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UPDATES

CalPERS to strengthen two ailing health plans

SACRAMENTO, Calif.—The California Public Employees Retirement System will increase premiums, copayments and deductibles as part of a financial recovery strategy for two self-funded health plans.

The benefit design changes, intended to restore the reserves for PERSCare and PERSChoice, are expected to save CalPERS $77.9 million per year.

Earlier this year, CalPERS announced that its self-funded health plans faced a

See **Updates** *on next page*

PHOTO: AP/ WIDE WORLD

General Electric Co. contends that the EPA's order to clean up PCBs the company dumped into the Hudson River is unconstitutional.

GE suit against Superfund law draws support

By MARK A. HOFMANN

WASHINGTON—A first-of-its-kind lawsuit challenging the constitutionality of parts of the law that created Superfund could revitalize efforts to reform the controversial environmental cleanup law.

Fairfield, Conn.-based General Electric Co. filed suit against the U.S. Environmental Protection Agency late last month in U.S. District Court for the District of Columbia, alleging that the federal agency's actions under the Superfund law violate due process and separation of powers doctrines.

Specifically, the suit challenges Section 106 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, which created Superfund to clean up toxic-waste sites. The GE suit is the first to target this particular section of CERCLA, which authorizes the Environmental Protection Agency to order potentially responsible parties to begin cleanup of sites immediately—without any outside review—or face hefty fines. Only a few days after GE filed its suit, the EPA announced a plan that would require GE to pay hundreds of millions of dollars to clean up part of the Hudson River near Albany, N.Y.

The GE suit comes at a time when Superfund reform, which

See **GE** *on page 33*

ACE suing CIGNA over terms of sale

By GAVIN SOUTER

NEW YORK—ACE Ltd. is suing CIGNA Corp., charging that the insurer withheld money and information in ACE's $3.45 billion acquisition of CIGNA's property/casualty operations in 1999.

In a suit filed last week in federal court in New York, ACE charges that CIGNA breached its obligation under the purchase by withholding $49 million due to ACE under a tax-sharing agreement involving CIGNA and its subsidiaries.

In addition, ACE claims that Philadelphia-based CIGNA failed to represent the true financial condition of the companies that ACE acquired, according to the suit. Bermuda-based ACE is seeking a jury trial and total compensatory damages of about $218 million.

CIGNA denies the charges and says that its representation of the financial condition of the companies was accurate.

The dispute over the $49 million relating to the tax-sharing agreement stems from tax returns that CIGNA filed during the period between when the acquisition agreement was signed—January 1999—and the closing of the deal in July of that year, according to the suit.

According to the acquisition agreement, CIGNA would operate

See **ACE** *on page 34*

MSAs may get reprieve

Provision would extend MSA law to 2002

By JERRY GEISEL

WASHINGTON—Congress is poised to pass legislation that would extend for two more years a soon-to-expire federal law that allows small employers to set up tax-favored medical savings accounts.

The MSA provision, tucked into a broad spending and appropriations measure, would keep in place through Dec. 31, 2002, the 1996 law that permits employers with 50 or fewer employees to establish MSAs. Congress was expected to pass the broader bill late last week or early this week. Without it, the 1996 law will expire at the end of the year.

The two-year extension is a far cry from an MSA bill that was considered earlier by the 106th Congress. That bill, opposed by the Clinton administration, would have allowed an employer of any size to offer a tax-favored MSA. It also would have removed the current cap of 750,000 on the number of MSA policies that could be established and lowered the deductibles of the indemnity plans with which MSAs could have been linked.

While the provision under consideration is not as broad as the earlier measure, MSA advocates are relieved that Congress is unlikely to allow the 1996 law to die. With the law still on the books, supporters say they will have a greater chance of convincing legislators in the next congressional session to liberalize the law and increase the appeal of MSAs to employers.

"We intend to lobby to remove

See **MSAs** *on page 33*

Managing liquor liability

Risks no party for employers

By JOANNE WOJCIK

It's that time of year again—time to toast the end of another year at the annual company holiday party.

But, unlike years past, holiday parties of today likely will be a lot less raucous, mostly because of employers' increasing concern over liability.

"The issue of alcohol consumption is the biggest exposure" employers face in connection with holiday parties, said David Tibbals, president of D.L. Tibbals Risk Management Consultants in Marietta, Ga.

Employers, therefore, should be "diligent that, when you see that someone has had too much to drink, that you put them in a cab or get them a hotel room," Mr. Tibbals advised.

Another potential exposure for employers is the mistake of serving alcohol to employees who have not yet reached legal drinking age.

"Some states have carved-out statutes that say if you serve minors, you're responsible for their actions. And it's very strict. You don't even have to prove visible intoxication," said Alan Kaufman, chairman of the Farmington Hills, Mich.-based managing general agent Burns & Wilcox and a senior partner in the Detroit law firm of Kaufman & Payton.

And don't forget sexual harassment, pointed out Louis Rabaut, an attorney at Warner, Norcross & Judd L.L.P. in Grand Rapids,

See **Party** *on page 31*

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UPDATES

CalPERS to shore up health plans

Continued from previous page

$96 million reserve shortfall (BI, Nov. 6).

Benefit changes include a 5.2% premium increase in the PERSCare basic plan, raising annual deductibles to $500 from $250 per person, establishing doctor visit copayments of $20 for both plans and charging a $50 copayment for emergency room visits. The changes also call for establishing a three-tier prescription benefit program with different copayment levels for generic drugs, formulary brand-name drugs and non-formulary brand-name drugs.

"These actions are critical to the financial recovery of these health plans," said William D. Crest, president of CalPERS Board of Administration. "Rapid enrollment, growth, increased use of prescription drugs, rapidly increasing provider price demands and the drawing down of reserves in the past are some of the events that make these changes necessary."

The changes are effective Feb. 1. The two self-funded preferred provider organization plans experienced 49% enrollment growth in the past three years, largely because of health maintenance organizations withdrawing from rural areas. About 22% of CalPERS' 1.2 million members belong to the two health plans.

CalPERS provides retirement and health benefits to government employees and their families.

EEOC rules on contraceptive cover

WASHINGTON—The U.S. Equal Employment Opportunity Commission says that, under federal law, it is illegal for health care plans to exclude coverage of prescription contraceptives if they provide coverage for other preventive drugs, devices and services.

While the EEOC's opinion, issued last week, does not have the weight of a regulation, the federal agency's decision could open the door to a barrage of charges against employers from women whose health plans exclude birth control pills, diaphragms and other prescription contraceptives.

The EEOC said that denying coverage for contraceptives violates the 1978 Pregnancy Discrimination Act, which requires health plans to treat pregnancy, childbirth or related medical conditions the same way they treat other medical expenses.

"The selective exclusion of health coverage for prescription contraceptives by this employee health plan violates the law, since it covers a number of comparable prescription drugs and other services," said EEOC Chairwoman Ida L. Castro in a statement.

While the EEOC declined to identify the two employers involved, it noted that they provided coverage for a wide range of other prescription drugs.

Fremont makes further cuts

SANTA MONICA, Calif.—Fremont General Corp. plans to close 16 of its 24 production and claims offices for its workers compensation operations and cut 465 employees.

The measures are expected to bring annual pretax savings of $55 million, the company said in a statement. The cuts are part of ongoing efforts to reduce Fremont's operating expenses in light of an expected reduction in its workers comp business, according to the statement.

Under a recently announced rehabilitation agreement with the California Department of Insurance, Fremont must reduce its annual workers comp written volume to $400 million (*BI*, Dec. 11). Regulators expected the Santa Monica, Calif.-based insurer to write about $900 million in workers comp business this year.

Fremont's eight remaining production and claims offices are in the western United States, primarily in California. Since June 30, Fremont has reduced its workforce by more than 1,000 employees, or nearly 50%.

Kentucky regulator to step down

FRANKFORT, Ky.—Kentucky Insurance Commissioner George Nichols III plans to resign effective Dec. 31.

Earlier this month, Mr. Nichols ended his one-year term as president of the National Assn. of Insurance Commissioners. He plans to decide by Dec. 25 which of four senior management position offers he will take from out-of-state financial services and insurance companies, a spokesman said, declining to name the companies. The commissioner is expected to move out of state, the spokesman said.

Mr. Nichols, 40, was not only the first African-American to serve as NAIC president but also was one of the youngest to attain that post. He was appointed Kentucky insurance commissioner in 1996 by Gov. Paul Patton.

ADEA waiver rights clarified

WASHINGTON—Older employees who accept severance or other benefits in exchange for waiving their right to sue their employers for age discrimination do not have to return the benefits before challenging the waivers under the Age Discrimination in Employment Act, the U.S. Equal Employment Opportunity Commission

See **Updates** *on page 34*

Errors & omissions

• A story in the Dec. 11 issue about The St. Paul Cos. Inc.'s new cash balance pension and retiree medical programs incorrectly identified a consultant that assisted with the project. Hewitt Associates L.L.C. designed and administered a Web site that helped employees compare new and existing plans.

Aon's game plan for future

Chief of U.S. broker unit details business transformation

Aon Corp. last month announced a comprehensive business transformation plan designed to improve the way the broker conducts its business, services clients and creates shareholder value. The plan, which Aon estimates will cost up to $325 million over the next three quarters, calls for eliminating 3,000 jobs.

"We discerned the need to make a very, very strong move in terms of how we do things at Aon Risk Services," said Kenneth J. LeStrange, chairman of Aon Risk Services Cos. Inc. of the Americas, the retail brokerage arm of Aon.

"We have three key objectives that we're pursuing," Mr. LeStrange said of ARS. The first is to increase the overall level of service and advocacy for Aon's clients, he said. The second is to develop a high-performance and efficient working environment by, among other things, taking advantage of Aon's investments in technology. And Aon's third goal is to improve shareholder value, which he said he believes can be done by meeting the first two objectives.

During a phone conversation, Mr. LeStrange talked with Associate Editor Sally Roberts.

Q: Where is Aon in its business transformation?

A: We are in the process now of aligning our organization as fully as we can around our clients. I know that is an easy thing to say, but I think we're putting our proverbial money where our mouth is, in terms of focusing on our clients both as individuals as well as groups. We're aligning our people, processes and resources around those clients so that we're positioned ideally to service their needs, provide solutions to their challenges and to do so as efficiently and as reliably as possible. This is a change that we are going through at Aon Risk Services and it will change in a very significant way, the way we are doing business.

See **Aon** *on page 31*

Rx for insurers' health

Swiss Re analyst says higher rates, new products needed

By GAVIN SOUTER

NEW YORK—Property/casualty rates are significantly below the level needed to allow insurers to provide investors with a "normal" return on equity, according to G. Alan Zimmerman, director of research at Fox-Pitt, Kelton, the investment banking unit of Swiss Reinsurance Co.

The market appears to have bottomed out, though, and rates should increase over the next two years, he added.

But although the short-term prospects are rosy, to prosper over the long term, insurers must adapt their offerings to meet changing customer demands, said Mr. Zimmerman, who is based in New York.

Instead of providing new products to cover the often-catastrophic effects of financial risks, most insurers persist in offering traditional property and casualty coverages that do not respond to the principal concerns of most modern businesses, he said.

Mr. Zimmerman spoke last week at Swiss Re's year-end economic review and forecast in New York.

"There is no doubt that prices are going up; but the question is, how far will they go?" Mr. Zimmerman said.

At the end of 1999, insurance rates were about 40% below the level needed to enable insurers to provide their shareholders with a 12.5% return on equity, he said. Fox-Pitt, Kelton has determined that 12.5% was a "normal" return for insurers,

See **Swiss Re** *on page 34*

Software giant to pay $97 million

Microsoft settles temp lawsuit

By JUDY GREENWALD

REDMOND, Wash.—Microsoft Corp. will pay $97 million to settle an eight-year old dispute with temporary workers over whether they are entitled to benefits.

The agreement affects about 8,000 to 12,000 workers who worked for Microsoft after December 1986, according to plaintiffs law firm Bendich, Stobaugh & Strong in Seattle, which said in a statement that the settlement is the largest to date in a temporary worker class-action case. The two cases involved are *Vizcaino vs. Microsoft* and *Hughes vs. Microsoft*.

The lengthy litigation in these cases has included three decisions by the 9th U.S. Circuit Court of Appeals in San Francisco and two refusals by the U.S. Supreme Court to hear the case, the most recent in January.

"We're obviously pleased to reach an agreement that is acceptable to both sides and resolves the litigation," said a spokesman for Redmond, Wash.-based Microsoft.

The $97 million settlement, which received preliminary approval in federal district court Tuesday, includes all compensation to class members, attorney fees and litigation expenses.

The amounts that workers will receive will be based on when

See **Microsoft** *on page 34*

PHOTO: AFP

Microsoft settled a suit by temporary workers for $97 million.

INSIDE

• The European Commission may take steps to regulate the alternative risk transfer market. **PAGE 27**

• Lloyd's of London Chairman Max Taylor will join Aon at the end of the year. **PAGE 27**

• The NAIC has made progress in crafting a blueprint for regulatory reform, but still must win approval from state lawmakers. **PAGE 30**

• In Myron Picoult's annual poem, a CEO and Santa vie for control of the Nearly Defunct company. **PAGE 32**

Departments

Advertiser Index 31
Classifieds 30
For the Record 35
Global Briefs 27
Insurance Services Guide 28
International 27
Opinions 8
Ticker 35

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YEAR in REVIEW 2000

Top risk management stories

1. Property/casualty rates see broad firming
2. OSHA publishes final ergonomics standard
3. Reliance Group financial troubles lead to sell-off
4. Expansion of risks accompanies growth of e-commerce
5. U.S. insurers challenge Bermuda tax 'loophole'
6. *Jaffray* case exonerates Lloyd's of London execs
7. NAIC works to streamline, improve state regulation
8. Commercial insurance ventures expand online
9. Y2K litigation continues over costs, not losses
10. Tire safety fears spark massive recall, investigations

Top employee benefits stories

1. Department of Labor allows captive benefit funding
2. Pension reform legislation fails to pass Congress
3. Interest grows in defined contribution health plans
4. Patient protection legislation stalls in Congress
5. Group health care cost increases accelerate
6. Employers win legal battle over cash balance plans
7. Benefits-related sites proliferate on Internet
8. Retiree benefit plans ruled subject to age-bias law
9. HMOs bail out of Medicare marketplace
10. Physicians balk at capitation arrangements

Rising insurance rates, emerging exposures on risk managers' radar

By DAVE LENCKUS and MICHAEL BRADFORD

While the hardening property/casualty insurance market topped many risk managers' lists of the most-important news stories in 2000, risk managers also followed several other stories and trends with great interest, hope and some alarm.

As risk managers worked harder than ever to line up their organizations' risk financing programs, they also closely watched such matters as:

- Efforts to reduce federal assistance during catastrophes, which could exacerbate a tightening property/casualty insurance market for public entities.
- Developments that could facilitate employer funding of employee benefits through captive insurers.
- Technology-related risks.
- Workplace ergonomic standards.
- The growing acceptance of the enterprise risk management concept.

The story at or near the top of everyone's list is the hardening property/casualty insurance market, which the risk management community has not experienced since the mid-1980s.

"I hear a lot of horror stories from people who have had renewals in October and January," said James C. Watkins, risk manager with McKenzie Tank Lines Inc. in Tallahassee, Fla.

McKenzie, which transports chemical products, is in a business that liability insurers consider among the riskiest. The company, which has a good loss record, will not face liability renewals until June, Mr. Watkins said. But after hearing from other risk managers who have been hit with sharp rate increases, Mr. Watkins said he would be prepared to do some serious shopping, if needed.

In California, the hardening workers compensation market is the biggest concern that the San Francisco-based California State Automobile Assn. faces, according to John Donahue, risk manager.

Rates for the coverage "are hard nationwide but are particularly hard in California," he said.

In addition, there's little hope for a softening in the coming year, Mr. Donahue said.

Market consolidation, including some

See **Risk** *on next page*

Benefit managers fear consequences of patients' rights bill

By MICHAEL PRINCE and LEE FLETCHER

Patients' bill of rights legislation and soaring health care costs were benefit managers' biggest concerns this year, and they are likely to remain significant sources of worry in 2001.

Benefit managers fear that a patient protection law could have disastrous consequences for the employer-based health care system.

They say that if such a proposal, which Congress considered but did not pass this year, were enacted, they would consider dropping their health plans rather than face the liability for coverage decisions.

"We wouldn't want that type of fiduciary responsibility," said Barbara Zavodny, benefit manager for McCormick & Co. in Sparks, Md. "We're sort of holding our breath to see just what will come out of it."

Congress' move to make health plans, and even employers, liable for coverage decisions "bodes no one any good. It will have a significant upward trend on health care costs," said Steve Patterson, benefits director at Bestfoods in Englewood Cliffs, N.J. Any benefits from such bills would be vastly outweighed by the added costs for employers, Mr. Patterson said.

Sam Bookheimer, benefits manager for General Nutrition Cos. in Pittsburgh, said that, while he doesn't believe that employees don't need such safeguards, he is concerned that the bill could add administrative costs.

"Anything to provide employees with more protection is fine, but to put another layer of compliance on organizations such as General Nutrition for something that doesn't add anything to what employees already have, I have questions about," Mr. Bookheimer said.

Such a law could increase employers' interest in offering defined contribution types of health plans in order to escape potential liability. But such a move won't occur until some legal hurdles are overcome and a marketplace develops for employees to buy coverage.

If a patients' bill of rights becomes law, many employers will stop offering health care coverage to their employees, predicted Arleane Soto Baltrusitis, vp-

See **Benefits** *on page 6*

Profiles of the top risk management stories . . . . page 12
Profiles of the top employee benefit stories . . . . page 19
Newsmakers in 2000 . . . . page 26

Risk

Continued from previous page

exits from the market, has only further tightened the market, risk managers say. Reliance Group Holdings Inc.'s financial crisis, which virtually has thrown the company into runoff, was a major development for many risk managers. Reliance, struggling with massive corporate debt and poor operating results, this year was forced to sell off most of its business and saw its A.M. Best Co. rating plummet.

The collapse of Reliance "obviously led my list," said Paul F. Buckley, treasury director-risk management at Lucent Technologies Inc. of Murray Hill, N.J.

Reliance wrote a few of Lucent's primary and excess casualty programs, which Mr. Buckley "had to get replaced very quickly." He said he knew the insurer had financial problems but thought it would survive until he could replace the company at renewal next year.

Risk managers at public entities, meanwhile, are sweating out how the Federal Emergency Management Administration might change its rules for providing financial assistance to communities hit hard by natural disasters.

FEMA is contemplating limiting disaster relief coverage to only those risks that public entities have insured. For public entities that face a slim risk of earthquake or flood damage, for example, such a rule would force them to insure some risks they do not currently cover. As a result, the rule could drive up insurance costs even more.

FEMA also could establish minimum limits that public entities would have to purchase to be eligible for disaster relief. That could create capacity problems, said Ray Sibley, risk manager of Washoe County, Nev.

For example, he said, Washoe County carries some earthquake coverage even though the risk of a temblor in that area is small. But if FEMA were to set a relatively high minimum limit requirement, "there won't be enough capacity for all of us to buy it," said Mr. Sibley, who is based in Reno.

Meanwhile, for private sector risk managers, the natural catastrophe news was good this year. "We haven't had a major cat loss in the United States," the CSAA's Mr. Donahue pointed out.

For risk managers who also have at least some employee benefit responsibilities, the issue of soaring group health care insurance rates is even more significant than the tightening property/casualty market, said Dave Parker, director of risk management for Pima County, Ariz. Mr. Parker is based in Tucson.

Concerns over benefit costs underscored the importance of the U.S. Labor Department ruling in August that essentially spelled out for employers how they could win departmental approval for funding benefits in their captive programs, Mr. Buckley noted.

But risk managers may find that their insurance problems as well as their organizations' own merger and acquisition issues will heighten "the visibility and internal benefits of the risk management process," said Merritt W. Fabel, director of corporate risk and insurance at American International Group Inc. of New York.

"This is an opportunity for risk managers to take a proactive role with other management disciplines managing the budgetary cost of risk transfer," Mr. Fabel said.

Technology-related stories heartened and frightened risk managers this year.

The best news was no news as the world braced for a multitude of Y2K computer bug-related problems during the first few days of the year. When the problems did not materialize, it became evident that "the only big losers were the lawyers," Mr. Buckley said.

Other technology-related news was distressing for risk managers. A would-be extortionist posted on a Web site the credit card information for customers of an online music store that refused to accede to the criminal's monetary demands. The Love Bug virus crippled e-mail systems and destroyed computer files worldwide. Malicious data overloads shut down several high-profile Web sites.

Denial-of-service incidents were a concern to risk management at FMR Corp. of Boston even before the highly publicized incidents last February. Forty minutes after news spread that saboteurs had created denial-of-service problems for the companies running the affected Web sites, FMR risk management was able to detail for its senior management how the company was prepared for a similar threat, noted Judy Lindenmayer, vp-Fidelity Insurance & Risk Management.

That is because Tom Wronski and Peter Burd, both directors with FIRM, recently had finished evaluating the company's e-commerce risks, loss control measures and insurance coverage, Ms. Lindenmayer explained.

Another big story that has raised many cost concerns for risk managers is OSHA's new ergonomics standard, which is scheduled to take effect Jan. 16, 2001.

"The largest individual thing impacting my budget this year will be the ergonomics standard," said Pima County's Mr. Parker, whose next fiscal year budget begins July 1, 2001.

Mr. Parker estimates that the standard will result in an additional $500,000 budget allocation that cannot be offset with other budget cuts. "It will take funding away from the rest of the county," he said.

The implications of the ergonomic changes are staggering, said James E. Green, risk manager at Justin Industries Inc. of Fort Worth, Texas. He said, for example, that a large chain of department stores with thousands of cashiers could be forced to redesign every register station if just two workers experience musculoskeletal disorders. Such changes would be daunting financially and from an engineering standpoint, Mr. Green explained.

The standard could be oppressive for small businesses, too, he said.

OSHA recommendations such as hiring more workers and giving employees more frequent breaks "all cost money," Mr. Green noted.

Not all risk managers, however, are fretting over the standard. OSHA "can't handle what's already on the books," much less take on new investigative responsibilities, said Gary Struder, corporate risk manager for Labor Finders in Palm Beach Gardens, Fla.

Risk managers said that an important positive development during 2000 is the growing acceptance of enterprise risk management. Under that concept, risk managers take a holistic approach to protecting their organizations by focusing not only on hazard-based risks but also operational and financial risks.

Referring to the financial services industry, FMR's Mr. Wronski said: "We're ahead of the curve on that in implementing programs. Clearly, our industry is heading in that direction."

Another important development that risk managers said they would watch for during 2001 is any effort by Congress to create new torts in the employer-sponsored health insurance arena. Justin's Mr. Green said he worries that lawmakers will allow employees to sue their employer when health care providers make bad medical decisions. ■

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Benefits

Continued from page 3

benefits at American Express Co. in New York. That's because federal tax laws do not support the move to a voucher system and no marketplace really exists for one, Ms. Baltrusitis said.

Even if those hurdles were overcome, employers will initially maintain the status quo, out of fear of alienating employees and becoming less competitive in attracting workers. But if one employer makes the move, others will follow quickly, she predicts.

"Employers will probably move en masse one way or the other," Ms. Baltrusitis said.

The Internet will play a major role in this movement, because "it provides the information and knowledge an individual needs to allow for employers to put out money for employees to these clearinghouses to secure the coverage they want," Mr. Patterson said. Such a system might be in place in a few years, he said.

"We're not totally there yet, but we're close," he said.

The sharp increase in prescription drug costs is also one of the year's top issues.

"I think that was a major thing that happened over this past year," Ms. Zavodny said.

She attributed the cost increases to the introduction of new drugs on the market, more advertising, additional employee health referrals and greater availability of the drugs. "We live in a country that it's great that we have the system that we have, but it can be a Catch-22 when it comes to the cost of health care," Ms. Zavodny said.

Jim Cubbin, executive director of health care initiatives at General Motors Corp. in Detroit, said GM recently launched an Internet ordering program for maintenance prescription drugs, and it has resulted in many more people getting their prescriptions refilled.

"They're using the Internet, so it makes it less expensive for us, less expensive for them and a lot more convenient. This year, we also used the Internet for our flex-benefit enrollment process for salaried employees, and that was a huge success," Mr. Cubbin said.

"We also just launched a generic drug education program," he said. "One of the things we think will help the drug cost escalation is getting people to try and use generics." This program uses the company's intranet to provide employees with information about generic drugs.

Prescription drugs are of special concern for GM because it has twice as many retirees as active employees; consequently, its drug costs and utilization rates are high.

"We saw an increase in drug costs in the 22% to 25% range, which is driving our overall health care costs up about 10%. That's been a real problem in 2000," Mr. Cubbin said.

To try to control its prescription drug costs, American Express introduced a four-tier program. The first tier is for generic drugs; this tier has a $10 employee copayment. The next tier is for brand-name drugs on a formulary, and it calls for a $20 copay. Non-formulary drugs follow, with a $40 copay. Finally come the lifestyle drugs, for which employees pays the full amount of the drugs but receive the discounts arranged by the prescription benefit manager, Ms. Baltrusitis said.

The use of the Internet for a myriad of employee benefit functions has also escalated during 2000.

"Employers are trying to figure out how to leverage the technology to enhance the understanding of benefits and to streamline administration," said Tresia Franklin, director of benefits administration at Hallmark Cards Inc. in Kansas City, Mo. The company is taking advantage of increased Internet use among employees to spread the word about company benefits.

"We have both intranet and Internet sites for employees to take benefit information," she said. "People are doing more transactions online. The Internet gives you the ability to provide information that you couldn't before, in terms of details about the plan at their fingertips. It's very powerful and very valuable."

The backlash against managed care among employees was also a big concern this year, said Charlene Edwards, vp at Lend Lease Real Estate Investments Inc. in Atlanta. Because employees dislike the restrictions imposed by HMOs, the company has reevaluated its position on managed care and is offering more-flexible health plans, such as preferred provider organizations, she said. Lend Lease expects to offer even more such plans next year.

"The pendulum is swinging. We went from rich indemnity plans, and the pendulum swung to tight managed care plans. And I think it's going to the middle, and this was a pivotal year for this," Ms. Edwards said.

The furor over cash balance pension plans in Congress is a concern to Mr. Patterson. He noted that Congress wants to address problems that have been cited by critics of cash balance plans. In the process, though, legislators might step beyond where they should, Mr. Patterson said.

"If successful, it will cause more and more employers to get out of defined benefit plans and in favor of defined contribution plans," he said.

For next year, benefit managers listed an array of topics that will have their attention.

Mr. Cubbin cited the improvement of health care. "Major purchasers of medical care, like GM and other major companies, as well as the government, need to focus on initiatives that will drive quality improvement and patient safety," he said.

"We think there will be more use of technology—finally—in health care that can help improve quality and reduce inefficiencies," he said.

