

Business Insurance

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

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Regulators to question insurer on effort to void comp contract

SACRAMENTO, Calif.—California regulators have issued subpoenas to U.S. Life Insurance Co. representatives in response to the insurer's attempt to exit a contract through which it reinsured about \$200 million in workers compensation business, a California Department of Insurance official said last week.

Under a 1998 carve-out agreement, New York-based U.S. Life reinsured the disability and medical portions of workers comp business ceded to it by a California insurer, *See Updates on next page*

OSHA alters stance on safety oversight of telecommuters

By MARK A. HOFMANN

WASHINGTON—A call by Labor Secretary Alexis Herman's for a "national dialogue" over workplace safety rules for home-based telecommuters hasn't totally quieted a shouting match between em-

ployers and the Occupational Safety and Health Administration. The interpretation said that, "even when the workplace is in a designated area in an employee's home, the employer retains some degree of control over the conditions of the 'work at home' agreement."

The interpretation further noted that "an employer is responsible for ensuring that its employees have a safe and healthful workplace, not a safe and healthful home. The employer is responsible only for preventing and correcting hazards

to which employees may be exposed in the course of their work." But employers could be held liable for "dangerous conditions," such as unsafe stairs, in the home workplace.

The interpretation left unclear the exact circumstances under which an employer would have to inspect a home-based worksite and noted that OSHA itself does not "ordinarily conduct inspections of home-based workplaces."

But the interpretation that took more than two years to craft took less than 48 hours to be rescinded once it became public. The chorus of complaints from employers and lawmakers grew so loud that it caused the Labor Department, of which OSHA is a part, to first hold that the interpretation applied only to the company that sought it and then to withdraw it completely.

Employers charged that they would be required to inspect

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Among other things, the in-

terpretation began early last week, when an OSHA advisory on the responsibilities of employers that permit workers to telecommute became public nearly two months after the workplace safety agency offered its "interpretation" in a letter to a Texas financial services firm. Houston-based CSC Credit Services had written OSHA in August 1997, seeking advice on OSHA policies concerning employees working at home.

OSHA responded more than two years later in a Nov. 15, 1999, letter that held that "all employers, including those which have entered into 'work at home' agreements with employees, are responsible for complying with the (Occupational Safety and Health) Act and with safety and health standards."

Employers scrambling after big HMO seized

By JUDY GREENWALD

BOSTON—Many Massachusetts employers face uncertainty about their employees' health care coverage after the state's largest health maintenance or-

ganization, Harvard Pilgrim Health Care, was placed into receivership last week.

Harvard Pilgrim faces 1999 losses of up to \$177 million, the size of which was grossly underestimated until the recent discovery of accounting errors.

The Brookline, Mass.-based non-profit—which has 1.3 million members, primarily in Massachusetts—is believed to be the largest HMO ever to be put into receivership.

"It's probably safe to say that there is some shock and anxiety" among employers in response to the news about Harvard Pilgrim, said Dan Haughton, a consultant with Towers Perrin in Boston. "Many employers were aware that Harvard was having financial difficulties, but when the announcement was made about going into receivership, I think that caught most employers unaware," Mr. Haughton said.

Although employers, regulators and the company all say they are optimistic the organization will solve its problems, Harvard Pilgrim's future is by no means clear, others say.

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Harvard Pilgrim Health Care at a glance*	
Revenues	\$2.5 billion
Membership:	
Group	1,090,000
Medicare	76,600
Medicaid	105,615
Non-group	21,760
Total	1,294,000

*As of Oct. 31, 1999
Source: Massachusetts Health & Educational Facilities Authority

More policyholders expected to sue

Y2K may still be felt in court

By JOANNE WOJCIK KOCHANIEC

The smooth computer rollover to the year 2000 may make it harder for policyholders to win lawsuits against their insurers for coverage of efforts to avoid Y2K problems.

Risk managers still have an obligation, however, to seek coverage for the expense of safeguarding their systems from the so-called millennium bug if it is available, assert policyholder attorneys and risk managers.

While only a handful of Y2K remediation coverage cases are currently in litigation, numerous claims for coverage have been filed with insurers and could end up being decided by the courts, policyholder and insurer attorneys say.

The fact that the Y2K rollover occurred with few, if any, problems could be harmful to policyholders' cases, said Robert Hartwig, vp and chief economist at the Insurance Information Institute in New York.

There may be coverage if "there was a system breakdown and they spent money to mitigate further loss," Mr. Hartwig said.

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AP/WIDE WORLD PHOTOS

An analyst in CISCO Systems Inc.'s Y2K Operations Command Center signals the state of affairs for company systems on Jan. 3, 2000.

AIG sues CIGNA on restructuring

California lawsuit claims 1996 restructuring was illegal novation

By DAVE LENCKUS

SAN FRANCISCO—A new lawsuit filed by a competitor of CIGNA Corp.'s former property/casualty operations seeks to focus a California court's attention on an insurance regulation that two Pennsylvania courts would not consider when they reviewed CIGNA's 1996 restructuring.

The lawsuit comes after years of bitter litigation over the restructuring appeared to be laid to rest

in 1999, after the Pennsylvania Supreme Court handed down its approval of regulators' handling of CIGNA's restructuring.

Units of American International Group Inc. charge that the restructuring violated a California insurance novation statute. The statute, similar to those in force in most states, requires insurers to obtain policyholder consent before transferring their policies to other insurers.

The lawsuit, filed in California

Superior Court in San Francisco on Dec. 29, asserts that the restructuring amounted to "an elaborate shell game" that allowed CIGNA's P/C operation "to escape its contractual obligations undertaken to purchasers of billions of dollars of insurance in California and elsewhere." CIGNA then misled and deceived policyholders about the implications of its "corporate machinations," the suit charges.

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JANUARY RENEWALS

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Updates

U.S. Life subpoenaed

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said Norris Clark, deputy commissioner of financial surveillance for the California Department of Insurance.

The business was ceded directly to U.S. Life, rather than assumed through a reinsurance pool, such as the troubled Uncover Managers Inc. facility, he said. U.S. Life, however, arranged for retrocessionaires, Mr. Clark said.

He declined to name the insurer involved.

Last month, U.S. Life sought arbitration to exit the contract, Mr. Clark said. The DOI now wants to know what workers comp expertise U.S. Life officials had when they entered the arrangement, as well as the extent of their due diligence and whether a broker approached them about underwriting the business.

James Paul Corcoran, executive vp and director of governmental relations for U.S. Life, said the subpoenas were not necessary to bring about a meeting with the insurer. Mr. Corcoran is among the U.S. Life representatives ordered to appear at an investigatory hearing, scheduled for Jan. 24 in San Francisco.

U.S. Life representatives will appear and have a "generic discussion" about the insurer's workers comp reinsurance activity, he said. The Insurance Department, however, cannot interpose in matters of arbitration and contractual relations, he said.

"We are not going to talk publicly about an arbitration we are in regarding another company," Mr. Corcoran said.

Florida fight over cat models

TALLAHASSEE, Fla.—Florida Insurance Commissioner Bill Nelson asked for an injunction last week to halt an arbitration process set to resolve differences between the Department of Insurance and the Florida Windstorm Underwriting Assn. over proposed rate increases.

Commissioner Nelson objects to the method the FWUA used to derive its rate increase request of 96%, said a spokesman for the Florida Department of Insurance. The FWUA, the state's insurer of last resort, relied solely on catastrophe modeling software created by the insurance industry, he said.

The spokesman said Commissioner Nelson believes these catastrophe models overstate actual losses. Five catastrophe computer modelers are approved by the Florida Commission on Hurricane Loss Projection Methodology for use by insurers underwriting wind policies in Florida.

Jack Nicholson, chief operating officer for the Florida Hurricane Catastrophe Fund and also a commission member, said that, "in a theoretical sense," the models chosen by the commission are "the best information we've got."

The Department of Insurance disagrees.

"We have compared the models to one company's actual storm losses and found the models overstate storm losses by 40% in some instances," the department spokesman said. "There is no way to determine that these models are accurate or reliable."

A spokesman for the FWUA said the rate request used all five models to generate expected losses, then threw out the highest and lowest estimates and averaged the middle-three estimates to arrive at the basis for its requested rate hike.

The FWUA has seen its market share boom, from between 50,000 and 60,000 policies before 1992's Hurricane Andrew to 450,000 policies now, said a FWUA spokesman. In some areas, such as Dade County and the Florida Keys, the FWUA is the primary insurer of residential property against natural disasters.

Reinsurance dispute settled

CALABASAS, Calif.—Superior National Insurance Group Inc. has settled a \$175 million reinsurance dispute with Bermuda-based Inter-Ocean Reinsurance Co. Ltd. and American Re-Insurance Co. over contracts stemming from Superior National's 1998 takeover of Business Insurance Group Inc.

The workers compensation insurer had been in arbitration with Inter-Ocean and had filed a fraud lawsuit against American Re, charging that the reinsurers wrongly refused to honor reinsurance contracts covering adverse loss development at BIG (*BI*, Sept. 13, 1999).

Superior National required BIG's former parent, Foundation Health Systems Inc., to buy the reinsurance, which covered \$175 million in adverse development in excess of BIG's year-end 1997 reserves of \$522 million. FHC paid Inter-Ocean \$28.5 million for the coverage, and Inter-Ocean then retroceded 100% of the risk to American Re, the largest minority shareholder of Inter-Ocean's parent.

After the BIG sale, an actuarial review found that BIG's reserves should be increased by at least \$175 million, and Superior National demanded that Inter-Ocean post a security deposit of at least \$150 million. Inter-Ocean and American Re refused, the insurer charged.

Under the settlement announced last week, American Re will be substituted as the original reinsurer and will retain \$135 million of the original limit for the full \$28.5 million premium. American Re will retrocede a layer of \$40 million excess of \$135 million to Centre Reinsurance (U.S.) Ltd.

Centre Re's premium for this layer will consist of a "contingent payment" from Superior National based on "recoveries that Superior National may obtain from third parties," the insurance company announced.

Robert Nagle, senior vp and general counsel for Superior National, said that the insurer has had discussions with FHC about the settlement and has various grounds for seeking recovery from FHC, including an indemnification agreement in the BIG purchase agreement. "This clearly would fall within the indemnification provision," Mr. Nagle said of the cost of the Centre Re cover.

An FHC spokesman declined to comment.

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High technology keeps Disney's risks in hand

By MICHAEL BRADFORD

LAKE BUENA VISTA, Fla.—New hand-held computer technology is helping Walt Disney World protect the safety of its visitors by increasing the efficiency and accuracy of food service inspections.

By combining a heat-sensing unit called a "thermocouple" with a Palm Pilot computer, food safety inspectors at Disney have replaced a paper-based reporting system with a computerized one that is more accurate and generates more-useful information.

The idea for the system came to Frank Yiannas, Disney's manager of environmental health, as he flipped through an airline magazine on a flight to California last year. Numerous ads and articles on high-tech gadgets led him to wonder how the park's

food safety services might be able to take advantage of portable technology to improve inspections.

When a car rental clerk checked him in with a hand-held computer, an idea began to take shape.

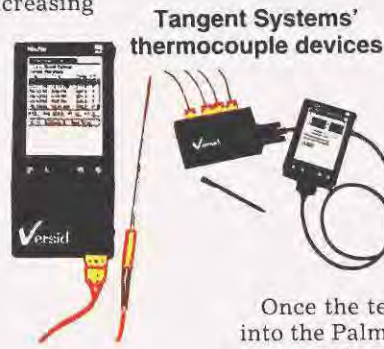
"I did some research," Mr. Yiannas recalled, "and found that a Palm Pilot could work."

He discovered that Tangent Systems Inc. in Charlotte, N.C., was making inroads into just such technology for food services companies and was offering a thermocouple that would feed information into a hand-held computer. The thermocouple uses probes to record food temperatures.

Once the temperatures are recorded, they are fed into the Palm Pilot and can subsequently be printed in report form on a portable printer.

"It was something we began looking at and determined we could develop software in-house" that

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401(k) participation faster

New employees joining plans more quickly: Study

By JERRY GEISEL

More employers are allowing employees to participate in 401(k) plans almost immediately after they are hired, rather than making them wait the customary year, according to a new survey.

The survey of 384 member companies of the Chicago-based Profit-Sharing/401(k) Council of America found that about 40% of respondents last year allowed their employees to join a 401(k) plan within three months of their hiring date, up from 32% in 1998.

Among employers with at least 1,000 employees, 57% per-

mitted employees to join within the first three months of being hired, up from 47% in 1998.

This corporate liberalization in 401(k) eligibility may be the result of a change in federal law that took effect last year, the trade group says.

Under that change, employers do not have to include employees with less than one year of service with other employees in running the basic 401(k) non-discrimination test. That test is used to ensure that average contributions by highly compensated employees do not exceed contributions of lower-paid workers by more than a certain percentage, which is set by law.

Newly hired employees are more likely to be lower paid and to make smaller contributions than do existing employees. Prior to the change in the law, giving them the right to participate in the plan could drag down average deferrals made by rank-and-file employees and, as a result, reduce the size of deferrals that highly compensated employees could make to the plans.

By being able to exclude—for non-discrimination testing purposes—newly hired employees from other employees, allowing new employees to quickly participate in a plan no longer affects how much higher-paid em-

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RIMS forming new committee to carry on work of the QIC

By MICHAEL BRADFORD

NEW YORK—The Risk & Insurance Management Society Inc. is forming a committee to carry on efforts to improve quality in the insurance industry following the dismantling of the Quality Insurance Congress.

RIMS' new Quality Committee will develop a mandate to foster quality in the industry and will be responsible for the development of a scorecard that rates vendor performance. Two previous score-

cards were jointly sponsored by RIMS and the QIC.

The QIC disbanded last year, when it became apparent that it lacked sufficient commitment from its members to improving quality among insurers, brokers, risk managers, third-party administrators and others in the insurance industry (*BI*, Nov. 8, 1999).

RIMS hopes to have members of the Quality Committee in place by mid-February, according to Roger Andrews, first vp of RIMS and li-

aison to the committee.

"We're looking for high-profile risk managers and those that are willing to devote time and energy," said Mr. Andrews, who is the Provo, Utah-based general counsel/director of risk management for E.D. Bullard Co. of Cynthia, Ky.

According to Mr. Andrews, RIMS is "looking to be more creative with the scorecard" and is considering making the survey more accessible by producing an online version. **BI**

Inside

• Rate corrections for poor risks signal not a market hardening but the long-overdue return of responsible underwriting, one of this week's editorials says. **PAGE 8**

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• A review of the BI Stock Index finds that insurance industry stocks lagged far behind those of companies in broader stock market indexes in 1999. **PAGE 43**

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2000 Renewals

Buyers see some firming, but market largely flat

By JOANNE WOJCIK KOCHANIEC and ROBERTO CENICEROS

Risk managers are finding few, if any, 20th-century bargains remaining as they renew their property/casualty coverages for 2000.

While many risk managers say they believe prices are firming, most use one word to describe the current market overall: "flat." Indeed, many risk managers whose companies have good loss histories report that they are renewing at rates similar to those they paid at their last renewal.

But risk managers with workers compensation risks are definitely seeing some upward movement in rates, particularly in California. As a result, some are changing their programs in response to the large rate increases demanded by insurers.

In addition, risk managers who locked into multiyear policies a year or two ago amid declining rates say they are glad they did so, because multiyear programs were harder to get at year-end 1999.

At San Clemente, Calif.-based Sunstone Hotel Properties Inc., general liability, auto liability and property coverages all renewed at about the same rate obtained in 1999, said Diana Rich, director of risk management and benefits administration.

"They're not the great deals we're used to, but people are being sensible, and the pricing and underwriting are thoughtful," Ms. Rich said. "They're thinking about what they're doing."

Julie K. Long, director of risk manage-

ment for SBC Communications Inc. in San Antonio, Texas, said her property and casualty rates remained flat this renewal.

Most of the coverages for Bell Atlantic Corp. in New York also renewed at their expiring prices. The company was even able to broaden some coverage, according to Sheila L. Small, director of risk management.

"We are seeing firming of rates," said Ed Molloy, director of risk management at Aetna U.S. Healthcare in Hartford, Conn.

"I don't know if it's hardening, but it's certainly plateaued."

"The days of 10% decreases are over," Mr. Molloy said. "But, at the same time, there are no substantial increases."

Mr. Molloy speculated that industry consolidation could be one force behind the rate firming. For example, he said, rates are hardening a bit for errors and omissions and professional liability coverages for health care firms. That's not necessarily because the risks are any greater, he said, but because "there are fewer companies to go to."

"With the consolidation of carriers, some lines of business they formerly were in, they're not doing anymore," Mr. Molloy said.

Industry consolidation also is forcing risk managers to keep closer tabs on their brokers and insurers, said Kelly Ravanis, senior risk manager at FMR Corp. in Boston, the parent company of Fidelity Investments.

"The level of service overall has declined, which is forcing risk managers to take a

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Insurer hopes still higher than the rates they seek

By MARK A. HOFMANN and RODD ZOLKOS

A new year, a new century, a new millennium and, for insurers, new optimism that the worst of a soft market that has run for more than a decade is finally ending.

Insurers, however, are stopping short of celebrating a major market turn. Rate increases, they note, are generally modest for most accounts, with some underwriters simply playing a catch-up game.

Nor are the hikes universal. For some good accounts in certain lines of business—such as certain professional liability lines—prices are still decreasing.

Still, widespread risk manager resistance to increases hasn't materialized yet, underwriters say. In fact, they say, some buyers have gone shopping only to return to their incumbent underwriters because of concerns about quality.

"We're starting to see, for the first time in a long time, some hardening in certain markets," said Terry Van Gilder, president and chief executive officer of Reliance National Insurance Co. in New York.

"There are many segments of the property and casualty market that had been seriously underpriced for some time," Mr. Van Gilder said. "To the degree that we can avoid those, we have done so, and we've tried to take advantage of the rising tide."

"I believe that rates truly have hit bottom," said Paul J. Krump, senior vp and managing director in charge of the commercial insurance division of Chubb & Son Inc. in Warren, N.J.

Mr. Krump said that Chubb has "been insisting for the last five quarters that rates need to increase," and he said rates now are indeed firming. "For the year 2000, we will see increases of 5% to 25%" depending on location, line of coverage, loss experience and the individual

account, he said. Increases have been larger in the South and Midwest, he said, noting that the Midwest, in particular, had enjoyed larger rate cuts in recent years.

The best accounts are seeing average increases in the low single digits, while the bottom-quarter accounts have received rate increases that average in high-teen percentages, he said.

On average, increases for umbrella policies are smaller than are those for other

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Bad risks get bad news amid renewed discipline

By SALLY ROBERTS and AMANDA MILLIGAN

Talk of a hardening property/casualty market continues to be just that, according to brokers who assisted buyers with Jan. 1 renewals.

Although most underwriters are seeking rate increases, they generally are seeing only scattered premium increases, and even some flat-to-decreasing rates on accounts with good loss history, brokers report.

Although some less-profitable accounts are receiving higher rate hikes, those increases are more of a reflection of market correction or stabilization than a broad market hardening, according to brokers.

In addition, ample capacity continues to characterize the property/casualty market, and terms and conditions remain relatively stable—a different scenario than that present at the dawn of the last hard market in the mid-1980s, brokers report.

At the same time, many risk managers are facing premium increases for the first time in many years. As a result, some brokers say, multiyear deals with locked-in rates are a little tougher to secure these days than in years past.

"We see an awful lot of talk on the part of underwriters to get rate rectifications and terms and conditions changes," said Suzanne Douglass, managing director of property for Willis in New York. "The application, however, is spotty. There is still a market out there for risks—especially good risks."

Indeed, Gary Gatewood, managing director for Marsh Inc. in New York, said that the commercial property market is keeping rates on "less difficult" risks relatively stable, while other risks are seeing increases ranging from 5% to 10%.

The same 5% to 10% range also applies to the casualty market, Mr. Gatewood said. But while rates are going up, insurers are not targeting any particular line or industry. Rather, increases are made where they are needed, which Mr. Gatewood considers a market correction, rather than a hardening.

"The marketplace, at this particular moment, is being sensible," he said; insurers "are managing their books smarter."

Jim Braniff, president of the brokerage services division of Arthur J. Gallagher & Co. in Itasca, Ill., agreed that property/casualty underwriters are taking a more-disciplined approach than in past years when underwriting new and renewing accounts.

"Insurance companies are reporting to us that they are getting a 5% to 7% increase across the entire book," Mr. Braniff said. But, he said, "there's no doubt they're renewing some accounts flat—and some with a decrease."

Accounts with bad loss histories, he said, may see increases that range from single to double digits, depending on the account.

On average, most lines ranged from no increase to a 5% increase, Mr. Braniff said. Competitive lines, such as directors and officers, errors and omissions, and fiduciary liability all were renewing at the same rate or even slightly lower, he said.

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Cedents delay renewals, hold out for best deals

By JUDY GREENWALD and GAVIN SOUTER

Late" is probably the defining word for reinsurance renewals this January, as primary insurers, faced with hardening rates, shop around for the best possible deal.

Inevitably, though, many insurers are paying at least moderately more for reinsurance this year, as rates continue to show signs of hardening and as some reinsurers opt to let business go rather than write it at inadequate rates.

But much business continues to be renewed at existing rates, and the hikes introduced so far are not enough to improve reinsurers' financial results, observers say.

This is the latest renewal season in the past eight to 10 years, said David Robb, president of reinsurance operations at The Hartford Financial Services Group Inc. in Hartford, Conn. And this delay in agreeing to renewal terms is largely due to a tightening in the market, he said.

"The change in the market is not uniform; it's spotty, but it is noticeable," Mr. Robb said.

Renewals are "much slower than they have been for the past couple of years,"

agreed John N. Gilbert Jr., president of Holborn Corp. in New York, a reinsurance intermediary. "I think reinsurers are looking at (renewals) carefully," he said.

Some observers pointed to a shortage of retrocessional capacity as a factor in the slow renewal season. "Retrocessional capacity is more difficult to put together and costing more, and (reinsurers) are trying to find ways to gently—and, in some instances, not so gently—pass on their increased expenses to insurers," said Mr. Gilbert.

Brian McGuire, senior vp and director at reinsurance intermediary U.S. Re Corp. in New York, said the property catastrophe retrocessional market "has basically collapsed," which is leading reinsurers to seek rate in-

creases for catastrophe coverage from primary insurers.

"It was, I think, anticipated that this change... wouldn't take place for another four to six months down the road," Mr. McGuire said. "But it is happening now, and what we're seeing is a reluctance of many buyers to give orders at the higher rates... That's going to make it a very late renewal season."

But Michael Toman, executive vp at PXRE Reinsurance Co. in Norwalk, Conn., said that while there is an obvious tighten-

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London market in transition, but competition remains

By EDWIN UNSWORTH and CAROLYN ALDRED

The London insurance market today is more convinced than it was a year ago that rates are poised to harden, but market observers talk more in terms of "signs" and "appearances" than of any clear turnaround.

Expectations are also qualified with the notion that any hardening is "selective" and is by no means applicable to all customers or all classes of risk.

Many underwriters note that where there are signs of an upturn, the change generally is being

led by the retrocessional and reinsurance sectors.

At the same time, some underwriters say that it will take some time for increases in the retrocessional market to make their way down to insurance buyers. In addition, some say, any real market turn will be dampened—at least for the moment—by the prevalence of multi-year policies.

"The market is stabilizing. Retro rates have hardened significantly and will continue to do so," said Rob Jones, a director of Stan-

dard & Poor's Insurance Ratings of London.

Stephen Catlin, a Lloyd's of London underwriter and chairman of Catlin Underwriting Agencies Ltd., said the reinsurance and retrocessional markets have "kicked in first" in raising rates.

"Retro business is getting extremely difficult to purchase, so primary reinsurers are carrying more risk, and a lot of primary insurance carriers are paying more," he said.

John Turner, chairman of non-

marine global risks for London-based Aon Group Ltd., agrees that the market "looks to be tightening." This year, he said, accounts are unlikely to receive terms and conditions as good as those they got at their last renewal.

Whether an account gets better terms "depends on whether it's a risk underwriters are interested in staying with, or if it's more of a distressed nature," he added.

Those risks with catastrophe losses or with greater frequencies of loss than normal "would have a more-penal set of terms put on them," said Mr. Turner.

Neil Maidment, treaty reinsurance underwriter on Lloyd's syndicate 623, managed by Beazley

Furlonge Ltd., agreed that terms in the current round of renewals often depend on the account's record.

"On accounts where there have been losses, people are paying more money, but even on some clean accounts, there's a bit more premium being paid," he said.

Both buyers and sellers are being "reasonably pragmatic," and, in the case of syndicate 623, each renewal or new contract is treated on its merits, said Mr. Maidment.

"Long-term buyers who have less exposure this year may still get a reduction, but, generally speaking, most people won't get reductions this year," he said.

The excess-of-loss market can expect tougher terms this renewal, as "people are recognizing the need to make technical profits," Mr. Maidment noted.

Mr. Catlin said he is convinced that the market has bottomed out. "Beyond 1-1-2000, no one can expect to renew 'as is' anymore. There will be rises," he said.

He predicted that the market will change significantly sometime before the end of 2001, most likely around June or July of this year, when insurers' annual statements come out, he said.

There is still some competition for the good business, though it is becoming increasingly difficult for clients to obtain multiyear contracts, according to Aon's Mr. Turner.

An exception is alternative risk transfer programs, where there are greater possibilities for multi-year deals, he added.

