

Business Insurance

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / \$4

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U.S. warns airlines on exclusions for Y2K risks in liability coverage

WASHINGTON—A U.S. Department of Transportation warning last week to airlines worldwide that the agency has not authorized Year 2000 exclusions to its minimum airline liability insurance requirements has rattled some aviation brokers and insurers, who say they will ask the agency to rescind its position.

In spite of the fact that all the airline liability coverage that has renewed since last fall is subject to a Y2K exclusion, however, the agency sees no problems with most airlines' *See Updates on next page*

Preventing another school tragedy

Awareness called key

By SALLY ROBERTS and ROBERTO CENICEROS

LITTLETON, Colo.—While the nation mourns the victims of the shooting rampage at a Colorado high school, many school risk managers are left wondering what, if anything, can be done to prevent such an incident from recurring in the future.

Last week's deadly shooting at Columbine High School near Littleton, Colo., which left 14 students and one teacher dead and another 22 wounded, is the latest and most deadly in a string of school shootings since 1997 that have thrust such towns as Pearl, Miss.; West Paducah, Ky.; Jonesboro, Ark.; and

Springfield, Ore., into the spotlight.

These incidents also have put a spotlight on school safety and crisis management.

Risk control and safety experts say that schools across the nation have done a good job in recent years of enhancing crisis response plans. Although more school risk managers are including preventive efforts in their crisis planning, experts say that a greater focus on prevention is needed.

Experts say training and educating students, school staff, families and communities in how to recognize early-warning signs among students; having mechanisms in place to report such behavior; and having intervention pro-

grams available to respond quickly, can potentially prevent outbursts like the Littleton incident from occurring.

While security measures such as metal detectors, television cameras and security guards have proved successful in mitigating some potential acts of violence, none of these measures could have stopped what happened at Columbine High School last week, experts say.

On Tuesday, two male students dressed in black trench coats and armed with guns and an array of pipe bombs opened fire in a four-hour rampage in what is being labeled the worst mass shooting school incident in U.S. history. *See Shootings on page 55*



An agent of the Bureau of Alcohol, Tobacco & Firearms walks past flags flying at half mast in front of Columbine High School in Littleton, Colo.

AP/WIDE WORLD PHOTOS

Court upholds state's law over ERISA

By MICHAEL PRINCE

WASHINGTON—A U.S. Supreme Court ruling that upholds a California law permitting late notification of claims won't significantly weaken the federal Employee Retirement Income Security Act, experts say.

The ruling, however, could make claims handling more complicated for both employers and insurers, they said.



Last week, the Supreme Court ruled unanimously that ERISA did not pre-empt a California notice-prejudice statute that allows untimely notification of a claim as grounds for denial only if the late notice prejudices—or injures—the insurer. The high court said the law applies because it regulates only insurance. ERISA does not pre-empt state laws regulating insurance.

"California's notice-prejudice rule, we agree, is a 'law... which regulates insurance' and is therefore saved from pre-emption by ERISA," Associate Justice Ruth Bader Ginsburg wrote.

ERISA experts familiar with the decision said its impact will not be significant. *See ERISA on page 53*

Lloyd's boosts Central Fund with \$800 million policy

By SARAH GODDARD

LONDON—Lloyd's of London has bought insurance coverage for its fund of last resort that could well entice more insurance buyers to place their business at Lloyd's, observers say.

Lloyd's last week announced it had bought contingent credit coverage with an aggregate limit of £500 million (\$803.3 million) that effectively boosts



the Central Fund's value several times over.

Risk managers, rating agencies and insurance professionals welcomed the innovative coverage, saying it under-

lined the strength of Lloyd's after its reconstruction and renewal plan and reinforced Lloyd's security.

"The bottom line is that it is added security to Lloyd's, and there is less of a chance of the Central Fund failing," said Colin Witheat, risk manager for pharmaceuticals company SmithKline Beecham P.L.C., which this year set up the first captive at Lloyd's. *See Lloyd's on page 54*

Voluntary safety programs draw bi-partisan support

By MARK A. HOFMANN

WASHINGTON—The drive to codify a popular workplace safety program appears to be picking up steam in the House of Representatives.

In fact, there was no significant criticism of H.R. 1459, the Models of Safety and Health Excellence Act, as its chief sponsors testified on its behalf before the House Committee on Education and the Workforce's Subcommittee on Workforce Protections last week. The bipartisan measure, which would make



the Occupational Safety and Health Administration's Voluntary Protection Program law, drew praise from both sides of the aisle.

But while this bill looks likely to have an easy time in the House, the same hearing underscored how contentious OSHA's intent to promulgate a federal ergonomics standard remains.

OSHA plans to push ahead with its er-

gonomics effort despite continuing questions by employers over whether sufficient scientific evidence exists to justify such a standard. Employer groups, including the Risk & Insurance Management Society Inc., have called on OSHA to wait at least until the National Academy of Sciences completes its recently launched ergonomics study—which could take two years—before issuing a standard.

But there is no such sentiment for delaying codification of OSHA's VPP. *See OSHA on page 47*

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Updates

Airlines warned on Y2K exclusions

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coverage, a DOT official said.

Insurers and brokers explained that the Y2K exclusion would not affect airlines' liability coverage, because virtually all airlines have earned free writeback coverage due to their Y2K compliance efforts. Writeback coverage reinstates the coverage that was excluded.

With U.S.-led coverage, the only Y2K-related losses that would be excluded would be economic losses. One example would be loss of revenue due to the grounding of a fleet that faced flight risks because of Y2K problems.

London-led coverage would respond similarly, a London broker said. However, after indemnifying airlines for Y2K-related liability losses, London underwriters could seek reimbursement, the broker said. To succeed, though, an underwriter first would have to prove an airline provided inadequate or untrue information about its Y2K compliance efforts, the broker said.

Some aviation brokers and insurers said they feared the DOT considers the exclusions for economic losses invalid, which means the agency could take disciplinary action against airlines for not carrying required insurance. The DOT representative confirmed that the agency has rejected certificates of insurance for some airlines because their coverage contained the exclusion.

But, the agency has approved most certificates that airlines' brokers have filed. The difference essentially comes down to the fact that some brokers are filing too much information, the DOT official said. The agency does not need to see the exclusion, which raises a red flag despite the accompanying writeback provisions, he said. All the DOT requires is certification that airlines have the minimum liability insurance the agency requires, he said.

That means insurers could exclude losses that exceed the minimum liability limits that the DOT requires airlines to carry, the official said. DOT regulations also allow insurers to seek reimbursement of losses from airlines, the official noted.

TPA ordered into receivership

AUSTIN, Texas—The FBI and federal labor officials are investigating a Houston-based third-party administrator that Texas regulators have found to be insolvent by \$3.5 million.

A state judge on Thursday entered a receivership order against Administrative Services of Texas Inc., a Houston TPA that did business under the name ASO North America, after the Texas Insurance Department discovered the insolvency.

An Insurance Department audit found that ASO North America has \$1.2 million in assets and no cash available for operations, versus \$4.7 million in liabilities, including \$1.5 million in claims payable. The TPA dismissed its employees with one week's pay due, had not paid its office rent in two months, and was about to have its phone service cut off, auditors reported.

On April 14, the Insurance Department placed ASO North America under supervision after the McAllen, Texas, Independent School District, one of about 40 ASO clients, complained about unpaid claims. Efforts to reach school district officials to learn the status of these claims were unsuccessful.

Meanwhile, FBI and U.S. Department of Labor investigators are examining possible misappropriation of premium trust funds at ASO North America, sources familiar with the TPA say.

An FBI spokesman declined to comment; Labor Department officials could not be reached Friday.

Mark A. Strange, ASO North America's former president and chief executive officer, said he left the company in early March and that its problems developed after he left, when, according to the Insurance Department, no one was managing its operations.

"We had a bona fide and operating business up until my departure," he said, adding that he believes ASO was solvent when he left.

Mr. Strange said he is unaware of any FBI or Labor Department investigation.

OSHA announces inspection plan

WASHINGTON—Worksites with high lost-workday injury and illness rates will be the target of a new inspection plan announced by the Occupational Safety and Health Administration last week.

The new "Site Specific Targeting Plan" initially will focus on approximately 2,200 of the roughly 12,500 worksites with lost-workday injury and illness rates above 16 per 100 full-time employees. This rate is nearly five times private industry's national average rate of 3.3 lost workdays per 100 full-time employees. "By focusing on worksites with the highest injury and illness rates, we target our resources where they are most needed," OSHA Administrator Charles Jeffress said in a release.

The new program followed an appeals court decision blocking OSHA from implementing its Cooperative Compliance Program, which also targeted workplaces with higher-than-average rates of injury and illness (BI, April 12). Four employer trade groups had sued to halt the plan in early 1998, charging that it had not been promulgated in accordance with proper notice and comment procedures, and the U.S. Circuit Court of Appeals for the District of Columbia agreed.

Zurich U.S. starts marketing group

SCHAUMBURG, Ill.—Zurich U.S. has named Thomas H. Hite to lead a newly formed marketing group that aims to help agents and brokers better understand Zurich's portfolio of products and services.

Mr. Hite, who also was promoted to executive vp, previously was head of corporate development and marketing at Zurich American.

The new group, formally called the corporate and field marketing division, is part of Zurich Services. It will be staffed with regional vps who have knowledge about all divisions of the company.

See Updates on page 54

Warning signs seen for work comp woes

By **ROBERT KAZEL**
and **MEG FLETCHER**

An increasingly tumultuous workers compensation market and additional pricing pressure will force corporate buyers to be much more careful in evaluating the staying power of workers comp insurers during the next few years, a new report says.

The influence of several trends in employee demographics, the insurance industry and the economy may cause consolidation and a shake out among workers comp insurers and a general hardening of rates, even though competition right now is high and pricing generally should remain low in the

STANDARD & POOR'S
S&P's 50 largest workers compensation insurers listed on page 51

short run, says a new report by New York-based Standard & Poor's Corp.

The national multiline insurers that dominate workers comp in most markets outside California may feel the need to raise prices, in part because the medical component of the U.S. Consumer

Price Index is rising and health maintenance organizations that heretofore have provided a measure of efficiency have by now realized the gains that can be made, the report says.

James Royles, director of product support for business insurance at Hartford, Conn.-based Hartford Financial Services Group Inc., said deteriorating markets and higher claims cost is leading to a firming of prices in various Hartford markets nationally.

"We're going to need to take some positive pricing action," he said.

Additional pressures on insurers, the report says, will include *See Work comp on page 48*

U.S. reinsurers bemoan results

Softness continues in 1999

By **JUDY GREENWALD**

U.S. reinsurers are facing another year of soft pricing and deteriorating underwriting results.

"My view is things will still get worse before they get better," said Paul Malvasio, managing director, chief financial officer and treasurer for Greenwich, Conn.-based Risk Capital Reinsurance Co.

"I'm not optimistic based on what I've seen in January," nor has there been any indication of price strengthening for the July 1

REINSURER RESULTS 1998
renewals. "The good news is there's more and more frustration that we're hearing in the insurance and the reinsurance community. The question is whether the pain threshold has been reached yet," said Mr. Malvasio. "I'm hard-pressed to see a real visible turn this year," said David

Robb, president of reinsurance operations for the Hartford Insurance Group.

"There's still an awful lot of capacity around, although there seems to be some shrinkage of capacity for the first in a while," he said.

"So long as the capacity is out there, I think there's going to be a real resistance to a lot of upward movement," added Mr. Robb.

William J. Adams, chief executive officer of CNA Re, a unit of *See Results on page 49*

Market, technology top risk concerns

Liberty Mutual survey on current, future fears

By **DAVE LENCKUS**

Risk managers rank workers compensation as their top issue today, and looking ahead to the next two years, they are most concerned about what direction the insurance marketplace will take, according to a new survey.

But technology—both its usefulness in controlling risk as well as the risks it may pose for organizations—is the thread that weaves through all risk managers' concerns and expectations, noted representatives of survey sponsor Liberty Mutual Insurance Co. of Boston.

The results are based on a telephone poll that an independent telephone interviewing firm conducted in February for Liberty Mutual, which analyzed the re-

sults. The firm reached 200 risk managers, 50 to 70 more than had been polled by fax for previous surveys the past three years. In addition, a greater number of respondents with fewer than 1,000 employees were polled this year.

Liberty Mutual released the survey results during the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas earlier this month.

According to the survey, risk managers' top five concerns in 1999 are:

- Holding down workers compensation costs as well as managing claims and litigation.

- Implementing effective safety and loss control programs, with a much greater emphasis on *See Survey on page 53*

1999 broker listings

The questionnaire for the 28th annual *Business Insurance* directory of agents and brokers is now available.

The directory will appear in the July 19 issue, including rankings of the largest brokers in the world as well as a ranking of U.S.-based brokers.

Questionnaires are being mailed, and can also be downloaded from the Internet, at www.businessinsurance.com/magazine/directories.html.

The deadline for completing the forms is May 21.

For more information on the directory, please contact Directory Editor Kevin Edison at 312-649-5279.

Inside

- The 1999 Quality Scorecard, prepared jointly by the Risk Insurance Management Society Inc. and the Quality Insurance Congress, shows that the commercial insurance industry needs to work to improve quality and satisfy customers, this week's editorial says. **PAGE 8**

- The collapse of India's coalition government, led by the Bharatiya Janata Party, has again stalled legislation to deregulate the country's insurance industry. **PAGE 45**

- In some offices, sleeping on the job could get a drowsy employee in trouble with the boss. But at one architecture and interior design firm, it's encouraged. **PAGE 54**

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New chief risk officer role coordinates risk strategy

By DOUGLAS McLEOD

DALLAS—As the concept of enterprise risk management gains ground, the corporate position of chief risk officer is one whose time is coming, a panel of experts says.

While companies historically have divided management of their overall risks among several insurance, financial, human resources and other managers—who don't always communicate well—corporations should be working to create a more coordinated approach to risk, advised Charles R. Lee, a principal with Tillinghast-Towers Perrin in Dallas.

"It's frustrating, is it not, when you think something is pretty logical and nobody seems to get it?" Mr. Lee asked during a session of the Risk & Insurance Management Society Inc.'s annual conference and exhibition in

Dallas earlier this month.

Property/casualty risk managers working in relative isolation often tend to "hedge their own job," over-managing risk because management has said it wants no surprise losses and thus costing their companies more money than is necessary.

In many companies, he said, "the chief executive officer says, 'Well, I'm the chief risk officer,'" because he or she supervises managers handling insurance purchasing, safety, human resources, environmental and regulatory compliance, and financial and technology risks.

That CEO's time would be better spent if he or she did not have to assimilate information from half a dozen sources: "This uncoordinated group of individuals should work as a team," reporting conclusions and recommendations to the CEO or CRO, Mr. Lee said.

See CRO on next page



Integrated products support expanded risk manager duties

By RODD ZOLKOS

DALLAS—There's widespread agreement that the role of risk management is changing, with the risk manager's tasks having moved well beyond simply buying insurance and increasingly involving an enterprisewide view of risk.

According to panelists discussing "Risk Management: The Next Generation" earlier this month at the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas, risk management is now expected to support corporate growth or product strategies and to bring increased value to the organization, while also reducing administrative costs.

To that end, the future of risk management will draw heavily on the next generation of risk information systems, which will provide more analytical and World Wide Web-based functions, according to Thomas A. McCarthy,

senior vp with CIGNA Risk Solutions in Philadelphia.

Risk management also will rely more on integrated risk products, Mr. McCarthy suggested, as well as risk transfer opportunities resulting from the convergence of the capital and insurance markets.

"This is much talked about, but I think, in fact, there is even more going on here than is acknowledged," Mr. McCarthy said.

Offerings emerging from that convergence will include insurance products with capital market features; programs offering integrated coverage for financial and insurance market risks; insurance alternatives for risks traditionally transferred to the capital markets; and capital markets alternatives, such as catastrophe bonds, for traditional insurance risks, he said.

Though cat bonds have primarily been used thus far to provide reinsurance capacity, "I

See Future on page 24



Risk managers' expertise crucial for Y2K: Speakers

By GAVIN SOUTER

DALLAS—Risk managers should be at the forefront of contingency planning for Year 2000 problems, a risk manager says.

Risk managers are the best equipped people in their organizations to plan for the inevitable disruptions that will occur when computer clocks tick over into the year 2000, said Christopher

of the new year, other experts agreed.

Risk managers are in a key position to influence their organizations' response to the Year 2000 problem because they have to deal with a broad spectrum of risks every day, Mr. Duncan said.

"We are one of the few functions that cuts across multiple areas of the company," he said at a session of the annual conference and exhibition of the Risk & Insurance Management Society Inc. in Dallas.

And risk managers' familiarity with their organizations' known risks will help them deal with the unknown risks that arise out of the Year 2000 problem, Mr. Duncan said.

To help prepare for the Y2K problem, risk managers should consult with their companies' IT managers to gain a better grasp of what could go wrong if their computers do not correctly recognize the date on Jan. 1, 2000, he said.

"Risk managers can act as a bridge between the technology approach and the business systems," Mr. Duncan said. And once that bridge is constructed, other managers in the organization will be in a better position to identify how they may be affected by the problem,

See Year 2000 on page 22



A. Duncan, director of risk management at Frito-Lay Inc. in Plano, Texas.

That disruption must be tackled with a practical strategy in which managers develop alternative approaches well in advance of Jan. 1, 2000, he said.

By accepting now that problems are certain to happen, risk managers and information technology experts can help ensure that their organizations will still be operating in the first week

1999 RIMS Report



Left: An artist renders the logo for Liberty Mutual Insurance Co. in jelly beans. Below: Billiards experts entertain conference goers at the display booth of Willis Corroon Corp.



PHOTOS: MICHAEL MARCOTTE



Left: A sign at the display booth of American International Group Inc. congratulates Merritt W. Fabel, AIG's director of corporate risk and insurance, who was named *Business Insurance's* 1999 Risk Manager of the Year.



Right: Banners outside the Dallas Convention Center publicize the Risk & Insurance Management Society Inc.'s 37th annual conference and exhibition, which drew 10,114 registrants.

Overall industry again ranks low on scorecard

By MICHAEL BRADFORD

DALLAS—Risk managers aren't much happier with the performance of their industry partners than they were a year ago.

The Risk & Insurance Management Society Inc. gave attendees at this year's annual conference and exhibition a preview of the second Quality Scorecard, which will be released later this year.

"The industry numbers haven't changed drastically," said Mark A. DeLillo, who finished his term as RIMS president at this year's conference. Insurance industry service providers are "a couple of points up in some categories and a couple of points down in some."

The scorecard is developed by RIMS with the Quality Insurance Congress and ranks insurers, brokers and third-party administrators in areas of satisfac-

tion, performance and loyalty.

The scorecard also grades the vendors on several "satisfaction drivers," such as trust and reliability, identifying customer needs, two-way interactive communication and operational efficiency.

The Katie School of Insurance at Illinois State University again compiled the ranking, a portion of which was released at RIMS in Dallas. Detailed findings, including grades for individual companies, are expected to be released by mid-June.

QIC President Stephen M. Wilder said the group would release individual scores later this year.

There has been some speculation as to whether individual scores would be released; the scorecard caused something of a stir when it was released in 1998. While some who ranked high touted their accomplishments, others

See Scorecard on page 43

CRO

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Enterprise risk management allows for more efficient use of a company's capital, anticipating a wider range of threats to the company's operations and eliminating inefficiencies of multiple, uncoordinated risk management tasks, he observed.

The problem, Mr. Lee said, is that "there is a leadership void. . . Risk management needs a leader who can see the big picture, who can analyze inputs, who can communicate, generate organizational 'buy in' and manage the process."

A lot of current property/casualty risk managers could fill that void, he asserted. "This is an evolutionary process. It's not going to happen overnight," he said. But, he asked, "if not you, who?"

Mr. Lee coordinated a panel of three risk managers whose companies are at various stages of moving toward the CRO concept: Archie L. Meairs, vp-insurance and loss control for ConAgra Inc. in Omaha, Neb.; Pamela G. Rogers, assistant treasurer-risk management with Sears, Roebuck & Co. in Hoffman Estates, Ill.; and Douglas G. Hoffman, managing director with Bankers Trust New York Corp. in New York.

Mr. Meairs quickly sketched the size of the risk management job at ConAgra, a diversified foods company with 82,000 employees in 80 independent operating units in 35 countries. ConAgra generated fiscal 1998 sales of \$23.8 billion.

In the past, ConAgra had multiple insurance programs, with several units managing their own programs independent of a corporate master program, Mr. Meairs recalled.

After consulting with Tillinghast, ConAgra consolidated insurance purchasing and risk financing for its operating units at the corporate level, leaving the subsidiaries to perform other risk management tasks independently, he said.

"We are now going to the market with one face, one voice," Mr. Meairs said. "We literally saved millions of dollars by doing that."

The company also formed a corporate office of risk management and an office of workplace injury to coordinate communication among the operating units on risk management and workers compensation issues, he said.

In a further step, ConAgra also has formed a corporate risk council, consisting of the CEO, chief financial officer, controller, head of human resources and Mr. Meairs. The council is intended to deal with a wide range of operating unit risks with input from

corporate-level managers responsible for financial, insurance, technology, safety, human resources, and environmental and regulatory compliance risks, he explained.

In the future, this structure could evolve further with the creation of a CRO position to serve as a conduit between operating units and the corporate risk council, assessing risks and analyzing options for the council to review, Mr. Meairs predicted.

Sears already has taken steps to develop a comprehensive risk management plan, recently soliciting advice from consultants about how to define its broad array of risks and manage them as a whole, Ms. Rogers reported.

Sears' operations are divided into three segments: retail sales; credit card operations; and retail-related services, such as appliance installation and home improvement work. The company generates about \$40 bil-

lion in annual revenues through 3,000 locations in the United States. It employs about 300,000 people at any given time and a total of about 430,000 in the course of a year, Ms. Rogers said.

"We have a high turnover rate, another major risk for us," she noted.

Under Sears' current traditional risk management structure, about 95% of its cost of risk relates to multi-year property/casualty insurance programs, Ms. Rogers said, adding that the only multiline coverage the retailer has bought is its executive risk program, which combines directors and officers and fiduciary liability risks.

Sears considered capital markets products for property risks but found the traditional insurance market able to provide virtually identical protection for about \$1 million less, she said.

Ms. Rogers' goals in risk management include building a "risk aware" rather than a "risk averse" culture and coordinating information and risk solutions for Sears' operations managers. "We see everything" at the corporate level," she said. "Our business partners (within Sears) do not. . . Because of where I sit, I can orchestrate."

Ms. Rogers also has initiated a program in which corporate risk management personnel "adopt" Sears business units, learn in detail how their operations work and help them "stay ahead of the curve" in risk management. In-depth knowledge of the whole spectrum of a company's businesses and risks is essential for a CRO, Ms. Rogers noted.

Ms. Rogers said she views the CRO's job as the development of a company's overall risk strategy in partnership with tax, legal, human resources and other managers—and to fit risk management into it. Risk and insurance management nuts and bolts, though, is not part of a CRO's strategic role, she said. Just as companies have revenue and profit strategies, "there's got to be a risk strategy, and the CRO needs to set it."

The CRO role might not be right for every company, and whether it is right will depend on the organization and its politics, suggested Mr. Hoffman, who functions as the CRO for Bankers Trust.

Developing the CRO role "has really been a 20-year evolution at Bankers Trust, and I'm still not sure we are there," he said.

Banking is one of the industries in which a CRO is a natural fit, he said. "Banks are very focused on risk-based capital. What's the effect (of a loss) on the capital structure of the bank? It's as simple as that," Mr. Hoffman said.

The risks themselves are not so simple, though. They include poor selection or execution of business strategy; market risks, such as price volatility; credit risks; operational risks, such as a failure to control rogue trading; and funding and liquidity risks, he said.

Critical to the success of a CRO is senior management's support and receptiveness to the information and ideas the CRO provides, he said.

Another key is whether a company's political climate can accommodate a CRO, who could be taking on roles played by the CEO or other senior executives.

The more-complex CRO role also can create other problems, including a reliance on risk management information systems, Mr. Hoffman said.

Dependence on risk systems, he explained, can create a false sense of security in the risk manager "and, therefore, probably adds additional operational risk," the risk that the risk manager is overlooking something.

In the right companies, though, a CRO makes sense, Mr. Hoffman concluded. "It's a brave new world," he said. "It's an enormous undertaking. . . (But) it can be done if the factors and organization are right." **BI**

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E-commerce brings risks: Speakers

By JOANNE WOJCIK

DALLAS—E-commerce is creating new liability exposures for companies.

And because of the sheer volume of business being conducted on the World Wide Web today, it's only logical that the number and severity of claims are likely to rise, warned Kay Rahardjo, vp and actuary at Liberty Mutual Group in Boston.

Despite these emerging risks, the Internet provides numerous opportunities for e-commerce, said Scott Lange, chief knowledge officer for Stamford, Conn.-based InQuisLogic Inc.

So risk managers should start preparing their companies for these new exposures, he advised at a session during the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas earlier this month.

Studies have shown that the time people spend in shopping malls has dropped, while at the same time, the time people spend on the Internet has grown, Ms. Rahardjo pointed out.

The Internet has been the fastest assimilating medium in the history of the world, according to Mr. Lange.

While it took radio 38 years to be used by 50 million people, it took only five years after the birth of the World Wide Web for twice as many people—100 million—to use it, he said.

"And the growth continues at a rapid pace," he said.

In fact, approximately 80% of risk managers attending the session said with a showing of hands that their companies already were engaged in e-commerce on

the Internet.

Among the e-commerce options currently in use:

- Business-to-consumer sites for retail



business between customers and business using electronic storefronts, catalogs and e-shopping carts. Such business usually is conducted using credit cards.

- Business-to-business sites, including catalogs, order entry, secure transactions, customer tracking, reporting, inventory control, fulfillment and customer services. Payment can be made via credit card or electronic fund transfers.

But these new opportunities come with a price, Mr. Lange pointed out. They pose new and previously unconsidered risks to companies and other organizations, he said.

Among these new risks:

- Damage to data centers, transmission network and power sources.
- Data tampering or corruption, unauthorized access, disclosure or theft, or the introduction of viruses.
- Intellectual property theft.
- Patent, trademark, copyright and domain name infringement.

Companies also face the possibility of being sued for various types of brand infringement, violating privacy rights, defamation or errors and omissions, Mr.

Lange added.

"Trademark and impersonation are the real issues for Internet risks," he said, pointing to the Ticketmaster vs. Microsoft case as an example. In that case, which is still pending, Ticketmaster sued Microsoft for including a hypertext link to the Ticketmaster Web site on a Microsoft Web site.

There also are business risks, which are not always possible to transfer using insurance, according to Mr. Lange. These risks include falling behind the competition for failing to adopt new technology, not having adequate bandwidth for Internet connections, or having incompatible systems.

Other risks include regulatory compliance risks, pointed out Ms. Rahardjo.

For example, "North Carolina won't allow the use of credit cards for insurance purchases unless the credit card company is domiciled in North Carolina," she said.

She also suggested that some e-mail solicitations may eventually be deemed illegal under the federal Telecommunications Act, which bans unsolicited sales literature sent via fax machines.

"The Telecommunications Act, which is intended for faxes, could apply to e-mail spam," she said, referring to the practice of mass-mailing over the Internet. "So e-mail solicitations may only be allowed when a consumer contacts the vendor."

Six states already have legislation pending to regulate electronic commerce, she said. Those states are Alaska, California, Connecticut, Maryland, Massachusetts and Ohio. **BI**



PHOTOS: MICHAEL MARCOTTE

Timothy B. Plunkett, top left, staffs St. Paul Fire & Marine Insurance Co.'s booth at the RIMS conference in Dallas. At bottom, Barry W. Belknap of Risk Enterprise Management Ltd., which made a donation to the Make-A-Wish Foundation for every business card it received.

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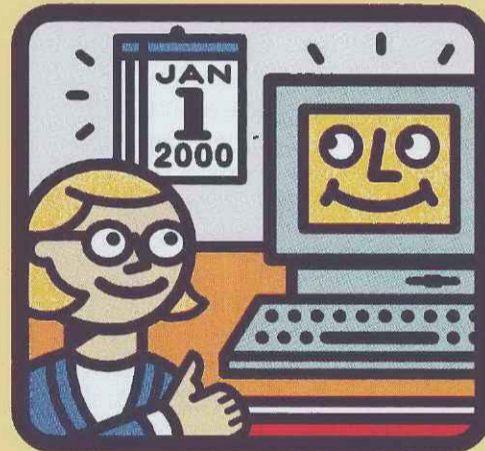
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Opinions

Still not making the grade

THE COMMERCIAL INSURANCE INDUSTRY must do more to improve the quality of service it provides customers.

That conclusion is inescapable following the release of research that indicates the industry has failed to improve its standing in the eyes of customers over the past year.

Brokers, insurers and third-party administrators continue to receive barely passing marks on performance, satisfaction and loyalty from buyers, the new research shows.

Those scores—which are contained in a preliminary report of the 1999 Quality Scorecard, prepared jointly by the Risk & Insurance Management Society Inc. and the Quality Insurance Congress—have barely budged from the industry's scores of a year ago (*BI*, May 4, 1998).

More importantly, this year's scorecard results cannot be shrugged off and blamed on an inadequate sample of respondents, which is how some people responded last year.

This year's survey attracted nearly 5,000 respondents—4,782 buyers—which is up dramatically from 1,702 responses a year earlier. The fact that a much broader sample arrived at virtually the same conclusions on quality as last year's survey seems to reinforce the validity of the 1998 findings.

Overall, the commercial insurance industry this year earned a 70 in performance, a 67 in satisfaction and a 72 in loyalty—all scores of "C-" or below. That is virtually unchanged from a year ago, when the industry scored a 70 in performance, 67 in satisfaction and a 73 in loyalty.

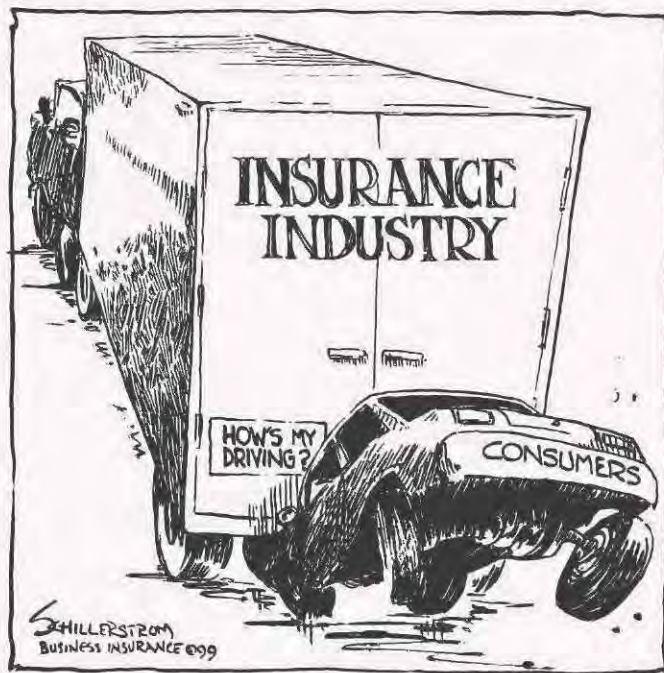
Brokers this year earned a 74 in performance, a 70 for satisfaction and a 74 for loyalty. That compares with 73, 69 and 76, respectively, in 1998.

Insurers and reinsurers scored a 67 for performance, 66 in satisfaction and 74 for loyalty. Last year, they rated 68, 66 and 64, respectively.

TPAs received a 66 for performance, 62 for satisfaction and 64 for loyalty, compared with 65, 60 and 59 a year earlier. No doubt some brokers and insurers will draw small satisfaction in noting that their customers are not leaving them for superior customer service in the self-insurance marketplace.

A few key differences exist, however, between the 1998 survey and the preliminary results released thus far for 1999.

A year ago, RIMS used its annual conference and exhibition in San Diego to release and discuss the first scorecard and draw attention to the effort. The very public release of the scorecard drew immediate attention to its findings and served as a catalyst for further discussion, if



not action.

Although the results of the 1999 scorecard are not yet final, the release of the preliminary results was done without fanfare: They were quietly made available at RIMS' booth at the Dallas conference earlier this month.

The RIMS/QIC effort to focus attention on quality—and areas where it is lacking—is far too important for this sort of low-key release, no matter that the complete data is not yet available.

Another key difference is that last year's scorecard released at the RIMS conference identified and ranked specific companies by name, which allowed for their comparison to each other and to industry benchmarks.

Scoring the performance of specific companies is a powerful motivator for them to improve their rankings. It also offers risk managers a starting point for a dialogue with their service providers on ways to improve and measure performance.

However, the preliminary 1999 scorecard did not contain individual company rankings. Risk managers will look forward to reviewing those individual scores when the final report is released this year. The much broader base of respondents will also provide more meaningful rankings of service providers.

Even without that level of detail in the preliminary findings, however, it already is apparent that the commercial insurance industry needs to do much more to improve quality and satisfy customers.

Letters

The time for ergonomics action is now

To the editor: In a March 22 letter to the editor, Margaret Fiester supports *Business Insurance's* position that the Occupational Safety and Health Administration should delay its ergonomics standard until the National Academy of Sciences completes a study due in 18 to 24 months.

In fact, a NAS study concluded last fall that musculoskeletal disorders are linked to work and that workplace interventions can prevent these injuries. The NAS findings confirmed similar conclusions reached by a 1997 National Institute for

Occupational Safety and Health comprehensive analysis of 600 scientific studies.

The medical community agrees it is time to move forward. The American College of Occupational and Environmental Medicine, the Assn. of Occupational and Environmental Clinics, the American Assn. of Occupational Health Nurses and the American Public Health Assn. all have urged OSHA to proceed without further delay in developing an ergonomics standard. Far from waiting for another study, we know enough to act now.

Nearly 650,000 workers every year suffer serious injuries and illnesses caused by overexertion, repetition or other physical stress. That's more than one-third of all lost workday injuries and illnesses in the United States. These injuries cost business \$15 billion to \$20 billion annually in workers compensation costs, with total costs reaching as much as \$60 billion.

OSHA plans to publish a formal er-

gonomics proposal this fall. We will take public comments and hold hearings to determine the best way to aid employers in reducing these costly and potentially disabling injuries.

There is a strong practical basis for OSHA's action. Leading U.S. companies have already addressed work-related musculoskeletal disorders. Companies such as 3M, Ford, Kraft, and Fieldcrest Cannon have found that good ergonomics is good economics. These companies have proved that ergonomics programs prevent injuries, improve productivity and save money. It's time we moved ergonomics beyond the best companies to the rest of the companies. It's time for every worker to look forward to heading to work without facing pain or fearing disability.

Charles N. Jeffress
Assistant Secretary for Occupational Safety and Health
U.S. Department of Labor
Washington

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, 740 N. Rush St., Chicago, Ill. 60611; fax: 312-280-3174; e-mail: pwinston@crain.com

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Electrical upkeep stems losses

By JOANNE WOJCIK

DALLAS—More and more property losses are being triggered by preventable electrical failures, loss control experts say.

And unless risk managers crack down on their companies' electrical maintenance programs, property rates are likely to start climbing in response to these increased losses, an insurance industry executive warns.

"It sounds very simple, but maintenance does work and does prevent loss," said Michael L. Downs, chairman and chief executive officer of HSB Industrial Risk Insurers in Hartford, Conn.

But "how many risk managers talk to their companies' engineers about

their electrical maintenance program? And how many say, 'Show me?'" he asked risk managers attending a session at the Risk & Insurance Management Society Inc.'s annual conference and exhibition earlier this month in Dallas.



Theresa M. Ulbricht, supervisor of risk management at Southern California Edison in Rosemead, Calif., agreed.

"You can have a Rolls Royce of an engine, but if you don't put oil in it, you can forget about your engine. And if you don't put oil in it, what else aren't you doing?" she queried.

"Too many of us take electricity for granted. We just assume it's always going to be there," observed F. Gregory Maguire III, executive vp and director of the property group at Zurich-American Insurance Group in Schaumburg, Ill.

But today's manufacturing trend toward just-in-time inventories and customization of products makes an entire operation vulnerable should just one facility shut down, he pointed out.

"When it goes like clockwork, this company is humming. But when there's a break in the network, it can upset the whole system," Mr. Maguire said.

Without preventive maintenance, the failure rate of electrical system components is three times higher, according to Mr. Downs.

From the time electrical equipment is installed, deterioration occurs. The environment, overloading, improper selection of equipment, improper installation and inadequate maintenance all contribute to the deterioration, he explained.

In an effort to ensure that appropriate maintenance was being conducted at properties insured by HSB Industrial Risk Insurers, the company launched a targeted inspection program in downtown New York dubbed "the Manhattan Project."

Manhattan was chosen because several large losses had occurred on the island as a result of electrical equipment failures, Mr. Downs explained.

Using an electrical risk model, HSB identified 200 of the highest-risk locations and sent engineers to conduct inspections, he said.

Each location was given a formal loss prevention report containing recommendations, and engineers then followed up with policyholders to ensure the recommendations were implemented.

