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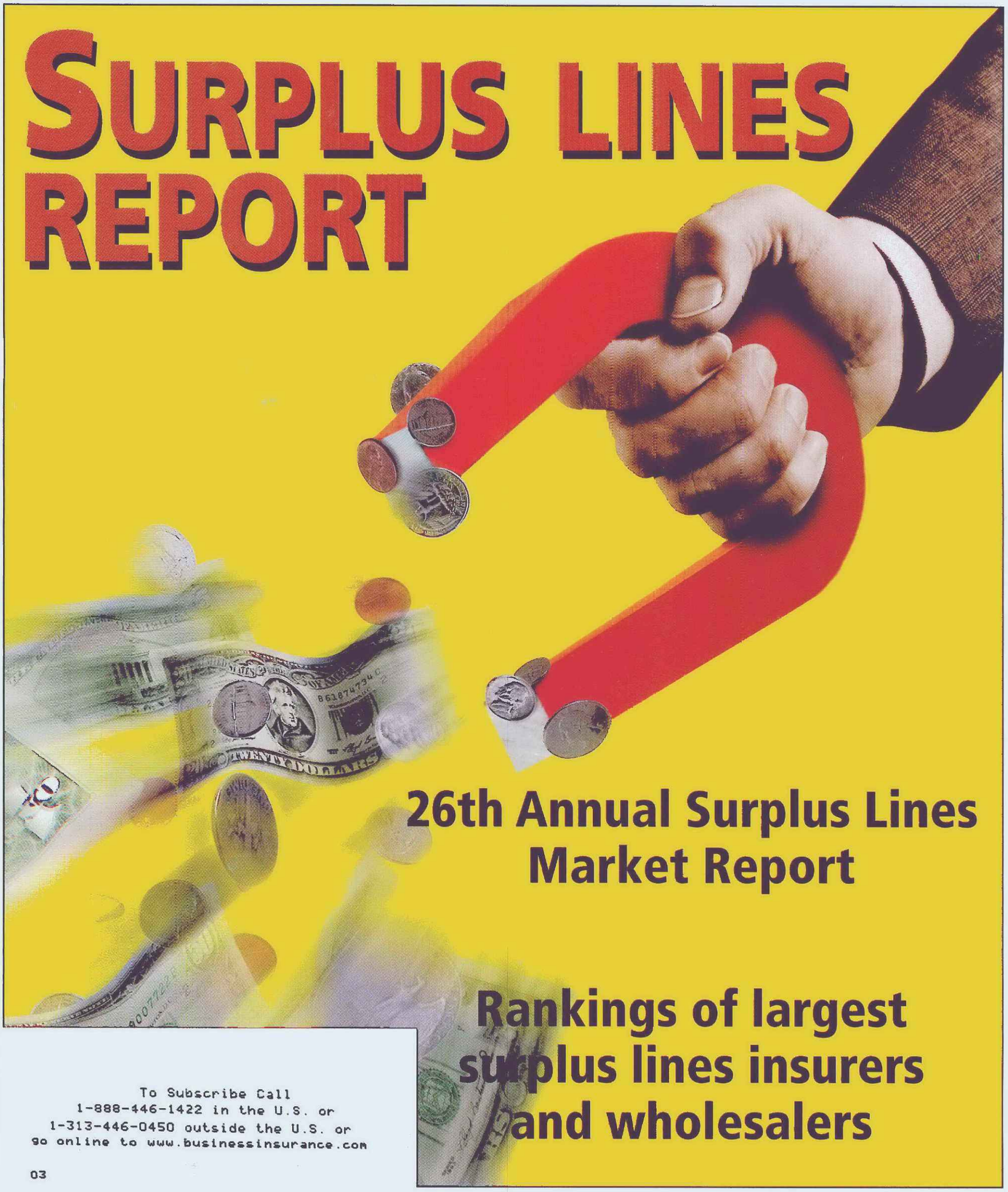
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August 19, 2002

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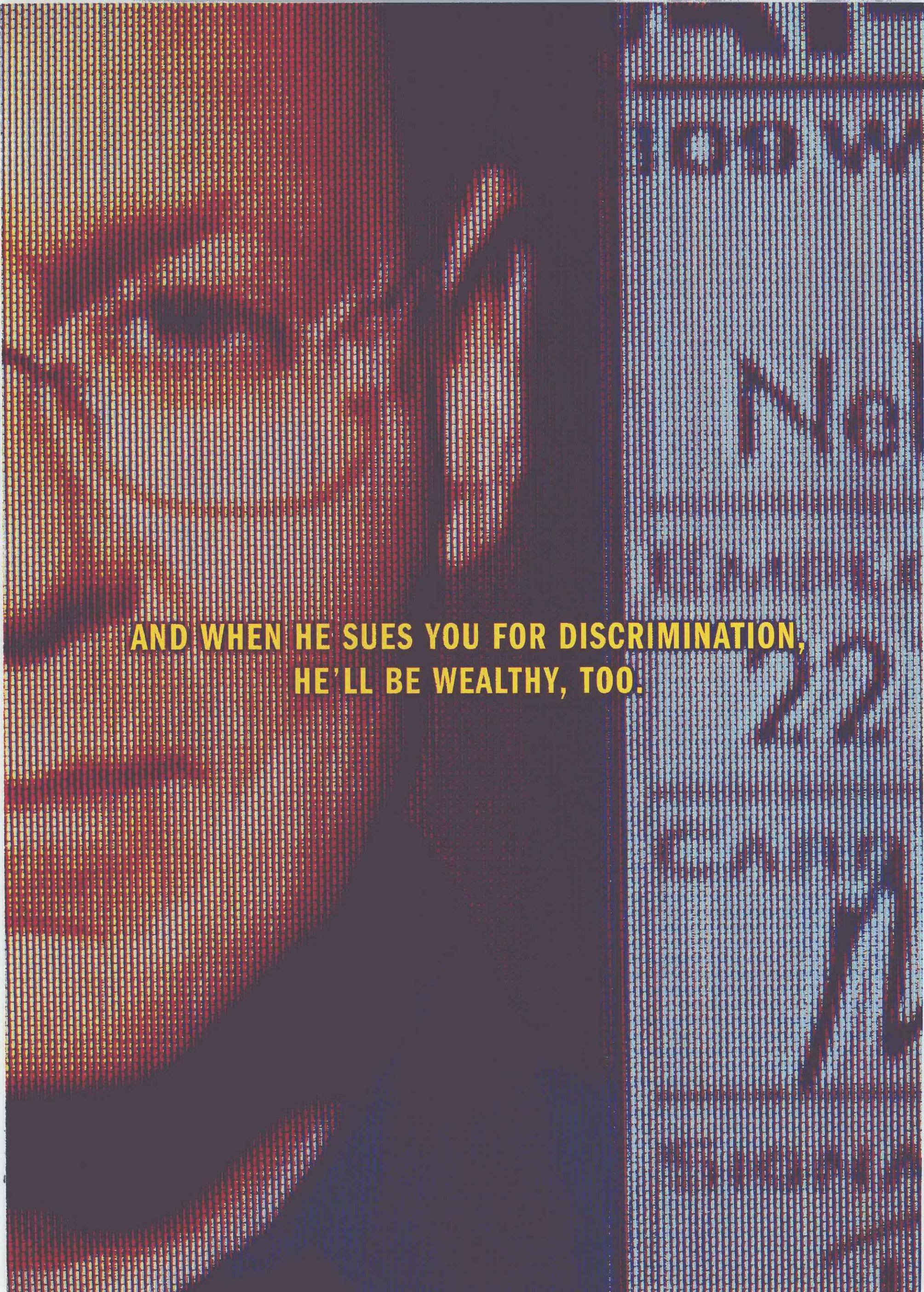


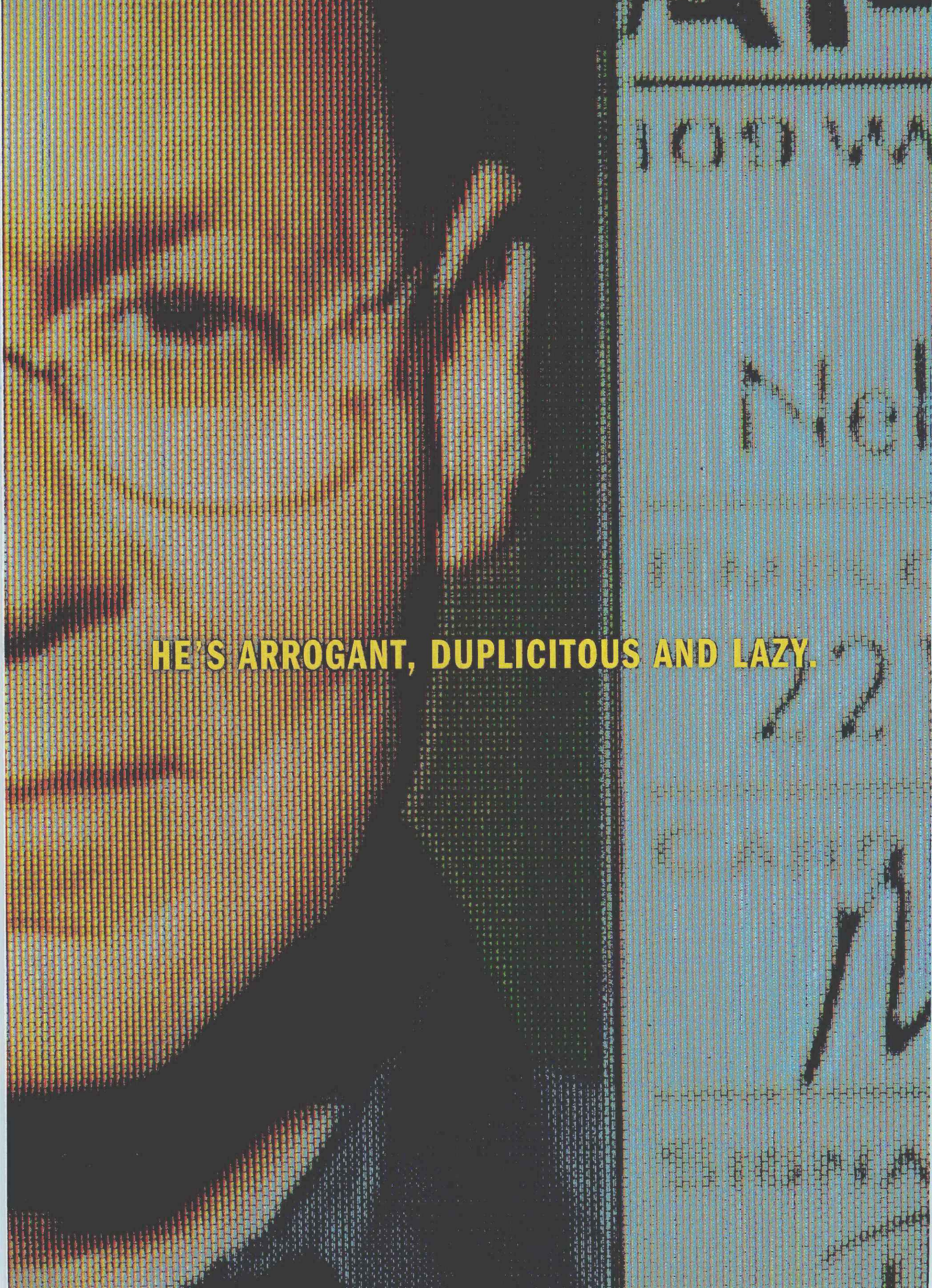
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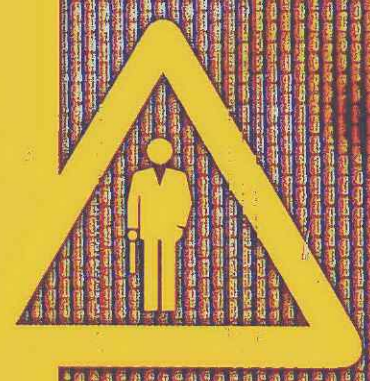
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03


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Privacy rules get upgrade

Buyers, comp insurers welcome revisions

By MARK A. HOFMANN

WASHINGTON—Risk managers and workers compensation insurers generally like new the medical records privacy regulations—as far as they go.

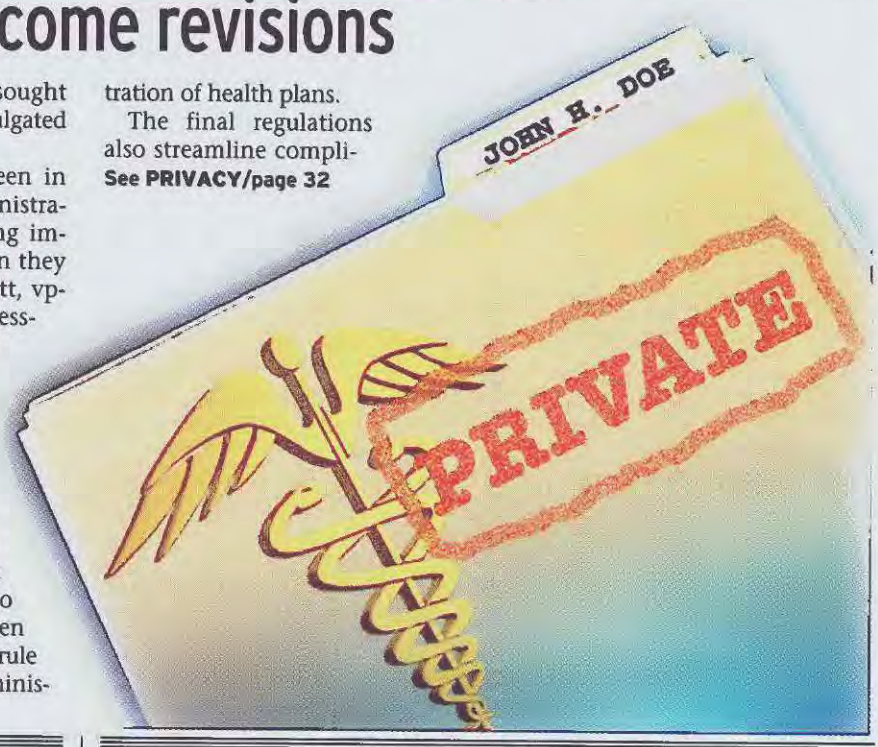
But the new regulations, published by the Department of Health and Human Services in the Aug. 14 Federal Register, don't go as far as risk managers and underwriters would like. That's because the rule will not provide an absolute carve-out for workers compensation, as had been sought by insurers and employers. Instead, the rule's preamble says that HHS does not intend to interfere with the operation of the state-based workers comp system.

Still, the regulations appear much closer to what employers sought than the rule initially promulgated in late 2000.

"Based on what we've seen in this final version, the administration continues to be making improvements in the regulation they inherited," said Paul Dennett, vp-health policy at the business-backed American Benefits Council in Washington. Mr. Dennett noted that the rule states "unambiguously" that it does not apply to employment functions, such as information an employer obtains for Family and Medical Leave Act requests or records related to sick leave. Employers had been concerned about how far the rule would reach beyond the administration of health plans.

The final regulations also streamline compli-

See PRIVACY/page 32



States taking up paid-leave bills

Employers fear added costs

By ROBERTO CENICEROS

SACRAMENTO, Calif.—Employer groups in the bellwether state of California and more than two dozen other states have found themselves facing recent legislative efforts to mandate paid leave for employees who take family and medical leave.

During 2001 and 2002, legislation has been introduced in 28 states that would grant pay to workers taking time off for the care for ill family members and newborn and newly adopted children. In some states with existing non-occupational temporary disability insurance systems, legislators and their supporters have sought to expand those programs to provide pay to employees out on family and medical leave.

Proposals in other states have varied. Some call for expanding state unemployment insurance benefits, while others would create new state disability insurance systems where none currently exists. Still others would mandate that employees be allowed to use existing sick pay to care for family members.

In Washington state, for instance, Gov. Gary Locke signed legislation on March 29 allowing an employee to use sick

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But other challenges remain, analysts say

Aon resolves SEC questions

By DOUGLAS McLEOD

CHICAGO—Aon Corp.'s resolution of accounting issues with the Securities and Exchange Commission has helped its battered stock price, but the brokerage still faces hurdles in improving its disappointing first-half operating results and disposing of its underwriting units, analysts say.

The SEC last week approved Chicago-based Aon's accounting treatment of several items in its financial reports, requiring it only to move a Sept. 11-related charge against earnings from this year's first quarter to the fourth quarter of 2001. Aon Chairman and Chief Executive Officer Patrick G. Ryan was one of hundreds of corporate executives who had to certify their companies' financial reports by Aug. 14 (see story, page 3).

The restatement boosted first-quarter 2002 earnings by $56 million, bringing them to $160 million, while reducing full-year 2001 earnings by an equivalent amount to $147 million.

Among the items the SEC approved, meanwhile, was Aon's treatment of a special-purpose entity dubbed PEPS I. Aon last year sold $450 million in limited partnership investments to PEPS I—in which an Aon unit has an indirect 49% stake—in a securitization deal that removed the investments from

See AON/page 28

Late News

IKON to alter its 401(k) to settle lawsuit

IKON Office Solutions Inc. will restructure its 401(k) plan to settle a class-action lawsuit that alleged breaches of fiduciary duty. Under the settlement, IKON will make changes to the plan to protect participants' investments. The group of current and former 401(k) participants who brought the suit will receive no cash payment in the settlement. Under the terms of the settlement, the company will allow participants to shift their investments from company shares to other investment options after they have completed two years of service. The suit was brought following a sharp drop in IKON stock.

Companies unprepared for event aftermath

London-based companies must increase their efforts to establish disaster recovery plans to cope with the aftermath of events such as terrorist attacks, the Financial Services Authority has warned. The financial services regulator said that though the 35 largest financial institutions in London have satisfactory disaster recovery plans, some 30% to 40% of the more than 11,000 companies it regulates "haven't got any sort of backup plan at all."

California bill would bar age bias in benefits

California legislators sent a bill to Gov. Gray Davis that would make it illegal for employers to refuse benefits to employees because of their age. A.B. 1599 aims to neutralize a state Supreme Court finding that employers can grant richer benefits to younger employees than they provide to older employees. The court decision went against a worker who, at age 56, was denied reimbursement of tuition paid for a master of business administration degree sought while he was employed by Union Oil.

Med mal startup seeks regulatory approval

A new policyholder-owned medical malpractice insurer hopes to begin underwriting in Pennsylvania early next year. Pennsylvania Healthcare Providers Insurance Exchange has applied with

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Spotlight: Surplus Lines Report

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Inside

Winds of change in Bermuda

A look at the Bermuda catastrophe market on the 10-year anniversary of the disaster that created it.
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In safety matters, use your head

In Commentary, Editor Paul D. Winston peddles his thoughts on the conflict between personal freedom and safety-related laws.
Page 6

Privacy regulations better than before

Final federal medical records privacy rules are a marked improvement on the rules issued late in the Clinton administration, one of this week's editorials says.
Page 8

U.K. pension plans face funding concerns

Watson Wyatt Worldwide estimates that U.K. occupational pension plans faced an aggregate funding shortfall of more than $109 billion at the end of July.
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REPORTING WEEKLY ON CORPORATE RISK, EMPLOYEE BENEFIT AND MANAGED HEALTH CARE NEWS

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CONTINUED FROM PAGE ONE

Pennsylvania insurance regulators to offer primary malpractice limits of $500,000 to the state's physicians and hospitals. The insurer will write coverage as a policyholder-owned facility whose participants pay premiums and share risks.

WELLPOINT.

WellPoint expects to redo merger application

WellPoint Health Networks Inc. has at least temporarily withdrawn a merger application it previously submitted to the Delaware Insurance Department in connection with its pending merger with CareFirst Inc. The withdrawal of the "Form A" application, which is required for change of ownership, was to delay additional expenses for advisers and consultants while WellPoint awaits the results of a preliminary valuation analysis being conducted for Maryland regulators, said a WellPoint spokesman. He said the analysis should be completed within a few weeks.

S&P still negative on European reinsurers

Despite hardening in the reinsurance market, Standard & Poor's Corp. says its outlook for European reinsurers remains negative for the fifth straight year. S&P said that, though the reinsurance market was expected to remain hard beyond 2003, rates in some lines of business had not yet recovered to a level at which underwriters could break even. "To reach break-even, rates need to increase by about another 10% to 15%," Stephen Searby, credit analyst at S&P.

Late News

Med mal rate hike halt sought in Pennsylvania

Pennsylvania Attorney General Mike Fisher has written to the state's insurance commissioner, Diane Koken, urging her to suspend the up to 48% medical malpractice insurance rate increase for physicians who cannot obtain coverage in the commercial market. Ms. Koken approved 37% to 48% rate increases by the state's insurer of last resort, the Professional Liability Joint Underwriting Assn., in July, a spokeswoman for the Pennsylvania Insurance Department said. The rate increases were approved after they had been submitted for public comment in May, the spokeswoman said.


Mr. Fisher

NRMA exec penalized for breach of duty

Former NRMA Ltd. President Nicholas Whitlam has been barred from acting as a company director for five years and fined for breaching his duties as an officer of the Australian insurer. Justice Ian Gzell for the New South Wales Supreme Court found that Mr. Whitlam had failed to register 3,973 proxy votes against a resolution in 1998 to raise directors' fees at the Sydney, Australia-based property/casualty insurer. Mr. Whitlam, who was fined $20,000 Australian ($10,708) by the court, admitted that he did not register the votes but said that the omission was inadvertent, court papers show.

Briefly noted

The U.S. Department of Transportation announced Wednesday that it had extended its emergency **war-risk insurance program for airlines** yet again, to Oct. 16. The program, initiated after last Sept. 11's terrorist attacks, provides excess liability coverage, attaching above $50 million....Wausau, Wis.-based Wausau Pharmacy Benefits, a business unit of Wausau Benefits, has been renamed **Innoviant Prescription Benefits Administrator**. Wausau Benefits is a third-party benefit administrator for self-funded employers....California's Senate on Wednesday passed A.B. 496, which would strip **gun manufacturers** of a state exemption from liability related to the marketing and use of their products. An identical state Senate bill still faces a vote by the Assembly....International brokerage network **Assurex Global Services** has added a member company in Australia and two in the United States. The three new Assurex members are: Zuellig Insurance Brokers Holdings Ltd. in North Sydney, Australia; Oswald, Trippe & Co. Inc. in Fort Myers, Fla.; and Wright & Percy Insurance Agency in Baton Rouge, La.

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To get breaking news as it occurs, visit *Business Insurance*'s free online Daily News, at *www.businessinsurance.com*. Sign up for your daily e-mail of breaking news. All the material in the Late News column, as well as other content in this week's issue, is generated from Daily News postings that appeared on the *BI* Web site in the previous week.

Online this week:

- The new Directory of Property Loss Control Consultants is available, along with other **searchable directories.**
- The **Datebook** lists upcoming industry meetings and events.
- New **Commentary** from Paul D. Winston joins the writings of other regular columnists, including Dr. George Head.
- **Online forum** allows readers to exchange ideas and information.

Total European flood losses may top $4.9 billion: Swiss Re

Although it is too early to determine the total insured losses from the flooding that continues to ravage parts of Europe, the economic losses could be more than 5 billion euros ($4.9 billion), according to Swiss Reinsurance Co.

Severe flooding since Aug. 7 in Austria, Bulgaria, the Czech Republic, Germany, Italy, Romania, Spain and the United Kingdom has left at least 90 people dead.

A spokeswoman for the London-based Assn. of British Insurers said that insured U.K. losses alone would run into "tens of millions" of pounds.

And the Austrian insurers' association, Verband der Versicherungsunternehmen Osterreichs, said insured losses in the country were estimated at 100 million euros ($97.0 million).

Germany's Allianz A.G. Holding said that its Austrian unit, Allianz Elementar, would see flood losses of about 50 million euros ($48.5 million).

Allianz also announced that, in Bavaria, one of the worst-hit regions in Germany, flood damage would cost the company 34 million euros ($33.0 million).

Bermuda-based PartnerRe Ltd. late last week said it expects nearly $100 million in claims related to the European floods.

The Czech Republic has been particularly hard hit, with more than 40,000 people evacuated from the capital city of Prague. Swiss Re said that economic losses in the Czech Republic would likely exceed the loss of 2 billion euros ($1.9 billion) caused by severe flooding there in 1997.

But flood insurance penetration is low in the Czech Republic, experts say. "In the past, flood events have led to insured shares of the economic loss of 20% in the Czech Republic," Swiss Re said in a statement.

