowly upheld an appeals court ruling that allowed a product liability case filed under a Michigan law to proceed, because the state law was not designed to police the FDA.

But the Supreme Court is scheduled to revisit the question in *Wyeth vs. Levine* in the court's upcoming term.

In that case, the Vermont Supreme Court upheld a nearly $6.8 million product liability claim against Wyeth because the company's FDA-approved warning label on anti-nausea drug Phenergan only cautioned physicians about, but did not disclaim, a quick-injection method. The plaintiff's artery was nicked during the injection, causing gangrene in an arm that eventually had to be amputated.

There is a stronger pre-emption argument in *Wyeth* than in the case the Supreme Court allowed to proceed earlier this year, said defense attorney James M. Beck of Dechert L.L.P. in Philadelphia. That's because in *Wyeth*, the FDA knew of the risk associated with a drug infusion method and addressed it, and the plaintiffs contend the infusion method should not have been allowed, he said.

MAJOR RULINGS

The Supreme Court has ruled on liability immunity for drugmakers and medical device manufacturers in three cases since 2001.

2001 *BUCKMAN CO. VS. PLAINTIFFS' LEGAL COMMITTEE*: All federal laws regulating products pre-empt, or bar, state law product liability lawsuits that attempt to modify those products' warning labels.

FEBRUARY 2008 *RIEGEL VS. MEDTRONIC INC.*: The Medical Device Amendments of 1976 to the federal Food, Drug, and Cosmetic Act expressly pre-empt state court product liability claims challenging the safety and effectiveness of an FDA-approved medical device (*BI*, Feb. 25).

MARCH 2008 *WARNER-LAMBERT CO. L.L.C. ET AL. VS. KIMBERLY KENT ET AL.*: A product liability case allowed under a Michigan law did not conflict with federal law, even though plaintiffs could not recover damages unless they proved a drugmaker defrauded the Food & Drug Administration. The case was allowed to proceed because the plaintiffs ultimately wanted to collect damages, not police the FDA (*BI*, March 10).

But even if the Supreme Court rules in favor of drugmakers in *Wyeth*, consumers who have suffered debilitating side effects after taking medications would have other legal recourse, according to the attorneys and PhRMA. They just could not claim the manufacturers failed to adequately warn consumers, they said.

Plaintiffs attorneys argue that limiting consumers' ability to pursue state law failure-to-warn claims violates states' rights and would leave injured patients no practical legal recourse, wrecking a regulatory and liability system that has worked well in policing corporate conduct for decades.

"It was never the intention (of Congress) for the FDA to occupy the field of drug safety," said plaintiffs attorney Sol Weiss, a partner with Anapol Schwartz P.C. in Philadelphia. Unlike the National Highway Traffic Safety Administration, for example, the FDA does not design and conduct tests of the products it regulates, Mr. Weiss said.

Without the ability to argue that drugmakers failed to provide adequate product warnings, consumers would have to prove the drugs are defective, said Allison Zieve, an attorney with consumer advocacy group Public Citizen in Washington.

But all drugs are defective, essentially, because all cause some type of side effect, Ms. Zieve said. So consumers are looking for an adequate amount of accurate information in product warning labels to help them decide whether to use a drug, she said.

The Supreme Court's ultimate ruling in *Wyeth*, however, may not be the final word on drugmakers' liability.

Medical device manufacturers saw that shortly after their Supreme Court victory in *Riegel*.

Congress already is considering legislation, the Medical Device and Safety Act of 2008, that would guarantee patients the right to press state law product liability claims against medical device manufacturers.

Plaintiffs attorneys predicted the bill will not pass this year, because Republicans would not want to support a measure that President Bush likely would veto.

But the bill has bipartisan support and could be enacted during the next Congress, regardless who wins the presidential election, Mr. Weiss said. Barack Obama is a co-sponsor of the bill and John McCain has not expressed opposition to it, he said.

Ms. Zieve, however, said the bill's fate would be far more uncertain if Mr. McCain were elected.

Some legal experts predict that Congress would attempt to enact similar immunity limitations on drugmakers if the Supreme Court rules for manufacturers in *Wyeth*.

That's why even an unquestionable victory for drugmakers in *Wyeth* likely would not lead to a softer product liability insurance market in the short term, said Jim Walters, a Philadelphia-based managing director of the Aon Life Sciences Group at Aon Risk Services Inc.

Insurers, wanting to see how Congress will react, will "be reluctant to move quickly," Mr. Walters predicted.

ADA: Legislation responds to court rulings

CONTINUED FROM PAGE 4

the scope of the law's protections. Advocates for the disabled held that such legal interpretations ran counter to the intent of the ADA.

The legislation reflected the result of negotiations and compromise between employer groups and organizations representing people with disabilities. Not surprisingly, employer groups hailed the Senate action as well.

"Both bills embody a compromise reached between the disability groups, the business community and the House and Senate," said Michael Eastman, executive director-labor law policy for the U.S. Chamber of Commerce in Washington. "We're pleased that the Senate was able to pass their bill. They accomplish the same goal in different ways."

"Today's passage of the ADA Amendment Act is a victory for employees and employers. This legislation strengthens the rights of individuals with disabilities," China Miner Gorman, acting president and chief executive officer of the Alexandria, Va.-based Society for Human Resource Management, said in a statement. "SHRM and the HR profession strongly support this balanced approach that corrects court decisions that have limited the effectiveness of the original ADA."

"It is now clear that the ADA Amendments Act will certainly pass the Congress and there is every indication the president will sign the bill," said Lawrence Lorber, a partner in the Washington office of Proskauer Rose L.L.P. He noted that the measure enjoyed "really stunning bipartisan" support as well as the support of employers and advocates for the disabled.

"The bill reflects a broad consensus as to what the ADA was supposed to achieve and took away any of the uncertainties that led the Supreme Court to issue decisions that narrowed the reach of the ADA far beyond the intent of its framers," Mr. Lorber said.

Market Moves

P/C intermediary sets up shop

GLASTONBURY, Conn.—A company specializing in implementing, administering and monitoring property/casualty insurance programs has launched in Glastonbury, Conn.

Vital Insurance Partners L.L.C. will focus on developing insurance programs for insurance retailers, wholesalers and program administrators. The company, which launched in August, intends to work with insurance specialists that control a niche book of business.

President Brian Molusis leads the company located at 2389 Main St., Glastonbury, Conn., 06033. It can be reached by phone at 866-759-2101, ext. 2070, or by fax at 888-291-1382.

Ironshore Specialty secures N.Y. E&S approval

NEW YORK—Ironshore Specialty Insurance Co. has received approval from the Excess Line Assn. of New York to operate as an excess and surplus lines insurer.

The Ironshore unit will provide specialty E&S commercial insurance coverages for risks located in New York state. The unit of Hamilton, Bermuda-based Ironshore Inc. now has surplus lines approvals in 46 states.

The New York office, at One Exchange Place, New York, N.Y. 10006, can be reached at 646-826-6600.

Willis launches S. Africa M&A practice

JOHANNESBURG, South Africa—Willis Group Holdings Ltd. has launched a mergers and acquisitions practice in South Africa.

Willis' Financial and Executive Risks division will focus on providing buyer and vendor due diligence, transactional insurance products, portfolio requirements, and services arising from mergers, acquisitions, divestments, reconstruction and formal insolvencies.

William Seccombe, practice leader for the Johannesburg-based division, will lead the regional merger and acquisition team. Richard Worker, practice leader, who heads the London M&A team, will also offer support.

The South Africa division will be based at 23 Impala Road, Johannesburg. Its postal address is PO Box 55509, Northlands 2116, Republic of South Africa.

The office can be reached by phone at 27-011-535-5400 and by fax at 27-011-784-1610.

CRC Insurance Services Inc. purchases S.C. E&S broker

SUMPTER, S.C.—Birmingham, Ala.-based CRC Insurance Services Inc. has purchased Southern Risk L.L.C., a Sumpter, S.C., excess and surplus insurance broker specializing in high-risk personal and commercial properties along the East Coast.

Southern Risk's specialty lines include commercial transportation, property and liability, marine and professional coverage for directors and officers.

Terms of the agreement were not disclosed.

Southern Risk will operate as a division of CRC managing general agency Southern Cross Underwriters.

CRC is the wholesale insurance subsidiary of BB&T Corp.

Fireman's Fund opens European film office

LONDON—Novato, Calif.-based Fireman's Fund Insurance Co. has opened a London office to offer film underwriting to European film production companies.

Ian Mercer is head of the office, which will work with a unit of the insurer's parent, Allianz S.E.

"Over the years, we have been underwriting productions that are filmed in Europe and other global regions, but now we'll be able to offer an increased ease of doing business by providing local coverage we weren't able to do before, local underwriting knowledge and eliminating time differences," said Joe Finnegan, vp of Fireman's Fund Entertainment.

The office is located at 27 Leadenhall St., London, EC3A 1AA, and can be reached by telephone at (020) 7-488-1882.

Hilb Rogal Hobbs & Co. purchases G.A. Pearson

SAN DIEGO—Glen Allen, Va.-based Hilb Rogal & Hobbs Co., an insurance and risk management intermediary, has acquired all the stock of San Diego-based G.A. Pearson & Associates Insurance Brokers Inc.

Pearson specializes in commercial construction and complex property insurance. Pearson's employees will merge into HRH's existing San Diego location under the local leadership of Thomas A. James, president, and under the regional leadership of William F. Creedon, vp and West regional director.

Terms of the deal for Pearson, which had about $3.8 million in 2007 revenue, were not disclosed.

In a deal announced in June, Willis Group Holdings Ltd. is to buy HRH for $2.1 billion in a transaction expected to close later this year (*BI*, June 16).

TO SUBMIT ITEMS

BI's Market Moves column reports on activities by insurance industry companies and related entities. Personnel changes appear in Comings & Goings, while new product offerings appear in Products & Services. Please send Market Moves news to: Kristin Gunderson Hunt, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; *khunt@businessinsurance.com*. P&S items should be sent to Colleen McCarthy at *cmccarthy@businessinsurance.com* and C&G items should be mailed to Allison Martinat at the above address or e-mailed to *amartinat@businessinsurance.com*.

Ballot: Businesses unite against Colorado proposals

COLORADO BALLOT BATTLE

Proposed constitutional amendments in Colorado

PROPOSALS OPPOSED BY BUSINESS

AMENDMENT 53 Criminal Accountability for Business Executives:

Would hold a business executive criminally responsible for the failure by a business to perform a duty required by law if the official knew of the duty and the failure to perform it.

AMENDMENT 55 Allowable Reasons for Employee Discharge or Suspension:

Would prohibit private-sector employers from firing or suspending full-time employees except for specific reasons, and allow an employee who believes he or she was improperly fired or suspended to sue the employer.

AMENDMENT 56 Employer Responsibility for Health Insurance:

Would require private employers with 20 or more employees to either provide health insurance for both employees and their dependents or pay for insurance through a new state authority; limit the amount the employee must pay to 20% for employee-only coverage and 30% for dependent coverage and require the state legislature to implement the measure, including establishing the new state authority and minimum standards for health insurance plans.

AMENDMENT 57 Additional Remedies for Injured Employees:

Would require every private employer in Colorado with 10 or more employees to provide a safe and healthy workplace; allow an injured employee to seek damages in court, beyond workers compensation benefits, if the employee believes that the employer failed to provide a safe and healthy workplace.

PROPOSALS OPPOSED BY UNIONS

AMENDMENT 47 Criminal Prohibition on Mandatory Labor Union Membership and Dues:

Would prohibit requiring an employee to join and pay dues or fees to a labor union as a condition of employment; create a misdemeanor penalty for violation of this law.

AMENDMENT 49 Allowable Government Paycheck Deductions:

Would prohibit any public employee paycheck deduction, except for: deductions required by federal law; tax withholdings; court-ordered liens and garnishments; health benefit and other insurance deductions; deductions for savings, investment and retirement plans; and deductions for charitable, religious, educational and other tax-exempt organizations.

AMENDMENT 54 Campaign Contributions from Certain Government Contractors:

Would prohibit certain government contractors from contributing to a political party or candidate for the contract's duration and two years thereafter; prohibit contributors to ballot issue campaigns from entering into certain government contracts relating to the ballot issue; apply the prohibitions on campaign contributions and ballot issue contracts to any contractor with a government contract or contracts that do not use a public and competitive bidding process soliciting at least three bids and with a total value greater than $100,000 in a single year; apply the prohibitions on campaign contributions and ballot issue contracts to a labor organization holding a collective bargaining agreement with a state or local government.

Source: Colorado Legislative Council http://www.state.co.us/gov_dir/leg_dir/lcsstaff/balpage.htm

CONTINUED FROM PAGE 1

ballot here," said Douglas J. Friednash, an attorney with Greenberg Traurig L.L.P. in Denver. He represents Coloradans for Responsible Reform, a coalition of businesses and employer groups that oppose the four amendments.

Game of chicken?

"We're playing a very scary game of chicken here," said Thomas E.J. Hazard, an employer attorney with Holland & Hart L.L.P. in Denver. If all the measures win approval, "we're going to have, in my mind, just a disastrous business environment here."

Observers say the origin of Amendment 47 was passage of legislation that would have changed Colorado's modified right-to-work statute and made it much easier for unions to organize.

Under current law, employees vote twice to unionize, with the second vote requiring a 75% majority if they want to negotiate an all-union agreement. The legislation would have required a single vote and a simple majority.

Colorado Gov. Bill Ritter Jr. vetoed the legislation in February 2007, citing the issue's divisiveness. However, he issued an executive order the following month allowing state workers to have union dues deducted directly from their paychecks.

Although efforts were made to put a right-to-work amendment on the ballot previously, it was when the governor issued that order that "Amendment 47 really caught fire," said John Berry, a Denver-based attorney in private practice who represents its backers, which include some business groups and beer heir Jonathan Coors.

Under Amendment 47, workers could not be required to become union members or pay dues.

Under two related proposals also on the ballot, Amendment 54 would restrict unions' ability to make political contributions and Amendment 49 would prohibit deducting union dues from government workers' paychecks.

Just 8% of Colorado's work force is represented by unions, according to Coloradans for Responsible Reform.

There reportedly have been negotiations to encourage both sides to withdraw their proposals, which can be done by Oct. 2. However, "they've gone so far down the road" that the conventional wisdom is neither side is likely to pull their initiatives, said Rich Jones, director of policy and research at the Denver-based Bell Policy Center, a nonpartisan public policy researcher.

The men who submitted Proposition 47, consultant Julian Cole and Aurora City Councilman Ryan Frazier, said in a statement last week that they have no intention of pulling the amendment.

