

MEASURE WOULD OVERTURN SUPREME COURT RULING ON AGE BIAS CLAIMS / PAGE 3

CATASTROPHE BOND MARKET EXPECTED TO BE LIVELY IN FOURTH QUARTER / PAGE 3



BI RANKS, PROFILES INDUSTRY'S LEADING WORKPLACES / PAGE 9

In Brief

YKK can expand benefits in captive

YKK Corp. of America, the U.S. subsidiary of Japanese zipper manufacturer YKK Corp., has received final Labor Department authorization to expand benefit risks funded through its Vermont captive. YKK Corp. of America will use its Vermont captive, YKK Insurance Co. of America, to reinsure supplemental life insurance and long-term disability policies. Last year, the company received Labor Department permission to fund basic life insurance and accidental death and dismemberment policies through the captive, which funds other risks, including workers compensation.

Securities suits rise in quarter: Advisen

Companies faced more securities lawsuits in the third quarter after

See **IN BRIEF** page 26

BENEFITS MANAGEMENT

RETIREE BENEFIT PLANS

With the troubled economy taking its toll on employees' 401(k) plans, employers proceed with caution on their retirement benefit packages.

Some programs are designed to help ease concern and provide stability for employers and their employees; others provide new opportunities. **PAGE 14**



Sen. Olympia Snowe, R-Maine, speaks to reporters about the health care reform bill last week. UPI/NEWS.COM

Health reform bill advances in Senate

Finance Committee approves measure; bill to full Senate soon

By **JERRY GEISEL**

WASHINGTON—The stage is set for a debate on the Senate floor as health care reform legislation advances amid growing employer concerns about the impact of recent changes that would significantly ease penalties on individuals who do not enroll in a health insurance plan.

The Senate Finance Committee last week approved reform legislation assembled by panel chairman Max Baucus, D-Mont. Before the 14-9 vote, Sen. Baucus revamped the bill somewhat and panel members proposed various amendments that the committee adopted.

With Democrats in control, committee approval of the legislation was not a surprise. But there was an unexpected positive vote by Sen. Olympia Snowe, R-Maine, who said she would support the bill, at least for now.

See **REFORM** page 25

Some firms get tougher on workers' health habits

High-risk employees forced to pay more for health insurance

By **JOANNE WOJCIK**

Stinging from yet another year of rising health care costs, some employers are forcing high-risk employees to pay more—in some cases, a lot more—for their health care coverage in 2010.

While smoking surcharges remain the most popular added premium assessment used, the size has grown significantly from a nominal fee when such surcharges were introduced several years ago to what many consider “real money,” especially during a recession.

A few intrepid employers have gone a step further, relegating employees who decline to take better care of themselves to health plans that provide less coverage.

Some benefits law experts are concerned these employers may be pushing the envelope a bit too far, but legislation passed last week by the Senate Finance Committee appears to reinforce employers' aggressive efforts to rein in health care costs through the use of incentives (see story, page 24).

More than half of employers plan to introduce or expand an existing wellness program next year to lower health care costs, according to the 2009 Benefits & Talent Survey



More than half of employers plan to introduce or expand an existing wellness program next year to lower health care costs.

by Aon Consulting, a unit of Chicago-based Aon Corp. Of those, 34% plan to either introduce or increase financial incentives for their wellness programs in 2010.

The incentives, the value of which averages about \$400 per employee per year, include gift cards, merchandise, premium discounts, copayment or deductible credits, and contributions to health savings accounts or health reimbursement arrangements, according to IncentOne, a Lyndhurst, N.J., company that tracks employer-provided wellness incentives.

At Black & Decker Corp., for example, employees and dependents who certify in an honor system that they have been tobacco-free for at least six months will pay \$75 less per month for their medical and dental coverage in 2010. That

See **ENROLLMENT** page 24

Wrynn renews push for New York insurance exchange

By **ZACK PHILLIPS**

NEW YORK—The effort to revive the New York Insurance Exchange is getting a new push, with the superintendent of the New York State

Insurance Department seeking to pick up where his predecessor left off.

The exchange would be a Lloyd's of London-style marketplace through which buyers could pur-

chase insurance and reinsurance, and where capital providers and others who want to take on risk could form syndicates.

Early last year, then-Superintendent Eric Dinallo suggested the Insurance Department consider reviving the exchange. Mr. Dinallo resigned in July, but James J. Wrynn, confirmed as Dinallo's successor in September, likes the idea, said Matthew J. Gaul, special counsel at the department.

“He's spoken very favorably about (the exchange) with a number of people from industry, and



Mr. Wrynn

he's very interested in the concept,” Mr. Gaul said in an interview last week.

The original NYIE opened in 1980 but closed in 1987 due to inadequate capital, poor claims experience, soft market conditions, and other factors.

The department's effort last year to revive the exchange was eclipsed by more pressing priorities related to the financial crisis, but Mr. Wrynn's appointment has given it more attention, Mr. Gaul said.

“It's now coming to the fore

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Treasury ignored AIG pay, watchdog says

Amid asset sales, AIG books a net loss on Taiwan life unit

By MARK A. HOFMANN and JUDY GREENWALD

NEW YORK—American International Group Inc.'s announcement last week that it will report a \$1.4 billion loss in the \$2.15 billion sale of its Taiwanese life insurance operations may mean it will report losses on sales of other assets in the future, analysts say.

Separately, a special inspector general with the Troubled Asset Relief Program last week said the U.S. Treasury Department gave little consideration to AIG's compensation plans, including its controversial retention



TARP Special Inspector General Neil M. Barofsky said the Treasury Department paid "scant attention" to AIG's compensation structure.

bonuses, when the government bailed out AIG last year.

In the asset sale, AIG last week

said it had reached an agreement to sell its 97.57% share of Nan Shan Life Insurance Co. Ltd. to a consortium of Primus Financial Holdings Ltd. and China Strategic Holdings Ltd., both of which are based in Hong Kong. The deal for Nan Shan, which is Taiwan's largest life insurer, is subject to certain conditions, including regulatory approval.

In a filing with the Securities and Exchange Commission, AIG said it would report a net loss of about \$1.4 billion in the fourth quarter in connection with the sale.

Observers said the loss reflects the value of the insurer on AIG's books, less its sale price.

Paul Newsome, an analyst with Sandler O'Neill & Partners L.P. in Chicago, said, "I think the sale is more of a reflection of the very difficult (mergers and acquisitions)

environment than necessarily valuing things less than what they're worth, in a sense, because you're seeing lots of companies trade below book value."

John L. Ward, chief executive officer of Cincinnati-based Cincinnati Partners L.L.C., said the unit was sold despite the anticipated loss because it was an "opportunity to bring cash into the company, and the accounting that's related to this transaction is secondary."

He also said there is a good chance the life insurer "would have required more capital in the future, and so by selling it now, AIG also benefited by taking away the uncertainty" of a capital shortfall in the future.

However, Cathy Seifert, an equities analyst with Standard & Poor's

See **AIG** page 25

Age-bias bill would ease burden for plaintiffs

Legislation seeking to overturn decision favoring employers

By JUDY GREENWALD

WASHINGTON—Legislation that seeks to make it easier for employees to prevail in age discrimination cases looks likely to win approval, observers say.

The legislation seeks to overturn the June ruling by the U.S. Supreme Court in *Jack Gross vs. FBL Financial Services Inc.* that plaintiffs must prove age was the determinative factor in an adverse job action and not just one of several motivating factors, a decision hailed as a major victory for employers (BI, June 18).

The court held that the Age Discrimination in Employment Act of 1967, unlike the Title VII of the Civil Rights Act of 1964, does not authorize a "mixed-motives" claim. Instead, plaintiffs must prove age was the "but for" cause of the adverse job action, according to the decision.

The Protecting Older Workers Against Discrimination Act, which was introduced Oct. 6 in the House and Senate, would permit such "mixed-motives" age discrimination litigation.

"In *Gross*, the Supreme Court rewrote civil rights laws, overturning well-established precedent and making it harder for workers facing age discrimination to enforce their rights," the three legislators who introduced the legislation—U.S. Rep. George Miller, D-Calif.; Sen. Tom Harkin, D-Iowa; and Sen. Patrick

Leahy D-Vt.—said in a statement.

The House bill, H.R. 3721, has been referred to the House Judiciary Committee as well as the House Education and Labor Committee, which Rep. Miller chairs. The Senate bill, S.1756, has been referred to the Senate's Health, Education, Labor and Pension Committee, whose chairman is Sen. Harkin.

Observers note Congress' move to overturn another U.S. Supreme Court decision in an employment law case may signal the likelihood of this bill's passage as well.

In January, President Obama signed into law the Lilly Ledbetter Fair Pay Act of 2009, which eases time limits on age discrimination suits. That law reversed the Supreme Court's 2007 ruling in *Lilly Ledbetter vs. Goodyear Tire & Rubber Co. Inc.*

Observers say the older workers legislation has a good chance of passage, although it is unclear precisely when that will happen, given lawmakers' preoccupation with health care and other issues.

"We now have a Congress that is more favorable towards

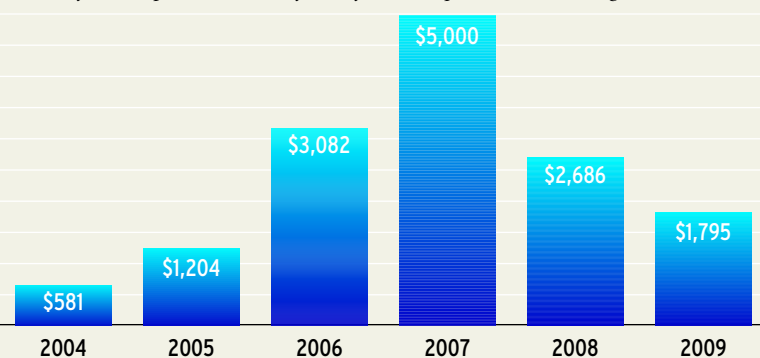
plaintiffs in civil rights cases than we've had in quite a while," said Thomas H. Christopher, a partner with law firm Kilpatrick Stockton L.L.P. in Atlanta.

"It may very well have a decent chance of passing" if it remains a "modest amendment to the law," which is how it is drafted, and Congress does not try to "Christmas-tree it" with additional changes, said Lawrence Z. Lorber, a partner with law firm Proskauer Rose L.L.P. in Washington.

See **BIAS** page 24

CATASTROPHE PROTECTION

Value of catastrophe bonds issued for the first three quarters, 2004 through 2009



Source: Guy Carpenter & Co. L.L.C. and GC Securities Ltd.

Catastrophe bonds expected to surge

Pricing drop spurs insurers' interest in ILS, sources say

By COLLEEN MCCARTHY

NEW YORK—The catastrophe bond market is poised for an active fourth quarter as several factors combine to boost the insurance-linked securities sector, experts and observers say.

Insurers may issue \$1.2 billion to \$2.2 billion in new catastrophe bond capacity during the fourth quarter, an uptick that could result in a total of \$3 billion to \$4 billion for 2009, New York-based reinsurance intermediary Guy Carpenter & Co. L.L.C. and investment banking arm GC Securities Ltd. said in a report last week.

Renewed interest by insurance companies in issuing the bonds is being driven, in part, by a significant drop in cat bond pricing and investors' greater willingness to accept lower returns on the bonds, Guy Carpenter said.

Some observers say fourth-quarter volume could be even higher than that. "We are really expecting this

market to explode," said John Seo, managing principal at Fermat Capital Management L.L.C. in Westport, Conn. "The capacity is there and there is a willingness (by insurers) to issue." Mr. Seo said year-to-date totals could reach \$4.3 billion.

In contrast, there was zero cat bond activity in the fourth quarter of 2008 as the market reeled from the collapse of Lehman Bros. and the subsequent ratings downgrade of four cat bonds backed by the investment bank.

Cat bonds issued in the next few months are expected to be dominated by insurance companies buying protection for U.S. wind and earthquake exposures, although observers say some transactions will feature capacity for European windstorms and Japanese earthquakes.

Market sources said two deals are being marketed to investors: one exclusively for California quake protection, and the other for U.S. wind and quake exposures. The deals could be introduced by the end of October, sources said.

Cat bond pricing was high early this year, keeping many potential

See **CAT BONDS** page 25

European block exemption plan worries insurance industry

By MICHAEL BRADFORD

BRUSSELS, Belgium—The European Commission's proposal to renew parts of the Block Exemption Regulation concerning insurance pooling arrangements, but letting other sections expire, is drawing lukewarm support and some concern from risk management and insurer groups.

The EC's proposal would extend the exemption as it applies to insurance pooling arrangements, but with significant changes. The EC also proposes extending the exemption as it applies to joint compilations, tables and studies among insurers.

But the EC suggests that the section of the BER that allows insurers to cooperate on standard policy conditions be allowed to lapse,

along with a portion that permits insurers to work together on standards for security devices without running afoul of competition laws.

The EC is holding a consultation period on its proposal until Nov. 30, after which it will develop a final regulation to replace the exemption that expires in March 2010.

"Being pragmatic, and given that it could have been removed altogether, we're as pleased as we can be that it will continue, particularly in relation to pools," said Paul Hopkin, technical director at the Assn. of Insurance and Risk Managers in London.

The EC favors continuing the BER for coinsurance and coreinsurance pools, but wants to change the way the pools qualify for the exemption.

An exemption is granted to a



pool by the current regulation if products underwritten by members do not exceed 25% of the relevant market in the case of coreinsurance groups and 20% for coinsurance groups.

That means some pools exempt from anti-competition laws no longer will have that protection,

said William Vidonja, head of the single market and social affairs department at the Comité Européen des Assurances, the European insurance and reinsurance federation in Brussels, Belgium.

"This is quite a big concern," said Mr. Vidonja. "We are concerned that it will make the BER unworkable."

If the EC's proposal is part of the final BER, pools would have to carefully consider whether they are eligible for the exemption, said Yves Botteman, an attorney in the European Union insurance and competition practice groups at law firm Steptoe & Johnson L.L.P. in Brussels. And there is little guidance for that kind of analysis, he said.

"In quite a number of respects, the block exemption falls short of helping the industry carry out a full

analysis of whether a pool is competitive or anti-competitive," said Mr. Botteman. "One of the questions we have is whether there should be a set of guidelines" or an explanation from the EC as to how it should be determined that a pool falls outside the exemption, he said.

Mr. Vidonja pointed out that the EC provides no definition of "relevant market" that pools could use to determine whether they meet the threshold requirements. "That means each pool has to assess what is meant by 'relevant market,'" he said.

"Pools that feel they are covered will need to make a fresh appraisal" if the proposed exemption is adopted, said Guy Soussan, an attorney with Steptoe & Johnson in Brussels.

See **BLOCK** page 23



Students in Padang, Indonesia, walk by what once was their classroom before a magnitude 7.6 earthquake struck earlier this month. REUTERS/LANDOV

Series of deadly quakes not worrying insurers

By MICHAEL BRADFORD

Recent deadly earthquakes along the Pacific Ring of Fire are not rattling insurers and risk managers, who say they don't fear the quakes are becoming a more common occurrence or that even greater catastrophes are imminent.

Some experts, though, say research suggests the risk is indeed greater than once thought in parts of the Ring of Fire, a horseshoe-shaped rim around the Pacific Ocean where most of the world's major earthquakes have occurred.

Several recent large quakes—including last week's magnitude 6.1 quake—and resultant tsunamis in recent weeks in American Samoa, Indonesia, Vanuatu and other areas of the Pacific left more than 1,000 dead and caused extensive property

damage. The human tragedy from the quakes—the largest of which was magnitude 7.9—has been far greater than the insured losses in the devastated areas, where coverage penetration historically has been low.

Underwriters say they are no more worried than usual about earthquakes, while modelers and others point to mounting geological stresses from past quakes that could lead to more shaking, particularly in areas hit recently.

"I can only speak for Swiss Re and say there is no concern," said Martin Bertogg, head of the earthquake group at Swiss Reinsurance Co. in Zurich, Switzerland. "And I would argue that this is the same for the whole industry, that there is not a

See **QUAKES** page 23

Errors & Omissions

An Oct. 12 story, originally reported by *Business Insurance* sister publication Crain's New York Business, incorrectly stated that a court barred developer Larry Silverstein from seeking \$2.8 billion in damages relating to the Sept. 11, 2001, destruction of the World Trade Center. The court ruled the suit can proceed but damages may be reduced by insurance recoveries already received.

California laws focus on workers comp

By ROBERTO CENICEROS

SACRAMENTO, Calif.—California Gov. Arnold Schwarzenegger has signed several measures designed to improve the state's workers compensation system.

One measure, which was signed into law last week, prohibits denial of a workers compensation claim filed by an employee attacked because of race, sexual orientation or religious creed. The legislation, A.B. 1093—also known as Taneka Talley's Law—was introduced after the death of a black employee who was stabbed to death in 2006 while on the job at a Dollar Tree store.

The employer's insurer initially denied death benefits for the wom-

an's 8-year-old son. The insurer argued that because the perpetrator said he had sought to kill a black person, there was a personal connection with the employee unrelated to Ms. Talley's employment.

The new law, which takes effect Jan. 1, 2010, also bars denying coverage because of a personal connection when someone is killed or injured on the job due to their national origin, age, disability or gender.

Another bill, A.B. 361, bars employers that authorize workers compensation medical care from rescinding or modifying the authorization for treatment already provided.

Bonnie Lowenthal, D-Long Beach, introduced the bill on behalf of the California Chiropractic Assn.,

according to a legislative analysis of the bill that the governor signed into law during the weekend.

The governor also signed a bill removing a Dec. 31 sunset date from a law that allows employees to designate in advance the doctor who would treat their workers comp injuries. Some employers opposed that bill—S.B. 186, introduced by Sen. Mark DeSaulnier, D-Concord—because it allows a pre-designated physician to refer injured workers to specialists outside employers' provider networks.

The governor also signed A.B. 483, introduced by Assemblywoman Joan Buchanan, D-San Ramon. It requires the California Workers' Compensation Rating Bureau to set up a Web site that lets the public identify whether an employer is insured for workers comp claims.



