

**Briefing**

# Insurers Begin Tallying Losses From Wildfires

Insurers are beginning to provide firmer numbers regarding their exposures to the spate of devastating wildfires that charred Southern California in late October.

## Feeling the Heat

Top five writers of homeowners multiperil in California in 2006:

Company	% Market Share
State Farm	21.7
Farmers	16.6
Allstate	13.4
Calif. State Auto	6.3
USAA Group	4.5

Top five writers of private-passenger auto in California in 2006:

Company	% Market Share
State Farm	12.7
Mercury General	9.7
Farmers	9.7
Auto Club Enterprises	9.4
Allstate	9.3

Source: A.M. Best Co. state/line data based on direct premiums written

Safeco Insurance Cos., California's ninth-largest writer of homeowners multiperil insurance, said it estimates pretax catastrophe losses from the wildfires to total about \$35 million.

The company said the estimate is based on claims received through Nov. 6 as well as anticipated future claims. Estimated losses include \$30 million in personal lines and \$5 million in commercial property, the company said in a statement.

The estimated fourth-quarter effect on net income is \$23 million after tax, Safeco said.

## GOP 2, Democrats 2



AP Photo/Rogelio V. Solis

**HURRICANE HALEY:** Last month's election results were a mixed bag. In Mississippi, voters re-elected Republican incumbent Gov. Haley Barbour to a second term, largely based on his creditable handling of Hurricane Katrina's aftermath. On Barbour's coattails, Republican state senator Mike Chaney was elected Insurance Commissioner, defeating former state Chief Fiscal Officer Gary Anderson, a Democrat. However, voters denied the GOP a sweep by re-electing Democrat incumbent Jim Hood as Attorney General. Meanwhile, Kentucky voters replaced their Republican governor, Ernie Fletcher, with Democrat Steve Beshear.

Jerry Davies, a spokesman with Farmers Insurance Group, the state's second- and third-largest writer of homeowners and automobile insurance, respectively, said it has not tallied loss estimates but to date it has received more than 7,300 claims.

—Chad Hemenway

# Insurers Wonder: Is Avian Flu for the Birds?

Remember bird flu? This time last year, it was said to be the next pandemic.

No pandemic occurred. However, it's still out there—and it's spreading, though so far only among birds.

The World Health Organization says avian flu—known to science as H5N1, a subtype of Influenza A—has been spread by migratory wild birds flying from Japan westward. It's been reported from Asia to the United Kingdom, and the Mideast to central Africa.

Not surprisingly, insurers and reinsurers are pondering the potential threat to humans and commerce.

Broker Aon Corp. now offers a new policy for poultry farmers. It bridges the gap between the market value of flocks having to be slaughtered and the compensation farmers will receive under European Union laws.

Leading reinsurer Swiss Re and oth-

ers are concentrating on a possible avian flu pandemic in people, which might result in catastrophic rates of illness and death worldwide. So far, almost all human deaths from H5N1 have come from humans having direct contact with infected poultry and wild birds.

The WHO has recorded 331 bird-to-human cases; alarmingly, 203 resulted in death—a mortality rate of 61.3%.

Health authorities fear H5N1 could mutate into a super-germ and begin transmitting itself from person to person. No H5N1 vaccines are available yet.

The so-called Spanish Flu pandemic of 1918-1919 killed at least 40 million people worldwide. Studies of tissue samples from its victims showed the virus was another subtype of Influenza A, code-named H1N1.

Where did it come from? Birds.

—Marc Jones

## Bird Flu's Tally

Though the number of reported cases worldwide is still small, avian flu's high death rate worries health experts. Nearly two-thirds of the 331 confirmed cases reported as of Oct. 17, 2007, resulted in death.

Country	←-----Total-----→		Death Rate %
	Cases	Deaths	
Azerbaijan	8	5	62.5
Cambodia	7	7	100
China	25	16	64
Djibouti	1	0	0
Egypt	38	15	39.4
Indonesia	109	88	80.7
Iraq	3	2	66.6
Laos	2	2	100
Nigeria	1	1	100
Thailand	25	17	68
Turkey	12	4	33.3
Vietnam	100	46	46
<b>Total</b>	<b>331</b>	<b>203</b>	<b>61.3</b>

Source: World Health Organization

# Competition Begins to Stir in Massachusetts

A system of managed competition for auto insurance, in which insurers battle for name recognition, already is showing signs it can be beneficial to Massachusetts, according to state insurance commissioner Nonnie Burnes.

