

17 Insurers Deemed Financially Impaired Throughout 2006

By Tom De Martini

Seventeen insurance companies became financially impaired in 2006, despite a respite for property/casualty insurers from two consecutive turbulent hurricane seasons and more diversified asset portfolios among life/health insurers, according to two new A.M. Best Co. special reports, "2007 Annual U.S. Life/Health Impairments" and "2007 Annual U.S. Property/Casualty Impairments."

The property/casualty report found 15 insurers in those lines of business became impaired last year, a rate of 1-in-233 companies. While any impairment can be a hardship to policyholders and employees, 2006's impairment rate is half the historical rate of the past 38 years. So far in 2007, A.M. Best has identified one public impairment: Vanguard Fire & Casualty Co. Florida regulators placed that company in rehabilitation in January. Vanguard Fire & Casualty was never rated by A.M. Best.

Of the two life/health companies identified as impaired in 2006, one is a known confidential supervision. The other impairment is Security General Life Insurance Co., which was issued a cease-and-desist order by the Oklahoma Insurance

■ See **IMPAIRMENT**, Page 4

A Closer Look

Mortgage Insurer Stocks Rebound Amid Lending Turmoil

By Chris Grier

In the weeks following the turmoil in the subprime mortgage market, the largest U.S. mortgage guaranty insurers saw their stock prices fall 10% or more. This week, those stocks have started to rebound.

What happened?

"Market overreaction," declared Mike Zimmerman, vice president of mortgage banking strategies for MGIC's Mort-

Mississippi Dems Bounce Dale



COMMITTEE CANS COMMISH: Mississippi insurance regulator George Dale vows to fight to retain his office after being denied a spot on the 2007 ballot by the state Democratic Executive Committee. Dale, who has won eight elections to the post, said that he will file court papers to seek relief from the panel's bid to deny him certification. See story on Page 8.

AP Photo/Rogello V. Solis

gage Guaranty Group, the largest U.S. writer of mortgage insurance. "There's a complete disconnect" between the sorts of mortgages that have the stock market worried and the sorts of mortgages that insurers tend to cover.

Mortgage insurers have only a fraction of their business tied up in backing the sorts of risky subprime mortgage lending that are the source of the dire financial headlines.

■ See **MORTGAGE**, Page 5

Regulation/Law

3 The NAIC annual report shows revenues were \$4.84 million higher than expected.



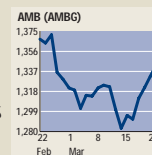
Life/Health

9 Aflac President Paul S. Amos II eyes boosted U.S. sales.



Stock Indexes

22 Composite Index rises 3.68%.



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Through Partnership, Axa Gains Foothold In Italy's Life Market

French Insurer Axa Group is staking out a strong position in Italy's life insurance and savings market by acquiring half of Banca Monte dei Paschi di Siena SpA's insurance and pension business.

Axa said it will acquire 50% of the banking group's MPS Vita [life] unit and 50% of the group's pension fund business for €1.15 billion (\$1.54 billion) in cash. Axa will also take over management of the insurance unit's assets and the open pension fund assets of the banking group. The insurance assets total €13 billion as of year-end 2006. The pension fund assets total about €300 million.



"This partnership with BMPS is an excellent opportunity to gain a leading position in the Italian life and savings market, and thereby further increase the diversification and the growth profile of the group," said Henri de Castries, Axa's chairman, in a statement.

Axa said Italy's bancassurance market is "one of the most attractive in Europe," and is the dominant distribution channel for life and savings products in the country. The insurer said Italy passed pension reforms in January that are expected to add to the growth of the pension market.

In addition to marketing life and savings products through the partnership, Axa is looking to market property and casualty products as well. With a 1.5% share of the market, P&C bancassurance distribution in Italy is still in its infancy, but is experiencing rapid growth and is expected to catch up with other European countries, where bancassurance accounts for 8% of the P&C market on average.

The partnership between Axa and BMPS is set for 10 years, with an automatic renewal provision for a further 10 years. The profit-sharing structure for life insurance products will see 55% go to the bank and 45% to the insurer.

Axa will have management control of the partnership, while BMPS will have veto power over "strategic matters," Axa said. BMPS currently is the sixth-largest life insurer in Italy, with a 6.6% market share and €5.2 billion in gross premiums. It is the fourth-largest life bancassurer, with a 10.4% market share, Axa said. Axa Assicurazioni, Axa's existing insurance business in Italy, will continue to operate independently, distributing life and nonlife products through an existing network of agents and brokers. The unit has a 3% market share in the Italian nonlife market. The insurance unit will distribute BMPS banking products to its 1.6 million customers in Italy.

BMPS and Axa will also explore future extensions of the partnership, including possible forays into foreign markets.

—David Pilla

Earnings

HALLMARK FINANCIAL SERVICES INC. reported a fourth-quarter profit of \$4.7 million, an increase of 62.1% over the same period a year ago. Revenues for the quarter more than doubled to \$54.7 million. The company said its fourth-quarter earnings were affected by the company's underwritten public offering.

Homeowners

CITIZENS PROPERTY INSURANCE CORP., the homeowners insurer of last resort in Florida, said it received a more than \$168 million payment of from the Internal Revenue Service. The payment was the end result of an agreement declaring Citizens' predecessor, the Florida Windstorm Underwriting Association, as a tax-exempt entity.



TAMPA, FLA.-BASED American Integrity Insurance Co. is the latest independent property/casualty company to cast its net into the turbulent Florida homeowners insurance market. The company said it has assumed about 55,000 policies from Citizens Property Insurance Corp., the state's insurer of last resort.

Rating

GOVERNMENT EMPLOYEES GROUP and its property/casualty members have had their financial strength ratings of A++ and issuer credit ratings of "aaa" affirmed by A.M. Best.

MILLERS CAPITAL INSURANCE CO. has had its financial strength rating of B++ affirmed and was assigned an issuer credit rating of "bbb+" by A.M. Best.

ZURICH DIRECT UNDERWRITERS GROUP has had its financial strength rating of A and its issuer credit ratings of "a" affirmed by A.M. Best.

Workers' Compensation

THE BOARD OF THE LARGEST U.S. workers' compensation insurer has appointed an outsider to run the organization on an interim basis. Lawrence E. Mulryan has been named interim president of the State Compensation Insurance Fund in California, replacing James Tudor, who was relieved of his duties March 20, according to a statement from the organization. The management changes follow an internal review of SCIF's operations, reportedly prompted by Gov. Arnold Schwarzenegger. Its executive vice president, Renee Koren, also was let go.



For complete stories, see www.ambestnewsroom.com

Banking

REP. PAUL KANJORSKI, D-PA., and Ed Royce, R-Calif., have filed legislation that would make it easier for credit unions to compete with banks. Banking groups such as the American Bankers Association and the Independent Community Bankers of America oppose the measure.



Kanjorski

Homeowners

CITIZENS PROPERTY INSURANCE CORP., the homeowners insurer of last resort in Florida, said approval of its multiperil business plan by the state's Financial Services Commission brings the company further along toward its goal of providing different options and premium savings to its policyholders. The plan will allow Citizens to write fire, theft and other coverages for about 400,000 policyholders in high-risk areas, which it currently cannot do for homeowners who are able to buy multiperil policies from private insurers.

United Kingdom

POINTING TO "A MORE CHALLENGING protection market," U.K. life insurer and asset manager Friends Provident plc reported a 34% fall in 2006 pretax profits to \$779 million from \$1.17 billion. Friends Provident (LSE:FP) reported "strong growth" in U.K. and international life and pensions business. The group also announced a speeded-up growth strategy to "turn around" its asset management operation.

JOHN TINER, CHIEF EXECUTIVE OFFICER of the U.K. Financial Services Authority, urged insurance companies to embrace, and help shape, the coming Solvency II regime in the European Union. In July, the European Commission, the executive arm of the 27-member European Union, is expected to publish a directive on Solvency II, the next stage in the regulation of the insurance and reinsurance industries in the EU. Solvency II, expected to take effect in 2010, will attempt to create an updated capital standard for the industry.



Tiner

STANDARD LIFE PLC, the U.K. life insurer that went through a high-profile demutualization last year, reported its 2006 pretax profit rose 55% to \$1.2 billion, while at the same time announcing job cuts aimed at cost savings. Standard Life said it will eliminate about 1,000 jobs as part of a plan to generate \$196.3 million in annual cost savings by 2009.



For complete stories, see www.ambestnewsroom.com

NAIC Report Shows \$4.8M Revenue Jump

Financially, the National Association of Insurance Commissioners had a better year in 2006 than planned.

According to the NAIC's recently released annual report, revenues were \$4.84 million higher than expected, at \$59.3 million.

NAIC Chief Financial Officer Jeff Johnston said that significant variances included investment returns of \$2.5 million — though \$1.35 million of it unrealized — and an increase in licensing and usage fees.



Of these, the NAIC realized a \$976,000 increase in fees due to a renegotiated administrative/license agreement with its affiliate, National Insurance Producer Registry. And the NAIC's System for Electronic Rate and Form Filing saw usage fees increase \$588,000. Johnston credited the rise to a 47% increase in filing volume, among other factors. However, the increases were offset by lower publication revenues and database-filing fees that were 2% less than what had been budgeted for 2006.

While the 2006 consolidated budget projected database fee revenues at \$24.2 million, the actual revenue generated for the database fee was \$23.91 million for 2006.

—Eleanor Barrett

Willis CEO Plumeri Calls For U.S. Federal Regulation

Joe Plumeri, chairman and chief executive officer of broker Willis Group Holdings, is the latest trans-Atlantic visitor to London to call for a change in the structure of U.S. insurance regulation.

Appearing at the annual insurance sector conference of the U.K. Financial Services Authority, Plumeri recommended the adoption of a structure in the United States that would allow insurance companies with national markets to opt for federal regulation. Those that want to remain local would be able to be regulated locally, Plumeri said, noting such an approach already applies in the banking industry.



Plumeri

Plumeri described the current state-based regulatory system as political.

"About half the commissioners in the United States are elected," Plumeri said. "So that's political. And the other half are appointed by people who are elected. So that's political."

The state-based system has the added disadvantage of being unable to marshal a national response to such wider issues as terrorism and catastrophes, Plumeri said. This gap, he added, has created the need for periodic extensions of the Terrorism Risk Insurance Act.

—Robert O'Connor

■ IMPAIRMENT

From page 1

Department last September. It was placed in rehabilitation in November. The company was not rated by A.M. Best at the time of impairment. 2006's impairment rate of 1-in-769 life/health companies continues a seven-year trend of below-average impairment rates.

A.M. Best designates an insurer financially impaired as of the first official regulatory action taken by an insurance department. That marks the point when an insurer's ability to conduct normal insurance operations is adversely affected, capital and surplus have been deemed inadequate to meet legal requirements, or the company's general financial condition has triggered regulatory concern.

State actions include supervision, rehabilitation, liquidation, receivership, conservatorship, cease-and-desist orders, suspension, license revocation and certain administrative orders. The financially impaired companies identified in these studies might not technically have been declared insolvent. The definition of financially impaired is broader than that of a Best's Rating of E (under regulatory supervision), which is assigned only when an insurer is no longer allowed to conduct normal ongoing insurance operations.

In addition to the regulatory actions that are announced publicly, there also are actions that insurance regulators undertake on a confidential basis. When A.M. Best becomes aware of an active confidential regulatory action, the impairment is counted in the aggregate analysis but is not reported on a company-specific basis to protect confidentiality.

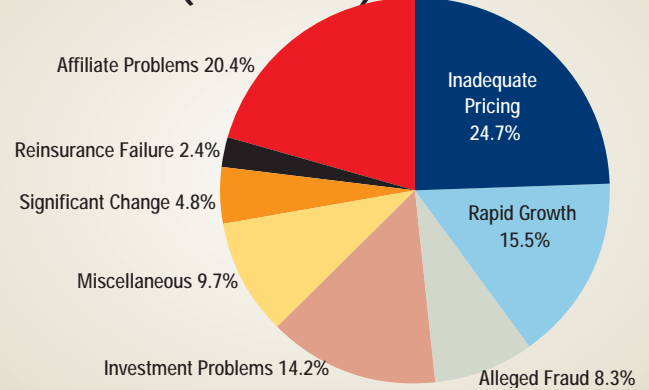
Property/Casualty Impairments

The performance of property/casualty insurers was bolstered by a dearth of hurricanes and near-record underwriting profits, which were parlayed into a combined ratio that stands at its lowest level since 1953. "It speaks favorably to the capital strength of the property/casualty industry," said John Williams, senior business analyst at A.M. Best. "What we found with most of these companies, both in property/casualty and in life/health, the impaired companies and those that became impaired either had vulnerable A.M. Best ratings, or were not rated at all by A.M. Best."

