

Business Insurance

\$5

January 22, 2007

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BIAS CASE AGAINST IBM
OVER CASH BALANCE PLAN / PAGE 3**

**PENNSYLVANIA
UNVEILS PLAN
HEALTH COVERAGE**



In Brief

U.S. cat losses total \$8.8 billion in 2006

Catastrophes caused an estimated \$8.8 billion in U.S. insured property damage in 2006, the Insurance Services Office Inc.'s Property Claim Services reported. PCS said 33 U.S. catastrophes—which it defines as events that cause at least \$25 million in insured property losses and that affect a significant number of policyholders and insurers—occurred last year. The catastrophes generated more than 2.27 million claims, according to PCS, of which about 9% were for commercial lines.

Aon to cut 550 back-office jobs

Aon Corp. is consolidating its U.S. retail insurance brokerage support operations into a single domestic service center based in Glenview, Ill. The move will result in

See **IN BRIEF** page 26

SPOTLIGHT

BUSINESS CONTINUITY/ INTERRUPTION

Contingent business interruption coverage changing as buyers, insurers increase focus on supply chain risks; companies' crisis plans

tested by 2005 hurricanes; basics of developing a solid continuity plan. **Page 11**

USI to go private in equity firm deal

\$1.4 billion buyout expected to aid broker by reducing scrutiny

By **SALLY ROBERTS**

BRIARCLIFF MANOR, N.Y.—USI Holdings Corp. is moving out from under the public microscope.

Less than five years after its initial public offering, USI said last week it had entered into a \$1.4 billion definitive agreement to be acquired by GS Capital Partners, a private equity affiliate of Goldman, Sachs & Co.

USI announced in October that it had formed a special committee of outside directors to review a private equity buyout offer (*BI*, Oct. 30, 2006).

The agreement—which follows a string of recent deals involving private equity within the insurance brokerage industry—should result in a stronger, more focused company, which has recently struggled to meet analysts' expectations, observers say. And that can ultimately only benefit insurance buyers, they add.

By **RUPAL PAREKH**
and **GLORIA GONZALEZ**

Professional service exclusions in directors and officers liability policies could spur attempts to deny claims for corporate lawyers at companies caught up in the stock options backdating scandal, D&O

AT A GLANCE

USI Holdings Corp.

FOUNDED: 1994

INITIAL PUBLIC OFFERING:
October 2002

2005 REVENUES: \$508.3 million

2006 REVENUES: \$557.8 million*

*Based on analyst estimates

USI's move also may be a harbinger of more private equity deals to come that take large publicly held insurance brokerages into private ownership, some predict.

Under terms of the agreement, USI stockholders will receive \$17 in cash for each share of USI common stock they hold, representing a 20.5% premium on the average closing share price for the 30 calendar days prior to USI's October special committee announcement. Shares of USI closed at \$16.50 on Friday.

The transaction, which is expect-

See **USI** page 24



Workplace workouts can burn employers

Onsite facilities create liability, comp risks; waivers not enough

By **LOUISE ESOLA**

Employers seeking to improve worker morale and health with onsite workout and recreational facilities may also expose themselves to new liability.

Many companies have been earn-

ing accolades for providing employees with perks such as onsite fitness centers and recreational rooms as employers, burdened with rising health care costs and workplace stress, seek ways to get their employees moving and motivated. Indeed, a 2006 survey of U.S. and Canadian employers by the Brookfield, Wis.-based International Foundation of Employee Benefit Plans found that 36% of the more

See **GYMS** page 22

Options scandal may test cover of in-house lawyers

Dual role of general counsel as attorney, company officer could lead to denial of D&O coverage

By **RUPAL PAREKH**
and **GLORIA GONZALEZ**

experts say.

A recent \$3 million settlement of civil charges against the former general counsel of a technology company highlights the potential exposure of corporate legal staffs at companies under investigation.

But some D&O insurers may seek to avoid liability for such settle-

ments by arguing that general counsels, who have a dual role as company officers and company lawyers at public companies, are excluded under wordings barring coverage for their work as a corporate legal advisor.

The Securities and Exchange Commission is examining more than 120 companies for improper options practices including backdating, and many of them face shareholder securities and derivative suits stemming from the probes.

At some implicated companies, general counsels are among those named in the suits, "with the claims being that it was often the general counsel who often served as the corporate secretary as well as being the person who signed off on the backdating of the options," said Daniel

Winters, a partner at Reed Smith L.L.P. in New York with expertise in D&O insurance litigation.

The SEC is monitoring the role of general counsels, among other executives, in the backdating of option grants because general counsels are among those with the responsibility to protect investors from being defrauded, according to Walter Ricciardi, the SEC's deputy director of enforcement in Washington. "And when they (general counsels) participate in intentional misconduct, it's important that the commission address such misbehavior," he said.

Earlier this month, William F. Sorin, the former general counsel of Converse Technology Inc. in

See **D&O** page 25

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BI DIRECTORIES

New crisis management consultants directory

Business Insurance has updated its crisis management consultants directory for 2007. The most current versions of all risk and benefits management directories are available online in spreadsheet format at www.BusinessInsurance.com/Directories. Prices vary by listing.

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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BP slammed for poor leadership on safety

Oil firm agrees to act on review panel's recommendations

By MARK A. HOFMANN

HOUSTON—Workplace safety professionals say a safety review panel's report issued last week that criticized BP P.L.C. management's commitment to process safety should help focus more attention on the importance of management in the creation of a safety culture.

The panel, headed by former Secretary of State James A. Baker III, was created in 2005 as a result of an explosion and fire that killed 15 workers at BP's Texas City, Texas, refinery. BP has set aside \$1.6 billion to compensate victims of the explosion.

BP said last week it will implement the recommendations made

by the panel as part of the company's continuing effort to improve its safety culture and to strengthen and standardize process safety management at BP's five U.S. refineries.

The Baker panel focused on process safety rather than personal safety issues. Personal safety issues—such as slips and falls—usually affect one person. But, as the panel noted in its report, process safety issues go much further.

"Process safety hazards can give rise to major accidents involving the release of potentially dangerous materials, the release of energy (such as fires and explosions), or both," the report said. "Process safety incidents can have catastrophic effects and can result in multiple injuries and fatalities, as well as substantial economic, property and environmental damage."

The panel held that "it is impera-

See **BLAST** page 26



AP PHOTOS

Last week, an independent safety panel released a review criticizing BP's process safety culture. The panel was created in response to a fire and explosion that occurred in 2005 at the company's Texas City, Texas refinery.

STARTUP IPOs

Recent reinsurer public offerings sought to raise up to \$600 million

Reinsurer	Launch date	Principal founding investor	IPO amount
CastlePoint Holdings Ltd.	Nov. 2005	Tower Group Inc.	up to \$50 million
Flagstone Reinsurance Holdings Ltd.	Dec. 2005	Haverford (Bermuda) Ltd.	up to \$175 million
Greenlight Capital Re Ltd.	Nov. 2005	Greenlight Capital Inc.	up to \$175 million
Validus Reinsurance Ltd.	Oct. 2005	Aquiline Capital Partners L.L.C.	up to \$200 million

Source: SEC filings, company reports.

Wave of new reinsurers rush to launch IPOs

Startups see window of opportunity due to low losses in '06

By RUPAL PAREKH

Recent moves by the latest crop of startup reinsurers to go public did not take market observers by surprise, but they did come sooner than expected.

More than a dozen reinsurers were formed in the wake of Hurricane Katrina and the other devastating storms of 2005. Many now are rushing to launch initial public offerings of stock, and with good reason, analysts say.

Industry losses stemming from natural catastrophes in the United States were \$9 billion last year, the lowest since 2002, according to data from the Insurance Services Office Inc.'s Property Claim Services.

On the heels of the mild 2006 storm season, and amid a hard rate

environment for the property catastrophe reinsurance coverage that many of the startups offer, the time is right to seek public funding, the analysts say.

Last week, two companies—Validus Holdings Ltd. of Bermuda and Cayman Islands-domiciled Greenlight Capital Re Ltd.—said they were launching IPOs to raise up to \$200 million and \$175 million, respectively.

Earlier this month, Hamilton, Bermuda-based CastlePoint Holdings Ltd. filed a registration statement with the U.S. Securities and Exchange Commission for an IPO to raise up to \$50 million.

Of the most recent startups, Bermudian company Flagstone Reinsurance Holdings Ltd. was the first out of the gate—filing an IPO registration statement last October to raise up to \$175 million.

"I'm not surprised that we are hearing about these IPO's," said

See **IPOs** page 24

High Court won't review IBM pension bias case

Appeals courts remain divided over issue

By JERRY GEISEL

WASHINGTON—The U.S. Supreme Court's refusal last week to review a federal appeals court decision that cash balance pension plans do not discriminate against older employees means it could be years before the plans' legal status is resolved.

The justices let stand an August 2006 ruling involving IBM Corp. by the 7th U.S. Circuit Court of Appeals that said the design of cash balance plans in general, and IBM's plan in particular, do not violate age discrimination law (*BI*, Aug. 14, 2006).

While the same benefit earned by a younger employee and an older employee will result in a bigger retirement annuity for the younger employee, that is the result of the time value of money and, therefore, the plans are not discriminatory, the appeals court ruled.

The appeals court decision did not, though, put an end to the age discrimination issue. Since the ruling, several lower courts in other cash balance plan suits have embraced the decision in rejecting age discrimination charges, while other courts have ruled that the plans are age discriminatory.

With the Supreme Court taking a pass in the IBM case, the key battlegrounds in the litigation will be other appeals courts as they take up lower court decisions.

"It will come down to what appeals courts decide," said Sheldon Gamzon, a principal with PricewaterhouseCoopers L.L.P. in New York.

"We will have to see what hap-

IBM CASH BALANCE PENSION PLAN SAGA

1999: IBM Corp. adopts cash balance plan.

1999: Older IBM employees file suit, charging that the plan violates age discrimination laws.

2003: U.S. District Court Judge G. Patrick Murphy rules that the plan is age discriminatory.

2004: Partial settlement between IBM and plaintiffs caps IBM's liability at \$1.4 billion if IBM loses its appeal of Judge Murphy ruling.

2004: IBM announces it will close off its cash balance plan, effective Jan. 1, 2005, to new employees in favor of an enhanced 401(k) plan.

2006: IBM announces it will completely freeze its cash balance plan, effective Jan. 1, 2008.

2006: 7th U.S. Circuit Court of Appeals reverses Judge Murphy's decision, ruling that cash balance plans in general and IBM's plan in particular do not discriminate against older employees.

2007: U.S. Supreme Court declines to review IBM case and lets stand appeals court ruling.

pens in the other circuits," said Larry Sher, a principal and director of retirement policy at Buck Consultants L.L.C. in New York.