"Amendment 47 is a freedom issue for every worker in Colorado," Mr. Cole said in the statement. "To pull the measure before the November election would be insulting to every person who is relying on Amendment 47 to end the corrupt practice of forced unionism."

However, Larry Marquess, an employer attorney with Littler Mendelson P.C. in Denver, said there is still a chance both sides will withdraw the amendments. "If it's, in fact, a game of chicken—and that's the way I see it—it's entirely possible both sides will blink rather than taking a chance on going over the precipice."

Employers remain concerned.

"These amendments have the potential to damage some of the most vulnerable parts of the economy—small businesses, not-for-profit organizations and schools," said a spokesman for Kansas City, Mo.-based insurance broker Lockton Cos. L.L.C., which has operations in the state and is a member of the Coloradans for Responsible Reform.

"I've been watching this economic tsunami on its way to Colorado" without knowing whether if it hits, and if it does, the extent of damage it will cause, said Mr. Friednash, who said some businesses have already decided not to come to the state because of the proposals. "Some companies are putting in language in their leases that if any of these measures are passed, they have the right to break the lease," he said.

Tom Vitale, principal of Denver-based public relations firm Vitale & Associates and campaign manager for Coloradans for Responsible Reform, said these "countermeasures are going to have the opposite effect of what their proponents claim. They're going to hurt the very people that they're supposed to be helping."

Observers, say, though, they are still likely to appeal to voters.

"Voters are very busy in their daily lives and they may not look at these carefully, and one could accidentally slip through our campaign. We have a serious campaign set up to educate voters about the real impact, which will include lower wages, cuts in benefits and ultimately loss of jobs," Mr. Vitale said.

The problem is "these measures sound good," said Mr. Friednash. "Who isn't for job security and safe workplaces? We've really got our work cut out for us."

At-will employees

If Amendment 55 is approved, Colorado would be the only state aside from Montana to eliminate the "at-will doctrine," which permits employers to terminate employees without cause, assuming it is not in violation of discrimination or other laws.

Under the amendment employers must list one of nine "just causes," which include incompetence and neglect of assigned duties, before suspending or terminating employees and provide supporting documentation.

Workers who believe they were fired without just cause could sue in state court, and employers could be held liable for reinstatement, back wages, damages and attorneys fees.

Pete Meersman, president and chief executive officer of the Denver-based Colorado Restaurant Assn., said the amendment "limits the ability of an employer to make business decisions based on the needs of the company." Furthermore, "the terms of the amendment are not defined," he said.

"How would you define gross insubordination that affects job performance," said Mr. Meersman in pointing to one of the permitted reasons to terminate an employee.

Elizabeth A. MacDonald, an attorney with Faegre & Benson L.L.P. in Denver, said the amendment "could mean a lot more litigation because this enables people who feel the employer did not have just cause for termination to go right into court and sue."

Liza McKelvey, an attorney with Jackson Lewis L.L.P. in Denver, said she recommends that employers document their termination decisions in anticipation of the amendment's possible passage.

The amendment's supporters say polls indicate 70% of voters support it.

Health coverage

Under Amendment 56, employers with 20 or more workers, including part-timers, would have to pay at least 80% of employees major medical coverage and 70% of dependent coverage.

Employers could either offer the coverage directly or pay into a health insurance authority contracting with health insurers to provide coverage.

The amendment will lead to reduced employment and lower wages, Mr. Friednash said.

Rising health care costs are strangling employers as well as employees, said Mr. Marquess. But this amendment will only hurt employers already in the state by making them less competitive, keep other employers away "and ultimately hurt employees."

Workers comp

Under Amendment 57, which opponents describe as a "double dip" provision, injured employees would be able to recover damages in addition to those available under the workers comp system, and employers could still be sued and held liable for compensatory damages as well as damages including pain and suffering, emotional distress and mental anguish.

If approved, the amendment would "destroy the no-fault system of the workers comp system," said Rita Nowak, vp, workers compensation, at the Des Plaines, Ill.-based Property Casualty Insurers Assn. "You're opening up the door to significant litigation."

She noted that according to an analysis by the Boca Raton, Fla.-based National Council on Compensation Insurance, the amendment could cause workers comp system and tort-related costs to increase by $1.2 billion, or double the current total. It would put Colorado in a "unique situation from a workers comp perspective in comparison to any other state," she said.

"Workers comp rates would skyrocket, because you'll have employees negotiating their workers comp benefits by giving up their ability to sue in district court for additional remedies," said Mr. Friednash.

Individual criminal liability

Amendment 53 would extend criminal liability to executives if a business violates the law, subjecting the top officials to possible fines, imprisonment or both.

According to the Coloradans for Responsible Reform, this amendment's likely effects include hindering recruitment of talent, higher insurance costs, and politically motivated and frivolous charges filed against business executives.

A poll indicates that 80% of voters support the measure, said a spokeswoman for Denver-based Protect Colorado's Future, a coalition that supports the amendment.

Troopergate: Union seeks ethics probe in comp case

CONTINUED FROM PAGE 4

and Mr. Thompson concerning a workers comp claim by Mr. Wooten. The transcript, however, does not show what information was shared.

The workers comp claim has since been resolved and Mr. Wooten returned to work, according to the telephone call transcript. However, the conversation did include some discussion about a possible pre-existing condition that was not revealed by Mr. Wooten and other factors that could affect the claim, according to the transcript.

The union claims the telephone conversation occurred after the governor's office requested a copy of Mr. Wooten's workers comp files. The union also states that such activities violate state statutes prohibiting disclosure of employee personnel and medical records.

Mr. Bailey could not be reached for comment and Mr. Thompson did not return a telephone call.

The governor's office referred calls to Gov. Palin's attorney, Thomas V. Van Flein.

Mr. Van Flein said he could not discuss the union's complaint because it is confidential under Alaska law even though the union made it public. Mr. Van Flein, however, did provide a transcript of a sworn statement he took on Aug. 26 from Mr. Bailey. In that statement, Mr. Bailey said there is no truth to allegations that he saw Trooper Wooten's workers comp file.

"I have never seen a workers comp file. I have never seen a personnel file. I have never seen an employment hiring file on Trooper Wooten," Mr. Bailey said under oath.

Finite: Sentencing guidelines in Gen Re case call for life sentences

CONTINUED FROM PAGE 1

lowing the presentence report," said Peter J. Henning, a professor at Wayne State University Law School in Detroit.

Sentencing guidelines are not mandatory, though, and the judge "has a lot of discretion to go well below or outside the guidelines," Mr. Chung added.

Judge Droney has scheduled a Sept. 25 hearing on the loss issue.

A federal jury convicted the five former Gen Re and AIG executives in February on charges of conspiracy to commit securities and mail fraud and making false statements to the U.S. Securities and Exchange Commission.

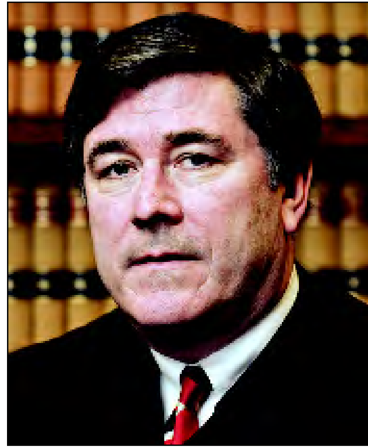
Found guilty were Ronald E. Ferguson, former General Re chief executive officer; Christopher P. Garand, former General Re senior vp in charge of U.S. finite underwriting; Robert Graham, former senior vp and legal counsel for the reinsurer; Elizabeth Monrad, former chief financial officer for General Re; and Christian M. Milton, AIG's former vp for reinsurance.

Prosecutors alleged that the defendants engineered a sham loss portfolio reinsurance transaction that helped AIG inflate its loss reserves by $500 million in 2000 and 2001. The deal, aimed at countering stock analyst concerns about AIG's reserve levels, transferred no risk of loss to AIG and featured an unwritten side agreement that AIG would refund Gen Re's $10 million premium and pay it a $5 million fee, the government charged.

The size of the loss caused by white collar fraud is typically the largest single factor in determining a recommended sentencing range under federal guidelines, lawyers say. If the loss can't be reasonably determined, courts have the option of considering the gain to the fraud's participants.

In their presentence report earlier this year, probation officials concluded that the loss from the Gen Re deal could not be calculated, and looked instead at Gen Re's $5 million fee and other factors in recommending terms of 14 to 17½ years for all five defendants.

Prosecutors, though, responded in a Sept. 5 filing that the probation report is wrong, and cited two studies by a prosecution expert calculating the loss. One looked at the change in AIG's stock price over a one-month period in 2005 as information about the fraud was made public, and pegged shareholder losses at $1.2 billion to $1.4 billion. A second study looked at price changes only on certain dates after disclosures about the deal, and found shareholder losses totaling $543 million to $598 million.



LANDOV

Judge Christopher Droney has scheduled a Sept. 25 hearing on the amount of losses caused by the sham reinsurance deal between Gen Re and AIG.

Both loss calculations push the sentencing range in the guidelines to the maximum level, calling for a life term.

A spokesman for the U.S. Attorney's office in New Haven, Conn., said prosecutors will not ask for life sentences.

Defense lawyers, however, are asking Judge Droney to reject both the prosecution and probation officials' positions.

Citing their own expert's analysis, they contend that the methodology behind the $1.4 billion loss estimate is faulty. They also argue that there was no significant drop in AIG's stock price on the handful of days in early 2005 when the Gen Re deal was disclosed, and that declines during the one-month period had other causes.

Meanwhile, the federal guidelines' heavy emphasis on loss leads to sentencing ranges that are far out of proportion with the seriousness of the defendants' crimes, their lawyers argue. The guideline recommendations outlined by prosecutors would result in a sentence for Mr. Ferguson that exceeds the average 22-year federal sentence for murder or 14-year sentence for kidnapping, his lawyers maintain.

Even if prosecutors don't actually push for life sentences, a long prison term could amount to life for a defendant like Mr. Ferguson, who is 66, his lawyers add.

Judges in some recent white collar fraud cases have rejected prosecution arguments on the extent of loss and guideline-suggested sentences.

In July, a New York federal judge sentenced Phillip R. Bennett, the former head of collapsed commodities broker Refco Inc., to 16 years in prison, despite losses that federal prosecutors estimated at more than $1 billion and a guideline sentence recommendation of life.

Government lawyers prosecuting newspaper baron Conrad Black argued that he defrauded his company, Hollinger International, of $30 million and should get 20 years in prison. Last year, a judge set the loss at $6.1 million and sentenced him to 6½ years in prison.

No sentencing date has been set in the Gen Re case, and it remains to be seen how Judge Droney will act.

A five-year term was a "substantial sentence, historically," said Mr. Henning, noting that business fraud sentences a decade ago rarely exceeded two or three years.

"White collar sentences have gotten tougher," Mr. Henning said.

Defendants' attorneys plead for leniency

HARTFORD, Conn.—Lawyers for five former General Re Corp. and American International Group Inc. executives are pressing a federal judge for leniency on several grounds as they await sentencing for their parts in a fraudulent 2000 reinsurance deal.

While the extent of losses caused by the fraud will be a key factor in their sentencing, the defendants also have asked U.S. District Judge Christopher Droney to take into account their personal background, career accomplishments, civic and charitable work, and family circumstances.

Former Gen Re Chief Executive Officer Ronald E. Ferguson, for example, the College of Insurance's 2000 Insurance Leader of the Year, cited testimonials of 370 people in a recent court filing, including friends, former colleagues, insurance industry officials and religious leaders.

Mr. Ferguson and former Gen Re Senior Vp Christopher Garand also cite what they describe as their relatively minor roles in the reinsurance deal, which prosecutors charged was intended to inflate AIG's loss reserves by $500 million.

> 'It is the fact of the defendants' convictions—not the length—that will send a message of general deterrence against corporate wrongdoing'
>
> Elizabeth Monrad's defense attorneys

Unlike other corporate fraud cases, the defendants in this case also maintain that they derived no personal benefit from the scheme. Messrs. Ferguson and Garand noted that they were on the verge of retirement when the deal was initiated.

The convictions alone are enough to send a message to the insurance industry without lengthy prison terms, argue lawyers for former Gen Re Chief Financial Officer Elizabeth Monrad. "It is the fact of the defendants' convictions—not the length of Ms. Monrad's sentence—that will send a message of general deterrence against corporate wrongdoing," the attorneys argue.

Also convicted in the case were Robert Graham, a former Gen Re senior vp and legal counsel; and Christian Milton, a former AIG vp.

—By Douglas McLeod

Willis: Broker starts London wholesaler

CONTINUED FROM PAGE 3

"Stewart Smith was competing with our own marketing mechanisms for business, and when I saw the market getting softer, I thought that that competition and conflict was going to get out of hand," Joe Plumeri, Willis' chairman and CEO, said in a previous statement provided by a Willis spokeswoman. "Glencairn is a different story altogether because you've got third-party brokers all over the world who are interested in placing business with an independent third-party wholesaler (so) that they feel they are getting the attention a third-party broker should get," he said.

Observers say that while domestic wholesale business, which operates in the U.S. surplus lines market, is indeed different from the London wholesale market and creates more of a conflict, Willis is likely to enter the U.S. wholesale market again.

"I think (Willis) never wanted to be out of the business and...would love to participate in the wholesale market again," said John L. Ward, chief executive officer of Cincinnatus Partners L.L.P. in Cincinnati. "I think they're setting up this new platform to bring in the HRH surplus lines broker."

Mr. Ward noted, however, that Willis will have to be careful to position its U.S. wholesale operation to avoid the pitfalls of the past.

Timothy J. Cunningham, a principal with OPTIS Partners L.L.C. in Chicago, said that given Willis' new Faber & Dumas wholesale platform and its imminent HRH acquisition, "it certainly seems logical (that) Bliss & Glennon will be the platform to re-establish a position as a domestic wholesaler with expansion likely to follow."

Rendez-vous: Rate cuts expected at year end

CONTINUED FROM PAGE 3

Hurricane Katrina, industry losses exceeded $80 billion and triggered sharp price hikes across the board.

Most of the insured global catastrophe activity so far this year has been borne by primary insurers, due to higher retentions, sources noted. Losses that have triggered reinsurance coverage have had a minimal effect on reinsurers' capital, they said.

"You'll continue to see retentions going up and pricing going down until people start giving capital back," said Mike Bungert, CEO-Americas at Aon Re Global in Chicago.

But other reinsurance sources disagree with specific loss projections, saying it's too early to determine where rates will go until the hurricane season ends.

The peak of the current insurance cycle occurred in 2006, with rates coming down in every renewal period since, said Wilhelm Zeller, chairman of Hannover Reinsurance Co. in Hanover, Germany. "The question is not whether rates are going up or down; the question is, 'Are rates adequate?'" he said. "After eight years of rate increases, we reached a good level, so we can afford to reduce rates."