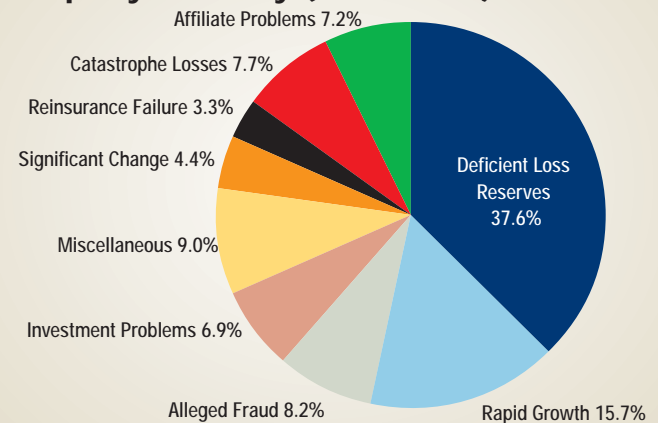
The majority of last year's impaired property/casualty companies were affiliated with either Poe Financial Group or Vesta Insurance Group. By July 2004, Poe Group had become the largest privately held property insurance organization in the Florida market and the third-largest property insurance organization in Florida overall.

The sector's outlook for the remainder of this year is bright. David Small, an equity analyst at Bear Stearns, said both publicly traded and mutual insurance companies are in a strong position going forward in terms of capital and funding. "One could argue that aggregate amounts (of capital) measured by standard surplus is at record levels. That is one

Primary Causes of Impairment Life/Health(1976-2006)



Primary Causes of Impairment Property/Casualty (1969-2006)



Source: A.M. Best Co.

of the reasons we see rates softening," Small said. "You could argue that some of the publicly traded companies have excess capital on their balance sheets."

Small said one major hurricane this season should not adversely affect property/casualty companies. "When you look back at 2005, the industry still grew a surplus and that was after Katrina, Rita and Wilma. The companies generated so much investment income the way they're set up that one good storm isn't going to knock them out," Small said.

Life/Health Impairments

Only one life/health company, Oklahoma-based Security General Life Insurance Co., was placed in rehabilitation in September 2006. Another company was taken under a confidential supervision impairment. While the 2006 life/health impairment rate represents a new 31-year low, additional confidential supervision impairment could rise.

"We have a circumstance with confidential supervision," said Williams. "The states take action to try to prevent problems for companies that they see in financial trouble. We picked up three additional impairments for 2005 and there's a fair shot that you'll see a fair jump in the 2006 numbers as we go forward."

■ MORTGAGE

From page 1

Bill Horning, vice president of investor relations for PMI, said the company's subprime exposure is about 8%, and most of that risk, 5.9%, is composed of loans involving credit risks just under the prime threshold. Fixed-rate loans, as opposed to adjustable-rate mortgages with "teaser" rates, make up 81% of the company's risk in force, he said.

"We're pretty careful," Horning said. "... It's as though we're being lumped in with everybody else" dealing with subprime borrowers. "It's a fear of everything related to subprime mortgage lending," he said of the market reaction. "Everybody's being painted with a broad brush, I think."

PMI Vice President Beth Haiken said most of the loans the company insures are in core housing, which are modestly sized loans for first-time home buyers, for their primary residence.

During the week of March 12, share prices of the biggest mortgage guaranty insurers — MGIC (NYSE:MTG), PMI Group Inc. (NYSE:PMI), Radian Group Inc. (NYSE:RDN), MGIC Investment Corp. and Triad Guaranty Inc. (NYSE:TGIC) — each fell more than 10%. Since then, the largest mortgage insurance companies have taken pains to draw a distinction between the sorts of mortgages they insure, and the sorts of mortgages being blamed for the troubles in the subprime market — typically ARMs with low "teaser" rates that balloon two years later into larger monthly payments that subprime borrowers often can't afford, leading to a spike in foreclosures, and hence, trouble.

Within the past month, the largest independent U.S. subprime mortgage lender, New Century Financial Corp., saw its share price plunge and its stock delisted after announcing it was facing cash-flow problems and investigations — due to accounting and other problems stemming from a surge in defaults. At least 20 subprime lenders have gone out of business in recent months amid a housing slump, and some in Congress plan to examine subprime lending standards via hearings on Capitol Hill (*BestWire*, March 13, 2007; March 19, 2007).

But in press releases and statements, mortgage insurance companies have tried to get the word out to investors that their portfolios don't contain a large proportion of the type of mortgages that have the market worried.

Mortgage insurers underwrite policies that trigger when borrowers miss their mortgage payments — and new foreclosures have hit a record high, the Mortgage Bankers Association said the week of March 12. And the worst is yet to come: According to the MBA, at least \$300 billion in subprime adjustable-rate mortgages are scheduled to bump up to their higher rates this year. Shares of subprime mortgage lenders have meanwhile fallen sharply, as the surge of defaults have spotlighted years of loose lending standards.

The companies' attempts to get the word out seem to be paying off: Equity analysts for Citigroup and Stifel Nicolaus & Co., for example, cited MGIC's lack of exposure to the sort of loans that have beset the subprime mortgage industry when announcing their "buy" ratings for MGIC the week of March 19.

At the same time, insurers' share prices are beginning to edge higher. MGIC's share price fell to a three-month low of \$56.56 earlier this month, down 19% from a three-month high of \$70.09 on Feb. 6, just as the news about problems in the subprime mortgage

lending industry was beginning to dominate the business pages. Now MGIC's stock is back to around \$65 per share.

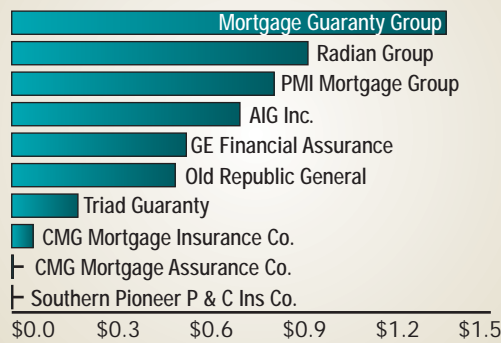
Radian stock dropped 20% from a February peak of \$66.51 to \$53.17 the week of March 12; it has since rebounded to around \$57. The share prices of Radian and MGIC may also be affected by MGIC's Feb. 7 announcement that it planned to acquire Radian in a \$4.9 billion stock swap (*BestWire*, Feb. 7, 2007).

PMI stock dipped to \$42.29 the week of March 12, down 15.7% from a February high of \$50.21. It has since climbed back to around \$45 per share. Stock in Old Republic International Corp. (NYSE:ORI) hit a three-month low of \$21.18 the week of March 12, down 8.5% from \$23.16 in February. Its share price has since rebounded to around \$22 late the week of March 19.

The subprime mortgage industry broadly refers to lending that caters to individuals who do not qualify for prime-rate loans; most mortgage lenders and mortgage insurers refer to those with a FICO score below 620 as subprime. In many cases, potential borrowers may be deemed subprime because they do not have a high enough credit score to qualify for a prime-rate mortgage loan. In some cases, it may be that a borrower is lumped in the "subprime" category because the borrower has high income but works on commission, and so doesn't have easily verifiable income, or because the borrower has no verifiable credit history, or for other reasons.

Top U.S. Writers Mortgage Guaranty

Direct Premiums Written 2005 (\$ billions)



Source: Best's State/Line Database (Standard Lines)

Middle East Finds Spot on World Captives Map

The Middle East is hardly at the top of the list when people speak of captive domiciles.

That's because the push to promote captives in this region really started just three or four years ago, says Youssef Al Kareh, general manager of Ensurion, an insurance management firm based in Bahrain that specializes in forming and advising captive insurance companies in the region.

Recently, Ensurion announced a significant milestone: The licensing of the Middle East's first captive insurance company. This captive, Tabreed Captive Insurance Co., which will be set up and managed by Ensurion, will insure the risks of Dubai-based Tabreed, one of the world's largest district cooling companies.



Al Kareh

The emergence of the captive concept in this region is significant considering the fact that traditional insurance, unlike Takaful, is frowned upon in most of the Muslim world. Takaful and Retakaful underwriting is based on Islamic principles, or Shariah law, and promotes mutual-like protection combined with restrictions on investments, as Islamic law prohibits interest-bearing instruments and nonethical investments, according to an A.M. Best Co. report on Middle Eastern and African markets (*BestWire*, June 6, 2005).

BestWeek recently caught up with Al Kareh, a former senior consultant at Marsh Risk Consulting in London, to discuss Ensurion's big accomplishment, the captive potential of the Middle East, particularly in financial districts of Bahrain, Dubai, and Qatar, and whether or not there's such a thing as Takaful captives.

Q: Do you believe the use of captives is gaining momentum in the Middle East?

A: Yes, this part of the world finally has its first captive. We believe that this success story is going to have positive implications on other clients around the region who have contemplated or are contemplating the establishment of a captive insurance company. We hope this is going to act as a catalyst for this market to really grow and realize its potential in this part of the world.

Q: Why is it a success story that you have a single licensed captive in the Middle East?

A: There are a few companies in the Middle East that have captive vehicles, but they're incorporated in offshore domiciles, in the U.K., Bermuda and Cayman Islands. The breakthrough we've made is to convince a regional company with an international reputation not only to set up a captive insurance company, but to domicile it in this part of the world. Companies in this region would take a lot of comfort in the fact that a

blue chip company in the region has actually done the exercise from A to Z. It also places this part of the world on the map of world captive domiciles.

Q: What industries do you think would benefit from forming captives in the Middle East?

A: We've engaged corporations in different industries. Those would include the one we've just established, which is a utility provider, a district cooling provider. We've engaged people in the aviation industry, the petrochemical industry, logistics business and in the banking and financial services. We're not targeting specific industries because we see the potential across many industries. The whole region, in recent years, has been riding the wave of astronomical prices of oil, and a decent number of corporations have grown so much in terms of size or complexity, or in terms of international acquisition, that all of those companies have a profile of a typical captive candidate.

Q: Traditional insurance, unlike Takaful, isn't widely accepted in the Islamic world because it conflicts with the principles of Shariah. So, is there such a thing as Takaful captives that are Shariah-compliant?

A: At the moment, there is no such thing as a Takaful captive. We have just incorporated our first captive, so it's not like we're looking at a pool of captives and none of them are Shariah compliant. Having a Shariah-compliant or Takaful captive is something we've considered and one of the things we hope to bring to the market in the next year or two. We're working on it.

Q: What other alternative risk-transfer solutions could companies in the region take advantage of?

A: There are key products that corporations in this region could utilize. There's a possibility for finite structures in this part of the world, for environmental liability and pollution liability for oil and petrochemical companies with potentially great exposures to environment liability. The aviation industry, which buys huge limits of liability, could also benefit from such structures.

However, I think it's going to take some time before we see the sophisticated ART solutions that are a real blend of the insurance and capital market. The capital markets here are not yet developed enough to allow such structures. I allow myself to say that because I worked on a number of initiatives when I was in London, and even there, these structures were considered a little bit advanced.

—David Dankwa



Listen to the entire interview with Youssef Al Kareh at <http://www.bestdayaudio.com>

Arson Seen as Growing Threat for U.K. Insurers

Arson is a growing problem for insurers in the United Kingdom, as the number of serious incidents increases.

According to the U.K. branch of insurer Axa Group, business crime rose 20% in 2006, based on the number of crime-related business insurance claims over the year. And 51% of the total number of claims were put down to arson.