Guy Bessis, managing director of the global property and casualty department of London-based broker Willis Group Ltd., also pointed to the prevalence of multiyear deals as a hindrance to a market turn.

"Clearly, everyone is trying to talk the market up. It has started in pockets, but there is still too much capacity. The market can't turn very quickly. For example, in casualty there are a lot of long-term deals," Mr. Bessis said.

"The market is in a state of potential transition," and underwriters are increasingly reluctant to offer long-term deals, he said. Willis is trying to alert clients to this "potential change," though it "is still more anecdotal evidence rather than hard fact," he said.

Reinsurance underwriter Mr. Maidment noted that there are indications of tightened underwriting, as well as "a strong feeling that the market needs to tighten its terms and conditions."

"The results from primary insurers and reinsurers are not acceptable. The fundamentals need to change, or capital will withdraw. There is still too much capital, but the underwriting results are inadequate to sustain it," Mr. Maidment said. He noted that the tightening "will be more marked outside of North America."

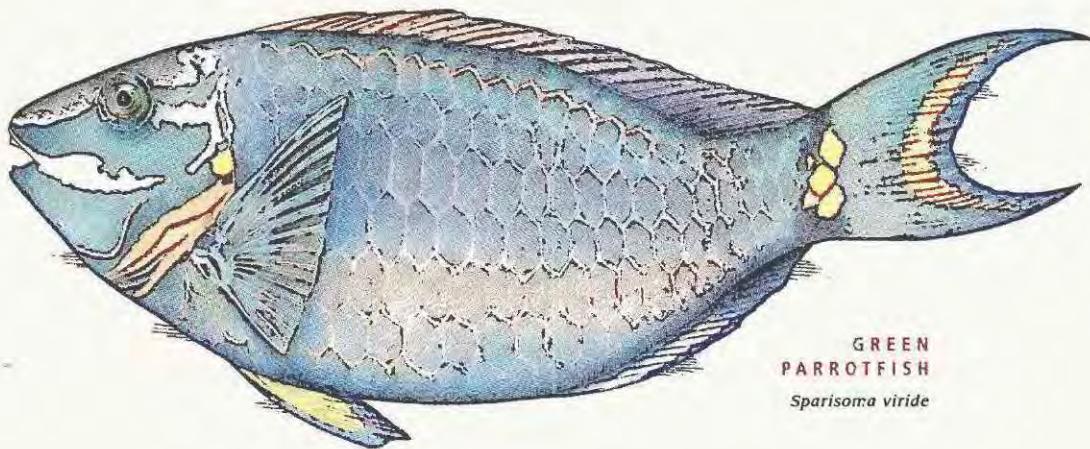
James Weatherstone, deputy underwriter for Lloyd's syndicate 861, managed by Brockbank Syndicate Management Ltd., also maintains that the underwriting cycle has bottomed out.

He pointed to capacity withdrawals, noting in particular the area of directors and officers insurance in the United States, where some underwriters have already pulled out. In particular, this is contributing to higher D&O rates in the high-tech sector,

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What can we do to help you?

London

Continued from page 4

where rates were already on the rise because of claims relating to stock drops at high-tech companies. Such companies often reward directors and staff with share options, he said, which could lead to class-action suits if stock prices drop. He estimates that there are 450 to 500 such actions pending in the United States.

In addition, Mr. Weatherstone warns that "we are looking at a smoking gun" in commercial D&O coverage for lawyers and other professionals. So far, only "nominal" rate increases are being seen, as hikes have been muted by the prevalence of 36-month contracts, he said.

But, Mr. Weatherstone said,

"there's a momentum and will to change," and clients recognize that insurers have already given an awful lot of ground and must remain profitable if they are to provide the service clients require.

The combination of a "significant" deterioration in the 1998 year of account and a series of natural catastrophes last year—including Hurricane Floyd, Typhoon Bart, and earthquakes in Turkey, Taiwan and Greece—is resulting in a lot of retrocessional claims, said Mr. Bessis.

So far, though, it is only sentiment that has changed, not fundamentals, he said. He noted that there is still too much capacity and that there have been only a few withdrawals.

This change in sentiment also extends to clients, many of whom are no longer pushing for steep

rate reductions, said Mr. Bessis.

The market's recovery has been "selective" with regard to the retrocessional market and will

and increases in 2001," he said.

He noted that the retrocessional market has started to turn. In addition, he said, the reinsurance

'There's a momentum and will to change,' and clients recognize that insurers have already given an awful lot of ground, says James Weatherstone.

take some time to affect pricing in the direct market, according to Andrew Fleming-Williams, a director of Lloyd's managing agency R.J. Kiln & Co. Ltd.

"We're not going to see a big bounce (in prices) in 2000, more like improved trading during 2000

market will toughen because some important reinsurers have withdrawn over the past 12 months, leading direct insurers to run bigger retentions.

The retrocessional markets that, in particular, are due for tougher conditions for clients are marine

and energy, medical expenses, and accident and health, he said.

Another underwriter who points out that a tightening in the reinsurance sector will spread to other areas is Lloyd's liability underwriter Reg Brown.

"Reinsurers are getting tough. . . . The catastrophes of the last few years have encouraged the reinsurance market to have a serious look at their trading terms, and this will push the direct market," said Mr. Brown, who writes on Lloyd's syndicate 702, managed by Octavian Syndicate Management Ltd.

Mr. Brown, who is also president of the Chartered Insurance Institute, said he sees signs of underwriters taking a tougher line in the professional indemnity sector, in which he specializes.

He said that sector is seeing increasing court awards, and results from the medical profession's insurers and lawyers mutuals show that a lot of "bloodletting" is going on. As a result, risk managers should "budget for a rate rise" next year for their professional indemnity coverage.

In the marine sector, underwriters are still waiting for rates to lift off the bottom.

Neil Smith is director of committee support for the International Underwriting Assn., which now includes the Institute of London Underwriters and which represents companies doing marine business. Mr. Smith said his impression is that none of the IUA marine underwriters is overly optimistic.

"From a hull and cargo perspective, the view seems to be that, whilst there have been individual cases (of renewals with rate increases), much of the business was renewed on an 'as before' basis. The markets are not noticeably softer, but neither have they hardened to any degree," he said.

Mr. Smith noted that, as in other sectors of the market, some noticeable hardening of the reinsurance market will lead to direct underwriters focusing more closely on their retentions.

This is particularly evident, he said, among excess-of-loss underwriters, who have indicated that the latest round of renewals has been "slightly encouraging."

On the offshore energy side, Mr. Smith said renewals were seen as "a mixed bag." Renewals have seen both rate reductions and increases, but this is a sector where multiyear arrangements mean that, in many cases, underwriters do not have an opportunity to change terms on an annual basis, Mr. Smith pointed out. An exception is offshore construction, where a considerable fall in underwriting capacity means rates "have firmed up considerably."

Martin Reith is an underwriter for Lloyd's composite syndicate 861, managed by Brockbank Syndicate Management Ltd. He said marine, like property and casualty, "will turn because it must turn, (and) everybody knows that."

He said, however, that this "is going to take a little bit of time."

Aviation is one sector that, so far, remains a buyers' market.

According to Mr. Reith, the aviation sector "is still awash with capacity."

Mr. Reith said that while there is talk of the market hardening, there is not much evidence of this happening.

As in other sectors, underwriters have gotten tougher on poor-performing accounts, but those with no losses are still getting reductions, he said. **BI**

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Opinions

The sky is not falling

IT'S A MATTER OF PERSPECTIVE, just like determining whether the proverbial glass is half-empty or half-full.

As year-end renewals are completed, the rumblings of firmer pricing in the market have grown to a roar. Sellers generally are reporting signs of firmer pricing for property/casualty insurance and reinsurance during recently completed renewals. To hear them tell it, nearly every line of business is susceptible to higher pricing.

When one listens to buyers and intermediaries, however, it quickly becomes apparent that there is little evidence of any broad hardening by line of business. Instead, underwriters are simply correcting pricing on selected accounts with lousy loss experience. There's plenty of that happening, but that's as it should be. That's called proper underwriting, not a market hardening.

It's a reflection of how far professional standards have sunk in recent years that an emphasis on underwriting discipline by some companies is heralded as a dramatic change in the market.

The reality of the market situation at year end is that rates may not be softening to the extent they have in recent years. The fact that pricing is flat, or only declining by the single digits, is a huge change from the rate slashing and steals that buyers were seeing in the competitive market of recent years. But underwriters putting the brakes on declines is far different from a drastic rise in prices.

Furthermore, it remains to be seen how long this alleged "firming" will last. As some market observers have suggested, it is entirely possible that efforts by some underwriters to keep rates from falling was an attempt to hedge any potential exposure to catastrophic Y2K losses.

Dialogue better late than never

THE OCCUPATIONAL Safety and Health Administration should know that putting the cart before the horse can constitute a serious workplace hazard.

Yet that's just what OSHA did when it issued an unpublicized "interpretation" concerning employers' responsibility for the workplace safety of telecommuting employees without more consultation with the people involved—employers and employees. The interpretation said that employers would be held liable for injuries that occur in home workplaces, raising the specter of employers needing to make spot safety checks of home offices or face the possibility of fines and lawsuits. The logistical nightmare of such obligations boggles the imagination.

We're glad that Secretary of Labor Alexis Herman wasted little time—amid intense employer criticism—in withdrawing the letter containing the recommendation, calling for a national dialogue on the issue.

Having said that, it would have been far better had dialogue been initiated before the interpretation was issued. Telecommuting has been around for some time, and the fact that OSHA took more than two years after receiving an inquiry about telecommuting to issue its interpretation of how current law applies to at-home workers shows it had ample opportunity to seek input on the issue.

It's clear that an ever-increasing number of employees want the flexibility of working from home, both in terms of balancing work and family and of avoiding congested highways. After all, which presents the greater risk—rush-hour commuting on congested highways or the possibility of tripping over the family cat or a stray Beanie Baby?

It's also clear that employers do have some responsibility for the well-being of their at-home workforce. Exactly how far that responsibility extends is the central question Secretary Herman's promised national dialogue should address. Ancillary issues include what constitutes a "workplace" in a private home, how individual privacy rights balance against employer responsibilities, and how, in some cases, civil liberties matters will be resolved.



Now that the millennium bug has resulted in few, if any, major commercial losses, underwriters may feel less pressure to abandon the soft pricing strategy of recent years.

This is also likely as the main factors that have driven competition in recent months have not disappeared. Those include excess capital in the market, new sources of competition from banks and e-commerce ventures, and alternative risk financing options.

Buyers should continue to expect lower pricing if their risks warrant it and look beyond the market hardening hype that is so prevalent today.

Another question that needs to be answered is whether the withdrawal of the interpretation letter signals the withdrawal of the underlying interpretation of employer responsibilities as well. The Labor Department, already smarting from the fallout from its original faux pas, can ill afford to be coy.

After all, the issue isn't going to go away and is likely to become even more urgent. As highways grow more congested and technological advances enable employees to do more work at home, telecommuting is certain to increase. So let the dialogue begin, and the sooner the better. The more voices that are heard, the better the odds that a policy that best reflects the legitimate needs and interests of all parties involved will emerge.

BI founder named top 100 journalist

G.D. Crain Jr., the founder of *Business Insurance* and its parent company, Crain Communications Inc., was named by TJFR Group as one of the 20th century's most important business journalists.

"The story of the nation's business journalists for the past 100 years is also the tale of the country's business and economic history in this century," Dean Rotbart, executive editor of TJFR Group, said in a news release.

The late Mr. Crain was one of 100 people chosen as Business News Luminaries. Others included the current and former managing editors of *Fortune*, John Huey and Marshall Loeb; the late Malcolm Forbes; the late Bernard Kilgore of *The Wall Street Journal*; the late New York Times columnist Philip H. Dougherty; authors James B. Stewart and Ken Auletta; and Time Inc.'s Norman Pearlstine.

What is now known as Crain Communications was started in Louisville, Ky., in 1916 by Mr. Crain, who continued to conduct its affairs until his death in 1973. *Business Insurance* was launched by the company in 1967.



G.D. Crain Jr.

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2010

A RISK ODYSSEY

Bill Jowett sat back in his seat as his train pulled out of Philadelphia and began to gather speed across the snowy countryside. In 45 minutes he would be in New York and his opportunity for quiet reflection would be gone.



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When the New York Chapter of RIMS had asked him to deliver the keynote speech at its annual dinner, he'd had little difficulty suggesting a theme. "How about 'The Difference a Decade Makes - Risk Management 2000 to 2010.'" he'd said.

Suggesting the theme was easy. The hard part was to shoehorn the experience of a decade into thirty minutes. Ten years ago, he was the risk manager at Garamond Corporation, a middle ranking confectionary manufacturer based in Kansas with 4,000 employees and revenues of \$500 million. As risk manager he reported to Garamond's treasurer.

Ten years on, the world looked very different. Bill was now the chief risk officer of Summit Brands, reporting to the CEO. Summit Brands was the global food and drink conglomerate that had bought Garamond after it stumbled badly in 2001 as a result of appalling publicity from the celebrated cocoa fermentation scandal.

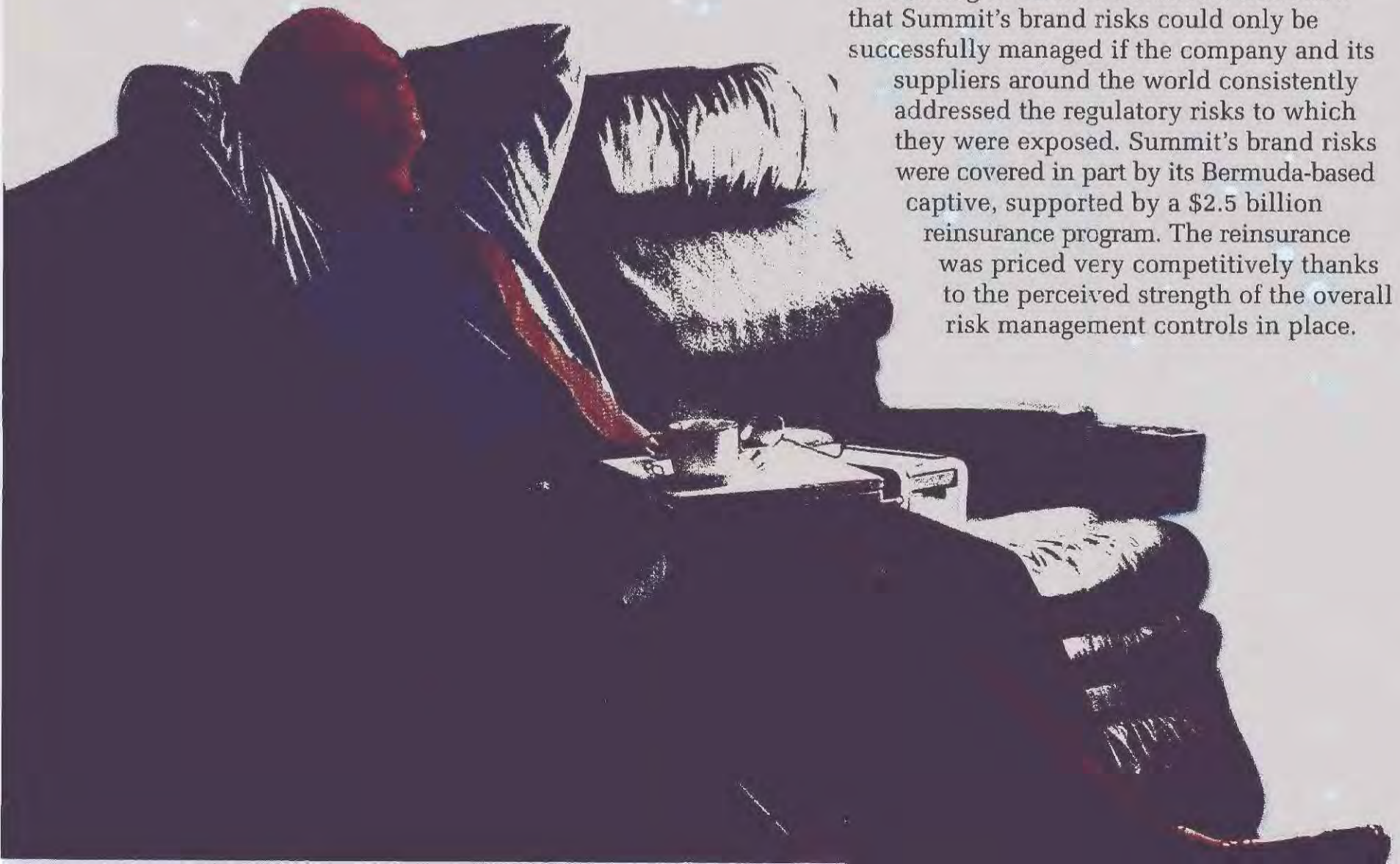
Bill smiled ruefully at the thought that the brand risks that had knocked 40% off Garamond's market value in less than a month were now routinely quantified and managed by CROs. At Summit, such risks were factored into a comprehensive brand analysis model that weighed the opportunities and risks presented by different operational and

marketing strategies. The residual risk that Summit considered worth taking could - if the company wished - be insured or reinsured.

But at the beginning of the decade, brand risks hadn't been Bill's problem. They were regarded as mostly unquantifiable - and therefore largely untransferable. His job in those days was to handle what were known as "hazard" risks. He recalled a RIMS survey in which he'd participated in the summer of 1998. As Bill remembered it, the survey listed the three risks that most preoccupied risk managers back then. They were workers' compensation, general liability and product liability. (Shortly after this survey, several types of financial risk, such as foreign exchange and interest rate fluctuations, began to be integrated into hazard risk programs.)

Twelve years later, the risks Bill and others had identified in 1998 were still important, but few CROs would call them the most critical risks they faced. Today, Bill would unhesitatingly identify the risks most threatening to the assets that drove Summit Brands' market value. These were brand risk, human capital risk and regulatory risk relating to food ingredients and processing standards.

The benefits of Summit's comprehensive approach to risk management were daily apparent. For example, regulatory standards relating to food safety became ever more demanding as science advanced. Bill knew that Summit's brand risks could only be successfully managed if the company and its suppliers around the world consistently addressed the regulatory risks to which they were exposed. Summit's brand risks were covered in part by its Bermuda-based captive, supported by a \$2.5 billion reinsurance program. The reinsurance was priced very competitively thanks to the perceived strength of the overall risk management controls in place.



Much of Bill's time was spent addressing the human capital risks that threatened Summit's ability to compete in global labor markets and realize the full potential of its people. Many of these risks, such as those relating to the attraction and retention of skilled employees, were untransferable. But they could certainly be mitigated. By using new statistical modeling techniques to assess the drivers of employee turnover, Summit had developed employee retention strategies that substantially reduced its vulnerability to volatile labor markets.

By Bill's calculation, risk mitigation strategies relating to Summit's human capital alone had protected \$8 billion, or 15%, of the company's average market value in 2009. Everyone in the company had acquired a personal interest in risk management with the introduction in 2006 of risk weighting into Summit's IPC (or individual performance-based compensation) formula. Techniques of this kind measurably enhanced and stabilized Summit's earnings and reduced its cost of capital.

of GM ingredients in its products (although it continued to affirm its belief in their eco-friendliness.) Second, it joined with other food manufacturers to lobby governments to address GM foods in the Millennium Round of trade talks, then entering their fourth year.

The strategy worked. In 2005, the Millennium Round produced an international agreement on trade in GM foods that was supported by an exhaustive battery of scientific tests. This took the heat out of the public protests. Five years later, all the major confectionary manufacturers were routinely using GM cocoa in their products. Summit's leadership in this area of risk management ultimately paid handsome dividends. The company proved a major beneficiary of the Millennium Round, because the DNA of its cocoa plants offered higher yields than that of its competitors and was more resistant to disease.

To Bill, there were lessons to be drawn from all this. Summit had benefited from a more

Advances in risk quantification were only part of the story of the past decade

Advances in risk quantification were only part of the story of the past decade. Equally important had been the organizational changes that Summit and other companies had made so as to manage their risks more effectively. Ten years ago, relations between Bill and his company's head of government affairs had been friendly but remote. Today, Summit's government affairs director was an important member of the company's risk committee, chaired by the CEO.

The change was precipitated by a consumer boycott of Summit's confectionary division over its use of genetically modified, or GM, cocoa in the spring of 2003. Summit's well-publicized plans to challenge the Swiss at the premium end of the confectionary market were dashed and the company's best-selling Summit bar was hastily renamed. (The press coined the term "brand contagion" for the risk that this name-change conspicuously failed to cure.)

After this fiasco, the board of Summit developed a two pronged strategy to insulate it from such problems in the future. First, on Bill's advice, it proclaimed that it was "listening to its customers" and would suspend the use

comprehensive approach to risk management than was widely practiced in the 1990s. Many risk managers back then had recognized that such an approach could provide significant competitive advantage. But, at that time, many of today's sophisticated risk quantification and risk transfer techniques were not widely available. And risk managers themselves had not yet achieved the pivotal role that many of them now enjoyed, either as chief risk officers or as key members of their companies' risk committees. In those days, most risk managers' responsibilities were largely limited to those risks that could - at least in part - be transferred through insurance.

Suddenly, Bill had a thought. He swiped his card through the reader in the armrest of his seat, flipped open his database screen and called up search. "Risk and insurance," he said. Twenty-four thousand entries, give or take. He clicked on the first. To his surprise, an old black and white image of a keen-eyed Victorian gentleman emerged on the screen. The caption read: "The problem is not insurance, it is risk.' *Henry W. Marsh.*"

Surplus lines seeing signs of firmer pricing ahead

By **DAVE LENCKUS**
and **MICHAEL BRADFORD**

The market turn that some insurer and broker executives had said may never come has indeed arrived, and surplus lines executives predict the market will continue hardening throughout the year.

For the time being, however, the brunt of the turn will hit only select lines of coverage or insurance buyers with particularly poor loss experience, surplus lines executives say. Some of the hardest hit risks are automobile, nursing homes and property catastrophe.

While other risks may not face sharp rate increases for 2000, few will be able to negotiate the rate cuts to which they have become accustomed, market executives say.

Another sure sign of a constricting market is that risks the admitted market had wooed away long ago again are approaching wholesalers and non-admitted insurers for coverage, surplus lines market executives reported.

"What we're seeing come back to us are the traditional excess and surplus lines," said Richard W.

Quehl, president of Columbia Casualty Co. and CNA E&S in Chicago. That includes accounts considered "tougher products, residential-

type business and some construction" risks, he explained. Examples of "tough product" risks include component parts manufactured for the automobile industry and rides for amusement

parks.

Executives for surplus lines companies, which for years have had to squeeze profits from a premium volume base pinched by soft market conditions, expressed optimism

about their prospects in the year ahead.

"The days of negotiating downward—though it can still happen on an occasional account—are not likely to continue," said Peter Coghlan, executive vp of Boston-based wholesaler First State Management Group Inc.

While CNA's Mr. Quehl asserted there still is room for significant additional tightening, he said he is encouraged by the rate hikes the surplus market has been able to impose. "I'm feeling the most optimistic I have in five or six years."

Paul Springman, the Richmond, Va.-based president of Markel Corp. N.A., said he has "never been more optimistic" in the last 10 years than

he is heading into 2000 because of the amount of recent new business.

David R. Hartoch, chairman and chief executive officer of Aon Corp. subsidiary Swett & Crawford Group of Woodland Hills, Calif., predicted a market largely characterized by stable rates. He said insurers have abandoned their rate-slashing habits. Based on his observations of the market's behavior, he predicted that it will harden gradually, not in a severe turnabout reminiscent of the mid-1980s market constriction.

Kevin Brooks, chairman and president of Stamford, Conn.-based General Star Indemnity Co., a subsidiary of Berkshire Hathaway Inc., agreed that a drastic market hardening is unlikely.

At Boston-based Lexington Insurance Co., no specific rate increases have been mandated across the board, said Kevin Kelly, president, chairman and CEO of the American International Group Inc. subsidiary.

The insurer, though, is imposing 25% or higher rate hikes on many casualty accounts with poor loss experience, Mr. Kelly said.

Risk managers and brokers as well as underwriters seem "prepared to accept the idea of a tighter market," Mr. Brooks observed. "I think 2000 will be the first year in a long time when you won't have the phone slammed down on you if you suggest a modest rate increase."

Unlike in past years, insurers no longer have the reinsurance market's support for market-share underwriting practices. Some property reinsurers are withdrawing from the market, and the rest are tightening conditions and raising rates. Although casualty reinsurers are not pulling out, they are tightening conditions and raising rates, wholesaler executives say.

"The folks in charge of making underwriting decisions have expressed great concern about their reinsurance renewals as of Jan. 1 and what effect that will have," said Brian Duffy, executive vp in charge of property/casualty business at San Francisco-based wholesaler Tri-City Brokerage Inc., a subsidiary of ULLICO Inc.

Reinsurers are balking at current prices and are raising prices or getting out, Mr. Duffy said. "We have been warned it's not going well."

The convergence of events that is driving the hardening market perhaps is best illustrated by the workers compensation situation.

Admitted insurers that had been writing and then ceding much of the coverage are losing some of their reinsurance support as losses mount. As insurers are forced to retain a larger percentage of workers comp business—a risk that is increasingly unprofitable—they either are raising rates or walking away.

Nationally, workers comp rates are up 10% to 15%, Tri-City's Mr. Duffy said, with some facing hikes as steep as 50%.

A few employers willing to take a large self-insured retention have found coverage for excess layers in the surplus lines market.