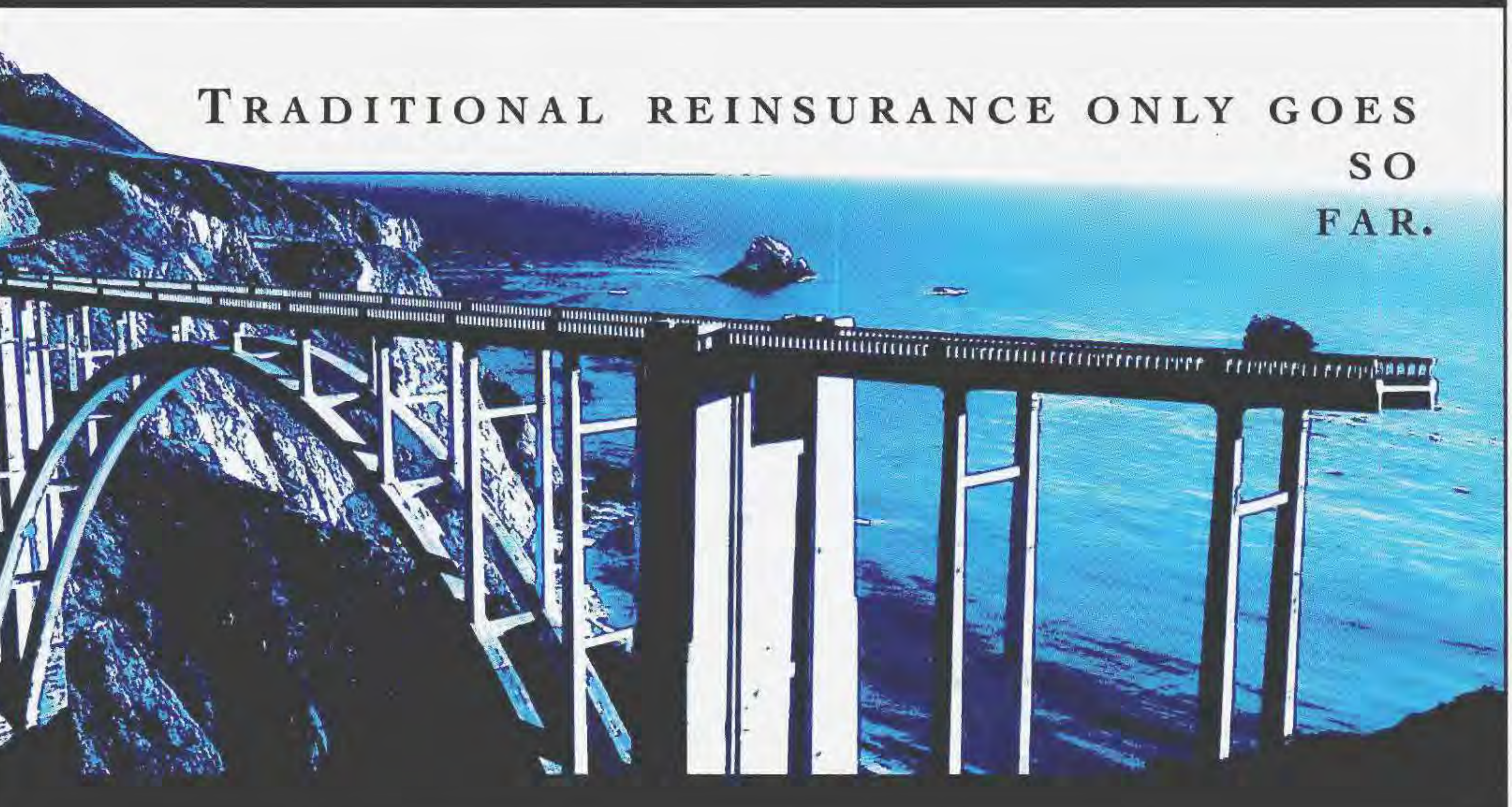
Ms. Franklin said she is interested to see how the Portman-Cardin bill will affect employees' pensions. The bill, which almost passed in Congress, would have allowed workers to invest more money in their defined contribution pension plans and to make larger contributions to their individual retirement accounts.

In addition, Ms. Franklin said, she will be watching what the new Congress does about patients' rights legislation.

For the future, Lend Lease expects to offer more benefits to its employees as part of an effort to help attract and retain workers in a tight labor market, Ms. Edwards said. "We're looking to expand our benefit offerings without necessarily raising the costs," she said.

Mr. Patterson sees more use of the Internet for benefit transactions and the provision of information to employees. While this will save time and lower the cost of administering benefit plans, he cautioned that it could also alienate employees. Conducting all benefit transactions over the Internet to the exclusion of meeting with members of the benefit department may make employees feel like a commodity and loosen their connection to their company, he said.

And more attention will be paid to controlling health care costs, Mr. Patterson said, as top management puts more pressure on benefit professionals to find ways to lower spending. BI



It isn't just the fear of large scale property losses or costly liabilities from serious accidents that keeps brokers and cedents on edge these days. Now it's also volatile securities markets, unusual climatic conditions and the far-reaching effects of technology sabotage that pose problems. And though traditional reinsurance is more necessary than ever, it simply can't cope with all the new risks that business and industry are facing every day.

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OPINIONS

Happy Holidays from *BI*

'Twas a year ago, now,
We were spending the cash,
In hopes of side-stepping
A millennium crash.

It must have succeeded,
The clocks are still running.
Our computers still work,
E-commerce is humming.

The elections were smooth,
Tort reform is on track.
There's a patients' rights bill
That everyone backs.

The tires met the road—
There's no danger in that.
OSHA's ergonomics
Have straightened out our backs.

Medicare has been saved
With statesmanlike grace.
Policy rates are firm. ...
Stop! We need to retrace!

Back when 2000 dawned,
We crossed fingers and prayed.
A bright new tomorrow
Was ready to be made.

Last year we were snookered,
We ne'er got in the door.
We just jogged right in place,
Wearing holes in the floor.

Two thousand and one
Can be started from scratch—
Last year never happened!
So, let's strike up a match. ...

Let us burn the watch fires,
And with vigilance seek,
A new year of striving,
With outcomes less bleak.

Blessings to each of you.
May the holidays be bright,
And may the New Year's dawn
Be the end of last's night.

—By Roger Schillerstrom

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The top risk management stories of 2000

1 Firmer pricing

As the new millennium arrived, risk managers found few if any bargains as they renewed their property/casualty coverages. Indeed, the soft commercial property/casualty pricing environment had finally bottomed out, which was good news for insurers and brokers that have struggled under a soft market for nearly 15 years.

Although many risk managers were facing price increases for the first time in more than a decade, they described the market as "flat," noting that companies with good loss histories were renewing at rates similar to those for their previous renewal. At the same time, however, risk managers with workers compensation risks said they were seeing upward movement in rates, particularly in California.

Industry observers agreed that the modest and account-specific rate firming at the beginning of the year was, essentially, a market correction after years of intense price competition and overcapacity. By midyear renewals, however, signs of a genuine turn became more evident as insurers reported that they were able to get rate increases—some modest, others substantial—essentially across the board.

Brokers agreed that, during the first half of the year, resolve grew among insurers to improve their financial position, either by raising rates or by walking away from less-desirable accounts. Underwriters, however, continued to set rates and terms on an account-specific basis, and wide variations in pricing remained.

Buyers in general have not vehemently resisted the increases. Some accounts, particularly those with poor loss histories—and, thus, higher increases—were being shopped to other insurers, but many others remained with incumbent underwriters once the rationale behind rate increases had been adequately explained.

Rate increases were even more pronounced in the reinsurance market in 2000. Cedents with losses on property catastrophe reinsurance programs were handed the largest hikes, but loss-free property programs and casualty accounts also saw increases.

Overall, market observers say that the market is far from experiencing a reprise of the mid-1980s, when rates skyrocketed, capacity disappeared, and many risk managers turned to alternatives, such as captives, for financing their risks.

And by the end of the third quarter, commercial property/casualty insurers had yet to fully feel the impact of the firmer market on their bottom lines but were looking forward to a strong year in 2001.

—By Sally Roberts

2 Ergonomic standard

More than a decade in the making and still unacceptable—that sums up the reaction of risk managers, employers and insurers to the Occupational Safety and Health Administration's final ergonomics standard.

In fact, few government actions have raised the hackles of the business community as thoroughly as did OSHA's decision to push ahead with its ergonomics standard despite congressional efforts to bar such a move until the National Academy of Sciences had finished a study of ergonomics and the workplace. By issuing the standard when he did—ensuring it would take effect in the final week of the Clinton administration—OSHA Administrator Charles Jeffress made the task of rescinding the standard extremely difficult for Congress or the next administration.

The final ergonomics standard, which appeared in the Nov. 14 Federal Register, lived up to many of its opponents' worst fears—fears they first expressed when OSHA began the effort 10 years ago. Employers complained that the standard was both vague and unrealistic. They repeated their longstanding contention that there simply is not enough scientific evidence linking workplace conditions with ergonomics-related ills to justify imposing such a mandate on workplaces.

Business also blasted the standard's creation of a special compensation framework for ergonomics-related ailments, which opponents called an illegal—and potentially costly—federal intrusion into the state-based workers compensation system. Employees with musculoskeletal disorders would be entitled to full benefits and 90% of their wages for up to 90 days after being declared unable to work, which is higher than typical wage replacement levels of statutory compensation benefits.

Continued on page 14

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Continued from page 12

Organized labor welcomed the standard as an overdue worker protection. Some unions, however, felt the standard did not go far enough and joined employers and insurers in filing nearly a dozen petitions for review of the standard in federal courts. All of the requests were consolidated and assigned to the U.S. Circuit Court of Appeals for the District of Columbia, which may not rule until late 2001.

—By Mark A. Hofmann

3 Reliance meltdown

Beginning 2000 as an intact but troubled company, Reliance Group Holdings Inc. gradually disintegrated as the year went on, crushed by the twin burdens of parent company debt and dismal operating results.

The insurer entered the year coping with an array of money-losing property/casualty units and facing August and November deadlines for repayment of $735.1 million in bank and bond debt.

In a turnaround plan unveiled in March, Reliance announced it would sell off its surety business—its only profitable operation—and that Saul P. Steinberg, Reliance's largest shareholder and longtime top officer, would resign as CEO. While these moves, along with a capital raising initiative and possible extension of the debt deadlines, were intended to rescue Reliance, things changed quickly.

In April, the insurer announced a tentative deal in which it would be acquired by New York-based Leucadia National Corp. Soon afterward, though, A.M. Best Co. cut Reliance's rating to B++ from A-, and Reliance began selling off additional pieces of itself, including its financial products business to The Hartford Financial Services Group Inc., its large account casualty business to Kemper Insurance Cos. and its reinsurance unit to Bermuda-based Overseas Partners Ltd.

Leucadia backed out of the acquisition deal in July, and Reliance's Best rating dropped further, to B.

The following month, Reliance reported that huge loss reserve increases had produced a $504.5 million second-quarter net loss and that the holding company might have to file for bankruptcy if it could not renegotiate its scheduled debt repayments. It also announced that it would be putting its remaining property/casualty business into runoff, as it continued to sell off various books of business.

The second-quarter results led Best to cut Reliance's rating again to C, and by the end of August, state insurance regulators stepped in. Under a deal with the Pennsylvania Insurance Department, regulator of Reliance Insurance Co., the insurance unit must get prior regulatory approval for all significant transactions and comply with other regulatory restrictions.

Reliance has since missed repayment deadlines on its debt and is negotiating with creditors. Its stock was recently delisted by the New York Stock Exchange.

—By Douglas McLeod

4 Internet perils

The destructive Melissa computer virus, which spread worldwide in March 1999, was just a foreshadowing of the dark side of e-commerce that became evident in 2000.

In mid-January, an extortionist posted on a Web site the credit card information of many customers of an online music store that ignored the criminal's demand for $100,000 of hush money.

A month later, risk managers became familiar with the denial-of-service risk, after several high-profile Web sites were bombarded with so much data that the sites could not function.

In May, the Love Bug virus spread globally, crippling business e-mail systems and destroying some computer files. Published estimates placed losses from the virus as high as $10 billion.

Those incidents are only the most highly publicized problems that organizations faced.

Anti-virus software maker Symantec Corp. reported this year that approximately 250 viruses have infected the computer systems of multiple organizations.

A survey conducted by the Computer Security Institute and the FBI and released in March found that 90% of approximately 700 private- and public-sector respondents had detected computer security breaches within the previous 12 months. The 300 respondents who provided figures said their losses totaled nearly $266 million.

But experts estimate that up to 80% of computer security breaches—which often are inside jobs—are not publicized due to management fears about potential negative reactions from Wall Street and capital markets.

Insurers and some brokers say that traditional policies may cover some losses resulting from computer attacks, but potentially expensive claims stemming from denials of service and the theft of trade se-

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crets are not among those covered.

Insurers have responded to risk managers' concerns by introducing a variety of new coverages. Many brokers and agents, however, have greeted them with only a lukewarm reception, due to their confusion over what coverage may already exist under traditional policies.

—By Dave Lenckus

5 Bermuda tax fight

Arcane details of U.S. tax law relating to international reinsurance transactions received more attention than usual this year, as a group of U.S. insurers attacked the so-called "Bermuda tax loophole."

In a concerted effort to end what they see as an unfair advantage enjoyed by U.S. companies with Bermuda-based parents, a group of four large U.S. insurers worked hard to win congressional support for legislation that would impose additional taxes on their competitors in Bermuda.

The effort drew strong criticism from Bermuda-based companies. After much rhetoric and lobbying by both sides, the issue remained unresolved at year's end.

The matter first arose in 1999, after a handful of U.S.-based insurers and reinsurers redomiciled their holding companies to Bermuda and after Bermuda's leading insurers, ACE Ltd. and XL Capital Ltd., acquired substantial operations in the United States.

At the end of 1999, a group of U.S. insurers, led by Chubb Corp. and Hartford Financial Services Group Inc., began lobbying Congress to clamp down on what they regard as a tax dodge.

Bermuda-based companies, they argue, gain an unfair tax advantage over U.S. companies by reinsuring the business of their U.S. affiliates, which enables reserves for U.S. business to grow tax-free in Bermuda.

The Bermuda-based companies responded that the U.S. insurers were trying to stifle free competition. They also maintain that they are already subject to a 1% excise tax on premiums ceded offshore and that reinsurance transactions have to be made at "arms length" to ensure that the premiums reflect market rates.

Taking into account the additional taxes, the tax-exempt investment vehicles used by many U.S. insurers and the cost of operating a business in Bermuda—which has substantial indirect taxes—the tax advantage for Bermudian companies is insignificant, they said.

Rep. Nancy L. Johnson, R-Conn., in April introduced a bill, H.R. 4192, that sought to impose taxes on the premiums ceded to affiliated foreign reinsurers. The bill did not make it out of Congress, but the issue has not disappeared.

Currently there are efforts to seek Congressional backing for a U.S Treasury Department study on the issue.

—By Gavin Souter

6 Jaffray vs. Lloyd's

Jaffray vs. Lloyd's was billed as the case to mark the end of a decade of asbestosis-related litigation against Lloyd's of London in the United Kingdom.

The presiding judge, Mr. Justice Cresswell, had ruled that this would be the last time an asbestosis-related case against Lloyd's could be heard in U.K. courts. So in November, when Mr. Cresswell ruled that Lloyd's had not been guilty of making fraudulent representations to the 216 names—or individual investors—who brought the *Jaffray* suit, the world's oldest insurance market could be forgiven for breathing a sigh of relief that one of the most difficult periods in its 312-year history was over.

But the names appear to have one last trick up their sleeves. A group of them is now seeking court approval by Mr. Cresswell to appeal the decision to the House of Lords under the European Convention on Human Rights, which was signed into U.K. law in October. The names claim that Article 14 of the 1982 Lloyd's Act, which grants Lloyd's immunity from lawsuits charging gross negligence, is contrary to the U.K. human rights act and abrogates their right to a fair trial.

Outgoing Lloyd's Chairman Max Taylor, though, dismissed the names' arguments. "Allegations that have been made on and off for a decade by disgruntled names have been utterly disproved," Mr. Taylor said. "The judge made it very clear from the beginning that this would be the last opportunity for names to raise these allegations. The terms of this judgment mean the human rights act issues being raised by names are completely irrelevant to this case."

The *Jaffray* case centered on allegations that 33 senior figures at Lloyd's—including former chairmen Sir Peter Green, Sir David Coleridge, Sir Peter Miller and Sir David Rowland—had, knowingly

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and systematically, between 1978 and 1988, concealed from names the extent of the asbestosis losses about to hit the market. The names also alleged that many had been duped into joining the market as part of a "recruit to dilute" policy, under which new capital was hastily brought into the market to soak up impending asbestosis losses.

Mr. Justice Cresswell threw out these allegations, saying he saw no evidence of fraud and pointing out that many of the accused had themselves suffered huge asbestosis losses. The judge did, though, condemn what he described as a "catalog of failure" on the part of underwriters during the 1980s. Mr. Justice Cresswell added that the asbestosis disaster, which left many of the litigants bankrupt, had brought disgrace on one of the city's great markets.

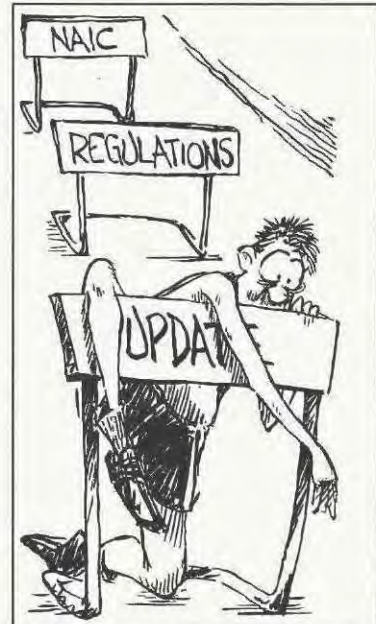
—By Sarah Veysey

7 Changing the rules

State insurance regulators spent much of 2000 exploring a new blueprint for implementing federal financial services modernization legislation, while also adopting proposals for streamlining some state insurance regulations.

It remains to be seen, though, how many of the planned changes that require legislative action—rather than merely administrative reform—will actually be adopted by state lawmakers and become reality.

The catalyst for the National Assn. of Insurance Commissioners' efforts to thoroughly analyze state insurance regulation was enactment of the Gramm-Leach-Bliley Act, which reduced decades-old barriers between banks and insurers.



A key goal of that 1999 federal law was creating a uniform approach to producer licensing to ease multistate licensing burdens. If at least 29 jurisdictions do not adopt uniform licensing or permit reciprocity by November 2002, the act mandates creation of an entity—called the National Assn. of Registered Agents and Brokers—to serve as a national clearinghouse for producer licensing. Creation of NARAB would significantly reduce state regulators' authority over agents.

Many insurance commissioners worked hard in 2000 to achieve progress, including unanimously adopting a model law to guide producer licensing and a model regulation to guard the privacy of consumer financial and health information.

The NAIC this year also formally endorsed a plan for speeding insurance products to market by proposing a single review mechanism and national standards for insurance products, as well as a more efficient state-based process for filing information. It also created a task force to explore a program for the national treatment of insurers, with the goal of eventually standardizing regulation in the area of company licensing, among others. In addition, the NAIC and federal regulators developed agreements to enhance communication and information sharing with one another.

As for agent licensing, the NAIC decided to focus on the easier goal of achieving multistate reciprocity, rather than uniformity. However, one year after enactment of the federal act, states have made "minimal progress" in meeting either goal, due to the influence of local agent groups, according to the Washington-based Council of Insurance Agents & Brokers.

Meanwhile, some consumer advocates have criticized the NAIC's proposed changes, which they see as largely pro-insurer.

—By Meg Fletcher

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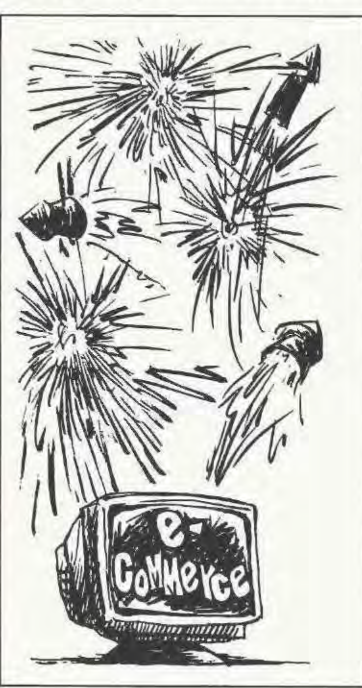
8 Internet explosion

Risk managers are finding it easier to do business over the Internet after a year that saw an explosion of e-commerce initiatives in the commercial insurance industry.

After years of dismissing the notion that the power of the Internet would ever be applied to commercial insurance risks, insurers, reinsurers, brokers and others in 2000 began reaching through cyberspace to provide a range of coverage and services for buyers.

Insurers throughout the year regularly announced the online availability of commercial insurance products and services, many of which were available from insurers' own Web sites.



Lloyd's of London is among the many insurers that don't want to be left behind in the Internet gold rush. The marketplace unveiled plans to transform its Web site into a portal for transacting commercial lines and personal lines business with multiple syndicates.

But apart from their own Web sites, insurers also are signing up with Internet portals like CyberCover, iwix.net and MarketScout.com, among others, to boost their online distribution opportunities for commercial insurance products.

Much of the commercial insurance that is being sold over the Internet still is aimed at small and middle-market

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Brian Duperreault,
Chairman, ACE Limited and recipient,
2000 Spirit of Life Award

Continued from page 16

businesses, as many experts maintain that large accounts are too complex to be handled in the faceless world of cyberspace.

But even large commercial risks are benefiting from the many sites that aim to boost the efficiency of risk management transactions.

Several application service providers have emerged that provide online tools that enable buyers, sellers and intermediaries to securely exchange information, such as for underwriting or claims. These include such ventures as BenefitPoint, ChannelPoint, CLAIMPlace, dotRisk and WISe, among a number of others.

Still other sites were launched with the aim of bringing common insurance transactions online, such as clickNsettle.com, Cybersettle.com and CertificatesNow.com are examples of this approach.

—By Michael Bradford

9 Y2K bug fallout

As an anxious world watched, clocks struck midnight on Jan. 1, 2000, without widespread computer failures and the global chaos, economic panic, aircraft falling from the skies and inability to get a dial tone many had feared from the "millennium bug."

To the relief of all but the most ardent millennial cultists, New Year's Day 2000 dawned with only minor concerns, such as how to address the aftereffects of the previous night's revels and what to do with all that stockpiled Spam and bottled water.

While government, businesses and many in the general public were sufficiently wary of the potential impact of

the Y2K bug to develop contingency plans and take precautionary steps, ultimately the actual damages were minimal. There were no mass reports of elevator malfunctions, glitches in embedded chips controlling key business processes, traffic signal shutdowns or medical device failures.

With the turn of the new year safely past, some argued the Y2K bug's potential for mayhem had been vastly overstated. Others, meanwhile, said it was the precautionary steps taken by governments and businesses to address potential computer system problems that were responsible for the absence of significant losses.

As 2000 wore on, the steps many businesses had taken to minimize the millennium bug's impact resulted in claims seeking coverage under the "sue and labor" clauses in businesses' all-risk property insurance policies.

Many lawsuits are pending over these claims, in which businesses seek indemnification for their Y2K remediation efforts under a clause that provides coverage if a policyholder should act to "sue, labor or travel" to minimize or avoid an actual or imminent loss to covered property. The sue and labor clause originated in the 17th century to make sure ship owners took such steps as jettisoning cargo if need be, to avoid losing the entire ship.

So while 2000 began without Y2K-related havoc, it ends with Y2K's ultimate impact to be decided by the courts.

—By Rodd Zolkos

10 Tire recall

Tiremaker Bridgestone/Firestone Inc. says its recall of an estimated 6.5 million tires, announced in August, is more than 80% complete. But even as waiting lists for replacement tires dwindle, the number of incidents linked to tread separation involving the tires is on the rise.

As of mid-December, 148 deaths nationwide—including 29 reported since October—had been linked to tires made by Nashville, Tenn.-based

Bridgestone/Firestone, said the National Highway Traffic Safety Administration. The NHTSA is investigating complaints involving Firestone ATX, Wilderness and other tire models.

On Dec. 5, the company said the tire recall would likely result in $900 million in recall and liability costs. Yoichiro Kaizaki, president, chairman and chief executive officer of the tire manufacturer's Japanese parent, Bridgestone Corp., said this month that $450 million had been set aside for tire liability claims. The recall itself will cost another $450 million, a company spokesman said. The company has no product recall insurance.

Mr. Kaizaki refuted reports that a plaintiffs attorney had estimated that the company's ultimate liability for deaths and injuries associated with the tires could total $50 billion. "The basis for the alleged sum of $50 billion is totally incomprehensible," he said.

Bridgestone isn't the only tire maker that has faced such problems this year.

Reports are surfacing of similar failures on certain tires made by Akron, Ohio-based Goodyear Tire & Rubber Co. According to the NHTSA, its Office of Defects Investigation has received 37 complaints of alleged tread separation on Goodyear Load Range "E" tires. These include reports of 15 fatalities and 129 injuries involving the Goodyear light-truck tires.

The NHTSA said an investigation involving an estimated 21 million Goodyear tires is under way.

—By Lee Fletcher

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CHARTING CHANGE
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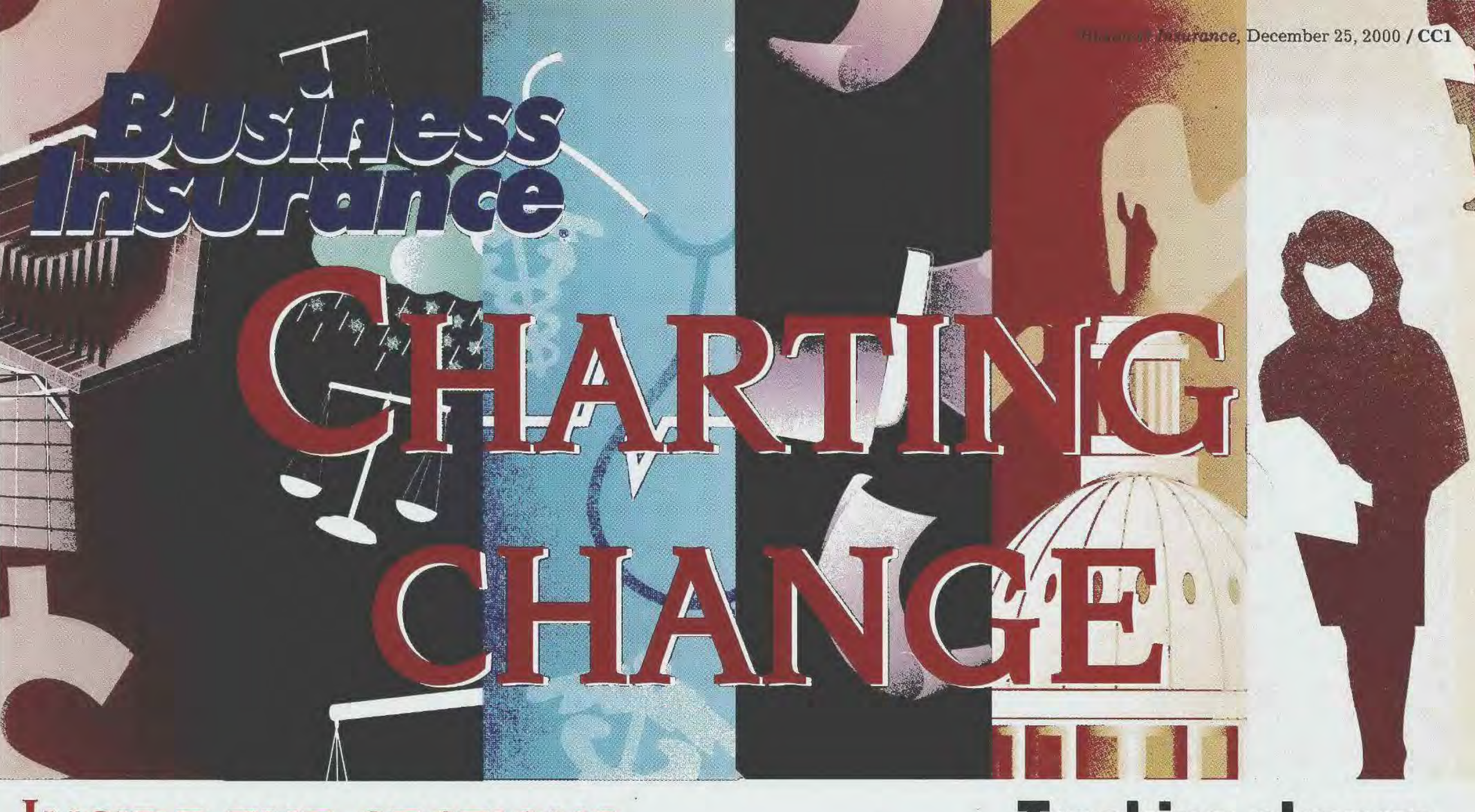

Inside the sections

Brokers, Sellers & Advisers

World's 10 largest brokers CC2
World's largest reinsurance brokers ... CC2
Top benefit brokers CC2
100 largest brokers of U.S. business ... CC4
10 largest EAP providers CC5
Largest D&O underwriters CC5
10 largest U.S.-based surplus lines insurers.................. CC5
10 largest U.S.-based insurance wholesalers.................... CC5
World's largest employee benefit consultants...................... CC6
Top U.S. benefit consultants.......... CC6
Top U.S. risk management consultants...................... CC6
Top U.S. risk management specialists CC6

Claims & Costs

EEOC claims by type CC8
Jury awards move up............... CC8
Workers comp losses creep up CC8
Europe's worst windstorm losses CC9
A decade of aviation losses CC9
10 biggest U.S. catastrophes CC9
Industries' D&O needs vary CC12

Employee Benefits

Regional variations in cost hikes CC13
Drug cost increases CC13
Cost hike by plan CC13
Impact of Medicare HMO pullouts CC13
HMOs' thinning ranks............. CC14
Take the money and run............ CC14
Mental health benefits parity laws CC14
Financial gains CC14
A 15-year decline CC14

Risk Management

Portrait of a buyer CC16
Analyzing the impact of risks CC16
U.K. buyers' top coverage concerns..... CC16
1999 cost of risk CC17
High ergonomics injury risk......... CC17
Tracking lost-time injuries CC17

Rules & regulations

Mixed grades on funding CC18
Growth of state programs CC18
Tracking Superfund progress........ CC18
Updating state regulation........... CC18

Miscellaneous

BI's 100 leading women in the industry CC20

Cover & Section art
Lance Prather

Tracking change by the numbers

Sometimes, the best way to keep track of change is to take a snapshot for future comparison.

