

EMPLOYER COSTS MAY RISE WITH CONGRESS SET TO PASS MENTAL HEALTH PARITY / PAGE 3

NAIC REINSURANCE TASK FORCE APPROVES RELAXED COLLATERAL FOR NON-U.S. FIRMS / PAGE 3

HEALTH CARE INCREASES EASE AS EMPLOYERS SHIFT COSTS TO WORKERS / PAGE 3

In Brief

Bush signs bill to revise ADA

President Bush has signed the ADA Amendments Act into law. Supporters of the bill, which included employers, advocates for the disabled and the administration, said the measure was needed because of a series of court decisions that scaled back the reach of the Americans with Disabilities Act. The new law requires judges to interpret the law broadly and makes clear that the use of mitigating devices, such as diabetes medication, does not remove an individual from the ADA's protections.

Judge hears arguments on Gen Re finite deal loss

U.S. prosecutors last week argued that a federal judge should weigh shareholder losses of as much as \$1.4 billion

See **IN BRIEF** page 29

SPOTLIGHT

REINSURANCE: RENDEZ-VOUS REPORT

Reinsurance prices expected to slide further as cat losses



remain limited; financial crisis puts stress on data quality; modeling firms ready to offer more tools; demand for retro coverage falls;

financial turmoil reduces prospects for most mergers; but Bermuda market could see consolidation. **Page 10**

New chief readies plan to reshape AIG

Extent of sale unclear, but company pledges to retain core units

By **JUDY GREENWALD**

NEW YORK—How deeply American International Group Inc.'s asset sales are likely to cut into the insurer's core commercial property/casualty operations remains unclear, though aircraft leasing and other noncore operations are expected to be the first to be sold, observers say.

Under terms announced earlier this month, AIG will be able to tap up to \$85 billion from a two-year revolving credit facility provided by the Federal Reserve Board, but must sell assets to repay that loan. The Federal Reserve Board is to receive a 79.9% equity interest in exchange for the loan (see story, page 27).

What AIG ultimately sells will depend on how much units fetch and how much additional capital is needed for its credit default swap portfolio.

Top AIG officials have said the insurer doesn't plan to sell its U.S. and foreign commercial property/casualty business (*BI*, Sept. 22).

In a television interview last week, new Chairman and Chief

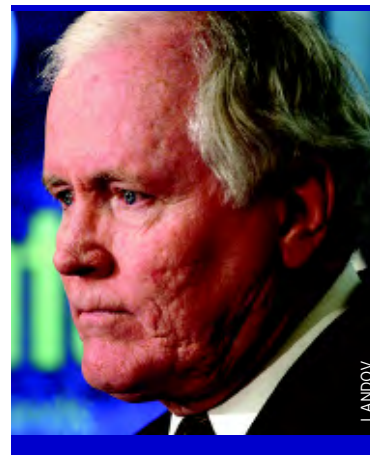
Executive Officer Edward M. Liddy said the New York-based insurer will return to its core of domestic and international commercial insurance and emerge a "very viable, nimble but smaller entity." He said he expects to release a list this week of everything that is for sale. AIG has scheduled a Webcast investor update at 8:30 a.m. EDT Friday at www.aigwebcast.com.

The commercial P/C insurance operations remain a profitable, well-capitalized part of AIG. However, some observers say that the company is almost obligated to say it will keep its core commercial business because indicating otherwise would cause a rapid exodus of both policyholders and management talent.

John L. Ward, chief executive officer of Cincinnati Partners L.L.P. in Cincinnati, said, "I think they'll have to go fairly deep because \$85 billion is a big number, but I think that Liddy will likely want to hold on to, as long as he can, the commercial lines operations, which are generally viewed as the core franchise value within AIG."

While Mr. Liddy may have to say AIG will retain its core commercial P/C business, nevertheless, "at the

See **AIG** page 26



Edward M. Liddy, AIG's CEO, will soon detail the company's plans to raise cash through asset sales.

MORE COVERAGE INSIDE . . .

AIG inks formal agreement to access federal credit facility **PAGE 27**

Experts list operations likely to be put on the block **PAGE 27**

FBI reportedly probing companies linked to mortgage meltdown **PAGE 28**

AIG unit gets reinsurance backing from Berkshire Hathaway **PAGE 32**

. . . and **ONLINE** at BusinessInsurance.com/aig



Rivals swoop to snag business from AIG

Insurers increase capacity, bombard brokers with coverage options

By **ROBERTO CENICEROS**

While American International Group Inc. works to reassure policyholders of the financial strength of its insurance units, competing underwriters are looking to pick up

business from any clients that remain unconvinced by AIG's efforts.

Other insurers are looking to benefit from New York-based AIG's difficulties by reminding brokers—through e-mail blasts, telephone

calls, and other marketing measures—that they provide alternatives.

And some buyers already have taken action to at least ensure that they have other options in place to back up their AIG coverage should the need arise.

Meanwhile, AIG itself last week bought reinsurance coverage from Berkshire Hathaway Inc. to support a portfolio of property insurance business (see story, page 32).

"On one end of the spectrum, we had one or two carriers that sent e-mail blasts basically reconfirming their strong financial rating, with a subtle hint that should anything go

See **COMPETITORS** page 28

Bailout drama fuels debate on regulation of insurance

By **MARK A. HOFMANN**

WASHINGTON—Both sides in the debate over whether insurers should be allowed to choose federal rather than state regulation see the near-collapse of American International Group Inc. as bolstering their case.

State insurance regulators and their supporters argue that state-based regulation worked because AIG's insurance operations have been and remain financially healthy despite the woes of the parent company. But advocates of optional federal regulation of insurers—including Treasury Secretary Henry Paulson—hold that the very size of the AIG losses demands a federal role in insurance regulation.

State regulators maintain that the state-based insurance regulatory system was not at fault in the crisis surrounding AIG, as its problems stemmed from operations that are regulated by other entities. AIG had chosen the federal Office of Thrift Supervision as the global regulator for those units, New York Insurance Superintendent Eric Dinallo, who chairs an AIG Special Task Force of U.S. and foreign regulators, said last week during a press conference at a National Assn. of Insurance Commissioners meeting in National Harbor, Md.

But proponents of an enhanced federal role say that dealing with the insurance aspects of the financial crisis is simply too big a job to be left to the states.

Appearing on NBC's "Meet the Press" on Sept. 21, Mr. Paulson noted that he had issued a regulatory reform blueprint in March "because we have a patchwork regulatory system that is outdated." One section of the blueprint calls for allowing insurers to choose an optional federal charter rather than continue to be regulated by states.

See **REGULATIONS** page 26

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Mental health parity awaiting final approval

As session nears end, bailout bill could crowd out measure

By JERRY GEISEL

WASHINGTON—Most employers would have to upgrade their coverage under mental health parity legislation nearing final congressional approval, but the additional cost should be modest, experts say.

The House and Senate last week approved parity language that would require group health care plans to provide the same coverage of mental health disorders as they do other medical conditions.

Despite passage, the issue was not settled as of late Friday afternoon. The Senate approved the parity leg-

islation as part of a broader energy and tax extension bill, while the House passed a free-standing parity measure. It wasn't clear last week how federal legislators, with the congressional session rapidly drawing to a close, would merge the parity provisions—which are identical in the House and Senate bills—into one measure that the House and Senate then would approve.

Given the lack of opposition and the popularity of the legislation, there were expectations that Congress will give final approval to the parity measure, which President Bush has signaled he would sign.

"This is likely going to go to the president's desk. It may not happen until the lights start to go out and the floors are swept, but there likely will be a final resolution," said Neil Trautwein, vp and employee bene-

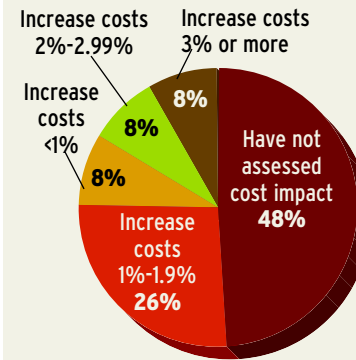
fits counsel for the National Retail Federation in Washington.

"The bill is likely to pass. It has a lot of momentum," said Frank McArdle, a consultant with Hewitt Associates Inc. in Washington. Still, Mr. McArdle warned, given the other critically important issues remaining before Congress—especially the financial services industry bailout bill—it is possible the parity legislation could fall by the wayside.

If a final agreement is reached, employers with calendar year plans generally would have until Jan. 1, 2010, to amend their health care plans and upgrade their mental health care benefits coverage, a deadline that shouldn't be a problem to meet.

PARITY OUTLOOK

How employers think parity legislation will affect their costs for mental health and chemical dependency claims.



Note: Percentages <100% due to rounding. Source: Hewitt Associates Inc.

See **PARITY** page 29

NAIC groups approve relaxed collateral rules

Measure intended to ease burden on foreign reinsurers

By MEG FLETCHER

NATIONAL HARBOR, Md.—Relaxed collateral standards for highly rated non-U.S. reinsurers took a significant step forward last week when subgroups of the National Assn. of Insurance Commissioners approved putting the plan to a membership vote.

Voting in favor of the measure were an overwhelming majority of regulators on two NAIC subgroups, despite criticism from representatives of several U.S. ceding companies and trade associations that said now is not the time to relax collateral standards while the country is in financial crisis.

The measure would establish a general framework to allow a qualified state to be the sole U.S. regulator of a reinsurer writing assumed business in the United States.

Non-U.S. and U.S.-based reinsurers would have the option of applying under the new system, which offers a sliding scale of relaxed collateral for highly rated companies, or continuing to operate under the current regulatory framework.

Under the current system, non-U.S. based reinsurers must post 100% collateral for their U.S. claims liabilities, while U.S.-based reinsurers do not face that requirement.

To be eligible for the new system, a reinsurer must be from a jurisdiction approved by a new NAIC Reinsurance Supervision Review Department and meet requirements that include: a minimum of \$250 million in capital and surplus, high marks from rating agencies, timely claims payments and agreeing to include contract clauses that protect ceding companies.

Regulators on the Reinsurance Task Force and its parent committee who approved the plan last week "feel confident that the proposal is a prudent step that protects the interests of U.S. insurers and policyholders against the risk of insolvency while modernizing the reinsurance regulatory structure," task force Chair Steve Goldman, the New Jersey insurance commissioner, said in a statement.

"I think it is a very reasonable move by the NAIC," said Bill Marcoux, an attorney with Dewey & LeBoeuf L.L.P. who represents the London-based International Underwriting Assn. and some European reinsurers.

Ceding "companies need to manage their own credit risk" at a time when global markets are moving toward mutual recognition, said Frank Nutter, president of the Washington-based Reinsurance Assn. of America.

Opponents, however, said the plan would add solvency-related concerns for U.S. ceding companies



'Companies need to manage their own credit risk' at a time when global markets are moving toward mutual recognition.

Frank Nutter, Reinsurance Assn. of America

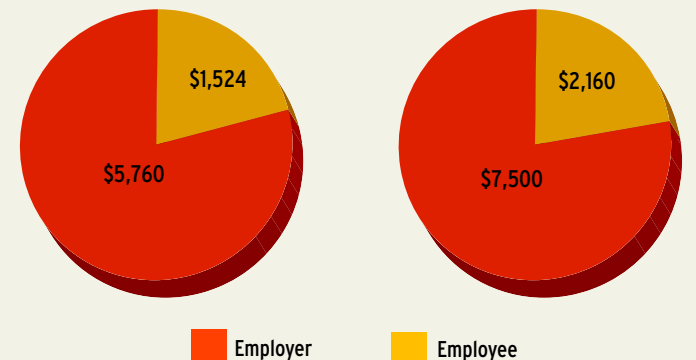
See **NAIC** page 6

HEALTH COST RISE

Total employee/employer health care cost: 2004 vs. 2009 (all plan types)

2004 total cost = \$7,284

2009 projected total cost = \$9,660



Source: Towers Perrin

Health cost rises ease

Employers turn to CDHPs to lower costs

By JOANNE WOJCIK

While health care costs continue to far outpace inflation, costs are rising at a far more moderate pace than a few years ago, according to two surveys released last week.

The surveys—one by the Washington-based Kaiser Family Foundation and Chicago-based Health Research & Educational Trust, and the other by Stamford, Conn.-based benefit consultant Towers Perrin—also show that employers are turning more to consumer-driven health plans to help control costs.

While the KFF/HRET survey found that a large proportion of employers are using cost-shifting to address the problem, the Towers Perrin survey found that some large employers are trying to mitigate cost increases through a variety of health management techniques.

The KFF/HRET survey found that health benefit costs rose about 5% this year, with single coverage for all types of plans averaging \$4,704 and family coverage averaging \$12,680.

Meanwhile, the Towers Perrin survey projects a 6% increase in health benefit costs for employers

next year, with single coverage averaging \$4,860 and family coverage averaging \$14,244.

Those increases, while substantially higher than general inflation, are substantially lower than a few years ago when double-digit annual increases were the norm.

Employers have been addressing this escalating expense by cutting back on coverage and shifting more of the cost burden to workers through higher premiums, deductibles and other out-of-pocket costs, according to the KFF/HRET 2008 Employer Health Benefits Survey.

Deductibles in preferred provider organization plan grew an average of \$99—to \$560—in 2008. Perhaps more striking was the surge in high-deductible health plans. This year, 18% of workers are enrolled in plans with deductibles of \$1,000 or more, up from 12% in 2007 and 10% in 2006, the KFF/HRET survey found.

High-deductible plans were even more prevalent among plans sponsored by small employers, defined as those with three to 199 employees. While just 9% of workers at

See **COSTS** page 22

Marine insurers' exposures increase as shipping booms

IUMI members urged to ensure their rates reflect growing risks

By ZACK PHILLIPS

VANCOUVER, British Columbia—The value of ships and cargo worldwide has escalated without a corresponding increase in insurance premiums, which underwriters and analysts at the International Union of Marine Insurance's annual conference said increases underwriters' exposures.

Marine underwriters need to focus on disciplined pricing to weather the soft market conditions that may not end soon, observers said.

"There is no denying that 2008

will be a worse year than we originally anticipated," said Rolf Tolle, franchise performance director at Lloyd's of London and the keynote speaker at the Sept. 14-17 IUMI conference in Vancouver, British Columbia. "There will, of course, always be a need for shipping and energy, and opportunities for insurance remain. But the industry needs to realize that circumstances are very different today from what they were a year ago."

Increases in both commodity prices and global trade have resulted in booming growth for shipowners. The size of the global fleet will grow 40% in just the next five years and by 2010 will have nearly doubled since 1999, Mr. Tolle said.

But that growth has meant increasing exposures for underwrit-

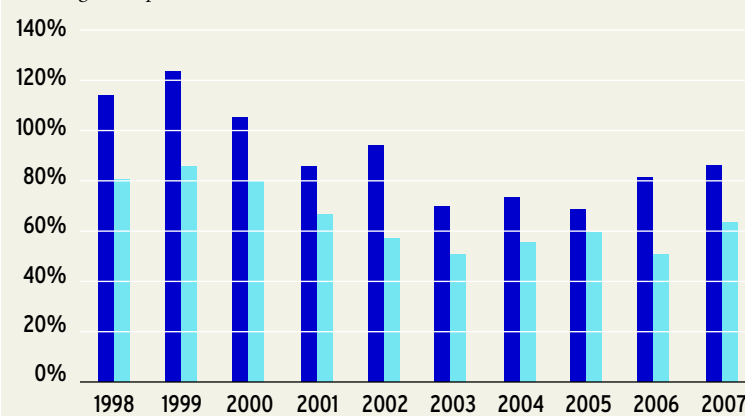
ers. As the value of cargo and vessels has skyrocketed, premiums have failed to keep pace, thanks in part to competition. According to figures from IUMI and the Central Union of Marine Underwriters in Oslo, Norway, the average insured value for vessels has increased nearly 80% and the total value of world trade has increased 175% since 1995; in that same period, liability and hull premiums have risen only 20% and cargo premiums have increased less than 50%.

Mr. Tolle said current rates leave little room to support a catastrophic loss. "We cannot be lulled into a false sense of security because of the low levels of claims in recent years," he said.

See IUMI page 20

LOSS RATIOS

Insurers' gross ultimate loss ratio for marine hull and cargo/transport underwritten, 1997-2007.



Source: International Union of Marine Insurance

Congress expands cover for ill college students

Parents' plans to cover kids taking medical leave

By JERRY GEISEL

WASHINGTON—Congress last week gave final approval to legislation that allows seriously ill college students to continue coverage under their parents' health insurance plans even if they can't maintain status as full-time students.

The measure, H.R. 2851, which the Senate cleared without opposition last week, would allow college students to retain coverage for up to 12 months after they take a leave of absence. Coverage would continue on the same basis as prior to the student going on leave.

The legislation, which the House passed earlier this year, is modeled after a 2006 New Hampshire law known as "Michelle's Law." That law was named after Michelle Morse, a Manchester, N.H., college student who continued her studies while battling colon cancer so she could maintain health insurance coverage. Ms. Morse died in 2005.

"Today is a victory for families across America who are worried about keeping their children healthy," said Rep. Paul Hodes, D-N.H., following the passage of the legislation. "No family should ever have to face the choice the Morse family did."

The federal measure applies to both insured and self-insured plans. In contrast, the New Hampshire law applies only to fully insured policies offered by commercial insurers and health maintenance organizations, due to federal pre-emption by the Employee Retirement Income Security Act of state laws that relate to employee benefit plans.

While nine states have such laws, those state laws do not "cover employer-sponsored plans regulated by ERISA, which is one of the critical reasons H.R. 2851 is needed," House Education and Labor Committee Chairman Rep. George Miller, D-Calif., said earlier.

Other legislators acknowledge that while the impact of the measure is limited, it would be a start in improving access to health care coverage.

