

# Business Insurance®

April 17, 2006

www.businessinsurance.com

\$5

## CUTTING HEALTH CARE COSTS

**crain** Entire contents copyright © 2006 by Crain Communications Inc. All rights reserved.

### BENEFITS MANAGEMENT

#### HEALTH CARE COST CONTROL

Insurers seek to curb medical imaging costs; disease management programs examined; reducing prescription errors.

**PAGE 13**



#### BI RANKINGS

Prescription Benefit Managers

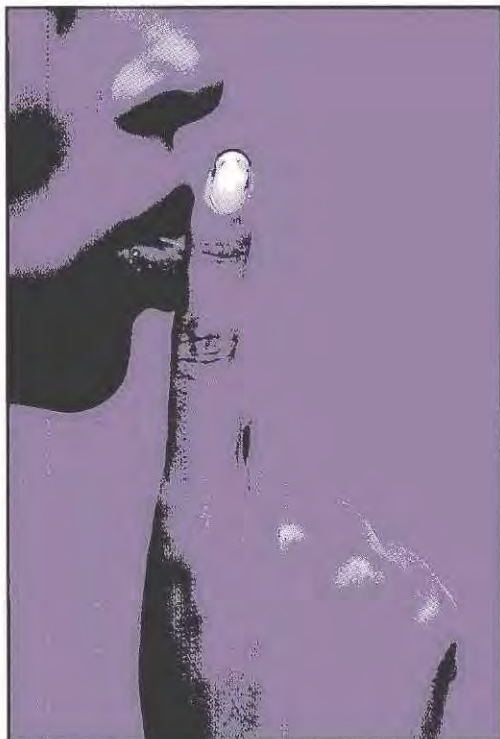
**PAGE 14**

Case Management Providers

**PAGE 18**

To Subscribe Call  
1-888-446-1422 in the U.S. or  
1-313-446-0450 outside the U.S. or  
go online to [www.businessinsurance.com](http://www.businessinsurance.com)

## WHAT MAKES AN INSURANCE MARKET LEADER?



### LESS TALK, MORE LISTENING.

Rather than telling you all about us, Lexington listens first — then delivers innovative insurance solutions that respond. It's what we have done best for nearly 40 years. So whether your concern is a severe hurricane, employment practices liabilities, terrorism, medical malpractice liabilities, or virtually any other exposure, tell us about it. Then we'll let you know how Lexington's capacity, financial strength and underwriting flexibility can most effectively manage the risks that you worry most about.

Contact Lexington at [lexingtonins@aig.com](mailto:lexingtonins@aig.com) or visit us at

[www.lexingtoninsurance.com/fs](http://www.lexingtoninsurance.com/fs).

# ***Lexington Insurance Company***

Market Leadership Powered by The Spirit of Innovation<sup>SM</sup>

# Business Insurance

April 17, 2006

www.businessinsurance.com

\$5

## Late News

### PXRE opts out of ratings after downgrades

PXRE Group Ltd. has requested that "the major credit rating agencies" withdraw their ratings of the company. The troubled reinsurer, which is undergoing a strategic review, was downgraded by rating agencies earlier this year after posting a \$698.2 million loss for 2005. Standard & Poor's Corp. in February downgraded the Pembroke, Bermuda-based reinsurer to BBB- from BBB+, and A.M. Best Co. downgraded it from A- to B++ and then downgraded it further to B+. In a statement, Jeffrey L. Radke, president and chief executive officer of PXRE said: "In the period since the downgrades, we have found that operational ratings below the critical 'A' category provide little value for a reinsurer."

### Doyle named head of National Union

John Q. Doyle has been named president and chief executive officer of National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc. that writes directors and officers liability insurance and other specialty coverages. In addition, Mr. Doyle has been named senior vp of AIG's Domestic General Insurance operations. Mr. Doyle adds these new responsibilities to his current role as president of AIG's American Home Assurance Co. unit, the insurer said in a statement. Mr. Doyle replaces John W. Keogh,

See **LATE NEWS**/page 31

## Inside



**COVER MANDATE**  
Gov. amends but signs  
Mass. health cover bill.

**PAGE 3**

**FULLY FUNDED?**  
Corporate pension  
funding levels improve.

**PAGE 3**



PHOTO: U.S. GEOLOGICAL SURVEY

In a photograph taken April 18, 1906, the San Francisco City Hall shows some of the destruction from the massive earthquake early that same day. The catastrophe launched earthquake science and has had a major influence on the insurance industry ever since.

## 100 years on, quake risk still shakes San Francisco

By **ROBERTO CENICEROS**

From the rubble of the 1906 San Francisco earthquake was built unprecedented cooperation between the insurance industry and the seismological sciences that resulted in the development of new risk analysis and underwriting practices.

Since the earthquake and ensuing fire destroyed much of the city 100 years ago this week, numerous advances in building engineering and firefighting technology have also emerged.

The 1906 event represented a major setback for insurers of that era, says a study produced by Zurich-based Swiss Reinsurance Co. titled "A shake in insurance histo-

ry—The 1906 San Francisco Earthquake."

At the time, insurers paid out \$235 million, equal to \$4.9 billion in 2005 dollars, to settle more than 100,000 claims, according to Swiss Re. Paid claims equaled more than 100 times the 1906 premium volume collected by all San Francisco insurers providing fire coverage. The disaster wiped out the entire U.S. insurance market's profit for the preceding 47 years.

**1906-2006**

Industry agreed  
to pay post-quake  
fire losses despite  
policy exclusions  
**PAGE 32**

See **SAN FRANCISCO** / page 32

## Contingent fees won't go away despite Spitzer

*Complex settlement deals not seen as bar*

By **SALLY ROBERTS**

New York Attorney General Eliot Spitzer's apparent attempt to abolish contingent commissions throughout the insurance industry may be shaping up to be just that—merely an attempt.

Although several of the world's largest insurance brokerages ceased accepting the incentives following Mr. Spitzer's 2004 fraud and bid-rigging lawsuit against Marsh & McLennan Cos. Inc. and subsequent client-steering settlements, the vast majority of intermediaries continue to collect contingent commissions.

In addition, the insurers implicated in the bid-rigging scheme that have reached or are likely to reach settlements with Mr. Spitzer probably will continue to pay contingent commissions on most lines as well, observers predict.

That is because the conditions for limiting contingent commissions contained in the settlements Mr. Spitzer has reached so far with American International Group Inc. and Zurich Financial Services Group Inc. will be hard to meet, observers say.

And, given the complexities involved in the attorney general delineating and monitoring such conditions, some observers question whether the settlement provisions on contingent compensation amount to anything.

### The 65% question

Under a provision in the settlements—language that appears to be a model for future deals with other insurers—AIG and Zurich agreed that they would stop paying contingent commissions for any line, product or segment of business if insurers that represent 65% of the

See **CONTINGENTS** / page 30

## Energy insurance capacity shrinks further

*Mutual's demise adds to strain*

By **RUPAL PAREKH**

**HAMILTON, Bermuda**—The already tight capacity for parts of the offshore energy insurance market was squeezed further last week with the announcement that Bermuda mutual insurer sEnergy Insurance Ltd. plans to shut down.

In a statement, sEnergy—one of three firms comprising the Hamilton, Bermuda-based OIL Group of Cos.—said that the move, which is effective on or about May 15, stems from "changes in the risk profile of

the sEnergy pool and the external environment in which sEnergy has been operating."

Created in 2002, the company was founded by 14 policyholder owners to secure reliable and affordable catastrophe business interruption and excess property damage insurance to the energy industry (see box page 29).

But, "the economics of such coverage has changed as a result of energy market conditions," sEnergy said in its statement. "In response, the board of directors and share-

**"People didn't  
contemplate these  
hurricane losses, so  
that has increased  
exposure to a level that  
wasn't expected."**

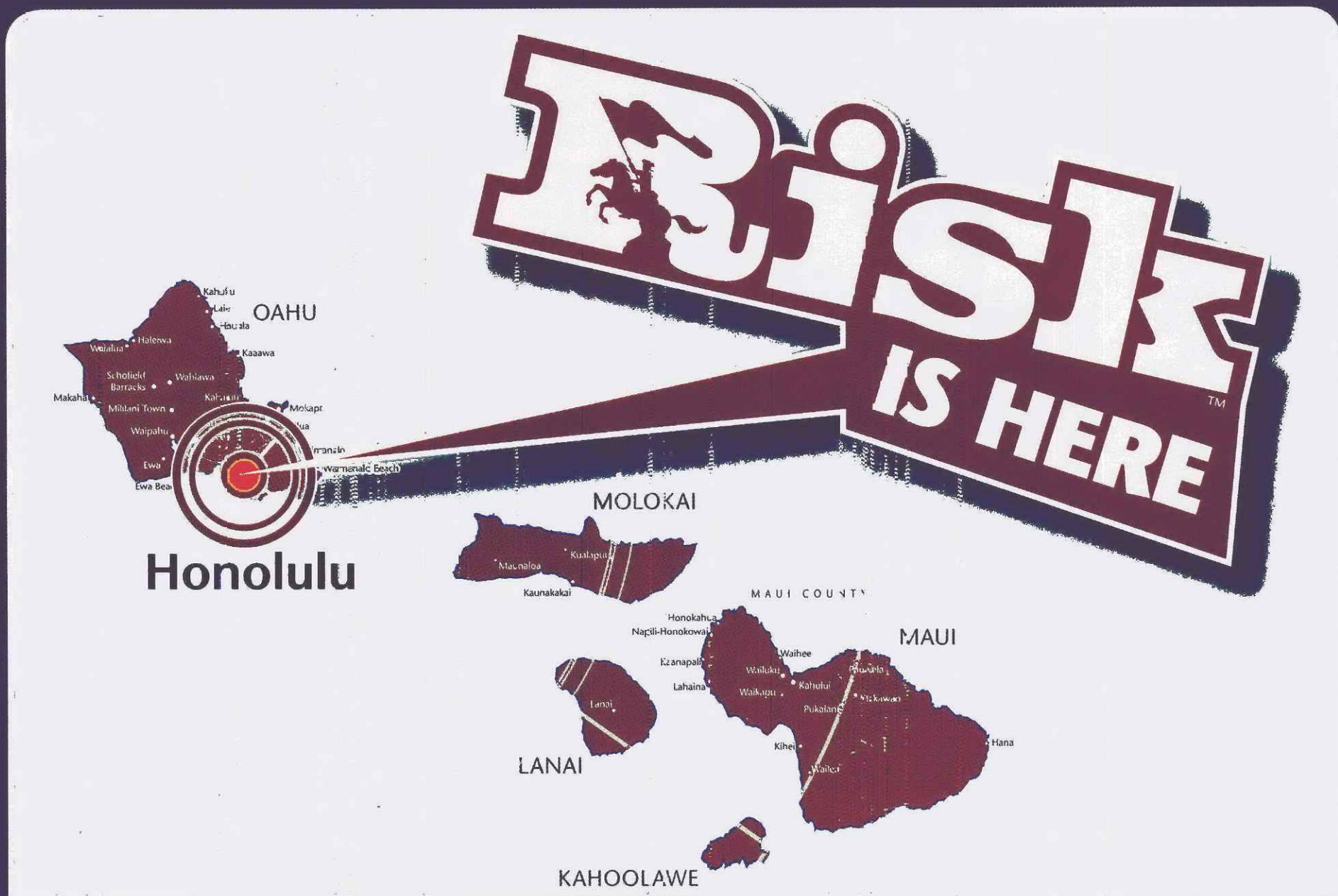
**George Hutchings  
sEnergy**

holders of sEnergy have decided that it is appropriate to suspend the writing of insurance.

sEnergy says all claims will be met in full and shareholders have until August 1 to submit notices of any occurrences that could spur claims under policies in force before the effective date of cessation.

According to sEnergy's chief operating officer, George Hutchings, one of the key factors leading to the mutual's decision to suspend business was the unprecedented level of energy-related hurricane losses last year—largely as a result of hurricanes Katrina and Rita—which battered offshore facilities in the Gulf of Mexico. "People didn't contem-

See **SENERGY** / page 29

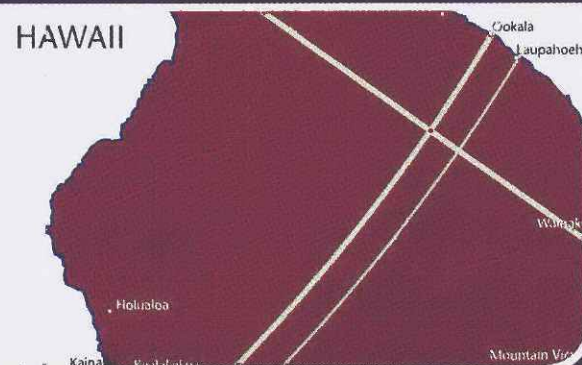


**BY THE WAY, SO IS AON AT RIMS 2006.**



Visit us at [www.aon.com/rims](http://www.aon.com/rims) to learn how to play Aon RISK™ at RIMS.

The grand prize winner will receive a trip for two to the destination of their choice.



**DON'T WAIT** for RIMS to learn about new strategies in risk management. To set up an appointment with an Aon expert, call **+1.866.4AON.NOW.**

Inside

Insurance department files complaint against Hartford

California alleges that insurance fees amount to illegal premiums.  
Page 4

EEOC increasing efforts against discrimination

Employers warned to avoid practices that might violate laws.  
Page 4

Federal charter bill good news for insurance industry

An editorial says the National Insurance Act adds regulatory rationality.  
Page 8

U.K. employers to get more pension options

Paternoster to focus on acquiring defined benefit pension obligations.  
Page 27

Online poll - [ 4/10 - 4/14 ]

How much justification is there for the federal government to reinsure natural-as opposed to terrorism-related-catastrophes?



PHOTO: AGENCIA REFORMA

|          |       |
|----------|-------|
| A lot    | 42.9% |
| Some     | 25.0% |
| A little | 7.1%  |
| None     | 25.0% |

Participate in BI's online polls at [www.businessinsurance.com](http://www.businessinsurance.com).

Departments

|                          |    |
|--------------------------|----|
| Advertiser Index         | 30 |
| Between the Lines        | 26 |
| Business Resources       | 26 |
| Comings & Goings         | 10 |
| International            | 27 |
| Letters                  | 8  |
| Opinions                 | 8  |
| Professional Marketplace | 28 |
| Ticker                   | 31 |
| World Updates            | 27 |

**REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS**  
Business Insurance (ISSN 0007-6864) Vol. 40, No. 16, is published weekly by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. \$5 a copy and \$97 a year in the U.S. \$130 in Canada and Mexico (includes GST). All other countries, \$230 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 40012850, GST No. 136760444, Canadian return address: 4960-2 Walker Road, Windsor, ON N9A6J3. Printed in U.S.A. Copyright © 2006 by Crain Communications Inc.

Romney signs universal health care bill

Legislature likely to override veto of employer assessments

By JERRY GEISEL

**BOSTON**—The drive to complete action on universal health care coverage reform legislation in Massachusetts isn't quite over.  
Last week, Gov. Mitt Romney signed the legislation—the first of its kind—which requires all state residents to have coverage or face financial penalties. But, using his line-item veto power, Gov. Romney stripped out a provision in the measure that would impose a levy on some employers in the state.  
To help achieve near-universal coverage—the intent of the legislation is to reduce over the next three years the state's roughly 550,000 uninsured by about 95%—the measure would, among other things, heavily subsidize health insurance premiums for lower-income individuals.  
The coverage expansion would be financed through a variety of sources, including an ex-



See ROMNEY / page 30 Gov. Mitt Romney signs a bill mandating health care coverage for Massachusetts residents.

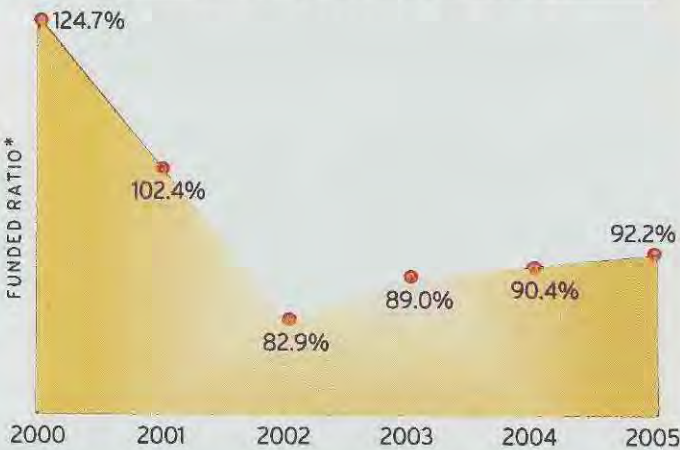
Fairfax Financial facing suit alleging securities fraud

By DOUGLAS MCLEOD

**NEW YORK**—One week after restating the results of a reinsurance subsidiary, Fairfax Financial Holdings Ltd. was named in a proposed class action lawsuit charging it with securities fraud for producing a range of allegedly false financial reports since 2004.  
Lawyers representing two Fairfax bondholders filed the suit last week in U.S. District Court in New York on behalf of investors who bought Fairfax debt between March 2004 and March 2006.  
The complaint, which also names Fairfax Chairman and Chief Executive Officer V. Prem Watsa and several Fairfax officers and directors, alleges that the company concealed the potential impact of improper accounting for finite reinsurance transactions and failed to disclose reserve understatements.  
Fairfax unit Odyssey Re Holdings Corp. filed its delayed 2005 earnings earlier this month, restating results from 2001 through Sept. 30, 2005, to correct finite-related accounting errors. The result was a \$35 million reduction of shareholders equity as of year-end 2005. Fairfax also filed its consolidated 2005 results, without any restatements.  
In a statement responding to the bondholder action, Fairfax said that it "will not comment on this or any similar lawsuits that may be filed against the company, but will deal with

them through the appropriate legal process."  
Following the Odyssey Re restatement, A.M. Best Co. Inc. affirmed the reinsurer's A financial strength rating along with Fairfax's bb+ issuer credit rating. Standard & Poor's Corp. likewise affirmed its BB credit rating of Fairfax. Chicago-based Fitch Ratings, which has long taken a more critical view of Fairfax, kept its BBB+ financial strength rating of Odyssey and its B+ debt rating of Fairfax under review.  
The bondholder complaint charges that Toronto-based Fairfax and its top executives produced a variety of false or misleading statements about the company's finances while it was selling bonds to pay off or refinance existing debt. Specifically, the suit charges that Fairfax:  
• Improperly accounted for many finite reinsurance contracts and falsely reported that questions regarding the contracts were limited to Odyssey and were not material to Fairfax. The suit alleges that Fairfax's Crum & Forster unit also has a large exposure to finite contracts and the overall impact of finite accounting problems is material to the holding company.  
• Massively understated losses related to its run-off business over the past three years.  
• Falsely reported that sales of Fairfax stock and other actions were part of an effort to reduce debt and improve the company's

Pension plan funding levels bounce back



\*Ratio of plan assets to liabilities for large employers  
Source: Milliman Inc.

Large pension plans see funding levels rise

By JERRY GEISEL

The funding levels of large pension plans are improving, with many more corporate plans likely to be fully funded by the end of this year if current trends continue.  
On average, defined benefit plans offered by 100 very large U.S. employers were 92.2% funded in 2005, up from an average funded ratio of 90.4% in 2004 and 89.0% in 2003.  
The improvement in funded ratios was largely the result of an 11.3% average return on assets, significantly higher than the 8.5% rate of return employers expected to earn on average.  
Last year, in fact, marked the third consecutive year that average investment returns were in double digits. Investment returns averaged 12.4% in 2004 and 19.4% in 2003.  
If returns in the equities mar-

kets this year continue to be strong and interest rates, which are used to value liabilities, continue to rise, the average plan funded ratio could pass the 100% mark, said John Ehrhardt, a Milliman consulting actuary in New York.  
That hasn't happened since 2001, when plans, on average, were 102.4% funded.  
Still, average pension plan funding levels have a long way to go before they catch up to the lofty levels of six years ago, when bullish equities markets drove up the value of plan assets. For example, in 1999, just before the stock market began what became a deep decline, surveyed employers' plans were, on average, 130.8% funded. Starting in 2000, average plan funding levels, hammered first by subpar investment results and then by investment losses,

# California says Hartford charged illegal fees

*Insurance department says charges amount to regulated premiums*

By ROBERTO CENICEROS

**SACRAMENTO, Calif.**—Legal action against additional insurers and wholesalers is likely following a California Department of Insurance complaint alleging that The Hartford Insurance Group charged policyholders illegal fees.

"I think what you will see is a trickle of cases coming out of the department over the next six months involving both wholesalers and retailers," said Jon A. Tomashoff, senior staff counsel for the

Department of Insurance.

The Department of Insurance complaint, announced last week, alleges that Hartford knowingly allowed a wholesaler, Irvine, Calif.-based Superior Access Insurance Services Inc., to collect fees for workers compensation and business owner packages.

The proceeding argues that fees essentially amount to premiums and that premiums for the business in question required prior approval, which Superior Access did not obtain.

A spokeswoman for the Hartford, Conn.-based insurer said Superior Access charged the fees in question without Hartford's authorization and Hartford is communicating with the insurance department to resolve the matter.

Superior Access, which is not named in the complaint, does not charge the fees detailed in the suit for selling policies, said Michael Kennedy, the wholesaler's marketing director. The charges are for retail brokerages accessing Superior Access' aggregator system, which runs quotes from various insurers the wholesaler represents.

Superior Access, which sells commercial and personal lines insurance products nationwide, said that it is a common industry practice for

wholesalers to charge transaction fees and it too is in discussions with the insurance department. Mr. Kennedy said Superior Access also charges the fees when providing policies from other insurers it represents.

Superior Access' Web site lists 43 commercial insurers that it can access for client agencies.

The complaint's order to show cause calls for Hartford to refrain from permitting its agents to charge transaction fees, reimburse the department for its investigation and prosecution costs, refund all fees illegally collected by Superior Access and file amended insurance premium tax returns.

Fees Superior Access illegally collected since at least January 2002

from about 5,000 policyholders typically amounted to about \$100 per policy, the department alleges. A list of the policyholders affected shows they are mostly small businesses such as flower shops, dry cleaners and travel agencies.

Superior Access' representation of Hartford as an appointed agent and not as a broker representing the policyholder is one of the issues at hand, according to the complaint. California law prohibits a producer from collecting fees, in addition to premium, for placing coverage with an insurer for which the producer acts as an agent.

