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How the Coming Decade Will Differ from the Past Decade for Investors

State Street Global Advisors

At the end of the 1990s, a number of pundits predicted that the upcoming decade would not see a continuation of the strong equity markets of the 1980s and 1990s. To say the least, that was an understatement.

The past ten years, in fact, comprised the worst calendar decade in a century for U.S. dollar-based investors—even worse than the 1930s. So, at the beginning of this new decade, the question naturally arises—will it be more of the same or are there factors that presage an improved investment environment in the coming years?

But before looking at what's in the future for investors, it's worth looking a little more closely at how bad it's been and what happened for it to go so wrong.

The Worst of Times for Equity Investors

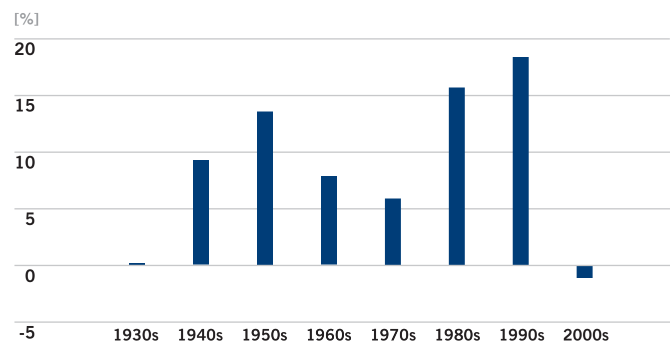
You can find a worse decade than the recent one if you start calculating the ten-year period from the end of September 1929 for U.S. dollar-based investors, but, as shown in Exhibit 1, if you limit yourself to calendar years, the period from 2000 through 2009 was the worst, bar none, in modern times. During the past decade, the S&P® delivered a negative 1% annualized return and a negative 9% cumulative return in comparison with a flat return for the 1930s.

Add to this the fact that three years out of the past ten registered declines of more than 10% with an additional two years dropping more than 20%, and you can get an idea of just how bad the recent past has been for U.S. equity investors.

Compare this abysmal performance with the 1980s when three years out of the ten posted gains greater than 30% and only one year was negative, falling some 3%, or the 1990s that had only one year in the minus column, losing 3% then. Just take a look at Exhibit 2, and you can see why equity investors haven't been having any fun lately.

But that isn't the worst of it. The negative 9% cumulative return for the past decade is from the point of view of a U.S. dollar-based investor. The plunge in value of the dollar relative to other currencies, particularly the euro, made the decade even bleaker from a non-U.S. dollar point of view. As shown in Exhibit 3, only the emerging markets provided positive equity returns for the eurobased investor in the 2000s, as these markets continued on a high-growth trajectory.

Exhibit 1: Returns of the Decades Since 1930



Source: Thomson One, Jan. 7, 2010
Past performance is not a guarantee of future results.

Exhibit 2: Equity Returns for the 10-Year Period Ending December 2009 in Dollars

Benchmark	10 year Ann.	10 year Cumm.	One Year
S&P 500®	-.95%	-9.10%	26.46%
MSCI Europe	1.98%	21.13%	35.83%
MSCI EAFE®	1.17%	12.38%	31.78%
MSCI Japan	-3.67%	-31.17%	6.25%
MSCI Emg.	10.07%	161.03%	78.51%

Source: SSgA
Past performance is not a guarantee of future results.

Exhibit 3: Equity Returns for the 10-Year Period Ending December 2009 in Euros

Benchmark	10 year Ann.	10 year Cumm.	One Year
S&P 500®	-4.44%	-36.50%	22.52%
MSCI Europe	-1.62%	-15.05%	31.60%
MSCI EAFE®	-2.39%	-21.49%	27.67%
MSCI Japan	-7.06%	-51.92%	2.94%
MSCI Emg.	6.19%	82.36%	72.94%

Source: SSgA
Past performance is not a guarantee of future results.

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A Lost Decade for Investors: What Made It to Go So Wrong

The last decade started out on a bad note with the ending of the tech bubble in March 2000. The following year, equity volatility surrounding the September 11th attacks kicked off another flight from equities to less volatile investments, as exemplified by British drugstore giant Boots' pension plan's decision to exit their entire £2.3 billion equity fund in October 2001 in favor of "AAA" sovereign bonds.[1] All in all, equity markets declined for three straight years, from 2000 through the end of 2002.

We are starting to see positive economic signs in the U.S. that are not directly caused by stimulus, including the intent of companies to hire and gains in manufacturing above and beyond inventory

However, starting in 2003, low inflation, low interest rates, moderate U.S. taxes and low volatility in the equity markets led to increased leverage on the part of financial institutions and individuals, fueling the housing bubble that burst in 2007 just as equity markets had regained the ground lost since 2000. Equity markets also experienced declining volume, ending the decade at two-thirds the volume of January 2007.[2]

Beginning in 2008, volatility became dramatically exaggerated as investors deleveraged and markets tumbled. This was not limited to the U.S. The unwinding of leverage had an impact in the U.K., the eurozone, and some emerging markets. Quantitative equity investing became challenging as factors correlated with momentum gave up a decade of gains in the second quarter of 2009 in the U.S., and half a decade's worth of gains in Europe.

The past decade also featured the tremendous growth of Exchange Traded Funds (ETFs), which now account for close to half of all listed securities trading. At the beginning of 2000, ETF assets totaled around $50 billion. By the end of 2009, they had reached over $1.1 trillion globally. They have evolved from a retail product to a product that gets more than one-third of its volume from institutional investors, with hedge funds and investment advisors becoming major players. This has contributed to more of a macro focus in the equity markets, particularly in the U.S. during times of high volatility.

The 2010–2019 Decade: Is There Reason for Some Optimism?

So what is in store for the equity markets in the 2010s—hopefully not 10 more years of mostly misery for investors? There is a lot we don't know, but many things are relatively certain.

Developed markets have huge deficits to deal with which will lead to higher taxes, at least for the wealthy, financial firms, fossil fuel companies and global enterprises. The US national debt currently totals a whopping $111,000 per taxpayer.[3] Underlining the seriousness of this sovereign debt problem, Moody's said on March 15th this year it may consider lowering the AAA rating of both the U.K. and U.S.

Emerging markets should continue to have higher growth than developed markets. Most of their growth has been export based, but the rise of the emerging-markets consumer will broaden the economic base of emerging markets that are not burdened with significant debt.

Interest rates, which are currently below normal market levels, should increase, unless there is global deflation, which at this point seems unlikely. Renewed growth will result in commodity price inflation, which will, in part, be due to supply constraints and the increased cost of exploration and recovery of commodities as easier-to-access supplies are depleted. There will be an increase in regulations, particularly for financial firms.

For equity investors, relevant information is continually improving and becoming timelier. Quantitative investors will continue to evolve in different directions, with proprietary data, proprietary models, and dynamic processes all playing a role. Quantitative equity investing is likely to do well going forward, taking advantage of the low-volatility, low-correlation environment and adapting to cope with periods when quant factors become highly correlated.

What Uncertainties Lie Ahead?

What are the uncertainties? On the negative side, significant inflation or deflation could smother the recovery. Increasing concern regarding sovereign defaults for both developed and emerging markets is currently weighing on the markets. Other potential negatives are a reversal of globalization and the possibility of countries being less willing to help those in dire straights.

On the positive side, it is possible that technology will result in a break-through that moves things forward. In the decades past, the 1980s benefitted from the development of the PC, the 1990s the internet, and the 2000s nano-tech and bio-tech. Could alternative energy provide an important break-through for the 2010s?

Still a Potential for Positive Equity Returns

Thus far, 2010 looks like a rebuilding year, in which we can expect the recovery to continue and equity markets to have small positive gains. We are starting to see positive economic signs in the U.S. that are not directly caused by stimulus, including the intent of companies to hire and gains in manufacturing above and beyond inventory restocking. We still haven't seen employment improve, but that should occur in the near future. All in all, it seems likely the U.S. will lead the recovery, with Asia following and Europe lagging.

Outside the U.S., Canada still has growth stored up in its inventory cycle. The U.K. recovery will be weak due to government debt, consumers repairing their balance sheets, and banking-sector fragility. The euro-zone will recover slowly due to weak stimulus, budget cutting and sovereign debt issues. Japan continues to experience deflation, while Australia technically avoided entering a recession and is in the process of normalizing interest rates.