That's the idea behind our special year-end feature, "Charting Change." Risk and benefit management executives can use the rankings, statistics and data contained in this special issue to measure progress or as benchmarks. We also hope the section is informative and provides a single source of interesting industry data.

This issue is broken into several sections for easy reference:

- **Brokers, sellers & advisers** contains all of the special rankings done by *Business Insurance* in 2000, based on our in-publication directories.
- **Claims & costs** features data on major claims, catastrophes and data on other sources of insurance losses.
- **Employee benefits** contains benefits-related charts that appeared in the pages of *Business Insurance*, as well as other informative benefits graphics from a variety of sources.
- **Risk management** also contains several charts from *BI*'s pages and other sources.
- **Rules & regulations** provides data for assessing the impact of regulation and rules that apply to readers.
- **Miscellaneous** reprises a special feature from 2000: the list of the 100 leading women in insurance.

All of the charts and tables within this special issue specify the source of the information. Where available, we have also provided relevant Internet addresses, so readers can search for similar additional data.

We hope this special feature is helpful to readers and invite your feedback. We would be happy to consider revisions and additions for the 2001 edition of Charting Change. Send your comments to Editor Paul D. Winston by fax, 312-280-3174, or via e-mail to *pwinston@crain.com*.

CHARTING CHANGE

BROKERS, SELLERS & ADVISERS

World's 10 largest brokers

	Company	Rank 1998	Brokerage revenues 1999	Brokerage revenues 1998	% change	Employees 1999	Employees 1998	% change
1	Marsh & McLennan Cos. Inc.	1	$6,104,000,000	$5,878,000,000	3.8%	45,300	46,900	-3.4%
2	Aon Corp.	2	$4,800,000,000	$4,397,000,000	9.2%	39,000	34,000	14.7%
3	Willis Group Ltd.	3	$1,239,388,000 [1]	$1,189,726,000 [1]	4.2%	9,446	9,204	2.6%
4	Arthur J. Gallagher & Co.	4	$586,054,000	$524,435,350	11.7%	4,589	4,288	7.0%
5	Jardine Lloyd Thompson Group P.L.C.	5	$432,006,000 [1]	$417,564,000 [1]	3.5%	3,641	3,475	4.8%
6	HLF Insurance Holdings Ltd.	—	$405,664,325 [2]	$411,336,568 [2]	-1.4%	4,580	4,436	3.2%
7	Acordia Inc.	7	$337,236,990	$309,656,130	8.9%	3,584	3,361	6.6%
8	Alexander Forbes Ltd.	8	$330,076,998 [3]	$275,991,200 [3]	19.6%	4,758	4,228	12.5%
9	USI Insurance Services Corp.	6	$320,555,000	$327,000,000	-2.0%	3,159	3,232	-2.3%
10	Gras Savoye & Cie.	9	$277,668,000 [4]	$259,420,000 [4]	7.0%	2,179	2,005	8.7%
Totals/averages			$14,832,649,313	$13,990,129,248	6.0%	120,236	115,129	4.4%

[1] British pound=$1.618 (1999), $1.657 (1998); fiscal year ending 12/31. [2] British pound=$1.595 (1999), $1.654 (1998); fiscal year ending 3/31. [3] South African rand=$0.172 (1999), $0.152 (1998); fiscal year ending 3/31. [4] French franc=$0.162 (1999), $0.170 (1998); fiscal year ending 12/31.

Source: *BI* survey

World's largest reinsurance brokers

Company	Gross revenues [1] 1999	Gross revenues % change	Employees 1999	Employees % change	% Treaty 1999	% Treaty 1998
Aon Re Worldwide	$655,000,000 [2]	5.6 [2]	3,000	-3.2	NA	NA
Guy Carpenter & Co. Inc.	526,000,000	4.8	2,080	-3.7	95	96
Willis Re	253,000,000	2.4	870	2.5	92	92
E.W. Blanch Co. Inc.	177,383,508	8.4	1,291	10.9	100	100
Benfield Greig Group P.L.C.	159,055,872 [3]	6.6	535	14.6	NA	NA
Heath Lambert Group	102,718,000 [4]	3.7	4,580	-7.8	60	55.4
JLT Risk Solutions Ltd.	86,287,940 [3]	16.0	NA	NA	72	100
Towers Perrin Reinsurance	51,300,000	8.0	224	4.2	97	95
John P. Woods Co. Inc.	25,000,000 [5]	11.6 [6]	71	4.4	98	98
John B. Collins Associates Inc.	20,829,000	35.3	78	30.0	100	100

[1] Based on reinsurance brokerage and services only [2] *BI* estimate [3] Fiscal year ending 12/31/99 (British pound = $1.618) [4] Fiscal year ending 3/31/00 (British pound = $1.595) [5] Fiscal year ending 6/30/00 [6] 1998 revenues have been restated NA = Not available

Source: *BI* survey

Top benefit brokers

Brokers that derive majority of 1999 brokerage revenues from benefits business

Rank	Company	Revenue from benefits*	% of total brokerage revenues
1	USI Insurance Services Corp.	$187,788,120	58.4%
2	CBIZ Benefits & Insurance Services Inc.	$92,800,000	58.0%
3	Fringe Benefits Management Co.	$15,516,970	100.0%
4	The Tribus Cos.	$13,860,000	70.0%
5	SilverStone Group Inc.	$10,560,000	66.0%
6	The Cambridge Group Inc.	$10,331,672	75.0%
7	CFG Insurance Services	$7,518,475	64.5%
8	Fox-Everett Inc.-an Assurex partner	$6,157,200	60.0%
9	Financial Independence Co.	$3,700,000	100.0%
10	Employee Benefit Specialists Inc.	$2,684,237	100.0%

*Includes commissions and fees from brokering group benefit coverage, benefit consulting and health care claims administration.

Source: *BI* survey

Loss Prevention It's nice to know others are looking out for your business's well being. That's why Wausau uses teams of experts from claims, loss prevention, managed care and underwriting to find inventive ways to control your losses. Together, we help identify factors that impact workplace safety and productivity. Then we partner with clients to develop specific solutions that reduce or eliminate those risks. It's how our loss prevention services help keep you out of harm's way.
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CHARTING CHANGE

BROKERS, SELLERS & ADVISERS

100 largest brokers of U.S. business

Ranked by 1999 U.S. brokerage revenues, which are based on percentage of 1999 brokerage revenues generated by U.S.-based clients

Rank	Company	1999 U.S. brokerage revenues
1	Marsh & McLennan Cos. Inc. [1]	$3,540,320,000
2	Aon Corp.	$2,544,000,000
3	Willis Group Ltd. [2]	$669,269,520
4	Arthur J. Gallagher & Co.	$539,169,680
5	Acordia Inc.	$334,539,094
6	USI Insurance Services Corp.	$320,555,000
7	Hilb, Rogal & Hamilton Co.	$221,653,040
8	Wells Fargo Insurance Inc.*	$190,254,000
9	Brown & Brown Inc.	$172,884,740
10	Lockton Cos. Inc. [3]	$147,373,380
11	Jardine Lloyd Thompson Group P.L.C. [2]	$142,561,980
12	CBIZ Benefits & Insurance Services Inc.	$137,600,000
13	BB&T Insurance Services Inc.	$125,130,000
14	Near North Insurance Brokerage Inc.	$86,729,940
15	Palmer & Cay Inc. - an Assurex partner [4]	$81,478,813
16	HLF Insurance Holdings Ltd. [2,5]	$77,076,222
17	Talbot Financial Corp.	$71,400,000
18	McGriff, Seibels & Williams Inc. - an Assurex partner	$69,590,505
19	Meadowbrook Insurance Group Inc.	$68,576,877
20	ABD Insurance & Financial Services Inc. [6]	$68,200,000
21	Hobbs Group L.L.C.	$66,234,343
22	NIA Group L.L.C. - an Assurex partner	$61,457,763
23	Frank Crystal & Co. Inc.	$57,930,000
24	Keenan & Associates	$57,850,000
25	Summit Insurance Advisors L.L.C.	$55,204,863
26	Riedman Corp.	$54,570,000
27	Summit Global Partners Inc. [5]	$51,528,319
28	Commerce National Insurance Services Inc.	$50,332,100
29	John L. Wortham & Son L.L.P. - an Assurex partner	$48,341,000
30	Kaye Group Inc.	$47,204,000
31	Robert F. Driver Co. Inc.	$46,988,000
32	Holmes, Murphy & Associates Inc. [4]	$36,984,842
33	Frenkel & Co. Inc. - an Assurex partner	$34,749,000
34	The Leavitt Group	$34,345,080
35	J. Smith Lanier & Co.	$33,836,334
36	Bollinger Inc.	$33,197,449
37	Timberline Insurance Managers Inc.	$31,825,830
38	Allied Coverage Corp. [7]	$30,690,000
39	Insurance Management Associates - an Assurex partner	$30,560,490
40	Healthcare Insurance Services Inc.	$30,397,563
41	Marshall & Sterling Enterprises Inc.	$29,717,777
42	Calco Insurance Brokers & Agents Inc.	$28,623,119
43	Hylant Group	$28,365,480
44	Mesirow Insurance Services Inc. [5]	$26,625,970
45	Van Beurden Insurance Services Inc.	$25,830,000
46	Rebsamen Insurance Inc.	$25,120,929
47	Cal-Surance Associates Inc.	$24,897,000
48	The Graham Co.	$24,851,000
49	The Treiber Group L.L.C.	$24,631,611
50	Tanenbaum-Harber Co. Inc.	$24,255,000
51	The Loomis Co.	$23,896,776
52	Horton Insurance Agency Inc.	$22,399,740
53	Riggs, Counselman, Michaels & Downes Inc. - an Assurex partner	$22,310,000
54	Cameron M. Harris & Co. -an Assurex partner	$21,896,626
55	Saldana & Associates Inc.	$21,188,859
56	Andreini & Co.	$20,980,500
57	Van Gilder Insurance Corp. - an Assurex partner	$20,980,000
58	Mellon/Clair Odell Group	$20,951,000
59	Berwanger Overmyer Associates - an Assurex partner	$20,854,159
60	Woodruff-Sawyer & Co. - an Assurex partner	$20,622,000
61	Old Kent Insurance Group Inc.	$20,496,000
62	Sullivan Curtis Monroe	$19,847,940
63	The Tribus Cos. [5]	$19,800,000
64	Allied American Insurance Agency Inc.	$18,962,000
65	The Daniel & Henry Co. - an Assurex partner	$18,851,000
66	Dodge, Warren & Peters Insurance Services Inc. [8]	$18,800,000
67	BWD Group L.L.C.	$18,612,000
68	The James B. Oswald Co. - an Assurex partner	$18,247,000
69	Bratrud Middleton Insurance Brokers Inc.	$18,100,000
70	Davis Baldwin Inc. - an Assurex partner	$18,046,539
71	Kelter-Thorner Inc. [9]	$17,286,000
72	InterWest Insurance Services Inc.	$17,270,850
73	Barney & Barney L.L.C. - an Assurex partner [6]	$16,644,000
74	The Rutherfoord Cos. - an Assurex partner [4]	$16,498,707
75	Lawley Service Inc.	$16,475,576
76	Schaefer-Smith-Ankeney Insurance Agency	$15,607,350
77	SilverStone Group Inc.	$15,520,000
78	Fringe Benefits Management Co.	$15,516,970
79	Anco Insurance Managers Inc.	$15,386,768
80	The Heffernan Group	$15,277,500
81	Bowen, Miclette & Britt Inc.	$15,114,330
82	Hamilton Dorsey Alston Co. Inc. -an Assurex partner [8]	$15,056,019
83	Associated Agencies Inc.	$14,553,000
84	Seitlin - an Assurex partner	$14,512,410
85	The Hays Group Inc.	$14,137,750
86	Bolton & Co. - an Assurex partner	$13,990,165
87	Parker, Smith & Feek Inc. - an Assurex partner	$13,902,280
88	McQueary Henry Bowles Troy L.L.P.	$13,860,000
89	Hastings-Tapley Insurance Agency Inc. [9]	$13,837,194
90	The Capacity Group of Cos.	$13,601,569
91	DiBuduo & DeFendis Insurance Group - an Assurex partner	$13,304,679
92	R.C. Knox & Co. Inc.	$13,300,000
93	Charles L. Crane Agency Co.	$13,251,199
94	The Mahoney Group - an Assurex partner	$12,992,095
95	Fred A. Moreton & Co. - an Assurex partner	$12,951,352
96	Lovitt & Touché Inc.	$12,679,386
97	Starkweather & Shepley Insurance Brokerage Inc. - an Assurex partner	$12,600,000
98	Insurance & Risk Management - an Assurex partner	$12,586,860
99	Hibbs-Hallmark & Co.	$12,504,688
100	William Gallagher Associates	$12,483,900

Companies that derive less than 20% of revenues from commercial retail brokerage are not ranked.

* Formerly Norwest Insurance Inc.

[1] *BI* estimate [2] converted at applicable exchange rate [3] fiscal year ending 4/30 [4] fiscal year ending 6/30 [5] fiscal year ending 3/31 [6] fiscal year ending 1/31 [7] fiscal year ending 11/30 [8] fiscal year ending 10/31 [9] fiscal year ending 9/30

Source: *BI* survey

CHARTING CHANGE

BROKERS, SELLERS & ADVISERS

10 largest EAP providers

Ranked by lives covered at year-end 1999

Company	Total number of clients	Lives covered at year-end 1999
Magellan Behavioral Health	2,381	25,402,000
Ceridian Performance Partners	1,315	21,700,000
Managed Health Network Inc.	800	8,380,000
ComPsych Corp.	470	4,400,000
VMC Behavioral Healthcare Services	122	1,720,000
Innovative Resource Group	43	803,637
Horizon Behavioral Services	224	800,591
Integra Inc.	118	743,731
Bensinger, Dupont & Associates	250	500,000
Perspectives Ltd.	107	500,000

Source: *BI* survey

Largest D&O underwriters

Based on 1999 gross premium volume for primary directors and officers liability business

Insurer	U.S. market share
American International Group Inc.	29%
Chubb Executive Risk Inc.	23
Lloyd's of London	14
AEGIS Insurance Group	7
CNA Insurance Cos.	4
Admiral Insurance Group	2
Genesis Insurance Co.	2
Great American Insurance Cos.	2
Reliance Insurance Group	2
Zurich U.S.	1

Source: Tillinghast-Towers Perrin

10 largest U.S.-based surplus lines insurers

Insurer / Parent Company	Non-admitted 1999 direct premiums	% change	Total gross premiums	% change	Statutory combined ratio
Lexington Insurance Co. American International Group Inc.	$1,012,126,758	2.6%	$1,704,089,935[1]	36.1%	97.4%
American International Specialty Lines Insurance Co. American International Group Inc.	1,003,410,080	27.0	1,051,569,330	28.8	90.3
Scottsdale Insurance Co. Nationwide Mutual Insurance Co.	491,206,969	8.4	1,328,657,362[1]	21.5	106.9
Steadfast Insurance Co. Zurich U.S. Insurance Co.	323,575,277	0.6	341,783,529[1]	-0.7	21.2
Columbia Casualty Co. CNA Insurance Cos.	320,385,493	50.4	593,289,656[1]	7.8	118.1
Reliance Insurance Co. of Illinois Reliance Insurance Co.	307,278,368	-9.6	352,894,855[1]	-10.2	123.6
General Star Indemnity Co. Berkshire Hathaway Inc.	257,889,425	-14.3	262,757,174	-14.8	99.2
United National Insurance Co. American Insurance Service Inc.	183,665,405	-8.2	357,604,576[1]	20.6	84.3
Admiral Insurance Co. W.R. Berkley Corp.	163,703,362	1.5	172,877,537	2.1	89.7
Acceptance Insurance Co. Acceptance Insurance Cos.	163,664,785	-6.9	268,292,262[1]	-19.0	137.5

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

10 largest U.S.-based insurance wholesalers

Broker / Parent company	1999 premium volume	% change	1999 gross revenues	% change	% surplus lines
Swett & Crawford Group Aon Corp.	$880,000,000	25.9%	$86,800,000	22.6%	40%
Crump Insurance Services Inc. Marsh & McLennan Cos. Inc.	615,000,000	5.1%	46,870,000*	7.5	55
Stewart Smith Group Inc. Willis Group Ltd.	385,837,000	6.5%	30,095,000	4.2	32
Tri-City Brokerage Inc. Privately held	329,500,000	-7.2%	25,000,000*	-7.4	20
Sherwood Insurance Services Aon Corp.	275,000,000	-17.7%	27,800,000	-18.2	25

MGA/underwriting manager / Parent company	1999 premium volume	% change	1999 gross revenue	% change	% surplus lines
The Schinnerer Group Inc. Marsh & McLennan Cos. Inc.	$478,000,000	5.3%	$39,700,000*	5.6%	5%
ECS Underwriting Inc. XL Capital Ltd.	295,000,000	10.9%	NA	NA	0
Burns & Wilcox Ltd. H.W. Kaufman Financial Group Inc.	284,595,027	7.9%	41,131,613	-1.6	80
K&K Insurance Group Inc. Aon Corp.	257,332,000	12.7%	55,577,000*	12.6	2
New Century Global Inc. Privately held	211,000,000	25.6%	17,000,000	41.7	5

* *BI* estimate NA = not available
Source: *BI* survey

CHARTING CHANGE

BROKERS, SELLERS & ADVISERS

World's largest employee benefit consultants

Ranked by worldwide benefit consulting revenues; based on estimated 2000 figures.

	Gross revenues from benefit consulting [1] (in millions)			Offices	
	2000	1999	% change	U.S.	Non-U.S.
William M. Mercer Cos. L.L.C.	$1,384.0	$1,322.0	4.7%	40	87
Hewitt Associates L.L.C. [2]	1,154.0	962.3	19.9	26	53
Towers Perrin	925.3	865.4	6.9	36	38
PricewaterhouseCoopers Global HR Solutions [3]	885.0	719.0	23.1	21	36
Aon Consulting Worldwide [4]	766.7	582.0	31.7	80	67
Watson Wyatt Worldwide [3]	720.0	647.1	11.3	32	53
Deloitte & Touche - Human Captial Advisory Services	472.3	334.7	41.1	28	50
Buck Consultants Inc.	403.0	355.0	13.5	26	21
Ernst & Young L.L.P.- Human Resource Services	260.0	222.0	17.1	13	11
Arthur Andersen L.L.P.- Human Capital Services	204.0	185.0	10.3	44	76
Total	**$7,174.3**	**$6,194.5**	**15.8%**	**346**	**492**

1 Excludes revenues from claims administration, compesation consulting, insurance commissions and other non-benefit consulting. 2. Fiscal year ends September 30 3. Fiscal year ends June 30 4. BI estimated including pro forma to include the acquisition of ASA (Actuarial Science Associates Inc. 5. Estimated
Source: *BI* Survey

Top U.S. benefit consultants

Based on estimated 2000 U.S. benefit consulting revenues (in millions)

Company	Revenues
Hewitt Associates L.L.C.[1]	$1,073.2
Towers Perrin	721.7
William M. Mercer Cos. L.L.C.	719.7
PricewaterhouseCoopers, Global HR Solutions [2]	601.8
Aon Consulting Worldwide [3]	490.7
Watson Wyatt Worldwide [3]	439.2
Buck Consultants Inc.	322.4
Deloitte & Touche - Human Capital Advisory Services	255.0
Ernst & Young L.L.P.- Human Resource Services	156.0
The Segal Co.	118.6
Total	**$4,898.3**

1. Fiscal year ends September 30 2. Fiscal year ends June 30 3.
Source: *BI* Survey

Top U.S. risk management consultants

Ranked by risk management consulting revenues

	1999 revenues	Total clients	Risk mgmt. professionals
PricewaterhouseCoopers L.L.P.	$113,280,000	4,200	560
Deloitte & Touche L.L.P.	71,450,000	1,000	455
Arthur Andersen L.L.P.	59,444,750	813	263
EQE International Inc.	53,500,000	800	300
Ernst & Young L.L.P.	29,590,000	900	125
Tillinghast-Towers Perrin	27,916,000	850	55
KPMG L.L.P.	12,000,000	300	70
Milliman & Robertson Inc.	10,000,000	463	96
J.H. Albert International Insurance Advisors Inc.	6,800,000	650	35
Dempsey, Myers & Co.	4,000,000	90	21

*Estimated. Source: *BI* survey

Top U.S. risk management specialists

Ranked by risk management consulting revenues representing majority of total business

Company	1999 revenues	Total clients	Percent of total revenue generated by risk mgmt.
EQE International Inc.	$53,500,000	800	81%
J.H. Albert International Insurance Advisors Inc.	$6,800,000	650	100
Dempsey, Myers & Co.	$4,000,000	90	100
McNeary Insurance Consulting Inc.	$3,174,000	350	100
Advanced Risk Management Techniques Inc.	$2,840,000	375	92
RMI Consulting Inc.	$2,600,000	260	59
Robert Hughes Associates Inc.	$2,148,681	250	95
Alpha Risk Management Inc.	$2,100,000	47	100
Kevin F. Donoghue Insurance Advisors Inc.	$1,950,000	140	100
RECON L.L.C.	$1,891,701	40	100

Source: *BI* Survey

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CHARTING CHANGE

CLAIMS & COSTS

EEOC claims by type

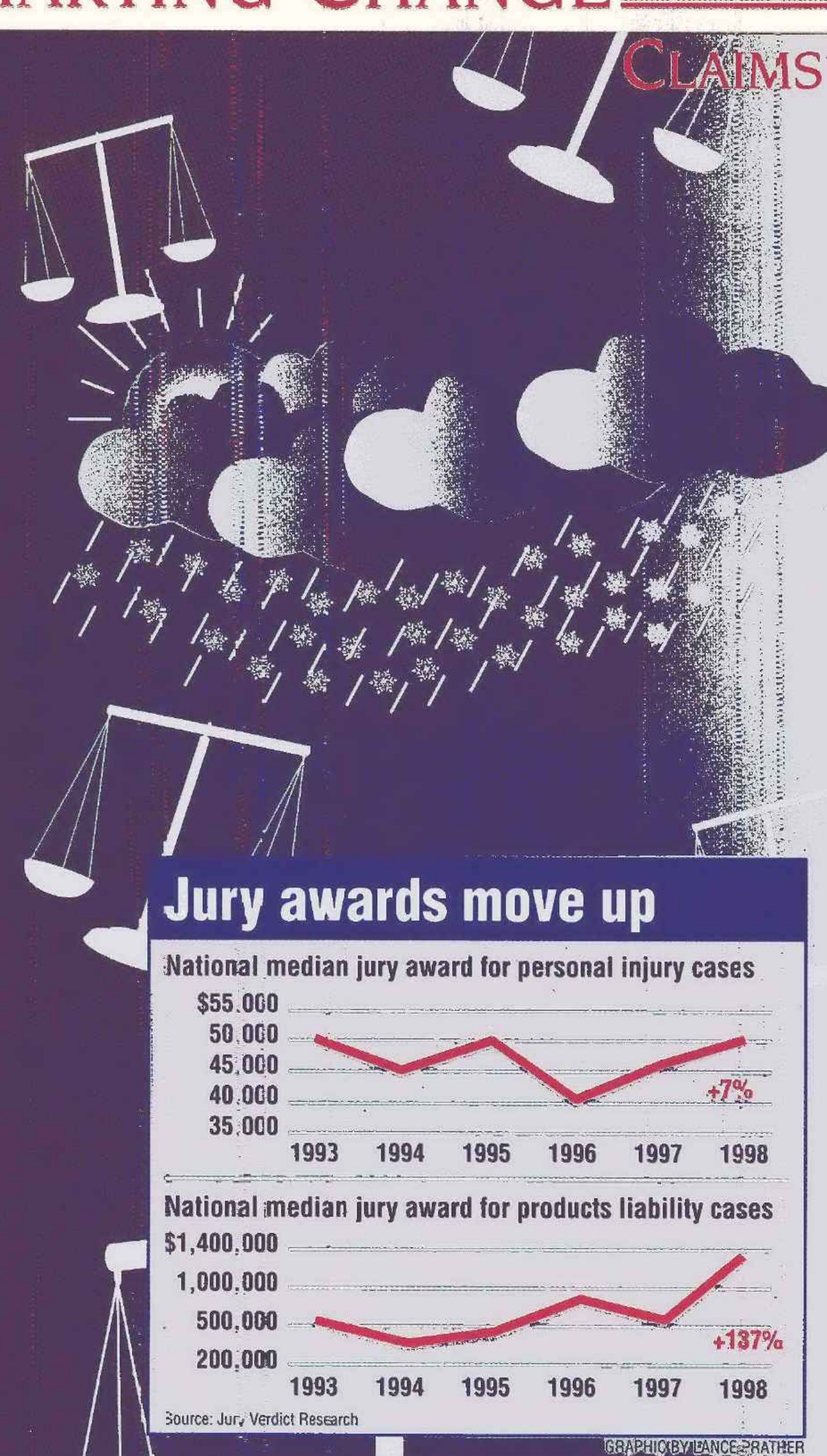
Individual discrimination charges against employers filed with the EEOC

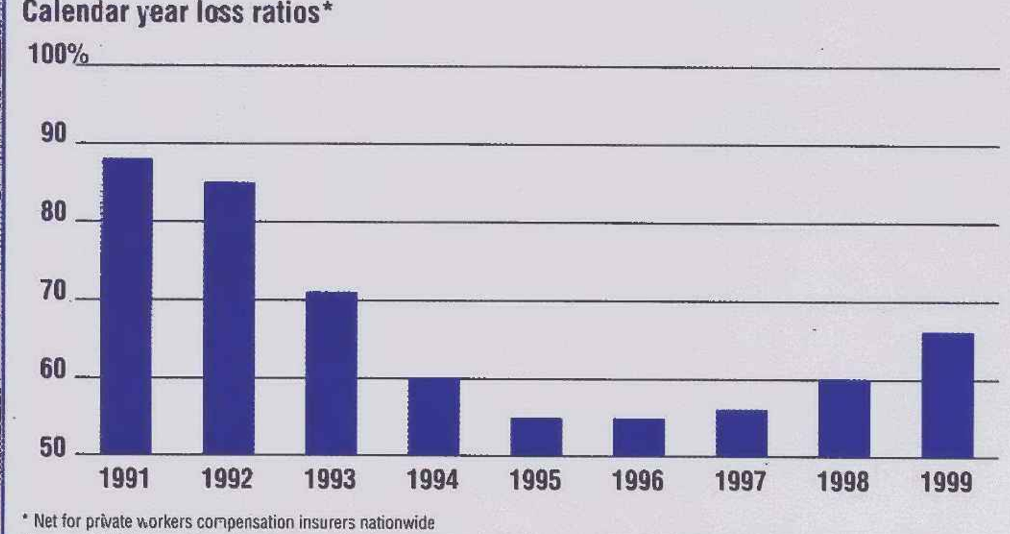
	1995	1996	1997	1998	1999
Total Charges	87,529	77,990	80,680	79,591	77,444
Race	29,986	26,287	29,199	28,820	28,819
% of total	34.3	33.8	36.2	36.2	37.3
Sex	26,181	23,813	24,728	24,454	23,907
% of total	29.9	30.6	30.7	30.7	30.9
National origin	7,035	6,687	6,712	6,778	7,108
% of total	8.0	8.6	8.3	8.5	9.2
Religion	1,581	1,564	1,709	1,786	1,811
% of total	1.8	2.0	2.1	2.2	2.3
Age	17,416	15,719	15,785	15,191	14,141
% of total	19.9	20.2	19.6	19.1	18.3
Disability	19,798	18,046	18,108	17,806	17,007
% of total	22.6	23.1	22.4	22.4	22.0
Equal Pay Act	1,275	969	1,134	1,071	1,044
% of total	1.5	1.2	1.4	1.3	1.3

Note: The total may be less than the sum of the categories because charges often claim multiple forms of discrimination.