Transportation risks of all kinds also will be feeling tighter market conditions because of insurer withdrawals.

"The fleet auto business is really under duress," said Marcus Payne, president and chief operating officer of Dallas-based wholesaler Crump Insurance Services Inc., a subsidiary of Marsh & McLennan Cos. Inc.

Trucking risks face rate hikes ranging from 25% to as much as

See **Surplus** on page 14



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Surplus

Continued from page 12

2000, Lexington's Mr. Kelly said. Commercial auto accounts face 10% to 25% increases, market executives estimated.

Capacity for those risks also is "tough" to arrange, Mr. Payne noted.

Poor auto risks that in the past still could negotiate lower rates are finding that underwriters now have a different perspective on such risks, said Tri-City's Mr. Duffy. Underwriters are walking away from the business rather than agreeing to lower rates, he said.

Nursing homes are having an equally tough time placing their general and professional liability coverages, according to market executives.

Mounting losses and dwindling capacity have led to "a lot more responsible underwriting" and "substantial rate increases," noted Swett & Crawford's Mr. Hartoch.

Mr. Springman said Markel has observed "a wholesale change" in the nursing home marketplace. "We've seen numerous carriers walk away from or put such stringent pricing guidelines on that business that they have taken themselves out" of that line.

Markets that will write the business are doubling and sometimes tripling their rates for professional liability and premises liability coverages, Mr. Springman said.

First State's Mr. Coughlan agreed that professional liability rates are soaring for nursing homes, but he estimated that the increases range from 20% to 50%.

Increases are hitting hardest in nursing homes in Florida and Texas, where rates have been "very competitive for a long time," Mr. Coughlan noted. In addition, plaintiffs attorneys in both states have been particularly active against nursing homes, he said.

Other professional liability risks did not face such tightened market conditions during renewals, even though some markets recently have withdrawn from that line of business, wholesaler executives reported.

Rates are "just edging up," Mr. Coughlan said. Errors and omissions coverage for real estate agents increased 10% on renewal, but rates for other professionals generally were flat, he said.

That is happening because there is "more capacity in that arena than ever before," explained Tom Ciardello, executive vp in charge of financial services business at Tri-City. Many property/casualty insurers, flush with capacity, have entered the market and have remained even as others have withdrawn, he explained.

"They've yet to get swamped by losses," Tri-City's Mr. Duffy noted.

Mr. Duffy said that for the remainder of 2000 he does not expect the professional liability market to harden significantly, though rates will rise 10% to 15% "pretty much across the board."

Director and officers liability is another line that began firming during the fourth quarter and is expected to continue hardening throughout the year.

Crump's Mr. Payne estimated that rate hikes averaged 15%.

The Year 2000 computer bug exposure was a particular concern to underwriters. Companies that underwriters determined were exposed to the problem had difficulty finding the coverage, and it was pricey, Mr. Payne noted.

Tri-City's Mr. Ciardello estimated that D&O rate hikes have ranged from 10% to 20% since midyear 1999. Technology companies, such as computer software manufacturers and Internet start-up companies, have been hardest hit by the rate hikes, he said.

Other casualty risks that faced tough January renewals included:

- General and umbrella liability coverage for contractors susceptible to construction defect claims. In New York and Illinois, markets for those risks are withdrawing and rates are soaring, market executives say.

Some market executives disagreed over how tough the California contractors market remains.

For contractors located outside of those areas that have good experience, "prices are really de-

pressed" and the standard market continues to compete for the business, Tri-City's Mr. Duffy said.

- Employer medical stop-loss policyholders, which faced rate hikes of 25% to 30%, according to Lexington's Mr. Kelly.

- Amusement park operators and ride manufacturers. After a rash of accidents at amusement parks last summer, liability rates are rising on a risk-by-risk basis, Columbia Casualty's Mr. Quehl said.

Risk managers also face rising catastrophe property rates, and some face higher primary property rates, according to market executives. The major factors are the withdrawal of facultative reinsurers and the heavy losses caused by Hurricanes Floyd and Irene, according to market executives.

Florida windstorm risks have

been hit with rate hikes ranging from 5% to 30%, market executives reported.

For Florida risks located in Dade, Monroe, Broward and West Palm Beach counties, higher rates are only part of the problem, noted Ben Beazley, a senior vp with Swett & Crawford.

Those risks face "a tremendous lack in availability of coverage," he said. That problem could drift north into the Carolinas as well, he said.

California earthquake risks fared a little better at renewal, but rates for those risks are rising as well.

Given that the last major California earthquake was the 1994 Northridge temblor, earthquake rate hikes are more modest, Mr. Beazley said. Rates for larger accounts are flat to 5% higher, he

said. Rates for midsize to small accounts have jumped 15% to 25%, because "underwriters are less concerned about losing them" to competitors, he said.

Wholesaler executives say some risks have opted for higher deductibles in exchange for flat or far more modest rate hikes.

Meanwhile, insurers are sticking to their earthquake loss modeling and are limiting their aggregate writings to the ranges the modeling suggests, noted Stephan Denaro, vp-property for Crump. The insurers' intent was to clean up their books for their reinsurance renewals, he explained.

Another headache that risk managers and wholesalers face is that property catastrophe insurers on both coasts are slicing in half their participation in layers to \$2.5 million, Mr. Denaro said. **B**



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Buyers

Continued from page 3
more aggressive role" in managing insurance transactions, she said.

At the same time, "everyone is getting tougher with terms and conditions, especially for companies like us, because we are a market leader" that often introduces new programs, Ms. Ravanis said.

But while industry consolidation may be making pricing firmer and negotiations tougher, it has had little impact on availability, Aetna's Mr. Molloy pointed out.

"I don't see any problems with capacity in the U.S. or worldwide," he said, adding that Aetna is continually seeking higher limits because of its recent mergers with U.S. Healthcare, NYLCare and Prudential HealthCare.

While risk managers generally refer to the overall property/casualty market as flat, those with workers compensation exposures are starting to sing a different tune.

One factor in changes in the workers comp market in 1999 was the unraveling of the Unicover Managers Inc. reinsurance pool. Underwriting losses led reinsurers to withdraw from the Lisle, Ill.-based Unicover pool, starting in January 1999. Since then, workers comp reinsurance capacity has eroded, rates and terms have firmed, lawsuits have been filed, and the credit ratings of involved companies have been put under review (BI, Dec. 20, 1999).

"The Unicover matter may not have hardened the market by itself, but it was the rationale given by insurers to underwrite their business," said Sunstone's Ms. Rich.

Sunstone "went from a guaranteed-cost program to a large-deductible program, because the underwriters were almost universally tripling our loss pick," said Ms. Rich, referring to total developed losses.

While the hotelier's 1999 workers comp losses totaled \$1.5 million, insurers wanted to charge as much as \$4.5 million for a guaranteed-cost program, she said.

Although 40% of Sunstone's payroll is in California, Ms. Rich said the Unicover debacle might have been more to blame than the tightening of the state's comp market.

Sticker shock has been hitting many California employers with fully insured workers comp programs since Insurance Commissioner Chuck Quackenbush in November recommended an average increase of 18.4% for 2000.

That recommendation was made due to concerns about the financial stability of many insurers that for years may have been underpricing to gain market share.

Despite the California rate increase, Ms. Rich said she has heard through the grapevine that many multiyear workers comp contracts nationally are being canceled by insurers unable to find adequate reinsurance.

Boston-based FMR also decided to convert a guaranteed-cost program to a large-deductible program at one of its subsidiaries after underwriters sought a 40% rate increase, according to Ms. Ravanis.

That program is "still out to market," so she could not say what the company ultimately will pay for the coverage.

Multiyear deals were harder to obtain this renewal season than in

past years, risk managers report.

While Aetna was previously able to secure multiyear policies, "now insurers are reluctant to do that," Mr. Molloy said.

Fortunately, "we still have a couple of years on some of our property policies," he said.

FMR also negotiated a long-term deal in 1998 with Allendale Mutual Insurance Co., now part of Factory Mutual Insurance Co., for its property risks, because "we had envisioned a little bit of hardening in the market," explained Ms. Ravanis. "Our strategy has been to go out and get multiyear deals whenever possible."

While FMR's property policy doesn't renew until 2003, obtaining a multiyear deal for its other exposures was a lot harder this time around, she said.

"We got a three-year deal (for casualty) with rates that were competitive with what we had, though it did take a lot of negotiation to get to that point," she said.

Gary A. Baxter, director of insurance for Tacoma, Wash.-based Weyerhaeuser Co., said he is glad to be in the middle of a three-year policy for several coverages, including general liability and directors and officers and marine liabilities.

"We don't historically do three-year deals, but we did because we thought the market had bottomed out and would be heading up," Mr. Baxter said.

And, he said, "I'm glad we did," because he has heard from several industry contacts that prices clearly are tightening.

"I think, if you have a good book of experience, you may renew 'as is,' maybe," Mr. Baxter said. "But if you have anything other than that, you are going to see some tightening. Not a whole lot, but some."

Meanwhile, some risk managers who self-insure many of their coverages say they have not experienced increases for their excess coverages and captive reinsurance.

"There were no significant changes" in placing the catastrophic excess coverage for Tricon Global Restaurants Inc.'s fronted captive program, reported Chris Mandel, director of risk management for the company in Louisville, Ky.

It was neither a bad nor a good year, with rates staying "relatively flat" for renewing GL and auto liability coverage above a \$750,000 self-insured retention, said Patrick McDonald, vp for Kelly-Moore Paint Co. Inc. in San Carlos, Calif.

Perhaps some price stiffening lies ahead for excess coverage, some risk managers speculated.

"We have been told that the excess and reinsurers are looking for a little more next year," said Thomas R. Lowe, assistant vp-risk management for Atlas Van Lines in Evansville, Ind. Mr. Lowe renews much of his excess coverage at midyear.

At year end, though, he did renew a multiperil policy, which he said came in flat. At the same time, his D&O coverage increased by 3.5%.

Other risk managers reported slight increases for certain lines of coverage.

For example, commercial auto liability premiums for coverage in the United Kingdom rose 5% for the Jan. 1 renewal, said William Sweeney, director of risk management for The Marmon Group Inc., an international manufacturing and services group in Chicago. Most of his policies that renew in January are on a multiyear basis and did not renew this year, Mr. Sweeney said.

Another risk manager said he
See Buyers on next page



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Buyers

Continued from previous page
 saw modest increases for a recent auto liability renewal, even though his losses were in check. Other coverage prices remained flat at renewal. The price reductions of recent years were not available, said Phillip L. Moore, risk manager for McCoy's Building Supply Centers in San Marcos, Texas.

Bell Atlantic triggered a price-increase clause in a two-year policy, according to Ms. Small. As a result, the company's property insurers came looking for a modest increase, she said.

"There have been many carriers that have come to us and said, 'We really lost a lot of money.'" Ms. Small recounted. She quoted the

insurers as saying, "The premiums have been too thin too long, and they are not commensurate with the exposure. We need you to partner with us to get back to profitability. Otherwise, we are not going to be here for you when the time comes."

Ms. Small declined to elaborate on what triggered the clause. Regardless of that situation, she believes insurers are looking for increases and are not willing to offer deals similar to those of past renewal seasons.

And risk managers who report recent renewal reductions say the price cuts are small.

"The dollars were very close," when we renewed property casualty coverages in November, said Jeffrey W. Pettegrew, vp-risk management and insurance for Walnut Creek, Calif.-based West-

ern Staff Services. "I think we saw some very modest reductions."

But at least one risk manager predicts conditions could soften in the casualty market this spring now that the calendar has safely turned over to 2000.

"Everyone was sort of holding their breath on Y2K with respect to potential problems that might have occurred," said William Kelly, managing director in charge of risk management at J.P. Morgan & Co. Inc. in New York.

"I would have to think that the insurance industry is relieved. I think a lot of the hardening talk was with respect to potential Y2K disasters. Now that we're past it,

some of the pressure for rate maintenance may be abated," Mr. Kelly said. "We'll see what happens when we renew our coverages this spring." **BI**

Brokers

Continued from page 3

"The attitude and conditions are there that our pricing is not going to be lasting downward like it was before," said Mr. Braniff.

Kevir Smith, director of brokerage operations for Palmer & Cay Inc. in Savannah, Ga., said that, on low- and average-loss accounts, he is seeing increases that fluctuate between 10% to 15%. For accounts with high loss ratios, the increases, though variable, may be significantly larger.

"We are seeing more carriers asking for increases and more of those purchased by the insured" now, in comparison with six to nine months ago, Mr. Smith said.

Bernard H. Mizel, chairman and

chief executive officer of USI Insurance Services Corp. in San Francisco, said that "7% and 10% increases on middle-market-sized commercial business are reflected in most insurer portfolios with whom we have discussions."

Midmarket accounts—those between \$25,000 and \$500,000 in annual premium—are receiving higher rates, because it's an "extremely competitive" market for insurers and "it's hurt their loss ratios," Mr. Mizel said.

He noted, however, that "we're not getting a lot of resistance in setting higher rates" from buyers. "We're telling them that the market is in a state of flux and that it's not a material increase." Mr. Mizel said USI is also stressing that it is more important to maintain a solid relationship with a financially strong insurer than to try to avoid a small rate hike.

"As we take a look at the marketplace, we see the financial weakness of insurance companies," Mr. Mizel said. "It's crazy to consider moving an account right now. (Buyers) are better off staying with a financially strong company."

Mr. Mizel admitted, however, that challenging this to clients can be challenging.

"We have trained risk managers to expect a very competitive environment every year," he said. This is now a big issue with clients, because they "have become conditioned to expect lower rates every year. That requires a re-conditioning to think that nothing is wrong with accepting a modest increase if they have a stable program."

Gary Hambricht, executive vp-commercial insurance for Lockton Cos. in Prairie Village, Kan., noted that, "even though some customers are getting increases, and to some people that sounds dramatic, prices may still be less than they were three years ago."

"The decrease in prices over the last three years was very dramatic. . . . Although (they) may be up slightly or flat from last anniversary, (they're) probably still down from three years ago," Mr. Hambricht said.

But other brokers have seen a different kind of renewal period.

Andrew L. Rogal, chairman and CEO of Hilb, Rogal & Hamilton Co. in Glen Allen, Va., said that he is not seeing any major change to the market environment.

"I think, for the first time in a long time, there seems to be a will among major property/casualty companies to try to get some stability in the market," said Mr. Rogal. But, he said, this notion so far is entirely anecdotal and has not yet been reflected in transactions with clients. "We don't see it here yet in the pricing we're looking at."

"On any clean commercial mid-market risk, you can still get a price decrease," Mr. Rogal said. The marketplace will still support about a 10% decrease, he said.

Mr. Rogal has seen evidence of firming for midmarket workers compensation risks but never an increase of more than 5%.

Dan Donovan, executive vp of Atlanta-based Hobbs Group L.L.C., is seeing a similar situation with regard to property policies.

The overall property market remains very competitive, Mr. Donovan said. Although there are some signs that rates will increase, most increases are limited accounts that have had loss experiences or that have been inad-

See **Brokers** on page 18



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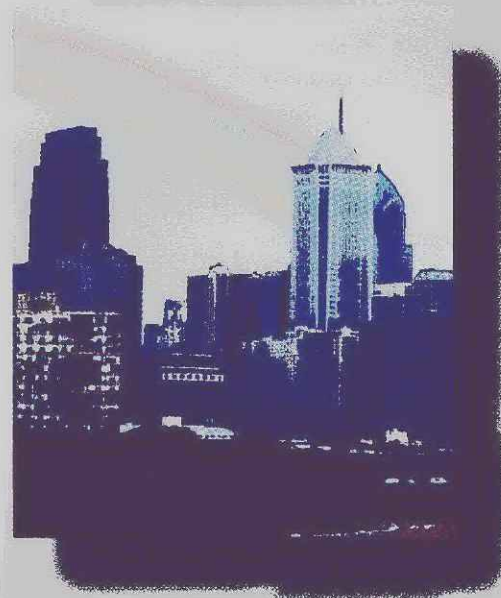
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Brokers

Continued from page 16

quately priced in the past, he said. For "a quality (property) account that has been profitable. I'm not forecasting any increase in 2000," Mr. Donovan said.

Although there is disagreement about the prevalence of rate increases, brokers do concur that insurers are being more sensible and disciplined in their underwriting today.

As a result, many brokers report, it is tougher to obtain multiyear deals that have locked-in rates.

"Underwriters are more hesitant to lock in a rate today than in the past, when rates were going down," said Bill Caplice, managing director of Aon Risk Services Inc. in Chicago.

"With the right client, however, (multiyear deals) are still available," he said. That sort of client is one that is a consistent buyer, is regarded as stable by the underwriter, has a good risk management program and has good loss experience, Mr. Caplice explained.

Gallagher's Mr. Braniff said that, in his experience, some insurers are still interested in writing multiyear deals, but underwriters are more restrictive and won't renew longer-term policies for accounts with poor loss histories.

Willis' Ms. Douglass agreed that insurers are more reluctant to entertain multiyear deals at the moment.

"We're seeing that underwriters are once again starting to read the policy," she said. As a result, policyholders should determine which "bells and whistles" they want to keep and which they are willing to give up when they sit down with their insurers.

In addition to concerns over a dramatic market correction, brokers report that insurer stability remains a chief consideration for buyers.

Reliance Group Holdings Inc. is the latest large insurer to grapple with poor financial performance. The New York-based insurer recently hired two investment firms to review "strategic and financial options" that analysts say could include selling all or part of the company (BI, Nov. 22, 1999).

"There's going to be further consolidation among insurers, because a lot of carriers have no economic reason to continue to exist," said USI's Mr. Mizel, who was not referring to any specific insurer. "That will cause disruption to buyers and to the distribution system," he predicted.

Lockton's Mr. Hambright forecasts that the issue of insurer stability will "be further exacerbated" with the recent enactment of the federal Gramm-Leach-Bliley Act, which allows for the integration of financial services companies.

Merger and acquisition activity will increase in the years to come as a result of the new law, Mr. Hambright said. "Insurance companies will not be buying the banks and financial services companies; it will be the other way around."

Gallagher's Mr. Braniff said that, in the upcoming year, one of the biggest challenges to risk managers likely will be the examination and, if need be, the re-engineering of their risk management programs.

Risk managers, enjoying the soft market conditions, have transferred larger portions of risk to their insurers than they normally would in a firmer market, he said.

"Now, if they are adversely impacted by a pricing increase, they are going to have to consider re-engineering their risk management programs to determine how they're going to manage their risks—from a retention vs. transfer-of-risk method," Mr. Braniff said.

Other considerations insurance buyers will be facing in the coming years are the risks associated with evolving e-commerce business.

"It's a matter of tracking the realities of the society that we live in," said HRH's Mr. Rogal. He said the development of privacy laws and the potential for business interruption in e-commerce are emerging concerns for the risk management community.

"There's a tremendous push for new protections that guard the right to privacy. Companies are going to violate those," Mr. Rogal said. "I think that's risk—and (an) insurable risk." **BI**

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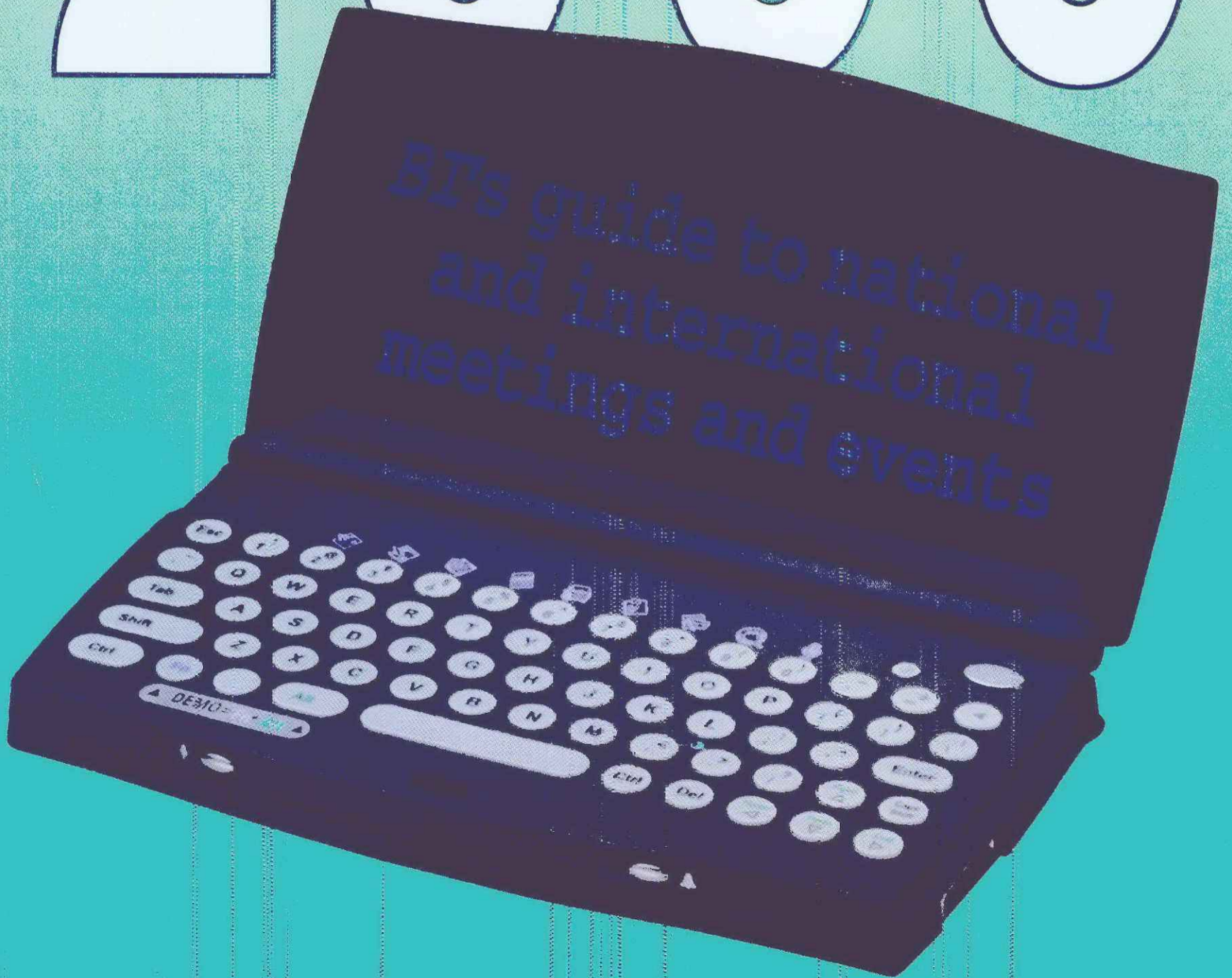


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January

JAN. 11-12. Property/Casualty Insurance Joint Industry Forum in New York, sponsored by nine insurance industry associations; \$695. Diane Portantieri, Insurance Information Institute, 110 William St., New York, N.Y. 10038; 212-669-9203.

February

FEB. 6-9. Commercial Insurance Legislative Summit in Washington, sponsored by the Council of Insurance Agents & Brokers, the American Insurance Assn. and the Reinsurance Assn. of America. Paula Karchner, CIAB, 701 Pennsylvania Ave. N.W., Suite 750, Washington, D.C. 20004-2608; 202-783-4400.

FEB. 13-16. American Bankers Assn. Risk Management Conference in Scottsdale, Ariz., sponsored by ABA; \$695 for members and \$875 for non-members. Registration Center, American Bankers Assn., P.O. Box 79064, Baltimore, Md. 21279-0064; 800-338-0626.

March

MARCH 1-2. Workers Compensation Research Institute Annual Issues & Research Conference in Cambridge, Mass., sponsored by the WCRI; \$475 for

members; \$595 for non-members before Jan. 28. WCRI, 955 Massachusetts Ave., Cambridge, Mass. 02139; 617-661-9274.

MARCH 11-15. National Assn. of Insurance Commissioners Spring Meeting in Chicago, sponsored by the NAIC; free for regulators, \$450 for others. Miriam Hennosy, NAIC, 120 W. 12th St., Kansas City, Mo. 64105; 816-889-4400.

MARCH 19-22. International Alternative Insurance Symposium in Tucson, Ariz., sponsored by the Captive Insurance Cos. Assn. and the National Risk Retention Assn.; \$740 for members and \$945 for non-members. IAIS, 4248 Park Glen Road, Minneapolis, Minn. 55416; 612-928-4665.

April

APRIL 16-19. National Managed Health Care Congress in Atlanta, sponsored by the NMHCC; \$1,595 before March 27 and \$1,795 after. NMHCC, P.O. Box 102713, Atlanta, Ga. 30368-2713; 888-882-2500.

APRIL 30-MAY 5. The Risk & Insurance Management Society Inc.'s 38th Annual Conference & Exhibition in San Francisco, sponsored by RIMS; \$745 for members and \$1,045 for non-members. RIMS, 655

Third Ave., New York, N.Y. 10017; 800-713-7467; fax: 212-986-9716; www.rims.org.

May

MAY 7-11. American Assn. of Managing General Agents Meeting in Orlando, Fla., sponsored by AAMGA; \$525 for members and \$675 for associate members. AAMGA, 9140 Ward Parkway, Kansas City, Mo. 64114; 816-444-3500.

MAY 21-24. ACORD Technology Conference in Lake Buena Vista, Fla., sponsored by ACORD; \$415 for members and \$485 for non-members. ACORD, 1 Blue Hill Plaza, Pearl River, N.Y. 10965; 914-620-1700 ext. 506.