LANDOV
Gov. Schwarzenegger

Competition, soft rates hit surplus lines

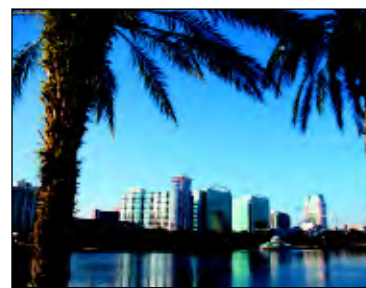
Only a 'major event' will turn the market, experts tell NAPSLO

By JEFF CASALE

ORLANDO, Fla.—Surplus lines pricing looks to stay soft well into next year and only a major event will harden rates, said many attendees at the National Assn. of Professional Surplus Lines Offices Ltd.'s annual conference.

Some brokers and insurers were optimistic that the market would turn soon, but others said the pricing slump could carry into 2011. Others cited increased competition for the ongoing pressure on prices.

"The state of this market really represents the state of this convention," said Mark Bernacki, head of Beazley Group P.L.C.'s U.S. property group division. "There were some large losses in the first quarter of 2008—the recession, Hurricane Ike.



The National Assn. of Professional Surplus Lines Offices Ltd. held its annual conference Orlando, Fla., earlier this month.

We thought there would be some meaningful hardening in the second through fourth quarters in 2009," he said, but "it just didn't happen."

The surplus lines market is saturated with capacity, wholesale insurers and brokers say, adding that in usual circumstances—a large event such as a catastrophe or a major player leaving the market—sometimes can force prices to firm. However, the 2009 Atlantic hurri-

cane season has been relatively quiet as both wholesale and retail insurers are holding their coverage offerings about level, brokers and insurers say.

New players in the surplus lines market include Torus Specialty Insurance Co., which began writing nonadmitted business July 1. Also, admitted insurers have expanded their underwriting on an admitted and nonadmitted basis, adding to the competitive forces affecting E&S insurers.

"Typically, insurers go out of business in this type of market, but they aren't this time around," said Tim Larocca, chairman of Colemont Insurance Brokers' casualty unit in Chicago. "There have been three increases of capacity in this market—9/11 and the Bermuda market, Hurricane Katrina and American International Group's near-collapse—and you can't make the market turn without some play-

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Policyholders win ruling against solvent scheme of arrangement

Court rejects bid to sanction runoff of Scottish Lion

By COLLEEN MCCARTHY

EDINBURGH, Scotland—A Scottish court has rejected a proposed runoff plan for the Scottish Lion Insurance Co.

In a final ruling by Lord Glennie last Wednesday, the court said it would not sanction the solvent scheme of arrangement, handing a victory to a group of U.S.-based policyholders opposing the plan.

Edinburgh-based Scottish Lion, which has been in runoff since 1994, had applied to the Scottish Court of Sessions to sanction the plan, which would have enabled the solvent insurer to shed its liabilities and wind up the company.

Schemes of arrangement are U.K. court-approved mechanisms that have become increasingly popular as part of the insurance runoff and restructuring business, but the approach often is contro-

versial when applied to solvent insurers.

Last month, Lord Glennie issued an opinion in the case, ruling in favor of the policyholders. In his Sept. 10 ruling, the judge had instructed the parties to "consider the court's opinion."

Both sides react

It's unclear whether Scottish Lion plans to appeal the ruling. Dan Schwarzman, a partner in the London office of PricewaterhouseCoopers L.L.P. and scheme adviser to Scottish Lion, could not be reached for comment.

An attorney for the policyholders said he was "very pleased" with the ruling. "We are satisfied that the judge agreed with our arguments," said Ben Lenhart, partner with Covington & Burling L.L.P. in Washington.

Under U.K. law the English Companies Act 1985, scheme of arrangement advisers need the approval of at least 75% of creditors to proceed with the application for sanctioning.

But in his 34-page opinion last month, Lord Glennie said he did

not think schemes of arrangement for solvent companies should be sanctioned unless creditors unanimously vote in favor of the proposals.

"In a situation where the company is sound financially, why should one group of creditors who might wish to enter into a commutation agreement with the company be entitled to force other creditors to participate against their will?" Lord Glennie wrote.

The policyholders—including Goodrich Corp., ExxonMobil Corp., Textron Inc., ITT Corp. and Zapata Corp.—all had either general liability or general aviation insurance policies with Scottish Lion. The companies argued the scheme was fundamentally unfair because it sought to terminate "decades of valuable occurrence coverage under valid and binding contracts in the absence of extraordinary circumstances."

Legal experts said Judge Glennie's earlier opinion was likely to lend greater bargaining power to other U.S.-based policyholders involved in solvent runoff plans.

RIMS issues broker pay report, revises stance

Group says it hopes to heighten awareness

By SALLY ROBERTS

NEW YORK—The Risk & Insurance Management Society Inc. issued a new executive report last week to help risk managers better understand broker compensation and potential conflicts of interest.

RIMS also revised its broker compensation position statement to address new broker-marketed products being introduced to insurers.

In the report, RIMS said it hopes to heighten members' awareness of the potential pitfalls surrounding the insurance purchasing process, so they are "empowered to press for greater transparency" in their negotiations with brokers as well as regulatory reform in their own states.

The report came as the New York State Insurance Department prepared to issue new broker compensation disclosure regulations. As the rules stand now, agents and brokers would have to disclose their compensation only if asked by the insurance buyer—a position RIMS has criticized for not going far enough to protect consumers.

In the report, RIMS recommends that risk managers require full disclosure of the nature of all compensation earned by their broker in placing their coverage as well as any service relationship or financial interest the broker may have with

the recommended insurers.

The report details the different types of insurance broker compensation in the market and gives examples of provisions risk managers can include in their request for proposals that address compensation issues.

RIMS also revised its position statement on broker compensation to address new products and services brokers are offering insurers.

"While RIMS takes no issue with new products, there must be a separate agreement between the two parties, which does not link these services to specific clients," Deborah Luthi, director of RIMS' external affairs committee, said in a statement. "However, if a broker receives payment from both the carrier and the buyer for placement of insurance products, all transparency requirements should adhere to that transaction."

The position statement came on the heels of Aon Corp.'s Monday announcement that it had launched Inpoint, a new consulting unit to help insurers make better decisions on market selection, premium growth, service enhancements, and product development.

RIMS' members can download "A Practical Guide to Insurance Broker Compensation and Potential Conflicts of Interest for the Risk Manager" at www.rims.org.



'While RIMS takes no issue with new products, there must be a separate agreement between the two parties, which does not link these services to specific clients. However, if a broker receives payment from both the carrier and the buyer for placement of insurance products, all transparency requirements should adhere to that transaction.'

Deborah Luthi,
Risk & Insurance
Management Society Inc.

Commentary

Insurance, not risk, dominates conference

Fundamental insurance matters such as the price, availability and security of coverage once again took center stage at the Federation of European Risk Management Assns.' biennial FERMA Forum in Prague, Czech Republic.

This may not have been welcomed by some FERMA members, who went to Prague perhaps hoping to discuss more highbrow risk management matters such as the final form, implementation and impact of the International Organization for Standardization's ISO 31000:2009 risk management framework.

ISO 31000:2009 was discussed during the FERMA Forum as well as the meeting of the International Federation of Risk and Insurance Management Assns. the day before the Forum began.

IFRIMA decided to support the framework, but does not favor formal certification of the much-discussed concept that will be published for further consultation in December.

Despite this and worthy discussions about other risk management topics, the big debates were dominated by the price and availability of insurance coverage, willingness and ability of insurance companies to pay claims on time, and the role of brokers within the process.

Consequently, the lead stories on our three daily newspapers published for the event read, "Solvency II's Impact is a 'Great Concern,'" "Buyers Explain Why They Stuck with AIG," and "EC Block Exemption Draft Regulation Due." A secondary story on Day 2 was, unsurprisingly, "FERMA, BIPAR Agree to Discuss Broker Pay."

This focus on insurance, however, should not be considered a failing on FERMA's part, despite occasional complaints from some members who say FERMA should be more about risk than insurance management.

The simple fact is that Solvency II, Europe's planned new capital adequacy regime for the insurance industry, is nearing completion and will significantly affect how insurance companies allocate their capital. The new rule will sharpen insurance company management minds concerning the lines to which they allocate their capital and push it toward those with the highest return and lowest risk. Based on rating levels and investment returns, large corporate risks do not readily fit that requirement.

The continued focus on American International Group Inc., thankfully, has not been caused by continued fears about its ability to survive. Chartis, AIG's rebranded property/casualty divi-



ADRIAN LADBURY

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sion, is up and running and making the right noises for customers in this market. But the near-collapse of AIG underlined that no company is too big to fail and insurance buyers and their bosses quite rightly should take a far greater interest in insurer security.

The European Commission says it believes cooperation between insurance companies should continue as a result of its review of the market's block exemption was neither unexpect-

The FERMA Forum was again dominated by insurance rather than risk management questions, for this is what the majority of the members want to discuss.

ed nor cataclysmic. But it does raise tricky questions about how this market operates, with potentially significant implications for cost and coverage availability.

Continued debate about broker remuneration reconfirms again that, while the brokers may feel their model does not need to be fixed, many customers believe it does. FERMA wants to open initial discussions with the European broking association BIPAR to try to find a solution that works for both parties. That is a laudable first step.

But FERMA must remember that a large proportion of those at the Forum want to see more than fine words from the brokers. It was, therefore, for a number of very good reasons that the FERMA Forum was again dominated by insurance rather than risk management questions, for this is what the majority of the members want to discuss.

Maybe in two years, when FERMA meets in Stockholm, Sweden, the insurance market will be working absolutely perfectly and we can focus on risk matters. I, for one, would not place a large bet on that being the case.

Products & Services

ING Employee Benefits upgrades online tool

MINNEAPOLIS—ING Employee Benefits said it has upgraded its online enrollment tool with enhanced reporting and enrollment capabilities.

ING Enroll is a software-based program that can be used by enrollment firms and brokers to streamline the enrollment process for voluntary benefits, the company said.

Upgrades include a quick-quote feature to enable users to offer customized quotes on premiums. State-specific forms, such as an evidence-of-insurability form, can be signed electronically, the company said.

In addition, case managers can track and manage the enrollment process more comprehensively due to enhanced reporting capabilities that verify eligibility, the company said.

The Web-based program can be used onsite with a laptop computer that connects to a secure Internet site in real time or in a call center environment.

In addition, the program can be integrated into other enrollment systems to streamline the process for companies that work with more than one insurance company, ING said.

For more information, contact Scott Hofstedt, head of voluntary sales, at Scott.Hofstedt@us.ing.com or 612-372-1176.

Schinnerer revamps exposure base

CHEVY CHASE, Md.—Victor O. Schinnerer & Co. Inc. has changed its exposure base for architect and design firm clients in response to the economic downturn.

The Chevy Chase, Md.-based underwriting manager said the new exposure base is calculated based on the company's billings for the most recently completed 12-month period prior to renewal. Previously, the prior fiscal year's billings were used as the exposure base measure, the company said.

The changes will result in lower premiums for firms that have seen a decline in billings during the past year, the company said.

For more information, contact Kate Enos Frownfelter, senior vp, at 301-951-6919 or kate.e.frownfelter@schinnerer.com.

Hartford enhances property policy

HARTFORD, Conn.—Hartford Financial Services Group Inc. has revamped its Property Choice coverage and enhanced features for midsize businesses, the company said.

Property Choice offers companies broad coverage for physical structures, equipment and inventory, lost revenue, business and personal property.

Hartford said increased limits are available up to \$2 million for policyholders insuring newly acquired buildings; up to \$1 million for new acquired business personal property; up to \$25,000 for utility interruption services; and up to \$50,000 for business-interruption coverage.

In addition, the policy can be customized to address industry-specific exposures in more than 40 industries.

And \$100,000 of additional coverage is available for "green updates," which include replacing damaged materials with energy-efficient materials after a loss, Hartford said.

For more information, contact Sue Ozmun, assistant vp of middle-

market underwriting practices, at 860-547-7380 or sue.ozmun@thehartford.com.

Axco, Fiscal Reps partner to offer product suite

LONDON—Axco Insurance Information Services Ltd. and Fiscal Reps Ltd. said they have teamed up to offer a suite of products and services to help insurers comply with international tax regulations.

In a joint statement, the London-based insurance consultant and the compliance firm said they intend to offer insurers and brokers the most up-to-date market information and transactional execution.

The companies said the Web-based product aims to address the

corporate governance climate and increased pressure on insurers to deliver assured compliances for premium and other taxes.

The company said the service will help users "consider in advance the full impact of all taxes upon a policy." In addition, the service will help companies reduce costs because they no longer will need to dedicate resources to build proprietary systems to track tax laws and other regulations, according to a statement.

For more information, contact Tim Yeates, head of business development at Axco at +44-20-7623-9828 or tim.yeates@axcoinfo.com; or Chris James, chief executive officer of FiscalReps, at +44-20-7663-5672 or chris.james@fiscalreps.com.

TO SUBMIT ITEMS

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Business Insurance OPINIONS

Health care progress better than status quo

SEN. OLYMPIA SNOWE had it exactly right when she explained last week before the Senate Finance Committee why she was voting in favor of a health care reform bill put together largely by the panel's chairman, Sen. Max Baucus, D-Mont.

The bill, the Republican senator from Maine explained, was far from what she would like to see passed.

But to vote against it would be acceptance of the current health care delivery and finance system. And that system, Sen. Snowe said, is getting worse.

We couldn't agree more. Health care expenditures per capita in the United States are roughly 50% higher than in other Western industrialized countries.

Despite that, roughly 15% of the U.S. population is uninsured—a large portion of which work for small employers that no longer can afford to buy coverage. In addition, there is no evidence that U.S. residents are healthier than residents of other Western countries.

Exceptionally high costs and high uninsured rates have sounded the call for reform, and it's a call that federal legislators and the Obama administration have heard.

We expect much tough negotiating ahead as the debate over bills passed by several congressional committees now reaches the House and Senate floors. Whether there should be a public option, the size of penalties assessed on individuals who don't enroll in a health insurance plan, and whether employers should be fined if they don't offer coverage to their employees will not be easy to resolve.

As Sen. Snowe said, the status quo is unacceptable, and it is for that reason that we encourage lawmakers to continue, with great thought and deliberation, on their historic quest to enact health care reform legislation.

What did Treasury miss while asleep at wheel?

A NEW REPORT regarding federal agencies' oversight of American International Group Inc.'s compensation practices is troubling, and not necessarily for the same reason others may find it troubling.

As we report on page 3, the special inspector general for the Troubled Asset Relief Program found that the Treasury Department did not pay much attention to retention payments for employees of AIG's Financial Products unit until the bonuses were about to be paid last March. AIGFP, of course, was the unit blamed for nearly destroying AIG through a series of bad investments. When knowledge of the bonuses became public, members of Congress threatened to subject them to special taxes or even make the recipients' names public.

We said back then that we understood the outrage over the retention payments. After all, many people inside and outside of Congress would question why people who made such disastrous financial decisions, triggering the biggest federal bailout of a company in history, deserved any kind of bonus.

But we also noted back then that we believed lawmakers had more important issues to deal with regarding AIG than compensation issues. To its credit, Congress has been focusing on those larger issues, such as taking steps to prevent another meltdown from occurring.

And that's what makes the special inspector general's recent report so troubling. If the Treasury Department wasn't overseeing compensation issues in an adequate manner, what else may have been overlooked? If future failures are to be avoided, Treasury needs to answer that question, and answer it completely.

The status quo is unacceptable.



WRITE

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THIS WEEK'S RESULTS

Should Congress renew the COBRA subsidy beyond the Dec. 31 expiration date?



YES
70%

NO
30%

NEXT WEEK'S QUESTION

What impact would a "public option" have on private health care costs?

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Perspectives and expert analysis online at
www.businessinsurance.com/section/perspectives



Problems of health care system still exist

No reform proposal addresses the core problems of the nation's health care system, says Chandler J. Rapson, president and chief executive officer of Lakeland, Fla.-based First Service Administrators Inc. Health care reform must address networks that hamstringing the ability of regional insurers, third-party administrators and self-insured employers to contract with enough quality providers to make serving an individual market financially feasible, he says.

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BEST places to work

2009



Common traits of award-winning organizations

By **RODD ZOLKOS**

What makes a company a great place to work? In the case of the 33 companies among *Business Insurance's* 2009 Best Places to Work in Insurance, the answers go well beyond pay and benefits.

The companies among this year's 33 Best Places to Work in Insurance also earned high marks from their employees in areas such as leadership and planning, corporate culture and communications, role satisfaction, work environment, relationship with supervisors, and training and development.

In the area of leadership and planning, for example, employees surveyed by Best Companies Group at companies on the list were strongly positive about understanding the long-term strategy of their organizations.

At small companies—those with 249 or fewer employees—94% of those on the list responded positively—“agree somewhat” or “strongly agree”—that they understand their company's strategy. Meanwhile, at companies with 250 or more employees, 95% responded positively to that statement.

Of the smaller companies among this year's Best Places, 95% of employees responded positively regarding their confidence in their organization's leaders, with 93% of employees at large companies on the list offering a positive response.

In the area of corporate culture and communications, employees at companies on the Best Places list are strongly positive about the frequency and content of their company's corporate communications. At the smaller companies, 94% responded positively to statements that their company's communications were frequent enough and detailed enough; at the larger companies, 93% of employees were positive about frequency and 92% about the level of detail.

Employees were positive about understanding how their companies are doing financially 95% of the time at small companies among the Best Places to Work and 94% of the time at the large companies.