Although Hartford did not receive the fees in question, state law

See **HARTFORD**/ page 6

## Governor urges firing of executives at comp insurer

**PROVIDENCE, R.I.**—Rhode Island Gov. Donald L. Carcieri last week called for the termination of Beacon Mutual Insurance Co.'s president and chief executive officer and the vp of underwriting, after a report alleging management abuses at the workers compensation insurer.

The governor also called for certain board members to step down following publication of a report alleging a pattern of mismanagement and abuse of policyholder funds at the state-created, nonprofit insurer.

Joseph Solomon serves as Beacon's president and CEO and David Clark is vp for underwriting.

The 116-page April 10 report, prepared by Giuliani Security & Safety L.L.C. as part of whistleblower investigation, explains, among other problems, that a business owned by a board member misclassified its payroll. The business therefore received preferential pricing for insurance despite an unfavorable loss history.

It also was widely known within Beacon, the report states, that a company owned by a former board member denied premium auditors access to his company's payroll records, which resulted in low premiums.

The report also found that a contractor who performed work at the home of Beacon's CEO received excessive premium credits despite a high loss ratio. Investigators, however, did not find evidence of a quid pro quo arrangement between the CEO and the work performed, according to the

Giuliani report.

In addition, the report found numerous instances where agents received payment amounts "significantly greater" than their contracts called for. That occurred at the direction of the CEO and the vp of underwriting, the report states.

Certain agents also exerted sig-



Following an investigation report, Rhode Island Gov. Donald L. Carcieri has called for the termination of two executives at the state's Beacon Mutual Insurance Co.

nificant influence in determining appropriate pricing for policies, the report adds.

A spokesman for Beacon Mutual said the board is reviewing the report's findings.

The report was prepared by the management consulting firm headed by former New York Mayor Rudolph Giuliani. An ad hoc committee led by former Rhode Island Gov. Lincoln C. Almond to look into whistleblower allegations hired Mr. Giuliani's company.

—By Roberto Cenicerros

## Verizon sues Lloyd's underwriters

*Company says crime policy covered \$14 million fraud by bill collector*

**NEW YORK**—Several units of Verizon Communications Inc. are suing Lloyd's of London underwriters to recover nearly \$14 million Verizon lost in an alleged fraud committed by a company that collected bill payments for the phone giant.

New York-based Verizon charges that a pair of Lloyd's syndicates have wrongfully refused to cover the loss under a commercial crime policy issued in 2003.

The complaint seeks a declaratory judgment that Verizon's loss is covered by the policy, along with punitive damages and interest.

Lawyers representing Lloyd's could not be reached for comment.

The loss arose from a Verizon contract with New York-based CashPoint Network Services Inc., a state-licensed money transmitter that operated offices at which Verizon customers could pay their phone bills.

CashPoint would notify Verizon of the payments and then remit the money, billing Verizon separately for its own fees.

In April 2004, though, CashPoint failed to remit about \$14 million, according to Verizon's lawsuit against its insurers. New York banking regulators suspended the company's license, and CashPoint soon after filed a Chapter 7 liquidation petition in U.S. Bankruptcy Court.

Verizon later found that Samuel Brevdeh, CashPoint's president, had misappropriated the \$14 million and was involved in a large-scale check-kiting scheme at CashPoint, the lawsuit says. Mr. Brevdeh pleaded guilty last November to a federal charge of conspiracy to commit bank fraud, wire fraud and mail fraud. He is scheduled to be sentenced in June, court records show.

Verizon's commercial crime poli-

cy, covering dishonest acts by the company's employees and independent contractors, was in effect from July 2003 to July 2004 and provided a limit of \$15 million above a \$750,000 deductible. Lloyd's syndicates 1280 and 2000 each wrote a 50% share of the risk, the policy shows.

The phone company notified underwriters of the loss in April 2004 and cooperated with an independent investigation that confirmed the loss at \$13.9 million, according to the complaint. Verizon has filed a claim in the CashPoint bankruptcy proceeding but does not expect to recover the full loss, the suit says.

Last month, lawyers for the Lloyd's syndicates notified Verizon that the insurers were denying coverage under the policy. The suit does not specify what reasons insurers may have cited for disclaiming liability but argues that there are no valid exclusions in the policy barring Verizon's claim.

—By Douglas McLeod

## EEOC urges employers to check anti-discrimination policies

By GLORIA GONZALEZ

**NEW YORK**—Employers should carefully examine their employment practices to ensure that their companies do not engage in—and have good policies and procedures to prevent—systemic discrimination.

The U.S. Equal Employment Opportunity Commission—the federal government agency responsible for enforcing laws prohibiting employment discrimination—has recently decided to increase its efforts on investigating and litigating systemic discrimination cases. And one EEOC commissioner urged employers to take proactive steps to

ensure their employment practices do not violate these laws.

The EEOC is responsible for enforcement of several federal laws that prohibit job discrimination, including Title VII of the Civil Rights Act of 1964, which prohibits employment discrimination based on race, color, religion, sex or national origin and the Equal Pay Act of 1963, which protects men and women who perform substantially equal work in the same establishment from sex-based wage discrimination.

The agency defines systemic cases as "pattern or practice, policy and/

### Bias claims in 2005

Discrimination claims were filed with the U.S. Equal Employment Opportunity Commission last year in the following categories:

|                  |        |
|------------------|--------|
| Race:            | 26,740 |
| Sex:             | 23,094 |
| Age:             | 16,585 |
| Disability:      | 14,893 |
| National origin: | 8,035  |
| Religion:        | 2,340  |

See **EEOC** / page 6

Source: EEOC

We  
want  
you to  
know

Aetna Disability



## The new power in Disability benefits.

Aetna has unleashed enhanced Disability and Leave Management programs nationwide. Our innovative integrated Health and Disability Benefits are now supported by new, industry-leading administrative capabilities that provide robust online tools, unmatched data analytics and full-service claims management. And our expanded product offering gives us more flexibility to customize a benefits package for the optimal performance of your employees and your business. To learn more, call your broker or consultant, Aetna representative, or visit [aetna.com](http://aetna.com).

We want you to know<sup>SM</sup>



Health  
Dental  
Pharmacy  
Behavioral Health  
Long Term Care  
Disability  
Life

©2006 Aetna Inc. Disability products are underwritten or administered by Aetna Life Insurance Company. Insurance plans contain exclusions and limitations. Policy form numbers include GR-29 and GR-700-W. 200650

# New Mexico insurance regulator on leave pending investigation

By MEG FLETCHER

**SANTA FE, N.M.**—New Mexico Insurance Superintendent Eric Serna is on paid administrative leave at the recommendation of the state attorney general, who is investigating his office.

Daniel Mayfield, chief of staff of the New Mexico Public Regulation Commission, which oversees the state insurance division, relieved Mr. Serna of his duties on April 6, and the commission last week extended that leave for up to 30 days.

Mr. Serna denies any wrongdoing.

Earlier this month, State Attorney General Patricia A. Madrid urged the commission in writing to

place Mr. Serna on leave while she conducts her investigation.

The commission had asked her to look into an agreement between the insurance division and Santa Fe-based Century Bank, which administers a large insurance division custodial account, as well as "adverse audit findings" by the state's Legislative Finance Committee in October 2005.

Those findings criticized some insurance divisions operations, including its process of selecting contract examiners, according to the audit.

Ms. Madrid wrote: "In both matters, contracts were issued at the direction of the superintendent that involved questionable payment levels to insurance division vendors.

These contracts were issued pursuant to questionable procurement processes."

In addition, "these contracts were issued without any legal review," she wrote.

Also, Mr. Serna is expected to resign from the post of president of the Con Alma Health Foundation, a nonprofit organization established after a Blue Cross/Blue Shield conversion from a nonprofit to a for-profit entity, according to sources.

Critics had questioned the appropriateness of Mr. Serna serving as both insurance superintendent and foundation president.

Robert Gorence, Mr. Serna's

See **SERNA** / page 30

## Hartford: Probe examines charged transaction fees

Continued from page 4

treats the matter as if Hartford did receive them because Superior Access is Hartford's agent, the complaint states.

Superior Access said in a statement that all of its business is conducted with insurance brokers and not with policyholders and in that capacity it has never charged insurance customers fees or premiums.

"Fees charged to brokers are not required to be filed with the CDI as part of the insurer's rate filing," ac-

cording to the statement. "Under broker fee regulations enacted by the California insurance commissioner, fees are expressly excluded from the regulations. Transaction fees are regularly charged by wholesalers to brokers for services rendered."

The Department of Insurance's Mr. Tomashoff said that retail producers in this instance were acting as brokers, not agents. Consequently, they are legally allowed to charge policyholders broker

fees, which is what they do to pass onto policyholders any access fees imposed by Superior Access, he said.

A Department of Insurance spokeswoman said the agency began its investigation of Hartford's arrangement with Superior Access after receiving customer complaints. Investigations into other wholesalers and insurers engaging in similar arrangements are underway, the spokeswoman added.

## Survey: Employer contributions add to improved plan funding

Continued from page 3

began to fall, until they bottomed out at 82.9% in 2002.

On the investment result side, it has been a tale of two very different three-year periods, Mr. Ehrhardt said. For example, in 2000, investment return on plan assets averaged 4.5%, less than half the 9.5% return employers had been expecting. In 2001, the average return on plan assets was a negative 7.0%, while the return on plan assets in 2002 was a negative 8.7%.

By contrast, between 2003 and 2005, pension plans have averaged a 14.3% annual rate of return on assets.

The survey findings are based on an analysis of 100 large public U.S. corporations selected from the Standard & Poor's 500 index that have the largest defined benefit programs as measured by plan assets and that had annual financial reports available as of March 29.

The pension programs of the surveyed employers include both qualified U.S. plans and nonqualified and foreign plans, both of which are often subject to much lower funding requirements, if any than are qualified U.S. plans.

Strong investment returns are not the only reason pension plan funding has improved; employers have also stepped up contributions. Last year, employers funneled \$43.9

billion into their plans, up from \$42.3 billion in 2004.

But plan contributions may ease somewhat this year, Mr. Ehrhardt said. That is because many employers may take advantage—while they can—of federal law that effectively allows them to reduce their required contributions if in prior years they contributed more than the law required.

Pension funding reform legislation now before a congressional conference committee would restrict the future use of so-called credit balances, so employers this year may draw upon their accumulated credit balances in order to conserve cash before credit balance restrictions take effect, Mr. Ehrhardt said.

The survey also found that 21 companies had overfunded pension programs, up from 19 in 2004 but far fewer than the 90 companies that had surplus assets at the end of 1999.

General Motors Corp.'s plans had more assets—\$105.2 billion in 2005—than any other surveyed employer, but they also had the most liabilities—\$109.8 billion.

Runner-up IBM Corp. had \$80.1 billion in plan assets at the end of 2005 and \$83.1 billion in liabilities.

The survey, "Milliman 2006 Pension Funding Study," is available at [www.milliman.com](http://www.milliman.com).

## EEOC: Agency sets out to ensure fair employment practices

Continued from page 4

or class cases where the alleged discrimination has a broad impact on an industry, profession, company or geographic location."

The EEOC has filed several systemic discrimination cases in the past, including a "glass ceiling" sexual discrimination lawsuit filed under Title VII against brokerage Morgan Stanley that led to a \$54 million settlement. But the agency's focus generally has been on smaller cases and the commissioners and members of a task force appointed to study the issue agreed that the EEOC needed to change its approach.

There were questions about whether these smaller cases could serve as a deterrent to illegal discrimination and whether focusing on them was the best use of the organization's limited resources, according to EEOC Commissioner Stuart J. Ishimaru. "From a law enforcement standpoint, we need to make sure we get as broad and as big a bang for our buck as possible," Mr. Ishimaru said last week at the Employment Practices Liability/Fiduciary Liability Symposium presented by the Professional Liability Underwriting Society in New York. "I think in the future you're going to see bigger cases being investigated by the EEOC and bigger cases being brought by the EEOC."

The agency's sharpened focus on investigating systemic discrimination presents a good opportunity

for employers to ensure that their employment practices are fair, Mr. Ishimaru said. The commissioner encouraged employers to scrutinize their own employment policies by hiring "testers," people who perform functions such as applying for jobs with the company to test whether any biases emerge during the hiring process.

From a risk management point of view, the technique is an effective way to search out problems and

**"We need to make sure we get as broad and as big a bang for our buck as possible."**

**Stuart J. Ishimaru**  
U.S. Equal Employment  
Opportunity Commission

take corrective actions where necessary, he said. "It's certainly a powerful tool that is available and has been used."

Employers that have excellent policies and procedures will be rewarded by facing fewer charges or investigations by the EEOC, he said. Those employers who have good employment practice policies, but operate in industries that generally do not, will also benefit from the EEOC's focus on the employment practices of their competitors, he noted.

## Call for Nominations

2006  
**Benefit  
Manager  
OF THE YEAR™**

The Honoree is announced and profiled in the annual Benefit Manager of the Year feature published by *Business Insurance* on June 25, 2006 which will be distributed at the annual SHRM Conference in Washington, DC. Awards will be presented at a special luncheon honoring this benefits executive.

**DEADLINE FOR NOMINATIONS:**  
**April 21, 2006**

For nominating  
forms and instructions,  
call 312-649-5274  
or e-mail:  
[rcoccia@BusinessInsurance.com](mailto:rcoccia@BusinessInsurance.com)  
or visit

**BusinessInsurance.com/BMOY**

Nominations for the Benefit Manager of the Year™ Award are now being accepted by *Business Insurance*.

The Benefit Manager of the Year Award™ was created in 2005 by *Business Insurance* to salute outstanding performance in the field of benefits management.

Executives anywhere in the world who are involved in benefit management are eligible to be nominated.

The nominations will be judged by a panel of executives representing all aspects of benefits management and the commercial insurance industry.

**Business Insurance**

[www.businessinsurance.com](http://www.businessinsurance.com)

Benefit Manager of the Year is a Trademark of  
*Business Insurance* and Crain Communications Inc.



## The fundamental strength to protect your property

**INSURANCE SOLUTIONS THAT INCLUDE WORLD-CLASS LOSS PREVENTION SERVICES**



The XL Insurance companies are chosen every day by more and more of the world's leading businesses for the expertise of our in-house senior consultants, the breadth of our services, and the depth of our understanding of complex industrial loss exposures.

Right from the start, the data in our loss prevention reports is yours. Because the best way to minimize your exposures is when we're all on the same page.

We offer large property limits for various program structures. Additionally our global network of experienced field consultants provides effective assessment

and advice for your facilities, whether they're around the corner or around the world.

With our loss prevention services, 100% account capabilities, market experience, financial strength and stability, we're the only property insurer you'll need. We also offer additional lines of business including casualty, professional and specialty.

For more information,  
call 800-609-2581.  
[www.xlinsurance.com](http://www.xlinsurance.com)

*The XL Insurance companies have one or more of the following ratings:*

A+ by A.M. Best  
A+ by Standard & Poor's  
Aa3 by Moody's

\*XL Insurance® is a registered trademark of XL Capital Ltd. XL Insurance is the global brand used by member insurers of the XL Capital Ltd group of companies. Coverages described herein are underwritten by XL Insurance America Inc. and XL Select Insurance Company. Coverages not available in all jurisdictions.

**XL INSURANCE**  
FUNDAMENTAL STRENGTH – CAPITAL AND PEOPLE

## Editorial

# Federal charter offers one-stop regulatory shop

IT HAS BEEN A LONG time coming, but the introduction of a bill that would give insurers and producers the right to choose a new federal charter rather than state charters is good news indeed.

We have argued for years that the current state-based system of insurance regulation simply has not been able to keep up with the demands of an increasingly global insurance market. Just do the math—dealing with 50-plus regulators, no matter how competent they might be, is, by definition, going to be more time consuming and expensive than dealing with one.

That is a choice national insurers, agents and brokers ought to have—one-stop regulatory shopping. If the National Insurance Act of 2006 introduced recently by Sens. John Sununu, R-N.H., and Tim Johnson, D-S.D., becomes law, they will get that choice. And if they get that choice, it is going to be good news for risk managers too.

Anything that artificially drives up the price of coverage, no matter what that coverage happens to be, is bad news for risk managers. Yet it is impossible to argue that insurers and producers being forced to pay for redundant—and sometimes conflicting—regulatory regimes does not drive up the cost of coverage. The money has got to come from somewhere, and neither insurers nor produc-

ers are known as charitable institutions. Costs get passed onto the consumer.

Having a single regulator should also help speed products to market. The NIA represents a free-market-based regulatory approach that is needed in an increasingly “just-in-time” world, where today’s breakthrough can become tomorrow’s relic even when it is allowed to reach the market in a timely manner.

It is worth noting here that no one will be forced to seek a federal license. Entities that prefer state regulation can continue to be so regulated, and those that choose the federal charter and for some reason find it undesirable can relinquish it in favor of state charters.

It’s also worth noting that the NIA specifically says that national insurers will remain subject to state tax laws, as well as laws that require participation in residual market mechanisms. Nobody is shutting off a state’s insurance-related revenue stream here.

What the NIA does is add regulatory rationality to a sometimes-irrational regulatory system. We have no illusions that the NIA will become law overnight—it is going to take more than a little while. But we have already waited quite a while, and we are certainly willing to wait a bit longer to get this done, and done right.

# Unsettling settlements?

RECENT SETTLEMENTS of bid-rigging and other charges appear to take a tough stance against contingent commissions—or do they?

As we report on page 1, New York Attorney General Eliot Spitzer’s agreements with American International Group Inc. and Zurich Financial Services Group bar those insurers from paying contingent commissions on excess casualty business for a time and require the companies to support legislation and regulations that would outlaw such payments industrywide. The agreements permit AIG and Zurich to keep paying contingents except in lines where insurers representing 65% of gross premiums do not pay them or have reached similar agreements.

With many of the largest brokers agreeing not to accept contingents, these settlements look like the groundwork for effectively banning contingent commissions for the rest of

the industry. But sources say contingents are unlikely to disappear and cite several reasons. One is that compiling underwriting data by line is no easy task. Another is that the marketplace remains competitive and has used contingent commissions to attract good business, making the 65% threshold a significant hurdle. Yet another is that agents and brokers are a strong political constituency in state legislatures.

But some bigger questions remain unanswered. How do insurance buyers and underwriters benefit from a market where the majority of intermediaries accept contingents but a few don’t? Why should state attorneys general assume the role of regulating insurance?

Finally, if Mr. Spitzer believes that contingent commissions inspired the bid rigging, then why do the settlements permit such payments to continue?

## Schillerstrom



## Letters

## The amazing, disappearing umbrella liability coverage

To the editor: What has happened to umbrella liability coverage? What happened to the policy that risk managers had come to know and love as being the “panacea” for the majority of the casualty ills of commercial liability exposures? Today’s more limited umbrella policy forms and exacting underwriting of the cover suggest that the former scope of protection exists only in the memory banks of seasoned insurance practitioners. That doesn’t preclude one from asking the question, “Why?”

The umbrella policy of yesteryear was designed to provide protection in the event that specific, underlying limits were inadequate to respond to a catastrophic event. In addition, in the event of impairment or exhaustion of underlying aggregated limits, the umbrella would drop down as if it were the primary protection. Finally, in cases where a liability loss took place which was excluded in the underlying cover and not excluded in the umbrella, the policy would respond in excess of a self-insured retention. It was a

tool to treat risk and treasured by risk managers who grew to enjoy the comfort it provided. What happened to this tool? Where have you gone, Joe DiMaggio?

The policies traded in the market today under the name of “umbrella” are little more than straight excess covers with nary a chance of operating in the same fashion as the tool of the past. Today’s umbrella coverage is a shell of its former self, with coverage

See LETTERS / page 26

## Write Us

*Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to: Letters to the Editor, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; fax: 312-280-3174; e-mail: rcoccia@businessinsurance.com*

## Business Insurance

Vice President/Publisher: Martin J. Ross III (New York)

Associate Publisher/Editorial Director: Paul D. Winston (Chicago)

Editor: Regis J. Coccia (Chicago)

Editor-at-Large: Jerry Geisel (Washington)

Managing Editor: Gavin Souter (Chicago)

Assistant Managing Editor - Graphics: Kathy L. Barnes (Chicago)

News Editor: Matt Scroggins (Chicago)

Senior Editors: Michael Bradford (New Orleans); Roberto Cenicerio (Los Angeles); Meg Fletcher, A.R.M. (Chicago); Judy Greenwald (San Jose); Mark A. Hofmann (Washington); Dave Lenckus (Tucson); Douglas McLeod (New York); Sally Roberts (Denver); Joanne Wojcik (Denver); Rodd Zolkos-Industry Focus (Chicago)

Bureau Chief: Sarah Veysey (London)

Associate Editors: Gloria Gonzalez (New York); Rupal Parekh (New York)

Correspondents: Carolyn Aldred (England); Elizabeth Fry (Australia)

Deputy Graphics Editor: William Murphy (Chicago)

Copy Editors: Mary B. Nick (Chicago); Joe Walker (Chicago)

Assistant Copy Editor: Carrie A. Peinado (Chicago)

Directory Editor: Kevin P. Edison (Chicago)

Research Editor: Karen Brown Tucker (Chicago)

Online Editor: Kathy Downing (Chicago)

Online Producer: Amy R. Curtis (Olathe)

Editorial Cartoonist: Roger Schillerstrom (Chicago)

Advertising Director: Kenneth F. Luker Jr. (New York)

Director - Business Development: Robert L. Niesse (Chicago)

District Managers:

Ron Kolgraf (Boston); William J. McGuire (Chicago);

Robert B. Murray (New York); John L. Phillips (Chicago)

Classified Advertising Manager: Tina Vasilakis (Chicago)

Assistant to the Publisher: Pat Ghazvini (New York)

Advertising Traffic: Monique Murray (New York)

Production Manager: J. Thomas Janka (Chicago)

Circulation Manager: John Azua (New York)

Circulation Coordinator: Craig Bowman (Detroit)

Director of Communications: Ronnie I. Drachman (New York)

Promotion Manager: Michael Ambrosio (New York)

Promotion Coordinator: Barbara O'Brien (New York)

EDITORIAL: Chicago: 312-649-5200; Denver: 303-282-4260; London: 44-207-457-1400; Los Angeles: 323-370-2455; New Orleans: 985-871-1090; New York: 212-210-0100; San Jose: 408-774-1500; Tucson: 520-579-1937; Washington: 202-662-7200

ADVERTISING: Boston: 617-292-4856; Chicago: 312-649-5276; Irvine CA: 949-255-5355; New York: 212-210-0133

SUBSCRIPTIONS: Detroit: 888-446-1422

Business Insurance is published by Crain Communications Inc.