While 75% of the locations surveyed responded positively to the HSB engineer's recommendations, 25% did not. And, at least one of those properties sustained a catastrophic loss not long afterward, according to Mr. Downs. HSB was no longer on the risk when that loss occurred, he said.

But, in general, insurers are not keeping up with the increasing sophistication of the electrical risks they are insuring, according to Mr. Maguire.

"Insurers' understanding of loss experience, particularly the time element and machinery and equipment, has not kept pace with the highly productive, efficient and sophisticated global economy," he said. "We've got some catch-up to do so we can do a better job of assessing risk today."

Despite the increasing complexity of electrical risks, the soft market has forced insurers to slash property rates.

"There's been a minimum of four years of double-digit rate cuts in the large account property market," Mr. Maguire said.

This competitive environment and the increasing sophistication of the risks being underwritten has resulted in the industry's combined ratio for large property risks to grow to nearly 140%, he said.

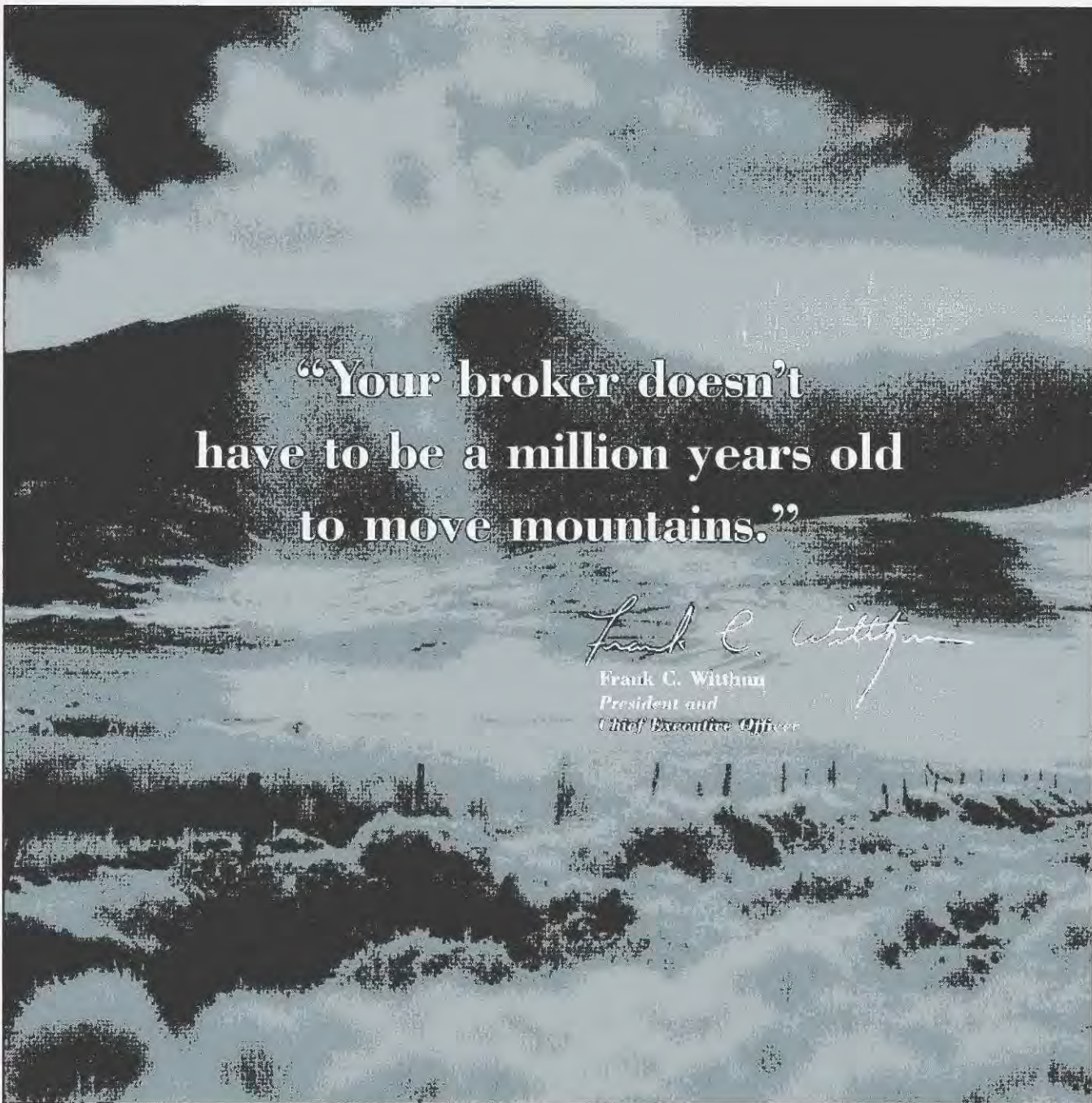
"That's a negative return on equity, which is not a healthy picture. Pricing must increase to reflect the changing exposure base as the severity of potential losses increases in our current economy," Mr. Maguire said.

Ms. Ulbricht moderated and coordinated the session.



PHOTO: MICHAEL MARGOTTE

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Workplace violence risk growing, speakers warn

By EDWIN UNSWORTH

DALLAS—Violence in the workplace is becoming an ever-increasing problem for employers, but it is a problem that the leadership of many organizations still fails to address.

This is how Dennis Quinilty, senior workers compensation analyst for American Airlines, opened a session on workplace violence that he moderated at the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas earlier this month.

However, as a leading cause of death at work, workplace violence is an issue that risk managers ignore at their companies' peril, ses-

sion speakers agreed.

James McNamara, cost containment manager-corporate risk management for Aramark Corp., a



Philadelphia-based diversified services company, presented some alarming statistics on the phenomenon. He said that every week some 18,000 incidents of workplace violence occur, though the scale of the problem may not be

fully recognized because more than half of these incidents go unreported.

Workplace violence is the No. 2 cause of death—after automobile accidents—in the workplace, and the leading cause of death for women, accounting for more than 40% of female deaths at work, according to Mr. McNamara.

Mr. McNamara said that because of the growing problem, a common definition of what constitutes workplace violence has to be adopted, and this is generally accepted as: "Violent acts, including physical assaults and threats of assault, directed toward persons at work or on duty."

He also cited several reasons

why risk managers and their employers should be paying greater attention to the problem.

As the number of incidents grows, he predicted, the problem will increasingly take up more time of chief executive officers and senior management. Additionally, workplace violence is an area in which the Occupational Safety and Health Administration is becoming increasingly involved under its requirement that employers must provide each of its employees with "a place of employment that is free from recognized hazards that are causing or likely to cause death or serious physical harm," he said.

Mr. McNamara also cited re-

search that indicated that the costs of dealing with each incident of workplace violence is around \$250,000, which includes the costs of alleviating the post-traumatic stress of victims and witnesses. Twenty-three percent of victims, including witnesses, suffer some form of post-traumatic stress. There have also been a number of workplace violence-related court decisions in the last few years resulting in employee awards of more than \$3 million.

Grounds under which an employer could be prosecuted include negligent hiring, negligent retention and supervision, premises liability, negligent infliction of emotional distress, duty to warn, sexual harassment, negligent referral, inadequate security and mismanagement leading to infliction of emotional distress, false imprisonment or defamation.

He maintained that such wide-ranging exposure to loss "is a major issue from a risk management standpoint." The sensible course is for risk managers to establish in their organizations programs to address these issues, Mr. McNamara said.

Picking up on this topic, Stephen Holcomb, senior vp of IT Specialty Risk Services Inc., a Hartford, Conn.-based unit of The Hartford Financial Services Group Inc. specializing in workplace violence and crisis management services, stressed that each employer's workplace violence program needs to be unique and customized to its particular circumstances.

However, he said there are a number of general guidelines that can be followed, with each program consisting of three phases. These include a preventive program, hostility management and a post-crisis response.

The preventive phase should include risk assessment, evaluation of current controls, a "design team" process to examine environmental controls and employment and legal practices, and adoption of a well-publicized policy statement. Mr. Holcomb, who coordinated the session, noted that a good policy statement and reporting system can be an excellent legal defense in any workplace violence case that goes to court.

The hostility management phase should involve training frontline personnel in detecting the warning signs, Mr. Holcomb said, and profiling the behavioral symptoms of potentially dangerous employees. Behavioral symptoms include people who are repeatedly offended, who deem themselves perpetual victims, who have obsessive behavior, make their co-workers uncomfortable, believe themselves targets of a conspiracy, constantly see others as being at fault, approve of violent acts, make cryptic statements or are humorless.

The post-crisis phase should involve plans for interacting with authorities, dealing with the media, contacting victims' families, cleaning up after an incident, returning to work, and providing benefits information and trauma counseling, said Mr. Holcomb.

He concluded that risk managers should be aware of the benefits of a rapid response to an incident of workplace violence. These include: minimizing disruption, a quicker recovery, reduced post-traumatic stress, improved morale and reduced uncertainty, avoiding miscommunications and reducing costs.

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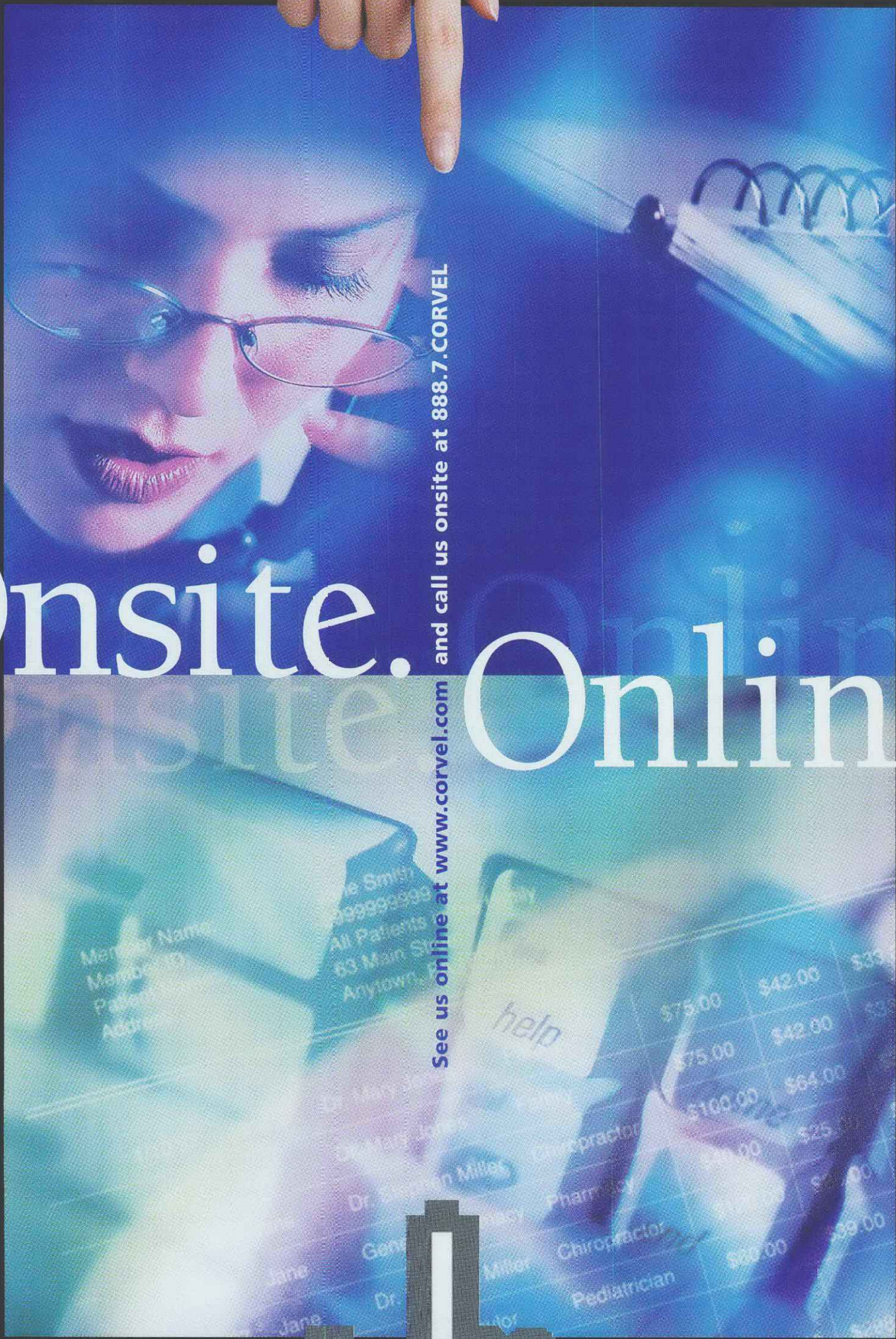
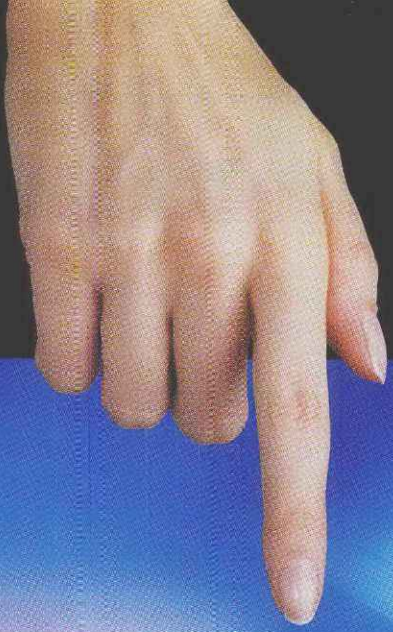
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Uncertainty surrounds punitive damages cover

By DOUGLAS McLEOD

DALLAS—Risk managers wondering whether their companies are insured for punitive damage awards are likely to get a concise answer: It depends.

Coverage for punitive damages depends in part on what state laws apply to the case—some states allow coverage, while others do not—and in part on the interpretation of the policyholder's insurance contract, one legal expert says.

Even in cases where a company buys a separate punitive damages policy, coverage isn't assured, Lorelie S. Masters, managing partner with Anderson, Kill & Olick L.L.P. in Washington, told an audience at the Risk &

Insurance Management Society Inc.'s annual conference and exhibition earlier this month in Dallas.



Ms. Masters cited the case of a California insurer that sold a punitive damages policy to a California policyholder that later reported a claim. After the claim, the insurer sought an opinion from the California Insurance Department about whether it could

legally pay the claim and the department—citing California law that insuring punitive damages was against public policy—replied that the insurer could not provide coverage.

Policyholders confront a two-pronged test that determines whether they can recover punitive awards from insurers, she observed.

The first prong of that test is whether the state law applied in a case allows recovery of insurance.

While most states allow coverage of such awards, courts in certain states, including New York and California, have ruled that insurance of punitive damages violates public policy.

The reasoning in these states, she explained, is that punitive awards are intended to deter bad corporate be-

havior and that "there's no deterrent (effect) from punitive damages if you are allowed to let somebody else pay."

The majority of states, on the other hand, have decided that it's more important not to interfere with an insurance contract that provides coverage and not to provide insurers with an unexpected windfall by voiding coverage, Ms. Masters said.

While states' positions on insurability are clear, the law that applies to a given case is often subject to debate, and that debate is crucial.

"The decision on what law is going to apply can determine whether you win or lose," she said.

"You (often) can't predict what the choice of law will be," she added, noting that a court may apply the law of

the state where the policyholder is based, where the insurer is based, where the contract was made or where the wrongful conduct occurred.

Even if a company has moved to another state, it may face a "tail" in its insurance litigation: A court may decide to apply New York law, for example, to a company that has moved out of the state if it was based in New York when the wrongful conduct occurred, Ms. Masters explained.

Each side in an insurance dispute will choose the law it wants to apply and argue facts that support that choice, she observed, adding that some directors and officers liability and employment practices liability policies specifically allow the policyholder to make the choice of forum.

Along with the question of insurability of punitive damages, states differ widely on the legal standard that plaintiffs must meet to win punitive damages, Ms. Masters added.

While New York sets the bar relatively high, requiring proof of "morally culpable or malicious conduct," many other states require only a demonstration of "gross negligence" or "reckless indifference," she said.

Even if a case applies the law of a state that allows insurance of punitive damages, a company still has to meet the second prong of the insurability test: Its policy must be found to cover punitive damages, Ms. Masters said.

Some insurers have argued they never intended to cover such awards, but "the history is a little more complicated" than that, she noted.

In the late 1970s, for example, the American Insurance Assn. publicly stated that it would be "socially irresponsible" for insurers to let policyholders bear the costs of punitive awards, she said.

During the same period, the Insurance Services Office Inc. added a specific punitive damages exclusion to its standard general liability policy, and then withdrew it only four months later amid widespread criticism. This move made it more difficult for insurers to argue that the standard form without the exclusion does not cover punitive awards, she said.

In fact, most courts have ruled that standard liability policies promising to pay "all sums" the policyholder becomes legally liable to pay "as damages" include coverage of punitive damages.

Some courts, though, have found that unless "damages" is specifically defined to include fines and penalties, standard policies do not cover punitive awards, which amount to "private fines" or "civil penalties."

Companies not sure about coverage for punitive awards could take a few different steps, Ms. Masters said.

For example, they could get a letter of agreement from their insurance companies that states their policies include punitive damages coverage and that the insurers will not dispute that coverage after a loss.

Companies could also buy punitive damages excess liability, or "wrap-around," coverage written by insurers in various offshore locations that is designed to cover punitive damages in states where U.S. liability insurers are barred from providing the coverage.

These policies also have their drawbacks, however, Ms. Masters said.

Policies may apply the law of an offshore jurisdiction and require any coverage disputes to be arbitrated.

"I don't think arbitration clauses are friendly to policyholders," said Ms. Masters, noting that arbitration panels normally consist of current or former insurance and reinsurance company executives.

Richard C. Reynell, senior vp with Becher & Carlson Cos. in Atlanta, coordinated the session. It was moderated by Barry Glaser, director of corporate risk management for Minneapolis-based Ceridian Corp. **BI**

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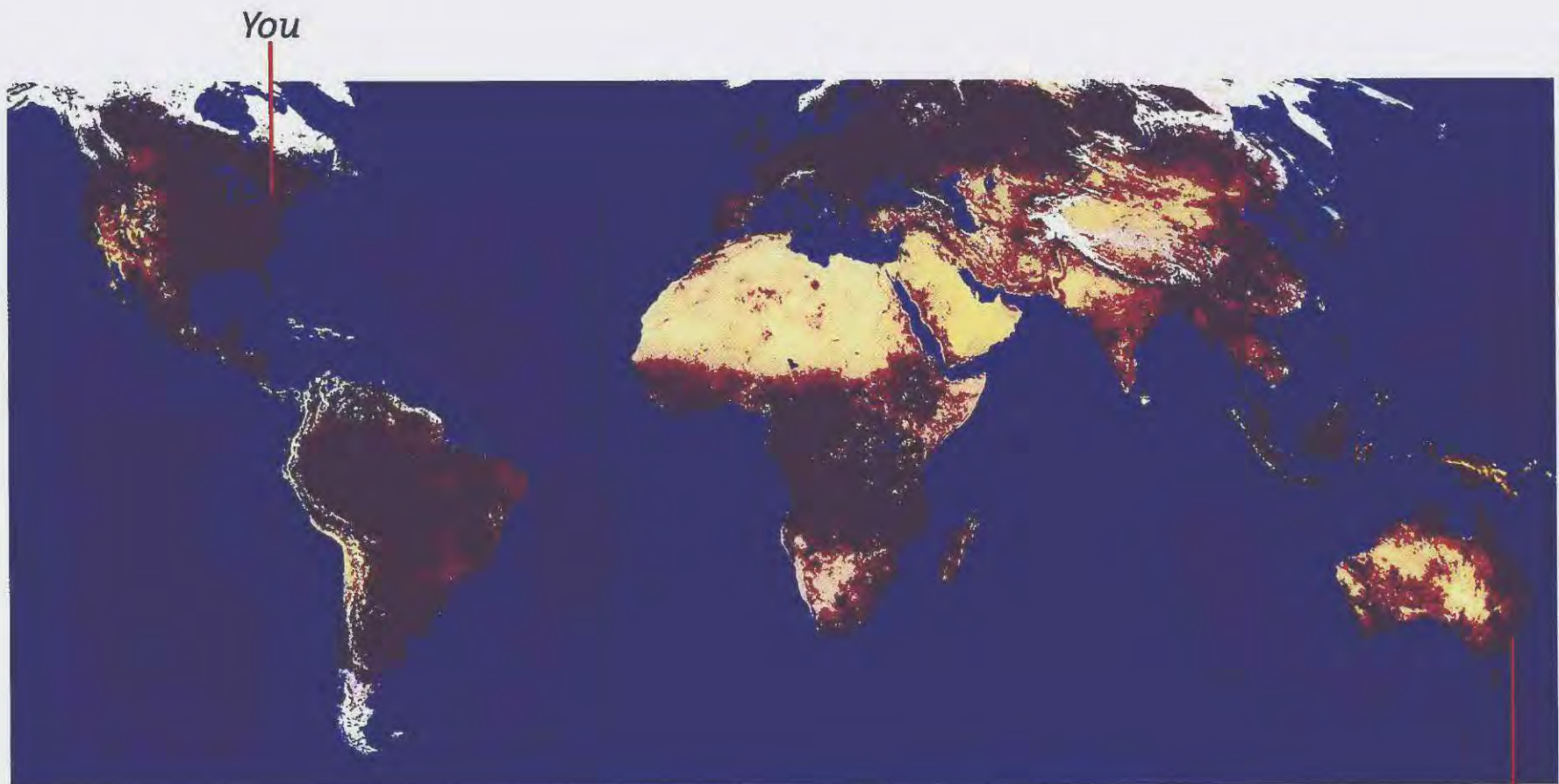
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Show-and-tell time at RIMS

By JOANNE WOJCIK

DALLAS—Many exhibits at the Risk & Insurance Management Society Inc.'s 37th annual conference and exhibition demonstrated the property/casualty industry's current love affair with Internet technology.

Whether it was a system for tracking property risks, managing claims or teaching risk managers how to do their jobs better, if it could be accessed through the World Wide Web, it was on display at the RIMS conference earlier this month in Dallas.

The Internet has become as valuable a tool for risk managers today as the telephone, said Mia A. Shernoff, managing director of AonLine, which demonstrated its upgrades at this year's RIMS exhibition.

"We had started out with links to MapQuest and Travelocity, but risk managers became more Internet savvy and wanted more risk management specific information," Ms. Shernoff explained.

Now AonLine, a division of broker Aon Group Inc., provides insurance policy renewal information, updated property value information and even exposure changes on worldwide construction projects, according to Ms. Shernoff.

For example, AonLine provides advance warnings on developing natural perils and geopolitical activities worldwide, she said.

Beginning this summer, AonLine also will enable risk managers to file online first reports of injury with workers compensation insurers.

"Not all insurers are able to accept electronic transfers," Ms. Shernoff explained. "But we're working on it."

InquisLogic Inc. unveiled its Internet-based enterprise risk management information system at RIMS (BI, April 12).

Operating through any Web browser, the system enables all levels of management in an organization to access a database of information on the risks that affect their business, explained Robert J. Cooney, president and chief executive officer of Bermuda-based XL Insurance Ltd., one of the company's backers.

The system, which still is in beta

testing, can identify as many as 180 risks, of which less than 18% currently are being managed with some type of insurance, he said.

The system also will provide an online forum for risk management professionals to share information with one another, according to Scott



Lange, InquisLogic's chief knowledge officer and former director of risk management at Microsoft Corp.

Learning Insights came to RIMS to demonstrate its new multimedia program for financial risk management education, according to Alan Bellina, a sales and marketing representative for the Chicago-based company.

With the high-tech learning program, which runs on any personal computer with a CD-ROM drive, the user learns by doing interactive exercises that incorporate full-motion video and sound. Students are even assigned interactive "tutors" to help them learn faster and better navigate stumbling blocks to their learning, Mr. Bellina explained.

"People love to learn like this because they can fail in private," he joked. Individuals who take the computerized course can earn continuing education credits, he added.

Charlotte, N.C.-based Royal & Sun Alliance USA used the RIMS conference as an opportunity to host a press conference announcing the launch of its new QRS Risk Engineering System.

The system, which operates with any Web browser, allows risk managers and their brokers to access information on insured properties worldwide via the Internet.

The information in QRS is culled from engineering reports filed after site visits. The system can be customized to meet the needs of the user, whether that is the risk manager, a chief financial officer or opera-

tions managers.

In addition to serving as a repository of existing hazard information, QRS uses e-mail to alert risk managers and brokers to new hazards once they are discovered.

Multiple levels of security have been built into the system, which allows brokers access to all information about their accounts and risk managers access to information on all their companies' properties; site managers have access only to those properties for which they have responsibility.

Allianz Insurance Co., the Burbank, Calif.-based subsidiary of German insurer Allianz A.G., unveiled its new Claims Online system this year.

While many insurers have recently launched Internet-based systems to track information on insurance policies and property risks, Allianz opted to develop a system that follows claims. While information on policies typically is static, "claims is where the movement is," according to Wolfgang Schlink, chairman, president and chief executive officer of the U.S. insurer.

Allianz began development of the system in December 1998 with input from risk managers. Although it has just made its availability known, the company is already working on enhancements.

In fact, "we got some more ideas here at RIMS," Mr. Schlink said.

Currently, risk managers control access to Claims Online, deciding who in their company can access information. The system is both ID- and password-protected and uses 64-bit encryption and multiple firewalls.

Risk managers have access to generic claims information as well as adjusters' notes, and the information is updated each time a user makes a change to a file.

One of the enhancements currently in development will allow risk managers to send e-mail directly to adjusters while signed on to Claims Online. This allows them to ask questions or make suggestions while they have a file open on their computer screen, Mr. Schlink explained. **BI**

Exhibitors include new, old

DALLAS—The 37th annual Risk & Insurance Management Society Inc. exhibition featured at least 120 newcomers, though many of those have been longtime supporters of the organization.

New York-based Marsh, the new name for the broker formed by the merger of Johnson & Higgins, Marsh & McLennan and Sedgwick, had a booth that featured an elegantly crafted globe arched over the top of the booth's sitting area, illustrating the broker's worldwide reach.

"We called it our living room, which is what we wanted to create: basically a nice place to sit, relax and have good conversations," explained Walter S. Tomenson Jr., chairman-global client development.

One of the hot products discussed in the living room was Net-Secure, an Internet liability policy offered by Marsh.

"It was actually the first time for the old Marsh & McLennan firm," which had never been in the exhibit hall at RIMS, Mr. Tomenson said of the exhibit. But Marsh

will be there next year, he said.

Mechanicsburg, Pa.-based insurer PHICO Group used this year's RIMS conference to announce the formation of a new general casualty and workers compensation insurer subsidiary.

Pennsylvania Casualty Co., formed out of the former Skandia U.S. Insurance Co. that PHICO purchased in 1997, will begin operations in the second quarter of this year; it is licensed in all 50 states to write general liability, workers comp and excess casualty workers comp risks, Michael P. Sullivan, senior vp-underwriting, said at the company's booth.

The new company initially will target distribution centers, manufacturing operations and construction risks. PHICO traditionally has focused on health care industry risks.

The Factory Mutual companies—Allendale Mutual Insurance Co., Arkwright Mutual Insurance Co. and Protection Mutual Insurance Co.—used this year's RIMS exhibition to announce the group's new moniker following

their anticipated merger: FM Global.

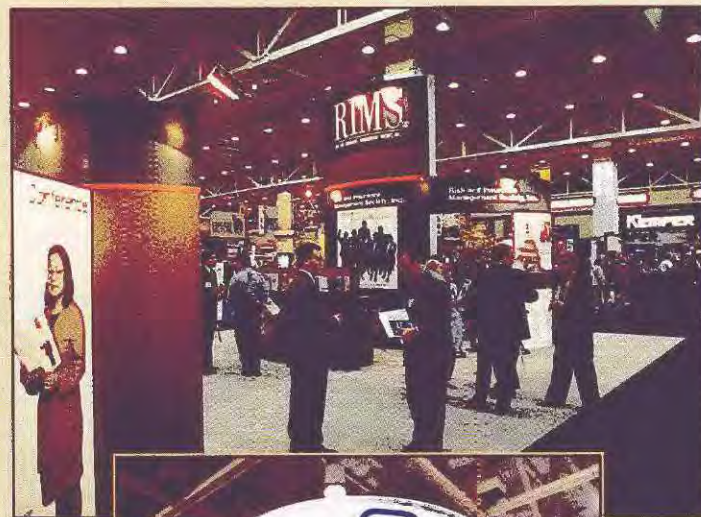
The name was chosen because it retains the 165-year-old Factory Mutual system's heritage and also reflects the company's broad global capabilities, a spokesman explained.

Parson Group, a 4-year-old company with 14 offices throughout the United States, came to RIMS to get some national exposure, according to Cindy Lu, managing director and director of risk and insurance services for the Chicago-based firm.

Parson Group specializes in placing financial executives in temporary assignments at insurers, many of which are looking for ways to reduce overhead in the enduring soft market, she explained.

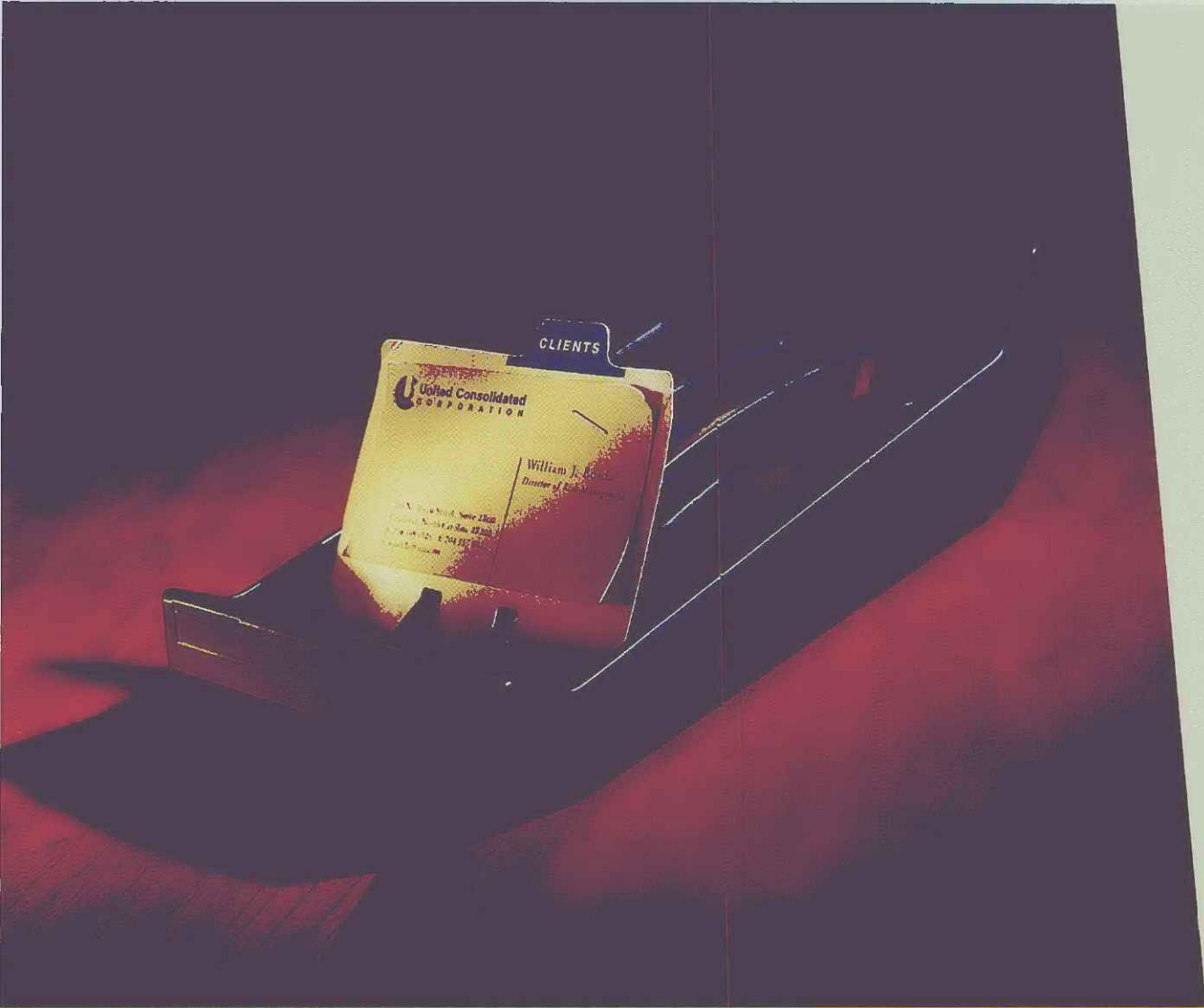
The company also provides risk management outsourcing services, including merger and acquisition due diligence, legal bill review, review and analysis of risk management information systems, and risk management training and mentoring.

—By Joanne Wojcik



PHOTOS: MICHAEL MARCOTTE

Exhibitors at the 37th annual Risk & Insurance Management Society Inc. conference and exhibition earlier this month in Dallas included both newcomers and veterans. Many companies took the opportunity to unveil new or updated risk management products or to announce company restructurings. Popular new tools aimed to help manage risk included Internet-based products.



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P R O M I S E S K E P T

Business interruption raises complex coverage issues

By EDWIN UNSWORTH

DALLAS—Insuring against business interruptions is often more complex than might be anticipated.

This was the message for risk managers who attended a session on business interruption insurance at this year's Risk & Insurance Management Society Inc.'s annual conference and exhibition earlier this month in Dallas.

During the session, two speakers from Deloitte & Touche—Joseph Anastasi, a practice unit leader based in San Francisco; and Greg Pollard, a senior vp based in Calgary, Alberta—discussed a wide range of business interruption-related issues that might hold sur-

prises for risk managers.

Mr. Pollard advised risk managers to bear in mind that an inter-



ruption of business does not necessarily lead to a loss of sales but that "proper coverage can ensure full recovery" of other losses that may result.

He stressed that proper analysis of the risk is necessary to deter-

mine the appropriate business interruption coverage. Risk managers should consider coverage for extended-period indemnity, expenses incurred to reduce a loss, increased cost of working during a business interruption incident, and pure extra-expense coverage.

Commenting on expenses a company might incur to mitigate a business interruption loss, Mr. Pollard told risk managers to remember that coverage is available only for expenses that insurers deem economically justified. Further, mitigating expenses must total less than the loss the company would have suffered without such measures.

Coverage also is available for

"extra expenses"—those costs incurred by a policyholder over and above the norm in order to contin-

Proper analysis of the risk is necessary to determine the appropriate business interruption coverage, says Greg Pollard.

ue operating during a period of interrupted business. Such expenses could include the costs incurred to fulfill contracts, maintain market share, satisfy customers, maintain

goodwill, accommodate employees, secure property or simply continue operating.

Mr. Pollard told risk managers it is best that they look for policies in which "extra expenses" are defined as "the excess (if any) of the total cost incurred during the period of restoration chargeable to the operation of the insured's business, over and above the total cost that would normally have been incurred to conduct the business during the same period had no damage or destruction occurred."

Risk managers also need to keep in mind that, in calculating a business interruption claim, an insurer will deduct any costs a company may have saved during the period of disruption.

These could include reduced operating expenses and reduced depreciation of equipment. Mr. Pollard claimed the latter is a contentious issue, as risk managers and their accountants often maintain that depreciation is an accounting expense rather than a normal business expense. They argue that, as a non-cash item deduction from the claim, the deduction violates the overriding principle of indemnity. Risk managers and their accountants also claim that the depreciation method chosen is arbitrary and makes many assumptions.

Commenting on contingent and interdependent losses, where the policyholder relies on a third-party supplier or customers, Mr. Anastasi said it is important to make certain that the premises of all suppliers and customers are named locations in the business interruption policy or that policy wording is broad enough to encompass them.

Similarly, suppliers and customers should be included under named perils so that if, for example, a supplier's factory is devastated by an earthquake, the policyholder is protected.

In a final point on contingent losses, Mr. Anastasi warned that risk managers should take out contingent extra-expenses coverage, so that if a problem with a supplier or customer causes an increase in a company's costs without necessarily resulting in a drop in its sales, the company will be protected.

Another tricky area concerns overlapping business interruption losses, which, Mr. Anastasi warned, "increases the complexity of a business interruption claim exponentially." The best way to minimize the problem is to have one lead underwriter. If a policyholder has different underwriters, then it should press for strong joint-loss agreements. Another condition to avoid is idle-period exclusions, times when losses are not covered.

A lesser problem, but one also to be avoided, is coinsurance, which could allow an insurer to claim that the policyholder was underinsured, either intentionally or unintentionally.

Mr. Pollard said the best way around this problem is to avoid policies with coinsurance clauses. Other measures include suspending any coinsurance clause in a policy, or requesting a premium adjustment endorsement that would allow the policyholder to effectively overinsure on the condition that it would get a premium rebate if its claims were less than the insured value.