Hannover Re expects it can continue to renew business at modestly lower rates in most lines and still meet its internal profit targets, Mr. Zeller stressed.

Noncat property treaties are showing "no material changes," and reinsurers are offering "no massive expansion in limits" on property per risk business, Mr. Priebe said.

Pricing in casualty lines, including treaties covering professional liability, general liability, workers compensation and personal accident risks, remain level, Mr. Priebe said.

"On the casualty side, rate reductions in the market are a little lower than in property lines—single-digit reductions on some large accounts," said Hans-Dieter Rohlf, managing director of Hannover Re's North American Division.

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News In Brief

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products could force the company to have to raise capital, and it could potentially be difficult to do so in this environment.'' John L. Ward, chief executive officer of Cincinnati-based Cincinnatus Partners L.L.C., said the stock drop is ''largely driven by the complete meltdown that's under way in the financial segment and further exacerbated by what's happening with Lehman Bros.'' Lehman last week lost much of its value due to mortgage-related concerns. S&P put its ratings for AIG on watch with negative implications. S&P noted in a statement while the rating agency believes AIG has sufficient capital and liquidity to meet its policy obligations, ''additional market value losses will place some strain on the company's resources.'' AIG is conducting a comprehensive review of all its businesses and plans to announce the outcome Sept. 25. Analysts have predicted the insurer may decide to divest several noncore businesses.

Ex-CEO of UnitedHealth settles backdating suit

Former UnitedHealth Group Inc. Chief Executive Officer William McGuire has agreed to pay $30 million and to forfeit stock option rights to settle a class action lawsuit over alleged backdating of stock options. UnitedHealth previously agreed to pay $895 million to settle the suit, brought by the California Public Employees' Retirement System. Dr. McGuire, who resigned as chairman and CEO in 2006, says he was not involved in the actions alleged in the suit.

N.C. proposes cut in comp rates

The North Carolina Rate Bureau proposed a 4.4% average decrease in workers compensation rates earlier this month after three years of higher rates. Improved workplace safety and lower claims costs are the two main reasons for the proposed rate cut, said Ray Evans, managing director of the Rate Bureau. The North Carolina Department of Insurance has 60 days to act on the proposal. The proposed decrease comes after years of rate increases–9.3% in 2005, 7.3% in 2006 and 1.6% last year.

Industry veterans launch insurance advisory firm

Former Minet Group Chairman Peter Christie has launched an independent advisory business with other insurance industry executives. New York-based CFC Advisors L.L.C. founders also include Michael Cahill, whose past positions include executive vp of Shelton, Conn.-based BMS Intermediaries Inc.; and J. Bernard Friemann, formerly president of Reliance National Insurance Co.'s financial risk management division. Mr. Christie also served as vice chairman of Aon Worldwide after Aon Corp. acquired Minet. CFC, which will consult on strategy for insurance-related organizations and risk issues for professional firms, associations and corporations, will have offices in Vermont and Connecticut in addition to New York.

Founder Segal retiring from Meadowbrook

Merton J. Segal, founder and chairman of Meadowbrook Insurance Group Inc., plans to retire from the company, effective Sept. 30. Mr. Segal, 79, will continue to serve on the company's board of directors as nonexecutive chairman and will also remain a consultant. He founded the specialty risk management services provider in 1955 as Meadowbrook Insurance Agency.

Noted

Former New York insurance Superintendent Salvatore R. Curiale has joined the board of **General Re Corp.** as an independent director.

Starr: Former AIG executives settle shareholder suit

CONTINUED FROM PAGE 1

sation from AIG as officers of C.V. Starr & Co. Plaintiffs alleged that AIG for years improperly paid tens of millions of dollars in undisclosed commissions and fees to managing general agencies owned by Starr.

According to a 2006 chancery opinion rejecting the defendants' motion to dismiss the case, "at times relevant to this case, Starr was controlled and owned by top AIG executives."

Starr, which is headed by Mr. Greenberg, separated from AIG following his departure from the insurer in 2005.

Under terms of the settlement, AIG will receive $115 million, of which more than $85 million would be paid by AIG's D&O insurers, according to Stuart Grant, a partner in the Wilmington law firm Grant & Eisehofer, which represented the retirement fund.

"We think it's a fantastic settlement," he said.

An attorney for Mr. Greenberg said that the former AIG chairman would not make any payments in the settlement.

"Mr. Greenberg, who built AIG into the largest and most successful insurance company in the world, will not make any payments in connection with this settlement," Lee Wolosky, a partner at Boies, Schiller & Flexner L.L.P., which represented Mr. Greenberg, said in an e-mail. "The preponderance of the settlement—$85.5 million—will be paid by insurance carriers. C.V. Starr & Co. Inc. expects to contribute between $20 (million) to $30 million, admittedly a small fraction" of the damages sought in the case.

Mr. Wolosky said that Great American Insurance Group is the primary insurer on the D&O program.

Great American provided $15 million of limits, according to a source familiar with the litigation.

Others insurers that participated in the AIG program are Gulf Insurance Co., The St. Paul Insurance Cos. Inc.—now known as Travelers Cos. Inc.—Zurich Financial Services Group, Chubb Corp. unit Federal Insurance Co., ACE Ltd., XL Capital Ltd. and Arch Capital Ltd., Mr. Wolosky said.

Gulf wrote the first excess layer above Great American's primary layer, followed by St. Paul and then other insurers generally in the order that Mr. Wolosky identified them, the source said. However, the source said, at least one of the insurers participated on more than one coverage layer.

At the time the allegations against the defendants arose, C.V. Starr was affiliated with AIG, and the individual defendants were AIG executives, which means they were covered by AIG's D&O insurance, according to sources.

But the settlement agreement specifically bars C.V. Starr and the individual defendants from tapping AIG's coverage, Mr. Grant said.

"We're pleased that the matter has been resolved," said a spokesman for AIG.

An expert on the Delaware legal system said he was not surprised that the case was settled before it went to court.

The "uncertainties, certainly from the defendants' side" and the risks of losing could have led to settlement, said Lawrence A. Hamermesh, Ruby R. Vale professor of corporate and business law at the Widener University School of Law in Wilmington.

"Basically defendants are tasked with proving that what happened was fair, and even if they have a strong case, having that burden of proof is a little scary," he said. "Obviously, $115 million was lot less than what the plaintiffs were asking, but that's what a settlement is and as I said, that's the product of concerns on both sides that the range of potential outcomes was just unacceptable."

But an attorney specializing in complex litigation said he found the decision to settle surprising given Mr. Greenberg's record.

"Recall that this is the man who went toe to toe with former New York Gov. Eliot Spitzer," said Anthony Sabino, a partner in the New York law firm Sabino & Sabino. "As we even saw earlier this week, he had a deposition scheduled with the new attorney general of New York—Andrew Cuomo—and while we don't have the details of what transpired in that closed room, all indications are that Mr. Greenberg has not yielded one inch."

"No doubt the settlement was driven by the fact that the bulk of the money was covered by the D&O insurers," Mr. Sabino said.

Douglas McLeod contributed to this report.

Integro: Broker replaces CEO, plans cost-cutting effort

CONTINUED FROM PAGE 3

was formed.

Integro was launched as a large account alternative to Marsh Inc., Aon Corp. and Willis Group Holdings Ltd., which at the time were burdened by numerous investigations into their business practices, class action lawsuits and hefty settlements with state attorneys general.

Capitalizing on that dislocation, Integro lured away scores of veteran executives and producers from its larger rivals—as well as some of their clients.

But the brokerage market is no longer in turmoil, and there's "no question" that has affected Integro, he said.

"Some of the assumptions we made when we launched the company turned out not to hold true," Mr. Garvey said.

"There was no across the board meltdown of the institutional brokers, although they certainly have had their difficulties, which has created opportunity for us," he said.

In 2007, Integro reported $58 million in revenues, with 375 employees in 10 offices in the United States, Canada, Bermuda and London serving 700 clients across the world.

One analyst agreed that the market has changed since Integro was formed.

"Things are getting tough in the insurance broker business, with soft market pressures and revitalized operations under new leadership at major competitors," Cliff Gallant, a broker analyst at Keefe, Bruyette & Woods Inc. in New York, said in an e-mail.

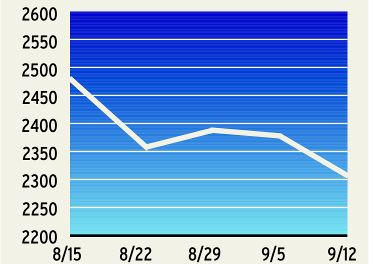
"The opportunity that existed at the time of Integro's formation—namely the disarray at Marsh—has likely closed," he said. "If Integro is to succeed, it can't count on disgruntled customers leaving the big guys. Integro will have to add real value."

Stock Index

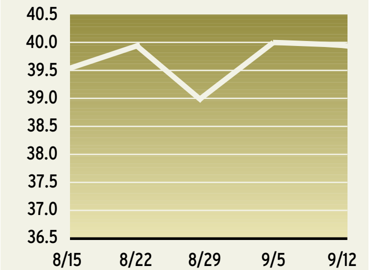
[9/8 - 9/12]

Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.IndustryFocus.com.

BI STOCK INDEX



BI BROKERS INDEX



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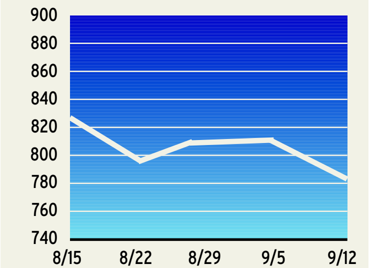

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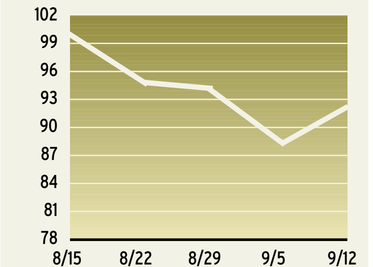


Percentage change of BI Stock Index vs. key indicators

Index	Value	Change
BI STOCK INDEX	2311.95	-2.39%
DOW JONES	11421.99	1.79%
S&P 500	1251.70	0.76%

LARGEST GAINS

Company	Change
Humana Inc.	10.06%
Old Republic International	7.87%
CNA Surety Corp.	7.05%
UnitedHealth Group Inc.	6.86%
RenaissanceRe Holdings	4.74%

LARGEST LOSSES

Company	Change
AIG	-45.66%
MBIA Inc.	-21.79%
Ambac Financial Group	-11.85%
Allmerica Financial Corp.	-10.88%
EMC Insurance Group	-8.59%

Source: Financial Content Inc. http://financialcontent.com

Contributing: Jeff Casale, Roberto Ceniceros, Colleen McCarthy

Business Insurance

END PAGE

Blue Shield uncovers plight of those lacking health cover

A common commercial industry description of operating without insurance is "going naked," a term Blue Shield of California has taken literally with 100 nude statutes depicting Californians who lack health coverage.

To that end, so to speak, Blue Shield has unveiled the exhibit of bronze statutes that are placed around outdoor pedestrian areas such as shopping malls throughout California. The health insurer hopes the nudity will draw attention to the state's 6.7 million uninsured and encourage voters to push their politicians to support universal health care.

Each statue is marked with a number representing individuals without health insurance, such as "556 of 6.7 million."

The "Uncovered" exhibit of life-size statues depicting humans generally in vulnerable poses might make some people uncomfortable, Blue Shield acknowledged.

"It should," Bruce Bodaken, Blue Shield's chief executive officer, said in a statement.

"Eight hundred thousand children in California go without health insurance," Mr. Bodaken said. "That should make us all very uncomfortable."

While debate over universal health insurance is healthy, it's time to take action, he said.

Blue Shield also unveiled an accompanying Web site, *www.letsshieldcalifornia.com*, aiming to place the magnitude of the uninsured in context.

PHIL McCARTEN/AP/BLUE SHIELD OF CALIFORNIA

"Uncovered" is an exhibit of 100 life-size statues, most in vulnerable poses, that Blue Shield of California is using to show individuals who lack health care coverage.

CORBIS

Photog's heirs own the rights to famous shots

The rights to the photo of Marilyn Monroe standing over a subway grate with her white skirt billowing in the draft belong to the heirs of the photographer that snapped the shot, a federal court judge ruled earlier this month.

In a lawsuit that pitted CMG Worldwide Inc., which represents the families and estates of dead celebrities, and the heirs of photographer Sam Shaw, U.S. District Judge Colleen McMahon ruled that the deceased photographer's daughters own the rights to the photo and CMG could no longer reproduce it.

Shaw Family Archives Ltd., led by Mr. Shaw's two daughters, Edith Marcus and Meta Stevens, sued CMG Worldwide and Marilyn Monroe L.L.C. for copyright infringement in April 2005. In the complaint, the trust said that three of Mr. Shaw's images were used on merchandise without permission or compensation.

Indianapolis-based CMG and the Marilyn Monroe company countered saying that they owned the rights to the photos because they owned the late actresses "right of publicity." In their counterclaim, the two companies asked for the court to declare that Ms. Monroe was a resident of California when she died in 1962.

After reviewing the claims that the Monroe estate made, the court ruled that Ms. Monroe was a resident of New York, just as a Los Angeles federal court had ruled in a similar case involving CMG and a different photographer.

The difference in the two cases is that California passed a law in 1974 that allows celebrities postmortem rights of publicity, a law that New York does not have.