—By Sarah Veysey


PHOTO: AP/WIDE WORLD

The village of Zalezlice, near Prague in the Czech Republic, saw flooding last week.

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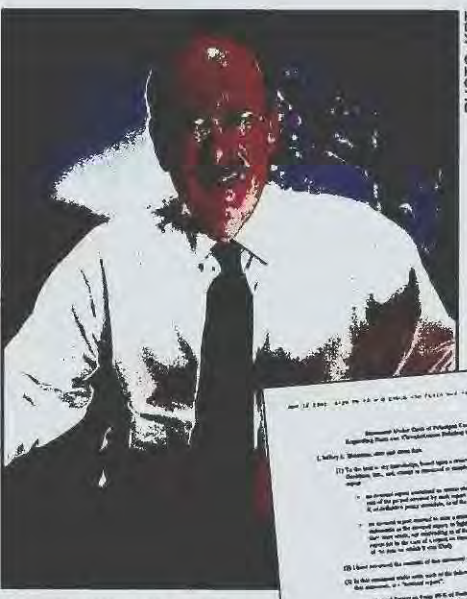


PHOTO: KRT

Jeffrey Bleustein, the chairman and CEO of Harley-Davidson Inc., was among those who had to certify his company's financial reports.

SEC results certification rule may increase D&O exposures

By JOANNE WOJCIK

A new federal certification requirement for company financial statements, which aims to restore investor confidence, could instead spark more shareholder suits in an already-tight directors and officers liability market, brokers and insurers say.

But this situation also creates an opportunity for risk managers to take a more-holistic approach by getting more involved in managing their companies' financial risks, in addition to operational risks, a risk manager suggests.

In the wake of high-profile accounting scandals involving Enron Corp. and WorldCom Inc., the U.S. Securities and Exchange Commission on June 27 issued an order requiring that the principal executive officer and the principal financial officer of each of 947 publicly traded companies file a statement certifying the accuracy and completeness of company financial reports.

Although most of the executives made the Aug. 14 deadline for filing these certification statements, several did not, and a few made last-minute changes.

Such financial reshuffling, no matter how minor, could result in a new wave of securities litigation, underwriters fear. Restatements are the leading trigger of D&O claims, they note.

While underwriters could view the certification as an indication that chief executives will be more diligent, "it could open Pandora's box to a lot more," said Lou Ann Layton, managing director in Marsh Inc.'s national D&O practice in New York. "If companies are taking the opportunity to disclose even the smallest of things, I think the plaintiffs attorneys could look at this as an opportunity to wage war against them."

Furthermore, "although financial restatements are causing the biggest settlements right now—and the most angst—it is certainly not the only thing," she added. "You still

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Changing demographics mean employers will have to attract, retain older workers

Graying of America calls for new benefits strategies

By MICHAEL PRINCE



The American population is aging, and much of the burden of this major demographic shift is falling squarely on employers.

A looming worker shortage will force employers to find ways to attract and retain older workers, experts say. And because older workers tend to focus more on benefits than do their younger colleagues, employers will have to incorporate enhanced benefits into any program to attract and retain these workers.

"The implications for employers in the future are enormous," said Randall Abbott, senior consultant at Watson Wyatt Worldwide in Philadelphia.

A first step toward preparing for this future is changing long-held views about older workers, according to Catherine Fyock, the president of Innovative Management Concepts, a management consulting firm specializing in employee retention in Louisville, Ky. Ms. Fyock noted that, in this society, older workers tend to be regarded as less productive, more likely to be absent and more likely to cause accidents, but she stressed that such beliefs are simply not true.

Currently, benefits programs tend to focus on attracting and retaining younger workers. But that era is ending, Ms. Fyock said, and employers must shift their strategies from pushing out older workers to holding onto them. "Finding ways to keep that older adult will be a huge challenge in the years ahead," she said.

In the past, defined benefit retirement plans often encouraged individuals to retire early by providing financial incentives. This worked fine in a world with plenty of younger workers. But, in the future, when older workers will be in demand, this approach will have to change.

"You definitely need to rethink your retirement strategy," said Anna Rappaport, senior consultant at Mercer Human Resource Consulting in Chicago.

Right now, retiring is regarded as a sudden, one-time event; one day an individual is working, and the next day he or she is retired. But soon retirement will have to evolve into a gradual process, with workers shifting from full-time employment to full-time retirement over the course of several years.

Such phased retirement will play an important role in the future, because it will allow employers to shift workers into retirement while making use of their talents, said Sally Hass, manager of benefits education at Weyerhaeuser Corp. in Federal Way, Wash.

But pension plans' rules will have to evolve as well, pension experts warn.

They note that while more and more employees would like to receive a portion of their pension benefits while they continue to work, current federal laws prevent an individual from drawing an early pension while still working for the organization that sponsors the plan.

These laws will have to change, "so employees can come in and tap some of their retirement income when they need it," said Larry Sher, principal and director of research at Buck Consultants in New York.

Such changes in the laws would allow a

See AGING/page 30

More oversight sought on non-U.S. insurers

By MEG FLETCHER

As the hard market prompts more policyholders to turn to nonadmitted insurers, state insurance regulators are expected to increase their scrutiny of non-U.S. surplus lines insurers, several sources say.

While U.S. regulators say they appreciate the role that surplus lines markets play in times of hard markets and reduced capacity—primarily because those markets are free of most rate and form regulation—the regulators say they still seek to keep some degree of regulatory oversight of the expanding marketplace.

In particular, regulators are proposing to monitor trust fund requirements for non-U.S. insurers that pull out of the market in order to ensure that runoff operations are adequately funded.

The importance of ensuring that non-U.S. surplus lines insurers are able to pay valid U.S. claims was underscored by last year's terrorist attacks.

For example, the total exposure of Lloyd's of London underwriters—excluding intersyndicate reinsurance—to Sept. 11 losses is expected to be $2.9 billion on a net basis and $8.95 billion gross, according to Joseph P. Gunset, general counsel of Lloyd's America Inc. in New York. In addition, Lloyd's underwriters already have paid nearly $1.33 billion in claims in connection with Sept. 11, Mr. Gunset said.

In the hard market, it is likely that regulators will respond with increased scrutiny, as more business is placed in surplus lines markets, several sources say.

Under the current regulatory system, most states have delegated their authority to oversee non-U.S. insurers to the National Assn. of Insurance Commissioners' International Insurance Department's Plan of Operation Review Group. Individual insurance commissioners in some states also have additional, specific authority. For example, insurance regulators in New York state help oversee many

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GLB state tally sufficient to forestall NARAB: NAIC

By MEG FLETCHER

KANSAS CITY, Mo.—A National Assn. of Insurance Commissioners' subgroup is recommending that the organization certify at least 35 states as meeting the reciprocity requirements for nonresident producer licensing under the federal Gramm-Leach-Bliley Act.

That finding gives the NAIC a six-state margin above the 29 it needed to avoid the creation of a National Assn. of Registered Agents & Brokers, which would have reduced the authority of NAIC regulators. According to the federal law, the states are required to meet standards that provide for the reciprocal treatment of nonresident producers by Nov. 12, 2002.

"This is a huge victory for state regulation. It once again demonstrates that we can work together to achieve a common goal," said NAIC VP Mike Pickens in a statement. Mr. Pickens is the Arkansas insurance commissioner and serves on the NAIC's NARAB Working Group.

The 35 states that already have met the requirement should be joined by three additional states whose legislatures have adopted such laws—Massachusetts, South Carolina and Tennessee.

Following those state enactments, the remaining unreciprocal jurisdictions will be: Alaska, California, the District of Columbia, Florida, Idaho, Indiana, Missouri, Montana, New Mexico, New York, Pennsylvania, Puerto Rico, South Dakota and Washington state.

The subgroup's recommendation will be presented to the full NAIC membership at the organization's fall national meeting, scheduled for Sept. 9-12 in New Orleans.

The Washington-based Council of Insurance Agents & Brokers praised the NAIC's certification process for including a thorough review of state laws. "Nevertheless, the Council is still in the process of examining some of the state laws and will have a statement ready when that process is completed," said Nicole Allen, the CIAB's director of government affairs.

Disaster spurs growth in Bermuda cat markets



By RODD ZOLKOS

Ten years ago this week, Hurricane Andrew crashed into South Florida and in the process further slammed a property catastrophe reinsurance market that already was reeling from a five-year period marked by a number of significant losses, resulting in a 30% drop in property catastrophe capacity the following year.

That lack of catastrophe market capacity prompted investors to form a number of new Bermuda companies to write property catastrophe risks. Among them were Centre Cat Re, Global Capital Re, IPCRe, LaSalle Re, Mid Ocean Re, PartnerRe, Renaissance Re and Tempest Re.

A similar phenomenon was seen following the catastrophic losses of Sept. 11, with a rush of new capital into Bermuda and the formation of a number of new reinsurers.

"In terms of offshore Bermuda, I guess this refers to the Class of '93 and the Class of 2001," said James P. Bryce, president and chief executive officer of property cat reinsurer IPCRe Ltd. "I guess that's sort of the old boys and the new boys."

Roderick P. Thaler, now an executive vp at Willis Re Inc., remembers going to Bermuda with "a suitcase full of submissions the first day of Mid Ocean."

"As much as the initial Bermuda reinsurers helped to raise the standards of cat underwriting, the new reinsurers down there are even more expert at their cat underwriting," Mr. Thaler said.

Mr. Thaler said he thinks it's significant that the Bermuda underwriters did not undercut the existing market, but instead provided needed capacity.

In recent renewals, though, Mr. Thaler said he did see some differentials in terms, as ceding companies in many cases demonstrated loyalty to their existing reinsurers, although the terms the new Bermuda companies found themselves agreeing to were "still substantially higher than those expiring," he said.

That differentiation between the old cat reinsurers and the new ones is "a contrast from 1992, when basically it was a one-size-fits-all approach where everybody benefited by concurrent terms," Mr. Thaler said.

Another contrast with the circumstances initially faced by the Class of '93 is that today "the exposure information is much better and the transparency is much better," Mr. Thaler said. "And cat modeling has come a long way since 1992."

Another difference is that in 1993, property cat reinsurance demand far exceeded supply, Mr. Thaler said. "Now, if things are priced properly, there's more supply than demand."

"But that could all change in a hurricane or an earthquake," the intermediary said.

"Most certainly the events of 9/11 have caused a cascade of capital into Bermuda," IPCRe's Mr. Bryce said. "I think property cat is one of the main types of reinsurance that everybody wanted to get involved with, but I think there's enough capacity."

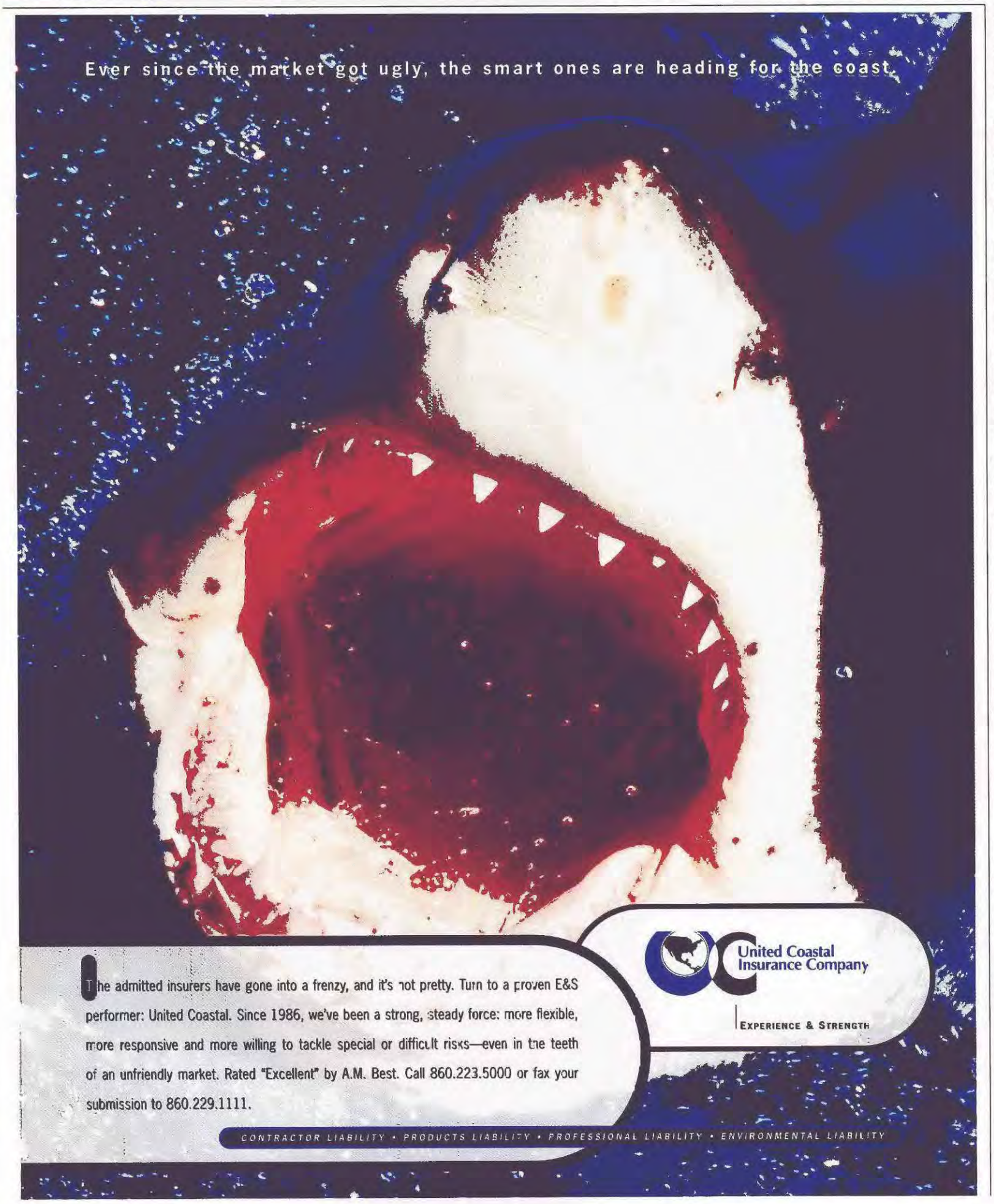
"We're doing very well. The rates are holding up," said Evan Greenberg, vice chairman of ACE Ltd. and CEO of ACE Tempest Re. "There's plenty of capacity for property cat."

The rise of the Bermuda cat market post-Andrew is an indisputable factor in the fact that there's sufficient cat capacity in the present market, Mr. Greenberg said. "Of course," he said, before Andrew, "you didn't have Tempest, you didn't have Ren Re. Those were a direct outgrowth of that."

While there might be some other reinsurers writing property catastrophe among other offerings, "In terms of focused cat players it's Tempest and Ren," he said.

Looking forward, Mr. Bryce said, "I think that Bermuda has become such an integral part of providing cat capacity globally, that it's become one of the main pistons, if not the main piston, of providing cat capacity worldwide. And I think that's only going to strengthen going forward."

In today's market, "there's no question Bermuda is a main stop in the marketing trips for U.S. reinsurance intermediaries," Willis Re's Mr. Thaler said.



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Commentary

On safety matters, use your head

I was involved in a discussion recently that made me realize the headaches and challenges that safety managers must encounter when trying to introduce procedures and equipment designed to keep people from harm.

I bicycle regularly with a group of friends. Because we ride in suburban Chicago, typically in the early morning on main traffic routes, we are keenly aware of the risks of injury from cars, bad pavement, unobservant pedestrians and the like. Even so, at least once a year someone is struck by a car, hits a bad patch of road or swerves to avoid some unexpected hazard and crashes, breaking bones, scraping skin or ruining a bike. Last year, a car entering a parking lot struck me, even though I had the right of way. The experience taught me not to assume that I would be protected by the rules of the road.



Paul D. Winston

Fortunately, none of these incidents was fatal and within a few months, all of the guys were recovering and back on new or repaired bikes, albeit at a much slower pace. Such accidents make us all the more aware of the importance of obeying traffic rules and avoiding injury.

Recently, one of the riders in our group announced that he planned to propose that the local government council mandate the use of helmets. With a group like ours, well aware of the importance of safety–and requiring all cyclists to wear helmets on rides–you can imagine our reaction, right?

Nearly everyone else present denounced this proposal as undesirable, unworkable and unwelcome. While everyone concurred that helmets would improve the odds of avoiding serious injury when a biker's head struck a car or road, they were against laws mandating safe behavior. Such laws were said to encroach on personal freedoms to take risks and on personal responsibility to protect oneself from harm. Others were against more laws and regulations, period. And some argued that local law enforcement has bigger priorities than handing out tickets for helmet violations.

The original proponent suggested that perhaps the helmet law could be limited to children, as is the case in a neighboring community and other areas that have adopted such laws. But even this limitation drew scorn and opposition.

Several recalled that as children, they never wore helmets while bicycling and they survived. Never mind that bike helmets were not widely available when we were kids, if at all. But even now, when helmets are widely available, I was surprised to hear that the children of some of my fellow riders never wear them. We were all lucky never to have had a child sustain a brain injury or had such an injury ourselves.

One person even said that mandating helmets would raise charges of economic and racial discrimination against the local government. That's because if helmets were to be mandated, not all children and their families would be able to afford them. When such a proposal was advanced locally a few years ago, black political leaders in the area allegedly claimed that such a plan was racist in that poor black children who could not afford helmets would be penalized by the law. So it was dropped.

What all these arguments suggest is that legislating personal safety will always face stiff opposition. If it were easy to do, then cigarettes, handguns and fast cars, to name a few products that cause harm, would have been banned years ago.

But because people in our country have tremendous personal freedoms, including the freedom to pursue risky or unhealthy behavior, such rules are seen as an intrusion on their inalienable rights.

Part of me agrees with that view, regarding it as the responsibility of individuals to protect themselves from harm, and bear the consequences of not doing so, rather than relying on government. But I also know that Americans generally do not take responsibility for their own faults, instead seeking to lay the blame on others, as our civil justice system illustrates.

That said, there is nothing to stop a local government from trying to make its streets safer by subsidizing the cost of helmets or spreading the message of helmet safety in schools and local media.

Ultimately, though, helmets are not the cure-all for safe bicycling. As the experience of my cycling group shows, they do not prevent or even become a factor in the majority of cycling accidents we experience. Bicycling safely requires awareness of traffic rules, the risks created by cars and the roads we ride on, and watching out for others and ourselves. And that is something that cannot be mandated.

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

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Editorial

Privacy rules still not perfect

THE LONG-AWAITED FINAL federal medical records privacy regulations have been issued at last, and we'll be the first to admit that they're a marked improvement on the rules issued in the waning days of the Clinton administration.

But to say that the Health and Human Services Department's regulations are an improvement doesn't mean they're perfect, despite the fact that both Congress and HHS have been working on them since 1996. Risk managers and insurers had wanted the final regulations to make clear that they didn't apply to workers compensation. What they got was a little less than that—a statement in the rule's preamble that the standard is not supposed to interfere with workers comp. HHS also promised to monitor implementation of the regulations to ensure that workers comp isn't unduly affected by the privacy regulations.

Workers comp insurers pledge to monitor HHS' implementation of the regulations, too, when they take effect next April. And that's the way it should be. The drafters of the Health Insurance Portability and Accountability Act that mandated the rules wanted to ensure medical records privacy in the traditional health care arena. No one was talking about workers comp, which is a totally different system.

And because it is a totally different system, it merits different treatment when it comes to medical records. Any attempt to bring workers comp under the HHS regulations could also cause problems and confusion by imposing a federal disclosure standard on a state-regulated compensation system.

HHS has finally spoken. Now it's up to insurers and employers to ensure it keeps its word where workers comp is concerned.

Opportunity for risk managers

At a time when corporate governance is getting a lot of attention, risk managers at publicly held companies are in a tough spot.

As we report on page 3, some insurance industry observers think that the Securities and Exchange Commission's new requirement that executives certify their companies' financial results might increase companies' exposure to shareholder lawsuits. If so, risk managers will have some challenges ahead. But with challenge comes opportunity.

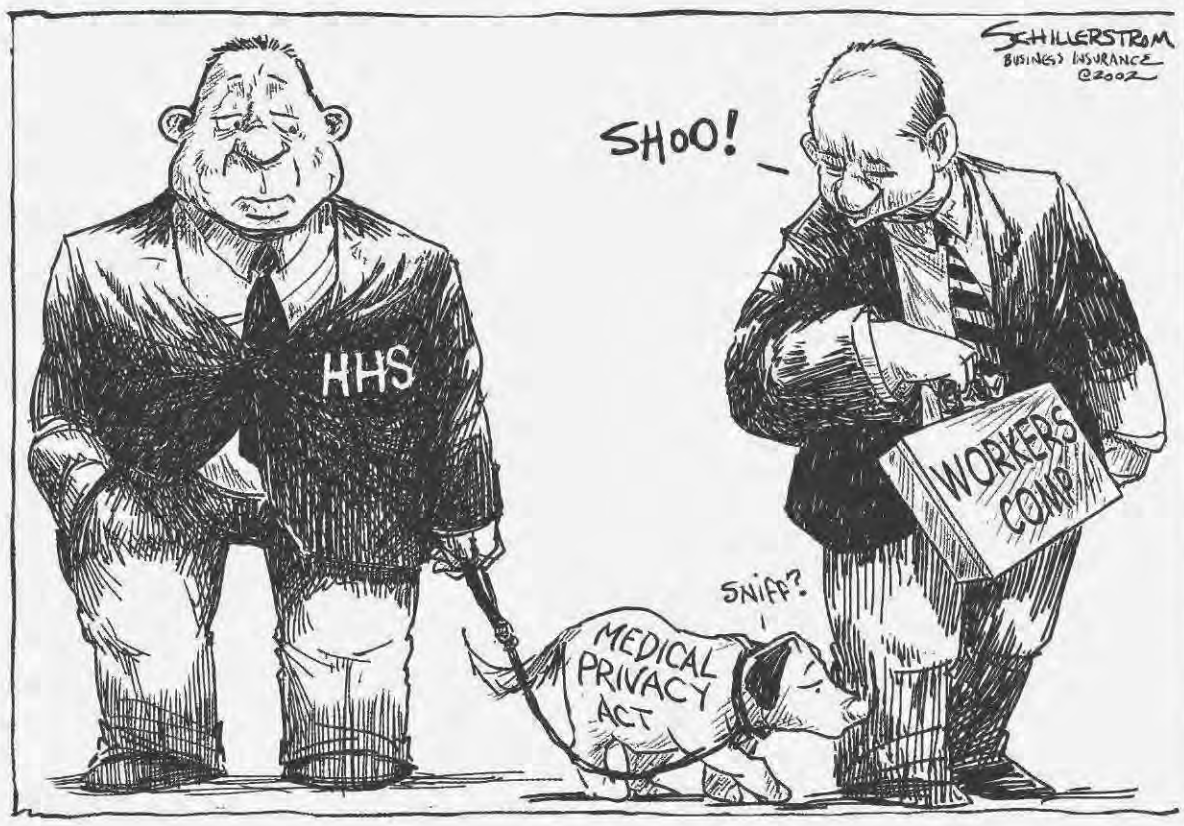
Indeed, hundreds of chief executive officers and chief financial officers met the SEC's deadline last Wednesday, and, in the process, several companies were forced to restate previously reported results. Earnings restatements commonly lead to shareholder suits, which can, in turn, trigger claims on directors and officers liability policies.

Risk managers can't be expected to police corporate accounting practices or uncover fraud by top management. Corporate boards may turn to risk managers, though, for answers on D&O liability coverage and related matters. This is an opportunity for risk managers to demonstrate their increasing sophistication in understanding the range of risks companies face, both financial and operational.

It's not yet clear whether insurers will reduce capacity for D&O coverage, but companies that have already renewed D&O policies are certainly paying more for them. Time will tell whether the SEC's latest requirement will, in fact, increase D&O exposures and whether, as a result, companies will find it harder to get adequate limits.

But no matter what happens, savvy risk managers will make the effort to understand the complexities of their companies' financial operations. Those who do so will be in a better position to negotiate with their insurers and to raise their stature within their organizations.

Schillerstrom



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Letters to the Editor

Column a little light on history and reality

To the editor: Here's a response to Editor Paul D. Winston's Aug. 5 Commentary, "What's the Rush to Anger Buyers?"

Spoken like a true broker. While I found your column amusing, it was a little light on reality or history.

The last soft market went on 14 years. So by the time insurers' entrenched management realized that investment profits could disappear and their underwriting losses might have to stand on their own, rates were probably about 10 % to 20% of what they had been 14 years prior.

