

# BEST WEEK

Weekly Insurance Newsletter

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## First Katrina Verdict: State Farm Must Pay \$2.5M to Miss. Couple

By Chris Grier

A federal jury has told State Farm Fire & Casualty Co. to pay a Biloxi, Miss., couple \$2.5 million for refusing to cover damage to their home caused by Hurricane Katrina, as the insurer works to settle more than 600 similar cases.

The judge in the case additionally ordered the Bloomington, Ill.-based insurer to pay \$233,292, the full value of Norman and Genevieve Broussard's home, saying the insurer's handling of their claim was "impermissible" because it gave them no recourse but to file a lawsuit.

"I find the defendant did not have any legal or arguable reason for refusing to pay the plaintiffs' claims," Mississippi U.S. District Judge L.T. Senter Jr. said from the bench, according to a transcript of his remarks.

The Broussards' case is the first federal jury trial to decide how much insurers should pay for Katrina damage out of hundreds of other, similar lawsuits now pending against companies like Allstate Corp. (NYSE:ALL) and Nationwide Mutual Insurance Co. At the federal courthouse in Gulfport,

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### A Closer Look

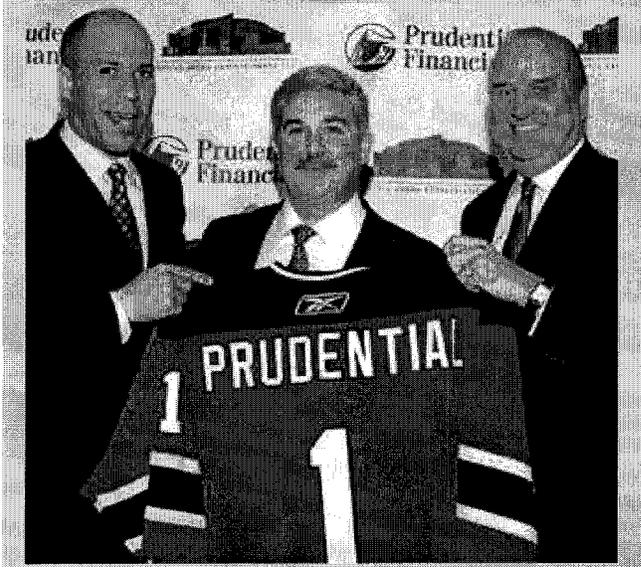
## After Record Year, P/C Industry Braces for Soft Market

By David Dankwa

Pleased but not at ease is how the property and casualty insurance industry is reacting to its stellar performance in 2006.

After a record year in which the industry reaped an estimated \$60 billion in profits, saw the best return on equity in roughly 20 years, as well as the most impressive combined ratio in about 60 years, caution and discipline remain the key words for most insurers in the new year and beyond.

### A Deal With the Devils



**NAMING RIGHTS ON ICE:** Prudential Financial bought the naming rights to the new home of the National Hockey League franchise the New Jersey Devils, to the delight of, from left, Newark Mayor Cory A. Booker, Devils Chairman Jeff Vanderbeek and Prudential Chairman Art Ryan. Prudential will pay \$4.5 million annually for the first five years with the amount increasing 2.5% for the remainder of the 20-year term. Prudential Center will be the future home of the three-time Stanley Cup champion New Jersey Devils hockey team, a new Major Indoor Soccer League franchise, as well as collegiate and other professional sports. The arena is being built in downtown Newark and is also the headquarters for the third-largest life insurer in the United States.

Getty/Andy Marlin

### Asia/Pacific

**3** Ex-AIG Chief Greenberg says China will get even more powerful.



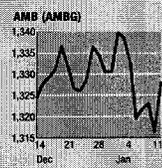
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# Greenberg Says China Will Gain More Power

As China continues its rapid rise as a global economic force, Chinese companies will soon begin to provide their own private equity as opposed to relying on foreign firms to fund their own businesses, said Maurice R. Greenberg, chairman and chief executive of C.V. Starr & Co.