The next appeals court ruling likely will come from the 3rd U.S. Circuit Court of Appeals, which last month heard oral arguments in a suit against Pittsburgh-based PNC Financial Services Group Inc. In 2005, a lower court dismissed cash balance plan age discrimination charges against PNC (*BI*, Nov. 28, 2005).

Several other appeals courts also

See **IBM** page 25

Pennsylvania plan calls for expanding health cover

Joins California, others in trying to reduce number of uninsured

By JERRY GEISEL

HARRISBURG, Pa.—Inspired by the success of Massachusetts in enacting comprehensive health care reform legislation, more states are lining up to try to do the same.

The latest is Pennsylvania, where Gov. Edward G. Rendell last week released the outline of a sweeping proposal to reduce the number—roughly 900,000—of state residents who lack health insurance.

Gov. Rendell's plan comes on the heels of a somewhat similar proposal by California Gov. Arnold Schwarzenegger, while reform pro-

posals are expected to emerge soon in Connecticut, Illinois, Iowa, Minnesota, New Jersey and Wisconsin.

While each state's plan varies, the initiatives share several key features, which include:

- Boosting the number of people eligible for state health insurance premium subsidies.

- Creating a state health insurance purchasing pool to contract with private insurers to make it easier and less expensive for the uninsured and, in some cases, small employers to obtain coverage.

- Imposing a fee or assessment on most employers—except the smallest ones—that do not offer health insurance.

- Mandating that most—in some cases, all—state residents have health insurance or face financial penalties.

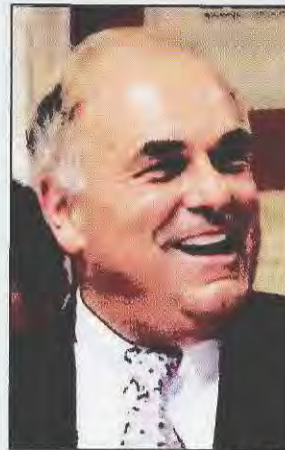
The driving force behind these proposals is an attempt to break a cycle in which hospitals and other health care providers are shifting the costs of treating uninsured patients, such as those that show up at emergency rooms, by inflating charges of those with health insurance.

That, in turn, makes the cost of health insurance more expensive; leads more companies, especially smaller firms, to drop coverage; boosts the number of uninsured; and results in yet more cost-shifting.

Such cost-shifting, Gov. Rendell said in a statement, "is a tremendous deterrent for businesses that are considering locating in Pennsylvania to know that in addition to

THE PROPOSAL

The "Prescription for Pennsylvania" plan would institute:



Gov. Rendell

REUTERS

- State-paid health insurance premium subsidies for the low-income uninsured and low-wage employees of small employers
- A state health insurance purchasing pool
- An assessment equal to 3% of payroll for employers with more than 50 employees that do not offer health insurance
- A health insurance coverage requirement for individuals with income of more than 300% of the federal poverty level
- Incentives for health care providers to offer evening and weekend services to discourage emergency room treatment for routine problems

See **HEALTH CARE** page 22



GETTY IMAGES

An extended wintry blast damaged an estimated 70% of California's citrus crop, including oranges at this grove in Orange Cove.

California deep freeze devastates citrus crop

Much of loss insured by federal, private coverage programs

By JOANNE WOJCIK

Last week's freezing temperatures are projected to cost California's agricultural industry nearly \$1 billion—significantly more than the record \$700 million hit that the industry took as a result of 1998's cold snap.

The Federal Crop Insurance Program should reimburse farmers for at least half, and, in some cases, up to 75% of the value of their lost crops, industry sources estimate. In addition, packing houses and distributors that purchased commer-

cial business interruption coverage should recoup up to half of their lost revenues since those policies traditionally have a 50% deductible.

There are at least 16 crop insurance companies nationwide, 14 of which do business in California, said Rich Shanks, national managing director for agribusiness and the food system group at Aon Corp. in Kansas City, Kan.

The extent of the damage likely will not be known for several weeks until adjusters examine the condition of fruit, vegetables and other crops exposed to subfreezing temperatures for several consecutive nights, sources say. Damage in last week's big freeze has been estimated at as much as \$1 billion.

See **CROPS** page 6

Errors & Omissions

• A story in the Jan. 8 issue misstated the title of Gary Thompson at Hartford Financial Services Group Inc. He is executive vp-middle market and specialty practices in the insurer's property casualty division.

401(k) waiting periods grow shorter

With defined benefit plans closing, trend has added significance

By JERRY GEISEL

More U.S. employers are shortening the time that new employees must wait before they are eligible to participate in 401(k) plans, according to a survey.

The survey of 427 profit-sharing and 401(k) plans by the Profit Sharing/401(k) Council of America in Chicago found that 69% of plans

allow employees to make contributions within three months of their hire date, up from 65% a year ago.

Among plans with at least 1,000 employees, 85% offer eligibility within three months, up from 79% a year earlier.

"Shorter eligibility periods are good news for workers," said PSCA President David Wray in a statement.

Shorter eligibility periods mean, among other things, that employees will have a smaller gap between

69% of plans allow employees to make contributions within three months of their hire date, up from **65%** a year ago.

the time they stop contributing to a 401(k) plan when they leave one company and when they can start contributing to the plan of their new employer.

Reduced waiting periods for 401(k) plans also take on greater importance as more compa-

nies close their defined benefit plans to new employees, making corporate 401(k) plans the only company-sponsored plan in which employees can save for their retirement.

Comp rates hold steady in Canada

Prices flat or lower in most provinces for 2007 renewals

By GLORIA GONZALEZ

Employers in most Canadian jurisdictions will pay steady or lower premiums for workers compensation insurance in 2007, but concern persists about a major deficit in Ontario's workers comp program.

With the exception of the sparsely populated Yukon Territory, Canadian employers in all other jurisdictions are paying flat to substantially lower premiums.

Canadian workers comp coverage is provided largely by provincial and territorial workers comp boards and financed by employer-paid premiums. Employers have no control over the rates set by the boards; rates for each company in a given sector reflect the loss experience of that sector, though those companies that have low incident levels within a sector are eligible for individual rebates.

In Ontario, employers will pay an average premium of \$2.26 Canadi-

WORKERS COMP PRICING

2007 employer premiums in Canadian dollars, as set by provincial/territory workers compensation boards

PROVINCE	2007 RATES*	2006 RATES*
Alberta	\$1.43	\$1.57
British Columbia	\$1.69	\$1.90
Manitoba	\$1.68	\$1.68
New Brunswick	\$2.10	\$2.14
Newfoundland and Labrador	\$2.75	\$2.75
Northwest Territories/Nunavut	\$1.71	\$1.87
Nova Scotia	\$2.65	\$2.65
Ontario	\$2.26	\$2.26
Prince Edward Island	\$2.22	\$2.23
Quebec	\$2.24	\$2.32
Saskatchewan	\$1.84	\$1.84
Yukon Territory	\$2.64	\$2.16

* Per \$100 Canadian of insurable earnings. Exchange rates per U.S. dollar: 2006, .85940; 2007, .85810
Source: Provincial/territory workers compensation boards

an (\$1.93) per \$100 Canadian (\$85.22) of insurable earnings in 2007, unchanged from the average premium rate in 2006. Last year's rate, though, rose for the first time in three years as Ontario's Workplace Safety & Insurance Board attempted to control the system's ballooning deficit.

Although the Ontario system's unfunded liability stands at \$6.5 billion Canadian (\$5.54 billion) vs. the

\$7.1 billion Canadian (\$6.09 billion) cited by WSIB officials when proposing the 2006 increase, WSIB Chair Steve Mahoney said the organization has introduced several measures that are helping alleviate some of the financial pressures on the system, including a campaign to further reduce injury rates in the province.

See **WORKERS COMP** page 20



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Hannover Re ups securitized cover

By ADRIAN LADBURY

HANOVER, Germany—Hannover Re Group has boosted the volume of last year's so-called K5 risk securitization to \$520 million.

This latest deal was placed with institutional investors in North America, Europe and Japan. The capital has been increased by \$106 million and was provided by both new and existing investors.

Hannover Re said that existing investors used the latest K5 deal as an opportunity to reinvest their profits from the previous year. This

securitization deal is planned to run until Dec. 31, 2008.

The reinsurer said that it has also extended its traditional protection covers used to protect against peak exposures, such as natural catastrophes, and that it would therefore no longer need to make use of structured covers.

"With these latest transactions we have made our portfolio even more weatherproof. We are optimally placed to benefit from the further profitable market opportunities that will open up in worldwide catastrophe business going for-

ward," according to Wilhelm Zeller, chief executive officer of Hannover Re.

The portfolio assembled for the K5 securitization comprises nonproportional treaties for property catastrophe, aviation and marine—including offshore—reinsurance.

Some 42% of this business is passed on to the investors, Hannover Re said.

It added that the new securitization transaction will enable the company to write more business while conserving its capital resources.

Crops: Calif. freeze losses hit insurers

CONTINUED FROM PAGE 4

"Our adjusters can't tell how much damage there is until we finally get some warm weather," said Larry Heitman, executive vp at Ramsey, Minn.-based NAU Country Insurance Co., one of California's largest crop insurers with \$167.1 million in coverage in place.

"We know one thing. We've had so many nights of cold temperatures where it's stayed so many hours under 28 degrees that we know from past experience this is one of the worst ever," said Mr.

Heitman, who has worked in the crop insurance industry for more than 20 years.

Crop insurance industry sources estimated that 75% to 80% of California farmers purchase multiperil crop insurance from participants in the Federal Crop Insurance Corp., and that as many as 80% bought the maximum limits of 75% of the value of their lost crops.

The FCIC's basic catastrophic insurance program, for which the federal government subsidizes 100% of farmers' premiums, pays up to 50% of the value of the lost

crops. But farmers have the option of buying additional coverage for up to 75% of their crop values.

Because the federal government only reinsures up to 55% of the exposure, crop insurers such as NAU typically purchase reinsurance from the world reinsurance market, Mr. Heitman said. However, it is unlikely the California losses will trigger any of those treaties because that coverage is written on a nationwide basis.

"No company hits its reinsurance based on one state's losses," Mr. Heitman said.

Commentary

Willis CEO deserving of industry accolades

Hats off to Joe Plumeri.

As the 2007 Insurance Leader of the Year, named by the St. John's University School of Risk Management, Insurance and Actuarial Science, the chairman and chief executive officer of Willis Group Holdings Ltd. delivered a rousing speech in New York last week.

Mr. Plumeri is famous for high-energy presentations to Willis associates, but many insurance industry leaders may have witnessed his style for the first time at last week's award dinner.

What the more than 1,400 people who attended this year—a record for the event—heard was an emotional, impassioned speech by a man who has shaken up the industry in little more than six years at the helm of the world's third-largest brokerage. When told he was the award recipient, Mr. Plumeri joked that St. John's was "working from the wrong list."

