

Business Insurance

South Carolina orders RRG to cease underwriting

COLUMBIA, S.C.—South Carolina regulators have directed a risk retention group licensed there to stop writing coverage due to the group's financial problems.

Commercial Truckers Risk Retention Group Captive Insurance Co. was licensed in December 2000 and began writing liability coverage for owner/operators of small trucking fleets in February, said Clayton In-

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Deal makes Aon top captive manager

By MICHAEL BRADFORD

CHICAGO—Aon Corp. has become the world's largest captive insurance company manager with its acquisition last week of Sweden's SINSEr Holding A.B. from Skandia Group.

In the deal, Aon takes over SINSEr and its 13 worldwide subsidiaries in 10 countries. The SINSEr units handle the administration of more than 250 captive insurers that will join more than 700 others already under Aon's management. The additional captives will push Aon's

total to nearly 1,000 under management and will move Aon ahead of Marsh &

AON SINSEr

McLennan Cos. Inc., based on *Business Insurance's* 2001 survey of captive managers. Marsh was the leader last year, with 854 captives under management.

Stockholm, Sweden-based SINSEr also provides consulting services through

its Risk & Insurance Research Group. Those activities will continue.

With the sale, Skandia has shed the last of its risk management consulting services and property/casualty insurance operations. The Stockholm-based company now will focus on marketing financial investment products that will be sold through banks and other service companies.

The deal was finalized last week; terms of the transaction were not disclosed.

SINSEr will become part of Aon International Risk Management Group, which

was formed when Aon acquired the captive management operations of International Risk Management Group Ltd. late last year from Swiss Reinsurance Co. and IRMG's management (*BI*, Dec. 11, 2000).

SINSEr's captive management operations will become part of the brokerage's captive management arm, Aon Insurance Managers. AIM will be responsible for captives in 29 domiciles, generating \$8 billion in annual premiums.

Alan Cossar, executive director of Aon Insurance Managers (Bermuda) Ltd., said

See SINSEr on page 27

Aetna's shift to health focus brings struggles

By JOANNE WOJCIK

HARTFORD, Conn.—When Aetna Inc.'s top executives announced last week that they were willing to sacrifice size to restore profitability, they articulated the strategy that the company seems to have been following over the past decade.

Once a multiline insurance powerhouse, the former Aetna Life & Casualty Co. is now not much more than a life and health insurer, having sold off its property/casualty operations to Travelers Inc. in 1996 and its financial services and international operations to ING Groep N.V. last summer.

And while the leaner Aetna grew to become the nation's largest health insurer in the late 1990s, after it merged with U.S. Healthcare and acquired NYLCare and Prudential HealthCare, it may

not retain that status for long. As a result of its continuing withdrawal from unprofitable geographic regions and market segments such as Medicare, its membership is down to 18.1 million, from 19.1 million at the end of 2000.

Aetna

And during last week's conference call with analysts, company executives said they expected membership to drop at least 10% below year-end 2000 levels by the end of this year. That would make it easier for Aetna's closest HMO competitor, Minneapolis-based United HealthCare, to catch up with—and perhaps even surpass—Aetna's enrollment. United HealthCare currently has 16.5 million members.

The company also has been losing money while other managed care companies have been gaining.

See Aetna on page 26

Employers looking beyond managed care

By MICHAEL PRINCE

As managed care plans run out of effective ways to control health care costs, employers are increasingly looking at other

said Mary Case, a principal in the New York office of Unifi Network, a subsidiary of PricewaterhouseCoopers L.L.P.

Supply-side controls have been the common approach to

tain procedures, restricted access to specialists and offered patients limited networks of providers.

And experts acknowledge that this approach has achieved some striking successes.

For example, managed care has held physicians accountable for the quality of the care they provide, acknowledged Dr. David Nash, professor of health policy and associate dean at Jefferson Medical College in Philadelphia.

Managed care "did a lot of what it was supposed to do, which was control costs," said J.T. Thompson, a senior benefit consultant with Hewitt Associates L.L.C. in New York. And in the 1990s, he said, managed care also made doctors more efficient and led to many years of small cost hikes.

But those days appear to be over, some say.

"Employers are very frustrated," said Dr. Jack Mahoney, the corporate medical director at Pitney Bowes Inc. in Stamford, Conn. "Employers are looking around and saying, 'Is there something more we should do or something very different we should do?'"

Rising expenses top the list of employers' concerns with health care. Costs have jumped between 10% and 17% this year, See Care on page 25



health care models.

After enduring years of cost increases and the resentment of physicians and patients over managed care's strict controls, many employers, to meet their health care needs, are searching for the next new thing.

In the past, employers assumed that any approach labeled "managed care" would curb costs and improve care,

controlling costs in managed care, said Chip Tooke, the president of Lumenos Inc., a consumer-driven health care company in Alexandria, Va.

Managed care companies sought to limit both the prices paid to providers of health care services and the use of such services. They bargained hard with providers to negotiate lower rates, required approval for cer-

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Property Loss
Control

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Insurers must
cover crane
loss

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• Texas employers are keeping an eye on the financial health of the state's independent practice associations following a spate of financial problems at several IPAs. PAGE 6

• The California Supreme Court rightly rejected an effort to shift responsibility for the harm caused by the user of a product to the product's manufacturer, this week's editorial says. PAGE 8



• Airlines that already saw higher hull, liability and war risk rates at their last renewal can expect to pay even more as underwriters take on board the effects of last month's terrorist attack at Sri Lanka's main airport. PAGE 21

• Loss adjusters are still assessing the damages from the Aug. 3 terrorist bombing in the London borough of Ealing. PAGE 21

• Esso Australia Pty. Ltd. was ordered to pay a record \$2 million Australian fine for violating safety regulations related to a refinery explosion. PAGE 21

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UPDATES

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gram, director of business development for the Alternative Risk Transfer Services Division of the South Carolina Department of Insurance. As part of an ongoing investigation of the risk retention group's business, the department earlier this year determined the Commercial Truckers RRG was in "a particularly precarious financial situation," Mr. Ingram said, and asked the group to stop writing coverage until regulators could investigate further. In June, the South Carolina department informed the RRG that because of its financial position it would not be allowed to renew policies. Richard Grier, president of the Commercial Truckers RRG, declined to comment on the matter.

► **TAX 'LOOPHOLE' BILL OPPOSED** The controversial legislative attempt to close the so-called "Bermuda tax loophole" would hamper risk managers' ability to deal with their exposures, according to the Risk & Insurance Management Society Inc. In a statement last week, Michael Phillipus, vp-external affairs at New York-based RIMS, said: "RIMS members have an inherent interest in maintaining a competitive and innovative global insurance and reinsurance marketplace. We believe H.R. 1755 would undermine and disrupt this marketplace." H.R. 1755, introduced earlier this year, would deny U.S. insurers a tax deduction for premiums ceded to an affiliated reinsurer that is based in a low-tax jurisdiction (*BI*, May 28). The bill is widely regarded as targeting Bermuda-based insurers and reinsurers, such as ACE Ltd. and XL Capital Ltd., that have substantial U.S. subsidiary operations. RIMS says the bill is protectionist, would limit access to reinsurance capacity and remove the tax-deductibility of insurance premiums, which cover legitimate business expenses. RIMS also said that "stability in tax law and insurance regulation is vital to maintaining a robust and attractive market." Late last month, the Coalition of Alternative Risk Funding Mechanisms, a captive and risk retention group representative association, also voiced opposition to H.R. 1755, saying the bill would force offshore insurers to raise their rates.



► **RELIANCE SUITS** A stay order covering about 15,000 third-party lawsuits involving Reliance Insurance Co. policyholders has expired. Pennsylvania Insurance Commissioner Diane Koken, who placed Philadelphia-based Reliance in rehabilitation in May, last Thursday was granted a 180-day extension on 17 other lawsuits involving large commercial Reliance policyholders. In each of those suits, the amount under dispute was more than \$5 million. Companies involved in the suits still under the stay order include Bank of America Corp., Oxford Health Plans Inc., Xerox Inc., Centant Corp., Fruit of the Loom Inc., and Columbia/HCA Healthcare Corp., according to the order, issued by the Commonwealth Court of Pennsylvania. The original stay order was issued as part of the rehabilitation plans and was intended to give the Insurance Department some breathing room in assessing the

state of Reliance's finances, a Department spokeswoman said.

► **GUNMAKER NOT LIABLE** Under California law, a gunmaker cannot be held liable in a products liability lawsuit on the basis that the benefits of a product are out-



weighed by its potential to cause injury, the state's Supreme Court ruled last week. In its ruling, the high court cited Section 1714.4 of the California Civil Code, passed by the state Legislature in 1983, which banned such suits. California enacted the law in response to a flood of suits filed against gunmakers that alleged that guns were "inherently defective products," the Supreme Court ruling says. The ruling quotes the legislation, which states that a gun manufacturer may not be held liable "in a products liability action...on the basis that the benefits of its product do not outweigh the risk of injury posed by the product's potential to cause serious injury, damage or death when discharged." Survivors and relatives of victims of a shooting spree by Gian Luigi Ferri, who killed eight people and wounded another six in a shooting rampage at a San Francisco law office in 1993, brought the suit. The plaintiffs alleged that Navegar Inc. in Miami, which manufactured rapid-firing semiautomatic pistols used in the spree, produced a gun that has "no legitimate sporting or self-defense purpose and is particularly well adapted to a military-style assault on large numbers of people," court papers say.

► **REINSURANCE COLLATERAL** Commercial insurance buyers and their primary insurers could face greater risk from uncollectable reinsurance if alien reinsurers are successful in their efforts to halve a 100% collateral requirement for business done in the United States, according to a National Assn. of Mutual Insurance Cos. spokesman. The Indianapolis-based trade association also voiced its opposition to the reinsurers' requested reduction in an Aug. 7 letter to the National Assn. of Insurance Commissioners' Reinsurance Task Force. A group of non-U.S. reinsurers that includes Lloyd's of London recently asked NAIC regulators to reduce their collateral requirement for multiple beneficiary trust funds, to 50% from 100%. Alien reinsurers' commitments are secured primarily by such collateral trusts on either a group or individual basis, while domestic reinsurers are subject to full solvency regulation. NAMIC sent its letter to task force chair John Oxendine, the Georgia insurance commissioner, who asked for public comments on the reinsurers' requested reduction. According to NAMIC, such a reduction is not needed, because alien reinsurers subject to the 100% collateral requirement have been able to compete in the United States.

► **HALLIBURTON LIABILITIES RISE** Halliburton Co. reported that its asbestos liabilities as of June 30 had increased 328% over the amount that the company reported on Dec. 31, 2000. The Houston-based energy firm said its net estimated asbestos liabilities for the first six months of 2001 total \$124 million, com-

pared with \$29 million at the end of 2000, according to documents the company filed with the U.S. Securities and Exchange Commission. Halliburton estimated that its gross asbestos liabilities as of June 30 totaled \$699 million, up from \$80 million at the end of last year. Meanwhile, the company estimated as of June 30 that it will recover approximately \$575 million from its insurance companies, compared with its estimate of \$51 million as of Dec. 31, 2000. Since 1976, the company and its subsidiaries have been hit with more than 300,000 asbestos claims. As of June 30, 145,000 claims are pending, up from 117,000 at the end of 2000. The company also announced that a subsidiary, Dresser Industries Inc., filed a lawsuit Tuesday against its general liability insurers, seeking a declaratory judgment that Dresser is entitled to coverage for its asbestos-related liabilities.

► **OSHA INSPECTIONS** The Occupational Safety and Health Administration will inspect about 1,000 worksites with the worst injury and illness records during the next four months. The 1,000 are among 14,000 worksites notified earlier this month by the federal workplace safety agency that their workplace injury and illness rates exceed those of most other workplaces, based on 1999 statistics. The worksites notified average eight or more injuries or illnesses resulting in lost workdays per 100 full-time workers per year, compared with a national average of three such incidents per 100 full-time workers. The OSHA notification letters also urged recipients to take steps to correct conditions. The 14,000 worksites are listed by state on OSHA's Web site at www.osha.gov on the Freedom of Information Act page under Current Year Electronic FOIAs. The Web site does not identify the sites slated for inspection.

► **BRIEFLY NOTED** Philip Morris Cos. Inc. has said it will appeal a \$100 million punitive damages award to a sick smoker, even though a California Superior Court judge Thursday reduced the award to a fraction of the \$3 billion that a jury had awarded in June. The smoker, Richard Boeken, has until Aug. 24 to accept the reduced award or a new trial will automatically be granted...The number of employers that offer online benefits enrollment has doubled since last year, according to a new survey from employee benefit consulting company Towers Perrin. The survey of 100 human resource technology managers found that 60% of employers offer online benefit plan enrollment this year, up from less than 30% last year. In addition, the number of employers that offer online data changes rose to 43% from 21% last year. The number of companies offering allocation changes to 401(k) plans was 80% this year, up from 58% last year, according to the survey...California Gov. Gray Davis has signed S.B. 37, which requires health insurers to pay for the routine health care costs of cancer patients involved in clinical trials. **BI**

► To get breaking news as it occurs, visit Business Insurance's free online Updates, at www.businessinsurance.com. All of the material in the Updates column, as well as other content in this week's issue, is generated from daily news postings that appeared on the Web site in the previous week.



PHOTO: AP

An Aug. 5 derailment of a train and chemical spill northwest of Houston prompted an evacuation of nearby homes, preventing the two residents above from feeding their horse.

Rail company self-insured for losses

BNSF train derails in Texas, spilling hazardous cargo

By DAVE LENCKUS

HOUSTON—Burlington Northern Santa Fe Railroad Corp. is self-insured for any losses that result from a huge hazardous chemical spill following an Aug. 5 train derailment 40 miles northwest of Houston.

About 23,000 gallons of ethylhexyl acrylate and as much as 11,000 gallons of acetic anhydride leaked from three tanker cars that de-

Two hundred workers from various federal and local government agents, the BNSF and contractors that the railroad hired worked last week to clean up the spill in searing temperatures.

railed, according to the Montgomery County Sheriff's Department. Both chemicals are carcinogens and can cause respiratory problems. A total of 21 cars derailed in the middle of the 64-car train.

A tanker car carrying benzene also derailed, but none of the toxic chemical has spilled, according to the sheriff's department.

The derailment caused at least \$1 million in damage, including rail car and track damage, loss of contents and cleanup costs, a BNSF spokesman said.

Chemical maker Celanese A.G. of Kronberg im Taunus, Germany, owned at least a portion of the chemicals that spilled, according to the sheriff's department. A U.S. representative for the company did not return calls.

The BNSF spokesman said that Celanese owns five of the cars that derailed but said that BNSF policy prevents him from disclosing who owns the contents of the tanker cars.

Two hundred workers from various federal and local government agencies, the BNSF and contractors that the railroad hired worked last week to clean up the spill in searing temperatures. The derailment occurred in a remote area, forcing cleanup crews to build a 1.5-mile road to the site.

The authorities' biggest concern last week was a threat of rain in the area. When exposed to water, acetic anhydride forms a volatile vapor cloud that can move quickly, a sheriff's department official explained.

More than 200 people from 70 nearby homes were evacuated early on Aug. 5 but were allowed to return late the next day.

No cause for the derailment has been determined. But the sheriff's department has ruled out a collision with a vehicle or animal, because only the middle portion of the train derailed.

Lockton, Willis settle dispute over defections

By SALLY ROBERTS

NEW YORK—Willis Group Holdings Ltd. and Lockton Cos. Inc. have settled their nearly year-old legal battle involving three key construction executives who left Willis to join Lockton.

As part of the settlement agreement, Lockton will pay Willis an undisclosed amount "in the millions" of dollars and will be barred for one year from hiring any of Willis' employees nationwide, according to a statement issued jointly by the two brokers.

Willis last year sued Lockton after Gary J. Giulietti, Warren McGrath and Richard Leveroni, all former executives of the northeast region of Willis Con-

struction Services Group, resigned from Willis' Farmington, Conn., office and joined Lockton in August.

Shortly thereafter, several other Willis Construction Services employees in Farmington joined Kansas City, Mo.-based Lockton, as did many of Willis' former clients, according to Willis' suit.

In its complaint, filed Aug. 29, 2000, in the U.S. District Court for the Southern District of New York, Willis of New York Inc. charged that Messrs. Giulietti, McGrath and Leveroni acted in concert with Lockton and John Lumelleau, Lockton's president, "in a carefully orchestrated conspiracy to destroy the Farmington office and divert business throughout the Northeast Re-

gion, by the wholesale pirating and theft of the Northeast Region's clients and employees."

Total costs of the defections, according to Willis' complaint, are expected to exceed \$100 million.

At issue in the suit were employment contracts, which Willis says restricted the three executives from soliciting any of the broker's clients and employees for two years after employment is terminated.

Within days of the executives' resignations, nine other Willis employees in the Farmington office joined Lockton, the complaint states. In addition, it notes that Willis received at least 25 broker-of-record notices from Willis clients notify-

See **Settle** on page 27

Insurers told to pay award

Judge rejects insurer arguments in crane collapse case

By DAVE LENCKUS

MILWAUKEE—Insurers must cover the \$94 million in punitive damages awarded to the families of three ironworkers killed in a 1999 construction accident at the Milwaukee Brewers' new baseball stadium, a Milwaukee County Circuit Court judge ruled last week.

In an oral ruling from the bench, Judge Dominic Amato rejected several insurer coverage defenses, including a jury finding of intentional wrongdoing by the ironworkers' employer.

The Miller Park construction workers, who were employed by New York-based Mitsubishi Heavy Industries America Inc., were killed in July 1999 when a crane collapsed while lifting a 450-ton piece of the stadium's retractable roof. In December



PHOTO: AP/WIDE WORLD

The July 1999 collapse of a crane and part of the roof at Milwaukee's new Miller Park killed three ironworkers and led to a lawsuit.

2000, a jury found that Mitsubishi had intentionally disregarded the ironworkers' rights. It ordered the contractor to pay

the families of the ironworkers \$99.5 million in damages, of which \$94 million were punitive

See **Collapse** on page 27

Employee wins FMLA verdict

By ROBERTO CENICEROS

SAN FRANCISCO—Because an employer never publicized its method for calculating time off taken under the Family and Medical Leave Act, the calculation method most favorable to employees must be applied, the 9th U.S. Circuit Court of Appeals ruled last week.

The court's decision in *Bachelder vs. America West Airlines* overturns a lower court's finding that America West Airlines Inc. was justified in dismissing an employee for repeatedly missing work. The employee, Penny Bachelder, took five weeks of medical leave in 1994 to care for a broken toe and three months of maternity leave in 1995. Those leaves were not disputed under the FMLA, court records show. But she was fired in 1996 after missing work numerous times that year despite a warning to improve her atten-

dance.

Ms. Bachelder argued that the 1996 absences were protected under the FMLA. America West, however, maintained that those absences were not covered by FMLA, as she had already exhausted her leave entitlement of 12 weeks within a 12-month period. America West used a "rolling" method to calculate how much FMLA leave Ms. Bachelder had taken. Under that method, each time an employee took a leave, the remaining entitlement would be any balance of the 12 weeks that had not been used during the immediately preceding 12 months. Because of her three-month leave in 1995, America West said, Ms. Bachelder had exhausted her entitlement for the 12-month period.

Under the law, there are four allowable methods for calculating the 12-month period during which an FMLA leave applies.

The calculation method America West used requires employers to inform employees of that specific approach. The airline did not do so. Simply stating in an employee handbook that employees are entitled to up to 12 weeks of unpaid leave within any 12-month period is not sufficient, the court found.