Chairman: Keith E. Crain

President: Rance Crain

Secretary: Merrilee Crain

Treasurer: Mary Kay Crain

Executive Vice President/Operations: William A. Morrow

Senior Vice President/Group Publisher: Gloria Scoby

Group Vice President/Technology, Circulation,

Manufacturing: Robert C. Adams

Vice President/Production & Manufacturing: Dave Kamis

Crain's Corporate Circulation Director: Patrick Shepesh

G.D. Crain Jr. Founder (1885-1973)

Mrs. G.D. Crain Jr. Chairman (1911-1996)

S.R. Bernstein Chairman-executive committee (1907-1993)

Published weekly at 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Fax: 312-280-3174, [blweb@crain.com](mailto:blweb@crain.com). Offices: 711 Third Ave., New York, N.Y. 10017-5806; Fax: 212-210-0704; 71121 Minkler St., Abita Springs, La. 70420; Fax: 985-871-4006; Suite 814, National Press Building, Washington, D.C. 20045-1801; Fax: 202-638-3155; 6500 Wilshire Blvd., Suite 2300, Los Angeles, Calif. 90048-4947; Fax: 323-655-8157; 967 Bermuda Court, Sunnyvale, Calif. 94086-6750; Fax: 408-774-1155; 34 Southwark Bridge Road, London SE1 9EU; Fax: +44-(0)20-7457-1440; 7300 N. San Anna Drive, Tucson, Ariz. 85704; Fax: 520-579-3476; 1746 Cole Blvd., Suite 150, Golden, Colo. 80401; Fax: 303-733-9941; 12524 Acuff Court, Olathe, Kan. 66062; Fax: 312-280-3174, 77 Franklin St., Suite 809, Boston, Mass. 02110-1510; Fax: 212-210-0704, 4 Executive Circle, Suite 185, Irvine, Calif. 92614-6791. \$5 a copy and \$97 a year in the U.S., \$130 in Canada and Mexico (includes GST). All other countries, \$230 a year (includes expedited air delivery). John Azua, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 711 Third Avenue, New York, N.Y. 10017-5806. Microfilm copies available: University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48103. Microfiche copies: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For reprints or reprint permission: Reprint Management Services, 1808 Colonial Village Lane, Lancaster, PA 17601; 800-290-5460, ext. 160; [BusinessInsurance@reprintbuyer.com](mailto:BusinessInsurance@reprintbuyer.com).

To subscribe, call 888-446-1422, or 312-446-0450 outside the U.S.

**BPA**  
BUSINESS PUBLISHERS ASSOCIATION

[www.businessinsurance.com](http://www.businessinsurance.com)

**AMERICAN BUSINESS MEDIA**  
The Association of Business Media Companies



## Ask a Casualty Actuary

# Techniques for projecting claim costs

**Q** Is an entire loss development triangle needed to estimate ultimate costs?

**A** While having the entire triangle can be helpful, it is not essential. Let's take an example. Say you have been self-insured for workers compensation or general liability since 1985 and you want an actuarial study to project ultimate claim costs for all accident years since 1985. The actuary would like to get total paid and incurred loss amounts for each accident year as of every year end or every June 30, going all the way back to 1985. You tell him you have that information only for the five most recent year ends, but he wants it going as far back as possible. You query the archive department, wondering how important it really is to go to all that trouble.

While it is true that the more historical data you provide, the more accurate the projections will be, diminishing returns apply. If your program currently has no open claims for accident years before 1995, there is really little value in going back more than 10 year ends for claims tabulation summaries. Suppose, though, that you have a decent number of claims still open for accident years going all the way

back to 1985? Do you really need to unearth those ancient claims summaries?

Thanks to relatively new reserving methods, the need for older claims summaries has been lessened. There is less need to obtain complete loss triangles than ever before.

Often claims tabulations do not include cumulative payments prior to some point, such as year end 1995. For accident years before that, all that is shown are incremental payments during the last calendar year, current case reserves and the number of open claims. Are there reliable projection methods that require only these data elements?

The simplest approach is the runoff ratio method. It does not even use open counts. Take a fixed accident year, like 1995. First, you compute the ratio of total incremental payments to the decline in the total case reserve during each of the most recent calendar years. Suppose that during calendar year 2003, total case reserves for accident year 1995 dropped by \$200,000, while \$250,000 was paid out in claims. The runoff ratio is 1.25 (250/200). During calendar year 2004, total case reserves for accident year 1995 decreased by \$160,000 while \$200,000 was paid

out. The runoff ratio is again 1.25. Finally, during calendar year 2005, total case reserves declined by \$120,000 after \$150,000 is paid out. The runoff ratio is also 1.25. If the relationship between future drops in total case reserves and future calendar year payments remains stable at 1.25, then total future payments will be 125% of the total case reserves at year end 2005 for accident year 1995. So, if total case reserves were \$400,000 at year end 2005, a reasonable estimate of total future payments would be \$500,000 (125% of total case reserves).

It has consistently taken \$1.25 of loss payments to cause total case reserves to go down by \$1. If that continues indefinitely, then total future payments should be 125% of total case reserves.

The runoff ratio can easily be applied to a group of old accident years as well. If we had been looking at total case reserves and total incremental payments for accident years 1991-95 instead of just accident year 1995, the same reasoning would still work. Such grouping, as well as combining the most recent three calendar years, can help to smooth runoff ratios that might otherwise be quite volatile.

What if the runoff ratios had consistently been 0.8? Then projected

future payments for those old accident years would be 80% of the current case. It's that simple.

As might be expected, this approach will give invalid indications if there has been a significant change in practices for setting case reserves. It also does not work well when applied to very recent accident years, such as 2002-2005.

\*\*\*

For a more detailed explanation of the runoff ratio method, visit [www.richardsherman.com/page.php/5](http://www.richardsherman.com/page.php/5). Caveats regarding usage also are discussed.

Numerous other methods are described in a survey paper by Joseph Boor posted at [www.casact.org/pubs/forum/06wforum/06w348.pdf](http://www.casact.org/pubs/forum/06wforum/06w348.pdf). These include: benchmarking, the modified Bondy method, curve fitting techniques (e.g., exponential decay of paid development factors and an inverse power curve fit to paid development factors) and the incremental paid to prior open method.

This last method looks at how much is paid during each calendar year per open claim at the beginning of that calendar year. Suppose that during calendar year 2005, \$250,000 was paid out relative to 25 claims open at the beginning of the calendar year. Then the incremen-

tal amount paid per prior open claim was \$10,000. Many such historical averages are computed and then projected to future years of payment. These projected averages are multiplied by projections of the number of open claims during future years to derive projections of incremental payments.

Much can be done when the entire development history is not available.

*Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Three regular features in the Perspective section of Business Insurance can give you some answers.*

*Ask A Risk Manager, Ask A Benefit Actuary and Ask A Casualty Actuary answer written questions from readers on risk and benefits management issues and actuarial problems.*

*This month's column on actuarial issues in the casualty field is written by Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore.*

*Address your questions to ASK, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.*

# Proposed tax may cap health insurance costs

By Linda Riddell

Could a tax on health insurance be good for business? It sounds unpalatable, but it just may be the bitter medicine that cures the crisis.

Taxing health insurance is one of the recommendations put forth by the President's Advisory Panel on Federal Tax Reform last November. According to the panel's recommendations, premiums up to \$5,000 per year for individual coverage and up to \$11,500 per year for family coverage should stay tax free. Dollars spent above those limits should be subject to regular federal taxes. Individuals who buy their health insurance directly instead of through employers should get the same tax write-off.

Currently, employers use generous health plans to recruit and retain talented employees, and as those employers struggle to maintain this competitive advantage, they find themselves seeking out cost management strategies.

Insurers have done their part as well, working diligently to bring to market more cost-effective programs such as consumer-driven plans. Consumer-driven plans, already storming the market, are meant to reduce costs. These plans provide less insurance by having a high deductible; the high deductible is buffered with a health savings account. The goal is for em-

ployees to spend their health savings account dollars more carefully and thus use medical services more wisely.

But consumers must use fewer medical services for consumer-driven health plans to succeed; the health industry's phenomenal growth must slow down. For decades, health costs have increased much faster than has general inflation. Setting aside food and energy costs, the annual Consumer Price Index rose 2.0% overall for the period ending February 2006 and medical care went up 3.3%. Medical care inflation was 65% higher than general inflation. In other years, the rate of medical inflation has been two to four times higher than that of general inflation.

Part of this health care cost growth comes from the industry being able to fuel its own demand. "Health" is reinvented continually with new drugs, tests and techniques, which, in turn, bring more demand for treatments. Prime examples are the cholesterol-lowering drugs known as statins. Taking these drugs should make a person less likely to have a heart attack, because cholesterol can block or restrict the blood from reaching vital organs.

In 2004, research concluded that heart attack patients had lower cholesterol levels than did many individuals who were taking statin

## What U.S. employer-sponsored plans cost

Average annual costs for different types of health care plans

| Region    | Single coverage | Family coverage |
|-----------|-----------------|-----------------|
| Northeast | \$4,147         | \$11,504        |
| Midwest   | \$4,103         | \$11,115        |
| South     | \$3,950         | \$10,507        |
| West      | \$3,937         | \$10,638        |

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005

drugs. The conclusions were drawn that consumers who were already taking statins needed more treatment and consumers who were not taking statins became candidates. Patients demanded these drugs, even though they cost \$100 per month or more, because their health plans asked them to pay as little as \$40 per month.

That's because, just as employers are free in their spending of tax-free dollars, consumers tend to purchase more medical services when they do not pay from their own wallets. And that leads back to the first problem: employers purchasing richer benefit plans than they would without the unlimited tax break.

Employers have not set a cap on what they are willing to spend; they simply get by from renewal to re-

newal. Generous health plans encourage consumers to get more medical care, whether necessary or not; high consumer demand inspires more growth in the health industry; uncontrollable costs are visited upon the employers with breathtaking rate increases.

But taxing health insurance could interrupt this pattern that feeds itself and boosts health care costs. With the implementation of the proposed tax, employers' demand for health benefit plans that cost more than the \$5,000 and \$11,500 limits would wane. Perhaps insurers would find new creative ways to deliver plans within that budget.

It should be noted that the effect of taxing health insurance would vary for employers depending on where they're located (see table).

For example, an employer in the Northeast paid \$11,500, on average, for family coverage in 2005; point of service and preferred provider organization plans in that region were already above \$11,500. The Northeast also is the closest to hitting the single premium limit. Employers in the South and West might escape the tax for many years. In 2005 they paid only around \$10,500 for annual family coverage and \$3,950 for single coverage. In short, some employers would never be able to avoid the tax, and others would be able to skip it. Nonetheless, a tax would, to some extent, speed up the steadily growing trend toward less expensive plans in all areas of the country.

And the limits would be adjusted each year based upon the national average premiums. This "cost-of-health" annual adjustment would have a perverse effect: as employers and insurers became more successful in containing costs, the national average would adjust itself to reflect that success.

Making the first move will take courage, but it is a big step toward affordable health insurance plans. For employers everywhere, that would be a dream come true.

*Linda Riddell is principal of Health Economy L.L.C. in Cape Elizabeth, Maine.*

# COMINGS & GOINGS - INDUSTRY

## Insurers:

Hamilton, Bermuda-based Wind River Insurance Co. Ltd., a subsidiary of United America Indemnity Ltd., has named **David R. Whiting** as president and chief executive officer. Previously, he was president of Quanta Reinsurance Ltd.

American International Group Inc. has named **Todd Germano** executive vp of AIG Specialty Excess. Most recently, he was senior vp of AIG Excess Casualty's construction specialty division.

At AIG Europe (UK) Ltd., Kelly

Lyles has been named director of commercial lines, replacing **Michael Whitwell**, who has been appointed regional president for Central Europe and the Commonwealth of Independent States region at American International Underwriters. Before her promotion, Ms. Lyles was a director of financial lines.

ACE European Markets has made two appointments in its London branch office.

• **Stephen French** was promoted to chief underwriting officer. Previously, he was branch manager

and property underwriting manager.

• **Neal Hayward** will take over as property underwriting manager. Before his promotion, he was a senior underwriter.

Great American Insurance Group has named **Frank Scheckton Jr.** as divisional president of its fidelity and crime division in Windsor, Conn. Before his promotion, he was divisional executive vp.

## Brokers:

Wachovia Insurance Services has named **Evan Simmons Jr.** as senior

vp and client executive in its property/casualty division in Dallas.

Previously, he was senior vp for Acn Corp.

Countrywide Insurance Services has named **Andy Zehnder** as branch president in Glendale, Calif. Previously, he was executive vp at USI of Southern California Insurance Services Inc.

Integro Ltd. has named **Susan Tewhill** as managing principal, health care, in the San Francisco office. Previously, she was a managing



Ms. Lyles



Mr. O'Neill

director and head of the west zone health care practice for Marsh Inc.

Also in Integro's San Francisco office, **Debra A. Lego-Wathen** has been named principal, client development. Before joining Integro, she was a senior vp at Marsh.

New York-based Willis Group Holdings Inc. has named **Eric Dinallo** as general counsel. Previously, he was managing director and head of regulatory affairs at Morgan Stanley.

## Managed care:

Los Angeles-based Health Net Inc. has named **Patricia Clarey**, former chief of staff to California Gov. Arnold Schwarzenegger, chief operating officer.

## Reinsurance:

Glencoe U.S. Holdings Inc., a unit of Bermuda-based RenaissanceRe Holdings Ltd., has named **Michael S. Nuenke** senior vp of the program operations unit in Dallas. Before his promotion, he was vp-program operations.

## Other providers:

Memphis, Tenn.-based Sedgwick Claims Management Services Inc. has appointed **Bryon E. Bass** as absence practice lead, overseeing program design, service standards and product innovation for Family and Medical Leave Act administration and casual absence management programs. Previously, he was director of productivity solutions product management and marketing at SHPS Inc.

Crowell & Moring L.L.P. has named **William C. O'Neill** as partner in its insurance/reinsurance group in the Washington office. Previously, he was an attorney with Chadbourne & Parke L.L.P.

Novato, Calif.-based Enwisen Inc., a developer of benefits communication software, has named **D.J. Chhabra** as senior vp of product strategy and business development. Before joining Enwisen, Mr. Chhabra was vp of global human capital management strategy for the combined organizations of Oracle Corp. and PeopleSoft.

Atlanta-based Buck Consultants has named **Peter Weinberg** as principal in the human resource management consulting practice in Chicago. Previously, he was senior technology practitioner in the HR delivery solutions practice of Towers Perrin.

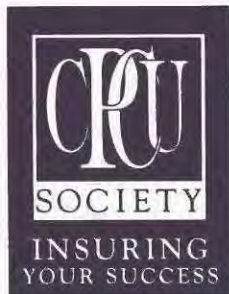
Also at Buck, **James Ferreri** has been named principal and local retirement practice leader in St. Louis. Previously, he led the retirement and financial management practice for Hewitt Associates Inc.

## Defining Success



Judith A. Blades, Senior Executive Vice President  
Property & Casualty  
The Hartford

"As one of the oldest and most trusted names in the insurance industry, our CPCUs represent The Hartford's commitment to the highest ethical standards, and underwriting our way to profitable growth. Our support of the CPCU Society enables us to reinforce these values through continued education and the adherence to ethical behavior consistent with our Corporate Code of Conduct. After all, our success is defined by integrity and the pursuit of excellence."



For more than 60 years, the CPCU Society has been helping its members and their companies insure success by promoting excellence through ethical behavior, continuing education, and leadership opportunities. All of the Society's nearly 28,000 members have earned the prestigious Chartered Property Casualty Underwriter (CPCU) designation. To learn more, visit our web site.

[www.cpcusociety.org](http://www.cpcusociety.org)

# SOME CLIENTS THINK ALL INSURANCE IS THE SAME.

They ask you for the best price you can find.

And then they have an insurance claim.

That's when they learn the hard way that not all insurance companies  
treat them the same.

If being treated fairly and paid quickly are important to your clients  
when they have a loss, you want Chubb.

When your clients insure with Chubb, they're buying *real* insurance.

So, place your clients with the best. Insure them with Chubb.

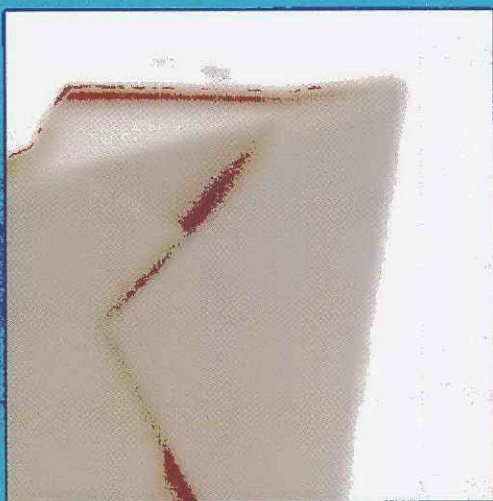
To learn more, go to [chubb.com](http://chubb.com).

Relax. You've placed your best clients with Chubb.<sup>SM</sup>

> COMMERCIAL INSURANCE > SPECIALTY INSURANCE > PERSONAL INSURANCE



Chubb refers to the insurers of the Chubb Group of Insurance Companies. Actual coverage is subject to the language of the policies as issued. Chubb, Box 1615, Warren, NJ 07061-1615. © 2005 Chubb & Son, a division of Federal Insurance Company.



## Substance.

**Business Insurance** delivers all the news and information on trends and developments corporate executives responsible for employee benefits need – in print each week, online at [BusinessInsurance.com](http://BusinessInsurance.com) and in *BI's* Daily News Alert and Benefits Management News Alert e-mail products.



## Wisdom.

More than 121,000\* readers depend on *BI's* editorial products as their most important resource for the most timely, accurate and thorough coverage of employee benefits management issues. *BI's* authoritative editorial leadership sets the agenda for our industry.



## And the tools you need to devour your competition.

*BI's* targeted **Benefits Management Sections** make it possible for our advertisers to get their message directly to the prospects they need to reach most – top-level corporate decision-makers responsible for purchasing employee benefits products and services.

### BUSINESS INSURANCE BENEFITS MANAGEMENT SECTIONS

Many of *BI's* monthly **Benefits Management Sections** also include statistical charts and exclusive rankings of benefit service providers, ensuring that they will be relied on all year long. Plus bonus distribution\* of specific issues at key meetings and conferences such as ECFC, NBGH, NMHCC, CEBE, SHRM, BMFE, ISCEBS, Canadian RIMS and Baden Baden assures your message will definitely not be hungry for extra exposure.

Take advantage of this opportunity while it's hot. Contact Ken Luker, Advertising Director, at 212-210-0133 or e-mail [kluker@BusinessInsurance.com](mailto:kluker@BusinessInsurance.com).

\*Includes pass-along readership.

#### 2006 ISSUE LIST

|         |                                            |
|---------|--------------------------------------------|
| Jan 23: | Retiree Benefits: Health Care              |
| Feb 27: | Voluntary Benefits                         |
| Mar 13: | Health Care Coalitions*                    |
| Apr 17: | Health Care Cost Control*                  |
| May 29: | Regulatory & Legislative Developments*     |
| Jun 19: | Work & Life Benefits*                      |
| Jul 10: | Benefits Market Forecast                   |
| Aug 14: | Consumer-Driven Health Plans               |
| Sep 18: | Benefit Financing Strategies*              |
| Oct 16: | Technology & Online Solutions*             |
| Nov 27: | Retiree Benefits: Pensions & Savings Plans |
| Dec 11: | Benefit Consulting & Outsourcing           |

#### AD CLOSE

|        |
|--------|
| Jan 11 |
| Feb 15 |
| Mar 1  |
| Apr 5  |
| May 17 |
| Jun 7  |
| Jun 28 |
| Aug 2  |
| Sep 6  |
| Oct 4  |
| Nov 15 |
| Nov 29 |

\* Bonus Distribution

NEW YORK: 212-210-0133  
CHICAGO: 312-649-5275

IRVINE: 949-255-5355  
BOSTON: 617-292-4856

**Business Insurance** www.businessinsurance.com

# BENEFITS MANAGEMENT

## HEALTH CARE COST CONTROL

Employers question creation  
of onsite health facilities  
Page 20

Diagnostic imaging  
service costs skyrocket  
Page 24



## Employers assess value of onsite facilities

By GLORIA GONZALEZ

When Harris Corp. began re-vamping its health care benefits strategy in the 1990s to better manage costs and improve access to high-quality health care, the company knew a fundamental change was needed in the way care was delivered in Melbourne, Fla., the home of its corporate headquarters.

Among other things, the communications products and services company wanted to provide its workers with health care that exceeded the standards of the care that was generally available in the local community, so it decided to open the Harris Family Medical Center and Pharmacy in 1997 in Melbourne to provide onsite primary care as well as pharmacy services to its 6,000 employees and their dependents, and retirees located in the area.

Eight years later, the clinic serves as the exclusive provider of primary care services for more

than half of the covered population and has contributed to the company's direct health care cost savings of more than \$11 million per year and whose annual cost increases are running at 6.6%, which is well below market trends, said Ronald Wyse, Harris' director of employee benefits. "It continues to meet and exceed our expectations," he said.

Employers such as Harris are realizing the value of creating onsite medical and pharmacy facilities. These clinics have provided proven return on investments while helping companies meet their strategic benefits and corporate goals, observers say.

Medical and pharmacy facilities that serve large employee populations—and sometimes their dependents as well—can offer a comprehensive range of services from primary care and preventive care services, such as PAP screenings and flu shots, to

See **ONSITE** / page 16

## Are disease management's claims unfounded? Vendors' assertions that programs reduce health spending scrutinized

By JOANNE WOJCIK

When Black & Decker Corp. received a glowing report from CIGNA Healthcare showing that the Towson, Md.-based manufacturer had saved 20% with the insurer's disease management programs, Ray Brusca, vp of benefits, was a bit skeptical.

"I'm not sure if you can honestly trust the analysis coming out of an insurer where they're trying to validate the effectiveness of their own products," he said.

After Mercer Human Resources

Consulting did a separate analysis using the Medstat system, a data aggregator that Black & Decker has used since 1991, Mr. Brusca found out that the cost of providing care to the individuals enrolled in CIGNA's disease management programs actually increased slightly.

"They were building in productivity savings; they were building in hypothetical savings," he said. "If you press them, they'll say, 'We predicted we helped you avoid five heart attacks,' but I can't pay the bills with five hypothetical heart attacks avoided."

Mr. Brusca also objected to Bloomfield, Conn.-based CIGNA's exclusion of "outliers," or high-cost claims, which is a standard practice in actuarial analysis.