Marine's duty now protection by life insurance

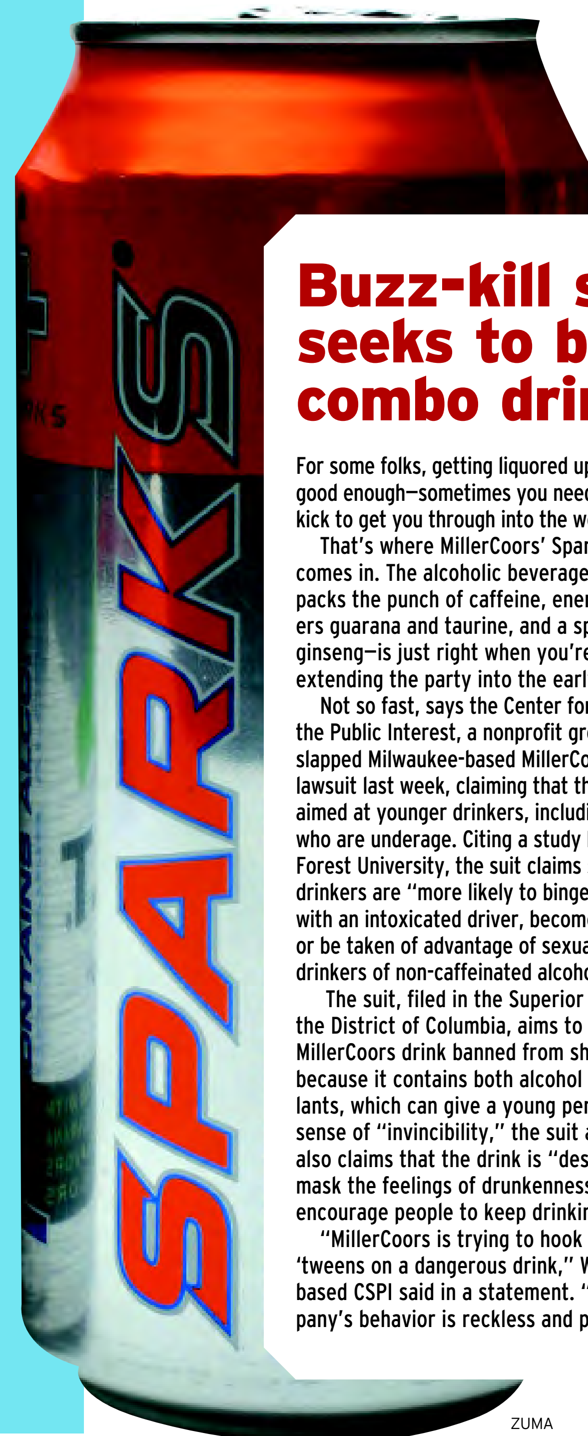
As a Marine, Jeff Sanders helped protect the president of the United States.

When he was in the U.S. Marine Corps, Jeff Sanders was charged with protecting the president of the United States. Now the Las Vegas resident is protecting the masses—as a life insurance salesman.

Mr. Sanders, an agent with Las Vegas-based Insurance Solutions Group, is a former security specialist with the U.S. Marines Corps. While on duty, he oversaw operations when the president or other key officials boarded Marine One, the call sign of any Marine Corps aircraft carrying the president of the United States.

A life-threatening accident prevented Mr. Sanders from returning to the military after his tour of duty. It also forced Mr. Sanders to consider what would happen to his family if he hadn't survived.

He pursued a career in insurance to help people realize "the importance of providing for loved ones and creating a secure future."



ZUMA

Buzz-kill suit seeks to ban combo drink

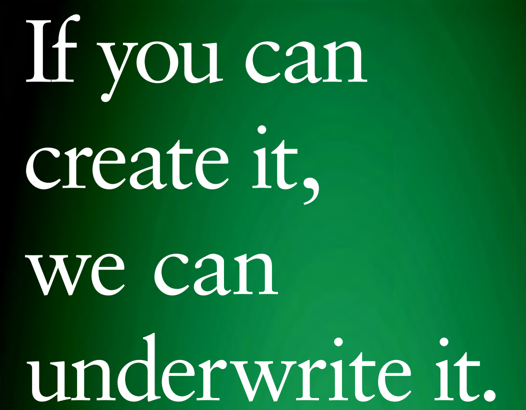
For some folks, getting liquored up just isn't good enough—sometimes you need that extra kick to get you through into the wee hours.

That's where MillerCoors' Sparks drink comes in. The alcoholic beverage—which packs the punch of caffeine, energy boosters guarana and taurine, and a splash of ginseng—is just right when you're all about extending the party into the early morning.

Not so fast, says the Center for Science in the Public Interest, a nonprofit group that slapped Milwaukee-based MillerCoors with a lawsuit last week, claiming that the drink is aimed at younger drinkers, including those who are underage. Citing a study by Wake Forest University, the suit claims such drinkers are "more likely to binge drink, ride with an intoxicated driver, become injured, or be taken of advantage of sexually than drinkers of non-caffeinated alcoholic drinks."

The suit, filed in the Superior Court of the District of Columbia, aims to have the MillerCoors drink banned from shelves because it contains both alcohol and stimulants, which can give a young person the sense of "invincibility," the suit alleges. It also claims that the drink is "designed to mask the feelings of drunkenness and encourage people to keep drinking."

"MillerCoors is trying to hook teens and 'tweens on a dangerous drink," Washington-based CSPI said in a statement. "This company's behavior is reckless and predatory."



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INDUSTRY FOCUS ISSUE 8, SEPTEMBER 2008
FOR STRATEGIC DECISION MAKERS IN COMMERCIAL INSURANCE

COVER FOCUS

BOOSTING PRODUCTIVITY

Power tools

From claims handling to agency management to paperless transactions, insurers, agents and brokers are applying information technology to do business more efficiently and increase productivity. **Page 10**

Bringing the outside in

Insurers and reinsurers are increasingly turning to outside asset managers to help improve their investment performance. **Page 14**

Playing the field

By deploying more resources on the front lines of the business, insurers are strengthening relationships with agents and customers and increasing productivity. **Page 18**

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eOverload

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The producers

Our annual ranking of the insurance industry's most productive brokers **Page 22**

Unending upgrade

Companies are seeing advantages by upgrading software continuously rather than in massive annual projects that stress IT staffs and their infrastructure. **Page 23**

Soft market, fresh focus

A soft market demands a strategic and focused approach to companies' marketing efforts, along with a willingness to "shake things up," one industry marketing expert advises. **Page 24**

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ADVERTISING: Boston 617-292-4856; Chicago 312-649-5276; Los Angeles 323-370-2405; New York 212-210-0133

SUBSCRIPTIONS: Detroit 888-446-1422

Business Insurance is published by Crain Communications Inc.
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Storms crash way onto party platforms

From the perspective of many following the news a couple of weeks ago, coverage of the major U.S. political parties' nominating conventions alongside daily reports of the 2008 hurricane season kicking into high gear provided an interesting juxtaposition.

And believe me, I'm not making some snide allusion to hot air and a lot of wind.

As someone who's been fortunate enough to attend both Democratic and Republican conventions over the years, I know that the gatherings are largely made-for-television events.

It's no secret today that these are heavily scripted, rigidly stage-managed productions. In my experience in the convention halls, I recall feeling that as cool as it was to be inside, I'd probably have a better feel for the events if I watched them on TV.

The theater has its place, though. Behind it there's a sincere effort from each party to use the stage to present their candidates to the voting public as the ones best able to ensure our country's safety and security, promote its economic and social well-being, and lead the nation forward toward a more prosperous, more perfect union.

Clearly, natural catastrophes are a threat to most, if not all, of those commitments: Americans' safety and security, their economic and social well-being and, arguably, that drive to a more prosperous, more perfect union.

The juxtaposition of this year's political and hurricane seasons became particularly obvious as Hurricane Gustav intruded on the start of the GOP convention this month.

By the end of that week, Hurricane Hannah was on course for the Southeast U.S., while Ike exploded overnight into a Category 4 storm as it made its way across the central Atlantic. Meanwhile, further out in the Atlantic, Josephine was taking shape.

The juxtaposition becomes meaningful as the two parties look to address the issue of protecting Americans from the impact of natural catastrophes. As the Republican convention came to a close earlier this month, ProtectingAmerica.org, a nonprofit organization of emergency management officials, first responders, disaster relief experts and insurers, among others, noted that both parties' national committees included provisions related to addressing natural disasters in this year's party platforms.

Both the Democrats and the Republicans, the bipartisan organization noted, approved platform planks calling for some sort of national natural disaster insurance program.

As with many issues confronting the United States, the views of the country's politicians and many of its voters—and many in the insurance industry, as well—are mixed on the proper federal role in addressing U.S. natural catastrophe exposures.

Industry trade associations, among others, disagree on the merit of federal natural catastrophe insurance legislation, much as Democrats and Republicans disagree on the proper approaches to many issues.

Many would suggest—often justifiably—that much of the discourse in modern U.S. political campaigns is, um, short on nuance. Still, in their best moments, the debates offered in the small-d democratic process provide opportunities to weigh differing policies, seeking informed decisions on what's best for the country's future. Such an opportunity exists in the debate over how best to address natural catastrophes.

BOTH THE Democrats and the Republicans approved platform planks calling for some sort of national natural disaster insurance program.

There's another interesting juxtaposition this month: the 70th anniversary of the Great Hurricane of 1938. The Long Island Express, as it's come to be known, hit Long Island on Sept. 21, 1938, before smashing into New England, killing an estimated 700, destroying more than 57,000 homes and causing what in today's dollars might be up to $30 billion in damages.

Is there another Long Island Express out there? Or another Katrina? The chances seem good enough that it's worth asking our candidates how they would defend Americans' safety, security and future prosperity against the possibility.

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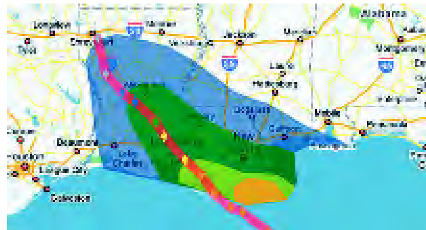
KC Scale assesses likely cyclone damage

BOSTON—Catastrophe risk management services provider Karen Clark & Co. has introduced a new tool to assess likely insured damage from tropical cyclones.

The KC Wind Damage Scale is designed to give insurance companies and others a measure of the probable wind damage to buildings, contents and business interruption caused by tropical storms or hurricanes.

The scale ranges from KC 0 for a storm with winds of less than 40 mph and in which insured damages would be expected to be negligible, to KC 7 for hurricanes with winds exceeding 160 mph and in which all but engineered and highly fortified structures would likely be destroyed.

A detailed damage description is provided for each category.



Estimated levels of wind damage from Hurricane Gustav as of Sept. 2, according to Karen Clark & Co.

For each hurricane making U.S. landfall, Karen Clark & Co. also will provide wind damage contours after landfall, giving insurance companies a good idea of the nature of claims in specific areas affected by the storm.

The company noted that the new scale differs significantly from the Saffir-Simpson Hurricane Scale, which is used to categorize hurricanes.

Saffir-Simpson starts at 74 mph, while insured damages typically happen at lower wind speeds, Karen Clark & Co. said.

The new scale is provided on an interactive map, allowing users to see the tracks and KC Wind Damage Scale designations for hurricanes hitting the United States since 1900. Users can select storms to plot from a drop-down menu, as well as choosing maps showing a standard, satellite, hybrid or vegetation view. The scale and maps can be found on the company's Web site at *www.karenclarkandco.com*. IF

BY THE NUMBERS

Firefighters battled wildfires intensified by Santa Ana winds in Malibu, Calif., last November.

U.S. natural catastrophes and estimated losses by decade
(U.S. dollars in billions, 2007 values)

Decade	Number of events	Economic losses	Insured losses
1950 - 1959	12	34	$4.0
1960 - 1969	15	46	$8.0
1970 - 1979	17	50	$9.0
1980 - 1989	13	56	$20.0
1990 - 1999	35	246	$92.0
1998 - 2007	41	304	$162.0

Source: Munich Reinsurance America Inc.

AP

ERRORS & OMISSIONS

In an August Industry Focus article about reinsurance pricing, "Playing to Win," the value of catastrophe bonds issued in 2007 was stated incorrectly. The correct amount was $7 billion, up from about $2 billion in 2005.

NAS expands business interruption eligibility

ENCINO, Calif.—Underwriting manager NAS Insurance Services Inc. has expanded eligibility for its regulatory business interruption insurance program to health care and medical risks such as hospitals, long-term care facilities and public health departments.

The newly eligible risks are in addition to the coverage already offered through the program to restaurants, food suppliers and vendors, hotels, schools and various other for-profit entities.

The RBI coverage provides companies extra-expense protection on a per-day basis for business interruption or interference due to regulators closing a business due to factors such as disease, contagion and/or infestation, as well as terrorism, homicide, suicide and/or workplace violence.

Available in all states, the coverage through Encino, Calif.-based NAS also features a legal expense sublimit to contest a regulatory shutdown and full prior acts coverage for most risks. It can be purchased for single or multiple locations. IF

Businesses of all types are increasingly aware of the impact weather can have on their bottom line, and with that awareness is coming an increasing desire to find ways to transfer or mitigate those weather-related exposures. At the same time, additional factors are emerging to increase interest in weather-risk products, including issues such as concern over the impact of global climate change, rising commodity prices and a growing focus on renewable energy sources. Recently, Brian O'Hearne, managing director at Swiss Re Financial Products Corp. in New York, discussed developments in the weather-risk market and some of the ways Swiss Re is involved in the business.

The weather-risk market has been developing for a number of years, but it seems a number of factors are driving it forward now. How are you seeing that increased awareness manifest itself in terms of market players and interest from end users of the weather-risk products?

The market is clearly growing. You've had more capital coming into the space in the last couple of years as people realize weather is a very good noncorrelated asset. In addition to the capital, you've seen increased marketing efforts and the awareness is definitely increasing over a number of lines. Whether that's retail or agriculture or energy, it shows something that I've been saying for a number of years: The beauty of the weather market is it's so flexible.

At Swiss Re, we're starting to see a lot more interest in weather risk in general, particularly when we here at Swiss Re can warehouse some of the basis risk. Swiss Re is good at taking on that basis risk, adding some of the expertise on how to handle that risk or how to model it. Long ago we realized it's not just the weather, it's the basis risk.

Prices are rising around the world for various agricultural products, seemingly adding volatility at every stage of the agribusiness process. What are some of the things you're seeing in your providing weather-risk products in the agriculture sector?

On the agriculture side, we've seen tremendous interest with respect to what we saw this summer: all the flooding in Iowa and Illinois. All the crops had to be replanted and now there are concerns about when will they be harvested, will there be an early frost, early freeze. One of the things we're unique in is being able to offer revenue protection in the ag sector.

With the increased volatility, it's sort of twofold. One, you have your processors, whether it's the ethanol plant or the corn sweetener companies that are getting exposed to crop failures. What happens if the farmer they've contracted with is unable to deliver? So we have products that are able to protect processors from rising prices.

On the producer side…how do they ensure they're going to break even or be profitable? We've got a revenue program that protects the producers for declines in yield or declines in prices.

With the increased interest in renewable sources of energy, considerable investment is expected to go into projects such as solar power facilities, hydropower generators and wind farms, notably T. Boone Pickens' plan for the world's largest wind farm. How can weather products play a role in these projects and their financing?

If you think about the renewable energy space and the Pickens plan, if you build a wind farm and the wind doesn't blow, what does it do to your earnings? A wind hedge can address that risk. If you have a wind hedge embedded in your project financing…then you're looking at it not in terms of the cost of the hedge, but at a more efficient financing. With hydro, what if you have drought? We have some very innovative structures for streamflow protection that are tied into power prices.