For the full decade, it is difficult to believe that it could turn out like the last decade—negative, since the longest negative period the U.S. market has experienced lasted for 11 years, from 1929 through 1939. However, the overhang of debt for developed markets continues to suggest that growth will be more robust in the emerging markets that have low debt and lower-taxes. The decade has the potential for positive equity returns, with better returns associated with countries having higher growth, lower debt and lower taxes.

ENDNOTES

1. *The Return of the Cult of Equity*, Deutsche Bank, March 9, 2010
2. *The Return of the Cult of Equity*, Deutsche Bank, March 9, 2010
3. Bank of America, Merrill Lynch, *The RIC Report*, December 7, 2009

By State Street Global Advisors

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Hedging Longevity Risk: *Recent Developments*

By Insurance Finance & Investment (IFI)

As insurance companies, pension funds, and governments become increasingly concerned about longevity risk they are working together on ways to hedge it through instruments such as longevity bonds and longevity swaps. The longevity hedging market has made substantial progress in the last couple of years, particularly in the U.K.

Longevity risk, in financial terms, is the risk that a person, a group of people, or a population will live longer than expected. For a pension fund or an insurance company offering annuities, that means the risk of higher-than-expected payouts. For the holder of a portfolio of life settlements, it means a greater-than expected delay in receiving life insurance policy proceeds. For an individual, it means that more financial resources than expected will be required for living expenses during retirement years.

Life expectancy has been increasing in the past century and projections show the trend will continue through future generations, supported by new, improved healthcare treatments and better education, among other factors. In many OECD countries, life expectancy has increased by up to 2.6 years per decade over the last half century, according to figures compiled by Reuters from the Human Mortality Database and the OECD. Global private-sector pension liabilities are on the order of $25 trillion according to data in a January 2010 Pension Institute report, which cited that every additional year of life expectancy adds about 3% to the present value of some U.K. pension liabilities.

For individual retirees, longevity risk can be managed with longevity insurance. You give an insurance company a lump sum at the beginning of retirement. If you live beyond your actuarially determined life span you will start to receive a monthly payment at that time. It is like a fixed, deferred-payment annuity.

At the institutional level, longevity risk can be managed through insurance, reinsurance, longevity swaps, and longevity bonds. An increasing number of corporate pension plans are either offloading their pension risks to specialist insurer/pension buy-out firms or insuring those risks themselves. Pension buy-out firms are expected to seek hedging strategies to an increasing degree and thereby boost the longevity swaps market. Those firms are likely to become both buyers and sellers of longevity risk. Over the past three years in the U.K., around £19.5 billion pounds of longevity risk has moved over from pension funds to pension insurers, John Fitzpatrick, a partner at Pension Corp. and director of the Longevity and Life Markets Association (LLMA), told Reuters.

> ***An increasing number of corporate pension plans are either offloading their pension risks to specialist insurer/pension buy-out firms or insuring those risks themselves.***

A longevity swap helps an insurer or pension plan manage the risk of increasing life duration by enlisting a counterparty to make all of its required future pension or annuity payments. In return, the insurer or pension plan pays the counterparty an agreed stream of cash, generally an estimate of future payments by the counterparty based on agreed mortality risks in the underlying portfolio.

A longevity bond pays coupons that are proportional to the survival rate of a given population. If that population lives longer than expected, the coupon stream similarly continues over a longer period. In such a way, the longevity risk becomes hedgeable in the financial market. Despite growing concern with longevity risk, the market for longevity bonds has been slow to develop. Investors in longevity risk are needed and they have to be attracted by relatively high risk-adjusted returns. Among the best candidates are investors in other insurance-linked securities such as catastrophe bonds that offer returns that are not correlated to interest rates or the performance of the economy.

Pension insurers have been lobbying the British government to issue bonds linked to the longevity of the population to help pension plans and insurers manage the risk of increased life expectancy. Such bonds would pay coupons only and have no principal repayment. If a higher-than-expected portion of the population survives at each age, the bond pays higher coupons.

Life and Longevity Markets Association (LLMA)

In early February 2010, eight investment banks and

insurers formed the Life and Longevity Markets Association with the aim of developing an organized market to help hedge longevity risk and take longevity swaps into the mainstream. The LLMA's founder members are: **AXA**, **Deutsche Bank**, **JPMorgan**, **Legal & General**, **Pension Corporation**, **Prudential PLC**, **Royal Bank of Scotland**, and **Swiss Re.**

The LLMA's objective is to break down the barriers to market growth by supporting the development of consistent standards, methodologies, benchmarks, and best practices to promote liquidity in the trading of financial instruments that reference longevity and mortality related risks as well as consistency of relevant demographic data. By helping to build a liquid trading market, the LLMA will try to aid the expansion of capacity to meet demand, ultimately bringing added security to the benefits of pension fund members.

The LLMA plans to set standards for the new trading market it wishes to promote. These are likely to include templates for standardized longevity products, a longevity trading index, and a standardized valuation model for longevity.

Recent Transactions

The progress of the longevity hedging market can be illustrated by several large transactions over the past couple years.

In 2008, JPMorgan did three longevity swaps.

JPMorgan/Lucida plc
In February 2008, **Lucida plc** concluded a transaction with JPMorgan to hedge longevity risk through a derivative contract linked to the LifeMetrics Longevity Index. The contract was the first of its kind involving an insurer.

The hedge consists of a mortality forward-rate contract that allows Lucida to hedge a portion of its exposure to longevity risk. At the maturity of the 10-year contract, JPMorgan will pay the client a fixed mortality rate and Lucida, in turn, will pay JPMorgan the LifeMetrics Index mortality rate prevailing at that time. If mortality rates fall faster than expected and finish below the fixed rate, Lucida will receive a net payout to compensate for the associated increase in the value of its liabilities. Although the trade has a 10-year maturity, it can provide an effective value hedge for the impact of longevity risk on all liability cash flows extending beyond 10 years.

Lucida plc is a new company created specifically to focus on annuity and longevity risk business, including the defined benefit pension buy-out market and the market for bulk annuities. Lucida recently completed a deal with **Bank of Ireland Life**, one of Ireland's leading insurance companies, to reinsure over €100 million of its existing immediate annuity business plus the majority of the future annuity business written by the Irish company, estimated to be worth a further €40 million a year.

LifeMetrics is the only international index designed to benchmark and trade longevity risk. Launched in March 2007, LifeMetrics provides a non-proprietary and open-source toolkit for transferring longevity risk via the capital markets. Separate indices are available for England and Wales, the U.S. and the Netherlands, with other countries in development. LifeMetrics indices, data, documentation and software can be found at www.lifemetrics.com.

JPMorgan/SCOR
Also in February 2008, **SCOR Global Life SE**, a subsidiary of **SCOR SE**, entered into a four-year mortality swap with JPMorgan to protect the group from pandemic risks. The swap provides for receipt of up to $100 million and €36 million at any index level between the trigger point of 115% and the exhaustion point of 125%. Both transactions are indexed against a weighted combination of U.S. and European population mortality, measured over two consecutive calendar years.

In September 2009, SCOR added a new layer of protection to its exiting four-year mortality swap transaction. Under the new, extended arrangement, SCOR will be entitled to $75 million in the event of a rise in mortality over the course of the period from January 1, 2009 to December 31, 2011 caused by major pandemics, natural catastrophes, or terrorist attacks.

The risk swap is indexed against a weighted combination of U.S. and European population mortality, measured over two consecutive calendar years. According to the structure of the arrangement, a payment will be triggered if, at any time during the period covered, the index exceeds 105%. At any index level between the trigger point of 105% and the exhaustion point of 110%, JPMorgan will pay to SCOR a pro-rata amount of the notional swap amount of $75 million, so that for example at an index level of 107.5%, 50% of the total amount becomes payable, and at an index level of 110% the full amount will be paid out. The risk swap is fully collateralized and thus SCOR bears no credit risk exposure.

JPMorgan/Canada Life
In September 2008, JPMorgan structured a £500 million long-dated longevity swap to allow the U.K. division of insurer Canada Life hedge its growing life expectancy

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risk. JPMorgan identified the investors as the kind who are comfortable with insurance linked securities such as catastrophe bonds.