Therefore, the calculation method with the most beneficial outcome for the employee must determine whether Ms. Bachelder's 1996 absences were covered under the FMLA, the appeals court ruled. When applying a calculation method more favorable to employees, Ms. Bachelder is protected by the FMLA and America West violated that law. The case was remanded for further proceedings.

Penny Bachelder vs. America West Airlines Inc., 9th U.S. Circuit Court of Appeals; No. 99-17458.

Amendment would expand access to MSAs, AHPs

By MARK A. HOFMANN

WASHINGTON—Supporters of an 11th-hour amendment to the House of Representatives' version of patient protection legislation designed to expand access to coverage are optimistic it will survive what promises to be a bruising attempt to reconcile the House and Senate bills in conference.

Much of the debate over patient protection in both chambers has focused on the extent to which liability should be expanded for health plans—and, in some cases, employers that sponsor them—with regard to coverage disputes. The House bill would expose plans to far less liability

than would the Senate bill.

In addition, under an amendment offered by Ways and Means Committee Chairman Bill Thomas, R-Calif., the House bill would increase access to health care coverage via both tax-favored medical savings accounts and association health plans. The House approved Rep. Thomas' amendment before the final vote on the measure on Aug. 2.

The House bill would make several changes related to MSAs, including:

- Making MSAs a permanent part of the tax code; under current law, no new MSAs can be established after Dec. 31, 2002.

- Repealing the current 750,000-

person cap on participation in MSAs, thus making the accounts available to nearly everyone.

- Lowering minimum deductibles. Deductibles would be reduced to \$1,000 from \$1,550 for individual plans, and to \$2,000 from \$3,100 for family plans.

- Allowing both employer and employee contributions to MSAs. Current law permits either an employer or employee, but not both, to fund an MSA.

The House bill also would encourage the formation of association health plans, which may operate nationwide after meeting federal solvency and other standards. Under the measure, small businesses could

band together within a trade association to buy health insurance, and the plans would be subject to federal rather than state oversight.

Employer groups that support one or both approaches think the Thomas amendment will survive the conference committee, given the potential negative impact on access to insurance that an expansion of health plan liability could have.

"We supported that amendment. We think it is important that some steps be taken in a bill that will cost many people their health coverage to help make coverage more affordable," said Neil Trautwein, director-employment policy for the National Assn. of Manufacturers in Washing-

ton.

George Pantos, Washington counsel for the Santa Ana, Calif.-based Self-Insurance Institute of America, which supports AHPs, noted that this is the fourth time the House has approved the plans, while the Senate never has. He remains optimistic about the amendment's chances, though.

"What makes it different this year—and why I think the chances are improved for passage—is that President Bush and the administration support association health plans, which I think gives it a better chance in conference," he said. "This access addition to the bill by the House is important to the Republicans, and I think they will make an effort to include it in any final bill."

The Blue Cross & Blue Shield Assn. hopes that doesn't happen.

"Our concern is creating a new federally chartered health plan that wouldn't have to abide by all of the standards that exist at the state level," said Kris Haltmeyer, senior policy consultant for the Blues association in Washington.

"The states have done an awful lot in terms of reforming the small-group market. An AHP does not have to abide by those standards; it can get out from under the state rating laws, get out from under state benefit mandates, solvency regulation and a whole host of other consumer protections. Our concern is, where you set up a system where one part of the market has to abide by all of those standards and another part doesn't, you are setting in motion a recipe for an adverse-selection catastrophe," he said.

"We're still trying to read the tea leaves, but in conference, I think it will obviously be opposed by Democrats and even some Republicans who are concerned about pre-emption of state rights. They're sledding uphill on this one," Mr. Haltmeyer.

Judging from the debate over the amendment—Rep. Gerald Kleczka, D-Wis., for example, has predicted that an expansion of MSAs would sound the "death knell of employer-sponsored insurance"—MSAs also might face a rough time. But supporters remain unfazed.

"I think that (MSAs) have a good chance of surviving in some form," said Angie Hunter, director-federal affairs for the Alexandria, Va.-based Council for Affordable Health Insurance. She dismissed some critics' charges that MSAs favor the rich, saying that the truly rich don't even need health insurance. "The statistics that we have on the uninsured clearly show that they are not the wealthiest and often not the healthiest. What is wrong with giving people who do not have employer-provided coverage some form of tax equity?" she asked.

Brian McManus, vp-federal affairs for Lawrenceville, Ill.-based Golden Rule Insurance Co.—which has been one of the most vocal corporate proponents of MSAs—called them "the ultimate patients' bill of rights, because you choose what doctor you go to and what hospital."

"Since MSAs were approved in 1996, a third of all MSA buyers have been previously uninsured, so it's actually bringing people into the health insurance system and making health insurance affordable, which I think is the goal of health care policy," he said. **BI**

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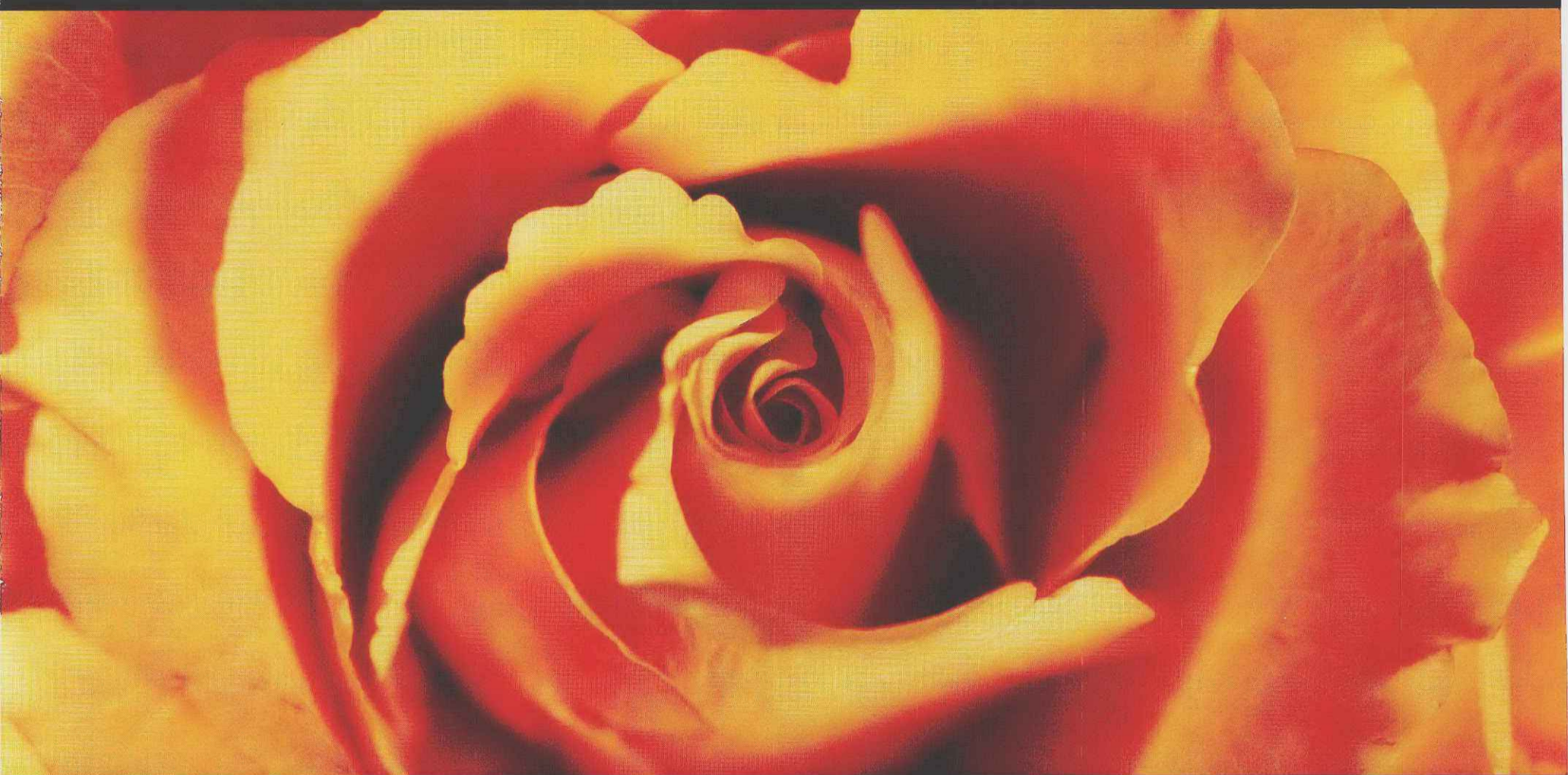
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Texas employers concerned about IPA troubles

By MICHAEL BRADFORD

FORT WORTH, Texas—Texas employers are keeping an eye on the financial health of the state's independent practice associations after several IPAs recently ran into problems.

The latest such groups to acknowledge difficulties filed for federal bankruptcy protection last month while they reorganize. They are among an undetermined number of IPAs that have made similar moves or been forced to operate under the supervision of state insurance regulators.

Employers are concerned

about the demise of IPAs because the groups often handle administrative tasks for health care plans. IPAs which typically arrange contracts between health plans and providers and solicit members for the plans they represent.

Medical Select Management in Fort Worth declared bankruptcy in late July, after it came to light that the IPA owes doctors approximately \$40 million. Earlier last month, Quantum Southwest Medical Management Inc., a San Antonio-based IPA, also filed for bankruptcy protection. IPA Management Associates in Houston continues to operate

under the supervision of the Texas Department of Insurance.

Medical Select's sister organization, Medical Pathways Management-Texas Inc. of Fort Worth, also is under supervision by Texas insurance regulators. Medical Select signed up about 1,700 doctors in the Dallas/Fort Worth area to provide services through managed care plans Aetna U.S. Healthcare and PacifiCare of Texas. Medical Pathways was responsible for collecting fees from insurers and disbursing payments to providers. Both were licensed as third-party administrators in Texas and were placed under

supervision by the Insurance Department in July.

A spokesman for the Insurance Department said other Texas IPAs have declared bankruptcy or are operating under supervision, but he was unable to provide an exact count of the troubled organizations.

Marianne Fazen, the executive director of the Dallas/Fort Worth Business Group on Health, said she is aware of at least one other IPA that was forced to reorganize due to financial problems.

Employers are aware of the difficulties IPAs are experiencing, but so far they have not

seen disruptions in the care provided to workers because of those problems, Ms. Fazen noted.

Ms. Fazen said there is concern, though, that if IPAs shut down, the managed care plans they contract with will decide to discontinue services rather than take on the administrative chores.

Ms. Fazen said the IPAs seem to be stricken with bad financial management. "I don't think they accurately estimated what their costs might be," she said.

Texas Insurance Commissioner Jose Montemayor said in a statement that the Insurance Department was not happy with Medical Select's bankruptcy filing. "We're surprised and disappointed that MSM took this action after the Department worked so diligently with them. We were on the cusp of finalizing a proposal for a global settlement."

Aetna and PacifiCare have said they will continue to pay for services while the IPA reorganizes.

IPAs' financial problems prompted Texas legislators to pass a law, which will take effect Sept. 1, that establishes regulations as to which functions managed care plans may delegate to IPAs.

"It seems like, for a lot of IPAs that we run into, this formula of banding together just hasn't worked financially," said Stan Strickland, the chief of the financial counsel section at the Texas Department of Insurance. Mr. Strickland said regulators have not been able to pinpoint a common cause for the IPAs' problems. "It's just been a combination of a lot of things."

In the case of Medical Select, the company acknowledged cash-flow problems after regulators raised concerns about what they believed were inaccurate financial statements. The company's attorneys would not answer questions regarding the bankruptcy, but in a letter to regulators they said older claims had been paid with money intended for more current obligations, which led to shortages.

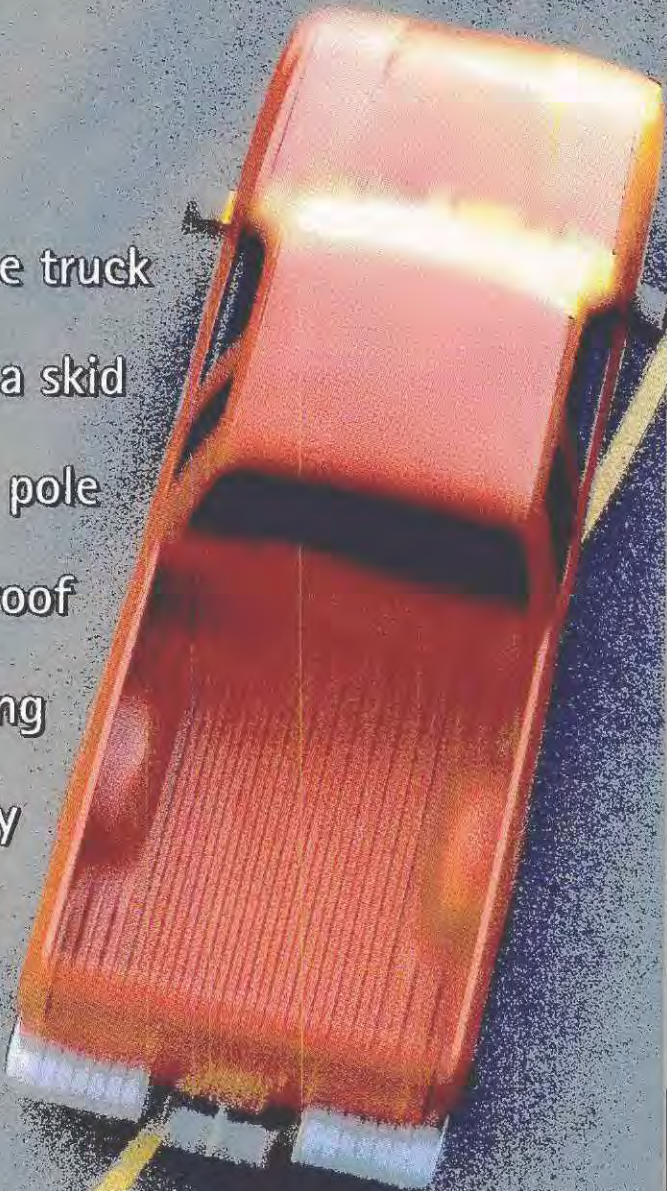
Medical Select also said it may tap professional liability insurance policies if it is found that employees were responsible for the shortfall.

Mr. Strickland said Medical Select and Medical Pathways have professional liability coverage, written by an insurer that he did not identify, for "misdeeds or mishandling" of finances. In this case, though, "to say there definitely is coverage is premature," he said, because the cause of the loss has not been determined.

Attorneys for Quantum Southwest could not be reached.

Employers, meanwhile, are watching closely. "Just because they've gone bankrupt doesn't mean they aren't doing business," Ms. Fazen said of Medical Select.

But Ms. Fazen said she wondered if additional IPA problems are on the horizon. "There are probably others that haven't made the headlines." **BI**



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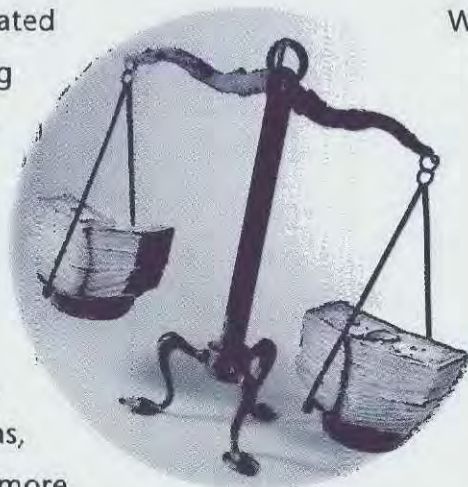
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OPINIONS

Gun decision on target

WE ARE RELIEVED that the California Supreme Court has rejected an effort to hold a gun manufacturer liable for the harm caused by a killer's use of its product.

To have ruled otherwise would have greatly expanded the liability of all manufacturers—even those that make products not otherwise considered lethal—when these goods are used to harm others. It also might have renewed efforts by public and private entities to use the courts to get assault weapons off our country's streets, when legislative bodies are a more appropriate forums for achieving such public policy goals.

The fact that this case involved assault weapons—and that the lawsuit was promoted by gun control proponents as a novel way to achieve their aims—carries all sorts of legal and emotional baggage. But at its heart, this lawsuit was about an effort to shift responsibility for the harm caused by the shooter to a manufacturer whose product was legally made, sold and marketed.

The case, *Merrill vs. Navegar Inc.*, involves assault pistols used in a 1993 shooting rampage by Gian Luigi Ferri, who killed eight people and wounded six at a downtown San Francisco law firm—and then killed himself. Survivors and some families of the victims sued the gun manufacturer, Miami-based Navegar Inc., arguing, in essence, that Navegar was negligent and should be strictly liable because its products, the TEC-9 and TEC-DC9 semiautomatic assault pistols, were abnormally dangerous. Unlike some guns, the plaintiffs claimed, these assault pistols had no legitimate sporting or self-defense purpose and were disproportionately used to commit crimes. As a result, the plaintiffs claimed, the guns' benefit to the public was nonexistent and was, therefore, outweighed by their risk of harm.

In its defense, Navegar cited a section of the California Civil Code that holds that "in a products liability action, no firearm or ammunition shall be deemed defective in design on the basis that the benefits of the product do not outweigh the risk of injury posed by its potential to cause serious injury, damage or death when dis-

charged." The trial court granted Navegar's motion for summary judgment.

On appeal, the plaintiffs argued that provision in the law had no bearing on their argument because they were alleging common law negligence, not a product liability action. They also argued that a more-recent California law, the Assault Weapons Control Act of 1989, which bars the sale of assault weapons in general and the TEC-9 in particular, must supercede the product liability safe harbor for gun makers. The appeals court agreed and reversed the trial court decision, holding that the manufacturer could be sued.

The 5-1 majority on the state Supreme Court, however, rejected the claim that the case was not a product liability action. The majority concluded that, under basic tort principles, an allegation that a manufacturer was negligent for various losses resulting from its products is a product liability claim. Furthermore, the majority found, the plaintiffs' argument that the benefits of Navegar's assault weapons did not outweigh their risks fits precisely the definition of product liability actions that cannot be brought against gun makers.

As to whether the AWCA superseded the product liability safe harbor, the majority held that there is nothing in the law to suggest that was the Legislature's intent, and that a "repeal by implication" would be inappropriate.

As a concurring opinion by Justice Joyce Kennard stated: "Enacting statutes is within the province of the Legislature. The task of the judiciary is to interpret those statutes by ascertaining and effectuating the Legislature's intent. It is not for us to question the wisdom of the Legislature's considered judgments."



It's hard to argue with that. While we are relieved that the court did not expand the liability of manufacturers for legal products that are used to harm others, we think it's equally important that the justices recognized that using the courts to achieve public policy goals is improper. Legislating from the bench is a temptation many courts cannot resist, particularly when the issue is one as fraught with emotion as this California gun case. Obviously, courts have a key role to play in interpreting laws and constitutional issues, but when it comes to setting public policy, that is best left to the legislative branch.

California is often the bellwether—for good or bad—for the rest of the country in terms of law and culture alike. This is one case in which we hope that other courts follow the state's example and restrict themselves to interpreting law, not making it.