"We clearly have a long way to go to eliminate the growing problem of the uninsured and underinsured, but this is a small step in that direction," Rep. John Dingell, D-Mich., said in remarks made on the House floor when the measure was approved.

President Bush is expected to sign the measure, which for calendar-year plans, would go into effect Jan. 1, 2010.



Under a bill passed last week, college students who are ill could stay on their parents' health insurance even if they take a leave from school.

Claims, investments hit Lloyd's profits

Premiums rise as new syndicates form, but underwriting result worsens

By STUART COLLINS

LONDON—Pretax profits at Lloyd's of London slumped by 47% to £949 million (\$1.76 billion) in the first half of 2008, as lower investment returns and a soft insurance market took their toll.

The lower profit came as no surprise, Lloyd's Chairman Lord Peter Levene said in the insurer's 2008 interim report.

"A softening in rates from their peak was inevitable and the very low levels of claims could not continue," Lord Levene said.

Profits were reduced in the first half of this year by a fall in investment returns, which were £500 million (\$929.8 million) lower at £346 million (\$643.4 million) when com-

pared with the same period last year. The decline was due to "extreme volatility" in capital markets, in particular for bond and equity holdings, Lloyd's said in the interim report.

Lloyd's posted a marketwide underwriting profit of £699 million (\$1.30 billion), down 36.5% compared with the first half of 2007. The drop stemmed from accelerating claims costs and a "modest" increase in expenses, Lloyd's said.

Incurred claims totaled £3.40 billion (\$6.31 billion) in the first half of 2008, up 5.6% compared with the prior-year period.

The market's combined ratio—excluding reserve releases—deteriorated 6.2 percentage points to

95.4% in the first half of 2008.

"The driver of the accident year ratio increase comes from a number of sources," Lloyd's said. "Claims frequency is rising, particularly in the property, casualty and energy lines, fueled in part by the rapidly deteriorating economic conditions and political instability in various regions around the globe. This increase in frequency is coupled with heavy claims inflation, fueled by the escalating cost of raw materials."

Gross premiums in the first half of 2008 were 1.2% higher at £9.98 billion (\$18.52 billion), mainly because of new syndicates setting up in the market.

Gross premiums for established syndicates were 4.3% lower in the first half of 2008, in reaction to the fall in premium rates, Lloyd's said.

47%

SLUMP in the pretax profits of Lloyd's of London for the first half of this year.

Federal health plan premiums to rise

Average 7% increase roughly in line with cost trends in private sector

By JERRY GEISEL

WASHINGTON—In line with trends in the private sector, health insurance premiums will increase an average of 7% next year in the health insurance program covering federal employees and retirees, the federal Office of Personnel Management said last week.

The 7% increase for the Federal Employee Health Benefits Program—which is the nation's largest group plan, covering about 8 million people—is similar to rate increases industry experts expect private-sector employers to be hit with next year. For example, Hewitt Associates Inc. of Lincolnshire, Ill., earlier this month projected 2009 premium hikes will average 6.4% based on an analysis of health plans

offered by about 400 major employers.

Still, the federal program's 7% average premium increase is sharply higher than this year, when increases averaged just more than 2%.

Government officials attribute next year's cost increase in large part to greater demand for medical services, higher prescription drug costs and an aging workforce.

Premium changes, though, will vary significantly among the 269 health plans that will be offered in the federal program, with some plans decreasing rates significantly, while others charge far above the average. Many plans, though, are available only in certain parts of the country.

Premiums will increase by about 9% for single and family coverage

in the Blue Cross Blue Shield standard option preferred provider organization plan, the most popular plan choice in the federal program. In 2009, the monthly premium for individual coverage will be \$489.32, up from \$448.91, while the monthly premium for family coverage will be \$1,120.47, up from \$1027.95.

"While we worked very hard to contain premium costs...we were more successful with some plans than with others," Nancy Kichak, OPM's associate director for strategic human resources policy, said in a statement.

Federal employees, who can make their 2009 health care plan selection between Nov. 10 and Dec. 8, on average pay 30% of the premium, while the federal government picks up the remaining 70%.

Errors & Omissions

Due to a production error, the Sept. 22 commentary by Dave Lenckus, "Before Meltdown, Where Was Risk Management?" had a paragraph cut off in midsentence. The complete commentary can be found online at www.businessinsurance.com/commentary.



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NAIC: Members to vote on collateral plan

CONTINUED FROM PAGE 3

at a critical time.

Wisconsin has a longstanding concern about whether a reinsurer posting less than 100% collateral would be willing to post additional collateral if it became financially distressed, said Roger Peterson, the state's director of financial analysis and examinations. He voted against the plan.

"This weakens the U.S. insurance system by calling for money to leave it," in the form of collateral posted here by non-U.S. reinsurers, said David Snyder, assistant general

counsel and vp for the American Insurance Assn. based in Washington.

"The Property Casualty Insurers Assn. of America is very disappointed," Michael Koziol, assistant vp and counsel for the Des Plaines, Ill.-based organization, said in a statement.

"We've seen situations where additional collateral can't be posted precisely when needed. We have also seen multiple downgrades of ratings in an instant," Mr. Koziol said.

In addition, the NAIC faces "a difficult challenge" in getting congress-

sional support to help implement the plan, said William Boyd, financial regulation manager with the Indianapolis-based National Assn. of Mutual Insurance Cos.

Drafters anticipate seeking authority from Congress so the NAIC could deal with foreign countries directly on these reinsurance-related matters and implement the system nationwide without individual state approval of new credit for reinsurance laws.

The full NAIC membership is expected to vote on the collateral proposal at its Dec. 5-8 quarterly meeting.



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Commentary

Despite AIG troubles, buyers shouldn't panic

Everybody stay calm. While investors seem to have few safe harbors from the recent financial market storms, policyholders need not worry—for now.

The upheaval in recent weeks has defied belief. Major financial institutions have gone bust or been sold. Seeking to stave off a global meltdown, the federal government extended a huge loan to American International Group Inc., which came close to declaring bankruptcy two weeks ago (*BI*, Sept. 22; www.BusinessInsurance.com/AIG). Meanwhile, the government is working on a massive bailout to provide liquidity to the credit markets.

AIG's near-collapse is not well understood, as many question the strength of its insurance subsidiaries. How could a company with \$1 trillion in assets and well-capitalized insurance operations be so troubled that it must rely on a loan and sell assets? That is frightening, especially for investors used to seeing AIG's share value grow consistently.

What must be emphasized is the trouble is at the parent company, not the insurance units. Simply, here's how it happened: Mounting but largely unrealized losses in credit derivatives written by AIG Financial Products forced write-downs that led to massive quarterly losses. This problem spiraled as further losses emerged, triggering additional collateral requirements and exacerbating AIG's need for cash. With investors fleeing and credit downgrades accelerating, AIG could not raise capital and had few options before the Fed rescue.

Despite the parent's trouble, AIG's insurance operations, by law, must have separate capital bases and meet solvency requirements—and they are solvent in the judgment of all of AIG's regulators. AIG's insurance financial strength and claims-paying ability continue to be highly rated.

Consider these numbers, reported as of June 30: \$26.7 billion, \$1.9 billion, 1:1. Here's what those mean. For the first six months of 2008, AIG had \$26.7 billion in statutory policyholder surplus in its domestic commercial lines businesses alone. Those same units generated net income of \$1.9 billion. AIG's domestic commercial premium-to-surplus ratio is less than 1:1, meaning that for every \$1 of premium written, AIG has more than \$1 available to pay claims.

So why are some suggesting that policyholders move to other insurers? Risk managers that *Business Insurance* has spoken with generally are taking a wait-and-see approach, and some say they'll seek additional quotes but



REGIS COCCIA

Editor Regis Coccia's commentary appears periodically. He can be reached at: rcoccia@businessinsurance.com

aren't automatically switching.

The reasons for choosing AIG as an insurer remain valid. I am no apologist for AIG, but consider why so many buyers use AIG. It remains a leader in risk appetite, financial strength, expertise and speed to market. That so many AIG alumni lead insurance organizations worldwide reflects a history of innovation and underwriting savvy.

I'm amazed at the opportunism and illogic that have emerged.

I'm amazed at the opportunism and illogic that have emerged in response to AIG's troubles. Competing insurers have moved quickly to snag market share, with some offering more capacity and others playing on fear. If they could do this earlier, why didn't they?

A reinsurance executive last week suggested the reinsurance market "has already hardened" as a result of AIG's situation. That's not what attendees of the Rendez-Vous in Monte Carlo heard only two weeks before (see stories, page 10). In Monaco, many said the market wouldn't harden until reinsurers' capital was affected by a major loss event. Catastrophes have occurred, but so far not enough to halt rate slides. Where are the underwriting losses from the subprime crisis? They have not hit insurers' balance sheets yet, and when they do, they will largely hit the primary market, due to higher casualty retentions. If reinsurers are getting hit by investment losses, well, that's another story.

The real opportunity here is that insurers—AIG and everyone else—can do a better job of communicating their strengths, managing balance sheet risk, and enabling competition to breed innovation and improve service.

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Turmoil shows federal oversight unavoidable

THE TURMOIL in the financial markets and the near-collapse of American International Group Inc. will bring greater federal regulation of financial services, including insurance.

How could a giant like AIG be brought to the brink of disaster without anyone raising a warning flag? The explanation appears to be that the derivative business of AIG Financial Products wasn't adequately regulated. In some ways, AIG fell through the cracks and had to be bailed out by the Federal Reserve to the tune of up to \$85 billion.

With that taxpayer money at stake—and possibly another \$700 billion to prop up other troubled financial institutions—the cracks must be patched soon. More regulation is inevitable, but finding the balance between heavy-handed oversight that stifles innovation and a hands-off approach that invites more failures will be difficult.

We don't think state insurance regulation alone can guarantee such a balance despite the fact that AIG's state-regulated insurance units have weathered the storm so far. The current crisis underscores how critical absolute transparency in all aspects of an institution's operations is to keep future situations from getting out of control.

That will require much better coordination among the agencies overseeing insurers and their holding companies. This cannot be done on the state level, with more than 50 jurisdictions trying to track all activities of myriad insurers and their parent companies.

We've long supported an optional federal charter for insurers. While an OFC may not have prevented AIG's meltdown, it might have raised some regulatory warnings. At minimum, an Office of Insurance Information should be set up in the Treasury Department quickly so insurance expertise is at hand when the next crisis occurs.

AIG's troubles and the larger financial market turmoil cannot be divorced. They demand a national regulatory answer. There must be federal regulatory oversight and coordination of insurance as well as other financial industries. Without that, the next crisis is both inevitable, and likely to be even worse.

Taking part cooks up palatable legislation

GIVEN THEIR ABHORRENCE of mandated benefit laws, we know the dilemma business groups felt when a group of U.S. senators invited them to try to work out a deal on mental health care benefits parity legislation several years ago.

By working with the senators and their staffs, the business groups would increase the likelihood that an agreement would be reached and legislation passed, resulting in another benefit mandate for their members to follow. On the other hand, being at the negotiating table would give business groups a chance to shape the legislation and make it less objectionable to their members.

Wisely, the business groups, including the American Benefits Council and the National Retail Federation, saw that the value of being at the negotiating table far exceeded the risk of staying away and ending up with a highly objectionable bill.

By being part of the talks, business groups helped shape the current legislation, which is now on the edge of final congressional passage. Employer groups had to make concessions, but they prevailed on the most important member issue: assuring that employers still decide which mental health services they will cover.

Politics is about compromise, and the compromises that employers made ensured that the legislation is at least acceptable.

Financial market turmoil demands a national regulatory answer.



WRITE

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THIS WEEK'S RESULTS

Should policyholders worry about AIG's ability to pay claims?



No, AIG remains secure
77.2%

Yes, its financial woes will worsen
13.8%

Not sure what impact credit crisis will have
9.0%

NEXT WEEK'S QUESTION

Q: In light of the financial crisis, should there be federal regulation of insurers?

BI Online Poll tool is sponsored by Wausau Insurance Cos.

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Structural improvements cut cat losses

The potential for loss of life, property and business that low-performing buildings present is real and costly when it comes to earthquakes, says Kurt R. Lindorfer, founder and principal of Paradigm Structural Engineers Inc. in San Francisco. Three relatively new structural technologies—base isolation, fluid viscous dampers and buckling restrained braced frames—are cost-effective ways to protect commercial structures, the contents and people inside.



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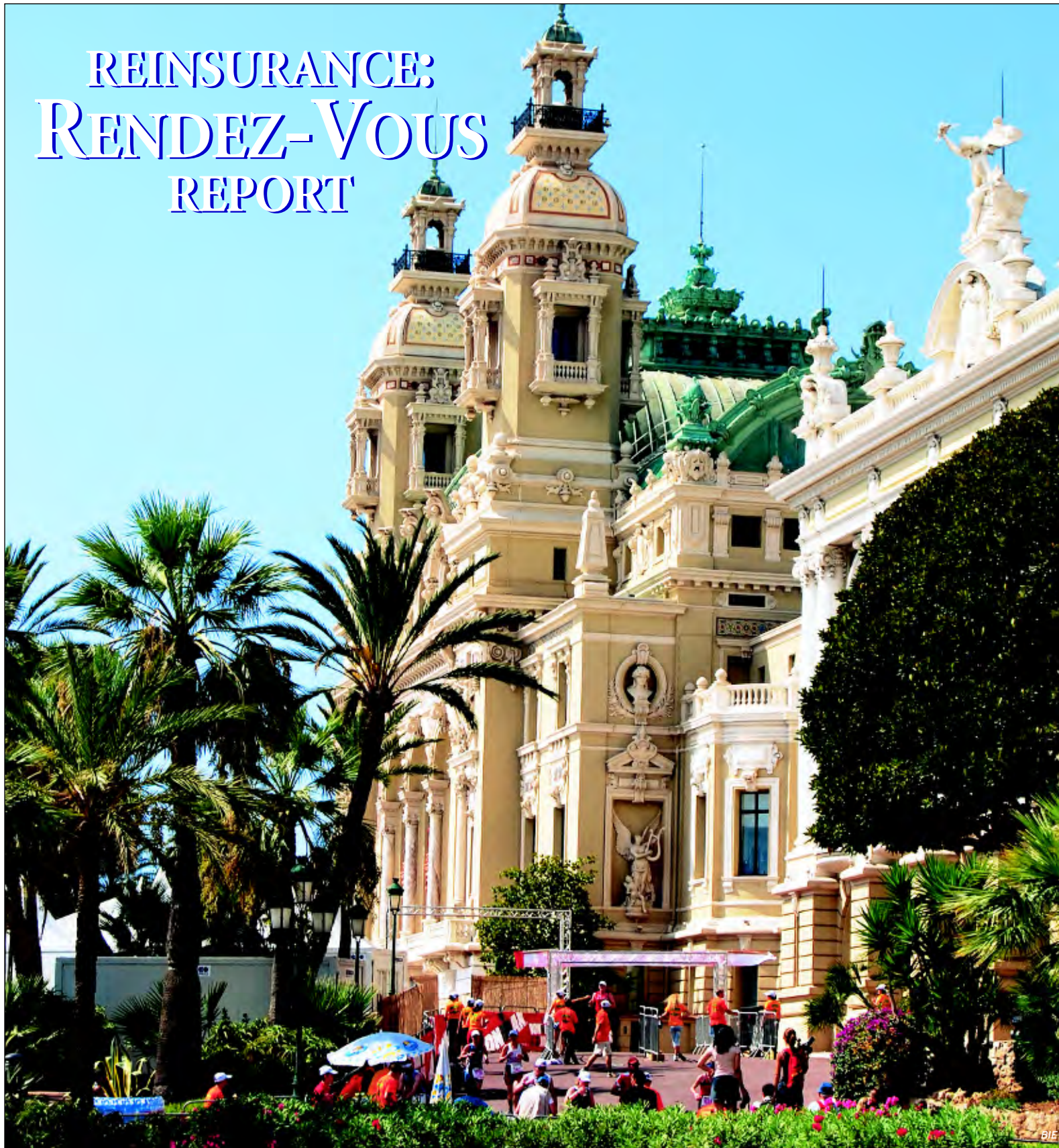
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REINSURANCE: RENDEZ-VOUS REPORT



Reinsurance rates ease with limited cat losses

Plentiful worldwide capacity expected to drive prices down during year-end renewal season

By **REGIS COCCIA**

MONTE CARLO, Monaco—Barring a major loss event or series of events, pricing for catastrophe-exposed property reinsurance appears to be continuing its downward slide, reinsurance market executives say.

At the annual Rendez-Vous de Septembre gathering of reinsurance industry leaders in Monte Carlo earlier this month, brokers and reinsurers concurred that rates are likely to come down in the next major renewal period.

"Pricing for Jan. 1 renewals will drift further in the absence of a major shock loss," said Christopher

Klein, managing director of global business intelligence at Guy Carpenter & Co. L.L.C. in London. "As the memory of Katrina recedes, the view is that the likelihood of major losses is lessened," he said. But Hurricane Ike "could be a turning point." Mr. Klein made his comments before Ike had struck the Texas coastline near Galveston.

Estimates of Ike's insured damage ranged from \$7 billion to \$12 billion, which could make it the third-costliest U.S. hurricane behind Katrina in 2005 and Andrew in 1992 (*BI*, Sept. 22).

Even without a major single event, catastrophe losses are accu-

mulating, Mr. Klein said. This year's second quarter was the second-worst for catastrophe losses in the past 10 years, according to the Insurance Services Office Inc., noted Mr. Klein. "We expect the majority of losses like Gustav to weigh more heavily on primary insurers, because they write to a higher net" and have been increasing their retentions, he said.

"Absent any catastrophic event, it would seem like we have a continued downward bias across all lines," said Pat Denzer, president and chief executive officer of Minneapolis-based reinsurance intermediary John B. Collins Associates Inc.

