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National Organization of Life and Health Insurance Guaranty Associations

www.nolhga.com

Back in the Club

By Sean M. McKenna

Mention "safety net" to Michael Surguine, executive director of the Arizona Life & Disability Insurance Guaranty Fund, and he'll tell you two things. First, he says, "that phrase has been used to death."

Second, and most important, it's an accurate description of the work the guaranty association system performs for policyholders who often have nowhere else to turn when an insurance company fails.

"They don't have the clout of the investment community or stockholders in terms of being able to make noise or hire lawyers," Surguine says. "And the guaranty associations help them in that regard." The system isn't exactly a voice for the voiceless, but it does go to bat for people who would have trouble doing so themselves.

In Surguine's opinion, the safety net might be a tired concept, but it's still strong in execution. He should know. He's been working on the net—in various capacities—for a long time.

Quite a Résumé

When it comes to assessing the value of NOLHGA and the guaranty system, Surguine speaks from experience—a wide range of experience. After all, before taking over the Arizona guaranty fund in October 2001, he'd already been a regulator, a guaranty association administrator, and an insolvency counsel for the NAIC.

Surguine got his start in the regulatory field in 1986, when he went to work for the Arkansas Department of Insurance as an associate counsel. In 1990, he took over the department's Rehabilitation & Liquidation Division, which oversaw both the life and health and property and casualty guaranty associations. In 1992, he signed on with the NAIC as the group's insolvency counsel.

"The idea was that there should be a person at the NAIC with hands-on insolvency expertise to serve as a resource for the state insurance departments," Surguine says.

As insolvency counsel, Surguine worked on a number of projects related to guaranty associations. He oversaw the first publication of the *Receivers Handbook* and participated in overhauls of the NAIC's Rehabilitation & Liquidation Model Act and both the property and casualty and life and health guaranty association model acts.

Surguine's work in Arkansas and with the NAIC brought him in close contact with guaranty association people throughout the system. When he learned that the Arizona executive director's job was opening up, the chance to get back into guaranty work (and enjoy the Phoenix weather) was too tempting to pass up.

"When I was back in the Arkansas department serving as the administrator of both guaranty funds there, I very much enjoyed the work," he explains. "Some of my best friends are in the guaranty community, and I saw this as an opportunity to kind of get back in the club and work with those people even more closely than I had at the NAIC."

A View from Both Sides

Surguine's 16 years in the industry have given him more than just a full Rolodex (or perhaps a full Microsoft Outlook Contacts folder). They've

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PRESIDENT'S COLUMN

Insurance Fraud Is Not "Victimless"

By Peter G. Gallanis

"The basic creed of the gangster, and for that matter of any other type of criminal, is that whatever a man has is his only so long as he can keep it, and that the one who takes it away from him has not done anything wrong, but has merely demonstrated his smartness."—Herbert Asbury, *The Gangs of New York* (1927)

Journalist Herbert Asbury made that observation 75 years ago in his comprehensive history of the early New York underworld, but one can easily see parallels today in frauds that have been perpetrated against insurance companies and the consumers who rely upon them.

The most notable recent examples of individuals who apparently followed the "it's mine if I can take it" credo are Martin Frankel, who is scheduled to go on trial soon for his role in the Thunor Trust insolvencies, and Sholam Weiss, who was convicted, fled the country, and was sentenced to a term of 845 years in federal prison for his role in the looting of National Heritage Life. Most insurance insolvency practitioners would not have to ponder long to add another half dozen or so names to the list of rogues whose misappropriation of insurer funds led directly to company failures.

The enterprise of insurance, by its nature, is susceptible to embezzlement, defalcation, and general boodling in ways that few other industries are. The very nature of insurance is payment today in exchange for a promise to provide services and payments at a point in the future—perhaps many years later. An insurer is supposed to make conservative estimates of the amounts it will need to pay on policies in the future and to invest premium funds prudently to provide for payment of its contractual obligations as they are expected to come due. Of course, almost all insurers do precisely that, and a robust regulatory mechanism operates to provide external policing of how the insurer is providing for the ultimate payment of its commitments.