Past honorees include Maurice R. Greenberg, Patrick G. Ryan, John T. Sinnott, Jack Byrne, Brian Dupereault, Ronald Ferguson and Robert Clements.

Mixing humorous and serious messages, Mr. Plumeri at times pounded his fist to emphasize his points. Key among them was that the insurance industry lacks self-esteem and gets a bad reputation because of it. He contended that

the industry ought to be proud of the important role it plays in rebuilding lives and businesses and allowing people to continue their dreams, even after havoc strikes.

After a 30-plus-year career in banking and financial services, Kohlberg Kravis Roberts & Co. tapped Mr. Plumeri to run Willis, which KKR had taken private in the late 1990s. Mr. Plumeri joined the brokerage in late 2000 and set about building a culture of loyalty and entrepreneurship, with a style quite different from that to which the London-based company had been accustomed.

Mr. Plumeri's leadership certainly has made KKR and other shareholders happy: From an initial public offering in 2001 that netted \$3 a share, Willis today trades at nearly \$40. He reduced debt and expenses and continues to grow the company's top line. In short, Joe Plumeri and the management team he inherited have turned Willis from a quiet, buttoned-



REGIS COCCIA

Editor Regis Coccia's commentary appears periodically. He can be reached at: rcoccia@businessinsurance.com

down broker into a fast-moving company that is completely committed to changing the status quo.

Interrupted by applause throughout last Wednesday's speech, the loudest cheers came as Mr. Plumeri chided the media for not reporting all the good the industry does. Overshadowed by stories of claim

Overshadowed by stories of claim denials and coverage disputes following disasters such as Hurricane Katrina are the unreported instances of heroics and how much insurers pay out to help communities recover.

denials and coverage disputes following disasters such as Hurricane Katrina are the unreported instances of heroics and how much insurers pay out to help communities recover, he said.

As a journalist, it's true that many reporters focus on conflict and controversy, even though those may be isolated incidents. News can be defined as what's different, not what occurs with regularity. Even so, Mr. Plumeri's point about the insurance industry not receiving credit and "good press" for what it does struck a chord.

Have a story about how the industry helped make a difference in a community and touched lives following a loss? Send them to me at rcoccia@businessinsurance.com and I'll include several of them in an upcoming column. The insurance industry does far more good every day than the headlines about a few bad apples or coverage lawsuits might suggest. It's a fact worth celebrating.

"By understanding how we make our money, Dempsey, Myers made an intangible — the loss of revenue — tangible."

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2006166

Business Insurance PERSPECTIVE

Strategies to reduce Rx costs

By Ed Weisbart

Growth in U.S. health insurance costs has again outpaced the rate of inflation and growth in workers' wages, according to the Kaiser Family Foundation.

Employer-sponsored health insurance premiums grew 7.7% between 2005 and 2006, whereas the inflation rate was half as much at 3.5% and wage gains held at 3.8%, according to KFF.

An answer for plan sponsors wanting to manage escalating health care costs while protecting plan members' benefits can be found in three proven tools for managing drug spending: increase the use of prescription generic drugs, control the costs of specialty drugs and expand the use of prescription home delivery.

Generic drugs

The cost-savings opportunity of generic drugs stems from the large number of brand drugs losing patent in 2006 and beyond. There is an estimated \$50 billion pipeline of brand drugs going generic through the rest of this decade.

While many employers already are on the generic bandwagon, there still is a huge opportunity to realize savings without ever compromising health outcomes. For every percentage point increase in the generic fill rate, there is a corresponding 1% decrease in pharmacy spending. Increasing generic utilization saves employers and employees money because, on average, a generic drug costs \$60 less than a brand name drug.

Generic versions of brand medications are required to contain the same active ingredients as their branded counterparts, thus offering the same clinical value. Substitution of FDA-approved generic medications for their identical brand drug is widely supported by law, regulation and benefit design. Unless the physician indicates otherwise, it happens automatically more than 95% of the time at U.S. pharmacies.

The opportunity to use generic drugs is frequently still available, even when a generic equivalent is not available. Often times a lower-cost therapeutically equivalent alternative medication is available with a clinically comparable result to the brand. A 2005 study by Express Scripts showed that in just six major drug classes, there was a potential to save \$25 billion nationally by utilizing generics in clinically appropriate settings. The savings can be achieved without shifting costs to employees by simply substituting generic alternatives for more costly brand drugs.

Specialty pharmacy

Specialty drug costs reached \$40 billion in 2005. These costs are expected to more than double in four years to \$90

billion, which is three times faster than the growth rate for traditional pharmacy. This dramatic cost increase translates to specialty drugs accounting for 28% of total drug spending by 2009, providing a unique and important role in controlling health care costs.

Specialty pharmacies provide coordinated delivery of specialty drugs to treat complex conditions such as cancer, multiple sclerosis, rheumatoid arthritis and hepatitis C. The specialty pharmacy also provides management of multiple aspects of a patient's treatment, which can include instruction on the self-administration of a therapy; clinical support; assistance with billing and reimbursement; and educational materials, including online information portals.

Employers wanting to effectively balance the great potential of specialty medications with care management and cost challenges can do so by focusing on three strategies.

First, increasing patient compliance leads to lower treatment costs, reduced medical costs and enhanced productivity. Second, plans that limit the size of pharmacy networks handling specialty drugs can reduce costs up to 10% when adopting an exclusive network. Finally, working directly with physicians to ensure appropriate treatment and proper dosage can improve care and create significant savings.

Home delivery

Home delivery pharmacies are a proven option for employers wanting to reduce health care costs. A study by the Pharmaceutical Care Management Assn., which represents PBMs, projected home delivery service will save \$85 billion on prescription drug costs over the next 10 years.

Unfortunately, consumers are not taking full advantage of this cost-saving tool. If all prescriptions used to treat chronic health conditions were to flow through home delivery pharmacies, the cost savings would nearly double over the next 10 years to \$167 billion and home delivery service would jump from 20% to 50% of all prescription drug expenditures, according to the PCMA.

In addition to the cost-savings benefit, home delivery offers greater safety due to lower dispensing error rates compared with the retail environment. With a high level of automation, home delivery is the safest and most effective way to get medications to patients.

Implementing drug trend management strategies such as increasing the use of generics, controlling specialty drug costs and maximizing home delivery use enables employers to manage escalating health care costs and protect the health care benefits for plan members.

Comings & Goings

BROKERS:

Cranford, N.J.-based Banc of America Corporate Insurance Agency L.L.C. has expanded its senior management team and added staff in the Northeast.

In the Cranford office, three new senior-level executives were named:

- **Joseph Mauro**, former senior managing director of Frank Crystal & Co., was named sales leader.

- **Christopher Holland**, former manager of client services at Marsh & McLennan Cos. Inc., joined BACIA as client services manager for the property/casualty division.

- **James Stanilious**, former head of risk management services at Marsh, was named director of risk management services for the property/casualty division.

In the new Hartford, Conn., office:

- **Steven Schloss**, former worldwide partner with Mercer Health & Benefits, was named employee benefits division practice leader for New England.

- **Salvatore Dominello**, former head of the Hartford office of Willis Group Holdings Ltd., was named BACIA's senior client manager and will lead the employee benefits division service team in Connecticut. And in Boston:

- **Christopher Scontras**, who was area president of Arthur J. Gallagher & Co. of New England, was named property/casualty division practice leader for New England.

Willis Group Holdings Ltd. has appointed **Steven E. Regnault** as executive vp and regional partner for Willis of New York Inc. Before joining Willis, he was New York branch manager for Wachovia Insurance Services Inc.

Maitland, Fla.-based **J. Rolfe Davis Insurance** has named **John A. Turner** president. Before his promotion, Mr. Turner was a vp.

Hilb Rogal & Hobbs Co. has named **Dwight**

Hornor as managing director of property and casualty for Wisconsin. Mr. Hornor, who will be based in Milwaukee, previously was president of Risk Solutions Inc., a consulting firm he owned. HRH also acquired certain segments of that business.

Wachovia Insurance Services Inc. has named **Robert N. Vlachos Jr.** as senior vp and national property practice leader in the New York office. He joins Wachovia from Marsh & McLennan Cos. Inc., where he served as transaction specialist in the property international practice.

The **AVRECO** unit of The Park Group, a wholesale insurance brokerage in Chicago, has named **Sarah Dore** as senior vp in the health care department. Previously, she was an independent insurance consultant.

Boston-based **William Gallagher Associates** has named **Michael J. Andersen** as principal. Before his promotion, he was an executive vp.

INSURERS:

Johnston, R.I.-based **Factory Mutual Insurance Co.** has named **Rod Fisher** as senior

vp and manager of its central division. Formerly, he was vp and manager of FM Global's Los Angeles operations. He succeeds Kevin Lavin, who retired.

San Antonio-based **Argonaut Group Inc.** has appointed **Gregory M. Vezzosi** as executive vp and chief operating officer. Before joining Argonaut, he was senior vp, specialty commercial for St. Paul Travelers Cos. Inc.

Stephen Kellar has been promoted to chief financial officer and vp, finance at Brighton, Mich.-based **LifeSecure Insurance Co.** Previously, he was the company's director of finance.

MANAGED CARE:

Capital District Physicians' Health

Plan Inc. has named **Barbara A. Downs** as chief operating officer. Previously, she was senior vp of corporate administration.



Ms. Downs

REINSURANCE:

BMS Vision Reinsurance Intermediaries Inc. has named **Wayne Pyrtle** as senior vp in Burlington, N.C. Previously, he was senior vp at Axiom Intermediaries.

OTHER PROVIDERS:

Parsippany, N.J.-based **GAB Robins North America Inc.** has named **Michael G. Repoli** president of North American operations. Most recently he served as the underwriting officer and advisor to the board of Chelsea Rhone Corp.

Also at GAB Robins, **Dean Haring** has been named executive vp and chief claims officer for North American operations. Previously, he owned Claim Diagnostics, a consulting firm specializing in property/casualty insurance claims operations.

Michael Pennell has joined the Honolulu office of **Buck Consultants L.L.C.** as director in the retirement practice. Previously, he was an independent actuarial consultant.

Dallas-based **MarketScout** has named **Tina Harris** as property underwriting manager. Before joining the online insurance exchange, she was a senior underwriter with XL Insurance Group.

Rajan Srikanth has joined **Mercer Human Resource Consulting** to head the Asia region and lead Mercer's Human Capital Advisory Services in Asia. He will be based in Chennai, India, and joins the company from Accenture, where he was executive partner.

Danvers, Md.-based **Northshore International Insurance Services Inc.**, a claims consulting, management and auditing firm, has named **Adria L. Garneau** and **Kim M. Englehardt** as partners. Both previously were vps.