Positive responses were somewhat less frequent to the statement, “Changes that may affect me are communicated to me prior to implementation,” with 86% of employees surveyed at smaller organizations responding positively and 83% at the

See **TRAITS** page 12

2009 BEST PLACES TO WORK IN INSURANCE: AGENTS/BROKERS

SMALL AGENTS/BROKERS			
RANK	COMPANY	HEADQUARTERS	EMPLOYEES
1	McGraw Wentworth	Troy, Mich.	67
2	Seubert & Associates Inc.	Pittsburgh	66
3	Assurance Agency	Schaumburg, Ill.	205
4	Scott Insurance	Lynchburg, Va.	227
5	Hoffman Brown Co.	Sherman Oaks, Calif.	44
6	Rue Insurance	Hamilton, N.J.	58
7	Capstone Brokerage Inc.	Las Vegas	26
8	Thoits Insurance Service Inc.	San Jose, Calif.	70
9	Ovation Benefits Group	Farmington, Conn.	56
10	Scirocco Group	Hasbrouck Heights, N.J.	114
11	Insurance Exchange Inc.	Rockville, Md.	36
12	AH&T Insurance	Leesburg, Va.	127

MEDIUM-SIZE AGENTS/BROKERS			
RANK	COMPANY	HEADQUARTERS	EMPLOYEES
1	Heffernan Insurance Brokers	Walnut Creek, Calif.	339
2	Higginbotham & Associates Inc.	Fort Worth, Texas	339
3	Edgewood Partners Insurance Center	San Mateo, Calif.	273
4	Bollinger Inc.	Short Hills, N.J.	450
5	Insurance Office of America	Longwood, Fla.	344
6	Hylant Group Inc.	Toledo, Ohio	660

LARGE AGENTS/BROKERS			
RANK	COMPANY	HEADQUARTERS	EMPLOYEES
1	Lockton Cos. L.L.C.	Kansas City, Mo.	2,432

2009 BEST PLACES TO WORK IN INSURANCE: INSURERS

SMALL INSURERS			
RANK	COMPANY	HEADQUARTERS	EMPLOYEES
1	AMERIND Risk Management Corp.	Santa Ana, N.M.	41
2	Island Insurance Co. Ltd.	Honolulu	188
3	Redwoods Group	Morrisville, N.C.	92
4	ARAG Insurance Co.	Des Moines, Iowa	132
5	Eastern Insurance Holdings Inc.	Lancaster, Pa.	210
6	ScripNet Inc.	Las Vegas	50
7	CompWest Insurance Co.	San Francisco	136
8	Capitol Insurance Cos.	Middleton, Wis.	229

MEDIUM-SIZE INSURERS			
RANK	COMPANY	HEADQUARTERS	EMPLOYEES
1	ProAssurance Corp.	Birmingham, Ala.	685
2	Safety National	St. Louis	251
3	Key Risk Insurance Co.	Greensboro, N.C.	285

LARGE INSURERS			
RANK	COMPANY	HEADQUARTERS	EMPLOYEES
1	Unum Group	Chattanooga, Tenn.	9,105
2	Chubb Group of Insurance Cos.	Warren, N.J.	7,803
3	Progressive Corp.	Mayfield Village, Ohio	25,778



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BEST SMALL AGENTS/ BROKERS

2 SEUBERT & ASSOCIATES INC. PITTSBURGH EMPLOYEES: 66

 Seubert & Associates is a full-service insurance agency with a passion for service. Its insurance professionals generate premiums in excess of \$150 million annually. The company is known for its financial strength, stability and progressive client service. Products and services include commercial, trucking, health care practices, group benefits, life, personal and surety bonding. Seubert & Associates specializes in alternative risk solutions, captive services, and claims management and assessment.

What makes the company a great place to work? "The emphasis that management puts on the importance of its employees. We encourage and provide the tools for everyone to be successful, both professionally and personally."

3 ASSURANCE AGENCY LTD. SCHAUMBURG, ILL. EMPLOYEES: 205

 Assurance Agency specializes in providing property/casualty insurance solutions and designing and administering employee benefit programs for individuals and businesses across the country. The company contracts with more than 300 top insurance companies to provide the greatest breadth of insurance solutions available. Assurance's differentiating factor is a corporate culture that boasts fun and camaraderie.

What makes the company a great place to work? "Assurance understands the best way to create real value for clients is to create real opportunities for employees. We attract, develop and retain exceptional individuals who deliver superior client solutions."

4 SCOTT INSURANCE LYNCHBURG, VA. EMPLOYEES: 227

 Scott Insurance offers a full array of risk management services, including commercial insurance, employee benefits, financial management, and bonds through eight offices in North Carolina, Tennessee and Virginia and captive insurance operations in the Cayman Islands. Scott also has industry specialists in the construction, transportation and health care industries, and has a dedicated risk performance group and professional development team.


What makes the company a great place to work? "Our company is a great place to work because we are fiercely devoted to our culture, our clients and each other."

5 HOFFMAN BROWN CO. SHERMAN OAKS, CALIF. EMPLOYEES: 44

 Hoffman Brown Co. is a full-service insurance agency established in 1961 with 44 dedicated people providing large and small companies, and individuals, with the best possible insurance programs. The company offers commercial, personal, life, group/individual medical, and long-term care and disability insurance products, combining expertise in underwriting, claims and loss control to provide clients with superior professional service in all areas of insurance.

What makes the company a great place to work? "We treat our teammates with respect. HBC's commitment to delivering exceptional service extends to our employees. Our success derives from a tradition of staff appreciation, engagement, participation and support."

6 RUE INSURANCE HAMILTON, N.J. EMPLOYEES: 58

 Charles E. Rue founded Rue Insurance in 1917 in Windsor, N.J., to help local farmers protect themselves from the devastating losses caused by fire. Under the direction of four generations of the Rue family, Rue Insurance has grown from this single coverage operation into a regional leader in risk and asset protection. Rue now serves the insurance, employee benefit and financial services needs of more than 7,000 clients in 44 states.

What makes the company a great place to work? "Our professional atmosphere instills pride in our work and a passion to serve clients. Our family-like culture encourages employee participation and fosters an environment of mutual appreciation and respect."


7 CAPSTONE BROKERAGE INC. LAS VEGAS EMPLOYEES: 26



Capstone Brokerage Inc. is a risk management, insurance and employee benefits brokerage specializing in workers compensation, workplace safety programs, commercial property/casualty insurance, surety bonding, employee benefits as well as all other types of commercial and personal insurance.

What makes the company a great place to work? "People join our company for the respect and the opportunity to be part of something that is exciting and fun. Our employees couldn't imagine working somewhere else."

8 THOITS INSURANCE SERVICE INC. SAN JOSE, CALIF. EMPLOYEES: 70

 Thoits Insurance is a full-service, regional, employee-owned insurance brokerage located in the heart of the Silicon Valley.

Thoits has been providing insurance, employee benefits and risk management programs for more than 110 years.

What makes the company a great place to work? "Thoits has 70 professional, ethical, well-trained staff who are committed to excellence in client service. As an employee-owned company, we have the commitment and skills to do it right."

9 OVATION BENEFITS GROUP FARMINGTON, CONN. EMPLOYEES: 56

 Ovation Benefits Group is the largest independently owned employee benefit broker/consultant in Connecticut. The company is a leader in the design, negotiation and communication of consumer-driven health plans, with a particular emphasis on wellness initiatives and member-level support. Ovation Benefits offers an array of services, with a mission to deliver lower costs, better benefits, and healthy people to all of its clients.

What makes the company a great place to work? "Ovation Benefits Group is a caring, considerate and community-minded organization. From our employees to our office space, we are an energetic, innovative organization."

10 SCIROCCO GROUP HASBROUCK HEIGHTS, N.J. EMPLOYEES: 114

 Scirocco Group credits its 60 years of success to a commitment to establishing and nurturing long-standing relationships with clients and insurers. Advanced technology helps the company share knowledge in specific areas of focused expertise—construction, real estate, manufacturing, retail/wholesale, distribution, public entities, transportation—and full-service risk analysis and management to assist clients in remaining viable and profitable.

What makes the company a great place to work? "Scirocco Group is a great place to work because of our people and their commitment to Scirocco Group's success, each other's well-being and our

companies, particularly those with 150 to 3,000 employees—said Thomas P. McGraw, principal and president at McGraw Wentworth. And its culture is seen as a major differentiator in that marketplace.

"We are relentless about our culture," Mr. McGraw said. "Excellence is a habit and superb service is a way of life," he said. "In turn, we are explicit about how we, as an employer, we need to treat our people the right way."

Mr. McGraw said his company recognizes that if it treats its employees well, they, in turn, will treat their clients well. "We tell our people we are very focused about having the right people," he said. "We are very focused on having the right people, best and the brightest, and keeping them happy."

McGraw Wentworth makes a point of getting employees together at least once a year offsite, and constantly makes it clear to them that they are a key component of the company's business strategy.

"We talk to our people about how proud we are to have them on our team," Mr. McGraw said.

environment's viability."

11 INSURANCE EXCHANGE INC. ROCKVILLE, MD. EMPLOYEES: 36

 Insurance Exchange is a privately held, independent insurance agency located in the Washington area. It was founded more than 40 years ago and offers employee benefits, property/casualty insurance, and retirement products to businesses in the United States and around the world. The agency is an advocate for its clients and they are the first priority. The goal of the Insurance Exchange is to achieve long-term relationships focused on bringing value to clients' insurance, risk management, employee benefit and retirement plans, taking the time to design customized programs that meet the needs of each unique client.

What makes the company a great place to work? "Large-size business resources and vision coupled with a small-size culture and family focus."

12 AH&T INSURANCE LEESBURG, VA. EMPLOYEES: 127

 Armfield, Harrison & Thomas Inc. (AH&T Insurance) is an insurance brokerage, risk management consulting, employee benefits, surety bond and retirement planning services organization dedicated to providing innovative solutions globally for business and individuals. AH&T is employee-owned and one of the largest independent insurance brokerages in the nation, with offices in Leesburg, Va., and Seattle. AH&T is a partner of the RiskProNet and TechAssure global broker networks.

What makes the company a great place to work? "Employees are empowered to use their creativity and talents individually and as a team to collaborate on issues to better serve our clients and deliver solutions. Doors are always open to encourage communication."

RANK 1 MCGRAW WENTWORTH TROY, MICH. EMPLOYEES: 67



At McGraw Wentworth, the company's focus on excellent client service has a flip side—providing an excellent workplace for top-quality employees. Troy, Mich.-based McGraw Wentworth, 2009's top-ranked small agent/broker in the *Business Insurance* Best Places to Work in Insurance ranking, serves the group benefit needs of Michigan-based organizations with 100 to 10,000 employees.

The company's core competencies include innovative and individually tailored cost-reduction strategies for clients, benchmarking, utilization analysis, financial analysis, health and productivity management programs, regulatory compliance consulting, employee communications, voluntary group benefits design and implementation, and billing and claim problem solving.

McGraw Wentworth provides those services from a perspective that the company doesn't sell insurance. Instead, it provides exceptional service, knowledge and judgment. The company "markets like heck" to its sweet spot—middle-market

RANK
1
HEFFERNAN INSURANCE BROKERS
WALNUT CREEK, CALIF.
EMPLOYEES: 339



Recognizing that work is a big part of most people's lives, Walnut Creek, Calif.-based Heffernan Insurance Brokers makes an effort to provide a workplace experience that's in line with the rest of its employees' lives.

Formed in 1988, Heffernan Insurance Brokers, the top-ranked medium-sized agent/broker in this year's *Business Insurance* Best Places to Work in Insurance, is one of the largest independent insurance brokerage firms in the United States. Heffernan provides commercial insurance, employee benefits, personal insurance, and financial services to a wide range of businesses and individuals.

"I think the main thing is that we encourage an environment that basically says, 'Do your job; do it well; and we're not going to put a lot of restrictions on how you do it, how you act in our corporate environment,'" said F. Mike Heffernan III, the broker's chief executive officer.

"As long as you're respectful to people, do a good job, you can be happy here," Mr. Heffernan said.

The broker looks internally for most promotions. It also encourages social exchanges among its employees, "So work will be more like what their life's like," Mr. Heffernan said.

"Obviously, we want them to enjoy themselves," the broker's CEO said. "I think our basic philosophy is that if the people who work for us are enjoying themselves, responding to clients, they should be providing better service."

That sort of approach should be a win-win for the company and its employees, Mr. Heffernan suggested. "Based on that, we should be more successful as a company; and if that's the case, people will have more opportunities within our company," he said.

Heffernan has been able to maintain that attitude of allowing employees to "be themselves" even as the company has grown, the CEO said.

"It kind of permeates the entire organization. And, as we've grown, we've been able to keep it going," he said. "It's probably the most important thing to our company, to keep our culture."

2 HIGGINBOTHAM & ASSOCIATES INC.
FORT WORTH, TEXAS
EMPLOYEES: 339



Founded in 1948, Higginbotham & Associates is one of the nation's 100 largest independent insurance and financial service brokerage firms and a leader in the Texas marketplace. The firm has positioned itself as the "Single Source for a Secure Future" by providing access to comprehensive commercial and personal property/casualty coverage, employee benefits, retirement plans, life insurance, executive compensation, risk management, and benefits administration.

What makes the company a great place to work? "Despite its rapid growth, Higginbotham has maintained a small-business atmosphere that promotes work/home balance and where employees feel connected, supported and appreciated as key contributors to the firm's success."

3 EDGEWOOD PARTNERS
INSURANCE CENTER
SAN MATEO, CALIF.
EMPLOYEES: 273



EPIC's comprehensive product offerings include specialty practices such as construction, employee benefits, emerging growth/select business, private equity, private client, captives/program group, national specialty programs, renewable energy, retail/manufacturing, technology/life science, transportation, warehousing and logistics. Resources and services include alternative risk, directors and officers/errors and omissions, international services, risk control and claims advocacy.

What makes the company a great place to work? "We continually strive to create a unique culture of teamwork, committed colleagues, passion, work/life balance, a blend of experience and youth, fun and celebration. We value,

take care of, and respect our employees...We link our employees to the strategy and financial success of the company and provide a collaborative environment. We make heroes of employees who bring our values to life and celebrate success."

4 BOLLINGER INC.
SHORT HILLS, N.J.
EMPLOYEES: 450



Bollinger's customers include more than 15,000 business clients throughout the United States, ranging from publicly traded global firms to local businesses. In addition to commercial property/casualty insurance, the firm provides its clients employee benefit programs, risk management services, surety and fidelity bonds, and claims management. The personal lines division offers traditional insurance products.

What makes the company a great place to work? "Bollinger's president/CEO has

always stated and proved that Bollinger's most important asset is our employees. That is why he shared his own \$500,000 bonus with each employee, giving them each \$1,000 (paying for the payroll taxes himself)."

5 INSURANCE OFFICE OF AMERICA
LONGWOOD, FLA.
EMPLOYEES: 344



Insurance Office of America is a full-service insurance agency handling all lines of insurance, including commercial lines, personal lines, bonds, life and health. IOA prides itself on the level of service provided to its clients, as well as many other value-added services.

What makes the company a great place to work? "IOA is exceptional because of the quality of the service we provide to our customers, the investment we give back to the community, and the value placed on work/life balance."

6 HYLANT GROUP INC.
TOLEDO, OHIO
EMPLOYEES: 660



Hylant Group, a family-owned, privately held organization founded in 1935, is a full-service insurance broker whose specialties include commercial and personal property/casualty insurance consulting and brokerage services, employee benefit plan consulting, program administration for public entity programs, and financial and wealth management services for corporations and individuals.

What makes the company a great place to work? "Employees are aligned with company values, which include open and honest communication, dedication, teamwork and having an entrepreneurial spirit, and always maintaining our client-first philosophy."



BEST LARGE AGENTS/ BROKERS

RANK
1
LOCKTON COS. L.L.C.
KANSAS CITY, MO.
EMPLOYEES: 2,432



At Lockton Cos. L.L.C., the company's culture is seen as its defining feature, and the company goes to great lengths to maintain that culture and apply it to every aspect of its business. That culture, said John L. Lumelleau, Lockton's president and chief executive officer, "is the bedrock of what we're all about."

"It starts with the constituencies that are critically important; it's our clients, our employees and our communities," Mr. Lumelleau said. "We put them front and center every day. It's done at every level of the company."

Kansas City, Mo.-based Lockton is the world's largest privately owned insurance broker. Lockton associates advise more than 15,000 clients around the world on risk management and insurance, employee benefits and retirement programs, customizing each risk management and employee benefit program. The company has grown from a one-person operation in 1966 to the world's 10th largest insurance broker.

"It starts, as you would expect, with hiring great people," Mr. Lumelleau said. "The consistent theme is the right person for our company. There's a special kind of individual that we

want to attract and retain for Lockton."

"At the end of the day," Lockton's president and CEO noted, "all we can put in front of our customers is our people."

Another aspect of Lockton's approach might seem subtle at first, but it's significant, Mr. Lumelleau said.

"We do not refer to ourselves as employees. We refer to ourselves as associates," he said. "It's only a word, but it helps us to set the tone." When Lockton recruits and hires individuals, the company wants them to understand they'll be "associated" with others at Lockton and the broker's clients.

The broker also tries to ensure that the individuals hired to serve its clients can do so as effectively as possible, with all the authority necessary to do their jobs unencumbered by company bureaucracy.

"We try not to let the company get in the way of our associates doing the job for our clients," Mr. Lumelleau said. "I don't ever want Lockton, in some sort of bureaucratic way, to hinder our associates' ability to serve our clients."

"We're very proud of the people who work at Lockton and I'm very personally proud to be associated with them," Mr. Lumelleau said.

Traits: Top performers in insurance

CONTINUED FROM PAGE 9

large companies on the list.

In terms of role satisfaction, employees at smaller companies feel slightly more secure about their jobs than those at larger companies, with 88% of employees at small companies responding positively vs. 83% at large companies that made the ranking.

Some of the lowest levels of satisfaction can be found in the area of training and development.

The statement, "My company clearly tells me what is expected for advancement," drew positive responses from 79% of employees surveyed at smaller companies on the Best Places to Work in Insurance list, and from 77% of those at companies with 250 or more employees.