But no regulatory mechanism—not current state insurance regulation, nor any hypothetical federal alternative—is completely proof against a clever scheme to pirate some of the assets of an insurer for at least a short period of time, perhaps long enough for the thief to flee the country or otherwise erect roadblocks in the path of regulatory pursuit and prosecution.

> *No regulatory mechanism—not current state insurance regulation, nor any hypothetical federal alternative—is completely proof against a clever scheme to pirate some of the assets of an insurer for at least a short period of time...*

One puzzling aspect of the Frankel and Weiss stories, as well as others involving insolvencies, is the somewhat solicitous way in which those who pocketed insurer funds have been treated by authorities other than insurance regulators. Frankel, for example, was apprehended as a fugitive in Germany but was allowed to remain there for many months after his arrest, until the German government finally extradited him to the United States following an unsuccessful escape attempt.

Weiss also fled to Europe, and the Austrian government has refused to extradite him, concluding that the sentence imposed by the U.S. court was excessively harsh. Even within this country, we have seen surprising reluctance on the part of criminal jus-

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tice authorities to prosecute individuals whose apparent defalcations have bankrupted insurers.

The authorities in these cases appear to be sympathetic to arguments that their subjects have harmed no identifiable individuals, and that the crimes can in a sense be considered "victimless." Nothing could be further from the truth.

When an insurer fails, guaranty associations pay claims on covered policies or a new carrier assumes the covered obligations under the insolvent's policies. The funds for accomplishing those objectives come from the individual guaranty associations responsible for the policies. Those guaranty associations, in turn, raise the funds by assessing their insurance company members, whose surpluses are reduced by the assessments at the expense of their own policyholders and shareholders.

Most life and health companies are able to use at least part of the guaranty association assessments they pay as offsets against state premium taxes. Thus, to that extent, state treasuries bear a portion of the burden when corporate looting leaves an insurer insolvent. In addition, some claims either are not covered by guaranty associations or exceed the statutory limits of guaranty protection; in these cases, individual policyholders and creditors of the insolvent insurer directly bear the costs of the misdeeds.

Over the years, the costs to the insurance industry, state treasuries, and uncovered claimants from the looting of insurers have run to many hundreds of millions of dollars; to date, the overall costs of the protections paid for by the life and health guaranty system are approaching six *billion* dollars.

Have an Idea for the NOLHGA Journal?

If you would like to write for the *NOLHGA Journal* or have a suggestion for an article, please contact Sean McKenna at 703.787.4106 or via e-mail at smckenna@nolhga.com.

Plainly, then, frauds perpetrated against insurers are not "victimless" crimes by any analysis. The legal authorities should recognize the existence of very real victims, including the guaranty associations, their member companies, state treasuries, and other unprotected insurer creditors. Identification of—and with—the victims of looting should steel the resolve of authorities to deal sternly with wrongdoers.

That is not to say that every insurer failure is a consequence of looting, or that everyone involved with a failed company is a criminal. Insurance is an extremely competitive business, and companies fail for many reasons. Some businesses don't compete well, some are innocently mismanaged, and even some individuals involved with companies that are looted are themselves truly duped by clever con artists.

> *One puzzling aspect of the Frankel and Weiss stories, as well as others involving insolvencies, is the somewhat solicitous way in which those who pocketed insurer funds have been treated by authorities other than insurance regulators.*

Negligence and aggressive characterizations and opinions by company officials and outside consultants, while irresponsible and possibly the basis of civil liability, are qualitatively different from theft and fraud. It would be a sorry result if the general reaction to the pending Enron bankruptcy led to a type of Jacobinical scapegoating that ruined the reputations and careers of productive individuals who have made isolated, good-faith mistakes.

Still, theft is theft. Even though a theft may be complex, it becomes clear that it is not victimless if one spends the time to analyze who bore the costs of the theft. Real crimes with real victims should be prosecuted, lest future criminals be encouraged to repeat and expand on the patterns they have seen go unpunished. ■

Back in the Club

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also given him a rare perspective on the relationship between the guaranty association system and the regulatory community. Surguine says it's a strong one—with room for improvement.