"Cat business will vary by where it is in the program and by type of exposure," Mr. Denzer said. "There is greater softening on nonpeak-exposure business at the top of the program. Reinsurers are able to hold the line more on peak exposure at the bottom."

North America vs. Europe

There appears to be a difference in market conditions of North American cat risks and those in Europe, sources said. While North American property cat rates spiked following Hurricanes Katrina, Rita

See **CATASTROPHES** next page

SPOTLIGHT

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Catastrophes: Reinsurance rates expected to ease at year-end renewals

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and Wilma, those in Europe did not go as high. Therefore, rates in Europe have been more stable, sources said.

"Pricing for North American risk has come down in 2008 by an average of 16%, but Europe is more moderated—off 5%—and Asia is off 6%," said David Priebe, chairman of global client development at New York-based Guy Carpenter. "Returns on cat business are still attractive. We're not seeing capital leave the market and capacity has continued to expand."

With the industry well-capital-

ized after two years with few losses, a monstrous loss that eats up both reinsurers' earnings and capital would be needed to reverse the rate slide, some observers predicted.

"The market has proven to be resilient," said John Berger, president and CEO of Pembroke, Bermuda-based reinsurer Harbor Point Ltd. After surviving frequent and severe catastrophes in 2004 and 2005, "it's hard to see any single event (by itself) changing things now."

But when combined with exposure to subprime loan losses and other economic factors, "a series of catastrophes could change things," Mr. Berger said.

"Look at the amount of surplus capital. It would take a massive amount of loss to remove it," said Ian Dilks, insurance practice leader at PricewaterhouseCoopers in London.

Market-moving factors

"This year, markets are trending downward and stabilizing" after two years of dramatic rate increases, said Bryan R.P. Joseph, a partner at PricewaterhouseCoopers in London. "Since July, rates are more level. People are realizing they could make losses. The market is not running scared but is stabilizing," he said.

For the market to move, "there needs to be a loss of emotional size, where a reasonable-sized company is threatened," Mr. Joseph said. "When companies start pitching up Berkshire Hathaway for third-event cover, you (know) it's moved."

So far, there appears to be little demand for second- or third-event coverage, reinsurance industry experts said.

Except for peak zones—U.S., European and Japanese windstorm, and U.S. and Japanese earthquake—property reinsurance rates, "given no major event, they're not going up, and everything continues to go down," Harbor Point's Mr. Berger

said. "It's very competitive everywhere. Peak-zone cat coverage is the most resilient. Everywhere else, there's just excess capacity."

Indeed, "catastrophe rates went down, not only in the U.S. but in the rest of the world" during the past few renewal periods, said Konrad Rentrup, president and CEO of Hannover Re (Bermuda) Ltd. in Hamilton, Bermuda.

Hannover Re writes most of its property catastrophe excess-of-loss reinsurance through its Bermuda subsidiary. European cat risks constitute about 27% of Hannover Re Bermuda's portfolio, while North American risks make up about 43%.

"I'm not too pessimistic when it comes to renewals" in January, Mr. Rentrup said. "Hopefully, we'll bring some pricing discipline to the primary side."

"The European market has seen greater price stability over the past year as there weren't the very high prices experienced in the U.S. in 2006 driven by catastrophe losses. The big spike in U.S. prices post-2004, -2005, is now obviously trending down," said Peter Hearn, CEO of Willis Re, a division of Willis Group Holdings Ltd.

"There have been two benign years, and reinsurers have been able to make a considerable profit. Now, as a result of the increased competition, reinsurance pricing is coming down to reflect both the past profitability and the fact rates were very high after 2004 and 2005. There's been much less of that, if any, in the European market because of the lack of frequency and severity of catastrophic events as compared to the U.S.," Mr. Hearn said.

Hans-Dieter Rohlf, managing director of North American treaty business at Hannover Re Group, said he sees North American catastrophe risks as differentiated by region, each commanding a different pricing approach.

"When does business become unprofitable? Another 10% to 15% rate reduction in the Midwest, for example, and rates will be unprofitable," Mr. Rohlf said. "We don't see the cat market in the Southeast U.S. becoming unprofitable."

"Over the next two months, we'll probably have significant events. It's too early to tell" where rates will be going for January renewals, he said.

James H. Veghte, executive vp and CEO of reinsurance operations at Bermuda-based XL Capital Ltd., said: "It's premature to get too specific" about rates for January renewals. "It will be what it will be," said Mr. Veghte, who also is CEO of XL Reinsurance America Inc. in Stamford, Conn.

While a string of three or four Gustav-size storms would be unlikely to alter market conditions, a single industrywide loss event of \$50 billion or more "would move the market," Mr. Veghte said. Until such an event, there continues to be some room for rates to continue dropping, he suggested.

"On U.S. cat business at XL, we rate every U.S. catastrophe program against our technical rate, and we are still well north of 100% of our target," he said.

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Casualty rates soft as reinsurers see few subprime claims

Plenty of capacity remains available for D&O exposures

By REGIS COCCIA

MONTE CARLO, Monaco—Reinsurance pricing for casualty lines remains generally soft, even with the specter of liability losses relating to the subprime loan crisis, reinsurance market sources say.

Discussing casualty reinsurance during the annual Rendez-Vous de Septembre gathering Sept. 5-11 in Monte Carlo, Monaco, reinsurance

industry leaders agreed that rates reflect the fact that insurers are not yet facing significant underwriting losses due to subprime loans.

Industry executives spoke before the recent turmoil in the global financial markets, in which the federal government took over or bailed out major financial institutions and several of the world's largest investment banks either went out of business or sold to other organizations. Among the highest-profile organizations, insurance holding company giant American International Group Inc. came close to declaring bankruptcy, despite the financial strength of its insurance subsidiaries



'We're witnessing a new type of catastrophe: a financial catastrophe, the subprime crisis.'

Peter Zaffino,
Guy Carpenter & Co. L.L.C.

(BI, Sept. 22).

"We're witnessing a new type of catastrophe: a financial catastrophe, the subprime crisis," said Peter Zaffino,

chief executive officer of New York-based Guy Carpenter & Co. L.L.C., a unit of Marsh & McLennan Cos. Inc. "We have not yet seen the full implications of how it will impact D&O insurance."

Even so, what few claims have been generated so far through subprime litigation largely have not hurt balance sheets, executives said.

"Subprime for reinsurers is an earnings event, not yet a capital

event," said Christopher Klein, managing director of global business intelligence at Guy Carpenter in London. Insurers have reported write-downs of subprime-related investments, but on the underwriting side "insurers have not been brought to their knees by it, and there is plenty of D&O capacity available."

Casualty business is very competitive on the primary side, said John Berger, president and CEO of Pembroke, Bermuda-based reinsurer Harbor Point Ltd. "It's not uncommon to get 30% to 40% off on major accounts," and cedents continue to increase retentions, he said.

"The casualty market is still quite soft. Most people are worried about claims, especially D&O and E&O" from the subprime crisis, said Bryan R.P. Joseph, a partner at PricewaterhouseCoopers in London.

"People have managed to underwrite less business. For example, exposures to big banks are much lower" now than they were a few years ago, Mr. Joseph said.

'On the casualty side, there is reasonably good stability of loss frequency.'

Hans-Dieter Rohlf, Hannover Re Group

Other casualty lines, such as workers compensation, continue to see medical cost inflation affecting claim severity, some sources pointed out.

"On the casualty side, there is reasonably good stability of loss frequency," said Hans-Dieter Rohlf, managing director of North American treaty business at Hannover Re Group. "As a reinsurer, we're more interested in loss severity—that has not gone down, and medical costs have gone up."

He said Hannover Re is not seeing "dramatic pressure on casualty reinsurance rates because ceding companies are looking at (reinsurer) security first."

The "largest portion of reductions in XL Re's portfolio is in casualty," said James H. Veghte, executive vp and CEO of reinsurance operations at Bermuda-based XL Capital Ltd.

Rate reductions in casualty reinsurance are caused by "increasing competition in the U.S. over the last several years as well as client requests for different ceding commission structures," said Mr. Veghte.

"Calendar-year results seem significantly better than the accident-year. Once that changes, there will be significant impetus to increase rates," he said, noting that insurers and reinsurers are "still in a relatively low interest-rate environment."

Accident-year underwriting results reflect losses relative to earned premium in a 12-month period. Calendar-year results, while similarly expressing losses relative to earned premium, include reserve releases and changes in reserve estimates.

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Regulatory changes intensify focus on quality of data

Solvency II increases pressure on insurers to assess exposures

By **STUART COLLINS**

MONTE CARLO, Monaco—Insurers that use sophisticated risk management tools to make strategic decisions face a significant challenge to adapt their business models and improve the quality of underlying data.

Analytical tools and models are now in wide use by insurers and

reinsurers as part of their risk management strategies to assess exposures, help allocate capital, set solvency levels and price business. Europe's proposed capitalization system, Solvency II, is expected to reinforce this trend, experts said at the Sept. 5-11 Rendez-Vous de Septembre in Monaco.

There is an "arms race" between insurers as the industry realizes the competitive advantage of such tools, said Hemant Shah, president



'The SEC has focused on mortgage-backed securities, but it is only a matter of time before this is extended to (insurance-linked) securities.'

Emmanuel Modu,
A.M. Best Co. Inc.

and chief executive officer of Newark, Calif.-based catastrophe modeling firm Risk Management Solutions Inc. "Solvency II will drive

further the use of catastrophe models; it will reinforce and move modeling practices deeper into the market and beyond the leaders into the middle and smaller end of the market."

But such tools rely on information on the insured risk and certain assumptions on the physical world and society at large, such as the workings of the climate or financial markets. The quality of such data carries certain risks for

insurers and has attracted the attention of regulators and rating agencies, experts say.

"The soft underbelly of Solvency II, enterprise risk management and catastrophe modeling is the quality of data inside organizations," said Mr. Shah. "Insurers' and reinsurers' decisions based on such analytics are only as good as the quality of their data."

Rating agencies and regulators already are placing more emphasis on data integrity and quality, in part because of concerns raised by problems with subprime-related structured finance products, said Emmanuel Modu, managing director, structured finance at Oldwick, N.J.-based A.M. Best Co. Inc.

"The Securities and Exchange Commission has focused on mortgage-backed securities, but it is only a matter of time before this is extended to all securities," Mr. Modu said of the market for insurance-linked securities such as catastrophe bonds.

In addition to models used to structure catastrophe bonds, rating agencies are paying more attention to data integrity as part of the financial-strength rating process, said Mr. Shah. "The rating agencies are asking more pointed questions on the quality of exposure data, and these questions have become more structured. And every release of a new (catastrophe) model raises the bar on the quality of information required by the rating agencies," he said.

Exploring uncertainty

While rating agencies are under pressure to make sure that data is clean, they do not want the liability that goes with being auditors of models, said Best's Mr. Modu. But commercial risk modeling companies are already getting involved in data qualification, he said.

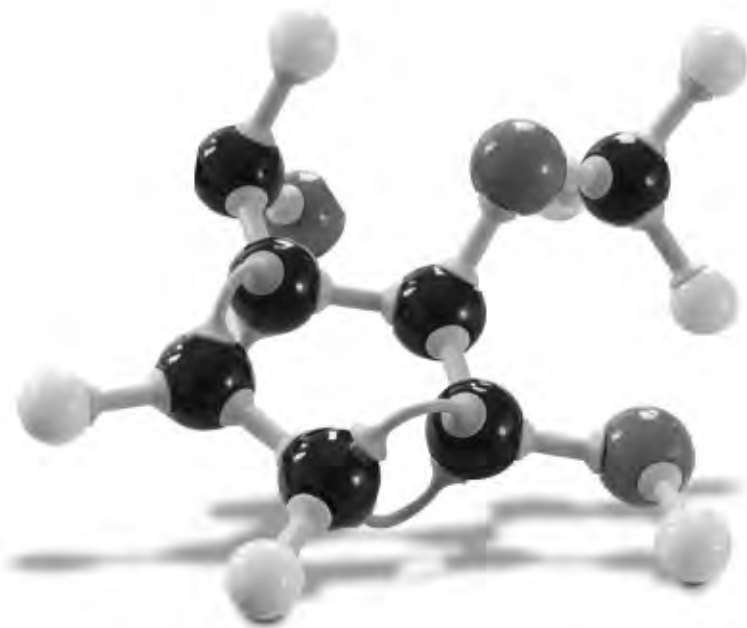
Boston-based Karen Clark & Co. and Risk Management Solutions both offer products to interpret and evaluate catastrophe model results using independent benchmarks, he said.

"The next big step will be the ability to explore the uncertainty in a model, and there are some interesting technologies coming that will help insurers understand how best to use a model and better understand the uncertainty inherent within it," Mr. Shah said.

Banks, which have just implemented Basel II, that sector's own capitalization system, have produced a number of data models, said Chris Tattersall, managing director of SMART Business Advisory & Consulting U.K. Ltd.

There are commercial benefits behind a bank's drive toward better data quality, he said, because the better the quality of the data, the lower the capital requirement from the regulator. But "sophisticated models rely on good data quality, especially regarding their clients," he said. "And in our experience, insurers do not have good data."

Uday Virkud, executive vp of Boston-based AIR Worldwide Corp.,



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Data: Regulatory changes increase focus on quality

CONTINUED FROM PAGE 14

said improvements in data quality must come from the ground up. Data, such as the location of a risk, its replacement value and the property characteristics, often are not well enough understood or captured, he said. The replacement value is a major factor in the premium charged by an insurer, he added.

"As technology and science advances, the insurance industry has a responsibility to improve its data," Mr. Virkud said.

Driven by Solvency II, using more complex analytical tools will represent a massive change for insurers,

Mr. Tattersall said. "Until now, risk management models have been the preserve of actuaries, a bit of a black art which people outside the actuarial department do not understand. Solvency II will make that no longer possible as the chief finance officer and chief executive will have to take responsibility for models," he said. "The battle between the CFOs and the actuaries will be a big challenge."

Mr. Shah said he believes those in the insurance industry will be challenged in the next three to five years to integrate and understand analytical tools in their everyday jobs.

"The future will be a challenging role for underwriters. They will need to understand the limitations and capabilities of the models, what the assumptions and data quality are, and integrate these with their intuition to make informed decisions," Mr. Shah said.

Solvency II will help develop this way of thinking, he said.

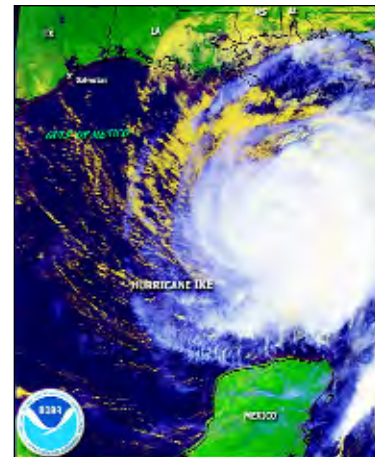
Models improve

Ongoing advancements in catastrophe models also will lead insurers to increasingly price risk on a client-by-client basis, rather than on a class-by-class basis, Mr. Shah said.

Already, "predictive analysis is sweeping across" the insurance industry, Mr. Shah said. This started in the automaker industry, but insurers have started to compile more data on their large commercial customers, he added.

Mr. Shah said the ongoing trend in the insurance industry is shifting away from a class-based treatment of customers to focusing on the risk presented by the individual corporate buyer.

Companies with a low risk profile will obtain access to lower prices, he said. "Prices will be more appropriately linked to a company's risk profile," he added.



Hurricane Ike in the Gulf of Mexico.

Modelers forecast tools will improve

By STUART COLLINS

MONTE CARLO, Monaco—Catastrophe modeling firms—aided by increased computing power and advancements in scientific knowledge—predict a greater range of analytical tools soon will be available to insurers and reinsurers.

Catastrophe models are a relatively recent innovation developed in the aftermath of 1992's Hurricane Andrew, but their use by insurers in capital allocation and pricing has become commonplace in recent years, experts say.

Catastrophe models are already sophisticated, modeling exposures on an ever finer scale with greater resolution, said Hemant Shah, president and chief executive officer at Newark, Calif.-based Risk Management Solutions Inc.

Modeling companies that help insurers quantify exposures to natural catastrophe risks such as windstorms and earthquakes plan to expand their products beyond mainly U.S. and European windstorm and earthquake offerings.

RMS is working to extend its property catastrophe modeling expertise to casualty exposures. It also is working with a number of insurers to develop a model of potential liability exposures such as product recall and changes to the legal environment, said Mr. Shah.

Rival firm AIR Worldwide Corp. is also developing a casualty catastrophe model, said Uday Virkud, AIR's executive vp. It is working with insurance experts and database companies build such a model, he said.

Both AIR and RMS plan to expand existing products to new regions and exposures. AIR has developed an inland surface flooding model in the United Kingdom, in addition to its existing storm-surge flood model, said Milan Simic, managing director of AIR's London unit. AIR will roll out more flood models in Northern and Central Europe in coming years.

Benfield Hazard Research Centre, a joint project by Benfield Group

See **MODELS** next page

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Retrocessional demand declines as capital strength improves

MONTE CARLO, Monaco—Following two benign loss years in 2006 and 2007, strong capitalization in the primary insurance and reinsurance industries has lessened demand for retrocessional coverage, market sources say.

Much of the available retrocessional reinsurance capacity takes the form of industry loss warranties and insurance-linked securities, such as catastrophe bonds, said David Priebe, chairman of global client development at New York-based intermediary Guy Carpenter & Co. L.L.C.

Cat bond record streak over

"After 2005, catastrophe bonds set three record years of increased issuance," said Mr. Priebe. The market has stabilized, as "the past two years have been phenomenal years for the market and helped rebuild the balance sheets," he said. "2008 is probably the first year since Katrina (in 2005) that we won't set a record in cat bonds."

Industry loss warranties, known as ILWs, are contracts triggered by marketwide losses that usually are purchased to protect earnings on treaty business. For example, a reinsurer might purchase an ILW for market losses that exceed \$10 billion in a certain cat-prone region.