Norwich Union
In March 2009, **Norwich Union**, now rebranded in line with parent **Aviva**, hedged £475 million of longevity exposure with Royal Bank of Scotland. Bermuda-based reinsurer **Partner Re** was the lead investor and helped price the underlying longevity risk. The transaction allowed Norwich Union to pass its longevity risk on to a reinsurance vehicle, which in turn converted the risk to a total return swap that was syndicated to investors via RBS. The structure was designed to appeal to investors who are more familiar with swap contracts and documentation than reinsurance, Adrian Barr, senior finance manager in Norwich Union's capital management division, told Catherine Evans of Reuters. Investors included hedge funds, fund managers, and dedicated insurance-linked securities buyers.

Credit Suisse/Babcock International
In May 2009, British engineer **Babcock International** became the first corporate pension scheme to arrange a longevity swap to hedge £500 million of longevity liabilities. Heretofore, the longevity swap market has been confined to a few over- the- counter deals between insurers and investment banks. The swap was underwritten by **Credit Suisse**.

Goldman Sachs/RSA Insurance Group
In July 2009, the two pension schemes of **RSA Insurance Group** entered into a set of longevity and asset swaps with **Goldman Sachs & Co.** and its insurance subsidiary, **Rothesay Life**, according to a recent report, Pension Buyouts 2010, by actuarial and consulting firm **Lane Clark & Peacock**. The effect was to create a "DIY buy-in" covering £1.9 billion of pensioner liabilities – over 55% of the total. (A DIY, or do-it-yourself, buy-in is a transaction in which a pension scheme combines a liability driven investment strategy, aimed at eliminating investment risk, with a longevity hedge that is aimed at eliminating the risk that pension plan investors will live longer than expected.)

The transactions were structured so that interest rate, inflation, and longevity risks were fully hedged by the swap portfolio for the liabilities covered. The pension plans retain the underlying assets, which are invested in U.K. government-backed securities. Counterparty risk is very low, as the assets held are backed by the U.K. government and the swap exposure is fully collateralized. Through this solution, RSA Insurance Group fully hedged the key risks for over half of its pensions while minimizing any counterparty exposure.

The objective of the Life and Longevity Markets Association is to break down the barriers to market growth by supporting the development of consistent standards, methodologies, benchmarks, and best practices to promote liquidity in the trading of financial instruments that reference longevity and mortality related risks as well as consistency of relevant demographic data.

The transaction was structured on terms that did not require any immediate additional cash funding from the sponsoring employer. In part this was achieved by restructuring the underlying government bond portfolio to lock into higher investment returns arising from pricing anomalies that were present in 2009. The Lane Clark & Peacock report notes that the cost of a DIY buy-in such as this one depends crucially on the assets underlying the swaps. The expected cost can be reduced through investment in higher-yielding assets at the price of greater exposure to investment risk.

Swiss Re/Royal County of Berkshire Pension Fund
In December 2009, reinsurer Swiss Re made a deal to insure a British local authority pension fund, the Royal County of Berkshire Pension Fund, against cost increases resulting from members living longer than expected, in the first such deal involving a government body. Swiss Re will absorb any costs from greater than expected increases in the lifespan of fund members in return for undisclosed regular premium payments. The policy covers 11,000 pensions and liabilities totaling 1.7 billion Swiss francs ($1.65 billion). It was the first of its kind to involve a government body.

Abbey Life-Deutsche Bank/BMW
In February 2010, in the largest longevity trade so far, **BMW**, working with British pension insurer **Paternoster**, offloaded £3 billion ($4.62 billion) of longevity risks from its UK pension scheme to **Deutsche Bank**'s insurance subsidiary, **Abbey Life**.

By Insurance Finance & Investment (IFI)

FINANCING, REINSURANCE & INVESTMENT

Lincoln National to Repay Bailout Funds

Lincoln National Corp. said on June 14 that it will buy back close to a billion dollars worth of preferred stock issued to the U.S. Treasury, following a similar move by rival **Hartford Financial Services Group** in March. The repurchase will be funded by a common stock offering, $250 million of senior notes, and cash in hand. Lincoln will offer $335 million of common stock and up to $750 million of senior notes. Proceeds of up to $500 million from the senior notes offering will be used to term out existing funding for Regulation AXXX reserves for no-lapse universal life policies of its insurance subsidiaries.

The Treasury still holds warrants to buy 13 million shares of Lincoln Financial at an exercise price of $10.92 per share, but Lincoln does not intend to buy them back. In March, rival Hartford Financial said it will offer shares and notes to repay $3.4 billion in taxpayer money it received under the bailout program, but it does not intend to repurchase the warrants.

A.M. Best Co. has assigned a debt rating of "a-" to the $750 million of senior unsecured notes. The assigned outlook is stable. Concurrently, A.M. Best has revised the outlook to stable from negative and affirmed Lincoln's corporate financial strength, issuer credit and long-term debt ratings. The rating agency observes that Lincoln's holding company liquidity remains strong, and near-term debt maturities over the next two to three years remain manageable at roughly $550 million in aggregate. Lincoln`s current ratings and revised outlook reflect the improvement in its operating profile and consolidated flows, manageable investment risk, and improved capital and liquidity position through first quarter 2010.

A.M. Best notes that the company has successfully completed significant capital raises over the past 12 months, refinanced its maturing bank credit facility and completed the term out of funding requirements for reserves related to Regulation XXX and AXXX. Moreover, Lincoln is now maintaining liquidity at the holding company to cover 12-18 months of cash outflow needs while having reduced its reliance on short-term funding. However, A.M. Best notes the potential risk exposure in the liability profile and asset portfolio if there is a significant market correction.

Ongoing risks remain with respect to Lincoln`s sizeable block of variable annuities with living benefit guarantees, significant exposure to commercial mortgages, and unrealized loss positions within certain asset classes, such as structured securities (although the total portfolio was in an unrealized gain position as of March 31, 2010). Nevertheless, A.M. Best expects that even under extreme stress scenarios, Lincoln will maintain more than sufficient absolute and risk-adjusted capital levels and notes that Lincoln's financial leverage and interest coverage are adequate and should improve by year end.

Ambac Announces Debt for Equity Exchange Transactions

Ambac Financial Group, Inc. announced on June 17 that it has entered into a series of debt-for-equity exchanges with certain holders of Ambac's 9□% debentures, due August 2011. Under the terms of the exchange agreements, the company issued, or will issue, 5,036,068 shares of Ambac's common stock in exchange for $8.5 billion in aggregate principal amount of debt to the bondholders. Following the issuance of the shares there will be 293,420,336 common shares outstanding.

For background, on June 7, Ambac Financial Group announced that it has commuted all of its remaining $16.4 billion of exposure to collateralized debt obligations of asset-backed securities. The commutation agreement with several CDO of ABS counterparties provides that Ambac will pay in the aggregate (i) $2.6 billion in cash and (ii) $2.0 billion of newly issued surplus notes of Ambac. The surplus notes have a scheduled maturity of June 7, 2020. Interest on the surplus notes is payable at the annual rate of 5.1%. All payments of principal and interest on the surplus notes will be subject to the prior approval of the Office of the Commissioner of Insurance of the State of Wisconsin.

Additionally, (i) certain non-CDO of ABS transactions with par or notional amounting to approximately $1.4 billion were commuted for cash payments of $96.5 million and (ii) it is expected that, subject to certain conditions, certain other non-CDO of ABS exposures with par amounting to a maximum of approximately $1.5 billion will be commuted within the next 12 months for a maximum amount of approximately $115 million of cash plus $60 million of surplus notes of AAC.

On June 8, Ambac said it could default on its loan obligations and had been considering a prepackaged bankruptcy. The company said in a regulatory filing that it could consider raising additional capital, restructuring through a prepackaged bankruptcy, or filing a traditional bankruptcy without agreements

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from creditors, and that it most likely would not be able to make dividend payments in the near future. Sources told Reuters that an ad hoc bondholders' committee, which includes hedge funds **Centerbridge Partners**, **Halcyon Capital Management**, **Mangrove Partners**, and **Camden Asset Management**, was looking to use a prepackaged bankruptcy to exchange debt for equity in the company. The holding company would use the bankruptcy process to resolve its debt issues without putting the operating company into backruptcy and without necessarily affecting any agreements made by the operating company. The bondholders' committee reportedly had hired **Morrison & Foerster LLP** as legal counsel and **Lazard** as financial advisor.