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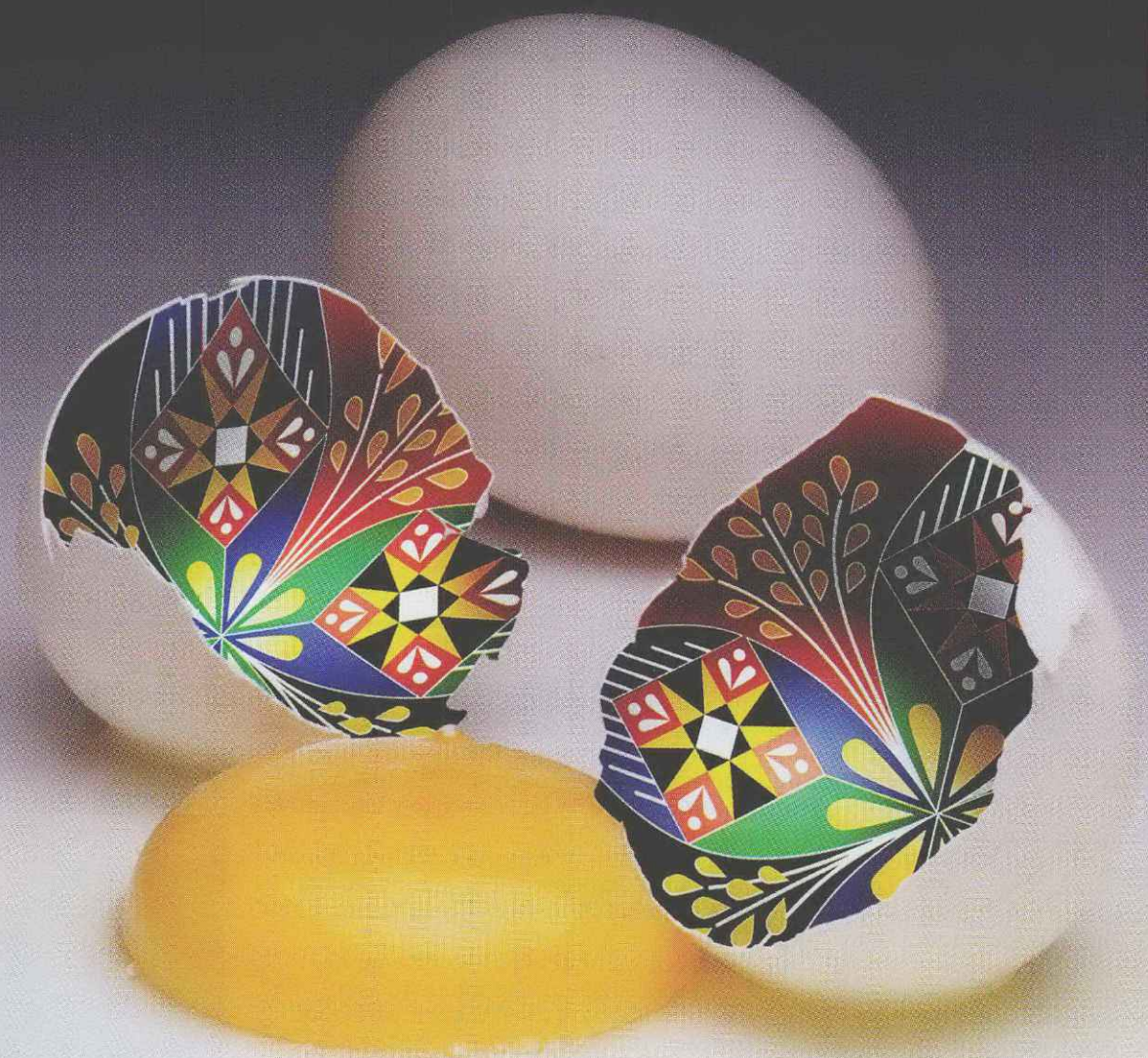


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PROPERTY LOSS CONTROL

Global companies face local property challenges

By RODD ZOLKOS

Exporting a highly protected risk approach to properties that U.S. companies buy or build overseas calls for melding the company's risk management philosophy with local requirements.

In the process, local expertise can be key to discerning differences in the quality of available materials and the expertise of local builders, as well as the local building codes, which may vary significantly from codes in the United States.

In the best case, the risk manager will be armed with information to make cost-effective loss control decisions with regard to local operations.

"It's hard for me to think any more in terms of a North American company or a French company, because so many of them are global," said Mike Burke, vp and chief engineer at Factory Mutual Insurance Co. in Johnston, R.I., which does business as FM Global.

Mr. Burke said he finds FM Global is asking its clients, "What are the hazards, what are the threats to you, and what solutions are we bringing to bring that threat down?"

"Obviously, knowing the territory is critical for any company that is looking to build or acquire properties overseas," said Jack M. Haas, international loss prevention leader at Industrial Risk Insurers in Hartford, Conn., a General Electric Co. unit that does business as GE Global Asset Protection Services.

"I think one of the biggest challenges is to

just form sort of a worldwide approach and achieve a consistency of protection," said William F. Ramonas, chairman of Global Risk Consultants Corp. in Iselin, N.J. "You've got to blend in the protection requirements you'd like to protect your own facilities with the local codes."

Joel Gaither, property insurance and fire protection manager for Weyerhaeuser Co., the Federal Way, Wash.-based supplier of forest products, said his company's approach is to apply the same safety standards to overseas facilities that it does to U.S. facilities.

"Our philosophy is that when anybody, including senior management, goes to one of these facilities, they should see a seamless operation in terms of safety," Mr. Gaither said. "To do that, what we do is export a copy of our fire prevention and protection manual."

Using the guidelines set out in that manual, said Gary A. Baxter, assistant treasurer and director of insurance at Weyerhaeuser, "is kind of the way that we protect our facilities, both in terms of physical facilities...and also the human element."

While Weyerhaeuser was long a strictly North American company, it now has facilities in China and Mexico, as well as in Australia and New Zealand. The manual is translated into local languages as needed.

"We expect that everyone in any of our locations adhere to it, regardless of where they are," Mr. Baxter said.

Mr. Haas noted that one big challenge risk managers face as their companies establish foreign facilities is that the materials ap-

See **Global** on page 14

Loss control efforts need support of CFOs

By ROBERTO CENICEROS

Highly protected risk insurers often want to accompany risk managers into the chief financial officer's suite to help sell the boss on property loss control strategies.

Meeting with CFOs helps insurers cement long-term client relationships, while ensuring that loss control efforts take into consideration all critical aspects of a company's business plan, the insurers say.

But when HPR insurers, many of which are direct writers, can't be there to make the pitch personally, they don't mind offering some tips to help risk managers convince upper management that property loss control projects are worth their expense.

When addressing the CFO, it's best to discuss the business risks associated with a plant shutdown, said Dennis Anderson, vp of operations engineering in Park Ridge, Ill., for Factory Mutual Insurance Co., which does business as FM Global.

Corporate leaders don't concern themselves with the "nickel and dime" costs of property protection measures, Mr. Anderson said. For them, the important developments are those that might derail the company's entire business plan or force them to

deliver bad news to shareholders.

Risk managers should emphasize that loss prevention is an investment rather than an expense and that it is linked to the continuing operation of the enterprise, said Mark A. Tschiegg, vp of technical services for Industrial Risk Insurers, a General Electric Corp. unit in Hartford, Conn. That includes pointing out any "weak link" in the production process, he said.

"For a CFO, there are a lot of things competing for the capital they allocate," Mr. Tschiegg said. "If you look at loss prevention as just an expense that is passive and required to meet regulatory compliance or those types of issues, it diminishes its real value. Its real value gets to what loss prevention can do to keep the business running."

Getting the CFO's support for loss prevention programs is crucial, said Joseph Hardy, director of risk management and insurance for Hudson's Bay Co., a Toronto-based retailer with 500 stores and 14 massive distribution centers throughout Canada.

Hudson's Bay Co. has a large self-insured retention but relies on its insurer's property inspection services. Mr. Hardy said he appreciates having his property insurer, FM Global, join him to make presentations to his boss.

See **CFOs** on page 17

High-tech tools aid testing of building materials

By JOANNE WOJCIK

While testing building materials may not seem as fascinating as producing special effects for "Star Wars" films, some days John Sanford's job at Underwriters Laboratories Inc. is a lot like that of George Lucas.

Whether it's simulating a fuel-fed fire on the deck of an aircraft carrier or creating a 7.0-magnitude temblor on an "earthquake machine," UL's engineers "try to imagine all the foreseeable things that can happen," explained Mr. Sanford, a lead engineering associate at UL's Northbrook, Ill., testing facility.

"Maybe NASA has more interesting things to do on a daily basis," Mr. Sanford said, but, for the most part, "all of the stuff that we're testing is cutting edge."

Indeed, engineers at building material testing labs are always dreaming up new ways to simulate real-world hazards.

Factory Mutual Research, for example, developed a "hail cannon" that will become the industry standard for testing how airborne balls of ice can damage roofing.

"We used to drop two sizes of steel balls" on roofing materials, explained George Smith, manager of the material section of Norwood, Mass.-based Factory Mutual Research. FMR is a nonprofit affiliate of Factory Mutual Insurance Co., which does business as FM Global.

But that test was "too conservative," Mr. Smith said, because steel balls remain intact after impact, whereas hail is brittle and tends to shatter.

Mr. Smith worked with engineers at FMR to develop a more realistic test that would be "closer to what Mother Nature does to roofs," he said.

"We've taken something like an egg crate and made ice balls," Mr. Smith explained. The simulated hail is then launched from what he described as a "fancy slingshot."

The "slingshot" is actually a type of cannon that shoots four different sizes of the manmade hail. The projectiles are fired one at a time, though each roofing sample is struck several times.

FMR's testing approach—using balls made of ice rather than steel—will become the American Society for Testing & Materials' new standard for testing the hail resistance of roofing materials as early as next year, said Pat Picariello, staff manager of ASTM's commercial roofing industry committee. Most building materials used in the United States are tested using standards set by the West Conshohocken, Pa.-based ASTM.

"The ASTM is a police of the process," explained Mr. Smith, who chaired the committee that steered the hail test through the approval process.

Because FM Global is in the business of insuring highly protected risks, "we expect a higher level of performance than might be used in the marketplace," Mr. Smith said. "Sometimes, we offer one of FMR's approval tests as a consensus standard. They (ASTM) present a forum for us to talk about standards development."

Sometimes insurers use independent testing laboratories to see how well building materials not covered by



PHOTO: FM GLOBAL

Factory Mutual Research's hail cannon is used to test roofing materials.

existing standards will perform under certain conditions, such as in a warehouse fire.

Industrial Risk Insurers, for example, contracted with UL to assess the flammability of "stuck lumber" that is stored in warehouses. Stuck lumber is newly cut lumber that has been stacked and separated by wood spacers so it can air-dry.

"There's no specific NFPA code for stuck lumber," explained Todd Schumann, a research consultant at In-

See **Tests** on page 16

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SPOTLIGHT

Global

Continued from page 10

proved for use in loss prevention systems, such as sprinklers, vary considerably in availability from country to country. Local construction and installation expertise differs as well.

In less developed areas, Mr. Ramonas said, "you're not going to get the particular expertise. They'll put hundreds of sprinkler heads on the same pipe."

"You really have to look at the infrastructure in the area that you're in," Mr. Burke said.

"Obviously, the European infrastructure is terrific," he said. "As Asia sort of rapidly comes to

that level, they don't have the infrastructure to support where they want to get."

"Where that really shows up is in the fire prevention area," Mr. Burke said. "Very often, the company that installs a sprinkler system—it's the first one they've ever installed. Very often, the results are scary."

In such situations, local loss control engineers must be involved during construction and installation, 24 hours a day if necessary. In addition, costs may be higher, Mr. Burke said, because the contractor basically is learning on the job. But the added cost of those projects, he added, can be viewed as an investment in future work. "I think what (companies) need to be

doing, in effect, is grooming the contractors they want to use in Asia."

And, noted Jean-Francois Spoiden, an account consultant in the Frankfurt, Germany, office of GE Global Asset Protection Services, "developed country" doesn't necessarily mean it's a piece of cake. "Even in many developed countries, standards might not be fully in keeping with the risk management standards of the U.S. company that is building there."

"In more developed countries, like in Western Europe, the ways materials are listed are quite similar but, nevertheless, different from the way American products are listed," Mr. Spoiden said. So, local loss prevention expertise is

critical, he said.

"The products that you would typically use if you were doing this in Chicago or Nebraska aren't there," Mr. Burke said, and even if they are available, vendors may not provide the same level of service as they do in the United States. "So the next challenge," he said, "is, how do you select materials and equipment that do meet those needs?"

Mr. Haas noted that a company considering purchasing a property could have local loss control engineers conduct a loss prevention review up front. And if the company is building a new facility overseas, making periodic site visits during construction could ensure that work is done properly.

In either case, observers note, it is vital to work with local engineers who can accurately compare the materials and equipment at the site to those with which the U.S. firms are accustomed to working.

There are "a lot of traps a company can step in" if it doesn't have the benefit of local expertise, Mr. Spoiden said.

"In emerging countries, it's a bit more difficult to get reliable equipment," he noted. In those cases, it is important to review the manufacturing processes and ensure that the materials being considered are equivalent to those used in U.S. properties.

"We do what we can, but we will not sacrifice quality or reliability," Mr. Spoiden said.

Mr. Gaither said that, for Weyerhaeuser, FM Global serves as the company's "eyes and ears" in terms of HPR and loss prevention at its overseas sites. "They know the local codes better than we do, but they also know HPR and they know what Weyerhaeuser's procedures are," he said.

In Asia, 'very often, the company that installs a sprinkler system—it's the first one they've ever installed.'

— Mike Burke
FM Global

And the loss control process doesn't end after the construction or purchase of an overseas facility. Conditions and processes change, Mr. Ramonas noted, so he advises risk managers to "use some vehicle to go out to do periodic audits" to make sure facilities continue to meet the standards.

"Even language barriers come into play, where things get lost in translation," he said. "So it's good to have an audit, whether it's annual or every two years."

And it's important that those audits be consistent from facility to facility. "That way, you can really do a comparison," Mr. Ramonas said.

In applying an HPR approach to overseas facilities, risk managers must accept that, while the task can be accomplished, "the process is slower. There isn't the off-the-shelf solution very often," Mr. Burke said.

In addition, Weyerhaeuser's Mr. Gaither said, "You need to know where to draw the line between practicality and trying to get the No. 1, Cadillac kind of equipment."

And, given the challenge of implementing consistent loss prevention measures from country to country, Mr. Burke suggested the real issue is determining how a company can best spend its time and resources. For example, he said, a big question might be where the supply chain or business continuity is threatened.

Ultimately, as a company looks to expand overseas, Mr. Burke said, "the absolute necessity for a risk manager is to really figure out where the threats are." **BI**

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SPOTLIGHT

Tests

Continued from page 10

Industrial Risk Insurers in Chicago, a member of General Electric Co.'s commercial insurance division, referring to safety standards promulgated by the Quincy, Mass.-based National Fire Protection Assn.

"NFPA codes break products down into product classes," such as metal, wood or plastics, explained Ken Linder, assistant vp of technical services at IRI in Hartford, Conn. "So we must look at the commodity and make judgments as to which class they fall into."

"Stuck lumber starts out as green wood. If you put green wood in a fireplace, it doesn't burn well. So does that mean green lumber is in the low (NFPA) class?" he said.

After a test burn was conducted in UL's state-of-the-art fire test lab, IRI discovered that just the opposite was true. "We found out that stuck lumber burned like idle wood pallets," Mr. Schumann said.

In addition to providing testing services to its industrial policyholders, IRI also offers such services on an unbundled basis to its consulting clients through GE Global Asset Protection Services. But because IRI doesn't have its own testing facilities, it contracts with Underwriters Laboratories.

"A client may be developing a new product, something different than they usually make. They need to know how well it will perform in a fire hazard," Mr. Linder explained.

While UL conducts full-scale fire tests for IRI in a 100-foot-by-100-foot lab, its competitor, FMR, has developed a small-scale fire test using a kind of test tube. FMR's "flammability apparatus," is a clear, Pyrex tube only eight inches in diameter, filled with oxygen.

"Before, we had to do a full-scale test," Mr. Smith said. But now, "we ignite the sample and then measure the products of the combustion. It makes the product think it's in a fire, even though it's in a tube."

In addition to hail and fire, building material testing labs also study other risks, such as strength and durability. In some cases, such tests involve materials' ability to withstand earthquake damage.

Oakland, Calif.-based EQE International Inc., which was recently acquired by the Houston-based American Bureau of Shipping, uses "shake tables" to determine the structural integrity of buildings in earthquake-prone areas. Shake tables, located at several universities, use hydraulic machinery to simulate the movements that occur during an earthquake.

Models of structures built using new construction techniques are put on the shake tables to see how well they hold up under various scenarios, explained Craig Cole, Northern California regional manager at ABS Consulting's EQE Structural Engineering division.

"The shake tables can be made to simulate past earthquakes or to take the same motions and am-

plify them two or three times to see what would happen if a bigger quake hit the same area," he said.

Structural dampers and base-isolation systems, both of which are now commonly used in new construction in earthquake-prone areas, were tested on shake tables, said Mr. Cole.

"The manufacturers did the testing to persuade engineers and contractors to use their products," he said.

Some material testing labs, such as Highland Park, Ill.-based Universal Construction Testing Ltd., use technology similar to tools used in the field of medicine.

When inserted into the wall of a building, a device known as a



PHOTO: FM GLOBAL

FMR's "flammability apparatus" enables fire testing on a small scale.

"borescope" makes a 360-degree observation of the condition of structural components. The test, which UCT is conducting on a high-rise building in downtown Chicago, is similar to a colonoscopy, said Boris Dragunsky, principal.

Another test, called "impact echo," works like a medical ultrasound, sending sound waves through a structure to determine whether it has any weaknesses, Mr. Dragunsky explained.

But even with the advent of such high-tech gadgetry, sometimes the best tests are done the old-fashioned way, many building material testing engineers agree.

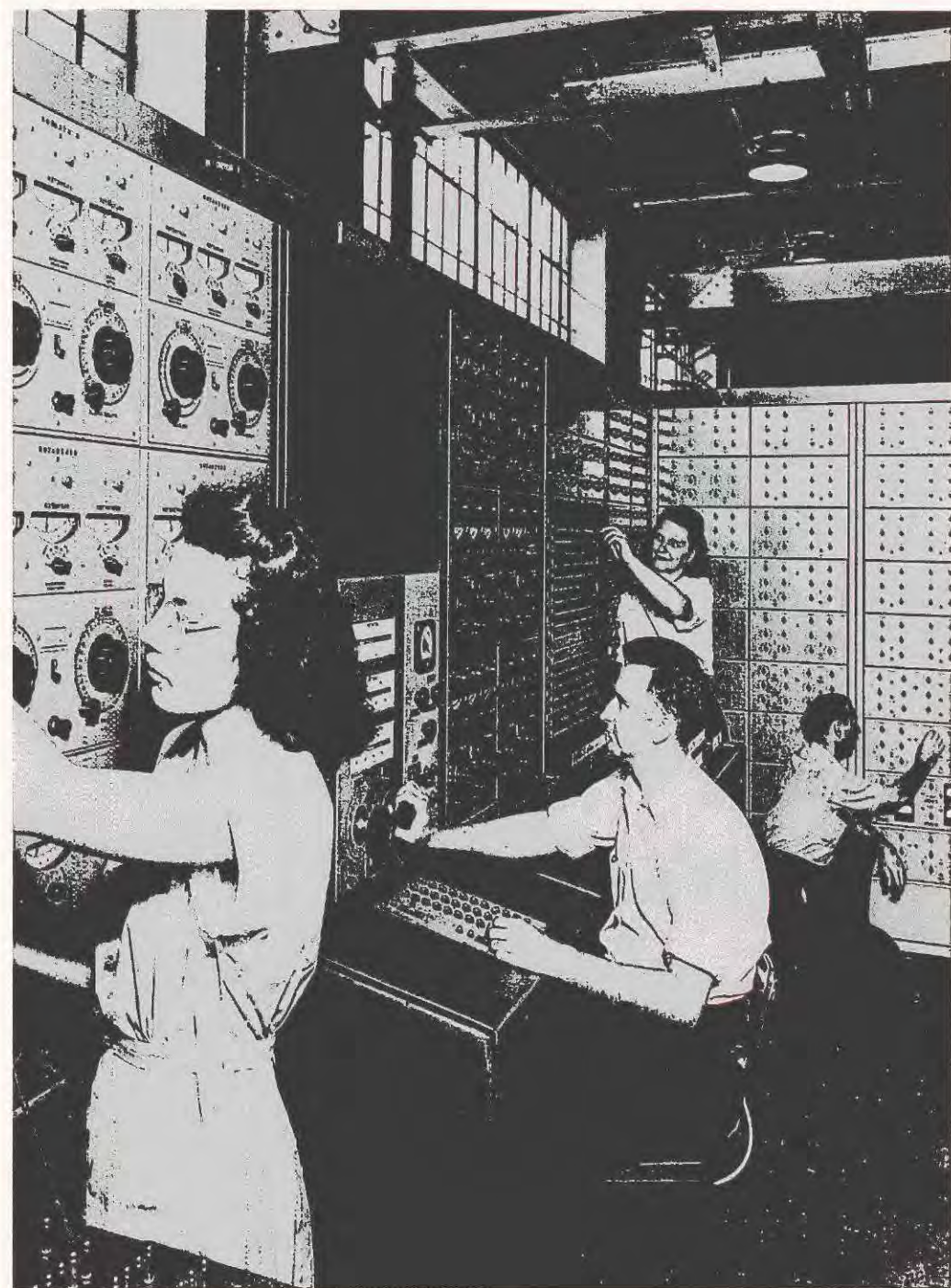
For example, York, Pa.-based

Architectural Testing Inc. launches two-by-fours from an air cannon to see how well structures withstand flying debris from hurricanes, a company spokesman said.