Greenberg

Prepare for more Chinese companies opening operations around the world, and it won't be long before you'll find Chinese automobiles racing down American roadways, he said.

"This would happen in 10 years," the former chairman and chief executive of global insurer American International Group said in a speech to members of the Association of Professional Insurance Women and the New York chapter of the CPCU Society.

In fact, Greenberg said he believes the Chinese would soon begin to establish manufacturing plants in the United States to build vehicles. These would be successful operations, he said, because the Chinese companies "don't have the same legacy cost issues as General Motors and Ford do."

Greenberg told the crowd of about 400 that globalization simply is when you can do something better than your neighbor, and you proceed to do it. It's not about imposing trade restrictions or isolating countries or using aggressive tactics often employed against countries like China.

Sounding more like a diplomat, Greenberg said Westerners "need to be patient with China" and those seeking to invest there must "take [their] time to understand the culture."

Greenberg has long been one of China's biggest cheerleaders, credited by some with helping the country win admission into the World Trade Organization. Currently, he is involved in a project to construct a modern hospital in the country, he said.

Greenberg first went to China in 1975, nearing the end of the Cultural Revolution. "It wasn't a pleasant place to [be] at the time," he said, "but I went because I believed that a billion and 300 million people at that time couldn't be outlawed out of the world system forever."

Today, China is the world's fastest-growing economy and is poised to get more powerful. Greenberg said China Life, a state-owned insurer that went public just days ago is now the third-largest stock company in the world. Other factors that are certain to propel China's economy include the fact the Chinese have the highest savings rate in the world and the 2008 Olympic Games in Beijing, Greenberg said. With the number of people who came to hear him speak, it was clear Greenberg is still a commanding presence. From the start, he made it clear he wasn't going to talk about what was on everyone's mind. "I'm not going to talk about regulation. Not yet, not today. I will soon and I can't wait," he said.

—David Dankwa

## A Closer Look (continued)

### ■ P/C INDUSTRY

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year. "The wind hasn't stopped blowing, the earth hasn't stopped shaking, and earthquakes are not seasonable."

James J. Schiro, chief executive officer of Zurich Financial Services said the industry still has a lot of work to do to improve returns, which estimates suggest were in the 14% to 14.5% range in 2006.

"Before we pat ourselves too hard on the back over these returns, think about the returns over the last 20 years. We shouldn't let regulators and consumer groups and everybody get too far ahead of themselves in terms of how these returns actually look," Schiro said.

There are also significant challenges ahead. In the personal lines market, for example, William J. Mullaney, president of Metlife Auto & Home, said he expects to see a continuing slow down. "We're not getting very much in the way of rate increases, and companies are starting to come on aggressively in terms of their pricing... Companies continue to refine their segmentation models and then cutting their pricing in geographies and in risk segments where they want to grow."

Mullaney said the automobile market could experience the price cuts.



Schiro

But Paula Rosput Reynolds, the chief executive of Safeco Corp., said the kinds of price movements that are currently occurring in the auto market are based on the actuarial indications. "You don't see anybody making large moves on products. And really...what logic would there be to try and get aggressive about something that has such a short tail to it," Reynolds said.

Currently, workers' compensation providers are also enjoying favorable trends. But Schiro said there are two big factors that could significantly impact this line of business. "One of them is medical claims costs and the other is tort reform. We have a new Congress that's going to deal with both issues—I hope. We have to wait and see before we get too enthusiastic," he said.



Sullivan

In terms of new capital, Pierre L. Ozendo, Swiss Re's property and casualty reinsurance for North, Central and Latin America, said he doesn't see the retrocessional market expanding at all.

So, what does this all mean and is the insurance industry optimistic about its future?

Jeffrey Ludrof, president and chief executive officer of Erie Insurance Group, said he's optimistic because of the discipline he sees in the industry. "With a disciplined approach broadly across the industry, I think we have predictable behavior. And with predictable behavior and rational approach, I think we can make well-planned logical decisions and compete effectively."