Eric Martuza



Mr. Martuza

former vp-reinsurance operations at CNA Insurance Co., has joined the Chicago-based law firm of **Meckler Bulger & Tilson L.L.P.** as a partner in its insurance practice. He will focus

on insurance and reinsurance coverage and litigation.

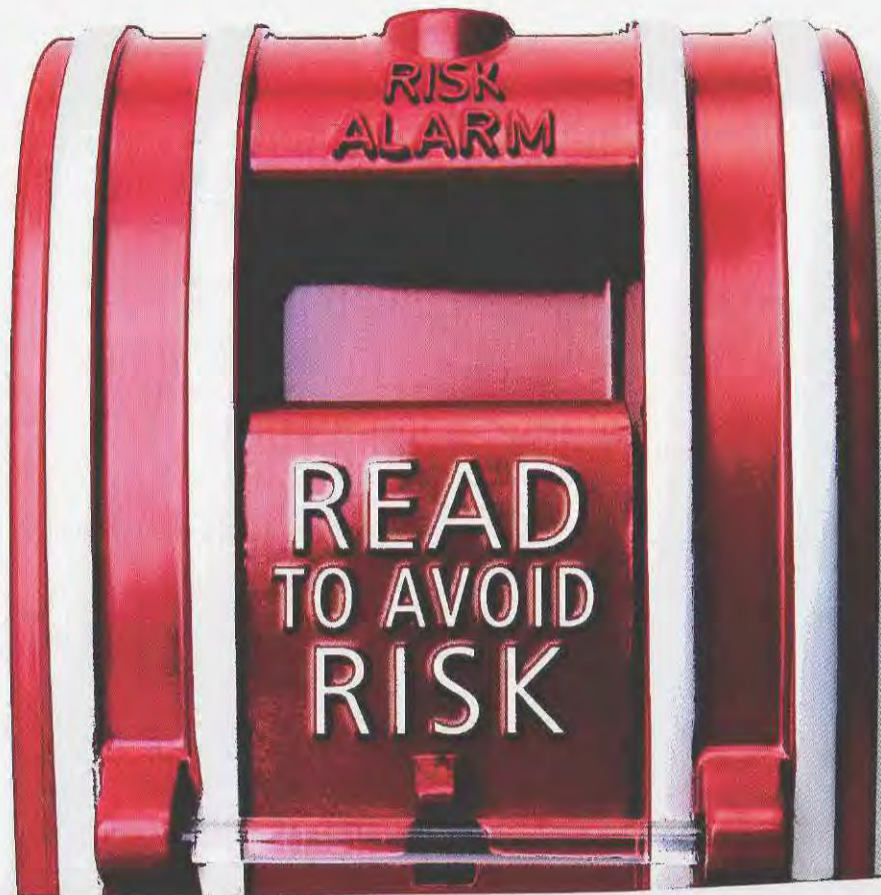
Chicago-based **Butler Ruben Saltarelli & Boyd L.L.P.** has named **Jason S. Dubner** and **Amy B. Kelley** as partners in the reinsurance litigation law firm. Both joined Butler Ruben in 1999.



Dr. Ed Weisbart is chief medical officer at Express Scripts Inc., a pharmacy benefit manager, in Maryland Heights, Mo.



Mr. Turner



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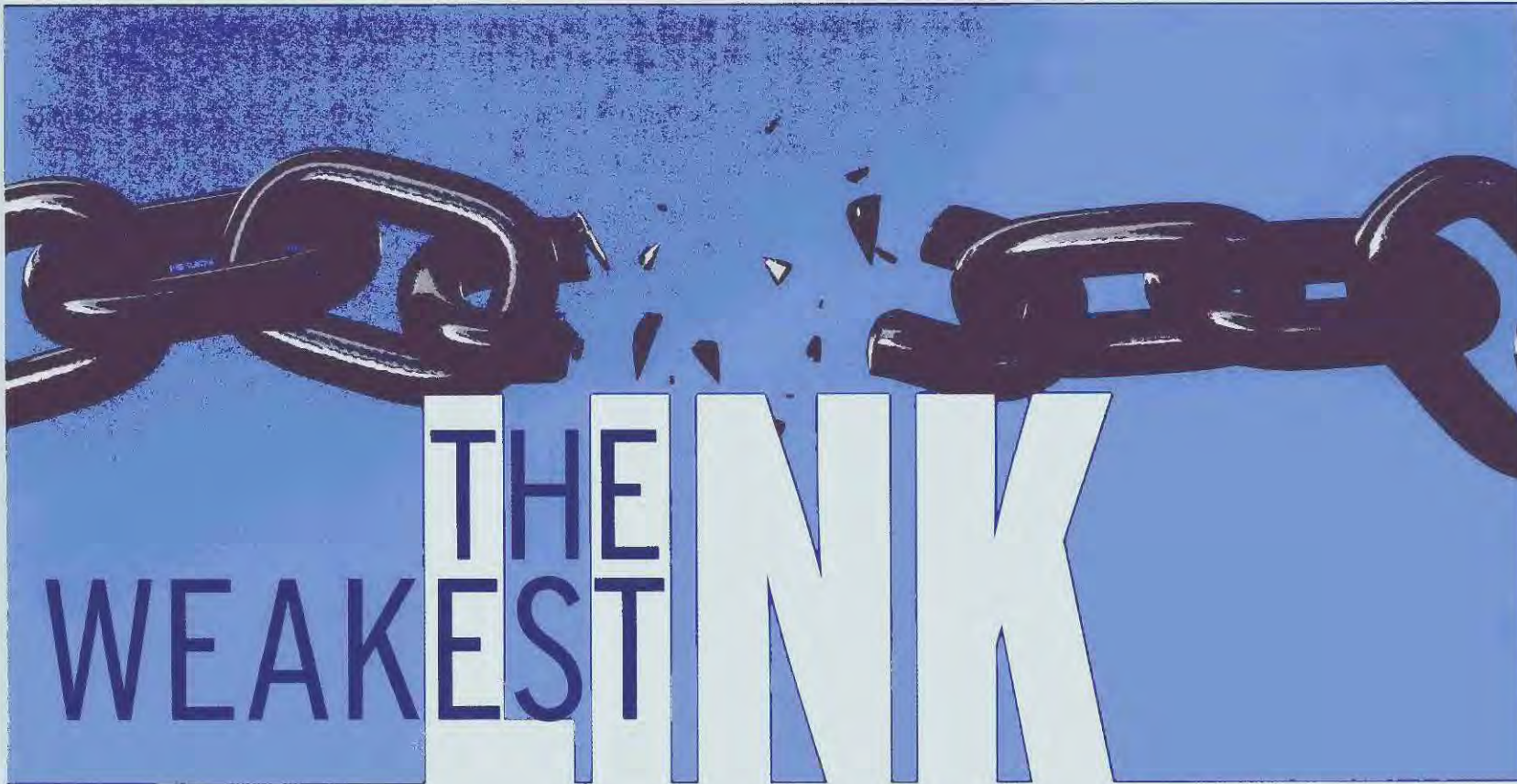
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SPOTLIGHT

Insurers tighten grip on supply chain risks

Restrictions imposed on contingent risks as exposures grow

By SALLY ROBERTS

Business interruption insurance policies have changed little over the past several years, but the risks associated with the coverage in the United States and the requirements for obtaining capacity have altered substantially, experts say.

Nowhere is this more apparent than with contingent business interruption coverage, which has taken on much greater importance for many businesses as an increasing number of organizations have stepped up their reliance on outside suppliers to manufacture and ship goods and provide services, they say.

Underwriters are seeking to restrict contingent business interruption coverage as more policyholders' revenues and incomes are exposed to the risk of suppliers or customers shutting down as a result of a covered peril, experts say.

And in order to get a better handle on that exposure, underwriters are demanding more and better information from buyers. Buyers that have a solid understanding of their supply chain risks are in a better position to obtain the contingent business interruption coverage that they need, experts say.

"This whole thought of supply chain management is becoming more and more on top of risk managers' lists of concerns," said Gary Love, vp-operations underwriting manager for Factory Mutual Insurance Co. of Johnston, R.I., which does business as FM Global. "We've seen that happen as well because it really does lead to a different exposure where facilities are not under the direct control of the client...yet

How to make sure coverage will be there when needed

There are several pitfalls that risk managers should avoid when purchasing business interruption coverage to ensure they are properly covered and stay out of the courts, policyholder attorneys say.

First of all, risk managers should make sure they have a definition of "suspension" or "interruption" in their business interruption forms that covers the business for partial suspensions, advises Richard Lewis, a partner with law firm Anderson Kill & Olick P.C. in New York.

"There have been a tremendous number of really bad cases...that essentially say that unless there is a total cessation of every element of their operations, they get no business income coverage," Mr. Lewis

said. "That's completely wrong, but there are a number of cases that find that. So if a policyholder suffers a loss to their factory and (is) able to limp along and never completely cease operations, some courts would say they get no (business interruption)."

In addition, Mr. Lewis recommends that policyholders who plan to purchase civil authority or ingress/egress provisions, which provide coverage if employees are unable to access the property, also "should lobby for forms that do not contain the words 'prohibit' or 'prevent.'"

The courts have read those words "extremely broadly" in

See **PITFALLS** next page

they are relying on (the facilities) for income streams."

As a result of the increasingly risky supply chain business environment, underwriters are seeking a better quantification of a buyer's exposure and, in some cases, are restricting coverage, experts say.

For years when underwriting business interruption coverage, insurers looked at what loss a policyholder would suffer if it went down and threw in contingent business interruption coverage without paying much attention to that exposure, said Ed Joyce, a policyholder attorney with Heller Ehrman L.L.P. in New York.

"It's hard to get a handle on what you're going to suffer when somebody else is down, and the way to tighten that up is to restrict the language and make X amount of dollars only available for that type of claim," Mr. Joyce said.

Unfortunately, for businesses that may have greater exposure to one of their suppliers halting production than if their own operations go down, today's contingent business interruption sublimits are "much smaller" than the overall business interruption limits, he said.

Indeed, other experts agree that sublimits are often imposed today on contingent business interrup-

tion risks, but as Mr. Love of FM Global noted for risks "with detailed risk information on specific supplier or customer locations, the sublimits may be removed."

"Underwriters will always do a deeper dive and ask more poignant questions after they have been burned in a claim; it is the underwriters' cycle of life," said Lance J. Ewing, vp-risk management for Harrah's Entertainment Inc. in Memphis, Tenn.

As a result of hurricanes Katrina and Rita, underwriters "want to ensure that they fully understand the risks of both the policyholder and the customers and suppliers that feed the policyholder products and services," he said.

In addition to restricting limits, several underwriters are seeking to restrict coverage for a businesses' entire supply chain risk, experts say.