And at small companies on the list, only 72% of employees responded positively regarding room to advance within the organization, with 73% at larger companies providing a positive response.

Across statements gauging overall employee engagement—employee satisfaction, willingness to give extra effort, intention to remain at the company, and willingness to recommend the company to friends, the companies on the Best Places to Work in Insurance list averaged high positive scores: 94% for small companies and 93% for those with 250 or more employees.

That high level of employee engagement is particularly significant in a tough economy, said Peter B. Burke, president of Harrisburg, Pa.-based Best Companies Group.

Despite the difficult economy's effect on businesses, "The companies that are doing it right are doing it really right," Mr. Burke said.

"Great places to work aren't immune to bad things happening to them," Mr. Burke said. "But the high-quality workplaces are able to handle it better because of the high level of employee engagement."

Marie Clements, assistant vp for human resource strategies at Unum Group, said a high level of employee engagement at the Chattanooga, Tenn.-based company and the quality of the company's communications have had a major benefit.

"I think our employees do have a pretty good understanding of what's happening, they understand the situation and they're willing to give that extra effort," she said.

Looking at the data from the 33 companies making the 2009 Best Places to Work in Insurance, Mr. Burke said insurance industry companies compared quite favorably with other industries. "The employee data was stronger than average as industries go," he said.

Of the companies recognized, 16 of the 33 "had an average positive response of 90% or better" on the employee survey, Mr. Burke said. "That's really strong to have half the companies on the list with 90% or more. The average is usually in the mid-80s."



BEST SMALL INSURERS

2 ISLAND INSURANCE CO. LTD. HONOLULU EMPLOYEES: 188



Founded by Masayuki Tokioka in 1939, Island Insurance Co. Ltd. is Hawaii's largest locally owned and managed property/casualty insurance company. Island Insurance provides personal automobile, homeowners, renters, condominium, dwelling fire, flood and umbrella insurance, as well as insurance for business and surety bonds.

What makes the company a great place to work? "Island works very hard to sustain an open culture, emphasizing communication, recognition and growth for its employees. Each employee's talent and superior quality service are the heart of the company's success."

3 REDWOODS GROUP MORRISVILLE, N.C. EMPLOYEES: 92



Redwoods is the largest provider of insurance services to YMCAs and Jewish community organizations. It partners with those organizations to improve their safety culture and reduce injuries and accidents. Redwoods believes business should be a powerful force for positive social change, and the company and its employees are committed to community service and charitable giving. The firm's motto is "Serve Others" and its mission is to improve the quality of life in the communities it serves.

What makes the company a great place to work? "Redwoods is a unique specialty insurance provider that is a powerful force for positive social change. In order to fulfill that mission, the company provides a challenging,

nurturing and sustainable work environment that recognizes the joy of work, the dignity of the individual, the power of collaboration and the obligation of the employer to the wider community."

4 ARAG INSURANCE CO. DES MOINES, IOWA EMPLOYEES: 132



ARAG is a privately held, global leader of legal insurance, based on a traditional health care preferred provider organization model. It provides people with quality, affordable and accessible resources to resolve everyday legal matters often referred to in the industry as "legal life events." As a pioneer of the legal insurance category, ARAG has more than 70 years of experience and protects 15.5 million people and their families worldwide.

What makes the company a great place to work? "Our employees make ARAG a great place to work. They are loyal, hard-working, and have enormous passion for and pride in the products and services we provide. Our corporate sense of family permeates and provides a uniquely warm and sincere culture where there's a strong sentiment of genuine caring and concern for one another."

5 EASTERN INSURANCE HOLDINGS INC. LANCASTER, PA. EMPLOYEES: 210



Since its inception, Eastern Insurance Holdings Inc. has been committed to creatively serving the specialty insurance needs of a diverse population

RANK 1 AMERIND RISK MANAGEMENT CORP. SANTA ANA, N.M. EMPLOYEES: 41



For AMERIND Risk Management Corp., "family-friendly" is a natural extension of the company's basic business mission.

Santa Ana, N.M.-based AMERIND was established by more than 450 Native American tribes in 1986. This year's top-ranked company among small insurers in the *Business Insurance* Best Places to Work in Insurance ranking is a multiracial federal corporation formed to protect those tribes, their treasuries and their enrolled members from unforeseen or catastrophic financial loss using self-insurance and other risk-financing strategies.

"As a company that represents tribes across the United States, and tribes being an extended family, we conduct our business in a context that represents extended family," said Kent Paul, AMERIND's chief executive officer.

"Following a Native American culture, we pride ourselves on the fact that families come first here," said Rod Crawley, AMERIND's chief operating officer.

Among other things, Mr. Paul cited his "85-15 rule." Employees spend 85% of their work time at their desk, but are expected to spend the other 15% socializing with their co-workers.

"We really promote small gatherings, potlucks, committee work together, getting away from your desk 15% of the time to

socialize, really get to know your neighbor," said Mr. Crawley.

Utilizing risk management principles, AMERIND protects life and property of participating tribes from fire, natural disasters and other unforeseen events. The company operates on Native American reservations in 32 states.

Mr. Paul noted that with each tribe having its own traditions and mores, "cultural sensitivity" is more of a challenge for AMERIND than for many companies, but one it takes seriously. "We don't have to keep up with just four or five minorities; we potentially have to keep up with more than 500," he said.

As a multigenerational company, with an age span of probably 50 years between the oldest and youngest employees, AMERIND also recognizes the value of what its employees of various generations can learn from one another, Mr. Crawley said.

Overall, AMERIND recognizes that a high-quality workplace means better client service.

"When Kent came aboard, one of the things he wanted to promote is that happy employees are more productive," Mr. Crawley said.

"As a chief executive officer, my role isn't any more important than somebody opening the mail," Mr. Paul said. "We both have very important business responsibilities; and if one of us fails, the whole organization falls down."

of businesses and organizations in rural territories. Today, as Eastern Insurance Holdings Inc., the company, through its operating subsidiaries, is a specialty underwriter of niche products for commercial markets, with workers compensation as its principal focus. Each of its companies—Eastern Alliance Insurance Group and Eastern Life and Health Insurance Co.—is focused on delivering innovative solutions to the markets it serves.

What makes the company a great place to work? "The three 'Ps': people (our employees are the best), position (our growth potential over the next five years) and products (innovative solutions that continually produce better outcomes for our clients)."

6 SCRIPNET INC. LAS VEGAS EMPLOYEES: 50



ScripNet controls pharmacy costs for workers compensation payers. All ScripNet programs, processes and pharmacy contracts are designed with workers compensation as the primary focus, making the company 100% devoted to the needs of injured workers and their employers.

What makes the company a great place to work? "Great staff, management, environment and benefits."

7 COMPWEST INSURANCE CO. SAN FRANCISCO EMPLOYEES: 136



CompWest Insurance Co. provides workers compensation insurance in Western U.S. states. Calling its approach "Workers Compensation with Care," the company is built on the foundation that

"doing the right thing" also is good business. A company of skilled workers compensation professionals leading the industry in the prevention and treatment of workplace injuries, CompWest believes it wins when its customers win by reducing their injuries and lowering their claims costs.

What makes the company a great place to work? "We offer 'Workers Compensation with Care.' We collaborate to achieve success, value the diverse wisdom of our employees and are passionate about the people we serve."

8 CAPITOL INSURANCE COS. MIDDLETON, WIS. EMPLOYEES: 229



Capitol Insurance Cos. writes property/casualty insurance on an admitted and nonadmitted basis through a nationwide network of general agencies, as well as its own independent agency force. Capitol also writes commercial surety in all 50 states, plus the District of Columbia.

What makes the company a great place to work? "Our company recognizes and acknowledges that all employees participate in and contribute to the company's financial success. The company's goal is to provide employees with the needed balance between work and home. This is achieved through the organization's culture that emphasizes camaraderie through respect and the ability to be challenged, and by providing a competitive benefits program, recognition and flexibility."



BEST MEDIUM-SIZE INSURERS

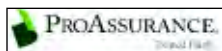
RANK

1

PROASSURANCE CORP.

BIRMINGHAM, ALA.

EMPLOYEES: 685



As ProAssurance Corp. has grown, one of the biggest factors that has made the professional liability insurer a high-quality workplace has been its ability to maintain a small-company feel.

The top-ranked workplace in the medium-size insurer category in this year's *Business Insurance* Best Places to Work in Insurance, Birmingham, Ala.-based ProAssurance Corp., is the nation's fifth-largest writer of medical professional liability insurance and has a growing professional liability business.

Not only does ProAssurance provide insurance for professionals, it views its staff as professionals. Beyond that, it views employees as individuals, operating at all levels on a first-name basis and with such touches as employee greetings personalized birthday greetings from the chief executive officer.

"All the senior officers are called by their first names," said Clay Shaw, ProAssurance's vp of human resources. "They know everyone by their first names."

"The company cares about its employees," Ms. Shaw said. "We have an open-door policy."

ProAssurance's approach to the workplace it provides its employees is an extension of the company's basic approach to business, said Frank O'Neil, senior vp of corporate communications and investor relations.

"As I look at it, one of the things that overarches all of this, it's explicit, it's included in our logo, is this idea of 'treated fairly,'" Mr. O'Neil said. "I think the way we treat employees is really contained in that whole thought of 'treated fairly.' It's more than just a slogan. It's in the DNA of the company."

"Every stakeholder in the company should feel after every encounter that they've been treated fairly," Mr. O'Neil said. ProAssurance also makes an effort to promote from within.

"There are opportunities for growth within the company," Ms. Shaw said. "We do a lot of promotion from within."

And, as a publicly held company, ProAssurance has an employee stock plan, "giving employees the opportunity to be employee owners," Ms. Shaw said. "I think we're all going to work a little harder for something we have ownership in."

2 SAFETY NATIONAL

ST. LOUIS

EMPLOYEES: 251



A leader in providing excess workers compensation coverage to self-insured employers and groups nationwide, Safety National has provided that coverage longer than any other company in the U.S. In addition, Safety National offers large-deductible workers compensation, assumed workers compensation reinsurance, loss portfolio transfers, Texas non-subscriber coverage, self-insurance bonds, and other alternative risk programs.

What makes the company a great place to work? "Safety National creates a professional, relaxed culture and hires great people who are treated as individuals, collaborate as a team, given the opportunity to excel, and rarely choose to leave."

3 KEY RISK INSURANCE CO.

GREENSBORO, N.C.

EMPLOYEES: 285



Founded in 1986, Key Risk is a leading provider of workers compensation insurance products and services for employers throughout the eastern United States. Key Risk operates as an insurance company, third-party administrator, and provider of managed-care services (including case management and medical bill adjudication services) from its headquarters in Greensboro, N.C., and is licensed in 10 states.

What makes the company a great place to work? "Our culture is based on conducting our personal and professional lives in an ethical manner, not jeopardizing honesty and integrity, and always 'doing the right thing.'"

BEST LARGE INSURERS

RANK

1

UNUM GROUP

CHATTANOOGA, TENN.

EMPLOYEES: 9,105

For Chattanooga, Tenn.-based Unum Group, the key to best serving its clients are the people who serve those clients. This is why Unum offers its employees a great place to work.

As one of the world's leading employee benefits providers, Unum, this year's top-ranked large insurer among the *Business Insurance* 2009 Best Places to Work in Insurance, helps protect more than 25 million working people and their families in the event of illness or injury and offers comprehensive insurance solutions to help protect against the financial effects of accident, illness or death.

"Basically, our business—and probably all insurance—you're nothing without the people," said Marie Clements, assistant vp for human resource strategies. "It really is a business that we're making a promise to our customers, and the only way we could deliver on that promise is through those individuals" who work with the customers.

At Unum, that approach manifests itself in a variety of ways, including the company's focus on employee training and

development, Ms. Clements said.

"A second thing would be the quality of our communications," she said. "There's a lot of two-way communications in our organization. And some fun things—the CEO has a blog." Company newsletters and similar communications are "fun; they're upbeat; they keep a positive tone," Ms. Clements said.

Unum also uses information technology to enable periodic "town hall meetings," allowing employees from offices across the country to meet virtually to ask questions of the company's top executives.

The company also makes an effort to reward employees for performance. While many insurance industry companies reward top performers on the sales side, Unum also looks for ways to recognize the contributions of employees in other areas of the company.

For example, Unum has an annual event to reward customer service employees, bringing 500 of them each year to Disney World. "These are the rank-and-file employees," Ms. Clements said. "The people who are on phone."

Careful assessment discovers best places

By RODD ZOLKOS

The 33 companies recognized as *Business Insurance's* 2009 Best Places to Work in Insurance earned that distinction based on in-depth assessment of workplace benefits, policies and practices, and evaluation of employees' engagement and satisfaction.

The effort that resulted in this first-ever Best Places to Work in Insurance was a joint project of *Business Insurance* and the Harrisburg, Pa.-based Best Companies Group, and was open to all publicly or privately held insurers, agents and brokers with at least 25 employees working in the United States and serving the commercial lines market.

All 33 of the companies recognized this year are on the list because they demonstrated a level of excellence distinguishing them as among an elite group of employers who've created high-quality workplaces that encourage employees to thrive in a work environment they can love.

Business Insurance engaged in this project in conjunction with Best Companies Group, an independent workplace excellence research firm that manages 35 other regional and industry programs in the United States and Canada that managed reg-

istration, conducted the surveys, evaluated the data and ultimately selected the firms that made the cut.

The assessment was a two-part process. Part one—responsible for 75% of a company's score—involved a confidential 76-question Employee Engagement & Satisfaction Survey, used to evaluate employees' workplace experience and the company culture. The second part—responsible for 25% of a company's score—was an employer questionnaire that collected information about companies' benefits, policies, practices and other information.

Using the two sets of data, BCG experts conducted an in-depth analysis of the strengths and opportunities at each company.

To make the Best Places to Work in Insurance list, each company had to demonstrate "a minimum standard of excellence," said Peter B. Burke, BCG's president. "We do have our eyes set on an overall level of satisfaction that we want to see," he said. "We're not ranking the best of the worst."

Once BCG determined the companies that achieved that standard, the next step was a comparative analysis to determine how those companies ranked against one another.

For purposes of this year's evaluation, companies in the insurer and

agents/brokers categories were divided into three subsets: small companies with 25 to 249 employees, medium-size employers with 250 to 999 employees, and large companies with 1,000 employees or more.

As part of the program, BCG provides participating companies a participation report detailing employees' workplace experience in eight categories: leadership and planning, corporate culture and communications, role satisfaction, work environment, relationship with supervisor, training and development, pay and benefits, and overall engagement.

Participating companies also can purchase an Employee Feedback Report from Best Companies Group. That report includes an employee demographic report, employee comments, and benchmarking data across other companies participating in the Best Places to Work in Insurance.

"The big thing is the benchmark," Mr. Burke said. "Those companies, especially the ones that didn't make the list, can compare their results to the companies that did make the list and see what they need to do better."

To be notified when information is available about the 2010 Best Places to Work in Insurance program, go to www.bestplacestoworkins.com.

2 CHUBB GROUP OF INSURANCE COS.

WARREN, N.J.

EMPLOYEES: 7,803



For more than 125 years, Chubb Group of Insurance Cos. has been delivering property/casualty insurance products and services to businesses and individuals around the world. Chubb offers businesses more than 170 commercial insurance products tailored to individual customer needs. Chubb also provides an array of property/casualty insurance products for individuals and families with fine homes and possessions.

What makes the company a great place to work? "Chubb holds its employees in high regards. Chubb promotes a culture in which everyone can contribute to the company's success and be rewarded fairly based on these contributions."

3 PROGRESSIVE CORP.

MAYFIELD VILLAGE, OHIO

EMPLOYEES: 25,778



Progressive is one of the country's largest auto insurance groups, the largest seller of motorcycle policies, and a market leader in commercial auto insurance based on premiums written. Progressive offers its products, including personal and commercial auto, motorcycle, boat and recreational vehicle insurance, through more than 30,000 independent insurance agencies throughout the United States and directly from the company online and by telephone.

What makes the company a great place to work? "From our casual dress code to our broad benefits program to encouraging our employees to take risks to learn and grow, Progressive is an environment where people can thrive. Progressive...provides perks while you work, including onsite medical facilities, fitness centers, name-brand food chains, dry cleaning services, ATMs and a national online Work Perks discount program. We seek out innovative minds and buoy their creativity with a world-renowned contemporary art collection."