Fairfax Financial Holdings Completes $275 Million Senior Notes Offering

Fairfax Financial Holdings Limited has completed its previously announced offering of $275 million in aggregate principal amount of 7.25% Senior Notes due 2020. Net proceeds of the issue, after commissions and expenses of the issue, are approximately $273 million. Fairfax is a Toronto-based financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management.

The Senior Notes were offered through a syndicate of dealers led by **BMO Capital Markets**, **CIBC World Markets Inc.** and **RBC Capital Markets**, that included **Scotia Capital**, **TD Securities**, **National Bank Financial**, **Bank of America Merrill Lynch**, **Citi Global Markets Canada Inc.**, **Cormark Securities**, **GMP Securities**, **HSBC Securities**, **Desjardins Securities** and **Canaccord Genuity Corp.**

The notes are unsecured obligations of Fairfax and pay a fixed rate of interest of 7.25% per annum. Fairfax intends to use the net proceeds of the offering to augment its cash position, to increase short-term investments and marketable securities held at the holding company level, to retire outstanding debt and other corporate obligations from time to time, and for general corporate purposes.

Vietnam's BaoViet Insurance to Raise Capital

BaoViet Insurance Corp. Vietnam's largest non-life insurer, will raise its registered capital by 50% to 1.5 trillion dong ($79.2 million) to boost its competitiveness, it said on June 17. The insurer, a subsidiary of Vietnam's largest insurance-finance group, Hanoi-based **Bao Viet Holdings**, has secured finance ministry permission for the capital raising, according to a report from by Ho Binh Minh of Reuters.

Bao Viet Insurance said it expected insurance premium revenues to grow by 15% to 4.2 trillion dong this year through an expansion of its network in coordination with **Bao Viet Bank**, another Bao Viet Holdings subsidiary. The insurance unit plans for its 2010 gross profit to jump 37% to 300 billion dong. Bao Viet Holdings is 18% owned by HSBC Holdings.

Aviva Investors likes Australia, Tokyo Commercial Property

Aviva Investors, the asset management arm of British insurer **Aviva plc**, favors buying commercial real estate in Melbourne, Sydney and Tokyo where it believes office rents have bottomed and valuations appear attractive, according to a report from Kevin Lim of Reuters. But Aviva Investors is wary about Hong Kong as prices have soared and rental yields are compressed because of excess liquidity that has spilled over from China, CEO for Asia Pacific real estate Ian Hally told Reuters in an interview at the Reuters Global Real Estate and Infrastructure Summit on June 15. The investment arm of Aviva said earlier this year it planned to boost its Asian operations by hiring staff for its regional office in Singapore and adding sales offices in Japan and the Middle East.

Mr. Hally, who manages over $1 billion in investments, a large part of it in physical real estate, said he is focused on the developed Asian markets of Japan, Australia, Hong Kong and Singapore, but will expand into China in the medium term as Aviva Investors adds staff and raises assets under management. He said cities such as Shanghai, Hong Kong and Sydney began to see office rental growth in the first three months of 2010, while places such as Tokyo and Singapore were near the bottom of the rental cycle and poised for recovery.

Mr. Hally said that in Australia, he prefers Sydney and Melbourne as both have diverse economies and are less reliant on a particular sector, unlike Perth, which depends a lot on commodities. Office rents in both markets have stabilized and will begin to recover as Australia's economy has remained resilient amid an uncertain global environment, he said, adding that rental yields in Melbourne could be as high as 6% to 10% depending on the age and quality of the building and location.

In Japan, the real focus is on Tokyo, he said, noting that the Japanese capital had a growing population unlike

other parts of the country and its office sector catered to a good mix of banks, corporate headquarters and many other services. As the Japanese economy starts to stabilize and grow, rents and property values will also improve, Mr. Hally added. He said there were selected opportunities available in Singapore but he was cautious about Hong Kong because yields had been driven down because "a lot of liquidity has spilled over from China."

LEGAL & REGULATORY DEVELOPMENTS

House and Senate Reach Agreement on Financial Reform

House and Senate conferees reached a final agreement on broad-based financial services regulatory reform early on the morning of June 25. Among other things, the Restoring American Financial Stability Act of 2010 contains a provision that would allow qualified risk managers easier access to the surplus lines market as well as streamline reinsurance regulation. Standalone bills containing that provision as well as streamlining of reinsurance regulation had passed the House several times, but never the Senate until identical language was included in the Senate's version of the financial services regulatory reform bill, according to a report from Mark Hoffman of Business Insurance.

The final agreement also calls for the creation of a new Federal Insurance Office in the Treasury Department. The new office would provide federal authorities with expertise on insurance matters and help oversee the government's terrorism insurance backstop program. It also would have limited authority to pre-empt state insurance regulators in certain international insurance matters. The property/casualty insurance industry had been divided over how much pre-emption authority the office should wield, and conferees ultimately chose to go with the House's more restrictive approach rather than a broader Senate approach, Mr. Hoffman notes in his report. The new office would have less extensive powers to pre-empt state insurance regulators in certain international insurance matters than would have been granted a proposed National Office of Insurance under the Senate's version of the financial reform bill.

A last-minute amendment would allow states that have adopted the National Association of Insurance Commissioners' model regulations to regulate indexed annuities, nullifying the Securities and Exchange Commission's Rule 151A. Rule 151A, which was to become effective in 2011, expands the SEC's jurisdiction to include regulatory oversight of fixed indexed annuities and would require sales agents of such instruments to have securities licenses as well as insurance licenses.

For background, in July 2009, **American Equity Life Investment Holding Company**, along with a coalition of industry participants, filed a lawsuit in the U.S. Court of Appeals for the D.C. Circuit opposing Rule 151A on several grounds, including that fixed indexed annuities and sales agents are already extensively regulated under state law. In its ruling, the Court concluded that the SEC's assessment of "investment risk" was not unreasonable, and thus the SEC may choose to regulate these products. However, the Court also concluded that the SEC failed to fulfill its legal obligation to analyze the effect of the rule upon "efficiency, competition and capital formation." The Rule was remanded to the SEC for further consideration of this requirement.

Other important provisions of the financial services reform bill include:

- A requirement to spin off some swap dealing options, though substantial swaps trading could be kept in house, including derivatives to hedge financial institutions own risk
- Directing many OTC derivatives though exchanges or clearing houses, though many end-users of OTC derivatives for hedging could carry on as before
- The "Volcker Rule," which would ban proprietary trading by banks for their own accounts unrelated to customers and curb banks' involvement in private equity and hedge funds
- A new government-run orderly liquidation process for financial firms on the edge of collapse
- A new consumer protection agency within the Federal Reserve
- A new council of federal regulators to monitor systemic risk
- A requirement for all private equity and hedge funds to register with regulators and open their books
- Increased capital requirements for banks
- Reduced fees for debit card transactions

Among financial reforms discussed in the House and Senate earlier but not included in the final version of the bill were:

- Overhaul of Fannie Mae and Freddie Mac
- Consolidating bank regulation into one super agency
- Merging the SEC and CFTC
- Mortgage "cramdown" that would allow judges to change the terms of mortgages for distressed borrow-

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ers in bankruptcy court, as they now can do with other forms of consumer debt such as car, boat, vacation home, or family farm loans
- Caps on credit card interest rates.

On June 29, after Senator Scott Brown (R-MA) said he would not vote for the compromise legislation if it included a five-year, $19 billion fee imposed on banks, the House Senate conference committee modified the bill so as to require the FDIC to hold greater reserves in its insurance fund — equal to 1.35% of insured reserves by 2020, up from 1.15% — financed by an assessment on banks with more than $10 billion in assets.

MetLife CEO Criticizes Financial Reform Legislation

MetLife CEO Robert Henrikson has criticized the financial reforms being finalized by Congress, saying some measures betray a "total misunderstanding" of the insurance industry and could hit the sector hard, according to a report from Francesco Guerrera and Tom Braithwaite of the Financial Times. In a video interview with the Financial Times, Mr. Henrikson warned of "negative unintended consequences" from a financial overhaul that was too "bank-centric" and failed to take into account insurance companies' needs.