"For years, insurers would come in and say, 'Your rate of increase is 23%, but when we remove your outliers and look at the rest of your population, it's only 3.2%.' Then when I'd ask what my rate of increase was going to be, they'd say, 'Well, 25%, because you have all these old and sick people.'"

"Ultimately, I've got to pay for my outliers. So don't start removing

them and say, 'But for the outliers, your experience is pretty good,'" Mr. Brusca said.

Black & Decker's experience is not unique. With disease management, one of the most popular methods being used to try to curb runaway health care costs, employers increasingly are seeking proof that the programs, which generally address such chronic conditions as heart disease, diabetes and asthma, are actually working.

"They are definitely interested in measuring the impact of the programs," said Tracy Watts, a princi-

pal at Mercer in Washington who works on the Black & Decker account.

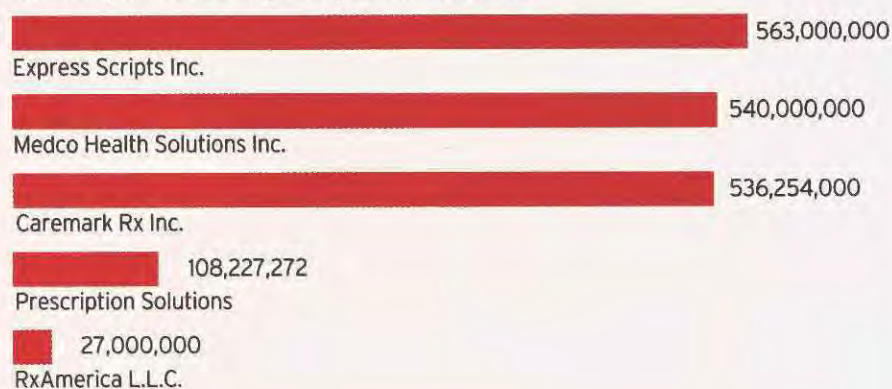
Bruce Kelley, a consultant at Watson Wyatt Worldwide in Minneapolis, says his firm regularly conducts secondary analyses of disease management programs on behalf of employers that are second-guessing their vendors.

"I'm actually working on one at this very moment," he said. "It's the same kind of thing. They (the disease management company)

See **MANAGEMENT** / page 22

**BI RANKING****Largest PBMs by number of prescriptions**

Ranked by the number of prescriptions filled in 2005



Source: BI survey

**Largest PBMs by workers comp lives**

Ranked by the number of workers compensation lives enrolled



Source: BI survey

# Largest prescription benefit managers

## Ranked by 2005 revenues from unbundled PBM services

| Rank      | Company/Address                                                                                           | Phone/Fax/Web site                                                                                        | Parent                              | PBM revenues     | Total staff | Total clients | Covered lives | Principal officer                            |
|-----------|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------|------------------|-------------|---------------|---------------|----------------------------------------------|
| <b>1</b>  | Medco Health Solutions Inc.<br>100 Parsons Pond Drive,<br>Franklin Lakes, N.J. 07417                      | 201-269-3400<br><a href="http://www.medco.com">www.medco.com</a>                                          | —                                   | \$38,000,000,000 | 15,000      | N/A           | 55,000,000    | David B. Snow Jr.,<br>chairman/CEO           |
| <b>2</b>  | Caremark Rx Inc.<br>211 Commerce, Suite 800,<br>Nashville, Tenn. 37201                                    | 800-633-9509<br>Fax: 615-743-6597<br><a href="http://www.caremark.com">www.caremark.com</a>               | —                                   | \$32,991,251,000 | 13,628      | N/A           | N/A           | Edwin M. Crawford,<br>chairman/president/CEO |
| <b>3</b>  | Express Scripts Inc.<br>13900 Riverport Drive,<br>Maryland Heights, Mo. 63043                             | 314-770-1666<br>Fax: 314-702-7059<br><a href="http://www.express-scripts.com">www.express-scripts.com</a> | —                                   | \$16,266,000,000 | 13,000      | 16,000        | 50,000,000    | George Paz,<br>president/CEO                 |
| <b>4</b>  | RESTAT L.L.C.<br>724 Elm St.,<br>West Bend, Wis. 53095                                                    | 800-926-5858<br>Fax: 262-808-4260<br><a href="http://www.restat.com">www.restat.com</a>                   | The F. Dohmen Co.                   | \$1,016,145,462  | 113         | 3,560         | 3,302,345     | Michael Clark, president                     |
| <b>5</b>  | Catalyst Rx<br>800 King Farm Blvd.,<br>Rockville, Md. 20850                                               | 301-548-2900<br>Fax: 240-268-3112<br><a href="http://www.catalystrx.com">www.catalystrx.com</a>           | HealthExtras Inc.                   | \$650,911,000    | 284         | 1,429         | 4,000,000     | David Blair, CEO                             |
| <b>6</b>  | BioScrip<br>100 Clearbrook Road,<br>Elmsford, N.Y. 15013                                                  | 888-818-3939<br>Fax: 877-347-1448<br><a href="http://www.bioscrip.com">www.bioscrip.com</a>               | —                                   | \$420,000,000    | 798         | 120           | 7,000,000     | Richard Friedman,<br>chairman/CEO            |
| <b>7</b>  | National Pharmaceutical Services<br>14301 First National Bank Parkway,<br>Suite 200,<br>Omaha, Neb. 68154 | 402-964-9030<br>Fax: 402-964-9004<br><a href="http://www.pti-nps.com">www.pti-nps.com</a>                 | Pharmaceutical<br>Technologies Inc. | \$310,000,000    | 60          | 3,800         | 1,750,000     | Douglas M. Pick,<br>president/CEO            |
| <b>8</b>  | MemberHealth Inc.<br>29100 Aurora Road,<br>Cleveland, Ohio 44139                                          | 440-248-8448<br>Fax: 440-248-4734<br><a href="http://www.mhrx.com">www.mhrx.com</a>                       | —                                   | \$216,218,839    | 77          | 18            | 1,256,431     | Charles Hallberg,<br>president               |
| <b>9</b>  | HealthTrans<br>6061 S. Willow Drive, Suite 125,<br>Greenwood Village, Colo. 80111                         | 800-950-9120<br>Fax: 303-323-1027<br><a href="http://www.healthtrans.com">www.healthtrans.com</a>         | —                                   | \$92,700,000     | 118         | 48            | 14,000,000    | Jack McClurg,<br>CEO                         |
| <b>10</b> | CBCA Pharmacy Benefits<br>Management dba CBCA Rx<br>675 Foxon Road, Suite 204,<br>East Haven, Conn. 06513 | 203-468-8367<br>Fax: 203-468-8930<br><a href="http://www.cbcarx.com">www.cbcarx.com</a>                   | CBCA Inc.                           | \$47,740,000     | 24          | 105           | 82,250        | Michael Hajdun,<br>senior vp                 |

N/A=Not available

Source: BI survey

Visit [www.businessinsurance.com](http://www.businessinsurance.com) for more information and to access the full searchable Directory of Prescription Benefit Managers.  
 Business Insurance now offers the option to purchase the entire online directory as an Excel file or as a PDF.

# A PROGRESSIVE NEW BRAND NEEDS A NAME TO MATCH.

N e x



WellPoint Pharmacy Management and Anthem Prescription Management are working together to create a new brand. One that builds on the strengths of both. One so innovative, so in tune with consumers that it deserves a special name.

WellPoint NextRx fits the bill.

A product of the largest health-plan-owned PBM operation, WellPoint NextRx is ready to put a wealth of experience to work for you.

Most important, since we're health-plan-owned, we think like our clients, putting our focus squarely on lowering the total cost of health care. Not just pharmacy costs.

Toward that end, we analyze, design and implement programs that use both pharmacy

and medical data. Programs that clearly measure results and savings.

Our integrated clinical and account management team is designed to help you manage your pharmacy trend in a way that achieves the results you want.

And our integrated education, compliance and disease management programs focus on helping your members obtain positive clinical outcomes. As well as on making medications easier to afford.

For more information, call 1-800-451-0433 or e-mail us at [inforx@wellpoint.com](mailto:inforx@wellpoint.com).

And if you care to compliment us on our new name, we won't mind at all.



## Harris lowers health care costs

Harris Corp. offers lower copayments or coinsurance for employees to seek medical care at the company's onsite medical and pharmacy facilities:

| Health plan                   | Harris onsite clinic |
|-------------------------------|----------------------|
| Office visit copay            | \$20                 |
| Generic drugs                 | \$15                 |
| Preferred brand-name drugs    | \$7.50               |
| Nonpreferred brand-name drugs | \$18.75              |
| Lab                           | \$30                 |
| X-ray, mammogram              | \$0                  |
|                               | \$0                  |

Source: Harris Corp.

## Onsite: Improving access to quality health care

Continued from page 13

imaging exams, such as X-rays. These clinics also can provide wellness and disease management programs, such as obesity management and diabetes counseling, and behavioral health services, such as onsite mental health counseling.

According to a Watson Wyatt/National Business Group on Health survey, currently 22% of employers

offer an onsite medical facility and another 5% plan to offer them in 2007.

Employers who offer these facilities tend to have large segments of their employee population located in one particular region. Companies should generally have 1,000 employees centrally located for an onsite medical facility and about 3,000 to 4,000 employees for a

pharmacy unit because of the level of utilization required to pay the capital costs, said Sara Crate, vp-business development, for Cleveland-based Whole Health Management Inc., an operator of onsite health clinics.

Typical upfront costs for companies with at least 4,000 employees are between \$1.5 million to \$3 million, said David Beech, a consultant in the Los Angeles office of Watson Wyatt Worldwide.

Generally, companies see a return on investment within 12 to 18 months, Ms. Crate said.

While saving money is always a focus of a company's benefit strategy, for large employers, it tends to be almost a secondary focus when establishing these clinics, Mr. Beech said. "They want to use the clinics to drive their initiatives in preventive health and health education," he said. "They really believe onsite clinics can help manage employee health and productivity. I think for this to really work well you have to be a company that is really committed to health improvement rather than controlling costs."

For Harris "quality health care is very important to us from a recruiting standpoint and for productivity," Mr. Wyse said.

Providing quality health care in remote locations is a key factor for many employers who have these onsite clinics. Harrah's Entertainment Inc., for example, opened six clinics in its properties in Tunica, Miss., and Lake Tahoe, Nev., because they are located in remote areas where "access to high quality care was not readily available," said Juliet Vestal, Harrah's director of health care management in Las Vegas.

Employers also see these clinics as a way to offer good health care services to employees at affordable prices. Harrah's opened two clinics at its Atlantic City, N.J., properties because of the high cost of medical care in that area, Ms. Vestal said.

Harrah's also will open an onsite clinic in New Orleans this month for its employees and their dependents at its newly reopened casino there, she said, because of "the sheer lack of medical care" in the city that was devastated last year by Hurricane Katrina (BI, April 3).

Employers say establishing onsite clinics also results in productivity improvements. Although it has no solid statistical data to document the trend, Harrah's believes it has achieved improvements in productivity because its employees have been able to get same-day appointments or walk-in appointments and not have to spend time traveling to visit off-site physicians, which can cut into their productivity at work.

In addition, parents with sick children do not have to miss as much time when they have to seek medical care for their children. "The productivity savings are absolutely demonstrated," Ms. Vestal said.

Although health care cost savings may not be their primary motivation, employers that open these fa-



# Committed.

American Re Direct Treaty

American Re Direct Facultative

Munich-American RiskPartners

American Re Broker Market

American Re HealthCare

### Depend on our staying power.

You need the peace of mind of knowing your reinsurer will be there when you need them. You need American Re.

For almost 90 years, we have stood by our clients through every up and down turn of the market. Providing them with the knowledge and the proven solutions that help them stick to their business goals. And as part of the Munich Re Group, we are even more committed to continuing our tradition of long-term security to clients in all market conditions.

So contact American Re – we are here to stay, here when you need us.



**AMERICAN RE**  
A Member of the Munich Re Group

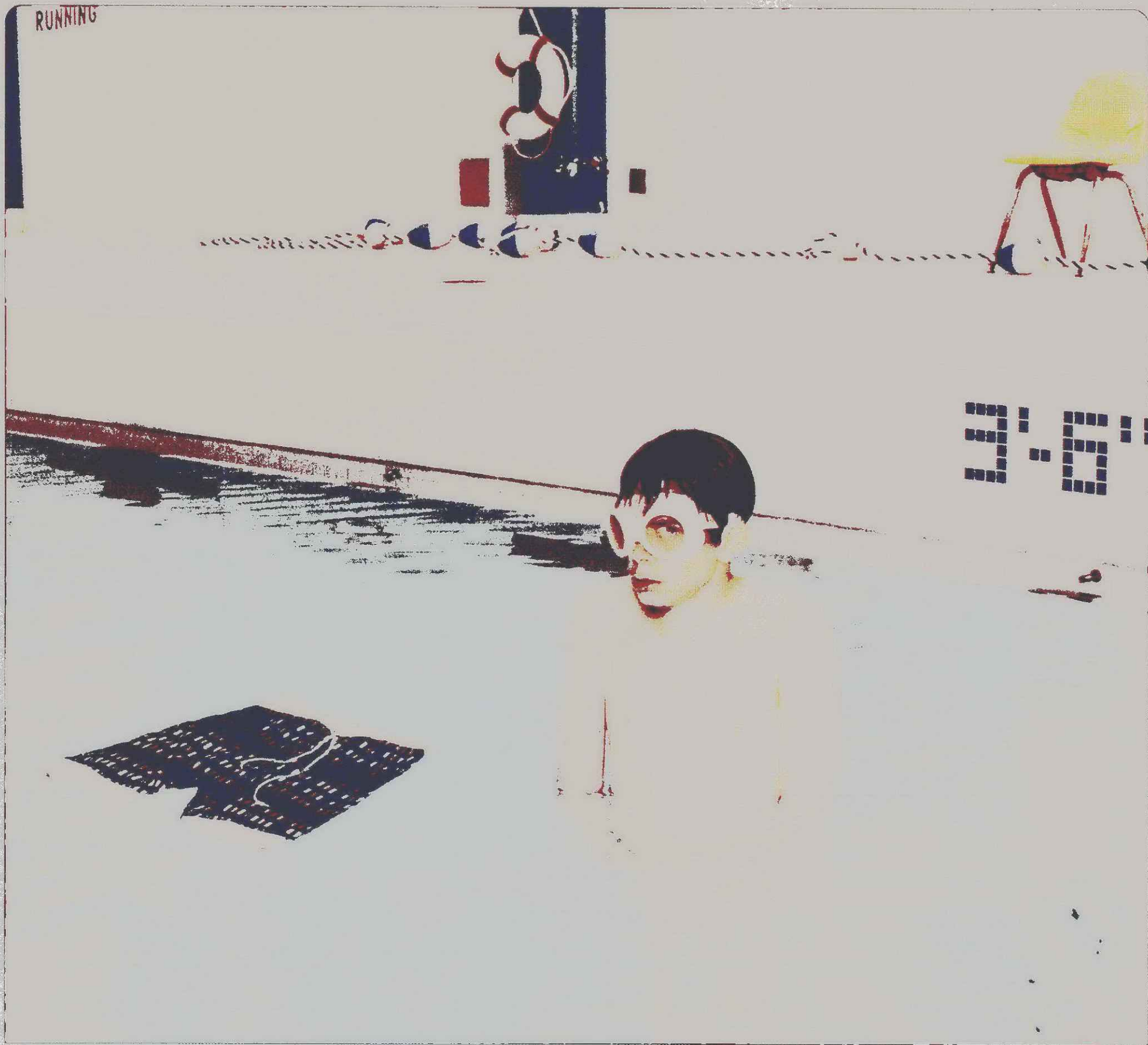


555 College Road East, Princeton, NJ 08543  
www.amre.com

Products and services provided by American Re-Insurance Company

© 2006 American Re-Insurance Company. All rights reserved.  
The American Re names and logo, and the Munich-American RiskPartners name, are trademarks owned by American Re-Insurance Company.

RUNNING



## David has been an expert in major disasters for over 40 years.

The unexpected can leave a company dangerously exposed. But not if David Cohen and the team at Liberty International Underwriters can help it. They've spent virtually a lifetime looking for the little clues that can become big problems. This experience, combined with a capacity of \$50 million for Umbrella and Excess Casualty, means they can make important decisions fast. So you can be sure they'll look out for your bottom line. To find out more about Umbrella and Excess Casualty, visit [www.libertyiu.com](http://www.libertyiu.com)



**Liberty**  
International  
Underwriters

LIU

THE PEOPLE, THE PRODUCTS, THE CAPACITY.  
LIBERTY IS RATED A (EXCELLENT) BY A.M. BEST.

## Onsite: Employers aim to achieve cost savings

Continued from page 16

cilities are finding that both they and their employees can save money if their employees use the facilities. For example, Harrah's Atlantic City facilities, which will mark their one-year anniversary in May, will save close to \$1 million in reduced insurance costs related to lower claims rates, Ms. Vestal said.

"I don't think anyone puts them in unless they are cost effective," said Helen Darling, president of the National Business Group on Health in Washington.

Cost savings can be achieved in several areas. For example, employers can see a shift in utilization that

can result in savings because clinic physicians serve as primary care physicians with fewer people receiving care through preferred provider organization plans in which employees can refer themselves to specialists, Mr. Beech said. For example, an employer who has 4,000 or more employees can save 20% on services that shift from a PPO to the clinics, he said.

Utilization is an important driver of return on investment so employers often provide financial incentives, such as lower copayments or coinsurance features, particularly when opening up these facilities, observers say. "You're just going to

get a lot more volume a lot faster," Mr. Beech noted.

Harris waives the first copayment for new hires and provides financial incentives that result in about a 25% reduction of copayments and out-of-pocket costs for their employees (see box). In total, participants save more than \$1 million annually by using the center, Mr. Wyse said.

Harrah's also offers savings of between \$5 to \$15 from the normal copayments for employees that use the onsite facilities, Ms. Vestal said. "If we can help our employees save money, that's one of the successes."

## Concerns loom around onsite clinics

By GLORIA GONZALEZ

Employers considering opening onsite medical and pharmacy facilities have expressed a number of concerns, including the possibility of opening themselves up to new liability.

Rather than operate these facilities themselves, many employers have contracted with outside vendors such as Whole Health Management Inc., an operator of onsite health clinics. "We take on mal-

practice liability and other liability," said Sara Crate, vp-business development for the Cleveland-based company.

Another concern often expressed about onsite clinics relates to privacy issues and whether an employer will have access to employees' personal medical data. Hiring an outside vendor to manage these facilities, though, addresses these issues, observers say.

"When we first announced the center, we made clear that nobody there is a Harris employee and Harris is not going to have access to the medical records," said Ronald Wyse, director of employee benefits, for Harris Corp., which has an onsite clinic at its corporate headquarters in Melbourne, Fla. "And that seemed to be satisfactory. However, I would say there's a segment of the workforce that will never go there because they're paranoid about that."

Another concern for employers is whether onsite clinics will negatively impact their relationships with local health care providers and/or their vendors, which may view these clinics as competition. As far as local health care providers, opening these facilities has generally not been a problem because employers can develop relationships with preferred specialists and providers in the community to whom they can refer patients for specific kinds of treatments that are beyond what the clinic can provide, said David Beech, a Los Angeles-based consultant with Watson Wyatt Worldwide.

Meanwhile, vendors have been generally supportive of these efforts, working with employers to provide integrated services to employees who use these clinics. "We've had wonderful experiences with our vendors," said Juliet Vestal, the Las Vegas-based director of health care management for Harrah's Entertainment Inc., which has eight onsite clinics.

Despite these concerns, interest in onsite clinics appears to be increasing because it is a promising way to provide access to quality health care, said Helen Darling, president of the National Business Group on Health in Washington. "It's still a small number, but we do see it growing," she said.

GREAT IDEAS COME FROM UNDERSTANDING WHAT'S IMPORTANT.



Quality of life should never be sacrificed for your bottom line. At Rite Aid Health Solutions, we'll work closely with you to create a customized pharmacy benefits package that fits both your workers' lives and your budget. One that's backed by quick-response customer service, account management, and professional clinical pharmacy support. Plus, we're open with you. All our costs, fees and revenues are completely transparent. Together, with your knowledge of your business and our extensive experience in pharmacy, we can bring ideas to the table to make everyone's lives easier. For more information, please call 1-866-828-5966 or visit [www.riteaidhealthsolutions.com](http://www.riteaidhealthsolutions.com).

OUR IDEAS ARE YOUR SOLUTIONS.

**RITE AID** **Health Solutions**  
PHARMACY BENEFITS MANAGEMENT

### Business Insurance

[www.businessinsurance.com](http://www.businessinsurance.com)

#### CHANGE OF ADDRESS?

If you have moved recently and would like to change your subscription address, or if you would like to report a delivery problem, please call us at 1-888-446-1422 toll-free or e-mail us at [subs@crain.com](mailto:subs@crain.com)

#### SINGLE-COPY SALES

To order any current or back issue of Business Insurance by phone, or to subscribe, call our circulation customer service department at: **1-888-446-1422** (outside the U.S. call 313-446-1662).

THE FIFTH ANNUAL EMPLOYEE BENEFITS LEADERSHIP FORUM • MAY 31 – JUNE 3, 2006

# Cram months of meetings into three days

These guys didn't get to  
be the best in the business  
by wasting time.



The annual Employee Benefits Leadership Forum at The Greenbrier is the only place where benefits industry leaders meet all of their markets and their competition in the same place in a three-day period.



**"The personal relationships that are formed and strengthened may be the best take-away."**

—James Czesak, Executive Vice President, ABD Insurance & Financial Services

**"This meeting gets larger and better each year."**

—Willo Taylor, Senior Vice President, Employee Benefit Practice Leader, Synaxis



**"The contacts made at this meeting will solidify future business relationships for years to come."**

—Dennis Donahue, Vice President, Benefits Practice Leader, Acordia

**The Fifth Annual Employee Benefits Leadership Forum**

**The Place for Productive People**

**May 31 – June 3, 2006**

**The Greenbrier**

For more information visit [www.ciab.com](http://www.ciab.com)  
or contact Natalie Hall, The Council's assistant  
director of meetings, at 202.783.4400  
or [natalie.hall@ciab.com](mailto:natalie.hall@ciab.com).



THE  
COUNCIL  
OF INSURANCE  
AGENTS &  
BROKERS

# Catching drug errors increases patient safety, cuts costs

By GLORIA GONZALEZ

Taking steps to reduce drug prescribing errors can help employers improve the health and safety of their employees while substantially reducing their health care costs.