At FMR, "we spent most of an entire summer breaking windows," recounted Mr. Smith. "We need to know what a Marriott or a Hyatt might want if they build a hotel on the coast."

While it might seem a bit esoteric at first, most building material testing is based on common sense, said UL's Mr. Sanford.

"We're really putting these samples through hell, unimaginable hell, because it has the potential of happening in the real world," he said. **B**



CFOs

Continued from page 10

That way, he said, the CFO can question the insurer directly and gain a clearer understanding of what is at stake.

"It's an easier sell for us," Mr. Hardy said. When the insurer's representatives are speaking directly to the CFO, "we are comfortable. We are talking underwriting; we are talking claims. We are talking to the person who is going to cut the check."

But while gaining the support of the CFO may be important, winning over facility managers may be even more crucial, risk managers say. Selling the managers at that

level is part of his strategy for eventually selling the CFO, Mr. Hardy said. The facility managers, with support and training from the risk management department, ultimately enforce loss control efforts at their sites. If they keep losses in check, it is easier to get the CFO's respect and backing for all risk management loss control efforts, Mr. Hardy said.

With fewer losses at the plant sites, the corporation can self-insure greater risk and depend less on insurance markets. Then the risk manager can demonstrate to the CFO that loss prevention means fewer dollars spent on premiums.

So Mr. Hardy advises that a risk manager have a good risk manage-

ment program in place before approaching the CFO. "Risk financing looks after itself when you manage your losses," he said. "No question about it. It can sell itself once you get it embedded, but you have to get it in there first."

To sell facility managers on risk management, Mr. Hardy said, don't focus so much on the negatives, such as past losses. A negative approach makes it harder to get their attention, and it's too late to remedy past losses.

Instead, Mr. Hardy said he wins the attention of facility managers by focusing on maximum foreseeable losses and probable maximum losses. Then, he said, he explains how the facility managers can do a little at a time, bit by bit, to make

their facilities as safe as possible.

Gary Baxter, assistant treasurer and director of insurance at Weyerhaeuser Co., a forest products supplier based in Federal Way, Wash., agrees that selling the plant managers who are responsible for operations at their sites on loss control can be even more important than convincing upper management.

Even though Weyerhaeuser's CFO works closely with Mr. Baxter, the two must convince other members of upper management of the value of loss control.

To do so, Mr. Baxter's staff closely tracks how frequently the loss prevention inspection companies that Weyerhaeuser uses meet with the plant managers.

"Any deficiencies they come up

with, the manager is the one who can make things happen. And he has to get the message directly," Mr. Baxter said. "If you pass the message on to someone else, it may not get the attention."

That's why Allianz Risk Consultants usually works through the risk manager but emphasizes reaching plant managers rather than the CFO, said Robert Hall, vp for the Burbank, Calif.-based consulting firm.

"If you don't have management support at the facility, you probably are not going to get the job done," Mr. Hall said.

Unless the plant manager thinks certain precautions are justified, the CFO probably is not going to back implementation anyway, Mr. Hall said. Furthermore, he said, individual plant managers at large corporations often have the authority to spend significant sums on loss control measures, and CFOs typically are not loss prevention experts.

'If you don't have management support at the facility, you probably are not going to get the job done.'

— Robert Hall
Allianz Risk
Consultants

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"Budgeting \$50,000 for a sprinkler system in a warehouse is not going to need the CFO's approval," Mr. Hall said. "It's going to get handled at the plant level."

But the pervasiveness of global competition and a trend toward greater dependence on fewer suppliers mean companies now are more at risk for potential disruptions in business continuity, IRI's Mr. Tschiegg said. That means it is now more important for CFOs to understand and address potential property loss control concerns at every point in a company's operations that might affect business continuity.

Both Mr. Tschiegg and Mr. Anderson say that one way for a risk manager to get the boss to consider such concerns is to cite well-known examples of losses that have derailed the plans of other businesses.

One such incident, they say, was a March 17, 2000, fire that stopped production at a Royal Philips Electronics semiconductor plant in Albuquerque, N.M. The 10-minute blaze is now legendary in loss prevention circles because of the financial damage done to Swedish mobile telephone manufacturer Ericsson Telecom A.B.

According to published reports, the plant was the sole supplier of a specialized type of semiconductors to Ericsson, which lost hundreds of millions of dollars in sales and saw its share price tumble, while a rival company took advantage to pull ahead. The blaze caused Ericsson to file a massive business interruption claim (BI, Oct. 9, 2000).

"That gets back to planning business continuity and anticipating the kind of losses that can occur," Mr. Tschiegg said. BI

BI's directory of property loss control consultants

A

Allianz Risk Consultants

3400 Riverside Drive,
Burbank, Calif. 91505-4691;
818-972-8389; fax: 818-972-8006
www.arc-allianz.com

2000 revenues
Total gross revenues \$3,500,000
Unbundled property loss control/
engineering 70%
Unbundled property loss revenues \$2,450,000
Parent: Allianz Insurance Co.
Staff: total, 20; professionals, 17.
Clients: total, 100; unbundled, 70.
Regions served: international.
Branch offices: Atlanta; Chicago; New York.
Officers: Wolfgang Schlink, president/CEO; Paul Kaduk, CFO; Bob Hall, vp.
Contact: Bob Hall; rhall1@arc-allianz.com.

Allrisk Engineering Inc.

1909 28th St. S.E.,
Auburn, Wash. 98002;
253-735-0554; fax: 253-735-3008
www.allriskengineering.com

2000 revenues
Total gross revenues \$500,000
Unbundled property loss control/
engineering 100%
Unbundled property loss revenues \$500,000
Loss control services began: 1999.
Staff: total, 3; professionals, 3.
Clients: total, 4; unbundled, 4.
Specialties: chemical, energy, pulp and paper.
Regions served: international.
Branch offices: Cincinnati; Dallas.
Contact: Jesse Wilson, president;
jwilson@allriskengineering.com.

Applied Risk Control Corp.

15 N. Mill St.,
Nyack, N.Y. 10960;
845-365-2444; fax: 845-365-2478
www.appliedriskcontrol.com

2000 revenues
Total gross revenues \$830,000
Unbundled property loss control/
engineering 25%
Unbundled property loss revenues \$207,500
Loss control services began: 1985.
Staff: total, 15; professionals, 11.
Clients: total, 30; unbundled, 30.
Regions served: nationwide.
Branch offices: Los Angeles; San Francisco; Washington; Atlanta; Chicago; Eugene, Ore.; Seattle.
Officers: Harry P. Mirijanian, president; R. Brian Cassidy, executive vp/COO; Gwen Alexander, vp.
Contact: Harry P. Mirijanian.

C

CP Commercial Specialists

11880 College Blvd., Suite 400,
Overland Park, Kan. 66210;
913-451-3222; fax: 913-451-3285
www.cpspecialists.com

2000 revenues
Total gross revenues \$600,000,000*
Unbundled property loss control/
engineering 2.7%
Unbundled property loss revenues \$16,000,000
Loss control services began: 1951.
Parent: ChoicePoint Inc.
Staff: total, 1,150; professionals, 400.
Clients: total, 350; unbundled, 350.
Regions served: nationwide; Puerto Rico, Caribbean.
Branch offices: 20 cities nationwide.
Officers: Dan Rocco, CEO; Mike Madden, vp-operations; Robert Wickizer, vp-business development.
Contact: Mark Turrentine, director-business development, 913-663-8514, mark.turrentine@choicepointinc.com; Pat Steece, national survey manager, 913-663-8528, pat.steece@choicepointinc.com.
*Gross revenues are for ChoicePoint Inc.

Cannon Cochran Management Services Inc.

2 E. Main St.,
Danville, Ill. 61832;
800-252-5059; fax: 217-443-0927
www.ccmcsi.com

2000 revenues
Total gross revenues \$25,000,000
Unbundled property loss control/
engineering 1%
Unbundled property loss revenues \$200,000
Loss control services began: 1978.
Staff: total, 300; professionals, 25.
Clients: total, 4,000; unbundled, 10.
Specialties: construction, municipalities, trucking.
Regions served: Illinois, Indiana, Iowa, Kansas, Missouri.
Branch offices: Oak Brook, Ill.; Des Moines, Iowa; Overland Park, Kan.; St. Louis.
Officers: G. Bryan Thomas, president/CEO; Rodney Golden, COO; John E. Kluth II, CFO.
Contact: info@ccmsi.com.

Commerce National Risk Control Services

17000 Horizon Way, P.O. Box 1567,
Mount Laurel, N.J. 08054;
856-470-5167; fax: 856-470-5174
www.commerceonline.com

2000 revenues
Total gross revenues \$1,900,000
Unbundled property loss control/
engineering 25%
Unbundled property loss revenues \$475,000
Loss control services began: 1938.
Parent: Commerce National Insurance Services Inc.
Staff: total, 20; professionals, 10.
Clients: total, 361; unbundled, 361.
Regions served: Delaware, New Jersey, New York, Pennsylvania.
Officers: George E. Norcross III, chairman; Edward Kiessling, president; Daniel McCutcheon, senior vp.

Contact: Paul Osuch, vp; posuch@yesinsure.com.

E

ECS Risk Control Inc.

600 Eagleview Blvd.,
Exton, Pa. 19341;
800-858-0853; fax: 610-458-7285
www.ecsinc.com

2000 revenues
Total gross revenues \$15,000,000
Unbundled property loss control/
engineering 5%
Unbundled property loss revenues \$750,000
Parent: XL Capital Ltd.
Staff: total, 92; professionals, 5.
Clients: total, 2,000; unbundled, 20.
Specialties: chemical, industrial, commercial and environmental facilities; transportation.
Regions served: international.
Branch offices: Los Angeles, Sacramento and San Francisco, Calif.; Hartford, Conn.; Orlando and Tampa, Fla.; Atlanta; Chicago; Boston; Toledo, Ohio; Exton, Pa.; Houston; Seattle and Vancouver, Wash.
Officers: William Kronenberg, president/CEO; James F. Splain, senior vp.
Contact: James F. Splain; splainj@ecsinc.com.

ESIS Inc.

1601 Chestnut St.,
Philadelphia, Pa. 19101;
215-640-1362; fax: 215-640-5084
www.esis.com

2000 revenues
Total gross revenues \$200,000,000*
Unbundled property loss control/
engineering 5%
Unbundled property loss revenues \$10,000,000
Loss control services began: 1953.
Parent: ACE USA.
Staff: total, 1,650; professionals, 80.
Clients: total, 300; unbundled, 100.
Specialties: manufacturing, petroleum, retail.
Regions served: international.
Branch offices: Los Angeles; San Francisco; Atlanta; Chicago; Boston; New York; Dallas; Houston.
Officers: Chris Barnes, president; Gene Fazzi, CFO; Mark Cafaro, senior vp/corporate secretary.
Contact: John Ingram, vp; john.ingram@esis.com.
*Estimated.

F

Fagel Safety Services

P.O. Box 209,
North Aurora, Ill. 60542-0209;
800-381-5040; fax: 630-907-2021

2000 revenues
Total gross revenues \$125,000
Unbundled property loss control/
engineering 100%
Unbundled property loss revenues \$125,000
Loss control services began: 1980.
Staff: total, 15; professionals, 15.
Clients: total, 15; unbundled, 15.
Specialties: food processing, government, public safety.
Regions served: nationwide.
Contact: Michael J. Fagel, principal.

FIREPRO Inc.

100 Burt Road,
Andover, Mass. 01810-5920;
781-270-5200; fax: 781-229-2922

2000 revenues
Total gross revenues \$1,200,000
Unbundled property loss control/
engineering 50%
Unbundled property loss revenues \$600,000
Loss control services began: 1970.
Staff: total, 13; professionals, 6.
Specialties: health care, property management, colleges and universities.
Regions served: international.
Contact: Lee C. DeVito, president.

Flex Design Engineering

P.O. Box 14,
Wheaton, Ill. 60189;
630-690-4200; fax: 630-690-3966
www.flexire.com

2000 revenues
Total gross revenues \$200,000
Unbundled property loss control/
engineering 100%
Unbundled property loss revenues \$200,000
Loss control services began: 1986.
Staff: total, 5; professionals, 4.
Clients: total, 75; unbundled, 75.

Specialties: attorneys, engineering firms, municipalities.

Regions served: nationwide.
Officers: Mark Bromann, president; Philip O'Bromowicz, vp; Jeannine Nilo, marketing manager.
Contact: Mark Bromann, markbro@owc.net.

G

Gage-Babcock & Associates Inc.

5175 Parkstone Drive, Suite 130,
Chantilly, Va. 20151-3816;
703-263-7110; fax: 703-263-1549
www.gagebabcock.com

2000 revenues
Total gross revenues \$8,200,000
Unbundled property loss control/
engineering 20%
Unbundled property loss revenues \$1,640,000
Loss control services began: 1952.
Staff: total, 75; professionals, 50.
Clients: total, 66; unbundled, 66.
Regions served: nationwide; Africa, Australia, Canada, China, Indonesia, Japan, Malaysia, New Zealand, Singapore, South America, South Korea, Sri Lanka, Taiwan, Thailand.
Branch offices: La Palma and Walnut Creek, Calif.; Norcross, Ga.; Oak Brook, Ill.; Armonk, N.Y.
Officers: Thomas W. Jaeger, president; Mario A. Antonetti, secretary/treasurer; Douglas J. Rollman, vp-business development.
Contact: Douglas J. Rollman.

Gallagher Bassett Services Inc.

The Gallagher Centre, 2 Pierce Place,
Itasca, Ill. 60143-3141;
630-773-3800; fax: 630-285-4005
www.gallagherbassett.com

2000 revenues
Total gross revenues \$204,000,000
Unbundled property loss control/
engineering 5%
Unbundled property loss revenues \$10,200,000
Loss control services began: 1962.
Parent: Arthur J. Gallagher & Co.
Staff: total, 64; professionals, 52.
Clients: total, 451; unbundled, 55.
Specialties: commercial, municipal, religious.
Regions served: international.
Branch offices: Los Angeles; Denver; Miami; Atlanta; Boston; St. Louis; Fort Worth, Texas; Melbourne, Sydney and Victoria, Australia.
Officers: Rich McKenna, president; Emil Bravo, Joe Slifka, executive vps.
Contact: Joe Slifka; 630-285-3575; joe_slifka@gbtga.com.

GE Global Asset Protection Services

85 Woodland St.,
Hartford, Conn. 06102;
860-520-7498; fax: 860-543-7874
www.gegapservices.com

2000 revenues
Total gross revenues \$36,000,000
Unbundled property loss control/
engineering 95%
Unbundled property loss revenues \$35,000,000
Loss control services began: 1996.
Parent: General Electric Co.
Staff: total, 250; professionals, 200.
Clients: total, 1,000.
Specialties: health care, manufacturing, utilities.
Regions served: international.
Officers: Dan R. Eudy, president; John Paulecich, CFO; Mark A. Tschiegg, vp.
Contact: Mary Jane Frascino, marketing director; 860-520-7498; maryjane.frascino@gegapservices.com.

Global Risk Consultants Corp.

99 Wood Ave. S.,
Iselin, N.J. 08830;
732-635-4400; fax: 732-635-1648
www.globalriskconsultants.com

2000 revenues
Total gross revenues \$24,445,000
Unbundled property loss control/
engineering 100%
Unbundled property loss revenues \$24,445,000
Loss control services began: 1958.
Parent: GRC MERLIN Holdings Inc.
Staff: total, 218; professionals, 132.
Clients: total, 750; unbundled, 750.
Specialties: agriculture, energy, mining.
Regions served: international.
Branch offices: 20 offices nationwide; Melbourne, Australia; Sao Paulo, Brazil; Waterloo,

Continued on next page

Arthur J. Gallagher & Co.
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 Ontario; Weybridge, England; Paris; Offenbach, Germany; Kuala Lumpur, Malaysia.
Officers: William F. Ramonas, chairman/CEO; Glenn H. Giles, president; Gennaro DiMauro, CFO.
Contact: Glenn H. Giles; 732-635-4402; glenn.giles@globalriskconsultants.com.

H
HSB Professional Loss Control
 1 State St., P.O. Box 5024, Hartford, Conn. 06102-5024; 860-722-5621; fax: 860-722-5530 www.hsbplc.com
2000 revenues
 Total gross revenues\$5,700,000
 Unbundled property loss control/engineering44%
 Unbundled property loss revenues\$2,500,000
Loss control services began: 1976.
Parent: HSB Group Inc.
Staff: total, 53; professionals, 36.

Clients: total, 17; unbundled, 16.
Specialties: fossil, hydro and nuclear power plants; telecommunications.
Regions served: international.
Branch offices: Basking-Ridge, N.J.; Kings-ton, Tenn.; Houston; Seoul, South Korea.
Officers: Michael E. Mowrer, executive vp; Wayne D. Holmes, vp-business development; Don Drewry, vp-inspection services.
Contact: Wayne D. Holmes; wayne_holmes@hsb.com.

Hartford Steam Boiler Inspection & Insurance Co.
 1 State St., Hartford, Conn. 06102; 860-722-5074; fax: 860-722-5530 www.hsb.com
2000 revenues
 Total gross revenues\$1,200,000
 Unbundled property loss control/engineering100%
 Unbundled property loss revenues\$1,200,000
Loss control services began: 1997.
Parent: HSB Group Inc.
Staff: total, 387; professionals, 367.

Clients: total, 4; unbundled, 5.
Regions served: nationwide.
Branch offices: Concord, Calif.; Atlanta; Lisle, Ill.; Basking Ridge, N.J.
Officers: Maurice Darbyshire, chief engineering officer; James Hoff, vp-loss control; Donald Young, assistant vp- loss control.
Contact: Donald Young, donald_young@hsb.com.