So, if the 1987 rate had been $1 and was expiring in 2001-2002 at 15 cents, a 25% increase in 2001 and a 300% rate increase in 2002 appears extreme but only generates a rate of 56 cents rather than the $1 of 1987. Have sales or payroll (vs. new rate) gone up to increase the premium? Yes, but so have increased liability awards. Professional brokers provide their clients with rate-over-time comparisons to demonstrate that their new rate is still lower than it was even five or six years ago.

Underreserving, upping reserves? Nobody complains about the former when it helps rates stay lower, only when the workers compensation insurer goes belly up, which reduces market capacity and competition.

Slow claims payments and delayed admissions of liability? The meat of which bad faith judgments and treble damages are made.

Getting off lines of business that continually lose money? The influx of new top management (CNA, SAFECO, St. Paul, Travelers, etc.) is astute at identifying and solving problems and protecting corporate shareholders.

Increased rates? State insurance departments don't rubber-stamp rate increases. Turning an insurance carrier around is like turning an aircraft carrier around: It is a very slow process. Once the carrier changes course, it only seems like it is changing or leaving abruptly.

Three-year policies are a safety net to hold prices steady for both insurers and policyholders, and are steady commission for brokers. Everybody gained. And these weren't three-year prepaid. So clients who shopped regularly bailed out when a better price came along. Brokers and policyholders are not loyal to insurers.

As for today, brokers can commiserate with customers, but how many turn away the increased revenue? Yes, today requires a lot more work for agents and customer service representatives under age 35 who have never seen a hard market, but who knows, if they stick around they'll see this happen again, around the time their preschooler starts college.

Like the line from Peter Pan: "It has all happened before, and it will all happen again." Underwriters, brokers and policyholders need to realize it has and it will.

Kevin Greenwood
The Greenwood Co.
Elk Grove, Calif.

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SURPLUS LINES REPORT

Spotlight Editor: Roberto Ceniceros

Underwriters sharpening their focus on profitability as business returns from admitted market

E&S insurers raising their standards, prices

By SALLY ROBERTS
and JOANNE WOJCIK

Business is flowing back to the excess and surplus lines market as capacity in the admitted market continues to shrink in some lines and underwriters become increasingly selective.

Even though submissions are at record levels for most of the largest surplus lines insurers, they, too, are focused on underwriting profitability. As a result, E&S insurers are imposing double-digit rate hikes, withdrawing from unprofitable lines of business and becoming more discriminating about the business they write.

"I'm very bullish on the market cycle," said Steve Vaccaro, president of Glen Allen, Va.-based Essex Insurance Co. "I think a lot of companies have forced themselves into getting religion. Perils are actually being underwritten now. Exclusions are being used when appropriate. And catastrophe coverages are no longer being thrown in by the competition. So I think we're getting a very responsible marketplace on the E&S side," he said.

Much of this responsibility is coming in the form of double-digit rate increases.

"The market has hardened dramatically," said Seth Freudberg, president of United National Insurance Co. in Bala Cynwyd, Pa. "Our view is that the market was hard well before Sept. 11—Sept. 11 just turned it into more of a panic."

Although price hikes depend on the individual risk, insurers say increases range from 15% to 200% on some excess liability accounts.

"Rates began to change in the fourth quarter of 1999, and what you saw was a progressive building of rate increases throughout 2000. And that continued to accelerate through 2001," said Kevin Kelley, president and chairman of Lexington Insurance Co. in Boston. The terrorist attacks were "a catalyst that pushed things up even further," he said.

"Pricing was already starting to take hold prior to 9/11," said Janet Jordan-Foster, executive vp of the Specialties E&S operations of Zurich North America in New York. "It just strengthened the reserve that a lot of insurers had that this is what we had to do to get back to profitability," she said. "But, clearly, I think many carriers—and I would venture to say that Zurich probably was at the forefront of this—really took stock of where we needed to be from a fundamental business perspective. We really knew we had to start getting acceptable rate increases."

Even in the face of double-digit rate increases, business continues to flow into the surplus lines market from the admitted market.

Leading underwriters say that

See INSURERS/next page

Market demand swamps wholesalers

Brokers working hard to keep pace

By ROBERTO CENICEROS
and RODD ZOLKOS

It's a nice problem to have: As the hard market wears on, wholesale brokers are seeing business pour in at such a rapid pace that they are working long days trying to keep up.

Marshall Kath, chief executive officer at Heath Holdings USA Inc., used a variation of an oft-repeated remark by Federal Reserve Board Chairman Alan Greenspan, characterizing surplus lines executives' reaction to the hard market as "rational exuberance."

'Everything you would expect to have in a hard market is happening. Higher rates, higher deductibles, less coverage...definitely more business for us.'

Stephen Conner
Crump Insurance Services Inc.

Indeed, several of those executives agree that boom times are here, with more retail producers turning to wholesalers for tough-to-find capacity and more accounts leaving the standard market.

Yet, on the market's front lines, "when you get down into the trenches, the phrase 'controlled chaos' comes to mind," Mr. Kath said. "Certainly, spirits are high, but the day-to-day stuff is controlled chaos."

Wholesalers face such challenges as a shortage of qualified employees to handle the onslaught of submissions, underwriters who are overwhelmed with backlogs of applications, capacity shortages and the potential for customer service to suffer in a turbulent market, several executives say.

"Everything you would expect to have in a hard market is happening," said Stephen Conner, president and chief operating officer of Dallas-based Crump Insurance Services Inc. "Higher rates, higher deductibles, less coverage, more exclusions—definitely more business for us."

Submissions are inundating their offices, wholesalers say. They would like to hire more employees to help process all the new business, but finding the right individuals is not easy, they say.

David R. Hartoch, chairman and chief executive officer for Woodland Hills, Calif.-based Swett & Crawford Group, said business is so robust that if he could find 30 qualified brokers, he would hire them tomorrow.

"One of our biggest challenges today is finding qualified people," Mr. Hartoch said. "That goes from account executives to account assistants. And then we have to deal with the stress they are going through. Our brokers are working 15- and 16-hour days," he said.

In the end, some purchasers are getting frustrated with current pricing and with difficulties finding the coverage limits they seek even in

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SURPLUS LINES REPORT

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The complete 2002 directories of surplus lines insurers and wholesalers are available on the *Business Insurance* Web site, *Businessinsurance.com*. The online databases are free to *BI* subscribers. PDF copies of the directories also can be purchased on the *BI* Web site.

Hard-to-place risks keeping MGAs busy

Proposed regulations also a concern

By DAVE LENCKUS
and MICHAEL BRADFORD

Managing general agents' innovative energies, which during the soft market were focused on creating new products designed to generate additional business, are being redirected during the hard market.

MGAs now have their hands full just trying to create coverage solutions for the tough risks walking through their doors, market executives say.

'We've seen a lot of business coming through the doors that we wouldn't have seen one or two years ago.'

Rob Giles
Midwest General Agency

But the hard market has not been a panacea for all that has been ailing MGAs in recent years.

Regulatory challenges that could rein in their market freedoms still raise significant concerns, even though MGAs dodged some potentially harmful regulatory proposals in the past year.

Market executives estimate that MGAs' premium volume increased between 30% and 50%, on average, over the 12-month period ending July 1.

Individually, though, those increases varied widely, depending on each MGA's location and the agent's mix of business.

For example, some California members of the American Assn. of Managing General Agents reported 100% gains, while others in the Midwest reported 10% to 15% increases, noted AAMGA President Rob Giles. Mr. Giles also is president and chief operating officer of Eau Claire, Wis.-based Midwest General Agency, a division of R.W. Scobie Inc.

Only about half of those increases, though, are attributable to higher rates, market executives agree. The other half reflects a boom in the types of risks needing coverage help from wholesalers, the executives say.

"We've seen a lot of business coming through the doors that we wouldn't have seen one or two years ago," Mr. Giles said.

Market executives said that list of risks includes any business that has opened or come under new management in the past three to five years; contractors; directors and officers liability; environmental; medical malpractice; nursing homes; transportation risks that involve long-haul trucking, limousine service or charter bus operations; and workers compensation coverage.

The risks that neither retail brokers nor wholesalers can help much are the two largest tiers of accounting firms, which are "pretty darn near uninsurable," said Paul Springman, president of Markel North America, a subsidiary of Markel Corp. of Richmond, Va. MGAs write about one-third, or at least

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Insurers: Underwriters raising standards, prices

Continued from previous page
many of the traditional E&S lines of business such as bars, nursing homes, habitational risks, trucking, professional liability and catastrophe risks are migrating back to the surplus lines market. Many such accounts had moved to the admitted market when prices were low and insurers were competing for business.

"What we are seeing returning is what traditionally ends up in the nonadmitted marketplace, which are product liability-driven accounts," Ms. Jordan-Foster said. In addition, "real-estate accounts, such as apartment buildings and shopping centers, also are turning to the surplus lines market for casualty coverage," she said.

"Clearly, what's driving the market is availability," she said. "Where insureds can find appropriate coverage, that's where the business will be placed," she said.

As a result of increased business and significant rate increases, most of the largest U.S.-based surplus lines insurers reported double-digit increases in nonadmitted premiums in 2001. And many are seeing a repeat performance this year.

"The market is chaotic," said Mr. Vaccaro of Essex. "Much of the business is coming back into the E&S marketplace, so our submission activity has increased tremendously, our gross written premium accordingly has increased, and our rate increases are continuing to be very solid," he said.

"Our submission count is incredibly high," said Gary Tiepelman, vp-underwriting for Scottsdale Insurance Co. in Scottsdale, Ariz. "For the second quarter of 2002, we were 20% higher than the second quarter of 2001," he said. "To give you an indication, that's 7,000 more quotes."

Because of the influx of new business, insurers say they can be more selective about the business they underwrite.

"It is fun to actually be able to decline risks now," Mr. Tiepelman said. "We always preached customer service, and to a lot of our underwriters, that meant closing the deal and the agent getting the account. Now, you don't have to write everything that comes down the pike," he said. "We're focusing on doing what we do well, and we're getting plenty of opportunities to write that type of business."

Indeed, many of the leading surplus lines insurers say they are not entertaining new opportunities that lie outside their core lines.

"We certainly look at the other opportunities that come our way, but at the present time, we're just enjoying the favorable market in our existing lines—and that's where our focus is," said Michael A. Rozenberg, president and chief operating officer of Evanston Insurance Co. and Shand Morahan & Co. Inc. in Deerfield, Ill.

"Our underwriting appetite doesn't really change with the market," said Letha Heaton, vp-sales and

Continued on page 13

Who grew up to be a ...
property/casualty devotee,
reinsurance guru,
benefits advocate,
risk management
mastermind, or a
brokerage visionary?



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Largest U.S.-based surplus lines insurers

Ranked by 2001 nonadmitted direct written premiums

Rank	Company/Address/(Parent)	Phone/Fax/Web site	2001 nonadmitted direct written premiums	% change	2001 gross premiums	% change	2001 net written volume	2001 net income (loss)	Statutory combined ratio	Principal officer
1	**Lexington Insurance Co.** 200 State St. Boston, Mass. 02129 *American International Group Inc.*	617-330-8437 Fax: 617-772-4588 www.lexingtoninsurance.com	$2,083,276,700	62.9%	$2,837,930,120	58.9%	$956,115,484	$116,604,123	103.3%	Kevin Kelley, chairman/president
2	**American International Specialty Lines Insurance Co.** 1400 W. Benson Blvd., Suite 315 Anchorage, Alaska 99503 *American International Group Inc.*	907-277-6693 www.aig.com	$814,585,757	-26.5%	$827,497,274	-26.9%	$121,053,567	$21,952,588	115.0%	Kevin Kelley, president
3	**Steadfast Insurance Co.** [1] 1400 American Lane Schaumburg, Ill. 60196-1056 *Zurich Financial Services Group*	847-605-6000 Fax: 847-605-7895 www.zurichna.com	$719,590,874	94.3%	$739,690,100	93.5%	NA	$5,518,843	NA	John Amore, president
4	**Scottsdale Insurance Co.** [1] 8877 N. Gainey Center Drive Scottsdale, Ariz. 85258 *Nationwide Mutual Insurance Co.*	480-365-4000 Fax: 480-368-5856 www.scottsdaleins.com	$608,500,926	8.3%	$1,566,606,760	10.2%	$416,818,506	$3,641,670	106.4%	R. Max Williamson, president
5	**Evanston Insurance Co.** 10 Parkway N. Deerfield, Ill. 60015 *Markel Corp.*	847-572-6000 Fax: 847-572-6259 www.shand.com	$424,447,180	53.6%	$521,274,875	47.8%	$365,666,167	$14,765,771	100.6%	Paul W. Springman, chairman
6	**United National Insurance Co.** [1] 3 Bala Plaza E., Suite 300 Bala Cynwyd, Pa. 19004 *American Insurance Service Inc.*	610-664-1500 Fax: 610-660-8887 www.unitednat.com	$382,345,573	54.1%	$670,526,551	47.9%	$137,619,730	$9,460,882	95.6%	Seth D. Freudberg, president
7	**Essex Insurance Co.** 4521 Highwoods Parkway Glen Allen, Va. 23060 *Markel Corp.*	804-273-1400 Fax: 804-273-1435 www.essexinsurance.com	$290,962,114	65.4%	$310,121,469	-6.4%	$186,842,612	($6,394,197)	111.4%	Alan I. Kirshner, chairman
8	**General Star Indemnity Co.** [1] 695 E. Main St. Stamford, Conn. 06901 *Berkshire Hathaway Inc.*	203-328-5700 Fax: 203-328-6030 www.generalstar.com	$290,686,767	7.8%	$344,162,998	25.7%	$235,730,870	$11,801,445	117.6%	Patricia H. Roberts, president/CEO
9	**Admiral Insurance Co.** 1255 Caldwell Road Cherry Hill, N.J. 08034 *W.R. Berkley Corp.*	856-429-9200 Fax: 856-429-6572 www.admiralins.com	$271,700,407	47.1%	$303,527,060	42.6%	$267,555,191	$3,501,801	100.5%	James S. Carey, president/CEO
10	**Columbia Casualty Co.** [1] CNA Plaza Chicago, Ill. 60685 *CNA Financial Corp.*	312-822-5000 Fax: 312-817-0040 www.cna.com	$215,753,478	-3.5%	$352,158,875	-19.5%	$112,555,631	($17,699,493)	183.2%	Bernard L. Hengesbaugh, chairman/president

1 Figures reported on a pooling basis
Source: *BI* survey

The complete Directory of Surplus Lines Insurers is available online, in the Directories area of *www.businessinsurance.com*. The searchable directory allows users to locate surplus lines insurers by company name, gross premiums written, nonadmitted premiums written and number of employees, among other data. The online database is free to subscribers of *Business Insurance*. PDF copies of the full directory can be purchased online.

Continued from page 11

marketing for Evanston and Shand Morahan. "Consequently, when the market softens up, our friends go away—and they come back when the market gets tough again."

Others, on the other hand, are offering new lines of coverage.

"We formed a new professional liability division in February in response to what we saw as an opportunity in the marketplace," said Patricia H. Roberts, president and chief executive officer of General Star Indemnity Co. in Stamford, Conn. She noted that there has been a lot of "displacement" in the medical malpractice market recently. As a result, General Star has begun offering nonstandard primary liability coverage for doctors, excess medical malpractice liability and miscellaneous medical malpractice coverage.

And some insurers are departing certain lines that have proved unprofitable.

For example, Evanston Insurance exited the commercial auto market last year, while United National withdrew from the residential contracting business and General Star exited the property homeowners business.

For the most part, surplus lines insurers see current market conditions continuing for the near future.

"In my humble opinion, 2003 is going to be a mirror of 2002," Scottsdale's Mr. Tiepelman said. "I'm counting on this actually continuing into 2004 and at that point probably plateauing off."

"I can't tell you when things will end, but I don't think it will end in '03," said United National's Mr. Freudberg.

On the other hand, Mr. Vaccaro of Essex said he believes that although rates will continue to rise, on average, by 25% to 30% for the rest of the year, the average will be closer to 10% in 2003.

"It's naïve to think that the market is 50% to 70% underpriced anymore," he said. "I think, however, there are individual accounts that need work, and I think there are classes of business, like large real estate schedules, that need tightening up."

Following are profiles of the top 10 U.S.-based surplus lines insurance companies, based on gross premiums written on a direct, nonadmitted basis.

1 Lexington

Lexington Insurance Co.

Lexington Insurance Co. remains No. 1 in *Business Insurance's* annual ranking of the nation's largest surplus lines insurers, with $2.08 billion in premiums written on a direct, nonadmitted basis, up 62.9% from 2000.

Kevin Kelley, president and chairman of Lexington, a Boston-based unit of American International Group Inc., attributed much of this growth to the tight market. "You're seeing (standard market) companies starting to prune business, and that's just increasing demand for surplus lines companies to commit to deals," he said.

Among the lines returning to the surplus lines market are property; product liability; and professional liability, particularly errors and omissions coverage, he said. Because of the hardening market, submissions are up 50% to 100% at Lexington over the prior year, Mr. Kelley estimates.

The St. Paul Cos. Inc.'s withdrawal from medical malpractice liability business also is increasing Lexington's submission flow, he said.

Lexington is continuing to grow its employment practices liability business, "but we're becoming more selective," Mr. Kelley said.

Rate hikes also have fueled Lexington's growth. For example, on the casualty side, including D&O and medical malpractice, increases range from 50% to 150%, he said. Property is more stable, he said, with hikes of 40% to 60%. EPLI rate hikes are 50% to 75%, and retentions generally are doubling.

Unlike two years ago, when primary rate hikes surpassed excess rate increases, today's increases are proportionately greater in excess liability lines, Mr. Kelley said.

In addition to exclusions for terrorism and mold risks, more liability coverage—especially product liability—is being written on a claims-made basis, which is less expensive than occurrence-based coverage, he said.

While terms may be more restrictive, Lexington has not reduced its capacity of $1 million to $2 million in primary coverage and $25 million in excess coverage on all casualty lines, he said. "We can write up to $25 million in property as well."

But as Lexington's liability business grows, it has withdrawn from some property lines, such as habitational risks and garden apartments.

Lexington's combined ratio deteriorated slightly in 2001 to 103.3% from 99.1% in 2000.

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Continued from previous page

2 AIG

American International Specialty Lines Insurance Co.

Unlike those for its sister company, Lexington Insurance Co., premiums for American International Specialty Lines Insurance Co. written on a direct, nonadmitted basis, dropped 26.5% in 2001, to $814.6 million, from $1.1 billion in 2000.

Still, the insurer held on to its No. 2 spot in the *BI* rankings.

Mr. Kelley, the top executive at both Lexington and AISLIC, attributed the decline to AIG's ability to shift business among its surplus lines facilities, but he declined to elaborate. "I think Lexington is the more interesting story," he said.

Anchorage, Alaska-domiciled AISLIC also posted poorer underwriting results, with its 2001 combined ratio climbing to 115.0%, from 98.5% in 2000.

3 ZURICH

Steadfast Insurance Co.

Steadfast Insurance Co. nudged Scottsdale Insurance Co. out of the No. 3 spot on *BI*'s annual surplus lines ranking, with a 94.3% surge in premium growth in 2001, to $719.6 million.

Janet Jordan-Foster, executive vp of the New York-based Specialties E&S profit center of Zurich North America, attributed much of the growth to business migrating to the surplus lines market and to new program business.

The accomplishment is even more astounding given the fact that Zurich was temporarily displaced by the attack on the World Trade Center, which was directly across the street from its downtown offices. The insurer will be returning to 1 Liberty Plaza this fall from other Zurich offices in Manhattan.

Although Zurich has written EPL insurance on an admitted basis for large employers, it recently began targeting smaller and middle-market companies, such as those with 300 or fewer employees, she said.

Zurich also is offering wholesalers a market for miscellaneous errors and omissions liability coverage for smaller companies in a variety of industries.

Limits vary by line of business, a practice unchanged despite the tightening marketplace. "It depends on the size and the needs of the customer," Ms. Jordan-Foster said.

The full 2002 directory of surplus lines insurers and wholesalers are available online in the directories area of *www.businessinsurance.com*. The online database is free to subscribers of *Business Insurance*.

4

Scottsdale Insurance Co.

Scottsdale Insurance Co. fell into the No. 4 spot, with a respectable 8.3% growth rate that nevertheless seemed anemic compared to its competitors.

But Gary Tiepelman, vp-underwriting, said the Scottsdale, Ariz.-based surplus lines insurer is exceeding its expectations this year and will likely regain its position next year.

Scottsdale's 2001 premium volume on a direct, nonadmitted basis, was $608.5 million, up from $561.9 million in 2000.

Part of the reason for Scottsdale's slower growth, when compared with some other surplus lines companies, is its cautious underwriting style, Mr. Tiepelman said.

"Although it has gone up recently, our hit ratio is now in the vicinity of 15% to 18%. In the past, we've been at 10% to 12%," Mr. Tiepelman said, referring to the percentage of business it accepts from MGAs.

Scottsdale's combined ratio improved in 2001 to 106.4% from 111.1% in 2000.

But Scottsdale is entertaining a lot more umbrella business, trucking risks and general liability business, particularly for contractors.

While other companies have restricted the amount of coverage they will permit MGAs to bind, forcing them to look to other markets, Scottsdale has not, Mr. Tiepelman said.

During the soft market, Scottsdale grew by selling higher limits to fewer buyers. But now, it is writing lower limits for more buyers, he said.

In addition to raising rates, Scottsdale has reduced its capacity because its reinsurance is more expensive, Mr. Tiepelman said.

Offering lower limits is not costing Scottsdale much business because there is less demand due to higher pricing, he pointed out. "The percentage of people buying $20 million umbrellas is way down from what they used to be. With pricing going up, they're saying, 'Maybe I can live with $10 million,'" he said.

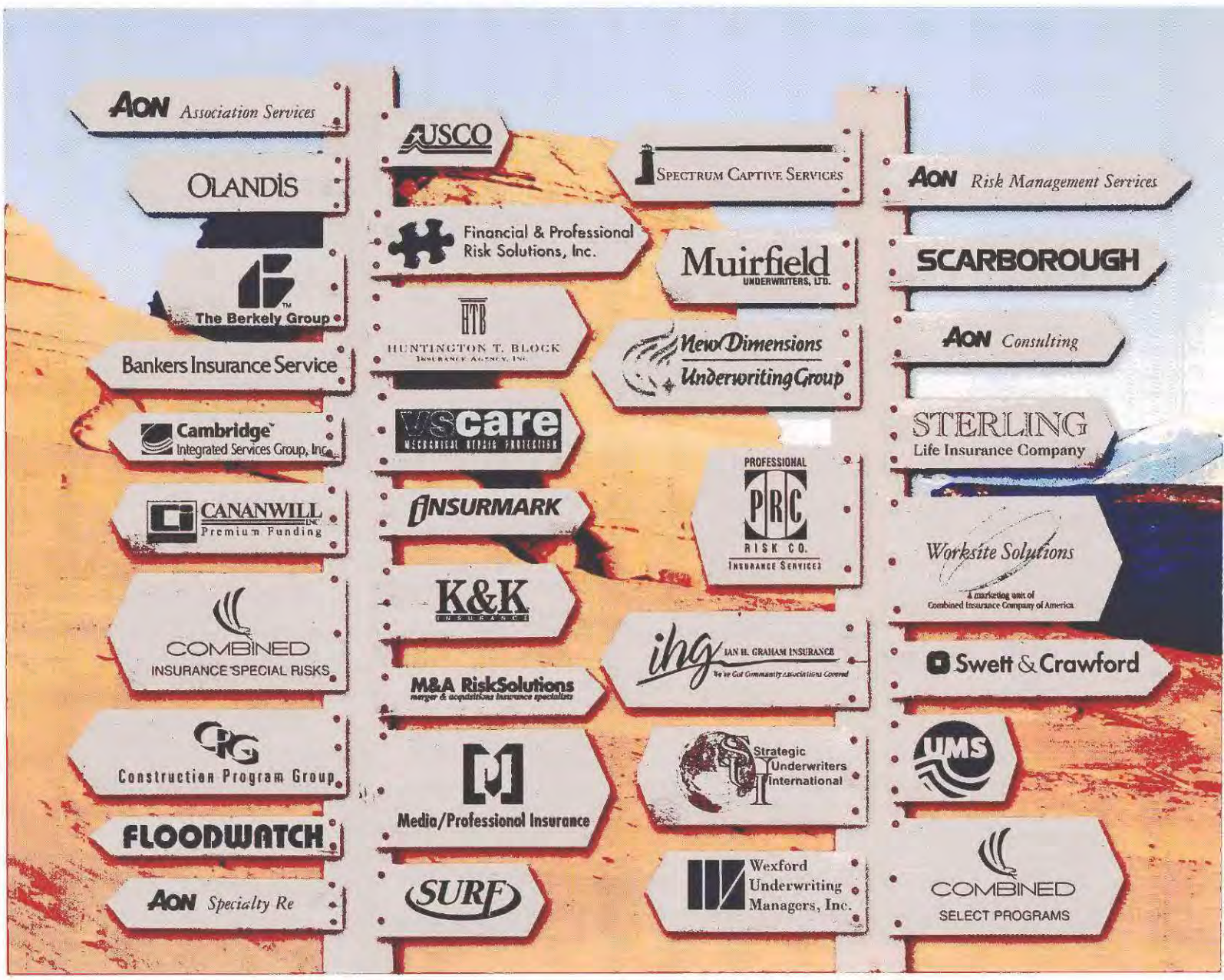
5 MARKEL

Evanston Insurance Co.