June

JUNE 4-7. American Assn. of Health Plans Conference in Orlando, Fla., sponsored by AAHP; \$950 for members and \$1,150 for non-members. AAHP, 1129 20th St. N.W., Suite 600, Washington, D.C. 20036; 877-291-2247.

JUNE 4-7. The Insurance Accounting & Systems Assn. Inc. Conference and Business Show in Washington, sponsored by the IASA; \$460 for members and \$920 for non-members. www.iasa.org; 919-489-0991.

JUNE 4-7. Public Risk Management Assn. Conference in Charlotte, N.C., sponsored by PRIMA; \$450 for members, \$575 for non-members in government, \$715 for corporate non-members. PRIMA, 1815 N. Fort Myer Drive, Suite 1020, Arlington, Va. 22209; 703-528-7966; www.primacentral.org.

JUNE 5-7. Assn. of Insurance & Risk Managers conference in Birmingham, England, sponsored by AIRMIC. AIRMIC, 6 Lloyd's Ave., London EC3N 3AX, England; 44-171-480-7610.

JUNE 10-14. National Assn. of Insurance Commissioners Summer Meeting in Orlando, Fla., sponsored by the NAIC; free for regulators, \$450 for others. Miriam Hennosy, NAIC, 120 W. 12th St., Kansas City, Mo. 64105; 816-889-4400.

JUNE 25-28. Insurance Marketing & Communications Assn. Annual Conference in Hilton Head, S.C., sponsored by IMCA; \$595 for members and \$695 for non-members. Bill Hadley, IMCA, 9710 N. 80th Place, Scottsdale, Ariz. 85258; 480-443-8860.

JUNE 25-28. 52nd Annual Society for Human Resource Management Conference & Exposition in Las Vegas, sponsored by SHRM; \$760 for members and \$960 for non-members. SHRM 2000, P.O. Box 79402, Baltimore, Md. 21279-0482; 800-283-7476.

September

SEPT. 4-8. Monte Carlo Rendez-Vous de Septembre in Monte Carlo, Monaco; Rendez-Vous de Septembre, Direction du Tourisme et des Congres, 2a Boulevard des Moulins, MC 98030 Monaco; 37-792-166-050.

SEPT. 9-13. National Assn. of Insurance Commissioners Fall Meeting in Dallas, sponsored by the NAIC; free for regulators, \$450 for others. Miriam Hennosy, NAIC, 120 W. 12th St., Kansas City, Mo. 64105; 816-889-4400.

SEPT. 10-13. International Union of Marine Insurance Conference in London, sponsored by IUMI. David Matcham or Rachel Turner, International Underwriting Assn., London Underwriting Centre, 3 Minster Court, Mincing Lane, London EC3R 7DD, England; 44-207-617-4444.

SEPT. 18-20. International Society of Certified Employee Benefits Specialists Conference in San Diego, sponsored by ISCEBS; \$650 for members and \$750 for CEBS graduate non-members. ISCEBS, P.O. Box 209, Brookfield, Wis. 53008-0209; 414-786-8771.

SEPT. 24-27. National Assn. of Mutual Insurance Cos. Annual Convention in Nashville, Tenn., sponsored by NAMIC. Larry Baile, NAMIC, P.O. Box 68700, Indianapolis, Ind. 46268; 317-875-5250.

SEPT. 30-OCT. 4. Insurance Leadership Forum in White Sulphur Springs, W.Va., sponsored by the Council of Insurance Agents & Brokers/Council of Insurance Co. Executives; contact CIAB for registration fee. Lori Baldauf, CIAB, 701 Pennsylvania Ave. N.W., Suite 750, Washington, D.C. 20004-2608; 202-783-4400.

October

OCT. 12-13. Corporate Benefits Conference in Atlanta, sponsored by the International Foundation of Employee Benefit Plans and the Council on Employee Benefits; \$540 for IFEBP/CEB members and \$640 for non-members. Registration Department, 888-334-3327.

OCT. 14-18. 25th Canadian Risk Management Con-

ference in Edmonton, Alberta, sponsored by the Canadian Risk & Insurance Management Society. Canadian RIMS, Suite 320, 1000 Center St. N., Calgary T2E 7W6; 403-277-7377.

OCT. 15-20. National Safety Council Annual Congress and Expo in Orlando, Fla., sponsored by the NSC. National Safety Council, www.nsc.org; 800-621-7619.

OCT. 16-18. Eighth Annual Business Insurance Workers Compensation and Disability Management Conference in Marina Del Rey, Calif., sponsored by *Business Insurance* and the International Business Forum. Cathy Fenn, International Business Forum, 100 Merrick Road, Suite 500, West Building, Rockville Centre, N.Y. 11570; 516-594-3000 ext. 21.

OCT. 22-25. National Assn. of Independent Insurers Annual Meeting in Orlando, Fla., sponsored by the NAII. NAII, 2600 River Road, Des Plaines, Ill. 60018-3286; 847-297-7800.

OCT. 23-27. Annual Reinsurance Meeting in Baden-Baden, Germany. Ukrika Fischer, AXA Colonia Konzern A.G., P.O. Box 10 26 41, D-50466 Cologne, Germany; 49-221-1483-2023; fax: 49-221-1483-2755.

OCT. 24-28. Self-Insurance Institute of America Inc.'s National Educational Conference and Expo in Anaheim, Calif., sponsored by the SIIA. P.O. Box 15466, Santa Ana, Calif. 92735; 800-851-7789.

OCT. 28-NOV. 1. Independent Insurance Agents of America Annual Confer-

ence in Orlando, Fla., sponsored by the IIAA; \$399 for agents and \$545 for others. IIAA, 127 S. Peyton St., Alexandria, Va. 22314; 800-221-7917.

November

NOV. 2-5. American Society for Healthcare Risk Management Conference in New Orleans, sponsored by ASHRM. Linda Damitz, 1 N. Franklin St., Chicago, Ill. 60606; 312-422-3986.

NOV. 8-10. Professional Liability Underwriting Society Conference in San Antonio, sponsored by PLUS. Professional Liability Underwriting Society, 4248 Park Glen Road, Minneapolis, Minn. 55416; 800-845-0778.

NOV. 10-15. National Business Coalition on Health Conference in Washington, sponsored by the NBCH. NBCH, Office of Meeting Management, 1 Bridge Plaza, Suite 350, Fort Lee, N.J. 07024; 800-642-2515.

NOV. 12-15. Society of Insurance Research Annual Conference in San Antonio, sponsored by Society of Insurance Research. Stan Hopp, 691 Crossfire Ridge, Marietta, Ga. 30064; 770-426-9270.

NOV. 13-15. 10th Annual World Captive and Alternative Risk Financing Forum in Palm Beach Gardens, Fla., produced by *Business Insurance*, Skandia/SINSER and Tillinghast-Towers Perrin; \$975 for risk managers, \$1,250 for others. Tina Gassman, 4248 Park Glen Road, Minneapolis, Minn. 55416; 612-928-4659.

NOV. 13-16. Annual Con-

struction Insurance Conference in Atlanta, sponsored by the International Risk Management Institute Inc. IRMI, 12222 Merit Drive, Suite 1450, Dallas, Texas 75251-2276; 800-827-4242; www.irmi.com.

NOV. 19-22. Assn. of Risk & Insurance Managers of Australasia Conference in Sydney, Australia, sponsors to be announced. Intermedia Convention & Event Management, P.O. Box 1280, Milton QLD, 4064 Australia; 61-7-3369-0477; fax: 61-7-3369-1512; www.arima.com.au.

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DEC. 2-6. National Assn. of Insurance Commissioners Winter Meeting in Boston, sponsored by the NAIC; free for regulators and \$450 for others. Miriam Henosy, NAIC, 120 W. 12th St., Kansas City, Mo. 64105; 816-889-4400.

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Insurers

Continued from page 3

standard lines, he said. But there has been "quite a bit of firming" in both commercial auto and workers compensation, especially for workers comp coverage on the West Coast.

"We're continuing to push for price," said David Long, executive vp and manager of the National Market Group at Liberty Mutual Insurance Co. in Boston. "We've been pushing for price since last February."

Mr. Long said that premium increases generally range from 6% to 9%. "We're seeing rate increases in comp and also across the board," he said.

Although the overall trend is toward increases, Mr. Long said, "we're still seeing some crazy stuff out there."

"For the most part, it seems like the sensible guys have reached a point where they say, 'Enough's enough,'" Mr. Long said. "But on any one account, you can see some irrational prices."

For casualty lines, "prices are up, reinsurance prices are up, both facultative and treaty, although reinsurance capacity is certainly still strong and readily available," said John B. Stites, vp-national accounts at Travelers Property Casualty Corp. in Hartford, Conn.

"Price increases could probably be described as moderate," Mr. Stites said.

"If there is anything that is less available in the casualty world, it might be guaranteed cost on larger deals," he said.

"In our case, in Travelers' national accounts, retention of business is up slightly. It was very strong in 1999," Mr. Stites said. "And we had some customers where we had to take some pricing action to put us in the black rather than the red."

"Overall, there's not a definite turn across the board. You're still going to see silly things, or something that seems out of line," said David Toombs, vp-underwriting product services for Wausau Insurance Cos. in Wausau, Wis.

Mr. Toombs added, however, that there are "definite signs things are beginning to go the other direction," particularly in commercial auto and property coverages.

Price increases aren't the rule for all lines, though.

For example, there is little movement in many lines of professional liability, insurers report.

"I think, for professional liability, the general marketplace for next year is going to be flat," said Ray Bustamante, assistant vp at Zurich-American Specialties in New York. "I don't see any way there will be the 20%-plus rate reductions clients saw a couple years ago."

In fact, more competition may be coming, said Mr. Bustamante. He said he expects to see Bermuda-based firms enter into the U.S. market, increasing competition in the professional liability area.

In addition, Mr. Bustamante said, although the overall premium trend in professional liability renewals this year will be flat, selected buyers could still enjoy significant price cuts. "On a case-by-case basis, you will see some serious reductions," he said.

But, in general, professional liability insurers have little room left for price cutting, he said. Rates for architects and engineers professional liability, for example, are lower than they were in 1983, he pointed out. "And the losses are there," Mr. Bustamante said.

Going into 2000, some insurers are willing to walk away from business if the rates aren't adequate, he said. "You've got to price responsibly for

the long haul," he said.

Mr. Bustamante predicted that professional liability insurers, unable to cut rates further in the year ahead, will combine coverages into single policies. He said the end result will be "a hybrid kind of product" that combines employment practices liability and directors and officers liability coverages.

Reliance's Mr. Van Gilder said he's also seeing some activity in the D&O area, with pricing and conditions increasingly reflecting the particular conditions of the risks. "That's a little less perceptible, but, nevertheless, it's

happening," he said.

The medical malpractice liability insurance market for both physicians and hospitals is also changing.

At PHICO Group, which writes medical malpractice coverage for doctors and hospitals, rate increases are in the 5% to 10% range, depending on loss experience, said James Voltz, senior vp-field operations in Mechanicsburg, Pa. This "is contrary to what we saw last year, which was a continuing reduction." He added that the continuing consolidation among medical malpractice insurers "is clearly an indication to us that the

bleeding is going to have to stop."

Boiler and machinery underwriters also are seeing a slight uptick in pricing.

"We're starting to see some rate increases," said Mike Downs, senior vp of Hartford Steam Boiler Inspection & Insurance Co. of Hartford, Conn.

"It's pretty much account by account," he said, adding that, on average, the increases are in the range of 5% to 10%, with higher increases for accounts with poor loss experience.

Despite the general trend toward increases, "it really depends on the market. We still see renewals and new

business that goes for less than expiring. It's not so prevalent today than a year ago, but it still happens," said Mr. Downs.

"Typically, the bigger the deal, the worse the terms, conditions and premiums for the carrier," he said.

There are signs that the property market, both for highly protected risks and for general property, also is beginning to turn.

"We're beginning to see rate increases taking hold, in the U.S.A. at least," said Mike Turner, vp-staff marketing for Factory Mutual Insur-

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Insurers

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ance Co. in Johnston, R.I. Mr. Turner said that HPR rate increases are running "somewhere in the range of 10% to 20%" depending on variables that include loss history and occupancy. He added that those increases aren't being seen in Canada or Europe yet.

"A lot of our customers expect us to work with them during their challenging times, but they also expect us to manage our business," he said. Customers will listen to underwriters seeking rate increases, "as long as we do it in a professional way," Mr. Turner said.

"Everybody's results, on an aggregate basis, have eroded to the point where they just can't be sustained," he said.

As for property coverage in general,

"prices are up, and they are up more than casualty," said Mr. Stites of Travelers. "Reinsurance prices, fac and treaty, are certainly up, and there is some tightening of capacity on the reinsurance side as well."

"The property market certainly has shown signs of stiffening, and we certainly are seeing, on the reinsurance side, very positive signs of reinsurers both trying to reposition themselves and also put a little discipline into the property market, in terms of conditions and prices," said Mr. Van Gilder. "In the area of large-risk casualty, we're seeing the same thing."

On the workers compensation front, "I think there's still a couple players out there who have Unicover deals out there through the end of 1999, even 2000," said Liberty's Mr. Long, referring to the Unicover Managers Inc. reinsurance pool, which last year sustained massive underwriting losses

and saw the withdrawal from participation of all its members.

"Given that the reinsurers lag the primary guys by about two years, they're starting to see the same things the primary guys saw a couple years ago," Mr. Long said. "So, as a result, we are seeing a little hardening on the facultative side."

The workers comp market is tightening, Mr. Van Gilder said. "I don't know if it's a response to Unicover or just to the fact that workers comp generally is underpriced in a lot of markets and a lot of jurisdictions," he said. "Certainly, the comp market is tightening quickly. Whether it's tightening quickly enough or broadly enough, I don't know."

And while the alternative market continues to grow, the traditional market will have to harden considerably before insurers feel any real impact, Liberty's Mr. Long said. "The

market's got to harden a whole lot more than it has now," he said. "Customers are still getting pretty good deals."

Alternative-market approaches typically require customers to retain higher levels of risk, he noted, and in the current market, they can still transfer that risk at low cost.

Reliance has become increasingly active in the alternative market, and Mr. Van Gilder said he expects that market to increase in importance.

"It's hard to track that, but we are certainly very active in that area and believe that is probably the most rapidly growing area and the one that is getting more sophisticated faster than any area of the business," he said.

The gradual change in rates has not stirred risk manager resistance, noted several underwriters.

Liberty's Mr. Long said he thinks

most customers realize "A, that they have had a pretty good deal over the past couple years; and, B, we have them focused on the total cost of risk."

"They realize that they may have to pay a little bit more to maintain a long-term relationship with us," Mr. Long said.

In light of the current market and some hardening of prices, Mr. Long said he sees some interest by buyers in locking up multiyear programs, but he said that Liberty and other insurers are somewhat reluctant to offer such deals. "We're resisting them, but it's not a major issue with us," he said.

"I think, over the past couple of years, we've really seen a commoditization of pricing," Mr. Long said. "And, I think, what we're seeing now is our customers moving away from that commoditization and looking at who's providing the best overall outcomes and not the lowest cost." **BI**

Reinsurers

Continued from page 3

ing in the retrocessional market, it has not yet had an effect on the lower layers of reinsurance programs. "If they have not had losses, they are not getting hit with anything," he said.

Year 2000 concerns also may have played a role in the delays, suggested Bill O'Donnell, senior vp of North American property/casualty reinsurance at Employers Reinsurance Corp. in Overland Park, Kan.

The reluctance to supply information to reinsurers may have been due, in part, to uncertainties over Year 2000 problems, he said. Cedents may want to see how potential millennium bug losses play out before they commit to renewal terms, Mr. O'Donnell said.

William J. Adamson, chief executive officer of CNA Re, a unit of CNA Financial Corp. in Chicago, said many policyholders had purchased multi-year policies to avoid renewing this January. By doing so, they hoped to prevent disputes over potential losses from the Year 2000 computer problem.

Consequently, with fewer programs renewing, the rising rates and overall increase in premium income for reinsurers is not sufficient to turn around their generally poor results, Mr. Adamson said.

"Next year, there will be a lot of multiyear deals up for renewal, and they will have to pay some big increases," he said.

"This year won't be a full renewal season," agreed Steven Bolland, senior vp at reinsurance intermediary Gill & Roeser in New York, who also noted the existence of many multiyear policies. As a result, he said, "there's a chunk of business that's going to be done on last year's terms."

Those insurers that are renewing now, however, are finding that rates are going up, albeit not dramatically, and generally only in cases where experience warrants, say reinsurers and intermediaries.

For the first time in many years, reinsurers are not agreeing to many rate cuts, said Jerome Karter, president and CEO of SCOR U.S., a New York-based unit of reinsurer SCOR S.A.

"We have also been able to get price increases for the first time in a long time. . . . The message is still a little bit mixed, but it's showing some signs of sanity," Mr. Karter said.

Salvatore Zaffino, president and CEO of reinsurance intermediary Guy Carpenter & Co. in New York, said: "We see the firming up that we have seen over the last few months continuing—actually accelerating a little bit. But it seems to be in a very orderly fashion, where there's a reason due to

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Reinsurers

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experience for rate increases."

Others have seen signs of a hardening as well.

"The market has definitely firmed. Reinsurers are not giving decreases and are asking for increases, and cedents are being a little unwilling to be the first one out there to pay or they are unwilling to pay at all," said H. Elizabeth Mitchell, executive vp at St. Paul Re, a New York unit of The St. Paul Cos. Inc.

Property programs with losses are being asked to pay significant increases, but even programs that do not have losses are renewing flat or with increases up to 10%, Ms. Mitchell said.

Casualty programs are also seeing some firming, and some reinsurers are

walking away from particularly distressed workers compensation and umbrella liability programs, she said.

Chris Brockett, senior vp at Towers Perrin Reinsurance in Philadelphia, said, "There was a lot of concern from the reinsurers that the expiring rates weren't adequate and, while there were very few rate reductions, there was a lot more renewed at the expiring terms than I think people thought."

"I wouldn't say that we really experienced a hard market at year end, but, certainly... there is a correction under way," Mr. Brockett said, noting, however, that there is still a lot of capacity in the current market.

"We are seeing a general bottoming out," said John Cashin, executive vp at Willis Faber Re in New York. "No one is quoting below expiring terms unless it can be justified by substantial increases in premium volume."

"Property cat is inching up, partic-

ularly on programs that have had losses. Even loss-free programs are finding it difficult to get credit for good experience," said Mr. Cashin. "Casualty lines, in general, are moving up slowly, but there has been an end to rate reductions."

When the renewals are finally sealed, Employers Re expects to see rate increases and retention levels increase on a significant portion of its national account business, said Mr. O'Donnell.

Increases have already been implemented on regional accounts, he said. Many regional insurers, especially those in the Midwest, have suffered sizable storm losses in 1999 and 1998, and Employers Re has been working on many accounts since July to get them to agree to increases.

About 70% of Employers Re's regional accounts renewed on Jan. 1. Of those, about 30% to 40% were identi-

fied by the reinsurer as needing tighter terms and conditions, Mr. O'Donnell said.

In North America, property and casualty reinsurance rates are generally seeing rate increases, Hartford's Mr. Robb said.

Mr. Robb said the increases in North American property and casualty reinsurance rates vary greatly, depending on loss records. Some cedents that have suffered substantial losses over the past year are seeing double-digit increases, he said.

"Others are operating well, and we would expect them to renew as expiring," Mr. Robb said.

Property catastrophe rates are still flat, despite the large number of catastrophe losses over the past year, including earthquakes in Taiwan and Turkey; storms in the Atlantic; and, most recently, storms in Europe.

"There is still an enormous amount

of capacity," Mr. Robb said.

That may change in the spring, though. Many catastrophe retrocessional programs renew then, and there has been a significant withdrawal of capacity in the retro market over the last six months, he said. In particular, the retro market in Australia has largely dried up.

U.S. Re's Mr. McGuire said, "There's very little traditional capacity in the marketplace, so there's a scramble under way among the buyers of retro cover in the alternative market to try to put together some types of quasi-financial structures."

Meanwhile, insurers seeking property catastrophe reinsurance protection are finding rate increases that generally fall in the range of 5% to 10%, said Mr. McGuire. "And that's for those companies that have not sustained any losses this year," he said. "Where companies have sustained losses, those rate increases are actually much higher."

In the non-cat property market, "I'd almost say it's a tug of war at the moment," because of insurers' reluctance to agree to higher rates, Mr. McGuire said.

"In relation to per-risk, proportional business, there definitely is a push among reinsurers to improve the terms, by either reducing the ceding commission that they pay or reducing the profit-sharing (that goes) back to the client," he said.

Mr. McGuire said that, while general casualty business has remained relatively stable, the marine market also "is probably seeing one of the bigger increases in price, and that's due also to the fact... the retrocessional market for marine protection is drying up." Insurers are facing rate increases of 5% to 15%, he said.

Meanwhile, in workers comp, said Mr. McGuire, "the rate levels are going back to where they probably should have been" had it not been for the Unicover Managers Inc. reinsurance pool, which sustained massive underwriting losses and saw the withdrawal from participation of all its reinsurers last year. Unicover, Mr. McGuire said, "had worked down the rates substantially," he said. "What's being offered in the market now is an adequate rate for that level of risk."

But for the overall reinsurance market, rates are still inadequate, said Mr. Adamson. "We've seen some improvement in terms, but it is not enough by a long shot," he said.

Increases vary by line and the severity of losses, but some retro rates are up by 20% to 25%, medical malpractice rates are up by about 15% and some other lines are up by 10%, he said.

Catastrophe rates are also beginning to increase, but only moderately, he said, "which is surprising, because it's been a horrendous year, given the losses."

The increases that are being applied in January are probably not sufficient to significantly improve the financial results of reinsurers in 2000, Mr. Adamson said.

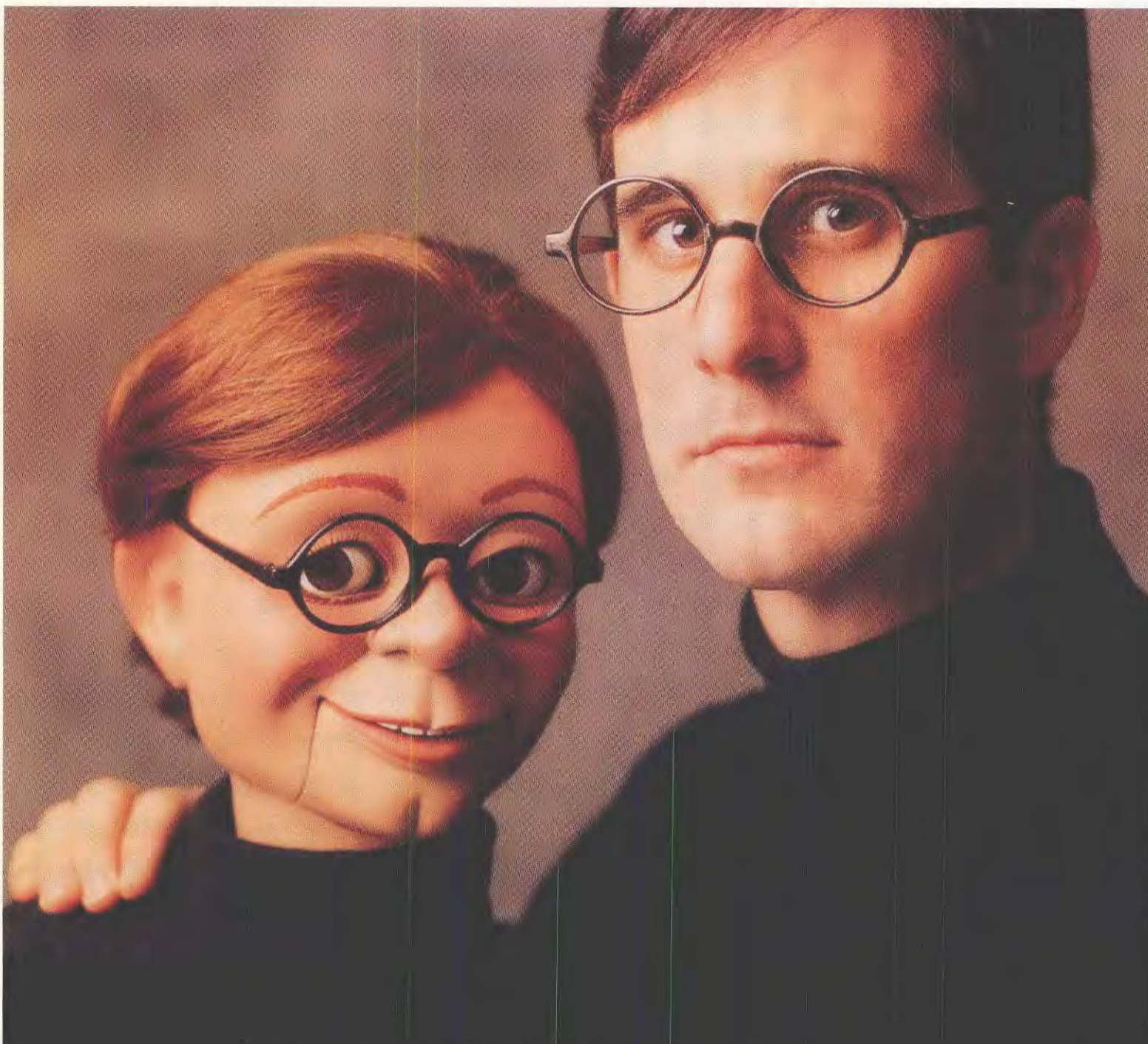
Gill & Roeser's Mr. Bolland agreed. Rates overall are up, he said, and "it's an improvement in the market, but not one that's significant enough that it's going to change people's results."