That's really the future of some of these products that we're offering and the educational efforts. We're moving away from the days when people bought protection and thought it should always pay out. We're moving away from that mindset. It's becoming a risk management tool and if you can see less expensive financing as a result, I believe that's what we're really heading toward. IF

IF sponsoring policy administration study

A comprehensive study will provide a detailed look at commercial insurance companies' policy administration needs, practices and solutions.

The study, being conducted by Toronto-based management consulting, advisory and research firm Insurance Technology Group Inc. with the support of Hartford, Conn.-based business-to-business brand management and marketing communications firm O'Brien Communications Group L.L.C., is sponsored by *Industry Focus*.

The original research will include two parts. The first will be an industrywide survey investigating insurance companies' business strategies and drivers as well as their experiences with policy administration practices and solutions.

The survey, targeting C-level executives from insurance companies exhibiting similar business and information technology behavior, will be conducted through one-on-one telephone interviews beginning this month, and will culminate in a Webcast sharing initial results with survey participants.

The second phase of the research, which will be based on information gathered in the first portion, will involve in-depth intelligence gathering on vendors and their policy administration solutions. It will determine vendors' business strengths, product vision, development capabilities, ability to deliver and customer support capacity.

The second phase of the study will begin in January. *Industry Focus* will report extensively on the study's findings when it's completed later in 2009. IF

The original research will include two parts. The first part will be an industrywide survey investigating insurance companies' business strategies and drivers

The second phase will involve in-depth intelligence gathering on vendors and their policy administration solutions.

THE QUOTE

'CARRIERS THAT do not step up and meet the challenge will watch their bread and butter disappear.'

KAREN PAULI
SENIOR INSURANCE ANALYST
TOWERGROUP INC.

Munich Re seminar addresses shortage of adjusters

PRINCETON, N.J.—Munich Re America Corp. sought to help address a projected shortage of experienced claims adjusters with a two-day seminar last month at the University of Wisconsin in Madison, Wis.

The program was presented by Munich Re America's claim division, along with the Coughlin Duffy L.L.P. law firm and the University of Wisconsin School of Business. The event drew 60 claims adjusters from 22 MRAm client companies.

The seminar aimed to present a practical, hands-on program about fundamental processes in claims management. Targeting claims adjusters with three to five years experience, the event's main objective was to increase the general level of expertise and skill among primary insurer claims departments, thereby improving those companies' loss experiences.

Through the seminar, the reinsurer sought to share information about principled, fair claims processes and practices.

"The loss of experienced adjusters due to retirements and the difficulty in attracting and retaining new claims talent continues to be one of our industry's greatest challenges," John Rodgers, chief claims officer and senior vp of Princeton, N.J.-based Munich Re America, said in a statement.

"The claims function has evolved in such a fundamental way that it now requires not only more sophisticated technical expertise, but the ability to coordinate diverse and complex information systems," Mr. Rodgers said. IF

A.M. Best releases details on evaluating contingent capital

OLDWICK, N.J.—A.M. Best Co. Inc. has released a new methodology, "Analyzing Contingent Capital Facilities," describing how the rating agency evaluates contingent capital in reviewing companies' financial flexibility and capital management.

Insurance organizations use contingent capital facilities to provide financial flexibility and protect their balance sheets against unexpected events. The facilities also can help companies take advantage of favorable business opportunities or move into new lines of business.

Because of the insurance industry's interest in contingent capital facilities, Oldwick, N.J.-based Best determined provisions that likely would warrant credit in the Best's Capital Adequacy Ratio, which measures risk-adjusted capital available to meet policyholder obligations.

The document outlining A.M. Best's contingent capital facility analysis methodology is available on the company's Web site at *www.ambest.com*. IF

Chubb to back up-and-coming filmmakers

WARREN, N.J.—Chubb Corp. plans to support student and emerging filmmakers and help promote the future of filmmaking through a new alliance and scholarship program.

As part of an alliance with the Council on International Nontheatrical Events, Chubb established a scholarship for the 2007 and 2008 winners of the CINE Award of Excellence in the student division. The scholarship includes a $1,500 cash award and $2,000 in legal fees to help defray costs associated with rights clearance.

Chubb says that film students often are so caught up in the artistic side of a film project, they fail to anticipate potential legal issues.

Warren, N.J.-based Chubb has been involved in underwriting film productions for more than 40 years, including feature films, documentaries, television productions, commercials, music videos and educational films.

The 2006 film Labou is among the film productions insured by Chubb.

The company's new Film Producers Risk policy, which helps pay for the additional costs of completing a production that is interrupted or has to be re-shot due to specific causes, was developed to address advances in filmmaking over the past decade.

The policy extends through a project's post-production, rather than only covering losses through the completion of principal photography.

Established in 1957, Washington-based CINE helps emerging and established film, video and new media professionals advance their careers. IF

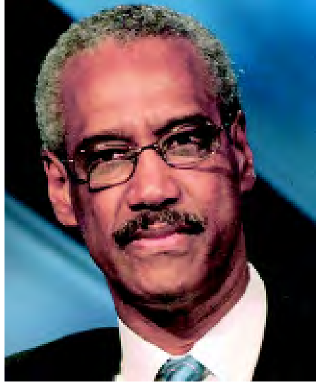
How does an insurance producer build strong relationships?

Simple - by understanding my business. They know that, like most commercial construction companies, my business faces major insurance issues like construction defects, inexperienced or overworked employees, and poor bookkeeping. My producer suggested targeting more government-funded work, since spending is expected to remain high in the next decade, and they even recommended new construction methods that could reduce my costs.

Are you prepared to speak about your client's business? Get a free industry Call Prep Sheet and learn how by visiting www.firstresearch.com/myproducer.

866 788-9389

First Research, the leading provider of Industry Intelligence, helps producers stay informed about their client's business to make an immediate impact, become a problem solver, and improve client relationships.


Mr. Bell

Swiss Reinsurance Co. has named **Walter Bell** chairman of Swiss Re America Holding Corp. Mr. Bell, who will be based in New York, had been commissioner of the Alabama Department of Insurance since 2003. He succeeds **Roger Ferguson**, who left Swiss Re to join TIAA-CREF.

Lincolnshire, Ill.-based Hewitt Associates Inc. has named **Eric Fiedler** and **Yvan Legris** co-presidents of its consulting business effective Oct. 1. Mr. Fiedler, who has been based in Shanghai, China, where he headed Hewitt's Asia-Pacific consulting business, will relocate to Lincolnshire. Mr. Legris will remain in London, where he leads Hewitt's U.K. consulting and benefits outsourcing business. They succeed Perry Brandorff, who is leaving the company.

Kevin C. Werle has been named executive vp and chief risk officer of Hamilton, Bermuda-based Max Capital Group Ltd. Before joining Max Capital, Mr. Werle was vp at New England Asset Management Inc., where he was responsible for risk management, information technology and quantitative research. In his new post, he takes on responsibility for functions previously performed by Peter Minton, Max Capital's executive vp and chief operating officer, or Jim Tees, the company's executive vp finance and investments.

Vanessa A. Wittmann has been named executive vp and chief financial officer of New York-based Marsh & McLennan Cos. Inc. Ms. Wittmann succeeds Matthew B. Bartley, who is leaving the company. Ms. Wittmann most recently was CFO and executive vp of Adelphia Communications Corp.

Aon Corp. has named **Warren Mula** chairman and **Eric Andersen** chief executive officer of Aon Risk Services' U.S.-based retail operations. Mr. Mula previously was executive vp and managing principal of Aon's national service management group. Mr. Andersen previously was U.S. retail field leader and CEO of Aon Global Americas. Both are based in New York.

Hartford Financial Services Group Inc. has appointed **Marc Lieberman** president and CEO of Hartford Life Ltd., the Connecticut-based company's European insurance unit based in Swords, Ireland. Mr. Lieberman, who previously was CEO of ING New Zealand, replaces Michael Kalen, who is returning to the United States as Hartford's senior vp of finance.

Philadelphia-based CIGNA Corp. has named **William Atwell** president of CIGNA International. Mr. Atwell, who will be based in Philadelphia, joins CIGNA from Charles Schwab Corp., where he held various senior positions. He succeeds Paul Hartley, who is retiring.

London-based specialty insurer ACE Global Markets has named **Matthew Shaw** chief underwriting officer. Mr. Shaw also was named chairman of ACE Tempest Re Europe, where he previously was managing director.

Roger Millay has been appointed CFO of Arlington, Va.-based consulting firm Watson Wyatt Worldwide. Mr. Millay succeeds Carl Mautz, who retired. Mr. Millay previously was senior vp and CFO at Discovery Communications L.L.C.

Mr. O'Connell

Thomas O'Connell has been named president of the new Chicago office of broker Hylant Group Inc. Before joining Hylant, Mr. O'Connell was senior vp at Aon Risk Services in Chicago.

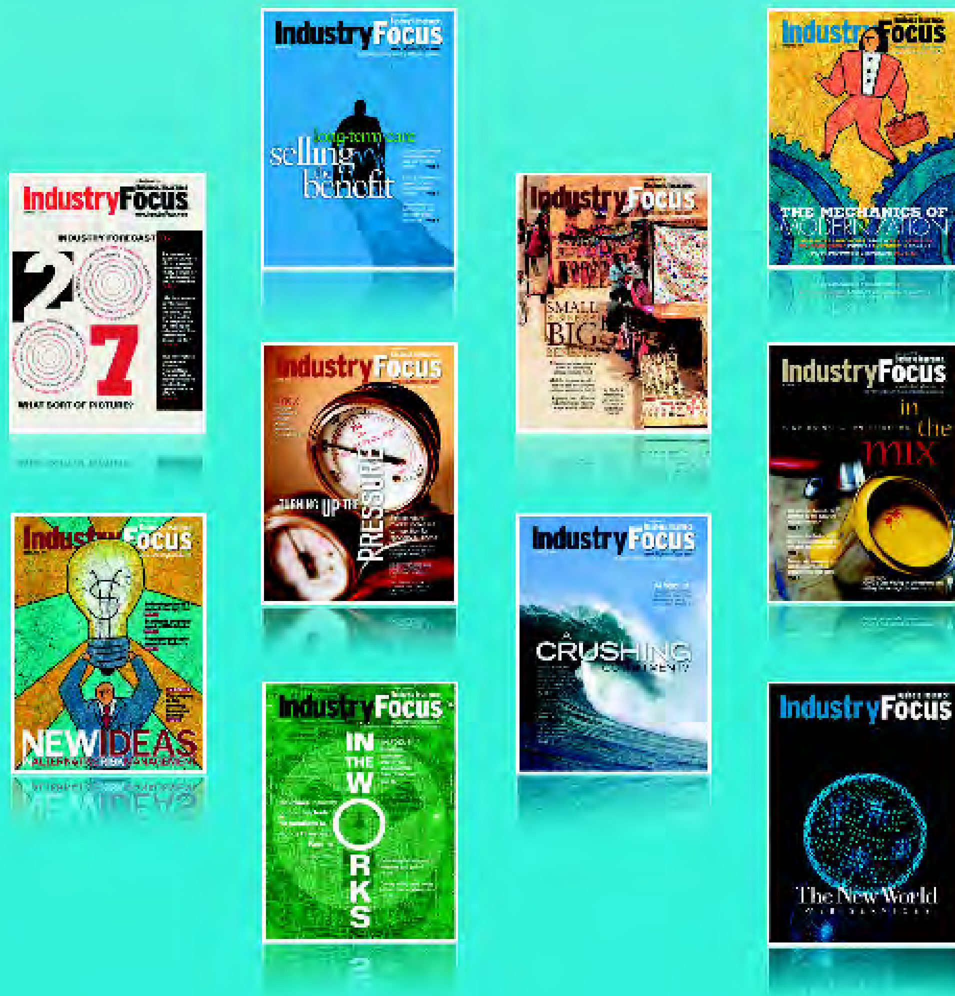
London-based Willis Group Holdings Ltd. has made several appointments at Willis Re, the company's reinsurance intermediary. **Gary Schmalzriedt**, who most recently had been working as an industry consultant and previously was chairman and CEO of ACE Overseas general, has been named chairman of Willis Re. **John Ehringer**, president of Willis Re U.S., has been named global chief operating officer. Mr. Ehringer will remain president of Willis Re U.S. through the end of the year, with a successor to be named later. **Mark Lever** was promoted from managing director for operations, international and specialty, to chief administrative officer for Willis Re globally.

New York-based Guy Carpenter & Co. L.L.C. has named **Trisha Rozas** to the newly created post of chief information officer. Ms. Rozas, who will be based in the firm's Hoboken, N.J., office, most recently was CIO for commercial finance at CIT Group.

United America Indemnity Ltd. has appointed **Scott Reynolds** president of United National Group, one of Cayman Islands-based UAI's three U.S. divisions. Mr. Reynolds, who most recently was president of the Specialty Underwriting Division of AmWINS Group Inc., will be based in Charlotte, N.C.

Dallas-based broker Apex Global Partners has named **Scott Brock** partner and COO and **Ian Packer** partner and CFO. Both are newly created positions. Both Messrs. Brock and Packer previously were partners with Dallas-based Tobat Capital L.L.C. IF

Clear Editorial Focus



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Feb 18	Alternative Risk Markets	Published
Mar 17	Reinsurance Technology	Published
Apr 21	Specialty Markets	Published
May 12	Information Technology	Published
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Jul 28	Special Insert – Industry Focus Guide	Published
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Oct 20	Benefits & Financial Services	Sep 22
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boosting PRODUCTIVITY

Technology options enhance efficiency

By Meg Fletcher

Property/casualty insurers have more technology options to help them improve productivity during the current soft market than life/disability insurers, an expert says.

For example, a Connecticut municipal risk pool, a Pennsylvania multiline insurer and an Ohio insurer of educators adopted programs that helped them improve claims handling, policy administration and client feedback, respectively.

But for life/disability insurers, "the technology vendor market remains immature," Kimberly Harris-Ferrante, a researcher with Gartner Inc., said in a report last month.

"Interest among life and disability insurers in buying independent life claims management systems is growing in North America, Europe and Asia/Pacific," she said. Long-tail and "highly interactive" claims, such as long-term care, critical illness and disability, are driving disability/life insurers' interest, she said.

Yet, stand-alone claims management solutions for life insurance "is limited and emerging," Ms. Harris-Ferrante said. "Solutions are in their infancy with functional and line-of-business gaps."

Property/casualty insurers seeking to update legacy systems typically adopt claims-handling processes before they adopt new policy administration systems, said Randy Wheeler, the San Ramon, Calif.-based managing director of Aon eSolutions. He founded Valley Oak Systems, now a unit of Aon Corp., that laid the foundation for the iVOS technology.