M
Marsh Inc.
 1166 Ave. of the Americas, New York, N.Y. 10036; 212-345-6000; fax: 212-345-5195 www.marsh.com
2000 revenues
 Total gross revenues\$4,800,000,000
 Unbundled property loss control/engineering1.8%
 Unbundled property loss revenues\$85,000,000
Loss control services began: 1871.
Parent: Marsh & McLennan Cos. Inc.
Staff: total, 35,000; professionals, 459.
Clients: total, 2,000; unbundled, 2,000.

Specialties: energy and chemical; manufacturing; technology and telecommunications.
Regions served: international.
Branch offices: 34 offices nationwide; 33 international branches.
Officers: Donald Birdsong, managing director/consulting business leader; Glenn Buser, managing director/operations and asset consulting business leader; Robert Smith, senior vp/property risk control practice leader.
Contact: Glenn Buser; 212-345-6053; glenn.d.buser@marsh.com.

Matrix Risk Consultants Inc.
 3130 S. Tech Blvd., Miamisburg, Ohio 45342; 937-886-0000; fax: 937-432-2099 www.matrixrc.com
2000 revenues
 Total gross revenues\$2,887,000
 Unbundled property loss control/engineering100%
 Unbundled property loss revenues\$2,887,000
Loss control services began: 1972.
Staff: total, 20; professionals, 15.
Clients: total, 21; unbundled, 21.

Regions served: international.
Branch offices: Atlanta; Paris.
Officers: Walter P. Luker, president; Larry D. Jones, senior vp-engineering; Alan J. Rodeck, vp-marketing.
Contact: matrix@matrixrc.com.

Donald Mayo-Fire Protection Consultant Inc.
 150 Grove Circle, Pleasant Hill, Calif. 94523; 925-933-6299; fax: 925-933-6288
2000 revenues
 Total gross revenues\$900,000
 Unbundled property loss control/engineering100%
 Unbundled property loss revenues\$900,000
Loss control services began: 1987.
Staff: total, 2; professionals, 1.
Clients: total, 4; unbundled, 4.
Specialties: retail and distribution/warehouse operations.
Regions served: international.
Officers: Donald Mayo, president; Linda Mayo, CEO.

Continued on next page

Directory terms explained

The *Business Insurance* directory of property loss control consultants and engineers lists companies that provide loss control services on a direct, unbundled basis. Consultants that provide loss control assistance only in conjunction with other services, such as brokering insurance, are not listed.

Each listing begins with the company's name, address, telephone number and fax number. Information on **2000 gross revenues**, as well as the percentage of revenues derived from unbundled loss control consulting, is provided next.

The year **loss control services began** and **parent company**, if any, are listed next. Information on **staff** at year-end 2000, including the number of professionals assigned to loss control consulting and engineering services, is also provided. Also listed are the number of property loss control **clients** and the number of unbundled clients.

If a company specializes in consulting to particular types of business or industry, those **specialties** are noted. Listed next are the regions served, as well as the locations of **branch offices** that provide property loss control services. Names and titles of principal **officers** follow, and each listing concludes with a **contact** person for readers who want additional information.

BI publishes the directory as an editorial service; there is no charge to be included. Listings are based on each company's response to a questionnaire. Although every effort is made to provide complete and accurate information, *BI* is unable to verify all information received.

If your company generates \$100,000 from unbundled property loss control consulting/engineering but was not listed in the directory, please contact Directory Editor Kevin Edison, at 312-649-5279.

Client: KNOUSE FOODS COOPERATIVE, INC.
 Makers of Lucky Leaf, Musselman's, Apple Time, et al

PMA Senior Risk Control Consultant
 JOE ARMSTRONG



"I guess today's lesson really got them juiced."

PMA's Joe Armstrong doesn't just talk risk control to his clients at Knouse Foods. He teaches it. With a passion. Every year, Joe runs a series of training sessions at all seven Knouse Foods processing plants. With prevention being his number one priority, Joe educates the management team on the subtle causes of job related accidents, how best to prevent them and how PMA can help get injured employees back to work safer—and sooner. By championing Knouse's cause, Joe has helped to improve their corporate safety record. And their bottom line. Is he looking for extra credit? Not a bit. It's just that kind of relationship.

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For more information, visit our website: www.pmagroup.com

Continued from previous page

Meadowbrook Insurance Group Inc.

26600 Telegraph Road, Southfield, Mich. 48034; 800-482-2726; fax: 248-358-1614 www.meadowbrook.com

2000 revenues
Total gross revenues\$4,068,086
Unbundled property loss control/engineering53%
Unbundled property loss revenues\$2,156,086

Loss control services began: 1983.
Staff: total, 29; professionals, 25.
Clients: total, 60; unbundled, 15.
Specialties: alternative risk group programs, logging, municipalities.

Regions served: Alabama, California, Florida, Georgia, Indiana, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nevada, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Tennessee, Wisconsin.

Branch offices: Montgomery, Ala.; Cerritos, Calif.; Sarasota, Fla.; Overland Park, Kan.; Louisville, Ky.; Andover, Mass.; Minneapolis.

Officers: Merton J. Segal, chairman; Robert S. Cubbin, president/COO; Joseph C. Henry, executive vp.

Contact: Joe Hunold, assistant vp-loss control; jhunold@meadowbrook.com.

Mellon Clair Odell Group-Risk Control Division

3025 Chemical Road, Plymouth Meeting, Pa. 19462; 484-530-6603; fax: 610-828-3349 www.clairodell.com

2000 revenues
Total gross revenues\$350,000
Unbundled property loss control/engineering85%
Unbundled property loss revenues\$300,000

Loss control services began: 1996.
Parent: Mellon Bank N.A.

Staff: total, 5; professionals, 3.
Clients: total, 50; unbundled, 50.

Regions served: nationwide.
Branch offices: Philadelphia; Pittsburgh.

Officers: Frank Svitek, CEO; William Kanehann, COO; Matthew Winters, division director.

Contact: Matthew Winters.

NATLSCO

1 Kemper Drive, Suite D-7, Long Grove, Ill. 60049; 847-320-2111; fax: 847-320-5460 www.natlSCO.com

2000 revenues
Total gross revenues\$32,000,000
Unbundled property loss control/engineering1%
Unbundled property loss revenues\$246,000

Loss control services began: 1964.

Parent: Kemper Insurance Cos.
Staff: total, 263; professionals, 94.
Clients: total, 2,800; unbundled, 30.
Regions served: international.
Branch offices: San Francisco; Atlanta; Chicago; Boston; Berkeley Heights, N.J.; Cleveland; Philadelphia; Dallas; Seattle; Toronto.
Officers: Patricia Drago, senior vp-Client Services Group; Robert Hiltz, vp-NATLSCO; Phillip Davis, vp/manager-property loss control.
Contact: Scott Babcock, director-Business Development Group; sbabcock@natlSCO.com.

Professional Safety Consultant Service Inc.

424 S.E. 30th Ave., Ocala, Fla. 34471; 352-694-4601; fax: 352-694-3853

2000 revenues
Total gross revenues\$100,000
Unbundled property loss control/engineering100%
Unbundled property loss revenues\$100,000

Loss control services began: 1975.
Staff: total, 2; professionals, 1.

Clients*: total, 50; unbundled, 50.
Specialties: industrial/manufacturing, retailing facilities, health care facilities.

Regions served: international.
Officers: Herbert T. Bogert, president/treasurer; Nancy A. Bogert, vp/secretary.

Contact: Herbert T. Bogert.

Regional Reporting Inc.

111 John St., New York, N.Y. 10038; 212-964-5973; fax: 212-608-5074 www.regionalreporting.com

2000 revenues
Total gross revenues\$16,000,000
Unbundled property loss control/engineering50%
Unbundled property loss revenues\$8,000,000

Loss control services began: 1963.
Staff: total, 285; professionals, 135.

Clients: total, 260; unbundled, 180.
Regions served: international.

Branch offices: Sacramento, Calif.; Hartford, Conn.; Atlanta; Chicago; Maritton, N.J.; Cleveland; Dallas.

Officers: Martin Myers, chairman/CEO, Louis Siegel, president, Josephine Johns, executive vp.

Risk Analysts Inc.

24 Greenway Plaza, Suite 1100, Houston, Texas 77046-2401; 713-507-4792; fax: 713-507-9433 www.wisenberg.com

2000 revenues
Total gross revenues\$350,000
Unbundled property loss control/engineering40%
Unbundled property loss revenues\$130,000

Loss control services began: 1986.
Parent: Wisenberg Insurance & Risk Management.
Staff: total, 55; professionals, 3.
Clients: total, 60; unbundled, 50.
Specialties: hospitality, manufacturing, warehousing and distribution.
Regions served: nationwide.
Officers: Joe Williams, chairman/CEO; Jeff Pozmantiar, president, Nicholas P. Dalby, vp/director.
Contact: Nicholas P. Dalby; ndalby@wisenberg.com.

Risk Logic

93 Apple Ridge, Woodcliff Lake, N.J. 07677; 201-930-0700; fax: 201-930-8795 www.risklogic.com

2000 revenues
Total gross revenues\$750,000
Unbundled property loss control/engineering100%
Unbundled property loss revenues\$750,000

Loss control services began: 1997.
Staff: total, 4; professionals, 3.

Clients: total, 18; unbundled, 18.
Specialties: high-rise buildings and warehouses; manufacturing.

Regions served: nationwide.
Branch offices: Birmingham, Ala.; San Diego; Chicago; Middletown, N.J.; Austin, Texas.

Officers: John Durante, president; Rich Cardile, vp/engineering manager; Joe Barbieri, senior property loss control consultant.

Contact: John Durante; jdurante@risklogic.com.

Rode & Associates L.L.C.

66 Cedar St., Suite 301, Newington, Conn. 06111-2646; 860-594-7183; fax: 860-594-7184

2000 revenues
Total gross revenues\$200,900
Unbundled property loss control/engineering100%
Unbundled property loss revenues\$200,900

Loss control services began: 1994.
Staff: total, 6; professionals, 4.

Clients: total, 14; unbundled, 14.
Specialties: power generation, project development, renewable energies.

Regions served: international.
Officers: Douglas M. Rode, managing director; William J. Satterfield, chief investigator; George Wills Moore III, director-property loss management.

Contact: Douglas M. Rode; rode@rode-llc.com.

Safety & Risk Control Services Inc.

395 Main St., Suite 4, Metuchen, N.J. 08840-1806; 800-466-4025; fax: 732-906-2045 www.safetyrisk.com

2000 revenues
Total gross revenues\$500,000*
Unbundled property loss control/engineering30%
Unbundled property loss control/engineering revenues\$150,000

Loss control services began: 1989.
Staff: total, 16; professionals, 5.

Clients: total, 6; unbundled, 6.
Specialties: manufacturing, moving and storage, transportation.

Regions served: nationwide.
Contact: Harvey S. Staple, president; staple@safetyrisk.com.

Safety Consulting Inc.

150 S.W. 33, Suite A, Topeka, Kan. 66611; 785-266-1006; fax: 785-266-1007

2000 revenues
Total gross revenues\$300,000
Unbundled property loss control/engineering100%
Unbundled property loss revenues\$300,000

Loss control services began: 1971.
Staff: total, 4; professionals, 3.

Clients: total, 60; unbundled, 60.
Regions served: nationwide.

Officers: Craig Stromgren, president; John Parkin, vp; Dan Pabst, consultant.

Safety Management Services Inc.

200 Travis St., Suite 104, Lafayette, La. 70503; 337-235-6524; fax: 337-235-0905

2000 revenues*
Total gross revenues\$200,000
Unbundled property loss control/engineering50%
Unbundled property loss revenues\$100,000

Loss control services began: 1981.
Staff: total, 4; professionals, 3.

Clients*: total, 167; unbundled, 90.
Specialties: petroleum.

Regions served: international.
Contact: Jack Barnidge, president.

Schirmer Engineering Corp.

707 Lake Cook Road, Deerfield, Ill. 60015; 847-272-8340; fax: 847-272-2639 www.schirmereng.com

2000 revenues
Total gross revenues\$20,000,000
Loss control services began: 1939.
Parent: Aon Corp.
Regions served: nationwide.
Clients: total, 600.

Branch offices: Phoenix; Newport Beach and San Diego, Calif.; Washington; Denver; Miami; Chicago; Boston; Las Vegas; Princeton, N.J.; Charlotte, N.C.; Austin and Dallas, Texas.

Officers: Carl Baldassarra, president; Daniel O'Connor, vp-engineering; Mark Rochholtz, senior vp.

Contact: David P. Nugent, vp/manager-loss control; dnugent@schirmereng.com.

Stogniew & Associates
12225 28th St. N., St. Petersburg, Fla. 33716; 727-572-7400; fax: 727-572-8997

2000 revenues
Total gross revenues\$600,000
Unbundled property loss control/engineering30%
Unbundled property loss revenues\$180,000

Loss control services began: 1980.
Staff: total, 9; professionals, 2.

Clients: total, 10; unbundled, 10.
Specialties: financial institutions.

Regions served: nationwide.
Officers: Gerald F. Stogniew, executive director; Mac Fleming, Dennis Shery, directors.

Willis Group Holdings Ltd.

7 Hanover Square, New York, N.Y. 10048; 973-410-4638; fax: 973-410-4600 www.willis.com

2000 revenues
Total gross revenues\$1,300,000,000
Unbundled property loss control/engineering0.19%
Unbundled property loss revenues\$2,500,000

Loss control services began: 1980.
Staff: total, 300; professionals, 81.

Clients: total, 300; unbundled, 50.
Specialties: health care, hospitality, manufacturing.

Regions served: international.
Branch offices: 34 branches worldwide.

Officers: Joseph Plumeri, chairman/CEO; Richard Bucknall, COO; Janet Coolick, chief administrative officer.

Contact: Joe Stavish, property risk control practice leader; stavish_jc@willis.com.

Zurich Services Corp.

1400 American Lane, Schaumburg, Ill. 60196; 800-982-5964; fax: 847-605-7736 www.risk-engineering.com

2000 revenues
Total gross revenues\$41,000,000
Unbundled property loss control/engineering32%
Unbundled property loss revenues\$13,300,000

Loss control services began: 1912.
Parent: Zurich Financial Services Group.

Staff: total, 309; professionals, 93.
Clients: total, 4,200; unbundled, 2,950.

Specialties: chemical, health care, manufacturing.

Regions served: international.
Branch offices: Glendale and San Francisco, Calif.; Atlanta; Chicago; Boston; Grand Rapids, Mich.; New York; Cleveland; Philadelphia; Dallas.

Officers: Frank Patalano, chairman; William Zuza, president; Dave Czartoryski, senior vp.

Contact: Dave Schmitz, vp/director-property; 312-496-9131.

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GLOBAL BRIEFS

Moody's Investors Service Ltd. in London has upped its outlook on the **German nonlife insurance industry** to stable from negative. Moody's said the industry's longstanding financial strength was likely to "endure the medium term despite the tumultuous changes now wracking the industry." Moody's said that these changes include deregulation, the abolition of tariffs, increased competition, economic recession and new tax legislation....The United Kingdom's Department of Trade and Industry last week awarded a total of £1.5 million (\$2.1 million) in grants to help companies improve **workplace conditions**, including occupational health and employee relations. The grants came from the DTT's "Partnership Fund," which was started in 1999, and will be used by 37 organizations to fund a variety of programs. Another £1.1 million (\$1.6 million) will be paid out later this year....More than 20,200 people have died as a result of **natural disasters** so far this year, according to the August issue of Aon's Monthly Natural Disasters Round Up. More than 75% of these deaths resulted from the January earthquake in India....U.K. credit insurer **Euler Trade Indemnity** has appointed Ian Hollyhomes as assistant director of U.K. risk. Mr. Hollyhomes, who will be joint head of a domestic risk underwriting team for a range of manufacturing and service-based trade sectors, has worked with Euler for 10 years, most recently as an account director within its commercial underwriting department....Paris-based **AXA Group** has reported first-half revenues of 38.97 billion euros (\$33.14 billion), a decline of 5% from the comparable period in 2000. Taking into account currency fluctuations and discontinued operations, first-half revenues increased 4%, AXA said. Revenues from property/casualty business increased by 3.9%, to 8.72 billion euros (\$7.41 billion). AXA said rate increases fueled the growth, which was somewhat offset by a decrease in policies as the insurer toughened underwriting standards....Dutch insurer **Aegon N.V.** has reported net income for the first half of 2001 at 1.16 billion euros (\$986.3 million), up 15% over the same period last year. Total revenues were 5% higher, at 16.05 billion euros (\$13.65 billion), with each of the group's business units showing strong earnings performance. As a result, Aegon has upgraded its forecast for earnings for the year to an increase of between 12% and 17%, up from its previous forecast of 10% to 15%....Standard & Poor's Corp. has lowered its long-term counterparty credit and insurer financial strength ratings on **World-Wide Reassurance Co. Ltd.** of Windsor, England, to BBB+ from A- and placed them on CreditWatch with developing implications. The change follows the announcement last week that Pacific Life Insurance Co. is selling World-Wide Reassurance to Cayman Islands-based Scottish Annuity & Life Holdings Ltd. in return for a minority stake in SAL. S&P said the previous ratings on World-Wide Reassurance factored in a degree of parental support from Newport Beach, Calif.-based Pacific Life that will be removed with the sale....Standard & Poor's also has downgraded the public information ratings on **General Insurance Corp. of India, National Insurance Co. Ltd., New India Assurance Co. Ltd., Oriental Insurance Co. Ltd.** and **United India Insurance Co. Ltd.** to BBB-pi from BBBpi. The rating change follows the downgrading of the long-term local currency sovereign credit rating on the Republic of India to BBB- from BBB, reflecting unchecked budget deficits and rising domestic indebtedness.

Case highlights E&O liability risks

By SARAH VEYSEY

LONDON—Professionals in the United Kingdom face potentially uninsurable personal liability for bad advice they give in the course of their work, under a recent appeals court decision.

While the ruling will likely affect only professionals who have worked for companies that have gone out of business, as corporate bankruptcies increase, more professionals could face such personal liability.

Because professional indemnity coverage in the United Kingdom is available only on a claims-made basis, if an employer's insurance coverage is canceled—as a result of bankruptcy, for example—employees would be left without coverage.

In the case of *Merrett vs. Babb*, John Babb, a chartered appraising surveyor, was sued for negligence over a mortgage valuation he had carried out some six years previously. When he conducted the valuation, Mr. Babb worked for Cheltenham, England-based Clive Walker Associates, which

he subsequently left for another job. CWA was later declared bankrupt, and, unknown to Mr. Babb, CWA's receivers canceled the company's professional indemnity coverage.

In 1994, having learned of CWA's bankruptcy, the Merrett family brought a negligence claim against Mr. Babb, who was supported in his defense by the London-based Royal Institution of Chartered Surveyors.

The commercial court and the Court of Appeal found that Mr. Babb had been negligent and held him liable, ordering him to pay £14,500 (\$20,706)

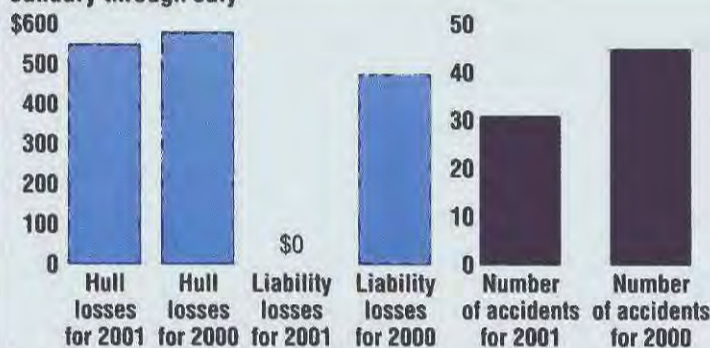
plus interest to Diana Merrett. Last month, the House of Lords Appeals Committee refused to hear an appeal, upholding the lower court ruling.