Reinsurers say they are letting some business go rather than price it inadequately.

While Employers Re was successful in pushing through some increases, it also lost business, said Mr. O'Donnell.

"We've lost some business, and we expect to lose some more. There is other capacity ready to step in and take business at more-competitive terms," Mr. O'Donnell said.

For the past few renewals, SCOR has been letting some business go rather than write it at lower rates, Mr. Karter said. "But we are seeing a lot less going out the door," he said. **BI**

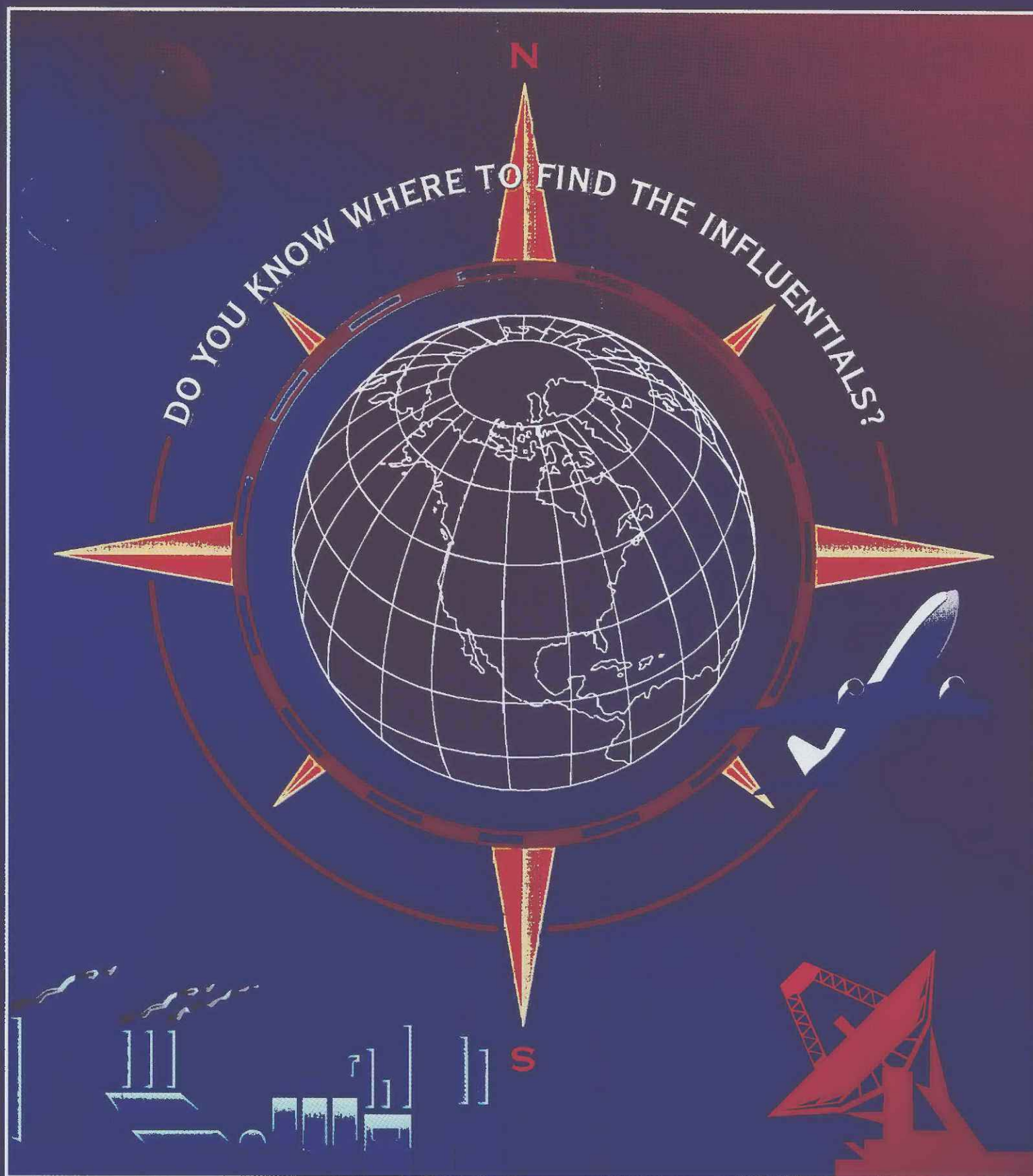


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Some reinsurers withdraw from facultative property

By GAVIN SOUTER
and JUDY GREENWALD

While capacity remains abundant in most areas of the reinsurance market, the facultative property market saw some high-profile withdrawals in the months preceding the year-end renewals.

Employers Reinsurance Corp. last year stopped writing property facultative business, citing poor underwriting results on the business and few prospects for improvement.

St. Paul Re also pulled out of facultative, saying that its book of business, though profitable, was too small and

that there was little hope of growing the business amid ample capacity from other markets.

While the combined reduction in capacity is sizable, other reinsurers are expected to step in and pick up any slack.

"The business that we were seeing was producing some horrendous results," said Bill O'Donnell, senior vp of North American property/casualty reinsurance at Employers Re in Overland Park, Kan.

Facultative placements are often volatile risks that treaty underwriters are unwilling to incorporate into reinsurance treaties for fear that the risks will force the whole treaty into the red, he said.

The pricing of facultative property

reinsurance has not reflected the increased risk for several years, added Mr. O'Donnell.

Also, Employers Re, with its \$100 million in facultative property capacity, was not in a position to effectively compete with other reinsurers that sometimes offer more than twice that amount, he said. Employers Re's facultative book produced \$45 million in net written premiums in 1999.

Employers Re will continue to write facultative casualty reinsurance. About 35 of the 50 people in the facultative property division were laid off or have left the company, he said.

St. Paul Re picked up its facultative property book in 1998 when its parent, St. Paul Insurance Cos., bought USF&G Corp. St. Paul had already

exited facultative business once before earlier this decade.

"It was an insignificant amount of capacity and an insignificant amount of revenues, and we did not believe that we could acquire the critical mass to produce the necessary profitable returns," said James F. Duffy, president of St. Paul Re in New York.

Although the book had been profitable for St. Paul, the highly competitive market made it difficult to grow the business, he said.

"There's still lots of capacity available," Mr. Duffy said.

Brokers agree that ample capacity remains.

"There may be one or more significant (reinsurers) that appear to be prepared to pick up the slack," said

John N. Gilbert Jr., president of New York-based reinsurance broker Holborn Corp. He would not identify the reinsurers in question.

But the withdrawals are "obviously telling the market that this has not been a profitable area of business and that reinsurers don't want to be providing capacity at any price," Mr. Gilbert said.

Reinsurers have suffered several major facultative losses over the past year—both in the United States and overseas—and rates appear to be inadequate, he said.

But, "that's what makes a horse race," said Mr. Gilbert. "The theory on the part of some is that it's better to go in at a time when others are going out, because your voice commands more respect."

Gary Kelly, vp at Willis Faber Re in Atlanta, said Employers Re's withdrawal in October from the facultative market "left a hole" in the market and "came as a surprise to everyone." In contrast, St. Paul, which he said had re-entered the market with its USF&G acquisition, "never was a big factor in the property facultative market."

SCOR U.S. Group closed three of its seven facultative offices last year, but the move was made to concentrate its underwriters in key offices, rather than to cut back its facultative property business, said Jerome Karter, president and chief operating officer of SCOR U.S. in New York.

"We moved the people to different offices to concentrate our resources and to more easily combine our facultative and treaty teams to support those clients that need both," Mr. Karter said.

By concentrating its resources, SCOR US also will be able to more easily co-ordinate global facultative placements, he said.

As a result of last year's capacity withdrawals, SCOR has been seeing more facultative property submissions, he said. SCOR offers \$120 million in capacity.

The facultative property market remains competitive, but it is a sector that allows underwriters to pick and choose more carefully the risks they cover, Mr. Karter said.

"It's an area where you can make your own smart decisions on whether you like a risk or not, unlike in a treaty (which cover portfolios of risks)," he said.

The expense of underwriting facultative business combined with the poor profitability of the business has led to a withdrawal of some capacity, said Brian McGuire, senior vp and director at reinsurance intermediary U.S. Re Corp. in New York.

Meanwhile, the withdrawal of capacity "has driven the pricing for commercial facultative up and also reduced its availability to a certain extent," Mr. McGuire said.

CNA Re continues to write facultative property business, but at year's end it imposed a minimum 15% increase on renewals, said William J. Adamson, chief executive officer of the Chicago-based unit of CNA Financial Corp.

About 60% to 70% of the increases are sticking, Mr. Adamson said. "More and more markets are tightening, and the results have been horrible," he said.

But the property facultative market "is not hardening like everybody thought it would," said Chris Brockett, senior vp at Towers Perrin Reinsurance in Philadelphia.

"There's no dramatic change in property facultative buying or selling," said Mr. Brockett. Most of the reinsurers "are finding it difficult to get significant rate increases." **BI**

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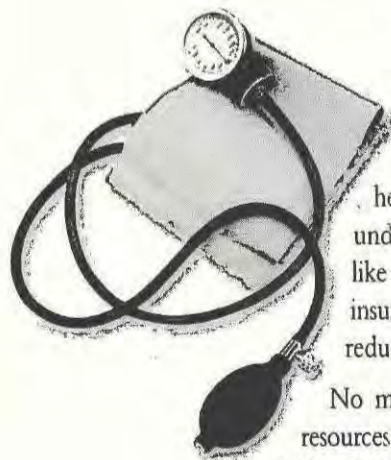
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INTERNATIONAL

Global Briefs

American International Group Inc. has ceased writing life insurance policies that cover employees of companies in China. Responding to press statements alleging problems in the company's Chinese life business, AIG Chairman and Chief Executive Officer Maurice R. Greenberg said the move was made at the request of the China Insurance Regulatory Commission, which has changed its regulations. The CIRC now considers such sales a form of group insurance and had asked AIG to stop writing them. Mr. Greenberg emphasized that there was no penalty imposed on AIG and that all prior policies have been allowed to remain in place. . . . 1999 was the safest year on record for air travel, though the estimated cost of Western-built commercial aircraft losses reached a record \$985 million, up from some \$900 million in 1998, according to aviation loss adjuster Airclaims Ltd. In its annual assessment of the aviation market, Airclaims said 23 Western-built jets became total losses last year, three fewer than in 1998. Its estimate of incurred losses in 1999, which includes both hull and liability costs, is \$1.8 billion, compared to \$1.9 billion in 1998. The reduction came, in part, because the number of passenger deaths in 1999 was the lowest on record at 512. . . . Paris-based **Assurances Generales de France S.A.** has simplified its organizational structure following its 1998 acquisitions of Athena and the French subsidiaries of Allianz A.G. Holding. The operations of those two companies, as well as other AGF companies, have been absorbed into the group in anticipation of the adoption of a single AGF brand sometime in the first half of 2000. . . . **Fortis**, the Brussels-based insurance group, is selling its long-term care insurance business, headquartered in Milwaukee, to John Hancock Mutual Life Insurance Co. Fortis said the deal, representing \$90 million in earned premium as of Sept. 30, 1999, is part of its plan to concentrate on specialty segments. . . . **Standard & Poor's Corp.** has assigned **BRIT Insurance Ltd.**, a wholly owned subsidiary of BRIT Insurance Holdings P.L.C., an A- counterparty credit and financial strength rating. . . . **UNUM Ltd.**, the Dorking, England-based subsidiary of UNUMProvident Corp., has named **Eugene McCormack** director of marketing. Mr. McCormack, who previously was head of product marketing and development at Barclays Life P.L.C., will oversee all of UNUM's marketing strategies. . . . The London insurance market claims to have made a significant step toward faster claims processing after Aon Marine & Energy and Transatlantic Re delivered the first electronic claims files via the Virtual Single Repository Interface, developed by The Rebus Group. The VSRI was developed for Lloyd's of London and the London Processing Centre. It is accessible by brokers, underwriters and companies, enabling the sharing of electronic information among various members of the insurance community. Lloyd's aviation market is also currently participating in trials of a VSRI system. . . . **Max Re Ltd.** opened for business Jan. 1 in Bermuda after raising \$331 million in capital. Max Re, which plans to raise more in the first quarter of this year, received an A- rating from A.M. Best & Co. last week. Max Re will write long-tail liability business and annuities and it plans to manage a significant portion of its assets more aggressively than most insurers and reinsurers. The company is headed by Robert Cooney, who was formerly a senior executive at XL Capital; its chief financial officer is Keith Hynes, who was previously with Renaissance Reinsurance Ltd.; executive vp of property and casualty is David Brining, who was previously with Scandinavian Reinsurance Co. Ltd.; and executive vp life and annuities is Philip Kruse, who was previously with ING Re.

Crash line lacked safety system

By MARIA KIELMAS

OSLO, Norway—Norges Statsbaner, a state-owned rail company that owns two diesel passenger trains that collided last week, is insured for property and liability losses arising from the disaster.

The Jan. 4 collision, which could become Norway's worst rail disaster, killed at least 17 people, though more than a dozen people remained missing as of last week. The collision has prompted several safety investigations.

Coverage for Oslo-based NSB is written by Bergen, Norway-based Vesta Forsikring A/S, though neither the rail company nor Vesta would provide details of coverage limits.

Debbie Taylor, a member of the transportation practice at Willis Ltd. in London, said that European rail companies typically buy liability insurance to limits of between £30 million (\$49.3 million) and £63 million (\$103.5 million) per loss, with aggregate limits of £100 million (\$164.3 million) per year. Deductibles tend to go up to £3 million (\$4.9 million), she said.

Jernbaneverket, or JBV, the national rail administration responsible for Norway's rail network and infrastructure, is self-insured for liability, said a JBV spokesman in Oslo.

The accident occurred when an express train running southbound between Trondheim and Hamar collided head on with a northbound local
See Rail crash on page 35



A rear engine and burned-out cars are part of the wreckage from a head-on collision between two trains near Asta, Norway, on Jan. 4. PHOTO: AFP

Storm claims may top Daria losses

By CAROLYN ALDRED

PARIS—Storms that battered Europe the last week of December, killing more than 100 people and leaving millions of European homes and businesses without electrical power, will cost insurers several billions of dollars, according to early estimates.

The losses from windstorms Lothar, which hit on Dec. 26, and Martin, which struck on Dec. 27 and 28, occurred too late in the year to affect January renewal rates. Nevertheless, the storms will help make 1999 "go down as the year with the largest number of natural catastrophes of this magnitude," according to a statement from Swiss Reinsurance Co.

The storm loss "will end up costing insurers several billion U.S. dollars," according to Swiss Re, which puts Lothar and Martin alongside Hurricane Floyd and the May tornadoes in the United States, Typhoon Bart in Japan, the floods in Venezuela, and the earthquakes in Turkey and Taiwan in a string of losses in excess of \$1 billion.

"The insured losses from these events will be the second highest for any year on record. According to current indications, 1999 will be topped only by 1992 a year marked by one ex-

treme natural catastrophe: Hurricane Andrew in the U.S.," said Swiss Re.

Risk Management Solutions Inc. of Menlo Park, Calif., estimated that insured damages from the recent storms could top those from the most expensive insured event ever in Europe: windstorm Daria. Daria, which struck in 1990, caused insured losses of 6 billion euros (\$6.19 billion), as stated in 1999 values.

"On the basis of RMS' modeling, Lothar is the most damaging storm to have affected France in several hundred years. RMS' extensive research on windstorms that have affected Europe over the past 500 years has revealed historic events of similar intensity to Lothar—most notably, events in 1581 and 1800—however, no storm of this intensity is known to have passed directly over Paris, the region of highest insured exposures in France," according to an RMS statement.

Gerhard Berz, head of the geoscience research department of Munich Reinsurance Co. in Munich, Germany, agreed that losses from the storms across Europe could exceed those of Daria. He also pointed out that "while it was too late to impact renewal" rates, a continuing trend of European windstorms will result in a harden-

See Storms on next page



AP/WIDE WORLD PHOTOS

Winds from Lothar, the storm that hit Europe on Dec. 26, caused a construction crane to topple onto a Parisian apartment building.

Singapore imposes broker, agent regs

By GAVIN SOUTER

SINGAPORE—Agents and brokers operating in Singapore must now meet formal, government-imposed financial requirements, following the implementation of a new law on December 31, 1999.

The new regulations replace self-regulation by various trade associations.

The Insurance Intermediaries Act imposes strict capital and professional indemnity insurance requirements on intermediaries "to promote greater professionalism in the insurance industry and enhance protection for the insuring public," according to a statement from the Monetary Authority of Singapore.

Under the new regulations, all insurance intermediaries must register with MAS, which is essentially a central bank for Singapore, and must meet several financial requirements.

The minimum paid-up capital for non-life insurance brokers and all reinsurance brokers is \$300,000 Singapore (\$181,050). A life insurance broker must immediately have an initial paid-up capital of \$100,000 Singapore (\$60,350); this amount will be gradually increased over five years to \$300,000 Singapore.

Each broker must keep a net asset value of at least 50% of its minimum paid-up capital.

The requirement "is to establish broker's commitment to operate in Singapore and to ensure that they have a certain level of financial assets to support their operations," an

MAS statement said.

Each broker must have professional indemnity coverage with a deductible that is no more than 20% of the net asset value of the company. Non-life insurance brokers and reinsurance brokers must each have \$1 million Singapore (\$603,500) in coverage, and life insurance brokers must each have \$500,000 Singapore (\$301,750) in coverage.

Each broker must submit audited annual returns to MAS within 6 months of its fiscal year end.

All brokers must also pay annual fees to MAS. Non-life insurance brokers must pay \$7,000 Singapore (\$4,225); non-life reinsurance brokers and life insurance brokers must each pay \$5,000 Singapore (\$3,018); and life reinsurance brokers must pay \$2,500 Singapore (\$1,509). Agents and brokers registered to place business with Lloyd's of London must each pay \$5,000 Singapore.

Also, under the regulations, every agency must have a written agency contract with the insurers it represents.

The new regulations replace less-formal arrangements. Previously, all brokers were self-regulated by their respective trade groups, and there were no financial requirements.

Currently in Singapore, there are 63 non-life insurance brokers, 17 non-life reinsurance brokers, 78 life insurance brokers, 9,000 non-life insurance agents, and 19,500 life insurance agents, according to MAS. **B1**

Film policy recision sought

By CAROLYN ALDRED

LONDON—A group of insurers is fighting to rescind policies that covered the financing of five U.S.-produced movies in London's High Court, in a case that is likely to be followed closely by both the insurance and film financing industries.

Eight insurance companies—including Lexington Insurance Co., a unit of American International Group Inc., and HIH Casualty & General Insurance Ltd., a unit of Winterthur Group—last month filed a lawsuit in London's High Court against New York-based Chase Manhattan Bank and London-based insurance brokers Heath Insurance Broking Ltd. and Heath North America & Special Risks Ltd., seeking to rescind film finance insurance policies the group underwrote.

In court documents, the insurers allege that they were "induced to enter into" writing the insurance policies, relying on "material misrepresentations and/or non-disclosures" by Heath.

The insurance policies covered loans made by Chase to Los Angeles-based film producer Phoenix Pictures Inc. to finance five films. The

See Film on page 35

Storms

Continued from previous page
ing of the catastrophe reinsurance market.

French reinsurer SCOR S.A. has estimated that the storms will result in "overall insured costs almost certainly in excess of 5 billion euros (\$5.16 billion)" in Europe, with a net loss after taxes to the Paris-based group of about 50 million euros (\$51.6 million).

Using its own modeling techniques, risk management operation EQE International also estimated that insured losses from the storms will reach 5 billion euros, with total economic losses reaching 10 billion euros (\$10.31 billion), according to a statement issued from its Paris office.

EQE, based in London, is a unit of Oakland, Calif.-based EQE International Inc.

The losses from the 1999 winter storms will not exceed the record European losses of 10.2 billion euros (\$10.52 billion) by a series of windstorms in 1990. However, the insured losses in France will exceed the 1.5 billion euros (\$1.55 billion) loss sustained in France from the 1990 storms, and they "will, therefore, certainly become the new benchmark for the French reinsurance market," according to EQE.

The storms were unusual in that high winds affected a huge area of the continent, said Jean-Paul Conoscente, EQE International's Paris-based European regional manager.

Lothar's wind speeds measured more than 130 mph in Brittany, France, dropped to 105 mph in Paris but peaked again at 150 mph just hours later in the German Black Forest area and in Zurich, Switzerland, according to EQE.

Martin caused extensive damage in areas unaccustomed to high wind speeds, with more than 90 mph gusts in Piedmont, Italy, and Sicily. The storm also caused damaging floods in southwestern France and avalanches in the Alps region in France, Switzerland, Italy and Austria.

A state of natural catastrophe—the status that triggers the national Natural Catastrophe (CATNAT) reinsurance pool that covers natural perils but not wind damage—was declared in 69 of France's 95 districts. As a result, wind-related losses will be covered by the traditional windstorm reinsurance contracts, while flood and avalanche losses in France will be covered under the French CATNAT pool system.

The CATNAT pool already had sustained a loss of 500 million euros (\$515.7 million) earlier this year, as a result of flood losses in the Doubs re-

gion of southern France, according to EQE.

Meanwhile, the French Federation of Insurance Cos., based in Paris, estimates that the storms will cost French insurers between 15 billion and 25 billion French francs (\$2.36 billion and \$3.93 billion).

"Storm 'Lothar' howled through Europe on 26 December, leaving a wake of destruction across France, Switzerland and southern Germany. It was closely followed by a second storm depression that hammered southern France," according to Swiss Re.

Violent gusts wreaked damage upon numerous buildings—including several historical monuments, churches and gardens—and uprooted hundreds of thousands of trees.

"These falling trees were largely responsible for the storm-related fatalities and exacted an unusually high

death toll for a European storm event," Swiss Re's statement noted.

The death toll in France was 83 as of Jan. 6, according to a statement issued by London-based broker Willis Group Ltd. Willis also reported that 300,000 homes in France remained without telephone lines last week, and that France Telecom had estimated the cost of repairing its network at 1 billion francs (\$157.3 million).

In addition, the French National Fund for Historic Sites and Monuments estimated that repair costs for damaged cultural monuments could be between 400 million and 500 million francs (\$62.9 million and \$78.7 million), according to Willis.

According to press reports from throughout Europe:

- Seventeen people died in Germany, mainly in the Rhine state of Baden-Wuerttemberg, and 1,000 homes in Bavaria were without power.

- Thirteen people died in Switzerland, and thousands of homes, mainly in the Bernese Oberland region, were without electricity. The storm was dubbed Switzerland's "storm of the century."

- Five people were killed in Spain in storm-related accidents on construction sites.

- Several highways were closed in Italy, and 7,000 passengers were stranded at Milan's Malpensa Airport.

- Several rivers flooded in Belgium.

The French state-owned power company Electricite de France estimates that it will cost 16 billion French francs (\$2.52 billion) to repair power lines destroyed by the storm and to improve its infrastructure to make it more resistant to such events.

The storms cut power to 3.4 million households, and nearly 200,000 were still without power on Jan. 6, according to EDF. EDF estimates that it will take several weeks to return the network to normal operation and many months to restore its infrastructure.

More than 1,000 technicians and engineers from all over Europe were recruited by EDF to help restore electrical service in France.

Although most of the 1.5 million storm claims so far declared in France are from homeowners, a large number of commercial claims also have been made, according to Dominique Billy, manager for business development for Aon France in Paris.

Mr. Billy noted that 1,000 of Aon's 4,000 commercial clients in France have filed claims stemming from the storm.

"We have seen a lot of commercial claims. They are mainly small, but the frequency is very high," he told *Business Insurance*.

Claims mainly arose from damage to buildings, although damage to infrastructure and power outages have resulted in business interruption claims, he said, noting that most commercial policyholders carry this coverage. He predicted that many insurers will seek to recover their losses from the state-owned utility, EDF.

According to EQE regional manager Mr. Conoscente, commercial losses included several construction losses, including damage to buildings and machinery caused by toppling cranes.

Agricultural losses from the storms also will be high, particularly in Brittany and other areas of western France, which sustained considerable damage to crops and greenhouses. In addition, there will be losses in the poultry and fish farming industries due to power losses, said Mr. Conoscente.

London-based loss adjuster McLaren's Toplis, which sent additional French-speaking staff to its Paris office from other European offices following the storms, reports claims from industrial units and retail and commercial businesses, such as sports and leisure centers. **BI**



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Film

Continued from page 33

insurance covered any shortfall between the costs of making and marketing a film and its revenues.

The first claim on one of the policies occurred this year, following the failure of "The Mirror Has Two Faces," a 1996 romantic comedy that was directed by and starred Barbra Streisand, to make a profit at the box office. On Dec. 1, 1999, Chase instituted collection proceedings in the commercial court in London against eight insurers that had not paid the claim, according to a statement by Chase.

Three of the insurers on the policy, including one of the leading underwriters, have paid their share of the claim, said Randy Weston, a director of Heath Insurance & Reinsurance Management, a division of Health In-

urance Broking. Mr. Weston said the three insurers that have paid are XLRE, Royal & SunAlliance and NRG, and that their share of the claim amounts to 60% of its value.

Meanwhile, claims also are likely to arise from the remaining four films, sources say. Those films are "Amy Foster," "Apt Pupil," "The People vs. Larry Flynt," and "U Turn."