Mr. Henrikson argued that insurers, which are regulated by states, have suffered from not having an interlocutor in Washington, adding that the authorities have been missing an opportunity to create a federal insurance agency. He said insurance groups might have to comply with planned changes to increase the capital banks set aside for derivatives trading, or spin off those businesses altogether, even though their use of those instruments was fundamentally different.

Mr. Henrikson argued that insurance companies were users rather than providers of derivatives and should be exempted from the new provisions affecting derivatives just like other non-bank entities that buy derivatives to hedge risks. He also warned that insurance companies could be caught by the "Volcker Rule" banning financial groups from taking trading bets with their funds. He said the insurer's general accounts, which contain premiums paid by customers and are invested by the company, could be included in the activities prohibited by the provision.

Virginia Begins Courtroom Assault on Health Law

The legal challenge to the nation's new health-care law was launched On July 1 in a courtroom in Richmond, where the office of Virginia Attorney General Ken Cuccinelli II argued that the measure is an unprecedented overreach by Washington that violates the founders' intention of a limited federal government. Arguing the case for Virginia, Solicitor General E. Duncan Getchell Jr. told a judge that it would be "unprecedented," "ahistorical," and "radical" for the federal government to require an individual to buy a private product -- in this case, health insurance. Attorneys for the Obama administration responded that the Virginia suit has no merit and should be tossed out of court. They said the law's mandate that Americans buy health insurance was well within Congress's constitutional power. District Court Judge Henry E. Hudson said he will decide within 30 days whether to allow the case to proceed.

The hearing was the first skirmish in a legal war over the federal health-care overhaul that is not likely to be settled until it makes its way to the Supreme Court. The Virginia suit is one of two major state-level, Republican-led efforts to kill the federal health-care law in court. It is a fast-attack assault that narrowly contends that Congress overstepped its authority by requiring individuals to buy health insurance or face a fine. Attorneys general in 20 other states have joined a suit filed in Florida that adds the assertion that the federal law encroaches on the sovereignty of the states by requiring them to expand Medicaid programs.

Commissioner Poizner Announces New Actuarial Reviews for Health Insurer Rate Increases

To ensure that health insurers are charging accurate rates to their individual customers, California Insurance Commissioner Steve Poizner announced on June 18 that any rate change filings by top health insurers will undergo an additional level of actuarial analysis as part of the California Department of Insurance's regulatory review. The top health insurers in the individual market are **Anthem Blue Cross**, **Aetna**, **Health Net**, and **Blue Shield** and cover approximately 90% of the individual health insurance market.

When these insurers file new rates, their filings will be reviewed by outside actuaries. This review is similar to the review of Anthem Blue Cross conducted by **Axene Health Partners** (AHP), which uncovered significant errors. Currently, AHP is reviewing filings by Aetna and Blue Shield.

New Law Gives New York State Regulators Power to Approve Health Rate Hikes

On June 9, New York State Governor David A. Pater-

son signed Governor's Program Bill No. 278, reinstating the authority of the New York State Insurance Department to review and approve health insurance premium increases prior to the rates taking effect. For the last decade, the state has operated under a "file and use" law, seen as limiting regulators' ability to disapprove insurer premium increases. Governor Paterson said that deregulation of health insurance premiums is a failed experiment leading to unjustified premium increases and more people losing their health insurance coverage. Under the new law, set to take effect October 1, health insurers and HMOs must apply to the NYSID to implement rate increases, with regulators reviewing the justification of the proposed rates and the ability to approve, modify or disapprove the rate regulation. Policyholders and the public will also be allowed to weigh in on the proposed rate hike.

XL gets Approval to Lower Collateral Requirements in Florida

XL Re Ltd., a unit of Bermuda-based **XL Group plc**, said June 17 that it is the first Bermuda-domiciled reinsurance subsidiary to receive regulatory approval to establish lower collateral requirements as a foreign reinsurer in Florida, according to a report from Judy Greenwald in Business Insurance. XL received approval from the Florida Office of Insurance Regulation to qualify as an "eligible reinsurer" in the state under the Florida Insurance Code. **Hannover Reinsurance Co.** was the first foreign reinsurer to receive such approval, in February, according to the office.

Florida became the first state to relax collateral requirements for non-U.S. based reinsurers in 2008. Florida passed a rule based on 2007 legislation that gives the state's insurance commissioner discretion to allow financially strong, unaccredited reinsurers to conduct business in the state without having to post 100% collateral. Thursday's order requires XL to post collateral of 20% unless amended by the Office of Insurance Regulation, the same as in Hannover Re's case.

SEC Ends Probe of AIG and Executives

The Securities and Exchange Commission ended its probe focusing on **AIG Financial Products** head Joseph Cassano and others several weeks after the Department of Justice closed its criminal investigation in May. The parallel criminal and civil probes were among the most high-profile inquiries stemming from the 2008 financial meltdown. Neither criminal prosecutors nor the SEC ever filed charges against AIG or any executives.

AIG said in February that the investigations looked into the valuation of AIGFP's credit default swap portfolio, the adequacy of risk management around AIG's exposure to the U.S. residential mortgage market and disclosures. The criminal probe focused on whether Mr. Cassano, who ran the financial products unit, and Andrew Forster, his deputy, knowingly misled investors about the company's accounting losses on its credit default swaps portfolio.

Bermuda Signs a Tax Information Exchange Agreement with Canada, Concludes Similar Negotiations with Indonesia

On June 16, Bermuda signed a bilateral agreement with Canada that provides for a full exchange of information on criminal and civil tax matters between the two countries. Bermuda concluded negotiations on June 14 for a similar agreement with the Republic of Indonesia that is expected to be signed later this year.

In signing the TIEA, Canada will extend an important benefit to Bermuda that previously had been conferred only to countries with which Canada has a double tax treaty in force. Dividends of foreign affiliates resident in Bermuda that are paid to their Canadian parent companies out of the active business income earned in Bermuda will be exempt from Canadian taxation. This will be particularly useful to Bermuda's captive insurance industry.

Bermuda has now signed 22 agreements with provisions for the exchange of information for tax purposes. Bermuda has signed TIEA's with the United States, Australia, United Kingdom, New Zealand, the Nordic countries (Sweden, Norway, Finland, Denmark, Iceland, Greenland, Faroe Islands), Netherlands, Germany, Ireland, Netherlands Antilles, France, Mexico, Aruba, Japan, and Portugal. Further, Bermuda has a double taxation agreement with the Kingdom of Bahrain.

The agreement with Canada includes all standard means to ensure due process is followed in tax information requests to Bermuda, including, for example, provisions to protect the confidentiality of information provided, as well as adhering to public policy, provisions related to protecting legal privilege, and to ensure that requests for information from Canada are relevant to tax investigations being conducted by Canadian authorities.

GNAIE Applauds Direction of FASB on Short-Term Insurance Contracts

On June 22, the **Group of North American Insur-**

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ers (GNAIE) commended the Financial Accounting Standards Board (FASB) for moving toward a model for calculating claims reserves for property/casualty insurance companies that reflects the ultimate amount expected to be paid to fulfill contractual obligations to policyholders as they come due. Jerry de St. Paer, executive chairman of GNAIE, expressed support for FASB's direction of measuring short-term property/casualty insurance contracts using a non-discounted, ultimate contractual fulfillment model with no risk margins that reflects the ultimate amount expected to be paid.

"GNAIE is pleased that the FASB is considering moving toward an ultimate contractual fulfillment value model for short duration insurance contracts that is consistent with insurers' business model, fully transparent, reflects amounts expected to be paid to policyholders, and provides the most decision-useful information to investors and insurance regulators charged with regulating the solvency of insurers," he said.

Mr. de St. Paer stressed that the introduction of discounting and risk margins to the existing measurement model would unnecessarily complicate what is now a reliable, fully transparent, comparable, and understandable measurement model widely accepted by property/casualty insurance companies around the world. He further pointed out that "suggested alternatives to an ultimate contractual fulfillment value model are untested in the real world of insurance, could obfuscate real results and ultimately not produce the decision-useful information sought by users of financial statements."