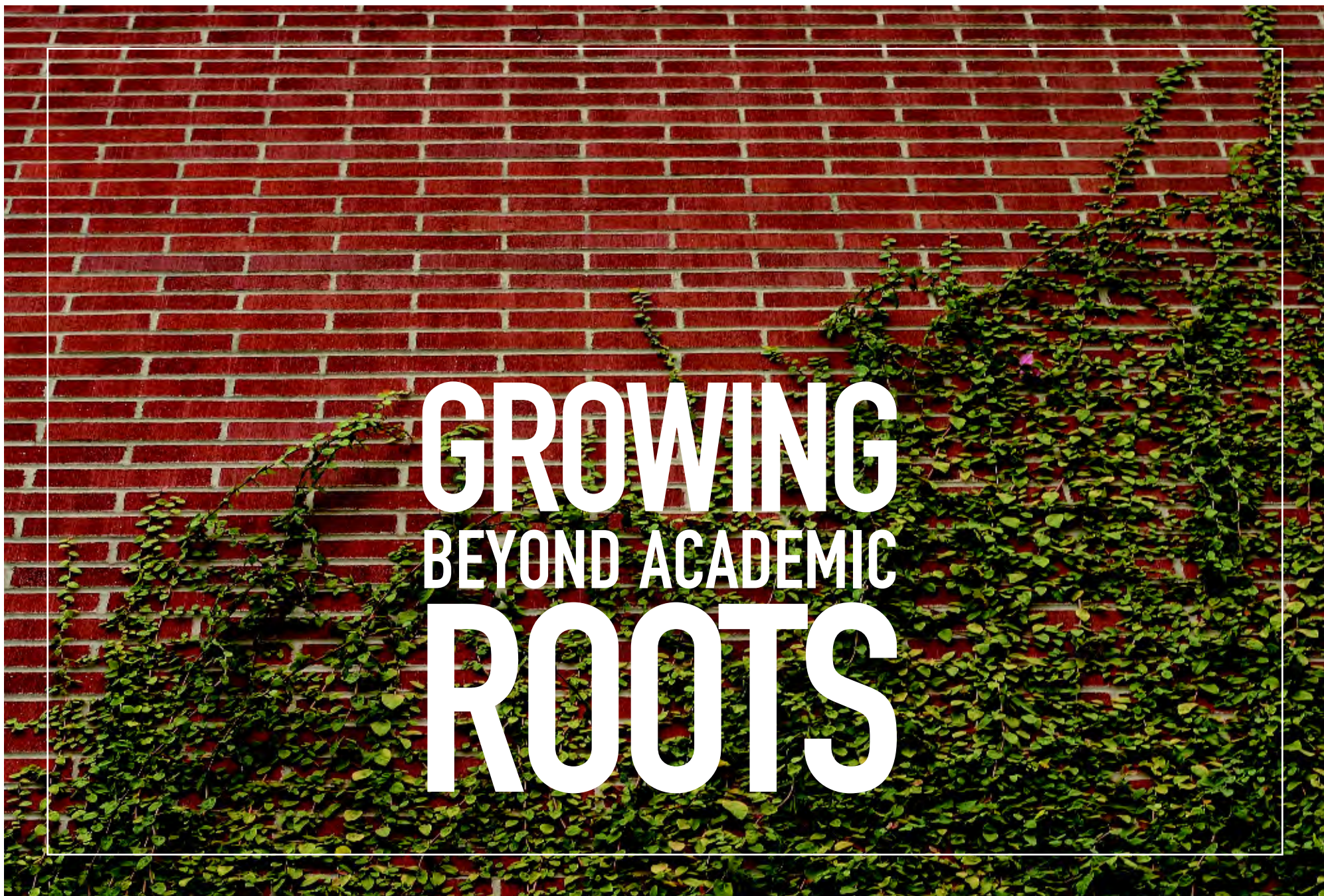


BENEFITS MANAGEMENT

RETIREE BENEFIT PLANS

Automatic enrollment and retention in 401(k) plans sail steady course despite choppy economic waters / **Page 18**

Investment losses open a window for annuities in 401(k) plan options, but sponsors urged to use caution / **Page 20**



GROWING BEYOND ACADEMIC ROOTS

Program for retirees adds certainty for sponsors and workers

By **JERRY GEISEL**

A pioneering program that funds retiree health care benefits for colleges and universities is expanding beyond its academic roots while giving participating institutions more time to make contributions.

Launched four years ago, experts at the time said Emeriti Retirement Health Solutions' program was a first-of-its-kind approach in designing and prefunding retiree health care plans for the academic community.

Under the program that has grown from an initial 29 schools to 50, each school makes contributions to tax-exempt trusts, known as voluntary employees' beneficiary associations. Each school decides its contribution based on the level of financial support it wants to provide. The minimum contribution is 0.5% of payroll of the group of employees eligible to receive an employer contribution.

Employees also contribute after-tax dollars to separate VEBAs. Employees direct both VEBA contributions into a set of mutual funds offered by Fidelity Investments. Mutual funds available include a money market fund as well as life-cycle funds, in which the investment mix becomes more conserva-

tive as employees approach retirement.

The contributions and the investment income earn tax-free interest. When employees retire and are eligible for Medicare, they can withdraw funds tax-free to pay premiums for one of several health care plans—including those offering prescription drug coverage—provided by Aetna Inc. Retirees also can take out funds to pay for other uncovered health care expenses, such as claims subject to a deductible as well as Medicare Part B and Part D premiums.

Employees who have met their academic institution's retirement eligibility requirements but retire before they are Medicare-eligible can withdraw funds tax-free to pay

health care-related expenses.

Benefit experts say the Emeriti program strikes that elusive middle ground between the extreme of offering no coverage, which may prompt employees to stay long past age 65, and the other extreme of traditional defined-benefit style retiree plans, which have costs that are difficult to predict and have become increasingly unaffordable.

"It is a way of building on a promise that can be kept," said Michael Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York.

"It allows us to get our arms around funding. It is a way in which we can budget our costs because we

See **EMERITI** page 16

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Emeriti: SEC approves expansion of program funding retiree benefits

CONTINUED FROM PAGE 14

know what our contributions will be," said Peter Michell, vp-finance at St. Mary's College of California in Moraga, Calif. St. Mary's, which joined the Emeriti program in 2007, contributes \$1,320 a year for each eligible employee starting at age 40 and continues those contributions up to 25 years.

While the Emeriti program was limited initially to colleges and universities, it is expanding beyond academia, said Ken Cool, Emeriti's president in New Windsor, N.Y.

Last month, Emeriti received a letter from the U.S. Securities and

Exchange Commission that will allow it to market the program to a wide variety of other nonprofit institutions: elementary and secondary schools; teaching hospitals; medical research organizations; libraries and museums; certain educational associations; and certain charitable foundations, such as those that direct a substantial part of their philanthropic efforts to colleges and universities.

That expansion is a natural fit, as many of the newly eligible nonprofits already are comfortable with a defined contribution plan approach through their retirement savings plans—known as 403(b) plans—

said Stuart Alden, chief health care actuary in the Philadelphia office of Watson Wyatt Worldwide.

In addition, Emeriti is broadening its funding options.

Under one new approach, the Insurance First Option, institutions that pay at least 25% of their premiums can delay making contributions to the VEBAs until the fifth year of joining the program yet give retirees full access to the program's health care plans.

Under another approach, which Emeriti calls the Incremental Prefunding Option, institutions can start with a reduced funding level and gradually boost funding to the

minimum level required by the fifth year of participation.

These approaches will appeal to institutions that may not have the resources to make all of the required contributions, but want to give retirees access to the health care plans and allow employees to begin making their own contributions to the health care accounts.

"You contribute what you can now and then ramp up when the economy rebounds," said Barbara Perry, Emeriti's vp of marketing and membership.

Meanwhile, institutions extol the advantages they believe they are reaping by joining the program. For

example, funds that accumulate in the accounts and the availability of retiree health care plans reduces the likelihood that older employees will delay retirement even after they become eligible for Medicare at age 65, noted Merry Laskowski, benefits team leader at Baylor College of Medicine in Houston.

Baylor joined Emeriti in January and contributes \$500 a year for each eligible employee beginning at age 40.

Getting employees to retire at an average age can allow academic institutions to reap significant financial advantages, Mr. Cool said. That is because older employees typically have much higher health care costs and draw higher salaries than younger employees.

Aside from higher benefits and payroll costs, there is a more subtle but real problem when employees delay retirement: It can delay hiring new employees with fresh ideas.

Having a retiree health care program like Emeriti's enables institutions to better manage intellectual renewal when older employees

'It allows us to get our arms around funding. It is a way in which we can budget our costs because we know what our contributions will be.'

Peter Michell,
St. Mary's College of California

retire at average ages and new employees can be hired, PwC's Mr. Thompson said.

In fact, an earlier Emeriti study found that employees typically retire between 18 and 36 months earlier at institutions that provide substantial financial support for retiree health care coverage compared with institutions that do not provide coverage.

Yet another benefit to the program, say participating institutions, is the breath breadth of plans available through Aetna. For example, as retirees get older, they can move from plans with lower premiums and coverage levels to those with higher premiums but richer coverage, said Paul Maroni, vp-finance at Connecticut College in New London, Conn. Connecticut College joined Emeriti several years ago and contributes \$300 a year for each eligible employee.

By banding together, academic institutions also have been able to secure better coverage than either they or retirees could afford individually, school executives say.

"Emeriti has much greater buying power than a college of our size would have" because of the program, Mr. Maroni said.

Rates are very competitive and retirees would not find the richness of benefits in the personal lines market, said Michael Fusaro, vp-client management at Aetna in New York.

"Who can transfer the risk posed by our retiree benefit liabilities?"

You're feeling the strain—and so is your balance sheet. How much will retiree benefits really cost your company? Will you take an earnings hit when you can least afford it? Now more than ever, you and your advisors need a partner with proven financial strength and employee benefits experience to put you on the path from risk to reward. Prudential can help settle your FAS 106 liabilities or provide a tax-advantaged approach to fund obligations, such as retiree health and life insurance, so they don't negatively impact your financial statements. We'll also assume your administrative record-keeping burdens. That's why more and more companies are turning to Prudential's strength, stability, and 133-year track record. **For sound solutions to managing risk, the answer is PRU—The Rock® that leading companies rely on.**



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David Brooker, Vice President, Prudential Group Insurance, at **973-668-6372**. Download our free report *Risk Financing Solutions for Retiree Life Insurance* at www.prudential.com/group

Who?

PRU

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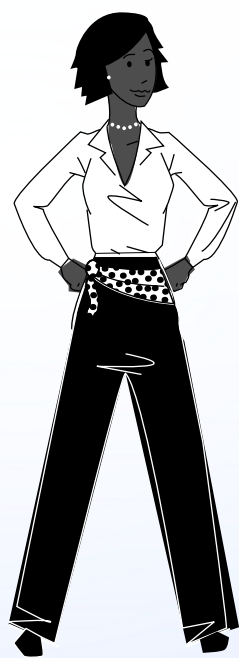
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What are consumer-driven health plans?

Consumer-driven health plans are not simply health insurance benefits. They are integrated bundles consisting of some key components:

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- Wellness and decision support programs for employees.

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Are your clients ready to make the move?

There is, however, one important consideration that will help guide your clients' decision to opt for a consumer-driven health plan:

Are you willing to offer a health plan that requires frequent users to pay a little more so the majority of the employees can realize savings? Or do your clients prefer that all employees share the burden equally?

The reality is that while many employees will come out ahead with consumer-driven health plans, some may have out-of-pocket expenses that exceed the premium savings and the reimbursement account – particularly if they have chronic conditions.

Keys to success.

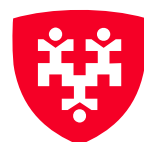
If your clients are comfortable with the idea that the majority of employees will benefit, they should consider the keys to success we at Harvard Pilgrim experienced firsthand, and found to be essential:

- **A three-to-five-year plan.** Turning employees into engaged health care consumers takes time. Start with small steps and gradually expand.
- **Commitment from company leadership.** Employees will be more likely to buy into the idea of consumer-driven health plans if senior leaders take part as well.
- **Employee and family education and communication.** These must be strong from the outset and continue as employees use and experience consumer-driven plans.
- **Wellness programs.** Keep your employees and families healthier, and show them that you're committed to their well-being.
- **Decision support tools.** Plan-cost estimators, cost-and-quality information, and other web-based tools help employees make more informed decisions.

If you think your clients are ready to move to a consumer-driven health plan, we are here to answer their questions and develop a solution that's right for them. We can meet with employees and help them understand how their health plan will change. Online tools will allow your clients to compare and evaluate different options and decide what's right for them. And, as always, you and your clients can count on us to provide the kind of quality service and personal attention that have consistently made us one of the nation's top health plans.

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Health Care**

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** *Business Insurance Magazine*, December 12, 2008

Automatic enrollment, participation steady in 401(k) plans

Some on the sidelines awaiting greater economic certainty

By ZACK PHILLIPS

The financial constraints imposed by the economic downturn have had little effect on the percentage of employers offering and employees participating in 401(k) plans that have an automatic enrollment feature, benefits consultants and others say.

The prevalence of automatic enrollment 401(k) plans—which divert a percentage of an employee's paycheck into a retirement account unless the worker specifically opts out—has risen dramatically in recent years. About half of U.S. employers with 401(k) plans offer automatic enrollment, according to various estimates.

The Chicago-based Profit Sharing/401k Council of America estimates that 56.3% of companies with more than 5,000 active employees participating in their 401(k) plans automatically enroll at

least some of those workers, up from 17.3% in 1999. Such plans increase costs for employers, who often match employee contributions, and they decrease the amount of each paycheck for workers. Still, observers say they have seen little drop-off in the popularity of such plans over the past year, despite the financial pressures of the recession.

"I think inertia is so powerful—just the tendency to go with what you have done," said Pamela Hess, director of retirement research at Lincolnshire, Ill.-based Hewitt Asso-

ciates Inc.

"It takes work to change what you're doing and everyone's busy. And I do think there are some people who don't know what to do and if I don't know what to do, I'm just going to keep doing what I'm doing because I don't want to make a mistake," Ms. Hess added.

One of the reasons the plans have become popular is their participation rate: In 401(k) plans that automatically enroll new hires, more than 90% of the eligible new employees participate, compared with between 60% and 70% of employees in tradi-

tional 401(k) plans, according to various consultants and observers. Experts say the participation rate for all of a company's workers often reaches 90% a few years after implementing automatic enrollment, because of turnover.

And those observers say that they have seen little change in that participation rate over the past year. About 91% of eligible employees participated in automatic enrollment 401(k) plans in 2007, 2008 and so far in 2009, said Michael Doshier, the Marlborough, Mass.-based vp of Fidelity Investments' workplace investing group.

Those figures do not include laid-off workers, but consultants say the consistent rate reflects how effective automatic enrollment plans are at retaining participants.

"Unless you are absolutely grasping for every cent you can get, I don't think people are looking at their 401(k) plan," said Robyn Credico, the Arlington, Va.-based national director of defined contribution plan consulting at Watson Wyatt Worldwide. "They're just leaving it alone."

The recession has prompted slightly more change by employers. Experts say they are not aware of any company that has ended its automatic enrollment plan, although some that were planning to implement them have opted to wait. Ms. Credico said only 1% of companies without automatic enrollment plans intend to add them in 2009, but another 32% are considering adding them in 2010 or beyond.

Still, some employers have reduced or suspended their matching contributions—10% of companies, according to PSCA and Fidelity. Experts say most companies plan to restore the contributions when the economy recovers, as happened in the early part of this decade when the economy also slid. But observers say the suspensions could

Continued on next page

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56.3%

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36%

According to PSCA, 36% of automatic enrollment plans in 2008 had an automatic escalation feature, compared with 32.8% in 2007.

CONTINUED FROM PREVIOUS PAGE

affect employee participation rates, although those rates have remained mostly unchanged so far. Many workers are passive and participate in automatic enrollment plans by default, they say.

"The inertia effect may be so powerful that (matching contributions) might not even matter," said Stephen Utkus, director of the Center for Retirement Research at Valley Forge, Pa.-based Vanguard Group Inc.

While inertia may keep workers saving, it may lead to problems later. Typically, an automatic enrollment plan starts workers at a 3% deferral rate, and often workers remain at that contribution level, which is not enough for most people to build sufficient retirement savings, experts say.

Employees who enroll in non-automatic 401(k) plans are more likely to defer at a higher level to earn the maximum matching contribution from their employer, said Amy Reynolds, a principal in the Richmond, Va., office of Mercer L.L.C.

Experts say informing the workforce about this issue is crucial.

"401(k) can't be static," said Delia Vetter, senior director of benefits and programs for EMC Corp. in Hopkinton, Mass. "You can't just auto-enroll (workers) and leave them alone. You need to constantly educate employees about the importance of planning for retirement." EMC began offering automatic enrollment in 2007.

Besides informing workers about retirement savings, another increasingly popular tool is a feature that automatically increases employee contributions in automatic-enrollment 401(k) plans each year.

Employees enrolled at a 3% deferral rate might automatically contribute 4% in their second year and 5% in their third year, up to a maximum deferral of 6%, under a typical automatic escalation feature.

The thinking behind this feature is that an employee's annual salary increase would mask the higher retirement plan contributions so that a typical paycheck would be the same size from year to year. In the current economic climate, workers are receiving fewer raises, but consultants say this feature continues to be popular. According to PSCA, 36% of automatic enrollment plans in 2008 had an automatic escalation feature, compared with 32.8% in 2007.

PSCA president David Wray said companies increasingly are designing automatic enrollment plans that start new participants at higher contribution levels. Vanguard's Mr. Utkus said his firm used to tell clients to aim to achieve a savings rate—employee deferrals plus employer matching contributions—equal to between 9% and 12% of pay, but last month increased that target to between 12% and 15% because of the stock market deterioration and long-term concerns such as accelerating health care costs.

Charlie Yovino, an Atlanta-based principal in the human resource services practice of consultant PricewaterhouseCoopers L.L.P., said automatic enrollment plans with automatic escalation features often

'You need to constantly educate employees about the importance of planning for retirement.'

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are not the cheapest way for companies to ensure workers are saving adequately for retirement.

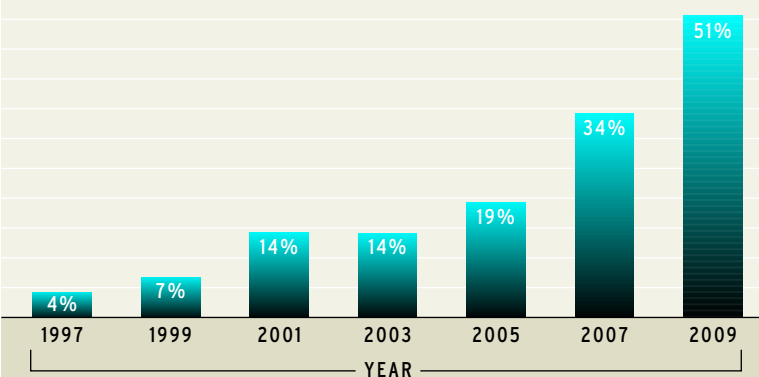
"I think a lot of employers perceived it as somewhat cost-neutral and I think it's starting to become a little more apparent that it's not a cost-neutral alternative," Mr. Yovino said.

Still, automatic enrollment remains a popular choice. A Mercer survey released earlier this month found that one-third of organizations that sponsor defined contribution retirement plans in 33 countries around the world use automatic enrollment. Also, one-third of the surveyed organizations automatically escalate employees' deferral level.