"Insurers have investigated the placement of these policies carefully, and they have concluded that misleading information was broked to them and that important information was not disclosed. In view of these serious concerns, they have commenced proceedings for a declaration," said a lawyer from the London law firm of Cameron McKenna, which is representing the litigating insurers.

The eight insurers are Lexington; HH; Sphere Drake Insurance Ltd., now part of Odyssey Re Group; AXA

Colonia Versicherung A.G.; Generali Lloyd Versicherung A.G.; Union-America Insurance Co.; A/S Copenhagen Re; and Assitalia L'Assicurazioni d'Italia S.p.A.

A statement from Chase Manhattan confirmed that the bank "has been served with a complaint...seeking a declaratory judgment voiding credit enhancement insurance policies held by Chase, as collateral for loans made to finance the production of five theatrical feature films.

"The Chase Manhattan Bank has not yet answered the complaint but intends to do so and to oppose the relief sought," the statement continues.

Health also "categorically denies that insurers have any right to void the insurance arranged for the Phoenix facility," Mr. Weston said.

Meanwhile, the London proceedings "are in addition to a proceeding for declaratory relief bought against

the Chase Manhattan Bank by AXA Reassurance S.A." in New York's Supreme Court relating to another film insurance deal, according to the Chase statement.

The bank "believes that there is no validity to any of the claims made by the plaintiffs against (it) in either the New York or the London actions. The Chase Manhattan Bank intends to contest both these proceedings and to vigorously pursue its remedies with regard to credit enhancement policies that it holds in its motion picture loan portfolio," said the bank's statement.

Since the Phoenix deal in the mid-1990s, there has been a thriving market in film finance insurance, with Chase Manhattan being involved in many of the deals. Recent losses and the threat of litigation likely will affect the availability of such coverage, observers say.

"This may tighten up the (film fi-

nance) market significantly," said Mitchell Lathrop, a partner with New York-based law firm of Luce Forward Hamilton & Scripps.

Any litigation involving insurers attempting to rescind policies will be observed closely by insurance and reinsurance lawyers, said Mr. Lathrop. The case "is of great interest, and we are watching it," he said.

Rescinding a policy is very difficult for an insurer to do, Mr. Lathrop said. The rules in the United States are very stringent, he said, pointing out that, in the United States, it is the insurer's responsibility to ask for material information about the risk, rather than the policyholder's responsibility to reveal it without prompting.

But "in England, a sophisticated insured has more duty to tell its insurers everything. So, it may be easier in England to void a policy," said Mr. Lathrop. **BI**

Rail crash

Continued from page 33

train on a single line of track near Asta, about 111 miles north of Oslo. Seventeen deaths and 68 survivors had been confirmed by NSB and JBV as of last week. The two companies said in a joint statement, however, that it was impossible to state with certainty how many lives were lost, as the exact number of passengers was not known. The companies estimate that there were between 96 and 100 passengers on the two trains.

One of the cars from the express train was engulfed by flames after the crash, which impeded rescue efforts.

The stretch of railway track where the accident occurred, the Roros line, is one of the few lines in Norway that does not have automatic circuit breakers installed, a spokesman from JBV said. Priority for the installation of the safety system—which prevents two trains from receiving green passing lights for the same single track between stations and which stops trains from accidentally passing through stoplights—had been given to lines with heavier traffic, he said.

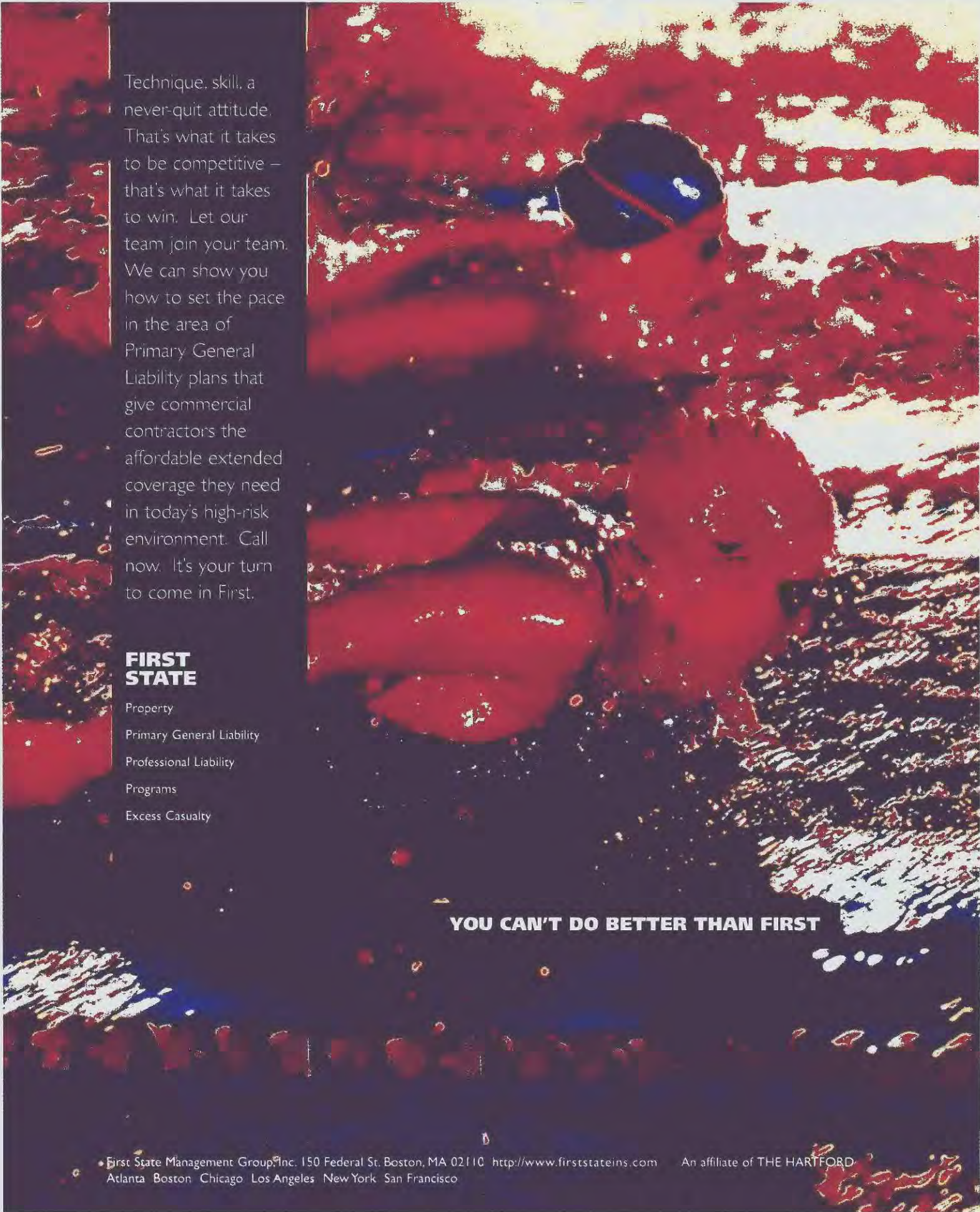
The Roros line was due to have the system fully installed in June of this year, the spokesman said. The rolling stock of both trains had ATC equipment installed, but because there was no ATC equipment installed on the tracks, the safety system was inoperative, the spokesman explained.

Local press reports speculated that the rail management center had tried unsuccessfully to contact the drivers of both trains by cellular phone to warn them of the danger but was unable to locate the correct phone numbers. Media are also reporting that train engineers have said they would boycott the Roros line until improved safety measures are implemented.

According to NSB and JBV, cellular telephones are the only method of communication for trains underway on the Roros line, as radios are not installed on the trains. The trains' engineers communicate with the management center via a dedicated closed-circuit telephone system that is installed at all main signals.

A Jan. 5 statement by NSB said it "is aware that reference has been made...in the media about alleged 'confusion in the system' internally in NSB concerning the use of mobile telephone numbers... Whether or not there has been a lack of clarity concerning the use of mobile telephones and the degree to which this may have any bearing on the accident are among the matters that will now be investigated" by the accident commissions of JBV and NSB.

In addition, the police and the government Ministry of Communication are each conducting investigations of the accident. **BI**



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Technology

Continued from page 2
could give the system additional reporting capabilities, Mr. Yiannas explained.

One of the challenges Disney faced was developing a system that could be used by inspectors in all of the park's myriad forms of food service facilities, ranging from outdoor carts to full-service restaurants. "We had been using a piece of paper that we brought back to the central office" to input data into the computer system, said Mr. Yiannas. While Disney is using the technology at its Florida-based food service operations, the company is considering plans to expand it to all Disney facilities and may adapt the system for other risk management functions.

In-house programmers developed software templates for each type of food service facility so that inspectors could easily check different facilities with the same unit. "We can now go out, enter the information once and generate a report before we leave the restaurant," Mr. Yiannas said.

That single entry eliminates the chance that data could be incorrectly copied from a paper report form into the computer system, he pointed out.

Disney's system came to be known

as the CAFE system, for Creatively Analyzing Foods and Environments. After a six-month test, nine food safety inspectors routinely began using it last October.

The CAFE system takes the Tangent product, known as the Versid System, beyond its original capabilities. While the Versid System allows the user to record temperature data in the Palm Pilot, Disney programmers have written software programs for the devices that allow inspectors to record information on other conditions, including the cleanliness of floors, whether they are kept dry and the condition of storage facilities.

Disney programmers also were able to write a program that produces a score for the facility at the end of its evaluation. That achievement was a "significant hurdle" that software writers were able to overcome, according to Mr. Yiannas.

Once Disney accumulates the information from its food inspections, it can use the data for trending, he said.

He explained, for example, that "you can drill down to specifics regarding equipment." By checking data over time and from different locations, "you will be able to trend whether one piece of equipment is better than another at cooking or refrigeration."

Disney also uses the units to check its food suppliers, he pointed out. Inspectors make visits to vendors' plants, and food shipped to Disney's warehouse facilities is inspected with the CAFE system.

"Their system is pretty much cutting-edge," said Mary Lynn Rogers, marketing director at Tangent. "They are adapting it to fit their needs."

The hand-held system is 'a good way to protect the public, and that's always the main concern,' says Bob Boik.

Ms. Rogers said the Versid product for food service companies has been on the market for about a year. The company also produces a thermocouple system that is used to measure the temperature of racing car tires as a way to determine when pit crews should replace them during competition.

Mr. Yiannas said that as news of the CAFE system has spread, food service companies and other organizations have contacted him for information and demonstrations.

Risk managers for food service companies also say the idea has merit.

Mr. Yiannas said Disney has given demonstrations of the system to other companies. While he wouldn't name those that have inquired about the system, Mr. Yiannas said they have included large food service companies.

Jim Stenstrom, vp of risk management at Lettuce Entertain You Enterprises Inc. in Chicago, said the combination of a thermocouple and a hand-held computer is being talked about in food safety circles and is a technology his company may eventually embrace. Lettuce Entertain You operates a variety of restaurants in Chicago and other cities.

"The Palm platform is very user friendly and can be programmed in various ways," said Mr. Stenstrom. "I would say it's very useful."

The system could "provide a good check and balance," he emphasized, "making sure all the processes are followed."

"It's an interesting technology," agreed Bob Boik, risk manager at Domino's Pizza Inc. in Ann Arbor, Mich. "It's a good way to protect the public, and that's always the main concern."

Domino's relies on rigorous checks of temperatures in ovens and refrigeration units to make sure food is kept at the proper temperature, Mr. Boik pointed out. While he said the hand-held technology "sounds interesting, whether it would be useful to us" is something that hasn't been determined.

Tangent and Disney say the system soon will provide other capabilities. Tangent is upgrading the product

by developing software that will replace paper documentation called Hazard Analysis of Critical Control Points, which some types of food service companies are required by federal regulators to complete. Restaurants generally develop their own HACCP standards.

HACCP documentation for restaurants is a way of making sure the facility is safely preparing food all the way through its preparation. For example, part of the process is to check temperatures as food is thawed, cooked and ready to be served. Paper forms are used to record the temperatures and can indicate variances that could signal a potential problem.

"That's wave two," Mr. Yiannas said of the further development of the CAFE system to computerize HACCP forms. "We want to use the same technology for HACCP records."

Ms. Rogers of Tangent said her company also is working on software that will allow users to do away with their HACCP forms.

Mr. Yiannas acknowledged that there is one potential drawback to the technology—that operators can become so enamored of the system that they forget to properly interact with restaurant operators.

"It's a valid concern," he said. "At first, we had our noses glued to the Palm Pilots and weren't doing much talking."

Once that risk is recognized, though, it can be addressed, Mr. Yiannas said.

"I see hand-held technology becoming very prominent... not only at Disney, but across the (food service) industry," he said. **BI**

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Benefit cap OK under ADA: Court

By ROBERTO CENICEROS

SAN FRANCISCO—Employers and insurers can cap long-term disability benefits for "mental disabilities" while providing better coverage for "physical disabilities," according to the 9th U.S. Circuit Court of Appeals.

Doing so does not violate the Americans with Disabilities Act, the court ruled in *Weyer vs. 20th Century Fox Film Corp.* In favoring employers and insurers, the 9th Circuit's Jan. 3 ruling agrees with decisions reached by six other federal appeals courts that have weighed similar cases, said Gregory G. Katsas, a partner at Jones, Day, Reavis & Pogue in Washington.

Among those was a recent ruling by the 2nd Circuit in a similar case (*BI*, Dec. 20, 1999).

Employers and insurers, however, may not be entirely out of the woods on the issue, said Mr. Katsas. He represents the American Council of Life Insurance and the Health Insurance Assn. of America. The organizations filed amicus briefs in the Weyer case.

There are still five federal appellate courts that have not considered the issue or ruled on the matter, and the Clinton administration, through the Department of Justice and the Equal Employment Opportunity Commission, has supported employees in their lawsuits, Mr. Katsas said. It is also possible that federal authorities would support a plaintiff employee should a case reach the Supreme Court, he added.

The remaining appellate courts that have not ruled on the matter eventually could cite the other court decisions as precedent and rule in favor of employers and insurers, Mr. Katsas said. But he said he thinks federal officials will likely continue to fight.

In the 9th Circuit case, Washington state resident Helen Weyer sued her employer, 20th Century Fox Film Corp., and UNUM Life Insurance Co. of America. She was unable to continue working in 1994 due to severe depression, according to court documents.

According to court records, under the LTD policy provided by Fox, individuals who were disabled because of mental illness, alcoholism or drug abuse could get benefits for only two years; individuals with physical disabilities were not subject to the same limitation and could receive benefits until age 65.

Ms. Weyer filed a lawsuit claiming discrimination. The suit was dismissed by a federal court in Washington. The EEOC supported her appeal by filing an amicus brief.

The 9th Circuit in San Francisco found that Fox did not discriminate under the ADA, because its insurance offerings applied equally to all employees.

The court said UNUM's decision to distinguish between mental and physical illnesses is protected by an ADA safe harbor provision for insurers.

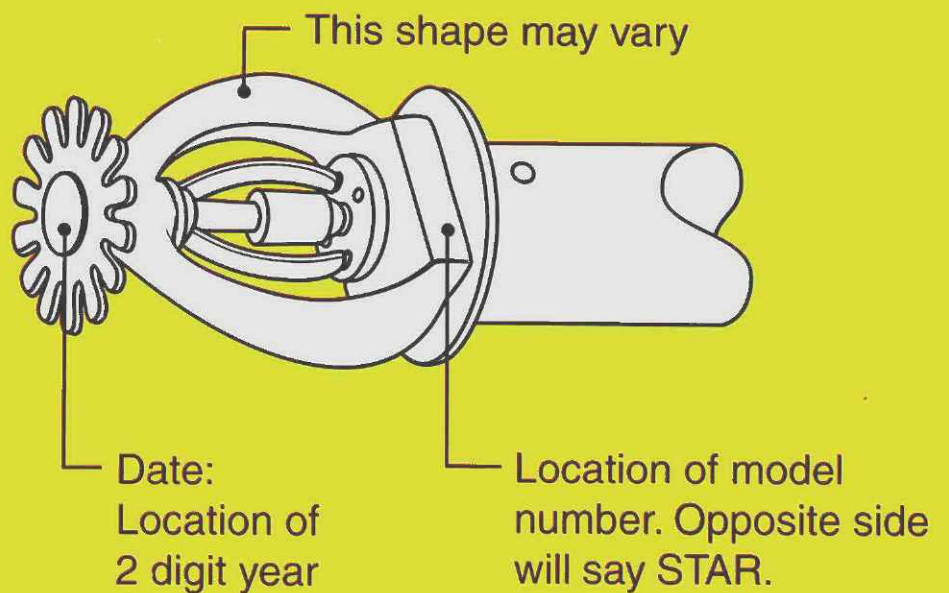
Weyer vs. 20th Century Fox Film Corp., 9th U.S. Circuit Court of Appeals, No. 98-35215.

Recall of "Star" Brand D-1, RD-1, RE-1, E-1, and ME-1 "Dry-Type" Fire Sprinklers manufactured from 1961 to 1976

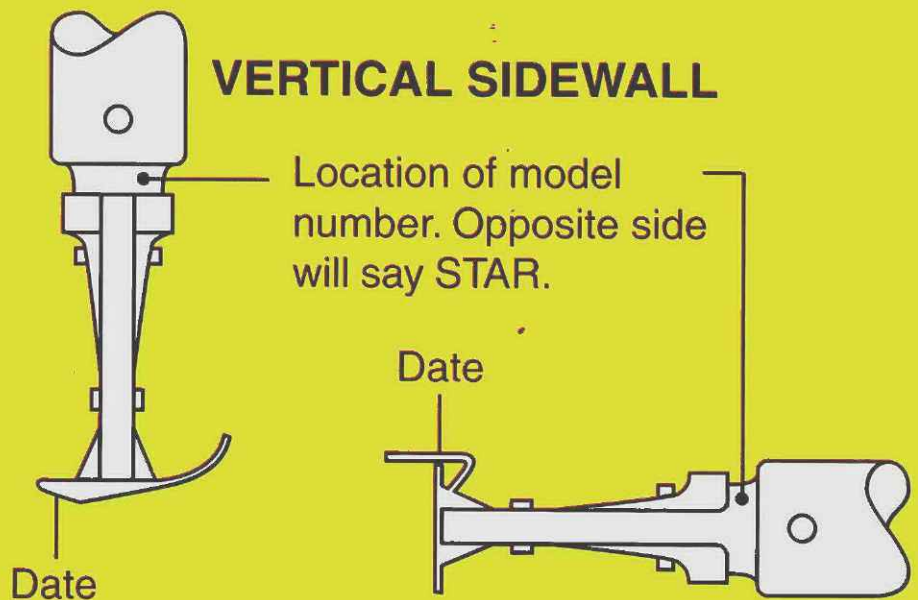
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Mealane Corporation is urging consumers and property owners to determine whether their facilities contain any Star D-1, RD-1, RE-1, E-1, and ME-1 sprinkler models made from 1961 to 1976 and to call the **Star Sprinkler Recall Hotline at 1-800-866-7807 or visit the special web site, www.star-recall.com, for more information.**

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The Kansas State Employees Health Care Commission will issue Request for Proposal (RFP) #00946 on February 1, 2000 for a fully insured, voluntary statewide student health insurance plan for students at Kansas Regents Institutions (Kansas University Medical Center, University of Kansas, Kansas State, Emporia State, Pittsburg State, Wichita State, and Fort Hays State Universities.)

If interested in receiving a copy of the RFP, please contact:

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Division of Purchases — Attn: Fran Welch
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Topeka, Kansas 66612-1251
Phone: 785-296-2376
Fax: 785-296-7240

METROPOLITAN TRANSPORTATION AUTHORITY (MTA) NOTICE is hereby given that the Authority requests proposals from qualified firms to provide the services indicated below. Copies of RFP may be secured from Ms. Jean Maounis, Procurement Services, MTA, 345 Madison Avenue New York, NY 10017-3739 or by calling (212) 878-7209. Each document will cost a non-refundable fee of \$150 (Company checks drawn on a U.S. Depository or Money Order). There will be a \$25.00 fee for each returned item. You may pick up the documents between 9:30 a.m. and 4:30 p.m., Monday to Friday (except holidays) or have them mailed to you. Viewing of the document is available during the same hours. This document will be available on or about January 11, 2000.

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LEGAL NOTICES

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In re

Petition of Anthony James McMahon and Philip Wedgewood Wallace, as Joint Provisional Liquidators of SOVEREIGN MARINE & GENERAL INSURANCE COMPANY LIMITED

Debtor in Foreign Proceedings.

In Proceedings Under
Section 304 of the
Bankruptcy Code
Case No. 97-B-44652(CB)

NOTICE OF ENTRY OF PERMANENT INJUNCTION ORDER

PLEASE TAKE NOTICE that by Permanent Injunction Order dated December 30, 1999, the Scheme of Arrangement with respect to Sovereign Marine & General Insurance Company Limited* dated October 15, 1999 and sanctioned by Order of the High Court of Justice of England and Wales dated December 20, 1999 (the "Scheme") has been given full force and effect in the United States and is binding on and enforceable in accordance with its terms against all Scheme Creditors (as defined in the Scheme) and all persons and entities are permanently enjoined and restrained from, *inter alia*, taking any action that is inconsistent with the Scheme.

PLEASE TAKE FURTHER NOTICE that copies of the Permanent Injunction Order are available upon written request to:

Cadwalader, Wickersham & Taft
100 Maiden Lane
New York, New York 10038
Tel: 212-504-6000
Fax: 212-504-6666
Attn: Theresa D'Agostino

Dated: New York, New York
December 30, 1999

Cadwalader, Wickersham & Taft
Attorneys for the Scheme Administrators
Ken Coleman (KC 6750)
Stephen Doody (SC 6738)
100 Maiden Lane
New York, New York 10038
(212) 504-6000

* The insurance business of BIMEH IRAN INSURANCE COMPANY (U.K.) LIMITED ("Bimeh") underwritten by Willis Faber (Underwriting Management) Limited during the years 1976 through 1978 and by Lennox Underwriting Agencies Limited during the years 1977 through 1979 (the "Transferred Liabilities") was transferred to Sovereign Marine & General Insurance Company Limited in 1984 pursuant to section 51 of the Insurance Companies Act 1982. As used herein the term "Company" includes Bimeh only to the extent of the Transferred Liabilities. All other business written by or on behalf of Bimeh is not affected by this Order.

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Circulation Breakdown Commercial Consumers

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other Financial Personnel 4,945

Risk/Employee Benefits:
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related department personnel of: insurance, risk,
employee benefits, personnel, compensation,
pension, safety, security, industrial relations,
human resources and employee/
labor relations 13,572

Sub-total **30,866**
Associations 237
Government, Unions and
Educational Institutions 972

Commercial Consumers
Sub-total **32,073**
Insurance Agents and Brokers 7,763
Insurance Companies 6,357
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Attorneys & Consultants 2,361
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& Health Care Providers 1,347
Others Allied to the Field 1,008

Total Qualified **50,909**
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TOTAL CIRCULATION **50,933**

* Source Business/Occupational
breakdown of qualified circulation,
May 31, 1999 Issue, as
submitted to BPA for June 1999
BPA Publisher's Statement

**Next Issue: January 17,
closing January 11.**

FTR FOR THE RECORD

Louisiana comp costs down

CAMBRIDGE, Mass.—Louisiana's workers compensation system is lowering costs and paying workers more quickly, but it is missing opportunities to prevent disputes or resolve them promptly, a new study reports.

In its recently released "Workers' Compensation in Louisiana: Administrative Inventory," the Cambridge-based Workers Compensation Research Institute reports that Louisiana's medical and indemnity costs per worker fell 22.3% to \$273 in 1998 from \$351 in 1992.



The study, authored by Duncan S. Ballantyne, says that, when adjusted for inflation, costs per worker fell 6.5% per year from 1992 to 1998.

Louisiana is ahead of most other states with regard to promptness of lost-wage payments to injured workers, the WCRI reports. In 1996 and 1997, the most recent years for which data were available, employers and insurers made an initial payment within 14 days of the date of injury on at least 74% of claims for lost wages. The percentage is higher if disputed claims are excluded, according to the report.

But, the state is not doing much to prevent disputes, resolve them quickly or avoid attorney involvement, the study found.

Worker representatives say the state Office of Workers' Compensation Administration "does little to provide information and help to injured workers," the report notes. Representatives "complain that education is sparse, information services are ineffective, and dispute resolution specialists are more like court clerks than ombudsmen in other states. . . . As a result, they say, most workers navigate the system with an attorney."

Dan Boudreaux, assistant secretary/director of the Office of Workers' Compensation Administration, said the agency's new hearing rules, implemented last October, are expected to speed up dispute resolution. The changes include allowing mediation near the end of a trial and by telephone, if all parties agree, he said.

Moving through the claims system has been made easier because the administration has made forms available on its Web site, Mr. Boudreaux said. "That has decreased the number of phone calls and increased availability of the forms" needed by insurers, adjusters, employers, workers and others, he emphasized.

Copies of the report are available for \$35 from the WCRI at 955 Massachusetts Ave., Cambridge, Mass. 02139; 617-661-9274.

Aon renames Chicago landmark

CHICAGO—Aon Corp., which earlier this year announced plans to relocate its headquarters to the landmark Chicago skyscraper that formerly housed Amoco Corp., has officially renamed the structure the Aon Center.

AON

The renaming took place during Chicago's millennium festivities Dec. 31.