Although the RICS requires all surveyor companies to have compulsory six-year runoff insurance coverage, CWA's insurance had been canceled by the receivers, explained Martin Davis, a partner in the insurance team at London-based law firm CMS Cameron McKenna, which represented Mr. Babb and the RICS. "He couldn't get (personal profes-

See **Liability** on page 23

Major aviation losses

January through July



Source: Willis Group Holdings Ltd.

Aviation insurance rates to rise following attack

By EDWIN UNSWORTH

LONDON—Airlines that already saw higher hull, liability and war risk rates at their last insurance renewal can expect to pay even more as underwriters take on board the effects of last month's terrorist attack at Sri Lanka's main airport.

The July 24 raid by Tamil Tiger separatists at Bandaranaike International Airport, near the capital city of Colombo, likely will result in the most-expensive aircraft hull claim on record (*BI*, July 30). Underwriters are predicting a claim from Sri Lanka's national air carrier, SriLankan Airlines, of about \$500 million for three planes destroyed and two damaged, one of which is expected to be declared a writeoff.

The vast majority of the insured claim will fall on syndicates at Lloyd's of London, which leads the market in war risk insurance. The largest single share of coverage was with ACE Global Markets Ltd., but after reinsurance to London underwriters, ACE's net loss is expected to be considerably less than the full insured value of the SriLankan Air-

See **Aviation** on page 23



PHOTO: AP/WIDE WORLD

A bomb that exploded in West London has resulted in dozens of insurance claims for commercial property damage.

Commercial losses insured

Blast disrupts London borough

By SARAH VEYSEY

LONDON—Total damage from the terrorist bomb that exploded in Ealing, West London, on Aug. 3., may reach hundreds of thousands of dollars, according to London-based loss adjuster Capita McLarens.

Capita McLarens said last week that it had so far been denied access to some parts of the site because police were still conducting forensic work. But London's Ealing borough reported that most buildings had escaped major structural damage.

The bomb, allegedly planted by a terrorist organization known as the Real IRA, exploded just after midnight on Aug. 3. No one was killed in the blast, but several were injured, and commercial and residential properties in the area were damaged.

See **Bomb** on page 23

Esso nets record safety fine

By SIMONE ZENONI

MELBOURNE, Australia—The Victorian Supreme Court fined Esso Australia Pty. Ltd. a record \$2 million Australian (\$1.0 million) for 11 criminal violations of state safety laws arising from an explosion at a refinery.

The fines—ordered by Judge Phillip Cummins July 30 after a jury found the oil and gas company in violation of the Victorian Occupational Health & Safety Act 1985—are almost 10 times the maximum fine previously imposed by an Australian court for breaches of the safety law, ac-

ording to a spokesman for WorkCover, which is the Victorian state government-run workers' compensation insurance provider.

The fines included a maximum \$250,000 Australian (\$129,325) fine on charges of failing to conduct hazard identification "in a most hazardous workplace" and failing to train workers "about the risks they were subject to." Judge Cummins also imposed extra penalties, totaling \$200,000 Australian (\$103,460), for four breaches of the safety law, citing previous breaches of the law by Esso, which is a subsidiary of

Exxon Mobil Corp.

On June 28, a jury found Esso guilty of 11 breaches of the safety law. The charges were filed by WorkCover following its investigation into the 1998 explosion at Esso's Longford refinery; Esso denied that it was responsible (*BI*, Oct. 5, 1998).

"The events of Sept. 25, 1998, were the responsibility of Esso, no one else. Their cause was foreseeable and avoidable. Their consequence was grievous, tragic and avoidable," Judge Cummins said.

He said Esso's failure to accept responsibility for the "tragic events" was "a serious deficien-

cy."

Robert Olsen, Esso's chairman, expressed "deep regret (for) the tragic loss of life and injuries." He said Esso is committed to "continuously improving the safety and integrity of all our operations, including the Longford plant."

Esso also is facing a class action lawsuit brought by insurers, businesses and consumers stemming from the explosion (*BI*, March 19). The suit was stayed pending the government's criminal investigation. It has been granted leave to appeal a challenge to the class action on jurisdictional grounds.

See **Esso** on page 23

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EDA is seeking proposals for consulting service: to write a Request for Proposals for an Owner Controlled Insurance Program for these projects; and to assist EDA in the evaluation of the competing OCIP proposals.

Proposals will be evaluated based upon the following criteria:

- Experience in writing OCIP RFP's and developing CCIP programs (particularly rolling wrap-ups)
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- Qualifications, size of firm, depth of staff available, other resources
- Quality, creativity, depth & thoroughness of approach to project
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- Price

For additional information interested firms may contact Paul Staudt Jr., RA, Director Contract Procurement at (609) 292-1721.

A **mandatory** pre-proposal conference will be held as follows:

DATE: Wednesday, August 15, 2001
TIME: 2:00 P.M.
PLACE: New Jersey Economic Development Authority
36 West State Street
Trenton, New Jersey 08625

Proposals are due for the above on Wednesday September 5th, 2001 by 2:00 PM

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DIRECTOR, CONSUMER AFFAIRS AND BUSINESS REGULATION
LINDA RUTHARDT
COMMISSIONER OF INSURANCE

June 22, 2001

NOTICE OF PUBLIC HEARING ON THE PROPOSED PLANS OF REORGANIZATION OF LIBERTY MUTUAL INSURANCE COMPANY AND LIBERTY MUTUAL FIRE INSURANCE COMPANY AND RELATED APPLICATIONS

Pursuant to chapter 175, section 19H, of the Massachusetts General Laws, a Public Hearing will be held at the offices of the Massachusetts Division of Insurance, One South Station, Fifth Floor, Hearing Room A, Boston, Massachusetts commencing on Wednesday, October 10, 2001, at 10:00 a.m. The hearing will be conducted in accordance with the provisions of 211 Code of Massachusetts Regulations 144.00 (Procedures for the Regulatory Review of and Public Hearings on Plans of Reorganization or Conversion pursuant to G.L. c. 175, §§ 19F-19W).

The purpose of the hearing is to consider the Plan of Reorganization adopted by the Board of Directors of Liberty Mutual Insurance Company ("Liberty Mutual") on September 13, 2000 as amended on June 13, 2001 ("Liberty Mutual Plan") and the Plan of Reorganization adopted by the Board of Directors of Liberty Mutual Fire Insurance Company ("Liberty Fire") on September 13, 2000 as amended on June 13, 2001 ("Liberty Fire Plan") and related transactions and issues. Pursuant to the Liberty Mutual Plan, Liberty Mutual proposes to reorganize into a stock insurance company ultimately owned by a mutual holding company, to be called Liberty Mutual Holding Company, through two intermediate stock holding companies, to be called Liberty Mutual Group Inc. and LMHC Massachusetts Holdings Inc. Pursuant to the Liberty Fire Plan, Liberty Fire proposes to reorganize into a stock insurance company ultimately owned by the same mutual holding company through the same two intermediate stock holding companies.

The public hearing will be upon the fairness of the terms and conditions of the plans of reorganization, the reasons and purposes for the reorganizations of the mutual insurers, and whether the reorganizations are in the best interest of the mutual insurers and are fair and equitable to their policyholders, and not detrimental to the insuring public.

The Massachusetts Commissioner of Insurance is required by law to determine, after the hearing,

- whether each proposed reorganization is in the best interests of the reorganizing insurer
- whether each plan is fair and equitable to the reorganized insurer's policyholders
- whether the plan provides for the enhancement of the operations of the reorganizing insurer
- whether the plan will not substantially lessen competition in any line of insurance business and, when completed, provides for the reorganized insurer's paid in capital stock to be in an amount at least equal to the minimum paid in capital stock and the net surplus required of a new domestic stock insurer upon its initial authorization to transact like kinds of insurance, and
- whether the plan complies with the requirements of chapter 175, sections 19F to 19W, inclusive, of the Massachusetts General Laws

Chapter 175, section 19H(c) of the Massachusetts General Laws provides that the directors, officers, employees and policyholders of Liberty Mutual and Liberty Fire will have the right to appear and be heard at the hearing. The hearing is open to anyone who wishes to attend.

Liberty Mutual and Liberty Fire have submitted the following applications relating to their Plans of Reorganization to the Massachusetts Commissioner of Insurance, who has determined to consolidate the applications for hearing pursuant to 211 Code of Massachusetts Regulations 144.06(2):

1. **Liberty Mutual's Plan of Reorganization.** The application for approval of the Liberty Mutual Plan of Reorganization pursuant to chapter 175, section 19H of the Massachusetts General Laws. Under the proposed plan of reorganization, Liberty Mutual will reorganize into a stock insurance company ultimately owned by a parent mutual holding company, Liberty Mutual Holding Company, through two intermediate holding companies, Liberty Mutual Group Inc. and LMHC Massachusetts Holdings Inc. Liberty Mutual policyholders' contract rights under Liberty Mutual policies will continue unaffected with reorganized Liberty Mutual. Their equity rights in Liberty Mutual will be extinguished by operation of law and will be replaced with equity rights in Liberty Mutual Holding Company.

2. **Liberty Fire's Plan of Reorganization.** The application for approval of the Liberty Fire Plan of Reorganization with Liberty Mutual Holding Company pursuant to chapter 175, section 19H(a) of the Massachusetts General Laws, including the merger of reorganized Liberty Fire with a subsidiary of Liberty Mutual Holding Company, Liberty Insurance Acquisition Corp., pursuant to chapter 175, section 19A of the Massachusetts General Laws. Under the proposed reorganization and merger, Liberty Fire will reorganize into a stock insurance company and merge with Liberty Insurance Acquisition Corp. Liberty Fire policyholders' contract rights under Liberty Fire policies will continue unaffected with reorganized Liberty Fire. Their equity rights in Liberty Fire will be extinguished by operation of law and will be replaced with equity rights in Liberty Mutual Holding Company.

3. **Proposed acquisition of domestic insurers by Liberty Mutual Holding Company.** The application for approval of acquisition of control of Liberty Fire and a subsidiary of Liberty Mutual, Liberty Life Assurance Company of Boston, by Liberty Mutual Holding Company, LMHC Massachusetts Holdings Inc., and Liberty Mutual Group Inc., in connection with the Liberty Mutual Reorganization, pursuant to chapter 175, section 206B of the Massachusetts General Laws.

4. **Holding Company Merger.** The application for approval of the Agreement and Plan of Merger by and among Liberty Mutual Holding Company, Employers Insurance of Wausau Mutual Holding Company, Employers Insurance Company of Wausau ("Employers of Wausau"), and Wausau Insurance Acquisition Corporation pursuant to chapter 175, section 19S of the Massachusetts General Laws. Under the proposed agreement and plan of merger, the two mutual holding companies will merge and Wausau Insurance Acquisition Corporation, a subsidiary of Liberty Mutual Holding Company, will merge with Employers Insurance of Wausau. Employers of Wausau policyholders' contract rights under Employers of Wausau policies will continue unaffected. Their equity rights in Employers Insurance of Wausau Mutual Holding Company will be replaced with equity rights in Liberty Mutual Holding Company.

The Commissioner will also consider, pursuant to chapter 175, section 19N of the Massachusetts General Laws, whether continued use of the word "mutual" in the names of Liberty Mutual and Liberty Fire after reorganization is likely to mislead or deceive the public.

Copies of the Liberty Mutual Plan, the Liberty Fire Plan, and the applications described above and related information are available for public inspection at the Division of Insurance, Fifth Floor, One South Station, Boston, Massachusetts 02110 under Docket No. F 2001-05 between 9:00 a.m. and 5:00 p.m. Monday through Friday, except on days when the Division is closed for business. Copies of the Plans are also available on Liberty Mutual's website at www.libertymutual.com or the Division of Insurance's website at www.state.ma.us/doi. Additionally, the Plans are described in Policyholder Guides and Policyholder Information Statements (which include the Plans) prepared by Liberty Mutual and Liberty Fire, which will be mailed to all policyholders of Liberty Mutual or Liberty Fire with policies in-force between September 13, 2000 and May 31, 2001, inclusive. Policyholders with policies incepting after May 31, 2001 may obtain copies of the policyholder guide, policyholder information statements and related explanatory materials, as well as a ballot or proxy, by calling 1-877-520-8556.

Any person who wishes to present an oral statement at the hearing must file a written notice of intent containing the person's name, address and telephone number with the Division of Insurance so it is received on or before October 1, 2001. Written statements may be submitted at any time prior to the conclusion of the hearing. Any person who wishes to participate in the hearing other than by offering an oral or written statement must file and serve a petition for leave to participate or intervene in accordance with the requirements of 211 Code of Massachusetts Regulations 144.07(3) and 211 Code of Massachusetts Regulations 144.06(3) so it is received on or before August 27, 2001. Any party that opposes a petition to participate or intervene must file its objection on or before September 7, 2001.

All submissions relating to the hearing must be addressed to the Docket Clerk, Hearings and Appeals, Division of Insurance, One South Station, Boston, Massachusetts 02110 and refer to Docket No. F 2001-05.

Policyholders do not need to appear at the hearing or submit any statements in order to continue the benefit of their policies.

Linda L. Ruthardt

Linda L. Ruthardt
Commissioner of Insurance

INTERNATIONAL

Aviation

Continued from page 21
lines claim.

Nevertheless, aviation hull and war risk rates had already been rising sharply this year, and underwriters expect the Sri Lankan loss will strengthen their resolve for further increases.

John Lentaigne, the London-based aviation war risk underwriter for ACE, declined to comment specifically on SriLankan Airlines because the air carrier is a client, but Mr. Lentaigne noted that aviation war risk rates had already been moved up by 30% to 70% before last month's terrorist attack. Net war risk rates averaged, he said, about 0.01% of an aircraft's hull value, although individual quotations could vary considerably above or below this rate. Mr. Lentaigne said he would like to see rates increased, to an average of 0.05% of hull value.

For civil aircraft and for ships

traveling to Sri Lanka, the designation for war risk coverage is now "held covered," which means that underwriters have no fixed level of rates; instead, they quote rates on a day-by-day basis to reflect their perception of the risk of terrorist activity.

Mr. Lentaigne said that while it is difficult to predict exactly what the Sri Lankan attack would do to war risk rates, it could mean the market will make greater distinctions among airlines, depending on their exposure. "That's what I'd like to see," he said.

London-based Willis Group Ltd., which brokered the SriLankan Airlines coverage, has warned that with two major claims—the Sri Lankan aircraft and a Petrobras oil rig that sank this spring (*BI*, April 2)—affecting many of the same underwriters, pressure is mounting for them to raise rates further.

Last Tuesday's edition of the Willis Global Aviation Bulletin, a biweekly publication put out by the broker, says: "To a large extent,

many of the same underwriters paying for the SriLankan Airways loss have recently paid approximately \$485 million for the loss of the Petrobras drilling platform that sank in April." The bulletin noted that this amounts to two major insured losses totaling some \$847 million within a short time.

The Willis bulletin says the impact on the market of losses of this magnitude "will be for the capital providers and managers to exert further heavy pressure on their underwriting teams to increase rates across most lines of business."

The bulletin says that, for the aviation hull and liability insurance markets specifically, this will accelerate the current market trend and push premiums higher for the final quarter of 2001.

Some major European airlines

that were due to renew in the final quarter of this year have opted to renew early; in doing so, the bulletin says, those airlines are accepting premium increases that are averaging more than 50%.

Both Mr. Lentaigne and the Willis bulletin maintain that before the Sri Lankan raid, aviation war risk premiums were far too low to cover claims.

This year, gross hull war risk premiums total around \$50 million; that's only about one-tenth the cost of the claims from the Sri Lankan loss.

"The war market currently is in an extremely unsustainable position. If it doesn't turn around, it will go out of existence. You need to look for a market premium of well over \$100 million to at least cover a hull value," Mr. Lentaigne said.

Similarly, the Willis bulletin says, "This one loss is estimated to have taken out of the market the majority of war premiums generated since the Gulf (War) crisis."

The bulletin adds: "War rates will rise substantially now. Some underwriters are suggesting that a gross premium of approximately \$200 million will be required from the (global war risk) account in the future."

The Willis bulletin also states that underwriters likely will seek to reduce their individual shares of war risk placements; their efforts, the bulletin says, will focus on reducing aggregate limits and eliminating loss-of-use coverage.

The Willis bulletin also notes that normal aviation insurance rates were already rising by around 30% this year. BI

Liability

Continued from page 21

sional indemnity) insurance, either, because there is no market for it," added Mr. Davis.

And because the coverage was written on a claims-made form, it did not apply to claims filed after the policy was cancelled. Claims-occurred liability coverage can cover liabilities long after a policyholder goes out of business and cancels its coverage.

But claims-occurred professional indemnity coverage is not available in the United Kingdom, according to Stephen Holland, divisional director of specialist professional indemnity brokerage Alexander Forbes Professions, a unit of Johannesburg, South Africa-based Alexander Forbes Ltd.

The RICS said it would work with its members to help them secure insurance coverage.

"I am both surprised and disappointed by the Law Lords' refusal to allow grounds for appeal. This is an issue of major public importance for all professionals, particularly at a time of economic slowdown, when the number of corporate failures tends to rise," said Louis Armstrong, chief executive of the RICS.

"Over the coming months, RICS will be looking closely at the position of employed chartered surveyors, who have not hitherto been required by this institution to maintain insurance cover," he added.

The Court of Appeal stressed that prudent employees should ensure that their employers' insurance covers them personally, and added that employees ought to obtain personal insurance if their employers' insurance ceased to cover them after their period of employment.

But doing so might not be feasible. "While the Court of Appeal's observations are highly germane, such insurance cover is not, as a practical matter, presently available to former employees," CMS Cameron McKenna said in a written statement.

If a company is solvent, although claimants may seek to es-

tablish personal negligence on the part of an employee, they generally will seek damages from the employer, Mr. Davis explained. But, he said, in cases where an employer has gone into liquidation, claimants might now more often seek to recover from individuals.

The ruling is of particular significance in cases where a company has ceased trading or is in runoff, is underinsured and unable to meet the full claim, is unable to pay the deductible, or is unable to obtain indemnity from its professional indemnity insurers as a result of a coverage dispute, CMS Cameron McKenna noted in its statement.

"The refusal to allow the appeal to proceed has far-reaching and alarming implications for all professionals and employees who provide specialist advice on behalf of their employers," Peter McGuire of CMS Cameron McKenna, who handled the appeal on behalf of Mr. Babb and the RICS, said in a statement.

"History shows that, when losses are suffered, many clients will explore all available avenues in seeking to recover those losses from their advisers. Corporate failures are now at their highest level for six years and this...only serves to heighten the vulnerability of such individuals. The remuneration which employees receive is not commensurate with the risk of attracting a potentially ruinous personal liability, and such an exposure is unlikely to ever have been contemplated by them."

In light of the ruling, professionals should now consider the extent of their liability, according to David Gamble, chief executive of the London-based Assn. of Insurance & Risk Managers. "The big question that this case throws up is, where is the limit?" Mr. Gamble said. "This creates huge uncertainty."

"What is the advice that will be held to be prosecutable?" he asked. "How far does this go—is it just people who are in the recognized professions (that will be held liable)? If so, everyone in those professions will need to think about additional insurance."