Pharmacy benefit managers are developing unique tools that aim to address patient safety by detecting and reducing drug prescribing errors. These tools have proven to be effective in both cutting down on prescribing errors and decreasing medical costs by avoiding prob-

lematic drug interactions and unnecessary hospitalizations, observers say.

PBMs say they were spurred to create these tools following a string of surveys in the last 10 years that showed that inappropriate use of prescription drugs was resulting in billions of dollars in unnecessary health care costs.

"I have a very strong belief that medications do very good things to keep people well but used incorrectly or inappropriately, they have the potential to do harm," said Dr.

Glen Statin, senior vp-plan management products for Medco Health Solutions Inc. in Whitehouse Station, N.J.

Drug prescribing errors occur for several reasons, including the illegibility of a physician's handwriting; multiple physicians treating and prescribing drugs to the same patient; or patients withholding information from their doctors, either

intentionally or unintentionally.

A number of drug utilization errors can be addressed with the adoption of electronic prescribing tools that enable doctors to pick from a list of drugs and digitally send the prescription to pharmacies.

Caremark Inc., for example, offers its iScribe tool, which is an electronic prescribing handheld device

that doctors can use to generate prescriptions for their patients. "That takes away (the legibility) challenge, because it's electronic," said Dr. Jan Berger, Chicago-based senior vp and chief clinical officer of Caremark. "Whenever you can take human errors out of the process and automate where appropri-

Continued on next page

## Management: Are vendors' savings claims valid?

Continued from page 13

found a (return on investment) of 4.6:1 in the first year. When you take apart their assumptions, you see a lot of that has to be coming from regression to the mean," a statistical term for costs leveling off.

For example, because employees often enroll in disease management programs after they've already experienced heart attacks, their future health care costs will be considerably less than those related to that catastrophic event, Mr. Kelley said.

"They're taking credit for that, and that makes the savings look very significant in the first year. But the fact is, a lot of those savings are really just windfalls, because they're taking credit for something that would have happened even if their program didn't exist," he said.

Likewise, disease management vendors should not take credit for gains that occur when employers institute wellness programs or increase cost-sharing with employees, he added.

At Black & Decker, for example, "it would be hard to isolate the impact of disease management, because they have a lot of different programs in place," including consumerism, incentives to participate in health risk appraisals and smoking cessation programs, Ms. Watts said.

In fact, when all of these programs are taken together, Black & Decker's cost trend has been less than 2% for each of the last three years, she said.

Another variable that industry experts acknowledge often skews results of disease management studies is "selection bias," where the group that decides to participate in the programs is predisposed to following treatment guidelines.

### Developing standards

A 2004 report by the Congressional Budget Office has helped to cast doubt over disease management vendors' claims of their programs' effectiveness. The report found "there is insufficient evidence to conclude that disease management programs can generally reduce overall health spending."

In response, the Washington-based Disease Management Assn. of America in January launched an initiative to develop measurement standards, which the industry is expected to adopt by year end.

"The ROI discussion dates back to the genesis of the disease management process," said Dr. Don Fetterolf, chairman of the DMAA qual-

ity and research committee, which is in charge of the organization's uniform standards project. "You can make all kinds of assumptions from the same database. The ROI is dependent on the methodology used."

Unfortunately, the best way to measure program effectiveness—randomized clinical trials comparing the experience of a control group that does not receive intervention against a group that does—

**"You can make all kinds of assumptions from the same database. The ROI is dependent on the methodology used."**

**Dr. Don Fetterolf**  
Disease Management Assn. of America

has been impractical among the commercial population because few employers would allow a subset of their employees to be denied benefits, according to Dr. Fetterolf, who also is corporate vp for health intelligence at Atlanta-based Matria Healthcare Inc., a disease management vendor.

As a result, the industry has relied primarily on the "pre-post" methodology, where the medical costs associated with the population enrolled in disease management are compared against costs incurred before and after the program is initiated, Dr. Fetterolf said. In most cases, the 12-month period just prior to the start of the program is used to establish the baseline.

CIGNA uses the pre-post methodology in evaluating its Well Aware for Better Health program's effectiveness, according to Dr. Michael Reardon, New York-based medical director for disease management and CIGNA's Well Aware program.

While he declined to comment specifically on the Black & Decker study, he said that CIGNA usually removes claimants whose costs exceed \$100,000 from any analysis, because "especially in small numbers, if you have one outlier, it can throw off the entire analysis."

In response to the findings of the CBO report, the Centers for Medicaid and Medicare Services launched several studies involving heart failure and diabetes last summer, and the DMAA plans to use the results when developing its standards, according to Dr. Fetterolf.

The DMAA also is surveying its membership to find out what methods for measuring the effectiveness of disease management programs are most commonly used, what methods are most robust and the most easily understood, as well as any unique methods that demonstrate potential, he added.

The standards development exercise should serve as a learning tool, said Dr. Archelle Georgiou, executive vp of strategic relations for specialized care services at United-Health Group in Minnetonka, Minn.

"We think the questions raised by the CBO report are an opportunity to refine measurement methodologies and to think about whether there are better approaches to managing chronic diseases," she said.

But even the CMS studies are likely to have confounding factors, Dr. Reardon warned.

"It's the sickest of the sick that have been selected" to participate, he said.

CIGNA is among the insurers participating in the CMS disease management study, called "Medicare Health Support." It also has responded to the DMAA's survey, according to Dr. Reardon.

Despite his objections to the CIGNA report, Black & Decker's Mr. Brusca believes that disease management has value.

"I believe disease management programs are good programs, and nothing that anybody could show me would prove otherwise. These are chronically ill people who have built up chronic conditions over time.... At the very least, disease management programs will provide more focused resources to help manage their care."

But "to say that you're actually, as a total group, going to lower... costs and bring them down to normal and cure them is foolish," he said.

"What I'm trying to do with disease management is to control the rate of growth. I'm not under any false impression that if you overlay a disease management program, you're going to lower raw claims costs," Mr. Brusca said.

"If we cherry-pick numbers, there's a greater price we pay in credibility with clients than if we show them the numbers as they are," said Dan Cave, president and chief executive officer of Cardium Health, a disease management vendor in Farmington, Conn. "If we're doing our jobs well, the clinical values will come down eventually."

### What are your benefits worth?

Chances are your employees don't know!

#### We can help

From printed statements to online portals

See our solutions at  
[www.bsiweb.com](http://www.bsiweb.com)

**Benefit**  
SOFTWARE

212 COTTAGE GROVE, SUITE A  
SANTA BARBARA, CA 93101  
800.533.1383

© 2002-2005 Benefit Software Inc.

One out of 20  
employees is  
depressed.<sup>1</sup>

How many  
work for you?

### It's time to rethink your mental health coverage.

Depression is among the leading causes of disability worldwide. Employees with depressive disorders cost employers \$44 billion in lost productive time, compared to \$13 billion for those without depression.<sup>2</sup>

A healthier workforce leads to a healthier bottom line. At MHN, we promote wellness, prevention and early intervention through behavioral-change services that identify and treat problems before they become workplace issues.

For more information, call (800) 933-9276  
or visit [www.mhn.com/products](http://www.mhn.com/products).

Employee Assistance Programs • Behavioral Health Care  
Substance Abuse Services • Health Coaching • Work & Life Services

**MHN**  
[www.mhn.com](http://www.mhn.com)

<sup>1</sup> National Institute of Mental Health, 2002  
<sup>2</sup> Journal of the American Medical Association, 2003

Continued from previous page

ate, you're going to increase the chance of getting the right drug to the right patient at the right time."

The PBMs have developed other tools that aim to prevent or intervene to reduce prescribing errors. For example, Medco has developed a tool called RationalMed, which uses a variety of data sources to identify patients at increased near-term risk for drug therapy-related hospitalizations or other adverse events and alerts physicians, pharmacists and/or patients of the potential problems. The RationalMed alerts cover a wide range of potential problems, such as if a patient is prescribed a medication that negatively interacts with another drug or has the potential to worsen a pre-existing condition.

The RationalMed tool falls into a category of drug safety monitoring programs known as retrospective reviews, which looks at patients over a specified time period of prescription drug usage and attempts to identify and warn of potential problems, often leading to changes in prescriptions that have been dispensed. "These can be very helpful in the risk management of the patient," said Matt Gibbs, national pharmacy practice leader for Hewitt Associates Inc. in Lincolnshire, Ill.

Use of these retrospective reviews—for which employers have to pay additional charges—is not as widespread as Mr. Gibbs would like, he said, probably because many employers are unaware of the problem caused by drug prescribing errors, he said.

Employers that are aware of the problem have taken steps to address it. AT&T Corp., for example, decided to implement the RationalMed tool into its benefit program after a

major study in 2001 highlighted various problems related to patient safety in the United States, said David Carter, benefits planning consultant for the San Antonio-based company.

"Patient safety really struck a chord with us, because that's what we were trying to sponsor to make sure that (employees) were getting the appropriate care," he said. "We wanted to look at something that we could do as an employer sponsoring health benefits."

The program has proven to be very effective in identifying potential problems and avoiding unnecessary hospitalizations within the AT&T population, Mr. Carter said at the 2006 Employee Health Care Conference, sponsored by Towers

Perrin in New York. Over a 38-month period, the safety alerts sent out by Medco's RationalMed tool resulted in more than 43,000 drug therapy changes and more than 4,000 avoided hospitalizations, he said.

Although reducing health care costs was not the company's primary motivation, AT&T saved more than \$34 million during that time period because of the intervention of RationalMed, Mr. Carter said. "We were very happy with our return on investment," he said.

Most programs can generate return on investment of \$2 or \$3 for every \$1 spent, Mr. Gibbs said. "In general, that's usually what seals the deal," he said.

Employers can help improve

drug safety by purchasing programs that detect prescribing errors from their PBMs and asking their employees to be supportive of the PBMs' intervention efforts, said Dr. Paul Wernick, a consultant with Watson Wyatt Worldwide in Minneapolis. PBMs have "clearly shown on many therapeutic categories that they have both improved the quality of care and saved dollars," he said.

Working with their PBMs to improve these tools and increase awareness of the drug prescribing problem is another important job for employers, observers say. St. Louis-based Express Scripts Inc. encourages employers to become involved in an organization called SOS Rx, a coalition of PBMs, phar-

maceutical companies, employers and medical associations that promotes outpatient medication safety. Express Scripts is a founding member of the organization.

Employers should encourage their employees to tell their physicians about all medications they are taking, including over-the-counter and herbal medications, Caremark's Dr. Berger said.

Employers can also help combat drug prescribing errors by supporting electronic prescribing initiatives, Dr. Berger said. "If there's one area that holds the greatest promise across the board, it is e-prescribing, she said. "That's why Caremark is very supportive of e-prescribing, whether through iScribe or other tools."

## Creative tools to render more positive outcomes.

How many colors does your Pharmacy Benefit Manager (PBM) work with? Prescription Solutions has a comprehensive array of programs and services to draw upon. First, we'll determine both your needs and your goals and then pull together the appropriate mix of solutions. Our core PBM services can be mixed and matched with such clinical services as case review, utilization management and Targeted Disease Interventions. Our specialized services include our unique Real-Time Audit, Over-the-Counter and Generic Sampling programs. And our Specialty Pharmacy is designed to provide quality care to your members with the most complex conditions while your dollars are spent effectively. So while we take a sharpened pencil approach to your bottom line, we keep our eyes on the big picture.

877.309.5345 • [www.rxsolutions.com](http://www.rxsolutions.com)



## Purchase BI's online directories

Business Insurance's online directories are now available for purchase as Excel files or as PDFs in the directories area of [www.businessinsurance.com](http://www.businessinsurance.com).



The Excel spreadsheets will allow you to sort the information and provide reports and contacts that will be valuable to your sales and marketing staff.

The information that you have depended on for years is now available in a format that allows you to adapt it to your company's needs.

**Business Insurance**  
[www.businessinsurance.com](http://www.businessinsurance.com)

# Trying to curb the cost of diagnostic imaging

## Insurers seek to control use of technology



Increased use of imaging technology, such as positron emission scanning machines, is a boon to the medical community, but is a significant cost driver for health plans.

By KAREN PALLARITO

Technology that lets physicians peer within parts of the human body with breathtaking clarity is a great boon to the field of medicine. Yet the unfettered use of these tools in outpatient settings has given way to huge spikes in the cost of diagnostic imaging. By the late 1990s, costs were rising at a rate of 20% to 30% a year, according to some estimates. To arrest the unwieldy rate of growth, many health insurers have implemented of utilization management programs.

In January 2005, Horizon Blue & Cross Blue Shield of New Jersey in Newark began requiring doctors to obtain prior authorization to perform advanced imaging services for the members of some of its insurance products. These tests—including computed tomography, or CT; CT angiography; magnetic resonance imaging, or MRI; magnetic resonance angiography; positron emission scans, or PET; and nuclear medicine studies—generate roughly 20,000 imaging requests each month for the state's largest health insurer.

Neither doctors' use of new diagnostic imaging tools nor the upward trend in spending is necessarily bad, according to Dr. Andrew P. Schuyler, Horizon's executive medical director for health affairs. "The problem is when it's not being used effectively," he said.

Few recent studies on diagnostic imaging costs are available, but in October 2003 the Blue Cross & Blue Shield Assn. estimated that costs would reach \$100 billion in 2005 compared with roughly \$75 billion in 2000.

### Imaging use expands

Meanwhile, the market for imaging technology continues to expand. More than 300 million diagnostic imaging procedures were performed in the United States in 2004, according to an August 2005 report from Medtech Insight L.L.C., a Newport Beach, Calif.-based provider of medical technology information. The diagnostic imaging business is a big one, with sales of imaging machines expected to reach \$9.5 billion this year, up from about \$7.8 billion in 2004, according to Medtech Insight.

Payers are using a variety of strategies to control the rapid growth in outpatient imaging costs, from decision support systems and preauthorization to patient cost shifting and provider withholds. But do these strategies work?

"The simple answer to that question is we don't honestly know," said Dr. G. Scott Gazelle, a professor of radiology at Harvard Medical School in Boston and director of the Institute for Technology Assessment at Massachusetts General Hospital in Boston. No one has conducted a controlled trial comparing, for example, the use of preauthorization vs. no prior approval in similar settings.

Still, Dr. Gazelle added, "I think the honest answer is, 'sure, they work.'" Simply requiring providers to call a phone number and follow voice prompts for five minutes to obtain a preauthorization number will decrease utilization, "because of the hassle factor," he said. "The marginal cases they're not going to do."

**"I think they're looking at this in a kind of siloed way that fails to appreciate how imaging is reducing costs in other areas."**

Irene Plenefisch  
SonoSite Inc.

Partners HealthCare, a Boston-based health care system whose members include Massachusetts General Hospital, has its own computerized decision support systems that enable doctors to choose the most appropriate tests for patients and generate any required preauthorization numbers. If Partners physicians use that system, they are not required to seek permission from the diagnostic imaging management companies employed by its three major payers—Blue Cross & Blue Shield of Massachusetts, Tufts Health Plan and Harvard Pilgrim Health Care.

Horizon's Dr. Schuyler has evidence that prior authorization helps weed out unnecessary and inappropriate imaging studies. Last year, after consulting with Care Core National L.L.C., the Wappingers Falls, N.Y.-based radiology benefits management company that administers Horizon's preauthorization program, doctors withdrew an average of more than 400 imaging study requests per month out of a total of 20,000 requiring preauthorization. Another 800 requests per month were denied and, of those, fewer than 20 a month were overturned on appeal.

All in all, Horizon officials estimate, the program saved \$6 million in 2005. And that's without the benefit of other cost containment features it plans to add, including a physician privileging component, allowing certain nonradiologists, say orthopedists, to perform and interpret specific studies, like long bone scans, within their area of expertise.

National Imaging Associates, a Hackensack, N.J.-based radiology benefits management company, has observed regional variations in annual cost trends. About one-third of its health plan clients have lowered annual cost increases into the single digits using various cost-containment techniques, according to Dr. Thomas G. Dehn, NIA's executive vp and chief medical officer.

Health plans on the West Coast have flattened year-over-year increases, while in parts of the Midwest, clients have reversed the trend, with decreases of 1% to 2% annually, he said.

"If utilization in a marketplace is high in the beginning, it usually means that the physicians have pretty ingrained habits that are hard to turn around," Dr. Dehn explained. That tends to be the case in the Northeast, he noted. West Coast and Midwest doctors, he added, are more responsive to managed care techniques.

### Long-term challenge

Holding the line on diagnostic imaging costs over the long haul appears to be more difficult, though. Aetna Inc. has had a utilization program in place since 2001. By 2003, annual percentage increases in imaging costs fell from double to single digits. Yet by late 2004 and early 2005, "we started to see it jump back up again," conceded Dr. Mary McCluskey, regional medical director for Aetna's Northeast region in Middletown, Conn.

There are several reasons for the increase, Dr. McCluskey offered, including the aging of the population and greater patient demand for high-tech scans, like full-body MRIs. There are also new technologies on the market. "The most talked about thing right now is the 64-slice coronary CT slicer," she said. These super-fast machines are able to capture pictures of the coronary arteries with brilliant clarity. Plus, there are new indications for diagnostic imaging that didn't used to exist. As an example, she said that it is now recommended that certain cancer patients get repeat CT or MRI scans to track their progress.

"I think almost everyone is, again, now experiencing double-digit trends," Dr. McCluskey observed. Aetna is examining a number of possible strategies for moderating the rate of increase. One would be to scale back its network of imaging centers to those that meet specified quality standards. Another would be to follow Medicare's lead by reducing the reimbursement for a second scan performed in a single day on a contiguous body part.

Highmark Inc. Pennsylvania's largest health insurer, is also experiencing double-digit increases. But rather than making cost reduction the overarching goal, the Pittsburgh-based company is tackling the problem by taking steps to improve the quality of the service, enhance access to new technologies and ensure patient safety. Beginning in 2004, Highmark recontracted its network to hold providers of imaging services more accountable for quality of care. Providers must meet stringent credentialing and accreditation standards. Facilities must provide multiple imaging ser-

### Managing health care costs can be child's play

70% of health care costs can be attributed to lifestyle-related illness and can be prevented. By motivating employees to lead healthy, active lifestyles, Meritain Health is helping employers reduce the cost of health care.

To learn more about how incentive and wellness programs can benefit you, learn more about Meritain Health. Contact your broker today, or call 1.877.MERITAIN.



A New Brand of Health Care



# Imaging: Costs drive insurers to control use

Continued from previous page  
vices. And, beginning this month, doctors must seek prior authorization for CT, MRI and PET studies.

"We're not going in with an expectation (that) we're going to reduce the cost; we may not, because technology is expanding and being used to diagnose more conditions," said a Highmark spokesman.

The Pittsburgh-based company, which spends upward of \$500 million a year on outpatient imaging services, tried prior authorization in 1999 but discontinued the program two years later when annual increases leveled out.

"The feeling was that the physician community had reached a level of care that seemed appropriate," the Highmark spokesman said. That's when cost increases spiked back up into the range 15% to 20% a year.

Makers of imaging technology worry that insurers' emphasis on cutting utilization may be short-sighted. To broaden the debate, the Arlington, Va.-based National Electrical Manufacturers Assn., which develops standards for the electrical industry, sponsors a Web site, [www.medicalimaging.org](http://www.medicalimaging.org), that compiles the latest medical literature on the value of imaging.

"I think they're looking at this in a kind of siloed way that fails to appreciate how imaging is reducing costs in other areas," said Irene Plenefisch, director of payer and external relations at SonoSite Inc., a Bothell, Wash.-based maker of hand-carried diagnostic ultrasound systems.

"We think the move toward pay for performance is very positive, because it takes a more holistic approach to the provision of health care services rather than singling out a single aspect of health care delivery," she said.

## Utilization management

But insurers and vendors counter that efforts to manage utilization ultimately are in patients' best interest. In large part, the guidelines they use to approve or deny various imaging studies are based on criteria established by groups like the American College of Radiology in Reston, Va., and other specialty medical societies. What's more, if insurers can squeeze out inappropriate or redundant tests, they say, that helps moderate costs for patients and plan sponsors.

While Dr. Gazelle of Harvard Medical School, who is also director of Partners Radiology, agrees that doctors sometimes order unnecessary tests, but he remains troubled by the lack of empirical data to show where to draw the line. It is the radiology profession's fault for not having done the studies to guide those efforts, he said.

"We are now in a situation," Dr. Gazelle said, "where really it's a blunt tool that people are using. Let's just go to try and decrease (the) use of high-cost imaging."

# Employers seek to improve worker health

Nearly two-thirds of large employers—64%—offer their employees programs and incentives for improving their health and well-being, with nearly the same proportion—65%—saying they believe there is a link between the design of their company's health benefit plan and their employees' health status.

However, just 20% of the 135 executives responding to PricewaterhouseCoopers L.L.P.'s Management Barometer survey said the overall health of their workforce has improved over the past two years. Only 19% of the executives re-

## Getting healthier

**20%** of surveyed executives said the overall health of their workforce has improved in the past two years.

Source: PricewaterhouseCoopers

sponding to the survey described these programs as "strong or above average."

The survey, conducted by PwC's Health Research Institute, also found that 82% of surveyed compa-

nies offer their employees numerous health plan options, including: cost and coverage options, 98%; health savings accounts, 64%; and choice of insurers, 54%. In addition, 22% reported they expect to give employees additional choices over the next 12 months.

Cost remains a top priority in designing corporate health benefit plans, the survey found, with 53% of surveyed executives saying it is their highest priority, followed by quality of service for employee claims, which was the No. 1 priority for 25% of the executives surveyed. Another 23% of executives said

availability of data about the quality of health care being delivered was their chief concern.

The survey also found that 39% of the companies surveyed provide health care data to their employees, but among these, only 36% measure employee satisfaction.

PricewaterhouseCoopers' Management Barometer is a quarterly survey of top executives in a cross-section of large, multinational businesses. Additional information is available from Pete Collins, survey director and publisher, at 646-471-4496 or [pete.collins@us.pwc.com](mailto:pete.collins@us.pwc.com).

—By Joanne Wojcik



HARD-TO-PLACE CONSTRUCTION ACCOUNTS DON'T EXACTLY HAVE US SHAKING IN OUR BOOTS.