MERGERS, ACQUISITIONS & ALLIANCES

AIG Top Executives Mend Rift, Consider Japan Unit Sales

After the latest of several threats by **AIG** CEO Robert Benmosche to resign, he and AIG non-executive chairman Harvey Golub have agreed to resolve their differences, plan for an **AIA Group Ltd.** IPO later in the year, and resume efforts to sell two units in Japan, **AIG Star Life Insurance Co.** and **AIG Edison Life Insurance Co.** When **Prudential plc** management met resistance from shareholders over its proposed AIA acquisition and proposed to lower the price from $35.5 billion to $30.4 billion, Mr. Benmosche still favored the deal but was outvoted by the AIG board. Some of the board members were concerned that the sale could still be turned down by Prudential's shareholders and that a perceived lower valuation could hurt future sale or IPO efforts. A plan to sell AIG's two Japanese life insurance subsidiaries is a reversal from the company's plan last fall, after unsuccessful efforts to sell the two units, to hold onto them for the foreseeable future to help stabilize their businesses. Since then, the world economy, the M&A environment, and the units' performance have improved.

Resolution Agrees to Buy Most of AXA's UK Life Insurance Operations

Resolution, the vehicle set up in 2008 by insurance entrepreneur Clive Cowdery to buy and merge slow-growing British life insurers, has agreed to buy most of **AXA**'s UK life insurance operations for £2.75 billion. It will be funded by a £2 billion rights issue for which shareholders have already committed to take up 52%. This would be Resolution's second takeover, following the £2 billion acquisition of **Friends Provident** last year, easing concerns over the slow progress of it consolidation project to date. Resolution has set itself a target of buying at least three life insurers before selling or floating a combined business in 2012. The company said last year it had identified 25 potential targets. Earlier this year it was reported to have held unsuccessful talks about buying the U.K. arm of **Prudential plc**.

Under the deal, **AXA** will sell its British protection, annuities, and group pension units to Resolution and keep its more profitable and less capital intensive wealth management and direct protection operations. The British disposal will provide AXA funds to pursue takeovers in Asia, where it has been boosting its presence as part of a strategy to increase the profits it generates from emerging markets.

The transaction values the acquired businesses at 80% of embedded value, compared to current values for listed companies of about 70%, according to a report from Paul Davies and Kate Burgess in the Financial Times. Resolution is aiming for £75 million annual cost savings in the merged operation, about 16% of the combined group's cost base, a target Resolution CEO John Tiner admits to be aggressive but considers to be achievable. The company hopes to achieve further financial and tax synergies from combining the underlying life funds. The transaction cost of the acquisition is estimated to be £110 million - about 4% of the £2.75 billion deal - compared with a 5% norm in recent years, according to the FT report. Those fees cover the cost of sub-underwriting, the fee paid to existing shareholders who promise to take up any unwanted new shares, and all the other deal costs including other debt financing, accounting, and legal fees, stamp duty, and printing and distributing the prospectus.

Brit Insurance Reject Apollo Takeover Offer

Brit Insurance, a Lloyd's of London insurer, has rejected a £10-per-share indicative takeover offer made by U.S. private equity firm Apollo on June 7, saying that it will not hold further talks until the bid is raised. Five analysts polled by Reuters said Brit would not accept an offer below the company's net asset value of about £11 per share. Brit's stock has traded at a discount to its peers because of the company's focus on low-margin professional indemnity insurance as well as perceived acquisition risk following an unsuccessful bid for rival Lloyd's insurer **Chaucer Holdings PLC** last year, according to a report from Myles Neligan of Reuters. Depressed share prices have made Lloyd's of London insurers particularly attractive to buyout firms and foreign rivals, but analysts think deals are unlikely because of sellers' high price expectations and the difficulty of financing takeovers under current market conditions. Lina Saigol, Paul Davies, and Martin Arnold note in the Financial Times that specialist private equity firms have a history of investing in small established insurers, start-up insurers, and reinsurers, often following significant industry-wide losses when capital is scarce and premium rates are likely to rise sharply. Last year, **Pamplona Capital Management**, a pan-European private equity firm and hedge fund, took a stake in Brit's target Chaucer.

AEGON to Consider Sale of Transamerica Re, Trim U.K. Business, Focus on Emerging Markets

Dutch financial services group **AEGON NV** has outlined a strategy that it says will sharpen its focus on the core businesses of life insurance, pensions and asset management; cut costs in its U.K. operations; and possibly sell its life reinsurance unit, **Transamerica Re**. Chief Executive Alex Wynaendts said in a June 22 conference call that the measures will allow AEGON to "focus on key long-term growth opportunities in its core activities," according to a report from David Pilla of BestWeek. AEGON said any proceeds from the possible sale of Transamerica Re, which had a book value of €1.6 billion ($2.2 billion) excluding excess capital at the end of 2009, would be reinvested in fast-growing markets rather than repay an emergency government loan it received during the financial crisis. Nonetheless, one of the company's top priorities remains its commitment to repay the €2 billion it still owes the Dutch state from its 2008 bailout at the height of the global financial crisis, Mr. Wynaendts said.

AEGON retains the rest of the Transamerica group, which it bought for $9.7 billion in 1999, to make it the third-largest U.S. life insurer after **Prudential Life Insurance Co. of America** and **Metropolitan Life Insurance Co.** Currently, AEGON ranks itself among the top 10 largest life or pension insurers in the United States for most of the product areas in which it operates.

European and U.S. insurers are keen to shift investment away from sluggish domestic markets towards high-growth economies of Asia and eastern Europe, according to a report from Gilbert Kreijger of Reuters. AEGON will continue to expand there, as well as in Spain and Latin America, Mr. Wynaendts told reporters.

There has been frequent speculation over the past two years that AEGON might sell its underperforming British division to help repay its government loan, with insurance-focused buyout vehicle **Resolution** seen as a potential buyer. While AEGON did consider an outright sale of its UK arm, or closing it to new business, Mr. Wynaendts said it had opted instead to slim the unit down and refocus it on high-margin individual and company pension products. In the United States, AEGON plans to shift its focus to fee-based from spread-based products, expand the pensions business, and de-emphasize fixed annuities.

AIG's $2.2 Billion Taiwan Unit Sale Deadline Extended

American Insurance Group Inc. and **China Strategic Holdings Ltd**. have agreed to extend the deadline for completing AIG's planned $2.2 billion sale of its Taiwan unit according to a report from Denny Thomas and Alison Leung of Reuters. While the extension could help AIG and its buyers address concerns from Taiwanese regulators, the longer the transaction is stretched out the less likely it will succeed. The delay in selling **Nan Shan Life Insurance Co. Ltd.** adds to the frustration of AIG, which had to abandon the $35.5 billion sale of its Asian life insurance business to **Prudential plc** in June following opposition from Prudential shareholders. China Strategic said in a statement on Monday that the deadline for the Taiwan unit sale had been extended by three months to October 12. China Strategic and Hong Kong investment firm **Primus Financial** agreed to buy Nan Shan in October 2009. But they have been unable to seal the deal because of concern in Taiwan over their political connections with mainland China and their lack of expertise in the insurance business.

Despite booming business ties, many in Taiwan are suspicious of China's intentions toward the island,

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while concerns have also been raised over what might happen to Nan Shan's more than 4 million policyholders, nearly one-fifth of Taiwan's population. The buyers and AIG moved to ease some of those concerns by offering to put $325 million of the purchase price in escrow for four years to fortify the insurer's capital, but they may have to further restructure the deal to satisfy regulators' concerns.

WellPoint Executive Sees Health Reforms Driving Insurer "Oligopoly"

U.S. health insurers are "moving toward an oligopoly," a process that this year's health care overhaul will accelerate, says the investor relations chief at **WellPoint Inc**., the country's biggest health plan, according to a Bloomberg report. New regulations on administrative spending and premium increases will push some independent insurers out of business or into deals with bigger rivals, Michael Kleinman, WellPoint's vice president for investor relations, said on June 24 at a Wells Fargo & Co. conference in Boston. He noted that Indianapolis-based WellPoint, with 33.8 million members, has the scale to prosper from the overhaul, which is expected to add another 34 million to the ranks of the insured, but he believes some smaller insurers will not be able to survive in the forthcoming marketplace.

NEW VENTURES & BUSINESS PLANS

AXA to Raise €4 Billion for Property Funds

AXA Real Estate, the property arm of Europe's second largest insurer **AXA Group**, plans to raise up to €4 billion ($5.4 billion) to establish several new property funds worldwide, including its first in China, according to a report from Cecelia Valente and Michael Rose of Reuters. AXA Real Estate, which manages €38.4 billion in assets globally, is looking for institutional investors who are looking for exposure to emerging markets for a China fund of $500 million to $1 billion to invest in residential projects, said Dennis Lopez, global chief investment officer.