In the United Kingdom the number of arson events tends to increase when the school holidays start and decrease when they end. "Typically, arson in the U.K. tends to be more prevalent in the summer when school is out, along with Easter," said Paul Redington, property claims manager at U.K. insurer Norwich Union. "It also often follows the economic picture, as an economic downturn tends to correlate with an upsurge in arson attacks. It's still a problem now, even through the recent good conditions."

According to Redington, arson continues to be a major cause of concern for the company.

In 2006, there were arson cases all over the country, with an estimated average cost in insurance claims of about £40,000 (\$78,733) —10 times the average bill for attacks related to burglary or malicious damage.

According to Axa, there are a number of regional arson hot spots. The Scottish city of Glasgow has been dubbed the arson capital of the country, with 10.6% of all claims settled there in the last quarter of 2006 stemming from arson, twice the national average of 4.7% for the same period of time.

Redington pointed out that in recent years the insurer has seen a relatively static number of fires, but that there has been an increase in the value of claims. "There are all sorts of potential reasons for this. We're seeing some loftier buildings in the U.K., where fires are harder to put out," he said. "There have also been Fire Brigade reforms, which have brought in more defensive firefighting tactics."

Many businesses these days have been putting all their

State Farm Settles Another Katrina-Related Lawsuit

State Farm Fire & Casualty Co. said it has settled another Hurricane Katrina-related lawsuit with a Biloxi, Miss., couple. Terms of the settlement were not disclosed.

The settlement with policyholders John and Ann Untershine marks the fourth time this month that the Bloomington, Ill., insurer has avoided a protracted court case concerning disputed hurricane claim payments.

Recently, State Farm settled a Katrina-related lawsuit with Edward Gemmill and his wife after a federal jury in U.S. District Court ordered State Farm to pay \$66,234 for unpaid Katrina damage. Terms of the settlement were not disclosed. The Gemmills were seeking \$5 million in punitive damages (*Best Wire*, March 16, 2007).

"We're pleased that we were able to come to an agree-

U.K. Arson Facts by the Numbers

Each week in the United Kingdom:

- There are 2,213 arson attacks.
- Arson kills two people.
- Arson injures 53 people.
- 20 schools and colleges are damaged or destroyed by arson.
- 262 homes are damaged or destroyed by arson.
- 360 businesses and public buildings are damaged or destroyed by arson.
- 1,402 cars are damaged or destroyed by arson.
- Arson costs the economy £53.8 million each week in England and Wales.

Source: U.K. Arson Prevention Bureau

eggs in one basket by creating very large depots that supply other facilities around the country. From the viewpoint of inventory, this can make sense, as they have a much better idea of what is available and what is requested.

However, any damage to such a large facility can have a much larger overall effect than just the amount of damage caused. If the supplies within it are no longer available, this can cause knock-on effects all the way down the supply chain, causing a loss of business at a time when a company might be facing financial problems from the damage bill.

And that bill can be substantial. In one recent case, a fire at a fashion store in the town of Harrogate last December damaged 90% of the stock on the premises and left a bill totaling £885,000. A 14-year-old girl, who cannot be named for legal reasons, has been charged with arson.

Redington stressed that site security is important if firms wanted to prevent arson attacks, and the proverbial ounce of prevention is worth a pound of cure; small measures, such as security lighting and cameras around vulnerable buildings and regular patrols of unoccupied premises, can deter attacks from taking place, as well as detect them at an earlier stage and minimize the amount of damage.

—Marc Jones

ment with our policyholder, because we'd like to avoid for the customer and ourselves the potential for a lengthy and costly litigation," said State Farm spokesman Phil Supple.

Attempts to contact the plaintiffs' attorney, Jack Denton of Denton Law Firm, were not immediately successful.

The latest lawsuit settlement between State Farm and a Mississippi policyholder comes on the heels of a recent deal brokered by Insurance Commissioner George Dale that will trigger an accelerated process to reopen and readjust disputed Katrina claims. The agreement reaches beyond slab claims and could begin re-examination of 35,000 Katrina-related claims from homeowners, renters and commercial policyholders, including any claims currently in mediation.

—Tom De Martini

Mississippi Insurance Commissioner Faces Primary Battle After Dems Bounce Ballot Bid

Mississippi Insurance Commissioner George Dale said he is ready to fight to retain his office after being denied a spot on the 2007 ballot by the state Democratic Executive Committee.

A 32-year veteran who has won eight elections to the post, Dale said on March 21 that he is in the midst of filing court papers to seek relief from the committee's March 17 decision to deny him certification.

He won't be daunted in seeking a ninth term, he said.

"I'll be back on the ballot in some capacity. I don't know how. But I have a Constitutional right to run for office," Dale said.

In casting the split vote, the committee said it based its decision on the belief that Dale had not been loyal to the party because he publically supported President Bush's re-election two years ago. According to the Democratic state party constitution, candidates currently holding office cannot run in the party primary if they supported Republican candidates in the past four years.

But Dale says he did not campaign for Bush or work for his re-election in any fashion. Dale also notes that he was



Dale

not alone. He gave the example of a rally that was held on the state Capitol steps in which 100 Democrats stood to endorse Bush.

"None of them were denied recertification. Nowhere in the state Constitution, in the qualifications of this office, is (expressing public support of an opposing-party candidate) mentioned as a qualification," Dale said. "I'm not sure what's really behind this."

Dave Reddick of the National Association of Mutual Insurance Companies said insurers favored Dale for the tough but fair treatment he gave following Hurricane Katrina. Reddick said Dale's attitude has contrasted that of fellow Democrat, Attorney General Jim Hood, who has chosen to take his battle with the insurance industry to court.

"I say let the people decide," Reddick said. "I see this as a party power struggle."

According to the Secretary of State's office, Democratic candidates for the Aug. 7 primary are Jim Rasberry, a financial planner from Laurel, and the 2003 state Treasurer nominee Gary Anderson of Jackson.

Dale said he is puzzled by the turn of events as he had been encouraged to run by leading state Democrats.

—Eleanor Barrett

Holocaust Commission Ends Run With \$300M Paid

The International Commission on Holocaust Era Insurance Claims has closed its doors after nine years of acting as a go-between and mediator for European insurers and Holocaust survivors and their heirs, who have been locked in bitter disputes about World War II-era insurance policies.

ICHEIC, founded in 1998 to help Holocaust survivors resolve claims on those policies, said the week of March 19 it had helped some 48,000 survivors and their heirs recover about \$300 million from 70 insurance companies.

"I fully recognize that no amount of compensation can redress the suffering inflicted during the Holocaust," ICHEIC Chairman Lawrence S. Eagleburger said in a statement. "Nevertheless, I believe that ICHEIC has achieved its goal of bringing a small measure of justice to those who have been denied it for so long."

At the commission's final meeting, ICHEIC Vice Chairman Diane Koken, the former Pennsylvania insurance commissioner, said the commission gathered information from insurance companies, associations and public archives, which allowed thousands to have their claims matched.

ICHEIC said it also paid an addition \$30 million for policies written by companies that no longer exist.

—Chris Grier

Agent/Broker

BROKER ARTHUR J. GALLAGHER & CO. has acquired managing general agent and wholesale insurance ISG International. Headquartered in Cambridge, Md., ISG International specializes in the information technology industry, including coverage for IT staffing and services, software development, system integration, value-added resellers and e-commerce businesses.



Auto

STATE FARM MUTUAL AUTOMOBILE INSURANCE CO. said it is reducing Florida automobile insurance rates an average of 5.4%, effective March 26. However, the company is waiting for the disposition of the state's no-fault auto insurance laws to take shape later this year before deciding on further reductions. No-fault will sunset if the state legislature does not renew it.



Rating

CENTURY INSURANCE GROUP and its members have had their financial strength rating of A- and issuer credit ratings of "a-" affirmed by A.M. Best.

For complete stories, see www.ambestnewsroom.com

Aflac's President Aims to Make Consumers Understand 'Supplemental' Insurance

A huge number of Americans are familiar with the company because of its iconic white duck, but Aflac's new president said he's striving to get American consumers to understand what its supplemental products are for.

Among the goals of Paul S. Amos II is to boost Aflac's U.S. sales and continue to promote its brand through the popular duck that quacks the company's name in television commercials. "My job is to make sure that we're continuing to keep our sales force upbeat, combining our new marketing department with that and making sure that we're taking our brand to the next level," the 31-year-old told *BestWeek*.

Through its duck, Aflac wants to send the message that the supplemental, or voluntary benefits, provider covers core costs, such as co-pays and deductibles, and lost wages and bills, Amos said. Aflac provides that "emergency fund" or cash to someone who hasn't saved the money they may need after they become sick or injured, he said.



Amos

Pioneer in Voluntary Benefits

Aflac is likely a pioneer in voluntary benefits. Unlike traditional group insurance, where an employer pays some portion of the premium, voluntary benefits don't require an employer to contribute toward premium and are sponsored by the employer. If an employee chooses to participate, the employee pays 100% of the premium through payroll deduction.

About 98% of Aflac's business is sold through work sites via payroll deduction, Amos said. People have coined Aflac as a "supplemental" insurer, but Amos said he doesn't like that term because it implies the coverage is a choice or isn't needed. Some business owners don't want to buy supplemental coverage, he said. Their thinking is that having supplemental insurance could somehow create the perception that the employer's "benefits plan isn't as good," Amos noted. "My job here is to show why Aflac is a core part of a person's insurance portfolio."

The duck plays a leading role in trying to send that message in Aflac's TV commercials. "He was brought on the scene [in 2000] really to quack our name — to get our name recognition out there and that's exactly what he did," Amos said, noting Aflac has a 90% brand awareness. Nevertheless, while Aflac found that everyone knew the company's name, "people didn't necessarily understand exactly what differentiates us from everybody else."

Under his direction, the company in 2005 launched a new branding initiative to boost consumers' understanding of Aflac's insurance.

Last month, though, a story in "Advertising Age" cast doubt on the duck's future role. Interviewed was Jeffrey Herbert,

Aflac's new chief marketing officer. The headline read: "Aflac CMO Says: Shut the Duck Up." Then, the frenzy took off as the article was picked up by several media outlets speculating on the duck's demise. Aflac soon issued a statement saying it doesn't intend to abandon its waterfowl.

Duck Heading to Print Ads

What Herbert tried to say is Aflac is moving beyond national TV spots and now will also include the duck in print media, explained Amos. "If the duck is in a print ad, then he can't say anything. Well, that is technically 'shutting the duck up' but also a complete misuse of the concept that we are going to take the duck out of it."

The duck is vital to Aflac, he said. "He's taking on a very powerful role in that he's not just talking about the name, he's actually showing what Aflac can do." For example, in one of Aflac's latest commercials, the duck is paying all the bills in the "in-box" and then moving them to the "out-box."

Aflac Inc. (NYSE:AFL) faces financial ups and downs. Its fourth-quarter 2006 net income dropped 8.8% on lower realized investment gains and saw a continued sales slump in Japan. About 75% of Aflac's total earnings come from Japan. For 2006, the company's profit was \$1.5 billion, unchanged from 2005, while revenues rose 1.8% to \$14.6 billion. Amos doesn't have responsibility over Japan, where Aflac's the No. 1 insurer based on individual insurance policies in force.

In the United States, Aflac's fourth-quarter results were much stronger. Total new annualized premium sales jumped 21.2% to \$47 million. Looking ahead, Amos said voluntary benefits are a big untapped market. Why? Aflac calls 6% of America's businesses customers, so there's opportunity for continued growth, he said.

Amos said people in the United States move from job to job more than the Japanese, who tend to stay at their job for life. Sometimes, Americans don't keep Aflac's coverage so persistency is lower in the United States, he said.

Aflac is the leader in sales by payroll deduction to U.S. employer groups, according to A.M. Best. The Columbus, Ga.-based company sells accident and disability insurance, its core lines, along with specified health; cancer insurance; hospitalization; life; and, recently, fixed-benefit dental and dental.

The company said it's No. 1 in guaranteed renewable insurance in the United States. That means Aflac continues to allow someone to buy its insurance every year at a certain rate unless the company changes it by state/by class.