Hard market conditions helped boost Evanston Insurance Co.'s nonadmitted premiums 53.6% in 2001, to $424.4 million. The Deerfield, Ill.-based Markel Corp. unit maintains its No. 5 spot.

Continued on next page

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Continued from previous page

"We're writing a significant amount of medical malpractice insurance for physicians this year, much more than we wrote in the last couple of years," said Michael A. Rozenberg, president and chief operating officer of Evanston Insurance and Shand Morahan & Co. Inc., a Markel managing underwriter that primarily uses Evanston paper. Much of the new business comes as a result of several underwriters exiting the malpractice business, he said.

Evanston's product liability coverage also is seeing major growth, now that "claims-made policies have become popular again," Mr. Rozenberg said. "So we're seeing a lot of that old business coming back to us."

While Evanston is seeing more business, it withdrew late last year from the commercial auto market, after exiting the D&O market and insurance company E&O and D&O lines in 2000. Mr. Rozenberg said Evanston is focusing lines including product liability, medical malpractice, employment practices liability and allied health care liability.

Evanston's statutory combined ratio rose to 100.6% in 2001 from 89.3% in 2000, as a result of changes in reserves, Mr. Rozenberg said.

PDF copies of the directories can be purchased online in the directories area of www.businessinsurance.com.

6 United National Insurance Co.

Buoyed by double-digit rate increases, nonadmitted premiums rose 54.1%, to $382.3 million, at United National Insurance Co. in 2001. That was enough to move the Bala Cynwyd, Pa.-based insurer up one spot, to No. 6, in *BI*'s rankings.

"The big story around here was growth of our existing accounts," said Seth Freudberg, United National's president. He said that 75% of the insurer's growth in 2001 came from its existing customers, who bought more policies and absorbed rate increases.

In 2001, United National exited the residential contracting business due to concerns over subcontractors' exposure to construction defect litigation across the country, he said.

"We believe in writing tough risks and finding creative ways of underwriting them," Mr. Freudberg said. "We don't want to run out of a line of business when everyone else is, unless the risk is so immeasurable and the volatility is so unpredictable that you're purely rolling the dice," he said, referring to the contractors risk business. "We believe in making measured, educated decisions on things, even if it's a scary line of business."

Business continues to boom in 2002, with United National's nonadmitted premiums up 36% for the first half of the year, he said.

United National's statutory combined ratio deteriorated slightly in 2001, to 95.6% from 94.1%.

7 Essex Insurance Co.

After making its debut in last year's ranking in the No. 10 spot, Essex Insurance Co. moved up three notches, based on $291.0 million in nonadmitted premiums in 2001—a 65.4% increase.

Increased submission activity and rate hikes contributed to the gains, said Steve Vaccaro, president of the Glen Allen, Va.-based unit of Markel Corp.

Much of Essex's success lies in its business plan, he noted. "We just do the same thing year in and year out. Our business plan is very simple. Anything we get into, we try to do on a long-term basis with a select group of producers," he said. "When their opportunities increase, they feel confident that they know what we want to write, and they know our appetite and what fits. We're a very easy company to do business with."

Over the past year, Essex didn't enter any new lines but also didn't cease writing any classes of business. But Mr. Vaccaro said Essex is looking at entering the entertainment and facultative reinsurance businesses.

Essex's statutory combined ratio rose to 111.4% in 2001 from 101.2% in 2000. The increase reflects some adverse loss developments in reserves Essex assumed in 2000 from another Markel subsidiary. Essex's combined ratio based on the business that it produced and underwrote in 2001 was 85%.

8 General Star Indemnity Co.

Growth from existing lines of business and an exit from others led to a 7.8% rise in 2001 nonadmitted premiums to $290.7 million at General Star Indemnity Co. Despite the growth, General Star dropped two spots, to No. 8.

"Our growth had a lot of moving parts to it," said Patricia H. Roberts, president and CEO of the Stamford, Conn.-based Berkshire Hathaway Inc. unit.

At the beginning of 2001, General Star decided to run off some classes within its property book, including its homeowners business, explained William Murray, senior vp.

At the same time, General Star

Continued on next page



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saw growth in other lines, including excess casualty, which is seeing "significant" rate increases, Ms. Roberts said.

General Star saw more business from its MGAs, even though the insurer has reduced the number of producers it works with over the past year.

"We probably have half of the MGAs that we used to, but we have more volume with the half that's left," Mr. Murray said.

In early 2002, General Star entered the medical malpractice liability market, offering doctors nonstandard claims-made coverage with $1 million in limits, up to $3 million aggregate. It also is offering up to $10 million in excess medical malpractice coverage and up to $5 million in limits for miscellaneous medical malpractice coverage.

In addition to forming a new professional liability division earlier this year, the insurer also formed a new excess property facility in Atlanta and began offering $25 million in limits.

9

Admiral Insurance Co.

Premium increases were behind Admiral Insurance Co.'s 2001 growth, said Jim Carey, president and CEO of the Cherry Hill, N.J.-based unit of W.R. Berkley Corp.

Admiral remains No. 9, with premiums written on a direct, nonadmitted basis of $271.7 million, up 47.1% from $184.8 million in 2000.

"We expect that we will even have stronger growth in the second half than the first half, and the first half was pretty healthy," Mr. Carey said of this year. "We're definitely going to finish in the 50% to 60% range in terms of increases based on what we know now."

Lines seeing the biggest rate hikes include professional liability for the medical field, residential contractors liability and habitational property, such as apartments and condominiums, he said. "Any medical malpractice-related coverage is seeing triple digits or more, in a lot of cases," he said.

"There's a lot of reluctance on the standard market's part to write contractors, so we are seeing quite a bit of them," he said. In addition, "we see a lot of habitational business on the property side. That's really a major part of the submissions this year."

Admiral's biggest challenge in the past two years has been finding qualified underwriters to handle the increased submissions, Mr. Carey said. Admiral does not use MGAs, relying instead on in-house underwriting staff.

Admiral also is being more selective about the business it writes, which helped its combined ratio improve to 100.5% in 2001 from 104.9% in 2000.

The insurer has not exited any lines in the past year. Admiral's biggest lines are primary general liability, product liability and contractors liability. Two years ago, it stopped writing nursing home liability because of poor loss experience. Less than 2% of Admiral's premiums come from medical malpractice liability.

Admiral has not entered any new lines but will consider attractive risks, Mr. Carey said.

10 CNA

Columbia Casualty Co.

Chicago-based Columbia Casualty Co. slipped two notches in the *BI* rankings, to No. 10, as a result of a 3.5% decline in 2001 nonadmitted premiums, to $215.8 million. The 2001 dip follows a 30.2% decline in nonadmitted premiums in 2000.

The CNA Financial Corp. unit saw its statutory combined ratio leap to 183.2% in 2001 from 113.4% in 2000. It also reported a $17.7 million loss for the year vs. a $19.3 million profit in 2000.

Columbia Casualty executives did not return calls.

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INSURER TOPICS

A MONTHLY EDITORIAL SECTION SENT EXCLUSIVELY TO INSURERS AND REINSURERS



Industry wary of invasions from privacy

By DAVE LENCKUS

Proposals that lawmakers and regulators hope eventually will ensure the privacy of the insurance-buying public's personal information continue to be moving targets—some of which insurers, brokers and agents would rather not have to hit.

One major headache for the industry is the National Assn. of Insurance Commissioners' effort to modify a 2-year-old model act that lays out rules on when regulated companies must issue privacy notices to customers and others, and how those individuals can prevent regulated companies from sharing that information with unaffiliated third parties.

The industry also is concerned about recent state actions governing company practices for safeguarding files containing personal information.

Setbacks on either privacy regulation front, which have emerged out of directives in the 1999 Gramm-Leach-Bliley Financial Services Modernization Act, would be onerous and costly for the industry and could create problems for insurance buyers, industry representatives say.

The industry is greatly concerned about some proposed amendments to the NAIC's widely adopted 2000 model act on privacy disclosures. The NAIC now wants the act to apply to employees covered by workers compensation insurance, as well as to their employers.

The industry objects to the proposal for several reasons.

By adding commercial entities, the NAIC is going well beyond Congress' intention of ensuring that financial institutions protect individuals' personal information, said Kathleen Jensen, insurance services counsel for the National Assn. of Independent Insurers of Des Plaines, Ill.

If the insurance industry must issue privacy notices to commercial enterprises as well as injured employees, the industry would face more costly regulation than other

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Insurance industry lobbyist has a calling / 16E

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Privacy: Industry concerned about new costs, hassles

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financial institutions would, Ms. Jensen said. "It's no longer an even playing field."

The industry also is concerned about the ramifications if state lawmakers and regulators open up already-enacted statutes and regulations to adopt the NAIC's revisions.

"Who knows what may happen? Things could get out of hand very quickly," said Rey Becker, vp-property/casualty at the Alliance of American Insurers of Downers Grove, Ill.

And uniformity problems could develop if some states revise their privacy notification rules and others do not, said Tim Tucker, director of state government affairs for the Alexandria, Va.-based Independent Insurance Agents & Brokers of America.

Some industry groups, such as the Alliance, have stated that they would be more amenable to the revisions if some language were modified. Those changes would substantially reduce the industry's notification requirements by making clear that notices and information-sharing "opt-out" forms must be sent only to those individuals whose personal information would be shared with unaffiliated third parties, according to industry representatives. The NAIC model requires regulated companies to give individuals an opportunity to veto, or "opt out" of, such information-sharing plans.

The NAIC tentatively has agreed to those changes in its latest revisions to its proposal. But, another NAIC revision makes the proposal more onerous than ever, industry representatives contend. The latest revision would make annual privacy notices to policyholders and possibly claimants mandatory, even if there is no intention of sharing personal information with unaffiliated third parties.

"It's unnecessary," Mr. Becker said. "They're taking something that's very simple and making it much more onerous and complicated."

But, the revision reflects the NAIC's intention all along, asserted Susan Donnellan, deputy general counsel at the New York Insurance Department. New York Superintendent Gregory V. Serio co-chairs the NAIC Privacy Issues Working Group, which Ms. Donnellan said should release a draft of its latest proposal around the time of the NAIC's September meeting.

Meanwhile, various industry groups continue to press their lawsuit that challenges Vermont regulators' authority to issue the state's version of the 2000 NAIC model act. The industry strongly opposes a more stringent "opt in" information-sharing approval provision, which bars companies from sharing personal information unless an individual has given express consent.

In its privacy proposal, the National Assn. of Insurance Commissioners is 'taking something that's very simple and making it much more onerous and complicated.'

Rey Becker
Alliance of American Insurers

The industry also is awaiting a proposal from California regulators, who have indicated an interest in using an opt-in requirement, requiring regulated companies to issue privacy notices to commercial risks and imposing other requirements that industry representatives said would be costly.

The NAIC's new model act on safeguarding the personal, nonpublic information that insurers, brokers and agents keep internally on individuals generally draws praise from industry groups. In recognition of the great diversity in the sizes of regulated companies, the complexities of their systems and the differences in their business practices, the NAIC did not specify how companies should safeguard that information.

But the industry is concerned about how states will fashion their specific safeguarding statutes and regulations.

Trouble already has developed, with some states proposing or adopting measures that focus on consumer, rather than customer, information. Customers are clients, while consumers include many other kinds of individuals, such as applicants and third-party claimants, with whom a regulated company has no business relationship.

Regulated companies do not like the expanded requirement because safeguarding consumer information would be more difficult and expensive, industry representatives say. That information typically is less detailed, so it is stored on different systems and often is available to employees with lower security clearance, they say.

"And the way we've interpreted the model, you can't have two separate security standards for consumers and customers," said Nicole Allen, director of government affairs for the

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INSURER TOPICS

'Boot camp' prepares insurance professionals for politics

By SALLY ROBERTS

IIABA working to help candidates who understand insurance issues get elected

Insurance professionals who are serious about running for public office can learn the ropes of campaigning at a "political boot camp."

The Independent Insurance Agents & Brokers of America and Future One, a cooperative effort between the IIABA and 26 insurance companies, held their third biennial Insurance Campaign Institute in February.

Twenty-five insurance professionals—chiefly independent agents, though it is open to all industry professionals—attended this year's two-day institute, which provided industry professionals from all party affiliations with the tools, knowledge and expertise required to run a successful campaign.

All facets of the campaign trail are covered, from management to fund-raising to advertising to media relations to campaign research, said Tim Tucker, director of state government affairs for the Alexandria, Va.-based IIABA. Training sessions are conducted by experts on campaigning, including current and former lawmakers and consultants.

The IIABA limits attendance to 25 to ensure a better dialogue among participants, he said. Interested parties must be serious candidates for local, state or federal office and must have an insurance industry background, Mr. Tucker added.

Although the Big I and Future One foot the bill for the entire institute, they see it as money well spent.

"What we want to do is to get people elected to public office who understand insurance issues," Mr Tucker said. "While we know these people aren't always going to agree with us once they get into office, with term limits now, sometimes there's such an information disconnect with the insurance industry and the committees they come to sit on. If we can get people in there who understand the issues, they can be much more effective legislators and can make better public policy," Mr. Tucker said.

"Insurance is a pretty complex business," said Robert A. Rusbuldt, chief executive officer of IIABA. "We're the largest industry in the country that is solely state regulated, and many times when people come to Congress they really don't have that background in insurance if they haven't served in the state legislature," he said. "It's our goal to have people who really understand the business of insurance and to have them be educators of their colleagues in their legislative bodies when important insurance issues arise," he said.

The IIABA says that 80% to 90% of those who attend the institute run for office, though it does not track how many of those campaigns are successful.

Leslie Waters, a former Allstate Insurance Co. manager and now a Florida state representative, is a perfect example of what the institute seeks to do.

"I spend a great deal of time discussing complex insurance issues with legislative colleagues," said Rep. Waters, R-Seminole, who was first elected in 1998 and chaired Florida's House Insurance Committee from 2000 to 2002. "With a limited number of insurance legislators in the Florida House, I am one of the few 'go to' people on insurance issues."

"Who better to deal with insurance issues—a person with no insurance background or a person who is not intimidated by the subject and who has a certain comfort level in dealing with very complex and often controversial issues?" Rep. Waters said.

"Political grassroots involvement from employees who work in insurance is very important, because insurance is a very complicated, misunderstood and often unpopular product," Rep. Waters continued. "Insurance employees, agents, management and officers of companies must not assume that their elected officials understand their business."

Ms. Waters attended the IIABA's first Insurance Campaign Institute in 1998. "It provided great presentations by experts in the political process on how to effectively campaign, how to work with the press, messaging, opposition research and overall hints on how to win as an insurance professional," she said.

Bill Hamilton, president of Loudin Insurance Agency in Buckhannon, W.Va., said he wished he had known about the institute a few years ago, when he first ran for West Virginia's House of Delegates.

"I ran two years ago, and I lost by 115 votes in my race," he said. "I found out too late about the campaign institute to attend it two years ago."

But after the local IIABA state executive suggested that Mr. Hamilton take part in this year's institute, he did so. "I went to the institute in February, which was in the middle of my race, but there was a lot of good information that helped us" nonetheless, he said.

Mr. Hamilton's wife, who is his campaign treasurer, also attended the institute in February. "We picked up a lot of good information, especially with advertising," he said. "We found that some of the things that we did and were doing were fine. And with some of the things we had done before and weren't sure if we wanted to do again, the conference convinced us not to do it again."

Mr. Hamilton won his bid for the state legislature in the primary election in May and will run unopposed in the general election in November.

Privacy: New costs, hassles feared

Continued from page 12B

Washington-based Council of Insurance Agents & Brokers.

CIAB members largely produce commercial business, so their clients are not the intended protected class under Gramm-Leach-Bliley. But, how states adopt the model act still is a concern to the producers. Some coverage that they place, such as supplemental life and supplemental disability insurance, is a hybrid of commercial and personal lines and may be classified as personal business, Ms. Allen noted.

Only eight states have taken action on information safeguarding since the NAIC adopted its model law, according to the NAII. But West Virginia adopted an emergency rule with the consumer language, and Arkansas regulators proposed safeguarding consumer information.

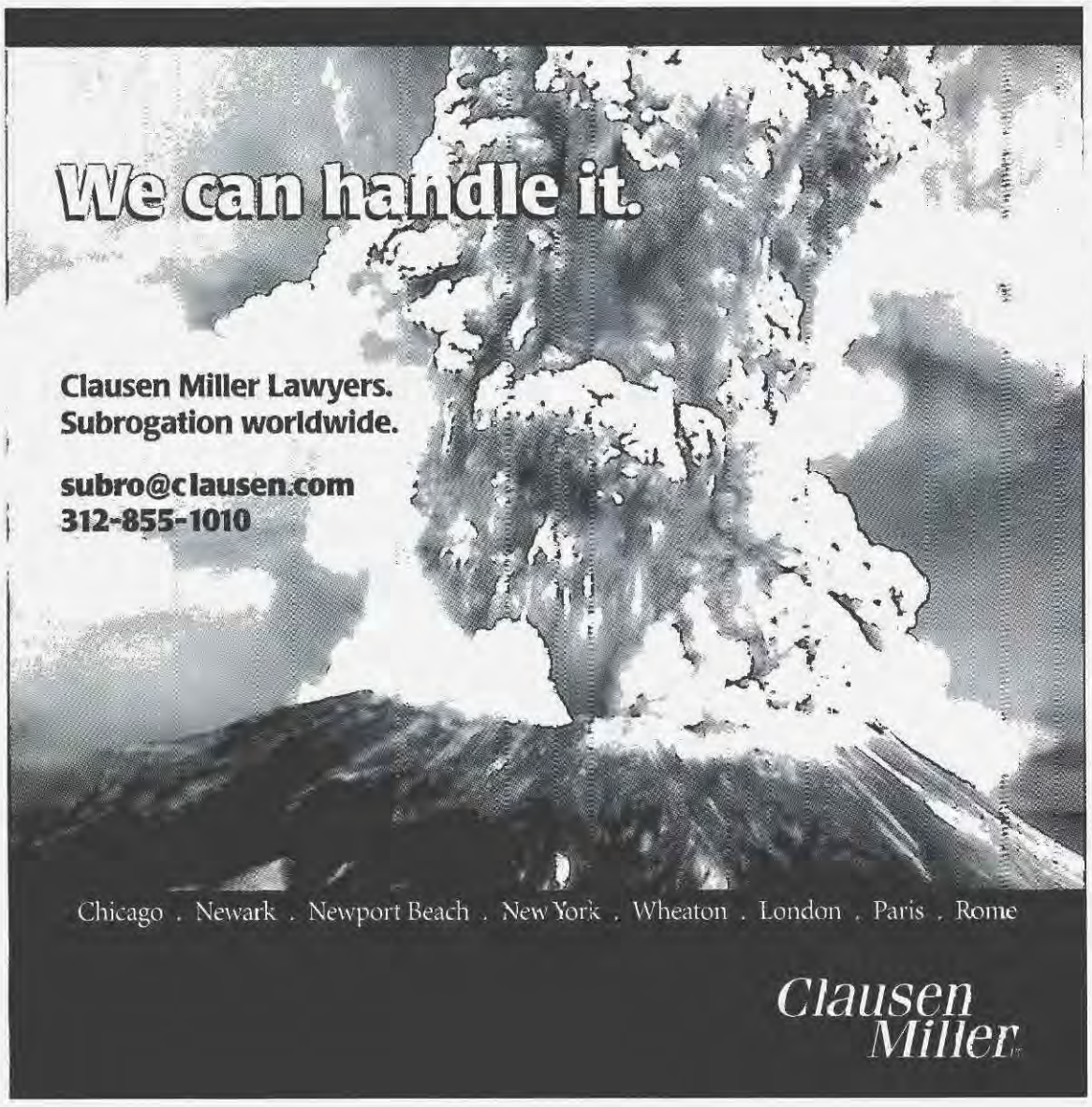
The Arkansas Insurance Department, though, recently decided that it instead would likely focus its regulation on the smaller universe of customers and applicants, said Jay Morgan, general counsel with the department in Little Rock.

Pending further analysis, that new focus has garnered tentative approval from industry representatives.

States that go beyond the NAIC model may create problems for themselves as well as for national and large regional companies, industry representatives warn.

Companies "have to carve out the requirements in those states" and modify their systems and practices to comply with them, noted the IIABA's Mr. Tucker. "It could cause people not to want to operate in a certain region."

"If there are availability problems in a state, this is not the time to be adding in requirements that result in more costs" for insurers, the Alliance's Mr. Becker said.



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Insurer Topics

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INSURER TOPICS

An insurance industry lobbyist with a calling

By MEG FLETCHER

Anyone who thinks that an effective insurance industry lobbyist has to be a cigar-puffing, whiskey-swilling operator who doles out campaign contributions hasn't met Mary Lanning.

At first glance, she appears to be everybody's favorite Irish aunt—a 5-ft. 2-in. dynamo whose blue eyes sparkle as brightly as her quick wit.

Listen to her talk, and you hear street smarts combined with a profound understanding of human nature. Those characteristics have made New York-based ML&G Associates Inc., her lobbying and consulting firm, an effective advocate and mediator for her insurance industry clients, according to leading legislators, regulators and industry representatives.

But that is only half of her life.

Mary Lanning is also a Roman Catholic nun, who in 1970 left a Dominican monastery after 13 years to live independently as a member of the service-oriented Sisters for Christian Community.

Ms. Lanning calls on her decades of experience as the eldest daughter in a family of 11, a hospice volunteer and grief counselor, to provide a compassionate ear and practical advice to those who face life-changing losses or problems. She also develops and coordinates free services for the elderly and terminally ill, regardless of their religious beliefs.

In what one friend calls "her 36-hour days," Ms. Lanning is especially devoted to helping the homeless with food and necessities. For decades, she has coordinated scores of volunteers—including insurance industry executives, legislators, firefighters, stockbrokers, senior citizens, students and church groups—in the preparation, serving and sharing of an outdoor gourmet feast on Thanksgiving Day. Last year, nearly 1,200 people gathered for food and fellowship at a blocked-off street near her one-room apartment in Harlem.

Currently, she supports her charitable work primarily from her earnings and small contributions from family and friends.

Until the terrorist attacks of Sept. 11, Ms. Lanning shied away from publicity for herself. She blocked media coverage of the Thanksgiving feast in order to preserve the dignity of its guests.

The native New Yorker also downplayed her religious affiliation because, as she says with characteristic candor, she found "that people had such low expectations once they learned I was a nun."

Her vocation inadvertently became public knowledge as she counseled the grief-stricken families of the 295 employees of Marsh & McLennan Cos. Inc.—a client—who were killed on Sept. 11. The name tag she was issued as a volunteer at Marsh's Family Assistance Center was based on her driver's license, which identified her as "Sister Mary Lanning." As a result, business colleagues who had known her for years became aware for the first time of her membership in a religious community.

Previously, the only outward sign of her religious commitment was the narrow gold ring she wears on her right hand, in the European tradition among nuns. It is her deceased mother's wedding ring, minus the decorative orange blossoms, which were filed off in keeping with her commitment to living simply.

Counseling the grieving after Sept. 11 "had the effect of bringing me out of the closet," said Ms. Lanning. For once, all her identities—insurance lobbyist, businesswoman, New Yorker and nun—"were one," she said.

She "provided wonderful counseling to families of our deceased colleagues," said John T. Sinnott, the chairman and chief executive officer of Marsh Inc., Marsh & McLennan's brokerage arm.