Bomb

Continued from page 21

Capita McLarens, which was formed by the June acquisition of McLarens Toplis U.K. by Capita Group P.L.C., has put together a team to handle claims arising from the incident. Roger Preedy, major loss team leader at Capita McLarens, said most claims would come under commercial insurance

policies. He noted that the government-backed terrorist coverage fund, Pool Re, would be tapped only in cases in which an individual claim exceeded the £100,000 (\$142,840) limit found in most commercial property policies.

Loss adjuster GAB Robins U.K. Ltd., a unit of Parsippany, N.J.-based GAB Robins Inc., said Wednesday it was working on more than 30 claims from the bombing. "Substantial damage has been

caused to property either by the failure of the water main or structural damage following (the) explosion," GAB Robins said in a statement.

In a statement, the Ealing Borough Council said the blast had also disrupted utilities. "Water mains ruptured, causing flooding, power cables were damaged and will require lengthy assessment before reconnection, and the danger of gas leaks delayed forensic examination of the bomb site itself." BI

Esso

Continued from page 21

to the Australian High Court. Esso contends that the dispute should be heard by the Victoria Supreme Court, not the Federal Court.

The class claims that Esso breached its contract with gas buyers by failing to maintain supply and that Esso should have known that interruptions to its services would cause financial losses for customers.

More than 1.2 million people, who lost an estimated \$1 billion

Australian (\$517.3 million), are involved in the class action.

The lawsuit includes a \$350 million Australian (\$181.1 million) subrogation claim by 22 insurers seeking to recover claims paid for business interruption and loss of profits (*BI*, June 7, 1999; Sept. 27, 1999). BI

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Hospitals publicly admit to fatal errors

By CINDA BECKER
Crain News Service

In what is perhaps an indication of a change in the cultural climate surrounding medical errors, two hospitals recently took full blame for mistakes that led to tragic consequences.

The hospitals' candid disclosures came less than one month after the Joint Commission on Accreditation of Healthcare Organizations put in place a new policy that requires hospitals to tell patients when their care has not measured up to standards. The disclosures also follow two highly publicized Institute of Medicine reports that raised con-

cern about patient safety and quality of care in hospitals and a third recent study that attempted to downplay the severity of the problem.

In Valhalla, N.Y., at 996-bed Westchester Medical Center, a metal oxygen canister that shouldn't have been in the room when the 10-ton electromagnet of the magnetic resonance imaging machine was turned on became airborne and killed a 6-year-old boy undergoing a scan. Struck in the head on July 27, the boy died two days later.

On July 30, the hospital released a statement to newspapers describing the "unspeakable tragedy" and

taking full responsibility for the accident. The one-page statement was attributed to Edward Stolzenberg, Westchester's president and chief executive officer.

"Our sorrow is immeasurable, and our prayers and thoughts are with the child's family. The medical center will do anything it can to ease the family's grief," Mr. Stolzenberg said in the written statement.

Meanwhile, on July 31 in Philadelphia, officials at 172-bed St. Agnes Medical Center released a statement to the news media to report that two patients may have died because of a miscalculation in coagulation studies related to the

administration of the blood-thinning drug Coumadin. Hospital officials said the error affected 932 patients who had the lab tests performed at St. Agnes from June 4 to July 25, and all the patients had been notified.

"Members of the St. Agnes Medical Center hospital family are deeply troubled and saddened," the statement said.

That same afternoon, the hospital held a press conference with President and CEO Sister Marge Sullivan.

Both hospitals notified their respective state health departments, as required by law, and both said they also are conducting their own

investigations. A JCAHO spokeswoman said the two hospitals are also in touch with the commission and working on root-cause analyses, as required under the JCAHO's sentinel event policy.

Just a few years ago, such candor was almost unheard of in the public relations offices of most hospitals. But as much as the JCAHO would like to take credit for the change of heart, the prominent place that medical errors have taken in the nation's newspapers probably played a larger role, said Joe Cappiello, vp of accreditation field operations for the JCAHO.

"I think it's raising awareness of the public that hospitals do commit errors and people are injured in our health care facilities, and that has put pressure on medical centers to be more forthcoming when errors occur," Mr. Cappiello said.

Still, Mr. Cappiello noted, the hospitals went the extra mile by notifying the news media, not just the patients and their families.

The JCAHO standard "would never require them to do this, because it's such a complicated thing to stand up in front of the press," Mr. Cappiello said. "They really did the right thing and stepped forward and got ahead of the curve."

In the case of Westchester Medical Center, Mr. Stolzenberg went even further, sitting down for an interview on Aug. 1 with reporters from the local newspaper for a story published the next day. "We failed miserably with regard to this child," he said.

Westchester's public airing is hardly the norm in New York. Last February, State Health Commissioner Dr. Antonia Novello took hospitals to task for failing to report adverse events, as required by state law. Compliance was dismal, she said. In one category—reporting patient deaths within 48 hours of surgery—the rate of hospital compliance statewide in 1999 was only 16%.

Dr. Novello vowed that the state health department would work with hospitals that promptly report their errors. But for those that did not, she said, "we will identify you, single you out and sanction you in a public forum."

Still, public disclosure is "certainly not a requirement for us," a health department spokesman noted. "We are pleased, and (Westchester) has been very cooperative with us," the spokesman said.

Both hospitals declined to comment beyond the facts.

"We're so in it, we don't have the time to reflect on it," said a spokeswoman for Westchester.

Mr. Cappiello predicted the hospitals would be rewarded for their forthrightness. Published studies indicate that when hospitals admit to their errors, such disclosures diffuse anger and frustration and even legal claims, he said.

"I think only time will tell as to whether this brings the proverbial swarm of trial attorneys down on" St. Agnes, said Andrew Wigglesworth, president of the Delaware Valley Healthcare Council of the Hospital & Healthsystem Assn. of Pennsylvania. "At least from some comments I heard from the trial bar, they have begrudging respect for the fact that St. Agnes has come out and said this and been so open and forthright."

Cinda Becker is a reporter for Modern Healthcare, a sister publication of Business Insurance.

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COMMENTARY

Plenty of claims, but no acclaim

I tell ya, insurance companies just don't get any respect, no respect at all.

Insurers finally have brought about the one thing—a hardening market—for which they have hoped and prayed the past 15 years. And unlike some previous hard markets, this one was pulled off without dramatic disappearances of capacity, painful dislocations in the marketplace or the alienation of most insurance customers. So far, at least.

Yet, despite this long-awaited turnaround in pricing, are insurers greeted with acclaim for getting their businesses back on track and restoring underwriting discipline? Are investors sending the shares of insurance companies sharply higher in anticipation of improved and sustained profitability? The short answer: No.

Instead, insurers encounter lingering skepticism—even from within their own ranks—that this good fortune is real or lasting. These skeptics question the industry's resolve to stand firm on higher rates in the face of underwriters' desire to cut deals or win market share.

They suggest that a recent spate of decent quarterly results is not the result of better performance; instead, they say, it is due to such trickery as not owning up to deteriorating reserves or adverse loss development. For example, after the shock wore off, a chorus of "I told you so" followed CNA Financial Corp.'s recent decision to boost its long-tail reserves by nearly \$1 billion. And many now are waiting for the other shoe to drop on the reserving issue.

Nor do insurers get any respect from their customers.

In the commercial lines arena, these customers are the so-called sophisticated insureds that say they don't require

regulation but then need to have simple economic concepts explained. Insurers are asking only to make a buck every once in a while. If these customers want their claims paid years down the road, then they shouldn't begrudge insurers a double-digit rate hike now and then. It would be especially nice, insurers say, if policyholders would allow them several years of such price firming, but even the most optimistic insurers know that's probably too much to ask of customers.

For begrudged they do! Buyers complain about higher rates and threaten to go to the guy down the street or back to their captive insurers. You'd think they'd understand that, as insurers argue, it's not a big deal in the long run. Even a 50% rate hike, insurers have patiently tried to explain, is really not that bad when one remembers that rates 10 years ago were higher by 250% or more.

I guess one too many risk managers has been laughed out of the CFO's office—or worse—after trying to use that same rationale to explain why the company's insurance costs are going up so sharply this year.

And perhaps above all, insurers get no respect when it comes to claims. After years and years of paying less and less, policyholders seem only to want more and more, insurers complain.

Take asbestos—please! Policyholders keep filing claims related to this toxic crud. Insurers, naturally, are amazed at this trend, because they thought they'd made it painfully clear years earlier that they didn't intend to cover asbestos claims.

Indeed, insurers recently have had to put their collective foot down and declare they won't pay asbestos claims for those who can't prove they're sick. Sounds reasonable and long overdue.

Then there's mold, that innocuous fuzzy stuff that grows in showers and on sandwich bread.

Policyholders now want coverage for the cost of cleaning it up to prevent it from spreading and potentially making people sick. But just as insurers did not intend to cover asbestos, they complain that policyholders surely don't think their coverage was for every unexpected hazard and peril to come down the pike.

So even though insurers have finally achieved their most heartfelt wish and are finally getting their financial houses in order, having adopted a more professional and disciplined underwriting approach that is resulting in improved profitability, they still don't get any respect.

As they ponder this untoward turn of events, they might do well to remember the oft-quoted wisdom of an ancient sage: Be careful what you wish for.

Editor Paul D. Winston's commentary appears fortnightly and on www.businessinsurance.com. He can be reached at pwinston@crain.com.

Care

Continued from page 1
with rates for 2002 projected to rise even faster.

In the past, managed care organizations used whatever tools they had available to control costs, but in recent years those tools have either been taken away through legislative or regulatory action or employers and employees have switched to plans with fewer controls.

While traditional managed care plans don't appear to be going away any time soon, employers are struggling to find an alternative approach to contain health care expenses.

'Now we have these vast networks with few controls. ...It's managed care in name only.'

— Dr. David Nash
Jefferson Medical College

Carmine Morano, president of Anthem Health & Life Insurance Co. of New York, a preferred provider organization, said that PPOs no longer have a "way of controlling" rising costs.

"If managed care can't control costs, then why would employers want to keep them?" asked Mr. Thompson.

Still, determining the extent to which managed care is in decline—if at all—depends on how one interprets recent trends.

For example, membership in managed care plans is at an all-time high. A December 2000 study by William M. Mercer Inc. found that 92% of members in employer-sponsored health plans were in managed care plans, up from 89% in 1999 (*BI*, Dec. 11, 2000).

But other developments tell a different story.

Over time, tensions have developed among doctors, health plans, employers and employees.

Now, with patient protection legislation working its way through Congress, state and federal coverage mandates, class-action suits challenging managed care practices, employee demand for plans with fewer controls and harder bargaining by doctors in setting rates, managed care plans have seen their controls significantly eroded, said Ken Jacobsen, national health practice leader at The Segal Co. in Atlanta.

Fewer controls mean increased use, and stronger bargaining by providers translates into higher prices for medical services, Mr. Jacobsen said.

This has, in many respects, returned the system to where it was before the spread of managed care, he said.

"Now we have these vast networks with few controls," Dr. Mahoney said. "It's managed care in name only."

In response to its declining

power, the managed care industry has developed new tools to control costs, said a spokeswoman for the American Assn. of Health Plans in Washington. Such efforts, the spokeswoman said, include customized disease management and programs to improve clinical quality.

In addition, she noted that when employers and employees focus more on the costs of their coverage, they will move back to more controlled plans that have lower costs.

Still, managed care has created some significant problems. The low copayments of the plans attracted consumers, but this led to a belief among patients that, in essence, health care was free once the premium was paid.

Those low copayments and the elimination of deductibles also turned what had previously been an insurance program designed to protect against large losses into a financing program, Mr. Tooke said.

As a result, he said, consumers no longer have a reason to think about the actual cost of their health care.

So if managed care is disappearing, what will replace it? When the era of fee-for-service health care was coming to an end in the late 1980s and early 1990s, it was clear that it would be succeeded by managed care. But employers today don't have such a clear alternative available.

For example, American Express Co. has deployed the latest measures this year to control health care costs, said Arleane Soto Baltrusitis, the company's vp for benefits in New York. Those measures include a tiered copayment system for prescription drugs and the consolidation of health plan choices.

But now that American Express has implemented those changes, Ms. Baltrusitis said she will have to look for options outside of managed care to control costs next year.

Other employers face the same dilemma. "I don't think anyone is looking at managed care as the next step," Mr. Thompson said.

Perhaps the most promising—and the most talked about—option is a consumer-driven system.

Such a system requires the consumer to buy health care based on his or her evaluation of its quality and cost, in much the same way that an individual determines which computers or cellular phone service to buy.

"Consumers will really drive the agenda moving forward," Dr. Nash said.

While managed care models aim to restrict the supply of health care, the consumer-driven model seeks to lower the demand for health care, Ms. Case said.

To succeed, the model has to give the consumer "an economic stake in the game," Mr. Tooke said.

This means giving employees money and a menu of health care options, along with the information they need about quality and cost to make an informed decision, said Regina Herzlinger, a professor of business at the Harvard Business

School in Boston and the author of two books on consumer-driven health care.

An example of how this works can be seen in the way that patients currently shop around for noncovered health care services, such as laser eye surgery.

For these services, consumers are motivated to find the best combination of quality and price, because they are spending their own money. For a consumer-driven system to operate, consumers must develop a similar attitude by spending their own money, experts say.

Lumenos offers such a model, Mr. Tooke said. The company's plan offers a vast network of discounted providers, teamed with medical savings accounts to cover its high deductibles and noncovered services.

This network is combined with a price list for many providers, data on the quality of physicians and hospitals and consumer satisfaction survey results, all made available on the Internet. Any money remaining in a medical savings account at the end of the year rolls over into the following year's account, he said.

Even traditional managed care plans are jumping on the consumer-driven bandwagon.

"It's not a passing fad. It's a permanent feature of the health care system," the AAHP spokeswoman said. "Plans are working very hard to address the rise of consumerism in health care."

But not everyone is certain that engaging the consumer is the answer.

Mr. Jacobsen said he's not convinced that consumers are sophisticated enough to make their own health care decisions.

Furthermore, he said, a medical savings account probably doesn't provide enough incentive for a consumer to become a

'I don't see a hope that consumer spending will save the day in the near future.'

— Ken Jacobsen
The Segal Co.

value buyer.

"I don't see a hope that consumer spending will save the day in the near future," he said.

Others see another challenge in educating employees about the real cost of health care after years of paying low copayments.

"They have lost all concept of what the true cost of an office visit," Ms. Baltrusitis said.

But Dr. Mahoney said the biggest hurdle is "the acceptance of this concept within the provider community."

He noted that providers currently keep their contracted rates a secret, and posting these rates would represent a significant step for them.

And without this open-pricing system, Dr. Mahoney said, it's impossible to turn people into value buyers.

Tracing nearly 150 years of change at Aetna

1853 — Eliphalet A. Bulkeley petitions the Connecticut Legislature to incorporate Aetna Life Insurance Co.
1899 — Aetna enters the field of health insurance.
1902 — Begins offering accident and liability coverages and soon after expands into other property/casualty lines.
1906 — Pays out nearly \$3 million in claims from the San Francisco earthquake.



The 1906 San Francisco quake cost Aetna nearly \$3 million.

1911 — Bond department forms to sell fidelity and surety coverages.
1913 — Group department

PHOTO: MUSEUM OF THE CITY OF SAN FRANCISCO

forms to sell group life insurance.
1917 — Company changes names to Aetna Casualty & Surety Co.
1919 — Begins offering group disability policies.
1930 — Becomes the first multi-line insurer in America to pay out \$1 billion in claims. Aetna enters pension business.
1934 — Safety Education department forms.
1936 — Offers first group hospitalization policy.
1944 — Provides insurance for the Manhattan Project, which produced the world's first atomic bomb.
1947 — Offers group coverages to United Nations.
1951 — Group department introduces major medical coverages.
1960 — Enters international arena by acquiring Canada's Excelsior Life Insurance Co.
1965 — Aetna Life & Casualty name is used for



PHOTO: THE NUCLEAR FILES

Aetna provided insurance for the Manhattan Project.

the first time.
1966 — Pays the first Medicare claim. Aetna partners with Italy's Assicurazioni Generali to service multinational clients around the world.
1967 — Aetna Life & Casualty Inc., a holding company, is formed.
1968 — Begins trading on New York Stock Exchange.
1973 — Creates health maintenance organization subsidiary.
1981 — Reorganizes along mar-

ket segments.

1985 — As nation's largest health insurer, forms Partners National Health Plans, an alternative delivery health care joint venture.
1991 — Sells individual health business to Mutual of Omaha.
1996 — Merges with U.S. Healthcare. Sells property/casualty operations to Travelers Inc. Combines financial services units into Aetna Retirement Services. Aetna Life & Casualty is renamed Aetna Inc.



1997 — Aetna Retirement Services purchases Financial Network Investment Co., a leading financial planning company.
1998 — Announces plans to purchase NYLCare Health Plans from

New York Life Insurance Co.

1999 — Acquires Prudential HealthCare.
2000 — Separates global health and global financial services businesses into publicly traded companies... Board rejects unsolicited invitation from WellPoint Health Networks Inc. and ING America Insurance Holdings to discuss a purchase of Aetna... Announces \$7.7 billion deal to sell financial services and international operations to ING Groep N.V. Spins off new health insurance business, Aetna Inc.
2001 — Reporting for the first time as an independent health care and related benefits company, Aetna posts operating earnings of \$193.6 million for 2000, excluding certain items, down 40.9%... Blames \$48.2 million first-quarter net loss on higher-than-expected medical costs. Announces shift from fully insured HMOs toward self-insured HMO products as part of an effort to boost profits.

Source: Aetna Inc., Business Insurance

Aetna

Continued from page 1

Aetna's health care operations, which include both insured and self-insured health management organizations, preferred provider organizations, indemnity, and dental products and services, lost \$223.5 million in the first six months of 2001, compared with an operating gain of \$64 million in the same period of 2000. The Hartford, Conn.-based insurer posted a \$116.5 million loss for its health care operations in the first quarter of this year.

Aetna executives attribute the loss trend, which they said would continue through the end of this year, to higher-than-expected medical costs in its commercial HMO business even after 2001 premium increases.

By comparison, the nation's HMO industry turned a profit last year for the first time since 1996, according to a study of 492 companies by HMO analyst Weiss Ratings Inc. of Palm Beach Gardens, Fla. The 492 HMOs earned a total of \$990 million last year, compared with a cumulative loss of \$1.8 billion in the three years from 1997 to 1999, Weiss reported last week.

"The story this year on Wall Street is that health care is good—with the exception of Aetna," said Paul Ginsberg, the president of the Center for Studying Health System Change, a health care think tank in Washington.

But even as Aetna's top executives were outlining their restructuring plan for analysts last Wednesday, the financial experts pressed for details about precisely when and how the managed care company would stop its bleeding.

"Aetna's gone through a tremendous amount of change," said Jack Reichman, a director of Standard & Poor's Corp. in New York. "There's no question this is going to be a tough year for them."

But Mr. Reichman said he has faith in the company's future.

"I have a high regard for Ron Williams," he said, referring to the new chief of health operations who left Thousand Oaks, Calif.-based WellPoint Health Plans Inc. to join Aetna in March. "He's as good as they come in this business. A lot of Aetna's problems stemmed from not having someone like Ron Williams at the helm."

Mr. Williams worked under WellPoint President Leonard Schaeffer, whom many consider the most forward-thinking and successful executive in managed care today. Mr. Schaeffer transformed Blue Cross of California into a national player in recent years.

Mr. Reichman said he also has a good opinion of Dr. John Rowe, the former head of New York's Mount Sinai Hospital System, who took over as Aetna's president, chairman and chief executive officer last September.

"He has an excellent grasp of insurance," Mr. Reichman said. "He's not just a figurehead."