WE KNOW A THING OR TWO ABOUT SECURING DIFFICULT POLICIES. ASIDE FROM BEING ONE OF THE TOP WHOLESALE BROKERAGES IN THE COUNTRY, WE'RE ALSO ONE OF THE MOST EXPERIENCED AT MANAGING CONSTRUCTION ACCOUNTS. WE HAVE EXPANDED OUR CAPABILITIES TO PROVIDE RESIDENTIAL AND COMMERCIAL SOLUTIONS FOR GENERAL CONTRACTORS, SUBCONTRACTORS AND DEVELOPERS IN ALL STATES. SO, IF YOU HAVE A CONSTRUCTION POLICY TO HAMMER OUT — PUT OUR EXPERIENCED CREW ON THE JOB. VISIT US AT [WWW.WESTROPE.COM/CONSTRUCTION](http://WWW.WESTROPE.COM/CONSTRUCTION).



WESTROPE

ENSURING INSURANCE



## Between the Lines

Compiled by Joanne Wojcik

### Avoiding bad 'car-ma'

Aon Private Clients, a leading insurance broker for high net worth individuals, has hired a nationally recognized "feng shui" expert to study how the ancient practice of arranging objects affects automobile and driver safety.

For example, drivers who use Wi-Fi connections—such as Bluetooth—should be sure to drink water regularly to flush out the negative effects of the energy-draining force from their bodies, according to the analysis conducted by Raymond Catchpole.

Mr. Catchpole also recommends that car owners tie a small blue ribbon to the satellite navigation system or around the rear view mirror since blue represents the water element that fosters the ideal state of mind for driving: clear, thoughtful and flowing.

Aon Private Clients' feng shui car study, which focused on four models—the Nissan Micra, Volkswagen Passat, Porsche Boxster and a Lexus 4X4—also ranked the vehicles based on their individual feng shui scores.



Lexus drivers would be happy to hear that their car's "chi" makes it No. 1.

"Powered by the fire element, the Lexus promises to go anywhere and through anything to deliver its driver safely and unruffled," according to a summary of the findings.

The complete car feng shui report will be available online Tuesday. To access the report, visit [www.aon.co.uk/privateclients](http://www.aon.co.uk/privateclients).

### Lessons of 1906 quake ignored

As Lloyd's of London prepares to commemorate the 100th anniversary of the 1906 San Francisco earthquake with a service Tuesday in the Underwriting Room, it should be noted that few Californians apparently acknowledge the need to insure against such devastation.

Only 14% of homeowners in the state that shakes, rattles and rolls have earthquake insurance.

"The vast majority of people know an earthquake is likely to occur but willingly turn down the coverage," according to Robert Hartwig, chief economist for the New York-based Insurance Information Institute. "They're playing Russian roulette."

Part of the reason, according to the carrier-funded California Earthquake Authority, could be the high deductibles attached to the policies, ranging from 10% to 15% of a home's insured value.

The 1906 quake, which caused more than 3,000 fatalities and widespread property damage, will be remembered by Lloyd's underwriters with a musical performance by the Lloyd's choir and a speech given by Ewen Gilmour, Lloyd's deputy chairman.

The temblor reached a magnitude of approximately 7.8. The U.S. Geologic Survey has calculated there's a 62% chance that a magnitude 6.7 quake will strike the area again before 2032.

### Fight for pediatric care heads to court

Pediatric care for low-income families has taken on a new dimension in Boston where attorneys, in partnership with physicians and social workers, use the courts to ensure children's health and safety.

And the tactic will begin spreading nationally thanks to grant money from the Boston Medical Center, the architect of the program.

The BMC has been retaining lawyers to guarantee that houses are heated in winter, undernourished families get food stamps and that landlords eliminate rodent infestations and clean up moldy apartments that can trigger asthma attacks.

Funded by \$2.7 million in grants from several philanthropic groups including the W.K. Kellogg Foundation and the Robert Wood Johnson Foundation, for the next five years, the Medical-Legal Partnership for Children will pair law firms and legal aid organizations with health centers nationwide so that struggling families can get pro bono legal assistance.

So far the program, which began in 1993, has helped more than 4,000 Boston families.

Tips and feedback from readers are welcome. Please send information to [jwojcik@businessinsurance.com](mailto:jwojcik@businessinsurance.com).

# Join the discussion, ask the question, answer the query

Readers are invited to take advantage of a new online feature that allows risk and benefits management professionals to connect and exchange information at [www.BusinessInsurance.com](http://www.BusinessInsurance.com).

The Community Forums is an easy-to-use discussion board that enables the readers of *Business Insurance* to ask questions, exchange ideas and voice opinions on a wide variety of topics.

The Community Forums discussion board offers several topic-focused categories, including:

• **Risk Managers Forum.** A forum for risk managers to exchange ideas and ask questions of peers on various risk management issues, concerns and trends.

• **Benefits Managers Forum.** A forum for exchanging ideas and asking questions related to general employee benefits management issues, concerns and trends.

• **In the News.** For every news article in *Business Insurance*, there is an angle for the buyer of risk and benefits management services. This forum is intended for the *BI.com* community to express

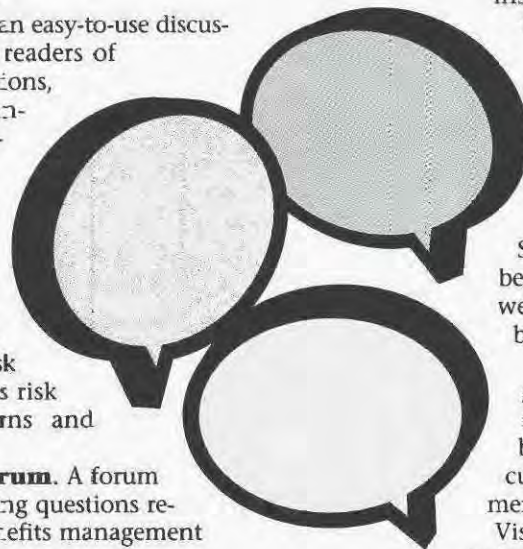
its opinions and comments about current issues and news stories.

• **Industry Focus Forum.** Discuss insurance industry issues, ranging from industry probes, to mergers and acquisitions, to quality improvement. Industry participants are invited to offer their views on these and other topics for buyers.

• **The Lighter Side.** Share your stories of risk and benefits management success, as well as your tales of business bloopers and blunders.

• **General Forum.** Discuss general insurance market issues and conditions, risk or benefits management trends, current events and developments and other topics.

Visit [www.BusinessInsurance.com](http://www.BusinessInsurance.com) today and click on the Community Forums link. A simple free registration to create a user ID is all you need to join this online community and begin exchanging information, discussing ideas and commenting on the news of the day.



## Letters: Restore the fading umbrella policy

Continued from page 8

limitations, increased attachment points, trailing self-insured retentions and imposition of limiting endorsements which serve to prevent the policy from ever dropping down over exposures not treated in underlying policies.

Perhaps today's underwriting behavior is a response to the last soft market casualty insurance underwriting cycle. At that time, prepaid three-year programs were prevalent. Arguably, the cash-flow pricing of these programs yielded unprofitable

results as the long-tail liabilities developed and became reality. Along with a more aggressive plaintiffs bar, the obvious rate inadequacy was the major contributor of the unprofitable book. However, it seems that diminishing the scope of the cover afforded is not a creative way to resolve the problem.

What role did these auxiliary umbrella coverage triggers (the pure catastrophic excess protection notwithstanding) play in the adverse results found in this product line?

With regrets, if it's not already extinct, the umbrella policy of yesteryear is destined to become just that. If so, let's not refer to it as something that it's not and identify it as the specific excess insurance that it really is. However, I would hope that the carriers in this market could price the coverage and once again offer that treasured tool—the umbrella liability policy.

**Joseph M. Buono, CPCU**  
Casualty Marketing Manager  
Willis of New York  
New York

# Business Resources

To place your ad, contact **Tina Vasilakis** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: [tvasilakis@BusinessInsurance.com](mailto:tvasilakis@BusinessInsurance.com)  
**Business Insurance, Business Resources, 360 N. Michigan Ave., Chicago, IL 60601-3806.**

### EDUCATION & TRAINING

**CPCU®** AIC, ARM, IIA, CLU/ChFC, and CIC candidates

You'll pass. You'll learn more faster. And, you'll love The Burnham System or your money back. Guaranteed!  
**Call 1-888-BURNHAM Now!**  
[www.BurnhamSystem.com](http://www.BurnhamSystem.com)  
19 Everett St., Southbridge, MA 01550

### Some things just work better in color.

Like your BUSINESS RESOURCES ad in *Business Insurance*. Contact Tina Vasilakis at 312-649-5340.

### ENVIRONMENTAL



A full service environmental management firm for over 20 years.  
Corporate Environmental Advisors, Inc.  
Hartwell Business Park  
127 Hartwell Street  
West Boylston, MA 01583  
Contact Joseph A. Landyn, PG, LSP  
800-358-7960  
[jalandyn@cea-inc.com](mailto:jalandyn@cea-inc.com)  
[www.cea-inc.com](http://www.cea-inc.com)

## Advertise Your Products & Services

in *BI's*

**Business Resources**

**Call (312) 649-5340**

## Reinforce your RIMS message in *BI's* two Post-RIMS issues...

**May 1**  
**RIMS Conference - News**  
Ad Closing April 25

**May 8**  
**RIMS Conference - Trends & Developments**  
Ad Closing May 2

# U.K. pension buyout market set to expand

*Startup will add choice for plan sponsors*

By SARAH VEYSEY

**LONDON**—Employers in the United Kingdom that sponsor defined benefit pension plans likely will welcome the increased competition introduced into the market for buying out plan liabilities and assets when a new company, Paternoster Ltd., begins operation, experts say.

Currently the market for providing bulk annuities to cover the benefits promised by occupational pension plans is dominated by two players, London-based life insurance companies Legal & General Group P.L.C. and Prudential P.L.C., sources say.

But last week, Mark Wood, formerly head of the U.K. life insurance arm of Prudential, said he had raised £500 million (\$870.4 million) to set up Paternoster, named for the square outside St. Paul's Cathedral in London, to compete with those established players in the pension buyout market.

And sources say that other new



**Mark Wood, head of Paternoster Ltd., a startup pension buyout company, says the company will take on defined benefit obligations of U.K. companies.**

formations or mechanisms to enable companies to remove defined benefit pension plan obligations from their balance sheets are being discussed.

London-based Paternoster announced last week that it had secured equity financing from a consortium of investors led by Deutsche Bank A.G. and Eton Park International L.L.P. and was now awaiting approval from the Financial Services Authority, the United

Kingdom's insurance regulator, to begin operations.

Paternoster said it would focus exclusively on acquiring the defined benefit pension obligations of U.K. companies "as additional pressure builds on them to recognize and manage volatile deficits." In essence, Paternoster will acquire the assets and liabilities of employer plans and will provide benefits to participants through annuities.

Typically, Paternoster will be tak-

ing over fully funded plans that are frozen. For the employer, this transfer of assets and liabilities to Paternoster eliminates the volatility inherent in defined benefit plans in which employers—if they do not achieve good investment returns on plan assets—need to kick in additional contributions.

## Underserved market

And for Paternoster, which would shoulder the investment risk, there would be an upside return if it were able to achieve superior investment gains on the plan assets it manages.

"We believe that the corporate defined benefit pension market is one that has been historically overlooked and underserved," Mr. Wood said in the statement.

Mr. Wood also said he believes that the market for buying out pension plan assets and liabilities is "set to expand" in the United Kingdom.

He said that the increased power of the Pensions Regulator—the United Kingdom's regulatory body for work-based pension plans, which can impose funding schedules on sponsoring employers,

See **PATERNOSTER** / page 28

## Updates

### Goshawk delays filing reinsurance results

Goshawk Insurance Holdings P.L.C. will be late in filing its 2005 results statement for its reinsurance unit, Rosemont Reinsurance Ltd., and may temporarily suspend trading in its shares in May, the company warned in a statement to the London Stock Exchange. London-based Goshawk said that preparation of figures for Rosemont Re would take longer than normal because the operation was placed into runoff in October. Rosemont Re suffered large losses from the series of hurricanes last year, and was put into runoff after being downgraded to B from A- by A.M. Best Co. Inc.

### Glacier Re to write reinsurance in Mexico

Glacier Reinsurance A.G. has been granted a license to write reinsurance in Mexico. Pfäffikon, Switzerland-based Glacier said in a statement that the license will allow it to write all classes of reinsurance in Mexico. Glacier said it planned to write property, aviation, marine, energy and war and terrorism business, with estimated premiums of about \$10 million a year in Mexico.

### SCOR increases Asian business

French reinsurer SCOR S.A. said it saw an overall 23% increase in premium volume at the April 1, 2006, Asian and Indian renewals. The Paris-based company said written premiums in Japan increased to 7 billion yen (\$59.6 million), up 6% compared with the previous year. In India, SCOR said its written premiums increased 81% to 986 million Indian rupees (\$22.2 million).

### Rolls-Royce may close defined benefit plans

Engineering group Rolls-Royce Group P.L.C. said it had begun discussions with the members of its three defined benefit pension plans about possible closure of the plans to new members. The London-based company said in a statement that if members accepted the closure of the plans, it would inject a lump sum of £500 million (\$875.4 million) into the three plans to "increase the level of future group contributions." The three plans had a combined deficit of £1.29 billion (\$2.22 billion) on Dec. 31, 2005, the company said in a statement.

## Mideast insurers face bigger investment risk

By MICHAEL BRADFORD

**LONDON**—Some insurers in the Middle East are undervaluing their largest risk and may be endangering their capital, a recent report concludes.

The insurers' investment risks, not their underwriting portfolios, are the problem, according to the report released April 12 by Standard & Poor's Rating Services. Middle Eastern insurers' identification, management and measurement of their investments have long been cited as weaknesses that impacts their financial strength ratings and remains a concern, S&P said in a statement announcing the report's release.

Poor management of the risk taken in investment portfolios "can leave insurers vulnerable to sudden and unexpected capital loss that exceeds their risk tolerance," Nigel Bond, a London-based credit analyst with S&P, said in the statement.

S&P said it "does not believe that some Middle Eastern insurers are valuing in full the capital required by the risks they are running in their investment portfolios. This, in turn, means that these insurers may make poor strategic decisions based on their incomplete knowledge" and leave their "future risk pro-

file unpredictable."

For many insurers in the Middle East, their investment risk is the largest they undertake, S&P said. It is often "far in excess of their insurance risk and at odds with their professed conservative financial management," the rating agency said.

Middle Eastern insurers generally limit their net probable maximum loss from underwriting to less than 10% of shareholder funds, S&P said. But that ratio often exceeds 100% with regard to investments.

"This means their equity capital is much more likely to be affected by equity market movements than by their underwriting performance, something that has undoubtedly been the case over the past three years," S&P said.

Even with those concerns, however, Mr. Bond pointed out that for now, "even though we apply very high charges to Middle Eastern equities within our risk-based capital model, Middle Eastern insurers' capital adequacy ratios are almost universally extremely strong and not a rating concern."

The report is available to subscribers of S&P's RatingsDirect service at [www.ratingsdirect.com](http://www.ratingsdirect.com). Nonsubscribers can purchase a copy by calling 212-438-9823.

## Aussie manufacturer settles with insurers over asbestos claims

**CHATSWOOD, Australia**—Australian sugar and building products company CSR Ltd. said it has reached a settlement with 48 Australian, Continental European and U.K. insurers in a longstanding dispute over asbestos claims in the United States.

Under the terms of the settlement, the insurers will pay CSR about \$103.3 million Australian (\$75.6 million) on or before June 10.

In 1995 Chatswood, Australia-based CSR began litigation in U.S. federal court in New Jersey against several insurers "seeking indemnity for U.S. asbestos claims under policies issued to CSR from approximately 1978 to 1989, together with other damages and relief," it said in a statement.

The company said it would continue its action against its remaining insurers, which include ACE Ltd. and certain of its affiliate companies, which were the lead insurers on some of the policies in question.

CSR formerly mined asbestos in Western Australia and manufactured various products, many of which were exported to the

United States.

In 2004, CSR announced it had reached a \$41 million Australian (\$32.0 million) settlement deal with a group of Lloyd's of London underwriters reinsured by Equitas Ltd., the runoff reinsurer for the

### Asbestos settlement

Under the terms of the agreement between CSR Ltd. and 48 Australian, Continental European and U.K. insurers, the insurers will pay CSR about **\$103.3 million Australian (\$75.6 million)** to settle asbestos-related claims.

pre-1993 longtail liabilities of Lloyd's syndicates.

In its results for the six months ending Sept. 30, 2005, CSR said it had \$315 million Australian (\$240.8 million) set aside for future asbestos claims.

The company said at that time it had resolved 1,804 asbestos-related claims in Australia and 129,000 in the United States, of which about 103,000 were in mass settlements in Mississippi, Ohio, Texas and West Virginia.

—By Sarah Veysey

# Paternoster: U.K. defined benefit pension buyout market set to expand

Continued from page 27

among other things—may mean that more companies will consider shedding their defined benefit pension plan liabilities.

In addition, Mr. Wood said, the fact that employers that sponsor defined benefit plans must pay a levy to the Pension Protection Fund—a guaranty fund based loosely on the U.S. Pension Benefit Guaranty Corp.—will mean that as weaker plans enter into the fund, the burden on well-funded plans to finance the PPF may become disproportionate and prompt additional sponsoring employers to seek ways

to rid themselves of that burden. The PPF charges employers that operate defined benefit pension plans annual levies based partly on risk factors such as the likelihood of the sponsoring company becoming insolvent.

And, Mr. Wood noted, increased emphasis on Financial Reporting Standard 17, which requires publicly listed companies to record the assets and liabilities of their defined benefit pension plans on their balance sheets, likely will prompt some employers to seek ways to remove that obligation.

When sponsoring employers or

trustees buy bulk annuities, the benefits of pension plan members are considered extremely secure because of the stringent reserving requirements imposed on life insurance companies by the FSA and the existence of a Financial Services Compensation Scheme, which compensates consumers should insurance companies fail, sources explain.

## Welcoming a new entrant

While awaiting more information about the start-up, Paul McGlone, head of employer propositions for

Aon Consulting in London, said another option for clients who wish to reduce their pension plan liabilities would be well received.

Sponsoring employers will probably welcome the entrance of a new player into the bulk annuity market, noted Tim Keogh, a worldwide partner at Mercer Human Resource Consulting in London.

There likely is "pent-up demand" for new capacity to enter the marketplace, said Mr. Keogh, who noted that even if new entrants were unable to provide lower-cost service than existing players, the increased competition would probably im-

prove the efficiency of the market.

Raj Mody, a partner at PricewaterhouseCoopers L.L.P. in London, acknowledged that while there is currently a demand for pension buyout services, he noted some potential buyers are at something of an "impasse." That's because the price of bulk annuities is perceived to be very high, Mr. Mody said, and there exists the potential for new providers to seek to fill that "middle ground."

Competing companies likely will consider varied and innovative ideas to address the need for pension plan buyouts, noted Mercer's Mr. Keogh.

# Professional MarketPlace

To place your ad, contact **Tina Vasilakis** at (312) 649-5340 / fax: (312) 649-7937 / E-mail: [tvasilakis@BusinessInsurance.com](mailto:tvasilakis@BusinessInsurance.com)  
Business Insurance, Classified Department, 360 N. Michigan Ave., Chicago, IL 60601-3806. Call for details on blind box and internet advertising

## FOR SALE

Clean, Offshore  
**CAPTIVE INSURANCE COMPANY**  
Call D. Brodasky - RMA  
(772) 463-5872  
Fax: (772) 463-5871

## EDUCATION

### Florida State University



offers an online master's degree in Risk Management and Insurance. This affordable and flexible program can be completed via Internet access from any location. For more information on the May 2006 sequence, visit [www.cob.fsu.edu/grad](http://www.cob.fsu.edu/grad)

## SEEKING ACQUISITIONS

Seeking to acquire group insurance and benefits agencies within NY, NJ, CT, PA. Any sized considered. 201-272-0922.  
[www.sunequitysolutions.com](http://www.sunequitysolutions.com)

## SEEKING ACQUISITION

Seeking acquisition of subrogation, medical collections, or other related collections firm in PA or NJ.  
Call Susan at 215-504-4030.

## LEGAL NOTICE

### IN THE MATTER OF NRC REINSURANCE COMPANY LTD.

AND IN THE MATTER OF SECTION 99  
OF THE COMPANIES ACT 1981 OF BERMUDA

#### NOTICE OF EFFECTIVE DATE & FINAL CLAIMS SUBMISSION TIME

NOTICE IS HEREBY GIVEN that by an Order dated 31 March 2006 made in the above matter, the Supreme Court of Bermuda sanctioned a scheme of arrangement (the "Scheme") between NRC Reinsurance Company Ltd. (the "Company") and the Scheme Creditors (as defined in the Scheme) of the Company pursuant to Section 99 of the Companies Act 1981 of Bermuda. A copy of the Order sanctioning the Scheme was delivered to the Registrar of Companies in Bermuda on the 31 March 2006 and the Scheme became effective in Bermuda on that date.

Any person who believes that it may be a Scheme Creditor of the Company and has not received a copy of the Scheme should contact the Company at the address and contact detail set out below.

A Final Claims Submission Time of 5:00 pm Bermuda time on June 30, 2006 has been established. Scheme Creditors are required to submit a completed Claim Form to the Company by facsimile transmission, registered post, hand delivery or courier at the address or facsimile number set out below so that it is received by the Company at or before the Final Claims Submission Time. Copies of the Claim Form may be obtained from the Company at the address and contact details set out below.

Any Scheme Creditor who does not return a completed Claim Form to the Company at or before the Final Claims Submission Time will have no right to file a Claim Form or to receive any payment under the Scheme other than its Unpaid Agreed Claim (as defined in the Scheme), if any, and any liabilities of the Company to that Scheme Creditor will be deemed to have been satisfied in full under the Scheme.

Notice of the Effective Date and Final Claims Submission Time has been sent by the Company to all known Scheme Creditors at their last known address. Any person who believes himself or herself to be a Scheme Creditor who has not received notice of the Effective Date and Final Claims Submission Time and a Claim Form should contact the Company at the address specified below.

Any questions relating to the Scheme or this notice, or the action Scheme Creditors are required to take, should be directed to NRC Reinsurance Company Ltd., c/o Rene Lapierre & Associates, 1801 Avenue McGill College, Suite 710, Montreal, QC, Canada (telephone: +1 514 982 4852, facsimile: +1 514 284 1914).