Source: U.S. Equal Employment Opportunity Commission

▶ www.eeoc.gov





GRAPHIC BY JOHN HALL

▶ www.ncci.org

CHARTING CHANGE

CLAIMS & COSTS

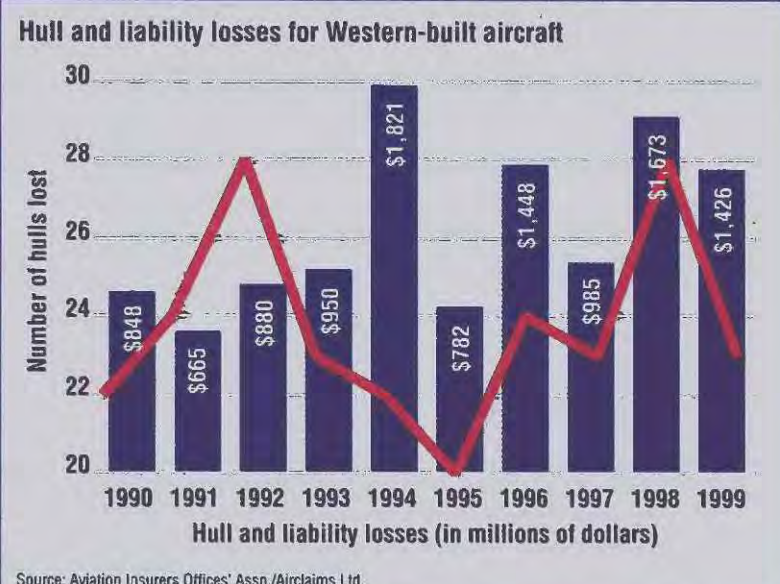
Europe's worst windstorm losses

Insured losses stated in current U.S. dollars

Date	Storm name	Main area affected	Insured losses in billions
1/2,3/1976	Capella	United Kingdom	$1.2
10/16/1987	87J	English Channel	4.3
1/25/1990	Daria	France, Germany, U.K.	5.8
2/3,4/1990	Herta	Paris region	1.1
2/26/1990	Vivian	North Sea coast	3.4
2/28/1990	Wiebke	Southern Germany	1.0
1/21/1995		Northern Europe	1.0
12/3,4/1999	Anatol	Denmark	1.5
12/26/1999	Lothar	Paris region	5.8
12/27/1999	Martin	Bordeaux region	2.4

Source: Swiss Reinsurance Co.

A decade of aviation losses



GRAPHIC BY ADAM DOI

The 10 biggest U.S. catastrophes

The largest U.S. disasters in terms of insured losses

Date	Disaster	State(s) affected	Estimated insured losses
8/24-26/1992	**Hurricane Andrew** wind, tornadoes, flooding	FL, LA	$15,500,000,000
1/17/1994	**Earthquake, fire**	CA	12,500,000,000
9/17-22/1989	**Hurricane Hugo** wind, tornadoes, flooding	NC, GA, PR, VI, SC, VA	4,195,000,000
9/21-28/1998	**Hurricane Georges** wind, tornadoes, flooding	PR, VI, FL, AL, MS, LA	2,955,000,000
10/4-5/1995	**Hurricane Opal** wind, tornadoes, flooding	FL, AL, GA, SC, NC, TN	2,100,000,000
9/14-16/1999	**Hurricane Floyd** tornadoes, flooding	FL, GA, SC, NC, VA, DE, MD, NJ, PA, NY, CT, RI, MA, NH, ME	1,960,000,000
3/11-14/1993	**Winter storm** wind, hail, tornadoes, snow, ice, freezing	MS, NC, AL, FL, GA, SC, MD, DE, PA, NY, RI, MA, VT, NH, TN, KY, OH, TX, LA, VA, NJ, CT, ME, WV	1,750,000,000
10/20-21/1991	**Fire**	CA	1,700,000,000
9/11-12/1992	**Hurricane Iniki** wind, flooding	HI	1,600,000,000
9/5-8/1996	**Hurricane Fran** wind, tornadoes, flooding	NC, SC, VA, MD, WV, PA, OH	1,600,000,000

Source: Property Claim Services division of Insurance Services Offices Inc.

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sier to swallow. Visit firsthealth.com/imagine or call 630.737.7078.

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CLAIMS & COSTS

Industries' D&O needs vary

Industry	median limits	median premiums
Utilities	$75,000,000	$372,688
Durable goods manufacturing	$35,000,000	$213,000
Nondurable goods manufacturing	$25,000,000	$192,000
Health care	$10,000,000	$46,500
High technology	$6,500,000	$95,683

Source: Tillinghast-Towers Perrin

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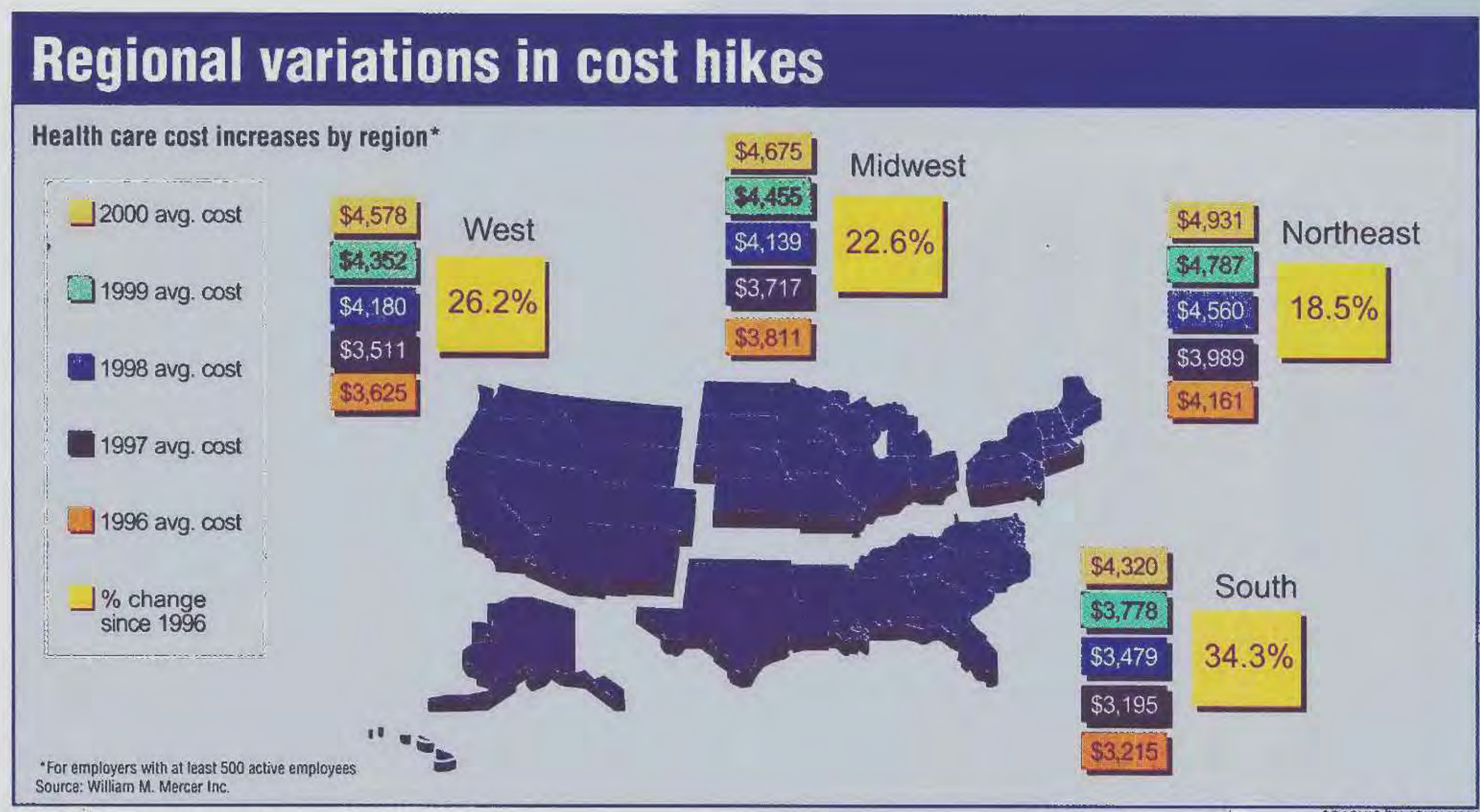
CHARTING CHANGE

EMPLOYEE BENEFITS

Regional variations in cost hikes



*For employers with at least 500 active employees
Source: William M. Mercer Inc.

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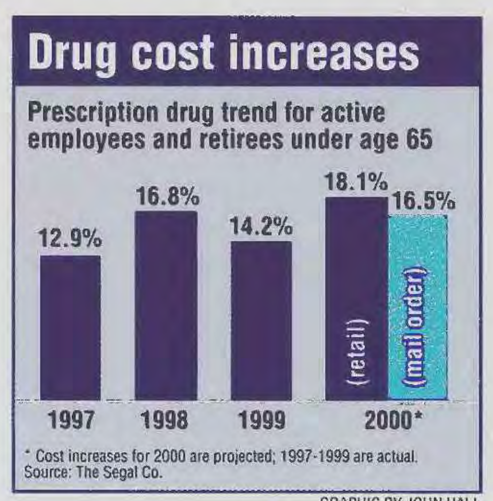
www.wmmercer.com

Drug cost increases



* Cost increases for 2000 are projected; 1997-1999 are actual.
Source: The Segal Co.

GRAPHIC BY JOHN HALL

Cost hike by plan

Source: Watson Wyatt Worldwide

GRAPHIC BY JOHN HALL

www.watsonwyatt.com

Impact of Medicare HMO pullouts

Medicare managed care enrollment and geographic impact of the 2000 withdrawals

1999	Rural counties	Small urban/ fringe counties	Major urban areas	Nationwide
Medicare+Choice enrollment	219,000	1,774,000	4,198,000	6,191,000
Percentage of total	3.5%	28.7%	67.8%	100%
2000				
Enrollees affected by withdrawals	42,000	169,000	117,000	328,000
Percentage of total	12.7%	51.7%	35.6%	100%
Affected enrollees with no other managed care option	30,000	35,000	14,000	79,000
Percentage of total	37.5%	44.7%	17.8%	100%
2001				
Enrollees affected by withdrawals	69,000	363,000	493,000	925,000
Percentage of total	7.5%	39.2%	53.3%	100%
Affected enrollees with no other managed care option	44,000	93,000	22,000	159,000
Percentage of total	27.5%	58.6%	13.9%	100%

Note: Approximately 8,400 of the affected enrollees for 2001 live outside of the withdrawing plans' service areas. These enrollees are excluded from this analysis.

Source: Medicare Compare Database, 1999 and 2000; Medicare Managed Care Market Penetration State/County/Plan Data Files, July 1999 and March 2000, www.hcfa.gov/medicare/; Bureau of Health Professions, Area Resource File, Feb. 1999; and files of contract terminations and service area reductions from the Center for Health Plans and Providers at HCFA.

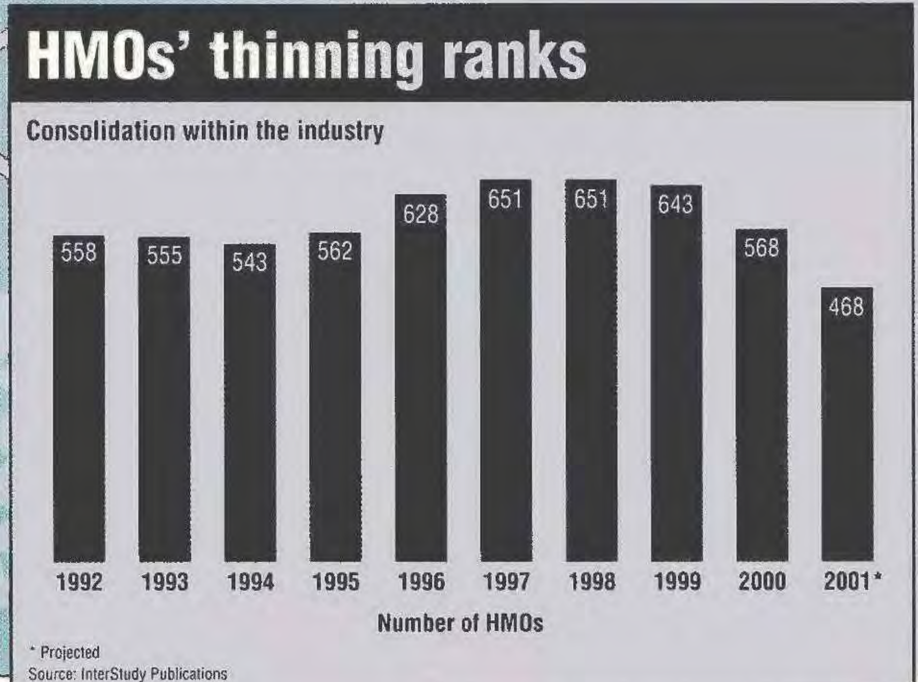
www.eeoc.gov

CHARTING CHANGE

EMPLOYEE BENEFITS

HMOs' thinning ranks

Consolidation within the industry



* Projected
Source: InterStudy Publications

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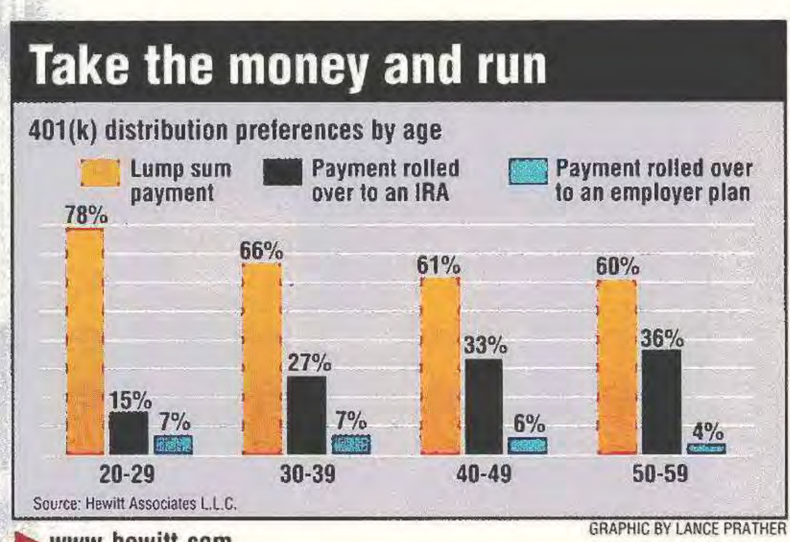
www.hmodata.com

Take the money and run

401(k) distribution preferences by age



Source: Hewitt Associates L.L.C.

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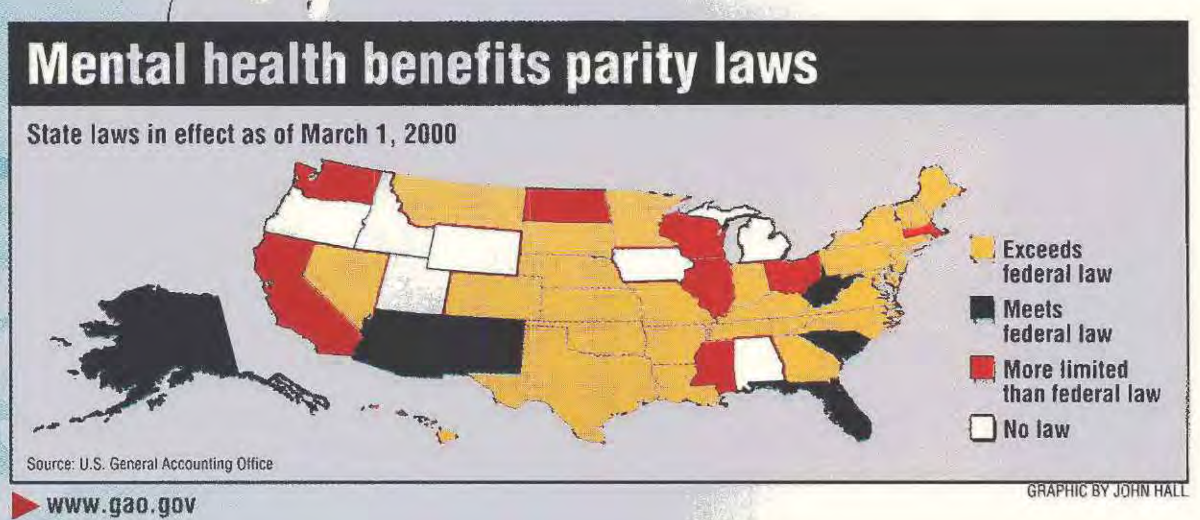
www.hewitt.com

Mental health benefits parity laws

State laws in effect as of March 1, 2000



Source: U.S. General Accounting Office

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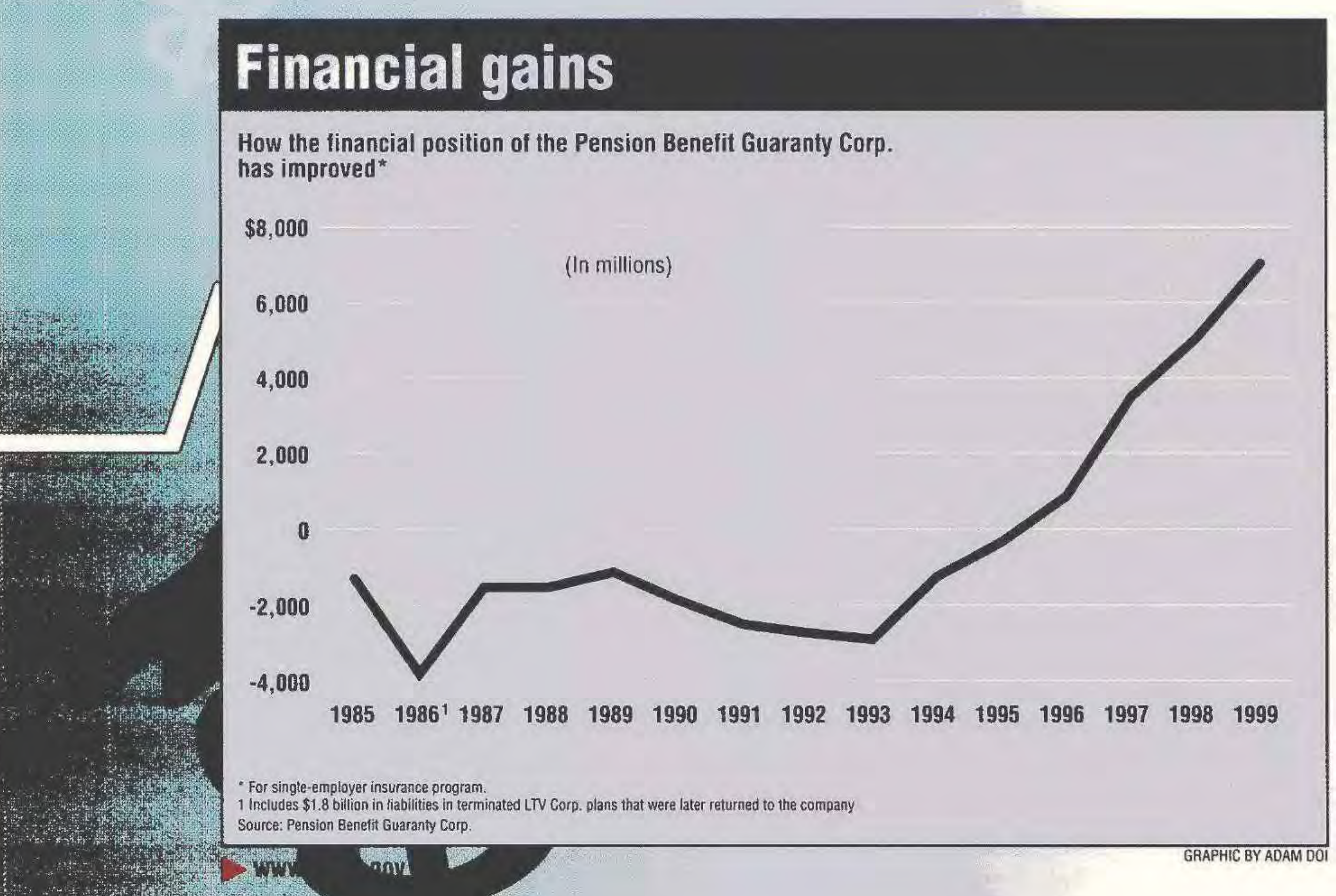
www.gao.gov

Financial gains

How the financial position of the Pension Benefit Guaranty Corp. has improved*



* For single-employer insurance program.
1 Includes $1.8 billion in liabilities in terminated LTV Corp. plans that were later returned to the company
Source: Pension Benefit Guaranty Corp.

GRAPHIC BY ADAM DOI

A 15-year decline

Single-employer defined benefit plans have decreased in popularity*

Year	Number of plans
1985	112,208
1986	111,944
1987	111,351
1988	108,279
1989	101,724
1990	91,899
1991	82,717
1992	71,589
1993	63,778
1994	57,010
1995	53,589
1996	48,748
1997	43,902
1998	41,462
1999	37,536

* Plans insured by Pension Benefit Guaranty Corp.
Source: Pension Benefit Guaranty Corp.

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RISK MANAGEMENT

Portrait of a buyer

Average responses to survey of U.S. RIMS members

Title	1999 average pay	% of compensation from salary	Years in current job	Years in profession	Employees supervised	Average hours/week
Top risk manager*	$110,000	86%	8	18	11	47
Benefits manager	$57,000	94	6	11	4	44
Safety manager	$62,000	94	6	12	4	44
Claims manager	$57,000	95	5	13	5	43
Risk management analyst	$44,000	97	4	7	0	41
Administrative assistant	$31,000	98	4	5	0	39

* Identified as risk manager 1 by survey

Source: Risk & Insurance Management Society Inc.

www.rims.org

Analyzing the impact of risks

MMC study examined risks that caused prolonged stock price drop among Fortune 1000 companies

Strategic 58%

Risk	%
Customer demand shortfall	24%
Competitive pressure	12%
M&A integration problems	7%
Misaligned products	6%
Customer pricing presure	4%
Loss of key customer	2%
Regulatory problems	1%
R&D delays	1%
Supplier problems	1%

Operational 31%

Risk	%
Cost overruns	11%
Accounting irregularities	7%
Management ineffectiveness	7%
Supply chain issues	6%

Financial 6%

Risk	%
Foreign macro-economic issues	3%
Hight input commodity	2%
Interest rate fluctuation	1%

Hazard 0%

Risk	%
Lawsuits	0%
Natural disasters	0%

Source: Compustat Mercer Management Consulting

GRAPHIC BY JOHN HALL

U.K. buyers' greatest coverage concerns

Risk areas where survey respondents are concerned about the adequacy of insurance coverage

Risk area	%
Loss of intellectual property	27%
Accidental product contamination	18%
Environmental issues	18%
Product-related health, safety issues	18%
Extortion, sabotage to products	14%
General health, safety issues	14%
Civil litigation	12%
Natural, man-made disasters	12%
Behavior of individual employees	10%
Fraud	8%
Employment disputes	6%
Behavior of senior managers	4%
Directors and officers	2%

0% 5% 10% 15% 20% 25%

Base: All respondents

Source: Lloyd's of London, Insurance Research & Publishing

www.lloyds.com

CHARTING CHANGE

RISK MANAGEMENT

1999 cost of risk

Components of the cost of risk, per $1,000 of revenue

Component	Cost
Liability risk financing	$1.88
Property risk financing	$0.85
Workers comp risk financing	$2.03
Administrative expenses	$0.41
Total cost of risk *	$5.20

*Because the survey used only complete responses for each category, sums for each category may not match totals.

Source: 2000 RIMS Benchmark Survey

www.rims.org

High ergonomics injury risk

Number of work-related musculoskeletal disorders involving time away from work and median days away from work by occupation, 1998

Occupation	Number (in 1,000s)	Median days away from work
Nursing aides, orderlies and attendants	49.1	5
Truck drivers	43.9	10
Laborers, nonconstruction	36.6	6
Assemblers	19.7	10
Janitors and cleaners	14.0	5
Registered nurses	12.4	5
Stock handlers and baggers	11.3	5
Construction laborers	10.8	7
Cashiers	10.0	5
Carpenters	9.3	7
Total musculoskeletal disorders	592.5	7

Source: Bureau of Labor Statistics

www.bls.gov

Tracking lost-time injuries

Number of occupational injuries and illnesses (in 1,000s) involving time away from work by selected nature of injury and illness, 1992-1998

Injury /illness	1992	1993	1994	1995	1996	1997	1998
Sprains, strains, tears	1,022.7	959.2	963.5	876.8	819.7	799.0	760.0
Bruises, contusions	222.7	211.2	212.0	192.1	174.9	165.8	153.1
Cuts, lacerations	173.6	169.9	164.6	153.2	133.2	133.6	137.6
Fractures	143.6	136.5	138.5	124.6	120.5	119.5	115.4
Heat burns, scalds	41.0	37.7	37.3	36.1	29.0	30.0	28.4
Carpal tunnel syndrome	33.0	41.0	38.3	31.5	29.9	29.2	26.3
Tendonitis	25.4	25.0	25.2	22.1	17.4	18.0	16.9
Chemical burns	15.7	15.7	16.5	13.9	11.6	12.2	11.7
Amputations	12.4	11.3	12.2	11.3	10.2	10.9	10.2
Total cases	2,331.0	2,252.6	2,236.6	2,040.9	1,880.5	1,833.4	1,730.5

Source: Bureau of Labor Statistics

www.bls.gov

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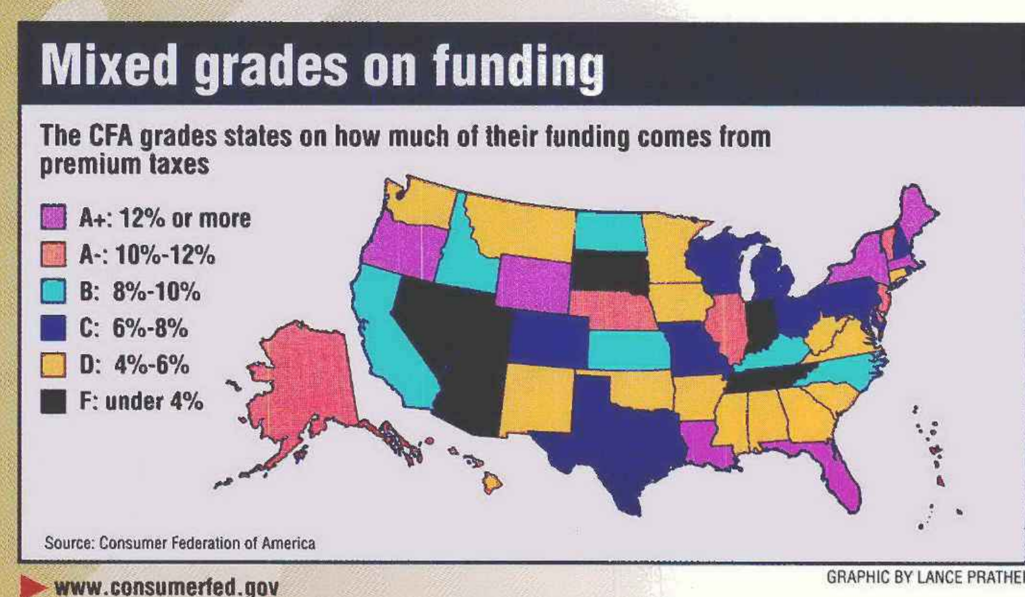
RULES & REGULATIONS



www.consumerfed.gov

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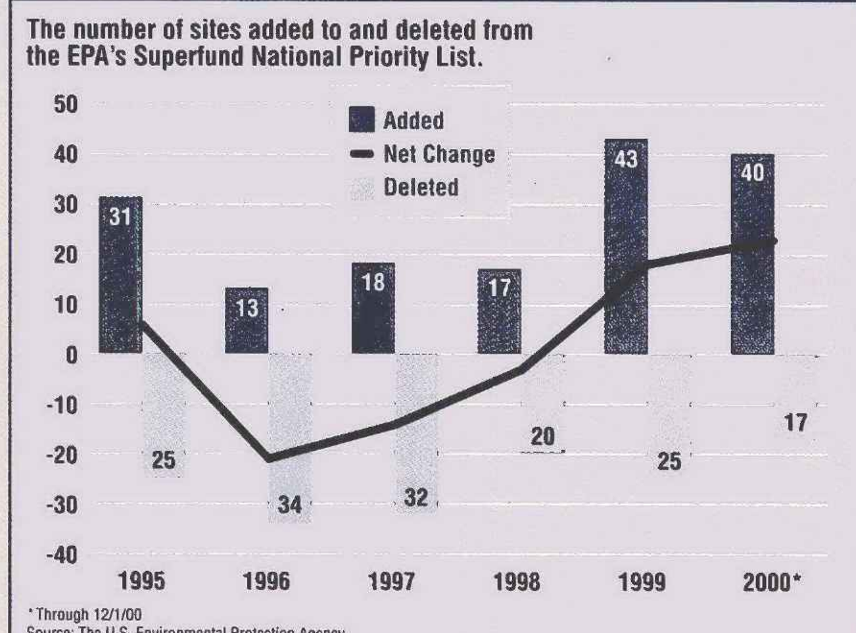

www.epa.gov

GRAPHIC BY ADAM DOI

Growth of state programs

Voluntary Protection Programs, state only, as of Oct. 31, 2000

Year	Programs
1992	2
1993	2
1994	12
1995	26
1996	39
1997	58
1998	93
1999	114
2000	153

Source: OSHA, Division of Voluntary Programs

www.osha.gov

GRAPHIC BY JOHN HALL

The National Assn. of Insurance Comissioners' State Regulation 2000 initiative calls on states to leverage technology to be more-effective regulators.