For some ILWs, prices are increasing, sources said.

Caution is driving price increases in some industry loss warranty business, such as Florida, said Hans-Dieter Rohlf, managing director of North American treaty business at

Hannover Re Group. "ILW movement shows stability or even rate increases, due to general fear and the number of hurricanes," he said.

The average attachment point for catastrophe programs is a \$5 billion market loss, Mr. Rohlf said.

He is seeing "an increased demand for sideways protection," in which insurers absorb the first or

second cat loss net of reinsurance but have reinsurance protection for a third or fourth event. What's driving this interest is fear of greater cat frequency, he said. "In 2008, U.S. tornadoes had enormous frequency—that wasn't there before," Mr. Rohlf said.

Unlike insurance-linked securities such as cat bonds, ILWs can be

drawn up quickly.

"What clients love about ILWs is they're very fast and easy to execute," Mr. Priebe said. One client seeking \$150 million in protection for earthquake risk was able to get an ILW bound and documented in 24 hours, he said.

While the market for ILWs grew in 2005 and 2006, "it has leveled off

at about \$6 billion," Mr. Priebe said.

Insurance-linked securities have to be "seen as part of the overall strategic capital execution" and are multiyear in nature, said Mr. Priebe. "Reinsurers are more sophisticated at understanding their portfolio and are more comfortable in taking basis risk."

—By Regis Coccia

Models: Try to expand capabilities

CONTINUED FROM PREVIOUS PAGE

Ltd. and University College London, in the past year developed real-time models that interpret windstorm data for use in catastrophe models.

Benfield has worked with modeling firms to produce a "polygon" model that builds on data from the U.S. National Hurricane Center to give a more detailed picture of the size of a storm and its wind speeds as the storm happens. Benfield is looking to add storm-surge data to the model, which is already used by AXA S.A., Lloyd's of London and Cable & Wireless P.L.C.

RMS' Mr. Shah predicted advances will equip underwriters and senior insurance managers with tools to assist in pricing, capital allocation and long-term strategy. Within 10 years, the RMS CEO said the "next revolution" will come from gains in computing power and underlying scientific knowledge that will allow insurers to model multiple but related catastrophes.

Future models will analyze local events, such as a U.S. hurricane and related European flooding or Australian wildfires, that are part of the same climatic event, he said.



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Major reinsurer M&A seen as unlikely

Merger and acquisition activity possible, but financing difficult

By SARA VEYSEY
and STUART COLLINS

MONTE CARLO, Monaco—While attendees of the Monte Carlo, Monaco, Rendez-Vous de Septembre consider merger and acquisition activity possible, few believe there will be a rush of deals.

Against a backdrop of a continued soft market, commentators said that mergers and acquisitions are possible but financial market turmoil would make financing a difficult task.

Undoubtedly, there are going to be pockets of M&A activity, said Peter Grant, director and lead analyst for reinsurance in Europe at Standard & Poor's Corp. in London.

Potential M&A candidates include some of the so-called Class of 2005 of Bermudian reinsurers, and there are likely to be movements of teams among companies, he said.

But the current financial market turmoil may stymie M&As, as

financing such deals may be more difficult than in the past, said Simon Harris, team managing director of insurance at Moody's Investor Service Inc. in London.

Lloyds TSB Bank P.L.C. has already seen increased demand from insurers for financing as Solvency II and the softening market cycle led companies to look at their balance sheets more closely and consider M&As, said Bill Cooper, managing director for financial institutions at Lloyds TSB Corporate Markets in London.

There were more discussions at the Rendez-Vous about funding for M&A activity than in the past, he added.

The credit crunch and soft insurance market are driving share prices of insurers, reinsurers and brokers even lower, Mr. Cooper said. As the gap between the best- and worst-performing companies widens in the soft market, M&As will increase, he predicted.

Both the Lloyd's of London and

Bermuda markets are ripe for consolidation, while insurers such as Royal SunAlliance Insurance Group P.L.C. and XL Capital Ltd. are possible takeover targets, Mr. Cooper said.

Weak share prices will make insurers attractive takeover targets, with the stronger buying the weaker, Mr. Cooper said.

He said that RSA in particular had done a good job of sorting out its past problems, particularly with its former US units, and XL has a significant runoff book and an attractive franchise, and its share price was relatively low, he said.

"There were whispers that people were looking at XL, and I would be surprised if people were not seriously looking at it. But they are a big company, and have just raised new capital, so the purchase price would be chunky," he said.

Tokyo-based Tokio Marine &

See **MERGERS** next page

Questions Answers

Ceding insurers preparing for Jan. 1 reinsurance renewals should expect to have to reconcile differences of philosophy with reinsurers when it comes to pricing, terms and conditions, says Peter Hearn, New York-based, chief executive officer of Willis Re, the reinsurance intermediary arm of Willis Group Holdings Ltd. Mr. Hearn told Business Insurance recently how Willis Re views negotiations shaping up so far.



Reinsurance competitive

Q: What's the overall outlook for reinsurance pricing?

Prefacing my remarks with the possibility of a catastrophic event or series of cats that may alter the market, insurance pricing continues to be very competitive in almost all major lines both in the U.S. and internationally. The only line of business I have heard of which is not so competitive is environmental. In a soft market, there is always huge pressure on market share.

Unlike other soft markets, where reinsurance and primary pricing have tracked closely, what we have seen at the 1/1/08 and 7/1/08 renewals is a widening gap between reinsurance pricing and primary pricing as reinsurers have been more resolute in maintaining their pricing discipline.

Rates have come down over the last two years in certain lines of business, but reinsurance rate reductions have been slower than primary rate reductions.

Q: What should cedents expect in Jan. 1 renewal negotiations?

There's a gap. The question is, as that gap widens, what is the appetite of cedents to either retain more business or to pay more for their reinsurance? That's the \$64,000 question that no one really knows in the current market. 2008 has seen a number of regional catastrophe and large-risk losses around the world impacting the property market. There have been floods in the Midwest; some major Japanese, U.S. and European risk losses, but none of these losses have been of a sufficient frequency or severity to start moving prices up. The bulk of these losses have remained with client retentions.

For us as intermediaries, one of the hardest things when advising our clients on pricing for any piece of business, is to understand not where the bottom of the market is today, but where it will be in a few months' time and to gauge the price resistance at this level.

Particularly at July 1, we did complete many programs at firm order terms well below the quotes reinsurers provided, consistent with past soft markets. Nevertheless, reinsurers have reported that a number of prominent covers had to be re-priced. That's something unusual from previous soft mar-

kets. That's somewhat vexing because you have to make sure that you not only understand what your client can buy but also what the market will tolerate.

Q: What's making this soft market different from others?

The investor bases of the insurers are more disciplined and they are demanding more financial

discipline from the reinsurers, because of the returns that are required, particularly where there is capital being employed for catastrophic risk. It is high-risk, high-return business by its nature and as a result of that investors are looking for an adequate return. I'm not for a second suggesting there's currently not enough capacity in the market. The issue is the supply of capacity at the price the reinsurers need to satisfy their investors.

Q: Are higher retentions here to stay?

I think it comes down to return on capital and the efficient or inefficient use of capital in the form of reinsurance. If reinsurance is efficient, they'll use it. If reinsurance is inefficient, they'll retain. On the property side, we have seen insurance carriers who are offering original prices in the market which do not reflect the cost of their reinsurance, which has a two- or three-year payback loading for prior losses. In such situations, the cost differential requires the insurance carrier to make a decision: Either I'm going to write less because I need to buy less reinsurance, or I will retain more in order to lower my costs of my reinsurance to continue to buy at the upper level what I'm required to by the rating agencies.

On casualty business, again it comes down to a question of capital efficiency, and for long-tail casualty business, we've seen a continued increase in retentions. That's a function of the individual insurers' financial strength and risk appetite, their return-on-capital requirements and the utility and efficacy that they believe reinsurance on a long-term basis does or doesn't represent.

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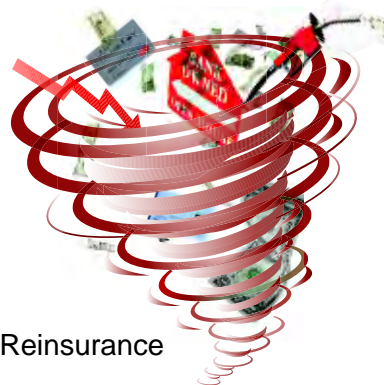
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Low demand could lead to consolidation in Bermuda

MONTE CARLO, Monaco—Lack of demand for coverage could drive consolidation among reinsurers established in Bermuda since 2005, some market observers say.

The capacity provided by reinsurers launched in the wake of hurricanes Katrina, Rita and Wilma is not being fully utilized, they said at the recent Rendez-Vous de Septembre gathering in Monte Carlo, Monaco.

There is precedence for investors to withdraw capital a few years after launching companies in Bermuda. For example, the insurers and reinsurers that started following the Sept. 11, 2001, terrorist attacks largely have completed public offerings or diversified their

underwriting portfolios beyond the predominantly property catastrophe business they were formed to write.

"The 2005 and 2006 classes got established and haven't written a lot of business" relative to their initial capital, said Bryan R.P. Joseph, a partner at PricewaterhouseCoopers in London. "Private equity houses are eager to get returns back."

In 2005, nine insurance or reinsurance companies formed, with total capitalization of more than \$8 billion, according to Bermuda market sources. Those companies initially wrote about \$3 billion in pre-

mium, less than half their total capital.

"There will be owner pressure to put companies together," Mr. Joseph predicted.

"What will drive consolidation is the need for" return on equity, agreed Peter Mitchell, a Bermuda-based partner at PwC.

Consolidation seems likely, particularly for Bermuda companies that have similar profiles, said John Berger, chief executive officer of Bermuda-based Harbor Point Ltd. "Do we need a bunch of \$1 billion to \$3 billion companies?" he asked. "Oligopoly will be the impetus for

more consolidation."

Harbor Point, launched in 2005 from the spinoff of the former Chubb Re, has itself considered making deals, Mr. Berger said. "We've had many conversations with companies about valuations," he said.

"The name of the game in the soft market is diversification," said Caroline Foulger, a PwC partner based in Bermuda. "Bringing like companies together is less attractive," however, unless the combination can achieve pricing diversity, she said.

—By Regis Coccia



Rendez-Vous de Septembre attendees gather in Casino Square in Monte Carlo.

Mergers: Financing difficult

CONTINUED FROM PREVIOUS PAGE

Nichido Fire Insurance Co.'s acquisition earlier this year of London-based Kiln P.L.C. may be followed by other deals that involve Japanese insurers, he added.

One reinsurer Mr. Cooper spoke with at Monte Carlo was considering merger and acquisition activity as a result of the proposed acquisition of Benfield Group Ltd. by Aon Re, the reinsurance arm of Chicago-based Aon Corp. Almost three-quarters of the reinsurer's business would come from the combined broker, driving it toward M&As to grow its business, he said.

Limited options

Several reinsurers at the Rendez-Vous, however, said they would not currently consider large acquisitions.

Paris-based reinsurer SCOR S.E., which last year acquired troubled rival Converium Holding Ltd. of Zug, Switzerland, has reached the critical size it needs to do business in today's environment, according to President and CEO Denis Kessler.

"That is not to say we will not acquire teams here and there, but we have no plans to make a major acquisition," he said.

"In the nonlife area, we have never had an appetite for acquisition," said Wilhelm Zeller, chairman of the management board of Hannover Re Group.

At a time when rates are softening, reinsurers do not want to take on extra business and likely would not be interested in buying other reinsurance companies, he said.

"We have done five acquisitions and do not want to take on other people's legacy," said Kenneth LeStrange, chairman, president and CEO of Pembroke, Bermuda-based Endurance Specialty Holdings Ltd.

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Offshore losses from Hurricane Ike expected to push up cover costs

Primary underwriters cautioned against relying on reinsurance

By ZACK PHILLIPS

Heavy losses from Hurricane Ike and other factors likely will drive up insurance rates for offshore oil and natural gas facilities, members of the International Union of Marine Insurance's Energy and Offshore Committee say.

Industry experts say the offshore insurance market showed signs of hardening even before Hurricane Ike hit the Gulf of Mexico in mid-September, causing between \$6 billion and \$16 billion in onshore and offshore losses, according to one modeler.

"In my mind, there needs to be a market reaction" to the hurricanes, committee Chairman Dominick Hoare said at IUMI's Sept. 14-17 conference in Vancouver, British Columbia. "This is going to be a severe loss."

The Category 2 hurricane came ashore at Galveston Island, Texas, with 110 mph winds and up to a 15-foot storm surge. Initial reports indicated that the offshore energy sector suffered serious losses.

The U.S. Minerals Management Service said Ike destroyed 49 of 3,800 offshore oil and gas production platforms, three jack-up rigs and one platform drilling rig, and extensively damaged one jack-up rig.

Jan-Hugo Marthinsen, vp of Gard A.S. in Norway, said three moored semi-submersibles were pushed off their locations, possibly dragging anchors and damaging pipelines; and a mobile platform rig toppled and was a total loss.

Mr. Marthinsen, who based his report on publicly available information, said unlike Ike, there appear to be no major offshore marine losses from Hurricane Gustav.

"I will not try to speculate as to what the numbers are, but I've heard suggestions that losses from

'I've heard suggestions that losses from Ike may be in the same region as ones from Ivan in '04.'

Jan-Hugo Marthinsen, Gard A.S.

Ike may be in the same region as ones from Ivan in '04," he said. "And from what I've heard, it's not a bad assessment."

Mr. Hoare, an underwriter at Watkins syndicate of Lloyd's of London, said even before the hurricanes, the market was showing signs of stability.

"The rates were leveling out," he said. "The market was finding discipline and consensus about what they needed to do with the rates."

Unlike other marine markets, the offshore energy sector has not seen

a deluge of new entrants. Capacity in the market is about \$3.5 billion, according to Willis Group Holdings Ltd. Growing demand from what Mr. Hoare called an "overheated" oil and gas industry has begun to test that capacity, which could push up rates.

Orders for mobile offshore drilling units are at their highest level since the early 1980s boom, according to IUMI figures. Schedules call for an average of 36 new rigs to be built every year between now and 2012, compared with an average of nine new rigs built annually over the past 20 years. Mr. Hoare said the growing demand figures to continue.

"For major offshore projects, with crude oil at \$100 a barrel...there will be plenty of demand for exploration and production," Mr. Hoare said.

Though the frequency of claims has decreased in recent years, the cost per claim has increased. Even excluding hurricanes, the average claim size increased from \$6.3 million in 2002 to \$22.2 million in 2007, according to IUMI.

Before hurricanes Gustav and Ike, the energy sector already suffered an estimated \$500 million in construction losses since March of this year, representing 20% of market premiums and 70% of construction premiums. Mr. Hoare said most of these construction incidents appear to have happened during pipeline installations, and attributed the growth in losses to the increased offshore activity and massive cost inflation for repairs, among other factors.

"There are problems, and when there is a problem, it's just more expensive to fix these days," he said last week.

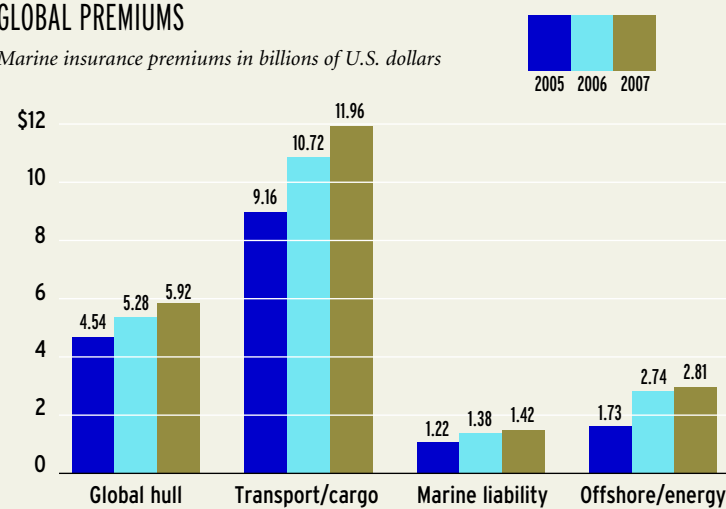
Mr. Hoare also cautioned underwriters against depending on reinsurance. As offshore insurance rates have dropped in recent years, Mr. Hoare said the reinsurance market has avoided a similar softening.

"Don't rely on" reinsurance, he said. "Those guys are showing a lot of discipline and I suspect going forward, with the impact of the hurricanes, that discipline will" visit marine insurance underwriters.

Although pricing for marine coverage has been dropping since about mid-2006, according to figures from Willis, IUMI's calculations show global offshore energy premiums growing significantly since 2005.

GLOBAL PREMIUMS

Marine insurance premiums in billions of U.S. dollars



Source: International Union of Marine Insurance

IUMI: Marine claim size and frequency increasing

CONTINUED FROM PAGE 4

Catastrophic losses were relatively low in 2006 and 2007, but they have been greater in the first half of 2008 than for the same period last year—even before hurricanes Gustav and Ike—said Kurt Karl, senior vp at Swiss Re America in New York.

The long-term trend is toward more and costlier claims, spurred by the escalating values of vessels, maintenance and repair, steel, oil and other raw materials. The average claim per vessel doubled since 2003, according to figures from CEFOR, the Norwegian marine insurance association.

Meanwhile in some cases, Mr. Tolle said, deductibles haven't increased in 15 years.

Many observers say claims could increase as a result of a problem that the marine industry's rapid growth has exacerbated: the need for more qualified crew members.

By 2010, the industry will have a crew shortage of 46,000—and a need for another 20,000 crew members for new ships—according to the London-based International Shipping Federation. Mr. Tolle said the problem is made worse by some companies' reliance on recruiters and short-term staffing to mitigate the shortage.