The session coordinator was Chris Sparrer, director of risk management for Ericsson Inc. in Richardson, Texas. **BI**

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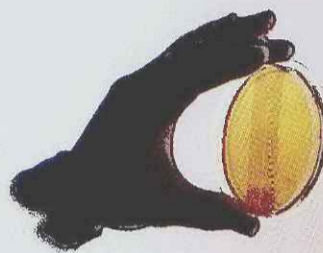
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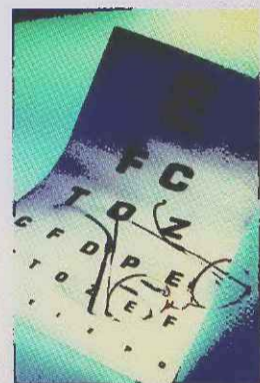


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Options available on environmental coverage

By DAVE LENCKUS

DALLAS—Risk managers have a range of options—including traditional risk transfer—for financing their organizations' environmental risks, according to a panel of experts.

However, all of these options pose tradeoffs as well as benefits, the panelists said.

To transfer the risk, risk managers have a growing choice of markets for environmental impairment liability insurance, noted James J. Kofmehl Jr., senior vp of Becher & Carlson Risk Management Inc. and Becher & Carlson Insurance Services Inc., units of Am Re Global Services Inc. in Woodland Hills, Calif.

EIL, which often is site- or expo-

sure-specific, covers third- and first-party pollution legal liability, defense costs and cleanup costs, Mr. Kofmehl explained during a session at the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas earlier this month.

More than \$100 million of EIL capacity, which can vary by type of coverage, is available, he said.

In addition, terms and conditions now are less restrictive, as underwriters have gained a better understanding of the risk and EIL products have evolved, said Mr. Kofmehl, who also coordinated the session.

But only 8.9% of the organizations that would benefit from such coverage purchase it, according to David W. Bennink, vp and the head of the

risk management services unit at underwriting manager ECS Underwriting Inc., an Exton, Pa.-based sub-



siary of ECS Inc.

Corporate America is sitting on 2 million polluted sites, many of which could be redeveloped if their owners purchased EIL coverage for protection against third-party lawsuits, Mr. Bennink said.

"Some smaller accounts may have

no other option but to transfer risk," said Mr. Kofmehl.

For larger companies, the cost of EIL coverage written on a claims-made form, which prevents limits-stacking, may outweigh the risk of loss, Mr. Kofmehl said.

Larger companies should consider financing their pollution risks through a single-parent captive, even though that vehicle does not transfer the pollution risk, Mr. Kofmehl said.

The risk is a catastrophic peril rather than a frequency exposure, he noted. A captive permits formalized prefunding of losses and serves to isolate those funds from other corporate operations. A captive also facilitates premium allocation to profit centers, Mr. Kofmehl added.

A captive also gives the owner flexibility in coverage design and direct access to reinsurance. But, owners "have to be careful in their coverage design," he warned. "If you get too creative, you can create your way out of excess-of-loss reinsurance."

Other benefits of captives for EIL risks are that they promote risk control, allow the owner to recapture surplus funds and meet various financial responsibility requirements.

Risk managers also have to consider the tradeoffs their organization must make in establishing captives, Mr. Kofmehl said. Those include the associated administration costs, the capitalization requirements and management's commitment to the facility.

In addition, estimating loss reserves and incurred-but-not-reported claims "will be interesting" without a history of claims and losses, Mr. Kofmehl said.

Participating in a group captive could minimize some of the challenges inherent in single-parent captives, according to Mr. Kofmehl. However, he cautioned risk managers "to make sure you understand the entrance and exit requirements" of those facilities.

Risk managers also can use finite insurance to finance their organizations' pollution risks.

Finite coverage designs can vary widely, but certain characteristics are common to most programs, Mr. Kofmehl said:

- There is limited risk transfer to the underwriter.
- The investment income on premiums paid into an experience fund is applied toward loss payments.
- The program allows the policyholder to spread losses over several underwriting years.
- The program contains profit-sharing provisions.
- The policyholder receives part of or all of the balance in the experience fund at the end of the contract period. The policyholder also can apply the balance to policy extension options.

Some key benefits to such programs are typically multiyear contract periods and a smoothing in of payments, as premiums usually are paid annually, according to Mr. Kofmehl.

Another option for risk managers is an integrated insurance program that blends finite and traditional risk coverages. Such a program provides financing of pollution risks through a finite risk mechanism but also gives an organization true transfer of other risks. The other risks would be covered by a single limit.

With a single underwriter involved in both the finite risk and the traditional risk transfer components of the integrated risk coverage, risk managers can keep down their transaction costs, Mr. Kofmehl said.

Divesting a property that poses environmental problems may seem like the easiest and least costly option. But, that move ultimately could be expensive if the buyer becomes insolvent and the property—now in worse condition—reverts to the original owner, Mr. Bennink said.

He suggested that groups of potentially responsible parties for Superfund sites investigate using qualified settlement funds to avoid litigation over liability for the contaminated sites and to expedite remediation.

Under a QSF, parties transfer their liabilities to a trust that they establish. Contributions to the trust, which are tax deductible, can help relieve pressure on the PRPs' balance sheets.

A QSF also can purchase EIL coverage to protect against the cost associated with yet unknown pollution sites, or perhaps unanticipated additional costs, resulting from changes in regulatory standards, of dealing with known sites.

Leslie L. Seabrook, risk manager for Pakhoed U.S.A. in Kirkland, Wash., moderated the session. **B1**

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Year 2000

Continued from page 3
he said.

One of the key issues for all organizations is staffing, Mr. Duncan said. If employees are personally affected by the Year 2000 problem outside of their jobs, they will be less likely to come to work, he said. And a deficiency in the number of employees working could exacerbate the problem and hinder an organization's own response.

So companies must ensure that their employees are aware of the Y2K problem and how it might affect them personally, Mr. Duncan said. For example, employees should perhaps be told that it is inadvisable to travel over the New Year. Or, he said, companies may want to have extra cash on hand to help those employees whose banks suffer problems, he said.

Also, employees should be advised to stock up on non-perishable food, water and any prescription drugs they need, he said. "Think of it as a natural disaster of limited duration."

Risk managers should begin a contingency planning offensive to develop alternative approaches that will ensure that all of their organizations' critical processes will continue after the first of the year, Mr. Duncan said. "If you are concerned about X, why not try Y?" he suggested.

Mr. Duncan outlined several possible approaches, including:

- Address concerns about property protection and alarm systems by posting employees to watch for fires and testing alarm systems.

- Consider a temporary buildup of inventories or supplies if your company uses just-in-time inventory or manufacturing systems. Companies with highly computerized manufac-

turing processes should prepare manual alternatives to ensure that production is not disrupted.

- Back up computerized pay systems by printing and stocking extra paychecks.

- Avoid cash-flow trouble between customers and suppliers by agreeing on average payments in advance and by arranging extra lines of credit.

- Deal with long-term disruptions with suppliers by establishing alternatives now, he said.

- Protect plumbing systems from freezing by draining pipes as soon as the temperature drops below 40 degrees. But post a fire watch to activate sprinklers, Mr. Duncan cautioned.

- Address heating problems with portable heaters. Also, mitigate refrigeration problems by renting refrigerated trailers for temporary storage.

- Address disruptions in waste water systems by making sure that all

waste water holding tanks are empty on Dec. 31.

- Protect against power outages by arranging for temporary power generators.

- Consider hiring extra security guards to protect your organization's property in the event of widespread chaos, Mr. Duncan said.

Hospitals face some unique problems that should be addressed through Year 2000 contingency planning, said Stephen F. Brown, executive vp and chief information officer of Tenet HealthSystem in Dallas.

Hospitals usually have several different computer systems in operation 24 hours a day, 365 days a year, he said. Consequently, it is difficult to remediate and test all the possible Y2K problems of the various systems, Mr. Brown said. "So you have to focus on things that will have a high impact and a high probability of happening."

And remediation compliance efforts should go hand in hand with contingency planning, Mr. Brown said. "It's not either/or; it's both."

Hospitals, in particular, need to be aware of any sole-source vendors and seek alternative suppliers for critical supplies, Mr. Brown said. Also, they should look at their competitors' operations and see whether they can be used if disruptions close down any departments.

For example, "if you run an intensive care unit and critical equipment fails, it may be best to transfer patients to a competitor," Mr. Brown said. Thus hospitals need to build up relationships that may not yet exist with competitors, he said.

Hospitals are particularly vulnerable to power system failures. Therefore, prior to Jan. 1, they should ensure that their fuel tanks are full and that they have arranged alternative power sources, Mr. Brown said.

Biomedical devices are critical pieces of equipment for hospitals, and they often contain embedded chips that may not be Y2K compliant, he said. Tenet is addressing this problem by placing a red sticker on each of their biomedical devices. When the device is remediated and tested, the red sticker is replaced with a green sticker, he said.

"If, by December, there are still red stickers around, then those devices come out of service," Mr. Brown said. Manual procedures will then be used instead.

Banks also face some critical issues when establishing Year 2000 contingency programs, said Peter F. Kovacs, first vp, Ready 2000 at Republic National Bank of New York.

A key issue for banks to consider when constructing their Year 2000 contingency plans is that all banking procedures once were performed manually, so there is always an alternative, he said. For example, before the advent of copy machines, banks used carbon paper; before fax machines, they used the mail and delivery services; and before personal computers, they used typewriters, tabulating machines and handwritten copy, Mr. Kovacs said.

So, "select the vitally important functions you carry out at your job and determine what you will do if the means with which you perform these tasks suddenly becomes unavailable," he said.

For example, if the bank's computer network goes down, programs can be run on personal computers. While the PCs may not have the same capacity, they will allow the bank to continue functioning, Mr. Kovacs said.

"The point is that the recovery plan need not be as elegant as the primary system. Your goal is to just stay in business," he said.

If a branch is shut down due to a power failure, have signs directing customers to other branches supplied by different power grids, he said.

If a checking account system is affected by a computer failure, make arrangements for the critical checking system to run on the less-vital savings system, Mr. Kovacs said.

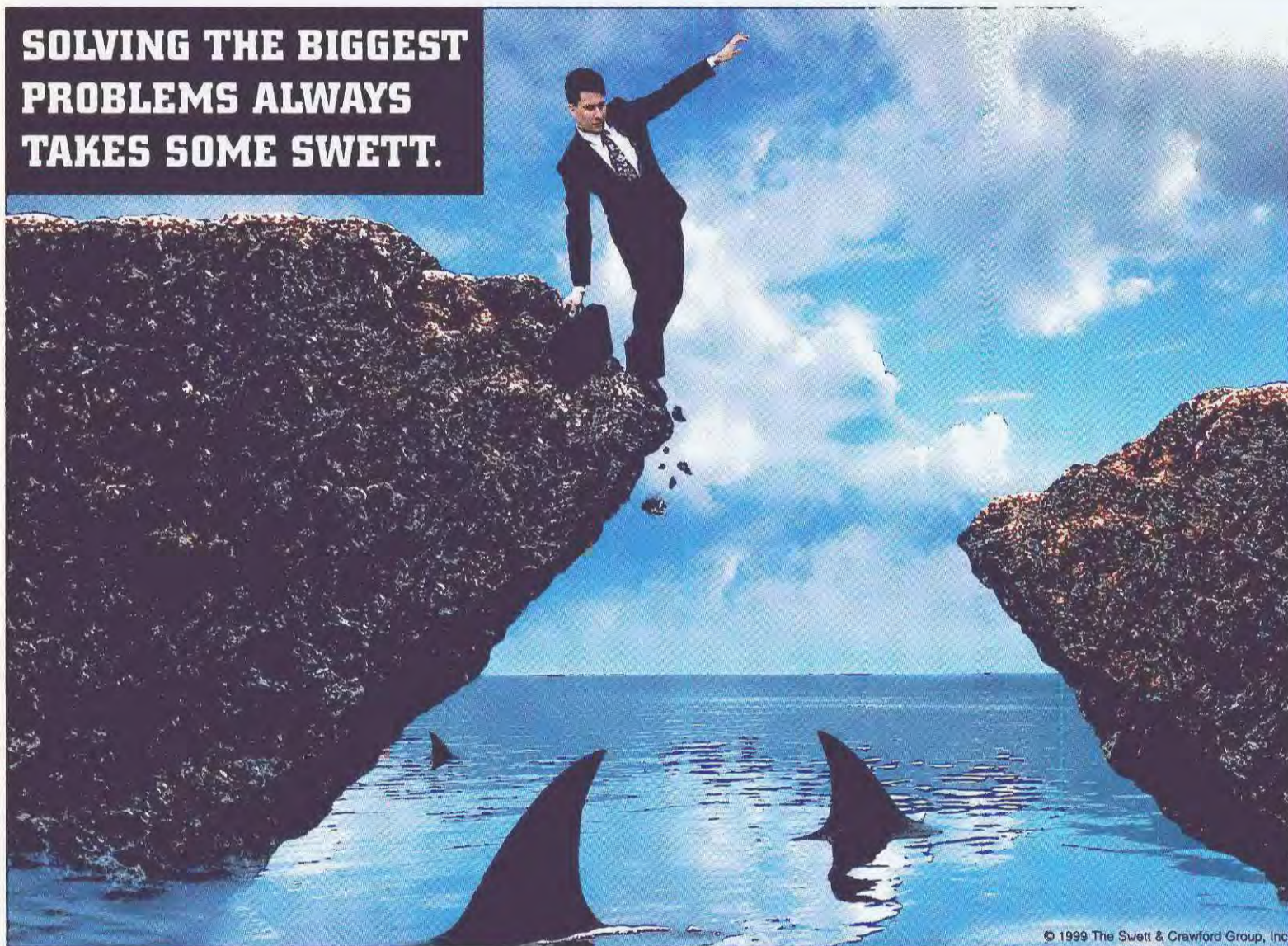
Banks also are heavily dependent on the supply of cash, which often is transported by air. In case air transport is disrupted in the first week of 2000, banks should ensure they have extra supplies of cash on hand at their branches, he said.

Also, if automated teller machines fail to function, banks should be able to keep branches open 24 hours a day to ensure that customers have access to cash, Mr. Kovacs said.

Also speaking at the session was Dave Taylor, of excel communications Year 2000 project at Perot Systems Corp. in Dallas.

Greg Dodd, risk manager at Perot Systems, coordinated and moderated the session.

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The Spencer Educational Foundation Inc. receives a check from charity golf tournament sponsor Arthur J. Gallagher & Co. From left to right: William E. Drum, chairman, Spencer foundation; Dean Shrable, tournament organizer for Arthur J. Gallagher; Patrick J. Gallagher, CEO of Arthur J. Gallagher; Allen D. Silverstein, member, Spencer foundation board of directors.

Future

Continued from page 3
suspect we will see some of these evolve to some alternatives for corporate issuers," Mr. McCarthy said.

Integrated programs, meanwhile, provide risk managers a way to reduce administrative costs by bundling multiple layers of coverage and multiple policies into a single multiyear program.

Such programs also allow the risk manager to devote time to risk management that would otherwise have been spent buying insurance, Mr. McCarthy said.

The programs advance an overall risk management strategy, Mr. McCarthy said, because their custom design makes them part of a process, rather than simply a product.

"Most buyers that put in place a

program of this nature are thinking about what they're doing next," he said.

While such integrated programs may be the future of risk management, today's soft market nevertheless makes them a hard sell for some risk managers.

The session's moderator, Edward E. Underwood, director of risk management at The Gillette Co. in Boston, noted that his company has "a very traditional well-placed insurance program." Although Gillette studied the implementation of an integrated risk program, it opted to remain with its traditional approach for now.

"It has a lot to do with the soft market," Mr. Underwood said.

Integrated programs "intuitively make a lot of sense," the Gillette risk manager said. "But we have a philosophy that when insurance is

cheap, you buy it, and when the market hardens, you look for alternatives."

As they do begin to examine alternatives and move into enterprise risk management, though, risk managers can use more complex and sophisticated analytical tools than

Each risk remediation strategy 'has its own unique cost-benefit analysis,' says Gregory H. Berg.

were available in the past, said Gregory H. Berg, a principal at Tillinghast-Towers Perrin in Westport, Conn.

Risk managers using these tools "are trying to answer the question 'Do we need a particular insurance product' and 'If we're going to consider a particular insurance product, does it add value?'" Mr. Berg said.

In assessing various risks, the unit of measure will vary depending on the exposure, Mr. Berg said. For example, in analyzing fire risk, the measure will be the cost in dollars of potential property losses. The risk of new competition, though, will be assessed in terms of percentage of market share that could be lost.

Once the risks are analyzed, "the next step in the process is to identify a portfolio of risk remediation strategies," Mr. Berg said. "This sets the stage for portfolio optimization from a risk management standpoint."

Adopting an approach similar to the way in which a company's treasury department structures its investment portfolio, the risk manager begins to assemble a risk remediation portfolio.

"Each risk remediation strategy can be implemented at different levels," Mr. Berg said. "Each of these remediation strategies has its own unique cost-benefit analysis."

Using the same sort of portfolio optimization techniques applied in the investment area, the risk manager can determine which strategies to apply at what levels, producing an "efficient frontier" of risk remediation strategies.

"This is the application of modern portfolio theory into the world of risk analysis," Mr. Berg said.

"Is any of this analysis really taking place in organizations?" he asked. "The answer is 'yes.' However, as companies have embraced this enterprise approach, they've decided to start small."

Some companies have started by selecting one particular financial exposure to bring into an integrated insurance program, Mr. Berg said. Others ease into the strategy by first applying an integrated approach to a subset of their operations or to a single risk management activity, such as risk quantification.

But Mr. McCarthy said that interest in integrated programs is growing and that he expects them to become more commonplace. For various reasons, though, including the need to bring together the separate "silos of expertise" in an organization to make such a program succeed, the involvement of top management is essential, he said.

"Management support has typically been critical to bringing together the resources in your organization to implement an integrated approach," Mr. McCarthy said.

James S. Ely, assistant vp-property/casualty communications at CIGNA Property & Casualty in Philadelphia, coordinated the session.

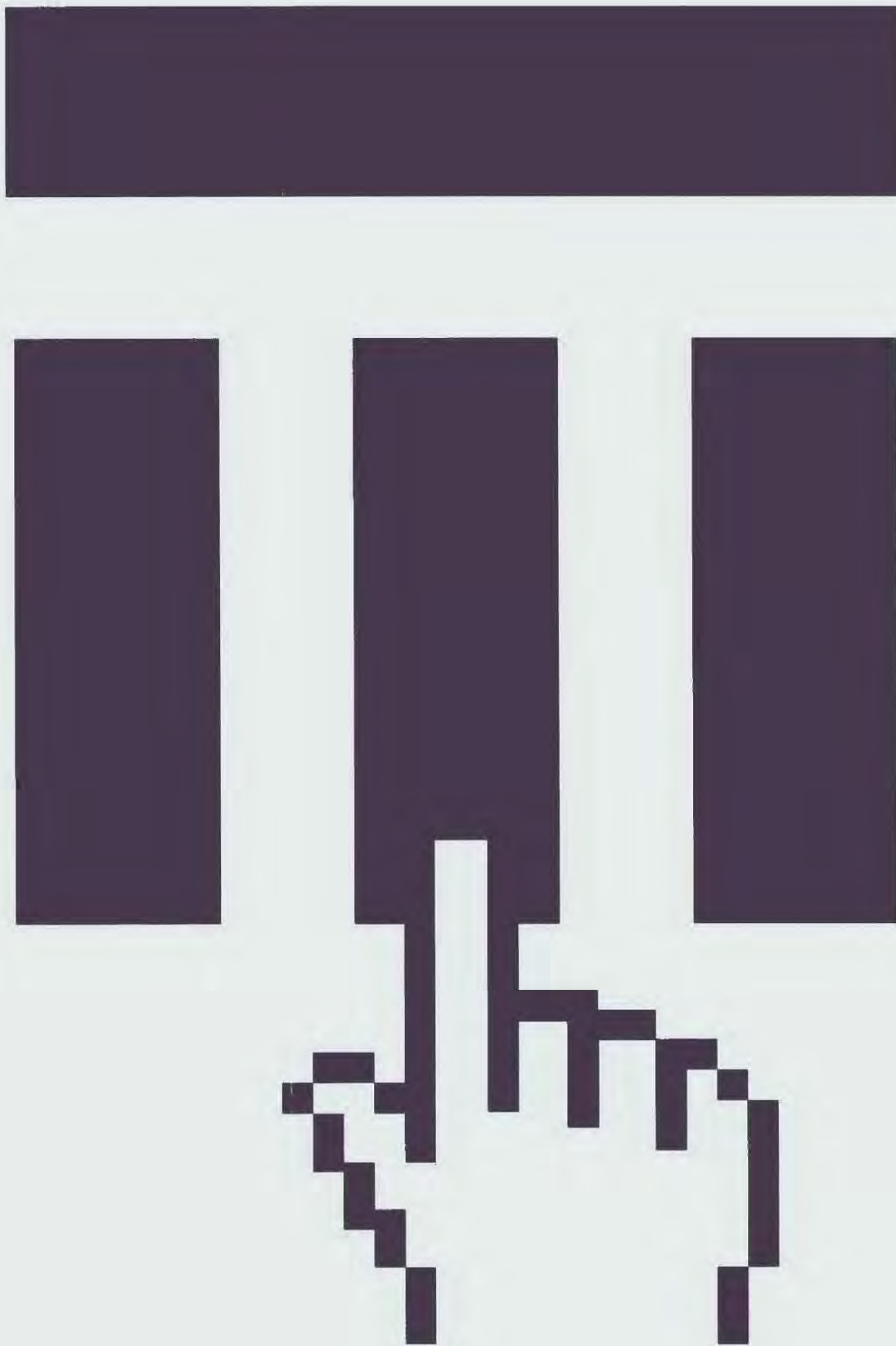
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Recall coverage called key for smaller companies

By DOUGLAS McLEOD

DALLAS—While large corporations may be able to bear the costs of recalling contaminated food products, those costs can bankrupt smaller companies without recall insurance coverage.

In January, for example, Southfield, Mich.-based Thorn Apple Valley Inc. filed for Chapter 11 bankruptcy protection after being hammered by costs of recalling about 30 million pounds of possibly contaminated meat and poultry products, noted Donald H. Bryan, Chicago-based managing director of Marsh, the brokerage unit of Marsh Inc.

"The smaller you are and the more you depend on one particular product... the more significant this coverage... and this exposure should be in your eyes," Mr. Bryan said during a session at the Risk & Insurance Management Society Inc.'s annual conference in Dallas earlier this month.

The problem is not going away, he added: In 1996 alone, the U.S. Food and Drug Administration ordered recalls of more than 3,000 consumable products, he said.

"It happens. It happens frequently, and the dollars are getting larger and larger," he said.

He divided the market for recall-related coverage into two components:

- Malicious product-tampering and accidental contamination insurance, which is a relatively well-developed

product designed to cover consumable items, such as food and pharmaceuticals.

- Product recall insurance and product recall liability insurance, which is designed to cover first-party expenses and third-party liabilities, respectively, related to "durable"



goods, such as auto parts or sprinkler heads.

The market for so-called MPT/AC coverage is much broader than the "emerging" market for straight product recall insurance, with higher limits and comparatively lower rates available to cover consumables, Mr. Bryan said.

Current capacity available for MPT/AC coverage from insurers in the United States, Bermuda and London is about \$375 million, according to figures prepared by Mr. Bryan and Bradley D. Murlick, associate national director of business insurance consulting for Deloitte & Touche L.L.P. in Chicago.

"The cost is coming down, and there are more players in the market. It's still expensive, but not as expensive as it was" two years ago, Mr. Bryan said.

Those who should look at it, he added, are virtually any companies that produce, sell, package, label or distribute anything intended to be consumed. This group ranges from food growers to animal feed suppliers and restaurant supply firms.

In general, MPT/AC insurance is intended to cover a range of costs arising from a tampering or recall incident. These include:

- Direct recall costs and costs incurred by customers; expenses of inspecting, withdrawing and destroying contaminated products; and incremental costs of replacing products.
- Loss of expected pretax net income resulting from a recall.
- "Restoration" costs incurred in rebuilding previous sales volume.
- Reasonable costs of "crisis management" consultants.

The policies typically do not cover a number of other risks, though, including changes in economic conditions or consumer tastes. Companies, Mr. Murlick observed, should not expect recall coverage to help them pull out of a line of business they no longer want to be in.

Because intentional violations of law or regulations also are not covered, policyholders should negotiate "severability" clauses that prevent them from being held liable for illegal actions of employees or middlemen operating outside the scope of their jobs, Mr. Bryan advised.

Also not covered are losses from product deterioration that is unrelat-

ed to tampering or accidental contamination, and bodily injury and property damage losses.

Risk managers whose companies face product recall exposures need to deal with a number of issues, he said.

The first is to assess the level of exposure, and this process requires risk managers to work with their companies' various business units to develop possible loss scenarios and produce probable maximum loss estimates.

Mr. Bryan advised that companies form a product recall task force whose members all understand their roles in a recall incident. Task force members should be responsible for dealing with public relations, outside legal counsel, plans to deal with regulatory bodies, risk management and insurance issues and loss quantification.

Maintaining paperwork to document losses from a product recall is crucial to any insurance recovery on the loss, he said.

Any calculation of a recall's economic impact should include: investigation costs; loss of inventory for the contaminated product or its ingredients; costs of transporting, storing and destroying the product; refunds to customers and lost business if customers switch to another supplier; cleanup costs at company and customer facilities; costs of correcting a problem, such as supplying replacement products; advertising, public relations and other "brand rehabilitation" costs; customer incentive program expenses; legal costs and fines;

and costs of any product redesign arising from the recall.

The time to develop recall response plans and to put procedures in place is well in advance of a loss—not in the midst of a recall crisis, Mr. Bryan suggested. "Any preplanning you can do here... really is key," he said.

Top management should be involved in the plans throughout and should take a lead in responding to a recall once it occurs, he added.

"They are definitely the key people and have to lead the effort," Mr. Bryan said.

Issues risk managers should consider in examining recall exposure also include:

- Exposures created by new product lines picked up in mergers or acquisitions.
- Third-party liabilities in the event of a recall. If a company supplies components to another manufacturer, for example, it may incur liabilities to that company if recalled products disrupt the manufacturer's business.
- Exposures arising from promotional items or product inserts. A defective product insert in cereal, for example, could lead to a recall, even if the cereal itself is fine, he noted.
- Employee-related costs, such as costs from layoffs that result from a recall.

Yvonne Tanak, risk manager of Dallas Semiconductor Corp., moderated the session. Rebecca Szelc, senior manager with Deloitte & Touche in Dallas, coordinated the session. **BI**

Build a simple program

Integrated insurance can make construction claims easier

By MICHAEL BRADFORD

DALLAS—Complex construction claims can be made simpler with an insurance program that integrates many of a contractor's coverages, an insurer contends.

"I think a lot of the issues that create coverage problems arise from the fact that you have a whole series of insurance policies that might respond," said Michael Markman, president of Zurich-American Construction in Minneapolis.

That leads to a lot of speculation and delay as insurers try to work out which policy will pay, Mr. Markman noted.

Speaking as a panelist at the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas, Mr. Markman asked: "Does it make more sense to have a single insurance company providing all coverages," so that the only questions are whether a loss is covered and what damages should be paid?

Zurich-American is attempting to address the issue of integration with a program that includes a "fairly broad builders risk" coverage, Mr. Markman noted. Marine cargo, general liability, environmental liability, workers compensation, performance risk, political risk, property damage and construction delay coverages are part of the program.

Buyers should be prepared to take a "very significant retention" with such a program, Mr. Markman advised. "You ought not to be looking for broad-based insurance coverage" such as the integrated construction program "for a \$25,000 deductible," he said.

Two other panelists pointed out some of the difficult exposures contractors face, some of which are covered under typical builder's risk policies. Risk managers need to examine their policies for any gaps that might exist in coverage, the panelists said.

"Assume you are constructing a large pro-

ject that requires painting," suggested Ralph A. Scoles, corporate director of risk management at Jupiter Realty Corp. in Chicago. The color of the paint to be used is closely identified with the business that will be housed there—a logo color, for example.

"You pick a color that's a shade off," said Mr. Scoles. "The owner demands that you repaint the entire project"—a mistake that often is not covered.

And, regarding the contentious issue of construction defects, he said that "although they often are regarded as uninsurable, they can be insured. However, the coverage usually is costly."

You win some claim disputes and you lose some, according to Luke A. Halley, senior regional manager with Halliburton Co. in Houston.

The energy company lost a coverage dispute when its insurer refused to pay after lightning struck concrete pouring equipment at a Halliburton facility. The damage delayed the project and caused the concrete to harden improperly.

At lunch with his insurer, Mr. Halley was told he had no claim on the \$2 million to \$3 million loss because the pouring equipment was owned by a subcontractor.

But in another instance, Halliburton fought hard and won coverage that an insurer said was excluded on a part that failed on an oil well in Borneo.

As a result of worked coverage disputes, exclusions were reworked in coverages to ensure damage from such incidents are covered, Mr. Halley noted.

Mr. Scoles of Jupiter Realty pointed out that "there really is no such thing as an uninsurable risk. It's simply a matter of how much premium you're going to pay to get the coverage."

Stephen V. Blackburn, vp at Near North Insurance Brokerage Inc. in Dallas, coordinated the session. Mr. Scoles was the moder-



Early risk management input advised in global projects

By EDWIN UNSWORTH

DALLAS—Risk managers of companies undertaking global projects should get involved as early as possible in the planning of such ventures to ensure both a reduction of risks and the best terms and conditions for any insurance coverage.

"The sooner you can get involved in your project if you're a risk manager... the better off you will be. And it will help us to achieve better pricing for you," David Scott, general manager of Cox Power Services, a London-based insurer, said during a session on global projects at the Risk & Insurance Management Society

Inc.'s annual conference and exhibition in Dallas earlier this month.

Bill Whitaker, vp of risk management and property taxation for Sithe Energies Inc. of San Diego, agreed that risk managers should be brought in early. "We're seeing risk managers more and more brought in at an earlier stage," he said.

Mr. Whitaker, who moderated the session, emphasized that the risk manager must have a say in certain agreements relevant to global projects. The elements the risk manager needs to consider include the anticipated demand for product to be produced at the new facility; currency regulations, particularly any which might limit repatriation of revenues; local laws and restrictions, particularly in heavily regulated or newly emerging countries, on eligible providers of insurance.

Global project risks and the allocation of such risks will vary during the three main stages of any project, emphasized Clyde Fritz, senior vp-global power group, for Marsh Inc. in New York.

Breaking them down into the development, construction and operational phases, Mr. Fritz outlined the various risks and said consideration has to be given also to who will be responsible for insurance decisions: the developer; the

engineering, procurement and construction contractor; the lender; or the host government.

Mr. Whitaker said one of his key concerns is to have an owner-controlled insurance program, including during the early engineering, procurement and construction phase, in which his company, not the contractor, has say over insurance and risk management issues. That way "we can then stipulate the cover and control the costs."

Another consideration he addressed dealt with the possible insurance-related demands a lender may impose on a global project.

"More times than not, we find ourselves at odds with the insurance side of the lenders," said Mr. Whitaker.

As an example, he cited a frequent demand made by lenders for insurance against start-up delays of frequently 24 months; that insurance provides for payments to be made to the lender even if the project falls behind schedule. Mr. Whitaker said that based on its experience, Sithe Energies thinks this period is excessive, but that nevertheless companies can be forced by lenders to take out the coverage for the longer period and to pay more than they think necessary for the insurance.

Mr. Whitaker also mentioned the importance of considering insuring supply lines, as disruptions or delays in transportation and delivery can seriously affect a project's viability.

Outlining what an insurer looks for at the start of a global project, Mr. Scott said he would normally sit down with a team of five to six underwriters to examine all the risks. The underwriters' objective in such a meeting is to get a clear idea of the scope of the projects and equip themselves with the information necessary to underwrite the risks. The underwriters involved typically would deal with political risk, marine transport, construction, operations, and casualty, he said.

Michael Golden, the Stamford, Conn.-based managing director and chairman of the global industry specialty practice of Marsh, the brokerage unit of Marsh Inc., coordinated the session. **BI**





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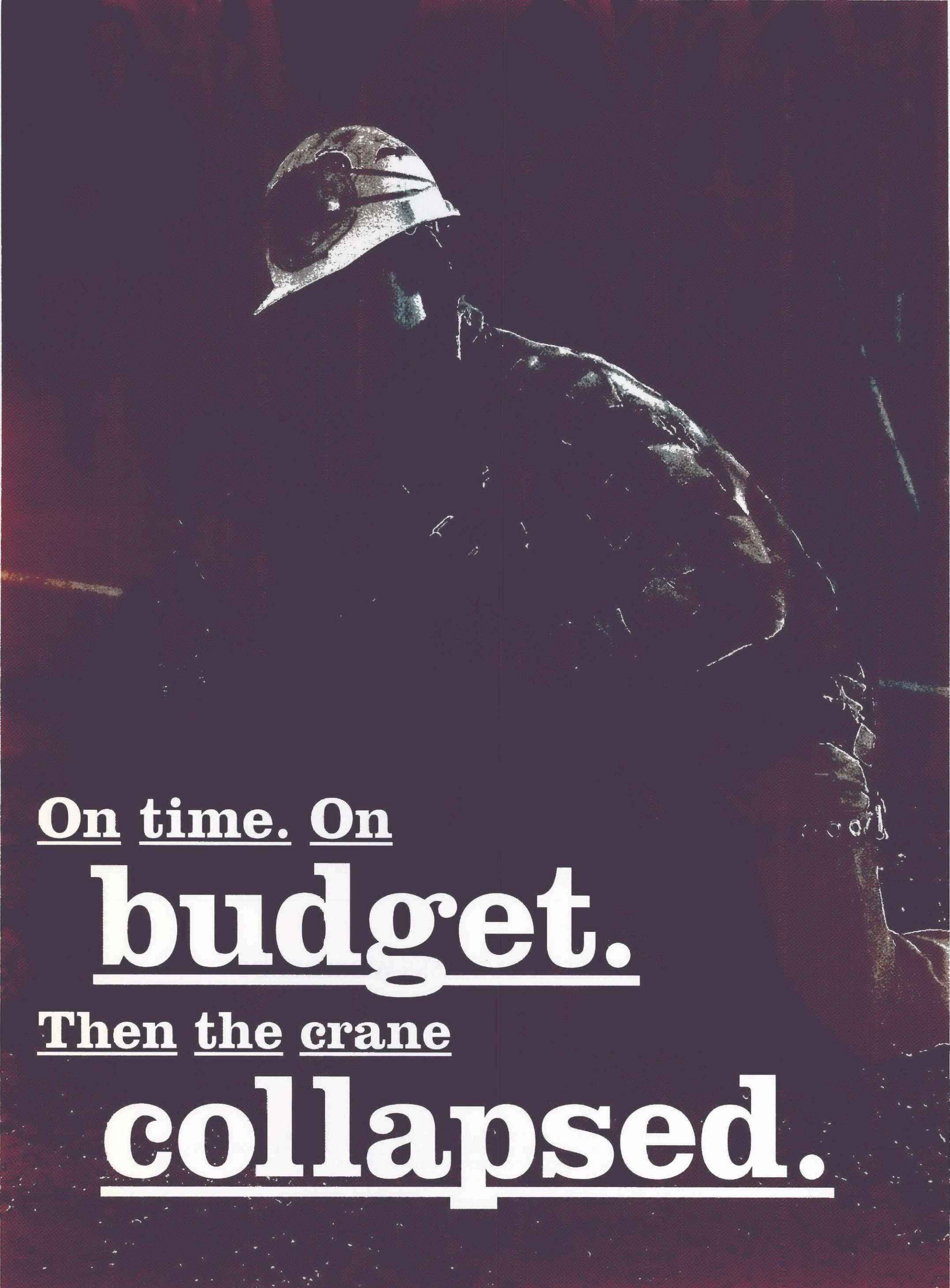
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Continuity plans ensure disaster recovery

By DOUGLAS McLEOD

DALLAS—Risk managers need to assist in creating business continuity plans to help their companies recover from disasters ranging from terrorist acts and fires to plane crashes, an expert advises.

"You can't prevent disasters from happening, but you can minimize the disruption," Michael C. Redmond, a senior manager with Deloitte & Touche L.L.P. in New York, said this month at the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas.

The goal of continuity planning, Ms. Redmond said, is to identify critical operations and form a cost-effective plan to restore them after a disaster.

Plans should be developed by teams of four to eight people, depending on

the size of the company, over a period of no more than nine months, to ensure the plans are not outdated by the



time they are implemented, she said.

Risk managers should work with their companies' chief information officers, and top management should support the effort, she advised.

"One of the key problems is that people don't (talk to) the chief executive officer, the chief operating officer, the chief financial officer," she said.

A good continuity plan should be

easy to use and maintain and inexpensive to put into action after a loss. "If you can't give it to a secretary to maintain, it's too complicated."

Everyone from secretaries to plant security personnel and a company's vendors should be aware of the plan and be involved in testing it, she said.