States that are 100% compliant

Source: NAIC

www.naic.org

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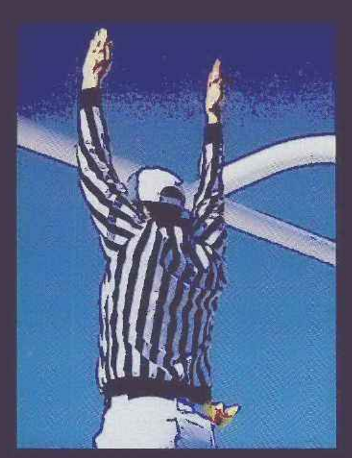

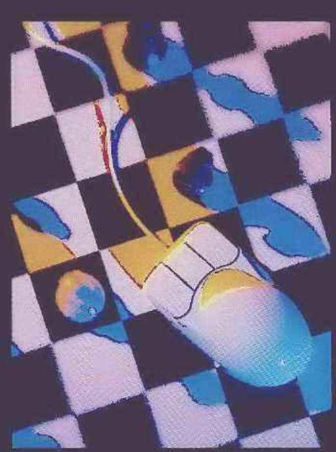

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Issue Date	Editorial Feature	Demographic Section	Ad Closing
Nov 20	Benefits: Effective Benefit Communication/EBC Awards	IT Loss Control/CPCU Report	Nov 8
Nov 27			Nov 14
Dec 4	Risk Management: Technology Solutions *Directory: Risk Management Information Systems* *Distribution: NAIC*	ABT New Business	Nov 20
Dec 11	Benefit Trends *Directory: Benefit Consultants*		Nov 29
Dec 18/25	Year-in-Review/Charting Change	IT Niche Underwriting	Dec 6
Jan 1	Information Resource: Employee Benefits	ABT Financial Modernization	Dec 19
Jan 8	Property/Casualty Market Report *Distribution: Property/Casualty Insurance Joint Industry Forum*		Dec 27
Jan 15	Information Resource: Risk Management	IT Financial Modernization	Jan 3
Jan 22	Benefits: Improving Quality *Directory: Case Management Services*		Jan 10
Jan 29			Jan 17
Feb 5	Environmental Risks *Directory: Environmental Risk Management Consultants*	ABT Global Strategies	Jan 24
Feb 12			Jan 31
Feb 19	Self-Insurance: Property/Casualty & Employee Benefits *Directory: Third-Party Administrators*	IT Global Strategies	Feb 7
Feb 26			Feb 14
Mar 5		ABT Consolidation	Feb 21

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Ernesta G. Procope
E.G. Bowman Co. Inc.

Leigh Ann Pusey
American Insurance Assn.

Anna M. Rappaport
William M. Mercer Inc.

Adrienne Reid
Zurich Re North America

Carol A. Rennie
Retired, Constellation Reinsurance Co.

Susan M. Rivera
American Home Assurance Co.

Jeannine M. Rivet
UnitedHealthcare

Patricia H. Roberts
General Star Management Co.

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Public Risk Database Project

Barbara D. Stewart
Stewart Economics Inc.

Theresa Stuchiner
PwC Unifi Network

Ellen Thrower
The College of Insurance

Lauralee Tillman
Good Weather Insurance Agency Inc.

Myra Leigh Tobin
Retired, Marsh Inc.

Adrian Tocklin
Tocklin & Associates Inc.

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William M. Mercer Inc.

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Retired, Insurance Services Office Inc.

Ruth M. Whaley
MBIA Inc.

Robin Williams
Odyssey Reinsurance Corp. (Now Partner Re U.S.)

Evelyn R. Wolovnick
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Mueller Industries Inc.

Joyce Wright
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The top employee benefit stories of 2000

1 Captive benefits

The government this year opened the door wider for U.S. employers that want to use their domestic captives to fund employee benefit risks.

In August, the Labor Department gave Columbia Energy Group the green light to use the Vermont branch of its Bermuda-domiciled insurance subsidiary, Columbia Insurance Corp. Ltd., to reinsure long-term disability insurance benefits.

The ruling gives other employers a road map to winning departmental approval for funding benefits in their captive programs.

Until the Columbia Energy ruling, an employer could use a domestic captive to finance employee benefits only if at least 50% of the captive's business was third-party risks.

That condition was put in by federal regulators who said that taking on significant third-party business would enhance the financial soundness of a captive and safeguard an employee benefit plan from actions that would be beneficial to the captive at the expense of employees.

But the 50% test has been a

near-impermeable barrier to fund benefits through captives, since few employers wanted their captives to take on so much unrelated risk.

While not abandoning the 50% test, the Labor Department, through its approval of Columbia Energy's application, offers employers an alternative way to win approval for placing employee benefit business in their captives.

In the case of Columbia Energy, the Herndon, Va.-based natural gas company agreed to use an independent fiduciary annually to ensure several conditions of its application were met.

Those conditions include making sure that the long-term disability plan purchases coverage from top-rated insurance companies, that the premiums charged by the insurer be comparable to what the insurer and its competitors charge for the same coverage under other comparable employer programs, and that participants' benefits in the first year of the LTD contract be sweetened.

Funding benefits through a captive also could increase the likelihood of a company winning tax deductions for property/casualty premiums paid to the captive.

That is because the Internal Revenue Service has said that for tax purposes it regards employee benefit risks as unrelated business. Courts have ruled that employers can deduct premiums paid to their captives if the company takes on a significant amount of unrelated business.

So far, though, no other employer has followed Columbia Energy's lead, but that is likely to change in 2001.

—By Jerry Geisel

2 Pension reform

So close—yet so far away—pretty much sums up the fate of pension reform legislation in the 106th Congress.

The problem was not so much the pension reform language itself as the vehicle to which it was attached—a tax bill that President Clinton vowed to veto. The president's threat, made prior to the November elections, implied a death sentence for pension reform. Republican leaders decided not to send the tax bill to the president before the balloting.

Their decision gave pension reform a new lease on life in the lame-duck session that convened in early December. Both sides appeared willing to compromise a little on the larger tax bill, but neither was willing to move far enough to suit the other. Although the White House indicated that it would be willing to continue negotiating, Senate GOP leaders declared the tax bill all but officially dead on Dec. 7.

The Clinton administration did criticize some pension provisions of the tax bill, notably the lack of a provision in the Senate version that would give small employers

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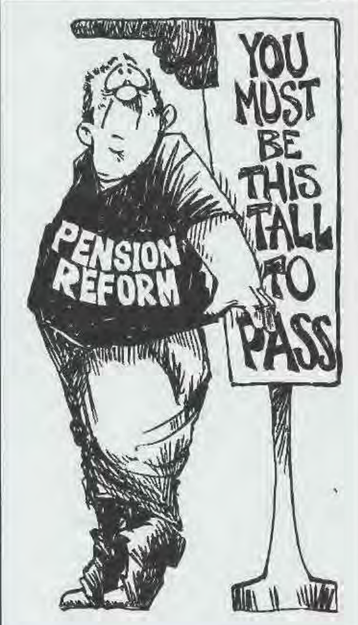

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YEAR IN REVIEW

Continued from previous page

tax breaks for setting up new pension plans. The measure would have also eased certain non-discrimination testing rules, which administration officials opposed.

Other pension reform provisions would have increased the amount of contributions that employees could make to pension and 401(k) plans as well as the benefits that could be funded through those plans. The pension reform provisions also would have allowed employees changing jobs between the private, non-profit and public sectors to transfer funds between 401(k), 403(b) and 457 savings plans, and made it easier for employers to remove from their pension rosters terminated employers who had accrued small benefits.

While the pension reform bill died this year, benefit lobbyists expect the measure to be introduced again next year. With an aging baby boom population becoming increasingly concerned that it may not have saved enough for retirement, legislators will face continued pressure from constituents to boost employees' and employers' ability to put more money in pension plans.

—By Mark A. Hofmann

3 Health plan rethinking

Less than a year after employees revolted against Xerox Corp.'s suggestion that it might consider a defined contribution health plan, at least two other Fortune 1000 employers have launched such plans, and more are expressing interest in the approach.

Chicago-based Aon Corp. and Minneapolis-based Medtronic Inc. both announced in recent weeks that they would offer employees a defined contribution-style health plan in 2001 developed by Definity Health. Minneapolis-based Definity, founded in 1999 as Health-e-care, says that more are in the hopper.

The defined contribution approach for health care got a cool reception in late 1999, after the national media reported that Xerox was considering offering employees vouchers to buy their own health insurance. Although Xerox denied that it was planning such a move, the topic drew considerable scrutiny in 2000. Some consultants questioned whether affordable coverage would be available on an individual basis and whether the voucher amounts would become taxable income to employees. Currently, employees do not pay tax on employer contributions to their health insurance.

But Definity contends the tax code allows it to offer employers a medical savings account-style plan to which they contribute a flat dollar amount each year and that allows employees to carry over any unused portion year after year. To ensure that employees buy at least minimal coverage, employers that offer the Definity plan require that individuals buy high-deductible catastrophic insurance with part of their annual stipend, with premiums based on the size of the deductible chosen.

Definity President and Chief Executive Officer Tony Miller said that interest in this approach is growing because of the failure of managed care to keep health care costs in check and because of the success of defined contribution pension plans, such as 401(k) plans. He also believes that employees, armed with more medical information via the Internet, are ready to assume a greater role in directing their own spending.

Still, many consultants remain skeptical that the defined contribution approach will ever broadly replace traditional employer-sponsored health plans.

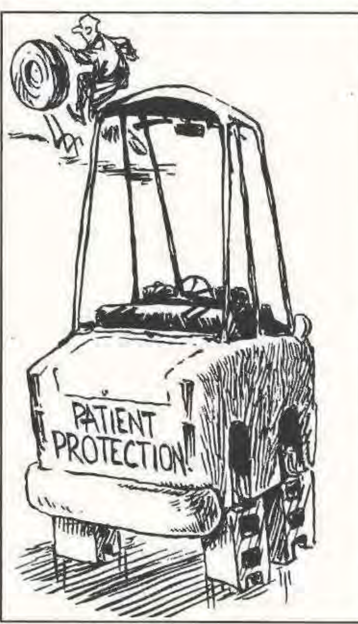
In particular, they point to employers' lackluster response to tax-favored MSAs, which Congress approved for small employers in 1996. Although lawmakers set a ceiling of 750,000 policies that could be established, only about 50,000 policies have been issued so far. Furthermore, the law that allows the creation of MSAs expires at year end. While existing policies would be protected, insurers—unless Congress extends the law, which legislators were scrambling to do late last week—could not issue new policies.

—By Joanne Wojcik

4 Patient bill gridlock

It looked like a sure thing, but looks can indeed be deceiving when it comes to managed care reform.

The so-called patients' bill of rights legislation—competing versions of which won House and Senate approval back in 1999—remains stuck in a conference committee as the 106th Congress prepares to adjourn. As far as many employers and insurers are concerned, that's just where it belongs.



Employers have been particularly leery of the House version of managed care reform legislation, and understandably so. Employers held that that measure—sponsored by Reps. Charles Norwood, R-Ga., and John Dingell, D-Mich.—would, under some circumstances, subject employers to legal liability for coverage decisions made by health care plans they sponsor. The Senate version contained no such expansion of liability.

When a House/Senate conference committee began trying to iron out the differences between the two bills, some sort of compromise measure appeared almost inevitable. For example, Rep. Earl Pomeroy, D-N.D., told a gathering of risk managers in late March that "political pressure is so in-

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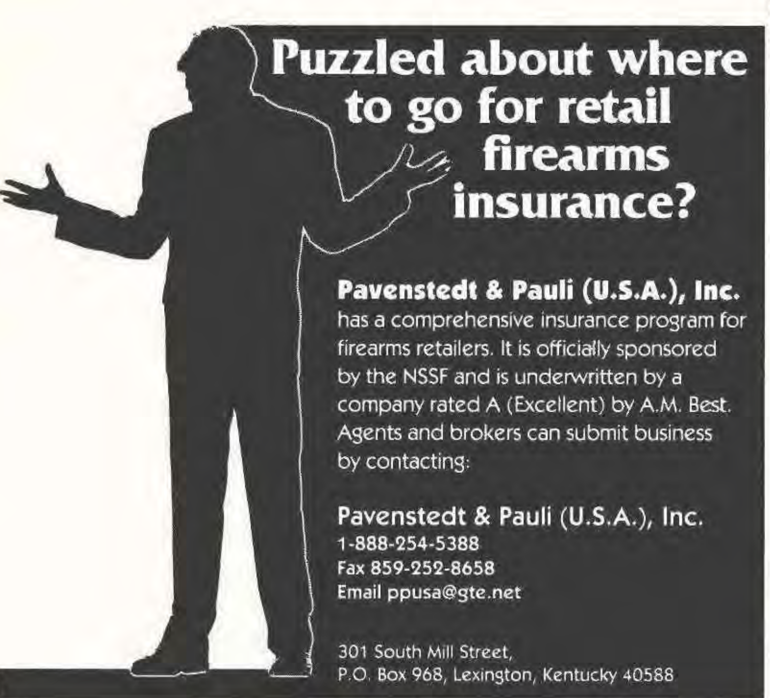

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US$ 150 million
March 2000
Swiss Re Capital Markets Corp.: Co-Lead

Enhanced Loan Facility II, Ltd.
Synthetic Collateralized Loan Obligation (CLO)
US$ 369 million
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Swiss Re Capital Markets Corp./Swiss Re Capital Markets Ltd.: Lead Manager, Arranger and Placement Agent

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Compagnie Financière Michelin
Committed Capital
US$ 1,075 million
September 2000
Swiss Re New Markets: Co-Arranger

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CIGNA Corporation
Acquisition of Traditional Life Reinsurance Business
Policy Reserves
US$ 120 million
June 2000
Swiss Re Life & Health America Inc.: Acquirer

The Midland Life Insurance Company
Acquisition
Policy Reserves
US$ 1,200 million
July 2000
Swiss Re Life & Health America Inc.: Acquirer

UNUMPROVIDENT CORPORATION
UnumProvident Corporation
Reinsurance of Traditional and Corporate Owned Life Insurance
Policy Reserves
US$ 3,400 million
August 2000
Swiss Re Life & Health America Inc.: Reinsurer

Global Specialty Risk
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Securitas Capital Fund: Lead Investor

SUMMIT GLOBAL PARTNERS
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Undisclosed Amount
September 2000
Securitas Capital Fund: Lead Investor

NASCENT
Nascent Group S.A.
Private Equity
Undisclosed Amount
November 2000
Securitas Capital Fund: Lead Investor

Highway to Health
Venture Capital
Undisclosed Amount
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Securitas Capital Fund: Co-Lead Investor

getWellness
GetWellness
Venture Capital
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Securitas Capital Fund: Lead Investor

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Venture Capital
Undisclosed Amount
August 2000
Securitas Ventures Fund: Lead Investor

INSURANCE my way
Insurance My Way Ltd.
Venture Capital
Undisclosed Amount
October 2000
Securitas Ventures Fund: Lead Investor

SalvageSale.com, Inc.
Venture Capital
Undisclosed Amount
October 2000
Securitas Ventures Fund: Lead Investor

Società Italiana Cauzioni S.p.A.
Acquisition
Undisclosed Amount
November 2000
Securitas Capital, LLC: Adviser to Swiss Re

China Insurance International Holdings Company Limited
Strategic Placement in Initial Public Offering
HK$ 120 million
June 2000
Securitas Capital, LLC: Adviser to Swiss Re

John Hancock
Global Offering of 102,000,000 Shares
US$ 1,734 million
January 2000
Fox-Pitt, Kelton: Co-Manager

Groupe Coface
Global Offering of 3,084,428 Shares
US$ 153 million
February 2000
Fox-Pitt, Kelton: Co-Lead Manager

AXA
3.75% Subordinated Convertible Notes due January 1, 2017
US$ 3,500 million
May 2000
Fox-Pitt, Kelton: Co-Manager

Sun Life Financial
Sun Life Financial
Global Offering of 143,500,000 Shares
C$ 1,937 million
March 2000
Fox-Pitt, Kelton: Co-Lead Manager

MetLife
MetLife
Global Offering of 232,300,000 Shares
US$ 3,310 million
April 2000
Fox-Pitt, Kelton: Co-Manager

Euler
Offering of 10,000,000 Shares
US$ 550 million
April 2000
Fox-Pitt, Kelton: Co-Lead Manager

BBVA
Global Offering of 220,000,000 Shares
US$ 3,000 million
May 2000
Fox-Pitt, Kelton: Co-Manager

CASSA DI RISPARMIO DI FIRENZE
Cassa Di Risparmio Di Firenze
Global Offering of 250,000,000 Shares
US$ 300 million
July 2000
Fox-Pitt, Kelton: Co-Lead Manager

Santander Central Hispano
Banco Santander Central Hispano
Offering of 345,000,000 Shares
US$ 3,500 million
July 2000
Fox-Pitt, Kelton: Co-Manager

ERSTE BANK
Erste Bank
Global Offering of 5,000,000 Shares
US$ 300 million
October 2000
Fox-Pitt, Kelton: Co-Lead Manager

UST Corp.
UST Corp.
Sale to
Citizens Financial Group, Inc.
January 2000
Fox-Pitt, Kelton: Financial Adviser to UST Corp.

ROYAL & SUNALLIANCE
Royal & SunAlliance
Sale of Austrian Subsidiary to
Donau
March 2000
Fox-Pitt, Kelton: Financial Adviser to Royal and SunAlliance

AXA
Acquisition of Minority Shareholding in
Sun Life
May 2000
Fox-Pitt, Kelton: Joint Financial Adviser to AXA

POHJOLA
Pohjola
Sale of Life Assurance Business to
Suomi Mutual Life
June 2000
Fox-Pitt, Kelton: Financial Adviser to Pohjola

Philadelphia International Equities, a Subsidiary of
First Union
Sale of The Heritable & General Bank to
Landsbanki Island hf
August 2000
Fox-Pitt, Kelton: Financial Adviser to the Seller

MLP
MLP
Buy-out of Minorities and Capital Restructuring
October 2000
Fox-Pitt, Kelton: Financial Adviser to MLP

Farm Family
Farm Family Holdings
Sale to
American National
November 2000
Fox-Pitt, Kelton: Financial Adviser to Farm Family Holdings

MetLife
MetLife
Acquisition of
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Fox-Pitt, Kelton: Financial Adviser to MetLife

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Continued from page 20

tense" for managed care reform that a blended bill that looked more like Norwood-Dingell than the Senate bill would win approval before the elections. In addition, the Norwood-Dingell bill enjoyed the strong backing of the White House, and Vice President Al Gore appeared likely to make managed care reform a centerpiece of his campaign for the presidency.

Rep. Norwood offered proposed revisions to the bill that he thought would mollify employers, but they weren't impressed and the measure never moved out of conference committee. A Democratic effort to tack the Norwood-Dingell language onto a defense appropriations bill narrowly failed in the Senate in early June. Although the measure's supporters vowed to fight on, many employer representatives expressed hope that the measure was dead.

The issue did not gain the resonance that managed care reform supporters had hoped for during the presidential campaign, and it appeared to have little impact on the handful of congressional races in which managed care regulation was an issue.

With the conference committee failing to reach a compromise, the issue of managed care reform has been punted to the next Congress.

—By Mark A. Hofmann

5 Cost increases

Into the frying pan or into the fire?

That's the dilemma many employers faced this year as the squeeze between rising health care costs on one end and the fight for talent on the other grew tighter. In prior years, employers pushed much of the rising costs onto employees. But that strategy is risky in a tight labor market, where employers struggle to keep employees.

As a result, employers have been absorbing the higher costs while looking around for new, longer-term strategies to control health care costs. For example, employers this year have taken a closer look at a defined contribution approach to health plans.

"A small group of employers are having serious discussions, and a lot larger group is looking at this from a curious standpoint," said Jim Foreman, managing director, global health and welfare, for Towers Perrin in Stamford, Conn.

With no end to rising health care costs in sight, and the tight labor market expected to continue, employers' plight can only deepen.

'Rates should remain pretty strong until the end of 2002," predicted Gary Frazier, an analyst with Deutsche Banc Alex. Brown in New York, last month.

Two recent surveys drive home the point. Health care costs increased by 8.3% between the spring of 1999 and spring of 2000, according to a study conducted by The Kaiser Family Foundation/Health Research & Educational Trust's "2000 Annual Employer Benefits Survey." This was the highest increase reported by the study since 1993.

In addition, the study showed that employers are paying a higher percentage of the premium because of the tight labor market. The percentage of premium paid by workers for single coverage declined from 21% to 14% between 1996 and 2000, the study showed. The percentage remained the same for workers purchasing family coverage.

Meanwhile, a survey by benefit consultant William M. Mercer Inc. found that health care costs could rise by an average of 11% next year. That double-digit increase would come on top of this year's 8.1% increase.

In particular, higher costs for prescription drugs have pushed up overall health care costs. Numerous surveys have reported that the cost of prescription drugs rose between 15% and 20% during the year and now account for almost 15% of overall health care spending, with no one predicting that prescription drug cost increases will level off anytime soon.

—By Michael Prince

6 Cash balance

Employers with cash balance pension plans scored a key legal victory in 2000, but litigation over the plans is certain to continue.

In the first and potentially precedent-setting ruling on the issue, a federal judge in October said cash balance plans do not violate federal age discrimination laws.

A class-action suit against Minneapolis-based Onan Corp., a subsidiary of Cummins Engine Co., charged that the company's cash balance plan discriminated against older employees.

The lawsuit charged that although the plan's pay-related credits, as a percentage of compensation, were the same for all employees, the plan discriminated against older employees because the credits they received would purchase a smaller annuity at normal retirement age than those received by younger employees.

But U.S. District Court Judge David Hamilton in Indianapolis disagreed. Nothing in federal law, he wrote, requires that the rate at which employees earn pension benefits be measured only in terms of an annuity payable at normal retirement age. In addition, he found no statutory or public policy reason that the rate at which benefits are earned can't be measured simply by looking at changes in employees' cash balance accounts. That method provides a "precise, quantifiable and clear measure

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that does not require any estimates or actuarial assumptions," Judge Hamilton said.

The question of whether cash balance plans violate age discrimination laws has ramifications for virtually all such plans. All cash balance plans provide pay-related credits that are expressed as an account balance.

If the benefit accrual rate were measured in terms of an annual benefit payable at normal retirement age, "hundreds of cash balance plans" likely would be found illegal, Judge Hamilton said. That is because a pay credit for a younger employee would earn interest for a longer period than would the same credit payable to an older employee.

While Judge Hamilton's ruling is a victory for employers with cash balance plans, it by no means ends

the controversy surrounding the plans. For example, in two highly technical cases, federal appeals courts this year ruled that employees who leave a company may be entitled to more than the amount credited in their cash balance plan accounts.

Congress also made an attempt to enter the fray. A tax cut bill that was considered this year included a provision that would have prevented situations in which employees of companies converting traditional plans to cash balance plans would not earn benefits under the new plans for years. That bill, however, failed to win congressional approval.

Until Congress or regulatory agencies provide additional guidance on cash balance plans, more litigation and uncertainty appear inevitable.

—By Jerry Geisel

7 High-tech tools

In much the same way the automatic teller machine revolutionized banking, online technology is fast becoming the standard for delivering employee benefit plan information and performing benefit administration services.

While human resource Web sites were once a luxury used only by large companies, numerous Internet sites are springing up to offer employers of all sizes such administrative services.

Today, vendors of benefits administration software are offering employers online tools that handle a host of administrative and communication tasks. Many vendors offer tools that enable employees to obtain information on their benefits, enroll in plans and even shift retirement plan investments from virtually anywhere in the world with a personal computer and an Internet connection. Some vendors will even host auctions on behalf of employers, inviting health plans to bid on their employee benefit business via the Internet.

Advances in Internet technology also are creating new business opportunities for insurance brokers.

While most brokers are partnering with outside vendors to acquire technology that will allow them to offer additional employee benefits products and services to their clients, others are building systems themselves and, in some cases, making them available to other brokers.

But this explosion in human resource technology can be confusing for employers, because many vendors offering the services are new to the industry.

"It's a tricky marketplace," said John Garner, manager for Pasadena, Calif.-based consultant Net-Working Employee Benefit Solutions L.L.C.

When an employer is looking for a new health insurer or third-party administrator, "you look for a solid track record of performance," he pointed out. But, "when you're talking about the leading edge of technology, nobody has that same kind of solid track record. Although there are firms that have growing client lists...it's not quite the same."

And new Labor Department regulations regarding summary plan descriptions may contravene the trend toward using the Internet to distribute managed care plan provider lists electronically. Under the rules, which take effect in 2003, a summary plan description will have to contain a statement that network provider lists will be furnished automatically and at no charge to employees. This list would accompany the plan descriptions.

—By Joanne Wojcik

8 Expanding ADEA

In a ruling that stunned employers, the 3rd U.S. Circuit Court of Appeals in Philadelphia said that the federal law that bars employers from discriminating against older employees in benefit offerings also applies to retiree health care plans.

Specifically, the appellate court

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said the Age Discrimination in Employment Act allows age discrimination lawsuits against employers that provide lesser health care benefits to retirees age 65 and older than to younger retirees.

The August ruling involves a Pennsylvania county that offered younger retirees a point-of-service health care plan that gave them the ability to choose their own providers on a service-by-service basis. Medicare-eligible retirees, in contrast, were covered through a health maintenance organization that required them to remain in the HMO's provider network. A group of Medicare-eligible retirees brought suit in U.S. District Court, charging that the benefit offerings of their former employer, Erie County, Pa., were discriminatory.

The ruling of the three-judge panel that the plan was subject to the ADEA was a bombshell, because employers had long believed that the federal law applied only to employees and not to retirees.

Benefit experts said complying with the ruling could be prohibitively expensive. That is because many employers currently provide different benefit plans to the two groups of retirees, whose benefit needs are very different.

In the case of younger retirees, employers often will provide the same health care coverage as they do for active employees. Retirees 65 and older, though, are covered by Medicare, which provides basic coverage for medical and hospital care. Equalizing the benefits in either direction could create problems and add costs for companies.

Some hope that Congress will overturn the appellate court decision. Another possibility is that a second appeals court could rule differently, setting the stage for intervention by the U.S. Supreme Court.

The Erie County case itself is not over. The appeals court handed it back to a district court to determine if the retiree health care program was discriminatory. Erie County still could prove that its health care plan did not discriminate against Medicare-eligible retirees, but only if it can establish either that it provided the same benefits to the groups or that its health care costs for the two groups were equal.

—*By Jerry Geisel*

9 Medicare HMOs

Many health maintenance organizations pulled out of Medicare in 2000, as government payments failed, HMOs complained, to keep up with costs.

Employers, as a result, can expect to pay more for retiree health care plans because fewer individuals will be enrolled in the lower-cost Medicare HMOs next year, when the pullouts take effect.

As of Jan. 1, 2001, 935,000 retirees, involving a total of 1,118 contracts, will be affected by the HMO withdrawals, said a spokesman for the federal Health Care Financing Administration.