"If we agree that it takes eight to 10 years to produce a well-trained ship captain and a ship can be built in two years, you don't have to be Einstein to see that there is no real short-term solution to this," said Mr. Tolle.

Mr. Karl said increased catastrophic losses this year will prevent marine

rates from falling much further, but he expects rates to continue to fall in 2009 and perhaps even 2010.

"You...have to watch things in your industry like steel prices and specific commodity prices when you're doing your underwriting," Mr. Karl cautioned underwriters at the conference.

The growth in the shipping industry, the rise in claims and losses, and the increasing shortage of qualified crew members all point to

'You don't have to be Einstein to see that there is no real short-term solution to this.'

Rolfe Tolle, Lloyd's of London

a need for more underwriting discipline and writing for profit, not for market share, Mr. Tolle said.

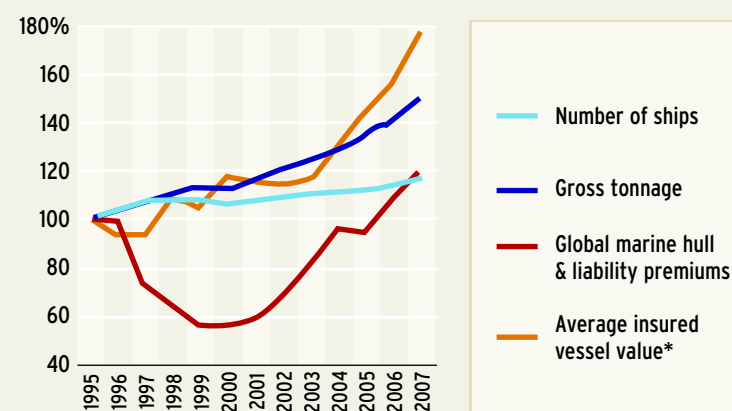
"Syndicates need to be cutting back unprofitable lines of business and walking away from uneconomic accounts," Mr. Tolle said. Without active management of the underwriting cycle, he said most marine lines of business at Lloyd's would be marginal or post a loss next year.

Mr. Karl said the tumultuous investment climate has flattened rates somewhat.

"The good news is that rates are not falling as fast as they were," Mr. Karl said. "We do expect turning in the not too distant future."

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Ocean hull premiums lag rising ship values, loss costs: Exec

Boom in shipping, lack of rate hikes sink insurer profits

By ZACK PHILLIPS

VANCOUVER, British Columbia—Ocean hull underwriters need to raise rates to combat factors that are making that sector increasingly unprofitable, according to the outgoing chairman of the International Union of Marine Insurance's Ocean Hull Committee.

Hull rates, which have been relatively flat since 2004, need to increase to account for the recent escalation in hull values, claims frequency and loss costs, Fred Robertie said at IUMI's September conference in Vancouver, British Columbia. Mr. Robertie, who is president and chief executive officer of the New York-based American Hull Insurance Syndicate, retired from IUMI's Ocean Hull Committee after the conference.

"Loss costs are increasing, and the game is changing," Mr. Robertie said.

Ocean hull insurers' most profitable year in the past five was 2005, when the sector posted a gross loss ratio of 70%. Mr. Robertie said most underwriters need a loss ratio between 70% and 75% to make a profit, and he noted that the ratio probably needs to be even better in the current investment climate.

The ratio for the hull sector worsened to more than 80% in 2006 and began 2007 above 90%, Mr. Robertie said.

"I know that there are some underwriters that would maintain they're such clever purchasers of reinsurance that their results are actually much better," he said. "I'd submit that the ability to arbitrage the reinsurance market has diminished dramatically in the last few years."

The decline in profitability for

underwriters has coincided with an economic boom for shipping companies. World trade has grown 30% in the past six years, led by growth in dry bulk shipping, and is projected to grow another 35% in the next six years despite the economic downturn, Mr. Robertie said.

Figures from London-based shipping intermediary Clarkson P.L.C. and the Houston-based American Bureau of Shipping project that the size of the world fleet by 2012 will have doubled in terms of tonnage compared with 2001. Freight rates have increased nearly 90% since 2000, according to the Clarksea

Index, a weighted average of earnings for all main commercial vessel types.

"Our clients are doing pretty well," Mr. Robertie said.

Orders for new ships are higher than in the past, with 330 ships on order or scheduled to be delivered this year compared with 115 in 2003. Shipyards are proliferating, and scrapping old ships during 2007 was seven times lower than 2001 by tonnage.

Mr. Robertie said today's worldwide shipping industry is using "any vessel that can stay afloat and some that can't."

"Only the oldest, most obsolete

(vessels) or those in poorest condition are being scrapped," he said.

This represents increased exposures for underwriters and perhaps has contributed to the escalating frequency of claims, Mr. Robertie said.

The number of serious partial losses has increased 270% in the past 10 years, and total losses increased about 40% from 2005 to 2006, according to IUMI figures. That broke a 20-year string of annual declines in total losses.

Mr. Robertie said the higher cost of steel, the weak U.S. dollar and the use of "yard bonuses"—payments to shipyards to move a damaged

vessel to the front of the repair line, which policyholders sometimes include in their claim—have accelerated the cost of claims, among other factors.

Mr. Robertie said he calculated that claims costs have grown an average of 8% annually during the past five years.

That figure means underwriters need to raise premiums 8% per year just to stay even, he said.

"Deductibles have not increased materially since 1993, while hull values have increased dramatically at the same time," said Mr. Robertie. "We arguably still have a long way to go."



uh oh.

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More than 400 attend IUMI

VANCOUVER, British Columbia—More than 400 marine underwriters from 47 countries attended the International Union of Marine Insurance's Sept. 14-17 conference in Vancouver, British Columbia.

Attendees discussed the theme of the boom in global trade and what opportunities and challenges it poses to underwriters during sessions focusing on the ocean hull, cargo, offshore energy, inland hull and liability sectors. Other topics included loss prevention and new regulations.

The next IUMI conference will be Sept. 13-16, 2009, in Bruges, Belgium.

—By Zack Phillips

Market Moves

Chicago law firm adds Houston operation

HOUSTON—Chicago-based insurance and reinsurance litigation firm Walker Wilcox Matousek L.L.P. has acquired McClain & Patchin P.C., a commercial reorganization and bankruptcy-focused law firm in Houston.

Walker Wilcox Matousek will now also operate out of the former McClain & Patchin's Houston office. The firm has 40 lawyers total in its Chicago and Houston offices.

Terms of the acquisition were not disclosed.

USI Consulting opens N.Y. defined contribution unit

GLASTONBURY, Conn.—USI Holdings Corp. subsidiary USI Consulting Group has opened a defined contribution pension consulting practice at its New York office.

The practice will help guide defined contribution plan sponsors, providing searches for and audits of service providers, investment

advice, plan and vendor management, regulatory and compliance consulting, and employee communications, USI said.

Arthur J. Gallagher buys California brokerage

LAFAYETTE, Calif.—Itasca, Ill.-based Arthur J. Gallagher & Co. has expanded its western operations by purchasing retail insurance broker California Insurance Center Inc.

The Lafayette, Calif., brokerage provides risk management and commercial property/casualty insurance services. It also offers programs for the construction, real estate and hospitality, marine, private equity and manufacturing industries.

Terms of the agreement were not disclosed.

AmWINS powers up energy practice

HOUSTON—Charlotte, N.C.-based AmWINS Group Inc. has formed an energy practice based in the company's Houston office.

Pascal Ray, senior vp, and Maryanne Maniaci, vp, will lead the practice.

The office is located at 3411 Richmond Ave. Suite 450, Houston, Texas 77046.

It can be reached by telephone at 713-481-1680.

Westrope expands life sciences services

KANSAS CITY, Mo.—Westrope, a commercial wholesale insurance brokerage in Kansas City, Mo., is broadening its services in the life sciences arena to focus on medical devices, biotechnology, manufacturers and distributors of pharmaceuticals and neutraceuticals.

Westrope's life sciences coverages include product liability, general liability, product recall, vendors and errors and omissions coverage for entities involved in clinical trials.

Sandie Mullen, life science specialist, will lead the company's life sciences practice in Kansas City.

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.

HIGH-Deductible PLANS RISING

Employers that offer high-deductible health plans linked to a savings option, by firm size.



Source: Kaiser Family Foundation/Health Educational & Research Trust

Costs: Health care price increases outpace inflation

CONTINUED FROM PAGE 3

large employers are enrolled in high-deductible health plans, 35% of those at small employers are this year. In 2007, 8% of employees at large employers and 21% of those working for small employers were enrolled in high-deductible health insurance plans.

The KFF/HRET survey also found that the share of employees enrolled in consumer-driven plans—high-deductible plans that include a tax-preferred savings option such as a health savings account or a health reimbursement arrangement—grew to 8% this year, compared with 5% in 2007 and 4% in 2006.

Like HDHPs, the growth in CDHPs occurred mainly among small firms, where 13% of employees are now enrolled in this type of plan, compared with 8% in 2007. By contrast, just 5% of workers at large employers are enrolled in such plans, statistically unchanged from last year.

The reason many employers are turning to HDHPs and CDHPs is because premiums are lower than other types of health plans, averaging \$3,922 for single coverage and \$10,121 for family coverage, according to the KFF/HRET survey.

Researchers at Towers Perrin also found CDHPs to be emerging as a solution that many large employers are embracing, with more than half of the companies surveyed currently offering or planning to offer such plans in 2009, up from 46% this year.

Most CDHPs set for implementation next year will be linked to an HSA rather than an HRA, indicating employers are interested, among other things, in helping employees accumulate assets to pay for health care costs when they retire, Towers Perrin researchers suggested in their annual Health Care Cost Survey. Typically, HRA balances are forfeited when employees terminate employment, while HSA assets belong to employees and can be withdrawn tax-free to pay for retiree health care expenses.

Additionally, employers generally contribute less to HSAs than to HRAs, said Gary Claxton, a KFF vp

and director of the foundation's Health Care Marketplace project.

The Towers Perrin survey, which did not break down average premiums for CDHPs into single and family coverage, found that the average annual cost per employee for a CDHP linked to an HRA was \$8,412 for employers that aggressively managed their employee health vs. \$9,576 for those that did not. By contrast, the average cost for a CDHP linked to an HSA was just \$6,612 per employee for high-performing employers vs. \$7,584 for low-performing employers.

Among other Towers Perrin survey highlights:

- 78% of high performers say their company plays a major role in identifying and managing employee health risks, compared with just 38% of low performers.
- 76% of high-performing employers say they're committed to building a culture of health in their organizations, compared with 31% of low-performing employers.
- 74% of high performers say they actively help employees understand and manage their health and health risks, compared to just 22% of low-performing employers.

Towers Perrin divides respondents into three categories: high performers, average performers and low performers. The performance designations are based on relative costs and cost increases, as well as whether the organization is meeting its health benefit objectives.

The KFF/HRET survey found disease management to be the most effective tool used by employers to control health care costs, with 84% finding them either very or somewhat successful.

The 2008 KFF/HRET survey, at <http://ehbs.kff.org>, included responses from 1,927 randomly selected public and private U.S. employers. It was conducted by telephone between January and May.

The 2009 Towers Perrin survey, available in the "press" section of www.towersperrin.com, included detailed information on the health benefit programs offered by 321 of Fortune 1000 companies included in Towers Perrin's health care cost database.

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LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT • SOUTHERN DISTRICT OF NEW YORK

In re Petition of PRO Insurance Solutions Limited, as foreign representative of SPHERE DRAKE INSURANCE LIMITED, Debtor in a Foreign Proceeding.

In a Case Under Chapter 15 of the Bankruptcy Code Case No. 08-B-12832 (JMP)

NOTICE OF ORDER GRANTING RECOGNITION OF FOREIGN MAIN PROCEEDING, PERMANENT INJUNCTION AND RELATED RELIEF

PLEASE TAKE NOTICE THAT the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") has issued an Order Granting Recognition of Foreign Proceeding, Permanent Injunction and Related Relief (the "Order") dated September 11, 2008 [Docket No. 15] in the above-captioned case under Chapter 15 of title 11 of the United States Code (the "Bankruptcy Code"), which provides, among other things, that:

1. The proceedings respecting Sphere Drake's Scheme (as defined in the Order) under the Companies Act 1985 of Great Britain in the High Court of Justice of England and Wales and Sphere Drake's Scheme are granted recognition as foreign main proceedings pursuant to section 1517 of the Bankruptcy Code;

2. All relief afforded foreign main proceedings pursuant to section 1520 of the Bankruptcy Code is granted;

3. Sphere Drake's Scheme (including any modifications or amendments to such Scheme) shall be given full force and effect in the United States, and shall be binding on and enforceable against any person or entity that is a Scheme Creditor (as defined in the Order) of Sphere Drake (as defined in the Order);

4. All Scheme Creditors of Sphere Drake are permanently enjoined from taking any action in contravention of, or inconsistent with, the sanctioned and effective Schemes (as defined in the Order);

5. In accordance with clause 2.8.4 of the Schemes, all Scheme Creditors of Sphere Drake must abide by, and are bound by, the terms of the sanctioned and effective Schemes;

6. In accordance with Sphere Drake's Scheme, all Scheme Creditors of Sphere Drake are permanently enjoined from, among other things: (a) commencing or continuing any Proceedings (as defined in the Order) (including, without limitation, arbitration, mediation or any judicial, quasi-judicial, administrative action, proceeding or process whatsoever) in connection with any Scheme Claim (as defined in the Order), including by way of counterclaim, against a Scheme Company (as defined in the Order) subject to a sanctioned and effective Scheme, or any of its property in the United States, or any proceeds thereof, and seeking discovery of any nature against such Scheme Company; and (b) withdrawing from, setting off against, or otherwise applying property that is the subject of any trust or escrow agreement or similar arrangement that relates to a Scheme Claim or the WFUM Pool Business (as defined in the Order) in which a Scheme Company subject to a sanctioned and effective Scheme has an interest in excess of amounts expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, trust, escrow, or similar arrangement has been established;

7. In accordance with the terms of Sphere Drake's Scheme, all persons and entities in possession, custody or control or property of Sphere Drake or the proceeds thereof, are required to turn over and account for such property or proceeds thereof to Sphere Drake or the Scheme Manager (as defined in the Order).

Copies of the Order, the Schemes and the Petition (as defined in the Order) are available upon written request to the undersigned counsel.

CHADBOURNE & PARKE LLP

Attorneys for PRO Insurance Solutions Limited, as foreign representative of Sphere Drake Insurance Limited
30 Rockefeller Plaza • New York, New York 10112 • (212) 408-5100
Attn: Howard Seife, Esq. and Francisco Vazquez, Esq.

LEGAL NOTICE

LEGAL NOTICE

Notice is hereby given that pursuant to a Chapter 11 plan of reorganisation filed by Sea Containers Ltd ("SCL") and certain of its subsidiaries in the US Bankruptcy Court on 31 July 2008 (the "Plan") it is proposed that the known and valid third party creditors of the following companies: Sea Containers British Isles Limited, Sea Containers UK Limited, Sea Containers Property Services Limited, The Marine Container Insurance Company Ltd, SC Maritime (previously Hart Fenton & Co. Ltd), Newhaven North Quay Limited, SC Harbours Limited (previously Newhaven Marina Limited), and Sea Containers House Management Ltd (the "Companies") be provided for (in full or in part) by SCL in a separate trust (the "Trust"), the assets of which will be distributed to those creditors in due course. Any person having a claim against any or all of the Companies should submit their names, addresses and details of their claim and the company to which it applies to Jeff Drew or Charlotte Møller of Reed Smith not later than 16:00 on the 25 October 2008 (the "Claim Submission Date") in order that such claims can be considered as part of the reorganisation process and be appropriately provided for where valid. Where any person fails to submit their claim by the Claim Submission Date in the manner set out above, the Companies will not be in a position to request that SCL make provision for such claim in the Trust, and may not be in a position to meet the claim of such person.

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UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

IN RE PETITION OF ROLF ÅBJÖRNSSON, AS OFFICIAL RECEIVER OF ATERFORSÄKRING AB LUAP, DEBTOR IN A FOREIGN PROCEEDING CASE NO. 03-10945 (PCB)

NOTICE IS HEREBY GIVEN THAT ON SEPTEMBER 16, 2008, THE BANKRUPTCY COURT ENTERED AN ORDER (THE "ORDER") CONTINUING THE PRELIMINARY INJUNCTION ORDER PURSUANT TO 11 U.S.C. §304 ORIGINALLY ENTERED IN THIS CASE ON FEBRUARY 19, 2003. THE ORDER SHALL REMAIN IN EFFECT PENDING A HEARING SCHEDULED TO BE HELD ON MARCH 19, 2009 AT 11:00 A.M. (THE "RETURN DATE") BEFORE THE HONORABLE PRUDENCE CARTER BEATTY, UNITED STATES BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT LOCATED AT ONE BOWLING GREEN, NEW YORK, NEW YORK. ALL PAPERS SUBMITTED FOR THE PURPOSE OF OPPOSING THE CONTINUATION OF THE ORDER AFTER THE RETURN DATE SHALL BE FILED WITH THE COURT, WITH A COPY TO THE CHAMBERS OF THE HONORABLE PRUDENCE CARTER BEATTY AND SERVED ON COUNSEL FOR THE OFFICIAL RECEIVER LISTED BELOW, SO AS TO BE RECEIVED AT LEAST FOURTEEN (14) DAYS PRIOR TO THE RETURN DATE. ANY PERSON WISHING TO OBTAIN A COPY OF THE ORDER SHOULD CONTACT COUNSEL TO THE OFFICIAL RECEIVER.

CHADBOURNE & PARKE LLP
ATTORNEYS FOR THE PETITIONER
30 ROCKEFELLER PLAZA
NEW YORK, NEW YORK 10112
(212) 408-5100
ATTN: HOWARD SEIFE, ESQ.
FRANCISCO VAZQUEZ, ESQ.