Ms. Redmond outlined five phases for compiling and implementing a business continuity plan:

- Preliminary review and impact analysis. The review, aimed at understanding the company's operations and locations, would include interviews with management and review such existing documents as organization charts, floor layouts and communications and network diagrams.

The impact analysis, aimed at identifying risks and the threat of different disaster scenarios, would include

more interviews at company locations, a review of operations reports and coverages and a description of possible recovery strategies.

- Strategic planning, aimed at analyzing company requirements, identifying options and recommending a recovery strategy. Options could include, for example, the use of a "hot site," or a facility already set up with the equipment and company data needed to continue operations; or a "warm site," to which a company would have to bring its own equipment to use existing hookups.

Planning should include cost estimates and comparisons of the cost of different options against their loss mitigation potential.

- Finalizing strategy, the phase in which a company decides on a recovery option and makes arrangements

to implement the plan.

- Organizing and documenting the recovery plan. This phase features developing a continuation plan document and creating an organizational structure for executing the plan, including formation of disaster recovery teams for each company location.

- Testing the plan and providing for training of company personnel and maintenance of the plan.

Companies should test the efficiency of their disaster plans often, but "don't create a disaster doing a test," Ms. Redmond said, warning that companies should not completely shut themselves down to run such a test.

She recommended testing about a quarter of a company's operations at a time over about a year.

Terry T. Yamada, assistant vp and claims coordinator for Caltex Risk Management Services Corp. in Dallas, moderated the session, and Jonas Samsioe, a manager with Deloitte & Touche, was coordinator. **BI**

Present policies cover Y2K

By DAVE LENCKUS

DALLAS—As businesses race to make computer systems Year 2000-compliant before New Year's Day, risk managers do not have to rush to buy special Y2K coverage in case computer programmers don't beat the clock, two policyholder attorneys contend.

"You can use your present insurance assets to cover Y2K problems," though a few coverage problems may arise, said attorney Robert M. Horkovich.

Risk managers also should not be overly concerned about recent insurance industry efforts to fight covering millennium bug losses, attorney Lorelie S. Masters asserted during a session at the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas this month.

"It is a certainty that Y2K problems will occur," said Mr. Horkovich, a partner with Anderson Kill & Olick P.C. of New York. He noted that millions of faulty microchips still will be in use in devices on New Year's Day, even if companies manage to replace 99.9% of the billions of faulty microchips.

Mr. Horkovich, who coordinated the session, noted Y2K problems already have occurred and resulted in litigation among software customers, vendors and at least one insurer (*BI*, Dec. 14, 1998).

Despite U.S. companies' efforts to fix the problem, businesses still may suffer losses because of problems caused by vendors and others that are out of the companies' control, Ms. Masters said.

In those situations, risk managers already have coverage that should respond. Indeed, in documents filed with federal securities regulators and in letters to policyholders, insurers either have stated or at least have suggested that the industry will absorb at least some Y2K-related losses, she said.

Policyholders, she said, should look for coverage in several places:

- Commercial general liability insurance. The CGL policy should cover claims for bodily injuries, personal injuries such as mental anguish, third-party property damage and advertising injuries. Another benefit is that CGL insurers are responsible for defense costs, Ms. Masters said.

- Business interruption coverage. Insurers can be expected to fight the policyholder argument that a Y2K problem in computers amounts to property damage that interrupts business operations, she noted. Policyholders still should fully document the size of their losses and the period of interruption beginning when property was damaged and ending when the property could be repaired or replaced.

- Directors and officers liability insurance. Executives may be concerned about shareholder suits that contend executives mismanaged the company's computer remediation project or that the company failed to adequately disclose the problem's magnitude. Current D&O policy wording would cover losses based on those arguments as well as fraud allegations against companies that erroneously stated their systems were Y2K compliant.

- Errors and omissions liability insurance for consultants and other professional service providers. Insurers may deny coverage by arguing that the E&O policyholders knowingly installed flawed systems for their clients. Such an act is not negligent and therefore should not be covered, in-

surers can be expected to argue, Ms. Masters said.

But in other contexts, courts have rejected that argument. Courts have ruled that the insurance covers acts by the policyholder in its professional capacity that have led to a lawsuit.

- Product liability insurance.
- First-party property insurance.
- Inland-marine insurance.

In addition, risk managers should investigate how their organizations may be covered by other companies' coverages, Ms. Masters said. Those coverages may

provide a defense and indemnity without deductibles, self-insured retentions or coinsurance.

Such external coverage includes: additional-insured endorsements, loss payee endorsements, indemnifications called for in contracts and license agreements, and warranties.

Ms. Masters said the Insurance Services Office Inc. supports policyholder attorneys' proposition that policyholders already have Y2K coverage. Along with the three exclusions to the CGL policy that ISO began submitting to insurance regulators in 1997 (*BI*, Dec. 15, 1997), ISO submitted an abstract stating that "there is presently no explicit treatment of the Y2K exposure with the CGL."

She also said ISO advised insurance agents to offer "an unendorsed standard CGL or product liability form" when they want to sell a CGL insurance policy that provides the broadest coverage available for Y2K claims. "ISO has clearly supported our side of the issue here," Ms. Masters said.

But, the preamble in GL policy endorsements insurers are offering say that the endorsements only clarify existing Y2K coverage restrictions.

Mr. Horkovich noted insurers used a similar approach when they started adding pollution exclusions to the CGL. The New Jersey Supreme Court ruled in 1993 that approach was an industrywide effort to dupe regulators so insurers would not have to reduce premiums even though they were reducing coverage, he said.

While insurer attorney Scott J. Nathan took issue with the analogy, he blasted insurers for calling the exclusions clarifications. "That's insanity, and we all know it," said Mr. Nathan, a partner in Nathan & Voltz P.A. in Franklin, Mass. "The policy either stands on its own or it doesn't."

However, he asserted, insurers will rightfully raise the issue of fortuity before paying claims. He predicted that Y2K-related claims will be decided case by case, based on whether the policyholder tried to remediate its problem early or waited to start until mid-1998 and then did not apply reasonable resources to the problem.

He said business has known about the Y2K problem for years but some decided their capital was better spent on improving products and services rather than fixing their Y2K compliance problems.

"At some point, that's no longer an accident," said Mr. Nathan, referring to losses stemming from the computer millennium bug.

Mr. Horkovich advised risk managers to use their leverage in the soft market to "negotiate the heck" out of the Y2K exclusions their insurers may attempt to impose.

Scott K. Lange, chief knowledge officer for information system vendor InQuisLogic Inc. of Stamford, Conn., moderated the session. **BI**



A word with counsel

Pay-for-performance deals cut attorney costs

By MICHAEL PRINCE

DALLAS—Lawyers: You can't do without them, and you have to pay them. But you don't have to overpay them, two speakers say.

Rather than pay defense counsel on an hourly basis, risk managers should create alternative fee arrangements that pay attorneys for performance, not for running the clock. The goal is to have the attorneys focus on claim resolution and not on billing, said Mario Ciano, managing partner with law firm Reminger & Reminger in Cleveland, during a session at the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas.

Under the most common billing arrangement, clients—insurers, third-party administrators or policyholders—request monthly bills from their attorneys defending claims. Billing is based on hours worked, not on results obtained, Mr. Ciano said. As a result, "you get exactly what you reward."

Under this system, law firms began hiring and evaluating attorneys based on ability to bill hours rather than deliver results. "The whole focus got out of whack and is still out of whack," he said.

In response to concerns about over-billing, clients began reviewing bills and providing detailed guidelines to control attorneys' behavior. The result, Mr. Ciano said, has been a loss of trust in attorneys.

Clients also have hired legal auditors to review attorney bills. But, attorneys have become adept at wording bills that get past the auditors, said Elise Farnham, executive vp in the Atlanta office of Carson-Brooks Inc., a litigation management firm, and president of the National Assn. of Insurance Women.

Auditing produced negligible savings. "Sure, there were savings, but they're nickels and dimes," Mr. Ciano said.

In addition, constant monitoring hurt attorneys' morale and estranged their clients, without producing better claims outcomes. "The carriers and risk managers got exactly what they wanted but not what they needed," Mr. Ciano said.

A better approach is to reach alternative fee arrangements with trusted defense attorneys, both speakers said. Ideally, the arrangement gives the attorney an incentive to resolve the case in the shortest time with the least cost. The key is to make attorneys share the risk of the case. This, Mr. Ciano said, will make them more innovative.

One common fee arrangement is paying a fixed fee for handling a certain type of case. An experienced attorney can develop an expertise for a specific kind of case, as

well as a sense for how much it costs to handle each case of that type. The lawyer then can charge a fixed fee to handle each of those claims, giving the client predictability of costs. Under such an arrangement, the attorney has an incentive to resolve cases quickly.

That way, the risk manager and attorney can focus on resolving the claim against the risk manager's company, "rather than focusing on bills," Mr. Ciano said.

One drawback is the defense attorney might settle cases too quickly, perhaps by agreeing to amounts that are too high. But this problem can be eliminated if the client is familiar with the claims and agrees only to settlements that seem reasonable.

Variations on the arrangement can be created, such as setting a fixed fee until a trial begins, and then paying an hourly rate during the trial. Under another variation, the attorney can be given a bonus if the settlement or verdict comes in below a set figure, he said.

Taking the strategy to an extreme, arrangements can be made for attorneys to handle every case in an area for one overall fixed fee. With this strategy, "the client has total predictability of cost," he said.

But, the speakers cautioned, fixed fee arrangements are not possible for every organization. For those with only a handful of cases in a certain area, the volume is too low to use a fixed fee. But the organization can request that its insurer adopt a fixed fee arrangement with its law firms.

Ms. Farnham said a risk manager can insist that an insurer adopt such a policy; if the insurance company refuses, the risk manager can consider changing insurers.

But she cautioned against working only with firms that offer the lowest prices. Attorneys need to make a reasonable profit, or their relationships with clients will sour. And the lowest-priced law firm might try other means of making a profit, she said.

Fixed fee arrangements won't work with every law firm, agreed Mr. Ciano. "This is something you do with people you already know well."

If attempted with unfamiliar attorneys, the firm might use inexperienced attorneys on cases or fail to act aggressively to win cases. Therefore, a risk manager must be confident of the firm's integrity, he said. The agreement with the law firm should state that certain lawyers will oversee the cases. And if the service is unacceptable, the firm can be fired, he said.

Gisele Posey, director of workers' compensation for Yellow Freight Systems in Overland Park, Kan., moderated the session.



Set priorities now to help avert Y2K liability: Professor

By ROBERTO CENICEROS

DALLAS—Although the Y2K clock is ticking, it is not too late to implement risk management safeguards that could limit a company's liabilities to customers, investors and business partners, experts say.

And the sooner a company starts preparing for potential problems, the better off it will be when defending against Y2K-related lawsuits, they added.

Even if there is not enough time for a company to complete all steps to eliminate the impact of Y2K, it can soften potential problems by setting priorities to ensure that the most important issues will be addressed, said Edgar J. Leverett Jr., professor emeritus in the risk management department at the University of Georgia. He was speaking at a session of the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas.

"Maybe we don't have as much time as we did," he said. "But there is one thing for sure—you still need to get started, regardless if you finish or not."

Most importantly, companies should recognize that risk management steps must be taken, he said.

"Do not think for a minute that (plaintiffs) legal firms do not already have complaints drawn," Mr. Leverett warned. "They have them drawn and stored in their computers, and they are just waiting for the opportunity to file."

The first step is to evaluate what can be lost and what must be protected to prevent loss. Mr. Leverett suggested forming a remediation team constituted of technical experts and personnel from various company departments, such as management, finance and legal.

Risk managers' input is most important to remediation teams, because they have spent time developing crisis management procedures, Mr. Leverett said. For example, risk managers have been trained to consider the status of suppliers and customers in a crisis, he said.

"We can do some things that cannot be done by any other segment," Mr. Leverett said. "The fact remains that you see things that have risk implications that an attorney does not necessarily see. That is not a criticism. They have not been trained that way. And we have been trained to look for that sort of thing."

Risk managers, he explained, can do things such as review customer and supplier contracts and find potential problems that company attorneys will miss, as their attention tends to focus solely on making sure contracts are properly drawn. In con-

trast, the risk manager will look for exposures such as a "hold harmless" agreement that was placed in a contract to allow potential plaintiffs to reach into the deep pockets of a defendant's insurers.

In attempting to stem Y2K liability and protect directors and officers, a risk manager must ask tough questions and demand good answers about what steps have been taken to make the company Y2K compliant, added Joel Campanella, vp/worldwide practice leader-professional and financial risks commercial insurance for Royal & Sun Alliance U.S.A. Inc. in Charlotte, N.C.

Do not just accept simple answers such as "it will work," or "we are working on it," Mr. Campanella warned.

Ask questions that will help document that specific action was taken, he advised. He encouraged

risk managers to ask questions such as: When was the action taken? Is there a timeline that shows who was involved in compliance projects and when they took action? Were actions prioritized, and were solutions tested? How did the testing go? Have you ensured that your "mission critical" systems will be operational and sustainable?

Risk managers also should ask whether Y2K compliance experts were hired. "Reliance on experts is a valid defense" in liability suits, Mr. Campanella said.

When obtaining insurance coverages that might be affected by Y2K issues, risk managers must take the initiative; they must not allow insurers to dictate how their coverage needs are presented, said Larry A. Warner, risk manager for candy manufacturer Mars Inc. in McLean, Va.

Do not rely on an insurer's Y2K questionnaire, Mr. Warner advised.

"Insurers are going to give you their questionnaires, based on their experience of how they are addressing the Y2K," he said. "I looked at one of these when I first got started last year, and I said, 'Golly, if I answer this, they are going to think we are the most ill-prepared company out there.' The reason was their approach to the problem was different from ours."

Instead of relying on the questionnaire, Mr. Warner answered the questions the insurer asked in a different format that better reflected Mars' internal operations and its Y2K preparations, he said.

Show the insurers both your company's successes and failures in preparing for Y2K, Mr. Warner said. "If you go out there and tell the insurance company that 'everything is peachy keen, and everything is just going fine,' that is going to raise some red flags." **BI**



Privacy at issue in communication

By GAVIN SOUTER

DALLAS—Increased use of electronic communication and the Internet raise several privacy issues that employers must address in an effort to avoid employment-related lawsuits, two lawyers say.

Many employers believe they have the right to access e-mail, voice mail and Internet use by their employees, but unless they are careful, they could breach their employees' right to privacy, the lawyers warn.

At the same time, they add, employees can use e-mails sent internally as evidence in employment-related suits.

Only by instituting an electronic communication policy and sticking to it can employers avoid potential liabilities, the two lawyers said at a session of the Risk & Insurance Management Society Inc.'s annual conference and exhibition, held in Dallas earlier this month.

"A lot of times an employer may think it's a good idea to go groping through an employee's desk, e-mail or files, but there are expectations of privacy," said Roxanne A. Davis, an employment lawyer based in Los Angeles.

E-mail risks in particular are becoming an increasingly important issue for employers as it becomes the primary business communication tool, said Lynn C. Outwater, another employment lawyer and managing partner at Jackson, Lewis, Schnitzler & Krupman in Pittsburgh.

However, many companies do not have a clear e-mail policy, she said.

Consequently, an increasing number of lawsuits are filed against employers alleging inappropriate access of e-mail by management, Ms. Outwater said.

Employees and plaintiffs lawyers are successfully accessing company e-mail systems and using in-

formation transmitted casually between managers to support employment lawsuits, added Ms. Davis.

"So you need to be careful in what you say in e-mails and be aware that it's something that can be used at a later time," she said.

To reduce the risk of liability, organizations should institute an e-mail policy and distribute it to all employees, Ms. Outwater said.

The policy should state that e-mail should be used for business purposes only. If employers explicitly state this, courts will be more likely to accept the right of employers to read employees' e-mail, she said. However, as part of its policy, an employer should state its legitimate business purpose for monitoring e-mail, Ms. Outwater said.

While there have been few cases alleging invasion of privacy over the use of voice mail, employers that wish to access employees' voice mail should also have a written policy, she said.

Employers should have similar policies stated and communicated regarding Internet use, Ms. Outwater said. "A lot of companies do audits on Internet use and find an extraordinary number of hits on pornographic sites," Ms. Outwater said.

If an employer has not established an Internet-use policy and required employees to sign that they have received the policy, however, the employee may be able to claim an infringement of their right to privacy, she said.

Consequently, employers might not be able to curtail time wasted on non-business-related Internet use, Ms. Outwater said.

Ron Schwenk, director of risk management at Brinker International in Dallas, moderated the session. It was coordinated by Charles O'Connor, a litigation manager at Liberty Mutual Insurance Co. in Boston.

Covering intellectual property risks needs thought: Speaker

By EDWIN UNSWORTH

DALLAS—Often a standard commercial general liability policy is not broad enough to cover a company's intellectual property and multimedia liability risks.

Three speakers offered their ideas on such risks at a session of the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas earlier this month.

Session coordinator Michael Rossi, a partner in the Los Angeles law firm Troop Steuber Pasich Reddick & Tobey L.L.P., said that most policyholders traditionally have relied on commercial general liability policies for intellectual property and multimedia liability risks. However, he said, there are shortcomings related to these risks in a typical CGL policy.

Claims such as infringement of trade secrets, trade dress (such as product design and packaging), patent, trademark, copyright, and unfair competition in connection with such infringements all are increasing in frequency, and these claims are more and more often be-

ing made under CGL policies. As a result, over the past few years, insurers and the courts have had to interpret wordings of CGL policies and determine whether they apply to such claims.

A principal problem is that under a CGL policy, the injury must be caused by an "advertising activity" of the policyholder, and different insurers and courts apply different definitions of the term "advertising."

Mr. Rossi said older CGL policies define an "advertising injury" as "piracy, unfair competition, or infringement of copyright, title or slogan," while newer CGL policies define it as "misappropriation of advertising ideas or style of doing business... infringement of copyright, title or slogan." The courts usually apply a broader definition of "advertising," which could include "any oral, written, or graphic statement made by the seller in any manner."

Mr. Rossi, who specializes in policyholder and insurance broker clients, advises policyholders to check how "advertise" is defined in their policies.

He warned that some CGL insurers are responding with narrower definitions of "advertise" in policy language limiting it to paid advertisements in newspapers and magazines. In addition, they are including



an intellectual property infringement exclusion limiting coverage to infringement of copyrighted advertising materials and trademarked or service-marked titles or slogans.

Mr. Rossi said that as a risk management lawyer, "this makes me cringe every time I see it," because the risk manager really needs broader coverage than this allows.

For policyholders in the business of broadcasting or publishing, protecting intellectual property can be even more problematic, as CGL policies

can contain exclusions for such activities. Policyholders also need to consider whether their Internet activities place them in the business of "broadcasting," or if the manufacture and sale of CD-ROM products makes them a publisher, he warned.

"The CGL policy is just not able to pick up these exposures, and that's why you have to look at alternatives," he advised risk managers.

Other speakers discussed two such alternatives.

J. Kevin Shane, Los Angeles-based vp in Marsh Inc.'s FINPRO division, with responsibility for regional professional liability practice, said he was surprised it has taken so long for alternatives to be developed.

One such alternative is multimedia liability insurance, which, if properly expressed, covers intellectual property, he said.

Multimedia liability insurance removes the requirement that the loss arise out of "advertising activities," and for those who have such coverage, the publishing/broadcasting exclusion of the CGL policy is not an issue.

Mr. Shane added that because the insurance market is now "flexible and aggressive" in offering this type of product, it is possible for most policyholders to purchase the coverage.

Scott Firestone, executive vp of Los Angeles-based insurance brokers MOD Insurance Associates, discussed the applicability of another form of coverage, intellectual property infringement insurance.

This policy covers the manufacture, use, distribution, advertising or sale of an infringing product or process and a claimant's lost profits or royalties. It also covers defense costs for injunction claims. Like multimedia liability insurance, it removes the "advertising activities" clause.

However, Mr. Firestone concluded by saying the optimal solution, for those who can afford it, is to purchase all three policies: CGL, multimedia liability insurance and intellectual property infringement insurance.

Todd Marumoto, risk manager for El Segundo, Calif.-based toy manufacturer Mattel Inc., moderated the session. **BI**

Wanted: Skills for a successful risk management career

By MICHAEL BRADFORD

DALLAS—Thinking about a career in risk management or just need a boost to the next level?

With the right skills and a little know-how, risk managers can get their careers on track, a panel of experts told attendees at a session during the Risk & Insurance Management Society Inc.'s annual conference and exhibition earlier this month in Dallas.

Among the most important skills are "excellent communications skills, both oral and written," said Pamela G. Rogers, assistant treasurer-risk management at Sears, Roebuck & Co. in Hoffman Estates, Ill.

"It speaks to quality, it speaks

we have to be organized, but I think we truly have to be prioritized so that we meet the commitments that we've made."

Many people can juggle a lot of tasks at once, she said, "but not as many people are comfortable doing that. And to be successful in risk management, I think you have to be comfortable with juggling a lot of things at once because it never ends."

Ms. Rogers, who has worked in risk management for several companies, said risk managers also need to know when it's time to look for another position.

While everyone has a bad day now and again, risk managers should, for the most part, be looking forward to going to work in the morning, she noted. "If you're not at a place where you have a passion for what you're doing

most every day, move on."

She listed a few warning signs that could indicate that it's time to look for a different position in the company or seek another employer. Risk managers should consider how well they are getting along with their bosses and other departments, Ms. Rogers suggested, and whether they have management's trust.

"If you have accomplished all or

much of what you set out to do and somebody calls and says, 'I have this opportunity,' consider it. New jobs are exciting; they allow you to get your energy back."

The session was moderated by Georges Balcer, director of risk management at Bowater Inc. in Greenville, S.C. Ben Schull, senior vp with Near North National Group in Chicago, coordinated the session. **BI**



to an eye for detail," she said of skilled writing. "For most of us, what people in the company see, besides our faces when we meet with them, is our written communication skill—e-mail, letters, memos, white papers."

Risk managers need to "work with people throughout the company," she stressed, and must "be able to speak to everybody," from the president of the company to the person who empties the trash at night.

The ability to network is critical for prospective risk managers or those already in the job, Ms. Rogers said. "You can have the greatest skills in the world, but if you're not willing to network—and it takes time," she noted, the job won't be as much fun or the career as gainful.

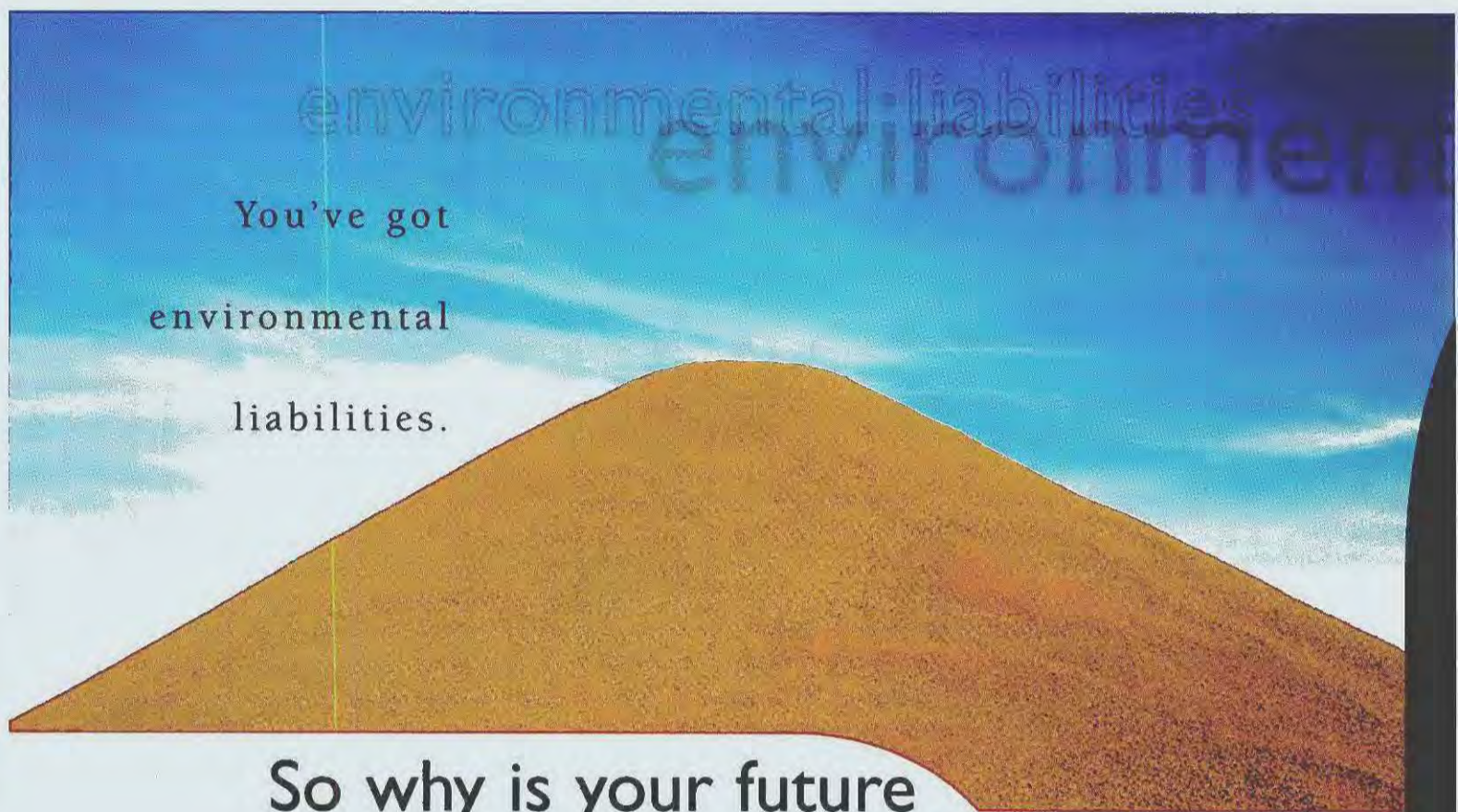
Tim East, manager-risk management business process at The Walt Disney Co. in Burbank, Calif., agreed.

"It takes a lot of time to go out and network," he said. "I've traveled to Walt Disney World over seven times in the last 12 months," because building relationships throughout the company requires visiting departments at various locations, Mr. East explained.

"I could not develop those relationships over e-mails and faxes or even phone calls," Mr. East said. "E-mails are fine for exchanging quick bursts of information, but they are not an effective way of building relationships. And the value of networking and building these relationships, even if it takes hours and days, is invaluable."

Apart from networking and communication, risk managers need to know numbers, Ms. Rogers said. "It is extremely important that we have skill with numbers. We have to be able to analyze those numbers. But not just in finance—accounting is a huge part of what we do. We've got to understand how we impact the P&L (the company's profits and losses) and how what we do impacts the balance sheet. And, by the way, how we can improve both by what we do."

It helps risk managers to be organized "but, more importantly, prioritized," Ms. Rogers remarked. "As risk managers, we're juggling 20 or 30 different things every single day... Not only do



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the elements of a solid future

Internet economy will demand speedy innovation

By SALLY ROBERTS

DALLAS—There is no doubt that Internet technology is quickly driving change in the way people buy products and services, including insurance products. What effect e-commerce will have on the roles and relationships in the insurance industry, however, is not yet clear.

What is apparent, though, is that e-commerce is here, and an electronically connected economy "will require firms to innovate at an increasingly rapid rate," said David J. Dybdahl, chief knowledge officer at Willis Corroon Corp. in Nashville, Tenn.

"An organization's ability to access, harness and apply knowledge will enable it to lead change and to innovate with speed," he said, adding these attributes will define an organization's value in the future.

Mr. Dybdahl shared his thoughts on the future effects of technology on the insurance industry during a session of the Risk & Insurance Management Society Inc.'s annual conference and exhibition, held earlier this month in

Dallas. The development of e-commerce technologies will require the insurance industry to "become much more efficient in delivering its products and



services," he said. Redundant costs and work between insurance buyers, intermediaries and insurers "will need to be eliminated," he said; that will require industrywide data standards for transactions.

"The absence of industrywide standards to produce a common technology platform undermines the effectiveness of the entire industry," Mr. Dybdahl added.

In addition, Mr. Dybdahl asked whether insurance buyers will demand traditional insurance products in the future or if a new generation of

products and services will replace them.

"I don't think anyone likes buying policies. If there were a simpler way," buyers would welcome it, he said.

Referring to results from a 1996 consumer survey, Mr. Dybdahl added that consumers are significantly less satisfied with the value and quality of the services provided by the insurance industry than those from the financial services industry overall.

The survey also showed consumers likely will gravitate toward the new products and services provided by consolidated financial services firms, he said.

"Organizations that want to excel in the integrated financial services industry will need to focus on harnessing and leveraging their knowledge in order to compete" in the future, Mr. Dybdahl said.

The insurance industry's "most important competitive asset" is the cumulative knowledge of the individuals working in the industry, he said. The industry has more knowledge of how to manage risks than any other

competitor entering the market, he said. But because the industry historically has been structured with many independent or branch operations, little has been done collectively to build and use that knowledge, he said.

"Underwriters and intermediaries will have to develop the systems and cultures that will enable them to deliver world-class value" in the future, Mr. Dybdahl said. "The historical operational models of these two sectors of the insurance industry will need to be modified to eliminate knowledge islands that invariably emerge in branch operations."

In addition, insurers and brokers will need to offer a broader range of solutions to risk managers in the future, Mr. Dybdahl said.

"Consumers will demand more customized answers to their risk management needs in the future," he said. This demand will lead to more specialization by insurers and intermediaries, and customers will be less interested in insurance products and more interested in overall solutions, he said. "The vendors in the insurance in-

dustry will need to expand the breadth and depth of their skill sets to address this new demand for world-class knowledge," Mr. Dybdahl added.

Not only do insurers and brokers need to embrace the rapid technological changes taking place, but regulators also must address the changes, Mr. Dybdahl said. "If the insurance industry is burdened by a slow-moving and redundant regulatory system, the whole industry will become an easy target for obsolescence," he said.

"A complex, redundant and inefficient regulatory scheme will slow down the progress of e-commerce in the industry," he added.

The winners will lead change. Those that follow or ignore the need to change will be made irrelevant, he said.

Patricia L. Saporito, vp and director of insurance information strategies at META Group Inc. in Stamford, Conn., also spoke during the session. Anita Z. Bourke, vp and consultant for strategic planning and implementation at Willis Corroon in Nashville, Tenn., coordinated the session. Millie Workman, risk manager for Mueller Industries Inc. in Memphis, Tenn., moderated the session. **BI**

E-commerce risks murky

By MICHAEL BRADFORD

DALLAS—As the Internet grows in popularity, it is creating some thorny insurance coverage issues, experts say.

Businesses with World Wide Web sites may be exposing themselves to some murky—but developing—areas of risk, according to a panel of experts at the Risk & Insurance Management Society Inc.'s annual conference and exhibition earlier this month in Dallas.

Because the Web is so new, all of the exposures of Web-related business are not yet known, the panelists said.

Coverage for Internet risks will "most likely be spawned when we see what the exposures are," said Richard C. Reynell, senior vp at Becher + Carlson Risk Management Inc. in Atlanta. "So all that we can do is think about the protections that we have under our policies" and try to determine whether they will cover some of the anticipated risks the Internet poses, he noted.

Ronald A. Johnson, a systems architect with Zurich Technology Risk Services in San Francisco, said that because "e-commerce is still undefined," it remains impossible to draft standardized insurance coverages.

Employers with commercial general liability policies have to make sure their Internet presence doesn't take them beyond the scope of their coverage, Mr. Reynell warned.

Perhaps, for example, "the Internet exposes us a lot more to advertiser's liability than we ever saw in the past," Mr. Reynell said. Generally provided as an incidental coverage with the CGL policy, advertiser's liability may not respond to some of the developing Internet exposures, he said.

In the past, ad agencies took on a lot of the responsibility for that exposure, making sure ads didn't lie, offend or otherwise expose a business to liability, Mr. Reynell said. But with the Internet, businesses are taking their pitch directly to consumers, with pictures and text describing their products and services. "I think we have to be real, real careful that we're not overextending the bounds of our CGL policy by becoming true advertisers in our own right."

Even property coverages should be examined with an eye toward Internet liability, Mr. Reynell pointed out. "Perhaps there are things that could happen to us—through hackers or just through things that we do to ourselves—that could interrupt the flow of our business.

"Maybe somebody could get in there, break through the firewall and stop products from being sent, manufactured or whatever. Do our property policies cover us for that business interruption?"

Mr. Johnson of Zurich Technology pointed out that "there's also service interruption liability. If your customers can't continue to do business with you, is there a liability on your part?" Also, intellec-

tual property, copyright infringement and patent infringement all are becoming liability issues for businesses that engage in e-commerce, he said.

Mr. Reynell reminded risk managers that schools providing Internet access to students could face litigation if a child pulls up offensive information. A parent whose child was emotionally upset by the information could file a lawsuit, he said. "Now, does our personal injury coverage under a CGL policy cover that? I hope so, but I'm not really sure."

Another panelist asserted that businesses have a responsibility to safeguard sensitive information.

Businesses that are buying and selling over the Internet should consider whether they are "protecting personal information you are going to be collecting from your customers," said Lorelie S. Masters, a managing partner with Anderson Kill & Olick in Washington.

Stored data, including names, addresses, telephone numbers and credit card information, is available to hackers who successfully break into a system, she said. "Are you, as a vendor out there in

cyberspace, adequately protecting that kind of critical personal and financial information that you're able to collect from your customers? Is there a way that somebody can hack into the electronic commerce area of your Web site and hijack that information?" Risk managers should have a

privacy policy at the site that explicitly explains how sensitive information will be used, Ms. Masters suggested.

Mark Pruner, president of Web Counsel L.L.C., a Web site marketing company in Rye, N.Y., said an employer's biggest security threat comes from inside. "Your biggest issue on the security side is not how well your fire wall works," he said. Instead, it's the possibility of tampering by insiders, who often are not suspected of foul play.

The hacker usually turns out to be a "very hard-working person, generally a male. He was naturally curious; he injected himself into operations throughout the company. He knew a lot about how the company worked, and not only in his division. He also tended to work very late. So he looked like a real dedicated go-getter."

The hacker generally "is not the guy in the mail room with the long hair," but usually is someone who works alone, Mr. Pruner said.

He urged businesses to think about putting in "interior fire walls" that control access by employees. "As the entire company becomes wired, you're going to need tiered security."

Mr. Pruner told attendees it is crucial for them "to protect your company's assets from your company's employees," which is a difficult task, as many workers tend to do work over many areas of an organization.

The session was moderated by Wes Kautzi, risk manager at Sprint Corp. in Overland Park, Kan. The coordinator was Ms. Masters. **BI**



Options in weather cover

Insurance, derivative products available

By ROBERTO CENICEROS

DALLAS—Risk financing options for weather-related risks are expanding for risk managers.

Many commercial insurers currently are eager to write weather insurance policies for businesses at the same time as capital markets are offering derivative products to respond to weather-related losses, an insurer and broker said during a session at the Risk & Insurance Management Society Inc.'s annual conference and exhibition earlier this month in Dallas.

Accounting rules and taxes are among the many issues risk managers will want to weigh in determining whether a derivative or insurance product is right for their company, said Michael Luck, product line manager-combined risk programs for CIGNA Property & Casualty Special Risk Facilities in Philadelphia.

The two risk financing options differ in several aspects, noted Edward S. Koral, senior vp for Marsh Inc.'s Global Risk Finance Department in New York.

Weather insurance indemnifies a policyholder when a loss occurs, but the loss must be a consequence of a specific weather event, Mr. Koral explained. For example, a loss in retail customer traffic might result when a certain amount of snowfall occurs during specific hours. Or, crop yield losses may result because of the amount of precipitation that falls on specific days.

In contrast, a derivative product offers a fixed payout after a specific weather event occurs, such as 6 inches of snow falling over a specific period. Unlike weather insurance, it is not tied directly to a loss that results from the weather event, he said.

Various industries could benefit from either product, the speakers said. For example, an energy company could benefit when earnings from the consumption or production of its product fluctuate because of weather. In addition, an entertainment company could use such products for reduced event attendance resulting from weather conditions, Mr. Koral said.

The range of possible triggers is broad,

including high and low temperatures, wind speed, snow depth, or number of hours of sunshine.

One difference between the two risk financing products is that insurance policies require loss adjustment before indemnification can occur.

As a result, insurers may pay out less than policyholders believe they lost, the speakers said. Additionally, the adjustment process can take weeks or months, Mr. Koral said.

On the other hand, the payoff under an insurance policy could exceed expectations if loss expenses rise beyond anticipated levels, Mr. Luck added.

Under a derivative contract, for example, additional and unanticipated expenses are not covered, he said.

Yet under a derivative contract, the contract holder can profit from a payout that exceeds what they would have earned had the triggering event not occurred.

In contrast to an insurance settlement, a capital market payout does not require a loss adjustment process, and the fixed payout can come in days. There are few questions asked, because it is easy to verify that a certain weather event occurred, such as a certain amount of snow falling at a particular time, Mr. Koral said.