Since 1994, ML&G Associates—literally, "Mary Lanning and God"—has primarily represented brokers and insurers by lobbying legislators and regulators, mediating hardship cases and consulting on new products.

Ms. Lanning established her firm after working for eight years as the executive director of the Insurance Brokers' Assn. of the State of New York, which is still an ML&G client. In addition, she has two decades of insurance industry and business experience, including developing and managing a technical resources division at former broker Johnson & Higgins and managing international compliance at Skandia America Reinsurance Corp., where she began her career in insurance.

She also has been a longtime participant in several groups that advise insurance and social service organizations. In addition, she regularly takes part in industry advisory activities with national organizations representing state insurance legislators and commissioners.

Ms. Lanning's "knowledge and

See LANNING/next page

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INSURER TOPICS

Lanning: An insurance industry lobbyist with a calling

Continued from previous page
understanding of the business is substantial and broad and... invaluable in lobbying effectively for the industry," said Richard Bouhan, the executive director of the National Assn. of Professional Surplus Lines Offices Ltd. in Kansas City, Mo.

"I feel that her greatest strengths as an insurance industry lobbyist and consultant are her honesty, dedication and loyalty to her cause," said state Sen. William J. Larkin Jr., R-New Windsor, chair of the New York Senate's Majority Steering Committee and president of the National Conference of Insurance Legislators.

Industry leaders say Ms. Lanning is known as a great listener and writer. But it is "her great sense of humor" and love of a good story that draws people to her, said Peter A. Lefkin, senior vp-government and external affairs for Allianz of America in Washington.

Since traditional lobbyists "have a bigger lobbying budget than mine—which is zero—I've had to prevail on substance, merit and personal credibility, as well as making my position intelligible," Ms. Lanning explained.

As a communicator, she said, "I open the door for people to explain their position to me. That gives me more opportunities to identify points that we can agree on and areas where I can explain away their concerns or find an alternative solution to address their concerns."

"Mary's greatest strength is her ability to fully understand the issue, to correctly frame it and to articulate it with clarity to legislators," said Mr. Sinnott.

As a negotiator, Ms. Lanning says she "is passionate about the process of compromise, because that is the essence of democracy. It is the only way that people can live together in peace."

"I genuinely want to find a way that I can—maybe by creativity and resourcefulness—give them what they were trying to achieve, but give it to them in a different way that doesn't harm my client," she said.

Furthermore, "if I don't understand other viewpoints I hear, I'm not at all shy about asking them about the politics as well as the substantive arguments," Ms. Lanning said. "I think it's very difficult to separate politics from public policy."

Ms. Lanning said she crafts compromises "by making each party understand the limitations of any solution that we might eventually agree to, so we don't spin wheels and waste a lot of time haggling."

Before Ms. Lanning agrees to take on a client's case, whether in Albany or before other legislative or regulatory bodies, she sets certain ground rules. "I tell my clients upfront, 'If you want this, you have to want it all the way,' " she said.

Ms. Lanning said she would not ask a legislator to do "the heavy horsetrading" that he or she must do only to have her client walk away in the middle of the process. "If I'm in it, I'm in it until the end," she said.

Ms. Lanning "is among the most intelligent and articulate people" on the Albany scene, said the spokesman for Assemblyman Peter Grannis, D-Manhattan, who chairs the New York State Assembly Insurance Committee.

"Beyond that easygoing and charming personality, she is very dogged and determined, takes her duties to clients very seriously, has energy to burn. All of these qualities make her a formidable lobbyist," Assemblyman Grannis said.

Dealing with New York state issues means that Ms. Lanning drives at least three hours each way from Harlem to Albany and stays for a few days each week throughout the year. When the Legislature is not is session, she can often be found educating staff members and solidifying relationships with them. These efforts often pay off in the future, she said, if the staff members rise to positions of prominence.

Her style of lobbying "wears out a lot of shoes," Ms. Lanning says.

"At every level—commissioner or clerk, CEO or assistant, governor or aide—Mary treats everyone with the same respect and importance," said Peter H. Bickford, a partner with the law firm of Cozen O'Connor in New York.

As a result, she enjoys bipartisan affection.

"It's pretty remarkable to see hard-boiled politicians and lawyers embrace her and give her a hug, even if they don't agree with her position," said Jay Martin, a partner with LeBoeuf, Lamb, Greene & MacRae L.L.P. in Albany.

Mr. Martin is also on the board of directors of YES! Solutions, a nonprofit charitable organization Ms. Lanning founded. The organization plans to begin fund-raising activities in the near future.

And Ms. Lanning's reputation extends beyond Albany, as she provides services to clients nationwide.


Ms. Lanning

She said she gets "a lot of hardship cases from individuals and companies" who have been notified that state commissioners are threatening to suspend or revoke their licenses, in addition to imposing significant financial penalties. The threats usually result from the failure to meet requirements, such as agents' responsibility for continuing education.

She will take on such a case if the client is "not a bad player" and she can find some mitigating circumstances that the client is willing to acknowledge. In such cases, regulators usually are somewhat compassionate, Ms. Lanning said.

"In her business capacity, she has always been viewed as an extremely honest individual who is quick to bring reason and compromise when various individuals have differences," said John Oxendine, Georgia's insurance commissioner. Indeed, Ms. Lanning is "a peacemaker," he said.

In addition to lobbying and advocacy work, Ms. Lanning consults on insurance-related issues, including the development of new products, such as alternative risk financing and collateralization-type products designed to meet global trading needs.

To those who know her, Ms. Lanning "works so hard in the secular world in order to support her good works, and not for personal gain," said Nick Pearson, a partner with Edwards & Angell L.L.P. in New York.

Unfortunately, "I have witnessed too many instances where business contacts and clients believe they are entitled to the same free assistance from her on their business problems as with her charitable endeavors," said Mr. Bickford of Cozen O'Connor.

Yet, "I have never met anyone that has the unaffected instinct, drive and ability to care for people in need, whether the homeless, the dying, the grieving or the business client with an impossible hill to climb," he said.

Among those who regard Ms. Lanning with "awe" is Donald G. Mauro, a Marsh vp and aviation insurance broker whose wife was one of the World Trade Center victims.

Over the past nine months, her counseling has helped Mr. Mauro cope with his loss. To assist him with the painful task of packing up and giving away his wife's clothes, Ms. Lanning recently established "The Petite Boutique" at a Harlem shelter. At the boutique, volunteer consultants helped needy women select clothing they could use.

"Since there were many business suits, Mary felt that these women could use the clothing to go out on job interviews," Mr. Mauro said. "I'm consoled by the thought that my wife's clothes may be helping less fortunate women get ahead in life," he said.

Summing up, Mr. Mauro said that, to him and the many others whose lives Mary Lanning has touched, "she's New York's very own Mother Teresa."

Solvent runoff system debuts in the U.S.

Perspective

By Frank N. Ray

The solvent scheme of arrangement has come to America, with Rhode Island becoming the first state to enact a statute that will allow a solvent company in runoff to reach a court-supervised agreement with all of its creditors that will accelerate completion of the runoff.

The procedure began in the United Kingdom with the wrap-up of insolvent companies and then became a preferred way to bring solvent runoff to conclusion. Now, this alternative is available in the United States. Previously, the only options were conducting a long-term runoff with its associated expenses or giving control of the company to a government liquidator.

Proponents of solvent schemes of arrangement, or "commutation plans" as they are called in the Rhode Island statute, say their principal advantages are:

- Certainty of payment to creditors of present and future claims.
- Avoidance of a lengthy runoff with the associated administrative costs, adverse claim development and deteriorating reinsurance collections.
- Certainty of payment by reinsurers.
- Accelerated release of capital to shareholders at the conclusion of the runoff.
- Availability of a professional infrastructure to implement the accelerated runoff.

In a perfect world, creditors would be paid 100% of their claims when they actually arise and are determined. In the real world, though, a creditor must worry about an insurance company's ability to meet its obligations years into the future, particularly if that company has ceased writing new business and no longer has a stream of premium income.

Under a commutation plan, the present and future liabilities for each class of creditor are determined after careful actuarial review. The creditor is then assured of receiving, presently, 100% of the amount applicable to its claims under the approved plan. Uncertainty of payment is eliminated, and all parties can plan for the future.

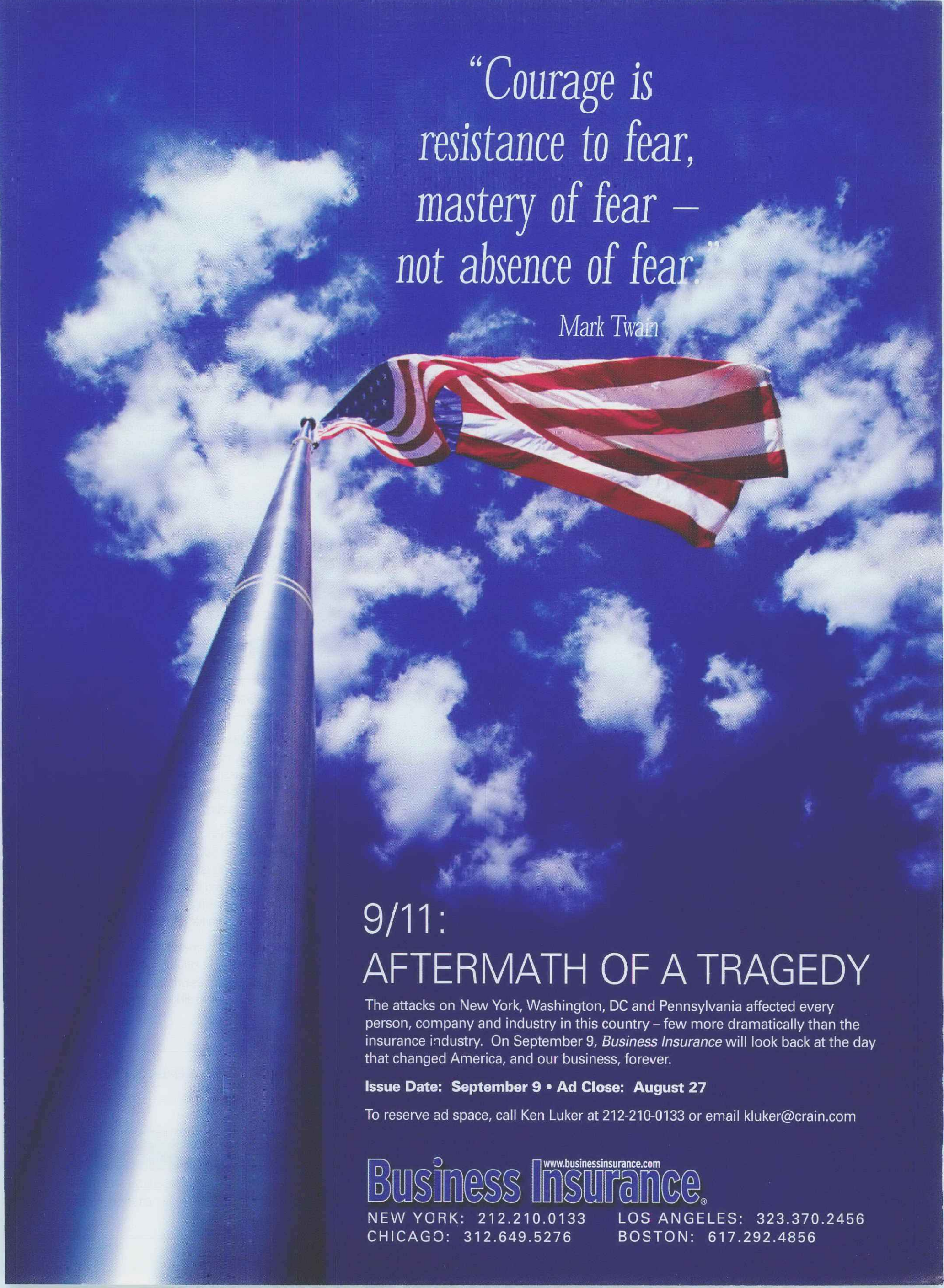
The runoff of claims often can last 30 to 40 years or more. For those involved in a company in runoff, it is hardly a career path—the end is the end. It rarely opens doors to a front office.

In an ongoing company, the long-term runoff business is an unwanted burden. As a result, it may not receive the diligent attention needed to bring it to the best conclusion for the insurer's creditors and reinsurers. The successful preparation, approval and implementation of a commutation plan will greatly accelerate the process of claim payment.

In addition, the finality provided by a court-approved plan comforts reinsurers, and the existence of the statutory procedure encourages negotiation of claims. The result is much faster resolution—and greatly reduced administrative expenses—making more funds available for both creditors and shareholders and, if the plan is successful, eliminating the specter of insolvency so often associated with long runoffs.

A commutation plan does not impose any obligation on reinsurers; the insurance company must reach agreement with its reinsurers prior to proposing such a plan. The very existence of a plan to which creditors could agree presupposes that the company has

See PERSPECTIVE/page 16H



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INSURER TOPICS

Perspective: Solvent runoff system debuts

Continued from page 16F

brought its reinsurers along in the process and is confident that reinsurance payments will be available to help the company meet its obligations under the plan.

In a long-term runoff, no such certainty exists. Business in runoff provides no new premium flow to reinsurers, and they may raise questions about the validity of claims-liquidation amounts and the quality of the process. In addition, in a long-term runoff, a significant concern is the intervening insolvency of one or more reinsurers of the runoff company. A successful commutation plan reduces that substantial uncertainty.

For the shareholder, the rewards of a successful plan can be great through the accelerated release of maximized capital. Simply, the faster the capital can be released, the faster it can be redeployed to better use. An expedited runoff with reduced administrative expenses will result in the release of more capital, sooner.

Where a statutory procedure exists, it is likely that the professional infrastructure will be enhanced and the jurisdiction will grow to be a center of excellence for the implementation of runoff commutation plans. That kind of infrastructure exists in certain places today and helps attract those who want to conduct the business served by the infrastructure.

Bermuda and Vermont are examples of that in the captive insurance industry. The statutory set-up and the regulatory welcome usually come first, and the growth of the business and the infrastructure follow. Once in place, the infrastructure will be a real value to companies seeking the excellence necessary for successful commutation plan implementation.

To implement a court-supervised commutation plan, a company must have property and casualty liabilities, be domiciled in Rhode Island, have ceased underwriting new business, and be renewing business only as required by law or contract. If these criteria are met, the company may apply to the Superior Court for an order implementing a commutation plan.

Before making such an application, the company would, subject to the rules and regulations to be promulgated by the Rhode Island Department of Business Regulation, review the plan with the department to assure its support before the court. Before finalizing the plan to be proposed, the company would also negotiate with its reinsurers and reach agreement with them on payments to be made under the reinsurance contracts for both existing and incurred-but-not-reported losses.

A foreign company wishing to implement a plan would first have to redomesticate to Rhode Island under existing redomestication statutes, satisfying the department that it, among other things, has sufficient reserves to meet its runoff liabilities.

Once those conditions have been satisfied, the company can submit its plan for approval. Notice will be provided to all interested parties, and all creditors will be given an opportunity to vote on the plan. Creditors, policyholders agreeing to an assumption arrangement, reinsurers and guaranty associations may file comments or objections with the court, and the regulatory department may intervene at any time.

Approval of the commutation plan requires the consent of 50% (in number) of each class of creditors and 75% (in value) of the liabilities owed to each class of creditors.

If the plan is approved by the creditors, the court will enter an implementation order if it finds that the plan would not hurt either the objecting creditors or the assumption policyholders. The implementation order sets a bar date for the submission of information by creditors and will direct the applicant to pay creditors as provided in the plan. The order also releases the applicant from any liability to its creditors upon payment of such amounts.

Once payment has been made under the plan, the court will enter an order of dissolution or discharge, releasing the applicant from any further liabilities. At that point, the remaining capital may be distributed to the shareholders.

In recommending enactment of the first "scheme" or commutation plan statute in the United States, the Legislature has addressed the additional regulatory responsibility it would impose. Accordingly, the statute itself provides the additional professional staff that the Legislature intends to review the solvent runoff plans presented to the department and to the court, and to monitor the insurers with the aim that they remain solvent and do not degenerate to department-controlled liquidations.

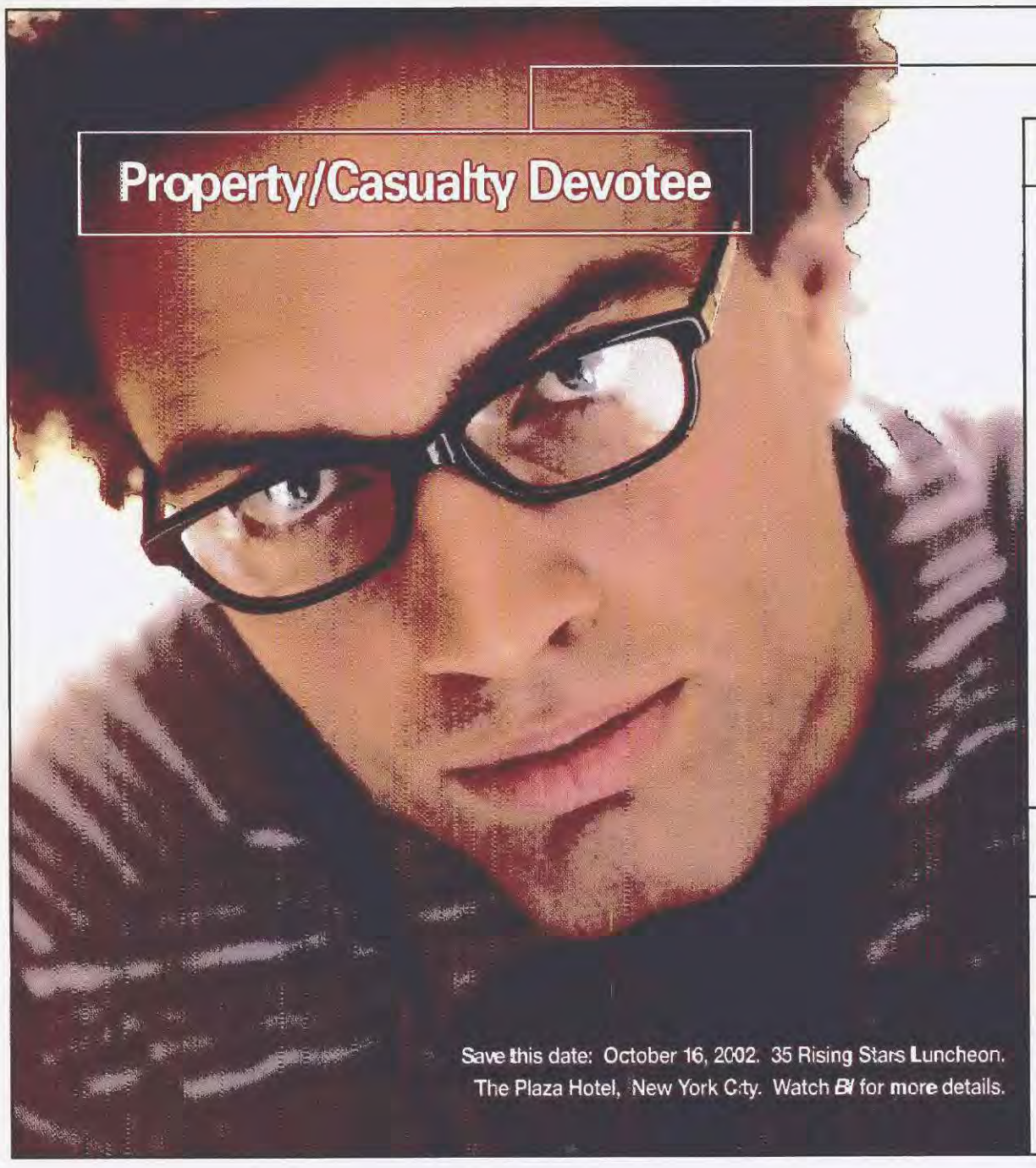
This first step has been taken toward bringing runoff in America into a form compatible with procedures in the United Kingdom and Bermuda and with the noninsurance Chapter 11 procedure of the U.S. bankruptcy laws.

The huge growth in the runoff industry worldwide calls for uniform solutions. The incentives for participating in a commutation plan are great, and for the industry, a ratcheting-up of the whole runoff process will allow all of the parties involved to focus on current and future productive business. Those running off under a commutation plan are far more likely to get the attention of their reinsurers and creditors than are those implementing a traditional 20- to 30-year runoff.

Assuming commutation plans are successful in the United States, as they have been in United Kingdom and other parts of the world, perhaps we will ultimately also adopt a commutation plan of liquidation for insolvent companies and find an alternative to the unwieldy system of 50-state liquidation paid for entirely by the policyholders of healthy companies.

Whether or not that lofty goal is achieved, it is certain that a more efficient, more appealing system of solvent runoff has arrived.

Frank N. Ray is of counsel to the law firm of Hinckley, Allen & Snyder L.L.P. in the firm's Providence, R.I., office. He was a principal architect of the Rhode Island commutation plan statute and serves as chairman of the Governor's Insurance Development Task Force.



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Largest wholesale brokers* based on 2001 wholesale premium volume

Rank	Company Address *Parent*	Phone/Fax/Web site	2001 wholesale premium volume	% change	2001 gross revenues	% change	% surplus lines	Broker	MGA	Underwriting manager	Lloyd's of London coverholder	Total employees
1	Swett & Crawford Group 21650 Oxnard St., Suite 1400 Woodland Hills, Calif. 91367 *Aon Corp.*	818-593-2008 Fax: 818-593-2084 www.swett.com	$1,300,000,000	23.8%	$127,400,000 [1]	24.6%	38%	70%	23%	4%	3%	590
2	Crump Insurance Services Inc. 7557 Rambler Road, Suite 350 Dallas, Texas 75231 *Marsh & McLennan Cos. Inc.*	214-265-2660 Fax: 214-265-2661 www.crumpins.com	$750,000,000	17.4%	$57,000,000 [1]	19.4%	55%	55%	30%	0%	15%	426
3	American Wholesale Insurance Group Inc. [2] 5955 Carnegie Blvd., Suite 350 Charlotte, N.C. 28209	704-554-4850 Fax: 704-554-8383 www.amwins.com	$681,676,675 [3]	118.5%	$47,717,400 [1,3]	130.1%	43%	63%	36%	0%	1%	252
4	CRC Insurance Services Inc. [4] 1 Metroplex Drive, Suite 400 Birmingham, Ala. 35209 *BB&T Corp.*	205-870-7790 Fax: 205-879-3739 www.crcins.com	$575,000,000	52.5%	$53,400,000	50.4%	75% [5]	91%	3%	0%	6%	210
5	Stewart Smith Group Wall Street Plaza, 88 Pine St., 17th Floor New York, N.Y. 10005 *Willis Group Holdings Ltd.*	212-509-2700 Fax: 212-509-3051 www.stewartsmith.com	$558,356,969	29.2%	$46,903,334	28.3%	45%	93%	5%	0%	2%	197

* Companies deriving more than 50% of their wholesale premium volume from wholesale brokerage 1 *BI* estimate 2 American Wholesale was created by the merger of Americana Financial Services Inc., New Century Global Inc., MTS Insurance Services Ltd. and Specialty Programs & Facilities Managers Inc. 3 Pro forma 4 Formerly Cooney, Rikard & Curtin Insurance Group 5 Estimate
Source: *BI* survey

MGAs/underwriting managers

Largest MGAs/underwriting managers* based on 2001 wholesale premium volume

Rank	Company Address *Parent*	Phone/Fax/Web site	2001 wholesale premium volume	% change	2001 gross revenues	% change	% surplus lines	Broker	MGA	Underwriting manager	Lloyd's of London coverholder	Total employees
1	The Schinnerer Group 2 Wisconsin Circle Chevy Chase, Md. 20815 *Marsh & McLennan Cos. Inc.*	301-961-9800 Fax: 301-951-5444 www.schinnerer.com	$690,000,000	23.4%	$57,270,000 [1]	23.1%	5%	1%	0%	99%	0%	523
2	Risk Placement Services Inc. 2 Pierce Place, 20th floor Itasca, Ill. 60143-3141 *Arthur J. Gallagher & Co.*	630-285-4303 Fax: 630-285-4020 www.coveragefirst.com	$480,000,000	48.3%	$48,298,200	97.1%	45%	49%	48%	0%	3%	385
3	Burns & Wilcox Ltd. 220 Kaufman Financial Center, 30833 Northwestern Highway Farmington Hills, Mich. 48334 *H.W. Kaufman Financial Group Inc.*	248-932-9000 Fax: 248-932-9046 www.burnsandwilcox.com	$444,888,333	27.2%	$59,536,000	21.9%	80%	30%	60%	0%	10%	724
4	K&K Insurance Group Inc. 1712 Magnavox Way Fort Wayne, Ind. 46804 *Aon Corp.*	260-459-5000 Fax: 260-459-5967 www.kandkinsurance.com	$364,000,000	12.0%	$78,260,000 [1]	13.8%	2%	2%	98%	0%	0%	430
5	NIF Group Inc. 30 Park Ave. Manhasset, N.Y. 11030	516-365-7440 Fax: 516-365-7392 www.nifgroup.com	$164,245,000	45.6%	$13,500,000	28.6%	30%	32%	65%	0%	3%	99

* Companies deriving more than 50% of their wholesale premium volume from acting as a managing general agent, underwriting manager and Lloyd's of London coverholder 1 *BI* estimate
Source: *BI* survey

The full Directory of Wholesale Brokers, MGAs and Underwriting Managers is available online in the Directories area of *www.businessinsurance.com*. The searchable directory allows users to locate wholesale brokers, MGAs and underwriting managers by company name, wholesale premium volume, type of business and number of employees, among other information. The online database is free to subscribers of *Business Insurance*, and PDF copies of the directory can be purchased online.