"We used to be able to get the coverage for any customer pretty much multiple streams down. What we're seeing now is more restrictions in the wording relating to direct suppliers and direct customers," said Jill Dalton, managing director for Marsh Inc.'s property practice in New York.

But, Suzanne Douglass, New York-based managing director for property for Willis North America, said, "If you identify who you really are exposed to, there is willingness on the part of the underwriters to look at (indirect suppliers and customers) and underwrite them individually and give you higher limits."

Far-reaching effects

"Underwriters simply want to know what's at risk," Ms. Douglass said. "They just get exposed over and over again without understanding what that exposure is, especially

See **OUTLOOK** next page

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DISASTER
REQUIRES
PLANNING**

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NEXT SPOTLIGHT: Feb. 12 - Claims Management

Indemnity periods shrink for policyholders to restore shuttered business operations

Underwriters continue to pay close attention to the indemnity periods of business interruption coverage and are attempting to limit the amount of time that policyholders can seek recovery, brokers say.

Underwriters also are tightening the language in other business interruption provisions that include civil authority and ingress/egress coverage, they note.

Under traditional business interruption coverage, the period of restoration covers the policyholder's loss of income or revenue from the date of the loss until the date the policyholder should have repaired, replaced or rebuilt its damaged property.

The period of extended indemnity coverage begins when the damaged or destroyed property has been restored, and either ends at a specified date or when a policyholder's income or revenue stream has returned to its normal level whichever is earlier.

Due to claims associated with the Sept. 11, 2001, terrorist attacks as well as Hurricane Katrina in 2005, however, underwriters have been seeking to limit how long policyholders can recover.

Whereas broader policies would offer business interruption coverage that will last until a property is replaced or rebuilt, some business interruption forms now only offer coverage that lasts for a specified amount of time, said Jill Dalton, managing director for Marsa Inc.'s property practice in New York.

"We're also seeing a reduction in the extended period of indemnity," she said. "We used to be able to get two to three years sometimes that would allow for a business to get back up and running to where it was before the loss. While a year (had been) pretty standard, that is often limited to 90 days maybe 180 days" now.

"There's just more pressure on indemnity periods for (business interruption coverage) because of 9/11

and also because of Katrina, because New Orleans is not what New Orleans once was," said Al Tobin, managing director and head of the national property practice of Aon Corp. in New York. Underwriters "are just not going to insure your (business interruption) as a blank check for the future."

Underwriters are "obviously looking very closely at business interruption and the extended period of indemnity that they've normally allowed since that could significantly increase their liability in the event of a loss," said Suzanne Douglass, New York-

Underwriters 'are just not going to insure your (business interruption) as a blank check for the future.'

Al Tobin, Aon Corp.

based managing director for property for Willis North America.

Over the past several years, there also has been more underwriting discipline on civil authority and ingress/egress interruption provisions as well as service interruption provisions, she said.

"Underwriters have gotten hurt by these...and they've taken the position of putting in a time limitation or perhaps a distance limitation, and they are going to require that there be an actual physical loss or damage now," she said. "Before, it could have been the occurrence of a peril, and now some kind of physical damage that forces civil authorities to close down the facilities or to constrain access to the premises" is required, she said.

—By Sally Roberts

Outlook: Risk scrutiny rises

CONTINUED FROM PREVIOUS PAGE

after the 2005 hurricanes when you looked and saw many clients nowhere physically near the Gulf Coast, but later put in contingent business interruption claims because they had suppliers in the Gulf Coast."

Experts agree that information is key to obtaining contingent business interruption coverage.

"You need to know your business. It's a simple thing to say, but there are some customers that have overseas supply chains that do not know their exposures," said Al Tobin, New York-based managing director and head of the national property practice at Aon Corp.

"If a majority of your profits could be impacted by a loss of a single supplier, that's not good," he said. "Clients are having to answer more and more difficult questions regarding contingent business interruption if they want to get the limits they think are appropriate."

How bad could it be?

"What the buyers have to do now is determine for themselves what the worst case scenario is for their key locations," said John Dempsey, a partner with loss accounting firm Dempsey, Myers & Co. L.L.P. of Wilton, Conn.

"When you think about say a pharmaceutical company that may produce a bioengineered product in the Far East, then ships it to three other locations for finishing, and then ships it to five other locations for packaging, and then ships it to 12 distribution centers—that supply

chain has significant risks built into it," Mr. Dempsey said. If the initial location has a loss, the entire system is going to be idle. However, if one of the stops along the way has a loss, the exposure may be less significant because the drug maker has backup contingency plans in place.

"Without explaining that to underwriters, the story won't be told," he said.

Indeed, FM Global's Mr. Love said it has become "more and more critical" for clients to know how their partners operate their facilities and what types of contingency plans the partners have in place.

Like other underwriters, FM Global has made changes to its contingent business interruption policy—which it now calls "dependent time element" coverage—to reflect the trends in supply chain management.

The goal of the coverage is to try to treat each facility as if it is owned by the policyholder, Mr. Love said.

FM Global's dependent time element policy covers losses related to a supplier's location that suffers a service interruption, indirect suppliers and customers, he said.

In some cases, "suppliers, customers, manufacturers and even outsourced locations that feed or attract business may have to be listed on a schedule," said Harrah's Mr. Ewing. Middle market and smaller companies with limited suppliers are "much more able to negotiate" that list. For Harrah's, which has more than 21,000 vendors and a database of more than 40 million customers, a blanket form is "the better way to go," he said.

Pitfalls: Ensuring coverage

CONTINUED FROM PREVIOUS PAGE

ruling that "if there is any possible way a customer can get to the premises, you have no civil authority coverage," Mr. Lewis said, noting that the words "hindered" or "impaired" are preferable.

When it comes to civil authority provisions, buyers also should make sure the clause applies even if there is no physical damage to the insured property, advises Peter M. Gillon, an attorney with Greenberg Traurig L.L.P. in Washington.

"Many companies involved with airports and airlines discovered a gap in coverage when they lost business after (the Sept. 11, 2001, terrorist attacks) due to the shutdown of airspace by the (Federal Aviation Administration), and their policies did not apply because there was no physical damage to their property or the physical damage was not sufficiently proximate," Mr. Gillon said.

Clarify deductibles

Additionally, policyholders should clarify that the waiting period for business interruption losses is the sole deductible and that the waiting period begins immediately, even if the loss occurs on a weekend or a holiday, Mr. Gillon said.

Sometimes a policy has both a waiting period and a separate mon-

etary deductible, which Mr. Gillon advises clients to avoid to prevent insurers from claiming that two deductibles apply.

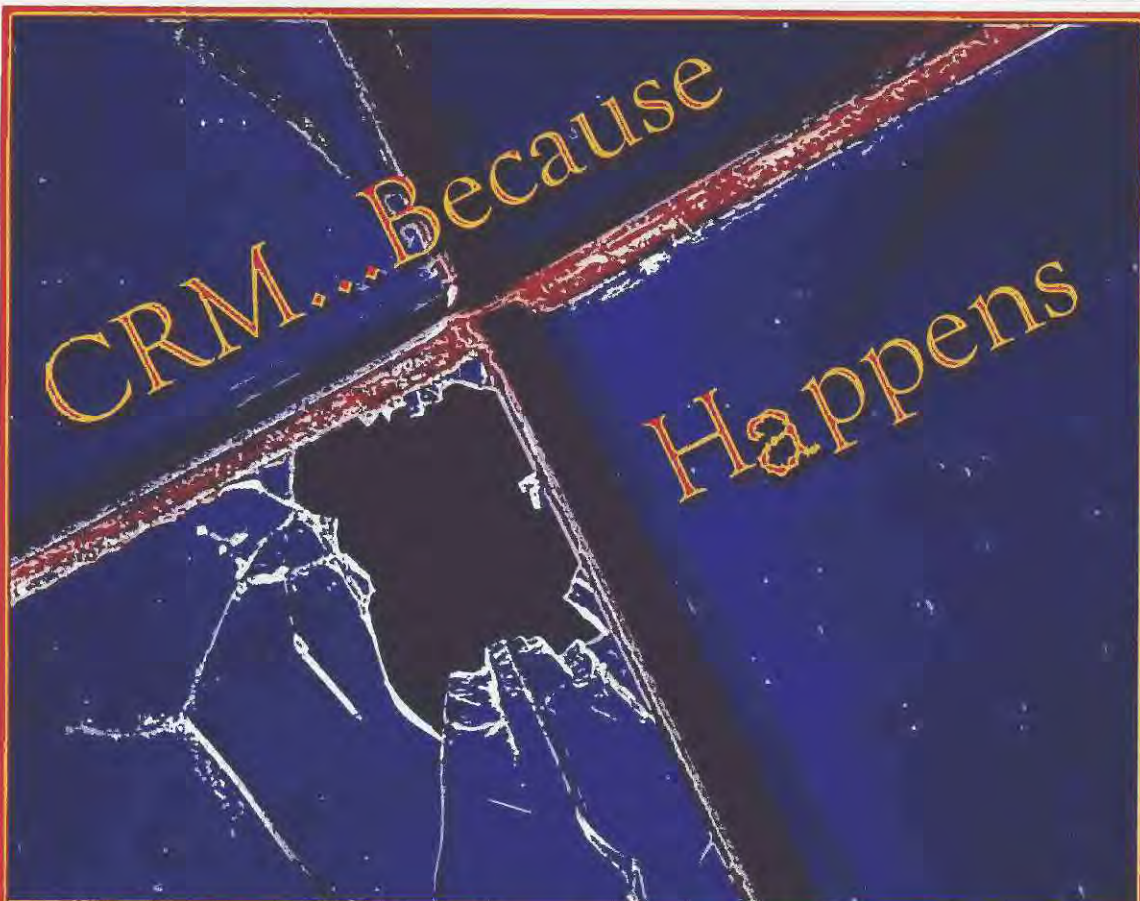
Additionally, the hours within the waiting period should be stated clearly as clock hours and not business hours to prevent a 24-hour waiting period from becoming a three-day period, as some insurers have contended, Mr. Gillon said.

Lastly, when buying business interruption coverage, make certain "you're matching the way the loss is figured to the realities of your business," Mr. Lewis advised.

For example, a factory that is out of business for three months following a fire will not recover from its business interruption policy if the loss is measured based on the amount of sales and if the factory has an offsite warehouse containing three months worth of manufactured goods that could be sold during the restoration period, he said.

Similarly, businesses such as law firms that are typically paid six months after they do the work are not going to "feel the pinch" of a business income loss in some cases until after the restoration period ends. Rather than sales, the loss should be valued as lost billable hours, Mr. Lewis said.

—By Sally Roberts



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Companies revise continuity plans in wake of hurricane losses

Emergency response must help workers deal with disaster

By ROBERTO CENICEROS

Preparations to quickly restore company operations following widespread disaster can fall short when employees are overwhelmed with emergency needs at home, suggest risk managers who have battle-tested their business continuity plans.