—Fran Matso Lysiak



Listen to the entire interview with Paul S. Amos at <http://www.bestdayaudio.com>

Pure High Net Worth Founder Thinks Fla. Homeowners Sector Worth the Risk

Ross Buchmueller, president and chief executive officer of Pure High Net Worth Insurance, isn't scared by homeowners risk in Florida.

In fact, he believes his company, which has offices in White Plains, N.Y. and Plantation, Fla., is at an advantage. It provides insurance for high-value homes, automobiles, excess liability, jewelry and art.

"We strongly believe, and we think we're supported by the experience of 2004 and 2005 as well as by catastrophic modelers, that well-built, high-value homes will outperform the average home in a hurricane," he said. "We felt the opportunity was there to provide high-quality coverage at a reasonable price to a select group of people."

Buchmueller founded Pure Risk Management in 2006, the first property/casualty company in the United States exclusively dedicated to serving high-net-worth individuals. It's an area of expertise he's quite familiar with, serving as president of AIG Private Client Group and overseeing its growth to approximately \$500 million of gross written premium with consistent underwriting profit over six years. Buchmueller spent 12 years with the Chubb Group of Insurance Cos., serving as senior vice president of Chubb Insurance Company of Europe.

Recently, Buchmueller started a reciprocal exchange, a nonprofit company owned by its policyholders. The company entered the turbulent waters of the Florida property/casualty market, covering homes worth a minimum of \$1 million that adhere to certain underwriting standards. As a Florida-based reciprocal insurance exchange, the property/casualty venture is unique as it is owned by its policyholders, who are eligible to receive dividends.

Buchmueller recently spoke to *BestWeek* about his company's entrance into Florida's property/casualty sector.

Q: What was the factor that spurred you to create your own company?

A: Well, I've had the opportunity to work with a lot of great independent agents and brokers. Many of them have in common the love for owning their own business, and I found that infectious and inspiring.

Q: Tell us about the underwriting criteria you use to decide which homes you'll insure.

A: There's a question of size. We believe that homes, certainly those 4,500 square feet and greater, have a far greater chance of withstanding hurricane damage. Size also translates into value. We have a minimum dwelling coverage

At a Glance

Company: Pure High Net Worth Insurance

Founders:

Ross Buchmueller, Jeffrey Paraschac and Martin Hartley; Stone Point Capital

President and CEO: Ross Buchmueller

Offices: White Plains, N.Y. and Plantation, Fla.

Founded: 2006.

Specialty: Provides high-value homeowners insurance, private fleet auto insurance, personal excess liability insurance and jewelry and art insurance.



Buchmueller

amount of \$1 million and there are more qualitative construction criteria, much of that based on the most recent building codes. Certainly some older homes are built to that standard. Large, high-value, well-built homes are eligible for our program.

Q: Because the minimum value of a home must be \$1 million, and traditional insurers are now loathe to take on that kind of risk, how do your premiums compare to Citizens (Property Insurance Corp.), which is the state's insurer of last resort?

A: They are considerably less, but Citizens has a maximum coverage in their personal lines account of \$1 million and a high-risk account where there are nearly 7,000 policyholders above a million, that Citizens is no longer eligible to write after next summer. So while our premiums are considerably less, there's also an availability issue, where you

won't be able to get covers through Citizens.

Q: How is this venture being capitalized?

A: Essentially by the policyholders themselves. And, it is a reciprocal insurance exchange. We organized a surplus note of \$10 million, and the policyholders fund the company with surplus contributions of their own.

Q: You secured well-known reinsurers, including General Re, Ace Tempest Re, Transatlantic Re, Everest Re, Allied World, Axis Capital and Lloyd's, to cover your potential catastrophic losses. How did you accomplish that?

A: I think that we have a track record of building successful businesses and that the reinsurers are well aware of the results of the '04-'05 storms, and if they choose to put their capital at risk, insurance on high-value, well-built homes is a better bet for them. It's mostly our business plan, and I think our track record and credentials certainly helped.

Q: How many policyholders do you have now and what are your growth figures expected to be in the future?

A: We expect to write approximately 2,500 homeowners policies, perhaps more automobile policies. We have received 755 qualifying applications to this point, all with future effective dates. We currently have more than 50 members, but less than 100.

—Tom De Martini



Listen to the entire interview with Ross Buchmueller at <http://www.bestdayaudio.com>

Homeowners

ALFA INSURANCE GROUP, the second-largest writer of homeowners multiperil in Alabama, said a series of storms in the state during February and March generated between \$30 million and \$40 million in homeowners and automobile claims. The company said the majority of its claims stemmed from tornado, wind and hail damage.



MISSISSIPPI LAWMAKERS UNANIMOUSLY passed legislation creating the Mississippi Windstorm Association Underwriting Reinsurance Assistance Fund, designed to give rate relief to homeowners insured by the state's wind pool. The bill provides a \$20 million per year subsidy to the fund for four years, garnered from taxes paid by all state residents.

SOME POLICYHOLDERS OF Citizens Property Insurance Corp., the property/casualty insurer of last resort in Florida, will receive premium refund checks, right around the same time that federal income tax returns are due. The company filed rate reductions averaging 14.5% in high-risk areas and 6.7% for homeowners outside those areas that will affect about 1.2 million policyholders. The refund checks are for policyholders who have paid for coverage since Jan. 1 and will be mailed on or about April 15.



STATE FARM FIRE AND CASUALTY CO. settled a Hurricane Katrina-related lawsuit with a Biloxi, Miss. policyholder, which one industry watcher said could set a precedent for several outstanding class-action suits to be heard on a case-by-case basis. Attorneys for the Bloomington, Ill. company reached a settlement with plaintiffs Mr. and Mrs. Edward Gemmill after a federal jury in U.S. District Court ordered State Farm to pay \$66,234 for unpaid Katrina damage. Terms of the settlement were not disclosed. The Gemmills were seeking \$5 million in punitive damages.

THE PROPERTY CASUALTY Insurers Association of America called promises made by Florida legislators to lower homeowners rates "rushed, and in some cases reckless," following the recent release of reduction requests by the state's Office of Insurance Regulation. State regulators are currently examining rate reduction requests from property/casualty insurers that average well below the projected 24% premium rollback that was widely expected as a result of the Florida Hurricane Catastrophe Fund's expansion.



For complete stories, see www.ambestnewsroom.com

Allstate Reinstates 4,700 Policyholders

Allstate Insurance Corp. said it will comply with an order from Louisiana Insurance Commissioner Jim Donelon to reinstate 4,700 policyholders whose property/casualty coverage was cancelled following an inspection process that alleged the homeowners were not occupying their dwellings. Donelon ordered policies reinstated after receiving complaints that policies were being cancelled although the properties were occupied.



Donelon said an investigation by his agency found that Allstate's process of inspecting the homes, primarily located in the greater New Orleans area, involved two Allstate employees doing drive-bys of 300 to 500 properties a day. The process noted whether a home was vacant, under repair or accepted as fully repaired. Donelon said no supporting documentation for a finding was given. The two parties, with the assistance of the Division of Administrative Law, brokered the agreement after Allstate appealed Donelon's edict. In a statement, the company said the homeowners must provide information demonstrating they are living in their homes, that the home is in insurable condition or that they have rebuilt or in the process of actively rebuilding homes. Policyholders retain the right to a new inspection.

—Tom De Martini

Miss. Regulators, State Farm Agree on Disputed Claims

Mississippi Insurance Commissioner George Dale said an agreement reached with State Farm Fire & Casualty Co. will trigger an accelerated process to reopen and readjust disputed Hurricane Katrina claims. The agreement was a direct result of the recent withdrawal of a proposed class-action lawsuit settlement by attorneys with the Scruggs Katrina Group.



The agreement builds on a pact between the two parties reached earlier this month. State regulators and State Farm agreed to reopen all cases where policyholder homes were reduced to slabs as a result of catastrophic hurricane damage in six coastal counties.

State Farm was required to identify and review all slab claims, identify the amount paid to the homeowner and any additional action to be taken within 30 days. The new agreement reaches beyond slab claims and could begin a reexamination of 35,000 Katrina-related claims from homeowners, renters and commercial policyholders, including any claims currently in mediation, Dale said in a statement.

—Tom De Martini

Converium Stresses Own Viability While Fending Off Hostile Bid

Swiss reinsurer Converium A.G. is doing its best to stress to the market how well it has been doing, as it tries to fend off a hostile takeover bid from French reinsurance rival Scor.

In a presentation published on the reinsurer's Web site, Chief Financial Officer Paulo De Martin spelled out how the company intends to get to its goal of a 14% return on equity by 2009. It also stresses the fact that Converium believes a takeover offer from French reinsurer Scor undervalues the company's prospects and potential. In the presentation, De Martin said Converium intends to build its book of business to \$3 billion, focusing on growing its life and health business in the United Kingdom and Asia, re-establishing its reputation as a leading specialty reinsurer and looking at growth in emerging markets for property and casualty business. Converium is targeting a combined ratio for the year 2009 of 97.6, in line with its peers. Converium also said it is aiming for disciplined capital management, with excess capital deployed for profitable growth or returned to shareholders.

—Marc Jones

AIG Completes Acquisition Of Dubai Marine Operator

American International Group Inc. said it has completed its acquisition of the U.S. assets of global marine operator Dubai Ports World. Terms of the transaction were not disclosed.

The business acquired by AIG Global Investment Group comprises marine terminal concessions in the ports of New York/New Jersey, Philadelphia, Baltimore, Miami, Tampa, Fla. and New Orleans, as well as stevedoring operations in 16 locations along the East and Gulf coasts, and a passenger terminal in New York City.

Under AIG (NYSE:AIG), the business will operate as Ports America. United Arab Emirates-based DP World, which is owned by the Dubai government, had acquired the concessions from a British company in 2006 but decided to sell the U.S. assets after U.S. lawmakers opposed the deal. Lawmakers had said they were uncomfortable with the Arab government's ownership of key terminals in ports long considered vulnerable to terrorism. New York-based AIG, also the world's largest insurance company, has said it recognizes the importance of the ports to national security and it is committed to maintaining high security standards.

—David Dankwa



Catastrophe

NEAR-TERM FLOODING in portions of the Midwest and Ohio Valley and continued drought conditions in the Southwest highlight the National Oceanic & Atmospheric Administration's 2007 spring forecast. Jeffrey Brewer, a spokesman for the Property Casualty Insurers Association of America said insurers have taken into account these types of weather risks and are well-prepared.

Earnings

AFFIRMATIVE INSURANCE CO. reported a 2006 fourth-quarter loss of \$6.3 million, compared with a loss of \$1.1 million last year. Revenues for the quarter were \$86 million, a decrease of 6.6% over the same period a year ago. Affirmative said charges, primarily in the fourth quarter, related to the increase in the allowance for a "doubtful receivable," previously announced technology initiatives and changes in senior management, among others, collectively reduced 2006 pretax income by approximately \$17.5 million.

Legislation

NORTH DAKOTA LAWMAKERS PASSED a bill that provides increased competition in the state's insurance market throughout several lines of business. The North Dakota Century Code establishes a presumption of market competition and creates a use-and-file system for most commercial and personal lines of insurance that would allow insurers to adjust rates within a defined band without having to seek regulatory approval.



Rating

COMMERCE GROUP has had its financial strength rating of A+ and issuer credit ratings of "aa-" affirmed by A.M. Best.

INSURANCE CORPORATION OF NEWFOUNDLAND LTD. has had its financial strength rating withdrawn by A.M. Best. The action is a result of the company's amalgamation into its sister company, AXA General Insurance Co.

PELEUS REINSURANCE LTD. has been assigned a financial strength rating of A- and an issuer credit rating of "a-" by A.M. Best. Peleus Re's sister companies, PXRE Reinsurance Co. and PXRE Reinsurance Ltd. have had FSRs of B+ and ICRs of "bbb-" assigned by A.M. Best.

WELLINGTON SPECIALTY INSURANCE CO. has had its financial strength rating of A- affirmed and an issuer credit rating of "a-" assigned by A.M. Best.

For complete stories, see www.ambestnewsroom.com

Emerging Growth Prospects Outweigh Risks

The insurance markets of Eastern Europe — and beyond — offer solid prospects for investment and growth, Alasdair Macdougall, head of insurance and pensions at the London-based European Bank for Reconstruction and Development, told a Dublin insurance conference.