Wholesalers: Brokers see flood of new business

Continued from page 10

the nonadmitted market, several surplus lines observers say. Placing coverage in the current market requires patience, and some buyers are not getting the limits they want.

Wholesalers, meanwhile, are watching their premium volume and revenue grow, because prices are rising and more accounts are seeking their help. They say, for example, that more property accounts are seeking coverage through wholesalers, though scarce capacity is complicating their role.

Mark M. Smith, president and CEO of New York-based Stewart Smith Group, said property was his company's fastest-growing area of business during 2001, increasing by 66% during the year. The wholesaler's "staff is working here 12 hours a day to fill capacity, fill holes," Mr. Smith said. "And, as much as there is new capacity in the marketplace, all the pieces aren't there to deliver it to the marketplace."

'We have more demand than we have market right now. There is not enough capacity in certain areas for property, especially coastal properties.'

Alan Jay Kaufman
H.W. Kaufman Financial Group

A property program that took three or four insurers last year might require eight or 10 this year, and it still might not be possible to assemble the same limits, Heath's Mr. Kath said.

"We have more demand than we have market right now," agreed Alan Jay Kaufman, president and chairman of H.W. Kaufman Financial Group, parent of Burns & Wilcox, a Farmington Hills, Mich.-based wholesaler. "There is not enough capacity in certain areas for property, especially coastal properties."

The same is happening in the market for umbrella liability coverage, several wholesalers say.

However, it is impossible to make general statements about how much premiums are increasing in the wholesale market, because of the individual nature of the accounts, Mr. Smith said.

"Every account is different," he said. "Some umbrellas are going up 50%, some are going up 500%. It really depends on the individual's account and what the track record was. Losses are an integral factor this year."

Construction contractors for years have turned to the surplus lines market for liability coverage. But, until recently, it was chiefly home builders that sought coverage from wholesalers, because standard insurers lacked the appetite for their business. Now, even very large commercial construction project accounts are seeking coverage through wholesalers, noted Swett & Crawford's Mr. Hartoch. "We are doing some huge ones," he said.

Medical malpractice coverage is also a significant growth area, especially since The St. Paul Cos. Inc. exited that market, said Charles Wood, chief financial officer for Birmingham, Ala.-based CRC Insurance Services Inc. St. Paul, which was the largest medical malpractice writer in the United States, announced in December that it was leaving the market.

It is no longer just doctors with bad loss histories that use the surplus lines market. Many medical specialists, even if they have a good loss experience, are seeking coverage through surplus lines brokers, Mr. Wood said.

More accounts also are turning to wholesalers for directors and officers liability coverage, say several executives, who add that business should continue to increase.

Because of the current media focus on corporate scandals and the potential for increased sanctions against corporate leaders, more clients already are seeking their coverage from wholesalers. In particular, CRC has seen more privately held companies purchasing the coverage, even though most of the reported scandals involve publicly traded companies, Mr. Wood said.

"They read the headlines just like everybody else does, and there is a sense of nervousness," he said.

Growth in the professional and management liability area was flat for about three years, Stewart Smith's Mr. Smith added. But it is taking off in the wholesale market. "The first six months (of 2002), the premium has grown 48% for us," he said. "I think it's indicative of the marketplace."

Industries that found it tough to purchase coverage during the past few years—such as trucking, nursing home and habitational operations—are finding it much harder

Continued on next page



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Continued from previous page

now to get the capacity they need at affordable prices. Several wholesalers say they are seeing more of these risks go without coverage.

"Somebody made a statement recently that one of the biggest competitors now is non-insurance, with insureds going bare because they can't get it or can't afford it," Mr. Hartoch said.

Another challenge is getting underwriters to evaluate the stacks of applications on their desks.

Crump's Mr. Conner said he personally intervened for a July 1 renewal when standard-market underwriters declined to renew coverage for an ambulance fleet owned by a longtime Crump client.

The policyholder had to seek coverage through the wholesale market. But its application was among hundreds, if not thousands, sitting on an underwriter's desk.

To get the application in on time, Mr. Conner had to call in a personal favor with the underwriter. The president's personal intervention paid off, though the premium for the account went up from about $30,000 to $150,000.

Customers will not soon forget how they were treated in this marketplace, Mr. Conner said. When the tables turn and the market favors buyers, they will remember current times, he said.

Following are profiles of the five largest U.S.-based wholesale insurers, based on wholesale premium volume.

1 Swett & Crawford Group

"You ain't seen nothin' yet" could be the cry coming from Swett & Crawford Group, whose premium volume throughout 2001 far surpassed the amount posted by any of its competitors.

For 2001, Swett & Crawford's premium volume grew to $1.3 billion, up 23.8% over the previous year. *Business Insurance* estimates that the company's gross revenues rose 24.6% to $127.4 million.

And Aon Corp., the parent of the Woodland Hills, Calif.-based wholesaler, announced in November 2001 that it was combining its three wholesale brokerage units under the Swett & Crawford brand name.

In addition to Swett & Crawford, Aon owns Sherwood Insurance Services and Insurance Brokers Service. Their combination, under Swett & Crawford management, will result in $3 billion in premium volume for 2002, said David R. Hartoch, chairman and chief executive officer.

"I never thought you would see a wholesaler do $1 billion, much less $3 billion," said Mr. Hartoch, who is retiring at year's end. Tom Comer, Swett & Crawford's current president, will then take over the top spot at the company.

Swett & Crawford has four major business segments—property, casualty, professional liability and transportation—and all four are growing and contributing equally to the company's premium volume growth, Mr. Hartoch said.

2 Crump Insurance Services Inc.

Every new Crump Insurance Services Inc. employee receives a customer service manual and basic training on subjects such as telephone etiquette, handling paper flow and recognizing industry acronyms, said Stephen Conner, president and chief operating officer of the Dallas-based wholesaler.

The training is part of a retooling effort begun in February. The company's goal is to help customers deal with the trying times of a hard market, a time when applications can pile up as brokers and insurers are inundated with business.

"One thing that always happens in a hard market is customer service always lags," Mr. Conner said. "We said, 'How can we balance what the customer wants with what the insurance companies are willing to provide?' That has been the focus we have really honed in on this year. That entails everything from improving quality to service standards to training our people. How you cope in this kind of a market is by having a staff that is well trained."

Crump's wholesale premium volume increased to $750 million in 2001, up 17.4% from 2000. *BI* estimates that Crump's revenues rose 19.4% to $57.0 million.

Price increases, an abundance of retail agents searching for markets and the increased retention of renewal business have helped drive premium volume growth, Mr. Conner said.

A sports entertainment depart-

Continued on next page

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Continued from previous page

ment that Crump launched in late 2000 also has taken off during 2002, following slow growth in 2001. A new trucking unit also experienced a slow start but is now seeing increased demand.

3

American Wholesale Insurance Group Inc.

A new wholesaler created from the merger of four companies is the third-largest wholesaler and is looking to get larger.

American Wholesale Insurance Group Inc. in Charlotte, N.C., was formed earlier this year by the merger of MTS Insurance Services L.L.C., New Century Global Inc., Specialty Programs & Facilities Managers Inc. and Americana Financial Services Inc. The combined companies produced wholesale premium volume of $681.7 million in 2001.

Acquisitions could be in the works for American Wholesale, particularly as it looks to boost its managing general agent operations, which accounted for $245.0 million of its 2001 revenues. "We are looking at MGA targets," said Chairman Ernie Telford, chairman of the new company.

The companies that combined into American Wholesale placed 57% of their business with admitted insurers in 2001 and 43% in the surplus lines market. M. Steven DeCarlo, the president and chief executive officer of American Wholesale, noted that more business is likely to end up in the nonadmitted market this year.

"For the surplus lines business, to a large degree, this is our time," he said, as admitted insurers reject business in the hard market.

And the boom time for surplus lines companies could last for a while, Mr. DeCarlo said. "Whole cycles have come and gone, but this one has some legs to it," he said. "It's not going away in the next 24 months."

4

CRC Insurance Services Inc.

It's official: The name is now "CRC Insurance Services Inc.," and no longer "Cooney, Rikard & Curtain Insurance Group."

The Birmingham, Ala.-based wholesaler adopted the simpler name when it merged Jan. 1 with Branch Banking & Trust Co., a Winston-Salem, N.C.-based financial services holding company.

Even when the wholesaler officially held the longer name, insiders often referred to it as "CRC." In addition, its logo reinforced the use of the acronym. So the merger provided a good opportunity to adopt the "cleaner" name, said Charles Wood, CRC's chief financial officer.

CRC's new parent company is the principal subsidiary of BB&T Corp., which has more than $70 billion in assets and operates more than 1,100 bank branch offices. Since 1989, it also has acquired 64 insurance agencies, along with other operations.

When BB&T announced the merger, it said CRC's management would remain in place to ensure the wholesaler's continued success. CRC's wholesale premium volume was $575.0 million in 2001, a 52.5% increase over 2000. Total gross revenues, meanwhile, grew 50.4%, to $53.4 million.

The growth is all organic and not due to acquisitions, said Mr. Wood, attributing the increases to rising prices and new business. But in June, CRC announced that it is expanding into the Northeastern United States by buying American Marketing Center, a New York-based wholesaler.

5

Stewart Smith Group

Structural changes that Stewart Smith Group made in the late 1990s have positioned it perfectly to deal with current market conditions and client needs, said Mark M. Smith, president and chief executive officer of the New York-based wholesale broker.

"In a sense, everything we did was in preparation for the market we are in now," Mr. Smith said.

In its present structure, Stewart Smith's professionals work as local teams, each supported by a regional team that, in turn, is supported by national practice leaders. Those practice leaders report to James Drinkwater, executive vp and national sales and marketing director. "He's in the market every day," Mr. Smith said. "When there's a problem, they go to James."

Stewart Smith's wholesale premium volume increased 29.2% in 2001, to $558.4 million. "Revenue tracked that pretty well," Mr. Smith said, increasing 28.3% to $46.9 million. "It was a pretty good jump, and, actually, we did not increase our headcount" in 2001, he said.

Business is up dramatically again so far this year for the unit of Willis Group Holdings Ltd. "If the trends continue for the rest of the year, we will write somewhere between $900 million and $1.0 billion in wholesale premium this year," Mr. Smith said. "That gives Stewart Smith a lot of clout in the marketplace."

Though the wholesaler's staff size stayed constant in 2001 at 197, "to keep up with the growth and to add new capacity and to help our clients, we've already added 14 brokers to Stewart Smith," Mr. Smith said. Half are in the property area and half in casualty, and half are producers while half are market specialists, he said.

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MGAs: Occupied with helping cover tough risks

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$300 million, of Markel's surplus lines business, which accounts for 80% to 85% of Markel's total business portfolio, said Mr. Springman, who is a past president of the National Assn. of Professional Surplus Lines Offices Ltd.

Despite a wave of consolidation among MGAs during the 1990s, retailers and their clients are not dealing with a smaller MGA market today, market executive say. Even as mergers and acquisitions continue, divestitures and start-ups are keeping the size of the market stable. The AAMGA reports that its 250-strong membership roll has not varied much over the last several years.

If the soft market had survived a few more years, the MGAs that still had not automated their operations and cut expenses would not have survived, said Tapley Johnson, president of NAPSLO and chairman of TAPCO Underwriters Inc. of Burlington, N.C. The revenue stream for those MGAs would not have compensated for those wholesalers' inefficiencies, Mr. Johnson explained.

But the hard market is the high tide that "might raise all of the ships," he said.

Overall, and especially in relation to the rest of the insurance industry, MGAs have updated their technology fairly well, with most able to electronically swap documents with the insurers they represent, market executives say.

MGAs differ from managing general underwriters, which have 'a significantly higher opportunity to do something wrong, whether intentionally or unintentionally.'

Rob Giles
Midwest General Agency

MGAs have much stronger electronic links with insurers than with retail brokers, the AAMGA's Mr. Giles said. That is because most MGAs and retailers do not consistently do enough business with each other to make a system linkup cost-effective, he said.

On the regulatory side of their business, MGAs succeeded in staving off some new regulation that wholesalers asserted would have hurt them.

The National Assn. of Insurance Commissioners this spring agreed to modify its proposed model Managing General Agents Act after the AAMGA took a "very proactive" stance on the act, which would have imposed various restrictions on MGAs, explained Bernd G. Heinze, executive director of the AAMGA.

For example, the model act would have imposed additional costly bonding requirements, licensing requirements and fees and market conduct review requirements on MGAs. In addition, it would have eroded MGAs' rate and form freedoms and their ability to develop niche coverages without regulatory entanglements, said Mr. Heinze, who also is president and chief executive officer of risk management services provider Beacon Management Group Inc. of Wayne, Pa.

But regulators do not have their sights on agents that only underwrite risks for the insurers they represent, which accounts for 95% of the AAMGA's membership, Messrs. Heinze and Giles said.

Regulators' true targets are agents—more accurately called managing general underwriters—that also handle claims and place reinsurance for insurers, the AAMGA officials said.

Besides the costly new regulations, the AAMGA also did not want the NAIC to portray MGAs as equivalent to MGUs, which have been responsible for some high-profile collapses of underwriting facilities—such as the UNICOVER personal accident coverage debacle wending through the reinsurance industry—in the past 20 years.

As a managing general underwriter, "there's a significantly higher opportunity to do something wrong, whether intentionally or unintentionally," Mr. Giles said.

MGAs are monitored and regulated more closely by the insurers they represent, he said. "You can't put us all in the same box" with MGUs, he said. "We don't fit."

After the AAMGA weighed in, various NAIC groups and committees agreed at the organization's spring meeting this year that true MGAs should not have to comply with the act. A modified act was referred to another working group to review the measure's compliance with certain provisions required by the 1999 Gramm-Leach-Bliley Financial Services Modernization Act.

Other regulations spawned by the Gramm-Leach-Bliley Act continue to concern MGAs.

Under Gramm-Leach Bliley, 29 U.S. jurisdictions must approve reciprocity in agent licensing by Nov. 13, or the federal government will create the National Assn. of Registered Agents & Brokers to act as a national clearinghouse for producer licensing. State legislators and regulators generally oppose NARAB, because they fear it would diminish states' insurance authority.

More than 40 states have approved reciprocity regulations,

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Business Insurance

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last year.

"We did more than we anticipated," said Alan J. Kaufman, the president and chief executive officer of the Farmington Hill, Mich.-based managing general agent. "The first six months of the year were good, and, as the months went on in 2001, we saw a strong increase," he said.

David Price, executive vp and chief underwriting officer at Burns & Wilcox, said the MGA "saw strong demand across a spectrum of coverages." At first, he noted, "we found that the property business was coming to us faster than the general liability. The general liability has now caught up."

Burns & Wilcox's wholesale premium volume totaled $444.9 million in 2001, up 27.2% over 2000. Sixty percent of its business is written as an MGA and 30% is wholesale brokerage business. The other 10% is as a Lloyd's coverholder.

Of the wholesale premiums, 80% were written in the nonadmitted market, the remainder with admitted market insurers.

"We're not taking business away from other surplus lines markets," Mr. Price said. "The new business is coming from standard markets" into the nonadmitted marketplace, he explained. "If that is going on throughout the industry, there will be an increase (overall) in business placed on a nonadmitted basis."

That growth and a handful of acquisitions in 2001 resulted in the employee count at Burns & Wilcox jumping to 724 by the end of last year, compared with 560 at the end of 2000.

4

K&K Insurance Group Inc.

K&K Insurance Group Inc. was right on line with its expectations for 2001 but is facing some challenges this year.

"Our results were exactly what we anticipated with regards to premium" for last year, said Tony Wittwer, the president and chief executive officer of Fort Wayne, Ind.-based K&K. The managing general agent ended the year with $364.0 million in wholesale premium volume, up 12.0%. Its specialty is sports, leisure and entertainment programs.

K&K is finding that some difficulties that began at the end of last year are hampering its ability to write business in 2002. K&K ended its 16-year relationship with TIG Insurance Group late in 2001, when the insurance company's financial strength rating from rating agency A.M. Best Co. was downgraded from A- to B++.

"It's clearly having an effect as we put in place other carrier partners," said Mr. Wittwer. He said, though, that K&K already has assembled "a number of A-rated carriers in our portfolio."

Mr. Wittwer is optimistic that K&K, as it celebrates its 50th anniversary this year, will remain the leading market for the coverages it provides. "K&K is, at present and has been, the largest provider of coverage to the sports, leisure and entertainment industries. We are doing all that is necessary to maintain that."

Nearly all—98%—of K&K's business is written by admitted market insurers, the remainder by surplus lines underwriters. All of its business is commercial lines.

5

NIF Group Inc.

New business and rate increases boosted premium volume at NIF Group Inc. in 2001, and things aren't slowing down this year.

Last year's volume "turned out to be more than we expected," said Michael A. Orlando, the president of Manhasset, N.Y.-based NIF. "Going forward, the growth level has been pretty phenomenal. We expect to approach $200 million this year."

NIF, with 65% of its business as a managing general agent, recorded 2001 wholesale premium volume of $164.2 million, up 45.6% over the prior year. More of its business is being placed in the nonadmitted market, with 30% of premiums written by surplus lines insurers last year. In 2000, just 12% of premiums were in the nonadmitted market.

NIF is concentrating on improving loss ratios on some of its programs, particularly automobile coverages, Mr. Orlando said.

Growth is coming from programs written for municipalities, small contractors, pharmaceutical and chemical companies, Mr. Orlando noted.

An in-house broker who handles the pharmaceutical and chemical accounts has seen premium volume from those writings rise dramatically, Mr. Orlando said.

Like other MGAs, NIF is finding it hard to hire talented staffers. The MGA has found it particularly challenging to find clerical personnel to help the company keep up during the busy months of the hardening market.

Several individuals are undergoing training this summer, but Mr. Orlando acknowledged that the market is not waiting around. "By the time you get them up to speed, sometimes the market has passed you by."

401(k) directory

Business Insurance will publish its online Directory of 401(k) Plan Administrators in conjunction with the Sept. 30 issue.

That issue will include a chart ranking the largest 401(k) plan administrators and an editorial feature on pensions and retirement plans. The directory is published as an editorial service, and there is no charge to be included.

The online directory will be available to subscribers on *www.businessinsurance.com* and will be included in *BI's* 2002/2003 Market Source Book, a special printed compilation of all of *BI's* directories and rankings, which will be published Dec. 22.

To be listed in the Sept. 30 directory, companies must provide 401(k) plan administration services, such as enrollment recordkeeping and daily maintenance of participants' accounts. Plan administration services must be available on an unbundled basis.

If your company meets the requirements and has not received a questionnaire, please request one immediately by calling Kevin Edison at 312-649-5279.

Copies of the questionnaire also may be printed from the directory area of the *BI* Web site at *www.businessinsurance.com*.

Completed questionnaires must be submitted by the extended deadline of Sept. 13.

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Study alleges huge pension deficits

Watson Wyatt report says U.K. shortfall could top $100 billion

By SARAH VEYSEY

LONDON—As British Telecommunications P.L.C. refuted a report last week that its pension plan faces a shortfall of £5.5 billion ($8.38 billion), consultant Watson Wyatt Worldwide estimated in a separate report that U.K. occupational pension plans overall were underfunded by an estimated £70 billion ($109.35 billion) at the end of July.

In its study of U.K. pension plan funding, Watson Wyatt sought to examine the impact of a controversial new accounting rule, Financial Reporting Standard 17, that will take effect next year. Under FRS 17, U.K. companies must list on their financial accounts any pension funding surplus or deficit they face.

Watson Wyatt determined that, had FRS 17 been in effect this year, companies on the FTSE100 index in the United Kingdom would have had to disclose a total pension plan deficit of £35 billion ($54.68 billion) as of July 31, due largely to declining equity values.

"We have found that the combined deficits for FTSE100 companies alone are £35 billion, and the total for all U.K. companies could easily be twice that much, £70 billion," John Ball, a partner at Watson Wyatt, said in a statement announcing the report. Watson Wyatt found that nearly 90% of U.K. companies with occupational pension plans currently have a pension funding deficit, Mr. Ball said.

British Telecommunications is one large U.K. employer facing questions about the adequacy of its pension funding.

BT, which runs one of the largest employer-sponsored pension plans in the United Kingdom, last week refuted analysts' suggestions that its pension plan is underfunded by £5.5 billion. A report published by investment bank Goldman Sachs estimated that the assets of the BT fund had shrunk by £4 billion ($6.10 billion) since March due to falling equity markets. Goldman Sachs estimated that decline leaves a £5.5 billion hole in the pension fund, which had a deficit of £1.6 billion ($2.33 billion) at the end of 2001.

But BT blasted the report, saying that, according to an estimate by Watson Wyatt, the compa-

See PENSIONS/next page



PHOTO: GETTY

British Telecommunications has denied an investment bank's report that the company's pension plan faces a shortfall of more than $8 billion.

Benfield denies talk of takeover

LONDON—Reinsurance brokerage Benfield Group P.L.C. last week put to rest rumors that it would be taken over by Marsh & McLennan Cos. Inc., denying that any acquisition talks were taking place.

Last Monday, reports and market sources said that Marsh was negotiating a $1 billion takeover of the London-based brokerage.

But Benfield responded swiftly with a statement, saying that "the board of Benfield Group wishes to confirm that it is not in discussions with any third party at the current time in relation to a possible offer for the company."

"Furthermore, the board also wishes to confirm that no third party has undertaken due diligence on the company in relation to a possible offer," Benfield's statement continues.

In 2001, Benfield ranked as the world's third-largest reinsurance broker, based on revenues of $401.2 million. The combination of Benfield and Marsh's Guy Carpenter & Co. Inc. unit, which generated $625.0 million in 2001 revenues, would make Marsh's reinsurance brokerage operations larger than No. 1 reinsurance brokerage Aon Re Worldwide. Aon Re generated revenues of $720 million in 2001.

A spokeswoman for Marsh declined to comment on whether the two groups were in takeover talks.

—By Sarah Veysey

Increasing liability rates prompt U.K. insurers to lobby for changes

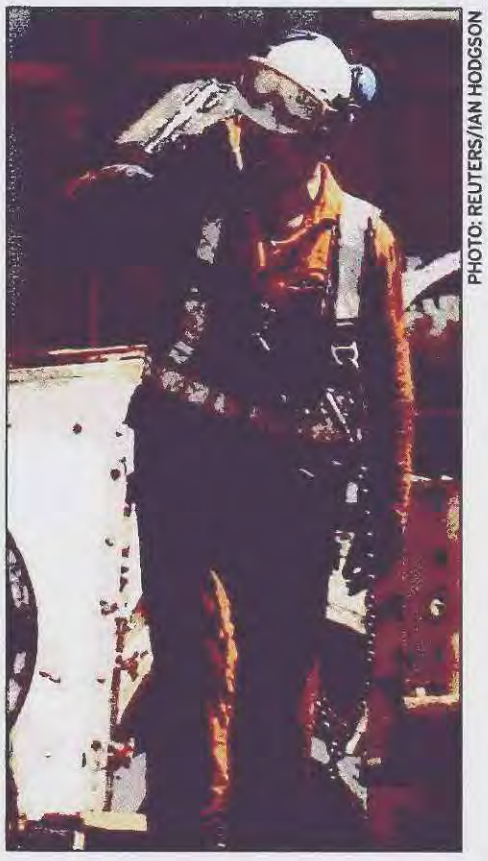


PHOTO: REUTERS/IAN HODGSON

U.K. industries face higher liability insurance rates because of reinsurance rate hikes and escalating claims.