Developing a strategy to communicate with workers should they flee

their communities also is critical, risk managers agree.

Mississippi Power Co. learned those lessons when Hurricane Katrina flooded its Gulfport, Miss., facilities and destroyed entire neighborhoods that housed many of its 1,250 workers, said Michele Guido, business assurance principal for Southern Co., Mississippi Power's parent company.

Some employees lost family members as well as their homes. Many workers fled the area and never returned. Mutual aid agreements with other utilities helped restore power within 12 days. But

restoring corporate business functions has proved a tougher challenge as employees have struggled with personal losses, Ms. Guido said.

As a result, Mississippi Power is making sure it is better prepared for the future. Following Katrina, it began building a hardened facility farther inland, and has arranged hotels and shelters to house employees and their families in case of future catastrophes.

Plans also call for sister company employees to operate storm shelters for local employee families. That way, employees needed for critical

operations can report to work knowing their families are safe, Ms. Guido said.

Also, employers should realize that employees may need assistance with rebuilding their homes and their lives for a long time after a catastrophe, Ms. Guido said.

Employee issues

Contingency plans commonly consider a facility's physical survival but overlook the impact on workers, said Jim Green, an independent consultant who facilitated property disaster preparedness workshops for Liberty Mutual Group.

"While getting back in business may be the most important thing to the business owner or management, they have to understand that employees have issues as well," Mr. Green said.

Absenteeism because workers are home dealing with their emergencies following a catastrophe "is a real issue for a lot of companies," said Leonard Resto, director of risk management

Washington.

Because many workers usually contact their individual worksites rather than corporate headquarters, communications with the dispersed workers proved impossible, especially because hotels were closed and phone lines were down, Ms. Turnbull said.

Marriott's innovative communication measures included printing T-shirts with its corporate emergency phone numbers. The T-shirts were given to emergency shelter workers to wear so Marriott employees might see the phone numbers and call their employer.

That way workers could learn where to obtain paychecks, how to access their employee assistance program and get instructions on how to return to work, Ms. Turnbull said.

The effort proved effective, but Marriott has since created an e-mail address and Web site, in addition to the existing telephone number, to provide employees with information during an emergency.

Greater planning for employee welfare would have benefited Dana Corp. when its plant in Pensacola, Fla., faced Hurricane Ivan in September 2004, said Dennis L. Bennice, the company's head of risk management at the time.

Ivan reached the Gulf Coast as a Category 3 storm.

The Toledo, Ohio-based automobile parts maker had a property loss prevention plan with guidelines tailored by local managers to meet the Pensacola plant's specific needs.

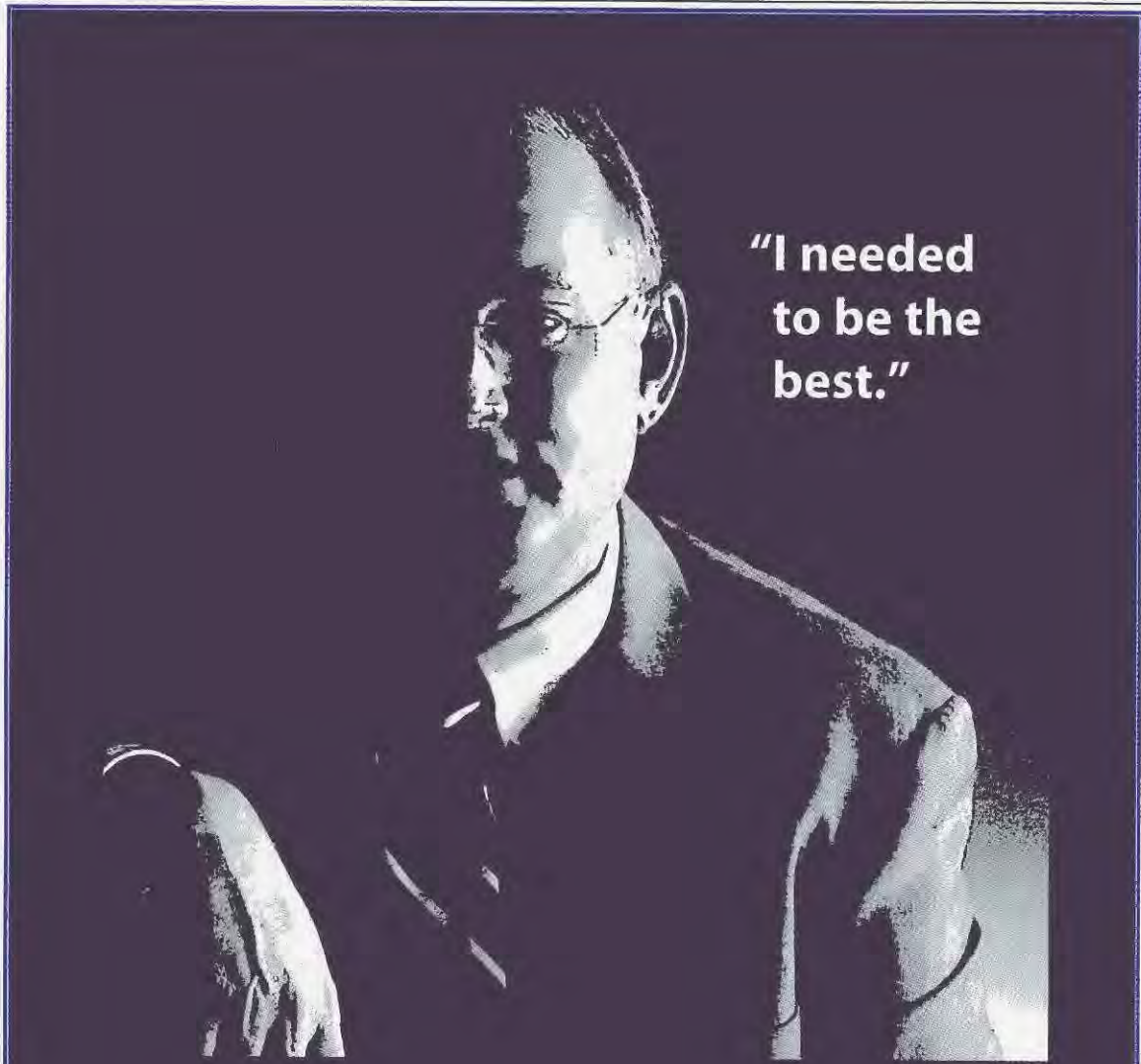
Ivan struck on a Friday and their efforts assured that the plant would be producing parts on the following Monday, Mr. Bennice said. The efforts included sending trucks loaded with compressors, generators and supplies from two similar plants in other states to the affected plant. The trucks—loaded with equipment identical to the Florida facility—approached from the east and west to increase the probability of reaching Pensacola should public infrastructure damage cause delays.

While those efforts proved successful, the strategy was designed to protect property rather than focusing on disaster recovery with consideration for the workforce's status, said Mr. Bennice, who now is vp in the large-account practice for broker Hylant Group Inc. in Toledo.

"We did send (employees) relief funds and supplies to help them get back on their feet, but there are always things you can do better," Mr. Bennice said.

One idea he suggested is having engineers that evaluate and recommend improvements for a company's facilities do the same for workers' homes—especially if they are in an area prone to natural disasters.

If companies were to take such additional steps, that could "pay off in spades," Mr. Bennice said.



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Devastation caused by Hurricane Katrina to homes in Gulfport, Miss., also disrupted businesses in the area as employees struggled with personal losses.

for telecommunications company Global Crossing in Florham Park, N.J. "You are going to take care of your family first and work will come later."

Even before Hurricane Katrina, Global Crossing had instituted an annual review of its preparations three months before the start of hurricane season, Mr. Resto said. Additional preparations occur as storms approach.

As Hurricane Katrina neared New Orleans, Global Crossing positioned emergency equipment, housed volunteer employees from neighboring states in nearby communities expected to remain out of the hurricane's path, and moved local employees' families to safe areas.

Safeguarding families allows employees to focus on assuring the company's network continues to operate, Mr. Resto said. Workers from surrounding states can help fill gaps for local employees tending to their families.

As a result of its preparations, Global Crossing's network and equipment facility located across from the Louisiana Superdome remained operational despite Katrina's devastation of New Orleans, Mr. Resto said.

In another instance, Hurricane Katrina led Marriott International Inc. to refine its emergency planning and the way it communicated with employees at 11 New Orleans hotels and other hotels in the affected Gulf Coast region, said Penny Turnbull, Marriott's senior director of business continuity planning in



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Continuity plans key to business survival after disaster

Crucial to assess impact of losses on all functions

By MARK A. HOFMANN

No matter how the steps involved in creating a business continuity plan are described, the plan's objective remains starkly simple.

In fact, as Charles Brandt, risk control consultant in the Plymouth Meeting, Pa., office of Glen Allen, Va.-based Hilb Rogal & Hobbs Co., put it: "Survival is the objective."

"It's all about keeping the business going," said John Phelps, director-risk management for Blue Cross & Blue Shield of Florida in Jacksonville. The key is to get critical functions up and running as soon as possible, he said.

After an event happens, an entity is in the emergency phase, said Mr. Phelps. "This often determines whether the company will be in business after six months."

"That's where the event controls you, you don't control the event," he added.

The "heart and soul of our emergency response is to take us from the emergency phase into the stabilization" phase when business continuity plans can take over, Mr. Phelps said.

Plans can differ in complexity, and in who is involved in drafting the plan and at which stage, say experts. But the development of a business continuity plan follows a progression even though the names given to its elements may differ.

"Every company has a different need, so their perspectives are different," said Matt Kelly, president of HRH Risk Mitigation Inc., in HRH's Plymouth Meeting, Pa., office. "You get different terms, but at the core everybody should be on the same page about the fundamentals."

Planning strategies

Business continuity planning consists of three phases—preplanning, planning and post-planning, he said.

In first phase, "establishing a management commitment" is important, said Mr. Brandt, who said the effort involves starting the project, establishing a budget and performing a risk analysis.

"Management support is an essential ingredient," said Michael Rodman, a principal with Albert Risk Management Consultants in Needham, Mass. "It takes quite an investment of time to do this—not just to plan it, but to exercise it later."

"There should be a champion" within the organization or outside it, said Steven J. Ross, director and national leader of Deloitte & Touche L.L.P.'s business continuity practice in New York. But basically, it falls to the chief risk officer, particularly in banking and finance, he added. In addition, the chief financial officer and chief operations officer by "definition own much of it," he said.

Every business function "needs to

take ownership" of what the people involved would do during a disruption, he said. The business function needs to understand what is critical, which people are critical and what resources are needed to perform the function.