Berkshire Hathaway to Acquire Agency License in India

Berkshire Hathaway Inc. will set up a wholly-owned unit in India that will acquire a corporate agency license from the insurance sector regulator, according to a report from Sumeet Chattergee of Reuters. Berkshire will acquire the license to sell auto insurance policies from Bajaj Allianz General Insurance, the Economic Times said, citing sources at Insurance Regulatory Development Authority (IRDA). The report said the Berkshire subsidiary in India would sell motor insurance online and make investments of about 500 million rupees ($11 million) to set up a support structure, including a call center. Berkshire is entering into India through the corporate agency route because the low foreign direct investment limits in all other insurance business make it unattractive to the U.S. firm, the newspaper said citing sources. Indian laws currently allow 26% foreign holding in insurance companies.

Willis Opens New Representative Office in Kazakhstan

Willis Group Holdings plc, the global insurance broker, announced on June 23 that it has received official approval from local authorities to open a representative office of **Willis Limited** in Kazakhstan. This is the third such office Willis has opened in the former Soviet Union, in addition to branches in Russia and the Ukraine. In opening the new office, Willis also announced that **Simon Aubrey-Jones**, executive director, Willis Eastern Europe, will lead its Kazakh venture. Mr. Aubrey-Jones, who is based in London, has extensive knowledge of the region and has been involved with Willis' Russian and Ukrainian representative offices since their establishment in the 1990s.

The new Willis operation is located in Almaty, the financial centre of Kazakhstan. As a representative office, all local contracts and policies will be issued through Willis' existing network partner in the country, **CIS Risk Consultants**, a Kazakh brokerage that provides a full range of insurance services. In addition to commercial insurance, the new Willis office will support both domestic and international clients with optimum reinsurance solutions delivered through the local insurance market and relying on Willis' global placement capabilities.

Old Mutual Funds Unit Seeks Middle East Presence

Old Mutual Asset Management, an investment-funds unit of **Old Mutual PLC**, wants to extend its reach beyond the United States and in particular establish a presence in the Middle East, Chief Executive Thomas Turpin told reporters on June 16. Old Mutual Asset Management oversees 18 fund management firms — including **Barrow Hanley Mewhinney & Strauss**, **Dwight Asset Management** and **Acadian Asset Management —** with a combined $260 billion in assets employing 160 different strategies, according to a report from Joseph Giannone of Reuters. Yet the Boston-based unit needs to expand overseas and capture more of the funds seeking international equities and debt, Mr. Turpin said. Roughly 50% of the world's wealthy are

outside the United States, while Old Mutual has just 25% of its assets in foreign markets.

Mr. Turpin said Old Mutual recently opened a British office registered with the Financial Services Authority to help it expand its non-U.S. funds sales. Old Mutual, South Africa's largest insurer, has said it wants to sell its U.S. life business and other unspecified businesses, yet Mr. Turpin said he sees opportunities to expand during what this latest wave of consolidation among U.S. asset managers. He also said Old Mutual will look to lift out entire teams of money managers to join existing Old Mutual affiliates or help them launch new firms, taking advantages of the support services and sales reach of a global company. "This trend will be an opportunity for us to add to our stable of boutiques," Mr. Turpin told Reuters.

Brokerage Price Forbes Launches Reinsurance Unit

Price Forbes & Partners Ltd., a London-based specialty insurance broker, said on June 24 that it plans to open a treaty reinsurance division, according to a report from Jeff Casale in Business Insurance. The new reinsurance arm, which will be led by **Paul Bumpstead**, managing director, reinsurance, will open on October 1. The company said in a statement establishing the reinsurance division was "a key priority" and part of its overall growth strategy.

RATING AGENCY COMMENTS

Best Downgrades BP's Captive Insurer on Spill Concerns

On June 21, A.M. Best Co. downgraded its financial-strength rating of **BP plc**'s captive insurer, **Jupiter Insurance Ltd.**, to "A" from "A+", citing concerns about the financial impact of the oil spill disaster. The rating agency also downgraded Jupiter's Insurance's issuer credit rating to "a" from "aa-" and said the outlook for both ratings remains negative. Best said the moves reflect concerns about the possible impact on BP of the Gulf of Mexico oil spill caused by the late April explosion and sinking of the Deepwater Horizon oil rig.
"Although BP has recently agreed to establish a $20 billion claims fund, given the magnitude of this event, it is currently impossible to assess the ultimate impact on BP, both in terms of financial liabilities and reputational damage," Best said in a statement announcing the rating actions. "Significant uncertainties are likely to remain for some time financial position is likely to remain strong following the spill. "Although Jupiter has established loss reserves at its policy limit of $700 million, risk-adjusted capital still soundly supports the rating level," the agency said.

S&P Changes Marsh & McLennan Outlook to Negative

On June 14, Standard & Poor's changed its outlook on **Marsh & McLennan** to negative, from stable, citing risks to the company's business and reputation from a legal settlement its subsidiary **Mercer** made with an Alaskan pension plan. A negative outlook indicates the company, the second-largest global insurance broker by assets, could possibly be cut from "BBB-", the lowest investment grade, into junk territory over the coming one to two years. Consulting business Mercer agreed to pay $500 million to Alaska to settle a lawsuit over the state's unfunded employee pension plans, Mercer and Alaska's attorney general, Daniel Sullivan, said on Friday. The state had sought as much as $2.8 billion in a lawsuit, first filed in December 2007, that accused Mercer of making several errors in calculating employee pension and health-care obligations, according to a report from Karen Brettell of Reuters. The settlement also follows changes at the company "which, in our view, have contributed to marginal operating performance and have diminished MMC's earnings quality," S&P said. These include restructuring the company's operating units, goodwill write-downs at its Kroll business, and other divestitures or strategic changes, the rating agency said.

"Marsh & McLennan in February posted better-than-expected results for the fourth quarter helped by improving overseas operations. However, given the recent settlement at Mercer, we believe that legacy issues are still affecting Marsh & McLennan's operating results," S&P said. "As a result, we are concerned about Marsh & McLennan's ability to sustain its earnings improvements."

A.M. Best Revises Outlook to Stable for Issuer Credit Ratings and Affirms Financial Strength Rating of New York Life

A.M. Best Co. has revised the outlook to stable from negative and affirmed the issuer credit ratings of "aaa" of **New York Life Insurance Company** and its wholly owned subsidiaries, **New York Life Insurance and Annuity Corporation** and **NYLIFE Insurance Company of Arizona** (collectively referred to as New York Life). A.M. Best also has revised the outlook to stable from negative and affirmed the long-term debt ratings of New York Life Insurance Company. Concurrently, A.M. Best has affirmed the financial strength rating of "A++" (Superior) of New York Life. The outlook for the financial strength rating is stable.

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The revised outlook for the ICRs and debt ratings of New York Life reflect the improvement in its capitalization and net earnings during 2009 and into 2010 after experiencing a significant decline in 2008 due to losses from credit impairments and the company`s capital loss tax planning strategy. For year-end 2009, New York Life recorded statutory net income of $683 million, and total adjusted capital (TAC) increased by more than $2 billion to $15.6 billion. In addition, New York Life's investment portfolio moved to a small, net unrealized gain position as of year-end 2009. The company`s first quarter 2010 results continued this positive momentum, with statutory net income of approximately $220 million and total adjusted capital increasing to $16 billion.

New York Life's ratings continue to reflect its leading market position in the U.S. life insurance industry, its highly productive career agency force and superior risk-adjusted capitalization. The ratings also consider the company's favorable liability profile, stable operating earnings and commitment to mutuality. New York Life enjoys the competitive advantage of its core career agency force and has led the industry in Million Dollar Round Table membershipfor 55 consecutive years. The agency channel has contributed to the company's strong persistency and prominent market presence within the individual life market while delivering strong sales growth. Amid an industry-wide, double-digit decline in life insurance sales in 2009, New York Life experienced a year-over-year increase in its U.S. life sales.