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

IN RE PETITION OF DAN YORAM SCHWARZMANN, AS ADMINISTRATOR OF FOLKSAM INTERNATIONAL INSURANCE COMPANY (UK) LIMITED, DEBTOR IN A FOREIGN PROCEEDING CASE NO. 02-14070 (PCB)

NOTICE IS HEREBY GIVEN THAT ON SEPTEMBER 16, 2008, THE BANKRUPTCY COURT ENTERED AN ORDER (THE "ORDER") CONTINUING THE PRELIMINARY INJUNCTION ORDER PURSUANT TO 11 U.S.C. §304 ORIGINALLY ENTERED IN THIS CASE ON SEPTEMBER 9, 2002. THE ORDER SHALL REMAIN IN EFFECT PENDING A HEARING SCHEDULED TO BE HELD ON MARCH 19, 2009 AT 11:00 A.M. (THE "RETURN DATE") BEFORE THE HONORABLE PRUDENCE CARTER BEATTY, UNITED STATES BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT LOCATED AT ONE BOWLING GREEN, NEW YORK, NEW YORK. ALL PAPERS SUBMITTED FOR THE PURPOSE OF OPPOSING THE CONTINUATION OF THE ORDER AFTER THE RETURN DATE SHALL BE FILED WITH THE COURT, WITH A COPY TO THE CHAMBERS OF THE HONORABLE PRUDENCE CARTER BEATTY AND SERVED ON COUNSEL FOR THE PETITIONER LISTED BELOW, SO AS TO BE RECEIVED AT LEAST FOURTEEN (14) DAYS PRIOR TO THE RETURN DATE. ANY PERSON WISHING TO OBTAIN A COPY OF THE ORDER SHOULD CONTACT COUNSEL TO THE PETITIONER.

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UP CLOSE



KRISTIN MCMAHON

NEW JOB TITLE: Chief claims officer for IronHealth, Ironshore Inc.'s Simsbury, Conn.-based health care liability subsidiary.

PREVIOUS POSITION: Partner in the Huntington, Conn., office of the Chicago-based law firm Kerns, Frost & Pearlman L.L.C.

GOALS FOR NEW POSITION: (One of) my goals would be to lay the groundwork and develop the infrastructure to build a world-class claims department in the health care professional liability market. The most important components to running a successful claims department would include a very proactive claims-handling philosophy, because I think claims handling is one of the considerations the health care insureds take into account when they are considering buying coverage. We want our insureds to know that we will be responsive to their needs and that we have all the policies and procedures in place and remind them that they are our top priority.

CHALLENGES FACING THE INDUSTRY: With the financial turmoil of the last several weeks, there is a...level of uncertainty, and what we are trying to do here at IronHealth is to lay the groundwork...the infrastructure and credibility in the market, so that when the conditions do turn, we'll be...positioned to take

advantage. I think as a relatively new carrier, with more than a billion in capital, we have no baggage from prior claims-handling activity, so we're really ready to respond to any last-minute needs that our clients may have.

FIRST EXPERIENCE IN THE INDUSTRY JOB MARKET: When I first came into the market, I had a London client base, and it was actually a lot of reinsurance at that time. The reinsurers in London...would retain us to go and visit the various PIAA (Physician Insurers Assn. of America) companies across the country and perform a claims-auditing function and opine on how we thought these companies were doing. When I first came in the market, the underwriting standards were looser. It was more Old World-style of underwriting—less actuarial input, deals were still being negotiated on napkins over coffee, things like that. You just don't see that anymore.

ADVICE: Specialization is where it's at. You can create a better product and provide better service.

OUTSIDE THE INDUSTRY, A DREAM JOB: I would always love to teach writing to high school seniors. I had a wonderful teacher in high school, and I really credit her with teaching me how to write, and I always think that if I could pass that onto someone else, that would be great.

Comings & Goings

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International NEWS

U.K. insurance buying guide due in December

By BEN NORRIS

LONDON—The U.K. insurance buyers group plans to publish a guide for procurement managers to use when purchasing insurance.

London-based Assn. of Insurance & Risk Managers, in cooperation with the Chartered Institute of

concern for risk managers and insurance buyers.

"At AIRMIC, we acknowledge the expertise of procurement specialists, which has been brought to bear in many companies, and it would be inappropriate for (risk managers) to say, 'Keep off our turf,'" Mr. Hopkin said.

The guide is also intended for use by insurance and risk managers, he added.

It will raise awareness of guidance given to—and the general approach of—procurement specialists when joint insurance procurement projects are undertaken.

"In cooperating with (the procurement industry), our intention is to bring out the best of both worlds," said Mr. Hopkin. "Their procurement expertise and AIRMIC's insurance buying expertise will be brought together in a single guide for the benefit of our memberships," he added.

At a recent workshop to discuss the guide, the two associations discussed the problems faced when a "fairly standardized" general procurement process is applied to the purchase of insurance, AIRMIC's technical director explained.

Issues on the agenda included legal and tax compliance, particularly for multinational insurance programs, Mr. Hopkin said.



Purchasing & Supply, said it expects to publish the joint guide in December.

In recent years there has been a "very strong" trend toward the involvement of procurement departments in the purchase of insurance, said Paul Hopkin, technical director of London-based AIRMIC. But he played down any suggestion that the trend is a cause for

U.S. woes amplify Solvency II need

Despite uncertainty of details, businesses urged to start planning now

By RICHARD MILLER
and STUART COLLINS

LONDON—The U.S. financial crisis and recent near-failure of insurance giant American International Group Inc. will not affect the progress or eventual shape of Solvency II, a member of the European Parliament said last week.

Meanwhile, the U.K. financial services regulator has sent a clear message that senior management at the country's insurers must take immediate action to ensure they are ready for the implementation of Solvency II.

Solvency II is the European Union's framework for a risk-based capital regulatory system for insurers and reinsurers, which it plans to implement in 2012.

The turmoil in the United States "is having an impact on all the financial service industries, and insurance is not immune from that," said Peter Skinner, a U.K. member of the European Parliament and rapporteur on Solvency II.

"But just because the industry as a whole hasn't suffered from it—partly perhaps because of the strength of some regulation—it doesn't mean that Solvency II and other regulations shouldn't come forward. In fact, quite the reverse."

Mr. Skinner noted that the tone of discussion in the European Parliament "has become firmer" with regard to the current shape of the Solvency II directive.

The European Parliament's Committee on Economic and Monetary Affairs is scheduled to vote on the directive on Oct. 7, followed by a vote of the European Parliament at its plenary in Strasbourg, France, in mid-November, Mr. Skinner said.

"Everything is on course, but you never know. This is a parliamentary democracy. It seems to me as if we are still on course, we can still do this," said Mr. Skinner. However, he noted that France currently holds the rotating European Union Presidency seat and may disagree with Parliament.

"Therefore, Parliament may have to fight hard with the presidency to get what it wants," he continued.

Meanwhile, in a discussion paper issued last week, the U.K. Financial Services Authority said the board of directors of each insurance company must decide how to discharge

Insurers in the United Kingdom are already subject to a Solvency II-style regime under the Individual Capital Adequacy Standards, which was implemented in 2004. But in some key areas, Solvency II will go further than ICAS, the regulator said in the discussion paper.

For example, ICAS does not require insurers to obtain regulatory approval of internal economic models or publicly disclose information. Solvency II will require insurers to calculate capital requirements either through the use of a standard model or an improved model the company owns.

Insurers that intend to use internal models should submit their plans to have them approved by June next year, the FSA said. Insurers are also asked to assess the impact of the regime on their capital requirements and apply Quantitative Impact Study 4, one of the impact studies set by the Committee of European Insurance and Occupational Pensions Supervisors.

"While the U.K. industry is well-placed to move to the Solvency II regime, there will be significant challenges for all U.K. firms. Prior planning and preparations by firms, starting now, will be crucial," it said in the paper.

The FSA said that negotiation of the directive was well-advanced and that the principles are expected to be agreed by the end of this year or early next year. The European Commission would then publish implementation details in 2009.

While the details of Solvency II and its implementation are subject to the uncertainties of international negotiations and policymaking, the risks of delay in terms of noncompliance are considerable, the FSA said.



their responsibilities under Solvency II. The regulator said it will require by March 2009 that all insurers have identified a senior individual within their organization who is responsible for the transition to the new rules.

"To ensure firms successfully implement this new regime, it is essential that senior management consider now the implications for their business and start planning immediately," said Sally Dewar, managing director of wholesale and institutional markets at the FSA.

The FSA suggests that directors discuss the nature and extent of their responsibilities under Solvency II at their next board meeting. In addition to senior management, risk management, finance and actuarial functions should also be actively involved in the implementation of Solvency II, the FSA said.



The remains of what was a gas station in Zhangjiang after Typhoon Hagupit hit Guangdong Province last week.

NEWS.COM

Typhoon Hagupit pounds southern China

By MARK A. HOFMANN

Typhoon Hagupit may have caused as much as \$250 million in insured losses to onshore properties in China, catastrophe modeler AIR Worldwide Corp. said late last week.

The Boston-based unit of Insurance Services Office Inc. noted that China's Ministry of Civil Affairs said that the typhoon, which struck southern Guang-

dong Province and the Guangxi Zhuang Autonomous Region, collapsed 27,700 buildings. The ministry estimated that total damages could reach almost \$2 billion.

But "a high proportion of those losses are not expected to have been insured," AIR said in a statement. Instead, insured losses should range from \$100 million to \$250 million, according to the modeler.

The storm caused both wind

and flood damage as it moved across the mainland on Wednesday.

"Hagupit, characterized as the worst storm to hit China's Guangdong province in more than a decade, weakened to tropical storm status once it moved inland," Peter Sousounis, senior research scientist at AIR, said in a statement. He noted that it continued to weaken before it reached northern Vietnam.

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Benefits captives OK despite AIG problems

By JERRY GEISEL

WASHINGTON—American International Group Inc.'s financial problems are not yet affecting employers that use AIG to front employee benefit policies that are reinsured through their captives.

About 15 employers, including some of the nation's largest corporations, now fund employee benefit programs, typically long-term disability and life insurance, through their captives, with a couple using AIG units to front the benefit policies. Reasons that employers have funded benefits through captives include improving cash flow and retaining profits that otherwise would flow to a commercial insurer.

One condition for Labor Department approval for the arrangements is that an employer use a top-rated insurer—generally rated at least A—to issue the policies.

Despite the turmoil surrounding AIG, its insurance units so far have maintained at least an A rating, allowing employers to continue to use AIG to front benefit programs.

Even if AIG's ratings did slump and it no longer could be used to front captive benefit risks, the impact would be minimal because of healthy competition; about half a dozen major insurers serve as fronts, said Mitch Cole, a principal with

benefit consultant Towers Perrin in Stamford, Conn.

"Certainly, there are plenty of insurers in this market," said George O'Donnell, senior vp-benefits funding strategy with Aon Consulting in Somerset, N.J.

Employers using AIG to front captive benefits risks say they intend to stick with AIG, unless AIG's ratings fall below Labor Department requirements.

"We have been very happy with them. They have been a great partner," said Suzanne Gallie, senior risk manager in the corporate risk management department at Sun Microsystems Inc. in Broomfield, Colo. Sun uses an AIG unit to issue life insurance policies that are reinsured through the Vermont branch of its Bermuda-domiciled captive.

Still, "if AIG were downgraded, we would have no choice" but to move the captive benefits funding program, she said.

Other than AIG, insurers that have issued policies for employers using their captives to fund benefits risks include Aetna Life Insurance Co.; CIGNA Corp. unit Connecticut General Life Insurance Co.; Liberty Life Assurance Co., of Liberty Mutual Group; Metropolitan Life Insurance Co.; Minnesota Life Insurance Co.; and Prudential Insurance Co. of America.

AIG: Breadth of asset sales unclear

CONTINUED FROM PAGE 1

end of the day, the franchise is worth a lot more than the \$85 billion bridge loan, and so if this process is managed effectively, there will be some solid value remaining after the loan is paid off," Mr. Ward said.

Mark Lane, an analyst with William Blair & Co. in Chicago, said, "Ultimately, we don't have enough details to really understand what the potential liability is for the credit derivatives portfolio, which is really going to drive capital needs, so while (Mr. Liddy) says he intends to keep the commercial property/casualty units, that doesn't mean they'll be in the same businesses they're in right now. I would assume that, on the margin, they would narrow their scope even a little bit."

However, Cliff Gallant, an analyst at Keefe, Bruyette & Woods Inc. in New York, said despite Mr. Liddy's attempt to keep the core business, "I think it's going to be difficult."

Personnel retention remains a top concern and a motivation to move quickly, say observers.

"I think it's a fluid situation," Mr. Lane said. "There definitely will be a flow of people out of AIG. That is imminent and I'm sure that they will have to offer their people some financial incentive to stay with the company."

Mark Charron, a principal and

national actuarial and insurance solutions leader for Deloitte Consulting L.L.P. in Hartford, Conn. said, "It's widely known that AIG has a longstanding history of compensating employees with stock, and if that stock is not worth what it used to be," the insurer will have to adjust its compensation package to be competitive.

AIG response

In an e-mail, an AIG spokesman said its "employees have remained dedicated to the organization and meeting the needs of clients. Despite market conditions, we have not seen any change to our employee retention. The company is reviewing options to support employees' continued commitment to the organization."

The loss of policyholders is a consideration as well.

"I think it very much will depend on if they are able to take successful steps in trying to sell certain assets and pay back the federal government. I think if they can do an orderly sale of assets and pay back that loan, or show significant progress, they can really rebuild credibility quickly," said Mr. Charron.

AIG "is renewing longstanding clients and closing new business," the spokesman said in the e-mail. "Moreover, many state insurance commissioners have reiterated the fact that AIG's insurance companies are solvent and have the ability to

pay claims."

"If they could have a good core business that remains after all this, that would be the best of all worlds, and I think it just remains to be seen" how the company will proceed, Mr. Ward said.

Analyst Thomas Gallagher of Credit Suisse in New York estimates in a report that AIG would be able to garner about \$115 billion for its salable business lines, which he estimates decreases to \$82 billion once the funds needed to "de-risk" its portfolio are taken into account.

Mr. Gallant said, "I don't think they're going to get much of a premium to book value because I view them as somewhat of a distressed seller."

Most frequently cited as likely to be shed are AIG's aircraft leasing business, as well as its consumer finance, life and automobile businesses, among others (see story, page 27).

At the end of the day, Mr. Liddy said, he anticipates AIG will "look like it did prior to 1998, 1999," with "less reliance on the financial side" and "much more reliance on the P/C side."

Andrew Colannino, vp in the P/C division for Oldwick, N.J.-based A.M. Best Co. Inc., said, "They're going to be a smaller, more focused company in the end, and by how much, it's hard to say at this point."

See **AIG** next page

Regulation: Bailout drama fuels debate over need for federal oversight

CONTINUED FROM PAGE 1

With the optional federal charter, "you'd have a systemic risk regulator who is able to see the whole picture," Rep. Ed Royce, R-Calif., said during a conference call held by Aon Corp. last week for its employees and clients.

"It's time for Congress to reform how insurance companies are regulated," said Rep. Royce, who co-sponsored OFC legislation with Rep. Melissa Bean, D-Ill., in this Congress. "Unless Congress provides an alternative to the state-based regulatory model, I'm afraid the American government, the American taxpayer, (will) be forced to pay for bailouts in the future."

"I think (the AIG situation) shows exactly why we need a 21st century regulatory system for a 21st century industry," said Eli Lehrer, senior fellow at the Competitive Enterprise Institute in Washington, a free-market oriented think tank.

"The New York state regulators were ready to let AIG raid its insurance subsidiaries," Mr. Lehrer said. "While I'm not sure we need to have the federal bailout, what happened was surely better than having policyholders tapped. I think this should significantly strengthen the case for the OFC. The fact that nothing super-bad seems to have happened yet is cold

comfort to say the least."

An insurance academic said the nature of the insurance industry could tip the scales toward federal involvement.

"Of all AIG's subsidiaries, only a small percentage were insurance companies," said Norman Baglini, professor of risk management, insurance and business ethics at Temple University in Philadelphia.

"Obviously, the regulators from a number of financial sectors had to be involved," he said. But the AIG rescue could have an impact on the state vs. federal regulation debate "because of the size and complexity of insurance organizations today," which might give a boost to federal regulation, he said.

RIMS urges change

The Risk & Insurance Management Society Inc. sees the crisis as rationale for creating an OFC.

"RIMS has supported the OFC for several years," said Terry Fleming, a RIMS' director-external affairs. "In addition to being inefficient and antiquated, it is apparent from recent events that state-based regulation cannot provide sufficient oversight of insurance companies with multistate and global subsidiaries," said Mr. Fleming, who is director of the division of risk management for Montgomery County, Md. in Rockville.

"Obviously, both sides of the federal regulation debate have been joined like never before, with state regulators arguing that this proves their ability to protect consumers, and supporters of the OFC arguing it proves the necessity of a national regulatory regime, which we strongly support," said Joel Wood, senior vp of the Washington-based Council of Insurance Agents & Brokers.

"At a certain level both sides are right," Mr. Wood said. "When Eric Dinallo and the other state regulators say that those core insurance subsidiaries of AIG were properly regulated and financially secure, there is no evidence to the contrary. But as Secretary Paulson (has said), the holding company was like a hedge fund perched on top of all of those assets. I think that the reality of an \$85 billion taxpayer assistance plan makes plain the imperative for federal involvement at the regulatory level."

Policymakers have to understand the difference between AIG as a holding company and its insurance affiliates, said Charles Chamness, president of the Indianapolis-based National Assn. of Mutual Insurance Cos., which supports state regulation. "It illustrates that the segment regulated by the states was the source of strength that enabled the two-year bridge loan to be a prudent" step by the federal govern-

ment, he said.