“There are very, very significant opportunities” in the region, Macdougall told the 2007 European Insurance Forum. He spoke during a panel discussion of “the wider Europe.”

In 2006, the EBRD posted a preliminary profit of nearly €2.4 billion (\$3.19 billion). “We are a big risk taker,” Macdougall said. “But it proves that if you look to the wider Europe that one can actually make an awful lot of money.”

Macdougall predicted dramatic things from the rapidly growing Russian insurance market. Within the next few months, he expects to sign significant deals in Russia, with both “pure Russian insurers” and organizations backed by investment from outside the country. Such interest tends to come from Austria and Germany, Macdougall said.

Potential investors from the United Kingdom may be waking up to possibilities in the East a full decade after their Austrian and German competitors, Macdougall said. But he sees plenty of scope for Western insurers to estab-

lish branch offices in the region.

“Not that many companies have taken advantage of [this] so far,” he said.

Macdougall stressed that his view takes in the “wider, wider European market rather than the wider EU.”

“You need to look further than the EU members and in particular towards Russia,” Macdougall said.

The intensity of competition within EU member state Poland, for instance, may make that country appear only marginally more attractive than, say, the United Kingdom. But there are openings in Poland for such niche operators as providers of new product extended warranties and credit insurance, Macdougall said. He also expects a “lot of bidders” for the

three Romanian insurance companies that are for sale.

In Macdougall’s view, the European Union’s influence has been vital in the development of the Central and Eastern European insurance market. The EU has helped move countries from cash accounting to an environment based more on regulation and supervision, he said.

Macdougall had high praise for Slovenia, now an EU member state and a former Yugoslav republic.

—Robert O’Connor

“We are a big risk taker. But it proves that if you look to the wider Europe that one can actually make an awful lot of money.”

—Alasdair Macdougall, European Bank for Reconstruction and Development

Agent/Broker

BROKER HUB INTERNATIONAL said it is acquiring BNC Insurance Services, one of the largest Arizona-based insurance brokers. The terms of the transaction were not disclosed. Doing business as Milne & BNC Insurance, the brokerage has approximately \$19 million in revenue.



INSURANCE BROKER Arthur J. Gallagher & Co. has acquired the Producers’ Choice Inc., a managing general agency and wholesale life insurance broker based in Coral Springs, Fla. The terms of the transaction were not disclosed. The Producers’ Choice was founded in 1992 and specializes in large case management, advanced sales support and sub-standard or hard-to-place cases.



Lloyd’s

POINTING TO AN ENCOURAGING underwriting market and an absence of catastrophes, specialist Lloyd’s insurer Chaucer Holdings plc reported a more than sevenfold increase in 2006 pretax profits. Chaucer’s pretax profits rose to £86 million (\$167.34 million) from £11.9 million in 2005.

For complete stories, see www.ambestnewsroom.com

C.V. Starr Creates Global Accident & Health Agency

New York-based holding company C.V. Starr & Co., which owns insurance agencies specializing in complex risks, has created a new agency to focus on accident and health insurance. The new entity, Starr Global Accident & Health Insurance Agency, said it has entered into an agreement with insurer Chubb Corp., which will allow the agency to underwrite employer stop-loss insurance on behalf of Chubb.



The newly formed management team of Starr Global Accident & Health, which will be headquartered in Greenwich, Conn., brings more than 90 years of experience to the company, C.V. Starr said in a statement. Peter McGuire has been named president and chief executive officer.

Maurice R. Greenberg, the chairman and CEO of C.V. Starr, said Starr Global Accident & Health is another step in the organization’s effort to continuously develop specialty insurance products and services.

C.V. Starr’s agencies have produced some \$2 billion annually of comprehensive insurance coverage among several specialty lines covering aviation, marine, excess casualty and property, including risks with international exposures.

—David Dankwa

Mass. Commissioner Targets Health Reform

As Massachusetts puts in place its health-care law that mandates every citizen be covered, the state's new Insurance Commissioner Nonnie Burnes is expected to have her hands full. The former Superior Court trial judge, who originally hails from Southern Ohio, was appointed to the post on Feb. 12 by Gov. Deval Patrick. She replaces long-time commissioner, Julie Bowler, who stepped down in January.



Burnes

During her visit to the Spring National Meeting of the National Association of Insurance Commissioners in New York, Burnes discussed the road ahead. As with the health-care law, Burnes said the model requires a huge output of consumer information. "It can be complicated as to the level of premiums, and we'll need to provide a lot of consumer information," she said. "I think it's an aggressive plan, but I think it's a very exciting opportunity for the state, that we are trying to get everybody covered with health insurance."

On the property/casualty side, Burnes said pending action precludes her from spilling the details about the state's plan on changes to the automobile insurance market that were put on hold shortly after Patrick took office in January.

—Eleanor Barrett

Germany's Hannover Re Posts 'Best Financial Year'

Germany's Hannover Re A.G. said 2006 was the best financial year in its history, with group net income rising more than 10-fold over the previous year.

Group operating profit for the reinsurer was €819 million (\$1.08 billion), compared with a 91.6 operating profit the previous year. Group net income rose to €519 million from €49.3 million. Gross premium income stood at €9.3 billion for the year, the same as in 2005. But the 2006 figure doesn't take into account the €1.6 billion in gross premiums produced by the U.S. specialty insurance entity Praetorian Financial Group, which is due to be sold off. Hannover Re (Xetra:HNR) said in contrast to the previous year, which had been hampered by exceptionally severe hurricanes, catastrophe losses in 2006 were relatively light.

hannover re

The contrast between 2006 and 2005 — the year of hurricanes Katrina, Rita and Wilma, which inflicted such physical and financial devastation — has been very apparent, with most major reinsurers reporting substantial 2006 profits as a result of the absence of major Atlantic hurricane activity. Hannover Re said almost all business segments offered good opportunities to write profitable business.

—Marc Jones

Banking

AS THE HOUSE GETS READY to look at a bill that would tighten rules on industrial banks, Wal-Mart Stores Inc. has withdrawn its own application to open one in Utah, ending a two-year battle between the world's largest retailer and the financial-services companies that opposed its plans.

Capital Markets

GUY CARPENTER & CO. LLC named Laurent Dignat to the newly created European Solutions Group. Dignat will be responsible for integrating the capital markets, structured risk and enterprise risk management disciplines in Europe.

Rating

AMERINST INSURANCE GROUP LTD. has had its financial strength rating of A- affirmed by A.M. Best.

A.M. BEST HAS ASSIGNED a debt rating of "bb+" to Coventry Health Care Inc.'s \$400 million 5.95% senior unsecured notes, which will mature in 2017.



CLARENDON INSURANCE GROUP has had its financial strength rating of A- and issuer credit rating of "a-" affirmed by A.M. Best.

OHIO CASUALTY GROUP and its members have had their financial strength rating upgraded to A from A- and their issuer credit ratings upgraded to "a" from "a-" by A.M. Best.



PMSLIC INSURANCE CO. has had its financial strength rating upgraded to A- from B++ and has been assigned an issuer credit rating of "a-" by A.M. Best.

THE PENN MUTUAL LIFE INSURANCE CO. and its subsidiary, the Penn Insurance & Annuity Co., have had their financial strength rating of A+ and issuer credit ratings of "aa-" affirmed by A.M. Best.

WISCONSIN MUNICIPAL MUTUAL INSURANCE CO. has had its financial strength rating downgraded to A- from A and has been assigned an issuer credit rating of "a-" by A.M. Best.

United Kingdom

U.K. LIFE INSURER PRUDENTIAL PLC said 2006 operating profit rose 15% on strong new business growth, despite a lackluster performance by its Egg banking unit. Prudential (LSE:PRU) reported an operating profit of £1.98 billion (\$3.82 billion) for the 2006 financial year.



For complete stories, see www.ambestnewsroom.com

Agent/Broker

BROKER AON CORP. has completed its acquisition of Valley Oak Systems, a claims management software and services provider. The terms of the transaction were not disclosed. Valley Oak Systems, based in San Ramon, Calif., will operate under Aon eSolutions Group.



Australia

AUSTRALIAN PROPERTY/CASUALTY insurers Suncorp Metway Ltd. and Promina Group Ltd. completed their merger, creating the second-largest nonlife insurer in Australia. At the same time, Australia's securities regulator announced a settlement with Promina in which the insurer agreed to pay an \$80,000 fine for failing to disclose Suncorp's merger proposal in a timely manner.

Europe

ITALIAN INSURER Assicurazioni Generali S.p.A. said its 2006 results exceeded targets, with net profit up 25% from the previous year. The company reported consolidated net profit of €2.4 billion (\$3.19 billion).

Life

NATIONAL WESTERN LIFE INSURANCE CO. reported a fourth-quarter profit of \$24 million, an increase of 42.9% over the same quarter a year ago, with revenues increasing 41.4% to \$155.1 million.

Rating

FARMERS INSURANCE GROUP has had its financial strength rating of A affirmed and was assigned an issuer credit rating of "a" by A.M. Best. Concurrently, Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and other Farmers' members have had their FSR of A and the ICRs of "a" affirmed.

FOREMOST CORPORATION GROUP and its members have had their financial strength rating of A affirmed and were assigned issuer credit ratings of "a" by A.M. Best.

STATE AUTO INSURANCE COS. and its members have had their financial strength rating of A+ and issuer credit ratings of "aa" affirmed by A.M. Best.



Reinsurance

PXRE GROUP LTD. reported a fourth-quarter loss of \$19.7 million, compared with a loss of \$446.5 million for the same period a year ago. The net loss was attributed mainly to \$17.6 million in termination charges arising from the early commutation of a reinsurance contract.



For complete stories, see www.ambestnewsroom.com

Luxembourg Chief: Pressure for Directive Came From Outside EU

The creation of the European Reinsurance Directive owed more to external pressures than any call from the European industry for change, Victor Rod, Luxembourg's insurance commissioner, told the 2007 European Insurance Forum.

Rod, who was involved in crafting of the directive, recalled a fundamental question that came up at an early stage of the process: "Do we need a reinsurance directive?" After all, he pointed out, reinsurance had remained unregulated for the previous 150 years. Reinsurance is also different from insurance in that buyers are sophisticated entities, unlikely to need the kind of protections that regulators try to extend to members of the public, he said.



Rod

The pressure for change came from such international financial bodies as the International Monetary Fund and the World Bank, Rod said. There was also a push from the United States as part of the trans-Atlantic discussion of mutual recognition, he said.

The question being put from the United States was: "Why do you ask for mutual recognition from us, if you yourself, the Europeans, have no mutual recognition so far in Europe?" said Rod.

The urgency of the issue led the European Union to adopt a speedy approach, adapting existing insurance directives to reinsurance. He expects insurance and reinsurance directives to converge eventually.

Debate about the Reinsurance Directive was limited by the narrow geographical base of the industry. "Reinsurance is a very peculiar activity, which is only practiced on a professional basis in a handful of [EU] member states," he said.

Discussions about reinsurance within the EU tend to elicit interest only in the United Kingdom, Germany and France — and more recently in Ireland and Luxembourg, which have developed reinsurance specialties. It was difficult to gauge the views of countries that have no reinsurance, Rod said. For these countries to discuss reinsurance would be like Luxembourg, which is landlocked, involving itself in talks about North Sea fishing quotas. Rod expects Luxembourg's parliament to enact the Reinsurance Directive in May or June. Noting Ireland's early adoption of the directive, he suggested, to laughter from the audience, that Luxembourg held back in order "to see what we might do better."

The lack of interest in reinsurance could lead some countries to delay enactment until after the Dec. 10, 2007 deadline, Rod said.

—Robert O'Connor

Fla. Senators Push Bills to Reform Insurance

Florida's two U.S. senators may be divided by party affiliation, but they are presenting a united front on catastrophe and insurance issues, cosponsoring six new pieces of legislation that focus on disaster-preparedness and insurance reform.

Included among the "six pack" of bills introduced by Sens. Bill Nelson, D-Fla. and Mel Martinez, R-Fla., are measures dealing with catastrophe savings accounts; a national catastrophe fund; tax treatment of natural catastrophe reserves; tax credits for disaster mitigation expenditures; a federal study to better predict hurricanes; and a companion to a U.S. House bill that proposes streamlining regulation of the U.S. surplus lines and reinsurance markets.