In capital market contracts, the purchaser may have to shoulder more "basis risk," or the deviation from an expected outcome. For a municipality charged with snow removal, for example, the basis risk involves a prediction of how much it will cost to clean up a certain amount of snow. Basis risk is a "big difference" between the capital markets and insurance, Mr. Koral said.

"If I am wrong on that prediction I get to pay for that, not the insurance company," he said.

Issues surrounding accounting standards and the related taxes that may be owed for a derivative payout also are significant considerations, Mr. Luck added. Taxes do not result from insurance indemnification for a loss. But a derivative can generate a tax expense if the payout is not highly correlated to a loss, in which case it is viewed as an investment and not a hedge against losses, he said.



Companies urged to export safety culture

By GAVIN SOUTER

DALLAS—To effectively manage international workers compensation exposures, health and safety managers must travel to countries where their organizations own plants, occupational health experts say.

Differences in working conditions and employment laws mean that U.S.-style health and safety management cannot simply be exported to overseas subsidiaries, a panel of experts said at the Risk & Insurance Management Society Inc.'s annual conference this month in Dallas.

Only by visiting overseas plants can managers hope to garner adequate claims information and ascertain what measures are needed to ensure safer workplaces, the panelists said.

Non-U.S. workers comp exposures should not be treated in the same way as exposures within the United States, said Dr. Craig O. Weber, director-occupational health services, North America human resources at International Business Machines Corp. in Somers, N.Y.

"Otherwise you will be missing significant potential risks. . . . You have to go there, look at the operations and get under the covers," he said.

Culturally and physically, workforces in other countries can be very different from those in the United States, said Dr. Weber.

For example, many countries require foreign-owned corporations to provide housing for their employees, and in other countries it is necessary to supply housing to attract employees, he said.

Often the housing is in cramped dormitories, with employees living close to each other, Dr. Weber said. "So a simple flu epidemic or a food-borne illness can shut down a plant."

To address these problems, health and safety managers need to ensure that the dormitories are as sanitary as possible and that cooking facilities are kept clean, Dr. Weber said.

In some countries, employers are also expected to supply transportation for their workers, he said.

Buses in Third World countries often are not well-maintained, and even though safer alternatives may be available, local managers may not seek them out, Dr. Weber said.

Attempting to apply U.S. processes such as ergonomics can create problems in foreign subsidiaries as the average worker size may differ, he said.

"How can you take a machine that is properly ergonomically designed for a 5-foot-6-inch to 5-foot-10-inch North American and then put it in a country where the average height is 4-foot-10-inches to 5-feet?" Dr. Weber asked.

Cultural differences also can lead to health and safety problems, he said. Some countries do not have a culture where workers complain about working conditions, so if there are health and safety problems at a plant, management might need to seek them out rather than wait for workers to point them out, Dr. Weber said.

While U.S. safety standards cannot easily be exported, a more assertive approach to safety management often can be, Dr. Weber said. And both employees and managers in other countries are often receptive to the new ideas, he said.

"One of the things that shocked us was that, when you brought the issues forward, there was a wonderful response," he said.

For example, IBM's facilities in Brazil had a problem with repetitive strain injuries in 1997. In 1998, the company instituted a policy of early intervention with physical therapy. Even though the number of cases in-

creased, the number of employee-days lost to disability fell to 558 in 1998 from 2,301 in 1997, Dr. Weber said.

IBM's Brazilian operations already had an onsite clinic, but prior to the new program it was used mainly by workers with colds and flu rather than work-related injuries, he said.

One of the main problems U.S. health and safety managers face when they oversee foreign operations is the collection of reliable information and data, said Ronald B. Loizzo, global casualty manager-corporate risk management and insurance for Colgate-Palmolive Co. in New York.

As a result, an employer may have trouble finding the best way to finance its workers compensation exposures, Mr. Loizzo said.

For example, Colgate's subsidiary in Argentina bought workers comp coverage directly from a local unit of the Spanish insurer Mapfre S.A. after Argentina privatized its workers comp system in 1996, he said. But Mr. Loizzo said it was difficult for him to obtain information on the program because the local human resources department handled it.

"And I didn't have the same relationship with the HR people in Argentina as I did with the financial people," he said.

But by visiting the subsidiary, Mr. Loizzo determined that workers comp rates were low immediately after privatization but had increased sharply after one year. Local managers had little information on alternative insur-

ers because they purchased the coverage on a direct basis, he said.

By using an insurance broker instead, the local company was able to buy alternative coverage for a lower premium, Mr. Loizzo said.

Workers comp issues will increasingly become concerns of risk managers with international exposures, said Dr. William R. Craig, a consultant at William M. Mercer Inc. in San Francisco.

"There's no doubt that over the past couple of years there's been a significant shift from seeing workers comp as a public benefit to an employer's responsibility," he said.

Previously, many countries had state-financed disability systems, and there was little incentive for employ-



ers to improve workplace safety, said Dr. Craig.

Several countries, including the Netherlands, Australia and Argentina, have privatized their workers comp systems during the past several years. Similar moves are being considered elsewhere, including New Zealand, Mexico and Brazil, he said. In addition, some countries are giving tax breaks to employers for loss prevention efforts, Dr. Craig said.

Jack Fitzsimmons, vp at J&H Marsh & McLennan Inc. in San Francisco, moderated and coordinated the session.

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Sharing the wealth

Risk managers urged to work with financial officers

By RODD ZOLKOS

DALLAS—Closer involvement with their companies' chief financial officers and treasurers can benefit risk managers in their own programs while furthering the company's financial goals.

"The further you report into the financial hierarchy of your company, the more privy you are to information about the company," said Mary Lynn "Mel" Bangs, risk manager for Patriot American Hospitality Inc. in Dallas.

"The worst thing is to have an underwriter read about your company in the paper and you don't even know about it," said Ms. Bangs, who moderated and participated in a panel discussion earlier this month at the annual conference of the Risk & Insurance Management Society Inc. in Dallas.

At the same time, a close relationship with risk management can benefit the company's financial side by providing additional financial analysis expertise, helping avoid year-end surprises and by minimizing the risk of environmental liability arising from mergers and acquisitions.

"With mergers and acquisitions, buying new properties and selling properties, environmental impairment is getting more and more important," Ms. Bangs said.

Joseph T. Scharff, vp-administration and treasurer at Subaru of America Inc. in Cherry Hills, N.J., noted that after the acquisition of his company in 1990 by Fuji Heavy Industries Ltd., Subaru of America's risk management operation, which had been under the company's legal department, began reporting to him.

"I really didn't have much exposure to the insurance side of the business," he said. "At that time, I had a very typical view that, 'OK, you buy insurance for your buildings and other types of exposures.'"

So, when risk management came under his jurisdiction, "there was a learning curve for me," Mr. Scharff said.

"I don't think that's unusual," he said. "In the financial world, we have a language, too." He added that in the company's present structure, "One of my roles really is to kind of bridge the gap between risk management and the financial area."

In doing so at any company, risk management issues must be presented to finan-

cial executives in an understandable fashion, the Subaru of America treasurer said.

He encourages risk managers working with the financial side of their companies to "be careful with terminology," cautioning that financial officers "don't have time to learn the lingo of the insurance world."

"When you're explaining things to management, keep it simple," Mr. Scharff advised. "You're not going to educate them. You're not going to make them risk managers or insurance experts."

Mr. Scharff said that as he began to learn more about the risk management function, he became increasingly aware of how it could help advance his company's goals.

At the same time, his key expectation of risk management is that it understand the company's strategy and goals and support the core business, particularly

through helping keep the company's manufacturing facilities operating at the most efficient level.

"Nobody wants to wake up with a big surprise on their hands," Mr. Scharff said. "It can reflect badly on risk management. My objective is to build the credibility of the risk management department throughout the organization."

In the future, Mr. Scharff said, he hopes to integrate Subaru of America's risk management program into the company's sales and marketing functions. The more a company integrates risk management with various functions, the more value risk management can provide the company, he said.

"A vast amount of sales are being made through the Internet," Mr. Scharff said. "What kind of risk is there?"

He also hopes to expand the use of the company's Bermuda-domiciled captive. "If you can make the captive a profitable business entity, you're not going to have any problems with management," he said. "But if you start taking losses that flow up to the parent, you'll have a lot of trouble with upper management."

Gregory K. Myers, senior vp at Becher & Carlson Risk Management Inc. in Princeton, N.J., noted that CFOs and treasurers typically don't see a need to be involved in day-to-day risk management. They prefer to be kept aware of what's being done and have input when major decisions are made.

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Balance sheet risks

Managing a company's enterprise risks brings rewards

By RODD ZOLKOS

DALLAS—Too often, companies view their balance sheet risks as the "cost of doing business," but effective management of balance sheet risks can provide earnings stability and, with it, increased financial reward.

"Without risk there really is, and can be, no reward," noted Kay K. Rahardjo, a vp and actuary with Liberty Mutual Insurance Co. in Boston.

But, with shareholders expecting strong results, "risk can ruin even the best-laid plans," said Ms. Rahardjo, who coordinated and participated in a session on managing balance sheet risk at the annual conference and exhibition of the Risk & Insurance Management Society Inc. in Dallas earlier this month.

Ms. Rahardjo noted that, typically, "risk management" is defined differently in different areas of a company. And, "traditionally, risk has been independently managed throughout the organization," she said. "This approach is inefficient."

Too often "there is no best practice as to how risk is being managed throughout the organization," said Christopher M. Lewis, senior manager in the risk management and regulatory practice of Ernst & Young L.L.P. in Hartford, Conn. "There is no common language. What is risk financing? What is risk transfer?"

Increasingly, however, risk management is being incorporated into companies' strategic decision-making, Mr. Lewis said, and with that move, organizations are taking a more coherent view of risk management.

"The end goal of this process is to be able to understand the firm's strategy, measure those risks that it is exposed to, understand them and manage them on a portfolio-wide basis," he said.

"The first step in any kind of enterprise risk management program is to inventory the organization's exposures and assess how they're being managed," Mr. Lewis said.

The identification of risks "must include the business risks and business exposures in addition to the hazard risks," said Ms. Rahardjo.

The next step is to set priorities for addressing those exposures. "Once you understand that priority of risk, you go through the process of trying to measure them," Mr. Lewis said.

Techniques such as Monte Carlo simulations, which model the probability of the occurrence of certain events, provide a way of measuring the company's "value at risk" under different scenarios, with an eye toward making a final decision on how best to manage various exposures.

"Each company will use control and risk financing techniques based on its own risk ap-

petite," Ms. Rahardjo said.

"Although your company may be strong enough to survive a major loss, you really don't want to sustain the impact of a major loss on your earnings in any one year," she said.

The key, said Mr. Lewis, is to be sure that the approach to managing the risks across a company's balance sheet is consistent with the company's long-term strategies.

Any such attempt should be based in a formal, board-approved risk management policy that has the effect of institutionalizing that approach, Mr. Lewis said.

And, Ms. Rahardjo added, "Always remember that the outcome of your overall strategy should reflect your company's risk tolerance."

To ensure that that remains the case, the organization should institute regular risk management committee meetings and hold them at least quarterly. Those meetings should include operating managers as well as representatives of treasury, human resources and risk management.

Also, the organization must set specific goals for the balance-sheet risk management program in order to truly monitor its performance, Ms. Rahardjo said. "Make sure you establish measurable, quantifiable goals," she said. "Wherever quantifiable goals are not possible, establish qualitative goals."

Despite all the talk about managing enterprise risks, session moderator Pamela G. Rogers, assistant treasurer, risk management at Sears, Roebuck & Co. in Hoffman Estates, Ill., said there's a certain level of frustration on the part of those currently trying to make such programs reality.

"Everybody tells you they can help you finance 'it,'" Ms. Rogers said. "But nobody can tell you what 'it' is."

In her case, Ms. Rogers estimated, it would take three years to determine what "it" is at Sears—identifying the risks to be managed across the spectrum of the organization's exposures.

True enterprise risk management includes such exposures as managerial risk and reputational risk, Ms. Rogers noted, adding, "There are many risks in our companies that are not very quantifiable." But, she said, "There are consultants that can help you... and it can be done."

Rather than any "huge gaping holes in managing the risks of our company," what Ms. Rogers said she expects to find at Sears that people are "overmanaging risks, because people are managing in little pockets."

Ultimately, she said, "I think we will finance less and finance better," adding "I think you have to go through that up-front pain to get the long-term gain."

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Disaster planning lessons emerge from Canadian storm

By AMANDA MILLIGAN

DALLAS—While 20th century human ingenuity has made comfortable living possible in virtually any climate, a natural disaster can change that overnight.

In January 1998, both city dwellers and rural residents of eastern Ontario and parts of Quebec were plunged into darkness, bitter cold and disbelief. A record four inches of freezing rain over five days knocked out power—and interrupted daily life—for up to five weeks in some areas.

Utilities and risk management professionals said that lessons from this disaster could be useful if Year 2000 problems disrupt normal activities.

Contingency planning and awareness that exposure in one area can lead to problems elsewhere are keys to risk minimization, said Dennis M. Anderson, vp and director of engineering for Protection Mutual Insurance Co. in Park Ridge, Ill. Also critical is communicating information in a timely manner to those in disaster areas, he said.

"There are lots of vulnerabilities

out there," said Mr. Anderson. "If you look at our infrastructure—electricity, telecommunications, water—when we interrupt those, everything comes to a screeching halt. The response is to know what you're going to do when it does."

Mr. Anderson was one of four speakers during a session at the Risk & Insurance Management Society Inc. annual conference and exhibition

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in Dallas.

Beyond the inconvenience that comes from utility outages, there are risks that could lead to property loss, Mr. Anderson said. During the Canadian ice storm, these risks were abundant, ranging from collapsing roofs to fires caused by hot work to food spoilage.

"Yes, the lights are out, but there

are a host of property risks that could manifest themselves," said Mr. Anderson. "Our goal when (catastrophic events) happen is to keep a bad situation from becoming worse." Comparing disaster relief efforts to the work of mobile army surgical hospitals, he said, "It was like M.A.S.H.—we did triage."

When preparing a contingency or emergency plan, Mr. Anderson warns that the simplest details can become pitfalls. One such example is having a cellular phone but not knowing the phone number.

During a catastrophe, lacking these details can be more than just frustrating; it can take up valuable time, Mr. Anderson said.

Two weeks after the ice storm, another storm system hit the area, blanketing the region with a foot of snow. Residents and businesses had to fall back on their advance planning again.

"People got very inventive and creative in the course of our discussions, talking about what their vulnerabilities are and how they might be able to respond to it. They went and got com-

pressed gas cylinders... People found portable generators... We did creative things to minimize the effect of sprinkler system impairments," Mr. Anderson said.

C.M. "Merv" Beckstead, Ottawa-based chief administrative officer for the regional municipality of Ottawa-Carleton, said his area learned many lessons from the ice storm.

Although there was an emergency plan in place, Mr. Beckstead said "it did not anticipate a regionwide emergency." The plan did not define the essential personnel that would be needed to help, and it lacked a good method of record keeping for the regional call center.

Communication efforts must reach everyone affected by the emergency, Mr. Beckstead noted. In Ottawa-Carleton, where 15% to 20% of the population speaks French, announcements should have been broadcast in French as well as English, Mr. Beckstead said, but they weren't during the January 1998 emergency.

In Quebec, downtown Montreal was closed for three business days while Hydro Quebec attempted to re-

store power to 1.5 million customers, said Jocelyne Lee, manager-treasury, risk management and insurance, and assistant treasurer of Hydro Quebec in Montreal.

After the storm, Hydro Quebec diversified its power supply corridors to affected regions so that strategic substations are now supplied by separate sources. Additionally, the utility revised its insurance program. Before the storm, Hydro Quebec purchased separate coverages for its various risks, but after the disaster integrated its property and casualty risks, extending coverage to new assets as well as weather and precipitation risks.

"I think that everybody in Quebec realized how dependent we were on electricity," said Ms. Lee. "I think we're better geared for catastrophe."

Bruce Lillico, distribution superintendent for Ottawa Hydro, also spoke on the importance of communications with employees during a disaster.

Grant Suffel, manager of administrative services for Ottawa Hydro, moderated the session.

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Risk managers told to look in many areas during M&A

By DAVE LENCKUS

DALLAS—Before merger and acquisition deals close, risk managers at acquiring companies have little excuse for not unshrouding the numerous kinds of risks that can lurk behind the business benefits of the transactions, according to a risk manager and a policyholder attorney.

The evaluation process may seem overwhelming at times, but the payoff can be big: The deals may be revamped to better protect the acquiring company, or the acquiring company may decide the best deal is no deal.

The process does not begin with analyzing the target company's insurance, which is the first measure many risk managers like to take, said Coleen A. Koester, director of risk management at American Standard Inc. of Piscataway, N.J.

"I think the first thing, as a risk manager, you have to do is understand the deal your organization is making," Ms. Koester said during a session she moderated at the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas earlier this month.

Risk managers first have to understand whether the deal involves an acquisition of a defined group of assets or of stock.

An acquisition of assets leaves the seller as a surviving independent entity, but risk managers have to question whether that entity will be able to meet its commitments.

In a stock transaction, the buyer acquires the seller's liabilities as well as assets.

A statutory merger would expose the buyer to problems associated with companies the seller previously had purchased or sold, noted policyholder attorney Finley Harchkam, a partner with Anderson Kill & Olick P.C. of New York.

Ms. Koester advised risk managers to also work with their organizations' legal and environmental departments in an effort to spot areas of concern for all three.

Risk managers should examine what plans their senior managers

have for the combined companies after the deal has closed, because those plans will affect risk management, according to Ms. Koester.

For example, if the combined operations will mean greater efficiencies,



management may plan on closing some plants. Those closures could lead to workers compensation claims, which typically increase before announced layoffs.

In addition, plant closings could bring environmental problems of the acquired company's making to the surface, she said.

Mr. Harchkam noted that an acquiring company can face successor liability in an asset purchase as well as in a stock purchase or a statutory merger. For example, he explained, an asset purchase can lead to successor product liability if the buyer is a "mere continuation of the seller or if the deal was designed to fraudulently avoid liability."

While attorneys sort out whether successor liability can be imposed on the buyer, a risk manager during the due diligence phase of the transaction should evaluate the potential exposure his or her company faces in acquiring the target company, according to Mr. Harchkam.

In particular, risk managers should be trying to identify potential deal-breakers, such as asbestosis and other environmental exposures, Ms. Koester said.

They also should quantify the target company's various exposures, which could affect the target's purchase price, and ensure that existing coverage is adequate, she said.

Risk managers' evaluation of the target company should cover five key categories, according to Ms. Koester and Mr. Harchkam:

- **Assets.** Prior-use reports on property are among the many pieces of useful information for detecting potential environmental problems, Ms. Koester said.

- **Property.** Site inspection reports "give me a real flavor on housekeeping and maintenance" and are "very indicative of related issues like safety and company culture," she said.

- **Reports.** On closed or sold sites, which should include information on discontinued products, are more useful for stock deals, she said.

- **Employees.** Risk managers should assess the age of the workforce and whether the target company has been their only employer. If the workforce has been stable, "whatever is wrong with them will be your responsibility," Ms. Koester noted.

- **Various health and safety surveys and experience modification factors** also show employee-related risk that would be acquired.

- **Third parties.** Review the target company's litigation history and ask yourself, "What are they not telling you?" Ms. Koester advised. For example, "if you suspect product liability or warranty claims and nothing is supplied, ask questions," she said.

- **Risk managers also should examine warranties issued by the target company.** "If they felt the need to do that, maybe they're trying to re-establish a product in the marketplace," which could indicate some past liability issues with that product, Ms. Koester said.

- **In addition, a review of key customers and suppliers** "tells you about contingent business interruption exposures," she said. "Do they sell an inordinate amount to one customer? Is that operation all under one roof?"

- **Operations.** Look for environmental reviews of operations, Ms. Koester suggested. "The fact of whether there are or aren't any is very important," she observed.

- **"A neat place to look for things"** is in capital expenditure requests, because the requests may indicate inefficiencies in plant operations or defects in structures, she said.

- **The footnotes of auditors' reports** is

a prime location for information on "anything out of the ordinary," she said.

- **Risk management and insurance.** Ms. Koester and Mr. Harchkam advised risk managers at acquiring companies to audit the insurance portfolios of target companies and their predecessor companies as well as examine their own coverage to determine where it may apply.

- **Mr. Harchkam suggested asking not only the target company but also its past brokers to provide coverage information.**

- **With the target company's coverage, "look for unusual endorsements or exclusions. That can be a tipoff" to some problems, Ms. Koester said.**

- **Mr. Harchkam agreed. For example, he said, even if decades-old coverages do not contain pollution exclusions, some written from the early 1960s through the 1970s included so-called "deemer clauses" that would limit coverage for pollution losses. Such a clause states that a loss that occurs over several policy periods will be deemed covered only by one policy, usually the latest one.**

- **Mr. Harchkam also warned risk managers to watch for policies with aggregate limits and to ascertain how much coverage erosion has occurred. Except for product liability insurance, most pre-1996 policies did not set restrictions on how much in aggregate limits the underwriter will pay, he noted.**

- **In addition, risk managers should try to determine which state's laws govern the target company's insurance policies, Mr. Harchkam advised.**

- **The responsibilities of the target company in a group captive also can be troublesome. Indeed, for American Standard, it was a "deal-buster" in one transaction, Ms. Koester noted.**

- **Ms. Koester discovered that a small company that American Standard had agreed to purchase in a stock transaction was the lone solvent co-owner of a group captive. To avoid assuming the liabilities of the captive, American Standard restructured the transaction as an asset purchase.**

- **Risk managers should not be look-**

ing just for problems at target companies, though. Ms. Koester advised them to also be watchful for "sweet-heart deals" that the target company may have negotiated for environmental and product liability coverage.

The key benefits of conducting an insurance audit is that the buyer can get a better grasp of the seller's liabilities. The buyer then can determine which liabilities it will accept—and to what extent—and the rights to the seller's insurance can be worked out in advance, Mr. Harchkam said.

All of that can have a bearing on the price paid for the target company, Mr. Harchkam said.

As risk managers look for policies in the seller's portfolio that would cover the seller's long-term liabilities, they also should examine whether their own organization's policies may cover the seller's liabilities after the transaction closes, he advised.

The final draft of the transaction, though, does not signal the end of the risk manager's job in evaluating the deal, Ms. Koester said. Risk managers also should analyze the representations and warranties the seller makes in the sale contract.

For example, if the seller states in the contract that it has disclosed all known product liabilities, the risk manager should examine whether that representation is time-limited or tied to the personal knowledge of a few select individuals, Ms. Koester said. If so, there may be more problems than those disclosed, she said.

Risk managers also should watch for warranties—especially those stating the seller has no environmental liabilities or no environmental studies under way—that are voided if the buyer conducts its own investigation on the issue, Ms. Koester said.

Such a warranty is particularly troublesome for buyers that intend to close down a plant after the transaction, because such investigations generally are mandatory, Mr. Harchkam noted.

Ms. Koester advised risk managers to work to remove such a warranty or to "warn management that we have no protection." **BI**

Communication key for risk managers in special events

By SALLY ROBERTS

DALLAS—While hosting a special event or putting the company's name on a promotional item is a good way to increase visibility and name recognition, it also can open the doors to increased liability.

To avoid surprises, careful pre-planning is a must for risk managers, according to Michael J. Niehaus, corporate risk manager at Penske Corp. in Detroit; Penske owns several racing tracks and sponsors several racing teams.

Mr. Niehaus offered special event loss control advice during a session at the Risk & Insurance Management Society Inc.'s annual conference and exhibition in Dallas earlier this month.

"Lack of certainty causes nightmares," Mr. Niehaus told attendees. To prevent them, the first thing risk managers need to do is identify key company personnel and contacts, such as people in the legal, operations and promotions/marketing departments, as well as key executives.

Once key contacts have been identified, risk managers then must become risk educators, communicating the insurance and exposure issues arising from sponsoring a special event, Mr. Niehaus recommended.

People in the company often will assume that it is covered for such an event, he said. They need to understand, however, that there are exclusions and limitations within insurance policies, he added.

"Point out to your company people that your policy has restrictions," Mr. Niehaus said.

In terms of contractual concerns, risk managers should "point out that within those contracts, there must be insurance language that describes who is responsible for what," said Mr. Niehaus, adding specifically that who is responsible for the liability should be spelled out in the agreement.

"I find that the more specific you are, the better," he said of his experience at Penske Corp.

Mr. Niehaus also said that risk managers need to communicate within their organizations that people must document how the contract or agreement for an event was put together and must be specific in describing who does what, at what time and for what amount of money.

"If there is no legal document, put a paragraph in the agreement that describes how (the event) will be put together," he advised.

In addition to communicating and educating company people on insur-

ance issues involved in sponsoring a special event, it is just as important to get the company's broker and insurer involved early in the process, Mr. Niehaus said.

Not only do brokers and insurers need to know the company is hosting or sponsoring a special event, but risk managers also should check whether their broker or insurer has safety or loss control people that can help the company analyze the risks



involved, Mr. Niehaus said.

There are many exposures risk managers need to consider when sponsoring or hosting a special event, he continued.

For example, risk managers should consider exposure to personnel, he said. If the company decides to use a small outside company to help in the event, are those employees covered by workers compensation? he asked. What about subcontractors?

"We use quite a bit of volunteers,"

Mr. Niehaus said, referring to Penske's racing events. "There are a variety of exposures there."

Third-party liability exposure is "the one that gives you the most nightmares," he said. Risk managers need to be on top of how the public is brought into and out of the facility where the special event is held.

In addition, risk managers need to understand there might be product liability exposure if the company is attaching its name to a toy or product given out at an event.

Serving liquor at a special event creates more exposure to a company. Mr. Niehaus recommended having a catering service provide the liquor, though a risk manager should make sure the caterer has sufficient insurance and loss control mechanisms in place.

To handle these varied exposures, Mr. Niehaus suggested that risk managers build awareness and visibility within the company. People need to understand that risk management needs to be involved in the planning of special events.

He also suggested that risk managers develop model insurance specifications and contract language for special events that they would like to see in their insurance program.

Risk managers should review any

coverage brought by other parties, such as subcontractors, and obtain additional insured status, Mr. Niehaus said.

He also suggests that risk managers obtain waivers and signed releases for any "hazardous" exposures. "If a special event involves potential exposure to the public, there are legal waivers that need to be signed and executed," he said.

Risk managers also should establish incident reporting procedures before a special event takes place. For example, the company needs to understand who will be investigating any incidents that take place, he said.

Risk managers also need to be aware that if a special event is taking place in a different state, "what works in one state may not work in another," he said, referring to insurance and legal issues.

Sandra Sampson, senior vp at Near North Insurance Brokerage Inc. in Atlantic City, N.J., also spoke during the session. Dorothy Chmielowski Holden, manager-insurance for the Tribune Co. in Chicago, moderated the session, and Dana Berry, senior vp-managing director in the entertainment and leisure practice at Near North Insurance Brokerage Inc. in Chicago, coordinated the session. **BI**

Reworking jobs, benefits can boost productivity

By DAVE LENCKUS

DALLAS—Risk and benefit managers responsible for disability and health claims can help their organizations maintain productivity and profitability despite a growing shortage in skilled labor, a panel of experts says.

Employers must stop viewing benefits—from sick days to health care to disability coverage—as entitlements and instead redesign them to promote productivity, the panelists agreed.

Risk managers also should understand the business risks and opportunities associated with job designs and encourage job redesigns that will promote productivity gains, the panelists said during a session at the Risk & Insurance Management Society Inc. annual conference and exhibition in Dallas earlier this month.

"Most of the businesses you're in today are faced with a major transformation and task if you're going to survive," said Peter D. Moore, managing partner of New York-based Inferential Focus, a market intelligence firm that identifies and analyzes economic and social trends.

Major societal changes over the past 10 years will force employers to "let go" of their traditional conventions on benefits and jobs, he said.

By 2006, the United States will face a skilled labor shortage of 2 million, according to the Bureau of Labor Statistics.

Meanwhile, young workers today no longer see companies as potential lifetime employers. They are less interested in climbing the corporate ladder and maximizing income than they are in earning a comfortable income at a challenging job while balancing work and family life, Mr. Moore said.

At the same time, many companies that are unable to grow business organically are merging or acquiring others. But that "can be very disruptive" to productivity, Mr. Moore said.

Companies continue to search for ways to increase efficiency and productivity, but they are dealing with a workforce that is "already maxed out" from the stresses in their professional and personal lives, he said.

And employees who keep their jobs are as likely to contribute to increased disability claims, particularly psychiatric and substance abuse claims, as are workers who are expecting to be laid off, Mr. Moore noted.

"You have to realize the impact on human capital" that societal and economic changes have wrought, he said.

Companies need to find new ways to stimulate innovation and growth with today's workforce, keeping in mind that women and individuals of ethnic and cultural diversity are making up more of the labor pool, he said.

The problem for companies searching for ways to increase productivity is that there are no clearly defined alternatives to what they are doing today, so chief executive officers "are reluctant to let go" of those ways.

But some organizations have demonstrated a correlation between employee and customer retention and bottom-line performance, he said.

For example, management at a Tennessee bank concerned with margins focused on employee and customer retention rather than reducing costs in recent years. Within two years, the bank had a 55% increase in profits by increasing employee retention 20% and customer retention 7%.

Joseph F. Braunstein Jr., a senior vp for managed disability with Philadelphia-based CIGNA Corp., agreed employers will be more successful in growing their business by shifting their emphasis from minimizing costs to optimizing human capital. That shift should be marked by efforts to

retain valued employees and return them to work as soon as practicable after an injury. He outlined several measures to accomplish that shift:

- Redefine jobs. He recommended focusing on productivity and outcomes, not maximum hours worked and job descriptions. Jobs should be fitted to people, not vice versa, and all workstations—even telecommuters—should be ergonomically designed.

- Redesign benefits, with flexibility as the key goal. Benefits should focus on wellness and on illness and injury prevention, he said. He suggested capping days off for short-term absences and establishing banks of paid time off for workers to use, for example, to care for sick children.

He also suggested providing disability coverage for all employees. That will allow the company to better manage disability absences, he said.



He noted that only 22% of absenteeism in 1998 was due to illness. Much of that absenteeism can be eliminated, resulting in increased productivity, by providing flexible work

hours, transportation and onsite care. Mr. Braunstein said.

- Integrate benefits to achieve total productivity management.

Mr. Braunstein suggested employers intervene early in all disability cases and handle all absences uniformly. Every claim should be managed to its optimal outcome, with a focus on return to work, he said.

One employer provides an unlimited number of trial work days to ease injured workers back onto the job, he said. He also noted that many insurers try to find another employer for an injured worker who is unable to return to his or her previous job.

Mr. Braunstein advised attendees to ensure their disability contracts en-

courage and reward return to work.

- Leverage the potential of workers with disabilities, who comprise "a huge untapped market for skilled workers." A recent study found 79% of people with disabilities who are not employed want to work, he said.

Session moderator Pat DeJesus, manager of benefit plans for Delta Air Lines Inc. of Atlanta, outlined several measures Delta is considering or implementing to boost productivity:

- Subsidizing the cost of public transportation to reduce employee stress from commuting to work.

- Creating a bank of days employees can use to care for sick children.

- Establishing transition duty and work-hardening programs to get injured workers back on the job.

Gloria Barone, director of communications for CIGNA Group Insurance, coordinated the session. **BI**

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INTERNATIONAL ADJUSTERS AND SURVEYORS

Claims-handling practices vary globally

By EDWIN UNSWORTH

DALLAS—While each insurer has its own methods of dealing with global claims, risk managers who want timely and full payment of global claims should become familiar with insurers' general requirements before filing any.

This was the main point that emerged from a presentation by two insurers in a session on global claims at this year's annual Risk & Insur-

ance Management Society Inc. annual conference and exhibition earlier this month in Dallas.

The speakers also said that managers should bear in mind the importance of local experts, such as claims adjusters and brokers, to insurers' claims-handling approaches.

Larry Crotser, vp and claims manager for Gerling America Insurance Co. in New York, said insurers' primary requirement when dealing with global claims is an efficient and accu-

rate flow of information.

The lesson for risk managers is to provide all information relevant to a claim as comprehensively and swiftly as possible, because, according to Mr. Crotser, insurers don't like unpleasant surprises.

Diana Kollin, New York-based assistant vp and director of global claims for Liberty Mutual Group, emphasized that risk managers should bear in mind that "what applies in the U.S. is not always stan-

dard outside the U.S."

She explained that outside North America, claims handling is "usually done in a more gentlemanly, slower fashion by local partners," sometimes to the frustration of U.S.-based insurers. These insurers, however, can mitigate problems by maintaining good communications with local adjusters. In addition, insurers should allow local adjusters to negotiate claims on their territory in order to get the best settlement terms, she said.



Mr. Crotser agreed, saying that insurers such as Gerling America use local experts because they are the people who best know how things are done in their own regions.

Maria Medeiros, director of risk management for EG&G Inc. of Wellesley, Mass., moderated the session. **BI**

Business Insurance 1999 Risk Management Honor Roll



PHOTOS: MICHAEL MARCOTTE

At a private luncheon during RIMS' annual conference and exhibition in Dallas, *Business Insurance* Editor Paul D. Winston presented awards to members of the 1999 Risk Management Honor Roll. Pictured, from top, are: Mr. Winston and Sheryl A. Pixler, risk manager of Storage Technology Corp.; David A. Holcombe, left, risk manager of International Speedway Corp./NASCAR and 1998 Honor Roll member James E. Green, risk manager of Justin Industries; Mr. Winston and Lewis Leigh, executive director of the Washington Cities Insurance Authority. Above are, from left: *BI* Senior Editor Rodd Zolkos; C. Timothy Morris, CEO-national accounts at Travelers Property Casualty Corp., one of NASCAR's insurers; Mr. Holcombe; and 1999 Risk Manager of the Year Merritt W. Fabel, director of corporate risk and insurance at American International Group Inc.

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Claims self-administration brings trade-offs

By MICHAEL PRINCE

DALLAS—Don't expect an easy decision when considering whether to keep claims administration in-house or outsource it to a third-party administrator, three speakers say.

No set rules exist on how to make the decision, the speakers all agreed, and advantages exist for both outsourcing and keeping claims administration in-house.

"There is no silver bullet to this question," David Tweedy, principal with Tweedy Risk Consulting Inc. in Barrington, R.I., said at a session of the Risk & Insurance Management Society Inc.'s annual

conference and exhibition earlier this month in Dallas.

Each company must weigh the factors according to its situation and what it wants from claims administration, Mr. Tweedy said.

The primary factors to consider when deciding whether to move claims administration in-house from a TPA include budget constraints, manpower constraints within the organization, management time constraints, the extent of the commitment to self-administration, and the level of support in senior management.

"All of these have to be taken into consideration" when deciding whether to self-administer, Mr.

Tweedy said.

The biggest advantage to moving a program in-house is it allows control over the administration, said Frank Giannattasio, who is with the bureau of risk management for the state of New Jersey in Trenton, N.J.

"Control is a great thing to have when you're spending an organization's money and you're responsible for how that money is spent," he said.

In addition to control, the ability to customize the program beyond what a TPA can do affords another advantage. And the added control allows an organization to strive for a higher level of quality

and a greater handle on costs, Mr. Giannattasio said.

Also, by doing things in-house, you can more easily keep tabs on settlements and litigation, which also helps "control how much money you're spending," he said.

But self-administration is not without its drawbacks, Mr. Giannattasio pointed out.

When self-administering, "you find yourself getting more and more involved in the process," he said.

Perhaps the biggest drawback to self-administering is the need "to make the commitment to managing the process," he said. This includes learning about the claims-paying process, paying up-front costs, establishing a professional staff and developing litigation management policies and procedures.

In order to justify the start-up costs, senior management needs to be convinced of the benefits of self-administration, he said. And once established, the benefits have to be reiterated, or the department could become the target of cost-cutting in the future, he said.

A somewhat hidden concern is the need to create a professional, experienced staff. In creating a staff, Mr. Giannattasio emphasized, "you only get what you pay for." Because there is competition for experienced claims adjusters, good ones will cost money, he said.

Once an organization has decid-



ed to self-administer, perhaps the most important step is to identify what you want to accomplish with the department, he said. Also, only self-administer the frequent claims—such as workers compensation or common general liability claims—where the organization can save money; leave the rare or unusual ones for a TPA, he said.

"You want to grab those claims you feel are important to your organization and where you can come up with a solution to do better than anybody else," Mr. Giannattasio said.

Another key point is creating a plan for the claims staff. The plan should address caseloads for each adjuster and create career paths for adjusters. A good staff is critical, because when a mistake is made, there is no TPA to blame, he said.

And, he added, "chances are, no matter how many people you think you need, you will need more."

Before a company undertakes self-administration, an administration program should be created that supports the goal of the claims unit. The program should address any problems that have existed in the past with claims administration, such as poor service.

See Claims on next page

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Scorecard

Continued from page 3

felt that the low scores they received were not representative of their practices.

The individual scores provide motivation for companies to improve, said Georges Balcer, director of risk management at Bowater Inc. in Greenville, S.C.