The next step for automatic enrollment 401(k) plans may be enrolling existing employees. Ms. Hess said that more companies would have applied automatic enrollment plans to current employees this year if not for the recession. About 80% of automatic enrollment 401(k) plans are limited to new hires, according to Vanguard.

ON THE RISE

How the percentage of employers offering an automatic enrollment feature in their 401(k) plans is increasing



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Sponsors considering annuity options in 401(k) plans

Interest growing, but employers urged to proceed cautiously

By LOUISE ESOLA

Poor investment returns that have hurt older workers' nest eggs, combined with a growing list of employers freezing or ending their defined benefit plans, have opened a window for annuities within 401(k) plans, experts say.

However, experts say employers

must carefully weigh whether to add annuities as an investment option.

"We're telling our clients that annuities are a good idea, just not right now," said Robyn Credico, Arlington, Va.-based national director of defined contribution plan consulting for Watson Wyatt Worldwide. "The products are complicated; the fees are too high; and a lot of people don't understand what exactly they are buying."

"Certainly over the last 12 months, there has been interest in the implementation of these prod-

ucts," said Matt Smith, Seattle-based senior vp and national defined contribution leader with Aon Consulting. "The thing that 401(k) plan sponsors are looking at right now is how to evaluate annuities."

Experts agree that employers and employees are looking for a better way to secure retirement cash vs. the defined contribution plan system that exposes employees' accounts to losses that could force older workers to delay retirement.

The 2009 American Dream Study by New York-based MetLife Inc. found that 80% of the 2,243 U.S.

residents surveyed are more concerned with stability and guarantees in retirement than returns.

Another study this year, Managing Defined Contribution Plans in the Current Environment by Watson Wyatt, found that 22% of 149 companies surveyed already offer an annuity option within their defined contribution plan and 10% are considering adding it.

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The types of 401(k)-linked annuities available to employers vary, all with the idea of allowing employees to use some of their pretax 401(k) allocations to purchase annuities that promise specific payouts after retirement.

Mr. Smith said that right now, however, the case isn't good for insurers marketing these products to defined contribution plan sponsors.

The Hewitt study found 40% of companies surveyed are not considering annuities, with 46% of those respondents saying it's too early in the development stage of the 401(k)-linked products for adoption. The Watson Wyatt study found that 26% of employers not considering annuities say the products are not satisfactory; 36% do not understand them; and 56% say they lack interest among participants.

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Fees at issue

However, he said the major hurdle that keeps Silgan from offering annuities to its 4,500 employees is the cost, upwards of five times the fees charged for mutual funds. "We all understand that we're buying a guarantee, but we think it's too steep," Mr. Cost said.

Another concern about annuities is giving a large amount of money upfront to an insurer that may not exist by the time an employee retires, he said. "We don't quite understand what happens if an insurance company goes belly-up," Mr. Cost said. "Who's going to back them up?"

Many states have safeguards in

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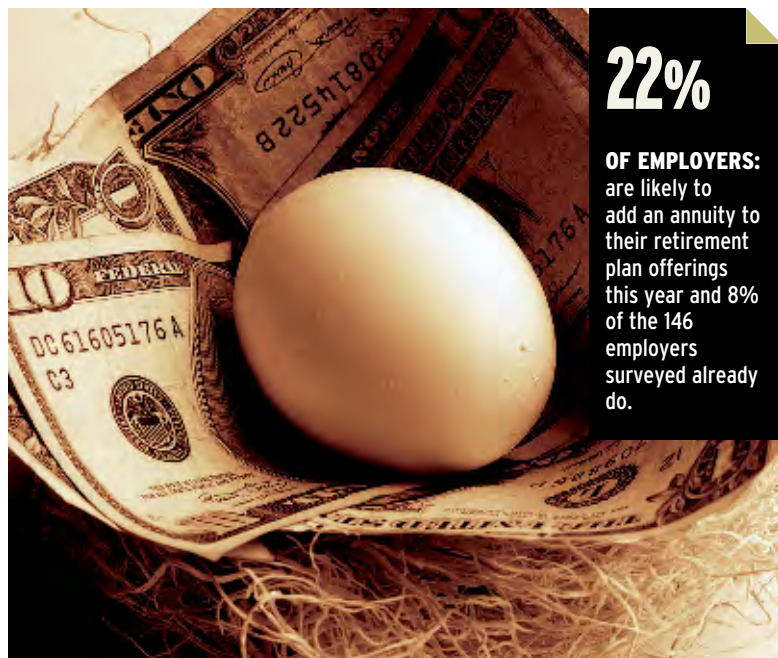


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22%

OF EMPLOYERS: are likely to add an annuity to their retirement plan offerings this year and 8% of the 146 employers surveyed already do.

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place for when insurers can't pay their obligations, but those systems haven't been tested when it comes to the long-term commitments associated with annuities, he said.

In addition, in buying an annuity, "you're really thinking about a 40- to 50-year relationship with a plan," Aon's Mr. Smith said. "That long-term aspect of a relationship brings into play the longevity of an (insurance) organization."

"Certainly, with the fall in the financial market, people are worried

about the viability of insurance companies," said Watson Wyatt's Ms. Credico.

Another hurdle for annuities is they are not portable like a 401(k) mutual fund that can be moved as workers change jobs, experts say.

Just as employers grappled with financial obligations associated with defined benefit pension plans that led many to move to defined contribution plans, many looked for ways to promise their workers a specific amount of retirement income. Annuities looked attractive, experts say.

Even with the negatives cited by surveys and experts, insurers "see a need (for a retirement income guarantee) and they are jumping in the game," Watson Wyatt's Ms. Credico said. "I guess it's a way for them to sell something and make money."

Group discount

Insurers acknowledge the products aren't cheap. But as with many insurance products offered through employers, the costs are considerably lower than annuities sold to individuals, they say.

"There is a substantial savings when you are looking at institutional pricing vs. individual pricing," said Fred Conley, Richmond, Va.-based president of the institutional retirement group for Genworth Financial Inc., which sells annuities to employers.

Plus, insurers say, the income guarantee is paramount, especially when soon-to-be retirees have seen their 401(k) plan balances dwindle.

"The current 401(k) system is not working entirely," said Bill Waldeck, Hartford, Conn.-based senior vp for pension risk management for Newark, N.J.-based Prudential Financial Inc., one of seven U.S. insurers offering annuities to employers as part of their defined contribution plans.

"The issue with (defined contribution) plans is if that money becomes the main source of retirement funds, employers worry that

their employees might not be able to retire when they want to. People lost money over the last year alone; their target-date (mutual) funds failed them," Mr. Waldeck said.

Jody Strakosch, New York-based director for strategic alliances at MetLife, argues that employers need to balance their concerns with the facts surrounding the retirement climate.

'What (employers) have been good at is telling people to save a pile of money. What they haven't been good at is helping people convert this into retirement income.'

Jody Strakosch, MetLife Inc.

"What (employers) have been good at is telling people to save a pile of money," Ms. Strakosch said. "What they haven't been good at is helping people convert this into retirement income. There's more interest in this because of the market downturn over the last few years. (Annuities) are better than

running out of money."

Insurers said an income guarantee is worth the expense.

"How do you define something as too expensive when you are talking about income for the rest of your life? How do you evaluate the cost? It's not an investment. It's an insurance product," said Ms. Strakosch.

"You are paying extra for a guarantee," said Mr. Waldeck. "What's that worth to you?"

Mr. Conley said the market downturn should be enough of a sell.

"We're making a promise to clients that we're going to pay no matter what the market does," Mr. Conley said. "Even if the funds go down, we're still writing checks."

Prudential's Mr. Waldeck said he's aware of the obstacles facing insurers marketing these products, but also said many employers are looking for ways to make defined contribution plans look more like their previous defined benefit plans.

"There is going to be much innovation here," Mr. Waldeck said. "A year from now, there will be a very different landscape" for annuities, about which he declined to elaborate.

"We're watching this closely," said Mr. Cost of Silgan Containers. "We're pretty sure that, as we watch this developing market, somebody is going to come out with a great product, that there will be more options. We want this security for our employees."

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Comings & Goings



ANGIE BROZNY

NEW JOB TITLE: Melbourne-Fla.-based associate for Dubraski & Associates Insurance Services L.L.C.

PREVIOUS POSITION: Stuart, Fla.-based vp with Evergreen Re, a division of Brown & Brown Inc.

GOALS FOR NEW POSITION: During my 20 years in the managed care industry, I have had the opportunity to gain varied experience and knowledge in many different areas of this specialized market. One of my goals for my new position would be to harness those experiences and use them to improve our clients' reinsurance programs as well as help Dubraski & Associates maintain and grow their leadership position. I would also like to share my experiences within our organization to improve upon processes as well as learn new skills to help myself grow as a leader in this niche industry.

INDUSTRY CHALLENGES: It appears the medical reinsurance market is beginning to harden. There have been recent changes and changes to come that will

reduce capacity. As a broker, we face the challenge of designing coverage for our clients that still meets their risk needs but that is still affordable. The market is also scrutinizing claims in such a way that brokers must be equipped to advocate for their clients, which means investing in experienced industry people to help guide their clients through the "claim maze." In my experience, Dubraski & Associates is further down that path than other brokers currently, and I look forward to adding to that expertise and helping them widen the gap.

FIRST MARKET EXPERIENCE: I used to work for a very large (management services organization) as the director of claims. They took on a very large-risk contract with a local payer (health plan) and were required to buy reinsurance. I was the only person in the organization who had any knowledge of reinsurance through previous employers and...was put in charge of negotiating the contract. I really enjoyed working with the broker and decided I wanted to be a part of that industry. It was not long after that contract was signed that I changed careers and began working for that broker.

Comings & Goings

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Quakes: Threat remains unpredictable

CONTINUED FROM PAGE 4

specific concern" regarding the danger of increased earthquake frequency along the Ring of Fire.

It's an area that "everyone closely monitors, and that is nothing new," he said of the recent quake activity. "Frequency is enormous in terms of earthquakes occurring along the Ring of Fire every year. There is an average of one magnitude 8 earthquake every year somewhere on the globe. And there is an 80% probability that it will be somewhere in this area."

"We're not getting nervous," said Michael Spranger, a Munich, Germany-based member of Munich Reinsurance Co.'s georisks research team. "If you look at the average annual number of earthquakes, so far it's not that unusual."

"Although earthquake predictability is a focal point of seismic research, we don't expect to be able to predict earthquakes in the near future," said Iwan Stalder, catastrophe perils manager at Zurich Financial Services Group in Zurich, Switzerland. "Hence, in the recent earthquakes along the Ring of Fire, we don't see a precursor of a very large quake, but rather a reminder that strong earthquakes in these areas can happen any time," he said in an e-mail.

Earthquake modelers and other experts agree quakes are unpredictable, but they also note that recent activity eventually could trigger more movement in some places.

Tizianna Rossetto, a lecturer in earthquake engineering at University College in London, agreed that the recent frequency of quakes is not a warning sign. "I don't think it's unusual activity in any way," she said.

There has been, however, a stress change in the Sunda trench in the wake of the recent quakes off Sumatra, Ms. Rossetto pointed out. "There are stresses building up; when and how big an earthquake there might be, we don't know. That's one of the problems of earthquake technology; we don't have the tools to make those predictions."

"Earthquake forecasting has been tried by many scientists, but the consensus is that earthquakes can't really be predicted," said Milan Simic, managing director at AIR Worldwide Ltd. in London. "On the other hand, patterns indicate that when one



The Pacific Ring of Fire is a nearly 25,000-mile arc of fault lines with frequent quakes and volcanic eruptions.

RECENT MASSIVE QUAKES

1. Samoa, American Samoa, Tonga
8.0 magnitude [SEPT. 29]
2. Padang, Sumatra, Indonesia
7.6 magnitude [SEPT. 30]
3. Sumatra
6.8 magnitude [OCT. 1]

Source: U.S. Geological Survey

RING OF FIRE

Vulnerability to earthquakes along the Ring of Fire can be measured by the specific geology of the area, density of insured exposure, the resiliency of structures and the relative size of economies, said Tom Larsen, senior vp at Oakland, Calif.-based catastrophe modeler EQECAT Inc.

Considering those parameters, Mr. Larsen identified some of the areas that could be affected heavily enough by a Ring of Fire quake to stress global insurance and reinsurance markets. Among those areas are the region from Shizuoka, Japan, to Tokyo; Taiwan; the San Francisco Bay area and Los Angeles; Mexico City; Santiago, Chile; Wellington and Auckland, New Zealand; and the Philippines.

Mr. Larsen pointed out that a large quake off the shore of Japan could produce significant damage as far away as Alaska, Hawaii, the U.S. West Coast and the Southern Hemisphere.

—By Michael Bradford

occurs along a fault, it puts stresses on the fault and others near it."

That's the case with the recent activity in Indonesia, said Mr. Simic. In fact, stresses began to build in 2004 west of Sumatra, after an offshore earthquake produced a massive, deadly tsunami in the region, he said.

"The risk in the region is greater

than we thought it was before the 2004 event," said Mr. Simic.

Property owners, meanwhile, are left to protect their assets as best as possible while continuing to face an unpredictable threat.

John Ludlow, London-based senior vp, risk management at InterContinental Hotels Group, said earthquakes always are a concern along the Ring of Fire. "Each hotel is aware of the risk" and accounts for it within its crisis plans, he said of his company's properties throughout the region.

"We buy our natural catastrophe coverage globally," Mr. Ludlow said. That means the hotel chain's coverage costs are driven not only by its earthquake exposure, but also by catastrophe risks it faces in other parts of the world, he said.

Mr. Bertogg of Swiss Re said there is plenty of capacity for quake risks worldwide. In Indonesia, the Philippines and other parts of Asia, "capacity at this time is nearly unlimited," he said.

Rates for residential earthquake insurance are, in general, comparatively stable over time, according to Mr. Bertogg, while commercial rates have historically fluctuated more significantly from year to year and depend more strongly on general economic conditions.

Earthquake insurance capacity in the region hit by the recent quakes is plentiful, Mr. Spranger agreed. "I wouldn't see capacity in Southeast Asia as the main problem there," he said.

InterContinental properties apparently escaped the recent quakes in good shape, Mr. Ludlow said. "There is no obvious damage. The hotels are doing post-quake evaluations and are looking for cracks."

Sources said insured damage from the recent Pacific quakes have been low because much of the residential property is uninsured.

"Certainly well under \$1 billion," Mr. Simic said of the insured damage. Anything over that amount would begin to cause some concern among insurers and reinsurers, he said.

"Overall, from an industry perspective, it's probably obvious to everyone that these are not areas that are highly insured," said Mr. Bertogg. Even though the human tragedy has been significant in the recent quakes, insured losses have not been heavy, he said.

Exchange: New N.Y. leader likes predecessor's idea

CONTINUED FROM PAGE 1

again, particularly with the new superintendent coming in and reviewing what's going on in the department (and) industry and setting the priorities for things he really wants to put his energies behind," Mr. Gaul said.

Mr. Wrynn is evaluating a list of industry officials to form a potential advisory committee on the issue, Mr. Gaul said. The department planned to form such a committee late last year, but industry officials were reluctant to participate because of more pressing priorities, Mr. Gaul said. But reviving the exchange will need industry leadership to succeed, he said.

"It's something that needs to be industry-driven—we can provide the framework, but, ultimately, the industry needs to step up and want to do this," he said. "This is something former Superintendent Dinallo had said publicly that I know Superintendent Wrynn agrees with."

The Insurance Department has been talking with local, state and federal government officials about the idea. The exchange may need favorable tax treatment to compete with offshore reinsurers in Bermuda, Ireland and elsewhere, Mr. Gaul said. Department officials also have discussed the idea of reviving the exchange with industry representatives, and their reaction has been positive but somewhat reluctant, Mr. Gaul said.

James Veach, an insurance attorney with Mound Cotton Wollan & Greengrass in New York, said the time is right for the idea, given the Obama administration's stated interest in stimulating the economy and combating offshore tax havens.

"With throwing billions of dollars here and there...now's the time to invest a little bit in something that would translate into visible jobs," Mr. Veach said. Operating costs in Bermuda and other offshore areas are high, and a new exchange that offered a comparable marketplace and tax treatment based in New York would be attractive to insurers and reinsurers, he said.

But Steven K. Bolland, president of New York-based intermediary Gill & Roeser Inc., said he did not think

a revived exchange would work.

"Basically, we're in a very soft market for insurance and reinsurance, and the need for another market would not appear to be apparent," he said.

Mr. Bolland, who brokered business at the original NYIE for Sten-Re Cole Inc., said one of the problems was high operating costs for participating companies. He said Lloyd's of London also is very expensive but insurers and reinsurers participate because it offers distinct advantages, such as large amounts of capital, a diverse breadth of products, the prestige of the institution, a high credit rating, and wide licensing for participants. The NYIE did not have those advantages, he said.

Mr. Bolland said changes since

'Basically, we're in a very soft market for insurance and reinsurance, and the need for another market would not appear to be apparent.'

Steven K. Bolland, Gill & Roeser Inc.

the 1980s have made the exchange and its relatively small syndicates less viable. Reinsurers now need about \$1 billion in surplus capital to be widely accepted, and a startup exchange would not attract that level of capital, he said.

Since Mr. Dinallo first floated the idea in early 2008, the insurance industry and global economy have been hit by the credit crisis and the global financial crisis. But Mr. Gaul of the Insurance Department said such events have made industry, government officials and policyholders, in many cases, more interested in financial exchanges.

"If anything, I think the type of transparency and capital requirements that an exchange could put into place for large commercial risks and reinsurance would probably be viewed as a positive in light of everything that has happened over the last couple years," Mr. Gaul said.

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Block: Europe to revise insurer competition exemptions

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"From there, it may follow that there are some readjustments of pools and the way they operate."

The EC recommends the exemption remain in place to allow insurers to share joint compilations (previously described by the EC as calculations), tables and studies, but with a change that could cause problems for the marketplace, Mr. Vidonja said. The EC wants to make those compilations available to third parties such as consumer organizations and individual consumers. Some of those third parties may

'It is comforting to have an exemption, but our hope is that the insurance market won't be overly cautious.'