Nelson

"Unfortunately, hurricanes are a way of life for more than 17 million Floridians," Martinez said in a statement. "These prevention-oriented bills will work to make people safer in their homes, allow them to shelter-in-place, lessen their risk of loss, and reduce the monetary burden associated with hurricanes."



Martinez

The reinsurance and surplus lines bill would serve as the Senate version of the Nonadmitted and Reinsurance Reform Act, sponsored by Reps. Dennis Moore, D-Kan., and, Rep. Ginny Brown-Waite, R-Fla. The measure would grant regulatory authority over most aspects of surplus lines insurance transactions to the home state of the insured. The bill also addresses the reinsurance market by pre-empting state insur-

ance regulators from restricting contracts of ceding insurers based in other states, including allowing ceding insurers and reinsurers to resolve disputes by arbitration.

Despite passing the House by an overwhelming 417-0 margin in September 2006, the measure was never introduced in the Senate during the 109th Congress. In addition to Martinez and Nelson, Sen. John Sununu, R-N.H., has indicated interest in sponsoring a Senate version this year.

Several of the other bills introduced by the Florida senators revive proposals that have seen some attention in the House. The catastrophe savings account bill resembles a measure introduced last year by Rep. Tom C Feeney, R-Fla., which would allow homeowners to set aside tax-exempt cash reserves that could be used to cover deductibles and other out-of-pocket costs incurred as a result of a hurricane, earthquake, flood, tornado, terrorist event or other catastrophe.

Legislation amending the federal tax code to allow for "disaster protection funds" by property/casualty insurers already has been introduced earlier this session by Rep. Bobby Jindal, R-La. His bill, H.R. 164, would allow insurers to build up tax-free reserves to pay for catastrophes like hurricanes and earthquakes. It revives similar legislation that dates back eight years ago, but which has yet to make it past the committee stage in either the House or Senate. Brown-Waite and Rep. Vern Buchanan, R-Fla., provide for similar "catastrophe capital reserve funds" — tax-deferred savings accounts private insurers can use to offset catastrophe-related losses — as part of the Homeowners Insurance Protection Act.

—R.J. Lehmann

AMA Asks Feds to Block UnitedHealth-Sierra Deal

The American Medical Association has asked the U.S. Department of Justice to block UnitedHealth Group's proposed \$2.6 billion acquisition of Las Vegas-based Sierra Health Services, citing "deep reservations" about the company buying Nevada's largest health insurer.



In a letter outlining its opposition of the merger to Attorney General Alberto Gonzalez, the AMA said UnitedHealth's goal is to dominate the Nevada health insurance market and, especially, the Las Vegas market. If the merger is allowed, the AMA estimates that UnitedHealth would control 78% of the health maintenance organization market in Nevada and 95% of the HMO market in the Las Vegas-Paradise metropolitan area.

"United's near-monopoly in the HMO insurance market will deter competition and deny patients and employers a choice among HMO plans," Dr. J. James Rohack, an AMA board member, said in a statement.

—Fran Matso Lysiak

New Atlantic Storm Forecast

Tropical Storm Risk, a London-based consortium, is calling for above-average Atlantic hurricane activity in 2007. The main climate factors influencing the forecast are the expected values in August and September for the speed of trade winds, which blow westward across the tropical Atlantic and Caribbean Sea, and the temperature of the sea waters between West Africa and the Caribbean, where many hurricanes develop.

By the Numbers

75

Percent probability that Atlantic basin and U.S. landfall hurricane activity is likely to be above the 1950-2006 norm.

86

Percent probability hurricane activity will be in the top one-third of years historically.

17

The number of tropical storms predicted for the Atlantic basin as a whole, nine of these being hurricanes and four intense hurricanes.

Source: TSR is a consortium of experts on insurance, risk management and seasonal climate forecasting led by the Benfield UCL Hazard Research Centre at University College London.

Issue Tracker

Issue tracker is a compendium of legislative, regulatory and other developing issues before government and oversight bodies affecting the insurance industry.

National Association of Insurance Commissioners (NAIC)

REINSURANCE

Collateral Requirements for Non-Admitted Reinsurers

Summary: The NAIC is proposing to form a Reinsurance Evaluation Office within the organization that would evaluate the operating integrity and financial strength of reinsurers. Reinsurers would then pay collateral — from 0% to 100% — based on a rating scale.

What Happened: Having approved the Reinsurance Evaluation Office proposal in December, the Financial Condition Committee charged a task force with hammering out the technical details of creating an REO within the NAIC. (03/10)

What's Ahead: The issue will receive further consideration by the Financial Condition Committee at the 2007 Summer National Meeting. (06/01)

LIFE

Amendment to the NAIC's Viatical Settlement Model Law

Summary: The life industry has a growing concern over a segment of the life-settlement business in which investors initiate life insurance transactions and reap the benefits when a policyholder dies. The model law proposes to prohibit life settlement transactions within five years of the issuance of a policy, unless the viator can satisfy certain specified exceptions.

What Happened: The NAIC Executive Committee and Plenary sent the model law back to the Life Insurance and Annuities Committee for minor revisions as suggested by the U.S. Treasury's Office of the Comptroller of the Currency. (03/11)

What's Ahead: The matter will be considered by the junior committee and submitted back to the executive committee by the June meeting. (06/01)

National Conference of Insurance Legislators (NCOIL)

PROPERTY/CASUALTY

Model State Uniform Building Code

Summary: The model provides for the adoption, updating, amendment, interpretation and enforcement of a single, unified state building code that applies to the design, construction, erection, alteration, modification, repair or demolition of public or private buildings. It also establishes statewide building standards that would take effect one year after enactment.

What Happened: The NCOIL Executive Committee adopted a model that proposes statewide building standards. (03/03)

What's Ahead: Discussions will continue on other aspects of natural catastrophe risk management to result in possible future model legislation. (07/19)

LIFE

Amendment to Life Settlements Model Act

Summary: The model was amended in 2004 to address a growing life settlements market but is under consideration for new amendments that would prohibit transactions that evade insurable interest laws.

What Happened: The Life Insurance and Financial Planning Committee met to hear comments on the proposed model law. The committee reauthorized the Subcommittee on Life Settlements to continue developing the model. (03/02)

What's Ahead: There will be an interim meeting in May to continue discussion on the model. (05/01)

U.S. Federal

PROPERTY/CASUALTY

Policyholder Disaster Protection Act (H.R. 164/S.926)

Summary: Provides for the creation of tax-free disaster protection reserves by property/casualty insurers for the payment of policyholders' claims arising from future catastrophic events.

What Happened: A companion to the House bill, sponsored by Rep. Bobby Jindal, R-La., has been introduced in the Senate by Sens. Bill Nelson, D-Fla., and Mel Martinez, R-Fla. (03/20)

What's Ahead: The House measure is before the Ways and Means Committee, while the Senate bill has been referred to the Senate Finance Committee. (03/26)

Nonadmitted and Reinsurance Reform Act (H.R. 1065/S.929)

Summary: Would grant regulatory authority over most aspects of surplus lines insurance transactions to the home state of the insured. Also addresses the reinsurance market by pre-empting state insurance regulators from restricting contracts of ceding insurers based in other states.

What Happened: A Senate companion to the House bill was introduced by Sens. Bill Nelson, D-Fla., and Mel Martinez, R-Fla. (03/20)

What's Ahead: The Martinez-Nelson bill has been referred to the Senate Banking Committee. (03/26)

Longshore and Harbor Workers' Compensation Act Amendments (S.846)

Summary: Would update the Longshoremen's Act for the first time since 1984. Annual benefit payments to workers covered under the act currently top \$779 million.

What Happened: Introduced by Sen. Johnny Isakson, who sponsored a similar bill in the last Congress. (03/12)

What's Ahead: Referred to the Senate Committee on Health, Education, Labor and Pensions. (03/26)

Catastrophe Savings Accounts Act (S.927)

Summary: Would allow homeowners to set aside tax-exempt cash reserves that could be used to cover deductibles and other out-of-pocket costs incurred as a result of a hurricane, earthquake, flood, tornado, terrorist event or other catastrophe.

What Happened: Introduced by Sens. Bill Nelson, D-Fla., and Mel Martinez, R-Fla. (03/20)

What's Ahead: Measure has been referred to the Senate Finance Committee. (03/26)

Rating Actions

This edition of Best's Rating Monitor lists all life, health care and property/casualty rating actions that occurred between March 14 and March 20, 2007, for companies domiciled in North America. It also includes the international rating actions that occurred during that period.

All rating actions that have occurred during the past 21 days are available online free to *BestWeek* subscribers at www.bestweek.com.

The new rationales released in support of those rating actions are also available online at that site, free to *BestWeek* subscribers. Those rating actions for which there are new rationales are denoted below in the following rating grid by an X.

For the rating of any company rated by A.M. Best Co. and basic company information free of charge, visit the A.M. Best Web site at www.ambest.com/ratings/access.html.

Ratings Changed

| Life/Health | | | | | | |
|---------------|---------------|--|-------|----------------|-----------------|------------|
| Rating Action | Business Type | Company Name | AMB# | Current Rating | Previous Rating | Rationale |
| | L | American Financial Life Insurance Co | 09107 | NR-5 | NR-3 | US: Texas |
| | L | Premera Blue Cross Blue Shield of Alaska | 64764 | NR-5 | NR-3 | US: Alaska |

| Property/Casualty | | | | | | |
|-------------------|---------------|---|-------|----------------|-----------------|----------------------|
| Rating Action | Business Type | Company Name | AMB# | Current Rating | Previous Rating | Rationale |
| + | P | American Fire and Casualty Company | 00128 | A | A- | US: Ohio X |
| + | P | Avomark Insurance Company | 12066 | A | A- | US: Indiana X |
| New | P | Farmers Reinsurance Company | 12131 | A | NR-2 | US: California X |
| | P | Insurance Corporation of Newfoundland | 86579 | NR-5 | B++ | Canada: Newfoundland |
| + | P | Ohio Casualty Group | 00726 | A | A- | US: Ohio X |
| + | P | Ohio Casualty Insurance Company | 02378 | A | A- | US: Ohio X |
| + | P | Ohio Security Insurance Company | 02379 | A | A- | US: Ohio X |
| + | P | PMSLIC Insurance Company | 03744 | A- | B++ | US: Pennsylvania X |
| New | P | PXRE Reinsurance Company | 02797 | B+ | NR-4 | US: Connecticut X |
| + | P | West American Insurance Company | 11354 | A | A- | US: Indiana X |
| — | P | Wisconsin Municipal Mutual Insurance Co | 10683 | A- | A | US: Wisconsin X |

| International | | | | | | |
|---------------|---------------|-------------------------|-------|----------------|-----------------|-----------|
| Rating Action | Business Type | Company Name | AMB# | Current Rating | Previous Rating | Rationale |
| New | P | Peleus Reinsurance Ltd. | 13313 | A- | | Bermuda X |
| New | P | PXRE Reinsurance Ltd. | 84141 | B+ | NR-4 | Bermuda X |

Rating Action: (+) or (–) Rating upgraded or downgraded; (**New**) Assigned initial rating; (**u**) Rating under review; **X** denotes a rationale is available online at www.bestweek.com for this rating action. **P** = Property/Casualty (nonlife). **L** = Life/Health.

Rationales Available Online

Rationales for many of the rating actions listed above are available online at www.bestweek.com free to *BestWeek* subscribers. Visit the site and click on the "Rating Monitor" tab for an interactive listing of recent rating actions and rationales.

Bill's Mandatory Medical Would Lift Rates 40%

The Colorado Senate Appropriations Committee is scheduled to consider a bill that could tack on increases of up to 40% in private-passenger automobile rates, according to insurance industry watchers.

Senate Bill 193 would require auto policies issued on or after July 1 to include coverage of at least \$25,000 for all medically necessary and accident-related health-care costs due to bodily injury and at least \$25,000 for rehabilitation, treatments or occupational therapy treatments for five years following an accident.