"Personally, I believe that if we don't show individual results, we will not provide any incentive for any company to really dig deep into their organization to improve quality."

Mr. Balcer, who was involved in developing the scorecard, said the ranking helps the competitive marketplace, because "the guy at the bottom of the rung wants to be at the top rung."

It is reasonable to think, Mr. Balcer noted, that top management at a company ranked at the bottom would strongly encourage employees to improve the quality of products and services.

The preliminary report released in Dallas provided grades for overall categories. On a scale of 100, risk managers gave the overall industry a score of 70 in performance, a 67 in satisfaction and a 72 in loyalty. Last year, the industry also received a 70 in performance, a 67 in satisfaction and a 73 in loyalty.

Brokers got the highest performance score this year, with a 74, and the top satisfaction mark, at 70. They scored 74 for loyalty. In 1998, brokers scored 73 in performance, 69 in satisfaction and 76 in loyalty.

Willis Corroon Corp. was graded highest among brokers last year and recognizes the need to continue to improve the quality of its products and services, according to Luke Laborde, Nashville, Tenn.-based senior vp in charge of the broker's strategic insurer relations.

"We're appreciative of receiving the ranking because it was our clients who voted us there," he said. "But we clearly recognize that the whole industry—and we as part of the industry—need to improve materially" the level of quality provided to risk managers.

Insurance and reinsurance companies received a score of 67 for performance, 66 in satisfaction and 74 for loyalty. Last year, insurers/reinsurers rated 68 in performance, 66 in satisfaction and 74 in loyalty.

Risk managers gave third-party administrators the lowest marks this year. TPAs were scored at 63 for performance, 62 for satisfaction and 64 for loyalty. In the 1998 scorecard, TPAs received 65 in performance, 60 in satisfaction and 59 in loyalty.

Travelers Property Casualty

Corp., which finished in the middle of the pack last year, relies on the scorecard as part of its strategic planning, according to Vincent Armentano, second vp-workers compensation claims at the Hartford, Conn.-based insurer.

"It's one of the few industry attempts to look at customer satisfaction. I do use it as a critical piece of information to look at where we

are and where we want to be," he said.

Mr. Armentano said the scorecard's "Impact Analysis of Satisfaction Drivers" reveals that risk managers place a lot of emphasis on building partnerships with their industry providers. The downsizing of risk management staffs in many organizations likely has led to the growing need for partnering with

insurers and other vendors, he said.

Travelers owns Constitution State Services Co., a Hartford-based TPA, and "our planning has to address all the functions in the survey" for both the insurer and TPA, explained Blake Will, second vp, claims-sales resources.

He and Mr. Armentano said the low scores for TPAs might be

Continued on next page

Scorecard rates vendors on ability to satisfy

Respondents to the 1999 RIMS/QIC Quality Scorecard ranked vendors on how well they performed in several areas identified as drivers of satisfaction.



Source: RIMS/QIC

GRAPHIC BY JOHN HALL

Claims

Continued from previous page

Finally, Mr. Giannattasio noted, a litigation management plan is essential. The plan should include choosing attorneys to handle the litigation, paying legal bills and conducting litigation reporting. When choosing attorneys, he recommends involving the organizations' general counsel in the process so that he or she agrees with the final decisions.

Cathy Barna, manager-risk finance, insurance and claims for MediaOne Group in Englewood, Colo., said outsourcing claims handling to a TPA also provides many advantages.

One advantage is that a TPA will know the workers comp laws and rules for each state. So, an organization with operations in many states might find it advantageous to use a TPA, rather than attempting to learn the laws and keep abreast of any changes.

Also, hiring a TPA gives you a fixed price for the service. "They have to deal with retraining and turnover" of workers, she said.

Although a TPA does not provide the control of a self-administered program, services can be customized to fit client needs.

Another advantage with a TPA is that there is no need for costly claims management systems.

There are pitfalls, too, she said. It's harder to control the activities of a TPA. "The adjusters are generally not right there, and you have to rely on good communication skills," she said.

And with a TPA, you have to provide clear guidance and keep a watchful eye on them. "You only get what you ask for and watch for," she said.

So, even though hiring a TPA relieves a company of much of the burden of administering claims, a risk manager still must understand the claims process. "There is some work for you to do," she said.

Finally, to avoid surprises later, the contract with the TPA should spell out both parties' expectations and the TPA's pricing for services.

To make the relationship work smoothly, she recommends an open dialogue with the TPA. "Listen to each other," she said. **BI**

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Scorecard

Continued from previous page
different if the size of TPAs were taken into account.

Smaller TPAs, "by definition, aren't helping you come up with alternatives for your business but are just providing basic claims administration," Mr. Armentano said.

Risk managers who use small TPAs probably would not grade those TPAs as high as would risk managers who use larger TPAs that provide a number of sophisticated services, he said.

"Those (scores for large TPAs) I imagine, would be higher than average," said Mr. Armentano.

Mr. Wilder, who is vp-risk management for The Walt Disney Co. of Burbank, Calif., said he isn't surprised by the results. "I don't know if a year is a reasonable amount of time to see drastic results."

Mr. Balcer agreed. "It says to me, in general that the industry is taking a long time to address this issue and it is an issue that takes a long time to address. It's pretty hard to expect that, in one year, you would see a significant jump."

Mr. DeLillo said an effort was made to increase the number of responses gathered for this year's scorecard and that the result was a much greater involvement by risk managers.

"We sent out more surveys and partnered with other groups," including the Captive Insurance Cos. Assn. and the University Risk Management & Insurance Assn. to boost participation, he said.

The effort drew 4,782 evaluations from 1,259 respondents. There were 2,182 insurer/reinsurer evaluations, 1,810 broker evaluations and 790 TPA evaluations. The number of individual companies evaluated in each category has not been released.

"Because there were so many responses, we felt we had to put something out here," Mr. DeLillo said of the distribution at RIMS of preliminary findings.

Mr. Laborde of Willis Corroon said the larger response that led to similar scores as in 1998 validates the methodology used to compile the grades.

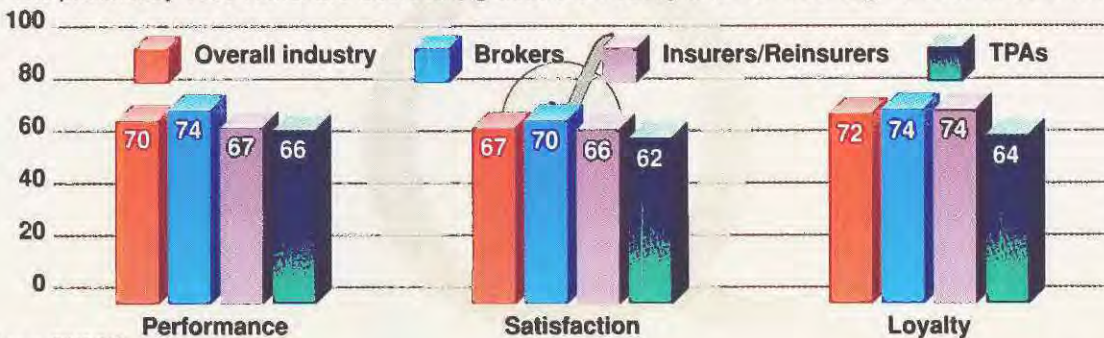
However, he said, it is disappointing that the industry hasn't "made more progress and the scores were as low as they were."

RIMS has promoted the scorecard as a way to improve the performance of insurance industry service providers and risk managers. In conjunction with the scorecard, a toolkit is available from RIMS and the QIC that teaches risk managers how to use the scorecard to improve communications and relations with their service partners.

The executive summary report and detailed findings will be distributed to members of RIMS and the QIC as part of their membership benefits. Non-members may purchase the report and findings for an amount to be determined. More information is available from the Quality Insurance Congress, 2525 Perimeter Place Drive, Suite 120, Nashville, Tenn. 37214; 800-445-3433.

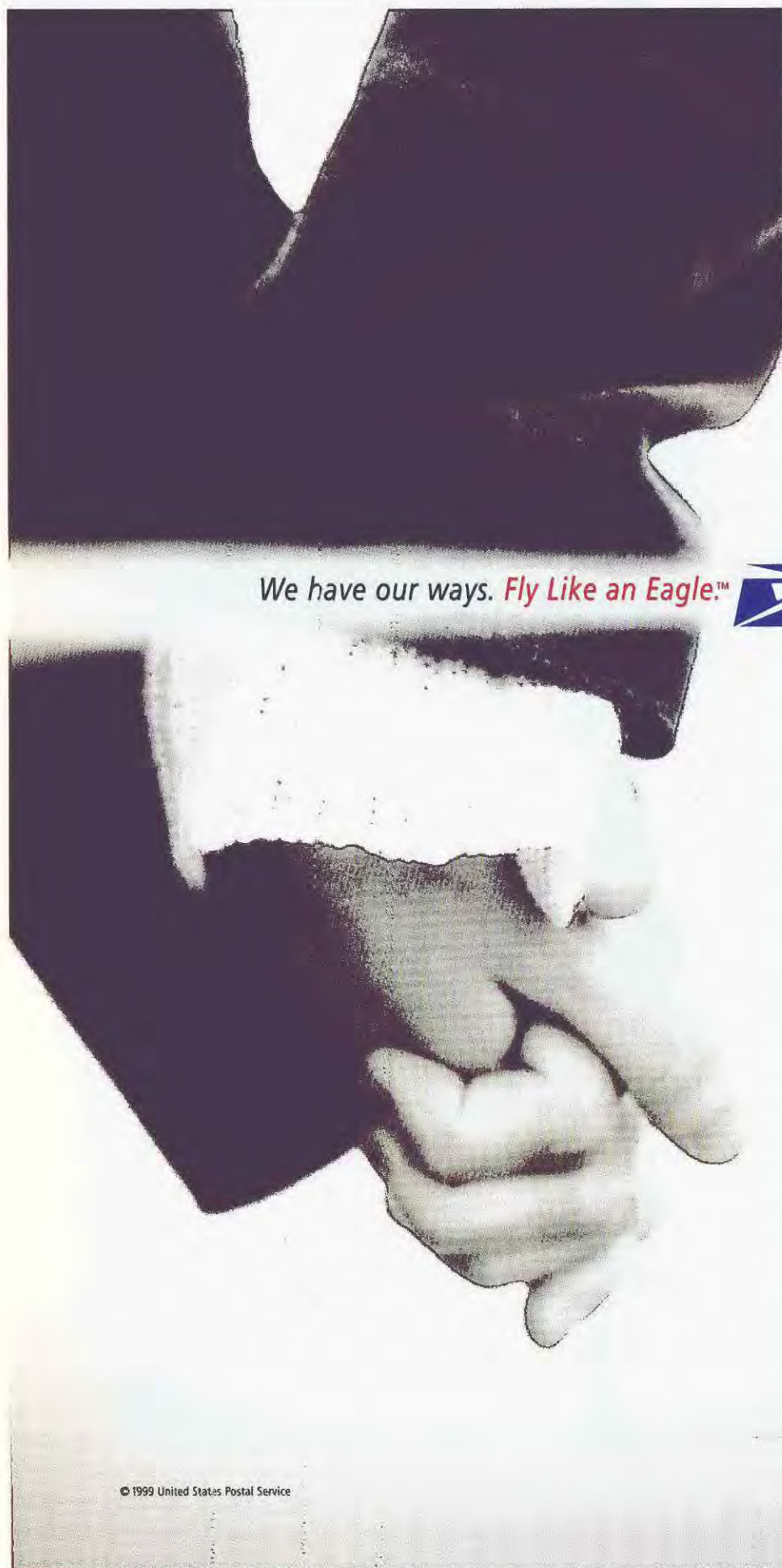
Grading quality of service

The preliminary 1999 RIMS/QIC Scorecard graded the industry and individual segments on three criteria



Source: RIMS/QIC

GRAPHIC BY JOHN HALL



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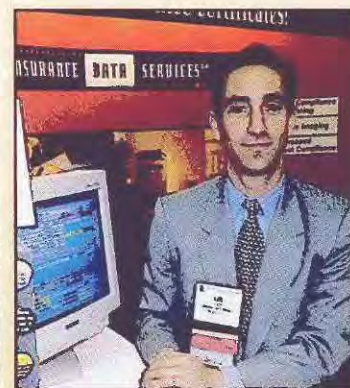


PHOTO: MICHAEL MARCOTTE

H. Lee Roth of Insurance Data Services of San Juan Capistrano, Calif., was among the RIMS exhibitors in Dallas last week.

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Global Briefs

The Bermuda-based underwriting subsidiary of troubled Australian reinsurer **New Cap Insurance Corp. Holdings Ltd.** has been placed into provisional liquidation. In addition, Australian units **New Cap Re Australia** and **NC Re Capital Ltd.** have been placed into voluntary administration. Financial problems surfaced earlier this year when an inability to quantify natural disaster claims prevented New Cap Re filing from its 1998 results on time (*BI*, March 22). . . **AIG Europe (UK) Ltd.** has introduced a program to finance risks related to **unusual weather conditions** in Europe. Known as **STORM—Snow, Temperature or Rain Management**—the program is intended to help cover a company's loss of earnings from such severe or unexpected weather events. Limits range from £1 million to £15 million (\$1.6 million to \$24.1 million). . . **Amlin Capital Management Ltd.**, part of the London-based specialty insurance group that advised on setting up of Lloyd's first captive insurer, has named **Paul Bawcutt** as non-executive chairman and **James Denoon Duncan** as managing director. Mr. Bawcutt is chairman of the independent consulting firm **Risk & Insurance Research Group Ltd.**, while Mr. Duncan joined Amlin in 1994 as a director of its members' agency . . . **Tom Brown**, CEO of **Lloyd's Japan Inc. KK**, the Tokyo-based service company of Lloyd's of London, will assume the additional post of president in June, following the retirement of **Kunihiko Sasamoto**. . . **Tony Medniuk** has succeeded **Ken Haddon** as chairman of the **London Processing Centre Ltd.**, a central processing service for member companies of the International Underwriting Assn. of London. Mr. Medniuk is managing director of **British Aviation Insurance Group Ltd.** and deputy chairman of the **IUA**. . . Independent protection and indemnity club **British Marine Mutual Insurance Assn.** is to demutualize, backed by a \$35 million investment by **Capital Z Financial Services Fund II L.P.**, a New York-based global private equity fund. It will make **British Marine** the first P&I club to become a fixed-price insurer, with its members no longer subject to unbudgeted supplementary calls to meet unexpectedly high claims. . . Lloyd's managing agency **CLM at Lloyd's Ltd.** and broker **Benfield Greig Group Ltd.** have launched a **World Wide Web** site, **www.artinsure.com**, through which brokers can procure art insurance for private collectors, dealers, museums and exhibitors. Policies are underwritten by 11 Lloyd's of London syndicates, with approved brokers given online access to quotations, binding and billing facilities, and loss adjusters. . . **Swiss Reinsurance Co.** has endowed a **professional chair of risk management** at the University of Nottingham in England. The chair, at the university's Centre for Risk and Insurance Studies, will undertake research in areas including the role of private insurance in the future of the welfare state and alternative methods of risk financing and risk transfer. . . Following the announcement of the proposed new **Brockbank Syndicate Management and ACE Underwriting Agencies umbrella syndicates** for the year 2000, **Moody's Investors Service** has amended its ratings on the syndicates involved. **Brockbank syndicates 588, 861 and 1209**, rated **B+, A-** and **A-**, respectively, under the proposed umbrella will be rated **A-**, reflecting the strength of the proposed syndicate's business franchise, its underwriting team and its capital support. **ACE syndicates 219, 488 and 960**, rated **B+, B+** and **A-**, respectively, will be rated **B+** to reflect the inherent uncertainties in restructuring ACE's current Lloyd's operation.

Insurers lose recovery right on energy claim

By KATE TILLEY

PERTH, Australia—The Full Court of the Supreme Court of Western Australia has found that the insurers of an offshore gas drilling platform cannot recover \$274.4 million Australian (\$174.7 million) paid to the platform's owners, **Woodside Offshore Petroleum Pty. Ltd.**, after it was damaged during construction in 1992.

The London-based underwriters, led by **Equitas Ltd.** on behalf of the Lloyd's of London syndicates that wrote the original contractor's all risks (CAR) policy, tried to recover \$274.4 million Australian of the \$280 million Australian (\$178.2 million) they paid to the platform's owner by taking a subrogation action against the designers, whom the insurers said were responsible for most of the damage.

But the court found a waiver-of-subrogation clause in the policy was valid. Because the designers were coinsured under the policy, the insurers could not sue the designers, the court ruled.

The three judges of the Full Court of the Supreme Court, in a decision handed down last month, rejected an appeal by the insurers and upheld the original decision by a single Supreme Court judge.

The six companies sued by the underwriters either were contracted to design the platform or were parent companies that guaranteed the work of the designers. In the initial judgment of December 1997, Judge **Robert Anderson** ruled that, because of the policy's wording, the range of parties covered by the policy was broad and included contractors, subcontractors, designers, and their overseas principals that had given guarantees. The appeal court went further, saying that even parties not covered by the policy were included in the clause that waived subrogation rights.

Ian Briggs, a construction insurance law expert with the Brisbane, Australia, office of law firm **Minter Ellison**, said the broad wording meant the insurers were unable to enforce any guarantees, as the policy indemnified

See Woodside on next page



PHOTO: AFP

A resident of a Sydney, Australia, suburb stands beside his damaged car holding two of the giant hailstones that battered the area recently.

No rate hikes seen despite big hail bill

By MATTHEW MacDERMOTT

SYDNEY, Australia—Insurers face a \$700 million Australian (\$452 million) bill for claims from a massive hailstorm that hit Sydney without warning this month.

Damages are expected to include about \$250 million Australian (\$162 million) in commercial property claims. Insured commercial losses will rise further after business interruption losses are calculated.

But despite the extent of insured losses, the hailstorm is unlikely to result in increased premiums for Australian policyholders, said **Rod Frail**, executive manager of corporate affairs for the Insurance Council of Australia.

Mr. Frail said the storm is emerging as the third-largest natural disaster in Australia's history.

See Sydney on next page

E.C. grants P&I clubs liability-sharing exemption

By EDWIN UNSWORTH

BRUSSELS, Belgium—The International Group of Protection & Indemnity Clubs, whose members provide 90% of the world merchant fleet's liability insurance, has won approval from the European Commission to continue its liability-sharing arrangement.

The Commission earlier this month granted the 15-member International Group an exemption until Feb. 20, 2009, to operate its Pooling Agreement, under which member clubs share all liability claims between 4.5 million euros (\$4.8 million) and 3.9 billion euros (\$4.16 billion).

A statement from the commission acknowledged that the pooling agreement "is necessary to allow P&I clubs to provide the substantial level of insurance cover they offer at present."

The E.C. also granted a 10-year exemption for the P&I clubs to continue operating in accord with—albeit in a modified form—their

International Group Agreement, which governs the ability of shipowners to move their liability coverage between P&I clubs (*BI*, Sept. 7, 1998).

The P&I clubs consider the IGA essential to preventing unbridled competition among the clubs. By permitting shipowners to move coverage from one club to another but only at the rate quoted by the first club, the IGA prevents shipowners from switching their coverage and immediately getting lower rates than their claims records may warrant.

To win E.C. approval, the IGA has been modified by the P&I clubs to include greater transparency in how the clubs calculate rates and to allow a club to quote a lower rate to a shipowner as long as it can show the rate decrease is warranted by lower administrative expenses than the shipowner's previous P&I club.

An earlier 10-year exemption from the E.C. to abide by the IGA had expired in 1995, and the P&I clubs since had been permitted to

maintain the agreement on a temporary basis until a successor could be developed or approved by the commission.

George Greenwood, chairman of the International Group, commented in a statement: "This decision recognizes both the value of the group pooling system and the need for rating discipline under the IGA. . . The decision enables shipowners worldwide to continue to organize their own cover for themselves through the group, at the highest level and lowest possible long-term cost, and to the benefit of their customers and third parties."

European Union Competition Commissioner **Karel Van Miert** said in a written statement: "This decision completes our effort over several years to increase competition in this important sector. I am pleased with a decision which preserves the benefits that the (IGAs) provide to shipowners and customers while increasing the possibilities for individual P&I clubs to compete."

Fall of BJP shelves deregulation bill in India

By KAUMUDI MARATHE

BOMBAY, India—The collapse of India's 13-month-old coalition government, led by the **Bharatiya Janata Party**, has again stalled legislation to deregulate the country's insurance industry.

The BJP was ousted from office April 17, losing a no-confidence motion by a single vote.

The long-awaited Insurance Regulatory Authority Bill was expected to be approved in Parliament this month. It would allow for the deregulation of India's currently nationalized sector, permitting limited foreign investment and participation. It also recommends the Insurance Regulatory Authority as an autonomous governing body for the sector. In the face of

the current political turmoil, however, the bill has been shelved indefinitely.

Officers have already been selected for the Insurance Regulatory Authority, but it has no regulatory authority yet. Once the bill is approved, the authority will have sole licensing power in the sector, though the government will retain the right to veto its decisions (*BI*, Jan. 11).

According to a spokesperson at the Indian Embassy in Washington, "No clear picture has so far emerged on the formation of a new government at the center, even as political parties are busy in formulating their strategies on the issue."

As the country waits to hear whether the Congress-I Party, led by **Sonia Gandhi**, will head a new

coalition government, some economic anxieties were eased this week. Political parties decided to unanimously pass the state and railway budgets without further debate or delay. However, other matters, such as the insurance bill, will be tackled only after the new government is formed.

A representative of the Insurance Regulatory Authority said: "There is nothing to do but wait and watch. There has been a consensus on the budget; similarly, there may be one for the insurance bill. No one can say. At this point, even the major players have no idea what will happen."

Brad Smith, director of international relations for the American Council of Life Insurance, has studied the Indian region. He said: "Ob-

viously, we are disappointed. The BJP had indicated a willingness to move ahead with the deregulation of the insurance sector."

"It is hard for us to not still be optimistic," he added. "Companies are very much interested in India."

H.K. Nigam, an executive of the Life Insurance Corp. of India, is not so upbeat. "The parties that may make up the new government are very disparate," he explained. "The BJP government was decisive, quick. Now there will be too many varying pressure groups."

Mr. Nigam added that since the government collapse there have been several negative comments in Indian media regarding foreign investors. "Business houses are disturbed about the state of affairs," he said.

INTERNATIONAL

Woodside

Continued from previous page
the guarantors as well.

The litigation followed a December 1992 accident at the Good-

wyn A oil and gas drilling platform, located 130 kilometers (80.6 miles) off the Western Australian coast. The accident occurred during the platform's installation, when support piles collapsed. Remedial work cost more than \$320

million Australian (\$203.7 million), but the platform owners were insured only for \$280 million Australian.

The platform is owned by the eight Woodside joint venture partners.

Judge Anderson found that all parties against whom the insurers took action were insured under the CAR policy, even though evidence presented at the first trial suggested that they may not have been the Woodside joint venture partners' intent. Although the designers and other parties were not specifically named on the policy, the "other assureds" clause included them, the judge found.

The judge noted that the words of the clause describing other insureds had to be given their "ordinary, natural meaning (in a contract providing project insurance to a major construction project."

Judge David Ipp, the appeal court judge who wrote the judgment—with which his fellow judges unanimously agreed—said

there were good commercial reasons for Woodside to desire that the waiver of subrogation extend beyond the coverage provided by the policy.

The case demonstrates the need to review policy wordings carefully, says Ian Briggs, a construction insurance law expert.

There was incentive for Woodside to contract for a waiver, and the clause in the policy extended the waiver to persons not entitled to coverage. The clause waived subrogation rights against "any person... whose interests are covered by this policy," the judge noted.

Mr. Briggs said that while the insurers had not intended the policy coverage to be so broad, the

case demonstrates the need to review wordings carefully. He said brokers and underwriters need to ensure that policies they write accurately reflect the coverage they intended to provide.

"The description of the insureds in the policy appears to be fairly standard, and thus the same principle may apply in other disputes over construction works," he said.

The CAR policy was based on an Institute of London Underwriters' wording.

The insurers had argued in the case that third parties, such as designers, had no independent rights to claim under the policy, particularly where they had no knowledge of the existence of the policy at the time they performed their work.

However, "The case confirms that knowledge of the existence of an insurance policy, at the time the work is done or the damage suffered, is not essential for a third party to claim under it," Mr. Briggs said. **BI**

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Sydney

Continued from previous page

aster in Australia's history, behind the 1990 Newcastle earthquake, which caused insured damage of about \$1 billion Australian (\$650 million), and Cyclone Tracy, which caused insured damage of \$760 million Australian (\$491 million) in Darwin in 1974.

The storm, which hit Sydney on the evening of April 14, was the costliest in Sydney's history. Previously, the most expensive storm was a 1990 disaster that caused \$300 million Australian (\$194 million) of insured damage.

The bill from the storm "doesn't automatically mean premiums will rise," Mr. Frail said. "The losses were well-covered by insurers' claims re-

serves and reinsurance."

The level of reinsurance losses is still being calculated.

Sydney's southern and eastern suburbs, predominantly residential areas, were the hardest hit by the storm. Hailstones, some as large as tennis balls, caused extensive damage to automobiles, house windows and roof tiles. Many power lines fell during the storm, causing fires to break out in several suburbs.

Mr. Frail said that about \$450 million Australian (\$291 million) of the insured damage will be split evenly between private automobile and household claims. The remaining \$250 million Australian (\$162 million) is expected to come from commercial losses. The ICA also estimates there will be about \$100 million Australian (\$65 million) in uninsured damage from the storm.

Eric Dodd, chief executive officer of Australia's largest non-life insurer, NRMA Ltd., agreed that the storm was one of the most costly natural disasters Australia has experienced.

Sydney-based NRMA has estimated its total losses from the storm at more than \$200 million Australian (\$129 million). This includes \$120 million Australian (\$78 million) in auto claims and \$90 million Australian (\$58 million) in household claims.

Sydney-based non-life insurer GIO Australia Ltd. received 5,000 calls the day after the storm and has estimated its total exposure at \$25 million Australian (\$16 million) to \$30 million Australian (\$19 million). But Peter Corrigan, GIO's chief executive officer, said the losses are "unlikely to have a major impact" on GIO's business.

HIH Insurances Ltd. of Sydney has received 1,000 auto claims and estimates its total losses from the storm at about \$27 million Australian (\$17 million).

Mr. Frail said commercial loss claims from the storm still are coming in, but most claims so far relate to damaged roofs in factories and warehouses and from auto damage in car dealer lots. He said all commercial loss estimates so far relate to property damage. Business interruption losses are expected, but will take a while to calculate, he said.

One Sydney business badly hit by the storm was Johnson & Johnson Pacific Pty. Ltd., a wholly owned subsidiary of USA-based Johnson & Johnson Corp. of New Brunswick, N.J. John Wingfield, corporate affairs manager for Johnson & Johnson Pacific, said the roof of the company's manufacturing and distribution site at Botany, Australia, south of

Sydney, was almost entirely "knocked out" by the storm.

He said the company hired contractors to temporarily patch the roof, allowing the company to restart limited production.

Johnson & Johnson Pacific manufactures and distributes a range of health care products, including pain

'The losses were well-covered by insurers' claims reserves and reinsurance,' says Rod Frail of the ICA.

relievers, toothbrushes and bandages. The Botany site distributes to retailers throughout Australia and New Zealand.

Mr. Wingfield said the company still is assessing property damage and stock losses and could not yet put an accurate figure on the financial cost of the storm.

"It would be inappropriate to commit to the exact extent of the loss at the moment," he said. "Our focus now is on physically protecting assets and ensuring some form of continuity of supply."

Mr. Wingfield said he expects business interruption losses to emerge from the storm because the company's supplies to retailers have been severely disrupted.

He said all Johnson & Johnson Pacific losses stemming from the storm will be insured through parent company Johnson & Johnson Corp.'s worldwide, multiline policy with Allendale Mutual Insurance Co. of Johnston, R.I.

The Sydney warehouse and distribution site of national Australian homeware retailer Harvey Norman Holdings Ltd. also was struck by the storm.

Bern Drenth, Harvey Norman's group manager for insurance, risk management and security, confirmed the warehouse had been badly damaged but would not comment on expected financial losses or insurance arrangements.

The Australian Bureau of Meteorology said the storm developed so quickly that there was no time to issue an official warning. The bureau has received much criticism, and some politicians have called for an inquiry into why Sydney residents were not warned of the storm. Mr. Frail said the ICA could not comment on the absence of a storm warning. **BI**

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Two Danish insurers agree to merge

By MARIA KIELMAS

COPENHAGEN, Denmark—Shareholders from Danish insurer Tryg-Baltica Forsikring A/S and banking/insurance group Unidanmark A/S have approved a merger of the two companies.

Under the merger with Unidanmark, the shareholders of Tryg-Baltica will receive three Unidanmark shares for every eight Tryg-Baltica shares held.

The two Copenhagen-based companies' cumulative gross premium income in 1998 was about 12 billion Danish kroner (\$1.71 billion), according to Tryg-Baltica Managing Director Bent Westegaard. Of this, about 10 billion Danish kroner (\$1.43 billion) was attributable to Tryg-Baltica.

Mr. Westegaard said that the at-

traction of the merger was for the insurer to use the bank's distribution system for its products. "We think that distribution channels are very important for the future of insurance, and most people are closer to a bank than an insurance company," he said.

The announcement of the deal comes after Tryg-Baltica's management rejected recent offers from two leading Scandinavian insurers.

In late March, Copenhagen, Denmark-based Codan Insurance Co., which is 71% owned by London-based Royal & Sun Alliance Insurance Group P.L.C., published an open letter to the management and advisers of Tryg-Baltica, asking them to reconsider the Unidanmark merger and opt to join Codan. Meanwhile, Bo Ingemarsson, chief executive officer of the newly created non-life company

formed by Sweden's Skandia Insurance Co. and Norway's Storebrand A/S, suggested that his company might still bid for Tryg-Baltica.

Peter Zobel, the administrative director at Codan who signed the open letter to Tryg-Baltica, said Codan regarded Unidanmark's offer to Tryg-Baltica shareholders as too low.

"We thought Unidanmark bought into Tryg-Baltica too cheaply, but we didn't want to make a hostile offer. We just wanted to start negotiations," Mr. Zobel said.

Under Codan's proposed merger, the combination of Codan and Tryg-Baltica would have captured 20% of the Danish insurance market. Mr. Zobel said he did not think that level of market share would have caused problems with Denmark's insurance regulators.

Tryg-Baltica was created in 1995, when Copenhagen-based Tryg Forsikring A/S bought Baltica Forsikring A/S from its then-owners, the Copenhagen-based bank Den Danske Bank. Tryg Forsikring has no connection to the Swedish insurer Trygg Hansa AB.

The synergies in this merger were important, according to Mr. Westegaard. The two companies estimate pre-tax synergies to be 450 million Danish kroner (\$64.3 million) annually, composed of 300 million Danish kroner (\$42.9 million) in cost savings and 150 million Danish kroner (\$21.4 million) of revenue increases. Those amounts are expected to be fully realized within three or four years.

Plans for the merger were first announced March 10. The decision to merge was mutual, Mr. Westegaard and the Unidanmark spokesman confirmed.

Skandia's Mr. Ingemarsson said he could imagine a future Scandinavian insurer formed much along the lines of the Scandinavian Airline Systems, where national borders are irrelevant to business. But Mr. Westegaard countered, "You don't get many synergies in merging Euro-borders."

Mr. Westegaard added that he realized that the Skandia/Storebrand non-life company is seeking both a Danish partner and a Finnish partner. "But I don't think that appeals to us," Mr. Westegaard said.

Codan's Mr. Zobel would not comment on any possible linkup between Codan and Skandia/Storebrand. **BI**

OSHA

Continued from page 1

initiative, which began in the 1980s.

Companies must meet numerous requirements to participate in the program, including posting a safety record that's significantly better than others in their industry. The safety programs also must involve input from employees.

Companies that meet the standards are exempt from OSHA's priority inspection list, though OSHA retains the right to inspect those workplaces in response to worker complaints and accidents.

"Over 500 worksites in a wide cross-section of businesses currently participate in the VPP, covering over 300,000 workers," said Rep. Thomas Petri, R-Wis., who sponsored the legislation along with Rep. Robert Andrews, D-N.J.

"By taking a cooperative rather than punitive approach, OSHA and the participating businesses have produced lost workday rates that are about 50% lower than the industry average, and the companies are enjoying reduced workers compensation costs. So it's apparent that the approach is an effective way to provide for workplace safety," he said.

Rep. Andrews told the panel that the experience of the VPP to date provides "powerful evidence" that safety performance improves when employees are involved in dealing with safety issues.

Lance Ewing, chair of RIMS External Affairs Team, pointed out that the bill simply codifies what OSHA is already doing.

"From RIMS' standpoint, we're always supportive of health and safety programs. The codification of this program is certainly something we would probably embrace as long as the VPP program does not have any significant changes that would be detrimental" to businesses, said Mr. Ewing, who is also director-insurance and loss prevention for GES Exposition Services Inc. in Las Vegas. He noted that GES is currently applying to participate in California's VPP program.

The OSHA program is drawing support from insurers as well.

"We've been supportive of the VPP program as an example of a cooperative effort between employers and OSHA that can enhance workplace safety. We think the legislation is a positive effort toward changing employer attitudes toward OSHA," said Tamera R. Velasquez, public affairs counsel for the Alliance of American Insurers in Washington.

OSHA itself does not object to the concept of codifying the program.

"OSHA has consistently supported

codifying the VPP program, as long as the codification retains the VPP's focus on companies that demonstrate the highest commitment to worker safety and health. Any codification should require employers to demonstrate excellence and should retain the program's primary focus on work sites," said an OSHA spokesman.

Meanwhile, a pair of physicians testifying on another major matter of concern to employers that was aired before the subcommittee last week—the agency's proposed ergonomics standard—made clear that they believe OSHA's ergonomics efforts should be blocked.

"As a clinician, I have concerns that OSHA's proposed draft ergonomics standard is at best misguided and at worst counterproductive," said Dr. Michael Vender, a hand surgeon from Arlington Heights, Ill. In his testimony, Dr. Vender said that OSHA was basing its initiative on inadequate evidence.

Dr. Stanley J. Bigos, professor of orthopedics at the University of Washington in Seattle, voiced similar concerns. Imposition of an ergonomics standard could cost jobs, as employers seek ways to avoid ergonomics exposure, he said. "Are we so desperate to carry out what has

become a political goal by chancing the destruction of many well-paying jobs?" he asked.

Rep. Roy Blunt, R-Mo., author of H.R. 987, the Workplace Preservation Act, also cited the possibility of lost jobs in his testimony. Rep. Blunt's bill would block OSHA from promulgating a standard until the NAS study is complete (*BI*, March 15).

"My primary concern with the draft standard as written is my belief that it will ultimately force employers to replace workers with machines out of their fear of being cited by OSHA. The requirements for employers in the draft standard are ill-defined and ambiguous," he said in testimony before subcommittee.

The proposed standard, however, was not without its defenders. Eric Frumin, director-occupational safety and health for the Union of Needletrades, Industrial and Textile Employees in New York, decried what he called an "extremist attack" on OSHA's proposed standard.

"To deny the severity of the ergonomics problem is simply a cold political calculation. But it is also a betrayal of the workers who suffer every day," he told the subcommittee. **BI**



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Work comp

Continued from page 2

the aging of the baby boomer population, which will live and be employed longer than previous generations and thus have more time to suffer on-the-job injuries.

"The whole system is beginning to have to cover a larger worker base," said Joanne Balling, a director and property/casualty actuary at Standard & Poor's and a coauthor of the report.

If the economy begins to slow down, that also will increase demands on workers comp insurers, which historically have enjoyed comparatively low frequency of claims during boom periods, said Robert Partridge, a Standard & Poor's director and the other coauthor of the report.

Buyers need to consider these points when choosing a workers comp insurer in the emerging environment, the authors said:

- Longevity in the market and staying power.
- Consistency in the market: several years of service without interruptions.
- A good score by a financial rating service and a strong balance sheet.
- Availability of risk mitigation ser-

vices, such as plant safety inspections.

The California market, which has seen rampant price cutting since the repeal of the state's minimum rate law, is beginning a shift toward hardening after "somewhat of a free-for-all...with smaller companies slashing rates by as much as 50% to gain market share," the S&P report states.

Several other factors contributed to a favorable market for buyers in California prior to 1998, including employers doing "a much better job with safety," which helped cause a significant reduction in the frequency of work-related injuries, said Paul Rodliff, senior vp and division manager in California for the business markets unit of Boston-based Liberty Mutual Insurance Group.

In addition, intense competition from regional insurers writing only California workers comp business helped reduce the effective annual price of per-employee insurance to \$692 in 1998 from \$1,051 in 1992.

Very recently, however, prices in California, in contrast to most other markets in the United States, have flattened or have risen slightly over last year, "and further progress should be made this year," the S&P report states. That "progress," meaning rising prices for buyers and im-

proved profits for insurers, should become significant in three to five years, it predicts.