Addressing the annual meeting of the Property Casualty Insurance Association of America, Burnes said the state's insurers now offer new products, such as protection against identity theft, full replacement and towing coverage to attract fresh business and retain existing policies.

Massachusetts plans to let market forces drive rates and coverage plans beginning next April. For more than 30 years, rates were set by the commissioner—rates that became the fourth-highest in the United States, according to the National Association of Insurance Commissioners.

"For the longest time, of course, no one had any reason to advertise," said Frank O'Brien, vice president and regional manager for PCI. "What is happening now is the competitive market is becoming significantly more aggressive to maintain their market share."



Billboards now are dedicated to insurance ads. During the televised World Series—won conveniently by the Boston Red Sox—commercials touted the latest insurance products.

Sports fans also are bombarded with radio and television ads during New England Patriots football games. The Safety Group, the state's second-largest auto insurer, now sponsors Patriots games on the radio, said O'Brien.

Boston radio listeners get traffic reports courtesy of the Commerce Insurance helicopter. Commerce is the state's largest writer of private passenger auto insurance with a 32% market share.

Boston-based Liberty Mutual Group's media expenditures have more than doubled over the past two years, said spokesman Glenn Greenberg.

Premier Insurance Co., another well-known Bay State insurer, has changed its name to Travelers of Massachusetts to gain the national recognition of parent company Travelers Insurance Co., said Susan Scott, senior vice president and general counsel.

—Chad Hemenway

## 100 YEARS AGO in BEST'S REVIEW

### Elections Fail to Bring Change

Following trustee elections for Mutual Life and New York Life insurance companies, *Best's Review* concluded that the administration tickets in both companies won.

Most of the ballots were sent directly to the companies, and election inspectors were unable to agree on a course of action for counting the votes. It was likely that any such plan would take years.

The public, however, remained dissatisfied, as both companies experienced a substantial drop in volume in new insurance in the last two years. "...(T)he interests of the policyholders demand a complete change in both of the two companies, expressing at the same time our fear that through their arm of agents the present managements would be able to continue themselves in power," *Best's Review* reported.

—Kate Fry



## Climate Change-Windstorm Link Still Cloudy

Researchers studying climate change told the Property Casualty Association of America annual meeting in November that tremendous uncertainty still surrounds whether climate change is linked to windstorms.

Scientist Roger Pielke, sitting on a panel of experts at the conference, said activity during the 2006-2007 hurricane season was "no less remarkable" than the 30-year average of hurricane activity.

Karen Clark, vice chairwoman of catastrophe modeling firm AIR Worldwide, said that although companies invest a large amount of intelligence and capital to build the best cat models, these models are still based on assumptions.

"Many are based on uncertainty," she said. "They don't give you the answer. The challenge is to assess future risk in the face of incomplete data and understanding."

The panel agreed that trends in climate change indicate there will be an increase in the intensity of storms, but there is no consensus on frequency.

Sergio Prete, vice president and manager of catastro-

phe exposure at FM Global, acknowledged a change in climate but cautioned companies on the use of cat models. Land use management and engineering are more effective ways to insure against catastrophic loss, he said.

"Until you change the mind-set, there is nothing you can do," Prete said. "A majority of these losses are preventable. The solutions are there and practical. You don't have to be at the mercy of Mother Nature."

He said the issue of climate change takes "your eye off the ball."

Strong building codes do make a difference, Clark agreed. Structures in Florida built in accordance with new codes established in 2001 suffered less than half the damage of structures not built to current codes during recent hurricanes.

Mark Way, senior vice president of Swiss Re, said a "two-track approach" needs to be adopted: Reduce emissions to cut greenhouse gases and shore up structures now to prevent losses.

—Chad Hemenway

# By the Numbers

## U.S. Surplus Lines Remain Solid Despite Soft Market

U.S. insurers' surplus lines maintained adequate pricing in 2006, aided by the fact that catastrophe-exposed coastal property remained a notable exception to the property/casualty market's softening rates. The findings are in A.M. Best's 2007 Special Report, *Surplus Lines Insurers Weather Soft Market with Profits Intact*. A.M. Best expects continued positive underwriting returns for surplus lines.