New York Life`s sizeable inforce block of traditional life insurance and stable, long-term cash flows are the foundation of the company's operating performance. The conservative nature of its product portfolio, together with its large block of ordinary life business, translates into one of the most creditworthy liability profiles in the industry. Additionally, A.M. Best notes that New York Life has some financial flexibility to maintain its strong risk-based capital position through the management of its policyholder dividend scale.

S&P Places AXA's U.K. Unit on Negative Review

AXA Insurance U.K. PLC, subsidiary of Paris-based insurer **AXA S.A.**, was placed on review with negative implications June 16 by Standard & Poor's Corp. AXA Insurance U.K. has an "AA-" long-term insurer financial strength rating, but S&P said in a statement its decision was based on the insurer's announcement of its partial disposal of the U.K. life portfolio and its potential effects on AXA's overall presence in the U.K. S&P noted that AXA Insurance U.K.'s property/casualty operations would not be affected by the planned partial disposal of the company's life portfolio.

"The relatively low contribution of the U.K. property/casualty business to AXA's earnings and business profile also exacerbates our uncertainty about the group's U.K. position," S&P analysts said in a statement. "Although the U.K. property/casualty business made up approximately 13% of AXA's property/casualty premiums in 2009, we think its presence in this market is weaker than in other continental Europe property/casualty markets where AXA core entities hold larger market shares and generate higher profitability relative to AXA groupwide levels."

WHO'S WHERE

Unum's Top Investment Executive Resigns

Unum Group said on June 23 that **Frank Williamson**, senior vice president and chief investment officer, is resigning from the company. **David Fussell**, Unum's former chief investment officer, who retired from the insurer in 2008, has agreed to return in an interim capacity until a successor is named, Chattanooga, Tennessee-based Unum said in a statement. Mr. Williamson, who will remain with the insurer in a temporary advisory role, has been with Unum for 15 years and is leaving the company to "pursue other personal and professional interests," Unum said in the statement.

Unum Group Names New Chief Financial Officer

Unum Group said June 21 that **Richard P. McKenney** has been appointed executive vice president and chief financial officer. Mr. McKenney succeeds **Robert C. Greving**, who plans to retire later this year after assisting with the transition for the Chattanooga, Tennessee-based disability insurance provider. Mr. McKenney previously was executive vice president and CFO of **Sun Life Financial Inc.** and , before that, CFO of **Genworth Financial Inc.**

Willis Names Group Chief Financial Officer

Willis Group Holdings PLC said on June 23 that **Michael Neborak** has been named executive vice presicent and group chief financial officer, effective July 6. He will oversee all of Willis' global finance functions and be a member of its executive committee, reporting to Chairman and CEO **Joe Plumeri**, the London-based insurance brokerage said in a statement. Mr. Neborak succeeds **Patrick C. Regan**, who left to join **Aviva PLC** as CFO. **Stephen E. Wood**, who has served as interim CFO since Mr. Reagan's departure, will return to his post as group financial controller. Prior to joining Willis, Mr. Neborak was CFO for investment analysis firm **MSCI Inc**. He will be based in New York and also work out of Willis' executive offices in London.

Presidential Life Appoints P.B. (Pete) Pheffer as Chief Financial Officer

Presidential Life Corporation named **P.B. (Pete) Pheffer** as its new chief financial officer effective June 12, replacing **Dominic D'Adamo** who has filled the role on an interim basis. Presidential Life, through its wholly owned subsidiary **Presidential Life Insurance Company**, is engaged in the sale of fixed deferred and immediate annuities, life insurance and accident & health insurance products.

Prior to joining Presidential Life, Mr. Pheffer was CFO for **Missouri Employers Mutual Insurance**. He has also served as CFO for **Kemper Life Insurance Companies**, **Jackson National Life Insurance Companies** and **Standard Management Corporation**.

AIG Puts Bill Dooley in Charge of Asset Management

American International Group Inc. has promoted **Bill Dooley** to executive vice president for investments and financial services, with overall responsibility for its asset management group. Mr. Dooley will report to **Peter Hancock**, AIG executive vice president, and continue to have overall responsibility for financial services, CEO **Robert Benmosche** said in an internal memo on June 24. Mr. Dooley, a 32-year AIG veteran, has held several senior roles at the insurer, including senior vice president of **AIG Investment Corp.** and chief investment officer of **American International Underwriters**. He also has served as treasurer of AIG.

AIG sold a part of the asset management business to Hong Kong tycoon Richard Li's **Pacific Century Group** this past March. The insurer would continue to manage about $509 billion of assets as part of its internal investment operation, it said when the deal closed.

Monika Machon, who has been overseeing the asset management group, will continue as chief investment officer, with responsibility for global portfolio management, Mr. Benmosche said. Ms. Machon will report to Mr. Dooley. AIG Financial Products and its chief operating officer, **Gerry Pasciucco**, will also report to Mr. Dooley, Mr. Benmosche said. Legacy assets of the Financial Products unit, which was behind the insurer's near collapse and is being wound down, will be placed in the asset management group, Mr. Benmosche said.

Henri Coupron, who recently joined AIG as CEO of aircraft lessor **International Lease Finance Corp.**, will report directly to Mr. Benmosche, according to the memo.

Norman Sorensen of Principal Financial Named Chairman of International Insurance Society

On June 21, the board of directors of the **International Insurance Society (IIS)** at their annual meeting in Madrid announced the election of **Norman R. Sorensen**, president - international asset management and accumulation, Principal Financial Group, as the new chairman. He succeeds Brian Duperreault, president and chief executive officer, **Marsh & McLennan Companies**, who served as IIS chairman for three years.

Mr. Sorensen was appointed president - international asset management and accumulation of the Principal Financial Group, in February 2010, and he continues as president and chief executive officer of Principal International, Inc. He is responsible for managing businesses of Principal Financial outside the United States in the company's international asset management and accumulation segment. Mr. Sorensen joined Principal Financial in 1998. Previously he was a senior executive at American International Group (AIG).

Carlos Mendez Joins Sandler O'Neill; Firm Creates Structured Finance Group

Sandler O'Neill + Partners, L.P., a full-service investment banking firm specializing in financial services companies, announced on June 16 that **Carlos Mendez** has joined the firm to lead its newly created structured finance group. As head of structured finance, Mr. Mendez will be responsible for arranging new term funding and alternative capital solutions and will advise clients on current recapitalization requirements. He will also assist in further expanding the firm's fixed income sales and trading business. Mr. Mendez will be based in the firm's New York headquarters.

Mr. Mendez was most recently senior managing director in the capital markets division of **Institutional Credit Partners LLC**. As a founding member, he led the expansion of its broker dealer operations in the United States and Europe. Prior to Institutional Credit Partners, Mr. Mendez was a Director in the Structured Finance Group at **Guggenheim Capital Markets**.

In addition to Mr. Mendez, **Joshua Eaton**, **Andrew Mauritzen** and **Chris Howley** have joined Sandler O'Neill as managing directors and will serve as the initial members of the structured finance group. Mr.

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Eaton most recently served as general counsel and co-chief operating officer of Dune Capital Management LP where he advised on such seminal transactions as the acquisition of IndyMac Federal Bank from the Federal Deposit Insurance Corporation. Mr. Mauritzen most recently served as a managing director at Institutional Credit Partners, where he executed complex financings for companies such as PEMEX, the Mexican national oil company. Mr. Howley most recently served as a managing director at Institutional Credit Partners, where he led the advisory and solutions team.

John W. Blizzard Joins AMRESCO Commercial Finance as SVP

Banking executive **John W. Blizzard** has joined **AMRESCO Commercial Finance, LLC** as a senior vice president to help build the third-party special servicing and primary servicing business across the United States. He will be working with banks, hedge funds, insurance companies, regulatory agencies, and other servicers in order to bring more solutions to the growing challenges in the non-performing commercial loan market. Mr. Blizzard was formerly the chief business officer at the Federal Home Loan Bank of Seattle. He is located in a new office in Bellevue, Washington.

Aon Asia Pacific CEO Fung Dies

Bernie Fung, the chairman and CEO of **Aon Asia Pacific** in Hong Kong, died May 27, Chicago-based Aon Corp. announced. Mr. Fung, 57, led Aon's Asia-Pacific operations and was a member of its executive committee. He previously was CEO of **Inchcape Insurance Brokers**, which Aon acquired in 1997, and before that served as head of Aon's Canadian retail brokerage operations.

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