

■ FINITE RE FALLOUT

Ex-Cologne Re Executive Pleads Guilty

Deal includes promise to testify against AIG; SEC suit targets Greenberg

BY DANIEL HAYS

A FORMER CHIEF EXECUTIVE AT Cologne Re Dublin pleaded guilty last week to federal criminal conspiracy charges and agreed to testify against management at American International Group allegedly involved in a phony accounting scheme.

John Houldsworth entered his plea on June 9 in U.S. District Court in Alexandria, Va. He was scheduled for sentencing on Dec. 9 after Judge Claude Hilton advised him that he faces up to five years in prison and a fine of up to \$250,000, or twice the gross gain or loss resulting from his actions.

Earlier in the week—on the day that his U.S. attorney, John Byrne, revealed he had reached a plea agreement with the Justice Department Criminal Fraud Division—the U.S. Securities and Exchange Commission filed documents in a separate action disclosing that investigators probing the AIG transactions have tape recorded telephone conversations, mentioning “ways to cook the books,” e-mails and handwritten notes.

Judge Hilton initially had mentioned setting an earlier sentencing date, but Mr. Houldsworth’s lawyers asked for a delay so the court and probation officials would have a full record of his cooperation.

Mr. Houldsworth did not make a public oral statement detailing the factual basis for his plea. Instead, a written statement of facts was given to the judge. “Is this all correct?” Judge Hilton asked. Mr. Houldsworth agreed that it was.

Later Mr. Byrne said his client had made four trips to the United States to meet with Justice Department lawyers as part of his cooperation. The judge released him on \$75,000 bond. His lawyer said there has been no recommendation included with his plea agreement.

The deal with Mr. Houldsworth also involves a separate agreement to cooperate with a continuing SEC investigation and a

judgment preventing Mr. Houldsworth from serving as a corporate officer or an accountant in the United States.

A final decision and agreement on payments or other possible civil penalties for Mr. Houldsworth has been deferred, the SEC said.

The SEC complaint, filed in U.S. District Court in Manhattan, charged that on Oct. 26, 2000, AIG’s since ousted CEO, Maurice Greenberg, asked Ronald E. Ferguson (then the CEO of Mr. Houldsworth’s parent company, General Re) to assist in a securities fraud to

brighten AIG’s financial picture.

The complaint detailed how as a result, Mr. Houldsworth would go on to structure contracts to make it appear AIG had bolstered its loss reserves, “even though all parties understood” that \$500 million in losses being reinsured by AIG/National Union “involved virtually no insurance risk and would not qualify as reinsurance for accounting purposes.”

Mr. Greenberg, who has been questioned about the company’s accounting activities by federal and state investiga-

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■ MARKET BAROMETER

‘Rogue’ Underwriters Extinct

Soft cycle no longer fueled by irresponsible competition

BY MICHAEL HA

MARKETSCOUT.COM, AN INTERNET-based insurance distributor, said property-casualty premiums fell an average of 2 percent in May—identical to the rate of decline seen the month before.

However, the firm also noted an interesting development in the softening market—the death of “rogue underwriters.”

Property rates remained flat in May, while workers’ compensation fell 1 percent, casualty premiums declined 2 percent and management liability dropped 4 percent.

Small accounts saw prices stay flat, while rates of medium-sized accounts went down 2 percent and large accounts dropped 6 percent.

Richard Kerr, chief executive of Dallas-based MarketScout.com, observed that in the current market, prices could soften, “but at a very slow, measured pace...resulting in the elimination of wildly fluctuating premiums.” He cited the absence of “rogue underwriters”—insurers who would cut rates deeply as the soft cycle begins—as a cause for optimism.

Mr. Kerr said that in the “good old days”

when the industry entered a softening market, “there were always seven or eight insurers who would blaze the trail by deeply discounting rates.” These companies, he added, were almost always staffed by a senior “rogue” underwriter who would try to make a name for himself by becoming known as “the hottest hand.”

However, according to Mr. Kerr, “something very strange is happening in the soft market of 2005. There are very few rogue underwriters.” He said that with new requirements for fiscal responsibility and accountability, it just may be possible the rogue underwriter has become extinct. “That would be a positive move for the industry,” he added. ■