## U.S. Surplus Lines – Top 10 Groups (2006)

Ranked by 2006 direct premiums written (\$ Thousands)

Rank	Group Name	Direct Premiums Written	Total Surplus Lines Market Share	Policyholder Surplus
1	American International Group	\$8,164,885	21.1%	\$27,002,503
2	Lloyd's	5,989,000	15.5%	26,107,000
3	Zurich Financial Svcs. Group	1,638,125	4.2%	6,239,445
4	Nationwide Group	1,508,253	3.9%	12,848,181
5	ACE INA Group	1,507,966	3.9%	4,420,165
6	W.R. Berkley Group	1,288,056	3.3%	3,535,243
7	Markel Corporation Group	1,269,918	3.3%	1,419,283
8	Berkshire Hathaway Ins. Group	1,128,902	2.9%	59,396,009
9	Alleghany Insurance Holdings	1,004,112	2.6%	1,319,111
10	CNA Insurance Companies	837,557	2.2%	8,161,926

Source: A.M. Best Co.

## U.S. Surplus Lines – Market Composite (1988-2006)

A comparison of the growth in direct premium written of the different components of the surplus lines industry.

(\$ Millions)

Year	Domestic Specialty	Regulated Aliens (excl. Lloyd's)	Lloyd's	Domestic Professional	Total Surplus Lines
1988	\$328	\$1,012	\$1,237	\$3,704	\$6,281
1989	361	1,050	1,182	3,530	6,123
1990	396	1,013	1,241	3,882	6,532
1991	410	1,111	1,322	4,081	6,924
1992	450	1,220	1,388	4,491	7,549
1993	456	1,183	1,631	5,270	8,540
1994	509	992	1,196	6,089	8,786
1995	412	1,022	1,300	6,511	9,245
1996	365	818	1,354	6,668	9,205
1997	439	802	1,609	6,569	9,419
1998	328	1,196	1,574	6,763	9,861
1999	298	1,140	1,912	7,275	10,625
2000	332	941	2,499	7,884	11,656
2001	310	1,237	3,368	10,773	15,688
2002	311	1,600	4,082	19,572	25,565
2003	245	2,400	4,492	25,662	32,799
2004	272	2,400	4,596	25,744	33,012
2005	238	2,400	4,675	25,988	33,281
2006	199	3,100	5,989	29,410	38,698

Source: A.M. Best Co.



## Meetings

Dec. 2-4

**National Association of Insurance Commissioners:** NAIC Winter National Meeting, Hilton Americas, Houston  
Phone: (816) 842-3600  
Web site: [www.naic.org](http://www.naic.org)

Dec. 5

**Institute of Risk Management:** IRM Annual General Meeting, Auditorium, ACE European Group, London  
Phone: +44-20-7709-9808  
Web site: [www.theirm.org](http://www.theirm.org)

Dec. 6-8

**National Association of Public Insurance Adjusters:** Mid-Year Meeting, Sheraton Oklahoma City Hotel, Oklahoma City  
Phone: (703) 433-3217  
Web site: [www.napia.com](http://www.napia.com)

Jan. 8, 2008

**Insurance Information Institute:** P/C Insurance Joint Industry Forum (sponsored with 14 other organizations), Waldorf-Astoria, New York  
Phone: (212) 346-5562  
Web site: [www.iii.org](http://www.iii.org)

Jan. 13-20

**Independent Insurance Agents & Brokers of America:** 2008 Big "I" Best Practices Symposium and Winter Board Meeting, The Westin Grand Bahama Island Our Lucaya Resort, Grand Bahama Island, Bahamas  
Phone: (800) 221-7917  
Web site: [www.iiaba.net](http://www.iiaba.net)

Jan. 16

**St. John's University School of Risk Management:** 13th Annual Insurance Leader of the Year Award, New York Marriott Marquis Hotel, New York  
Phone: (212) 277-5111  
Web site: [www.stjohns.edu](http://www.stjohns.edu)

# Business Lawsuits Decline, Study Finds

**B**usinesses in the United States reported a decreasing number of lawsuits filed against them in the past year, according to the latest *Litigation Trends Survey* conducted by international law firm Fulbright & Jaworski L.L.P.

Based on interviews with in-house counsel at 253 major U.S. corporations (including 13 insurance companies), 17% of respondents said their companies did not defend a single new lawsuit, up sharply from 11% in 2005-06.