"We are extremely proud to associate the Aon brand with a Chicago landmark," Patrick G. Ryan, Aon's chairman and chief executive officer, said in a statement. "Renaming this property the Aon Center is particularly appropriate during the millennium celebration, as it symbolizes our company's worldwide growth and our commitment to our Chicago roots."

The building, completed in 1973 and originally known as the Standard Oil Building, is the second-tallest building in Chicago, at 1,136 feet. At the time of its original construction, it was the largest marble-clad building in the world.

Amoco Corp. sold the building after its 1998 acquisition by British Petroleum Co. P.L.C. Aon is subleasing 500,000 square feet of space in the building—making it the lead tenant—and completing the lease of BP Amoco P.L.C., which expires in 2013.

NAIC announces highest-paid staff

KANSAS CITY, Mo.—Annualized salaries for the five highest-paid staff members of the National Assn. of Insurance Commissioners ranged from \$147,885 to \$230,000 in 1999.

Catherine J. Weatherford, the Kansas City, Mo.-based executive vp of the NAIC was paid \$230,000 for serving as the organization's chief executive officer last year. Her salary was increased last year following a market salary study that indicated the compensation for the position was "substantially below market," the NAIC said in a statement.

Chris Evangel, the newly hired director of the New York-based Securities Valuation Office, was paid \$225,000 last year.

David Wetmore, director of federal and international relations in the Washington, D.C., office, was paid \$168,501.

Kansas City, Mo.-based employees Caroline Scott, general counsel, and Mark Peavy, a life and health actuary, were paid \$150,520 and \$147,885, respectively.

NAIC members decided in 1994 to release top staff mem-

bers' salary information annually.

Information in brief

Summit Bancorp, a regional bank based in Princeton, N.J., recently signed a definitive agreement to acquire broker **Meeker Sharkey Financial Group Inc.** in a tax-free exchange of stock. Terms of the deal were not disclosed. Meeker Sharkey President and CEO Thomas Sharkey Jr. will become CEO of Summit's insurance unit. . . .Healthon/WebMD Corp. and HNC Software Inc. have teamed to create an **Internet-based medical claims processing system** for the workers compensation and auto insurance industry. The system, which is expected to reduce processing costs greatly, will be available this summer. . . .Pleasanton, Calif.-based consulting firm Clayton Group Services is bringing all its variously named operations under the **Clayton Group Services Inc.** banner. The units were formerly known as Clayton Environmental Consultants, Clayton Laboratory Services and Clayton Management Consultants. . . .The **California Commission on Health and Safety and Workers' Compensation** announced last month the election of labor leader Tom Rankin as its chair for 2000. The commission is charged with recommending administrative and legislative changes to improve the operation of the state's workers compensation system. Mr. Rankin is president of the California Labor Federation in Sacramento. . . .New York-based Willis Faber North America Inc., a unit of Willis Group Ltd., has changed its name to **Willis Re Inc.** Willis Faber's life, accident and health reinsurance brokerage subsidiary, Reinsurance Alternatives, will continue as a separate division of Willis Re.

Comings & Goings: Industry

Jeffrey L. Radke has joined PXRE Group Ltd. as executive vp of the Hamilton, Bermuda-based reinsurer. Mr. Radke, who previously was president of Select Reinsurance Ltd. in Bermuda, is the son of PXRE Chairman, President and CEO Gerald L. Radke. . . .**Urban E. Leimkuhler Jr.** has been named president of Am-Re Consultants Inc. in Princeton, N.J. He succeeds **Richard T. Delaney**, who retired last month. . . .New York-based Marsh Inc. has named **Ellen Clarke** chief information officer. She previously was with Ernst & Young L.L.P. . . .Bloomfield, Conn.-based CIGNA HealthCare has appointed **Eric Elliott**, president of Tel-Drug Inc., CIGNA's mail-order and Internet drug distribution company, and the CIGNA HealthCare Pharmacy Service Organization. He comes to CIGNA from Rite Aid Corp. **BI**

Harvard

Continued from page 1

"It's one big mess of uncertainty," said Arun Kumar, director at rating agency Standard & Poor's Corp. in New York.

For now, under terms of the receivership, employees are guaranteed continued coverage, and with many employers' open enrollment period just ended as of Jan. 1 there is no indication of a widespread move by employers to seek other coverage before the next open enrollment period.

"Clearly, we're very concerned about it, but for now we are monitoring the situation," said Boon Ooi, who heads compensation and benefits planning at Boston-based State Street Corp.

"We are trying to make sure our employees are fully informed as to what's going on, and obviously we're trying to tell our people not to panic," said Mr. Ooi, who added the company is looking at alternatives and making contingency plans.

Under provisions of an HMO receivership legislation signed into law in November, if the HMO is ultimately liquidated, employees and employers would be protected from creditors, and employees could find coverage at other HMOs without penalty for pre-existing conditions.

Harvard Pilgrim's aggressive marketing in a hotly competitive market is being cited as a major factor behind its current problems.

Another factor are ongoing integration obstacles, including computer problems, stemming from the merger five years ago between Harvard Community Health Plan and Pilgrim Health Care that created Harvard Pilgrim.

Harvard Pilgrim, which has about a 30% share of the Massachusetts HMO market, has an

excellent reputation for the quality of its care. Among other honors, it ranked No. 4 among health plans in quality in a Newsweek survey last year.

In an Oct. 29 letter to employers, written in response to a local news article, Harvard Pilgrim president and CEO Charles D. Baker said: "The organization clearly has sufficient resources to meet all of its financial obligations. Today, this includes more than \$280 million in cash and securities."

There have been signs, however, of impending problems. Standard & Poor's had downgraded Harvard Pilgrim several times last year, most recently to a single B from a BB-

And last year, the company said

Competitive pressures in Massachusetts have been cited as a major factor in Harvard Pilgrim's problems.

it was withdrawing from its money-losing Rhode Island operation. The Rhode Island Department of Business Regulation placed the company's affiliate in that state into rehabilitation in October.

Although most of its business is in Massachusetts, the company also has operations in Maine and New Hampshire.

Harvard Pilgrim last week reported the discovery of accounting errors just as it was preparing for a \$147 million state bond offering approved by the Massachusetts Health & Education Facilities that would have improved its financial situation. As a result of the discovery, its projected 1999 loss ballooned to \$177 million from a loss of \$100 million previously expected for 1999.

Under terms of the proposed bond issue, which has now been put on hold, Harvard Pilgrim would have sold eight of its facilities to a state-created entity, which would then have leased the facilities back to the HMO.

"We did uncover some information that indicated that we had a higher (incurred-but-not-reported losses) for 1998 and a higher level of medical losses for '99 than we had projected," said a company spokesman.

Harvard Pilgrim notified the Massachusetts Division of Insurance of the problem. On Tuesday, state Attorney General Thomas Reilly and Insurance Commissioner Linda Ruthardt petitioned the state's Supreme Judicial Court to appoint Ms. Ruthardt as temporary receiver.

Ms. Ruthardt now has 30 days to work with consultants, the Massachusetts Division of Insurance's staff and Harvard Pilgrim to develop a rehabilitation plan for the organization, though an extension may be requested, said an Insurance Division spokesman.

The competitive environment in Massachusetts has been cited as a major factor in the HMO's problems.

The accounting problems were only "the straw that broke the camel's back," said Richard Shaw, an analyst with Oldwick, N.J.-based A.M. Best Co.

Although Harvard Pilgrim was not necessarily always the lowest-priced competitor, its problem arose when it offered guaranteed two- and three-year contracts with rate increases ranging from zero to about 4%, according to market reports.

"If you lose on every sale you can't make up for it on volume" said Dr. David B. Friend, vp and managing director with Watson Wyatt Worldwide in its Wellesley Hills, Mass., office. "They grew
See Harvard on next page

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Harvard

Continued from previous page and, obviously, couldn't manage their growth. They lost control of their business."

Douglas L. Meyer, an analyst with Duff & Phelps Credit Rating Agency in Chicago, agreed. "It appears they just lost their focus, lost control of their costs and significantly mispriced the product. When you do that, you get in trouble," he said.

Dolores Mitchell, executive director of the Massachusetts Group Insurance Commission, which provides insurance coverage for state employees, said: "My understanding is, in the narrow, technical accounting sense, they simply have inadequate reporting systems and an overly complex one, so they were unaware of the extent of their obligations."

Ms. Mitchell, who also is president of the Massachusetts Health Care Purchasers Group, an employer coalition, said Harvard Pilgrim's problems also stem from the merger that created it.

The organization grew too much, too fast, before it had its own house in order following the merger between Harvard, which followed a staff model, and Puritan, which was an independent practice association, she said.

"Small may not be beautiful, but too big may be ugly, and that is what this has turned out to be, I think," said Ms. Mitchell.

Ed Maguire, a broker with Cambridge-based Sapers & Wallack, said, "They had doctors who would have two or three different types of contracts with them, and it seems they got themselves a lot of problems with very poor management information systems. They didn't know what they didn't know."

This is not the first time an HMO has run into problems with computer systems following a merger, said Michael Barry, an analyst with the rating agency Fitch IBCA in New York. "You would think, at this point in the game, if there was a merger between two managed care companies, that a lesson would have been learned already," he said.

HMOs targeted by regulatory action

HMO	Year	Enrollees	Outcome
Harvard Pilgrim Health Care	2000	1.3 million	In receivership
Health Insurance Plan of New Jersey	1998	194,000	Dissolved
Maxicare Health Plans Inc.	1989	1 million	Emerged from Chapter 11

A Harvard Pilgrim spokesman said he is optimistic that the HMO will be successfully rehabilitated.

"We feel that the outlook for 2000 is a good one, because we have a turnaround plan in place. We have accomplished a lot in the last six months to create a strong foundation for 2000, but, unfortunately, we learned earlier this week that we were in a much deeper hole for 1999 than we thought we were," he said.

'It appears they lost control of their costs and significantly mispriced the product,' says Douglas L. Meyer of Duff & Phelps.

The spokesman would not discuss how Harvard Pilgrim is likely to get additional capital with the bond deal on hold. "Since it's Day 2 of the receivership, I think it's premature to answer that question," he said.

Unlike Oxford Health Plans, which faced comparable problems, Harvard Pilgrim is not publicly held, and so it does not have ready access to capital, said Mr. Shaw of A.M. Best.

"It's a little more difficult" than it was for Oxford, given its non-profit status, agreed Duff & Phelps' Mr. Meyer. "It's not as clean a solution," he said.

"I don't know if it's the end, but I think they're going to have an awful lot of work to do," said Dr. Friend of Watson Wyatt.

One possible development for Harvard Pilgrim is acquisition by another company.

A potential acquirer is Boston-based Blue Cross & Blue Shield of Massachusetts. "They could handle this type of mass enrollment," said Best's Mr. Shaw. A Blue Cross spokeswoman had no comment.

Another possibility is liquidation.

Fitch's Mr. Barry pointed to the liquidation of the Health Insurance Plan of New Jersey, an HMO that was taken over by state regulators in November (BI, Nov. 2, 1999).

If a strong suitor for Harvard Pilgrim cannot be found, "they you could look for a similar situation to what we saw here in HIP, and there would be a slow but orderly"

withdrawal of the business, with policyholders able to choose other health care providers over some period of time, said Mr. Barry.

The ultimate impact on employers is not known, "but, clearly, the picture is not positive," said Mr. Kumar of S&P. It is unknown, for instance, what kind of rate increases will be put through in conjunction with Massachusetts' receivership or what kind of benefit design changes may be introduced, he said.

The most popular open enrollment period of the year has just ended, leaving many employers with Harvard Pilgrim as their HMO.

"I think a lot will happen before next January, and each employer will have to make its own decision" about which HMO to use, based on what Harvard Pilgrim, as well as its competitors, are charging, said John Cotton, a senior vp in The Segal Co.'s Boston office.

When open enrollment periods come round again, "Harvard, I think, is going to have a pretty hard time selling increases, because the inclination will be to leave anyway," and employees may "vote with their feet," said Mr. Maguire of Sapers & Wallack.

Employers and employees may find help through the HMO receivership law. The legislation, which was signed into law by Gov. Paul Cellucci in November, provides that an HMO that is in danger of insolvency can be put into receivership.

Prior to its enactment, a company would have had to go into federal bankruptcy court and its members, doctors, hospitals and providers would not necessarily be considered ahead of other creditors, said a spokesman for the Insurance Division.

The law also provides that, if an HMO is liquidated, its members could migrate to other available plans in the state and could not be discriminated against for pre-existing conditions, he said. "It basically allows for a seamless transition for continuance of coverage," the division spokesman said.

Ms. Mitchell said, however, that she remains "hopeful that they will be able to get themselves out of this hole, and get back to running the health plan in the black mode instead of the red mode, and that we can get back to arguing about rates and new programs and more positive things." **BI**

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401(k)

Continued from page 2

employees contribute, which more employers now realize, the PSCA says.

"Companies are just beginning to learn about the legislative change. Over the next few years, it is likely that more companies will shorten their waiting periods." PSCA President David Wray said in a statement.

The legislative change, though, may not be the only reason more employers are opening up their 401(k) plans to new employees. A tight labor market and the resultant need to attract employees also

is contributing to faster eligibility, Mr. Wray said.

According to the survey, 40.4% of 401(k) plans allow employees to participate in the plans within three months of being hired, 17.1% allow participation after more than three months but less than one year of being hired, and 42.5% require at least one year of service.

Free copies of the "401(k) and Profit Sharing Plan Eligibility Survey" are available from the Profit Sharing/401(k) Council of America at 312-441-8550. Copies also can be downloaded from the PSCA's World Wide Web site, www.pscaweb.com.

Commentary

Home is where you hang your haz mat

Many people got quite a scare last week, as an overlooked interpretation of federal safety law gained publicity and sparked fears of federal inspectors from the Occupational Safety and Health Administration traipsing through the dens, basements and bedrooms of the nation's home workers.

That specter was bad enough, but then came the realization that a favorite tool of safety regulators is the surprise inspection. This realization no doubt forced millions of home workers to confront—perhaps for the first time—the terrifying prospect of actually having to wear more than undergarments while working from home, or else risk a humiliating visit from representatives of Uncle Sam's Safety Patrol.

When people talk about the flexibility of telecommuting arrangements, this is what they really mean (that and quick access to daytime television). If all that's in jeopardy from surprise inspections, folks might as well put on a tie and go to the office.

In addition to donning clothing in order to appear to be working productively in a respectable environment, folks became aware they might also have to scrub the mildew out of the shower, pick up those dirty clothes on the floor and wash the dishes from yesterday's breakfast that are still lying in the sink. So much for flexibility!

Before the hysteria could get out of hand, however, the Clinton administration thankfully withdrew the interpretation, admitting it was in need of more consideration and input. Far be it from me, though, to stop flogging a dead horse.

Imagine, if you will, what a possible OSHA inspection of my home office might look like:

REPORT OF REGION 5 OSHA INSPECTORS F. MULDER and D. SCULLY OF WORKSITE 734-F.

A review of workplace environment 734-F uncovered a series of alleged willful and serious violations of Occupational Safety and Health Administration standards, resulting in proposed fines of \$66,666, unless contested or corrected within 30 days of this report.

The alleged willful violations for which the worksite was cited include:

- *Electrical overload hazards. Using a variety of grounded and ungrounded extension cords and adapters, no fewer than 12 electrical devices, including computer, monitor, printer, coffee warmer, Nintendo and such, are plugged into a single wall outlet in work environment.*

- *Witnessed an underage individual, presumably a colleague, chasing a domestic animal under the work desk in dangerous proximity to the electrical hazard. Note to refer case to DOL for investigation of child labor law violations.*

- *Fire safety hazards. Determined that batteries in workplace smoke detection devices had depleted or near-depleted charges, indicating that batteries had not been refreshed in accordance with regulation 9V-24/7.12.*

- *Airborne pathogen hazards. Underage colleagues sneezing and coughing in the workplace without use of respiratory masks. One exhibited a runny nose; make note to contact CDC. Discarded tissues with potentially infectious material discovered on floor, rather than stored in properly sealed and marked biohazard disposal unit. Hand washing signage and training not in evidence. Viral risk extreme.*

Alleged serious violations include:

- *Workplace contains numerous small plastic figures of nude women and men with the words "Mattel Inc." stamped on them. Not only does this present a potentially hostile workplace environment but also poses a slip-and-fall hazard, as the stairs and floors are littered with these.*

- *Beer and liquor available in unlocked cabinets and refrigeration devices a short walk from office environment; raises possibility of worksite substance abuse.*

- *Potential indoor air pollution hazard, as domestic animal refuse box placed in near proximity to office environment.*

Thank goodness I have some time to clean up my act.

Editor Paul D. Winston's commentary appears fortnightly. He can be reached at home or in the office via pwinston@crair.com.

CIGNA

Continued from page 1

In moving most of its property/casualty operation's liabilities to a separately capitalized runoff unit, CIGNA did not obtain policyholder approval. CIGNA officials at that time said such approval was unnecessary, because the policies were moved as part of a corporate merger, not a transfer.

Overturing a lower court's decision, the Pennsylvania Supreme Court last July upheld the CIGNA restructuring (*BI*, July 26, 1999). Opponents of the restructuring had raised the novation issue and other arguments in the courts. But both courts ultimately limited the scope of their reviews to whether Pennsylvania regulators had conducted appropriate public hearings on the transaction.

In the transaction, Philadelphia-based CIGNA took advantage of Pennsylvania's unique corporate division law and split its P/C operation in two.

One piece retained the operation's ongoing profitable business and the operation's name, Insurance Co. of North America.

The other piece assumed sole responsibility for most of INA's pre-1996 liabilities, including its long-tail asbestos and environmental liabilities. CIGNA then merged that piece into an existing licensed unit, Century Indemnity Co.

In addition to its capitalization additions and boosted reserves, the facility was covered by \$800 million of excess-of-loss reinsurance written by INA. If losses were to blow through that coverage, however, INA would not be obliged to cover them, according to various documents and CIGNA officials at that time.

ACE Ltd. purchased both INA and the runoff operation, Brandywine Holdings, in a \$3.5 billion deal that closed in late July 1999. Before the deal closed, Brandywine purchased \$2.5 billion of additional reinsurance from Berkshire Hathaway Inc. unit National Indemnity Co. at a cost of \$1.25 billion. ACE is not a defendant in the California action.

AIG asks the California court to declare CIGNA's transaction invalid and that INA remains obliged to fully cover the California policyholder liabilities that CIGNA moved to the runoff facility. AIG also asks the court to order the defendants to publish in California newspapers and on the Internet notices of INA's policyholder obligations.

"This is a matter of principle," stressed Ernest Patrikis, senior vp and general counsel for AIG in New York. He noted several times that AIG is not seeking any monetary compensation.

The novation precedent set by INA's restructuring "is not good for the insurance industry," Mr. Patrikis said.

AIG was among several competing insurers and CIGNA policyholders that opposed the restructuring. Besides the novation and public hearing issues, CIGNA's opponents argued that they had no way to verify independently whether the runoff facility was adequately capitalized.

CIGNA officials maintained that as a result of the restructuring, INA's liabilities were fully funded three times over. Even in a worst-case scenario, all liabilities would be covered after INA's ex-

cess-of-loss reinsurance responded, the officials said.

CIGNA officials claimed the opponents had ulterior motives for opposing the restructuring. They said the policyholders were disgruntled because they were mired in coverage disputes with CIGNA. The officials characterized the insurers as rivals bent on derailing a plan that would strengthen a competitor.

The plan succeeded. Immediately after CIGNA announced the restructuring, A.M. Best Co. of Oldwick, N.J., raised INA's financial strength rating to an A- from a B+. CIGNA officials said at the time that the lower rating imperiled INA, because the rating would not attract quality risks.

Best raised INA's rating to A last summer shortly after INA's sale to ACE was completed. At the same time, Best reaffirmed Brandywine's B+ rating—the "secure" rating that the runoff facility has carried since its inception in 1996.

The novation precedent set by INA's restructuring 'is not good for the insurance industry,' says AIG Senior Vp and General Counsel Ernest Patrikis.

In the lawsuit, AIG alleges that INA's higher rating may have allowed the restructured INA "to obtain new business to which it would not have otherwise had access because of its relative financial instability."

According to figures from ACE USA, INA's direct written premiums in California grew 6.5%, while its total U.S. premiums shrank 25.1% from 1996 through 1998.

Dan Ryan, a managing senior financial analyst in Best's property/casualty division, said the restructuring eliminated "a lot of distraction" for INA's management. With INA's pre-1996 liabilities under separate management at the runoff operation, INA management became more focused on day-to-day operations. That allowed INA to take advantage of its core competencies of servicing Fortune 1,000 accounts and the specialty commercial lines market—two segments where INA is in direct competition with AIG, he said.

AIG asserts that if INA assumes its pre-1996 liabilities, it should carry the B+ rating it had before it restructured.

Best will monitor developments with the litigation, but any speculation about how an AIG victory may impact INA's rating would be premature, Mr. Ryan said.

He noted, though, that an AIG victory may trigger "a domino effect" of lawsuits by policyholders in other states.

At least one of several policyholder attorneys involved in the Pennsylvania litigation would be ready for another battle with INA over the restructuring.

"If policyholders (in other states) came to me, I'd be happy to make a claim and handle it," said Lawrence T. Hoyle Jr., who represented several CIGNA policyholders and rival insurers in the Pennsylvania litigation. Mr. Hoyle is a partner with Hoyle, Morris & Kerr in Philadelphia.

AIG also alleges in the lawsuit that CIGNA and INA misled and deceived California policyholders in notices announcing the restructuring. AIG charges that the notices did not state that the trans-

action shielded INA from their claims and that the deal made policyholders ineligible for guaranty fund protection if Century Indemnity failed, because it had not issued their policies.

The letters were signed by Gerald A. Isom, who then was the president of the CIGNA Property & Casualty division. Mr. Isom, now a director at Dallas-based intermediary E.W. Blanch Holdings Inc., did not return calls.

AIG asks the court to order the defendants to take all reasonably necessary steps to restore the California policyholders' guaranty fund protection.

A separate motion in the lawsuit, if approved by the court, also could spark a directors and officers claim against CIGNA by company shareholders, according to an insurer D&O attorney. In that motion, AIG asks the court to order the defendants to inform those who purchased CIGNA stock after INA's reorganization "that INA remains liable under

each and every policy sold by it."

AIG's Mr. Patrikis said the intent of the motion is to give shareholders information "they didn't receive" before buying CIGNA

stock. He said the motion was not intended to spark a shareholder D&O action against CIGNA.

Such a ruling by the California court "certainly" would create a risk of a shareholder lawsuit, however, said insurer D&O attorney Dan A. Bailey, a partner with Arter & Hadden of Columbus, Ohio.

In addition, such a ruling would arm CIGNA shareholders in a D&O lawsuit with a judicial finding on some issues, which means CIGNA could not defend itself on those issues in the D&O action, Mr. Bailey said.

The "irony" of such a D&O claim, though, would be that CIGNA's "alleged misconduct, in many respects, benefited the company. So who's to complain?" Mr. Bailey observed.

CIGNA's stock price began rising significantly shortly after the company announced the restructuring. In late September 1995, just before investors became aware of the restructuring, CIGNA's stock was trading at \$99.75. Taking into account CIGNA's three-for-one stock split last May, the stock was trading at \$228.66 at year-end 1998—just before CIGNA announced INA's sale.

Stock analysts said the restructuring was only a minor factor in the surge of CIGNA's stock price. CIGNA's stock has been strong for the past decade, they said.

Mr. Patrikis said he hopes that other opponents of the restructuring join in the litigation.

Last week, only one, Chubb Corp., expressed enthusiasm over AIG's action. Chubb is "actively considering" joining the suit, a spokeswoman said.

A spokeswoman for another opponent of the restructuring, Royal & SunAlliance USA, said the insurer likely would not participate.

The St. Paul Cos. Inc. and Fireman's Fund Insurance Co., the other two insurers that opposed INA's restructuring, as of last week had not decided whether they would join AIG's lawsuit.

Representatives for CIGNA, ACE and California and Pennsylvania insurance regulators would not comment on the lawsuit. **BI**



Paul D. Winston

OSHA

Continued from page 1

telecommuting workers' homes to assure that OSHA safety standards meant for traditional workplaces had been met. Lawmakers, responding to constituents' complaints, threatened to block implementation of any home workplace safety rules.

"I find that even the idea of what they are proposing fails the rule of reason on so many grounds it's hard to stay calm," said Helen Darling, senior consultant-group benefits and health

care with Watson Wyatt Worldwide in Stamford, Conn. "This is such '70s thinking—it seems like it comes out of a time machine."

Last Wednesday afternoon, Labor Secretary Alexis Herman issued a written statement saying that, while the employer that had written to OSHA "has received the guidance he needs, the letter has caused widespread confusion and unintended consequences for others. Therefore, OSHA is withdrawing the letter today."

Secretary Herman continued, "Yesterday, I called for a national dialogue to determine what the rules and poli-

cies should be for America's workers. To begin this dialogue, I will host a meeting of national business and labor leaders and other interested parties in the near future."

Employers welcomed the withdrawal of the letter but made clear that the whole affair had done nothing to enhance OSHA in their eyes.

"Once again, the Department of Labor has allowed OSHA to overreach its intended purposes and hold employers responsible for enforcing OSHA rules inside employee homes. Ms. Herman should convene a conference with OSHA Administrator

See OSHA on next page

Y2K

Continued from page 1

The fact that no breakdowns occurred, however, "makes these cases even less credible than they were to begin with," he said.