In one week alone in June, four

HMOs announced pullouts. Aetna U.S. Healthcare said it would eliminate coverage for about 355,000 enrollees in 14 states, or 54% of its total Medicare+Choice members. Foundation Health Systems Inc., Oxford Health Plans Inc. and Sierra Health Services Inc. also announced withdrawals in certain markets, though relatively few enrollees were affected.

Other HMOs making similar announcements this year included CIGNA HealthCare, which said it would leave markets in more than a dozen cities and states affecting more than 109,000 enrollees, or about two-thirds of the beneficiaries in its Medicare HMOs. PacifiCare Health Systems said it intended to withdraw Medicare+Choice HMO plans in 15 counties in five states, affecting about 26,000 members.

Retirees will not be left without coverage. Some may find coverage in other Medicare HMOs in their areas, while others can return to the traditional Medicare program, though the benefits typically are far less than what the HMOs had been offering.

The HMOs' moves, though, will hurt employers' bottom lines. Employers like Medicare HMOs because the premiums the HMOs charged, if any, typically were substantially lower than those employers paid to insurers for the supplemental Medicare plans they offered retirees.

The pullout of so many Medicare HMOs means this lower-cost option will be available to fewer retirees and their former employers.

In addition, many Medicare+Choice HMOs next year will be sharply raising the premiums they charge. Because many employers pay some or most of the premium, the premium hikes will mean higher costs for employers.

—*By Judy Greenwald*

10 Fee change

Health care reimbursement came full circle in 2000, with fee-for-service arrangements returning in California, as a growing number of hospitals and provider groups refused to participate in the capitation agreements that have long been a cornerstone of many managed care programs.

The trend will put upward pressure on benefit costs, and employers will have to see that fee-for-service does not encourage excessive medical treatment.

While capitation is far from dead, a backlash against it developed after numerous provider groups went bankrupt and hospitals continued to see their operations slip into the red. Providers finally said they had had enough and would cease to carry the growing array of risks transferred to them under capitation arrangements.

Consequently, some health plans began abandoning capitation agreements, sometimes following contentious contract negotiations with hospitals. The health plans began taking back risks

they previously had passed on, rather than lose providers from their managed care networks. Observers said the health plans were once again acting like insurers.

California, so far, has witnessed most of this backlash, because capitation reimbursement for medical services has evolved further there than in other states. But California is seen as a bellwether for national managed care trends.

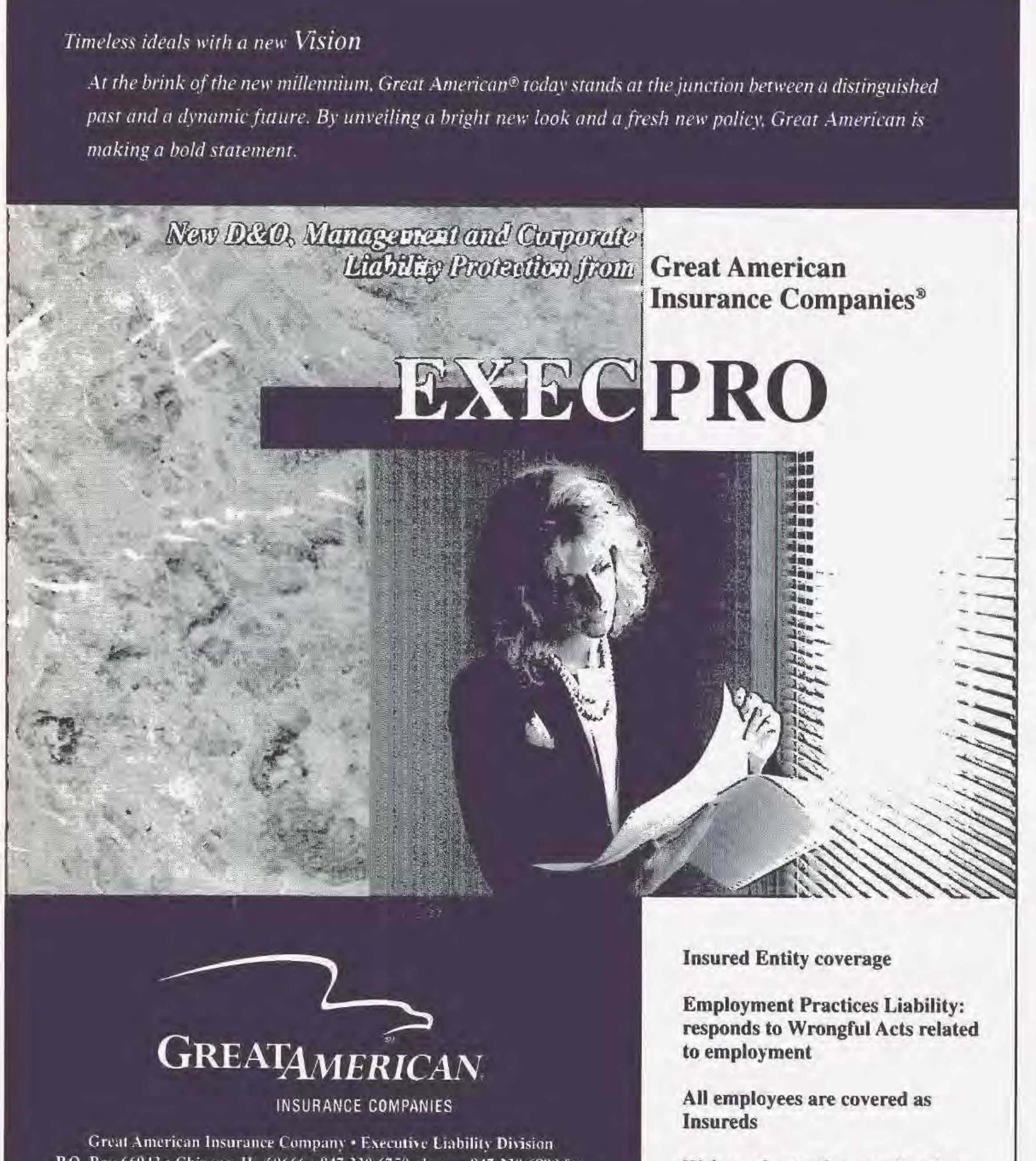
Under capitation arrangements, a provider is paid a set fee per plan member, regardless of how much care that member seeks. In recent years, hospital and doctor groups under such agreements had begun taking on the risks for procedures beyond their control to manage, such as complex organ transplants.

So, in place of capitation arrangements, many began to accept only contracts that pay them per diem fees, a discounted form of fee-for-service. Some health plans simply raised their capitation rates.

A concern among employers is that a return to fee-for-service could encourage doctors to offer more extensive treatment than is medically necessary.

Whether health plans merely increase their capitation rates or move more toward fee-for-service models, the result will be increased costs. But health plans are in a position to pass increased costs on to employers. Medical groups and hospitals were not in a position to do so when they held more of the risks.

—*By Roberto Ceniceros*



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Regulation

Continued from previous page

strength of an insurer and any risks it faces, the E.C. study reports.

"We believe that it would be in the public interest for there to be changes in regulation. The development of the market is being hampered in some respects by existing regulations," the study says. In particular, the study notes the need for a re-evaluation of certain barriers between financial services industries in the European Union.

The E.C. report suggests that more regulation is needed to ensure the solvency of companies providing ART products. Only some contracts currently provide some sort of safeguard, and the study points out that the failure of an ART reinsurer could have a major impact on a cedent "of even greater proportions than the risk transferred, if the associated funds were to be lost to the cedent."

Other proposals in the report include:

- Requiring contracts to incorporate a measure of genuine risk transfer. While this matter has been handled internationally by accounting restrictions, it has been done on an ad hoc basis, and there is the potential for inconsistencies.
- Accounting of investment-related products as insurance.
- Analysis of specific contracts. Regulators may wish to look at both the substance and the form of specific contracts, as many are large in relation to the company's overall balance sheet and could have adverse consequences for cedents.

'For the time being, we are going to work in a multiregulated environment,' says attorney George Sandars.

- Restrictions on other activities. Problems arising out of the different treatment within the banking and insurance sectors need to be addressed so that the maximum benefits can be obtained for buyers and sellers alike. Of particular concern is the "regulatory arbitrage" undertaken by some companies to dress up a contract so that it is dealt with by the most-sympathetic regulatory environment.

Thomas Renggli, director of marketing for Western, Central and Eastern Europe for Swiss Re New Markets in Zurich, Switzerland, said that although there is a need for a broad analysis of the E.U. regulatory environment, that analysis should deal with banking and tax treatment, rather than specifically with ART products.

He said ART products often can be submitted under either a banking license or under a reinsurance license, and the harmonization of regulations applicable to banking and greater attention to auditing would reduce shopping around for the most-lenient jurisdiction.

The type of license "makes a big, big difference on the solvency regulation. The capital we have to put away is very different under reinsurance and banking regulations," he said.

Mr. Renggli said tax treatment also differs greatly among countries, and it is easy for big companies to use arbitrage to switch contracts to countries with favorable regulations. "It should be, in a way, standardized like in the U.S.…It makes sense for the European Union for all these arbitrage opportunities to disappear, otherwise companies like ours take advantage of these opportunities," he said.

George Sandars, an attorney with Denton Wilde Sapte in London who deals with ART matters, was skeptical that the European Union will be able to develop a unified regulatory system for the ART market in the short term.

"Even in specialized areas such as banking, changes to regulation do take a long time to be signed up to.…I think it's probably going to take a major problem to provide any stimulus for cross-disciplinary harmonization such as would be relevant in the ART field," Mr. Sandars said. "For the time being, people are going to work in a multiregulated environment."

A spokesman for New York-based Marsh & McLennan Cos. Inc., which develops ART solutions, said the company is still formulating its views on potential regulation but is aware of the E.C. assessment of ART.

Looking at future prospects for ART use, the Tillinghast-Towers Perrin study concludes that the "steady growth" of the ART market likely will continue. It says that in addition to the factors that have already spurred interest—including the volatility of the conventional market, the high cost of conventional reinsurance, the lack of capacity for large natural catastrophes, and the convergence of the banking, insurance and securities markets—there are many more companies looking at using this market for risk transfer. Many actuaries, lawyers and accountants are also developing expertise in this area and are themselves likely to be looking at ways they can use new types of financing techniques to solve their clients' problems, the study says.

This accords with findings from Denton Wilde Sapte's second annual survey of the ART market earlier this year.

The firms' survey of 30 leading participants in the ART marketplace—mainly reinsurers, insurers, investment banks and brokers—showed that respondents believe that the products that will be most in demand in the near future are financial guarantee credit products for banking, finite risk, innovative risk financing products, weather products and credit products in general.

Asked which product they see as most strategic to their wider business objectives in the future, the majority—a third—named finite risk. Some 13% cited contingent capital, and 10% named credit products. The goal most often cited in using these products was the restructuring of balance sheets.

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The ART Market Study is available on the European Union's Web site, www.europa.eu.int/comm/internal_-market/en/finances/insur/index.htm.

Denton Wilde Sapte's ART Survey 2000: Risk Finance for Corporations—The New Frontier, is available from George Sandars at Denton Wilde Sapte, 1 Fleet Place, London EC4M 7WS, England or at art@dentonwilde-sapte.com.

Panama

Continued from previous page

"It's a good opportunity for us," Mr. Evans said. "We have been able to reshape health care in Panama."

One way HNA was able to use data to reduce costs and improve health care involved the provision of flu vaccines. A flu epidemic last year resulted in hospitalization costs of $750,000 over a three-month period; flu vaccination was not covered under the health plan in 1999, Mr. Evans said.

By examining the data, the TPA found that, if members had received flu vaccines as a benefit, medical costs would have been limited to $30,000. The vaccine is now offered as part of the plan.

But, Mr. Evans said, little effort worldwide is currently being made to study claims data with an eye toward reducing costs and improving care. More than 30% of health care spending goes toward irrelevant tests, unproven procedures and unnecessary drugs and devices, he said.

Good risk management and cost containment requires going beyond merely paying claims, Mr. Evans said. In processing claims, it is important to analyze why doctors make certain treatment decisions and to assess whether those decisions are appropriate.

The use of CPT codes and technology helps HNA review doctors' decisions and determine whether appropriate care is being given. Data can also help reduce the use of unnecessary procedures and increase that of procedures known to produce positive results.

'At the end of the day, we understand exactly why we are paying a claim,' says Glenn J. Evans of HNA.

"At the end of the day, we understand exactly why we are paying a claim," Mr. Evans said.

Currently, HNA is introducing additional computer systems that have proven useful in U.S. hospitals.

One such system generates reminders that notify doctors when certain treatments might be necessary. Another system uses computer work stations to provide doctors with information about prior exams given to patients, as well as details about the generally expected results from such exams.

A three-year trial at Indiana University in Bloomington, Ind., for example, found that doctors who were sent reminders via a computer system were twice as likely to give flu vaccines to high-risk patients during the winter flu season. The increase in vaccinations resulted in a 10% to 30% reduction in winter hospitalizations, emergency room visits and tests for respiratory ailments, Mr. Evans said.

Another review revealed that doctors at a large Indianapolis hospital ordered 14% fewer tests per outpatient visit when doctors used computer stations that provide information on patients' prior exams.

HNA also wants to establish a system that would let plan members access claims information via the Internet. Nearly 80% of Internet users want to use their health insurers' Web sites to manage their health benefits, Mr. Evans said. That includes 67% who want to do so to check their coverage, 56% who want to learn the status of their claims and 47% who want to look up information about other plans.

Many of HNA's computer systems are expected to be in place by Jan. 1, Mr. Evans said. Once that happens, the company will be ready to move into other Latin American markets, including Central America, Venezuela, Chile and Colombia. BI

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Profession

Continued from previous page

which the success of risk management has been attributed—the catastrophe, insurance and professional schools. None is the "correct school," but, by subscribing to one of the three, risk managers can "formulate a plan to ensure survival of the discipline."

Risk management 'may have reached a level of maturity,' says Harry Rosenthal of Wyatt Gallagher Bassett.

Mr. Rosenthal said risk managers who follow the catastrophe school of thought maintain that the profession developed as a result of high-profile disasters. Catastrophes, he said, point up failures of risk management and remind society of "the price of getting it wrong." The catastrophe school of thought sees high-profile publicity as crucial to the survival of risk management.

Mr. Rosenthal asked delegates to recall the Y2K problem and consider whether they had "maximized the benefit of risk management to our employers as a result of that high-profile, potentially catastrophic event."

"Was this an opportunity for risk managers to promote their role in their organizations and their potential contribution to their organizations at a time when the eyes of the world were focused on averting a catastrophic risk?" he asked. "When the limelight was on risk managers to help solve the Y2K crisis, did we, as risk managers, conduct ourselves in a way to promote risk management for the next generation?"

Risk managers who follow the insurance school of thought see the development of the profession either as a reaction to or a part of changes in the insurance environment.

Mr. Rosenthal said such risk managers should "take a more-assertive role in determining the nature of the insurance environment." For example, he said, they could develop stronger links with the insurance industry and establish formal lines of communication with insurance organizations.

He suggested risk management may now have "reached a level of maturity where it can exercise influence and direction in changes in the insurance industry."

Some risk managers consider insurance to be "not the waters in which risk managers swim but

See **Profession** *on next page*

Profession

Continued from previous page

the waters in which they drown." By taking such a stance, though, they risk isolating themselves from partnerships with the insurance industry, Mr. Rosenthal said.

"If we disconnect from our former environment, we may forgo opportunities to ensure survival over the next 25 years. Regardless of non-insurable exposures and self-insurance solutions, the insurance industry is still the environment in which general risk management operates," he said.

The professional school of thought maintains that risk management has survived due to the actions of individuals who have elevated the level of professionalism in the industry.

"As in all professions, we are often judged by our weakest individuals. Therefore, development of the individual risk manager is crucial to the sustainability of the discipline," Mr. Rosenthal said.

He said risk managers have to view risk management training as "a lifelong and ongoing pursuit. Each risk manager should ask himself, on, at least an annual basis, 'Am I a better risk manager this year than I was last year?' We should be able to look back on our training and development activities to substantiate that we have, indeed, developed as professionals and gained greater knowledge, skills and experience."

Those who follow the professional school of thought must be dedicated to the growth of risk management societies such as ARIMA and the Australian Institute of Risk Management.

"The success of these bodies will contribute greatly to the success of risk management, and the converse is true as well," Mr. Rosenthal said. "If our professional societies wither on the vine, our survival will be in jeopardy."

He said that, regardless of the school of thought to which risk managers subscribe, action will be essential for survival.

Mr. Rosenthal encouraged delegates to "take the specific actions required to keep the profession relevant and sustainable." That's because, he said, "survival is not compulsory." BI

Spread the job, lower the risks

Unilever has every manager 'think and act like a risk manager'

By KATE TILLEY

SYDNEY, Australia—The global consumer products company Unilever P.L.C. has implemented a companywide risk management program that ensures responsibility is allocated throughout the organization.

Daniel Lucas, chief financial officer for Unilever Australasia Ltd., told the 24th annual conference of the Assn. of Risk & Insurance Managers of Australasia, held in Sydney, Australia, on Nov. 19-22, that Unilever's Positive Assurance—Risk and Control Assessment system recognizes that, to be successful in the long term, organizations cannot be risk averse.

Mr. Lucas said top-level involvement is required in the risk management process, despite the fact that some senior managers prefer to spend time on other activities they perceive as "more exciting."

In today's climate of change and increasingly complex risks, a system such as Unilever's PA-RCA is essential to give management more time to react to risks. It also engenders an operating culture in which every manager "thinks and acts like a risk manager," ensuring that risk management "becomes a way of life," he said.

Without the proper understanding and management of risk, "businesses can suffer significant losses and fail to maximize opportunities," Mr. Lucas warned.

PA-RCA, which was launched four years ago after extensive consultation and workshops throughout the global organization, has been operating for two years.

Its six steps are:

- The board allocates responsibility.
- The board identifies and analyzes major risks and activities.
- The board selects specific risks or activities for detailed assessment.
- Line managers perform the detailed assessments.
- The board challenges the results.
- The country chairman issues a positive assurance statement.

Mr. Lucas said the board uses traditional risk quadrants to select the risks for detailed analysis. When the process is complete, the positive assurance statement considers the adequacy of the safeguards for the risks that were examined; it confirms compliance with corporate policies or documented breaches, and it includes a plan to improve the risks.

'A broad cross-section of people are involved,' says Daniel Lucas of his company's six-step program.

Where once risk management was considered something that only "nosy internal audit" personnel needed to know about, the PA-RCA process hands responsibility down the management line. "A broad cross-section of people are involved," Mr. Lucas said.

The PA-RCA process helps the company avoid surprises and identify opportunities, and it develops an organizational culture of and capability in risk management, he said.

As a consumer products company, Unilever has some organization-specific risks it must address, for example, a failure to properly understand consumer needs. Innovation is essential to growth at Unilever, and it has to be "real, relevant innovation," not just packaging changes, Mr. Lucas said.

He said not all issues are controllable but organizations still need plans in place to manage them.

Responding to a question from the floor about product tampering, Mr. Lucas said that Unilever has not been required to implement new measures in the wake of several high-profile product-tampering incidents in Australia. Two pharmaceutical companies, Herron Pharmaceuticals Pty. Ltd. and SmithKline Beecham (Australia) Pty. Ltd., had to recall acetaminophen—known in Australia as paracetamol—products and improve their packaging after products were laced with strychnine earlier this year (*BI*, June 26).

Mr. Lucas said Unilever has always been forward-thinking, particularly in regard to the packaging of its food products, and it has been conscious of the risk of tampering "for some time." BI

Meeting set for Canberra

SYDNEY, Australia—The 25th annual Assn. of Risk & Insurance Managers of Australasia conference will be held, for the first time, in the Australian capital of Canberra.

The conference will be an official event included in the celebration of the centenary of the federation, acknowledging the 100th anniversary of the 1901 unification of the states into Australia and the establishment of the nation's constitution.

The conference will be at Canberra's National Convention Center on Nov. 18-21, 2001. The theme will be Risk Management: The Foundation of Effective Corporate Governance.

For more information, contact Intermedia Convention & Event Management. The telephone number for Intermedia is 61-7-3858 5525, the fax number is 61-7-3858-5510, and the e-mail address is arimaconf@im.com.au. BI

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Commissioners still face hurdles to reform

By MEG FLETCHER

KANSAS CITY, Mo.—The National Assn. of Insurance Commissioners has made progress over the past nine months in crafting a blueprint for regulatory reform but still faces the challenge of winning approval from state lawmakers for key elements of its plan.

Specifically, the NAIC will ask

NAIC

several state legislatures to approve a model act designed to streamline multistate agent licensing, as well as a model regulation to guide insurers on protecting consumers' financial and health information. Both proposals were mandated by the federal Gramm-Leach-Bliley Act, which broke down decades-old barriers between banks and insurers.

The NAIC's process of revising rules to comply with Gramm-Leach-Bliley and to modernize state insurance regulation formally began in March, when NAIC members unanimously adopted a statement of intent "to protect insurance consumers...proactively and aggressively," while allowing for "efficient, market-oriented regulation of the business of insurance" (*BI*, March 20).

Representatives of risk managers, consumers and several insurance industry trade groups praise the leadership of then-President George Nichols III in getting commissioners to become personally involved in the work of nine new subgroups focused on this task. Those groups considered a wide range of proposals to streamline and update state insurance regulation in light of globalization and new technology. Key goals of these efforts were getting new products to market faster, as well as placing insurers on a more-equal regulatory footing with their new bank competitors.

Overall, the NAIC's focus became "lessening regulation on the front end, in terms of company licensing and rate and form filings, while strengthening market conduct on the back end," said Lenore S. Marema, vp-legal and regulatory affairs for the Alliance of American Insurers in Downers Grove, Ill.

How state legislators react to the agent licensing and privacy initiatives will be the first serious test of the proposals, which have dominated NAIC meetings during at least the past nine months.

Most such initiatives require approval by individual state legislatures, though some state insurance departments have the authority to implement consumer privacy measures administratively.

Robert Mackin, executive director of the Albany, N.Y.-based National Conference of Insurance Legislators, predicts that many legislatures will adopt the agent licensing measure during the coming legislative session. Following NCOIL's annual meeting in November, "there has never been more consensus on an issue," he said. NCOIL, however, would like the NAIC to consider the use of an interstate compact to implement some initiatives, rather than changing state laws.

Prompt legislative action is important, because at least 29 jurisdictions must approve either agent licensing reciprocity or uniform licensing rules by November 2002, or the federal law calls for the creation of the National Assn. of Registered Agents & Brokers, which would reduce state regulators' authority.

The news that NCOIL members are receptive to agent licensing proposals would likely please the Washington-based Council of Insurance Agents & Brokers, which recently pointed out that, one year after enactment of the federal act, states have made only "minimal progress" in meeting either agent reciprocity or uniformity requirements. The Council blames the stalemate on opposition from local agent groups over issues that include the role of unlicensed customer service representatives. That concern appears to have been resolved, because the NAIC agreed to further amend the model to allow those representatives to make limited changes to policies, according to Nicole Miller, the CIAB's director of state affairs.

The NAIC's focus became 'lessening regulation on the front end...while strengthening market conduct on the back end,' says Lenore Marema.

A few insurer trade associations still oppose that aspect of the measure, though.

More problematical at the state level may be winning approval for the NAIC's model regulation to guide insurers on protecting consumers' financial and health information, primarily in marketing situations.

Legislative debates on the privacy proposal are likely because several smaller insurer trade associations prefer NCOIL's version of the measure, which would exempt insurance beneficiaries and claimants from the definition of "consumer" and would take a less-restrictive approach regarding insurers' use of medical records (*BI*, Nov. 27).

Supporters of the enactment of the NAIC's privacy regulation, which include the American Insurance Assn., take comfort in the fact that some state insurance departments—such as New York's—may be able to adopt the measure administratively.

While agent licensing and privacy initiatives are perhaps the most-complete and successful NAIC modernization initiatives developed to date, regulators have considered—but made less progress on—several other measures.

For example, most NAIC observers generally praise its speed-to-market initiatives, which will establish a pilot program in April to test an independent entity—called the Coordinated Advertising, Rate and Form Review Authority—to centrally review new products on behalf of multiple states. Initially, the CARFRA program will focus on life insurance products.

"We do have some concern that property/casualty commercial lines (coverages) aren't included in CARFRA at this time and intend to address that with the NAIC," said Daniel Barry, director of governmental affairs for the New York-based Risk & Insurance Management Society Inc.

In addition, most industry observers agree with Debra Ballen, the AIA's executive vp for public policy management, who said she is "disappointed that (regulators) haven't come out with more details on the national treatment framework" for large insurers, even though the NAIC says it will launch a pilot program in June of next year.

Others, such as the National Assn. of Independent Insurers, are concerned that having such a program is an effort to "nationalize regulation through the NAIC," which the insurer group opposes, according to Michael Duncan, senior vp, secretary and general counsel of the NAII in Des Plaines, Ill.

The most-disgruntled NAIC observers are consumer representatives.

"It has probably been the worst year in history for consumers," said J. Robert Hunter, a former Texas insurance commissioner who is director of insurance for the Washington-based Consumer Federation of America. He and other consumer representatives have complained repeatedly about the pro-industry nature of nearly all of the initiatives—excluding the privacy measures—and the lack of progress made on market conduct reforms, although the NAIC is still working on that area.

In addition, Mr. Hunter has been the most-vocal critic of the frequency with which some of the working groups have held closed meetings for deliberations, though other industry observers also have expressed concern. BI

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Aon

Continued from page 2

Q: Aon has always prided itself on being client focused. How is what you want to do different?

A: We've always been a company that focuses very significantly on clients. But we haven't consistently been able to bring the best people, the best ideas and the best capabilities to each of our clients because of our geographic-based organizational structure. We have 50 offices, and some offices do a very good job today of bringing all of Aon to bear on the issues and needs of their clients and some don't. We want to do that consistently among our whole client base.

Aon sees its business transformation plan as 'an important...(opportunity) for our clients, our employees and our shareholders.'

— Kenneth LeStrange

Q: How will you make this happen?

A: We're organizing our business origination activity according to industry groups and investing in people....For instance, in the financial institution sector, we've got people who've had lots of experience working with banks; maybe not in dealing with insurance matters there, but they understand quite well the financial and operational opportunities and challenges of...a bank. What we're trying to do is to understand the world of risk and the issues attendant to risk from the customer's perspective, and to reach out within the insurance, reinsurance and capital markets arena to deliver solutions that really fit their goals and objectives. We're also going to specialize more fully on the front-end relationship management side. We're creating service environments, which will be responsive to the different needs of the different industry groups.

Q: What about product line expertise?

A: We believe that in addition to being client focused, product specialization is very, very important. We also are organizing units of specialists who will be dealing with the products that we deliver as an organization from the insurance and reinsurance markets, and we will be having them positioned to work as product line experts with our originators and our relationship management people. They will be working with clients in our business model. They are not back-room types. They will be out there assisting the other folks in delivering what needs to be delivered.

Q: Aon completed European expansion at the beginning of 1999. Why did this restructuring plan take so long?

A: My take would be that we have been a very successful company in terms of the quality and performance of the companies that we've acquired over time. What we've done, is that we've tended to give the new organizations in our family time to get acclimated, and also we give ourselves some time to really understand, even more fully than you can before you acquire somebody, the quality of the people, and the quality of the capabilities of the companies acquired.

Secondly, we acquired a lot of companies and a lot of people in a relatively short period of time. And I think (Chairman and Chief Executive Officer Patrick G. Ryan) is on record saying that the timing from our perspective was not ideal, but necessary, to accomplish our strategy of becoming a global company. Now we've obtained that. We feel very strongly that our global capabilities are a key competitive advantage for Aon.

The third thing that drove the timing, was that we needed to develop and validate the performance of the technology that would enable us to move into the new environment.

Q: Why is the transformation necessary? Is it an efficiency issue?

A: No, I would say that we are going through the business process transformation because we see it as an opportunity and an important one for our clients, our employees and our shareholders. Once we discerned fully what was possible and accomplishable by our management team we decided to go for it as quickly as we could.

Q: There had to be some efficiency issues, though; Aon is laying off 6% of its workforce.

A: Yes. Pat is on record saying that our efficiency as an organization is not where we'd like it to be. We believe that by using the technology in coming up with better processes and better allocating people's time and focus and by specializing them, we will become a much more efficient organization.