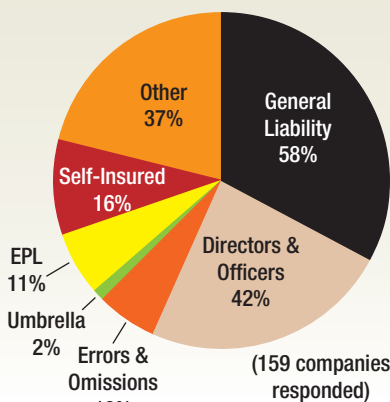
What's more, 65% of American corporations in the survey said their companies had initiated at least one lawsuit in the past year, compared to more than 70% a year ago and 88% in 2004. During the next year, 22% of in-house counsel expects to see an increase in the number of lawsuits their companies face. A year ago, 33% said they expected lawsuits to increase.

Even government regulatory actions are fewer, with 48% of companies reporting some regulatory proceedings brought against them in the past 12 months. That's down more than 4% from a year ago.

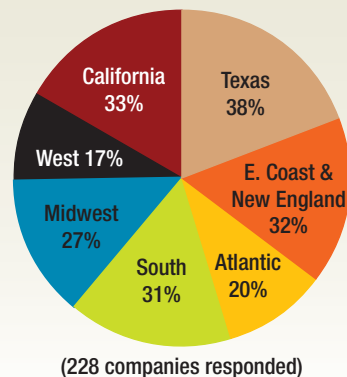
However, U.S. companies still face large numbers of cases in multi-

## Legal Affairs

Types of insurance carried by companies to protect against litigation:



Areas of the U.S. that generate the most significant lawsuits against companies:



Source: Fulbright & Jaworski

ple areas and jurisdictions. One-third of in-house counsel handles more than 25 lawsuits at any one time; 18% handles at least 100 actions in U.S. courts.

And even as some types of actions appear to have dipped in the past year—notably securities and bankruptcy disputes—other kinds of litigation are rising, particularly patent and product liability cases.

Forty percent of U.S. companies

said they were named in at least one suit in the past year seeking more than \$20 million. Among billion-dollar businesses, 62% were served with at least one \$20 million lawsuit.

This is the fourth year that Fulbright & Jaworski has surveyed the litigation climate in the U.S. and the first time it has detected a decline in overall case filings.

Further information is available at [www.fulbright.com](http://www.fulbright.com).

# Pirate Attacks Increase on World's Commercial Ships

Pirate attacks against ships rose 14% in the first nine months of 2007, with much of the increase occurring along the Africa coast, according to the latest figures from the International Maritime Bureau.

The IMB reported a total of 198 attacks around the world versus 174 attacks over the same period of 2006. Fifteen vessels were hijacked and 172 crew members were taken hostage, while another 63 were kidnapped and 21 were physically attacked. The IMB lists Indonesia, Somalia, Nigeria, India and Bangladesh as the world's most treacherous areas for piracy.

The largest increase took place off the coast of Somalia, apparently an outgrowth of the East African nation's ongoing civil strife. The IMB reported 26 attacks in the first nine months of 2007, up substantially from the eight incidents reported there during the same period in 2006.

Another 26 piracy incidents were reported off the coast of Nigeria on the continent's western shore. Again,



this was up significantly over the nine attacks that were reported over the same period of 2006. Nigeria has been hit by increasing political unrest over the distribution of oil revenue from its petroleum-rich delta and ocean wells.

However, attacks in the Malacca Straits, the narrow channel between Sumatra and Malaysia, have continued to decrease. Once considered some of the most dangerous waters for piracy, only four attacks were reported through Sept. 30. In the first nine months of 2003, the area saw 24 attacks.

The IMB credits ongoing security cooperation between Indonesia and neighboring countries for the decline.

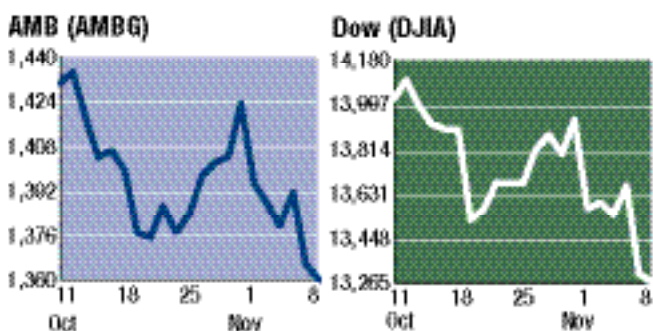
There was even an incident reported off Britain. In July, two men tried to board a Liberian-flagged bulk carrier vessel anchored off Liverpool. A duty officer scared them away, but the event showed that maritime security remains important even thousands of miles from the world's piracy hot spots.