Paul Hopkin,
Assn. of Insurance and Risk Managers

not be able to properly interpret the information, Mr. Vidonja said. "If wrong conclusions go into the press, it could damage the reputation of insurers and reinsurers," he said.

Large insurers would likely stop cooperating with other companies under such a change and rely instead on their own data to analyze risks, said Mr. Vidonja. That could hurt smaller insurers that rely on that information because they do not have the resources to develop it themselves, he said. Having an exemption in place for sharing joint compilations is important for the Lloyd's of London subscription market, said Mr. Hopkin. "We believe this allows it to work more effectively," he said of the exemption.

The EC's proposal to allow the exemption to expire as it relates to

developing and distributing standard policy conditions for direct insurance has led some market sources to complain that insurers no longer will feel comfortable sharing that information, to the detriment of policyholders who need coverage written by multiple insurers that collaborate on coverage clauses.

Mr. Hopkin said he hopes insurers will continue the practice even without the legal certainty of an exemption from anti-competition laws.

"It is comforting to have an exemption," he said, "but our hope is that the insurance market won't be overly cautious."

Reform bill may lead to more incentives

WASHINGTON—A health reform bill passed last week by the Senate Finance Committee would allow employers to offer more generous incentives to encourage their employees to improve their health status through participation in wellness and disease-management programs.

The Health Insurance Portability and Accountability Act of 1996 permits wellness and disease management programs to offer such financial incentives as premium discounts or rebates or waivers of deductibles, copayments or coinsurance for partici-

pants who meet a particular health standard, such as stopping the use of tobacco products.

Final regulations jointly issued by the Departments of Treasury, Health and Human Services and Labor generally cap that reward at 20% of employee-only premiums, but also provide protections for plan participants who cannot meet the applicable standard due to a pre-existing medical condition or because it is medically inadvisable to do so.

If enacted, the health reform measure passed by the Senate Finance Committee would raise

the cap on the value of those rewards to 30% of employee-only coverage, as long as the wellness program complies with other federal nondiscrimination rules.

It also would allow the Secretaries of Health and Human Services, Department of Labor and the Department of the Treasury the discretion to increase the percentage to up to 50% for adherence to or participation in "a reasonably designed program of health promotion and disease prevention."

—By Joanne Wojcik

Enrollment: Risky employees could pay

CONTINUED FROM PAGE 1

discount, now in its third year, grew from \$30 per month in 2008 to \$55 this year, said Raymond Brusca, vp of benefits at the Towson, Md.-based tool manufacturer.

While sizable, Black & Decker's incentive still is less than 20% of the cost of employee-only coverage, a cap set by the Treasury, Health and Human Services, and Labor Departments under regulations implementing the Health Insurance Portability and Accountability Act, Mr. Brusca said.

Whether those applied by the Illinois division of American Federation of State, County and Municipal Employees are within allowable limits, though, is subject to debate.

For the past two years, the union's 170-member Chicago-based staff has had a choice between two health plans: a "health-improvement plan" that provides 90% of coverage for in-network services above a \$250 deductible for individuals and \$500 for families, and 80% out-of-network coverage above a \$500 individual and \$1,000 family deductible; or a "standard plan" that provides 80% in-network coverage and 70% out-of-network coverage above deductibles that are double the health-improvement plan. In addition, the standard plan's out-of-pocket maximum is twice that of the health-improvement plan, with a lifetime limit that is half the health-improvement plan.

To qualify for the richer plan, employees and dependents must agree to annual biometric screening, complete a health risk assessment, and meet with a nurse-coach



At Black & Decker Corp., employees and dependents who certify in an honor system that they have been tobacco free for at least six months will pay \$75 less per month for their medical and dental coverage in 2010.

to address any identified health risks. Employees who qualify for the health-improvement plan pay nothing for coverage for themselves and 1.5% of salary for dependent coverage. Healthy employees and those who wish to improve their health also qualify for this option.

However, if those covered decline biometric testing, refuse to give up smoking or address other health risks, they must enroll in the standard plan, for which they pay 1.5% of salary for themselves and another 3% of salary for dependent coverage.

Although annual enrollment takes place each fall, individuals who violate the health-improvement plan rules during the year are demoted to the standard plan.

Bob Gorsky, president and senior consultant at HPN Worldwide Inc. in Elmhurst, Ill., which manages the AFSCME plan, said even though the incentives can be more than 20% of individual coverage, this dual-plan approach is permissible under federal law.

The Employee Retirement Income Security Act "already has precedent set where people are paying more than 20% (more) if they don't comply with plan rules, such as by going out of network or not getting precertification when required. This could be applied for noncompliance with expected actions, such as screenings," Mr. Gorsky said.

Hank Scheff, director of employee benefits for the Illinois division of AFSCME, said the plan is not subject to HIPAA's 20% threshold because "we do not require plan members to achieve a certain outcome." For example, if an individual is having a hard time quitting smoking, they need only to participate in a smoking cessation program, he said.

Two-tier plan shifts costs to higher-risk individuals

CHARLOTTE, N.C.—North Carolina State Employees Health Plan will begin offering employees a two-tiered health plan arrangement beginning in July 2010 that offers greater coverage for healthy individuals than for those who choose to ignore any health risks.

Under the North Carolina plan rules, employees and covered dependents who don't use tobacco or who are enrolled in a smoking cessation program will be permitted to enroll in a health plan that provides 80% in-network coverage. Employees who use tobacco and are not trying to quit will be required to enroll in a plan that provides only 70% coverage.

The program becomes a bit more onerous in 2011, when individuals and covered dependents that have a body mass index of 40 or higher will be required to enroll in the 70% plan unless they agree to try to lose weight. The threshold drops to a BMI of 35 in 2012.

To enforce the program, the health plan will conduct random blood tests among employees to identify the presence of tobacco and perform random weigh-ins to ensure that plan members are trying to keep their weight in check.

"The whole object of the plan is to help our employees succeed in becoming more healthy," said Lacey Barnes,

deputy executive director of the North Carolina State Employees Health Plan.

The program is similar to a worksite wellness model that is being conducted in Alabama that was designed to encourage more employees to participate in health screenings, according to William Ashmore, executive director of the Alabama State Employees Insurance Board.

Under Alabama's program, state employees receive \$25 off their \$70 monthly premium contribution if they undergo health screenings, and another \$30 if they don't use tobacco.

About 32,000 of the state's 37,000 eligible employees have been screened since the incentives were introduced this year, according to Mr. Ashmore. This compares with just 8,000 the year before.

North Carolina's program, which was created through state legislation enacted in April 2009, will encompass 660,000 individuals who are enrolled in the state's employee health plan, which covers state workers, public school teachers and the employees of some North Carolina municipalities.

Employees are not required to contribute to the cost of individual coverage but pay 100% of the premiums for dependent coverage, which will be lower in the 70/30 plan, Ms. Barnes said.

—By Joanne Wojcik

"It is aggressive at the point of enrollment," he said. "But once we get people into the system, we're trying to help them. If they fail, we don't whack them. We ask them to try again." On the other hand, "if they sign up for a smoking cessation program and they don't attend, they get moved" to the standard plan, Mr. Scheff said.

"To say 'this program only requires a person to participate in a smoking cessation program and therefore is merely participation-based' misses the mark," said Edward Fensholt, senior vp and director of compliance services at Lockton Cos. L.L.C. in Kansas City, Mo.

"The person is being targeted for disparate treatment at the outset due to tobacco usage. The key is that if he doesn't want to participate, he'll pay the higher premium cost. This makes the program subject to the 20% rule in my view, and it makes it different from a voluntary biometric screen for which the employer awards incentives simply for participation," Mr. Fensholt said.

Sharon Cohen, group and health care benefits counsel at Watson Wyatt Worldwide in Arlington, Va., suggested such an aggressive approach could violate ERISA because certain employees can be seen as being denied benefits.

Bias: Proposed age discrimination law likely to impact employers

CONTINUED FROM PAGE 3

Observers noted the Supreme Court ruling came as a surprise to lawyers on both sides of the issue.

"Prior to the Supreme Court ruling, most people kind of assumed that the legal framework would be what this legislation proposes," said Philip K. Miles III, an associate with State College, Pa.-based McQuaide Blasko Attorneys at Law.

If permitted to stand, the Supreme Court's ruling will help employers in mixed-motive cases,

which account for a minority of age discrimination cases, observers say.

Even if the employee establishes age discrimination was a factor in an adverse job action, "the employer could say, 'We would have taken this action anyway'" for other reasons. It puts a higher burden of proof on employees, Mr. Miles said of the ruling.

As a result, the ruling would make it easier for employers to win summary judgment in some cases, said Neal Mollen, a partner with law

firm Paul, Hastings Janofsky & Walter L.L.P. in Washington.

"I think you'll see there will be more cases where an employer prevails on summary judgment than you have seen before *Gross*," Mr. Mollen said. This is true, though, only for cases that are "at the margin," where "the evidence is close" and standards of proof make a difference, he said.

It is not likely to have any effect in cases that go to a jury, Mr. Mollen said. "Juries tend not to pay huge amounts of attention to

instructions on the burden of proof," he said.

But if the legislation becomes law, "the standards of proof are going to swing back in a much more pro-plaintiff way," said Franklyn C. Steinberg III, a principal with Somerville, N.J.-based Steinberg Law Offices.

Mr. Steinberg recommended that, pending the legislation's expected passage, "now would be a good time to think about getting cases either settled or maybe disposed of on motion."

Mr. Mollen agreed. "I definitely think that it's wise for employers to see what they can do to dispose of their cases now, while the Supreme Court's rule is still in effect."

Meanwhile, Jeffrey D. Polsky, a partner with law firm Fox Rothschild L.L.P. in San Francisco, said, "I don't think (the legislation) changes anything in terms of what employers need to do. As always, they need to make sure that they can show a legitimate, nondiscriminatory basis for any adverse employment decision."

Reform: Mandates at issue for employers, individuals

CONTINUED FROM PAGE 1

While not in favor of all the bill's provisions, Sen. Snowe said the status quo is unacceptable and she wants to see the reform drive continue.

"I happen to think that the consequences of inaction dictate the urgency of Congress to take every opportunity to demonstrate its capacity to solve" one of the monumental issues of our time, Sen. Snowe said. She emphasized that her vote in favor of the Finance Committee bill should not be interpreted as a sign of how she will vote on the Senate floor.

"My vote today is my vote today. It doesn't forecast what my vote will be tomorrow," the senator told panel members. Still, Sen. Snowe, whose support President Obama courted, became the first Republican to break party ranks and vote for health care reform legislation since the current reform drive began.

By the end of the month, the full Senate will take up a compromise reform bill with central provisions that include federal health insurance premium subsidies for the low-income uninsured and reform of the individual lines markets. Senate Democratic leaders will fashion one bill from the different measures approved by the Senate Finance Committee and the Senate Health, Education, Labor and Pensions Committee (see box).

"A chapter has been closed, but the full story has yet to play out," said Paul Dennett, senior vp-health care reform at the American Benefits Council in Washington.

"A milestone was reached, but

there are obstacles ahead yet to be overcome," said Frank McArdle, a consultant in the Washington office of Hewitt Associates Inc.

Contention is expected on the Senate floor on issues such as whether the legislation should include a public option—a government-run health insurance plan to compete against private insurers, an employer mandate and the strength of an individual mandate.

"There are going to be some flash-point issues," said Helen Darling, president of the National Business Group on Health in Washington.

The individual mandate already has set off fireworks. In his original measure, Sen. Baucus proposed penalties as high as \$3,800 a year for those who did not enroll in a health care plan. The penalty would not apply to those who could prove that affordable coverage—health insurance plans for which premiums do not exceed 10% of income—is not available. Sen. Baucus later slashed that maximum penalty to \$1,900.

Finance Committee members, though, approved amendments to delay and drastically reduce the penalties.

In 2013, the first year much of the legislation would go into effect, there would be no penalty. In 2014, the penalty would be \$200 for each adult without coverage; in 2015, \$400; in 2016, \$600; and in 2017, \$750. As a comparison, Massachusetts' 2006 health care reform law carries a maximum for each adult without coverage of just over \$1,000 for 2009.

In addition, under the Finance Committee bill, a penalty would not be imposed for coverage lapses of less

BATTLE LINES DRAWN

In preparing a compromise health care reform bill for floor debate, Senate Democratic leaders will have to resolve differences in measures passed by the Finance Committee and the Health, Education, Labor and Pensions Committee.

EXCISE TAX

- **FINANCE:** 40% excise tax on insurers and third-party administrators for annual premiums exceeding \$8,000 for individuals and \$21,000 for families effective 2013. Triggers for plans covering early retirees and workers in certain high-risk professions would be higher.
- **HELP:** No provision

FLEXIBLE SPENDING ACCOUNTS

- **FINANCE:** \$2,500 annual limit on FSA contributions.
- **HELP:** No provision

EMPLOYER MANDATE

- **FINANCE:** No provision
- **HELP:** For more than 25 employees, \$750 annual employer assessment per full-time employee and \$375 per part-time employee not enrolled in a health care plan.

COVERED LIVES ASSESSMENT

- **FINANCE:** Special employer assessment if health insurance premiums exceed 10% of lower-paid employees' income and workers get premium subsidies through state health insurance exchanges.
- **HELP:** No provision

PUBLIC OPTION

- **FINANCE:** No provision
- **HELP:** Establish government-run health plan to compete with private insurers.

RETIREE PRESCRIPTION SUBSIDY

- **FINANCE:** Federal subsidy to employers offering retiree prescription drug coverage equal to Medicare Part D would become taxable.
- **HELP:** No provision

than three months, and the penalty would not be assessed if the cost of available health insurance coverage exceeds 8% of income compared with 10% in the original bill.

Business groups said gutting the individual mandate could send health insurance premiums spiraling and defeat a key goal of the reform legislation: easing the rate of health care cost increases.

Without a relatively stiff mandate, individuals in good health would be less likely to purchase coverage. That would saddle insurers with a risk pool heavily weighted with big users of medical services. This is due to other provisions in the legislation that would prevent insurers in the

personal lines market from denying coverage, as they now can, for those with pre-existing medical conditions, observers say.

"You are going to have tremendous adverse risk selection," said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

That adverse risk selection ultimately would lead to higher premiums, making coverage even less affordable and potentially forcing insurers to boost rates in the group market to make up for those losses.

In addition, without a meaningful penalty, healthy individuals might wait until they have medical problems before getting coverage, Mr. Dennett said. If those problems end,

the individuals might then decide to drop coverage.

If that scenario were to develop, loading down the individual market with the highest-cost risks could cause the market to collapse, Mr. Dennett said.

"You are talking about a crash-and-burn" scenario, Ms. Darling said.

But the issue is far from settled and an intense Senate debate is expected.

"This is an issue that certainly will be revisited," Mr. McArdle said.

Plenty of other issues will come up as well. Public option plan advocates have said that if the bill combining elements of the Finance and HELP committees' bills does not include the public option, they will try to win approval on the Senate floor.

In addition, Sen. John Kerry, D-Mass., has said he will try to win approval of a mandate that employers offer coverage or pay a penalty.

Efforts also are expected to ease an excise tax on the costliest health insurance plans. Under the Finance Committee bill, a 40% excise tax would be imposed on group health insurance premiums that exceed \$8,000 a year for individual coverage and \$21,000 for family coverage. The cost threshold for triggering the tax would be somewhat higher for plans covering early retirees and employees in certain high-risk professions.

The threshold amounts, which start in 2013, would rise in tandem in succeeding years to match the rise in the Consumer Price Index for urban areas, plus one percentage point. With medical inflation rising far faster than the overall CPI, which in fact fell slightly over the last 12 months, the tax over time would apply to more health care plans.

For employers, "It is a kind of ticking time bomb," said Steve Raetzman, a Watson Wyatt Worldwide senior consultant in Arlington, Va.

AIG: Will future sales also result in losses?

CONTINUED FROM PAGE 3

Corp. in New York, said the sale may be an indication about future asset sales. "We may see the same thing, which implies to me that asset valuations may be too high" on AIG's books, she said.

Mr. Newsome said he also believes AIG will sell more assets for less than book value, "because the financial market is recovered, but it's still far from perfect," and selling a lot of insurance assets in a difficult market means "you're going to end up having them sold for relatively little money."

On the other hand, Ms. Seifert said the recent narrowing of credit spreads "will help the valuation of the assets on their books."

An AIG spokeswoman declined to comment.

Meanwhile, in testimony before the House Oversight and Government Reform Committee, TARP Special Inspector General Neil M. Barofsky said the Treasury Department paid "scant attention" to AIG's compensation structure, which involved 620 corporate and business unit programs, after the federal government rescued the company last fall, and relied instead

on information from the Federal Reserve Bank of New York that was focused on AIG repaying the government assistance.

In fact, Treasury Department officials did not know the magnitude of the retention payments that would be paid to employees of AIG Financial Products Corp., which was blamed for the company's near-collapse,

The recent narrowing of credit spreads 'will help the valuation of the assets on their books.'

Cathy Seifert, Standard & Poor's Corp.

lapse, until two weeks before the March payout, Mr. Barofsky said.

Virtually everyone at the unit received retention awards, Mr. Barofsky said in the report, which noted that even a kitchen assistant was paid a \$7,700 retention bonus.

Distribution of the retention bonuses—of which about \$168 million was paid in March with an additional \$198 million to be paid

next March—prompted an uproar among lawmakers, who demanded the funds be paid back. About \$69 million already was repaid by late last year.

Mr. Barofsky told the House panel that the payments were not subject to compensation restrictions because they were made possible by agreements in place before Feb. 11.

He noted that Kenneth Feinberg—the special master charged with overseeing executive compensation at AIG and other major TARP recipients—has been attempting to recover \$45 million paid to the most highly compensated executives, but AIG management has said reclaiming the entire amount would be difficult because many employees who originally received retention awards have left the company. A little more than \$19 million was as of Aug. 31, according to Mr. Barofsky's report.