Furthermore, "the vast majority of benefit for Y2K went to American corporations," Mr. Hartwig said. "Corporate America is enjoying a productivity boon due, in part, to the housecleaning that occurred during Y2K remediation."

Besides, "computer maintenance has never been covered by an insurance policy," he said.

But policyholders and their representatives disagree.

Because the new year's date change came and went with little or no disruption to computers proves only that the remediation worked, not that there is no need for coverage, asserts policyholder attorney John Heintz, a partner at Howrey & Simon in Washington. Mr. Heintz is representing GTE Corp. in a bad-faith case where-in GTE seeks to recover Y2K remediation costs from its insurers under the sue-and-labor clause.

That clause provides coverage should a policyholder act to "sue, labor or travel" to minimize an actual or imminent covered loss. The sue-and-labor clause was introduced in the 17th century, intended to ensure that a shipowner took whatever actions were necessary, such as jettisoning cargo in an emergency, to prevent a ship from sinking (BI, July 26, 1999).

Mr. Heintz likened Y2K remediation to sandbagging and boarding up windows before a hurricane.

"If a hurricane is threatening your property, the costs you undertake to mitigate the potential loss—sandbags, plywood—these costs would be covered" under the sue-and-labor clause of the first-party property insurance policy, he explained.

Likewise, the \$385 million GTE spent upgrading its computer systems to be Y2K compliant should be covered, because it prevented damage that might otherwise have occurred to

its property and business, Mr. Heintz said.

"If you can prove you were reducing the potential for an otherwise insurable loss, it could be a viable claim," agreed Suzanne Douglass, managing director of property at broker Willis Corp. in New York.

But the analogy of safeguarding against a disaster doesn't fit Y2K remediation, an insurer attorney contends.

While "a hurricane is a true disaster, the issue of upgrading one's software isn't," countered Walter Andrews, an insurer attorney at Shaw Pittman in Washington.

"Their claims would have been more viable if they had an example of a failure to compare themselves to," Mr. Andrews said. "It's hard for an insurer to just pay hundreds of millions of dollars on remediation costs to avert a disaster when, in fact, there wasn't one."

Echoing the warning many computer experts have expressed in the media, though, Mr. Heintz suggested that the Y2K disaster may not have completely been averted.

"I suspect there are more problems out there than we've heard about or may not yet have surfaced," he said.

As a result, "I think you'll see more sue-and-labor cases and more D&O cases like the Sunbeam one," Mr. Andrews predicted.

In *American Alliance Insurance Co. vs. Sunbeam Corp.*, the insurer is seeking a declaration from a federal district court judge that it is not required to provide \$10 million of directors and officers liability coverage to Sunbeam to pay for any shareholder suits stemming from Y2K-related issues (see related story).

Mr. Heintz also suggested that, since the Y2K date rollover turned out to be pretty much a "non-event," policyholders also may seek coverage to pay shareholder lawsuits alleging that they spent too much on Y2K remediation.

"I'm surprised there weren't more suits filed by Jan. 1, 2000," said Ms. Douglass of Willis.

She suspects there are many more

"claims that have been filed with insurers and that the policyholders haven't gotten their denials yet."

In fact, Mr. Heintz said that, while he has only one such claim in litigation, he has several others on his desk awaiting action.

Risk managers have a "fiduciary responsibility to make sure that no options are foreclosed to shareholders because you failed to take some action to protect their potential right to recovery," said William Kelly, the managing director of J.P. Morgan in New York who is responsible for corporate risk and insurance management. Mr. Kelly is also chairman of the International Federation of Risk & Insurance Management Assns., a global body of 30 associations from more than 20 countries, and the 1995-96 president of the New York-based Risk & Insurance Management Society Inc.

"There are different circumstances which color the ultimate determination of whether any insurance exists," he said. "But unless and until there is a determination of coverage, the risk manager has an obligation to preserve any rights to coverage."

It is fortunate, Mr. Kelly said, that, unlike the expense required to become Y2K compliant, reviewing insurance policies and putting insurers on notice "does not require a big investment of shareholder funds."

In fact, he said, "I advised my colleagues in IFRIMA they should consider what, if any, actions they should take to protect the rights of their policyholders."

Mr. Kelly added that he has written several papers on the subject; they are published on the organization's World Wide Web site, at www.rims.org/ifrima.

But Stan Smith, risk manager at Las Vegas-based Boyd Gaming Corp. said that, while his company would look into the possibility of coverage, "it's not something that we would pursue."

"We try to form partnerships with our insurers," and litigating over Y2K remediation coverage could create an adversarial relationship, he explained. **BI**

Suits seek Y2K remediation costs

Six lawsuits seeking coverage for Y2K remediation costs under the "sue-and-labor clause" of property insurance policies are wending their way through the civil courts, according to a World Wide Web site created by the Federation of Insurance & Corporate Counsel. They are:

- *GTE Corp. vs. Allendale Mutual Insurance Co., et al.*, filed June 18, 1999, in U.S. District Court in New Jersey.

- *Port of Seattle vs. Lexington Insurance Co.*, filed Nov. 16, 1999, in Washington Superior Court in King County.

- *American Guarantee & Liability Insurance vs. Xerox*, filed July 1, 1999, in New York State Supreme Court; and *Xerox Corp. vs. American Guarantee*, filed July 2, 1999, in the Superior Court of the State of Connecticut.

- *Unisys Corp. vs. Royal Indemni-*

ty Co., et al., filed Aug. 6, 1999, in Superior Court of the State of Delaware in New Castle County.

- *Nike Inc. vs. American Home Assurance Co., et al.*, filed Nov. 9, 1999, in Oregon Circuit Court for the County of Washington.

- *The School District of the City of Royal Oak (Mich.) vs. MASB-SEG Property/Casualty Pool Inc.*, filed Nov. 18, 1999, in Michigan Circuit Court for the County of Oakland.

In addition to these first-party property insurance cases, two suits have been filed related to coverage of Y2K expenses under liability policies. In both cases, the insurers seek declaratory judgments that they are not liable for Y2K claims. They are:

- *Cincinnati Insurance Co. vs. Source Data Systems and Pineville Community Hospital*, filed Dec. 4, 1998, in U.S. District Court for the Northern District of Iowa. The in-

surer seeks a declaratory judgment that it was not obligated to defend or indemnify Source Data for a Y2K suit filed against the company by Pineville.

- *American Alliance Insurance Co. vs. Sunbeam Corp.*, filed July 2, 1998, in U.S. District Court for the Southern District of New York. The insurer seeks a declaration that its D&O coverage is void for any shareholder suits against Sunbeam, charging the policyholder falsely said it was unaware of any shareholder claims when, in fact, several were pending, and because it allegedly failed to provide the insurer with requested information regarding its Y2K readiness.

The FICC Web site tracking Y2K-related insurance coverage cases can be found at www.thefederation.org/public/Y2K/inscov.htm.

—By Joanne Wojcik Kochaniec

Updates

French storms may prompt M&A

LONDON—Some small insurers in France are likely to become takeover targets following recent catastrophe losses there, a catastrophe modeling expert says.

More than 80% of French insurers will have blown through their reinsurance protection once all the losses from storms Lothar and Martin are finally tallied, according to Robert Muir-Wood, technical director for Risk Management Solutions in London.

RMS predicts that the total insured losses from December's windstorms in Europe will exceed \$6 billion, while losses in France alone will exceed \$2.6 billion (see story, page 33).

The storms were 1-in-400-year events, and most insurers do not buy reinsurance to cover fully such extreme losses, Mr. Muir-Wood said. "Smaller companies will be financially challenged by the losses, and that could mean that they will get taken over," he said.

The French government also is pressuring insurers to pay claims promptly, he said.

Humana sells workers comp unit

LOUISVILLE, Ky.—Humana Inc. is selling PCA Property & Casualty Insurance Co., a workers compensation subsidiary, to Folksamerica Holding Co., Humana announced last week.

Humana said it will sell the PCA unit for \$125 million in cash and use the proceeds to reduce debt. Folksamerica is a New York unit of Bermuda-based White Mountains Insurance Group Ltd.

The deal will let Humana focus on its core managed care business. The sale, subject to regulatory approval, is expected to close this quarter. Humana also agreed to sell its individual Medicare supplemental business to United Teachers Associates Insurance Co. of Austin, Texas.

ACE completes Capital Re buy

NEW YORK—ACE Ltd. finally won a tug-of-war with XL Capital Ltd. for ownership of Capital Re Corp. late last month when ACE completed its \$516.9 million cash-and-stock purchase.

Under the agreement, ACE paid \$3.45 and issued 0.65 of an ACE share for each share of the financial guarantee reinsurer.

The cash part of the sale will total \$110.3 million, ACE said. Capital Re had about 38.5 million shares outstanding at the time of the sale.

The closing originally was planned for October. ACE announced its intention to buy Capital Re in May in an all-stock deal valued at \$605.9 million, but ACE's stock price declined over the summer, and one day before the original closing date, the offer was worth \$375.3 million.

XL jumped in with a \$456.3 million offer, and both insurers increased their bids over the next several weeks. ACE also went to court in an unsuccessful attempt to end the bidding war, alleging breach of contract by Capital Re.

ACE and Capital Re finally agreed upon the new terms in late October (BI, Nov. 1, 1999).

Aetna loses non-compete suit

SAN FRANCISCO—Aetna Inc. must pay more than \$1.2 million to an employee it fired after she refused to sign a non-compete agreement.

A San Francisco Superior Court jury awarded Anita Walia, a former account executive for Aetna U.S. Healthcare, \$180,000 in compensatory damages and \$1.08 million in punitive damages in connection with her termination from Aetna. Ms. Walia was terminated after she refused to sign a contract that would have prohibited her from working for a competitor for six months after leaving Aetna, according to her attorney, Alan Exelrod, with Rudy, Exelrod, Zieff & True in San Francisco.

A second phase of the trial, scheduled for February, will be held to determine whether Aetna's actions constituted an unfair business practice under the state's business and professions code.

Mr. Exelrod said Aetna has since discontinued its policy of requiring the agreements, though there is ongoing litigation in connection with other former employees in both state and federal courts. Other litigation on the issue has been settled, he noted.

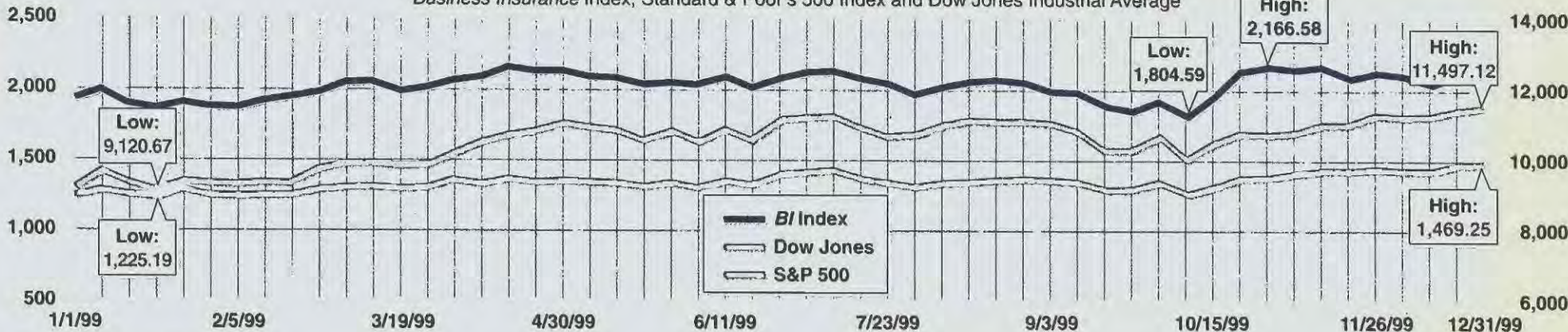
An Aetna spokesman said Aetna is reviewing the decision's impact.

Briefly noted

As expected, New York Gov. George Pataki signed into law legislation extending through June 30, 2003, a 1996 law that imposes **surcharges on bills incurred in New York hospitals** (BI, Jan. 3). ... Douglas H. May will become president of **CNA Risk Management**, a unit of CNA Insurance Cos., in March, following the retirement of Peter P. Conway. Mr. Conway has led CNA Risk Management since 1992. Mr. May, president of CNA Guaranty & Credit, will continue to manage the guaranty and credit risk insurance unit. ... Standard & Poor's Corp. raised its counterparty and financial strength ratings on **RGA Reinsurance Co.** to AA from BB and its immediate holding company, Reinsurance Group of America Inc. to A from B, following an announcement that Metropolitan Life Insurance Co. has acquired GenAmerica Corp., parent company of General American Life Insurance Co. and its subsidiaries, including the majority-owned RGA companies. RGA ranked as the 18th largest reinsurer in the world last year (BI, Aug. 30). ... **Stewart Smith Group Inc.** President and Chief Operating Officer Mark M. Smith has also assumed the title of chief executive officer of the New York-based wholesaler effectively immediately. He replaces Gary H. Cooper, who left the company Dec. 16. A Stewart Smith spokesman declined to comment on the reasons for Mr. Cooper's departure. ... Bahrain-based **Arig Reinsurance Co. B.S.C.** on Dec. 28 announced that its U.K. unit, **ARIG Insurance Co. Ltd.**, would cease underwriting after posting losses in 1999 and 1998. Standard & Poor's Corp. on Friday lowered its long-term counterparty credit and insurer financial strength ratings on ARIG U.K. to BBB from A and the ratings remain on CreditWatch with negative implications. At the same time, S&P placed its A long-term counterparty credit and insurer financial strength ratings on Arig Re on CreditWatch with negative implications.

1999 in review

Business Insurance Index, Standard & Poor's 500 Index and Dow Jones Industrial Average



Source: Nordby International Inc.

The Business Insurance Index of insurance industry stocks climbed 8.6% during 1999, not even half of the progress made by the S&P 500 Index and only about one-third of the Dow Jones Industrial Average's gain for the year—19.5% and 25.2%, respectively. The BI Index started 1999 at 1,925.29, reached an Oct. 15 low of 1,804.59 and then skyrocketed 20% to a high of 2,166.58 only three weeks later, on Nov. 5. The BI Index finished the year at 2,091.76, down 3.5% from its November high. The S&P 500 started at 1,229.23, hit its 1999 low Jan. 22 at 1,225.19, and completed 1999 at a high of 1,469.25 on Dec. 31. Starting the year at 9,181.43, the Dow reached its low of 9,120.67 on Jan. 22 as well. After a brief slump in October, the Dow peaked at 11,497.12 on the final day of the year.

OSHA

Continued from previous page

Charles) Jeffress, and not business and labor," said Lance J. Ewing, chairman of the Risk & Insurance Management Society's external affairs team and director of insurance and loss prevention for Las Vegas-based GES Exhibition Services & Exhibit Group.

An employment specialist with the National Assn. of Manufacturers noted that, while the employer group intended to "vigorously participate" in any dialogue commenced by Ms. Herman, the Labor Department's withdrawal of the letter still "leaves our members in the lurch, not knowing if the interpretation still stands because the actual letter has been revoked." The question of whether the underlying interpretation remains valid has not been made clear, said Jennifer Krese, director of employment policy for the NAM in Washington.

"Until the Labor Department assures us that its jurisdiction does not go beyond our front doors, we remain confused and concerned," said Ms. Krese.

One risk manager noted that OSHA's telecommuting interpretation appeared to be related to its controversial effort to promulgate an ergonomics safety standard for workplaces, an effort that has been opposed

by businesses because of its potential cost and rigidity.

"I don't have a significant telecommuting exposure, but I do believe it was an attempt by OSHA, maybe subconsciously, to solidify their attempts to implement an ergonomics standard. I think this is a little far-reaching. What is OSHA trying to say; are employers required to remodel their employees' homes?" said Mark DeLillo, vp-risk management at Celotex Corp. in Tampa, Fla., and a former RIMS president.

"The nature of the telecommuting exposure has not changed. The withdrawal of this letter should not signal to employers that their responsibilities to their employees in a telecommuting environment are any less," Mr. DeLillo added.

The interpretation led employers with telecommuting workers to review their policies.

"At Bell Atlantic, we are, and always have been, concerned about the safety of our employees, whether they're working at a company-owned location or from home," said Karen Fleming, manager-risk management for Bell Atlantic Corp. in Arlington, Va., a few hours before Ms. Herman withdrew the advisory letter. Ms. Fleming serves on the RIMS executive council.

"At this point, we're not sure what (interpretation) means yet, so our response is to set

up a task force and see if we need to make any changes," said Ms. Fleming. She said the task force includes representatives of Bell Atlantic's health and safety, human resources, external affairs and legal departments, as well as the risk management department.

Despite the withdrawal of the letter, "we still see this as an indication that OSHA is aiming to get serious. Clearly, they faced a lot of pressure because people thought the rule was unreasonable. I think it's a good sign to have dialogue," said Keith Lessner, vp-safety and environment of the Alliance of American Insurers in Downers Grove, Ill.

"If we step back and take a look at the big picture, we first see that OSHA is serious about advancing a vigorous safety enforcement approach, and that's a good thing," Mr. Lessner said. "OSHA's aggressiveness in advancing a strong enforcement policy is causing all stakeholders in this debate to think more carefully about workplace safety public policy. We hope this will ultimately result in a better public policy that is more in line with everyone's best long-term interests," he said.

"Few object to OSHA's mission in promoting workplace safety, yet there remains a considerable amount of concern about how reasonable OSHA has been and will be in fulfilling its mission," he added. **BI**

PCS catastrophe options

As of Jan. 7	Call spread	Price bid/ask	Call spread	Price bid/ask	
National Annual 1999	60/80	14.0/19.5	California Annual 1999	60/80	—
80/100	0.2/—	80/100	—/0.4	—	
100/120	—	100/150	—/0.8	—	
150C	—/2.0	Western Annual 1999	80/100	—/1.9	
Eastern December 1999	10/20	—/4.0	National Annual 2000	100/150	7.5/—
20/30	—/2.0	150C	150C	6.0/—	
40/60	—/2.0	Southeast December 1999	190/195	0.3/0.5	
60/80	—/1.8	40/60	—/1.8	—	
80/100	—/1.4	60/80	—/1.6	—	
		80/100	—/1.4	—	

Total volume: 0 Total open interest: 754

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Legal & Gen	162	20.0	3.6	2.3	237-142
Royal & Sun	462	—	23.0	5.0	633-351

Brokers	Price	P/E	Div. pence	Yield %	52-week high-low
Lmbrt Fenchurch	140	14.0	4.2	3.0	145-58
JLT	248	11.0	12.0	4.9	286-166

Note: Prices are Jan. 7 closings; other numbers from Jan. 6.

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

BI Industry Stock Report JAN. 3, 2000, THROUGH JAN. 7, 2000

BROKERS			Price	Weekly % change	Year to date % change	High	Low	Vol.(000)	Price	Weekly % change	Year to date % change	High	Low	Vol.(000)	Price	Weekly % change	Year to date % change	High	Low	Vol.(000)			
Aon Corp.	NYS	42.75	6.71	14.38	46.69	26.06	9821	EMC Insurance Group Inc.	NDO	9.13	0.00	-28.43	13.38	9.00	15	St. Paul Cos.	NYS	34.25	3.20	-2.14	37.06	25.38	3045
Clark Bordes Holdings	NDO	15.13	6.14	-10.44	21.00	11.63	51	ESG Re Limited	NDO	5.88	0.09	-70.35	22.25	5.13	607	SCOR	NYS	49.63	10.89	-23.65	68.25	42.94	25
E.W. Blanch Holdings Inc.	NYS	57.25	-6.15	22.62	71.75	45.38	226	Enhance Financial Services	NYS	15.88	-1.55	-47.52	29.50	15.00	901	SAFECO Corp.	NDO	24.94	1.27	-41.32	46.75	21.81	3171
Gallagher Arthur J. & Co.	NYS	63.25	-0.88	44.57	64.88	42.25	274	Everest Reinsurance	NYS	25.63	13.89	-30.15	38.94	20.50	2512	SCPIE Holdings Inc.	NYS	30.06	-7.32	0.00	36.06	23.69	NA
Hilt, Rogal & Hamilton	NYS	28.38	-0.66	52.35	29.13	15.56	126	Fremont General Corp.	NYS	8.13	19.27	-36.32	25.69	4.69	2129	Selbels Bruce Group	NDO	1.56	-16.67	-55.36	6.25	1.50	166
Kaye Group Inc.	NDO	9.09	9.40	25.43	9.25	5.00	3	Frontier Insurance Group	NYS	3.25	6.12	-74.00	17.25	2.38	1424	Selective Ins. Group	NDO	16.19	-4.43	-20.06	22.50	16.19	557
Marsh & McLennan	NYS	95.38	1.46	61.31	96.75	57.13	7290	Gainsco Inc.	NYS	6.13	11.36	-2.97	6.94	3.94	185	Terra Nova Ins Co. Ltd.	NYS	29.88	0.84	22.56	32.63	21.25	987
Brown & Brown	NYS	38.25	0.66	9.48	40.63	29.31	52	Harleysville Group	NDO	13.38	0.94	-47.55	24.88	12.63	83	Tokio Marine & Fire	NDO	55.50	-3.48	-5.73	67.00	50.00	154
BROKERS AVERAGE			0.64	35.96				HSB Group Inc.	NYS	31.69	-4.70	-21.15	42.25	30.19	746	Torchmark Corp.	NYS	28.25	-1.95	-18.71	38.00	24.56	1197
								HCC Insurance Holdings	NYS	13.06	2.45	-22.88	25.13	8.00	518	Transatlantic Holdings	NYS	75.06	-2.83	-0.74	80.50	69.06	82
								ING Groep N.V.	NYS	60.81	1.99	-0.31	70.00	21.00	406	Travelers Property Casualty	NYS	35.44	6.18	15.71	41.88	27.69	2378
								IPC Holdings Ltd.	NDO	15.19	-0.82	-33.24	23.19	14.25	140	Trenwick Group Inc.	NYS	16.31	-7.77	-48.42	35.25	14.38	931
								Harford Financial Services	NYS	44.81	-2.85	-19.71	66.44	36.50	5372	Unico American Corp.	NDO	7.06	0.89	-38.75	13.75	6.38	41
								LaSalle Re Holdings Ltd.	NYS	15.25	-7.92	-26.06	22.50	10.88	536	United Fire & Casualty	NDO	23.00	17.20	-30.89	34.94	19.25	22
								Lincoln National	NYS	37.94	-3.50	-8.45	57.50	36.00	2758	Unitrin	NDO	37.66	-1.39	6.26	42.38	30.50	752
								MAIC Holdings Inc.	NYS	21.75	5.78	-32.03	33.13	19.88	212	UNUM Corp.	NYS	30.00	-1.03	-49.95	62.50	26.00	4140
								Markel Corp.	NYS	150.00	-0.50	-16.78	193.00	143.25	98	Vesta Insurance Co.	NYS	4.81	26.23	-16.30	8.38	3.38	466
								MBIA Insurance Group	NYS	51.38	-0.72	-22.53	71.88	45.00	2284	XL Capital Ltd.	NYS	53.19	10.23	-25.68	74.94	41.94	2899
								Meadowbrook Insur. Group	NYS	7.25	22.11	-55.56	17.44	4.75	188	Zenith National Ins.	NYS	21.25	3.34	-8.11	26.69	19.25	56
								MMI Cos. Inc.	NYS	8.78	2.55	-47.38	17.69	3.31	1058	INSURERS/REINSURERS AVERAGE			1.26	-22.73			
								Mutual Risk Mgmt. Ltd.	NYS	16.31	-3.33	-57.00	43.25	9.81	903								
								Navigator Group	NDO	11.25	15.38	-26.23	16.13	9.13	21								
								NYMagic Inc.	NYS	13.50	2.86	-35.33	19.94	12.00	28								
								Ohio Casualty Corp.	NDO	15.00	-9.43	-27.05	21.69	14.25	4333								
								Old Republic Int'l	NYS	13.00	-3.26	-39.36	22.31	12.06	1570								
								Partner Re Ltd.	NYS	30.50	-4.69	-32.50	46.19	28.56	1101								
								Penn-America Group Inc.	NYS	7.81	4.17	-15.54	11.44	7.00	38								
								PMA Capital Corporation	NDO	20.00	0.95	2.24	21.13	17.38	114								
								Philadelphia Cons. Holding	NDO	14.50	-3.33	-31.76	25.50	10.81	650								
								PXRE Corp.	NYS	12.91	7.89	-49.26	26.06	9.94	191								
								Reliance Group Holdings	NYS	6.81	14.74	-47.34	13.69	2.81	5008								
								ReliaStar Financial Corp.	NYS	35.00	-10.83	-21.79	49.81	28.56	2475								
								RenaissanceRe Holdings Ltd.	NYS	39.94	-1.08	10.55	43.19	30.00	278								
								Risk Capital Holdings	NDO	13.06	1.46	-38.17	22.25	11.00	189								
								RLI Corp.	NYS	32.69	-3.15	-2.06	38.81	27.88	105								

Top advancing issues: Vesta Insurance Co., Oxford Health Plans, Meadowbrook Insurance Group. Leading decliners: Selbels Bruce Group, Baldwin & Lyons Inc., ReliaStar Financial Corp. Most active issue: Citigroup. The BI Index rose 0.8%; the Dow Jones 30 Industrials increased 0.3%; the S&P 500 fell 99.9%, and the NYSE Composite decreased 0.6%. Average P/E: Brokers, 19.8; Insurers/reinsurers, 18.8; HMOs, 14.7.

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

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Eileen Cuesta

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