Analysts and others also hope the fact that Dr. Rowe is a physician will help the company rebuild its once-strong provider networks. Those networks suffered significant setbacks in 1999, after doctors walked out in protest of the company's "all-products" policy and mandatory capitation reimbursement.

"Aetna has had the reputation of being the nastiest insurer for doctors to deal with," Mr. Ginsberg said.

Since 1999, Aetna has dropped its requirement that doctors participate in all of its products, and, as part of its turnaround plan, it is allowing providers in certain markets to choose between capitation and fee-for-service reimbursement.

The doctor crisis, exacerbated by Aetna's unwieldy size after its numerous acquisitions, also put a strain on Aetna's relationships with employers.

"It was a mess for about six

months," recounted Helen Darling, senior benefit consultant at Watson Wyatt Worldwide in Hartford, Conn. As an Aetna enrollee, Ms. Darling experienced the disruption firsthand.

She said, "My own physician wrote all of his patients and said he wouldn't accept certain ones," those insured by Aetna.

"Aetna has slid for a long time," said Sean Smith, the president and CEO of broker Keenan & Associates of Los Angeles. "They really had a cookie-cutter approach to dealing with mid- to large-size companies."

In fact, Mr. Smith said, "we have very little business with Aetna, because they're so hard to deal with."

Part of Aetna's problems can be attributed to the evolution of managed care, said Scott Wayne, the health care practice leader at William M. Mercer Inc. in Chicago. "What worked when managed care was new wasn't exportable to markets with mature managed care," he said, referring in particular to closed provider networks and capitation.

Furthermore, Mr. Wayne said, because Aetna's size enhanced its visibility, when the national managed care backlash hit, "they were out front leading with their chins."

Aetna also was too aggressive on pricing in markets in which it sought to capture greater market share, he said. This hurt them when claims started rolling in.

In fact, Aetna executives said during the conference call that they attribute most of its recent profit slide to poor underwriting and underpricing.

Now, the question is whether the new Aetna will be able to compete on price, given that it needs to increase its premiums proportionately more than do other health insurers just to play catch-up.

Dr. Rowe said the company plans to cushion the blow to employers somewhat by offering a wider range of products and services, including a defined contri-

bution-style health plan.

"We're working with several large customers that are interested in exploring how that might work," said Russ Fisher, senior vp in charge of national accounts and Aetna Global Benefits, in an interview following Wednesday's conference call.

And while the percentage of premium hikes may be larger in markets where Aetna previously had underpriced its business, premiums will still be competitive, Mr. Williams said, because other plans have been raising their rates significantly as well.

Despite analysts' pressure for more details about pricing, Mr. Williams declined to specify, "for competitive reasons," the level of increases employers can expect.

For the most part, though, the rate hikes will likely be on a par with competitors, Mr. Fisher said.

That's probably why Dr. Rowe forecasts future premium increases. "I don't see medical cost inflation losing any steam," he said.

Industry observers say that employers, many of which are negotiating next year's health care contracts, will definitely feel the impact of the changes at Aetna.

Dr. Rowe said the company will increase its use of experience rating, so that rate increases will be highest among those groups with the worst experience. Aetna also plans to reduce its share of fully insured HMO business, which now makes up about half of its total HMO book, a substantially higher proportion than that of its competitors, he said.

In the markets where Aetna is dropping its insured HMO product, employers will be offered alternatives, such as point-of-service or preferred provider organization options, Mr. Fisher said. Some alternatives may even be more attractive, such as the PPO, whose provider network reaches a wider geographic region than

does its HMO network, he said.

In addition, Aetna will try to get a handle on health care cost inflation through increased use of disease management and prescription drug formularies. It will also be putting more health care information in the hands of providers and enrollees, via "The Navigator," Aetna's Internet portal that carries content provided by the Harvard Medical School.

Aetna executives say they are convinced that offering more choice to employers, enrollees and providers will make the company more attractive, and, therefore, more profitable.

"We're shifting from a bias on size to a bias on profitability," Dr. Rowe said. **BI**

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SINSER

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Aon will benefit from the deal because "it greatly strengthens our capabilities in continental Europe." Among the new captive management locations Aon will acquire as part of the deal are offices in Swe-

Captive owners whose companies were managed by SINSER are waiting to see what changes might be in store.

"The only thing that I would want to see is whether Aon will bring something to the plate in terms of the availability of reinsurance. Particularly in our business, that market is almost nonexistent," said

side," said Mr. McMahon. That is the biggest differentiating factor among Bermuda managers, he noted, as fee differences are not significant enough to influence captive owners to sign with one manager or another.

"Are they going to change the process?" he asked. "Are they bringing in new accountants? Will the SINSER team be left alone? How is the process going to change for me? That is the fundamental question."

Mr. Cossar said he thinks that "the broader base that a captive manager has and the depth of experience in the management team are valuable to our client. I do view that the SINSER people will add to that depth."

Ms. Evans worried that "bigger is not always better," referring to Aon's size. "Sometimes you can get lost in a huge shuffle. We'll see, though. I'm not saying that it won't be beneficial. The people who manage our account would stay, I hope."

The SINSER deal also marks the continued acquisition of large captive managers by brokerages, and not everyone sees that trend as entirely healthy.

"I understand that there's going to be more before the year's out," said Leonard D. Crouse, Vermont director of captive insurance. "Do I like it as a captive guy, as a regulator? No. I like the competition between managers."

"We may end up with three or four major players and the rest small independents," the Vermont captive director said.

Mr. Crouse added, however, that such a scenario is not all bad. Aon's acquisition of IRMG and Marsh's acquisition of Johnson & Higgins both have worked out well. "The work will still be good in any instance," he said.

Rodd Zolkos contributed to this report. **BI**

Captive combination

Based on captives managed worldwide in 2000

AON	Aon Corp.	719
SINSER	SINSER Holding A.B	211
	Combined	930

Source: BI/survey

den and Norway.

No administrative changes have been announced for the Bermuda operation, where Aon had 250 captives under management last year, Mr. Cossar said. "We're just in the early days" and will first concentrate on making sure client service remains high during the transition.

In a statement, Aon said, "The intention is to maintain existing relationships with clients both in terms of personnel and services contracted."

Philip Stamp, chairman and chief executive officer of AIRMG, said in the statement that Aon looks forward "to working with our new colleagues from SINSER to continue to provide excellent service to our combined client base."

Janet Evans, corporate risk manager at Snow Summit Mountain Resort in Big Bear Lake, Calif.

Mr. Cossar pointed out that "Aon is the largest reinsurance broker in the world and has significant resources that we can bring to our clients." It is possible, he added, that there could be access to reinsurance markets through the brokerage's connections.

Bill McMahon, risk manager at Fleetwood Enterprises Inc. in Riverside, Calif., said it will take time to see what changes the deal might bring. SINSER managed Fleetwood's Bermuda-based captive, Gibraltar Insurance Co.

"With Aon taking over, it's really up to them as to what changes they want to make on the administrative

Settle

Continued from page 3

ing insurers that they had moved their business to Lockton.

Executives at Lockton denied the allegations. In addition, the broker alleges that the restrictive employment covenants are not enforceable under state law in Connecticut and New York. The brokers settled the dispute earlier this month.

"We're pleased with the set-

tlement, and particularly proud to be in business with our new partners in Farmington," said Michael C. Frost, chief operating officer of Lockton, which opened an office in Farmington after the former Willis employees joined the broker.

A spokesman for London-based Willis said, "we filed the lawsuit because we will not tolerate this kind of activity, and we are pleased to have won."

This is not the first time Willis has gone to court over the loss of a construction team to a rival

broker. In 1994, Willis sued Rollins Hudig Hall Group Inc. over the defection of about 50 employees, including four top executives, from Willis' construction division to the Aon Corp. retail brokerage unit. The brokers later settled the matter out of court.

Lockton remains involved in similar litigation with Chicago-based Aon, which sued Lockton earlier this year over the March defection of a team of employees in Houston and Dallas (BI, April 30).

Collapse

Continued from page 3

damages.

Three of Mitsubishi's insurers already had paid the ironworkers' families a total of \$27 million, according to the families' attorney, Robert Habush, a partner with Habush Habush & Rottier S.C. of Milwaukee. Those insurers are: Travelers Indemnity Co. of Illinois, which wrote the first \$2 million of coverage for Mitsubishi; Royal Insurance Co. of America, which wrote the next \$5 million layer; and Indemnity Insurance Co. of North America, now an ACE USA subsidiary, which wrote the next \$20 million layer.

But another group of insurers refused to cover the loss. A key

coverage defense was that Mitsubishi's policy did not cover intentional acts, Mr. Habush said. Insurers' other defenses were that the incident was not an occurrence under policy terms, that the policy's professional-services exclusion barred coverage for the award, and that another policy provision barred coverage because the ironworkers were leased employees and not directly employed by Mitsubishi.

The insurers that fought covering the award were Chubb Corp. unit Federal Insurance Co., which wrote \$50 million of coverage excess of \$52 million, and Tokio Marine & Fire Insurance Co., which wrote the next and final \$2 million of coverage.

In his ruling, Judge Amato said the jury did not find that

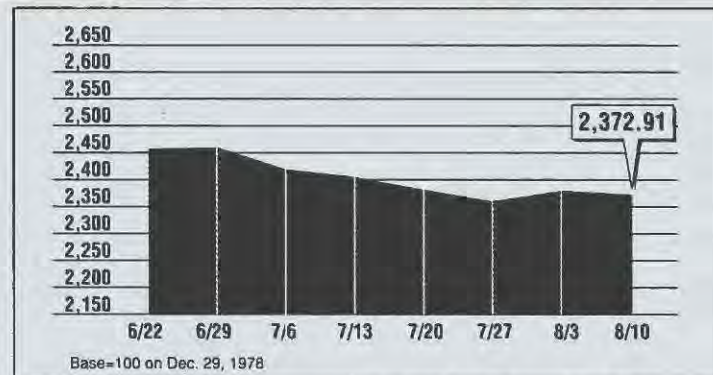
Mitsubishi had intended to harm the workers. Instead, the jury ruled that Mitsubishi intentionally disregarded the workers' right to expect a safe workplace—an action that does not jeopardize Mitsubishi's coverage.

Judge Amato also rejected all of the other coverage defenses.

The judge had ruled earlier that Travelers, which also had written \$25 million excess of \$27 million, was barred from raising the coverage defense arguments.

The case already is on its way to an appellate court for review. A few weeks ago, the appeals court refused to hear any of the several other rulings in the case until the lower court had resolved the issue of the punitive damages insurance. **BI**

B/Stock Index - 8/10/2001



Base=100 on Dec. 29, 1978

BROKERS	Price	Weekly		Year to date		Vol. (000)	
		% change	% change	High	Low		
Aon Corp.	NYS	38.80	8.38	13.28	42.31	28.13	6574
Brown & Brown	NYS	47.85	-1.10	36.71	50.69	25.78	269
Clark Bards Holdings	NDQ	24.55	-1.96	142.47	33.30	7.25	289
E.W. Blanch Holdings Inc.	NYS	13.50	0.00	-22.58	29.50	6.70	0
Arthur J. Gallagher & Co.	NYS	28.02	6.74	-11.92	34.25	21.88	1645
Hib, Rogal & Hamilton	NYS	47.62	1.19	19.42	48.16	33.75	148
Marsh & McLennan	NYS	101.48	1.00	-13.26	135.69	80.30	2992
Willis Group Holdings Ltd.	NYS	17.70	0.28	6.63	18.50	15.50	870
BROKERS AVERAGE			1.82	21.34			

INSURERS/REINSURERS

ACE Ltd.	NYS	35.51	1.89	-16.32	43.94	31.59	3828
Accel International Corp.	NDQ	0.07	0.00	-76.42	0.69	0.06	0
Acceptance Insurance Cos.	NYS	5.21	-3.34	-0.76	6.94	3.70	78
AEGON N.V.	NYS	30.48	8.28	-26.44	43.00	25.92	948
AFLAC Inc.	NYS	27.40	-5.81	-24.09	37.47	23.38	6799
Allmerica Financial Corp.	NYS	49.84	-2.85	-31.26	74.25	46.30	2226
Allstate Corp.	NYS	33.40	-0.30	-23.33	45.90	28.38	14738
Ambac Financial Group	NYS	57.96	-0.57	-0.60	64.00	41.38	1627
American Financial Group	NYS	23.97	3.54	-9.76	30.75	18.69	916
American General	NYS	45.31	-0.72	11.19	47.44	33.66	16980
American Intl Group	NYS	81.68	0.05	-17.13	103.75	72.64	20223
American Safety Insurance	NYS	10.35	5.08	68.98	10.36	3.25	10
Argonaut Group	NDQ	17.97	-5.42	-14.43	21.25	13.50	110
AXA-UAP Group	NYS	29.53	1.72	-17.76	39.88	24.58	1179
Baldwin & Lyons Inc.	NDQ	23.91	-2.49	2.84	28.75	16.25	5
Berkley W.R. Corp.	NDQ	39.05	-5.79	-17.25	48.75	22.88	574
Berkshire Hathaway Inc.	NYS	68800.00	0.88	-3.10	74600.00	53500.00	1
Capital Transamerica Corp.	NAS	16.25	0.12	30.65	16.50	10.31	51
Chubb Corp.	NYS	69.43	1.34	-19.73	90.25	63.30	2814
Cincinnati Financial Corp.	NYS	39.89	2.26	0.83	42.92	32.56	1169
Citigroup	NYS	49.64	-2.91	-2.79	59.13	39.00	40824
CNA Financial Corp.	NYS	32.46	-0.58	-16.23	41.13	32.00	823
CNA Surety	NYS	14.40	1.05	1.05	14.70	10.63	117
EMC Insurance Group Inc.	NDQ	13.35	-5.18	13.62	15.86	8.50	3
ESG Re Limited	NDQ	3.47	-5.45	88.20	4.00	1.72	57
Everest Reinsurance	NYS	67.76	-0.41	-5.40	75.50	39.25	1011
Frontier General Corp.	NYS	5.69	4.21	102.31	6.97	1.50	401
Gaisco Inc.	NYS	1.21	3.42	-53.90	4.75	1.10	82
Harleysville Group	NDQ	23.40	-10.86	-20.00	30.63	18.47	358
HCC Insurance Holdings	NYS	25.00	6.97	-7.19	29.66	17.63	1159
ING Group N.V.	NYS	32.59	-0.64	-18.65	41.97	27.92	910
IPC Holdings Ltd.	NDQ	23.09	-2.29	9.95	25.05	15.13	185
Hartford Financial Services	NYS	64.44	-0.09	-8.76	80.00	53.50	3267
John Hancock Fin. Services	NYS	38.80	-2.51	3.12	42.00	22.13	5212
Lincoln National	NYS	49.82	-1.85	5.30	56.38	38.00	3155
Market Corp.	NYS	199.60	0.03	10.28	207.47	133.50	68
MBIA Insurance Group	NYS	56.52	1.62	14.37	56.94	40.05	1741
Meadowbrook Insur. Group	NYS	3.10	-1.59	-61.85	8.38	2.45	23
MetLife	NYS	28.60	-2.16	-18.29	36.63	23.13	8812
Mutual Risk Mgmt. Ltd.	NYS	10.90	-9.17	-28.23	23.75	3.40	711
Navigator Group	NDQ	19.10	-4.50	43.47	20.86	9.75	246
NYMagic Inc.	NYS	20.47	0.84	8.45	22.70	13.75	2
Ohio Casualty Corp.	NDQ	13.60	-3.34	36.00	14.34	6.13	3093
Old Republic Intl	NYS	27.37	2.13	-14.47	32.06	21.25	2903
Partner Re Ltd.	NYS	51.47	3.46	-15.62	62.50	39.31	876
Penn-America Group Inc.	NYS	10.10	0.50	32.46	10.60	6.69	8
PMA Capital Corporation	NDQ	17.43	2.83	1.04	18.94	15.19	39
Philadelphia Cons. Holding	NDQ	34.61	-4.05	12.10	37.50	16.38	244
ProAssurance	NYS	16.00	0.63	-4.12	18.50	10.56	90
PXRE Corp.	NYS	15.75	-10.51	-6.67	20.10	12.56	412
RenaissanceRe Holdings Ltd.	NYS	70.00	-0.58	-10.61	84.19	48.56	345
RLI Corp.	NYS	42.20	0.05	-5.57	46.16	36.75	66
St. Paul Cos.	NYS	43.01	0.99	-20.81	57.00	39.58	7875
SCOR	NYS	44.25	-0.78	-11.94	53.75	40.50	15
SAFECO Corp.	NDQ	30.62	1.46	-6.86	35.88	21.50	2084
SCOPE Holdings Inc.	NYS	20.96	3.10	-11.28	31.40	17.78	NA
Seibels Bruce Group	NDQ	2.40	-7.69	326.67	3.25	0.53	7
Selective Ins. Group	NDQ	25.40	-7.33	4.74	28.22	15.25	83
Tokio Marine & Fire	NDQ	46.44	-0.66	-18.53	58.25	45.10	97
Torchmark Corp.	NYS	41.72	1.07	8.54	41.95	26.19	5078
Transatlantic Holdings	NYS	75.99	-0.20	7.66	84.16	56.33	58
Tranwick Group Ltd.	NYS	16.39	-7.30	-33.94	27.13	14.75	1244
Unico American Corp.	NDQ	6.30	-3.08	7.23	7.75	5.27	16
United Fire & Casualty	NDQ	29.25	-3.05	48.10	34.52	16.19	21
Unitrin	NYS	37.40	-0.90	-7.94	41.94	28.56	146
UNUM Corp.	NYS	27.50	-2.41	2.33	33.75	19.25	2813
Vesta Insurance Co.	NYS	11.95	11.47	136.05	11.95	4.25	683
XL Capital Ltd.	NYS	79.80	3.70	-8.67	89.25	64.13	3013
Zenith National Ins.	NYS	29.00	-1.02	-1.28	30.70	20.00	74
INSURERS/REINSURERS AVERAGE			-0.81	4.63			

MANAGED CARE ORGANIZATIONS


Aetna Inc.	NYS	26.52	0.15	-35.42	42.69	23.02	4871
CIGNA Corp.	NYS	89.85	1.41	-32.09	136.75	86.48	4221
Health Net Inc.	NYS	17.46	-0.06	-33.33	26.94	15.19	2777
Humana Inc.	NYS	10.60	0.86	-30.49	15.81	7.13	3480
Oxford Health Plans	NYS	27.37	2.13	-30.71	32.06	21.25	2903
Pacificare Health Sys.	NDQ	15.26	0.53	1.73	57.38	9.81	6292
Sierra Health Services	NYS	9.56	18.02	151.58	10.27	2.44	943
United HealthGroup	NYS	64.38	0.14	4.90	68.00	43.94	3969
Wellpoint Health Networks	NYS	100.49	-0.26	-12.81	121.50	79.50	2322
MANAGED CARE AVERAGE			2.55	-1.85			

ALL COMPANIES

ALL COMPANIES	1.19	8.04
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Top advancing issues: Sierra Health Services, Vesta Insurance Co., Aon Corp., AEGON N.V., HCC Insurance Holdings. Leading decliners: Harleysville Group, PXRE Corp., Mutual Risk Management Ltd., Seibels Bruce Group, Selective Insurance Group. Most active issues: Citigroup, American International Group, American General, Allstate Corp., MetLife. The B/Stock Index fell 0.31%; the Dow Jones 30 Industrials fell 0.92%; the S&P 500 fell 1.71%; and the NYSE Composite dropped 1.29%. Average P/E: Brokers, 25.48%; Insurers/reinsurers, 27.58%; and managed care companies, 15.66%.

Source: CNET Investor (investor.cnet.com) Boulder, Colo.



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