After experiencing several years of inexpensive workers comp coverage, most U.S. employers with average safety records are likely to face some price increases, according to Liberty Mutual executives.

Insurers' deteriorating financial results are expected to prompt single-digit percentage increases in premiums for most non-California employers with average losses. California-based employers will likely face increases close to 10%, they said.

However, employers anywhere with better-than-average safety records still may be able to get reductions, while those with worse-than-average losses will see higher increases, according to Gary Gregg, executive vp and manager of Liberty's business markets unit nationally.

"The general history is the same for most states, but the amplitude is not as great" as it was in California, Mr. Gregg said. Across the nation, reforms helped reduce the severity per claim

and the average cost per claim. Overall pricing was down at least 40% from what it had been six years earlier, he said.

Now, though, competition among workers comp insurers has reached a point where workers comp losses are worsening, according to a new statistical report from the National Council on Compensation Insurance (NCCI, April 19). Preliminary estimates are that two key combined ratios are expected to increase five percentage points each in 1998. The accident-year ratio, which considers losses only from accidents in a given year, is expected to climb to 121% from 116% in 1997.

In addition, the calendar-year ratio, which includes claims payments and reserve changes during the year for accidents in that year or earlier, is expected to increase to 106% from 101%.

In the years ahead, prudent buyers of workers comp coverage will choose insurers with programs designed specifically to fit the size of the employer and the type of industry, whether it be "a supermarket, a

wholesaler or a metal worker," Mr. Royles of Hartford said. For example, he said, Hartford has had much success aiming specific coverage at small businesses at a time when insurers of the middle market and large employers are subject to extreme market pressures.

Insurers say they are not yet sure what effect the undoing of a large workers comp reinsurance pool may ultimately have on markets and prices. The pool, operated by Unicover Managers Inc., stopped accepting business earlier this year after premium volume far exceeded projections. Analysts estimated Unicover facilities gross losses would be between \$1 billion and \$2 billion (BI, March 15).

Neither Liberty nor Hartford was a member of or participant in the Unicover pool.

For a full copy of S&P's report and rankings of workers compensation insurers, visit S&P's Web site at www.standardandpoors.com/ratings/insurance. Select Business Sector reports.

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S&P's top 50 workers comp insurers

Groups and individual insurers, ranked by direct premiums written, in millions of dollars

Rank	Company	Direct premiums 1997	Percent growth	Market share 1997	Principal operating unit writing workers compensation	Rating
1	Liberty Mutual Insurance Group	1,975.2	0.3%	6.8%	Liberty Mutual Fire Insurance Co.	AA ^o
2	American International Group	1,707.8	-9.1%	5.8%	National Union Fire Insurance Pittsburgh, Pa.	AAA ^o
3	CNA Insurance Group	1,615.3	6.0%	5.5%	Transportation Insurance Co.	A+ ^o
4	Kemper National Cos.	1,241.0	3.0%	4.2%	Lumbermens Mutual Casualty Co.	A+ ^o
5	Citigroup	1,135.8	-6.4%	3.9%	Travelers Indemnity Co. of Illinois	AA- ^o
6	Hartford Insurance Group	1,115.5	-4.9%	3.8%	Hartford Underwriters Insurance Co.	AA ^o
7	State Compensation Insurance Fund	1,035.8	5.9%	3.5%	--	A ^o
8	Zurich Insurance Group	978.4	18.8%	3.3%	Business Insurance Co.	NR
9	Nationwide Group	873.6	-15.5%	3.0%	Employers Insurance of Wausau a Mutual Co.	AA ^o
10	Fremont General Group	738.8	7.5%	2.5%	Casualty Insurance Co.	A ^o
11	Allianz Insurance Group	658.5	-6.5%	2.3%	Firemans Fund Insurance Co.	AAA ^o
12	Reliance Group	628.1	16.7%	2.1%	Reliance National Indemnity Co.	A ^o
13	Superior National Insurance Group Inc.	617.8	-10.9%	2.1%	Superior National Insurance Co.	BBB ^o
14	CGU Insurance Group	529.3	-2.3%	1.8%	Houston General Insurance Co.	NR
15	St. Paul Cos.	463.7	-18.1%	1.6%	St. Paul Fire & Marine Insurance Co.	AA ^o
16	American Financial Group	433.6	6.2%	1.5%	Republic Indemnity Co. of America	A+ ^o
17	CIGNA Group	411.3	-19.1%	1.4%	Pacific Employers Insurance Co.	BBB ^o
18	Orion Capital Group	392.5	2.5%	1.3%	Connecticut Indemnity Co.	A+ ^o
19	Chubb Group of Insurance Cos.	350.4	3.7%	1.2%	Federal Insurance Co.	AAA ^o
20	Safeco Insurance Group	318.4	-1.8%	1.1%	American States Insurance Co.	AA+ ^o
21	Legion Insurance Group	301.5	46.8%	1.0%	Legion Insurance Co.	A+ ^o
22	FCCI Mutual Insurance Group	280.7	-4.8%	1.0%	FCCI Mutual Insurance Co.	BBBpi
23	Clarendon Insurance Group	252.2	46.1%	0.9%	Clarendon National Insurance Co.	A ^o
24	Riscorp Group	250.8	-44.7%	0.9%	Riscorp Insurance Co.	NR
25	New Jersey Manufacturers Group	246.4	-21.7%	0.8%	New Jersey Manufacturers Insurance Co.	NR
26	Zenith National Insurance Group	237.8	12.5%	0.8%	Zenith Insurance Co.	AA- ^o
27	Royal & Sun Alliance Group	236.7	-6.3%	0.8%	Royal Indemnity Co.	AA- ^o
28	Texas Workers Compensation Ins. Fund	233.6	-38.8%	0.8%	--	BBBpi
29	Arizona State Compensation Fund	228.7	-18.6%	0.8%	--	BBBpi
30	SAIF Corp.	223.6	-7.7%	0.8%	--	BBBpi
31	State Farm Group	213.7	-12.7%	0.7%	State Farm Fire & Casualty Co.	AAA ^o
32	Old Republic Group	213.3	-13.1%	0.7%	Old Republic Insurance Co.	AA+ ^o
33	Allmerica Financial Group	203.3	-11.5%	0.7%	Citizens Insurance Co. of America (MI)	AA- ^o
34	Louisiana Workers Compensation Corp.	199.6	-0.8%	0.7%	--	BBpi
35	Cincinnati Financial Group	186.6	-8.6%	0.6%	Cincinnati Casualty Co.	AA+ ^o
36	Talegen Holdings Group	186.2	2.7%	0.6%	North River Insurance Co.	A- ^o
37	The PMA Insurance Group	181.6	-10.2%	0.6%	Pennsylvania Manufacturers Indemnity Co.	NR
38	Blue Cross of Northern California Group	164.8	-8.2%	0.6%	Unicare Insurance Co.	NR
39	Atlantic Cos.	154.1	-3.2%	0.5%	Atlantic Mutual Insurance Co.	A- ^o
40	W.R. Berkley Group	148.1	15.5%	0.5%	Acadia Insurance Co.	AA- ^o
41	Harleysville Group	147.7	-15.3%	0.5%	Harleysville Mutual Insurance Co.	Api
42	TIG Insurance Group	140.8	-25.6%	0.5%	TIG Premier Insurance Co.	A ^o
43	Erie Insurance Group	137.1	-15.3%	0.5%	Erie Insurance Exchange	AApi
44	Sierra Health Services Group	135.9	7.3%	0.5%	California Indemnity Insurance Co.	BBpi
45	Amerisure Cos.	134.9	-2.6%	0.5%	Michigan Mutual Insurance Co.	BBBpi
46	Blue Cross & Blue Shield of Michigan Group	132.6	-12.1%	0.5%	Accident Fund Co. (The)	NR
47	CE Health Group	131.7	28.5%	0.5%	CE Health Compensation & Liability Insurance Co.	NR
48	Credit Suisse Group	131.6	-3.3%	0.5%	Regent Insurance Co.	Api
49	Selective Insurance Group	129.8	-7.3%	0.4%	Selective Insurance Co. of America	A+ ^o
50	Argonaut Group	129.4	-13.4%	0.4%	Argonaut Insurance Co.	AA+ ^o

^o Denotes a Standard & Poor's Security Circle insurer, which is one that voluntarily has undergone S&P's most comprehensive review and has achieved one of S&P's top four rating categories; "pi" denotes a rating that is based upon public information

Source: Standard & Poor's Corp.

Results

Continued from page 2
CNA Financial Corp. in Chicago, said, "I think the trend for '99 is not real rosy, that in many cases many of the product lines are losing money, not only on a combined ratio basis but on an economic basis, and that many reinsurers are at that sort of point of being on the edge, and they're going to have to take action."

"We hear some rumblings about some of the larger insurance companies saying that they're going to hold the line on rates," said Steve Tirney, president and chief operating officer of Philadelphia-based PMA Reinsurance Corp.

In addition, "the workers comp problems may start to at least level off that market," he said, referring to the losses generated by reinsurance pools managed by Unicovert Managers Inc. (BI, March 15). "I think it could filter through to the reinsurance market on some of the workers comp placements."

Putting aside the workers comp issue, though, "I think the reserve redundancies of the past are being used up, and something's going to give sooner or later. I'm not saying the market's going to change anytime soon, but we can't keep going the way we're going," he said.

This year "will be on par with '98," said John L. Ward of the Cincinnati-based Ward Financial Group. "The big unknown is the extent of the cat losses."

"We are seeing more companies implement tighter underwriting discipline in their operations, so I think that's a positive, longer-term move, but pricing remains soft, and overcapacity remains abundant, so it continues to be a segment with too much capital." As a result, discipline must be vol-

untary rather than imposed by lack of capital, said Mr. Ward.

"I think you have to divide the crowd into two groups—the large companies vs. the smaller ones," said Michael Smith, an analyst with Bear, Stearns & Co. in New York.

"I think the larger ones will continue to show fairly stable underwriting results, (although) not much on the top line in terms of growth," while the bottom end of the market is "going to see a dis-

ers who have let business go as of Jan. 1" because of low prices, said Mr. Troiano. Gerling, for instance, did not renew 15% of its business because of pricing issues, but brokers and clients still "found it relatively easy" to replace the capacity with other reinsurers.

The 38 reinsurers that participate in the Reinsurance Assn. of America's 1998 survey posted \$19.44 billion in net premiums, a 2.5% decline from 1998. The Top 20 reinsurers, based on net premi-

(among primary companies) because one byproduct of that has been less overall purchase of reinsurance," which is typical of merged entities.

Furthermore, "obviously we are impacted by the continuing competitiveness of the primary pricing, and reinsurance pricing continues to be competitive."

"Everything's going the wrong way," said Risk Capital Re's Mr. Malvasio. "Premiums are declining, the number of companies is shrinking and the expense ratios are up."

Mr. Adamson said the combined ratios "were a little bit better than I had anticipated." He said he suspects "the last breath of prior-reserve releases is involved in some of those results."

"There was a very wide spread in performance, and so that makes the analysis a little trickier," said Mr. Ward. "For example," he said, "Gen Re reported a phenomenal quarter and a phenomenal year, and given their dominance in their segment, that affected how the segment overall did," he said.

Observers generally expect merger and acquisition activity to continue. "Obviously, it has continued throughout '98 and the early part of '99," said Mr. Robb. The number of available acquisition targets has shrunk dramatically over the past 18 months, "so I don't know that the pace of acquisition will continue at the rate it has, but I don't think it's over yet," said Mr. Robb. "There's still room for more consolidation."

"I think it's pretty well known that there are a few reinsurance companies out there that are still looking for a merger or a buyer to come along, so I would say the list of reinsurance companies may continue to shrink," said Mr. Tirney, noting that the total of 38

reinsurers that report results to the RAA is half the number that reported 10 years ago.

Mr. Adamson said, "There's always some question as to what the longer-term success of any M&A activity is going to be." However, some people still continue to look for growth, and there are others whose size dictates they must merge because "they just haven't the scale to continue to be successful" otherwise. This will "force continued consolidation," said Mr. Adamson.

Grace Osborne, director at rating agency Standard & Poor's Corp. in New York, said, "We certainly think that there is going to be additional interest in looking at trying to fill out niches, because it will be difficult for companies to show top line growth in this environment, and certainly acquiring other companies is a way in which they could attain" that goal.

"There aren't too many large, publicly traded reinsurers left," Mr. Smith said. "I think one by one they will exit, stage right."

Mr. Smith pointed to Gen Re's acquisition by Berkshire Hathaway and NAC Re Corp.'s planned buyout by XL Capital Ltd. (BI, Feb. 22).

"The reinsurance industry's basically disappearing from public view. I think Gen Re and NAC Re have signaled that (reinsurers) really need to be owned by bigger entities to conduct business in an industry where earnings are becoming increasingly volatile," said Mr. Smith, adding, "Volatility endangers premium stock valuations."

Some of the smaller reinsurers, he said, will follow the pattern of the past several years and either find companies to acquire them "or simply shut the doors and turn the lights out." **BI**

'Obviously we are impacted by the continuing competitiveness of the primary pricing, and reinsurance pricing continues to be competitive,' says Greg Doyle.

proportionate share of the losses."

This segment of the market, he noted, writes more quota-share business, and with primary rates increasingly deficient, "that's going to show up more and more in the reinsurer results."

For the beginning of this year, the Reinsurance Assn. of America statistics will be comparable to 1998's, though "perhaps by the fourth quarter that may change," said Charles T. Troiano, president and CEO of Gerling Global Reinsurance Corp. of America in New York.

"I think we'll start to see the effects of the competitiveness of the last five years start to show up in the statistics," said Mr. Troiano. In addition, "we're likely to see, I think, some volatility company to company in the premium volume," in a continuation of a 1998 trend.

"There are a number of reinsur-

ums written, reported a slight increase—0.5%—to \$18.14 billion. *Business Insurance* includes in the top 20 the results of the Berkshire Hathaway Group, which does not report its results to the RAA and continued to report separately from General Re Corp., which Berkshire Hathaway has acquired.

The RAA reinsurers reported a 104.4% combined ratio, compared with 102.3% for a comparable group in 1997. The top 20 reinsurers reported a 104.2% combined ratio, compared with 102.6% for 1997.

The reinsurance results are not "particularly surprising," said Greg Doyle, president of domestic insurance company operations for Princeton, N.J.-based American Re-Insurance Co.

"The reinsurance segment of the marketplace has been particularly affected by all the M&A activity

Largest U.S. reinsurers' year-end 1998 results

Ranked by net reinsurance premiums written. All amounts in thousands of dollars.

Reinsurers	Net reinsurance premiums written 1998	Net reinsurance premiums written 1997	Policyholders surplus (reinsurers only)	Net income 1998	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 1998	Combined ratio 1997
1. General Re	2,707,368	3,057,892	5,626,591	2,345,245	1,827,578	67.5	907,596	33.5	101.0	98.8
2. Employers Re	2,665,739	1,948,281	4,853,149	480,379	1,720,305	69.6	901,186	33.8	103.4	102.0
3. American Re	2,276,153	2,491,723	2,607,839	319,361	1,561,460	68.2	811,352	35.6	103.8	104.0
4. Transatlantic/Putnam	1,257,332	1,119,366	1,343,659	208,925	926,730	74.5	339,495	27.0	101.5	99.9
5. St. Paul Re	1,056,229	1,200,245	N/A	N/A	684,450	65.9	346,168	32.8	98.7	104.7
6. Everest Re	1,017,766	1,020,097	1,059,429	176,672	776,362	72.2	317,017	31.1	103.3	102.7
7. Berkshire Hathaway	986,000	955,000	N/A	N/A	765,000	81.5	195,000	20.8	102.2	86.8
8. Zurich Reins. (N.A.)	852,503	1,066,902	919,553	113,700	651,864	77.8	303,129	35.6	113.3	109.2
9. Swiss Re America	728,044	772,624	1,780,155	314,098	490,962	67.4	282,166	38.8	106.2	103.1
10. Hartford Re Co.	710,577	687,877	N/A	N/A	559,319	78.1	196,101	27.6	105.7	102.6
11. SCOR U.S. Group	709,582	649,916	402,652	3,790	537,271	75.7	268,757	37.9	113.6	105.3
12. Gerling Global Re	592,390	619,748	693,929	53,079	443,578	75.3	197,947	33.4	108.7	102.5
13. NAC Re	496,868	541,362	737,114	101,863	317,510	65.7	187,782	37.8	103.5	103.1
14. Underwriters Re	438,162	414,191	602,646	41,234	293,259	69.7	141,648	32.3	102.0	102.2
15. TIG Re Co.	395,608	515,266	546,843	93,390	318,954	67.4	157,627	39.8	107.2	131.6
16. Signet Star Re	351,026	275,072	257,022	10,458	244,178	75.1	111,748	31.8	106.9	104.2
17. Risk Capital Holdings Group	234,735	144,834	358,702	(11,973)	176,125	85.4	72,699	31.0	116.4	106.3
18. PMA Re	231,932	178,212	287,466	29,746	151,901	68.6	82,849	35.7	104.3	103.8
19. Reliance Re	219,756	161,898	N/A	N/A	143,442	66.0	81,430	37.1	103.1	102.2
20. Folksamerica Re	212,559	232,386	328,501	33,875	170,226	71.5	77,525	36.5	108.0	102.9
Totals for Top 20	18,140,329	18,052,892	22,405,250	4,313,842	12,760,474	71.2	5,979,222	33.0	104.2	102.6
Total for all companies	19,439,312	19,931,502	26,502,423	4,734,896	13,584,554	70.7	6,543,903	33.7	104.4	102.3

Source: Reinsurance Assn. of America and *Business Insurance*

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BUSINESS OPPORTUNITIES

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

IN RE PETITION OF GARETH HOWARD HUGHES, CHRISTOPHER JOHN WILKINSON HILL AND PAUL CLARKE, AS JOINT PROVISIONAL LIQUIDATORS OF OCEAN MARINE MUTUAL INSURANCE ASSOCIATION LIMITED, CASE NO. 99-B-42545 (BRL)

NOTICE IS HEREBY GIVEN THAT, PURSUANT TO AN ORDER OF THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK (THE "BANKRUPTCY COURT"), IN CONNECTION WITH THE PETITION FILED PURSUANT TO SECTION 304 OF THE BANKRUPTCY CODE WITH RESPECT TO OCEAN MARINE MUTUAL INSURANCE ASSOCIATION LIMITED (THE "COMPANY"), A TEMPORARY RESTRAINING ORDER IS IN EFFECT:

1. ENJOINING AND RESTRAINING ALL PERSONS AND ENTITIES FROM: (A) TRANSFERRING, RELINQUISHING OR DISPOSING OF ANY PROPERTY OF THE COMPANY IN THE UNITED STATES, OR THE PROCEEDS OF SUCH PROPERTY, TO THIRD PARTIES; (B) COMMENCING OR CONTINUING ANY ACTION OR OTHER LEGAL PROCEEDING (INCLUDING, WITHOUT LIMITATION, ARBITRATION, OR ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY ACTION, PROCEEDING OR PROCESS WHATSOEVER), INCLUDING BY WAY OF COUNTERCLAIM, AGAINST THE COMPANY, OR ANY PROPERTY IN THE UNITED STATES INVOLVED IN THE FOREIGN PROCEEDING, OR ANY PROCEEDS THEREOF, AND SEEKING DISCOVERY OF ANY NATURE AGAINST THE COMPANY; AND (C) ENFORCING ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY JUDGMENT, ASSESSMENT OR ORDER OR ARBITRATION AWARD AGAINST THE COMPANY, AND COMMENCING OR CONTINUING ANY ACT OR ACTION OR OTHER LEGAL PROCEEDING (INCLUDING, WITHOUT LIMITATION, ARBITRATION, OR ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY ACTION, PROCEEDING OR PROCESS WHATSOEVER), TO CREATE, PERFECT OR ENFORCE ANY LIEN, ATTACHMENT, GARNISHMENT, SETOFF OR OTHER CLAIM AGAINST THE COMPANY, OR ANY OF ITS PROPERTY IN THE UNITED STATES, OR ANY PROCEEDS THEREOF, INCLUDING, WITHOUT LIMITATION, RIGHTS UNDER REINSURANCE CONTRACTS; AND

2. PROVIDING THAT NOTHING IN THE ORDER SHALL IN ANY RESPECT PREVENT THE CONTINUATION OR COMMENCEMENT OF PROCEEDINGS AGAINST ANY PERSON OR ENTITY OTHER THAN THE COMPANY; PROVIDED, HOWEVER, THAT IF ANY THIRD PARTY SHALL REACH A SETTLEMENT WITH, OR OBTAIN A JUDGMENT AGAINST, ANY PERSON OR ENTITY OTHER THAN THE COMPANY, SUCH SETTLEMENT OR JUDGMENT SHALL NOT BE BINDING ON OR ENFORCEABLE AGAINST THE COMPANY OR ITS PROPERTY.

THE TEMPORARY RESTRAINING ORDER IS IN EFFECT PENDING A HEARING, WHICH WILL BE HELD ON APRIL 26, 1999 AT 10:00 O'CLOCK A.M., BEFORE THE HONORABLE BURTON R. LIFLAND IN ROOM 623 OF THE BANKRUPTCY COURT, ONE BOWLING GREEN, NEW YORK, NEW YORK (THE "HEARING"), TO CONSIDER THE PETITIONERS' REQUEST FOR A PRELIMINARY INJUNCTION ON THE SAME TERMS AS THE TEMPORARY RESTRAINING ORDER AND THE ADDITIONAL TERMS SET FORTH BELOW:

1. REQUIRING ALL PERSONS AND ENTITIES IN POSSESSION, CUSTODY OR CONTROL OF PROPERTY OF THE COMPANY IN THE UNITED STATES, OR THE PROCEEDS THEREOF, TO TURN OVER AND ACCOUNT FOR SUCH PROPERTY OR ITS PROCEEDS TO THE PETITIONERS;

2. REQUIRING EVERY PERSON AND ENTITY THAT HAS A CLAIM OF ANY NATURE OR SOURCE AGAINST THE COMPANY AND THAT IS A PARTY TO ANY ACTION OR OTHER LEGAL PROCEEDING (INCLUDING, WITHOUT LIMITATION, ARBITRATION, OR ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY ACTION, PROCEEDING OR PROCESS WHATSOEVER) IN WHICH THE COMPANY IS OR WAS NAMED AS A PARTY, OR AS A RESULT OF WHICH A LIABILITY OF THE COMPANY MAY BE ESTABLISHED, TO PLACE THE PETITIONERS' UNITED STATES COUNSEL ON THE MASTER SERVICE LIST OF ANY SUCH ACTION OR OTHER LEGAL PROCEEDING AND TO TAKE SUCH OTHER STEPS AS MAY BE NECESSARY TO ENSURE THAT SUCH COUNSEL RECEIVES (A) COPIES OF ANY AND ALL DOCUMENTS SERVED BY THE PARTIES TO SUCH ACTION OR OTHER LEGAL PROCEEDING OR ISSUED BY THE COURT, ARBITRATOR, ADMINISTRATOR, REGULATOR OR SIMILAR OFFICIAL HAVING JURISDICTION OVER SUCH ACTION OR LEGAL PROCEEDING, AND (B) ANY AND ALL CORRESPONDENCE, OR OTHER DOCUMENTS CIRCULATED TO PARTIES NAMED IN THE MASTER SERVICE LIST; AND

3. PROVIDING, WITH RESPECT TO ANY PARTY-IN-INTEREST, CLAIM, ACTION, ARBITRATION OR OTHER PROCEEDING WHICH MAY BE COMMENCED OR BECOME KNOWN TO PETITIONERS IN THE FUTURE (EACH A "SUBSEQUENT CLAIM"), THAT:

- (A) WHEN INFORMED OF A SUBSEQUENT CLAIM, COUNSEL FOR THE PETITIONERS SHALL SERVE UPON THE HOLDER OF SUCH CLAIM A COPY OF THE SUMMONS, THE PETITION, AND THE MOST RECENT INJUNCTION ORDER ENTERED BY THE COURT;
- (B) THE HOLDER OF A SUBSEQUENT CLAIM WILL HAVE TWENTY (20) DAYS FROM SERVICE OF THE SUMMONS IN WHICH TO FILE AN ANSWER OR MOTION WITH RESPECT TO THE PETITION; AND
- (C) ON NOT LESS THAN TWO (2) DAYS NOTICE TO COUNSEL FOR THE PETITIONERS, THE HOLDER OF A SUBSEQUENT CLAIM MAY FILE A MOTION SEEKING AN ORDER OF THE COURT VACATING OR MODIFYING WITH RESPECT TO THE SUBJECT MATTER OF A HEARING AS SCHEDULED BY THE COURT. OTHERWISE, THE HOLDER OF A SUBSEQUENT CLAIM MAY FILE OBJECTIONS AND BE HEARD BY THE COURT IN ACCORDANCE WITH THE TERMS OF ANY ORDER OF THE COURT PROVIDING FOR A HEARING IN THE FUTURE ON THE RELIEF SOUGHT BY THE PETITIONERS IN THIS PROCEEDING.

ALL PARTIES-IN-INTEREST OPPOSED TO THE PETITIONERS' REQUEST FOR A PRELIMINARY INJUNCTION MUST APPEAR AT THE HEARING AT THE TIME AND PLACE SET FORTH HEREIN, OR AT ANY SUCH ADJOURNED HEARING ON THE PRELIMINARY INJUNCTION. ALL PAPERS SUBMITTED FOR THE PURPOSE OF OPPOSING THE PETITIONERS' REQUEST FOR A PRELIMINARY INJUNCTION SHALL BE FILED WITH THE COURT WITH A COPY TO THE CHAMBERS OF THE HONORABLE BURTON R. LIFLAND AND SERVED ON CHADBOURNE & PARKE LLP (ATTN: HOWARD SEIFE) SO AS TO BE RECEIVED ON OR BEFORE APRIL 26, 1999 AT 10:00 A.M. NEW YORK TIME. THE ORDER DATED APRIL 20, 1999 AND SUPPORTING PAPERS WILL BE MADE AVAILABLE UPON REQUEST AT THE OFFICES OF THE PETITIONERS' UNITED STATES COUNSEL AT THE ADDRESS BELOW.

CHADBOURNE & PARKE LLP
ATTORNEYS FOR THE PETITIONERS
30 ROCKEFELLER PLAZA
NEW YORK, NEW YORK 10112
(212) 408-5100
ATTN: HOWARD SEIFE, ESQ.
LISA DORR, ESQ.

* As used herein, "United States" is defined to include the fifty states, and all U.S. territories and possessions.

MUTUAL OF OMAHA U.K. LIMITED

The Solvent Scheme of Arrangement between the above mentioned company and its creditors became effective on 3 February 1999. Philip Singer and Paul Evans, partners in the UK firm of PricewaterhouseCoopers, were appointed Scheme Administrators of the company.

Further notice is hereby given that scheme creditors have until the 4th May 1999 to submit claims to the aforementioned Scheme Administrators. No claims can be admitted after this date.

All correspondence concerning creditors claims should be addressed to the following office:

Mutual of Omaha U.K. Limited,
C/O PricewaterhouseCoopers,
Plumtree Court (PC 429) London
EC4A 4HT, United Kingdom

Contact: Andrew Ward
Tel No. +44 (0) 171 212 6430
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LEGAL NOTICES

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UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

IN THE PETITION OF COLIN GRAHAM BIRD AND PAUL ANTHONY BRERETON EVANS, AS JOINT PROVISIONAL LIQUIDATORS OF NORTH ATLANTIC INSURANCE COMPANY LIMITED, F/K/A BRITISH NATIONAL LIFE INSURANCE SOCIETY LIMITED AND BRITISH NATIONAL INSURANCE COMPANY LIMITED

Case No. 97-B-41602 (TLB)

NOTICE IS HEREBY GIVEN that on April 19, 1999, the Bankruptcy Court entered an order (the "Order") continuing the Preliminary Injunction Order pursuant to 11 U.S.C. §§ 105 and 304(a) originally entered in this case on April 7, 1997. The Order shall remain in effect pending a hearing scheduled for October 20, 1999 at 9:45 a.m. before the Honorable Tina L. Brozman, Chief Bankruptcy Judge, in the Alexander Hamilton Custom House, One Bowling Green, New York, New York. Any person wishing to obtain a copy of the Order should contact Susan Marguccio (212) 504-6751.

CADWALADER, WICKERSHAM & TAFT
100 Maiden Lane
New York, New York 10038
Tel: (212) 504-6000
Fax: (212) 504-6666
Attention: Kenneth P. Coleman, Esq.
Stephen Doody, Esq.

REQUEST FOR PROPOSALS

REQUEST FOR PROPOSALS

Request for Expression Of Interest OWNER CONTROLLED INSURANCE PROGRAM (OCIP)

The New York City School Construction Authority (SCA) is soliciting "Expressions of Interest" from qualified brokers, agents and direct writers to provide professional services in conjunction with its multi-billion dollar owner controlled rolling wrap-up insurance program. Interested parties should submit a letter of interest on company letterhead to: Arlene V. Malone, Director, Contract Administration, New York City School Construction Authority, 30-30 Thomson Avenue, Long Island City, N.Y. 11101, or Fax to: (718) 472-0477.

Responses must be received by
4 PM, Monday, May 10, 1999.

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Chief Financial Officers and Vice Presidents
of Finance2,428
Secretaries, Treasurers, controllers and
other Financial Personnel6,302

Risk/Employee Benefits:

Vice Presidents, Directors, Managers, and other
related department personnel of: insurance, risk,
employee benefits, personnel, compensation,
pension, safety, security, industrial relations,
human resources and employee/
labor relations13,382

Sub-total30,302

Associations249

Government, Unions and

Educational Institutions982

Commercial Consumers

Sub-total31,533

Insurance Agents and Brokers7,902

Insurance Companies6,627

Accountants, Actuaries,

Attorneys & Consultants2,488

Adjusters, Appraisers, TPA's, Captive Managers

& Health Care Providers1,435

Others Allied to the Field774

Total Qualified50,759

Non-qualified/Paid Subscriptions18

Single Copy Sales1

TOTAL CIRCULATION50,778

★ Source Business/Occupational
breakdown of qualified circulation,
November 30, 1998 Issue, as
submitted to BPA for December 1998
BPA Publisher's Statement

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Standards revised, introduced

WASHINGTON—The American Accreditation HealthCare Commission/URAC has approved new standards for health plans and health networks that will take effect July 1.

The revised Health Network Standards are designed for less-integrated health systems, including preferred provider organizations, while the new Health Plan Standards apply to highly integrated health systems, such as health maintenance organizations. URAC, which expects to issue its 50th network accreditation later this year, has accredited only a handful of HMOs to date, said a URAC spokesman.



The Health Network Standards cover network management, provider credentialing, member

protection and quality management. Changes from the previous standards include a prohibition against so-called gag clauses in provider contracts, more specific guidance regarding confidentiality protections, and a requirement that health networks conduct at least two quality improvement projects at all times.

The new Health Plan Standards cover the same areas as the network standards, as well as utilization review.

"These standards guarantee that URAC's quality benchmarks will be meaningful to a variety of audiences as we enter the 21st century," said Garry Carneal, URAC president and chief executive officer. The standards were approved at URAC's annual meeting earlier this month.

Kemper announces realignment

LONG GROVE, Ill.—Kemper Insurance Cos. announced last week that it has realigned business operations into four divisions, aimed at better communicating product and service offerings to agents.



Mr. Batting

The divisions are the Business Customer Group, Kemper International, the Individual & Family Customer Group, and Kemper Casualty Co.

The Business Customer Group, which is the largest Kemper commercial lines division, will be led by Douglas A. Batting. Mr. Batting, who will assume the title of executive vp of the Business Customer Group as of May 1, previously held many high-level executive positions over nearly three decades at the Chubb Group of Insur-

ance Cos.

Kemper Casualty Co. will consist of three Kemper entities, environmental casualty, excess casualty and professional liability. No head of this new division has been named.

Executive Vp James S. Kemper III will oversee Kemper International.

Boiler and machinery reinsurance

HARTFORD, Conn.—Travelers Property Casualty Corp. has established a boiler and machinery reinsurance unit to offer coverage to other insurers who do not have the capability to provide the coverage themselves.

Travelers BoilerRE will offer reinsurance coverage, underwriting, and engineering and claims services, said Anthony Giannone, national director of Travelers' Boiler & Machinery Division.

Travelers already offers facultative reinsurance coverage, but the new unit will offer treaty coverage on entire books of business and give cedents underwriting authority up to agreed limits, he said.

The coverage can be written as reinsurance above an insurer's own policy, or it can be embedded in the policy alongside an insurer's own commercial property coverage, Mr. Giannone said.

"We'll be working directly with other carriers, reinsurers and intermediaries," he said.

Information in brief

U.S. District Judge Sam Pointer has denied **breast implant claimants' motion** to reject the November 1998 findings of the National Science Panel based on a conflict of interest. The panel, which Judge Pointer appointed, found no definitive scientific link between silicone breast implants and disease. . . . H.B. 1951, a bill drafted by the American Insurance Assn. to **deregulate forms for large commercial risks**, was passed by the Louisiana House of Representatives in a 97-0 vote. The bill is similar to a recently enacted Colorado law that directs the insurance commissioner to determine the premium threshold that defines exempt policyholders. . . . **Peter J. Ratican**, 55, the chairman, president and chief executive officer of Los Angeles-based Maxicare Health Plans Inc., is leaving the company after June 30 to "pursue personal business interests," according to the company. The managed care company's board of directors has formed a search committee to find a successor to Mr. Ratican, who has been a company official since 1988. Elwood I. Kleaver Jr., a Maxi-care board member, has been named interim chief operating officer to assist during the transition period. . . . Toronto-based Fairfax Financial Holdings Ltd., a holding company that owns a broad range of insurance, reinsurance, insurance claims management and investment management companies, this month completed the **acquisition of TIG Holdings Inc.** TIG Holdings owns Stamford, Conn.-based TIG Reinsurance and Irving, Texas-based TIG Insurance. Its subsidiaries are engaged in marketing speciality insurance products. . . . Twenty New York City residents were arrested last week on **insurance fraud, grand larceny and forgery charges** for allegedly collecting more than \$360,000 in workers compensation benefits by lying about work-related injuries and collecting the benefits of dead relatives, among other things. **BI**

The Professional Marketplace

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DIRECTOR, RISK & INSURANCE MANAGEMENT IN OHIO

ProMedica Health System, an integrated healthcare delivery systems, located in Toledo, Ohio with properties in northwest Ohio and southern Michigan, is seeking an experienced person to direct all system risk management and insurance programs. The successful candidate will: develop and implement insurance service plans, systems and controls. Serve as the chief liaison to ProMedica Indemnity Company, Ltd., the system's wholly-owned subsidiary captive insurance company, and ensure compliance with all regulatory requirements.

Directly supervise the system's insurance broker and render advice on issues related to insurance and risk financing. Provide leadership and direct all risk management activities system-wide. Develop investigate safety and educational programs directed at decreasing both the frequency and severity of risk and claims expense. Develop, monitor and review claims management policies and procedures and processes in conjunction with Legal Case Coordinator, including those dealing with occurrence and claims reporting and investigations. Preferred qualifications include a minimum of five to seven (5-7) years leadership experience in healthcare risk management, Master's or advanced degree in Health Administration, Business or related area.

Send or fax resume to: Tina Filoromo, Manager, Human Resources, The Toledo Hospital, 2142 N. Cove Blvd., Toledo, OH 43606. Fax: (419)479-6097.

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Las Vegas Valley Water District
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Telephone (702) 258-3933
E-mail: cheryl.johnson@lvvwd.com

Filing deadline: Open until filled.

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Work to prevent further tragedies

As awful and tragic as the shooting spree at a Colorado high school last week was, I think the anguish will only get worse as people try to come to grips with what may be an unanswerable question: Why did this happen?

As news wires last Tuesday first began to report on the violence at Columbine High School, the media initially focused on trying to describe what was taking place. But within a few short hours, the media had shifted from trying to report the available facts to offering or soliciting speculation and lurid opinion-making.

Driving home from work that evening, I switched around the radio dial trying to learn what was going on. But on each station, I found only brief news reports interspersed with lengthier segments of reporters and news anchors discussing their own ideas about why this mess may have occurred.

I fear that, in the rush to find an easy solution to this complex puzzle, politicians and the media will seek scapegoats. They will try to appease a public looking to apportion blame for who or what filled the two dead shooters with so much hatred and anger that they embarked on their killing spree.

Finding something or someone to blame then can lead to civil litigation, which, sadly, has become the balm of choice for society's wounds.

The search for blame already has identified several potential causes, which will yield calls for their condemnation or prohibition. These include guns, rock music, the Internet, school cliques, role-playing video games, school officials, a lack of school uniforms, violence in movies and on television, and so on.

The fact is, while any of these things, in some fashion, may have contributed to warping the outlook of the two high school killers, there are many millions more people who have not been compelled to harm others by exposure to these products, services or information.