Once new technology is implemented and paid for, insurers operate more efficiently, often by increasing business volume without reducing staff. For example, freeing adjusters from routine administrative duties gives them more time to handle claims.

"The idea is to give them more time to do their jobs better" to reduce the costs of the claims-handling area rather than doing so by reducing staff to handle the claims, Mr. Wheeler said. For example, a claims handler who can quickly control a potentially costly claim and prevent it from becoming a lost-time claim improves productivity.

For three property/casualty insurers, new technology helped them boost productivity in different ways.

Significant technological updates helped a major nonprofit public entity risk pool, the Connecticut Interlocal Risk Management Agency, transform from a residual market solely for workers compensation to a market leader in insuring a wide range of liability and property coverages.

New Haven, Conn.-based CIRMA, which began operating in 1980, primarily serves the risk financing and risk management needs of 169—or 85%—of Connecticut municipalities as well as many other local public agencies such as school districts. Its 2007 gross written premiums were $78 million.

"With our success in the market, our vision is to establish a holistic automation strategy," said Bruce Wollschlager, CIRMA's president and chief executive officer.

SAME STAFF, BIGGER LOAD

CIRMA's first step was to address the problem of trying to operate its workers comp pool with two separate claims management and policy administration systems at a time when annual claims volume had increased to 22,000 from 12,000. The legacy system had separate silos of information and a manual, spreadsheet-based approach to underwriting member policies, he said.

In 2005, CIRMA implemented the iVOS claims management system. In 2006, the implementation won the Insurance Accounting & Systems Assn.'s technology achievement award.

The product offered a "highly integrated and interoperable 'one system' platform; browser-based technology that would enable Internet access and functionality; and 'next generation' claims management capabilities" so CIRMA claims handlers could help pool members reduce the frequency and severity of losses, according to statements.

One advantage of iVOS is that it is not necessary to install anything on clients' individual computers. One copy of the software is installed on the client's server, Mr. Wheeler said.

Streamlined functionality helped the workers comp pool operate more efficiently so the same size staff could handle the increasing claims load. It also kept the pool's administrative expense ratio low—at 13.6% in 2004-05 and 10.3% in 2005-06—compared to the industry average of 22%.

"The productivity factors in migrating to iVOS are significant, but the real key was improving decision-making and improving the risk management environment of our municipalities," Mr. Wollschlager said.

'WITH OUR SUCCESS in the market, our vision is to establish a holistic automation strategy.'

BRUCE WOLLSCHLAGER
CONNECTICUT INTERLOCAL RISK MANAGEMENT AGENCY

The new system allowed adjusters to provide member municipalities with more timely and refined loss data, which resulted in more effective risk management programs to reduce the frequency and severity of losses.

For the workers comp pool, CIRMA implemented the policy administration system earlier this year and plans to do so for a second pool in February 2009. That pool has combined members' liability, automobile and property risks since 1986.

The policy administration system offers a wide variety of capabilities to help the pool managers process and administer policies as well as underwrite and rate coverages, according to Aon. They include a rating engine, comprehensive policy transactions, customized reports, a sophisticated business rules engine, compliance with regulatory requirements and an integrated billing module that sends premium invoices to clients.

"When this phase is complete, we'll have an enterprisewide view of our business and improve reporting and data analysis capabilities to enhance decision-making throughout our organization," Mr. Wollschlager said.

Messrs. Wollschlager and Wheeler agreed that an important factor in the success of the project was the collaborative relationship between the vendor and the client.

"The cultural fit was critical," Mr. Wollschlager said.

As the IASA explained in its award summary, "CIRMA was enthusiastic about working with Aon eSolutions because the vendor adhered to a service-oriented culture and client-focused philosophy that was similar to its own."

In choosing a technology vendor, an insurer should look for a compatible partner, Mr. Wheeler said. "You can have all the vision you want, but you have to have a good team," he said. Having a similar culture is "is very important" because "it really makes everything work," he said.

And one byproduct of a successful technological upgrade is that such insurers often have an easier time attracting quality employees, Mr. Wheeler said.

Yet another approach was taken by PMA Insurance Group, which plans to retire its current system and adopt Guidewire Software Inc.'s ClaimCenter as the technology platform for its claim-handling needs for all lines of business—workers compensation, commercial auto, commercial multiperil, general liability and umbrella insurance.

The insurer chose the platform for its flexible business rules "that enable claims organizations to optimize and monitor the claims process." It allows claims executives "to define, enforce and continually refine their preferred claim-handling practices," according to San Mateo, Calif.-based Guidewire Software.

"Providing high-quality claims service is central to our business," said Kurt Schuhl, senior vp and chief claims offi-

cer for Blue Bell, Pa.-based PMA. "ClaimCenter has been designed to work with the adjusters—not against them. We find it to be a very intuitive, user-friendly application with comprehensive functionality to empower our claims team to work more efficiently and free them to focus on the job of adjusting claims."

The software's use of business rules "provides a flexible and cost-effective solution to meet the needs of our business and servicing our customers," said Jim Klotz, the insurer's senior vp and chief information officer.

Horace Mann Educators Corp., a Springfield, Ill.-based insurer that provides life and P/C insurance to teachers, received an award earlier this year for its use of a customer feedback program to drive improvements in the insurer's call center process and system.

The Best Use of Voice of the Customer award was sponsored by the International Quality & Productivity Center, a New York-based group that organizes professional conferences.

"In today's service-based networked economy, it's imperative that we go beyond listening to our customers," said Dennis Bianchi, the insurer's senior vp–claims and regulatory affairs.

TWEAKING THE SYSTEM

In a typical situation, a policyholder calls a Horace Mann claims representative to report a claim—such as a tree falling on his house. The representative takes the information and files the claim but also asks the policyholder to voluntarily provide his e-mail address so the representative can e-mail him a feedback survey.

The claims representative then promptly sends the policyholder an e-mail containing half a dozen questions about that interaction, which are designed to evaluate the policyholder's degree of satisfaction with the claims-filing process and understanding of what happens next in the process of repairing his house, Mr. Bianchi said. The questions are basic but proprietary.

About 25% to 30% of policyholders return the questionnaires and the results are used to tweak the system to improve it, Mr. Bianchi said. For example, policyholder responses caused the insurer to modify its processes and then train claims representatives to better communicate repair information, he said.

If there is a potential problem, "we try to nip it in the bud," he said.

The insurer began the feedback program in its claims department in 2006, expanded it to include its general customer service unit late last year and then its life customer service unit earlier this year, Mr. Bianchi said.

The information also is used to help evaluate the performance of individual customer service representatives. The information is reported to the representatives in weekly and periodic reports.

When Horace Mann introduced the program, "I was surprised at how much good we were doing and how satisfied the (policyholders) were," Mr. Bianchi said. "We are very pleased with the process."

He predicts that electronic customer feedback will increase as mature policyholders are replaced by younger ones. That is because customers age 35 and younger provide e-mail addresses far more readily than their older peers, he said.

The vendor providing the system was ResponseTek Networks Corp., which is based in Vancouver, British Columbia.

Syed Hasan, the vendor's president and CEO, praised Horace Mann as "a leader in the insurance industry" because of its "progressive approach to customer service management."

"Most companies talk about listening to their customers, but very few incorporate the customer voice into day-to-day operations to drive improvements in the customer experience and increase customer advocacy," Mr. Hasan said. IF

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On the money

Insurers turn to professional asset managers to improve their investment portfolios

By Rodd Zolkos

Looking to make their investment portfolios more productive, insurers and reinsurers are turning more and more to outside asset management.

Various factors are driving the trend, including turbulent credit markets, new complex asset classes and a focus on core competencies. And while outside asset management was considered the province of small and midsize insurers for many years, even the largest companies are beginning to look for outside help in managing their investments.

"We are seeing a very robust pipeline and a very robust level of interest in outsourcing the investment function," said Eric Kirsch, managing director and head of the Global Insurance Asset Management Group at Goldman Sachs Asset Management in New York. "That's happening not only in the U.S. but also in Europe and to a little bit of a lesser degree in Asia and Japan."

As of March 31, Goldman Sachs managed more than $65 billion in insurance industry assets. Across the industry, the volume of insurer and reinsurer assets under outside management has doubled over the past five years, Mr. Kirsch said.

"We are definitely seeing an increase in insurers outsourcing their asset management," said Randy Brown, managing director and global head of Deutsche Insurance Asset Management, the New York-based insurance division of Deutsche Bank's Deutsche Asset Management operation. "It's a trend that has been going on for a while, but it's picked up a lot of steam."

Deutsche Bank had $160 billion in insurance assets under management at the end of 2007.

Among factors driving the outsourcing trend are increased complexity in asset management and alternative asset classes becoming more mainstream, Mr. Brown said, particularly as insurance company investors look for increased returns from their assets.

Outsourcing investment management "is a very cost-effective solution" to the issue of that increased complexity, he said, while allowing insurers to diversify their asset mix.

Chris Cesare, a partner with investment consulting firm Rocaton Investment Advisors L.L.C. in Norwalk, Conn., said he expects the trend to continue.

"The experience we have is insurance companies are pursuing outside managers in fixed-income markets," Mr. Cesare said. "My sense is, given the turbulence in fixed-income markets… internal management is coming under pressure and boards are looking for outside expertise."

"An insurance company needs yield, and in order to get yield, you perhaps have to take different risks out there, and those risks might not be in accordance with what internal management is able to do, so they look to outside management," he said.

An annual study by Berkeley, Calif.-based insurance industry consulting firm Patpatia & Associates Inc. showed $805 billion in insurance general account assets under outside management at the end of 2006, an amount the firm anticipates growing to $1.9 trillion over the next five years.

Mr. Kirsch has a similar view about the likelihood of insurers increasing use of outside asset management. "We

think it's going to more than double in the next three to five years," he said, likening the trend to the industry's embrace of outsourcing many information technology functions.

"Traditionally, insurers have been in very conservative typical treasuries, corporate bonds and private placements," said Sunny Patpatia, president and chief executive officer of Patpatia & Associates. Now, though, many are looking at new asset classes including hedge funds and nontraditional assets.

"The other thing we are noticing is that the CFOs of these companies are beginning to say, 'How is my investment portfolio being run,'" Mr. Patpatia said. In many cases, they're recognizing that those portfolios are being managed internally by people who might not be as qualified as they were 10 years ago, he said. And, as insurers look to move into new asset classes, it raises the question of whether they want to build the expertise to do so in-house or look for it outside.

"We see more and more of that because they are not asset managers at the end of the day," Mr. Patpatia said. "They are risk managers from an insurance perspective."

That focus on core competencies is a significant factor behind the trend, said Mr. Kirsch. "Historically, insurers grew up managing their own balance sheet," he said. Now, though, "many of these same companies realize they're not in the asset management business, they're in the insurance business."

"The other thing is, the markets have become more complex," Mr. Kirsch said.

> **'HISTORICALLY,** insurers grew up managing their own balance sheet.' Now, though, 'many of these same companies realize they're not in the asset management business, they're in the insurance business.'
>
> **ERIC KIRSCH**
> GOLDMAN SACHS ASSET MANAGEMENT

"The degree of complexity has grown greatly." And in seeking to address that complexity, an insurer or reinsurer can take advantage of economies of scale offered by an outside manager.

That scale can manifest itself in various ways, including the manager's staff, its technology tools and the advice it can provide about various asset classes.

"It's definitely a cost issue, and there are economies of scale (insurers) can benefit from," said Deutsche Insurance Asset Management's Mr. Brown. "It's all we do," he said. "It's an expensive business to operate in-house."

"We are seeing an increased need from our clients in what I call consultative or ancillary services," Mr. Brown said. Those services might include advice on regulatory, tax or accounting issues associated with insurers' investments. "That tends to be a bundled part of the asset management," he said.

A recent concern among many insurers, for example, is the possible implications of moving from Generally Accepted Accounting Principles to International Financial Reporting Standards.

Another concern is that as corporate issuers of securities in which insurers are investing become global in scope, evaluating the credit implications to their securities posed by issues in the various countries in which they're doing business becomes increasingly complex.

"The world is in a great state of flux and (insurers) need the most up-to-date information on these things," Mr. Brown said. "We have a global team focused on all areas of the insurance asset management business. I've got close to 50 credit research analysts around the world."

The current credit market turbulence driven by the subprime mortgage crisis has also had a hand in driving the increased use of outside asset managers.

As a result, "I think people are asking more questions and it's probably benefiting the asset management business," said Mr. Patpatia. "They're looking at the competence of their internal departments from an enterprise risk management perspective. And as they look at it, they're saying, 'Can I get better help at this from people who are outside and do this for a living?' and the answer is yes."

"Because of that market environment, many companies are looking at outsourcing asset management sooner than they otherwise might have," Mr. Kirsch said.

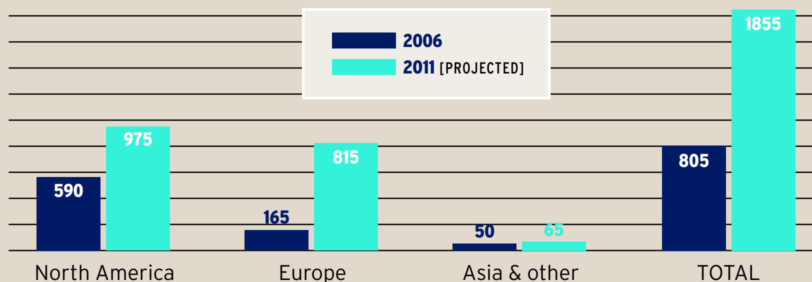
Also, some larger insurance companies that otherwise might not have been ready to outsource investment activity might recognize that some of their assets have become more complex, and their boards might desire outside advice regarding those assets. "The fact is, it's a fluid market and you have to have someone who can look over those assets until the time is right to do something about them," he said.

The larger companies' outsourcing of investment management activities is a newer development.