But Mr. Chamness said the confusion over which regulatory measures failed points to the need for more insurance expertise at the federal level in the form of an Office of Insurance Information within the Treasury Department. Efforts to create such an office are pending in Congress.

"Congress and the federal government need to have a credible source of information on this important industry," he said.

Financial bailout

Mr. Chamness said that NAMIC is monitoring the implications for insurers in the larger proposed \$700 billion financial services bailout. He said he didn't think participants in the debate over that package have the intent to make regulatory changes. "This is all about federal response to crisis, providing some certainty to the market," he said.

RIMS' Mr. Fleming said "there isn't enough information available to assess the impact" of the overall bailout program on the insurance industry. "Based on what has occurred, it appears that some companies may not be transparent with their financial data. We don't know to what extent the industry is at risk with poor investment decisions that they will have to write off."

The debate over insurance regula-

tion may be replaced by "a new debate, and that debate's going to center around the potential need for a systemic risk regulator," said Ben McKay, senior vp in the Property Casualty Insurers Assn. of America's Washington office. PCI opposes the OFC.

"Clearly, if you look at AIG, the insurance part of the company is sound, and in that way, the NAIC has a strong argument," he said. But the debate over what caused the failure is touching on "silos" of influence within financial regulation, in which each regulator is unaware of what others are doing.

Some observers are blaming such silos for the "systemic failure" that rocked the markets, he said.

"The answer is you have to determine if that's in fact true," he said. "Was it siloing of regulation or was it something else, like the approval of one regulator of bad products, i.e., these subprime mortgages? Then you have to determine if a systemic risk regulator would solve that problem."

"I think everybody's using the crisis to their advantage—as I would naturally expect them to do—but I don't think it's at all clear that even relates to this debate," he said. "If you have some companies regulated at the federal level and some at the state level, you still have that systemic divide."



AIG's asset sale options numerous

Finance, life and personal lines units already garnering interest

By JUDY GREENWALD

NEW YORK—American International Group Inc.'s aircraft leasing business is the unit most frequently cited as likely to be sold, as the New York-based insurer seeks to retire the Federal Reserve Board's \$85 billion loan facility, but AIG has plenty of other assets to sell.

Those businesses include consumer finance, life insurance and automobile insurance, as well as parts of its commercial insurance operations, such as its stake in reinsurer Transatlantic Holdings Inc., observers say. AIG officials told *Business Insurance* two weeks ago that the company had no plans to sell its domestic and foreign commercial lines operations.

Potential buyers of AIG insurance operations include many major insurers and reinsurers in the United States, Europe, Japan and elsewhere, observers suggest.

Newly named Chairman and Chief Executive Officer Edward M. Liddy acknowledged during a TV interview last week that aircraft leasing unit International Lease Finance Corp. is a possible money-raiser. "That will be an interesting business to sell," he said. "There's an awful lot of leverage on it, but I think we can do this in a smart way."

Mark Lane, an analyst with William Blair & Co. in Chicago, said ILFC has a book value of \$8 billion, with a return on equity in the low teens. "In a distressed asset sale environment, it's hard to say" how much it could bring.

The sale price could be book value up to \$12 billion, he said. In 2007, the unit generated \$4.69 billion in revenues and an \$873 million operating profit.

Another possible asset to sell is AIG's Consumer Finance Group Inc., said Mr. Lane. The unit provides services including credit cards, auto loans, consumer loans and sales finance in Asia, Europe and Latin America, according to the company. In 2007, the unit generated \$3.66 billion in revenues and \$171 million in operating income.

Furthermore, "there's a number of subsidiaries and businesses they have in the finance area that we don't even know about, that could collectively amount to several bil-

lion dollars, like AIG Private Bank," which has more than \$10 billion in customer assets, said Mr. Lane.

The Zurich, Switzerland-based AIG Private Bank focuses its activities on asset management for private clients and institutions in Switzerland, Eastern Europe and Asia, according to AIG.

AIG's 21st Century Insurance Group personal auto business also could raise cash, said John L. Ward, chief executive officer of Cincinnati Partners L.L.P. in Cincinnati. AIG completed its acquisition of 21st Century in 2007, paying \$759 million for the remaining 39.2% shares it did not previously own.

'There's a lot of attention being paid to the non-U.S. assets' of AIG.

David Bradford
Advisen Ltd.

"I believe that will generate demand by any number of insurance companies," both in the U.S. and perhaps abroad, said Mr. Ward. "I would be surprised if 21st Century was not one of the early divestiture candidates."

The unit could generate between \$1 billion and \$2 billion, he said. "It doesn't go far in making a dent in the \$85 billion, but it's a solid asset that will likely be sold at a very good premium."

Another likely deal for AIG would be selling its majority stake in Transatlantic Holdings Inc. "I think that's a very strong possibility that might be of interest to an international reinsurance platform," said Mr. Ward. Transatlantic reported \$3.95 billion in net premiums written in 2007.

AIG's life insurance and retirement operations may also be attractive units to sell, observers say. AIG's life insurance and retirement services segment reported \$53.57 billion in revenues in 2007 and \$8.19 billion in operating income.

"The life business obviously will draw plenty of attention," said Skip Hagerty, managing director at the Stamford, Conn.-based investment

banking firm Philo Smith & Co. But, they are a big business, so anyone who acquires it will have to "have substantial capital behind them to do it."

Possible buyers for AIG operations include Munich Reinsurance Co., Allianz S.E., AXA S.A., Assicurazioni Generali S.p.A., Zurich Financial Services Group, Swiss Reinsurance Co., Metropolitan Life Insurance Co., Allstate Corp. and Travelers Cos. Inc., among others, say observers.

A Princeton, N.J.-based Munich Re spokesman said the reinsurer may be interested in AIG's Eastern European primary insurance and more niche-oriented businesses, such as industrial insurance. He stressed the firm is not interested in Transatlantic Re.

A spokesman for Northbrook, Ill.-based Allstate said that, while the company does not comment on rumors or speculation, "our management's been pretty open about their willingness to look at acquisitions, among other ways of growing our businesses."

Other spokesmen had no comment or could not be reached.

David Bradford, editor-in-chief of New York-based insurance industry analyst Advisen Ltd., said, "There's a lot of attention being paid to the non-U.S. assets by European insurance groups, Japanese insurance groups, so they're definitely circling around and would love to snatch up some of those."

As to financing of any deals, Mr. Ward said, "I could envision private equity involvement in some aspects of this...But in the big picture, I think the primary entities that would be buying the assets and the biggest chunk would be international and domestic insurance companies that see an opportunity for filling out their own franchise."

Mr. Hagerty of Philo Smith said potential buyers will be entities that have "already got the capital. I don't sense that the buyers of those businesses are going to be seeking external financing."

Mr. Bradford said many of the European, Japanese and Australian insurers "have some pretty healthy balance sheets right now, so there's definitely money available if the right deals are on the table."

AIG: New leader readies revamp plan

CONTINUED FROM PREVIOUS PAGE

"I'm sure some parts of AIG are going to be parts of other organizations, but in the end, there should be a core, but I don't know in what form," Mr. Colannino said.

Cincinnati's Mr. Ward said, "It clearly will be less unique at the end of the day, but I doubt that it will just be a normal insurance company, either."

Meanwhile, AIG Financial Products' actual exposure to an estimat-

ed \$450 billion of credit default swaps remains uncertain.

"I think their financial products business will be shut down, and then it's a matter of their ability to eliminate their exposure with their counterparties on those derivatives transactions," Mr. Lane said.

Some parts 'hard to sell'

"Some of the undesirable investments may remain with them, because they're going to be hard to sell," Mr. Colannino said.

Last week, New York Gov. David A. Paterson said the state will regulate part of the credit default swap market starting in January.

"It's difficult to say what will happen with those credit default swaps, but it does appear the insurance regulators do intend" to get more involved in this area, "probably in the interest of protecting the policyholders and just wanting to make sure that those complex instruments get additional regulatory scrutiny," Mr. Ward said.

Loan to AIG takes Fed into uncharted waters

Government's plans for 79.9% equity stake remain unclear

By JUDY GREENWALD

NEW YORK—American International Group Inc. last week signed a definitive agreement with the Federal Reserve Bank for a two-year, \$85 billion revolving credit facility in return for the government taking a 79.9% ownership of the insurer.

Observers say it is unclear what the federal government will do with AIG once the facility expires.

A statement issued by AIG said that under terms of the deal the insurer must repay the facility from, among other things, the proceeds of certain asset sales and the issuance of debt or equity securities.

Interest charged will be based on the three-month London Interbank Offered Rate plus 8.5 percentage points, or 12.26% as of Sept. 26. The deal called for an initial gross commitment fee of 2% of the total facility on the Sept. 23 closing date.

AIG will also pay a commitment fee on undrawn amounts of the credit facility at the rate of 8.5% a year. The interest and commitment fees are generally payable through an increase in the outstanding balance under the facility, AIG said.

The deal calls for AIG to issue preferred stock, held for the benefit of the U.S. Treasury, that will be convertible into common stock. On Friday, AIG said in a subsequent statement it does not have to seek normal stockholder approval of the preferred stock issuance, because of an exception granted by the New York Stock Exchange.

Shareholders will be notified by mail and "AIG will proceed to issue the preferred stock when it has received all material approvals," said the statement.

An observer familiar with the situation said the 79.9% government stake was arrived at because if the government owned 80% or more, regulation would require it to consolidate AIG's financial results on its own balance sheet.

Borrowings under the facility are conditional on the Federal Reserve "being reasonably satisfied with, among other things, AIG's corporate governance," according to AIG.

AIG Chairman and Chief Executive Officer Edward M. Liddy said in a statement, "AIG made an exhaustive effort to address its liquidity needs through private sector financing but was unable to do so in the current environment. This facility was the company's best alternative."

"We are pleased to have finalized the terms of the facility, and are already developing a plan to sell assets, repay the facility and emerge as a smaller, but profitable company. Importantly, AIG's insurance subsidiaries remain strong, liquid and well-capitalized."

Attorney Robert G. Heim, of New York-based Meyers & Heim L.L.P., speaking before Friday's statement by AIG, said "AIG and the Federal Reserve are likely going to try to craft the stock issuance so as not to require shareholder approval, and courts have been reluctant to step into these types of truncations to enforce the usual shareholder rights."

Some large AIG shareholders convened last week in an effort to devise alternatives to the federal bailout plan. The group included AIG's former chairman and chief executive officer, Maurice R. Greenberg. The group's attorney, Mickey Kantor, with Mayer Brown L.L.P. in Washington, could not be reached.

But with the deal now signed, nothing further can be accomplished by the group, said attorney Jacob H. Zamansky, of Zamansky & Associates in New York. "If they had \$85 billion, they could have done the deal themselves," he said.

Mr. Greenberg subsequently sold 5 million AIG shares last week for \$18.8 million, a Securities and Exchange Commission filing shows. Starr International Co. Inc., which Mr. Greenberg controls, also sold 35 million shares for \$107 million. Their ownership accounts for 9.99% of AIG's outstanding common stock, according to the filing.

Under New York law, owning 10% or more of an insurer "is a presumption you have a controlling interest," which triggers "much stricter regulation," said a New York Insurance Department spokesman.

Phillip Phan, a professor at the Johns Hopkins Carey Business School in Baltimore, said reducing control to less than 10% removes the necessity of keeping the insurance department or the SEC closely informed and provides Mr. Greenberg with flexibility "to plan maneuvers without someone else jumping ahead of him."

"You don't really want to be caught in a bidding situation in an auction, which is inevitably what happens when you disclose your intentions. It's sort of a minor legal maneuver, but it has big consequences for his ability to pursue a strategy," said Mr. Phan.

A spokesman for Mr. Greenberg had no comment.

It still isn't known what the government will do once the two-year facility expires.

Cliff Gallant, an analyst at Keefe, Bruyette & Woods Inc. in New York, said after the loan is paid back, "The view would be that the taxpayer's taken some amount of risk extending its loan, and so part of the return payment is not just their interest cost, but the ownership of the company."

Mr. Heim said, "I think at this point it is unclear what the government's intentions will be...This is really a unique deal, and there's not a lot of precedent for the Federal Reserve to go by at this point."



FBI declines to comment about AIG investigation

By ROBERTO CENICEROS

Some legal experts say the FBI's reported investigation of American International Group Inc. and other financial institutions embroiled in the subprime crisis may be just to show that it is paying attention, but others say there's likely some substance behind the move.

The FBI declined comment last week following several reports that it is investigating AIG and other companies at the center of recent financial turmoil, including mortgage giants Fannie Mae and Freddie Mac.

An FBI spokeswoman directed calls to FBI Director Robert Mueller's mid-September testimony in which he told Congress that his agency had opened investigations into several companies.

Some former federal prosecutors say it is unlikely the FBI would open an investigation of AIG unless it has reason to believe a crime was committed, such as someone inside the

company reporting accounting irregularities.

Others say, however, that with little yet known about the FBI's investigation, it's difficult to tell whether the agency has reason to suspect criminal activity.

"To know how serious (the FBI investigation) really is, we would need to see something more," said Peter Henning, a former federal prosecutor who now is a professor specializing in white collar crime at Wayne State University Law School in Detroit.

For example, it still is not known whether subpoenas are going to be issued or whether anyone is cooperating with investigators, he said.

Judging from reports so far, Mr. Henning said he believes the FBI is merely asserting its police role during a national crisis.

"The FBI is saying, 'There is a cop on the beat; we are not ignoring this,'" Mr. Henning said. "But does it really mean anything? I

doubt it unless there are indications of misconduct or real accounting fraud."

With the nation facing a severe financial crisis, it could be that "Congress wants to see the Department of Justice and the FBI get out there and pound the pavement and see if there are any shenanigans going on," said Charles A. Ross, a Wall Street defense attorney at Charles A. Ross & Associates L.L.C. in New York.

But some former federal prosecutors now specializing in white collar crime say there likely is more substance behind the probes.

They say the FBI is unlikely to use its limited resources unless there is specific information about a potential crime.

"They respond to allegations, they respond to information regarding criminal activity and typically they won't launch a criminal investigation just because of political pressure," said Dan C. Guthrie Jr., a former federal prosecutor who now

is a white collar defense attorney in Dallas. "I think they probably have information that leads them to believe that there has been criminal activity," he said.

The FBI does not have to meet a legal requirement or any standard of proof before it can start asking questions, said Katya Jestin, partner specializing in white collar criminal defense at Jenner & Block L.L.P. in New York and a former federal prosecutor who worked closely with the FBI over six years.

But "based on my experience, the FBI responds to information they feel is credible and merits an investigation," Ms. Jestin said. "Are they always right? No. But in terms of it being entirely in response to pressure from somebody in Washington, I would be surprised by that."

A spokesman for AIG, meanwhile, said the company did not have any details about an FBI investigation, but would cooperate with requests for information.

Lexington adds backup from Berkshire Hathaway

BOSTON—Lexington Insurance Co. said Friday that it arranged contingent property reinsurance coverage from Berkshire Hathaway's National Indemnity Co. to help ease policyholder concerns over current market conditions.

The reinsurance coverage applies to several lines, including Lexington's real estate portfolio and policies with limits of \$250 million or more, and provides coverage under the same policy terms and conditions as issued by Lexington.

Boston-based Lexington is a surplus lines unit of New York-based American International Group Inc., with \$4.8 billion in policyholder surplus.

"This added layer provides our clients with added coverage to give them more peace of mind during current market conditions," an AIG spokesman said.

In the event of a covered loss, Omaha, Neb.-based Berkshire stands behind Lexington, the AIG unit said in a statement.

"This support from AAA rated Berkshire Hathaway speaks volumes about Lexington's true financial strength and affirms its pivotal role and leadership position in the marketplace," said Kevin H. Kelley, Lexington's chairman and chief executive officer.

—By Roberto Cenicerros

Competitors: Underwriters look to pick up AIG business

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haywire with AIG they are here ready to step in," said Steve Paulin, senior vp at broker Sullivan-CurtisMonroe Insurance Services L.L.C. in Irvine, Calif.

But other underwriters are more direct during routine visits to his office, Mr. Paulin said.

"Some of them have just said, 'Do you have any business with AIG? We would be happy to look at it,'" he said.

Insurers are increasing capacity, revamping products and using advertisements and press statements to attract more business.

ACE increases limits

When AIG was on the brink of collapse earlier this month, ACE USA increased limits from \$25 million to \$50 million for professional liability, commercial umbrella and excess casualty, and medical professional liability lines.

In a statement announcing the increase, ACE said the long-tail nature of the risks "underscores the importance of partnering with a financially strong insurer" and it "is pleased to offer additional capacity for these critical coverages given heightened need and uncertainty in the marketplace."

Observers said they saw ACE's move as an attempt to gain market share from AIG.

Asked about the timing of the move, ACE said it "is committed to supporting its clients and distribution partners and doing everything possible to assist corporate insurance customers who may be affected by any disruption in the global insurance markets."

After requests from brokers, Zurich North America is increasing

limits, especially for excess coverages, said Bob Rheel, head of distribution and field operations in Schaumburg, Ill., for Zurich North America Commercial.

Also because of broker requests, Zurich accelerated the launch of a product combining general liability and pollution coverage, Mr. Rheel said.

"We have been reaching out to our agents and brokers and our customers...saying, 'How can we help?'" he said.

Other underwriters are also looking for opportunities to replace AIG. New York-based Navigators Group Inc. last week "reintroduced" an excess wrap-up liability product for construction risks.

AIG is a prominent provider of wrap-up coverage, but telephone calls from brokers inquiring about Navigators' wrap-up product shot up after news first broke about AIG's financial troubles, said Jeff Saunders, president of the excess casualty division of Navigators Management Co. Inc.

So Navigators issued a statement reminding producers and buyers it has a wrap-up product that it introduced about a year ago, Mr. Saunders said.