—Marc Jones

# A.M. Best's Stock Indexes

Four Weeks Ended Nov. 8, 2007 (Dec. 31, 2004 = 1,000.00)

## The "AMB" vs. the "Dow"



	Index Close	Month/ Month	Year to Date	Year/ Year
<b>AMB vs Dow</b>				
AMB's Insurance Composite (AMBGI)	1,359.91	-4.92	2.21	6.00
Dow Jones Industrial Avg (DJIA)	13,266.29	-5.34	6.44	8.95

U.S. Indexes (Ticker)	Index Close	Month/ Month	Year to Date	Year/ Year
<b>Insurance Indexes by Market Type (U.S.)</b>				
Multi-Line (AMBURL)	960.10	-13.53	-17.42	-13.61
Property/Casualty (AMBUPC)	1,281.13	-2.03	2.96	5.63
Life & Health/HMO (AMBULH)	1,493.29	-1.09	9.63	15.30
Life (AMBUL)	1,563.32	-2.83	11.55	14.45
Health/HMO (AMBUH)	1,417.78	0.96	7.55	16.26
Brokers (AMBUB)	1,019.71	-4.62	-3.98	-4.68

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

Sources: A.M. Best; Dow Jones Indexes

Global and Regional Indexes (Ticker)	Index Close	Month/ Month	Year to Date	Year/ Year
<b>Insurance Composite Indexes by Region</b>				
United States (AMBUS)	1,267.86	-4.17	0.69	4.71
Europe (AMBEUR)	1,510.23	-6.68	2.27	5.94
Asia/Pacific (AMBAP)	1,594.20	-3.53	14.20	16.32
<b>Insurance Indexes by Market Type (Global)</b>				
Non-Life (AMBNL)	1,353.85	-2.66	5.30	7.71
Life (AMBGL)	1,464.29	-3.18	5.99	10.38
Multi-Line (AMBGML)	1,271.49	-9.22	-4.78	-0.22
Reinsurance (AMBGR)	1,432.12	-3.60	6.94	8.96
Brokers (AMBB)	1,034.67	-4.72	-4.03	-4.15

Top 5 Global Performers	Ticker	Currency	Closing Price	Month/ Month	% Change
1. SCPIE Holdings Inc.	SKP	USD	27.48	22.08	
2. Meritz Fire & Marine Insurance Co.	jd000060	KRW	12,300.00	20.00	
3. Commerce Group Inc.	CGI	USD	36.18	18.93	
4. Assurant Inc.	AIZ	USD	64.33	18.52	
5. Fairfax Financial Holdings Ltd.	FFH	USD	279.40	18.12	
Bottom 5 Global Performers					
1. National Atlantic Holdings Corp.	NAHC	USD	5.94	-35.08	
2. United Fire & Casualty Co.	UFCS	USD	29.67	-27.17	
3. Old Republic International Corp.	ORI	USD	14.17	-25.54	
4. Independence Holding Co.	IHC	USD	15.24	-23.22	
5. Scottish Re Group Ltd.	SCT	USD	2.49	-22.91	

## Cigna, Aetna Amend Doctor-Ranking Programs in N.Y.

Cigna HealthCare and Aetna Inc. have entered into agreements with New York Attorney General Andrew M. Cuomo to amend their doctor-ranking programs, which insurers use to provide health care services.

Cuomo is in the midst of an industry-wide probe into allegations that some insurers' programs may steer patients to the cheapest doctors instead of the most-qualified doctors in order to boost profits.

Both insurance giants said their agreements with Cuomo would lead to nationally used models for the entire health-care industry.

Under a national model, insurers will ensure that rankings for doctors are not based just on cost, and clearly identify the degree to which any ranking is based on cost.

They will also disclose to physicians how rankings are designed and provide a process for doctors to appeal disputed ratings, Cuomo's office said.



Andrew Cuomo



Jeffrey Kang

Dr. Jeffrey Kang, Cigna HealthCare's chief medical officer, said in a statement that Cigna will contribute "up to \$100,000 to an independent organization to develop better means of communicating to consumers all aspects of the ranking program in a clear and straightforward manner."

In July, Cuomo asked United HealthCare not to introduce a program in New York state, which would allegedly rank physicians on the quality and cost-effectiveness of the medical services they provide, without his prior approval.

The following month, his office sent letters to Cigna HealthCare and Aetna Inc., asking them to justify their physician-ranking programs for plans operating in New York state. Cuomo said he was concerned that the rankings may confuse or deceive consumers.