Many of the largest insurance com-

OUTSOURCING INVESTMENTS

Insurers' outsourcing of general account management in billions of dollars



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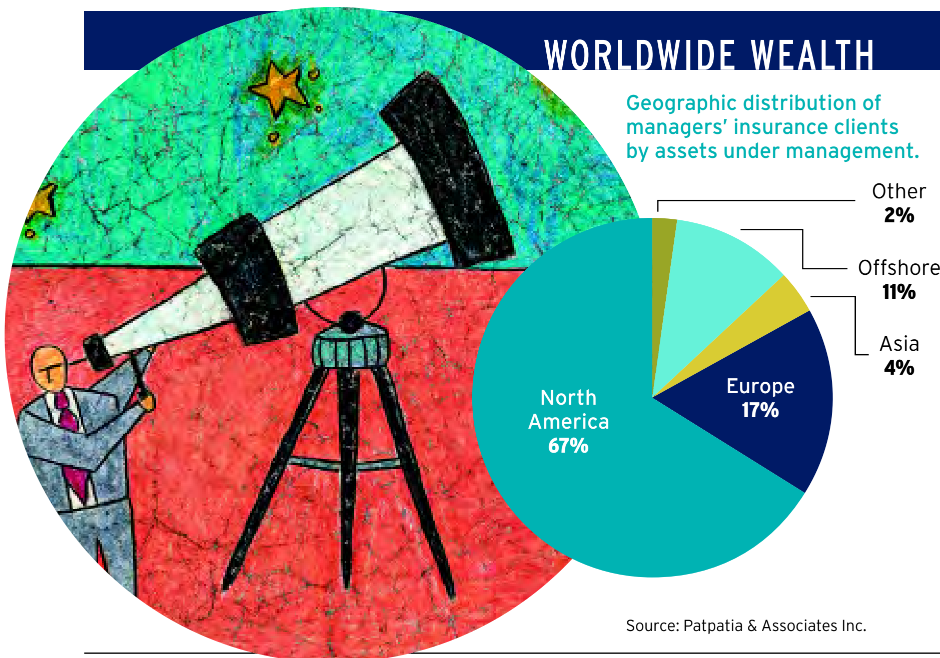
WORLDWIDE WEALTH



Source: Patpatia & Associates Inc.

panies might have an asset management business and consider asset management a core competency. While they might not outsource their core fixed-income investment, they're often looking to outsource the management of alternative investment classes.

Also, many large insurance companies are international in scope, and might see it as too expensive to create an in-house investment management team locally each time they expand into a new country, Mr. Kirsch said. Large companies that are expanding their investment activities into new asset classes in which they don't have in-house expertise might see benefit in outside management.

The trend toward larger companies outsourcing investment management "is a trend that has been well-documented and is increasing," Mr. Brown said. "The Bermuda market has always outsourced. And it worked well."

Mr. Patpatia agreed. "These bigger insurers, they're making business decisions now," he said, particularly as they look to move in and out of various asset classes. "I don't want to manage every asset class that I get into and out of," he said, noting that an outside manager can do that more efficiently and with greater expertise.

Insurers and reinsurers also might see a benefit in diversifying their investment activities through outsourcing some of their asset management and managing some in-house. "Sometimes they actually use outsourcing as a benchmark," Mr. Kirsch said, allowing them to compare the performance of their in-house management against that of the assets managed out-of-house.

Even if investment management is outsourced, it need not mean an end to the chief investment officer role at an insurer or reinsurer, Mr. Kirsch said. Instead, it allows the CIO to concentrate on such issues as strategic asset allocation, achieving the right asset/liability balance, and gaining access to alternative asset classes, for example.

In selecting outside asset managers, there are various factors insurers and reinsurers should consider, according to Mr. Patpatia.

"I think expertise, reputation in the particular asset classes, some of the services," he said. "I think the biggest one—I make this recommendation to everyone—does the asset manager really understand the insurance business? Can they match assets to liabilities?"

"To me, those are important ingredients for a successful asset manager for insurance," Mr. Patpatia said. "It's not just a matter of someone giving you a portfolio of assets. To me, the trend in the future is really going to be: Can you be my partner?"

Having gained momentum, the trend toward outsourcing insurers' and reinsurers' asset management is likely to continue moving forward.

"I think as a general theme, one might suggest that running the balance sheet for the entire industry has a lot of room for improvement," Mr. Kirsch said, and one way to realize that improvement is by managing investments more effectively and with greater risk controls.

"I don't think that will ever go away," he said. "I think there will just be increased scrutiny on the part of shareholders and boards and analysts."

"I think once you've taken your assets outside, you realize it's very difficult to build an in-house team that has the same capability," said Mr. Brown. "It's very rare that somebody outsources and then brings it back in-house."

For that reason, an event such as a turn in the insurance pricing cycle—decreasing the importance of investment income on insurers' bottom lines—won't have much effect on insurers' investment management outsourcing activity, he said.

At the same time, the complexity of asset classes in which insurers are investing will only keep increasing.

"I think people are naïve to think that a lot of the more esoteric structures that have been done will never be done again," Mr. Brown said. "Securitization is not going to go away." IF

'I THINK once you've taken your assets outside, you realize it's very difficult to build an in-house team that has the same capability.'

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Industry interfaces with the future

By Meg Fletcher

Property/casualty insurers must make improvements in their system interfaces with agents and brokers or risk losing business, an expert warns.

Independent agents that want to market their risks to multiple insurers are frustrated by the time they waste rekeying data and meeting the specific requirements of each insurer's individual Web site, including multiple user names and passwords, according to Karen Pauli, research director-insurance with TowerGroup Inc. in Needham, Mass.

The most profitable agents seek out those insurers that offer streamlined interfaces and leave other, less profitable companies behind, she said.

ICW Group said its Web-based software, Snap, has increased underwriting productivity.

"Carriers that do not step up and meet the challenge will watch their bread and butter disappear," Ms. Pauli said in a report.

Some insurers and vendors have heeded such advice and have taken steps to design and offer products and functionalities that aim to make transactions more uniform and to improve agent and broker interfaces.

One of those is Chubb Corp., which the Assn. for Cooperative Operations Research & Development presented with a market leadership award in May to recognize the insurer's efforts to encourage vendors and agent/brokers to adopt ACORD standards and help increase insurance industry efficiency.

"By actively exchanging information through our electronic interfaces with agents at the beginning and during key milestones in the claim process, we significantly enhance our level of communication and provide agents with the information they need to deliver superior service to the customers," said Dino Robusto, who was Chubb & Son's executive vp and worldwide claim manager at the time of the award. In June, he was promoted to executive vp and chief administrative officer of Chubb Corp.

In addition, Chubb helped create a system to enable agents and brokers to automatically download personal and commercial lines claim information into their agency management systems, as well as an electronic notification tool to alert agents and brokers when their customers' claim status had changed.

Chubb's ACORD project involved working with two vendors—Applied Systems Inc. of University Park, Ill., and AMS Services of Bothell, Wash.

ACORD presented Applied Systems with seven awards in May, including one reflecting its popularity among companies of varying sizes. Another award was for its innovative implementation of claims download transactions, which allow carriers "to transmit all daily claims activities within nightly download communications with agencies," Applied said in a statement.

The other vendor, AMS Services, is a unit of Vertafore Inc. One of AMS' software applications that works in conjunction with its agency management system is TransactNOW.

That tool allows marketing of multiple accounts by customer support representatives and others at Statewide Insurance Group in Myrtle Beach, S.C., Tim Baxley, agency principal, said in a statement. "They log in, input information and get quotes from five or six different carriers with one click—a process that used to take an experienced CSR 10 minutes per carrier site," he said.

The AMS product helps his four-office agency serve clients faster and "keeps us from having to fiddle around, looking through Rolodexes to find our passwords," Mr. Baxley said. His agency writes $26 million in premium annually in coastal insurance risks, including hotels and construction companies.

That software, which the majority of AMS' agent clients use, "is a time-saver and a data-entry saver," said Nellie Massoni, AMS' TransactNOW product advocate. It also serves an important diary function by creating a record of all searches and transactions. That data can be useful in protecting the agency and the insurer in the future, for example, if a client questions whether his risk was appropriately marketed to a significant number of potential carriers.

ICW Group, a trio of multiline P/C insurers based in San Diego, said its Web-based software, Snap, has increased underwriting productivity since it was released to its agent/brokers in February.

"The application has allowed us to quote 22% more business with the same amount of people," said David Hoppen, chief operating officer of ICW Group, which wrote more than $389 million in gross written premiums in 2007.

ICW insurers write workers compensation, surety, commercial property, difference in condition and automobile insurance for individuals and businesses.

While most commercial lines insurers establish a proprietary Web site that requires an agent or representatives to rekey customer information from the agent's agency management system, Snap automatically uploads that data, centralizes it and speeds the quoting process, Mr. Hoppen said.

The product also allows agents and underwriters to review a client's submission in real time and collaborate in the underwriting process, he said.

"In a competitive environment, agent/brokers have to act quickly and efficiently," Mr. Hoppen said. Agents are attracted by the tool's speed and ease of use, he said. "It's a real differentiator." IF

Farmers Insurance Group responds to catastrophe claims with its own fleet of specialized vehicles.

Mobile claims centers speed payouts in cat areas

By Meg Fletcher

Property/casualty insurers with large books of residential risks have found that specially trained adjusters and satellite-enabled vehicles have allowed them to respond faster and better to catastrophes.

Prompt deployment of adjusters for on-the-spot claims handling at a disaster site is an important step in reducing the uncertainty and suffering of policyholders, who may have lost their home as well as family members and their job as a result of a catastrophe.

Quick handling of claims also improves the company's productivity while enhancing its reputation or brand, sources say.

"The technology just keeps improving," said Loretta Worters, vp of the New York-based Insurance Information Institute, who has monitored the industry's response to catastrophes.

A few years ago, an adjuster would have spent his days surveying buildings and photographing damage using a digital camera. He may have filled out claims-related forms on his laptop, but would have to wait until the end of the day to e-mail the claims data to his company from his hotel room. Headquarters personnel then would review the documents, determine payment and send checks to the policyholders.

Today, however, an adjuster might be armed with a laptop, camera, a wireless communication card and a hand-held global positioning system to help navigate areas where winds have swept away street signs. The adjuster can communicate in real time with the insurer's headquarters, submit loss information, get a determination of coverage, generate a check and print it out.

If closed banks make check-cashing difficult, the adjuster may provide debit cards policyholders can use directly at retail outlets.

Travelers Cos. Inc.'s fleet of mobile claims headquarters assist policyholders at catastrophe sites.

"It's incredible," Ms. Worters said.

Farmers Insurance Group of Cos. is one company taking such steps. For the subsidiary of Zurich Financial Services Group, new technology helps improve productivity, with customers' claims resolved five to eight days faster than in the past, said Paul Quinn, an assistant vp and career claims employee with Farmers. "That's a huge advantage from the standpoint of customer service and satisfaction," he said.

At State Farm Insurance Cos., "we have certainly increased our ability to connect back to our facilities," said Mark Winland, director of claims automation and procedures for the insurer.

The Bloomington, Ill.-based company has 1,700 well-equipped employees that respond to disasters.

State Farm also has an emergency response fleet including 33 satellite uplink-equipped vehicles and a trailer for use as a temporary office. Work space can be expanded by adding tents, including a garage-type space for assessing damages to policyholders' vehicles.

When the company leases buildings for adjusters, it can set up a wireless network providing Internet connectivity within 50 to 100 feet of the site. That saves time and money because the company doesn't have to hard-wire the leased space. It also improves adjusters' productivity because they can pull into the parking lot and transmit information to headquarters without having to enter the building, Mr. Winland said.

Los Angeles-based Farmers prides itself on being one of the first companies to a disaster scene, Mr. Quinn said. It responds with its own fleet of specialized pickups and other vehicles that serve as portable offices, including a bus-like "mobile care center" providing satellite uplinks, work stations inside and wireless connections outside, he said.

Once Farmers policyholders report claims to the mobile office, they're given claim numbers and a window of time in which the adjuster will call. "That eliminates a lot of the concerns a customer has" in dealing with the insurer, Mr. Quinn said. IF

Finding the e-balance

By Meg Fletcher

Strategies to communicate better, faster and cheaper on the job abound, but how well they work depends on whether they mesh with an individual's job responsibilities and personal style of work.

A diverse group of insurance industry users of e-mail and other electronic communication systems—conference calls, videoconferencing and Web-based document exchanges—are crafting their own usage guidelines to balance the demands of work and life.

Even so, the questions they face are similar: Because they can communicate constantly, should they? What price do they pay in diffused attention and concentration? What is the long-term effect on their health and family relationships?

Those questions are being asked more often as Internet access expands.

Among the latest expansions, American Airlines is offering Internet access on some longer-haul flights, which Insurance Information Institute President Robert Hartwig, who travels more than 150,000 miles annually, plans to try soon on a cross-country flight.

"The upside is radically increased productivity," said longtime BlackBerry user Joel Wood, senior vp-government affairs with the Washington-based Council of Insurance Agents & Brokers. Last month, "I popped an e-mail to a political consultant asking a question—he was at the Olympics in Beijing—and I got a full response within two minutes."

Among the many advantages is that "work is more efficient," it is easier to document activity such as declinations of coverage, and "I can get more done while traveling," which reduces the workload when back in the home office, said Erin Carr, an assistant underwriter at Arch Insurance Group in Chicago.

Kathy Burns, chief executive officer of Aon Corp.'s eSolutions unit, said: "I think we have struck the right balance here. We use technology to support the process, not dominate the interaction."

Enhanced communications "have increased accessibility and given me the power to do a lot more things more smoothly," said Mary Cannon Veed, an insurance regulation and litigation attorney with Arnstein & Lehr L.L.P. in Chicago. E-mail also "has improved work/life balance by allowing me to meet family obligations while still being connected to work."

However, "the ability to be in touch 24/7/365 almost anywhere on earth" increases the "expectation" and "sense of obligation" that you will be in touch at all times, Mr. Hartwig said.

Several observers say they typically work longer and sometimes try to do too many things at once, causing errors.

"It is distracting—most people stop what they are doing to read an incoming e-mail," Mr. Hartwig said. "People are also less focused in meetings and conferences, where reading and responding to e-mail on a BlackBerry is now considered completely acceptable."

E-mail users need to be wary of messages that have emotional content, two sources said.

"My communications have become much more impersonal," said Dick Bouhan, executive director of the National Assn. of Professional Surplus Lines Offices Ltd. in Kansas City, Mo. So, "verbal cues, body language, etc., which can add flavor to a conversation or help nuance your message, do not enter into the digital communication equation."

"Efforts to be funny, dramatic or in some way be expressive in digital communications can be misunderstood and create problems," he said.

For Mr. Wood, "the downside is that e-mails almost always escalate tensions, not de-escalate them. Whenever there's any degree of antagonism on an e-mail I receive, I try to pick up the phone to work it out. There is nothing worse than a mass e-mail sent with anger."

A diverse group of *Industry Focus* readers critiqued "expert" recommendations and graded each from A to D. Their responses were averaged to create a compounded grade.

In addition, they described Internet sites or software they have found useful in boosting productivity while helping balance work/life responsibilities.

The recommendations, which are based on a recent Los Angeles Times article, were to:

Turn off the incoming e-mail alarm to avoid the impulse to look at it immediately: **B+**

HARTWIG: It is "less irritating" to rely on other e-mail alerts, such as the visual signal that most computers give or the vibration of a BlackBerry.