"The regulatory community looks to NOLHGA and the guaranty fund community for expert advice on what's going on in the industry," Surguine says. He adds that regulators also expect the information NOLHGA provides to be as unbiased as it is accurate.

"When we were dealing with NOLHGA [on revisions to the NAIC model act]," he says, "we expected to get—and did get—very objective input on issues."

According to Surguine, the NAIC doesn't hesitate to turn to NOLHGA when it needs input on issues like the model act revisions. However, "beyond that, I think the interaction is more ad hoc and depends on what's going on in the insolvency arena." In other words, interaction between the regulatory community and the guaranty association system is sometimes triggered only by a high-profile life and health insurer insolvency.

In Surguine's opinion, this is a waste of the expertise possessed by NOLHGA and the guaranty associations. Too often, he says, regulators don't take advantage of this expertise until a troubled company has gone so far downhill that there's little left to do other than place the company in liquidation and activate the guaranty associations. Consulting with guaranty association representatives early on in the process, Surguine says, would result in a better outcome no matter what occurs.

"In some situations, liquidation is inevitable," he explains. "At a minimum, the earlier involvement of the guaranty associations could make the whole process smoother and less painful. But it's also likely that by bringing in the expertise of the guaranty system, we might be able to resolve some troubled company situations short of liquidation."

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A Liquidation Closing Checklist

By Charles T. Richardson & Mary Margaret Melusen

The first job of NOLHGA and its member associations is to get guaranty-covered policyholders out of the insolvency storm and into a safe, sound, warm, and dry home. We do that as quickly as the legal and market demands allow, using a combination of assumption reinsurance, claim payments, and other policyholder protection mechanisms. Each insolvency task force is organized with that in mind, and the task force's consultants are single-minded in seeing that objective achieved as the first order of business.

As they satisfy their statutory duties to policyholders, guaranty associations often become the largest creditors of an insolvent insurer's estate. As a consequence, the associations have a legitimate interest in ensuring that estate assets are recovered, managed, and used so as to minimize guaranty association costs. Since issues pertaining to the recovery, management, and use of estate assets arise at all stages of an insolvency, guaranty associations must be prepared to deal with these matters from the inception of a case through its final wind-up.

Therefore, the second priority for NOLHGA and the guaranty associations is to take steps with the receiver to facilitate asset recovery and, eventually, the closing of the liquidation estate. The sooner the final amen is said by the liquidation court, the sooner the last assets of the insolvent insurer can be distributed to priority creditors like the guaranty associations and the receiver discharged. After all, the liquidator's mission is to marshal assets, adjudicate claims, and make distributions to approved creditors and to do this as promptly as legally and financially possible. One measure of success is the time it takes the receiver to deliver his or her order of final discharge.

Much has been written about the sometimes-laborious process of closing liquidation estates and the challenges receivers face in completing their duties. Chapter 10 of the NAIC's *Receivers Handbook for Insurance Company Insolvencies* contains a good summary of many of those challenges. At NOLHGA's Tenth Annual Legal Seminar in July 2001, one of the panels gave the audience some "insider tips" on closing insolvency estates. The *NOLHGA Journal* has, through the years, published articles on various estate closing issues, including the ways receivers and guaranty associations have overcome obstacles to allow the closure of some liquidation estates (see, e.g., "MBL Insolvency Nears Closing," Spring 1999; "Commissioner To Close Old Faithful in Record Time," Winter 1996).

In the same vein, this article catalogs the closing issues that often require attention and gives concrete examples of how bumps in the road to estate closure have been removed. Where there is a firm will there is usually a legal way, and NOLHGA and the guaranty associations have always stood ready to offer their ideas and support to receivers who are single-minded in pursuing prompt estate closure.

1. Non-Liquid or Low-Value Assets

Non-liquid assets—including lawsuits and claims—may bog down the receiver's completion of his or her duties; it also may prove not to be cost-effective for the receiver to pursue these assets to the bitter end. Under those circumstances, it may be possible to transfer the non-liquid assets to the priority creditors themselves (i.e., the guaranty associations) or to a liquidating trust or other special-purpose legal vehicle designed to provide an ongoing structure that will complete the asset recovery process without the liquidation estate having to stay open. Liquidation trusts have been used in several insolvencies, including Confederation Life (Mich.), National Heritage (Del.), Executive Life (Calif.), and Pacific Standard (Calif.). See also, § 806 of the Interstate Compact Uniform Receivership Law.