Q: How many of the estimated 3,000 jobs have been eliminated?

A: By the time this (article) comes out, 20% of the people affected by this will know that they will not be continuing with the organization. The remainder of the people in our organization will know where they stand by the end of January. We want to work through as many of the people issues as possible by the end of January so we don't have any continued uncertainty or concern in the organization.

Q: Where are most of these jobs?

A: Within Aon Risk Services in the U.S., there will be about 1,000 job eliminations. The remainder will be coming from other parts of Aon, including the U.K. The majority of activities, however, will be Aon Risk Services in the U.S. and Aon in the U.K.

Q: Other companies that have gone through restructurings have found that client service suffers. What is Aon going to do to minimize that impact?

A: We've recognized the possibility of some disruption. It's prudent to acknowledge that. From a business perspective, we are doing everything possible to ensure that our existing customer relationships are well served and focused upon through the transition process. I've not become aware of any situation where our service has fallen short or is less than what we would have provided before. In the future, as we go through the rest of the transformation, we will keep very focused on our clients.

Q: What exactly are you doing?

A: At ARS in the U.S., for example, we've established, and it will go live Dec. 18, in essence a customer service hotline. It's an 800 number where any client, wherever they are, can call into a centralized place and get a real live human being. It will be open 12 hours a day. And if there is a problem that has emerged that is not being properly attended to in their normal service pattern, we will then have the opportunity to step in and deal with that situation as appropriate. It's almost a safety net for our clients. I'm not anticipating that will get a lot of calls, but we're certainly ready for them. BI

Party

Continued from page 1

Mich., who defends employers sued in connection with social host liability.

"There's a Latin saying, 'In wine there's truth.' I say, 'In wine, there's stupidity,' " he said. "When people get drunk, they do stupid stuff like go play grab-butt at Christmas parties. When alcohol flows, so do tongues and hands. This can trigger harassment problems."

"I've actually had cases like that," he said, recounting a case in which a worker at one company wanted to charge her superior with rape after having sex with him following a company holiday party.

"While the victim may have been drunk, too, if the boss slurred something like, 'Sleep with me or you'll lose your job,' " the case is actionable, Mr. Rabaut warned.

And an employer could even be considered having contributed to the situation by serving alcohol, which reduces inhibitions, noted Mike Aamodt, professor of industrial psychology at Radford University in Virginia.

Consultants, risk managers and lawyers all agree that employers can reduce their liability exposure by either not serving alcohol or by limiting the amount that is served.

"There are more and more parties where alcohol is not served, or it's limited or there's a cash bar," Mr. Aamodt said.

Parties are also shorter in duration, he added. In the past, for example, a company might hold its party "at the Crazy Horse Saloon. We'd get drunk as can be and have a great time. Today, you have a couple of drinks, you chat and you clear out of there."

Las Vegas-based GES Exposition Services is among those employers that try to limit alcohol consumption at company parties.

"In certain locations, we'll restrict drinks to a two-drink limit using tickets," said Lance Ewing, director of insurance and loss prevention. "After that, the employee is on their own" in terms of obtaining alcohol.

In addition, all GES parties are held off premises at an establishment licensed for serving liquor, he said. "We have certain protocols that include, but are not limited to, making sure that alcohol is distributed only by an establishment that is licensed and that no company employees are pouring alcohol," Mr. Ewing said.

Holding the party off premises is perhaps one of the best ways for employers to transfer their host liquor liability exposure, said Mr. Kaufman. "The liquor license holder is the one who's responsible under dram shop statutes for serving someone who is visibly intoxicated," he explained. "So if you're having a party and you're not the one serving the alcohol, the restaurant or caterer will be responsible."

"But, say you're a social host serving liquor. You're incurring a much bigger burden. In many states, there's no liability for social hosts. But in some states there is. Employers should check their statutes," he advised.

And even if the party is held at a restaurant or banquet hall, "make sure the caterer has insurance coverage," Mr. Kaufman urged.

While most commercial general liability policies provide some protection to employers for host liquor liability, "the key is that the alcohol has to be given away," Mr. Tibbals said. "If the employer is selling drinks, then they need to look at modifying the policy to provide full liquor liability protection."

But that's not necessarily the case for every employer. Since 1985, the standard CGL policy has covered liquor liability associated with events such as holiday parties, as long as the policyholder is not in the business of "manufacturing, selling, distributing, serving or furnishing alcoholic beverages," said a spokesman for the Insurance Services Office Inc. in New York.

That means breweries, restaurants and even drugstores will need to buy a separate liquor liability policy or an endorsement to their general liability coverage to be covered for this risk, the spokesman said.

And even if the CGL policy does cover social host liability for employers, it's not likely to respond if the employer serves alcoholic beverages to minors, Mr. Kaufman pointed out.

"If the statute's 21 and you're serving a minor, the question is, did you knowingly serve them or not? Many policies have language excluding coverage for intentional or criminal acts," he said, adding, "This is a criminal act."

To prevent possible harassment claims, Mr. Rabaut suggests that employers designate some managers to act as chaperones.

One of Mr. Tibbals' clients did that several years ago. "I had a client where an executive was there to watch for a variety of things," he said, declining to identify the company other than to say that the client was a large financial institution.

Although the company hadn't yet faced any sexual harassment or slander claims stemming from holiday parties, "it was just being proactive" recognizing that "people's inhibitions are reduced when they drink," he said. "As they say, loose lips sink ships."

Mr. Aamodt said he knows of at least one organization that sent memos to remind its employees that they must observe the same professional rules and etiquette at the holiday party as in the workplace.

Another, albeit unconventional, way to mitigate risks associated with parties is to transform the event into a family function, Mr. Rabaut suggested.

"When children are involved, alcohol doesn't flow as much," he said. "You have to remember that Christmas, up to Victorian times, did not involve children. It was a time to get drunk." Often, poor drunkards went to rich neighborhoods demanding gifts in a kind of "vicious trick-or treat," Mr. Rabaut said.

Mr. Rabaut said his law firm once rented out the local Children's Museum for its holiday party, which was held after Christmas. "We served a gourmet meal of hot dogs, macaroni and cheese, and red soda," he quipped.

Even though alcohol wasn't served, the party was a huge success, he recalled. "It made the employees heroes in the eyes of their children." BI

ADVERTISER INDEX

Issue of December 18

ADVERTISER	PAGE #
Ace Insurance Group	17
AIG Corporate	CCD
American Assn. of Orthodontia	28
AON Corporation	CCB
AXA Corporate Solutions	12
Burnham Systems	28
Business Insurance	CC19
Carvill America Inc.	29
Centre Solutions	16
eStellarNet	25
First Health	CC10,CC11
First State Management Group	18
FM Global	CC15
Great American Insurance Co.	24
Gulf Insurance Company	19
Hewitt Associates	CCC
ING Americas	10,11
Kemper Insurance Companies	5
Liberty Mutual	9
Metlife/Synchrony	CC7
Partner Reinsurance	7
Pavenstedt & Pauli, Inc.	20
Private Healthcare Systems	14,15
Royal & SunAlliance	36
Service Master	29
St. Paul Corporate	22,23
St. Paul Reinsurance	6
Swiss Re	21
Union Bank of California	4
Wausau Insurance Company	CC3
WLT Software of FL, Inc.	28
Zurich US	13

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TAKING STOCK

As visions of net income danced in their heads

By Myron M. Picoult

With the special assistance of Jodi Picoult van Leer

'Twas the night before Christmas and all through the firm,
The board of directors was starting to squirm.
Christmas spirit was replaced by patent confusion—
Thanks to an election with no clear conclusion.
The race for Nearly Defunct's new CEO
Pitted stagnant incumbent against ho ho ho.
Yes, Almost Donothing, that tired old Scrooge,
Had been challenged by a guy whose popularity was huge.

Donothing had stumped with a hearty hurrah,
Vowing that status quo had its own je ne sais quoi.
Santa ran on a platform of holiday elation,
Promising toys and plum pudding and three weeks vacation
(Which of course made Donothing's temper flare warm,
As he yelped about campaign finance reform.)
Yet St. Nick had not won by the expected landslide.
In fact, three weeks later, the two were still tied.

The board, they'd recounted. They'd counted, and then,
They'd tallied the ballots once more and again.
From the conference room came the board's tired sighs
As dimples and chads danced before their red eyes.
"You know," said one member, "they both think they've won.
They're acting as if they've got a company to run."
Another man groaned. "Say we just flip a coin.
Heads, Donothing comes back. Tails, Santa joins."

A woman looked up. "Seems it's gonna take elves
To correct business problems that used to correct themselves...."
"We're doomed!" cried another. "All these new IPOs...
We run through our cash and hope nobody knows
So that we can make the public replace it.
We need a visionary with the guts to face it!"
Suddenly there came a sigh, quite distressing.
"According to HR, we should count our blessings.
There are 10 industry openings for CEO spots—
And it's virtually impossible to fill those slots.
Surely TWO candidates are better than none!"
(Although, he was thinking...who wants either one?)

In the end, they decided with unanimous zeal
To let the candidates form a vocal appeal.
So while each employee sat wishing and hopin'—
With a snap to the secretary, the sealed doors swung open—
And Donothing and Santa were led through the route,
One in Armani; one in a red suit.

"Gentlemen," the acting chairman then said,
"We're going to try something different instead.
The election, of course, is just too close to call...
So we're going to let you two deck the hall.
Tell us, one by one, what you think we should know
That will make us see why you should be CEO."
Donothing stood first, having long ago learned
That jumping last from the pot meant you'd surely get burned
(Nevermind that you landed smack in hot flame—
The point was you landed before anyone else came!)

"Ladies and gents," he began with a smile,
"Let me first thank you for going the extra mile.
You've been donating time in excessive amounts
To make sure that in this firm, every vote counts!"
Santa just rolled his eyes. "Could you cut the hot air,
And say something that actually gets us somewhere?"
Donothing just beamed. "Well, it's hardly surprising
That with all our hard work, prices have been rising.
We're up 10 percent, and anyone can see
That great turnaround is all due to me."
Santa laughed and he laughed, his hands on his belly,
Which shook like a great bowl of raspberry jelly.
"Sure, prices are up. But that's industrywide!
Donothing's just tagging along for the ride!"
"Don't let him fool you," Donothing sneered.
"Additional increases are coming next year!
Why, they're on the horizon! In fact, at this rate,
They may even surpass what we've seen to date!"

"Price increases help," Santa agreed.
"But clearly that's not all the industry needs.
After six to eight years of material price-cutting
Two 10 percent increases, frankly, mean nothing!
In addition, Mr. Donothing hasn't got the guts
To fess up to additional, hidden price cuts.
When this firm decided to change terms and conditions
They gave away more coverage, without premium additions."
He glanced at the mantel, stockings hung with care.
"You want my opinion, get those out of there.
So-called price increases have as many holes as those socks—
You need to stick them in a good, safe lockbox!"

Donothing just shrugged. "It's my firm belief
That all insurance carriers are seeking relief.
That means price increases should be easy to get."
"Hang on," Santa said. "You aren't right, yet.
Not everyone is raising their prices—
Some are resorting to other devices.
Say that you hike your rates, lumping all risks together
As a means of surviving the industry weather.
Some accounts, then, will pay more than they should...
And other insurers might note that isn't good.
These more focused firms will pick off that business—
By offering those accounts a kinder, gentler Christmas."

Santa leaped to his feet and climbed onto the table.
"Here's something that might make this company enabled:
Some firms raise their pricing each year a small bit
Instead of socking their clients with one giant hit
Every three or four years. With this kind of matchup
You're far less likely to have to play catch-up."

In the face of such facts, Donothing was quailing—
Keep the dialogue vague, and there was smooth sailing.
"Rising interest rates will put on quite a show...
Causing future net investment income to grow."
"You bonehead," cried Santa. "You overstuffed clown!
Interest rates aren't going up...but down!
The economy's slowed, and investors are bailing
Out of the stock market before it starts failing.
You say cash flows will rise...but I'd hold your horses.
What's rising is the number and average cost of losses.
Furthermore," Santa said, "if Moody's should think
That Almost Defunct is starting to stink,
Clients will want to settle claims faster...
For cash flows, this would be a consummate disaster."

"Little man," scoffed Donothing, "my reserve base is fine.
And I'm not the only one reading the signs.
Ken B. Short, our chief actuary, will tell you the same.
Feel free, when you call him, to use my name."
Santa shook his head sadly. "Dollar by dollar,
Your balance sheet's got more holes than my wife's lace collar.
You fool yourselves, and investors with lack of foresight,
Praying that you'll be bailed out by some white knight.
And actuaries' parameters are often so wide
You can stuff the Grand Canyon and then some inside!
Your actuary's no better, in truth, than a mystic—
Reserve assumptions fall within tolerance that's unrealistic.
And if you don't think this is actually so,
Go ask someone at Moody's, or the ISO.
The cushion in reserves has been gone for some time!"
Santa held up his hands. "Those are their words, not mine."
He walked toward the table where the directors waited.
"Recoverables," he mused, "are overstated.
Reinsurers cut prices, then to our surprise,
Actually started to open their eyes
And challenge more losses—no more rubber stamp—
We'll feel that throughout the whole insurance camp."

"So what?" Donothing trumped. "Our return on equity will climb.
I'd give you the details...but why waste the time?
Our marginal rates of return will reverse—"
"For the love of Rudolph!" Santa suddenly cursed.
His pink cheeks grew pinker, darkened by wrath.
"Does nobody see this guy does fuzzy math?
ROE will only rise on the bottom line
Because the equity base will be in decline.
Mark my word—you start chewing more than you can bite off
And all you'll digest is a big, bilious write-off.
Those balance sheet blues make the company sickly,
And keep the rate of return from improving too quickly.
And as reinsurers hikes prices, we're going to pay—
Till we pass it off to the client, anyway—
Should Almost Defunct take the big write-off now?
Or would doing it in pieces be smarter, somehow?"
Santa sighed through his beard. "There will be improvement...
But not with this alleged light-saber movement.
If you think the problem's that I'm not forward-lookin'
Then I have a bridge to sell you in Brooklyn."

"You know," Donothing soothed, "Santa's ringing alarms
In an industry that's really suffered no harm.
Why, take Y2K! Through that, we just cruised—
Without computer bugs or high-tech snafus—
In the 21st century we'll be a trendsetter.
Forget imaging work—we can do something better!
The land 'round the office can be built on for miles,
New warehouses to stock old and new paper files!"

"Y2K," Santa laughed, "was a sheer stroke of luck.
Now the crisis has passed and you're passing the buck.
Firms with 30 percent expense ratios
Aren't competitive, as technology goes.
Lower transactional costs! Value-added products and service!
Ah, see...even the words seem to make you all nervous.
They're the wave of the future," Santa said, strongly hinting.
"And if you're cutting-edge, then...hell!...I'm Bill Clinton!"

Donothing smiled. "In the light of long-term,
Almost Defunct is now a true niche and specialty firm."
Santa fell from his chair, he was laughing that hard.
"Well, which one is it?" the jolly elf sparred.
"You're one or the other. You cannot be both.
And firms that do know the difference are experiencing growth.
They have the edge because they stay focused.
As opposed to you folks, who deal in hocus-pocus.
Don't think you can fool us with a brand new title—
It's the business you do that will truly be vital.
Take Rudolph, for example—you can call him a star.
You can say he flies faster and better by far.
You can call him head honcho, a paean to grace—
In the end, he's a deer with a bulb on his face."

Said Donothing, that quick-thinking, crafty old gent,
"Property/casualty stocks are up 30 percent!
Granted, we've only seen a gain closer to 10
But investor interest will pick up; we'll see more performance then."
"Market performance," said Santa. "There's a paradox.
The real easy money has already been made, in stocks.
Investors who first think the market looks sweet
May get a bitter taste from the industry's balance sheet.
And to this sad story there's also a sequel...
In the eyes of the market, not all companies are equal.
Smaller ones, far less liquid, will lag behind,
This is likely to be true for a while, you will find."

Suddenly Donothing leaped to his feet
And began tapping toes in a quick ragtime beat.
"Brighter days, they're a'coming, with sunnier skies!
Thanks to Frontier, Superior National and Reliance's demise."
"That is good," St. Nick readily agreed.
"Getting rid of the aggressive players...that's what we need.
But when these companies finally left at last,
The market absorbed their business so fast...
There's still too much capital floating around—
Seems to me smarter firms will move to higher ground."

"We're smart," said Donothing. "In fact, we're in prime position
To be a candidate for a merger, or someone's acquisition."
"You're dreaming of sugar plums," Santa said.
"Getting two times book value? You're out of your head.
Buyers now are all looking to get a great deal—
Firms at or below book value are a steal.
And another problem facing you fools
Are the new SEC financial disclosure rules.
Gone are the days of currying favor
With a few analysts in the mood for your flavor.
Which means that firms with ambitious yearnings
Will have to boost stock price the old way—with earnings!"

The two men sat down on that final note,
To give the board of directors one last chance to vote.
They twiddled their thumbs, watched the sunset go violet.
They hemmed and they hawed and they checked their Palm Pilots.
And at last the acting chairman said, with a pause:
"Six votes for Donothing...six for Mr. Claus."

With a sigh, Santa stood. "Forget it. I'd concede...
But it's clear half of you don't know what you need.
Sure, things are improving. I agree, things look good.
But by all means, we aren't yet out of the woods.
When you stick by tradition, it's cozy," he said,
"Yet those old ways will never move your firm ahead.
This industry still needs to be rearranged...
And to do that you have to be brave enough to change.
The office Christmas tree in Reception, it's true,
Seems to have bigger, uh, ornaments, than any of you.
And when I'm CEO," Santa said, standing tall,
"The first thing I'll do is to fire you all!"
He stalked to the chimney, stomping each boot,
Put his foot over the grate and stepped into the soot.
As his sled pulled away, they heard him exhort—
"Take it up a notch, Rudolph! Next stop, Supreme Court!"

Myron M. Picoult is a director and senior adviser to the financial institutions group at Wasserstein Perella & Co. Inc. in New York. An Archive of Mr. Picoult's Ticker columns, including past holiday columns, can be viewed at www.businessinsurance.com. Jodi Picoult van Leer, his daughter, is the author of several novels, including her latest, "Plain Truth." Excerpts from her books, as well as her eighth novel in progress, can be viewed at www.jodipicoult.com.

COMMENTARY

How to cut risk of voting problems

The mechanics of voting in the United States need some good actuarial analysis and the adoption of risk management policies.

We may not see such a close result in a presidential election again in our lifetimes, but we dare not risk the country's faith in its voting system on the likelihood of landslides in the years to come.

We need to assess the various methods employed throughout this country to vote for president and to count those votes. This assessment will help determine the best method or methods for balloting and for counting ballots, to assure that every citizen who votes has both an equal chance of indicating his or her preferred candidate and an equal chance that his or her vote will be counted.

Sandra Day O'Connor was incredulous that individuals could not follow what she considered to be simple voting instructions. But let's face it. Not everyone pays the same degree of attention to detail as does an associate justice of the United States Supreme Court.

I'm inclined to think that we need one national ballot and one method of counting those ballots. With current electronic technology, it would be easy.

Recently, I was registering online for an information service. When I clicked the "submit" button, the screen flashed back an error message, stating that I had failed to complete a required information field on the form.

The same kind of error message could be flashed at a voter if he or she were to fail to vote for every office on a ballot, or if he or she were to register two or more votes for the same office.

Kathryn J. McIntyre

I'm not suggesting that a voter be required to vote for someone for every office. If the voter truly has no opinion about the candidates for a particular office, he or she should be given the option of intentionally registering a "no vote." That way, we would never again have to confront the problem of trying to determine the intention of a voter.

I can imagine the advocates of states' rights cringing at the suggestion of imposing a national voting system on the states.

Barring one national ballot and one national method of counting those ballots, our election officials need, at the very least, to abide by a set of standards for the design of ballots used in national elections and the method by which they are counted. We need to agree to what constitutes a reasonable margin of error in the counting of ballots everywhere. Surely, various types of ballots could be field-tested to determine how likely they would be to confuse voters.

More importantly, the various methods of counting ballots need to be tested to see what percentage of ballots would be rejected by each system.

According to a New York Times analysis reported in a Dec. 4 editorial, "the Votomatic machines used in 15 Florida counties produced under-votes at a rate that was five times that for optical scan machines used in other Florida counties."

And it's not just in Florida that the counting of votes is a problem. On Dec. 14, the Wall Street Journal began a series of articles entitled "Broken Ballot: America's Dysfunctional Voting System." The first article declares: "The U.S. Supreme Court ended the election drama with a proclamation that more recounting in Florida would violate the constitutional doctrine of 'equal protection' because standards would vary from county to county. By that logic, the entire nation arguably engaged in an unconstitutional free-for-all on Election Day, as standards varied within and among many states."

And no one seems to agree on what voting system produces the most-accurate results from among the various methods used, which, predominately, are the optically scanned ballot, the punch card ballot, the lever machine and the paper ballot.

According to election officials in Illinois, the punch-card system of voting can be 100% accurate. As ABCNews.com reported on Dec. 8, Illinois officials contend that the key to accuracy is high standards in the purchase and maintenance of voting equipment. That includes high-quality standards for the ballot cards, so that it is neither too easy nor too difficult to punch out the chads. I also learned from the ABCNews.com report that, in Illinois, stray chads are scraped from voted ballots before they are counted.

That all sounds like good risk management to me.

Sen. Charles Schumer, D-N.Y., has sponsored legislation to fund research on the best voting methods. I hope that is one of the first bills passed by our new Congress.

And I hope that some individuals trained in actuarial science and risk management principles are put on the project.

Publisher and Editorial Director Kathryn J. McIntyre's commentary appears fortnightly and on www.businessinsurance.com. She can be reached at kmcintyre@crain.com.

GE

Continued from page 1

was a major business lobbying issue in Congress in the early 1990s, has dropped from political radar screens. Reform advocates hope that the judicial scrutiny will focus wider attention on what they perceive as the law's deep-seated flaws.

"I think anything that would potentially change the current structure of Superfund—especially coming from an outside entity—is definitely a major development. EPA has always been so steadfast against any changes to the liability structure of the law. If, in fact, GE is successful, I think it would be a major, major development," said Keith McCoy, director-environmental quality for the National Assn. of Manufacturers in Washington.

GE's suit holds that Section 106 violates the Fifth Amendment's due process clause "by failing to provide constitutionally adequate procedural safeguards in connection with the issuance of unilateral administrative orders" by the EPA.

The suit says that through these orders, the EPA can force expensive cleanups based on the threat of "merely potential" hazards. The recipient of a Superfund cleanup order does not have the right to a prior hearing before the order becomes effective, GE contends. A party that refuses to comply "risks exposure to enormous daily fines, and treble damages should it fail to comply with these orders—even though the party has no timely or meaningful opportunity to have the validity of the order reviewed judicially," according to the suit.

The suit further notes that such an order can be challenged only after the EPA, in its sole discretion, has certified that the cleanup work has been completed. "Given that CERCLA unilateral orders can last a decade or more, the delay inherent in the statutory scheme undermines any meaningful opportunity for review of EPA's remedy," according to the suit.

"The unilateral orders regime thus imposes a classic and unconstitutional Hobson's choice: Either do nothing and risk severe punishment without meaningful recourse or comply and wait indefinitely before having any opportunity to be heard on the legality and rationality of the underlying order. These alternatives do violence to the constitutional norm of due process," reads the GE suit.

The suit also contends that Section 106 of CERCLA violates the Constitution's separation of powers doctrine because the law delegates legislative power to the executive branch in the form of the EPA.

A spokeswoman for the EPA said that the agency is confident that it would prevail in court. "The Superfund law has been used successfully for 20 years and we expect we will be successful in any court case," she said.

Proponents of Superfund reform dispute such predictions.

"I think they have a very good chance of success here. These orders provide absolutely no due process. It forces companies to expend an enormous amount of resources on the front end on the off chance they will have the opportunity to challenge the order," said Robin Conrad, senior vp of the Washington-based National Chamber Litigation Center Inc., which handles litigation for the U.S. Chamber of Commerce. She called the suit "creative" and "brilliant," adding "you wonder why no one has challenged the constitutionality of these unilateral abatement orders before."

'It indicates to me that GE is going to put a lot of resources in this and they're very serious about it,' says John Arlington.

"The truth is that Section 106 orders have never been challenged in court before, so it is a case of first impression. We're talking about what is probably the most Draconian provision of a statute that a lot of people think of as Draconian," said John Arlington, assistant vp-federal affairs at the American Insurance Assn. in Washington. He pointed out that other sections of the law—such as the imposition of retroactive liability for cleaning up sites—had been challenged before without success, but that no challenge had been before a court since the mid-1990s.

"I'm not sure how much impetus this will give for legislation but it's interesting what's under siege here, which is the status quo," said Mr. Arlington.

"One can only hope" that GE's suit will be impetus for renewal of reform, said Ms. Conrad.

"Superfund didn't appear to be a major item on the congressional agenda of either party, but the EPA action and the lawsuit are the type of events that can quickly focus congressional attention on an issue. How much of a priority it will be will depend in some part on the outcome of the suit, which will take some time to resolve, so I wouldn't expect the issue to move too far up the agenda in the early part of this Congress," said Daniel Barry, director of government relations for the Risk & Insurance Management Society Inc.

"I think the GE situation shows that there are some procedural flaws within Superfund, and it's probably just one more example of why comprehensive reform of the program is needed," said Ken Schloman, Washington counsel for the Alliance of American Insurers.

He added, though, that he believes that it is too early to tell whether a single court challenge will spur further reform.

Mr. Arlington pointed out that GE will be represented by two high-profile legal experts—Harvard Law Professor Laurence Tribe and Carter G. Phillips, a partner in the Washington office of Chicago-based law firm Sidley & Austin—who have made numerous appearances before the Supreme Court.

"It indicates to me that GE is going to put a lot of resources in this and they're very serious about it," said Mr. Arlington.

The timing of GE's lawsuit was only a few days before the EPA issued a proposed order that would force the company to clean up decades worth of polychlorinated biphenyls—better known as PCBs—from the upper Hudson River in New York. GE said that it has already paid $200 million to clean up PCBs in a stretch of the river north of Albany. The chemicals were dumped legally over a 30-year period ending in 1977 from two GE plants.

GE holds that the EPA's plan to require dredging of the most contaminated portion of the Hudson River could actually "devastate the ecosystem" and is unnecessary because the remaining PCBs present "no health risk in normal recreational and commercial use of the river." The EPA holds, however, that a 10-year study found "that without targeted dredging, concentrations of PCBs are not expected to reach acceptable health and safety levels."

The EPA will hold public meetings on its cleanup proposal and has begun accepting comments about its plan and expects to issue a final plan next June. BI

MSAs

Continued from page 1

restrictions to make MSAs more attractive," said Nona Wegner, president of the Council for Affordable Health Insurance, an Alexandria, Va.-based insurer group.

Even if Congress allows the 1996 law to expire, employees now with MSAs would not be affected. But if no new MSAs could be established, insurers would likely exit the MSA market, said Allen Wishner, chief executive officer of Flexible Benefit Service Corp. in Des Plaines, Ill., a broker and third-party claims administrator. The company has helped to set up about 1,900 MSAs, Mr. Wishner estimated.

Despite the fanfare that was generated in 1996, when Congress passed the MSA legislation, the innovative health insurance program has not exactly swept the market. While Congress set a 750,000-policyholder ceiling during what was to be a four-year pilot program, only between 50,000 and 60,000 policies have been written to date.

Mr. Wishner blames that low penetration in part on the failure of insurers and agents, as well as the media, to educate the public on how the plans work. In addition, restrictions that Congress set—including limiting MSAs to very small employers and allowing employers or employees—but not both—to contribute to an MSA, also has hindered growth.

'If you have to pay for something, you are much more likely to ask about the cost,' says Nona Wegner.

Under a tax-favorable MSA, which must be linked to a high-deductible indemnity plan, contributions earn tax-deferred interest. The annual deductible must be at least $1,550 but no more than $2,350 for individual coverage and a minimum deductible of $3,100 and a maximum deductible of $4,650 for family coverage.

MSA funds can be withdrawn tax-free to pay for uncovered health care expenses. Amounts withdrawn for other purposes are taxed as ordinary income but with an additional 15% surcharge. The 15% surcharge, though, is not assessed on funds withdrawn by individuals after they turn 65.

With health care costs again increasing annually by double-digits, MSA backers say interest in the plans as a cost containment vehicle is certain to rise. They say if employees are responsible, through the MSA, for paying a greater share of the cost of health care services—rather than minuscule copayments—they are likely to be much more careful consumers of health care services.