WOOD: "I've certainly done that, including turning off the vibration. Otherwise, you go nuts (and) literally can't sleep."

CARR: "This is extremely beneficial because you do not feel obligated to check and respond immediately. Without the noise alert, you can check your e-mails on your own time."

BOUHAN: "It only works for a while."

Control the number of times you check your e-mail daily: **C**

HARTWIG: "Good idea, but as a practical matter difficult if you work in a deadline-oriented business."

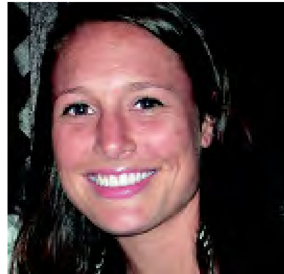
WOOD: "I don't think I'm an addict; there is a reason I have to check this" because things are happening that require my attention.

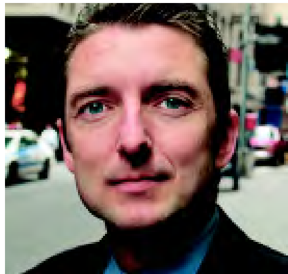
VEED: "I've tried it and it doesn't work." She checks e-mail periodically, but usually is waiting for something.

Use informative subject lines that can reduce the recipient's need to open the message, e.g. "Sent package as requested:" **B-**

Mr. Bouhan

Ms. Burns


Ms. Carr


Mr. Hartwig

Ms. Veed

Mr. Wood

BURNS: "I think that is really critical." It also is important to know the urgency of the message and the deadline for answering it.

HARTWIG: "Too many people indicate that the message is 'urgent.'"

WOOD: "I try to do it and wish others would. I despise misleading subject lines."

CARR: "I have received these types of e-mails and I open them regardless just to make sure that the sender did not include any other notes in the body of the e-mail." The suggestion "only saves the reader a couple seconds of clicking."

Review e-mails and send to folder: **B-**

CARR: "I do this on a regular basis to be organized."

WOOD: "I think for a lot of people this is an 'A'…(but) when you can sort by person and date…do you need to spend hours a week developing all kinds of additional folders?"

BURNS: "One of the most organized executives I know doesn't put e-mail into any folders. He searches by date, source and subject line."

Avoid creating too many folders: **B-**

CARR: "This a great tip. If you create too many folders, it is more difficult to find things in a timely manner. You should make sure you label folders appropriately so that you will recognize the contents."

VEED: "I don't buy into this." Creating very specific client folders and scanning all incoming and outgoing paperwork so it can be filed appropriately is at the heart of an effective "filesite" system used by the law firms to manage client data (*www.interwoven.com*).

Avoid sending simple acknowledgements—such as "thanks" or "got it"—at the workplace or broadly copying correspondents: **C**

CARR: "In a perfect world, this may work. However, it is hard to set these type of parameters." In her division, "we agreed that everyone and their mother did not need to be copied on every issue. However, after setting this precedent, people had concerns that they felt they were not in the loop on an issue or that didn't know about a problem early enough because they were not copied."

HARTWIG: People also "add too many cc's to their e-mails, especially on responses that aren't relevant to all participants."

WOOD: "I'd give that a D. Acknowledgments—most often saying 'thank you'—make the communications more human."

Do not use your complete e-mail address on blogs and other Web pages to prevent robots from sending spam: **C**

CARR: "Good suggestion. However, it seems that even business/insurance sites that say they are complementary ask for personal/contact information (require you to set up an account) before letting you use their services."

BURNS: This is a mixed bag because "we are always reaching out in the industry and we want prospects to call us."

VEED: "How would clients find me (without my posting my full address)? Horrors!"

What systems would you recommend for coping with e-mail and other computer-based methods of communication?

CARR: In terms of systems, her office uses videoconferencing or Cisco Systems Inc.'s WebEx, in which someone can take over her computer to present a demonstration about three times a week. WebEx's site is *www.webex.com*.

HARTWIG: Good spam filters.

WOOD: His association has "an excellent spam filter. It's been a couple of years since I got an exciting offer for Viagra or an intriguing business offer from a Nigerian dictator's widow!"

VEED: Google offers a useful free service at *docs.google.com* that she used to plan a reinsurance conference and her son used to plan his out-of-state wedding. The password-protected site allows designated participants to sign in, consult documents and edit them. When used in conjunction with cell phone conversations and even Webcams, participants can truly communicate.

BURNS: Her team has expanded its use of a private software system—*salesforce.com*—used widely by Aon. Team members store most client information there so it is available at all times worldwide. The centralized repository has reduced the need for e-mail and increased productivity during group meetings, because team members are expected to review the latest information on the topic before the meeting. "We are passionate about it, because it is very similar to what we do," in terms of providing computerized information systems for risk managers. IF

MOST PRODUCTIVE AGENTS AND BROKERS

INTERMEDIARIES* RANKED BY 2007 BROKERAGE REVENUES PER EMPLOYEE

RANK	COMPANY	REVENUE/EMPLOYEE			BROKERAGE REVENUES			EMPLOYEES		
		2007	2006	CHANGE	2007	2006	CHANGE	2007	2006	CHANGE
1	Mid American Group Inc.[1]	$429,281	$390,636	9.89%	$5,580,651	$5,859,546	−4.76%	13	15	−13.33%
2	Wachovia Insurance Services Inc.	$322,730	$304,988	5.82%	$422,453,748	$451,077,801	−6.35%	1,309	1,479	−11.49%
3	Western Benefit Solutions L.L.C.	$314,375	$285,333	10.18%	$5,030,000	$4,280,000	17.52%	16	15	6.67%
4	Capacity Group of Cos.	$304,337	$330,136	−7.81%	$48,085,187	$42,587,600	12.91%	158	129	22.48%
5	Frank Crystal & Co. Inc.	$295,506	$296,171	−0.22%	$119,680,000	$112,545,000	6.34%	405	380	6.58%
6	Alliant Insurance Services Inc.	$295,177	$286,850	2.90%	$291,635,000	$228,476,000	27.64%	988	796.5	24.04%
7	Tanenbaum-Harber Co. Holdings Inc.	$280,682	$264,351	6.18%	$90,940,898	$78,512,247	15.83%	324	297	9.09%
8	Thesco Benefits L.L.C.	$277,987	$280,089	−0.75%	$15,845,265	$13,724,384	15.45%	57	49	16.33%
9	DataRisk L.L.C.	$271,983	$244,400	11.29%	$1,631,900	$1,222,000	33.54%	6	5	20.00%
10	Mesirow Insurance Services Inc.[2]	$259,638	$225,893	14.94%	$89,055,876	$80,417,980	10.74%	343	356	−3.65%
11	Rowley Agency Inc.[3]	$248,151	$242,029	2.53%	$12,903,827	$12,101,445	6.63%	52	50	4.00%
12	Bollinger Inc.	$247,899	$230,825	7.40%	$104,613,278	$103,871,255	0.71%	422	450	−6.22%
13	Graham Co.	$244,041	$240,389	1.52%	$42,707,169	$41,827,673	2.10%	175	174	0.57%
14	Benefit Controls Cos.	$240,385	$229,167	4.90%	$12,500,000	$11,000,000	13.64%	52	48	8.33%
15	William Gallagher Associates Insurance Brokers Inc.	$239,186	$228,657	4.60%	$47,837,161	$42,987,572	11.28%	200	188	6.38%
16	Risk Strategies Co.	$234,519	$221,000	6.12%	$24,624,500	$17,680,000	39.28%	105	80	31.25%
17	Kinloch Holdings Inc.	$234,286	$245,455	−4.55%	$41,000,000	$27,000,000	51.85%	175	110	59.09%
18	Frenkel & Co. Inc.	$233,451	$219,900	6.16%	$52,059,615	$50,796,963	2.49%	223	231	−3.46%
19	Rutherfoord Cos.[4]	$230,901	$220,550	4.69%	$69,039,440	$60,210,036	14.66%	299	273	9.52%
20	Associated Financial Group L.L.C.	$224,295	$229,236	−2.16%	$54,279,428	$55,245,756	−1.75%	242	241	0.41%
	Averages	$271,440	$260,803	4.08%	$77,575,147	$72,071,163	7.64%	278	268	3.73%

*Reflects U.S. agents and brokers deriving a majority of revenues from commercial retail brokerage. 1 Fiscal year ending 1/31. 2 Fiscal year ending 3/31. 3 Fiscal year ending 10/31. 4 Fiscal year ending 6/30.
Source: *Business Insurance* survey. Researched by Kevin Edison.

Steady stream of upgrades keeps companies' data pipeline flowing

By James Hurley

Insurance companies face a continuing battle trying to keep enterprise software up to date. Companies can either upgrade to the latest release every year or so, which can pose a long and risky project for the IT staff, or they can do nothing and risk falling behind on system security, regulatory compliance and usability enhancements.

For most insurers, software upgrades are highly visible projects with many touch points. A relatively straightforward upgrade can affect multiple lines of business and numerous downstream systems.

"The longer a company waits to upgrade their software, the more complex and challenging the upgrade can become," said Bob Evans, property and casualty systems architect for Computer Sciences Corp. "Unfortunately, too many insurers fall so far behind that the prospect of ever becoming current is out of reach. Essentially, the code is so outdated and heavily modified that it becomes obsolete."

AGILE APPROACH TO UPGRADES

A growing number of insurers working with CSC have found a way to turn

James Hurley is a senior architect in the property and casualty insurance division of Computer Sciences Corp. in Blythewood, S.C.

the traditional upgrade process on its head. These companies are receiving continuous updates as they become available rather than waiting for the next annual release, which typically funnels hundreds of requests and requirements into one large delivery.

"The continuous delivery approach is based on proven, agile software development methods," Mr. Evans said. "We're taking it to large-scale insurance applications that had a very different development model. Instead of a waterfall delivering huge amounts of code all at once, we're providing a steady stream of updates."

With most companies running heavily modified versions of the same software, vendors must typically develop many unique versions of the same release simultaneously. Each customer then initiates a complicated implementation project to work hundreds of system enhancements into its unique base code. These customizations prevent across-the-board installation of software upgrades.

But software has changed. Most business rules are externalized and completely configurable, rendering the majority of customized code modifications unnecessary.

"There are variances, of course, but the elements to compose an insurance process are becoming fairly universal," Mr. Evans said. "If one insurer needs to change a system, we've found that other organizations on the same system will benefit from that change also. We incorporate those types of modifications into one version of the base code that benefits all of the users."

If additional modifications are necessary, there are new ways to attach them outside of the base code, which remains consistent across all installations and makes it easier to update.

More than 200 insurers routinely submit software enhancements as part of the Innovation Community program at CSC. With CSC assuring quality and maintaining the code in the base system, these companies no longer need to manage complex coding modifications in-house.

UP AND RUNNING, UP-TO-DATE

Continuous delivery is also a key strategy in the implementation of new software. CSC clients receive continuous updates throughout the conversion process, keeping them current with the latest features and enhancements during the rollout.

One of the contributors to and early adopters of the continuous delivery process is North Carolina Farm Bureau Mutual Insurance Co. NCFB is also in the process of transitioning to Exceed C.0, the base version for continuous delivery.

"We have been incorporating the continuous releases throughout the project, so we will be in a very good position to leverage the newest functionality immediately," said Linda Squires, NCFB senior executive. "This process has put our company in a very advantageous position. We will go live and not have to immediately catch up with releases available since the beginning of the project. Prior to the continuous delivery process, we would already be months behind in versions or enhancements available." IF

SOFTWARE HAS CHANGED. Most business rules are externalized and completely configurable, rendering the majority of customized code modifications unnecessary.

PAUL EAGLE is vp of Baltimore-based Imre Communications, a marketing and communications firm that specializes in the insurance industry.

Soft markets demand new focus

The economy dips, businesses trim expenses and insurance premiums fall. The insurance world shudders and begins its own search for ways to sell more.

A soft market is exactly when you should be out there, talking directly with key audiences about what you offer and what differentiates you from the competition. In fact, you may have an opportunity in a down market—with more cautious customers desperate to make smart decisions—to gain credibility and market share. It takes a strategic and focused approach to marketing and communications and the willingness to shake things up. Consider the following:

GET CREATIVE

Take a fresh look at your sales approach. Are you overloading agents and customers with so many e-mails that they've stopped reading them? And what are you talking about? Assess the content and value of your communications. Now's the time to offer specific guidance. Segment, target and focus. That is, address the pain points of individual audiences, talking directly to them about their options and best course of action as you extol the benefits of your offerings.

Try something different to get your foot in the door. Send an online calculator demonstrating the savings you can provide. Or experiment with a targeted and customized mailing that may include articles, a book or survey information that will engage a prospect.

In other words, don't just keep doing the same thing you've always done. Change it up.

LISTEN TO YOUR AUDIENCE

Too many marketing decisions are made by intuition or anecdotal information. Recently, a client said agents still prefer faxed policy information. But when we surveyed the agents, they strongly preferred online options. And a recent survey of media outlets confirmed that it's time to ditch bulky press kits and glossy photos—most journalists want an online press room with downloadable files.

Before you communicate, listen to your audience. Develop an online survey that gauges customer perceptions: what they like or don't like about you, how they rate their experience with your organization, etc.

GO DIGITAL

A 2007 Enquiro Search Solutions Inc. study shows that more than 85% of business buyers research purchase decisions online. To reach this audience, you have to go where they are by becoming an active part of the digital world. Popular tools include Web sites, consumer reviews and social networking sites.

Blogs that share industry news, success tips and offer forums on controversial issues are an excellent and inexpensive way to get your message out.

LEVERAGE YOUR SECRET WEAPON

Employees are a critical piece of your brand. They're your best weapon and your greatest ambassadors. Depending on your standing with them, they will sing your praises, stay quiet or, in regrettable cases, try to sabotage you. When times are tough and morale is sinking, remember to:

- Empower them—give them an ownership stake in riding out the wave.
- Offer them a mechanism for sharing their best ideas.
- Give them a voice to let off steam: town hall meetings, blogs and other interactive forums.
- Celebrate success and create a sense that better times are ahead.

CONNECT WITH THE MEDIA

Get to know those covering your company. Put together a media tour and meet the press, learning what's important to them and what they're focusing on. When you distribute a press release, send a personal e-mail to your media contact and explain why you think it may be significant. Give reporters and editors industry tips—even when they don't relate to your company. Update your media lists.

Hard times, soft markets—we've all been through it before. This time, don't just sit it out. Use the downturn as an opportunity to take a critical look at what you're doing, seize control of your messaging and get innovative about growing your business. IF

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It's all fun and games until someone loses an arm.

Rule 37.R.

USE OF ANIMALS IN CONTESTS OR STUNTING ACTIVITIES

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