2. Taxes & Federal Claims

Chapter 10 of the NAIC's *Receivers Handbook* has an extensive discussion of a receiver's tax filing and tax liability responsibilities and risks. A life/health/annuity insolvency usually does not raise the same federal government claims priority issues that have so plagued property/casualty insolvencies, both before and after the United States Supreme Court's Fabe decision in 1993, U.S. Dept. of Treasury v. Fabe, 113 S. Ct. 2202 (1993); however, a life/health/annuity receiver must be attentive to the federal tax issues before the liquidation estate is closed.

The key in this area is for the receiver and his or her tax advisors to prepare for estate closure early on, literally from the outset of the insolvency, and not wait until late in the game to take appropriate steps to satisfy tax or other potential federal filing requirements.

3. Ancillary Receiverships & Statutory Deposits

The domiciliary receiver has to deal with ancillary receiverships in other jurisdictions and the special (e.g., for the benefit of a specified class of claimants in that state only) or statutory (e.g., for the benefit of all claimants anywhere) deposits in the ancillary state that have precipitated the filing of the ancillary receivership.

Ancillary receiverships should be closed before the domiciliary receivership begins closure proceedings. Bar dates should be consistent, if possible. When the ancillary receiver has finalized claims filed in the ancillary proceeding and made distributions to any special deposit claimants, excess funds from the special deposit should be forwarded to the domiciliary receiver for final distribution.

Guaranty associations can often facilitate some kind of resolution of special deposit claims in their jurisdiction, simply because they are closer to the local situation and are typically the beneficiary of the special deposit. However, the receiver should keep

in mind that this is not always the case, and he or she may have to be prepared to negotiate directly with local departments to resolve special deposit issues.

In any event, it is important that the domiciliary receiver, the affected guaranty associations, and the ancillary receiver work together to conclude the ancillary receivership so it does not hold up the closure of the domiciliary receivership. Often, this can be done by special agreement among the parties or by relying on the early access agreement the guaranty associations have with the domiciliary receiver to deal with a deposit in the ancillary state.

Where there is a firm will there is usually a legal way, and NOLHGA and the guaranty associations have always stood ready to offer their ideas and support to receivers who are single-minded in pursuing prompt estate closure.

For questions concerning this issue, the ancillary receivership and deposit sections of the NAIC Model Liquidation Act (§§ 55–64) and of the Interstate Compact Uniform Receivership Law (§§ 1001–07) should also be consulted.

4. Unclaimed Funds, Late Claims, & Administrative Wrap-up

Needless to say, a receivership of any size or duration is bound to create its share of dangling loose ends that need to be tied off before the estate closes. These include unclaimed funds from prior payments made to creditors, claims or threats of claims made after the bar date but before the receiver is ready to make a final distribution, provision for the retention of records, and the collection of the data necessary for the receiver to make a comprehensive final accounting to the liquidation court.

Here again, most of those items are contemplated by the specifics of the state liquidation act counterparts of the NAIC Model Liquidation Act. See, e.g., § 50–54 of the Model Act. The receiver has operating authority broad enough to deal efficiently with virtually all of the slings and arrows that come the estate's way in the final phase of a liquidation—subject, of course, to oversight by the liquidation court.

The guaranty associations, as the estate's priority creditors, have every incentive to add their creativity and support to the receiver's efforts to put together a closure plan that deals effectively with the realistic contingencies without waiting for every remote possibility to materialize—in short, to come up with a businesslike approach that protects the receiver and can be recommended to the liquidation court.

5. Discharge Orders, Releases, & Corporate Dissolution

The procedures for final liquidation court action closing the estate, discharging the receiver, and dissolving the insurer's corporate existence are typically spelled out in the governing liquidation statute. See, e.g., §§ 23 and 50–54 of the NAIC Model Liquidation Act. While a final order meeting the technical requirements of the statute may be effective to close the estate, attention to drafting details and notices can make life easier in the future for all involved.