The weapons used in the rampage had to come from somewhere, but until the source is located, fingers will point broadly at gun manufacturers and sellers for not preventing their products from getting into the hands of minors. Stricter gun control could prevent a lot of the deaths that occur in society, but I believe the ability of these gunmen to obtain a semi-automatic pistol, illegally sawed-off shotguns and a carbine rifle is an exception rather than the norm.

As for being able to build bombs, the information needed to do this is not that hard to obtain. Many may rue the fact that the constitutional right to free speech protects the publication of manuals about how to build explosive devices. But to truly prevent such a risk, society might also have to stop teaching chemistry in the schools and restrict the sale of certain basic household supplies.

The Internet has been vilified as a culprit for making such controversial information readily available. Indeed, last week Chicago Mayor Richard M. Daley was calling for lawsuits against the Internet, though he could not say who or what would be named as defendants in such a suit.

If the Internet did not exist or if it were restricted, however, information would spread in other ways. Furthermore, to say the mere availability of dangerous information is to blame is overly simplistic. In the 1970s, when the Internet was only a gleam in Al Gore's eye, I, as a junior high student, paged through a classmate's copy of "The Anarchist Cookbook" by William Powell. But I did not develop a compulsion to rush out and garrote anyone or to blow up any train trestles, even though I had the instructions to do so right before me.

Perhaps, rather than seeking quick and simple targets to blame for this violence, we should look for ways to prevent it from recurring. Parents, teachers and law enforcement officials could practice more risk management, trying to identify troubled or antisocial behavior so that young people with serious problems could get help before harming themselves or others.

More than a few kids who look or act outrageous will come under scrutiny in the days to come. In the effort to find those adolescents who are truly troubled, we may inconvenience or embarrass some young people who are only trying to show their individuality. That would be a worthwhile price to pay if it prevents another tragedy such as the one in Colorado.

Editor Paul D. Winston's commentary appears fortnightly.



Paul D. Winston

ERISA

Continued from page 1

"This case is a chink in the armor of pre-emption," said Kathryn Bakich, national director of health care compliance for The Segal Co. in Washington. "It's a pretty narrow nick."

The case involved an employee who left Management Analysis Co. in May 1992 because of severe leg pain. Later, the cause of his pain was diagnosed as diabetic neuropathy.

John Ward notified his employer in early 1993, at which time he qualified for Social Security disability benefits. But, in April 1994, Mr. Ward became aware of coverage under a UNUM Life Insurance Co. of America disability policy through his employer. When he submitted a claim, UNUM denied it as untimely. Under the policy, a claim had to have been submitted by Nov. 5, 1993, one year and 180 days after Mr. Ward left his job because of the disability.

Mr. Ward sued UNUM and his employer's disability plan. The U.S. District Court for the Southern District of California, finding the claim was untimely, dismissed the suit.

The 9th U.S. Circuit Court of Appeals reinstated the suit, however, applying the notice-prejudice statute. In addition, the court found that MAC had acted as UNUM's agent, therefore, it ruled, the insurer had timely notice of Mr. Ward's claim.

UNUM appealed to the Supreme Court, arguing that ERISA pre-empted the notice-prejudice statute.

But the Supreme Court upheld the 9th Circuit ruling, saying the state statute was not pre-empted by ERISA, as the statute regulates only insurance. "The notice-prejudice rule is distinctive most notably because it is a rule firmly applied to insurance contracts, not a general principle guiding a court's discretion in a range of matters," Justice Ginsburg wrote.

The high court, however, overturned the appeals court's ruling that MAC, which had been informed of the disability, acted as an agent for UNUM and, therefore, the insurer was provided with timely notice. The ruling means insurers in California will have to determine they suffered prejudice from late notice before denying claims as untimely, attorneys said. Although establishing prejudice creates extra work for insurers, it doesn't necessarily change the ultimate decision to provide or deny coverage.

Many states have laws similar to California's notice-prejudice statute. While the Supreme Court ruling has clarified the matter in California, it remains uncertain whether similar laws in other states apply or are pre-empted by ERISA, Segal's Ms. Bakich said. This uncertainty will hurt insurers, employers and employees.

Lisa Bondurant, a partner with Carter & Anslay in Atlanta and chair-

woman of the life, health and disability committee for the Defense Research Institute, said the decision won't have a dramatic impact. But, she said, "it will make more cumbersome claims handling" for employers and insurers in California and possibly in other states.

The ruling "will have an impact in California and, possibly, in other states that have similar rules," she said, making it more difficult for insurers to deny claims without demonstrating prejudice. But in states whose notice-prejudice laws differ considerably from California's and in those states without any such law, the decision won't have an impact, she said.

UNUM's spokeswoman said the company viewed the decision as a partial victory, because the court found the employer was not an UNUM agent. "We don't look at it as a very sweeping or generalized ruling," she said.

Ms. Bondurant, agreed, saying that this part of the ruling was helpful to insurers. Life and disability insurers don't want to be held responsible for knowledge that the employer has not conveyed to them, she said.

The case will return to the district court to determine whether UNUM was prejudiced by Mr. Ward's late notice.

UNUM Life Insurance Co. of America vs. John E. Ward, U.S. Supreme Court; No. 97-1868; April 20, 1999.

Survey

Continued from page 2

behavioral loss prevention measures.

- The impact of technology—including risk management information systems, new exposures and the Y2K computer bug—on risk management.
- The insurance marketplace, both the availability of coverage and costs.
- Corporate growth and human resources issues, such as recruiting and retaining quality workers.

The survey found, however, that the pace of international growth has slowed, with 42% reporting an increase in global business, compared with 75% a year ago. The evidence of a slowdown in international business activity holds up even in breaking out the responses by company size. Among risk managers at companies with 5,000 or more employees, 60% reported an increase in international business activity, the survey found.

For the next two years, risk managers ranked the marketplace and corporate growth issues as their top two concerns, respectively. Technology ranked third.

Their fourth-greatest concern, which is closely related to their top concern, is how they will manage their insurance programs to transfer the appropriate amount of risk away from their organizations.

The fifth-most important issue was how many, if any, of relatively new liability coverages, such as employment practices liability insurance, they should purchase.

Executing effective safety and loss programs rounded out risk managers' top concerns for the next two years.

Whatever the concern, though, risk managers as well as CEOs are looking to technology to provide solutions, said Charles F. Moran, Liberty Mutual's director of marketing research.

Because of the greater number of risk managers at small firms polled for this year's survey, there appears to be a large drop in the percentage of those who used the Internet in the past year in the course of their jobs: 70% this year compared with 79% in 1998. But 83% of risk managers at companies with 5,000 or more employees and 78% of those at companies with 1,000 to 4,999 employees used the Internet the past year.

Among those who used the Net, the

greatest percentage—76%—sought risk management information. Liberty Mutual did not have a comparative figure for 1998 because it did not previously ask about using the Internet for that purpose.

The survey also found that, compared with results from the 1998 survey, more risk managers used the Internet to obtain regulatory information in the past year. The survey found 64% used the Internet for that purpose, compared with 51% last year.

But fewer risk managers, 34% this year compared with 41% last year, reported using the Internet to obtain benchmarking information.

More risk managers are using the World Wide Web to conduct business, and risk managers expect that this activity will surge during the next five years, according to survey results.

The survey found that 45% of risk managers during the past year used the Internet to exchange data and other information with their insurers, compared with 32% a year ago. The use of the Internet for claims review purposes more than doubled to 28% from 13%. Only 5% purchased insurance over the Internet.

In the next five years, 46% of risk managers expect to be conducting claims reviews over the Internet, 40% expect to be videoconferencing with their insurers, and 37% expect the Internet will be their principal business communication vehicle.

Survey results suggest risk managers will be more circumspect during the next five years in deciding to buy or renew coverage over the Internet.

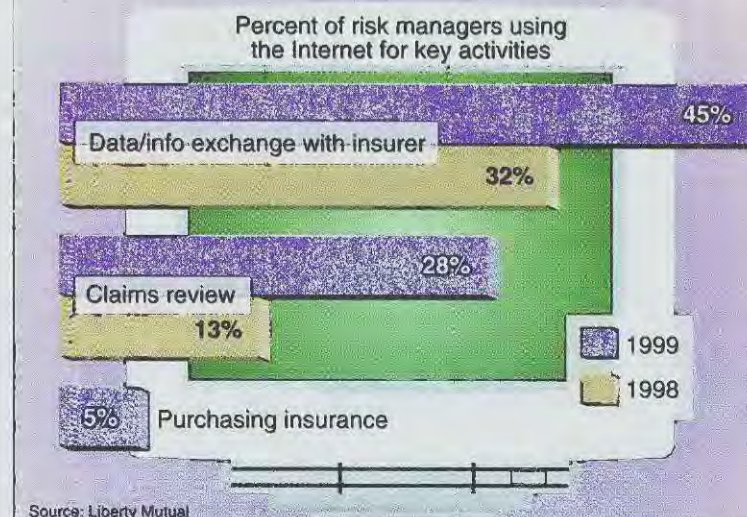
However, there has been strong growth in the number of risk managers who are warming to that notion. Twenty percent said they would purchase their primary property and casualty coverage over the Internet, compared with 17% last year. Thirty-two percent said they would renew that coverage over the Internet, a significant jump from 22% last year.

Because large companies tend to obtain complex programs, risk managers at companies with 5,000 or more employees are less likely than their counterparts at smaller organizations to buy coverage over the Internet, noted John F. Ryan, vp-commercial marketing at Liberty Mutual.

The popularity of risk management information systems varies depending on the size of the company, the survey found. The systems are in widest use among risk managers at companies with at least 5,000 employees. The survey found that 34% of those risk managers have a RMIS. Overall, 22% of survey respondents use a RMIS, and another 22% have considered purchasing one.

For a free copy of the survey, contact Liberty Mutual's Charles Moran at 617-574-5663 or by e-mail, charles.moran@libertymutual.com

E-Commerce on the Web



Lloyd's

Continued from page 1

Lloyd's Chairman Max Taylor said the coverage was not a reaction to expected future losses, but is an efficient way to maximize the funds at Lloyd's disposal.

Buyers will be encouraged both by the policy and the security behind it, said David Ketley, chairman of the Assn. of Insurance & Risk Managers. "This will help to promote the security of Lloyd's, especially in the U.S."

Michael Phillipus, manager-risk management at Pennzoil-Quaker State Co. in Houston, praised Lloyd's move. "To the extent that it can continually strengthen the view of policyholders and buyers, it can only be positive," he said. "The insurers must think it is a fairly good risk or they wouldn't be underwriting it. They are supplying a vote of confidence."

The coverage, written as a five-year policy by six insurers and reinsurers, provides Lloyd's with up to £350 million (\$562.3 million) in coverage per year, with a £500 million aggregate. The policy has a £100 million (\$160.7 million) deductible and is retroactive to Jan. 1 this year.

The program was assembled in less than 18 months and placed by Benfield Greig Ltd. and Aon Group Ltd. in London. The coverage is led by Zurich-based Swiss Reinsurance Co. Other companies participating on the risk are: Employers Reinsurance Corp. of Overland Park, Kan.; The St. Paul Cos. Inc. of St. Paul, Minn.; Hannover Re Group of Hannover, Germany; XL Mid Ocean Reinsurance Ltd. of Bermuda; and Chubb Re Inc. in Bernardsville, N.J.

Should Lloyd's members incur claims exceeding their funds held in the market, the Central Fund would pay claims. Lloyd's can make a levy on names for £300 million to bolster the Central Fund, which had a £175 million (\$294.5 million) balance at year-end 1998. With the levy and the new coverage, Lloyd's Central Fund would have total assets of more than £800 million (\$1.29 billion).

The new credit coverage is triggered if members' cash calls are not paid within 28 days, according to Andreas Bachofner, a senior manager at Swiss Re in Zurich.

To tap the Central Fund, Lloyd's

would have to be hit with more than one major catastrophe loss, said David Spiller, chairman of Benfield Greig.

Benfield Greig and Lloyd's Market Risk Unit conducted extensive modeling of the exposure, said Roger Sell-ek, head of the Market Risk Unit.

An Aon spokesman in London said: "This strengthening of the Central Fund further enhances the security behind policies issued by Lloyd's. Clients will look favorably on this improvement to Lloyd's ultimate resources."

While analysts called Lloyd's move positive, they said the coverage is a small factor in the overall analysis for the market's ratings. Lloyd's has an A rating from A.M. Best Europe Ltd. and an A+ from Standard & Poor's.

S&P expects to issue its Lloyd's review in August, though it confirmed its rating when the coverage was announced, said Rob Jones, an analyst with S&P in London.

Mark Hewlett, managing director of Moody's Investors Service Ltd. in London, which rates individual syndicates, said the coverage "strengthens Lloyd's security position and is extremely positive for the market as a whole."

Gregson Carter, managing director of A.M. Best Europe Ltd., said the coverage "does supply an additional degree of comfort, but there are also other important factors that will affect the rating," such as earnings.

Lloyd's Central Fund had a peak value of £758 million (\$1.15 billion) at the applicable exchange rate in 1992, but the bulk of that was used to set up Equitas Ltd. in 1996 to reinsure Lloyd's pre-1993 liabilities. Equitas was authorized to reinsure only old exposures and so cannot participate in covering ongoing business.

Lloyd's expects the Central Fund will exceed £200 million (\$321.3 million) by year end.

Although Lloyd's is not releasing details about the premium, market sources suggest it is about £16 million (\$25.7 million) annually, a figure that Lloyd's sources say is "slightly on the high side."

Lloyd's aims to keep the Central Fund high enough that it could pay the deductible two years in a row, said Mr. Sellek.

Nevertheless, Central Fund contributions, already set to be gradually

lowered over three years to 0.25% of overall premium limit by 2003, may be reduced faster as a result of the coverage, said Mr. Taylor.

Observers, including SmithKline's Mr. Witheat, said this could attract additional investors to the market.

Of the six organizations involved in the program, five have direct links at Lloyd's as corporate capital providers or investors in Lloyd's agencies. All have business relationships through both direct and reinsurance transactions with Lloyd's syndicates. Even so, none is concerned that an aggregation of risk will hurt their own business.

St. Paul is very comfortable that there are no threats from aggregation of exposures, Chairman Douglas Leatherdale said in an interview. "We had full access to the model," and one of St. Paul's most senior actuaries was involved in assessing it.

The program is "a really strong vote of confidence in the viability of the London market," said John Berger, president of Chubb Re. Chubb Corp. owns 27% of Hiscox P.L.C., one of the largest Lloyd's agents.

Gonda Lauritzen, general manager of Northern Europe for Hannover Re in Hannover, Germany, said the company has "an interest in supporting Lloyd's." Hannover Re does not have any direct holdings at Lloyd's but does reinsure some syndicates. It also places business into Lloyd's. The Central Fund coverage was written on a net basis to ensure it does not get reinsured back into Lloyd's, said Mr. Sell-ek.

Swiss Re was attracted by the opportunity, as well as "a chance to make a statement about our commitment to Lloyd's and the London market," a spokesman in London said.

XL Mid Ocean Re was "approached by Benfield Greig and by Max Taylor when he was here in February for the Bermuda Insurance Symposium," said James Veghte, executive vp.

The Bermuda reinsurer was interested because "there were opportunities for substantial profit" and because "we have a very large investment in the society via Brockbank," said Mr. Veghte, referring to the Lloyd's managing agency.

"I don't view this as a soft market placement. We wouldn't have written it if we thought it was not going to be profitable business," he said. **BI**

Updates

Zurich U.S. starts marketing group

Continued from page 2

Through these seven regional contacts, Zurich will "make sure that local business strategies of the different businesses are aligned and that we are presenting that in a coherent manner in the marketplace," said Mr. Hite. "We want the regional vp to represent the face of Zurich in the marketplace."

The new regional vps are: Brad Brown in Atlanta; Linda Puccio in Chicago; Gerald Ladner in Dallas; Pam McSmith in Los Angeles; William Casey in New York; Tom Routson in Philadelphia; and Sally Sproat in San Francisco.

Zurich's creation of the new marketing structure was announced only a few days after Kemper Insurance Cos. revealed a restructuring aimed at helping agents better understand its product offerings (see For the Record, page 51).

Senate to vote on Y2K bill

WASHINGTON—The Senate is expected to vote today on whether to invoke cloture to allow formal debate to proceed on a bipartisan bill designed to provide businesses with some protection against liability stemming from the Year 2000 computer problem.

The bill, which is backed by a broad coalition of businesses and trade groups, is a revised version of S. 96, a bill drafted by Senate Commerce Committee Chairman John McCain, R-Ariz. S. 96 won the approval of the Commerce Committee on a strict party line vote in March but underwent amendment to draw Democratic support. In the process, Sen. Ron Wyden, D-Ore., signed on as co-sponsor of the bill.

The revised version of S. 96 does not apply to wrongful death or personal injury claims. The measure would, however, include:

- A cap on punitive damages of the greater of three times compensatory damages or \$250,000 for businesses with 25 or more employees. Smaller businesses' punitive damages would be capped at the smaller of the two amounts. There would be no caps, however, where plaintiffs could prove that the defendant had intended to injure them.

- A system of proportional liability for Y2K claims except where "plaintiffs with a modest net worth" could not collect from one or more defendants or where the defendant intentionally injured a plaintiff.

- A requirement that plaintiffs submit a 30-day notice of intent to sue to the defendant. If the defendant offered a remediation plan within that time, the defendant would get an additional 60 days to solve the problem. If there was no agreement about fixing the problem, the plaintiff could sue on the 31st day.

- A duty to mitigate that would not allow plaintiffs to collect for damages that could have been avoided.

- Immunity from punitive damages for governmental entities.

The measure would not apply where parties already have signed a contract spelling out Y2K terms and conditions.

Mental health parity bills signed

HELENA, Mont.—Insured benefit plans in Montana must provide coverage for severe mental illness equal to that for physical illness under legislation signed last week by Gov. Marc Racicot.

Montana is the 21st state to adopt a mental health parity law, according to the National Alliance for the Mentally Ill, which applauded the legislation.

"Mental illnesses are biological brain disorders that can be treated successfully. The new law will end discrimination and help approximately 25,000 Montanans get the treatment they deserve," NAMI Executive Director Laurie Flynn said in a statement.

Meanwhile, Virginia Gov. James S. Gilmore III signed a mental health coverage parity bill after the Legislature approved an amendment to the bill, requested by Gov. Gilmore, stipulating that the law not apply to employers with 25 or fewer workers. The law goes into effect Jan. 1, 2000.

The bill, S.B. 430, mandates that insured health plans and HMOs provide coverage for so-called mental disorders, and that deductibles, benefit years, benefit limits, copayments and benefit maximums be the same for mental conditions as for physical illnesses.

In New Jersey, the State Senate and House last month approved S.B. 86, a parity bill similar to the Virginia bill. Republican Gov. Christine Todd Whitman still must sign the bill, which is supported by the NAMI.

Briefly noted

Jeffrey H. Mayer will join Edison, N.J.-based PXRE Reinsurance Co. as executive vp responsible for the company's new finite reinsurance division. Mr. Mayer comes to PXRE from Swiss Re New Markets, where he was a principal, chief actuary and head of the client service group. . . . **Lost worktime injuries** hit a five-year low in 1997, according to data released last week by the Bureau of Labor Statistics. BLS reports that the lost worktime cases fell to 1.83 million in 1997—the last year for which data is available—from 2.25 million in 1993. Strains and sprains were the most common lost worktime injuries. . . . Colorado Gov. Bill Owens signed a **commercial insurance deregulation** bill last week that exempts many sellers of insurance from rate and form filing requirements. To be exempt, a policyholder must employ a risk manager and meet minimum standards of premium, net worth, net revenues and number of employees. . . . Elizabeth A. Monrad, senior vp and chief financial officer of General Reinsurance Corp., has been named **Insurance Woman of the Year** by APIW, an association for women in insurance. Ms. Monrad will receive the award at a reception in New York on June 15. . . . A consumer group and three members of **Aetna U.S. Healthcare Inc.** have filed a federal racketeering suit in Philadelphia charging the health maintenance organization with falsely advertising quality medical care while undermining care with cost-cutting measures. An Aetna attorney referred questions to a spokeswoman; efforts to reach her were unsuccessful.

Office tents make happy campers

By AMANDA MILLIGAN

KANSAS CITY, Mo.—In some offices, sleeping on the job could get a drowsy employee in trouble with the boss. But at one architecture and interior design firm, it's encouraged.

About two years ago, Gould Evans Goodman Associates in Kansas City, Mo., pitched three one-person camping tents for employees to use as places to rest, relax or catch a few winks. Each tent is equipped with an air mattress, an alarm clock, ear-

phones, cassettes of relaxing music, eye shades and pillows.

The tents eliminate the need for one approach: "It gets kind of gross when people have crawled under their desks," said Karen Gould, a senior associate and interior designer who had the idea for the office tents.

Tents were adopted because the office environment itself is "nomadic," Ms. Gould said. Even associates' work stations are on wheels. Currently, the tents are on one of two mezzanines in the office.

Margaret Bowker, associate vp, said that the tents probably are used only a few times a week. But, she added, it's good to know they are around if an employee needs to get away. She has used the tents three times since they have been a part of the office environment, but not necessarily to nap.

"The biggest thing for us is if someone isn't really feeling well, they can get away," she said, noting that few have ever spent the night in a tent. "It's not meant to be a hotel room."

The corporate culture at this 25-year-old architecture firm is described by Ms.

Gould as being "a little less uptight than other offices." In addition to providing the tents, the firm also allows employees to bring in their dogs. Typically, there are about four or five canines pawing around the office, and gerbils and fish also have been a part of the office scene.

"The whole office has a certain spirit to it," said Ms. Bowker, who has worked for the firm for more than nine years.

The concept of offering a place for "time-starved" employees to nap or just relax is not new, said Richard Federico, vp and national practice leader for work/life benefits at The Segal Co. of New York. It can even be a spinoff of flexible work time.

"I think the issue of a nap room is very relevant to the way we're asked to work these days," he said. "You're not only working more hours, but you're also working harder."

A corporate focus on recruitment and retention has motivated employers to seek ways of connecting with their employees and understanding the demographics of workers, Mr. Federico said.

"Gaining employees' commitment today involves a lot of things, and one of those things is understanding their workplace habits," he said. "It's a performance and productivity issue." **BI**



PHOTO: COURTESY OF GOULD EVANS GOODMAN
To increase productivity, some employers are allowing employees to take naps or relax in private tents set up in the workplace.

Shootings

Continued from page 1

Police found a total of more than 30 pipe bombs, which were throughout the school, inside booby-trapped cars and in the suspects' two homes. Also found were four guns: a 9mm semi-automatic pistol, two sawed-off shotguns and a carbine rifle.

The 17- and 18-year-old male gunmen were part of a group of outcast students called the Trench Coat Mafia. Following the rampage, both boys were found dead in the school library from gunshot wounds to the head.

Damage estimates to the school from the rampage have yet to be determined, but a spokeswoman for the Jefferson County school district said it has been told by police that there "is significant damage" to the structure.

The Jefferson County schools have property insurance underwritten by units of Chubb Corp., with a \$50,000 deductible, said Sally Phillips, insurance manager/risk manager for the Jefferson County Public Schools.

The school district has a \$500,000 self-insured retention for general liability risks, after which coverage is provided under a \$3 million excess liability policy written by Genesis Insurance Co., a unit of General Re Corp.

Ms. Phillips said it is too early to determine the extent of damage while crime scene investigators are still in the building. The school has been closed indefinitely.

Colorado Gov. Bill Owens last Wednesday declared a state of emergency and earmarked up to \$1 million in state money to help Columbine High School and the community recover. President Clinton last week made \$1.5 million available to the victims' families from a federal fund for crime victims.

One day after the shootings, three gun bills headed for passage in the Colorado Legislature were either killed by their sponsors or targeted for veto by Gov. Owens. Those bills, among other things, would have allowed more concealed-weapons permits and prohibited cities and towns from suing gun manufacturers.

The Jefferson County schools have a crisis response program in place for bomb threats and other emergencies, Ms. Phillips said.

"We are going to have to go to the community, and a lot of decisions are going to have to be made as to what they want us to do now as far as security. It has been said more than once our worst nightmare has happened," Ms. Phillips said.

Other school risk managers, still reeling from the incident, were perplexed when pondering how to prevent another such incident from occurring in the future.

"We're extremely saddened here at DPS," said

Stephen Finley, risk manager for the Denver Public Schools. "The incident that unfolded (at Columbine) is unlike any other. It was a commando-style raid," Mr. Finley said. "Short of making our schools fortresses with moats and drawbridges, I just don't know what to do. I'm at a loss," he said.

"We could clearly put more emphasis on training, and that's where we're headed," Mr. Finley said. "We've got to focus more resources and more attention to do all we can to make our schools as safe as possible."

Dan Pliszka, risk manager for the city of Charlotte, N.C., and Mecklenburg County, as well as the Charlotte-Mecklenburg school system, said, "I think it goes back to awareness—recognizing behavior that is perhaps suspicious."

"It's a sad state of affairs. Unfortunately, it's a sign of our times," he said.

"What's kind of shocking to me about the whole thing is that the kids knew about this Trench Coat Mafia, but when parents were asked about it, they had never heard of them," Mr. Pliszka said.

Most schools today have crisis response plans in place, but "they need to look more to prevention," said Tom Dondero, senior risk control specialist for Chicago-based Coregis Group, which insures 1,500 school districts in the United States. "That's where the focus will be in the future."

There needs to be education so that students, school staff, family members and the community can recognize early warning signs, Mr. Dondero said. There also need to be policies and procedures in place to intervene and get to students quickly, whether through anger management courses, conflict resolution programs or peer mediation programs, he said.

If any good comes out of the Littleton incident, maybe it will be "used as a springboard to promote these programs," he added.

Other risk and safety consultants say the first hurdle that must be cleared by school districts is accepting that no school district is immune to these types of violent incidents.

"People have got to get out of these denial phases and take these things seriously," said Gary Salmans, vp and manager of risk control services at Marsh Inc. of Colorado in Denver. "It's not going to go away. As tragic as this situation is, with the loss of 14 children, it's going to happen again," he said.

Teachers, students, custodians and administration "have got to learn to be able to identify potential problems and be able to tell someone about it," Mr. Salmans said.

School crisis management "has not taken a back seat; it is just a matter of schools and communities accepting that (incidents like Columbine) can happen anywhere," said Gor-

don Padera, a vp in the risk control and consulting division for Gallagher Bassett Services Inc. in Itasca, Ill.

"We have to find a way to get past that. It can happen anywhere, and there are things that can be done to minimize the exposure," he said.

Mr. Padera said one of the key prevention strategies often missing in many plans is "empowerment."

After training and educating everyone about early warning signs, teachers and students need to be empowered to report any suspicious behavior to a crisis management team or to counselors or principals, Mr. Padera said.

Toll-free anonymous hot lines are a good way to make students feel more comfortable with reporting suspicious behavior, he said.

Mr. Padera said schools also need to have in place procedures to respond to these reports and to intervene quickly.

Bruce T. Blythe, president and chief executive officer of Crisis Management International Inc. in Atlanta, agreed that one of the crucial parts of a crisis management plan is having a program in place to identify potential threats. Students need to be taught that they can report potential violence to school authorities, and the message needs to be repeated to overcome students' resistance to telling on friends, he said.

Pennsylvania schools, through their emergency notification system, have dispelled potentially violent incidents before they happened with communication and good rapport between students, police officers and school administrators, said Sheldon W. Grasley, managing director for the New Cumberland, Pa.-based Pennsylvania School Boards Assn. Insurance Trust, which oversees a risk management and insurance program for 50 school boards.

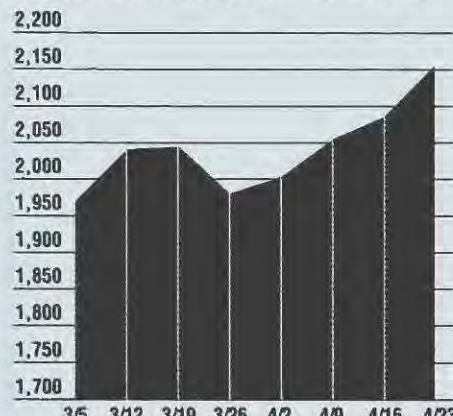
In one situation, kids had threatened to enter a school with guns and cause damage, Mr. Grasley said. But the school had a notification program that gave credibility to kids reporting the situation and credibility to school administrators reporting it to police. Therefore, they were able to defuse the situation and get the kids into counseling, he explained.

For an emergency notification system to work, it needs a place where kids can go and report potential incidents and a school administration that "doesn't pooh-poo it and say you are over-reacting," Mr. Grasley said.

"This shooting and several others within the past couple of years have made school administrators more aware and wanting to be in a position to be prepared to deal with it both from a preparedness side and a response side," he said.

In three weeks, the PSBA will hold a workshop for member schools on emergency preparedness; it will hold one in the fall on crisis response. "It is a very timely topic," Mr. Grasley said.

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc. (nordby.com) Boulder, Colo.

PCS catastrophe options

As of April 23	Call spread	Price bid/ask	Call spread	Price bid/ask
National Annual 1999	40/60	13.0/18.0	California Annual 1999	60/80 1.0/2.3
60/80	6.0/12.0	80/100	0.7/1.9	150C 0.5/2.5
80/100	5.0/—	Western Annual 1999	80/100	0.8/2.2
150C	5.3/8.0	Midwest June 1999	10/20	1.2/—
200/250	3.6/6.0	Florida Sept./Dec. 1999	100/150	2.6/—
Southeastern September 1999	40/60	2.8/—		
60/80	2.3/3.0			
80/100	2.0/2.4			
Eastern September 1999	40/60	3.3/—		

Total volume: 0 Total open interest: 10,681

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	374	5.7	10.0	3.3	396-331
Legal & Gen	711	21.8	14.5	2.6	946-670
Royal & Sun	506	17.8	23.0	5.6	633-455

Brokers

Brokers	Price	P/E	Div.	Yield	52-week high-low
Lmbrt Fenchurch	85	7.1	5.7	8.2	90-58
JLT	231	10.6	12.0	6.4	242-166

Note: Prices are April 23 closings; other numbers from April 22.

Source: Nordby International Inc. (nordby.com) Boulder, Colo.

BI Industry Stock Report

APRIL 19, 1999, THROUGH APRIL 23, 1999

BROKERS						INSURERS/REINSURERS						HEALTH MAINTENANCE ORGANIZATIONS									
Price	Weekly % change	Year to date % change	High	Low	Vol.(000)	Price	Weekly % change	Year to date % change	High	Low	Vol.(000)	Price	Weekly % change	Year to date % change	High	Low	Vol.(000)				
Aon Corp.	NYS	66.50	1.92	18.62	75.56	48.25	2198	5.05	-12.97	16.75	10.19	79	St. Paul Companies	NYS	30.38	3.40	-13.21	45.44	28.06	5544	
E.W. Blanch Holdings Inc.	NYS	61.69	12.80	32.13	61.69	34.88	395	4.11	-19.36	15.88	9.00	33	SCOR	NYS	50.44	-4.16	-22.40	72.75	49.38	21	
Gallagher Arthur J. & Co.	NYS	48.13	-0.52	10.00	50.63	34.88	233	-0.71	-12.30	27.00	12.75	88	SAFECO Corp.	NDO	39.81	0.79	-6.32	53.13	36.69	2704	
Hill, Rogaf & Hamilton	NYS	19.13	1.32	2.68	19.88	15.38	97	6.56	-29.55	37.56	17.31	467	SCPIE Holdings Inc.	NYS	24.75	-3.88	-17.67	38.38	24.38	NA	
Kaye Group Inc.	NDO	6.75	0.00	-6.90	8.06	5.13	0	8.65	-12.27	44.13	28.75	1059	Seibels Bruc Group	NDO	3.63	-4.13	3.57	8.25	2.69	90	
Marsh & McLennan	NYS	79.44	8.63	34.36	81.00	43.38	4220	-0.52	32.13	74.00	35.50	640	Selective Ins. Group	NDO	18.09	-0.86	-10.65	29.25	16.69	238	
Poe & Brown	NYS	34.94	-3.29	0.00	42.50	29.31	23	6.05	-17.38	83.25	54.50	4773	Terra Nova Ins Co. Ltd.	NYS	22.44	-0.55	-7.95	35.00	21.25	399	
BROKERS	AVERAGE		3.16	12.05				9.25	-17.36	30.06	16.50	599	Tokio Marine & Fire	NDO	58.88	-4.27	0.00	62.88	39.00	71	
								18.37	16.00	24.69	10.88	872	Torchmark Corp.	NYS	36.06	5.10	3.78	49.19	30.69	2307	
								-1.35	-27.72	9.13	4.25	70	Transatlantic Holdings	NYS	76.06	1.33	0.58	94.50	73.50	161	
								19.13	6.25	-25.00	28.50	17.00	305	Travelers Property Casualty	NYS	35.06	1.26	14.49	45.75	24.13	1026
								39.06	5.40	-2.80	59.56	34.75	397	Trenwick Group Inc.	NDO	26.75	1.90	-15.42	41.50	25.50	65
								20.50	2.62	21.03	23.19	16.00	546	Unico American Corp.	NDO	10.19	6.54	-11.65	16.25	8.63	93
								59.94	3.34	-1.74	76.75	36.06	281	United Fire & Casualty	NDO	26.00	2.21	-21.88	42.88	22.75	67
								18.88	-3.21	-17.03	33.25	18.00	612	Unitrin	NDO	35.00	8.32	-1.23	38.00	27.88	810
								60.00	2.67	7.50	60.44	37.63	2462	UNUM Corp.	NYS	46.69	-0.40	-22.11	62.50	41.75	3180
								14.50	5.45	-29.70	39.63	11.63	103	Vesta Insurance Co.	NYS	4.69	10.29	-18.48	58.69	3.38	570
								98.00	4.67	18.25	100.50	60.00	2073	Zenith National Ins.	NYS	22.50	-3.74	-2.70	30.50	20.31	50
								28.00	-0.88	-12.50	33.13	23.25	118	INSURERS/REINSURERS	AVERAGE		3.16	-5.53			
								181.63	5.73	0.76	187.00	132.00	11								
								65.75	13.24	-0.85	80.13	46.06	3136	FOUNDATION HEALTH SYSTEMS INC.	NYS	13.63	6.34	23.86	32.63	5.89	1885
								14.75	-1.67	-9.58	34.75	13.63	37	Humana Inc.	NYS	12.81	4.06	-32.34	32.13	10.06	4475
								16.00	8.94	-4.12	24.94	13.75	99	Oxford Health Plans	NDO	18.50	3.68	32.14	20.50	5.81	5080
								39.00	6.00	1.80	43.25	25.38	219	Pacificare Health Sys.	NDO	67.38	15.17	-5.77	88.88	53.75	390
								52.94	0.14	13.39	55.88	43.69	505	Safeguard Health Enter.	NDO	4.00	-11.72	12.28	9.38	2.34	19
								14.25	0.00	-6.56	19.50	13.25	11	Sierra Health Services	NYS	11.63	2.76	-44.31	27.63	10.44	227
								14.81	8.72	-29.04	34.25	12.38	59	United HealthGroup	NYS	53.88	7.62	20.90	73.94	29.56	6295
								37.06	1.54	-9.88	51.75	33.75	239	Wellpoint Health Networks	NYS	74.63	6.04	-13.10	87.88	50.50	861
								20.25	6.23	-5.54	32.25	17.94	2128	HMOs	AVERAGE		4.24	-0.79			
								27.75	-8.07	-29.19	59.25	27.56	872	ALL COMPANIES	AVERAGE		3.52	1.91			
								38.50	-0.16	-12.59	52.50	33.63	697								
								10.75	10.28	16.22	20.88	8.13	28								
								20.25	0.62	3.51	23.75	16.63	93								
								24.75	10.15	16.47	24.75	18.63	323								
								19.38	-8.82	-23.27	32.88	18.00	25								
								7.50	-2.44	-42.03	19.81	7.38	1872								
								41.06	3.46	-8.24	52.44	29.00	1834								
								32.75	-2.60	-9.34	50.44	31.50	74								
								15.50	7.												

Casualty Risk Services

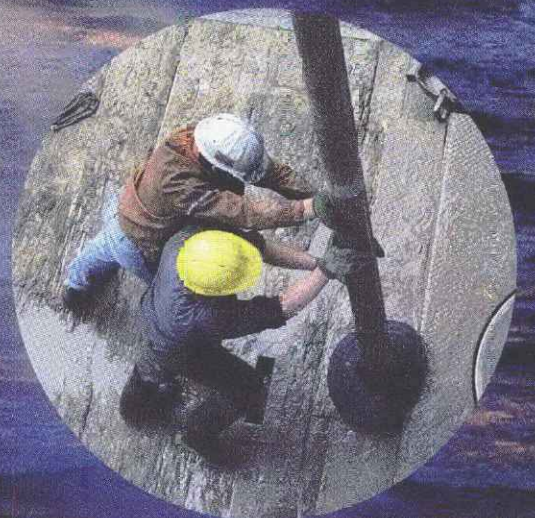
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- ◆ Construction
- ◆ Environmental Products
- ◆ Middle Market Casualty



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