Current Colorado law requires individual private-passenger auto insurance to carry bodily injury coverage of \$25,000 per person injured, \$50,000 per accident occurrence and property damage liability coverage of \$15,000.

If the bill passes muster in the committee, is adopted by the full Senate and signed by Colorado Gov. Bill Ritter, industry groups say drivers will pay an average additional premium of \$200 per year for what amounts to additional medical coverage that they may not need or want.

Some industry watchers fear a return to abuses of the previous no-fault system.

—Tom De Martini

GUIDE TO BEST'S FINANCIAL STRENGTH RATINGS

A Best's Financial Strength Rating is an independent opinion based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile. Best's Financial Strength Ratings are not a warranty of a company's financial strength and ability to meet its ongoing obligations to policyholders.

Financial Strength Ratings

A Best's Financial Strength Rating (FSR) is an opinion as to an insurer's financial strength and ability to meet its ongoing obligations to policyholders.

| | Rating | Descriptor |
|------------|---------|------------------------------|
| Secure | A++, A+ | Superior |
| | A, A- | Excellent |
| | B++, B+ | Good |
| Vulnerable | B, B- | Fair |
| | C++, C+ | Marginal |
| | C, C- | Weak |
| | D | Poor |
| | E | Under Regulatory Supervision |
| | F | In Liquidation |
| | S | Suspended |

| Rating Modifiers | | Affiliation Codes | |
|------------------|--------------|-------------------|-----------|
| "u" | Under Review | "g" | Group |
| "pd" | Public Data | "p" | Pooled |
| "s" | Syndicate | "r" | Reinsured |

Not Rated Categories (NR)

| | |
|------|---|
| NR-1 | Insufficient Data |
| NR-2 | Insufficient Size and/or Operating Experience |
| NR-3 | Rating Procedure Inapplicable |
| NR-4 | Company Request |
| NR-5 | Not Formally Followed |

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Conning Forecasts Upswing in Mergers

Insurance industry mergers hit their highest point in five years in 2006, but prevailing conditions of robust sector capitalizations, combined with slower projected growth, could set the stage for merger-and-acquisition activity to accelerate even further in 2007 and 2008, according to a new forecast from Conning Research & Consulting.

Conning observed a 25% jump from 2005 to 2006 in insurance industry merger activity, and noted a brisk start to 2007, with announcements of insurance broker USI Holdings acquisition by the private equity arm of Goldman Sachs & Co. and Hub International's acquisition by Apax Partners and Morgan Stanley Principal Investments.

But the report noted the trend thus far has been driven entirely by the distribution sector, while the number of transactions involving life, health and property/casualty insurers was flat from 2005 to 2006. Total transaction value actually decreased by nearly \$8 billion, from \$50.8 billion in 2005 to \$43 billion in 2006, Conning noted.

As the industry remains flush with capital from 2006's record-breaking underwriting returns, Conning expects insurer M&A activity to pick up, particularly in the property/casualty sector. Investment returns also increased, Treasury yields rising from 0.30 to 0.86 points.

Even with the likely return of catastrophic hurricane losses in 2007, the Swiss Re unit anticipates the ratio of property/casualty premium to insurer surplus could drop below 90 to 1 in 2007, approaching ratios last recorded by the industry in the benchmark year of 1998, which saw 565 insurance-related transactions and \$165 billion in total values.

"Foreign insurers and private equity transactions also are influences," Conning wrote. "These buyers were part of the 2006 M&A market and are continuing with acquisition announcements into 2007. These not only increase the number of transactions, but also they may spur more traditional domestic consolidation in defense."

—R.J. Lehmann

Excerpt: 2007 Annual U.S. Funding Agreement-Backed Securities,
Year-End Special Report

Despite Formidable Macro-Economic Challenges, 2006 FABS Issuance Increases Modestly

Summary

Funding agreement-backed securities (FABS) issuance by U.S. life insurers increased modestly in 2006, despite the formidable challenges of tight credit spreads and the flat yield curve. U.S. life insurers appear willing to accept a slight reduction in return rather than allow program balances to shrink. Further indication of the continuing pressure to maintain balances has been the unusually high volume of transactions in early 2007, as insurers moved quickly to replace earnings on business that matured in late 2006. Also noted is an emerging trend—using separate-account funding agreements (SAFAs) to back a portion of FABS issuance—in the continuing effort to improve returns on spread lending.

This is the third report on recent trends and developments on FABS (registered and nonregistered) and registered non-FABS programs sponsored by U.S. life insurers. Previous FABS reports are found at www.ambest.com. Future reports will be scheduled on a periodic basis as the funding agreement data become available.

2006 Review

Life companies continued to face a dilemma regarding their issuance activities in 2006, as spreads on credits typically purchased to back spread lending programs remained tight relative to funding costs. With fewer opportunities to hit profit targets typical for the business, insurers could choose to either accept lower returns or sit out the market until conditions improved. The volumes for 2006 indicate that insurers elected to utilize available capacity despite the lower associated returns. A.M. Best believes the acceptance of lower returns is driven by the pressure on insurers to maintain program balances—in other words, to maintain the level of earnings generated by these stable value programs.

Overall, FABS issuance totaled \$32.3 billion in 2006,

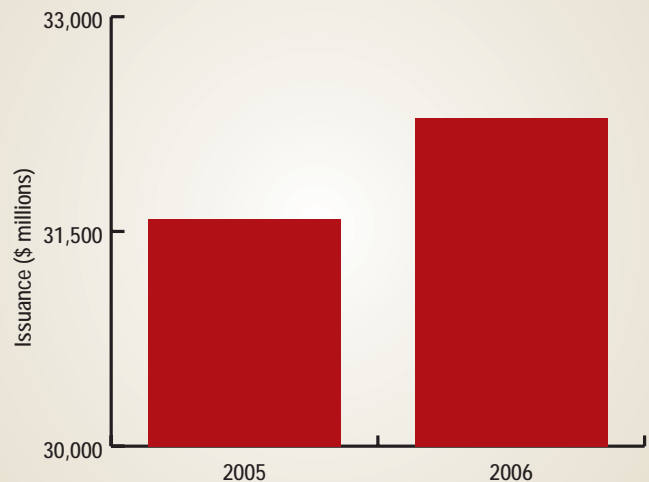
This report was written by Darian Hala, financial analyst, and Andrew Edelsberg, assistant vice president, in the life/health division of A.M. Best Co.

an increase of 2% over 2005. The short end of the curve continues to offer the most attractive terms: Almost 75% of new issuance was financed for five years or less. Insurers also saw more opportunities in foreign markets; U.S. dollar issuance accounted for only 70% of 2006 transactions, versus 90% in 2005.

Nearly 60% of the FABS issued in 2006 were sponsored by five insurers. The top five were Metropolitan Life Insurance Co. with \$5.2 billion, Principal Life Insurance Co. with \$3.9 billion, Monumental Life Insurance Co. with \$3.8 billion, Prudential Insurance Company of America (PRICOA) with \$3.3 billion, and New York Life Insurance Co. with \$2.8 billion.

Registered FABS issuance totaled \$9.1 billion for 2006, roughly unchanged from last year. As a percentage of total FABS issued (both registered and nonregistered), registered FABS made up 28% of the issuance for 2006, versus 29% for 2005.

Annual FABS Issuance — Year-over-Year Comparison



Source: Company reports, Bloomberg & A.M. Best

Online Availability

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2007 U.S. Banking Issues

FDIC, Fed Disagree on Basel Implementation

As of late September, the federal regulatory agencies in charge of bank supervision seemed to have agreed on how to implement the provisions of the Basel Accord. Yet it seems regulators still have a way to go — and they can't agree on how to get there.

In a pair of speeches Feb. 27 before a meeting of the Global Association of Risk Professionals in New York, representatives of the Federal Deposit Insurance Corp. and the Federal Reserve System — two of the five main U.S. banking regulators — espoused very different views of how Basel II should move forward in the United States. Not two weeks earlier, the General Accountability Office, Congress' investigative body, published a report urging the federal government's banking regulators to forge ahead nonetheless.

Sheila C. Bair, chairman of the FDIC, told the GARP audience that "there is still room for fresh thinking," while Susan Schmidt Bies, a member of the Fed board of governors, said regulators should move forward with the Basel proposals. "We need a more risk-sensitive capital framework," Bies said, "and we believe Basel II is such a framework."

During her speech, Bies also said the Fed is considering a request to delay implementation of the market-risk proposals until January 2009.

Bair, on the other hand, said the Basel II framework, as currently proposed, will lead to a reduction in capital requirements for the larger U.S. banks, which could threaten their stability. "Basel II was supposed to be about improvements in risk management and not about dramatic reductions in capital requirements. This was a sensible guiding principle," Bair said. "If the result of Basel II is much less capital supporting the risks in the banking system, then Basel II may make the banking system more vulnerable to shock — not safer."

Basel II, officially called the International Convergence of Capital Measurement and Capital Standards — A Revised Framework, is an agreement among the 13 countries that make up the Basel Committee on Banking Supervision. The second revision to the Basel Accord is intended to set consistent international standards for measuring banks' capital adequacy. The Basel II revision has been underway since 2001. In the United States, Basel II has been limited to the 10 largest internationally active banks, with another 10 large banks allowed to "opt in." Banks outside the Basel II framework will adhere to a modified version of the current Basel I framework, called Basel 1A.

Bair also said taking an approach similar to that for Basel 1A, for all banks, instead of just for the smaller ones, may strike a balance between regulatory burdens and making

sure banks are adequately capitalized.

"I think everyone would, to the extent possible, like to reduce cost and burdens to Basel II adopters. I suspect some of the costly and prescriptive elements can ultimately be traced to a desire to prevent, or compensate for, unacceptable pillar 1 outcomes," meaning outcomes that stem from an institution's handling credit risk, operational risk, or market risk.

"From the FDIC's perspective, at least, a framework that provided greater certainty on a bank's bottom line risk-based capital requirement might well be accompanied by a reduction in other prescriptive or costly elements. More concretely, a standardized or Basel 1A-type of approach to setting regulatory capital ... would be an example of a less burdensome framework that also reduces uncertainties about capital impact," Bair said.

"I am amenable to other suggestions for ways to simplify and reduce differences between U.S. and overseas implementation, while maintaining strong safeguards against capital reductions," Bair said, adding that "this process is important enough that we should still be willing to consider fundamental changes in direction. Nothing should be off the table — except for the leverage ratio."

On Dec. 5, 2006, regulators issued the latest Basel 1A notice of proposed rulemaking or NPR, which would change details on risk weighting and ease some capital requirements for first mortgages. Currently, credit risk is assigned to five risk categories or "buckets" — 0%, 20%, 50%, 100%, and 200% — and the proposal would allow some finer tuning, by adding three more categories: 35%, 75%, and 150%.

Proposed Capital Rules for Basel 1A

The concept: Make the regulatory framework more sensitive to risk levels.

The outcome: Some banks might face lower capital requirements; some would face higher.

Among the proposals:

- Expand credit risk categories from five to eight, to get finer detail on risk weighting.
- Ease capital requirements for some first mortgages.
- Ease capital requirements for some home-equity loans.
- Raise capital requirements for some off-balance-sheet risks.
- Ease capital requirements on some small-business loans.

What's next: Regulators are accepting comments on their proposals through March 26.

Online Availability

This special report is available at www.ambest.com/banks

This report was written by Chris Grier, Washington correspondent for A.M. Best Co.