For example, the receiver should make certain that the court's final order is a single comprehensive document that includes a complete outline of the procedural history of the liquidation and clearly indicates that the estate is closed. This is important, not only because of the receiver's understandable desire for finality in wrapping up his or her responsibilities, but also because the order will serve in the future as a convenient source of authority that the insolvency is concluded for all time and all purposes. That argues for giving as much notice—actual and by publication—of the final actions of the receiver and court as necessary (minimum notice requirements are set by statute) to make sure the final order vaccination sticks.

Some states have enacted statutes facilitating the sale of the insurer's corporate charter as a part of the receivership process. See, e.g., Colo. Rev. Stat. § 10-3-533.5 (2001), Iowa Code § 507C.20 (2000), Ohio Rev. Code § 3903.21(A)(23) (2001), and R.I. Gen. Laws § 27-1-16.1 (2001). Few such charter sales have actually occurred, although several have been attempted. A receiver will need to evaluate whether the time, expense, and likelihood of success make the attempt at selling a charter worth the effort. But in virtually all other instances, the end result of the discharge of the receiver and the closing of the liquidation estate is the dissolution of the corporate existence of the insurer. See, e.g., § 23 of the NAIC Model Liquidation Act.

* * * * * *

The five items discussed above are not the only breeding grounds for delays in estate closing (others deserving separate treatment include proof of claim adjudication and the pursuit of reinsurance recoverables), but they certainly have produced their share of angst on the part of receivers and guaranty associations intent on bringing receiverships to an end. The key point to remember is that it is in everyone's interest to work as diligently in finding ways to overcome closing obstacles at the end of a receivership as they do in finding ways to protect policyholders at the beginning. ■

Charles T. Richardson is a partner in the Washington, D.C., office of Baker & Daniels and chairs the firm's Insurance and Financial Services Group.

Mary Margaret Melusen is counsel for NOLHGA.

Back in the Club

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The key to early intervention, Surguine adds, is educating regulators on how beneficial it can be. While NOLHGA certainly has a role to play in this education, he says, "there's a similar responsibility for guaranty association administrators and state Boards. They need to maintain a close relationship with regulators in their state, to earn the trust of the regulators so they will be called on when a troubled company situation arises."

Surguine already enjoys the close working relationship that facilitates this early intervention. Arizona's guaranty fund is part of the state's Department of Insurance, and Surguine serves on the department's Troubled Company and Strategic Action Committee. It's a position he highly recommends.

"That might not be a bad thing for other states to do, even if the guaranty funds are outside the department," he says. "Obviously you've got some confidentiality issues to address there, but those things aren't insurmountable."

A Different Animal

Surguine is also a fan of the early intervention practiced by NOLHGA and the guaranty association system in the debate over optional federal chartering. As a former regulator and a current administrator, he's not thrilled with the idea of federal involvement in the insurance industry.

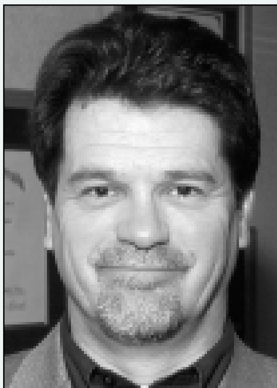
"I recognize the industry's concerns over streamlining the whole process of getting companies admitted into states; obviously, they have to be able to market their products to make money," he says. "But I'm basically opposed to an optional federal charter for a number of reasons."

These reasons run the gamut from concern over the creation of a new federal bureaucracy and its ability to respond to consumers to worries about state guaranty associations' assessment bases. But underlying them all is his belief that the federal government doesn't really understand the complexities of the insurance industry.

"The federal government doesn't have any expertise in the regulation of insurance companies, and it is a completely different animal," he says. "I know what the knowledge level with respect to the insurance business was prior to the enactment of Gramm-Leach-Bliley, and it was not that great."

One sign of this lack of understanding could be the relatively small role that insolvency and guaranty protection issues have played in the optional federal chartering discussion. "A very key piece in this debate is how you take care of consumers in the event an insurance company fails," Surguine says. "And I think both the aspect of solvency regulation and what happens in the event of an insolvency are not being given sufficient focus."