By CAROLYN ALDRED

LONDON—Insurance industry associations are lobbying the U.K. government to make radical changes to the country's employers liability system in the face of what they see as a growing liability crisis.

Escalating claims and higher reinsurance costs are leading insurers to impose huge rate increases for employers liability insurance, which covers a broad range of employee injury exposures. Those price hikes are, in turn, forcing more large policyholders to self-insure and are driving some smaller policyholders out of business, reform proponents say.

"Because of almost intolerable strains in the (employers liability) system, it is now time for the government to consider fundamental reform of workplace compensation in the U.K.," said John Parker, head of general insurance at the Assn. of British Insurers in London.

"Many insurers believe (the current system) is no longer sustainable," mainly because of the uncertainty surrounding occupational diseases, Mr. Parker said.

Under the current system of workplace compensation, the government-backed Industrial Injury Disablement Benefit program supplies a basic benefit, and additional compensation is provided by mandatory employers liability insurance if employers are found liable for injuries.

The current system is under strain due to the increased claims resulting from occupational diseases with long latency periods, such as asbesto-

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World Updates

More capacity needed, AIRMIC says

An influx of capital into the primary insurance market is needed to ease pressure on risk managers and possibly to save some companies from financial ruin, according to the London-based Assn. of Insurance & Risk Managers. Rate hikes across many lines of coverage are forcing companies to take much higher self-insured retentions, which, for some, can pose a threat to their financial stability, AIRMIC said.

Allianz posts first-half gains

Allianz A.G. Holding recorded a profit of 1.6 billion euros ($1.58 billion) for the first six months of 2002, a 15.1% increase over the comparable period last year. The Munich-based insurer's premium volume rose by 12.0%, to 42.1 billion euros ($41.64 billion). Property/casualty premiums rose 4.9%, to 23.4 billion euros ($23.14 billion), yielding net income of 6.9 billion euros ($6.82 billion) for the first half of 2002, up from 1.6 billion euros ($1.58 billion) for the same period in 2001. Allianz attributed that profit gain to restructuring efforts and to improved loss frequency.

Steelworkers strike over DB plan closure

Workers at three U.K. steel mills owned by Caparo P.L.C. last Wednesday staged a 24-hour strike over the closure to new participants of the company's defined benefit pension plan. According to the Iron & Steel Trades Confederation, the labor union representing the workers, the move was the first in a series of strikes intended to prompt London-based Caparo to reconsider the closure of its pension plan. Caparo said it is considering its options, including reopening the plan.

Briefly noted

Moody's Investors Service in London has placed its A1 rating of **Royal & SunAlliance Insurance Group P.L.C.** under review. Moody's said the move reflected its concerns about London-based RSA's ability to maintain its capital position to benefit from the improving insurance market. RSA earlier this month said it may have to ask shareholders for extra funds to boost its capital base....Andrew Macleod has been appointed U.K. production underwriter at **Affiliated FM Insurance Co.**, a U.K. subsidiary of Factory Mutual Insurance Co. that specializes in middle-market commercial property insurance. Mr. Macleod was formerly a lead property underwriter at RSA.

Pensions: Report says most U.K. plans underfunded

Continued from previous page

ny's actuarial consultants, the £1.6 billion shortfall that the company faced in 2001 has remained "materially unchanged." BT said that Goldman Sachs had failed to discount the rate on the fund's future liabilities, and, consequently, its estimations are flawed.

The Goldman Sachs estimate "assumes that people are going to say they want their pension now, and that is not going to happen," a BT spokesman said. "What is important is the long-term health of the scheme, which we are addressing with additional payments of £200 million ($304.8 million) a year."

In its examination of pension funding, Watson Wyatt blamed the large aggregate deficit in the United Kingdom on companies' tendency to invest heavily in equities, which generally have declined in recent months. U.K. companies, on average, had 64% of their pension plan assets invested in equities at the end of 2001, according to the consulting firm.

But Mr. Ball said that the FRS17 deficit of U.K. companies could be wiped out within 10 years, without the need for extra pension contributions, if future returns on equity investments total 6% annually. This assumption, though, would require companies to continue to invest most of their assets in equities, which some may be reluctant to do, Watson Wyatt pointed out.

"While some companies may do this, others may feel that they are happier with a lower equity weighting, even though this will depress future expected returns," the consultant said in its statement. "This, in turn, may lead to higher pension contributions being required."

'The combined deficits for FTSE100 companies alone are £35 billion, and the total for all U.K. companies could easily be twice that much.'

John Ball
Watson Wyatt Worldwide

A landmark High Court decision announced last month, though, could provide a lifeline to companies facing crippling pension deficits under the new FRS17 accounting standard. The court ruled that London-based reinsurance broker Bradstock Group P.L.C. could proceed with a settlement deal with its pension fund trustee over a pension plan deficit that, under FRS17, could have pushed the company into bankruptcy.

In September, Bradstock announced a pension plan deficit of £14 million ($21.3 million) and said that, once FRS17 came into force—and the deficit would have to be included in the company's accounts statement—it would likely have to declare bankruptcy.

But in July, Deputy High Court Judge Charles Aldous cleared the way for a settlement that would enable the company to continue operating. Under the terms of the settlement, Bradstock will pay up to £5 million ($7.6 million) into the pension plan, including profits from a share issue, and the plan will then be wound up. The ruling marks the first time the High Court has permitted such a settlement.

"There is no way we could have made up this shortfall" without the settlement deal, said Nick Bryce-Smith, Bradstock's chairman. "If the court had ruled against us, we would have gone into administration."

Mr. Bryce-Smith predicted that several other U.K. companies would face similar problems once FRS17 takes effect.

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LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE PETITION OF
DAN YORAM SCHWARZMANN
AND MARK CHARLES BATTEN,
AS PROVISIONAL LIQUIDATORS OF
INDEPENDENT INSURANCE COMPANY LIMITED,
DEBTOR IN A FOREIGN PROCEEDING
CASE NO. 01-13899 (SMB)

NOTICE IS HEREBY GIVEN THAT ON AUGUST 7, 2002, THE BANKRUPTCY COURT ENTERED AN ORDER (THE "ORDER") CONTINUING THE PRELIMINARY INJUNCTION ORDER PURSUANT TO 11 U.S.C. §304 ORIGINALLY ENTERED IN THIS CASE ON JULY 31, 2001. THE ORDER SHALL REMAIN IN EFFECT PENDING A HEARING SCHEDULED TO BE HELD ON FEBRUARY 12, 2003 AT 10:00 A.M. (THE "RETURN DATE") BEFORE THE HONORABLE STUART M. BERNSTEIN, CHIEF UNITED STATES BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT LOCATED AT ONE BOWLING GREEN, NEW YORK, NEW YORK. ALL PAPERS SUBMITTED FOR THE PURPOSE OF OPPOSING THE CONTINUATION OF THE ORDER AFTER THE RETURN DATE SHALL BE FILED WITH THE COURT, WITH A COPY TO THE CHAMBERS OF THE HONORABLE STUART M. BERNSTEIN AND SERVED ON COUNSEL FOR THE PETITIONERS LISTED BELOW, SO AS TO BE RECEIVED AT LEAST FOURTEEN (14) DAYS PRIOR TO THE RETURN DATE. ANY PERSON WISHING TO OBTAIN A COPY OF THE ORDER SHOULD CONTACT COUNSEL TO THE PETITIONERS.

CHADBOURNE & PARKE LLP
ATTORNEYS FOR THE PETITIONERS
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NEW YORK, NEW YORK 10112
(212) 408-5100
ATTN: HOWARD SEIFE, ESQ.

e-mail iamleshi@crain.com

LEGAL NOTICE

NOTICE OF MEETINGS OF SCHEME CREDITORS
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
No. 001448 of 2002
IN THE MATTER OF

NORTH ATLANTIC INSURANCE COMPANY LIMITED

(Provisional Liquidators appointed)
and IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an Order dated 2 August 2002 made in the above matter, the Court has directed that meetings ('the Scheme Meetings') of the Company's Scheme Creditors (as defined in the Scheme (as defined below)) of North Atlantic Insurance Company Limited ('the Company') be held together on 3 October 2002 at The Chartered Insurance Institute, The Insurance Hall, 20 Aldermanbury, London EC2V 7HY, United Kingdom commencing at 11am. All Scheme Creditors are requested to attend at such place and time either in person or by proxy.

The purpose of the Scheme Meetings will be to consider and, if thought fit, to approve (with or without modification) a scheme of arrangement proposed to be made between the Company and the Scheme Creditors pursuant to s425 of the Companies Act 1985 ('the Scheme').

A downloadable file of the proposed Scheme, Explanatory Statement and Appendices are available on the North Atlantic web-site at www.northatlanticinsurance.co.uk. Should an email or a printed copy be required, please send your request to the Joint Provisional Liquidators at the address below, and one will be sent to you.

Copies of the notice of the meetings, forms of proxy, voting forms, short-form Explanatory Statement, the Scheme document and long-form Explanatory Statement can be obtained from the registered office of the Company or from the Joint Provisional Liquidators or their Solicitors.

The Scheme Creditors may vote in person at the Scheme Meetings or they may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their place.

It is requested that voting forms be lodged with the Joint Provisional Liquidators, North Atlantic Insurance Company Limited, PO Box 137, Harlands Road, Haywards Heath, West Sussex RH16 1YG, United Kingdom, fax number +44 (0)1444 450 458 not less than three working days before the time appointed for the Scheme Meetings. A faxed copy of the voting form will be accepted if legible.

By the same Order the Court has appointed Paul Anthony Brereton Evans of Plumtree Court, London EC4A 4HT, United Kingdom or, failing him, Mark Charles Batten of Plumtree Court, London EC4A 4HT, United Kingdom to act as Chairman of the Scheme Meetings and has directed the Chairman to report the result of the Scheme Meetings to the Court.

The Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated this 15th day of August 2002

RICHARDS BUTLER

Beaufort House, 15 St Botolph Street,
London EC3A 7EE, United Kingdom
(Reference: JY/LT/97-14021)

Solicitors for the Joint Provisional Liquidators of North Atlantic Insurance Company Limited

REQUEST FOR PROPOSALS

RFP FOR PROPERTY INSURANCE

The Town of Hempstead, Long Island, New York seeks a one to three year all peril policy for property and contents coverage for all Town facilities. The latest appraisal value for the property to be insured is $180 million.

RFP packages will only be sent to insurance companies licensed in New York with a Best rating of no lower than "A" and a financial size category of 10. Qualified brokers representing carriers of this rating and size may also apply.

Written requests only for an RFP package should be addressed no later than September 6th, 2002 to:

Property Insurance RFP
Attn: Norman Murray
Town's Attorney's Office
1 Washington Street
Hemsptead, New York 11550

REQUEST FOR PROPOSALS

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Pollution Liability and Contractors Pollution Liability Insurance

The New York City Housing Authority ("NYCHA") requests Bids from qualified INSURANCE CARRIERS for Pollution Liability and Contractors Pollution Liability Insurance. Carriers must be authorized to conduct business in New York State with an "A.M. Best" rating of at least "A-".

Coverages are to become effective November 1, 2002.

Proposals shall be made in the format included in the Invitation For Bid package containing instructions, specifications and detailed submission requirements. Packets may be obtained by contacting NYCHA's Casualty Insurance Broker/Consultant: Marsh USA, Inc. 1166 Avenue of the Americas, New York, N.Y. 10036 - 2274 at (212)345-3533. In order to be eligible, completed bid proposals must be received by 4:30 P.M. on September 16, 2002.

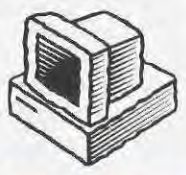
All inquires for additional information regarding the Invitation For Bid are to be directed, in writing, to Robert Mazzaro, Vice President, Marsh USA, Inc. at the aforementioned address/phone.

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Business Insurance

Liability: U.K. reforms urged

Continued from page 25

sis, court rulings limiting statute-of-limitations defenses, and medical developments that more frequently link occupational diseases with specific work practices, Mr. Parker said.

The ABI will meet with Treasury officials in the fall to discuss possible changes to the employers liability system. However, "reform would be a major task for the government, and several years would be needed to produce a new and sustainable system," Mr. Parker noted.

The British Insurance Brokers Assn. also is pushing for employers liability reform.

"BIBA and individual broker members have been approached in recent weeks by numerous businesses threatened with closure because they have been unable to obtain (employers liability) insurance. The BIBA has identified dozens of businesses that have either closed down or are continuing to trade illegally and uninsured," according to a BIBA statement.

The types of firms identified by the BIBA having the greatest difficulties obtaining coverage include: scaffolding contractors, metal fabricators, steel erectors, mining companies, children's nurseries, haulage firms, couriers, roofing contractors, coach operators and consulting engineers.

"If this situation does not improve quickly, the government will be faced with a significant number of companies going out of business or with demands for the introduction of a central government-backed insurer for certain business activities," according to the BIBA.

Currently, only about three insurance companies offer employers liability coverage "from the ground up," and most Lloyd's of London syndicates that write employers liability have limited capacity, according to Ron Hayes, head of European retail placement for Marsh in London.

As a result, employers liability rates for large companies are increasing by 35% to 75%, and companies are increasing their reliance on captives, alternative risk financing and self-insurance, he said.

The Assn. of Insurance & Risk Managers said in a statement that some companies are finding employers liability renewals "difficult, if not impossible, particularly for those companies with a poor claims experience."

Responding to industry and buyer concerns, the U.K. Department for Work and Pensions said in a statement that employers liability coverage is still available, albeit at higher premiums.

"Insurers have to be free to set premiums, in a competitive market, to maintain their solvency and ensure continued level of cover. But there is a link between premiums and risks—high premiums provide incentives to improve health and safety standards, and, conversely, improving standards of health and safety in the workplace should help to contain premium levels over the longer term," the statement said.

Lloyd's Underwriter John Murphy, whose syndicate 2525 specializes in employers liability insurance, said that his syndicate is reaching its 2002 capacity limit of £50 million ($76.5 million), chiefly because of increased premiums. As a result, the syndicate, which is managed by Abacus Syndicates Ltd., is seeking additional capacity for that line.

Mr. Murphy said that insurers are increasing rates for several reasons, including: the collapse last year of Independent Insurance Co. Ltd., increasing employers liability claims and higher awards, court rulings that have expanded liability for employers, contraction in the reinsurance market, low interest rates and stock market conditions.

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Aon: Some challenges remain

Continued from page 1

Aon's balance sheet. The SEC had questioned Aon's treatment of the transaction as a sale of assets, and its approval of the accounting methodology means Aon will not have to move the investments back onto its balance sheet.

The announcement triggered a rally in Aon's shares, which jumped 22.1% to $19.40 on Wednesday. The broker's stock fell 30% to $14.77 on Aug. 7, the day it announced dismal second-quarter results, scuttled plans to spin off its Combined Specialty Group Inc. underwriting operations and disclosed the SEC inquiry. Aon's shares closed Friday at $19.56.

With the SEC questions behind it, Aon now has its hands full improving its performance and disposing of its underwriting units, analysts note.

Investors expected Aon's earnings growth to be slowed by its business transformation plan—under which it has restructured its brokerage operations—"but the level of deterioration was greater than we expected," said Matthew T. Coyle, a director with Standard & Poor's Corp. in New York.

Although Aon's first-half net income was up—particularly after the shift of Sept. 11 charges to last year—the broker recorded no net income in the second quarter. Excluding taxes and charges and credits related to the Combined spinoff and business transformation plan, Aon's income from operations actually fell: For the first half, pretax income excluding unusual items dropped 12%, to $289 million from $330 million; for the second quarter, it fell 94% to $13 million from $210 million.

Mr. Ryan called the second-quarter results "the worst in Aon's history," and attributed the performance to "certain unusual items, compressed operating margins and lower investment income."

Aon's narrowing margins have been caused in part by rapidly rising expenses: Expenses excluding business-transformation costs jumped 22% in the first quarter from the prior-year period and 16% for the first half overall.

Rising compensation costs are partly to blame as Aon has hired highly paid new employees and worked to keep existing key staffers from defecting to competitors, the company and industry analysts say.

"It's a people-intensive business. When you start losing your most valuable asset—people—you run into problems," Mr. Coyle said, adding that Aon competitors "have benefited from some of the distractions Aon has been dealing with."

Mr. Ryan said in a statement that the restructuring of Aon's U.S. retail brokerage business is nearly complete and that its profit margins will improve in the second half as costs are brought into line with "new business growth opportunities."

The fate of Combined Specialty is another of analysts' concerns. With the failure of its plan to spin off the unit, Aon is now considering selling all or part of Combined or spinning off part of the operation.

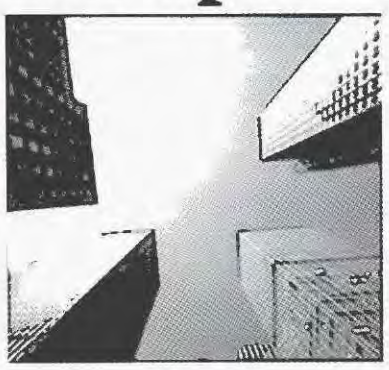
The importance of resolving the Combined issue "cannot be overstated," Mr. Coyle said, noting that a sale would provide Aon with cash it could use to pay down debt and remove another distraction for the brokerage operation.

While Mr. Ryan has forecast "significantly improved results" for the rest of this year and for 2003, several analysts are waiting to see how Aon actually performs.

"We want to see them turn this thing around in the second half" and post a few quarters of improving results, including top- and bottom-line growth in U.S. retail brokerage business, said Thomas S. Jalics, a Fitch Inc. analyst in Chicago.

"The (insurance) market trends are there; it's just a question of execution," S&P's Mr. Coyle said.

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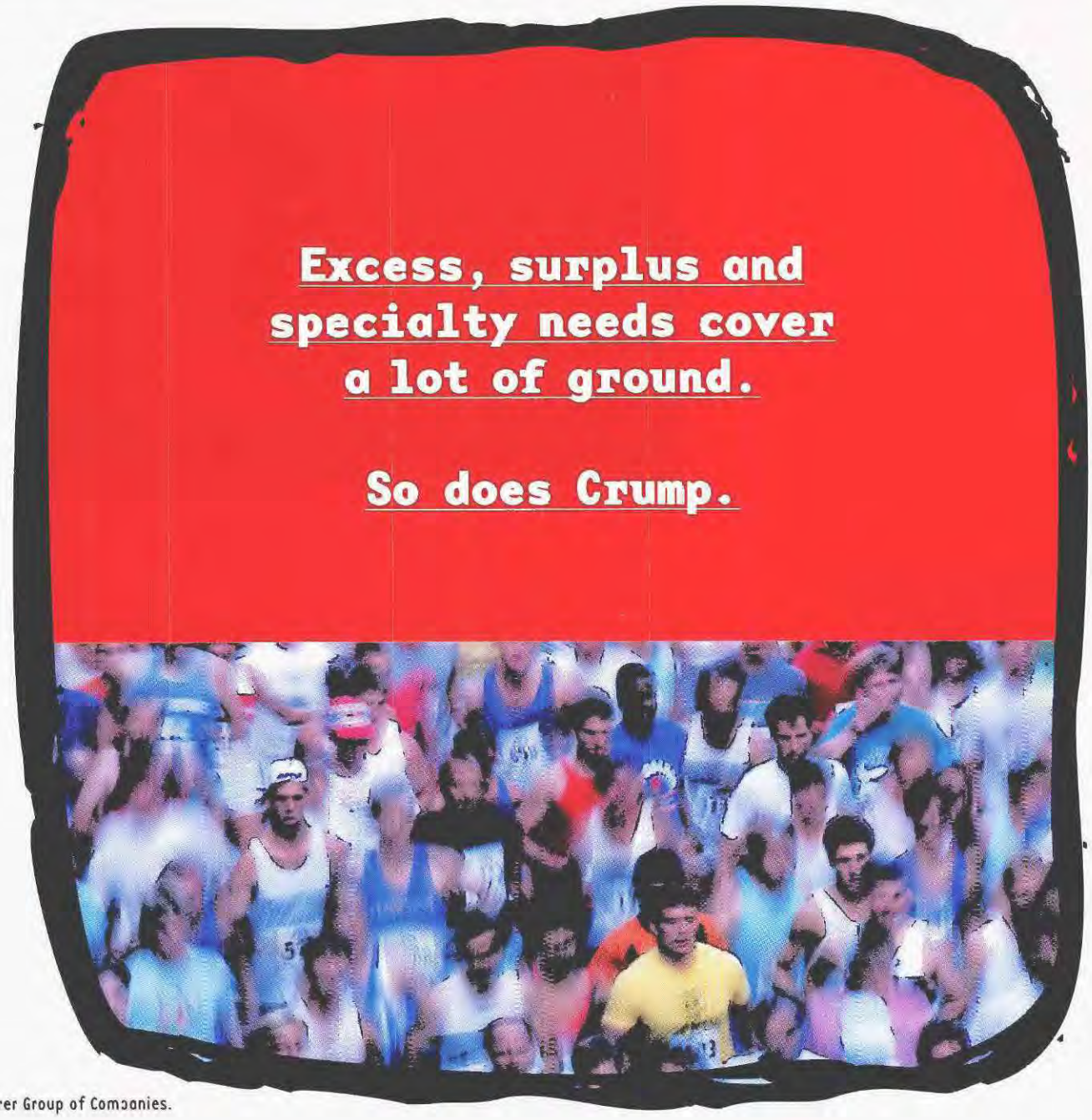
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Regulations: More oversight proposed

Continued from page 3

non-U.S. insurers' trusts.

The IID, which operates under the auspices of the NAIC's Property and Casualty Insurance Committee, maintains a plan of operation that spells out the policies and procedures that the group uses to determine whether to list a particular insurer on its Non-Admitted Insurers Quarterly Listing, which some consider a "white list."

Most states either require that a non-U.S. insurer be listed or allow that a listing fulfills their eligibility requirements, although a minority of states do not use the quarterly listing and rely on other methods to determine eligibility to write surplus lines business, according to the NAIC.

Listing, though, has "an economic value," in that it demonstrates that the insurer's financial information has been reviewed and regulators have concluded that the company or syndicate is likely to be able to pay claims, an NAIC spokesman said. In evaluating an operation, IID regulators review an insurer's capital and surplus, the status of its U.S. trust account and its managers' trustworthiness and integrity, the spokesman explained.

"Thus, the public can have greater confidence that a listed insurer will honor its commitments than an unlisted one," he said.

Three general proposals for amending standard trust agreements are now pending before the IID review group. Currently, there are two such trust agreements, one for non-U.S. insurance companies and one for Lloyd's syndicates. In addition, Lloyd's has a joint asset trust deed for surplus lines.

The most-controversial proposal under consideration would clarify that the IID and U.S. regulators have the authority to determine, on an individual basis, the appropriate trust fund amount for each non-U.S. insurer during the runoff period for its trust.

Currently, trust amounts vary, depending upon the type of non-U.S. insurance operation. Requirements for a non-U.S. company include, for example, the deposit of at least $5.4 million plus 30% of its U.S. surplus lines liabilities after Jan. 1, 1998.

According to the NAIC's draft proposal, "this change would address the problem that arose earlier this year, when a number of Lloyd's

See REGULATIONS/next page

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Surplus market: More oversight proposed

Continued from previous page

syndicates were told by the IID...to increase their trust fund minimum amounts." Instead, the syndicates withdrew from the quarterly list without increasing their trust funds. "Effectively, their withdrawal frustrated the vote of the IID" review group, the proposal noted.

Because U.S. policyholders' policies were written during the time that a company or syndicate was listed—usually as a result of the eligibility that came with listing—it seems "inappropriate" that the IID group "cannot continue its task of determining the appropriate level of protection for U.S. policyholders," the proposal said.

Expanding U.S. regulatory oversight during a trust's runoff period, "would close an apparent loophole," said Mark Presser, chief examiner and assistant deputy superintendent of the New York Insurance Department's Property Bureau. In the handful of Lloyd's cases, the syndicates gave up their eligibility to write U.S. risks and the New York domiciliary regulator froze their trusts, said Mr. Presser, who is a member of the review group.

Lloyd's Mr. Gunset said, though, that he disagrees with the proposal's characterization of the delistings. The syndicates' decision to delist "was not connected to the funding discussion" but was "coincidental," he said.

Mr. Gunset said that, without seeing specific language, it appears that the proposed change "would duplicate an already effective regulatory process."