A.M. Best's Stock Indexes

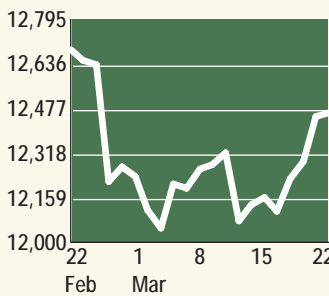
Week Ended March 22, 2007 (Dec. 31, 2004 = 1,000.00)

The "AMB" vs. the "Dow"

AMB (AMBG)



Dow (DJIA)



<---Percent Change--->

AMB vs Dow

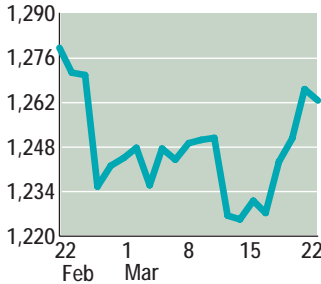
| | Index Close | Week/ Week | Year to Date | Year/ Year |
|----------------------------------|-------------|------------|--------------|------------|
| AMB's Insurance Composite (AMBG) | 1,342.97 | 3.68 | 0.94 | 10.23 |
| Dow Jones Industrial Avg (DJIA) | 12,461.14 | 2.48 | -0.02 | 10.11 |

| Global and Regional Indexes (Ticker) | Index Close | Week/ Week | Year to Date | Year/ Year |
|--|-------------|------------|--------------|------------|
| Insurance Composite Indexes by Region | | | | |
| United States (AMBUS) | 1,262.51 | 2.55 | 0.26 | 7.51 |
| Europe (AMBEUR) | 1,497.28 | 6.01 | 1.39 | 16.63 |
| Asia/Pacific (AMBAP) | 1,466.29 | 2.64 | 5.03 | 4.83 |
| Insurance Indexes by Market Type (Global) | | | | |
| Non-Life (AMBGNL) | 1,286.52 | 2.68 | 0.06 | 12.11 |
| Life (AMBGL) | 1,412.07 | 4.31 | 2.21 | 7.21 |
| Multi-Line (AMBGML) | 1,335.45 | 3.88 | 0.01 | 14.00 |
| Reinsurance (AMBGR) | 1,337.67 | 4.23 | -0.11 | 15.40 |
| Brokers (AMGBB) | 1,092.16 | 2.42 | 1.30 | -0.99 |

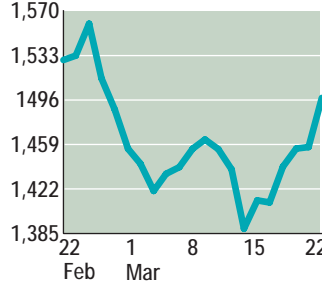
(See www.ambest.com/stocks for live feed, for methodology and further detail identifying the companies included in each index.)

Insurance Composite Indexes by Region

United States (AMBUS)



Europe (AMBEUR)

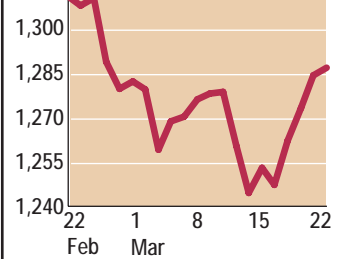


Asia/Pacific (AMBAP)

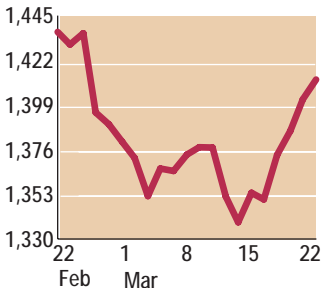


Insurance Indexes by Market Type (Global)

Non-Life (AMBGNL)



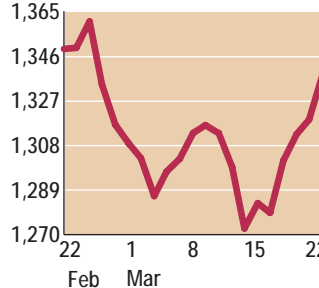
Life (AMBGL)



Multi-Line (AMBGML)



Reinsurance (AMBGR)



Brokers (AMGBB)



Source: A.M. Best, Dow Jones Indexes

A.M. Best's Europe Stock Index Jump Led By Novae, Scor

The Europe Index rose more than 6% to close the week ending March 22 as the biggest gainer among the 14 regional and sector-specific indexes on A.M. Best's Global Insurance Composite Index.

Of the five top performing individual stocks on the global composite, four were European insurers—namely Novae Group, Scor S.A., Prudential plc, and Hannover Re. European insurers have been reporting strong earnings results for 2006, and Merrill Lynch & Co. upgraded its rat-

ing of the European insurance sector, recommending that investors increase their holdings there. U.K.-domiciled Novae Group's stock rose more than 11%, while that of French reinsurer Scor and U.K. life insurer Prudential increased 8.2% and 8.07%, respectively. A.M. Best's composite index was up 3.68% and the Dow Jones Industrial Average increased 2.48%. All indexes on the A.M. Best's global composite gained over the previous week.

—David Dankwa

| U.S. Indexes (Ticker) | Index Close | <---Percent Change---> | | |
|--|-------------|------------------------|--------------|-----------|
| | | Week/Week | Year to Date | Year/Year |
| Insurance Indexes by Market Type (U.S.) | | | | |
| Multi-Line (AMBURL) | 1,118.24 | 1.99 | -3.81 | 4.95 |
| Property/Casualty (AMBUPC) | 1,217.36 | 2.34 | -2.16 | 12.68 |
| Life & Health/HMO (AMBULH) | 1,422.24 | 3.04 | 4.41 | 6.54 |
| Life (AMBUL) | 1,451.49 | 2.54 | 3.57 | 12.63 |
| Health/HMO (AMBUH) | 1,388.48 | 3.57 | 5.33 | 0.79 |
| Brokers (AMBUB) | 1,066.42 | 2.08 | 0.42 | -3.05 |

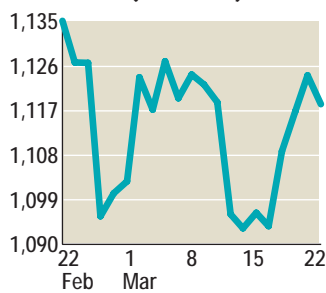
(See www.ambest.com/stocks for live feed, for methodology and further detail identifying the companies included in each index.)

| Top 5 Global Performers | Ticker | Currency | Closing Price | % Change Week/Week |
|------------------------------------|---------|----------|---------------|--------------------|
| 1. Novae Group PLC | ILNVA | GBP | 0.40 | 11.89 |
| 2. Fairfax Financial Holdings Ltd. | FFH | USD | 234.23 | 9.33 |
| 3. Scor S.A. | eQ13030 | EUR | 20.25 | 8.29 |
| 4. Prudential PLC | ILPRU | GBP | 7.30 | 8.07 |
| 5. Hannover Rueckversicherungs AG | eiHNR1 | EUR | 33.23 | 8.07 |

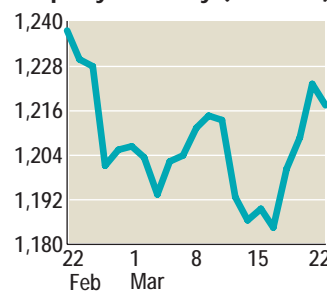
| Bottom 5 Global | Ticker | Currency | Closing Price | % Change Week/Week |
|--------------------------------|----------|----------|---------------|--------------------|
| 1. KMG America Corp. | KMA | USD | 8.75 | -6.52 |
| 2. RTW Inc. | RTWI | USD | 8.35 | -4.02 |
| 3. Penn Treaty American Corp. | PTA | USD | 6.93 | -3.21 |
| 4. Korean Reinsurance Co. Ltd. | jd003690 | KRW | 12,500.00 | -2.34 |
| 5. Scottish Re Group Ltd. | SCT | USD | 4.00 | -1.96 |

Insurance Indexes by Market Type (U.S.)

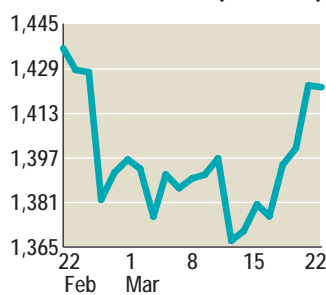
Multi-Line (AMBURL)



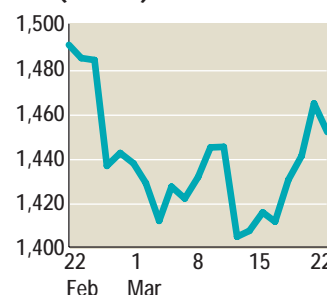
Property/Casualty (AMBUPC)



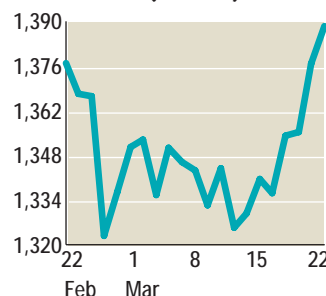
Life & Health/HMO (AMBULH)



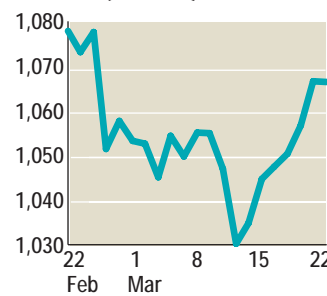
Life (AMBUL)



Health/HMO (AMBUH)



Brokers (AMBUB)



Source: A.M. Best, Dow Jones Indexes

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Principles vs. Rules

We're in for a Stormy Trans-Atlantic Debate Over Regulatory Strategies This Year

Regulatory harmonization is all the rage in international insurance circles this year, but as anyone following the tortured history of the Doha round of world trade negotiations can recognize, politics often trumps policy.

The 27 member states of the European Union will take a deep breath this year in their anticipated plunge into a universal solvency standard for the insurance industry known as Solvency II. By July, the EU is expected to unveil a draft directive for Solvency II. The standard is expected to take effect by 2010.

In a preview of what Solvency II may mean for the industry, the United Kingdom's Financial Services Authority hosted a series of panel discussions last week at its annual insurance sector conference on Solvency II and principles-based regulation. In the minds of U.K. regulators, the principles-based approach goes hand-in-hand with a new solvency standard as the most effective and sensible way to regulate insurance.

Principles-based regulation stands in contrast to what is characterized as the rules-based approach in U.S. regulation. Simply put, the principles-based approach sets out standards or goals for institutions to meet, and allows them some scope in how they go about meeting those goals. Under a rules-based regime, the method of compliance is specified in greater detail.

London regulators see themselves as champions of the principles-based approach, arguing it is counter-productive to prescribe exactly how companies should go about meeting their solvency and market-conduct goals. As FSA chief John Tiner said the conference: "Firms who genuinely commit to a set of outcome-based principles are in the best position to judge the detail of how to deliver those outcomes in the marketplace."

Speaking at the same conference, Joe Plumeri, chief executive officer of insurance broker Willis Group, said the prob-



At Large

lem with rules-based regulation is that a business overly worried about rules will not do the best possible job serving the customer. "Think of it in terms of something you love doing as opposed to something you have to do," he said. Consider recent actions among U.S. regulators and lawmakers in their approach to insurance regula-

tion. In the wake of Hurricane Katrina, we have seen the attorney general of Mississippi head to the courts to rewrite homeowners insurance contracts to force insurers to pay for excluded flood damage. And Florida lawmakers essentially took their taxpayers into the reinsurance business by expanding the mandate of the state's catastrophe fund.

This all closely followed the changes to finite reinsurance accounting and broker compensation practices forced by the actions of other prosecutors, most notably New York's Eliot Spitzer. Reinsurers based in Europe have long been looking for signs from U.S. regulators that collateralization rules placed on alien reinsurers would be eased, following the EU's adoption of its Reinsurance Directive in 2005, which essentially eliminated such rules in the EU. The National Association of Insurance Commissioners tossed the idea about, but now seems to be backing off any big changes.

Walter Bell, president of the NAIC and Alabama's insurance commissioner, said at the European Insurance Forum in Dublin, Ireland, that U.S. regulators are sympathetic to the aims of the EU Reinsurance Directive, but warned an U.S. agreement on collateralization may not be easy. Suggesting that getting U.S. state regulators to agree on the issue is something like herding cats, Bell said U.S. regulators are concerned about the implementation of regulatory provisions within the EU, the level of supervisory control over troubled companies and trans-Atlantic arbitrage between solvency and licensing.

—David Pilla

Coming Up

- **March 28-29:** National Association of Professional Insurance Agents 2007 Federal Legislative Summit, Marriott Crystal City, Crystal City, Va.
- **March 29-30:** Reinsurance Association of America: ReClaims, Radisson Hotel & Suites, Chicago.
- **April 1-3:** National Society of Insurance Premium Auditors 2007 Annual Seminar, Wyndham, Chicago.

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