Given this lack of focus, Surguine feels it's vital that NOLHGA and the guaranty association system continue their efforts to tout the value of the current state-run protection system. His reasoning is simple: "The state-based system is the one that is most responsive to local concerns."



The MPC

"That's the key innovation—the idea that the guaranty associations could work together and be a major player in solving problems and formulating a resolution with the responsible regulator."

Michael Surguine, executive director of the Arizona Life & Disability Insurance Guaranty Fund

Innovation & Expertise

One reason Surguine is so eager to have the guaranty association system sing its own praises is that he believes the praises are well deserved. He's spent more than a decade working in or with the guaranty system, and in that time he's seen it improve by leaps and bounds.

"I think the guaranty associations, particularly the life and health associations, had to grow up and grow up in a hurry beginning in about 1991, with the failure of Executive Life, Mutual Benefit, and the other large life insurer insolvencies like Confederation Life that followed," he says. "My sense is that previous to that, the guaranty associations hadn't really dealt with anything of that size and weren't really prepared for it."

Despite this, he says, the system has risen to the challenges that these insolvencies have thrown at it. It's done so by cultivating a large body of experts and by pooling together the experience of all the guaranty associations into a single body: NOLHGA's Members' Participation Council.

"You have that whole process of working together to come to a common solution that's in the best interests not only of the policyholders but also of the guaranty associations and the member companies," he says. "That's the key innovation—the idea that the guaranty associations could work together and be a major player in solving problems and formulating a resolution with the responsible regulator."

Building Bridges

Forging good relationships with regulators and receivers is a challenge for any guaranty association administrator. Having worked both sides of the fence, Surguine might have it easier than some in this regard, but he knows how tough it can be. The difficulty, he says, lies in the different priorities that administrators and receivers bring to the table.

"I think there's an inherent difference in the view of each side that certainly creates the potential for conflict," he says. "Where the guaranty fund manager has one or two things to worry about—getting the claim files or information on the liabilities and where the money is going to come from to meet those demands—the receiver may

have 50 things to worry about, all seemingly 'front burner' issues."

Surguine likens the receiver's role to that of the mother bird flying back to the nest with a worm, only to be met with countless mouths to feed. Surguine has little doubt who should be fed first ("as an insurance regulator," he says, "I always felt that the laws were designed to favor policyholders as the people who were least able to look out for themselves"), but he acknowledges that his priorities, and those of guaranty associations in general, are not always the same as the receiver's.

When priorities differ, the potential for conflict is clear. However, conflicting interests don't necessarily have to sour the relationship between a receiver and a guaranty association or task force.

"It's always challenging dealing with a receiver because your interests are adverse," Surguine says. "But the relationship does not have to be adversarial."

The key is that each group must recognize the importance of—and the demands placed on—the other. "As a community, we guaranty fund people would do well to remember that although we are usually the largest creditor of the estate, we are not the only interested party," Surguine says. "Receivers would do well to recognize the critical role the guaranty funds play in lessening the impact of an insolvency on the public and maintaining consumer confidence in the insurance industry and insurance regulation."

In the end, simply keeping the lines of communication open can often be enough to avoid an adversarial relationship that can harm both sides. When conflicts do arise, Surguine says, "as long as the two sides are talking and are willing to look at the whole picture, there is a good chance that issues can be settled outside of a courtroom." ■

Sean M. McKenna is the communications manager for NOLHGA.

Painted with an Enron Brush?

By Larry Henry

The Press Room at the NOLHGA Web site (www.nolhga.com) now provides the latest news concerning the state of the life and health insurance industry. In each issue of the NOLHGA Journal, *we will provide a look into the stories that are shaping the insurance landscape.*

Energy trader Enron's bankruptcy is expected to be the largest corporate failure in U.S. history, and accordingly, its impact is being felt in every corner of the economy. The insurance industry, already enduring the fallout of the terrorist attacks of September 11, is one of its biggest victims. The industry's financial exposure, together with heightened regulatory sensitivity and increasing skepticism about accounting practices, has put insurance companies under the microscope.