"The objective of risk analysis is to identify the probability and identify existing controls to prevent loss," said HRH's Mr. Brandt. "Once you do that, you complete a business impact analysis. That ties into the risk analysis. It quantifies your risk and your threats based on how those threats may impact your bottom line."

Mr. Kelly said the process is "almost like risk mapping," trying to lay out and quantify risks. "It's important to the board members and other management that the team brings to them something that is tangible."

Assessment is critical, Mr. Rodman said. "It's really crucial that the functions of the organization be completely understood. It's essential to know how the company operates in great detail to make sure that something that could be key won't be missed."

Companies need to plan for situations such as an inaccessible location and ways to continue key administrative functions, said Mr. Rodman. Perhaps the most important is payroll, he said. "In some fashion, be prepared to make sure the employees are continuing to be paid."

Without risk analysis and a business impact analysis, there's no way to put people in a room and devise a plan, said Mr. Brandt, who added that too many people try to go into the planning phase without performing preplanning. "They have no idea where to begin," he said.

In the pre-event stage, an entity can plan and put resources in place because "you have the luxury of being able to work without having an adverse effect breathing down your neck," said the Florida Blues' Mr. Phelps.

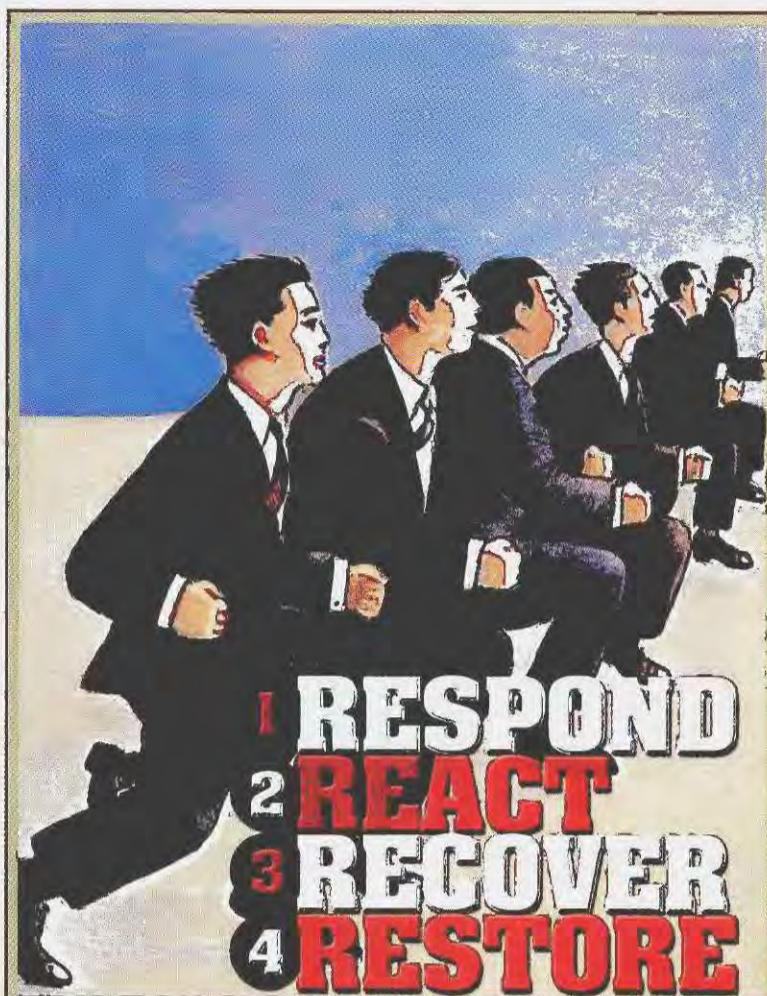
The Florida Blues have plans for dealing with events such as hurricanes, power outages, water problems and anthrax, said Mr. Phelps. The organization also has an aircraft disaster response plan.

"We first determined what our critical functions were—identified all the business processes in the company—and then evaluated them using enterprise risk management format using a scale of 1 to 10," said Mr. Phelps.

In the planning phase, the first thing is to examine existing emergency procedures—primarily life safety—such as emergency evacuation plans, said Mr. Brandt. Then, planners should proceed into strategy development and writing the business continuity process. "It's dynamic—you're implementing as you go along."

Documenting strategy

In the post-planning stage, the team rolls out the document and explains it to the staff. "This is what we have and why we have it," Mr. Brandt said.



Four leading components of effective continuity plans

Once upon a time, the three R's pretty much defined schooling. But in the case of business continuity plans, four R's are needed to describe the elements of a comprehensive plan as outlined by Steven J. Ross, director and national leader of Deloitte & Touche L.L.P.'s business continuity practice in New York.

Those four elements are response, react, recover and restore.

In the response phase, "something's happened—what do you do in the very short term—getting everything out of the building, recognizing you have a disaster, invoking the plan?" said Mr. Ross.

The next phase addresses "how do you react," said Mr. Ross. Where do you go, and what resources need to be there? For example, for information technology the phase may mean getting alternative systems up and running or distributing computers to enable

employees to work from home, "all of which needs to be preplanned," he said.

In the recovery phase, an entity must ask itself how it will conduct business from its "hot site" or alternate location, said Mr. Ross. Some businesses follow "something of talisman" in assuming "we'll just do everything as we always did, but you don't do everything as you always did," he said. How do you operate your business and your data center during the period of outage? he asked.

Finally comes restoration—returning to the original location when "the lights go back on" or getting a new location. In many ways, restoration "is a planned disaster," he said. "What you're saying is—it's just as difficult to go back as it was to get out—the difference is you have the ability to plan it and get back in an orderly process."

—By Mark A. Hofmann

"In the old days, we thought just about disaster recovery—it started and ended with the risk manager—but it really is essential that department heads and key personnel throughout the entire organization be involved in this process," said Albert Risk Management's Mr. Rodman.

When the plan is developed, it must be in both hard-copy form

and electronic written form so it can be communicated readily, he said. The document can be used as a training tool and be distributed so that the key people who have active roles in the recovery process have the plan available to them wherever they are, he said.

Once a plan's in place, it must be tested, noted several experts. An example of a test is a tabletop exer-

cise that simulates an outage for the information technology department, said HRH's Mr. Brandt. This involves going through the procedures and walking through the methodologies, although not in real time, said Mr. Brandt.

Working out kinks

The importance of testing cannot be overstated, said John Copenhaver, president and chief executive officer of Disaster Recovery Institute International, a Washington-based nonprofit organization that administers educational and certification programs for people engaged in business continuity planning and management.

With the plan drawn up, then "comes a very critical component part"—a description of how the plan should be tested and maintained, said Mr. Copenhaver. That helps assure that "whatever bugs exist in the plan are found in advance of actually having to execute the plan in difficult circumstances." Doing so can range from "relatively painless" tabletop exercises all the way up to a full-scale drill, which is very time-consuming to prepare, more disruptive and more expensive, he said. Nonetheless, a full-scale drill is "a better diagnostic tool because you get to see" what people would do in a real-life situation.

"Pretty clearly, you want to use some mix of tabletop exercises, simulations and full-scale drills," said Mr. Copenhaver, a former regional director for the Federal Emergency Management Agency. "We recommend some exercise at least twice a year, and after any significant change in the entity structure" that includes mergers, acquisitions and significant personnel changes, he added.

Plan importance

Some entities, such as the Florida Blues, have had business continuity plans in place for years. Mr. Phelps noted that the Blues planning came in response to the perceived disruptions many feared would occur from the so-called Y2K computer glitch that was supposed to hamper information technology on Jan. 1, 2000. The disruption never happened, but the business continuity planning that arose from it has continued to grow more comprehensive, he noted.

Nevertheless, Albert Risk Management's Mr. Rodman said U.S. companies still seem to lag their overseas counterparts in crafting such plans.

"There's still a tremendous need for both middle size and larger companies to do business continuity planning," said Mr. Rodman. Many companies are "much more absorbed" with issues such as meeting financial reporting requirements under the Sarbanes-Oxley Act than they are with business continuity, he said.

"There's a lot of work to be done in this area. I can't think of a company of any size that shouldn't have a plan in place," Mr. Rodman said.

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Workers comp: Canadian premiums hold steady as investments surge

CONTINUED FROM PAGE 4

Despite the steady premiums for 2007, at least one employers' group remains concerned that the enormous deficit will eventually force the WSIB to raise employer premiums at double-digit rates. "The pessimist in me says we could be heading for trouble," said Sherri Helmka, executive director of the Kitchener, Ontario-based Employers' Advocacy Council, which represents more than 600 employers in the province.

The Canadian Federation of Independent Business, which represents more than 100,000 small to midsize employers across Canada, argued against an increase in the average premium rate for 2006, offering alternatives such as creating cost efficiencies at the corporate and administrative level at the WSIB,

correcting an amendment to workers comp legislation that has resulted in unintended cost increases in Ontario and aligning WSIB staff salaries with similar occupations in the private sector. The organization also suggested that, if necessary, WSIB extend its timeframe—now 2014—for trying to eliminate the deficit, which WSIB has not done, according to a WSIB spokeswoman.

WSIB's decision to hold rates at the current level is "entirely appropriate" and it needs to consider alternatives to increasing employer premiums, said Judith Andrew, vp, Ontario for the CFIB in Toronto. "They had better not be thinking about a rate increase," she said. "They haven't done very much in the area of cost control."

Quebec, meanwhile, lowered its average employer premium to \$2.24 Canadian (\$1.91)—a decrease of

about 3% from the average 2006 rate—because good investment yields have improved the program's funded position. While the organization's last annual report estimated the financial needs of the system at \$2.3 billion Canadian (\$1.96 billion), board officials said they expect the fund to be fully capitalized by early 2007.

If the program becomes 100% funded, that would reduce the pressure on the board to increase premiums for the next few years as it did in 2006 to manage the deficit, said Richard Fahey, vp, Quebec, for the CFIB. "Obviously, it's always a plus because employers in Quebec always think they pay too much and the system is too generous," he said.

Alberta employers again will pay the lowest premiums for workers comp coverage in Canada as the average employer premium declined

for the third straight year. More than 90% of Alberta employers will pay lower premiums in 2007 amid decreasing injury rates and lower duration of injuries, aided by positive investment returns.

"More and more employers are investing in workplace health and safety programs and it's paying off, not only in reduced injuries and illness, but in the premium rate employers pay," Guy Kerr, president and CEO of the Workers' Compensation Board-Alberta, said in a statement. "The decrease in the average rate for 2007 is a strong indicator of just how successful disability management programs can be."

Average premiums for employers in British Columbia declined 10.8% for 2007 as the province also had success in stabilizing injury rates and lowering the duration of injuries, but very strong investment

returns were the key contributor to the 2007 rate declines. About 68% of employers in British Columbia employers will see lower rates, while 10% will see flat rates and 22% will experience rate increases.