In October, Cuomo sent similar letters to health insurers Empire Blue Cross Blue Shield, a unit of Well-Point Inc.; HIP Health Plan of New York/Group Health Inc.; and Preferred Care.

—Fran Matso Lysiak

# Persian Gulf States Look Past Oil, Seek Insurers to Invest in Future

**M**ention the Middle East to most people and the first thing they think of is oil. Nowadays, however, a great deal of time, effort and money is being invested by countries in the region to address the issue of what's going to happen when the oil runs out.

The United Arab Emirates, Qatar, Bahrain and even Saudi Arabia are starting to see significant growth in areas of their economies that are not tied into the energy industry.

The best example is the city of Dubai in the U.A.E., which has seen an abundance of skyscrapers, apartment blocks, roads, stadiums and other buildings suddenly appear.

According to Muzaffer Aktas, Willis Re's managing director for Turkey, Africa and the Middle East, the current leader of Dubai, Sheikh Mohammed bin Rashid Al Maktoum, deserves a great deal of credit for pushing Dubai's advancement in recent years.

"In comparison to the other Emirates, Dubai doesn't have much

oil, so the sheik decided to focus on building up the tourism and services industries," he said.

Some of the top London insurance firms are being enticed to come to the emirate by incentives such as land and tax relief.

Among the companies applying to do business in Dubai in 2007 were Flagstone Re, Commerzbank, MENA, Ace Life and Allianz Re.

"As an insurance hub, Dubai is growing tremendously," Aktas said. "All the major reinsurers are now there."

Bahrain and Qatar also have been busy seeking non-oil investment. Brokers Aon and Marsh both applied for broking licenses from the Qatar Financial Centre Regulatory Authority this year.

Even Saudi Arabia, which Aktas calls the "sleeping giant," has been showing signs of life. Three insurance companies announced they are organizing initial public offerings in the kingdom, sparking further interest in the region.

—Marc Jones



Photo courtesy Dubai International Financial Center

**REINSURANCE HUB:** The Dubai International Financial Center's "Gate Building" projects its occupants' ambition to become the Middle East region's financial services entry point.

## Reinsurers' Good Results Aided by Diversification

As earnings season unfolds, news from some of the world's top reinsurers suggest the market is weathering investment turmoil fairly well, while underwriting trends favor strong life reinsurance and primary insurance growth over a softening nonlife reinsurance sector.

Swiss Re, Munich Re and Hannover Re—the first, second and fourth largest global reinsurers respectively—all released nine-month results last month. Group net income was particularly strong for Hannover Re, more than doubling over the first three quarters from a year earlier. Swiss Re's nine-month net rose 23%, but fell 5% in the third quarter. And for Munich Re, profit rose 17.5% over the first nine months and 68.2% in the third quarter. Hannover Re's nonlife reinsurance profit rose 32.9% in the third quarter, a good performance, but nothing like the 480% surge for the life/health segment. Nonlife gross premiums fell 25% as a softening market cycle continued to settle in. But gross premiums for the life/health segment rose 14.5%. "The development of life and health reinsurance was exceptionally favorable," the reinsurer said.

Swiss Re had a flatter performance in the third quarter than its two rivals. Net income fell 5% overall; the group's financial services unit posted an operating loss. But property/casualty operating income rose 12%, and for the life/health

segment, operating income surged 60%.

For Munich Re, a contrast is apparent between its reinsurance and primary insurance lines. The mainly nonlife reinsurance segment saw a 41.7% rise in profit for the third quarter, while primary insurance operating income rose 62.2%. The primary segment had slightly higher premium growth, mainly in international property/casualty and health lines.

The combined ratio for the primary business was lower than reinsurance, which suffered a greater impact from natural catastrophes, particularly Europe's Windstorm Kyrill in January.

The reinsurers shrugged off volatility in the capital markets fed by subprime and other mortgage-backed securities. Hannover Re claimed minimal exposure to the subprime crisis, saying it wrote down only €4.6 million in such holdings. Swiss Re reported a 5.3% return on investments over the nine-month period. Munich Re's nine-month investment result rose 7.1% to €7.6 billion, counting €2.5 billion in gains on the disposal of equities.

With a relatively benign year in terms of catastrophe losses winding down, the world's largest reinsurers are grinding out positive earnings performances by diversifying. They are also conservatively managing investments for positive, but not spectacular returns.

—David Pilla