Many insurance companies carried Enron investments in their portfolios. According to a February 6 *Business Wire* article on an A.M. Best statistical study, "the life/health insurance industry reported a market-value investment worth $2.8 billion as of Sept. 30, 2001, with the majority of investment in corporate bonds." A.M. Best noted that John Hancock Financial Services, Inc., had $320 million invested in Enron, heading a list of some of the industry's largest companies with investments in the fallen giant.

In a February 4 article in the *Indianapolis Business Journal*, Greg Andrews reported that "the plummeting value of Enron bonds also hurt Conseco, Lincoln National Corp. and Anthem Inc.," but pointed out that "at none of the firms did the bonds account for more than 3 percent of statutory capital, according to a Moody's report based on holdings at the start of 2001."

Direct exposure, however, may well be less damaging than the general concern (some might say panic) over accounting practices that the Enron situation has created. In the article "No More Enrons!" *NY Post* writer Jessica Sommar wrote that "few companies seem invulnerable to the hysteria around accounting issues gripping Wall Street, but market sources said they're watching AIG, Citigroup, Conseco and the big insurance companies closest for now."

More pointedly, a *Crain's New York Business* article cited concerns about insurance companies ranging from "grossly underreserving for potential losses on their policies to hiding their basic pricing miscalculations in huge unspecified charges that regularly crop up in their fourth-quarter reports." The article, which focused on property and casualty companies, noted that "following the collapse of Enron and the ensuing firestorm of outrage over companies cooking their books, concern has turned to insurers." It cited Reliance Insurance Company as an example of a firm that, in an effort to increase its income, "priced its policies well under those of its competitors [and] then compounded the error by underreserving." The result was one of the costliest insolvencies ever to hit the insurance industry.

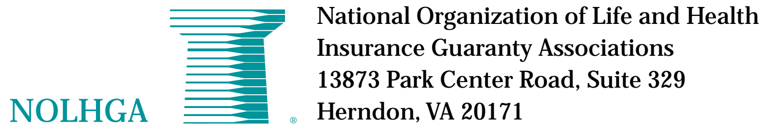
In a February 22 *US Newswire* article on a financial services panel, H. Rodgin Cohen of Sullivan & Cromwell is quoted as saying that the furor over accounting practices has led to "a virtual corporate witch-hunt, with an eerie similarity to 17th Century Salem," where the method of regulatory involvement can be "accuse, convict and then ask questions." The article noted that the complicated structures of many large insurance companies and potential accounting irregularities have raised eyebrows. The *NY Post* article quoted an anonymous analyst who said, "when you have a more and more complex balance sheet, it's easier to have question marks."

While the extent to which Enron's failure will impact the insurance industry is as yet unclear, what is clear is that a new attention is already being paid to complex corporate structures and potentially problematic accounting. These and other recent articles featured in NOLHGA's Press Room indicate that the insurance industry is one place where such scrutiny will be intense. ■

Larry Henry is manager of insurance services for NOLHGA.

Calendar

2002		
March 16–19	NAIC Spring National Meeting	Reno, Nev.
April 17–19	NCIGF Annual Meeting	New York, N.Y.
May 8–9	**NOLHGA Board of Directors Meeting**	**Tysons Corner, Va.**
May 20–22	**NOLHGA MPC Meeting**	**Columbus, Ohio**
June 8–11	NAIC Summer National Meeting	Philadelphia, Pa.
June 20–21	Southeastern Regional Guaranty Association Meeting	Little Rock, Ark.
August 6–7	**NOLHGA Board of Directors Meeting**	**Chicago, Ill.**
August 13–14	**NOLHGA MPC Meeting**	**Chicago, Ill.**
August 15–16	**NOLHGA 11th Annual Legal Seminar**	**Chicago, Ill.**
September 9–12	NAIC Fall National Meeting	New Orleans, La.
October 13–15	ACLI Business Solutions 2002 (Annual Conference)	San Diego, Calif.
October 30–November 1	**NOLHGA MPC Meeting & Annual Meeting**	**Washington, D.C.**
November 7–8	NCIGF/IAIR Joint Workshop	Henderson, Nev.



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