In his report, Mr. Barofsky said Mr. Feinberg "has informed AIG management that the total should be reduced," but added that Mr. Feinberg's office "has not indicated by how much this amount is to be reduced."

"We're certainly all hopeful AIG will follow his recommendations," Mr. Barofsky told the House panel.

Cat bonds: Interest grows

CONTINUED FROM PAGE 3

issuers on the sidelines, but has softened since then. "Insurers that were not inclined to issue during the first two quarters of 2009 because of pricing concerns" are likely to return to the market, Chi Hum, global head of distribution at GC Securities Ltd. in New York, said in a statement.

Cat bond spreads, which determine the price for issuers, have "tightened dramatically," resulting in lower prices but some investors said they do not expect prices to drop much more in the fourth quarter.

Recovery in the broader financial markets, increasing investor capacity, also is fueling the sector.

"There is currently more investors and more capital to put to work than we have had in a long time," said Paul Schultz, president of Chicago-based Aon Capital Markets. The group of catastrophe bond investors is expanding beyond hedge funds and dedicated insurance-linked securities to pension funds and other institutional investors that have been "given the green light" to allocate a certain amount of money to the asset class, Mr. Seo said.

In addition, some \$660 million in

existing bonds are set to mature in the fourth quarter, with an additional \$518 million in January 2010. Guy Carpenter said this is expected to further fuel the sector.

A relatively quiet 2009 Atlantic hurricane season also has made cat bonds attractive, observers say.

The sector had 11 transactions so far this year, bringing year-to-date issuance to \$1.79 billion, Guy Carpenter said. The latest deal—a \$290 million dollar cat bond placed by the government of Mexico and backed by Swiss Reinsurance Co.—is one of three cat bonds that increased their size due to strong investor demand. MultiCat Mexico 2009 Ltd. covers Mexico's natural catastrophe fund and is expected to close this month.

Third-quarter activity saw two deals close. In July, New York-based Swiss Reinsurance America Corp. placed its \$200 million Parkton Re Ltd. bond for North Carolina and barrier island hurricane losses; and Germany-based Hannover Re placed a €150 million (\$213.2 million) bond Eurus II Ltd., covering windstorms in seven European countries. Strong investor demand boosted both bonds past their original size and pricing was much lower than expected earlier.

News In Brief

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a relatively light second quarter as litigation targeted more nonfinancial firms, Advisen Ltd. said. Some 169 securities lawsuits were filed during the third quarter, up 11% over the second quarter—when such litigation declined temporarily—but below the 249 suits filed in the first quarter of 2009, according to Advisen's quarterly report on securities filings. Third-quarter action targeted more firms outside the financial services sector and securities lawsuits will continue to spread to other sectors, the report said.

Runoff association seeks to speed claims resolution

A new dispute resolution procedure developed by the Assn. of Insurance & Reinsurance Run-Off Cos. is expected to help streamline resolution of disputed claims, according to the association. The procedure is an expedited form of binding arbitration designed for small and less-complicated claims, AIRROC Chief Executive Officer and Director Trish Getty said in a statement. Core elements of the DRP include a single arbitrator, discounted fee structure, and no discovery or hearing testimony without parties' consent. After the close of evidence, the arbitrator must issue a decision within 30 days, Ms. Getty said.

AXIS notes losses, derivative exposure

AXIS Capital Holdings Ltd. said it will report an increase of about \$136 million in the fair-value liability of an indemnity derivative contract that is exposed to longevity risk when it releases its third-quarter earnings Nov. 3. The company said the increase in liability, which is expected to be reported within "other insurance-related loss," is the result of unfavorable longevity experience in the life settlements portfolio underlying this contract. The Pembroke-based insurer and reinsurer also said it expects to incur about \$260 million in other-than-temporary impairment losses in its fixed maturity investment portfolio. Rating agency Standard & Poor's Corp. in New York said in a statement that the announcement will have no impact on the A- ratings of AXIS and its related operating subsidiaries.

Retirement plan caps remain flat for 2010

The maximum contribution that can be made to 401(k) and other defined contribution plans, and the maximum benefit that can be funded through defined benefit plans will hold even in 2010, an Obama administration official and the Internal Revenue Service said last week. The maximum annual contribution an employee can make through salary reduction to a 401(k) plan will remain at \$16,500 in 2010, while the maximum contribution to defined contribution plans will remain at \$49,000 per participant. This includes employer contributions. The maximum annual benefit that can be funded through a defined benefit plan next year will remain at \$195,000, while the amount of employee compensation that can be considered in calculating pension benefits and contributions to defined contribution plans will remain at \$245,000.

Florida cuts comp rates

Florida Insurance Commissioner Kevin McCarty has approved a decrease averaging 6.8% for workers compensation insurance rates effective Jan. 1, 2010. The decrease will result in \$166 million in annual savings on premiums for Florida employers and is the seventh consecutive reduction in workers comp rates, the commissioner said in a statement. Average workers comp premiums in Florida will be 63.2% lower than they were before the state adopted reforms in 2003, the commissioner said.

RGA to buy ReliaStar's U.S., Canadian business

Reinsurance Group of America Inc. said it reached an agreement with ReliaStar Life Insurance Co. to acquire its U.S. and Canadian group life, accident and health reinsurance business. The deal—which has a Jan. 1, 2010, effective date but is subject to regulatory approval—is to be structured as an indemnity coinsurance agreement. RGA said it will fund the acquisition with existing capital but did not disclose specific terms of the agreement. ReliaStar is a subsidiary of Amsterdam, Netherlands-based ING Groep N.V.

Noted

California Gov. Arnold Schwarzenegger has signed into law a bill that recognizes **same-sex marriages** entered into in other states. The California House on Sept. 3 passed S.B. 54 and the state Senate did the same Sept. 9.

NAPSLO: Surplus lines to remain soft

CONTINUED FROM PAGE 4

ers going out of the market."

He also said the trend of more business being written by traditional insurers has thrown some in the surplus lines industry "a bit of a curveball."

James Drinkwater, New York-based president of AmWINS Brokerage, a division of AmWINS Group Inc., was more definitive of what needs to happen to firm E&S pricing.

"It's going to take a \$50 billion event to turn this market around," Mr. Drinkwater said.

That event could have been the fall of AIG. Some insurers and brokers agree that, had AIG collapsed last year, the market would have been dramatically different. Some said the government's bailout of the financially troubled holding company added pricing pressure. AIG's property/casualty units are now known as Chartis Inc.

"They are underpricing to stay alive," said Alan Jay Kaufman, chairman, president and chief executive officer of Farmington, Mich.-based Burns & Wilcox Ltd. "They still have capacity and are stabilizing. They also write direct wholesale and retail business."

While such assertions have been made previously, AIG has denied underpricing business it writes, and a March report by the Government Accountability Office concluded there was no evidence that AIG used federal bailout money to undercut competitors' prices.

Mark Lyons, New York-based chairman and CEO of Arch Insurance Group, had a slightly different take on the effect that AIG's collapse would have had on the surplus lines market.

While he said the market would have adjusted and absorbed the risks from the fallout of AIG, he doesn't think it would have had the dramatic effect some brokers or

insurers expected.

"True, demand upon the industry would have come with a fire hose effect, but this is a resilient industry and, after a short time of stress, producers, insurers and customers would have adjusted," Mr. Lyons said in an e-mail. "I do believe that the bailout has increased competition in the marketplace at a time when the industry could least afford it."

Peter J. Eastwood, president and

"The market will change," Mr. Trimble said. "The market will turn and we will need to ride that wave until it does. We are going to focus on small- and middle-market entrepreneurs as our clients and focus on niche underwriting and coverages."

Meanwhile, some say that, although economic conditions present acquisition opportunities for some surplus lines companies, scarce capital continues to hold back consolidation activity in that sector.

Deals likely?

With the excess and surplus lines insurance industry in a soft market cycle and firms facing pressure from continued downward pricing, the time to buy in the market is now, some wholesale brokers maintain. The question, they add, is how many brokers or insurers have the capital available to acquire smaller firms—and whether those acquisitions will pay dividends when the market recovers.

"Some of the top wholesale brokers have debt," said Tim Larocca, Chicago-based chairman of Colemont Insurance Brokers' casualty and transportation units.

"The opportunities to take over mid-sized and smaller brokerages may be there, but it's likely they just don't have the capital to do it right now. But this is the time of the cycle to buy if it's possible," he said.

Burns & Wilcox's Mr. Kaufman said acquisitions are likely in the surplus lines industry.

"There will be a turn of ownership at some organizations," he said, due in part to pressures from the soft cycle and economic downturn. "The consolidation of people and resources can give a company a lot of ability in this market," Mr. Kaufman said. "I think it's a great time to make acquisitions at the wholesale level."

Almost 3,000 flock to Orlando for NAPSLO conference

ORLANDO, Fla.—The National Assn. of Professional Surplus Lines Offices Ltd. drew more than 2,800 individuals to its annual conference. The gathering was held Oct. 7-10 at the Marriott Orlando World Center Resort in Orlando, Fla.

Next year's conference is slated for Oct. 11-14, 2010, in Atlanta. For more information on NAPSLO and upcoming events, visit www.napslo.org.

—By Jeff Casale

CEO of Boston-based Lexington Insurance Co., said the insurer is not taking on any more or less risk than it did a year ago and that Lexington has worked to differentiate itself from other excess casualty and specialty insurers. He added that until the economy improves, uncertainty will remain.

Lincoln Trimble Jr., senior vp of Torus Specialty's U.S. excess casualty unit, said opportunities still exist and he thinks Torus will be able to provide coverage in niche areas such as environmental and nanotechnology.

Docs warned of data risk in theft of laptop

By JOANNE WOJCIK

CHICAGO—The American Medical Assn. is warning physicians across the country about the possibility that their personal information could be stolen as a result of a theft of a laptop from the car of a Blue Cross & Blue Shield Assn. employee.

A spokesman for the Chicago-based BCBSA said an employee "broke protocol and transferred to a

personal laptop" personal physician information such as names, addresses and provider identification numbers from a provider data repository that is used by insurers to pay doctors.

The spokesman said the laptop was stolen from a car that was among several other vehicles vandalized in Chicago in August.

Since learning of the theft, the Chicago-based AMA has been alerting physicians about the theft.

While "there is no reason to believe that the thief intends to commit identity theft" because of the nature of the burglary, the insurer is offering credit-monitoring services to providers whose Social Security numbers were exposed, AMA President James Rohack said in a statement distributed to physicians.

No patient information was contained in the database, according to BCBSA.



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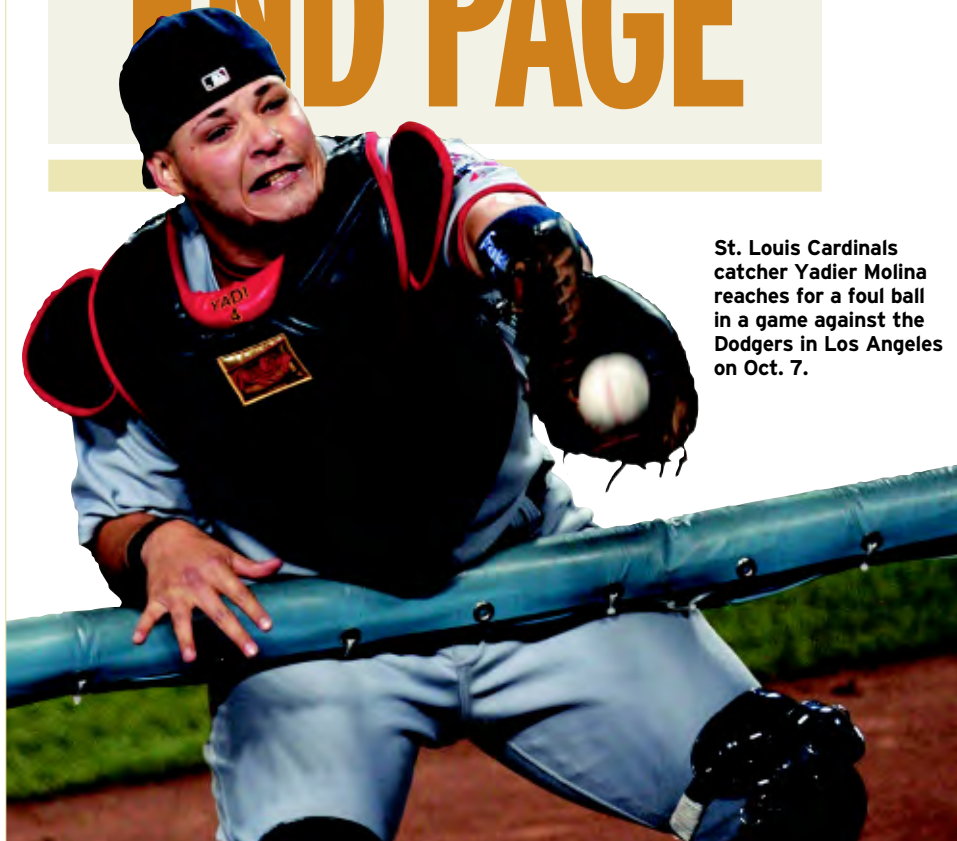
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St. Louis Cardinals catcher Yadier Molina reaches for a foul ball in a game against the Dodgers in Los Angeles on Oct. 7.

REUTERS/LANDOV

Player catches heat over signing blowoff

With the St. Louis Cardinals eliminated from the postseason, catcher Yadier Molina will have plenty of time to sign autographs, or at least defend himself in a lawsuit that asserts he never showed up for scheduled signing sessions.

Steiner Sports Marketing Inc. last week sued Mr. Molina, accusing him of violating his contract with the New Rochelle, N.Y.-based sports memorabilia company by failing to attend and sign autographs at scheduled appearances.

The suit, filed in New York

Supreme Court in Manhattan, seeks damages in excess of \$175,000.

According to court documents, Steiner paid Mr. Molina \$90,660 in advance when renewing his contract in July 2008. However, Mr. Molina allegedly refused to attend autograph signings and would not return the money.

"He thought he could just blow us off," Brandon Steiner, chief executive officer of Steiner, told the Associated Press.

Mr. Molina's agent reportedly said his client did nothing wrong.

Contributing: Jeff Casale, Judy Greenwald, Sally Roberts

DRESS CODES ARE VIRTUALLY EVERYWHERE

Employees will have more to worry about than how they dress for and behave at work: Their avatar's appearance and behavior also will be an issue because of how it reflects on their employer, a research firm says.

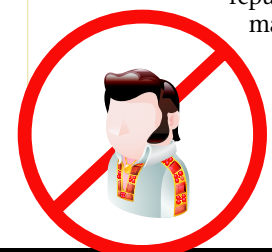
Avatars are the online representation of people in a virtual world.

By 2013, Stamford, Conn.-based information technology researcher and adviser Gartner Inc. predicts that 70% of businesses will have behavior guidelines and dress codes established for all employees who have avatars associated with the firm inside a virtual environment.

"As the use of virtual environments for business purposes grows, enterprises need to understand how employees are using avatars in ways that might affect the enterprise or the enterprise's reputation," James Lundy, Gartner managing vp, said in a statement. "We advise establishing codes of behavior that apply in any circumstance when an employee is acting as a company representative, whether in a real or virtual environment. Addendums specific to virtual environments can be added as required."

The report also suggests half a dozen tactical guidelines that organizations can follow to make the best use of avatars in the business environment. These include helping users learn to control their avatars, recognizing that users will have a personal affinity for their avatars, and educating users about the risks and responsibilities of reputation management.

There was no mention about whether avatars would be allowed to wear jeans on casual Fridays.



BRITS MINDING THEIR P's AND Q's ON SAFETY

Patrons of British pubs will not have to worry about being hurt by glass pints—assuming they gave it any thought to begin with—if the British Home Office has its way.

The Home Office is considering options to replace the traditional pint glass with other materials, citing figures that show 5,500 people are attacked with glasses and bottles every year in English and Welsh pubs.

The Design Council, a London-based organization funded by the U.K. government that is overseeing the pint glass redesign, says there are 87,000 violent incidents involving glassware a year that cost an estimated £100 million (\$158.5 million) in annual health, police and court costs.

But the British Beer & Pub Assn. says if the redesigned pint glass is plastic, it does not want the "glass" to be compulsory for Britain's 54,000 pubs.

"For the drinker, the pint glass feels better; it has a nice weight and the drink coats the glass nicely. That's why people go out for a drink: to have a nice experience," a spokesman for the association told the BBC.

The most common pint glass is the Nonic glass invented in the 1960s, and the average life of a pub pint glass is three months, according to the Design Council.

Ironically, packaged beer became a majority of beer sales just last year, according to the Beer & Pub Assn. Draught sales fell to 49% of the market.

The Design Council is to make its recommendations on a prototype to replace the pint glass in December.

Carly has no 'love' for Starbucks

Maybe Carly Simon should have opted for a latte from Starbucks rather than a recording label.

The singer/songwriter, who signed to the Starbucks label Hear Music in early 2008, sued the coffee giant earlier this month, claiming that it failed to properly market her album "This Kind of Love."

Ms. Simon claims that because Starbucks transferred control of Hear Music to Concord Music Group five days prior to her album's release, she

did not get the promotion and distribution she was promised, resulting in disappointing sales.

Starbucks fired back against Ms. Simon in a Rolling Stone article saying that it put "This Kind of Love" on the shelves of its more than 7,000 stores that sell music and that, while most CDs stay on the shelves for four weeks, Starbucks agreed to keep the album stocked for six weeks, plus an additional six weeks in markets where Ms. Simon's

management felt the singer had a greater audience.

Starbucks actually helped move copies of the album, which was not exclusive to the coffee chain, it said.

"We're very disappointed that Carly has decided to file this suit, because we worked very hard and put a lot of time, and energy and effort...behind giving this album its best shot in finding its audience," Starbucks' Vp of Brand Content Chris Bruzzo was quoted as saying.



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