It is important to remember that Lloyd's is a market in which syndicates come and go, said John P. Mulhern, a partner with LeBoeuf, Lamb, Greene & MacRae L.L.P. in Newark, N.J. He represents several non-U.S. surplus lines insurers, including Lloyd's.

For example, over the past several years, the number of active Lloyd's syndicates has shrunk to 86, from more than 130, according to Mr. Gunset.

Meanwhile, two other proposals have preliminary support from both Lloyd's and the International Underwriting Assn., a group representing London market insurers, according to their respective representatives.

One proposal would allow a trust to be terminated with actuarial certification after five years, in lieu of the current requirement of an independent audit.

The other proposal would broaden to all insurers a provision in the Lloyd's deeds that allows a syndicate to withdraw money from the trust to pay for major claims under "unusual circumstances," with the permission of the domiciliary commissioner.

Detailed versions of the proposals are expected to be discussed by the IID review group during the NAIC's fall meeting, scheduled for Sept. 9-12 in New Orleans.

Aging: Benefits changes ahead

Continued from page 3

worker to earn simultaneously both a paycheck and a retirement check from the same employer. Without the implementation of these legal changes, employers will watch key older workers leave to collect their pensions and join rival firms.

"Phased retirement will be routine," predicted Eric Lofgren, global director of the benefits consulting group at Watson Wyatt Worldwide in Philadelphia.

Defined contribution plans will also have to change in the future. Because individuals will be living longer, they will spend more years in retirement. Consequently, they will need to accumulate more money before retiring.

Investment education will become more important to ensure that these workers can achieve their financial goals. If workers don't save enough, "they will be stuck, and they will be mad," Ms. Rappaport said.

Benefits experts advise, though, that before an employer opts to make drastic changes, it should conduct an analysis of its workforce. The employer should analyze the distribution of its employees' ages by location and job title and determine whether a sufficient number of younger workers are in place to eventually replace retiring workers.

Undertaking such an analysis can help an employer formulate a plan that will keep it from being hit without warning by a wave of retirements, Ms. Hass said.

Employer work/life programs will also need to undergo significant changes to acknowledge the values of older workers, which tend to differ sharply from those of their younger colleagues.

The key to any future work/life program is flexibility, both in the benefits offered and in the scheduling of work, said Gale Varma, vp of human resources at Prudential Financial Inc. in Newark.

Older workers tend to be motivated to work less by salary than by flexibility that permits them to pursue their personal interests. Such flexible programs might look very different from current work/life programs.

Employers should determine individual employees' passions and help them "build their lives around that," whether it's gardening or golf, advised James Weil, managing director of the Successful Aging unit of LifeCare Inc. in Westport, Conn.

The focus of many older workers is less on money and more on the enjoyment of free time. If an employer could help an individual find and pursue personal interests, Mr. Weil said, the employee might be more inclined to stick with that employer.

At the same time, Mr. Weil said, the employer might be able to convince other employees to retire in order to pursue their interests. "The same set of tools can be used to retain people and to help ease people out," he said.

Any benefits related to elder care will probably become more important, experts say. Because many older workers will themselves be caring for their own mothers and fathers, parental care, flexible time and long-term care insurance will increase in significance.

"These will be as important as day care is today," predicted Marc Drizin, employee loyalty specialist at Walker Information, a market research firm in Indianapolis.

At the same time, child care benefits probably will receive less attention, Ms. Varma said. Child care benefits likely will be relabeled to be included under dependent care benefits, so that all workers, including those with dependent parents, can use them, she said.

But Ms. Varma said she does not see the emphasis on child care benefits disappearing altogether. "You will still need to bring in employees at the entry level," she said.

In addition, intergenerational day care centers might prove a popular benefit. In these centers, children and the elderly spend most of the day in separate areas but pass some time together, explained Elizabeth Hall, work/life and communications manager at Toyota Motor Sales USA in Torrance, Calif.

Another avenue to explore might be volunteer programs, Mr. Weil said. Older workers are more likely to become involved with volunteer and civic organizations, he said, and for these workers, working is less about building a career and more about helping the community through volunteering or mentoring.

Employers, Mr. Weil said, are in a unique position to foster this type of environment.



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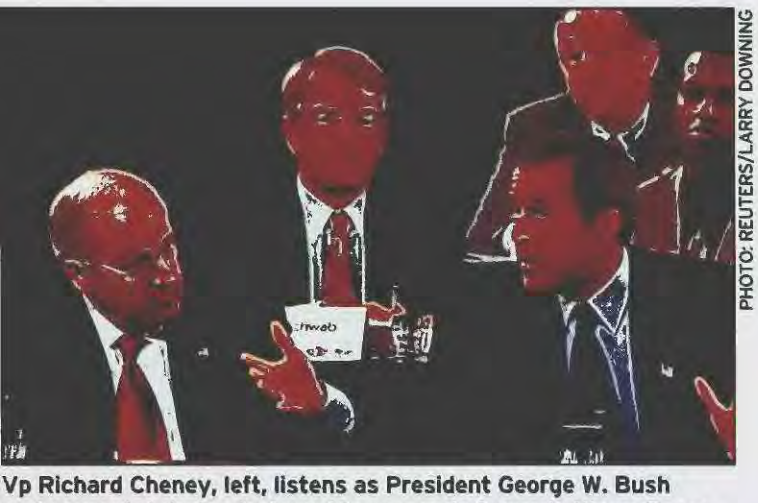


PHOTO: REUTERS/LARRY DOWNING

Vp Richard Cheney, left, listens as President George W. Bush makes a point during last week's economic forum in Waco, Texas.

Bush issues call for med mal reforms

Speaking at last week's economic forum held at Baylor University in Waco, Texas, President Bush repeated his call for Congress to enact medical malpractice reforms. "If you get hurt, if somebody has mistreated you, you ought to have your day in court....But there ought to be a cap on noneconomic damages and on punitive damages. And we ought to have joint-and-several liability reform," Mr. Bush said.

Berkshire sees better underwriting results

Underwriting results are improving at Berkshire Hathaway Inc.'s principal reinsurance units. General Reinsurance Corp. posted an underwriting loss of $232 million during the first half of 2002, compared with a $502 million loss during the same period a year earlier. Berkshire Hathaway Reinsurance Group posted underwriting income of $39 million during the first half, compared with a $138 million underwriting loss during the same period of 2001.

Endurance posts $34.6 million profit

Endurance Specialty Insurance Ltd. reported profits of $34.6 million for the first six months of 2002. The Hamilton, Bermuda, startup insurer and reinsurer reported gross written premiums of $395.2 million and a combined ratio of 82% for the period. Endurance was formed late last year to take advantage of rising rates.

Class action sought against drug maker

An attorney representing a victim of the 1999 Columbine High School shootings is seeking class-action status for a lawsuit that blames the rampage, in part, on the antidepressant drug Luvox. The suit asserts that the drug's manufacturer, Solvay Pharmaceuticals, was negligent in not warning the psychiatrist who prescribed Luvox to one of the gunmen that the drug could cause some users to become manic and psychotic. The suit was originally filed last year, but all but one of the original plaintiffs backed out.



Fla. hurricane exposure has increased: Report

If a storm the size of Hurricane Andrew were to hit the same South Florida area that Andrew devastated 10 years ago, it would cause more than $30 billion in insured damages, according to an insure.com report.



PHOTO: KRT

La Place, La., was hit hard by Hurricane Andrew in 1992.

Andrew caused an inflation-adjusted $19.6 billion in insured damages. The insure.com report says the losses now would be much higher because of population growth and increased wealth in the area.

Odyssey Re sees gains in top, bottom lines

Odyssey Re Holdings Corp. reported net income of $89.1 million for the first half of 2002, more than double its profits for the comparable period last year. The increase was due, in large part, to changes in accounting rules concerning the amortization of goodwill, the New York-based reinsurer said. Gross premiums written rose 62.4%, to $831.9 million.

Briefly noted

American International Group Inc. has increased the capacity it offers for **environmental insurance coverages** to $150 million from $100 million. The increase in available limits comes at a time when "obtaining sufficient capacity is an increasing challenge for many risk managers," New York-based AIG said in a statement....Gulf Insurance Group has increased the limits it offers for **environmental insurance** to $25 million from $15 million. The New York-based unit of Travelers Property Casualty Corp. offers environmental package policies and specialty monoline environmental coverages.

D&O: More litigation possible

Continued from page 3

have a market that can cause litigation. Shareholders are used to more-robust growth."

"There's definitely the potential for increased litigation because of this," said John Keogh, president and chief operating officer of National Union Insurance Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc. that writes D&O coverage.

Mr. Keogh pointed to the Private Litigation Securities Reform Act of 1995, a law that significantly revised the anti-fraud provisions in U.S. securities law in an effort to stem the tide of frivolous suits, as an example of how well-intentioned legislation often has "unintended consequences."

"Everybody thought the claims experience for securities litigation would be better post-'95, and underwriters adjusted the policy forms and pricing in anticipation of that happening. But instead of getting better, it got much worse," he said, referring to today's litigious environment.

It is unlikely underwriters today will loosen up coverage restrictions or alter pricing for companies that meet the SEC's certification requirement, said John Rafferty, a vp at Hartford Financial Products in Chicago. New York-based Hartford Financial is a unit of The Hartford Financial Services Group Inc.

"Just because a company is certifying their financials certainly is not leading to any rate reduction," he said. "It's a small sigh of relief, but it's not some huge watershed event that leads to better pricing or more-available coverage."

'Just because a company is certifying their financials certainly is not leading to any rate reduction. ... It's a small sigh of relief, but it's not some huge watershed event that leads to better pricing or more-available coverage.'

John Rafferty
Hartford Financial Products

Rather, it is more likely that "any company that right now cannot certify or only can certify with caveats or a restatement is going to have an extremely difficult time with its D&O insurance program," Mr. Rafferty suggested.

The situation illustrates the growing need for enterprisewide risk management in corporate America, according to Jon Elks, senior vp of risk management and insurance at Cablevision Systems Corp. in Bethpage, N.Y. He was hired two months ago to integrate and oversee Cablevision's internal audit and risk management divisions. Cablevision is one of the companies subject to the new SEC requirement.

"Hopefully, this is the beginning of a trend that makes risk management less of a silo approach, where you have different risk-managing areas within an organization," Mr. Elks said. "One has to be more holistic now and understand what events could arise if this (financial) information is wrong."

Taking such an approach could demonstrate to underwriters that the company will be more aggressive in addressing exposures that could potentially trigger D&O claims, he said.

"If you do have an enterprise approach and you do know the key risks and issues, then you can tailor your insurance," Mr. Elks said.

Furthermore, he said, "if a company is more aware of the risk tolerance they have and the amount of risk they are taking, then you can make a more fully informed decision on how much to self-insure."

Online Poll [8/12 - 8/16]

Should states limit noneconomic damages that can be awarded in cases of medical malpractice to increase the affordability of malpractice insurance for physicians?

Yes	No
60.3%	39.7%

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BI Stock Index [8/12 - 8/16]

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Percentage change of *BI* Stock Index vs. key indicators

BI Stock Index	Dow Jones	S&P 500
1.13	0.37	2.22
1931.20	8778.06	499.17

Largest gains

Aon Corp.	27.18%
Clark Bardes Holdings	18.82%
Fremont General Corp.	11.73%
Hub International	8.51%
Odyssey Re Holdings	7.57%

Largest losses

CNA Surety	-10.03%
Acceptance Insurance	-8.96%
NYMagic Inc.	-8.08%
Meadowbrook Ins. Group	-8.00%
Vesta Insurance Co.	-6.80%

Weekly change by market segment

Brokers	8.39%
Insurers/Reinsurers	-0.39%
Managed Care Organizations	0%

Source: CNET Investor (investor.cnet.com)

Privacy: Revisions welcomed

Continued from page 1

ance requirements for both fully insured and self-insured plans, he said.

"My understanding is that these are greatly improved from the Clinton-era regulations," said Neil Trautwein, director-employment policy for the National Assn. of Manufacturers in Washington. "But it is still one of the most complex regulatory schemes to hit the health care system in memory, which will entail significant costs and great confusion. It will take a while to work all of these relationships out. For example, an employer could be both a covered entity as well as a business associate, and the problems are greatly magnified for health care providers and also for researchers," Mr. Trautwein said.

The rules take effect for most covered entities on April 14, 2003, although covered entities would have up to an additional year to bring into compliance existing written contracts with business associates, such as third-party administrators. Covered entities include health plans, health insurers and health care providers.

These covered entities must inform patients of their privacy rights and the privacy practices of the entity, although—unlike under the original rule—they won't have to get a signed release every time information changes hands. Under certain circumstances, individuals who deliberately violate the rules will face criminal penalties, including prison.

Congress had assigned itself the task of drafting patient privacy rules when it approved the Health Insurance Portability and Accountability Act in 1996. Lawmakers failed to meet their own deadline and turned the job over to HHS. HHS proposed standards in 1999 and published what were to be final standards in the last weeks of the Clinton administration. But a paperwork glitch allowed incoming HHS Secretary Tommy G. Thompson to reopen the comment period and delay implementation of the original rule.

Risk managers and property/casualty insurers had initially feared that medical information used in handling workers comp claims would be subject to the same restrictions as other personally identifiable medical records. The original rule, like the final rule, was not meant to apply to workers comp or to other property/casualty lines of insurance. But it appeared to do so indirectly by saying that any entity covered by the rule could disclose only such information regarded by the provider to be "minimally necessary" to workers comp insurers.

Insurers wanted HHS to expressly eliminate the application of the minimum-necessary disclosure standard to workers compensation, said Bruce Wood, assistant general counsel of the American Insurance Assn. in Washington. Physicians are not in a position to make what are essentially legal determinations regarding what is relevant to release to workers comp insurers, Mr. Wood said. Insurers were also concerned about imposing a federal information disclosure standard on a state-based workers comp system, he said.

The rules drew a positive yet guarded response from risk managers and insurers alike.

'We want to make sure that we don't put further impediments on either employers or their carriers in getting information to process their employees' workers compensation claims.'

Michael Phillipus
Risk & Insurance Management Society Inc.

"What we've seen is that they've attempted to address some of the concerns over workers compensation in some language in the preamble," said Michael Phillipus, vp-external affairs for the New York-based Risk & Insurance Management Society Inc.

"Obviously, anything they can do to help clarify the situation we find helpful. For them to say point blank that it doesn't apply to workers comp in the rules would have been the best thing. We want to make sure that we don't put further impediments on either employers or their carriers in getting information to process their employees' workers compensation claims," said Mr. Phillipus, who is also manager-risk management for Pennzoil-Quaker State Co. in Houston.

"We were very pleased that HHS acknowledged the concerns of the workers compensation community and that the minimum-necessary tests and other aspects of the regs could have significant unintended consequences that would interfere with the ability to obtain information legitimately needed" to provide benefits to workers, said Eric Oxfeld, president of UWC Inc., a Washington-based group that lobbies on workers comp and related issues.

Insurers are promising to keep close track of how HHS implements the regulations.

"While it's not everything that the property/casualty industry wanted, in terms of comp, it at least recognizes the informational needs that workers comp has. As we go forward and these regulations are implemented, we'll have to see that the intent of the agency is actually carried out," said Ken Schloman, Washington counsel of the Alliance of American Insurers.

"It's a bit of a mixed bag," said Julie Gackenbach, director-government relations in the National Assn. of Independent Insurers' Washington office. "We're obviously disappointed that they did not make the specific change we requested in the regulatory language. We had requested a specific exemption from the minimum-necessary standard in regard to workers comp claims. But in the preamble, the department did recognize our concerns and did pledge to actively monitor the standard, and if it was used or misused in any way to actively impede the workers comp system, that they will consider modification."

"We will be monitoring closely the experience with the regs as they go into effect, because we do not want to see repeated what happened in Hawaii, where a similar state medical privacy law that, on its face, did not apply to workers compensation resulted in a shutdown of the workers compensation system," said UWC's Mr. Oxfeld. Lawmakers repealed that 1999 medical records privacy law after physicians refused to release information to employers and insurers, as Mr. Oxfeld and AIA's Mr. Wood noted in a recent Perspectives article (*BI*, July 15).

"We would not want to see that replicated on the national level as a unintended consequence of the HIPAA regs, and we will cross our fingers and hope for the best that it will be interpreted and applied in a way that does not interfere," Mr. Oxfeld said.

Mr. Dennett of the American Benefits Council also cautioned that some lawmakers don't think the rule goes far enough in protecting privacy. Senate Health, Education, Labor and Pensions Committee Chairman Edward Kennedy, D-Mass., has said he wants to change the regulation legislatively.

Mr. Dennett said such a move would be "unfortunate." Employers and health plans are "looking for finality, a sensible mechanism and closure," he said, "so they can make plans that would bring them into compliance."

Leave: Bills call for paid time off

Continued from page 1

leave to care for a child, parent, spouse or grandparent. While some of the paid-leave bills are on hold and others already have been defeated, many are likely to be reintroduced, according to the National Partnership for Women & Families, a Washington-based advocacy organization supporting passage of the bills.

Supporters of the legislation argue that although many states and the federal Family and Medical Leave Act allow employees to take time off without pay to care for family, the vast majority of employees cannot afford to do so when necessary.

Employer groups oppose many of the measures, arguing that some will impose additional taxes, which are especially unwelcome at a time of economic difficulties. Others cite a potential for system abuse and administrative burdens.

Legislation passed by California's Senate in late June, for example, would cost all state employers and employees $2.2 billion annually by 2005, according to the Sacramento-based California Chamber of Commerce. Proponents, though, put the cost at less than $700 million.

The Chamber is leading the fight against California's S.B. 1661, which is currently before the Assembly. The bill would provide 12 weeks of paid leave annually for a worker to care for an ill child, spouse, parent or domestic partner, as well as for childbirth or adoption.

Currently, California is viewed as a major front in the battle over the issue, with supporters hoping for a victory that they can spread to other states, said Julianne Broyles, director of insurance, employee relations and small business for the Chamber.

"They figure if they can get it here, they can start announcing, 'That state has it—why can't we have it here?' " Ms. Broyles said.

The legislation would create, within the state disability insurance system, a family temporary disability insurance program, according to a Senate analysis of S.B. 1661.

Employees in California currently fund the state disability benefits with a mandated wage deduction of 0.9% of their pay. But S.B. 1661 calls for employees to fund only 50% of the new benefit, with employers paying the balance.

For the employee contribution, the state Employment Development Department would increase worker SDI contributions by 0.05%, with a possible annual adjustment, according to the analysis.

Employers, for their part, would either contribute to a state disability fund or purchase private disability insurance, depending on their preference.

The Chamber argues that it is unfair to create a new employer tax to pay for worker time off not related to an employee's work. The chamber also argues that the bill would apply to all employers, unlike current state and federal family and medical leave laws that exempt employers with fewer than 50 employees.

Sen. Sheila Kuehl, D-Los Angeles, introduced S.B. 1661. It is sponsored by the California Labor Federation AFL-CIO and is supported by many women's and family advocacy groups.

CIGNA HealthCare of California is among the employers opposing the legislation. The Glendale, Calif.-based health plan employs about 700 workers throughout the state. Current family and medical leave laws are appropriate, eliminating the need to expand benefits, a CIGNA spokeswoman said.

CIGNA also opposes the legislation because it would leave it to the state, not the employer, to certify employee qualification, the spokeswoman said.

California is one of five states now providing non-occupational state disability insurance. The other states are Hawaii, New Jersey, New York and Rhode Island. Among those states, Hawaii, New Jersey and New York have seen recent legislation attempting to expand their systems, according to the National Partnership.

New York state Assemblywoman Catherine Nolan, D-Queens, for example, this year introduced A.B. 7453. The bill would allow employees to receive state temporary disability insurance benefits when taking time off under the guidelines of the federal Family and Medical Leave Act. Currently, state disability benefits are payable only when the employee is disabled.

But the bill is likely to receive stiff opposition and may not pass this session, Ms. Nolan said.

Many employers likely will oppose the bill because of cost increases, said Ron Minikes, president and chief executive officer of New York-based Amalgamated Life Insurance Co. Amalgamated is a union-founded insurer that stands to benefit by selling disability products.

But adopting the measure into law likely will cost New York employers only about $2 per month, Mr. Minikes said. Employers would benefit, he said, because many employees who urgently need to care for family members currently choose to quit their jobs and later find new positions.

Paying employees while they attend to family members would encourage those individuals to return to their same jobs. That would reduce employer training and hiring costs, Mr. Minikes said.

Economists at the University of Chicago and University of California at Berkeley agree, in a study conducted for the Berkeley, Calif.-based Labor Project for Working Families. The recent study, which can be viewed online at *laborproject.berkeley.edu*, found that a paid family leave program could save California employers $89 million each year through increased employee retention and decreased turnover.

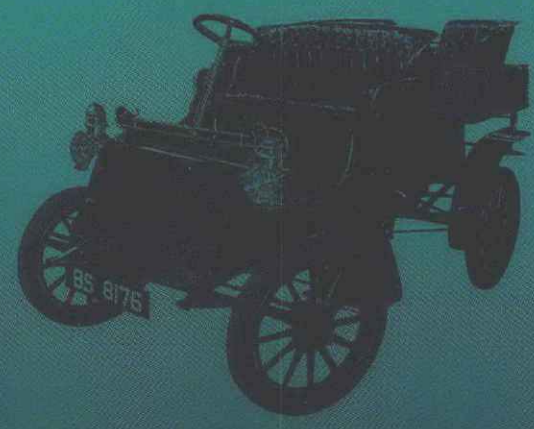
The study also found that S.B. 1661, if implemented, would cost employers $2.33 per month per employee. The Labor Project for Working Families works closely with unions and family advocacy groups.

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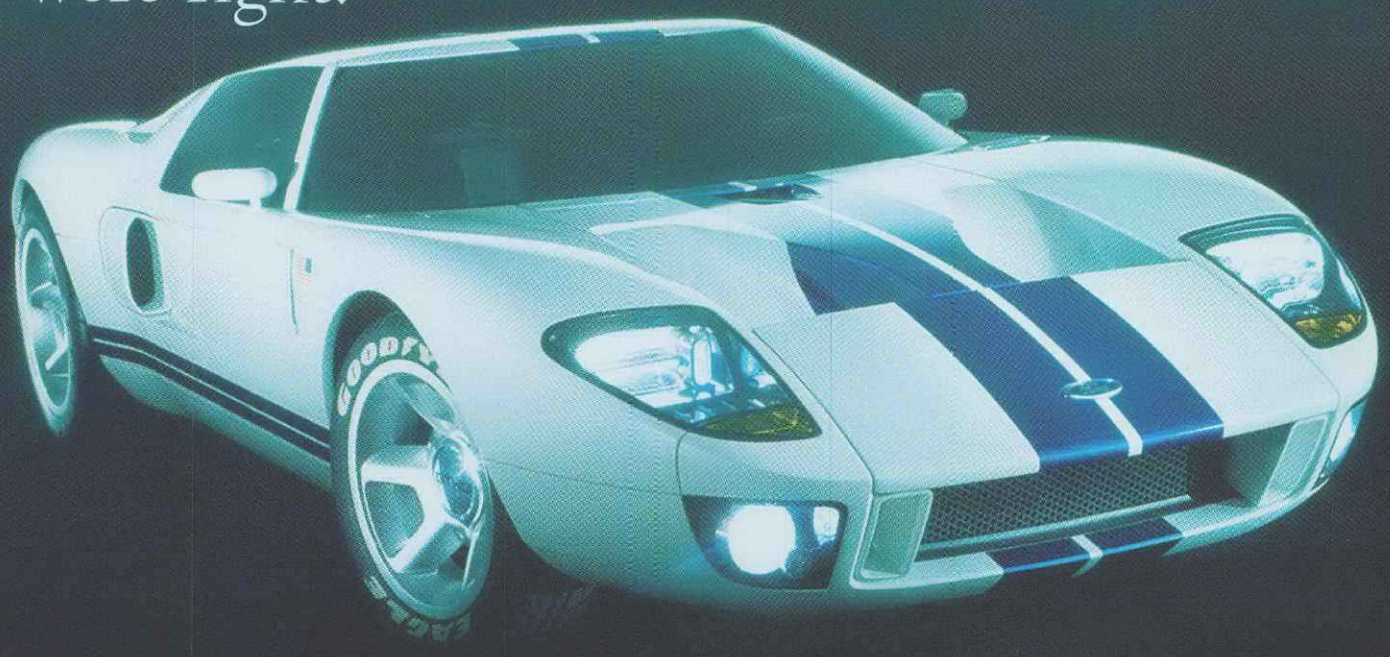
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