"If you have to pay for something, you are much more likely to ask about the cost" and shop for the best, said Ms. Wegner of the Council for Affordable Health Insurance. Indeed, Ms. Wegner, who has an MSA, says she found a nearly 40% difference in price for an MRI when she called several health care centers in northern Virginia.

On the other hand, some benefit experts are skeptical that individuals would have the same purchasing clout as commercial insurers and HMOs to win big price discounts from providers on costly procedures. BI

ACE

Continued from page 1

the business "in the ordinary course consistent with past practice" and not "change any of the material accounting principles, practices, methods or policies," the suit says.

During the period in question, CIGNA filed a consolidated tax return and paid taxes on behalf of its subsidiaries under an existing internal tax-sharing agreement. Under the agreement, the subsidiaries made quarterly payments to CIGNA or received refunds based on their estimated taxes due, the suit says.

Then, in November of this year, under the agreement, CIGNA and the subsidiaries "trued-up" their intercompany tax accounts, according to ACE's lawsuit.

"Based on that comparison, the subsidiaries either made a payment to CIGNA or received a refund from CIGNA," the suit says.

Under the acquisition agreement, the tax-sharing agreement was still in force for the 1998 and 1999 tax years, the suit says.

Shortly before the closing of the acquisition in July 1999, CIGNA should have made a scheduled tax refund of $29.1 million to its property/casualty subsidiaries, but it instead ordered the subsidiaries to pay $1.9 million to the CIGNA holding company, the suit says.

'We are confident that our representation of the business was accurate and prepared according to (GAAP),' says CIGNA.

Additionally, in November 2000, CIGNA should have paid a $19.7 million refund to its former property/casualty units, but it refunded only $1.7 million, according to the suit.

"CIGNA claims it was owed an $18 million credit for unspecified tax liabilities, so CIGNA took this credit against the refund that it was obligated to pay ACE," the suit says.

ACE's lawsuit also charges that CIGNA failed to prepare its accounts accurately, and that ACE based its purchase price on those accounts.

"After closing, ACE discovered that the financial statements provided by CIGNA were inaccurate. The inaccuracies were due to poor internal accounting controls and other accounting inaccuracies in the P&C business under CIGNA ownership," the suit says.

The errors add up to more than $170 million, which is, in effect, a loss to ACE, the suit says.

In response to the charges, a CIGNA spokesman said: "It is not unusual in deals of this magnitude for one of the parties to file a claim at or near the deadline. We are confident that our representation of the business was accurate and prepared according to generally accepted accounting principles."

ACE said that previous financial statements it has filed have accounted for the disputed money as if the company would not receive it, so any outcome of the suit should not be detrimental to ACE's results.

Swiss Re

Continued from page 2

based on historical returns and investor expectations, he said.

Although insurers may take other actions to improve returns, such as cutting expenses, it is still likely that rates will rise for the next two years, Mr. Zimmerman said.

The insurance cycle is turning, and rates are increasing, agreed Thomas Holzheu, senior economist-North America at Swiss Re America Holding Corp. in New York.

Overall, net written premiums will likely grow by 6% to 8% per year for the next three years, he said.

Consequently, combined ratios should fall. Commercial lines insurers' combined ratios should start to fall in 2001; among personal lines insurers, ratios will fall later in 2001 and 2002, Mr. Holzheu said.

While insurers likely will do well in the short term, their long-term prospects are not as good, said Mr. Zimmerman. "The property/casualty insurers have not responded to the changing risk transfer needs of clients over the past 20 years," he said.

'Property/casualty insurers have not responded to the changing risk transfer needs of clients,' says G. Alan Zimmerman.

As manufacturers have improved their loss control efforts and as the service industry has increased in size, policyholders have become more concerned about financial risks than physical risks, Mr. Zimmerman said.

For example, he said that 20 years ago, an oil industry executive would have said that the failure of a large plant was a main business concern; today, that executive would be more likely to cite missing a quarterly earnings forecast.

"So the risk transfer needs have changed. I used to think that corporations were paying less for risk transfer and keeping more of their risks, but that is not right. They are paying a fortune to transfer risks, but not to insurers," Mr. Zimmerman said. Instead, he said, corporations are hedging their risks in the derivative markets.

"The insurance industry should dominate the derivatives market," Mr. Zimmerman said. "And the companies that respond to those structural changes are going to be the long-term winners."

Insurers need to redefine themselves broadly and offer a more diverse selection of risk transfer mechanisms, he said.

So far, few insurers seem to be making those changes, Mr. Zimmerman said. Several reinsurers, insurers in Bermuda and American International Group Inc. have made or are in the process of making such changes, but many other insurers are still trying to grow only their traditional business, he said.

Microsoft

Continued from page 2

they worked, the duration of their status as "permatemps"—or long-term temporary workers—and the total number of employees who file claims under the settlement.

The settlement agreement praises Microsoft, stating: "Since 1997, Microsoft has made important changes in its staffing and worker classification practices," including hiring 3,000 former permatemps as workers with full benefits.

The settlement "therefore does not include any provision restricting or imposing conditions on Microsoft's future policies or practices."

The Microsoft spokesman said the company is constantly re-examining its temporary staffing policies. Several years ago, he said, the company changed the way it selected temporary staffing agencies. As part of that, he said, the company began using agencies that provided better benefits to their employees. In addition, under a policy that took effect July 1, temporary workers can be hired for no more than 12 months, with a 100-day period required between Microsoft assignments. "Bottom line, we've worked hard over the years to make sure we've had the right policies in place," said the spokesman.

Microsoft employs 42,000 people worldwide, as well as between 5,000 and 6,000 temporary workers.

Airline smoking suit to proceed

WASHINGTON—A Northwest Airlines Corp. flight attendant can proceed with a lawsuit charging that her employer forced her to breathe secondhand tobacco smoke during flights to Asia, the U.S. Supreme Court has ruled.

The high court last week said that the suit could proceed, rejecting an appeal by the airline arguing that a federal law pre-empts the state law under which the action was filed.

The suit, originally filed in 1999 in U.S. District Court in Seattle, now returns to that court for further hearings. The plaintiff in the case, Julie Duncan, a flight attendant for Northwest, charged that the airline violated its duty under Washington state law to provide a safe and healthy work environment. Ms. Duncan alleges that she has suffered breathing impairment from the exposure to secondhand smoke. Her suit seeks unspecified damages and certification of a class of flight attendants who were similarly exposed to such smoke.

Northwest banned smoking on flights to Asia in 1998, according to a spokesman for the Minneapolis-based airline. The restriction was imposed years after such a ban was put in place on the carrier's domestic U.S. flights.

Despite its failed appeal, the airline believes it has a "strong case, and we think we will be able to prevail in court," the spokesman said.

—By Michael Bradford

UPDATES

ADEA waiver rights clarified

Continued from page 2

has ruled.

The regulation, which appeared in the Federal Register Dec. 11, amends earlier rules filed by the EEOC that specified how employers should handle these waivers under the ADEA but did not address the return of severance or benefits.

Such waivers of the ADEA—a federal law that prohibits job discrimination against individuals 40 years of age or older—are routinely used by employers as part of early retirement incentive plans and large layoffs.

Under Title II of the Older Workers Benefits Protection Act of 1990, which amended the ADEA, Congress permitted these waivers, but set out a series of specific requirements with which waivers much comply to be valid. These rules include a minimum 21-day waiting period for an individual to sign the waiver and a seven-day waiting period to revoke the waiver.

The latest EEOC regulation addresses a 1998 Supreme Court ruling in *Oubre vs. Entergy Operations Inc.*, which held that an older worker cannot be required to "tender back," or return severance payments or other benefits in order to challenge a waiver on the grounds that it is inconsistent with the ADEA.

In addition to addressing this issue, though, the EEOC regulation also clarified how an employer can get back the severance or benefits money it originally gave a worker who later challenges a waiver.

For example, if an older worker successfully challenges the waiver, proves age discrimination, and obtains a monetary award, that award may be reduced at the court's discretion to reflect the compensation the worker already received. Any reduction in an award, however, may not exceed the amount of compensation that the employer originally paid, or the amount of the award if it is less.

Insurer income, surplus drops

NEW YORK—The property/casualty insurance industry's profits and policyholder surplus dropped during the first nine months of this year, according to a survey released by three trade groups.

The declines reflect deteriorating underwriting results, which occurred despite premium growth and lower-than-average catastrophe losses, according to the nine-month estimated results compiled by the Insurance Information Institute, the Insurance Services Office Inc. and the National Assn. of Independent Insurers.

In fact, the industry's net underwriting loss, including policyholder dividends, for the first nine months of this year hit $21.86 billion, compared with a $15.19 billion loss during the same period last year.

Although the industry's net written premiums rose to $228.03 billion, up 4.6% compared with the same period of 1999, underwriting losses and higher taxes pushed the industry's net income for the first nine months to $16.50 billion, 5% lower than a year earlier.

Although the industry's consolidated surplus of $327.27 billion at Sept. 30 is 1.8% higher than a year earlier, it actually dropped 2.2% compared with year-end 1999.

Briefly noted

The **Transit Casualty Co. receivership** has set a deadline for any additional claims against the estate of the insolvent insurer. Cole County, Mo., Circuit Court Judge Byron Kinder signed an order requiring Transit policyholders, state guaranty funds and third-party claimants to file proof of unresolved claims and actuarial evidence of the present value of future claims by March 15, 2001. After that date, the Transit estate will accept no new claims. The receivership aims to have most of its remaining claims settled within one to three years, said James Owen of McCarthy, Leonard, Kaemmerer, Owen, Lamkin & McGovern in St. Louis, who is representing Transit....The announcement of a settlement that U.S. and California agencies have reached with several companies in the Palos Verdes Shelf Superfund liability case was postponed Friday for at least several days, due to delays in securing the signatures of some California officials. Dumping and disposal activities by **Montrose Chemical Corp.**, other companies and public entities for decades, beginning in 1947, polluted miles of the ocean floor off the Los Angeles coast with the pesticide DDT....Chris Longo has been named president of The St. Paul Cos. Inc.'s **specialty excess and umbrella** business unit. Mr. Longo, who will be based in New York, joins St. Paul after a 19-year career at Chubb Corp., most recently serving as president of Chubb Atlantic Indemnity Ltd. in Bermuda.... Aon Corp. has named **Paul Maddock**, a former managing director and vp of General Motors Corp., as a managing director. He will work in Aon's corporate risk practice and with Aon University to assist in the professional development of employees worldwide. He also will lead Aon's university recruiting efforts.... Pichin Corp., which is owned by financier Carl Icahn and is the sponsor of two **Trans World Airlines Inc. pension plans** with $700 million in unfunded liabilities, notified the Pension Benefit Guaranty Corp. last week that it intends to terminate the plans on Jan. 1....**H. Edward Hanway**, president and chief executive officer of CIGNA Corp., has been named to the additional post of chairman of the insurer. Mr. Hanway replaces Wilson H. Taylor, who is retiring after 36 years with the Philadelphia-based insurer. CIGNA will endow a research chair at the Washington-based American Enterprise Institute to honor Mr. Taylor. The Wilson H. Taylor Chair in Health Care and Retirement Policy will support research and conferences regarding health care, retirement and employee benefits.

FOR THE RECORD

Excerpts from *BI*'s Daily Online Updates, Dec. 11 - Dec. 15, 2000

ST. PAUL NAMES CRO Janet R. Nelson has been named chief risk officer of The St. Paul Cos. Inc. Her responsibility as CRO is to identify and assess risks that cut across all areas of St. Paul's operations and to provide advice as to the best way to manage those exposures. Ms. Nelson, who has worked for the St. Paul since 1973, takes her new post after serving as a senior vp. She also has held the post of president and chief operating officer of St. Paul Custom Markets, a specialty insurance operation, as well as special assistant to the president of St. Paul Cos. Inc. "This position is a new one in our company," Ms. Nelson said, and it is "different than what you think of as traditional risk management. It is more oriented toward financial and strategic risks." Paul Liska, executive vp and chief financial officer of St. Paul, said in a statement that Ms. Nelson's appointment was necessary because the insurer has become a larger, more complex organization. "We sell sophisticated products and services, operate at a quick pace, employ more innovation and customer responsiveness, and, we're also a leaner organization," Mr. Liska noted. "Collectively, these changes increase the potential for risks aggregating across all operational areas in unexpected ways."

Ms. Nelson

KELLY LEAVES J.P. MORGAN William J. Kelly, a managing director with responsibility for risk management at J.P. Morgan & Co. and a leading figure in the world of risk management, is leaving the investment bank, following its acquisition by Chase Manhattan Corp. Mr. Kelly said he was leaving on good terms, but his responsibilities at J.P. Morgan, which also included purchasing, corporate travel and other corporate responsibilities, were handled by several different departments at Chase. Rather than look for another risk management position, Mr. Kelly said he wants to become more involved in the "revenue generating" side of the business. "I want to do some of the things that I've been writing about and talking about over the past few years," he said. Mr. Kelly has been an outspoken critic of quality and efficiency issues at brokers and insurers and has suggested several ways for them to improve their service and coverage. In addition to his role at J.P. Morgan, where he has run the risk management department for 15 years, Mr. Kelly is a former president of the Risk & Insurance Management Society Inc. and a chairman of the International Federation of Risk & Insurance Management Assns.

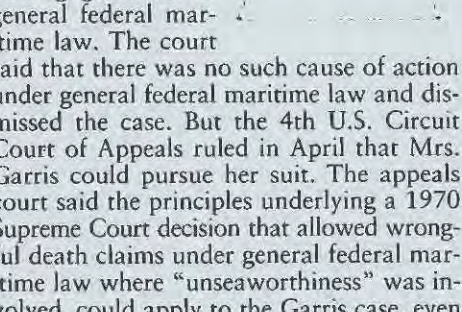
Mr. Kelly

S&P OUTLOOK Higher expenses and the need to strengthen reserves are among the reasons Standard & Poor's Corp. has a negative outlook for the life, property/casualty and reinsurance sectors of the U.S. insurance industry. In a teleconference last week, S&P detailed its outlook on the industry for 2001. Only the health sector fared better than negative, meriting a "stable" outlook from S&P. S&P believes that, despite signs of rate firming, the property/casualty industry's fundamentals remain poor, said Laline Carvalho, an associate director at S&P in New York. Property/casualty companies continue to exhibit "extremely poor" underwriting results in 2000, and any improvement in their fortunes probably won't be seen until the second half of 2001, she said. Some of the benefit from increased rates is being offset by greater expenses, she said. What's more, particularly in commercial lines, "we think there are significant reserve deficiencies," she said. "We are of the belief the reserve strengthening will continue to be a drag on earnings for the industry."

STANDARD & POOR'S

OUTAGE COST POLICY ACE Power Products and Nuclear Electric Insurance Ltd. are jointly offering coverage for nuclear power providers that pays for replacement power during short unplanned outages. The coverage program, which indemnifies utilities that are forced by an outage to buy power from other providers to meet their customers' needs, will provide $50 million in primary coverage and $200 million in excess limits. The coverage is available to members of NEIL, a Wilmington, Del.-based property and accidental outage mutual insurer. Single units or portfolios of plants can be included in the new program. Capacity for the program is being provided jointly by ACE and NEIL. The coverage is written on a custom form.

MARITIME DEATH CASE The U.S. Supreme Court has agreed to hear a case that will clarify whether maritime law permits wrongful death suits based on negligence when nonseamen are the victims. The case, Norfolk Shipbuilding & Drydock Corp. vs. Garris, began with the 1997 death of Christopher Garris, an employee of a sandblasting company that was a subcontractor of Norfolk Shipbuilding. An employee of another subcontractor accidentally caused Mr. Garris to fall to his death, and Mr. Garris' mother sued Norfolk Shipbuilding in U.S. District Court for the Eastern District of Virginia on the grounds of wrongful death based on negligence under general federal maritime law. The court said that there was no such cause of action under general federal maritime law and dismissed the case. But the 4th U.S. Circuit Court of Appeals ruled in April that Mrs. Garris could pursue her suit. The appeals court said the principles underlying a 1970 Supreme Court decision that allowed wrongful death claims under general federal maritime law where "unseaworthiness" was involved, could apply to the Garris case, even though that decision did not expressly recognize a negligence-based course of action. No date has been set for oral arguments.



FLIGHT HEALTH RISK An Australian law firm is considering suing at least four international airlines for failing to warn passengers about the risk of developing potentially fatal blood clots during lengthy flights. Melbourne-based Slater & Gordon said that more than 10 people have already signed on to a proposed class-action lawsuit and that the firm had been in touch with 25 other potential litigants. The law firm said the case would allege that airlines serving Australia failed to warn customers about the risk of deep-vein thrombosis, or "economy-class syndrome," on international flights. Sitting for long periods in cramped conditions is thought to be a cause of blood clots. "This could potentially involve any airline running flights to and from Australia," the law firm said. Air France, Air New Zealand, British Airways P.L.C. and Qantas all operate flights to and from Australia. In November, a U.K. parliamentary committee published a report urging airlines to provide passengers with more information about the potential health risks involved in long-distance flights. Deep-vein thrombosis made headlines in October when a 28-year-old British woman died from a blood clot on the lung minutes after stepping off a Qantas flight from Australia to London.

BRIEFLY NOTED XL Specialty Insurance Co., a unit of XL Capital Ltd., is buying the surety operations of CGU Insurance Group for an undisclosed amount. CGU's surety operation, which is based in Philadelphia, writes about $25 million in gross premiums annually, a CGU spokeswoman said....**The St. Paul Cos. Inc.** named Kevin Rehnberg to the new position of president of global health care, where he will oversee health care underwriting operations worldwide. Mr. Rehnberg previously served the St. Paul, Minn.-based company as regional president for its Upper Midwest region. Darryl Coleman, previously vp of the commercial claim field operations, has been named regional president-Upper Midwest region....New York-based reinsurance intermediary **Guy Carpenter & Co. Inc.** has named Gregory T. Doyle as executive vp of strategic planning and corporate development. Mr. Doyle previously was executive vp and president of domestic insurance company operations at American Re-Insurance Co. BI

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

Find daily coverage on Corporate Risk, Employee Benefit and Managed Health Care News at www.businessinsurance.com

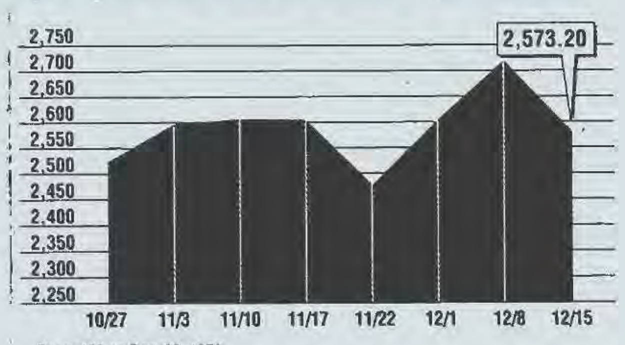
BI Industry Stock Report DEC. 11, 2000, THROUGH DEC. 15, 2000

BROKERS		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)
Aon Corp.	NYS	31.13	-6.04	-22.19	42.75	20.69	6622
Brown & Brown	NYS	31.88	-3.23	66.39	34.81	15.63	72
Clark Bardes Holdings	NDO	10.50	-0.59	-26.96	17.88	8.50	26
E.W. Blanch Holdings Inc.	NYS	15.81	0.80	-74.18	62.56	13.00	456
Gallagher Arthur J. & Co.	NYS	65.13	6.98	101.16	68.50	23.06	1798
Hilb, Rogal & Hamilton	NYS	40.00	-2.44	41.59	42.13	25.63	81
Kaye Group Inc.	NDO	7.25	-9.38	-13.43	11.88	5.00	9
Marsh & McLennan	NYS	114.19	-9.38	19.33	135.69	70.50	4031
BROKERS	AVERAGE		-2.77	23.48			

INSURERS/REINSURERS		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)
ACE Ltd.	NYS	38.06	-12.63	128.09	43.75	14.06	10094
Accel International Corp.	NDO	0.13	0.00	-87.50	1.19	0.10	95
Acceptance Insurance Cos.	NYS	4.44	0.00	-22.83	7.00	2.75	63
AEGON N.V.	NYS	39.25	-7.10	-17.80	49.13	31.50	1156
Aetna Life & Casualty	NYS	68.13	-0.55	22.06	68.13	34.13	2513
AFLAC Inc.	NYS	70.13	1.72	48.61	74.94	33.56	4108
Allmerica Financial Corp.	NYS	67.69	-5.00	21.69	71.88	35.06	1285
Allstate Corp.	NYS	39.94	-9.23	65.97	44.75	17.19	11874
Ambac Financial Group	NYS	52.25	-7.11	50.18	56.91	25.91	2710
American Financial Group	NYS	23.00	6.36	-12.80	29.00	18.38	4388
American Genera	NYS	78.44	-4.64	3.38	82.81	45.63	3369
American Intl Group	NYS	95.75	-7.66	32.83	103.75	52.38	23463
American Safety Insurance	NYS	5.69	1.11	-12.50	7.38	3.25	34
Argonaut Group	NDO	18.25	-0.68	-8.18	24.00	14.44	176
AXA-UAP Group	NYS	64.06	-6.48	-9.77	81.50	58.25	1709
Baldwin & Lyons Inc.	NDO	21.00	0.60	-5.08	23.94	15.25	15
Berkley W.R. Corp.	NDO	40.13	0.31	92.22	41.25	14.00	458
Berkshire Hathaway Inc.	NYS	68100.00	-2.30	21.39	69900.00	40800.00	3
Capitol Transamerica Corp.	NAS	12.13	0.52	20.50	13.25	9.38	48
Chubb Corp.	NYS	80.69	-10.35	43.29	90.25	43.25	3157
CIGNA Corp.	NYS	119.35	-7.66	48.15	134.16	60.75	3468
Cincinnati Financial Corp.	NYS	37.19	-6.52	16.67	43.31	26.19	2261
Citigroup	NYS	48.06	-6.67	14.79	59.13	35.34	64537
CNA Financial Corp.	NYS	37.69	-5.04	-3.21	42.13	24.56	378
CNA Surety	NYS	13.00	6.12	0.00	14.94	9.81	412
EMC Insurance Group Inc.	NDO	10.50	2.44	15.07	11.38	6.81	7
ESG Re Limited	NDO	2.50	0.00	-63.96	7.00	1.72	79
Enhance Financial Services	NYS	14.50	-0.43	-10.77	17.81	8.63	967
Everest Reinsurance	NYS	65.25	-2.16	192.44	67.44	20.69	2032
Fremont General Corp.	NYS	2.13	13.33	-71.19	9.63	1.50	1928
Frontier Insurance Group	NYS	0.13	-33.33	-96.36	3.69	0.08	2853
Gainsco Inc.	NYS	2.44	-7.14	-54.65	6.38	2.38	457
Harleysville Group	NDO	25.56	-10.31	79.39	30.63	11.63	290
HSB Group Inc.	NYS	38.75	0.00	14.60	40.63	21.50	782
HCC Insurance Holdings	NYS	25.50	2.26	93.36	25.81	10.38	1765
ING Groep N.V.	NYS	71.31	-2.73	16.91	75.25	46.81	751
IPC Holdings Ltd.	NDO	20.63	-2.65	38.66	22.88	9.75	467
Hartford Financial Services	NYS	71.19	-10.24	50.26	80.00	29.38	3842
John Hancock Financial Services	NYS	36.38	-0.51	113.97	37.69	13.44	5422
LaSalle Re Holdings Ltd.	NYS	18.88	0.00	14.39	19.38	10.88	0
Lincoln National	NYS	46.81	-4.83	17.03	56.38	22.63	2746
MAIC Holdings Inc.	NYS	14.88	-3.64	-29.79	23.13	10.00	58
Markel Corp.	NYS	165.06	0.04	6.49	171.00	111.50	131
MBIA Insurance Group	NYS	70.63	-4.64	33.73	75.25	36.31	1129
Meadowbrook Insur. Group	NYS	5.31	1.19	-19.05	7.75	3.94	39
MetLife	NYS	35.00	-1.41	145.61	36.50	14.25	31507
Mutual Risk Mgmt. Ltd.	NYS	13.75	-13.39	-18.22	23.75	12.50	1853
Navigators Group	NDO	14.00	3.23	43.59	14.13	8.63	#N/A
NYMagic Inc.	NYS	19.13	2.68	45.02	19.13	12.25	42
Ohio Casualty Corp.	NDO	9.75	-2.50	-39.30	17.88	6.13	1193
Old Republic Int'l	NYS	28.38	-3.61	108.26	29.75	10.63	2092
Partner Re Ltd.	NYS	53.63	-3.92	65.32	57.63	28.38	454
Penn-America Group Inc.	NYS	7.69	11.82	-0.81	9.75	6.63	11
PMA Capital Corporation	NDO	16.06	-8.21	-19.18	20.06	15.19	62
Philadelphia Cons. Holding	NDO	25.75	-7.00	77.59	29.50	14.13	393
PXRE Corp.	NYS	14.88	0.85	14.42	17.56	10.00	317
ReliaStar Financial Corp.	NYS	53.94	0.00	37.65	53.94	23.75	0
RenaissanceRe Holdings Ltd.	NYS	70.25	-12.60	71.87	81.50	35.88	924
RLI Corp.	NYS	41.69	-0.45	22.61	42.25	26.25	58
St. Paul Cos.	NYS	51.56	-8.54	53.06	57.00	21.31	4718
SCOR	NYS	47.00	-1.83	6.21	53.63	38.38	58
SAFECO Corp.	NDO	28.56	-7.68	14.82	31.73	18.00	4321
SCPIE Holdings Inc.	NYS	21.63	1.76	-32.68	36.94	18.31	NA
Seibels Bruce Group	NDO	0.63	4.17	-64.29	2.69	0.53	55
Selective Ins. Group	NDO	21.31	-4.75	24.00	23.19	14.63	353
Tokio Marine & Fire	NDO	54.75	0.69	-7.40	67.00	45.00	112
Torchmark Corp.	NYS	38.06	-6.60	30.97	41.19	18.75	2166
Transatlantic Holdings	NYS	96.94	-3.24	24.18	101.00	68.75	60
Trenwick Group Inc.	NYS	25.00	-3.15	47.60	27.13	12.00	1330
Unico American Corp.	NDO	6.03	-3.50	-13.84	7.88	4.50	22
United Fire & Casualty	NDO	18.03	-2.53	-20.30	23.31	15.50	42
Unitrin	NDO	36.94	-5.29	-1.83	39.75	27.19	729
UNUM Corp.	NYS	26.69	-4.26	-16.76	32.94	11.94	3760
Vesta Insurance Co.	NYS	4.75	-9.52	22.58	7.88	3.44	654
XL Capital Ltd.	NYS	80.69	-6.38	55.54	86.50	39.00	2721
Zenith National Ins.	NYS	28.44	-2.78	37.88	29.75	18.75	213
INSURERS/REINSURERS	AVERAGE		-3.13	17.40			

HEALTH MAINTENANCE ORGANIZATIONS		Price	Weekly % change	Year to date %change	Year to date High	Year to date Low	Vol.(000)
Health Net Inc.	NYS	21.13	-7.65	112.58	21.88	6.63	0
Humana Inc.	NYS	12.13	-5.37	48.09	14.88	4.75	3293
Oxford Health Plans	NDO	37.56	-8.10	196.06	42.75	10.63	5531
Pacificare Health Sys.	NDO	13.00	6.67	-75.47	72.31	9.81	5361
Sierra Health Services	NYS	3.50	-2.78	-47.66	9.31	2.44	483
United HealthGroup	NYS	117.50	-1.47	121.18	121.63	46.38	5920
Wellpoint Health Networks	NYS	97.94	-7.99	48.53	121.50	56.94	2452
HMOs	AVERAGE		-3.81	57.61			
ALL COMPANIES			-3.24	32.83			

BI Insurance Index



Base=100 on Dec. 29, 1978

Top advancing issues: Fremont General Corp., Penn-America Group Inc., Gallagher Arthur J. & Co.; Leading decliners: Frontier Insurance Group, Mutual Risk Mgmt. Ltd., ACE Ltd. Most active issue: Citigroup. The *BI* Index decreased 5.4%; the Dow Jones 30 Industrials went down 2.6%; the S&P 500 dropped 4.2%; and the NYSE Composite decreased 3.0%. Average P/E: Brokers, 22.4; Insurers/reinsurers, 28.5; and HMOs, 15.1.

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

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