Meadowbrook Insurance Group has had "heightened communications" with agents that distribute both Meadowbrook and AIG products, said Archie McIntyre, Meadowbrook's senior vp of business development in Southfield, Mich.

Meadowbrook has the capacity to write more program business and excess workers compensation coverage for self-insured employers and groups underwritten by AIG, Mr. McIntyre said.

Normally, Meadowbrook focuses on year-end and midyear excess

comp renewals, but now "we will be a little more active in our marketing efforts than we have in the past for this time of year," Mr. McIntyre said.

"Like everyone else, we are reaching out to our brokers to identify if there is an opportunity where they feel their current insurer might be unstable," said Raymond Baker, vp for Everest National Insurance Co. in N.J.

But brokers said the number of calls from worried policyholders wondering whether they needed to move their business had fallen off by last week.

"What will be a telling sign will be the 10/1 renewals when clients look at AIG options and other options," said Leonard Fodemski, chief operating officer for Lockton Insurance Brokers L.L.C. - Los Angeles.

A spokesman for AIG said the company is disappointed that competitors are trying to take advantage of the current situation.

AIG Commercial Insurance's financial position continues to improve, the spokesman said, noting that New York Insurance Commissioner Eric Dinallo issued a statement emphasizing that, unlike the troubled AIG parent company, the property/casualty units have significantly more in assets than the reserves required to pay current and future claims, the spokesman said.

Hedging bets

But some insurance buyers have already hedged their bets on AIG.

After seeing AIG's stock drop earlier this year, Dallas-based Southwest Airlines Co. made an unusual arrangement for potentially replacing AIG with another insurer as the

lead underwriter for its directors and officers liability coverage, said Chris Dhorn, Southwest's manager of corporate insurance.

When Southwest renewed coverage in July, it paid an alternate D&O insurer a fee to hold open a quote for 12 months that would allow Southwest to make the alternate insurer the lead underwriter should Southwest decide to replace AIG.

That means Southwest has 10 more months to decide whether to replace AIG, Mr. Dhorn said. Southwest still has AIG as the lead on its D&O program, but the airline has the option to cancel on a pro rata basis. By locking in the alternative coverage, Southwest can still keep its long-term relationship with AIG, he said.

"To throw away that relationship didn't seem right, (but we had) a way around it that would be inexpensive and still give us the benefit of protecting ourselves," Mr. Dhorn said.

Mr. Dhorn said Southwest made the arrangement at the suggestion of its broker, Peter R. Taffae, of Los Angeles-based Executive Perils Inc., which is marketing the strategy under the name Super Continuity.

Normally, such quotes are held open for 90 days.

Neither Mr. Dhorn nor Mr. Taffae would name the alternate insurer, but Mr. Taffae said it is one of a dozen underwriters currently participating in Southwest's D&O insurance tower.

In related news, Travelers Cos. Inc. and Chubb Corp. will no longer issue surety bonds with American International Group Inc. as a co-participant, according to reports published last week.

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when sentencing five former executives convicted in a fraud scheme involving General Re Corp. and American International Group Inc. During a hearing in Hartford, Conn., U.S. District Court Judge Christopher Droney requested more information from both the prosecution and defense on the extent of losses and possible restitution as a result of the 2000 sham reinsurance deal, a source

familiar with the case confirmed. Defense attorneys maintain that the reinsurance deal caused no losses to shareholders. A sentencing date has not been set. A federal jury in February convicted the five former Gen Re and AIG executives on charges of conspiracy to commit securities and mail fraud and making false statements to the U.S. Securities and Exchange Commission. They are: Ronald E. Ferguson, former Gen Re chief executive officer; Christopher P. Garand, former Gen Re senior vp in charge of U.S. finite underwriting; Robert Graham, former Gen Re senior vp and legal counsel; Elizabeth Monrad, former Gen Re chief financial officer; and Christian M. Milton, AIG's former vp for reinsurance.

Xerium freezes DB pension plan

Xerium Technologies Inc., a manufacturer of products used in the production of paper, is freezing its defined benefit pension plan for U.S. salaried and nonunion hourly employees, enhancing its 401(k) plan and terminating its retiree health care benefits plan. Effective Jan. 1, 2009, employees no longer will earn benefits under the defined benefit plan. However, Xerium will enhance its 401(k) plan, matching 100% of employees' salary deferrals, up to 6% of pay. The company now matches 100% of deferrals on the first 4% of pay. Xerium's pension program at year-end 2007 had \$132.7 million in liabilities and \$69.5 million in assets. Its retiree health care benefits program is unfunded.

AXIS, PartnerRe tally storm losses

AXIS Capital Holdings Ltd. last week estimated its net losses for Hurricanes Gustav and Ike at \$310 million to \$430 million. AXIS estimated its net losses from Hurricane Ike were \$285 million to \$385 million, whereas losses from Hurricane Gustav were estimated at \$25 million to \$45 million. Meanwhile, PartnerRe Ltd., a global multiline reinsurer, said Wednesday that its claims from Hurricane Ike are estimated to be between \$175 million and \$210 million. Additionally, the Bermuda-based reinsurer revised its initial estimate of claims from Hurricane Gustav to between \$10 million and \$20 million from \$25 million and \$45 million.

Parity: Measure nears final approval in Congress

CONTINUED FROM PAGE 3

"There is sufficient time to do this and communicate" the changes to employees, said Kathleen Mahieu, a Hewitt consultant in Norwalk, Conn.

Consultants estimate that about 90% of employers covered by the legislation will have to amend their health care plans to upgrade mental health care benefits coverage if the legislation becomes law. Additionally, the legislation would exempt employers with fewer than 51 employees.

For example, according to a 2007 Mercer L.L.C. survey, more than 70% of employers already providing such coverage limit the number of annual outpatient visits for treatment of mental disorders, but do not impose a comparable limit on the number of outpatient visits for other medical problems.

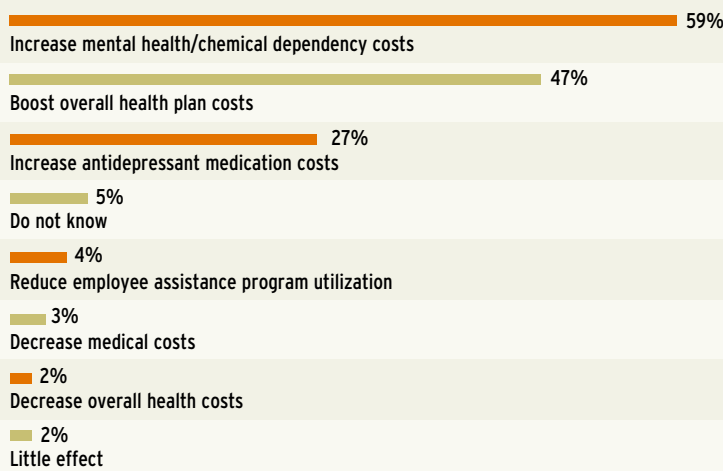
Such discriminatory treatment would be illegal under the parity legislation.

Other common designs that would be banned include limiting the number of annual inpatient days for treatment of mental disorders but not other medical ailments, and imposing higher employee cost-sharing requirements for mental health care expenses than other medical expenses.

While the plan design changes would be extensive, the additional

COST EXPECTATIONS

How employers expect mental health care benefits parity to affect their health care programs



Source: Hewitt Associates Inc.

cost would be modest. The Congressional Budget Office last year estimated that enactment of a similar bill would boost health insurance premiums by about 0.2% a year.

Some believe that over an extended period of time, the new mandate might be cost-neutral as the cost barriers to treatment are lowered and more health plan enrollees get treatment for mental disorders, reducing the likelihood of more expensive treatment later on.

"Those who need treatment will be better positioned to get it," Hewitt's Ms. Mahieu said.

At the same time, with more employees receiving treatment for mental disorders, worker productivity should improve, Ms. Mahieu said.

The road to passage of the legislation began several years ago when a group of senators—Sens. Edward Kennedy, D-Mass.; Mike Enzi, R-Wyo.; and Pete Domenici, R-N.M.—invited business groups, insurers and mental health organizations to work together and develop compromise legislation.

James Klein, president of the Washington-based American Benefits Council—one of the employer

groups that accepted the senators' invitation—said ABC did so believing that there was a "reasonable middle ground" that could be found to resolve the parity issue.

By being at the negotiating table, "I'd like to think we made a difference," Mr. Klein said. The final bill, "while not perfect, is one we can live with," he said.

In fact, lobbyists say the strong support behind the Senate bill forced supporters of a House parity bill passed earlier to agree to drop a provision—one vehemently opposed by employers—that would have required group health care plans to provide coverage for any mental condition listed in the psychiatric industry's compendium of disorders. By contrast, under the bills approved last week, employers can decide which mental health disorders they will cover, but the coverage has to be on the same basis as other medical conditions.

The surviving legislation would succeed a 1996 law that bans discriminatory annual and lifetime dollar limits on coverage of mental health disorders but permits other discriminatory health plan designs.

Sen. Kennedy said with enactment of the legislation "fundamental justice arrives for millions of our fellow Americans who deal with mental illness. Today, the United States Senate says to them loud and clear, you will no longer have to suffer in the shadows."

HISTORY OF BENEFIT MANDATES

If Congress approves mental health benefits parity legislation, it will be the latest in a series of benefit mandates imposed on employers. They include:

PAUL WELLSTONE AND PETE DOMENICI MENTAL HEALTH PARITY AND ADDICTION EQUITY ACT OF 2008:

Would require health plans to provide the same coverage of treatment of mental disorders as other medical conditions.*

2008 NATIONAL DEFENSE

AUTHORIZATION ACT: Expands Family and Medical Leave Act coverage to close family members of those called to active military service.

* Awaiting final passage

1998 WOMEN'S HEALTH AND CANCER RIGHTS ACT:

Requires health plans covering mastectomies to also cover reconstructive breast surgery.

1996 MENTAL HEALTH PARITY ACT:

Bars health care plans from imposing discriminatory annual and lifetime dollar limits on mental health care services.

1996 NEWBORNS' AND MOTHERS' HEALTH PROTECTION ACT:

Requires health plans to provide at least 48 hours

of inpatient coverage following childbirth.

1996 HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT:

Curbs health care plans' ability to deny coverage of pre-existing medical conditions for new employees.

1993 FAMILY AND MEDICAL LEAVE ACT:

Guarantees up to 12 weeks per year of unpaid job-protected leave and continues health care benefits for employees who need to take time off for a family situation,

such as the birth of a child, or because of an employee's own illness.

1986 CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT:

Requires employers to extend health care coverage to employees and dependents after death, divorce or termination of employment.

1978 PREGNANCY DISCRIMINATION ACT:

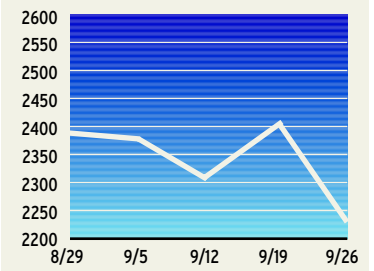
Requires coverage of pregnancy and childbirth to be same as that for other medical conditions.

Stock Index

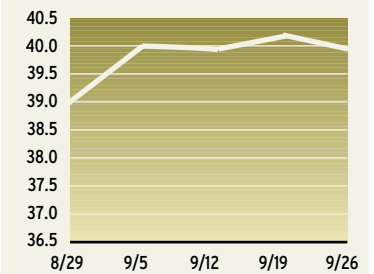
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Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.IndustryFocus.com.

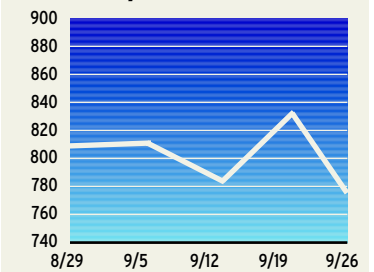
BI STOCK INDEX



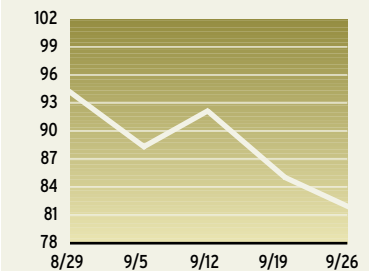
BI BROKERS INDEX



BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	2237.73	↓ -6.88%
DOW JONES	11143.13	↓ -2.15%
S&P 500	1213.27	↓ -3.33%

LARGEST GAINS

Fairfax Financial Holdings	22.18%
Odyssey Re Holdings Corp.	18.62%
NYMAGIC Inc.	7.23%
UNICO American Corp.	7.01%
MBA Inc.	6.68%

LARGEST LOSSES

Old Republic International	-27.09%
Ambac Financial Group	-20.93%
Transatlantic Holdings	-19.88%
Markel Corp.	-19.69%
AIG	-18.18%

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

The owners of a Chicago bar devised their own bailout package for workers at AIG and Lehman Bros.—half-off bar and restaurant tabs.



One bankruptcy, one bailout and one beer

Of all the gin joints in all the towns in all the world, Lehman Bros. Inc. and American International Group Inc. employees can catch a break at a Chicago bar and restaurant, where they are invited to imbibe half-price cocktails.

They have a reason to drown their sorrows after New York-based Lehman Bros. filed for bankruptcy in mid-September. Employees of New York-based AIG watched their company's stock trade for less than \$2 a share before it received an \$85 billion bridge loan from the Federal Reserve Bank.

Sympathetic to the corporate pinch facing many financial professionals, the owners of The Fifty/50, Scott Weiner and Greg Mohr, offered half-off bar and restaurant tabs for all Lehman Bros. and AIG employees, so long as they can prove they're employed by the financially ailing firms.

The Fifty/50 is offering the special Sundays through Thursdays. The bar will not specify when the promotion will end.

"Everybody is freaking out. We wanted to do something to make their day a little better," said Mr. Weiner, who stated that 20 to 30 patrons, many of whom he has gotten to know over the years, had already taken advantage of the discount.

Business Insurance END PAGE

Contributing: Jeff Casale, Colleen McCarthy, Mike Tsikoudakis, Joanne Wojcik

Students try to paper over college record

The plan was simple enough: apply for continuing education tuition reimbursement from your employer, forge the transcripts and then pocket the cash.

Oh, but those pesky internal audits.

Eight employees of Hewitt Associates Inc., the Lincolnshire, Ill.-based human resources firm, were arrested last week on charges they scammed more than \$100,000 from the company in a scheme dating back to 2005. Seven of the employees were fired and then arrested. One former employee also was arrested and warrants were issued for five other former workers.

If convicted on the felony charges of forgery and/or theft, the eight Chicago-area residents could be sentenced to as much as three years in prison.

Taking Hewitt up on its program that provides \$5,000 annual tuition reimbursement for continuing education, the employees reportedly forged transcripts from an area university that none attended. The plan was foiled after an internal audit revealed that the report cards and grades were bogus.

A spokeswoman for Hewitt said none of the individuals are still employed with the company and that the matter had in no way affected clients. Further, she said the isolated incident related to forged documents from a single institution.

Lincolnshire, Ill., police said more arrests were possible.



The presidential election campaign is extending to Bermuda, with Sen. Barack Obama attacking Sen. John McCain for his alleged support of U.S. companies with connections to the island.

Obama runs ad blasting McCain on Bermuda link

Presidential campaign attack ads have gone from Wall Street to Bermuda with Sen. Barack Obama bashing Sen. John McCain and his alleged support for advantageous tax rates for insurance companies located on the island.

Sen. Obama's ad, released last week, features Sen. McCain in sunglasses and declares: "Bermuda. It's more than just a vacation destination for John McCain." The ad says "McCain went to Bermuda and while he was there pledged to protect tax breaks for American corporations that hide their profits offshore. And grateful insurance company executives and their lobbyists, who benefit from the tax scheme, gave McCain \$50,000."

The attack is based on an interview that Sen. McCain gave to Bermuda's *Royal Gazette* newspaper while on vacation last year.

Bermuda's Premier Ewart Brown said in a statement that he was "disappointed Bermuda was singled out by Sen. Obama" but believes the island's good relationship with the United States will continue.

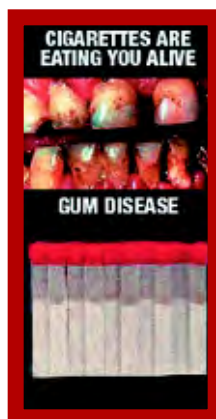


N.Y. lights fire under anti-smoking effort

Even the macho Marlboro Man might have a little trouble lighting up with one of these.

The New York City Department of Health and Mental Hygiene is distributing matchbooks featuring photographs of disease-ravaged lungs, rotting gums and cancerous tumors.

The intent is to counter tobacco industry advertising that portrays smoking as glamorous by showing the devastating effects of long-term tobacco use, said Dr. Thomas R. Frieden, the city's health commissioner.



"Throat cancer, gum disease, blackened lungs—these are the realities of smoking," he said in a statement about the new line of matchbooks. "We are putting these images where New Yorkers buy cigarettes, just before they light up, in the hope they'll think twice about the decision to continue smoking."

The matchbooks, part of New York's Eating You Alive anti-smoking campaign, were inspired by cigarette packages in countries such as Australia, Brazil, Canada, Chile and Thailand. In contrast, cigarette makers in the

United States are required to include only text warnings on package sides or in ads.

City health officials said they are prohibited from requiring stronger on-package warnings.

"The tobacco industry spends \$13 billion each year promoting smoking by showing glamorous, healthful images," said Sarah B. Perl, the health department's assistant commissioner for tobacco control. "The reality of smoking is ugly and devastating. We hope these images will encourage New Yorkers to get the help they need to quit."

The matchbooks will be handed out free at 132 cigarette retailers in Brooklyn, the Bronx and Harlem.



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A handwritten signature in black ink that reads "Edward M. Liddy". The signature is written in a cursive style with a large, sweeping flourish at the end.

Edward M. Liddy
Chairman & CEO
American International Group, Inc.

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