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Insurer sues Illinois funeral directors to deny their claims

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The troubles for Illinois funeral homes continue to mount, as its trade group is involved in an insurance-coverage dispute related to problems with a trust it oversaw.

Federal Insurance Co., based in Warren, N.J., seeks to deny coverage to the Illinois Funeral Directors Association for claims the organization filed after it was sued by consumers and its members in separate complaints. The insurer, a subsidiary of Chubb Corp., filed suit on Monday in Chicago federal court, claiming that the association did not file its claims on time.

Illinois law requires insurers to have a court judgment to deny coverage. The association said it plans to "vigorously contest" Federal Insurance's claim.

If the court finds in favor of Federal Insurance, the association could be on the hook for any monetary damages that could result from the civil suits and the costs of defending itself. The insurer is represented by the Chicago law firm of Meckler Bulger Tilson Marick & Pearson.

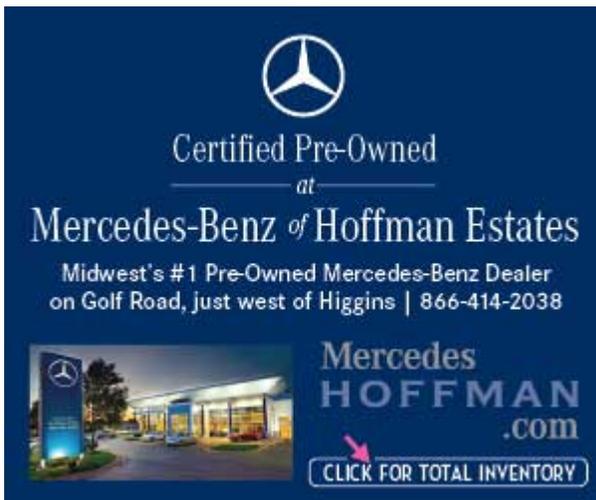
The funeral directors association faces two suits alleging the group mismanaged a trust that resulted in a deficit of nearly \$60 million last year. Consumers and funeral homes have said in court papers that the wrongdoing has harmed them financially. Former officers and directors are also named as defendants in the suits.

The association set up the trust about 30 years ago to invest funds collected by its members who sold pre-paid funeral plans to consumers. At the end of 2007, the association reported to state regulators that its trust held more than \$300 million for 49,000 Illinois residents.

For years, though, the association has said it paid out higher interest on death claims than its investments had earned. The practice led to a deficit in the trust. The problems were compounded by the trust's investment strategy, according to state regulators. The association bought life insurance policies that invested heavily in corporate bonds. When the bond market collapsed last year, the deficit doubled to nearly \$60 million.

State regulators stripped control of the trust from the association last year after a three-year investigation. Merrill Lynch Trust Co. became the new trustee in November.

In January the funeral directors association filed claims with Federal Insurance, which has provided business insurance, including coverage for directors and officers, to the association since 2005, according to Federal's suit.



The advertisement features the Mercedes-Benz logo at the top. Below it, the text reads "Certified Pre-Owned at Mercedes-Benz of Hoffman Estates". Further down, it states "Midwest's #1 Pre-Owned Mercedes-Benz Dealer on Golf Road, just west of Higgins | 866-414-2038". There is a small image of a Mercedes-Benz dealership building at night. At the bottom right, the text "Mercedes HOFFMAN .com" is displayed, with a pink arrow pointing to a button that says "CLICK FOR TOTAL INVENTORY".

The insurer contends in the suit that the Illinois comptroller, which regulates the funeral industry, had found in 2006 that the IFDA's conduct had contributed to the deficit. Federal said it has the right to deny coverage because it was not provided a timely notice of the comptroller's findings. The insurer also argues that the lawsuits brought by consumers and funeral homes are based on the comptroller's investigation and therefore are related claims and also should be denied.

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