## LEGAL NOTICE

### IN THE MATTER OF THE LIQUIDATION OF MEDICAL MALPRACTICE INSURANCE ASSOCIATION

Supreme Court County of New York  
Index No.: 401879/01

#### NOTICE

The Superintendent of Insurance of the State of New York as Liquidator (the "Liquidator") of Medical Malpractice Insurance Association ("MMIA") hereby gives you notice that, pursuant to Article 74 of the New York Insurance Law, he has presented the Supreme Court of the State of New York a petition for approval (the "Petition") of his report (the "Report") setting forth the status of the MMIA liquidation proceeding and requesting issuance of an order approving the Report and the transactions set forth therein and authorizing: (i) the establishment of June 30, 2006 as a bar date for presentation of all creditor claims other than administrative costs and expenses (ii) to the extent assets are available, payment of all administrative costs and expenses and a distribution to MMIA's creditors with allowed claims consistent with Article 74 of the New York Insurance Law, including interest at the rate of six percent (6%) per annum; and (iii) to the extent assets are available after payment of all administrative costs and expenses and creditor claims with interest, transfer of all remaining assets to the Miscellaneous Special Revenue Fund of the State of New York (the "Proposal").

A hearing is scheduled on the Petition on June 9, 2006 at 9:30 AM, before the Supreme Court of the State of New York, County of New York at the Courthouse IAS Part 49, Room 232, 60 Centre Street, New York, New York. If you wish to object to the Petition, you must serve a written statement setting forth your objections and all supporting documentation upon the Liquidator, at least ten (10) business days prior to the hearing. Service on the Liquidator shall be made by first class mail at the following address:

Superintendent of Insurance of the  
State of New York as Liquidator of  
Medical Malpractice Insurance Association  
123 William Street  
New York, New York 10038-3889

Attention: Melvin Burruss, Esq.  
The Petition and Report are available for inspection at the above address. The Report is discussed below, in the event of any discrepancy between the summary herein and the documents, the documents control.

**The Report**  
By order entered May 14, 2001, MMIA was placed into liquidation and the then Superintendent of Insurance and his successors in office were appointed as Liquidator. All of MMIA's policyholder liabilities have been assumed by Medical Liability Mutual Insurance Company ("MLMIC") as of July 1, 2000. Pursuant to New York Insurance Law and the Liquidation Order, the Liquidator was tasked with the responsibility of, among other things, marshalling MMIA's assets and adjudicating claims consistent with Article 74 of the Insurance Law. The Liquidator discusses in the Report his progress in liquidating MMIA.

As indicated, the Liquidator is submitting a Proposal he believes will assist in winding up the affairs of the MMIA liquidation. The Liquidator seeks approval of his Report and the transactions set forth therein, and authorization of (i) the establishment of June 30, 2006 as a bar date for presentation of all creditor claims other than administrative costs and expenses, (ii) to the extent assets are available, payment of all administrative costs and expenses and a distribution to MMIA's creditors with allowed claims consistent with Article 74 of the New York Insurance Law, including interest at the rate of six percent (6%) per annum; and (iii) to the extent assets are available after the payment of all administrative costs and expenses and creditor claims with interest, transfer of all remaining assets to the Miscellaneous Special Revenue Fund of the State of New York.

Requests for further information should be directed to the New York Liquidation Bureau, Creditor Claims Department at (212) 341-6271.

**HOWARD MILLS**  
Superintendent of Insurance of the  
State of New York as Liquidator of  
Medical Malpractice Insurance Association

## REQUEST FOR PROPOSALS

Adirondack Transit Lines, Inc. and Affiliated Companies are requesting proposals from Liability Insurance Carriers.

**Type of Coverage:** Public Liability & Property Damage

**Date Coverage Required:** 7/1/06

**Minimum Coverage:** \$5 Million

**Background:** Adirondack Transit Lines, Inc. is an intercity bus company operating scheduled route service throughout New York State and charter service in the Northeast U.S.

The current fleet consists of 106 motor-coaches.

Interested parties should contact the V.P. of Finance to obtain the information required to develop a competitive insurance coverage proposal.

Mark Boungard  
V.P. Finance  
Adirondack Transit Lines, Inc.  
499 Hurley Ave.  
Hurley, NY 12443

## Take full advantage of your resources!

### In Print ...



### and Online



Professional MarketPlace has it all!  
Call 312-649-5340 for details

## Reinforce your RIMS message in BI's two Post-RIMS issues ...

**May 1**  
**RIMS Conference - News**  
*Ad Closing April 25*

**May 8**  
**RIMS Conference - Trends  
& Developments**  
*Ad Closing May 2*

Contact Tina Vasilakis at 312-649-5340  
to reserve your space



Some things just work better in color.

Like your PROFESSIONAL MARKETPLACE ad in Business Insurance.  
Contact Tina Vasilakis at 312-649-5340.

# sEnergy: Capacity to shrink further as mutual insurer shuts down

Continued from page 1

plate these hurricane losses, so that has increased exposure to a level that wasn't expected," Mr. Hutchings said.

The exact losses sEnergy incurred as a result of the 2005 hurricanes is unclear. As of June 30, 2005, the company had recorded loss expenses totaling \$301.7 million, primarily relating to four business interruption claims including a \$200 million full limits loss from a fire at an oil sands project at Suncor in Fort McMurray, Alberta.

sEnergy provides business interruption limits of \$200 million per occurrence. The company's \$200 million excess property damage coverage, which is written excess of Oil Insurance Ltd.'s \$250 million limit, provides members with a \$450 million block of coverage based on the OIL policy form.

On a per member basis, the risk that members were being forced to take on was too severe, Mr. Hutchings said. "If we had had a much larger pool of participation with more diversity in them, then perhaps the risk profile wouldn't have changed as much," he noted.

"There were a lot of people that had looked at this facility over

the long haul and wondered whether it would be viable," said Kurt M. Tentinger, director of property marketing for Aon Corp.'s natural resources group in Houston. "Several of our clients considered a sEnergy entry, but found the coverage retentions, financial ratings and mutuality inconsistent with their overall risk management objectives."

According to Mr. Tentinger, the concept behind such a mutual arrangement "is a good concept, but if you can't spread the risk, then it's not an effective risk management tool."

Mutuality has been a key feature of the OIL group, which dates back to the early 1970s when Oil Insurance was founded as an energy industry mutual property insurer. Liability insurer Oil Casualty Insurance Ltd. was added in the mid-1980s. Another unit, TOPS Insurance Ltd., was established in 1993 with 16 shareholder policyholders to cover high-excess property losses. The facility was liquidated in 1999 due to diminished demand.

### Coverage gaps left

sEnergy policyholder members are considering alternatives to replace the mutual's coverage.

"It is regrettable that the insur-

### sEnergy members

Current energy company members of mutual insurer sEnergy Insurance Ltd.:

#### UNITED STATES

- BHP Billiton Petroleum (Americas) Inc.
- CITGO Petroleum Corp.
- ConocoPhillips Co.
- Duke Energy Corp.
- Koch Industries Inc.\*
- Lyondell Chemical Co.
- Tesoro Petroleum Corp.

#### CANADA

- Nova Chemicals Corp.
- Petro-Canada
- Suncor Energy Inc.

#### EUROPE

- Borealis A/S
- OMV Aktiengesellschaft\*
- Statoil ASA

#### SOUTH AFRICA

- Sasol Ltd.

\*Not founding members of the mutual.

ance market loses a fledgling mutual like sEnergy so early in its life," a spokeswoman for BHP Billiton Petroleum (Americas) Inc. in Houston, another of sEnergy's policyholder owners, said in an e-mail. "However," she continued, "from a group perspective, other risk finance techniques will be swiftly utilized and appropriate decisions will be made regarding risk transfer and retention."

A spokesman for Houston-based CITGO Petroleum Corp., a sEnergy member, said "we are working on a replacement for those policies, and we don't have any more information at this time."

C. Jeffrey Triplette, vp, continuity, insurance and security services for sEnergy member company Duke Energy Corp. of Charlotte, N.C., said, "We're examining and exploring the options right now," noting that the company's coverage renewals are not until later this year.

According to Sandy Vietor, executive vp at Willis North America in New York, who works with Willis' global energy practice, among other areas, the offshore energy insurance market has seen a reduction in capacity since last year's storms.

"sEnergy did provide for loss from natural catastrophes, includ-

ing terrorism, and that capacity is going to be very, very difficult to replace—and very expensive—for the natural catastrophe exposures," Mr. Vietor said.

While the energy market's capacity has increased in some areas such as refinery and petrochemical plants and offshore construction, noted Tim Fillingham, chairman of Aon Ltd.'s natural resource and construction division in London, capacity for windstorm risk in the Gulf of Mexico has reduced "drastically."

Business interruption cover for Gulf of Mexico risks is "difficult to buy and expensive at the moment," Mr. Fillingham added.

Many clients are exploring alternatives to buying commercial insurance cover for such risks, Mr. Fillingham said, such as taking larger self-insured retentions or making more use of captive insurance arrangements, he said.

There has also been "some movement for cat bonds" as a risk-mitigation technique, said Aon's Mr. Tentinger. He noted, though, that "the real alternative is that it seems to be where the market is not responding to the risk, those have to be retained risks."

London Bureau Chief Sarah Veys contributed to this report.



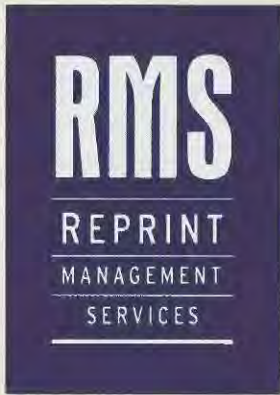
## Are you making the most of your editorial coverage?

Editorial coverage is like money in the bank ... when you take advantage of it. RMS can help you get the most impact out of your coverage in *Business Insurance* through cost effective, mass distribution of Reprints, Eprints and NXTprints.

The uses for Reprints, Eprints, and NXTprints are endless:

Trade Show Collateral • Seminars • eNewsletters • Media Kits  
Web Content • Direct Mail • PR Tools • Recruiting • Sales Handouts

For more information, call RMS:  
**800.290.5460 - Ext. 160**  
or e-mail: [BusinessInsurance@reprintbuyer.com](mailto:BusinessInsurance@reprintbuyer.com)



# Contingents: Fees won't go away despite Spitzer

Continued from page 1

gross written premiums on that line were not paying such commissions or were to reach similar settlements. The insurers also agreed they would no longer pay contingent commissions on excess casualty coverage through 2008, after which contingents on that line would be subject to the 65% rule.

In addition to ACE Ltd., which said it would cease paying contingent commissions in 2004 shortly after Mr. Spitzer's suit against MMC, AIG has also said it will not pay any contingents going forward. While ACE and AIG were implicated in the alleged bid rigging with Marsh—though Mr. Spitzer did not charge ACE—the insurers historically have not paid contingent commissions to producers on most lines, observers say.

Zurich has said it will continue to pay contingent commissions as permitted by the settlement.

Observers say the vast majority of standard lines property/casualty insurers, for competitive reasons, pay some form of contingent commissions to agents and brokers, though not all premiums are calculated into contingent contracts. Premiums subject to facultative reinsurance, retrospectively rated workers compensation policies, medical malpractice policies and large national accounts, for example, are frequently excluded from contingent commission calculations, observers note.

In addition to AIG and Zurich, other insurers identified by not charged by Mr. Spitzer in previous court filings as participating in the bid-rigging scheme include ACE; The Hartford Financial Services Group Inc.; Liberty International Underwriters Inc., a division of Boston-based Liberty Mutual Group; and the Munich-American RiskPartners unit of American Re Corp. (BI, Feb. 13).

It is not known whether Mr. Spitzer will reach agreements with other insurers. ACE, Hartford, Liberty Mutual and Munich-American RiskPartners declined to comment.

Even if other insurers reach settlements with similar language limiting contingent commission payments and thereby contribute to the 65% market share threshold, the provision would be unlikely to

curtail their ability to pay contingents on most lines, industry observers say.

Part of the reason is that the commercial lines in which contingents are most often paid—such as middle-market package policies, business owners policies and guaranteed-cost workers compensation policies—are highly competitive.

"I don't think that, in most markets, it will get you to a 65% market share, because while we're talking about some of the big companies out there, in reality, there are over 2,000 insurance companies in America, not to mention foreign companies that participate in the U.S.," said Bob Hartwig, senior vp

**"State regulators need to step up to the plate and enact transparency standards and let the market dictate compensation. It shouldn't be done in one jurisdiction."**

**Ken A. Crerar**  
Council of Insurance Agents & Brokers

and chief economist for the Insurance Information Institute in New York.

"It's very unique to find any line of business where you have that kind of concentration," noted Ernst Csiszar, president and chief executive officer of the Property Casualty Insurers Assn. of America in Des Plaines, Ill.

"The threshold is so high, it's going to be very, very difficult to get to it," said Timothy J. Cunningham, a principal with OPTIS Partners L.L.C. in Chicago.

"If 'excess casualty' is very narrowly defined, maybe you'll hit 65% market share," Mr. Cunningham acknowledged, but he said he wonders how Mr. Spitzer will define the line. "If you ask 10 different people the definition of 'excess casualty,' you'll get 10 different answers," he said.

But Ken A. Crerar, president of the Washington-based Council of

Insurance Agents & Brokers, said that while not every line of business will be affected, he believes the 65% threshold will be met on some of the more-specialized lines of business.

"We're convinced there are lines of insurance where a 65% threshold could be met, assuming the agreement of only a few other carriers," Mr. Crerar said. "It does cause us concern ... but I think our biggest concern is we have one prosecutor in one jurisdiction setting the terms for a national marketplace," he said.

"Who is the regulator in this case? Is it the attorney general from New York, or are our regulators who are supposed to be regulating going to stand up and do something here? Obviously, they have ceded that to the attorney general, and he's filled the vacuum," Mr. Crerar said. "State regulators need to step up to the plate and enact transparency standards and let the market dictate compensation. It shouldn't be done in one jurisdiction."

## Other complications

According to the settlements, AIG and Zurich would be notified by any of the settling attorneys general if the 65% threshold were to have been met on any given line. The insurers would then have to stop paying contingent compensation on that line, beginning on Jan. 1 of the next calendar year following the date of the notice.

The attorneys general will use market share information from the National Assn. of Insurance Commissioners, or from A.M. Best Co. Inc. or another agreed-upon third-party source, to determine the 65% threshold, the settlement says.

While a spokesman for Best said the rating agency would be able to provide information on insurers' gross written premiums and contingent commission payments on a per-line basis on request, observers say that other questions remain. They ask, for example, how broadly the attorney general will define contingent commissions, as well as the various classes of business. Additionally, observers want to know how the test will be enforced and who will do the monitoring.

Calls to Mr. Spitzer's office were not returned.

"There's no doubt that the words (in the settlement) make it sound like an easy test, but the reality of implementing this will be tricky," said John Ward, a Cincinnati-based independent insurance analyst. "It probably will be more time consuming and complicated than maybe what the AG was thinking."

"It's a big Pandora's box," OPTIS Partners' Mr. Cunningham said of the 65% test.

And that has some observers wondering what exactly the point is behind the 65% rule.

William G. Passannante, co-chairman of the insurance recovery group for Anderson, Kill & Olick P.C. in New York, questioned Mr. Spitzer's motives. "If you agree that the payment of contingent commissions is something associated with a bunch of other practices that you don't like and...not a good idea, why not come out more strongly against it then? This high a threshold—perhaps an insurmountable threshold—makes the contingent commission prohibition look a bit like window dressing," he said.

"Every settlement is a compromise, and this is clearly a result of a compromise," Mr. Passannante said. "Maybe both sides knew exactly what they were doing."

Indeed, CIAB's Mr. Crerar surmises that Mr. Spitzer's office "didn't pick the number out of a hat; they picked it for some reason. ... We have to assume that they thought it was attainable on certain lines."

A Zurich spokesman declined to comment on how the 65% test was derived or what lines of business it might affect.

Regardless of whether the 65% rule will curtail contingent commissions, Mr. Spitzer still has another arrow in his quiver. Both AIG and Zurich agreed in their settlements to support legislation and regulation to abolish contingent commissions throughout the industry.

But there too, observers say, Mr. Spitzer is likely to fall short.

"I've always said that the probability of contingent commissions being banned is very small," Mr. Cunningham said. "Insurance is regulated on a state-by-state basis, and agent groups (which support contingent commissions) have enormous lobbying power."

# Serna: N.M. insurance head sent on leave

Continued from page 6

attorney, said: "Mr. Serna denies any allegation of any impropriety ... but at this point, it is hard to deny allegations with specificity because we don't know what he is being accused of."

Mr. Gorence, of Gorence & Oliveros P.C. in Albuquerque, N.M., asked the commission in writing last week to give him a copy of the attorney general's report.

Due to Mr. Serna's leave, Mr. Mayfield appointed Deputy Superintendent Tom Rushton acting su-

**"Mr. Serna denies any allegation of any impropriety ... but at this point, it is hard to deny allegations with specificity because we don't know what he is being accused of."**

**Robert Gorence**  
Gorence & Oliveros P.C.

perintendent of the insurance division.

Mr. Serna, an attorney, has served as New Mexico's superintendent of insurance since 2001. He previously served as Cabinet secretary to the New Mexico Department of Labor and regional director of the U.S. Department of Agriculture. In 1981, he was elected to the New Mexico State Corporation Commission, where he served for 17 years, 14 years as chairman.

Mr. Serna also serves as secretary-treasurer of the Kansas City, Mo.-based National Assn. of Insurance Commissioners, after being elected in December.

The NAIC is reviewing his situation, a spokesman said.

# Romney: Governor strips employer tax from health care bill

Continued from page 3

pansion of Medicaid support from Washington. The measure also provides for revenues raised from surcharges now applied on hospital bills and used to reimburse providers for uncompensated care to be used instead to subsidize the cost of health insurance premiums.

Before signing the bill, though, Gov. Romney vetoed a provision that would impose an annual assessment of up to \$295 per employee on employers with at least 11 employees that do not offer health insurance coverage or make a "fair and reasonable" contribution to-

ward coverage.

Gov. Romney said the assessment, which is intended to raise about \$45 million a year, is "not necessary to implement or finance health care reform."

But Gov. Romney's veto is almost certain to be overridden by state legislators.

"No one is saying this will be a tight vote," said Eileen McAneney, vp-government affairs for the Associated Industries of Massachusetts, a business advocacy group in Boston.

"The veto will be overridden," said Bill Vernon, state director of the Massachusetts Federation of Inde-

pendent Business in Boston.

Because legislative override of the veto is seen as a foregone conclusion, some business groups, while opposed to the assessment, say they are not going to spend time trying to convince legislators not to attempt a veto override.

The underlying bill was earlier approved on a 154-2 vote in the Massachusetts House of Representatives and a 37-0 vote in the state Senate. The vote to override is expected within the next two weeks.

With the legislation soon to be enacted, the focus will shift to state regulators, who will, in the coming

months, be drafting rules to implement the 145-page measure.

For example, of concern to employers is how—if they are not to incur the \$295 per employee assessment—regulators will define what is a fair and reasonable contribution to employees' health care coverage.

Additionally, rules will be needed to clarify whether employers are liable for the assessment if they offer coverage to full-time but not to part-time employees.

But answers to bigger questions, such as whether enough revenue will be raised to fund coverage, will not be known for years.

## ADVERTISER

## INDEX

### Issue of April 17

| ADVERTISER                            | PAGE #             |
|---------------------------------------|--------------------|
| Aetna Corporate                       | 5, 19              |
| Lexington Insurance                   | Cover 2            |
| AIG                                   | Cover 4            |
| American Re-insurance                 | 16                 |
| Aon Corporation                       | 2                  |
| Benefit Software                      | 22                 |
| Burnham System                        | 24                 |
| Business Insurance                    | 6, 12, 29, Cover 3 |
| Carefirst                             | 9A-B               |
| Carvill                               | 31                 |
| Chubb Group                           | 11                 |
| Corporate Environmental Advisors      | 24                 |
| Council of Insurance Agents & Brokers | 21                 |
| C.P.C.U. Society                      | 10                 |
| Flexible Benefit Service              | 9A-B, 1L           |
| Liberty International Underwriters    | 17                 |
| Meritain Health                       | 24                 |
| MHN, Inc.                             | 22                 |
| Prescription Solutions                | 23                 |
| Rite Aid                              | 20                 |
| Wellpoint                             | 15                 |
| Westrope & Associates, Inc.           | 25                 |
| XL Insurance                          | 7                  |

# White Mountains to sell U.S. unit

**By RUPAL PAREKH**

**HAMILTON, Bermuda**—White Mountains Re Group Ltd. has agreed to sell its Sirius America Insurance Co. subsidiary to an investor group led by Lightyear Capital L.L.C. for about \$139 million.

New York-based Sirius America, a primary writer of program specialty insurance since 1999, had a book value of about \$116 million as of Dec. 31, 2005. White Mountains Re—whose parent is Hamilton,

Bermuda-based White Mountains Insurance Group Ltd.—serves as the holding company for Sirius America.

As part of the deal, which is subject to regulatory approval and is expected to close this summer, White Mountains will join the investment group by gaining an equity interest of approximately 18% in the acquiring entity, White Mountains said in a statement.

Along with Lightyear Capital, other investors in the group include New York-based Lehman Brothers

Inc. and Amsterdam, Netherlands-based Alpinvest Partners N.V. Additionally, Steven Fass, chief executive officer of White Mountains, will become a member of the company's board of directors, New York-based Lightyear said.

White Mountains' remaining reinsurance operations within White Mountains Re Group comprise Folksamerica Reinsurance Co., Sirius International Insurance Group and White Mountains Underwriting Ltd.

# Late News

**Continued from page 1**

who left the company to "pursue another opportunity," New York-based AIG said.

## Captive trade group established for Montana

A trade group is being formed to represent the Montana captive insurance company industry and to attract new captives to the state. The Montana Captive Insurance Assn. will promote Montana as a captive domicile and will work to inform those outside the state of the advantages of chartering a captive in Montana, said Brenda Olson, the MCIA chairman of the board and president of ORG Captive Management in Bigfork, Mont. The association also is intended to give the state's captive industry a voice in the legislative and regulatory process.

## N.Y. state official to join ACE

Audrey M. Samers, the New York Insurance Department's general counsel and deputy superintendent, is leaving next month to join ACE Group Holdings Inc., the holding company for Bermuda-based ACE Ltd.'s U.S. operations. Ms. Samers, who has held her current position for the past five years, will join ACE's New York office as associate general counsel and deputy global compliance officer, according to a department spokesman. No replacement for Ms. Samers has yet been named, he added.

## Alabama captive bill receives final approval

Captive insurers will be able to form in Alabama under a bill sent to Gov. Bob Riley. The legislation was drafted in the wake of hurricanes that dealt heavy damage to the state in recent years and caused commercial property insurance to become expensive and harder to find. A task force appointed by Gov. Riley and Alabama Insurance Commissioner Walter A. Bell after Hurricane Ivan hit the state in 2004 concluded that allowing captives to form would help Alabama businesses affordably fund their exposures. Under the legislation, pure captives can form with minimum capital of \$250,000; association captives must have \$750,000 in initial capital. Industrial insured captives, which include risk retention groups, have to

be formed with at least \$500,000. Sponsored captives, which act as segregated cell companies, are required to have at least \$1 million in capital to form, according to the bill. Reciprocal insurers also must be funded with \$1 million in minimum capital.

## Comp insurer sued by claims manager

Workers Compensation Fund, a Salt Lake City-based mutual insurer, said last week that it has been sued by WorkingRx for allegedly underpaying prescription charges on behalf of WCF policyholders. WorkingRx, also based in Salt Lake City, provides workers compensation claims management services for pharmacies. Working Rx seeks \$4 million, but WCF said in a statement that it believes WorkingRx has been adequately paid. WCF also said that it will vigorously defend against the suit and indemnify its policyholders.

## Comp indemnity rate for Hawaii high: WCRI

Hawaii has a "strikingly high" number of workers compensation claims that lead to the awarding of indemnity benefits, according to a report by the Workers Compensation Research Institute. The Cambridge, Mass.-based WCRI's report on Hawaii's workers comp system states that 46% of claims incur indemnity benefits, compared with a median of 29% for 19 states that also have a three-day waiting period. Among other characteristics of Hawaii's system, the WCRI found that payment of claims is faster in the state than in 39 other jurisdictions. The interval between the date of an injury to a first indemnity payment is 18 days in Hawaii, compared with a 30-day median for the other jurisdictions.

## Willis North America names COO

Don Bailey, chief executive officer of Willis Risk Solutions North America, has been named chief operating officer of Willis North America. In his new role, Mr. Bailey will work with Mario Vitale, CEO of the North American business unit, in managing its day-to-day operational and sales activities while also developing and implementing the unit's long term strategy, Willis said. Tom Coughlin, COO of Willis Risk Solutions North America, succeeds Mr. Bailey as CEO of the unit.

# Fairfax: Investors' suit alleges securities fraud

**Continued from page 3**

credit rating, when the actions were really "efforts to remain solvent and preserve an already precarious credit rating—not improve the rating," the suit charges.

- Reported false cash balances in its financial statements. At year-end 2005, for example, Odyssey unit Odyssey America Re reported \$385 million in paid-in surplus, while it had actually received \$185 million and did not receive the balance until the first quarter of 2006. The other \$200 million, kept at the Odyssey holding company, allowed Fairfax to inflate its own unaudited cash balance by \$200 million, the complaint alleges, citing an analysis by Memphis, Tenn.-based stockbroker Morgan Keegan & Co. Inc.

The value of Fairfax stock and debt securities dropped sharply after

**The complaint charges that Fairfax Financial Holdings Ltd. concealed the potential impact of improper accounting for finite reinsurance transactions and failed to disclose reserve understatements.**

the company disclosed March 22 that the U.S. securities regulators in-

vestigating certain Fairfax financial transactions had subpoenaed its auditor, New York-based PricewaterhouseCoopers L.L.P., and a shareholder, Glen Allen, Va.-based Markel Corp. Fairfax also disclosed that regulators were investigating Mr. Watsa's suggestion to securities analysts in February that an internal review of the company's finite contracts had found accounting issues only with those at Odyssey.

Fairfax earlier reported receiving subpoenas from securities regulators for information about its finite contracts and transactions in Fairfax stock.

Fairfax per-share price fell 13%, to \$113.93, on the day of the subpoena disclosure but had risen to \$121.89 as of last Thursday's close.

## BI Stock Index [ 4/10 - 4/13 ]

Up-to-the-minute data for all 85 companies that comprise the BI Stock Index can be found at [www.businessinsurance.com](http://www.businessinsurance.com).

Percentage change of BI Stock Index vs. key indicators

|                |                                                                                     |
|----------------|-------------------------------------------------------------------------------------|
| BI Stock Index |  |
| 2870.48        | -1.34                                                                               |
| Dow Jones      |  |
| 11137.65       | 0.16                                                                                |
| S&P 500        |  |
| 1289.12        | -0.49                                                                               |

Source: FinancialContent Inc. (<http://financialcontent.com>)

### Largest gains

|                       |       |
|-----------------------|-------|
| CNA Surety Corp.      | 7.94% |
| Meadowbrook Insurance | 5.28% |
| NYMAGIC Inc.          | 3.52% |
| Aetna Inc.            | 1.89% |
| EMC Insurance Group   | 1.44% |

### Largest losses

|                      |        |
|----------------------|--------|
| Health Net Inc.      | -4.29% |
| Humana Inc.          | -4.05% |
| PartnerRe Ltd.       | -3.50% |
| Baldwin & Lyons Inc. | -3.46% |
| WellPoint Inc.       | -3.44% |

### Weekly change by market segment

|                            |        |
|----------------------------|--------|
| Brokers                    | -0.95% |
| Insurers/reinsurers        | -0.22% |
| Managed care organizations | -1.19% |

Leadership in Specialty

Carvill

REINSURANCE INTERMEDIARY

Independence • Integrity • Service

## At BusinessInsurance.com

New Online Poll: Which of the following risks is most likely to keep you awake at night?

1. Earthquakes.
2. Hurricanes.
3. Longtail liabilities.
4. Terrorism.
5. Other.

Items in the Late News column originally appeared in BI's Daily News feature on [www.businessinsurance.com](http://www.businessinsurance.com). Visit the BI Web site to sign up to receive BI's Daily News by e-mail.

# San Francisco: Is area quake-ready today?

Continued from page 1

Yet the potential for a present-day "super catastrophe" that could cause hundreds of billions of dollars in losses to the San Francisco Bay area, including more than \$50 billion in insured losses, continues to exist, resulting in the need for additional preparations, say insurers and other earthquake observers.

Many more people, businesses and valuable properties are now concentrated in this high-risk area than were 100 years ago, these observers point out.

The high-tech corridor known as the Silicon Valley, for example, did not exist 100 years ago, noted Louis Jacobs, manager of earthquake underwriting/engineering for Factory Mutual Insurance Co., which does business as FM Global, in Johnston, R.I. "A repeat of the 1906 event along the San Andreas Fault would wallop that area," Mr. Jacobs said. "It would have an enormous impact on the whole country."

By official count at the time, the earthquake that shook 300 miles of the San Andreas Fault early on the morning of April 18, 1906, and the fire that followed were reported to have killed 700 people, though more recent estimates of the fatalities put the number closer to 3,000. The earthquake, which reached a magnitude of approximately 7.8, also destroyed tens of thousands of buildings.

The San Francisco earthquake's power and the size of the area it rattled easily dwarf those of the 6.7-magnitude Northridge temblor in 1994. And the 1906 quake released 30 times more force and stretched along a much larger region than the 6.9-magnitude Loma Prieta earthquake, which is remembered for collapsing part of the Bay Bridge and the Nimitz Freeway in 1989.

In 1906, earthquake coverage was not available, because insurers lacked related frequency and severity data, much as they lack terrorism data today, explained Andrew Castaldi, senior vp and head of Swiss Re's catastrophe perils team in Armonk, N.Y.

Following the devastation, though, scientists and insurers poured resources into investigating the cause of quakes, and researchers continue to build on that work.

"That was the earthquake that cinched the relationship between earthquake and faulting," said Gregory C. Beroza, a geophysics professor at Stanford University, referring to the geological study of fractures and movement in rock layers. "It was the beginning of modern earthquake faulting."

Afterward, private industry funded research by scientists into seismic history. As a result, earthquake zone maps and frequency and severity tables emerged, Mr. Castaldi said. The work eventually led to the development of quake policies and coverage standardization.

Newark, Calif.-based catastrophe modeler Risk Management Solu-

tions estimates that insured losses from an earthquake similar to the 1906 event would today cause between \$50 billion and \$80 billion in insured property losses stemming from the ground shaking and the fires that would follow.

Modeling for "super catastrophes" is considerably more complex than modeling for smaller events because there exists a greater range of potential outcomes, said Robert Muir-Wood, chief research officer for RMS in London.

Boston-based risk modeling and technology firm AIR Worldwide Corp. estimates that a recurrence of the 1906 earthquake would result in \$80 billion in insured property losses, with total property losses exceeding \$300 billion. AIR estimates that if such an earthquake were to take place during working hours, \$7 billion in workers compensation losses would result, along with 5,000 fatalities and 50,000 injuries.



A photograph taken May 7, 1906, of San Francisco's California Hotel (center) and nearby buildings shows the almost total destruction resulting from the earthquake and fires.

For comparison, the smaller Loma Prieta earthquake killed 63 people and caused property damage exceeding more than \$11 billion in 2005 dollars. The Northridge catastrophe killed 57 and caused about \$20 billion in total property damage at the time, including \$12.5 billion in insured losses.

The Northridge and Loma Prieta temblors would be "garden variety" events compared to the devastation a 1906-size earthquake could bring today, said Mary Comerio, professor at the Center for Real Estate & Urban Economics and the Pacific Earthquake Engineering Research Center at the University of California at Berkeley. "We have a much higher exposure today in insurance terms, just because of the sheer volume of buildings and jobs and infrastructure in harm's way."

AIR estimates that \$1.6 trillion in commercial and residential property value currently lies within the footprint of the 1906 earthquake. And there are now more than 7 million people living in the Bay Area.

A 1906-size event would force residents to abandon the region, just as people fled the New Orleans area following last year's Hurricane Katrina, Ms. Comerio said.

"Super catastrophes" are defined

by several factors, including a damage level that stops the functioning of an urban area and causes its long-term evacuation," RMS' Mr. Muir-Wood said.

## Mitigation measures

Still, in many ways, the Bay Area is better prepared than it was 100 years ago, observers say.

When the Loma Prieta earthquake damaged water lines, fire-fighters were able to pump water from the San Francisco Bay to douse flames, Ms. Comerio noted. That technology had not existed in 1906.

Today's commercial lenders also demand building construction that limits the damage from significant ground shaking, Ms. Comerio said, though she acknowledged that most preparations address potential damage only from moderate-size quakes, and not from anything like a huge 7.8-magnitude event.

# Decisions to pay claims from quake were momentous

By ROBERTO CENICEROS

The 1906 San Francisco earthquake shares several similarities with Hurricane Katrina, which slammed the Gulf Coast last August.

The two disasters wiped out major cities of roughly the same population, leaving hundreds of thousands of residents suddenly homeless.

Just as the flooding that followed Katrina caused much of the destruction associated with that catastrophe, the conflagration that followed the 1906 earthquake caused more damage than the initial ground shaking.

In both cases, insurers faced demands for coverages that their policies explicitly excluded.

Ongoing lawsuits spurred by Katrina, for instance, seek to have insurers pay for storm-surge damage, despite policy language excluding flood coverage. Similarly, many of the fire policies that covered about 90% of San Francisco's property in 1906 excluded earthquake damage and fire damage resulting from earthquakes, according to insurers.

But following the 1906 event, insurers met in New York and uniformly agreed to pay fire losses regardless of the cause, unless irrefutable evidence showed that ground trembling alone had destroyed a structure.

And, despite a lack of policy uniformity and several exclusion clauses with varied wording, insurers settled about 100,000 claims. Out of \$235 million in insured losses, insurers paid out about \$180 million, according to the New York-based Insurance Information Institute.

The III says that at least 12 insurers went bankrupt and financial impairment kept some underwriters from paying more than a portion of insured losses.

According to Swiss Reinsurance Co., its contracts at the time stated the reinsurer would not pay when its cedents' excluded earthquake losses. But the Zurich-based reinsurer reversed course and decided to follow its cedents' lead, regardless of policy exclusions.

That action "represents our largest ever natural-hazard loss payment expressed as a percentage of annual nonlife premium," the reinsurer states in a report on the 1906 earthquake titled "A Shake in Insurance History—The 1906 San Francisco Earthquake."

Some insurance observers say that political pressure led insurers to settle claims despite being excluded. But paying out losses

also gave rise to insurance lore and helped burnish reputations. Swiss Re, for example, says that its decision helped strengthened its market position.

Munich Reinsurance Co. said its chief executive officer at the time traveled to San Francisco and enhanced the company's reputation with his efficient handling of client requests for cash.

The 1906 event still represents the biggest single loss from a natural disaster in the 125-year history of Munich Re, the company said.

The famous telegraph from the Lloyd's of London underwriter Cuthbert Heath ordering a San Francisco agent to "pay all of our policyholders in full irrespective of the terms of their policies" cemented Lloyd's relationship with the United States, according to Wendy Baker, president of Lloyd's America in New York.

Lloyd's had begun writing nonmarine coverages just three years before the 1906 earthquake, and Mr. Heath's decision to pay all claims cost the market \$50 million, equal to about \$1 billion today.

Now the United States is Lloyd's largest insurance market, totaling 40% of its business, or \$9 billion worth of insurance and reinsurance contracts, Ms. Baker said.

Lloyd's currently provides surplus lines earthquake coverage for U.S. commercial entities and reinsurance for the Sacramento, Calif.-based California Earthquake Authority, an entity that offers residential earthquake insurance to California homeowners.

Today, only about 15% of Californians buy coverage from the CEA, which was created in the mid-1990s to address an insurance availability crisis that homeowners faced following the Northridge earthquake in 1994.

Insurers estimate that about 30% to 40% of all California-exposed values are insured for earthquake losses.

Yet, according to the U.S. Geological Survey, "a repeat of the 1906 earthquake is only one of a wide number of future major damaging earthquakes likely to impact the Bay Area."

Catastrophe modeler AIR Worldwide estimates that a recurrence of the 1906 event would cause \$300 billion in total property losses today. According to Boston-based AIR, there exists a 6% probability of such an earthquake taking place over the next 30 years.

# 565 years of experience.

Carolyn Aldred, Senior Correspondent, 20 years ♦ Michael Ambrosio, Promotion Manager, 4 years ♦ John Azua, Circulation Manager, less than 1 year ♦ Kathy Barnes, Assistant Managing Editor-Graphics, 11 years ♦ Craig Bowman, Circulation Coordinator, 5 years ♦ Michael Bradford, Senior Editor, 20 years ♦ Roberto Ceniceros, Senior Editor, Bureau Chief, Los Angeles, 12 years ♦ Regis Coccia, Editor, 13 years ♦ Amy Curtis, Online Producer, 9 years ♦ Katherine Downing, Online Editor, 1 year ♦ Ronnie Drachman, Director of Communications, 34 years ♦ Kevin Edison, Directory Editor, 8 years ♦ Meg Fletcher, Senior Editor, 21 years ♦ Jerry Geisel, Editor-at-Large, 29 years ♦ Pat Ghazvini, Assistant to the Publisher, 12 years ♦ Gloria Gonzalez, Associate Editor, 3 years ♦ Judy Greenwald, Senior Editor, 22 years ♦ Mark Hofmann, Senior Editor, 18 years ♦ J. Thomas Janka, Production Manager, 4 years ♦ Ron Kolgraf, District Manager, 4 years ♦ Dave Lenckus, Senior Editor, 21 years ♦ Ken Luker, Advertising Director, 5 years ♦ Bill McGuire, District Manager, 3 years ♦ Doug McLeod, Senior Editor, 24 years ♦ Bob Murray, District Manager, 7 years ♦ Monique Murray, Advertising Traffic Coordinator, 2 years ♦ Mary Nick, Copy Editor, 8 years ♦ Bob Niese, Director of Business Development, 36 years ♦ Barbara O'Brien, Promotion Coordinator, 19 years ♦ Rupal Parekh, Associate Editor, 2 years ♦ Carrie Peinado, Assistant Copy Editor, 4 years ♦ John Phillips, District Manager, 5 years ♦ Sally Roberts, Associate Editor, 14 years ♦ Martin Ross, Publisher, 21 years ♦ Roger Schillerstrom, Editorial Cartoonist, 24 years ♦ Matt Scroggins, News Editor, 10 years ♦ Gavin Souter, Managing Editor-News, 15 years ♦ Karen Tucker, Research Editor, 19 years ♦ Tina Vasilakis, Classified Advertising Manager, 6 years ♦ Sarah Veysey, Bureau Chief, London, 7 years ♦ Joe Walker, Copy Editor, 7 years ♦ Paul Winston, Associate Publisher/Editorial Director, 21 years ♦ Joanne Wojcik, Senior Editor, 22 years ♦ Rodd Zolkos, Senior Editor, 12 years ...

Unmatched experience adds up for our readers and our advertisers.

IN PRINT & ONLINE, BI PROVIDES  
THE BENEFITS OF BETTER COVERAGE.

#### EDITORIAL

NEW YORK ♦ 212-210-0143  
CHICAGO ♦ 312-649-5274  
WASHINGTON ♦ 202-662-7244  
NEW ORLEANS ♦ 985-871-1090  
LOS ANGELES ♦ 323-370-2455  
NO. CALIFORNIA ♦ 408-774-1500  
DENVER ♦ 303-698-7601  
TUCSON ♦ 520-579-1937  
LONDON ♦ 011-44-207-457-1422

#### SALES

NEW YORK ♦ 212-210-0133  
CHICAGO ♦ 312-649-5276  
BOSTON ♦ 617-292-4856

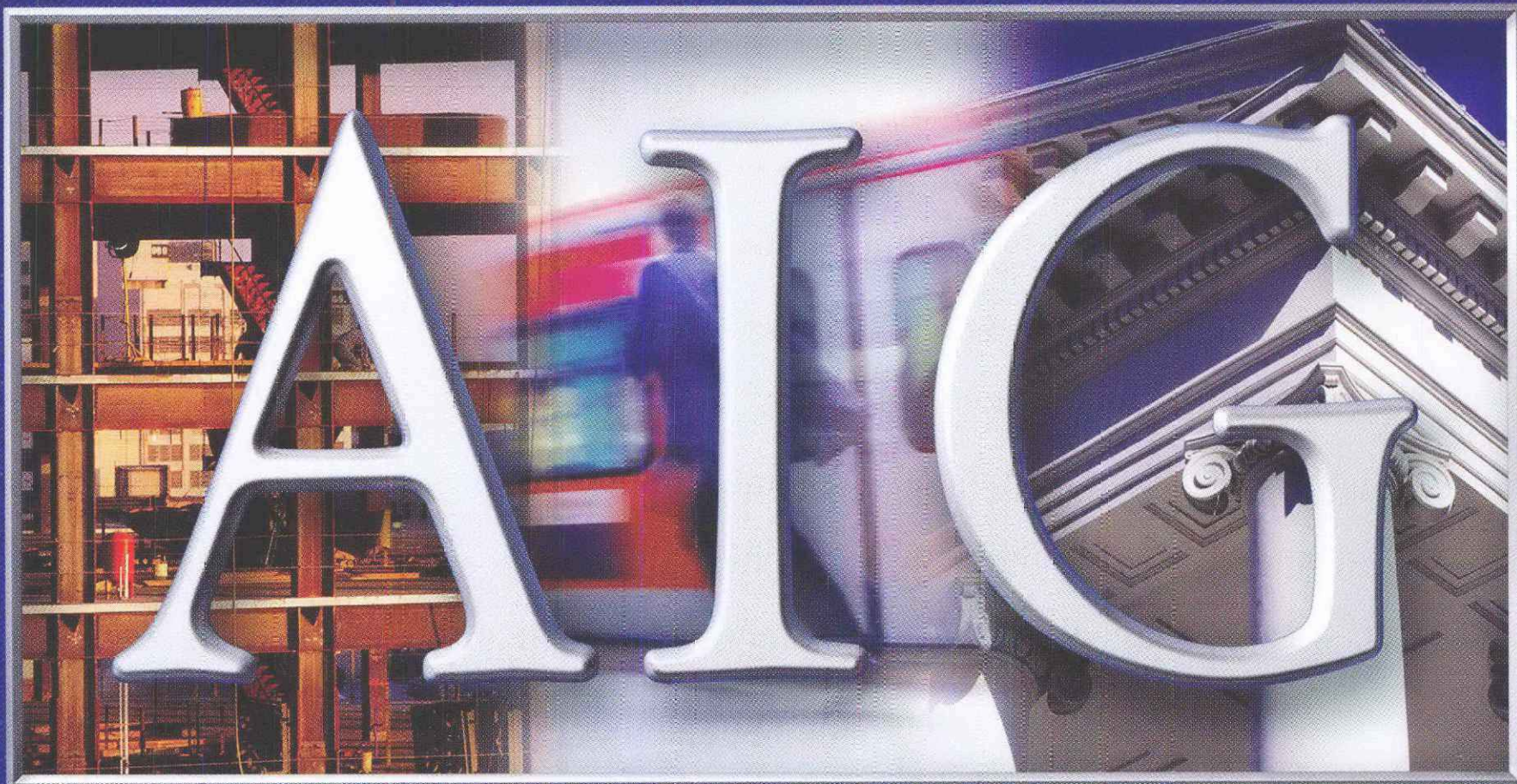
#### PRODUCTION

CHICAGO ♦ 312-649-5335

#### CIRCULATION

NEW YORK ♦ 212-210-0465  
TOLL FREE ♦ 888-446-1422

**Business Insurance** [www.businessinsurance.com](http://www.businessinsurance.com)



**WE'VE ALWAYS HAD EASY SOLUTIONS FOR HARD-TO-PLACE RISKS.**

Difficult-to-place risks are the bread and butter of AIG Specialty Excess. We are known for our success in providing wholesale brokers with broad excess casualty coverage for construction, public entity, transportation and other high-risk exposures. Our policies come with the AIG companies' claims expertise and decades of experience underwriting tough excess casualty risks. And the financial strength of the AIG companies means we'll be there when you need us. So that's one less risk you'll have to deal with.

**BROKERS:** To learn more,  
e-mail [AIGSpecialtyExcess@aig.com](mailto:AIGSpecialtyExcess@aig.com).

**AIG** **Specialty Excess<sup>®</sup>**  
**THE STRENGTH TO BE THERE.<sup>SM</sup>**

AIG Specialty Excess is an underwriting unit of the property and casualty insurance subsidiaries of American International Group, Inc. Insurance is underwritten by member companies of American International Group, Inc. Issuance of coverage is subject to underwriting. Please refer to the actual policy for a complete description of scope and limitations of coverage.