Employers in the Yukon Territory now pay one of the highest premiums in Canada as the territory continues to reduce its subsidy program. The subsidies began in 1999 when the workers comp program featured a substantial surplus, but rising claims costs and lower investment income forced the board to phase out the subsidies in an effort to achieve a fully funded position for the program. The average employer premium has risen from \$1.74 Canadian (\$1.49) in 2005 to \$2.64 Canadian (\$2.25) in 2007. Prior to these increases, the Yukon had the lowest employer premiums in Canada.

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International NEWS

Europe explores reforms for auditors' liability

Options include monetary caps, proportionate liability

By **STUART COLLINS**

BRUSSELS, Belgium—The European Commission has launched a public consultation on whether there is a need to reform rules on auditors' liability in the European Union.

In October 2006, the E.C. published a study on current auditors' liability rules and on insurance conditions in member states. Following that study, the E.C. is inviting stakeholders to give their views on possible options for reforming auditors' liability.

These options include the possible introduction of a pan-European fixed monetary cap, although the E.C. said in a statement that this may be difficult to achieve.

Other options include the introduction of caps based on a size of the audited company or on a multiple of the audit fees charged by the auditor to its client. The E.C. is also inviting opinions on whether member states should

introduce the principle of proportionate liability for auditors, under which the auditor and audited company would be liable only for the portion of loss that corresponds to the party's degree of responsibility.

Internal Market and Services Commissioner Charlie McCreevy said in a statement: "There is an increasing trend of litigation against auditors, but often they cannot obtain sufficient insurance to cover the risk. So there is a real danger of one of the 'Big Four' (accounting firms) being faced with a claim that could threaten its existence.

"There are many ways to improve this situation: some member states already have capped auditors' liability, while others are introducing proportional liability combined with some limitations on who can sue auditors. However, given the differences between national markets, there is probably no one-size-fits-all approach," he added.

The consultation period ends March 15.

Details of the consultation are available at http://ec.europa.eu/internal_market/auditing/liability/index_en.htm.

Capacity rises at Lloyd's

Traditional names see market share dwindle to 6.8%

By **SARAH VEYSEY**

LONDON—Lloyd's of London's opening capacity for 2007 is £16.1 billion (\$31.70 billion), up 9% compared with opening capacity for 2006, the market announced.

The largest direct capital providers—corporate-owned members of Lloyd's—for 2007 are Catlin Group Ltd., which is providing £1.09 billion (\$2.14 billion); QBE

Insurance Group Ltd. through its Limit Underwriting Ltd. managing agency, with £1.02 billion (\$2.01 billion); and Amlin P.L.C. with £1.00 billion (\$1.97 billion).

The largest managing agents for 2007, are Limit, with a 7.0% market share; Catlin, with a 6.8% share; and Amlin, with 6.2%.

Those individual investors at Lloyd's who underwrite with unlimited liability—known as Lloyd's names—have a 6.8% market share of opening capacity for 2007, down from a 9.7% share in 2006, while individual members with limited liability have a 8.7% market share of opening capacity, up from 6.8%.

Venezuelan nationalization drive may trigger political risk claims

Compensation levels expected to fall short of market values

By **ROBERTO CENICEROS**

CARACAS, Venezuela—If President Hugo Chavez keeps his promise to nationalize utility companies and oil investments in Venezuela, political risk coverage claims may follow.

Claims could take months to materialize. Much will hinge on how President Chavez carries out his plans and whether he adequately pays investors for their financial loss or simply confiscates the properties, political risk observers add.

President Chavez, first elected in 1998, was sworn in earlier this month for a third term.

After his 20-point margin of victory, President Chavez continues to press ahead with his goal of transforming Venezuela into a state that is more closely tied to a socialist model. He announced earlier this month that he plans to nationalize entities such as Compania Anonima Nacional Telefonos de Venezuela, the South American nation's biggest telecommunications company.

According to Securities and Exchange Commission documents, New York-based Verizon Communications Inc. owns 28% of CANTV's stock. A spokesman for Verizon said the company did not know the details of President Chavez's plan and could not comment.

Along with demanding congressional authority to aid in his nationalization drive, President Chavez recently announced his intention to nationalize La Electricidad de Caracas. Arlington, Va.-based electricity provider AES Corp. owns a controlling share of EDC, a third-quarter 2006 AES report shows.

AES did not return phone calls seeking comment.

The Venezuelan president also said that oil production projects, in which some of the world's largest oil companies have invested billions of dollars, should become state property. The government last year began negotiations with oil companies to take a majority stake in those projects, but a deal has not been reached.

Some of the entities in President Chavez's sights likely carry political risk coverage, according to insurers

and brokers.

But coverage would be triggered only if investors are not adequately compensated for their financial losses, said Daniel W. Riordan, executive vp and managing director of emerging market solutions for Zurich Financial Services Group in Washington.

Some observers say it is unlikely President Chavez would take the companies without providing some compensation from Venezuela's sizable oil revenues.

"The government at the present time has a lot of money, so making payments won't be a big problem," said Rafael Malaret, managing director for Seguransa Meta C.A., an insurance brokerage in Caracas.

Also, Venezuelan law requires the country to compensate investors. "No doubt they will pay in cases of nationalization," he said.

But in such situations, governments usually don't adequately compensate investors, said Keith Dunford, worldwide underwriting manager for political risk in Whitehouse Station, N.J., for the Chubb Corp.

Should that happen, political risk insurers would make up the balance. The actual amount they contribute would likely result from a settlement between insurers and policyholders, said Bryan Squibb,



REUTERS
Venezuelan President Hugo Chavez has vowed to nationalize utility and oil companies.

managing director for Aon Trade Credit in Chicago.

"These claims are not cut and dried like a car accident" claim, Mr. Squibb said. "It might be they go on for months, if not years."

It also may not be in a policyholder's interest to walk away from the country and file an insurance claim, Mr. Squibb said. They may want to continue some operations in Venezuela while still attempting to salvage their investments, he said.

Aon sees less political risk

LONDON—There has been an overall decrease in political risk for the first time in three years, according to research from Aon Corp., with 17 of the 214 countries studied posing less of a risk in 2007 than they did in 2006.

There were, however, significant political risk events last year, such as coups in Fiji and Thailand, Aon noted in unveiling its "2007 Political and Economic Risk Map."

And the growth of "nationalism is also becoming a major issue, especially for some of the world's multinational energy companies," according to Charles Keville, director of Aon's crisis management division in London.

In particular, Mr. Keville noted, some oil-producing nations

are seizing local resources that may have been owned or shared with international oil companies.

This can take the form of a blanket country action, such as Bolivia's recent nationalization of the oil and gas industry, or a more targeted move, such as interference against individual projects, Mr. Keville noted.

"Greater reliance on overseas-sourced goods, with increasingly tighter 'just-in-time' product demands, means that companies' global supply chains are under greater threat from political and nonpolitical trade disruption risks such as embargoes or even bird flu," Aon said in a statement.

More information on the map is available at www.aon.com/about/publications/issues/political_risk_map.jsp?src=politicalrisk.

—By Sarah Veysey

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Gyms: Onsite fitness centers may generate significant exposures

CONTINUED FROM PAGE 1

than 450 organizations polled found that 36% offer onsite fitness equipment.

Although such facilities so far haven't generated a significant number of suits or claims, attorneys and consultants say employers considering the approach need to take steps to limit their liability.

"Simply setting up a company exercise room implicates various issues," said Gerald Maatman Jr., a workforce attorney with Seyfarth Shaw L.L.P. in Chicago. Companies could be held liable in injury lawsuits and—depending on state laws—workers compensation claims if someone were hurt using such facilities, he said.

"These are pretty significant exposures. It's not something (a company) should just say one day, 'This sounds like a great idea,'" said Dale Renner, director of national casualty claims for Aon Risk Services in Philadelphia. "If they have (such facilities) in their building, then

employees can (exercise) while they are at work. Being on the premises creates that exposure."

Beyond waivers

While employers with workout or recreational facilities often require users to sign waivers or hold-harmless agreements, that step alone is not enough, some experts say.

"Waivers aren't ironclad; waivers generally cannot waive away a person's specific negligence," said Mr. Renner. "What waivers do is maybe put the lid on whether the employee would sue or not," he said, describing such agreements as "more psychological than legal."

William Milani, an employment law attorney with Epstein Becker & Green P.C. in New York, said waivers won't hold up in court if the company was found to have stocked the facility with substandard, poorly maintained equipment or staffed it with untrained workers.

Employers need to pay special attention to their state's workers comp statutes in considering an

onsite recreational center, experts say. While workers comp laws generally bar coverage for activities outside the scope of an individual's job, that line is becoming increasingly blurred, they note.

"Do you have your Blackberry right there? Do you have your cell there? Are you waiting for a client to call while you are working out?" said Mr. Maatman. Distinctions between work and nonwork activities are "not so squeaky clean as before," he said.

Mr. Renner said companies that offer employees extra perks—such as reduced health care premiums or cash incentives—to use the onsite facilities could be setting themselves up for workers comp claims.

"The more closely it is associated with your employment, the more likely it could be considered workers comp," said Mr. Renner.

For example, companies that require that a person be in good shape to do their job are more liable for workers comp if an employee is injured using a facility, he said. Pub-

lic safety workers such as police officers and firefighters, he said, are obvious candidates for workers comp in these cases.

Erika Koty, a claims adjuster in the risk management office for Naperville, Ill., said the city maintains fitness and recreational centers for its firefighters and police officers. If such an employee were injured while exercising, that could fall under workers comp, she said.

"It's part of their job, because they have fitness standards," she said.

Other protections

There are several steps employers can take to reduce the risk of claims and litigation, experts say.

Employers need to make certain that employees have their doctor's permission before using an onsite facility, said Michael Tompkins, a Kansas City, Mo.-based senior claim consultant for Lockton Cos. Inc., which offers onsite workout facilities.

In addition, companies need to have professional fitness staff available to ensure equipment is being

used correctly. Regular equipment maintenance and safety checks also are vital, Mr. Tompkins said.

"The whole issue is supervision and control, and you really have to have it in place. And if you can't afford to have it, then you are better off not" providing a facility, said Mr. Renner of Aon.

Companies also can reduce their risk greatly by allowing only workers—and not their families—access to facilities, he said. Employers can also hire an outside fitness company to run the facility, potentially transferring some liability, he said.

Finally, Mr. Tompkins said, employers need to ensure the facility is available to all employees, regardless of disability.

Attorney Mr. Milani said onsite fitness centers and like facilities could give rise to discrimination claims if employers aren't careful to make them accessible for disabled workers. "Employers have to be very careful with compelling people to visit an onsite facility if the facility leaves out the disabled," he said.

Health care: Pennsylvania's proposed legislation raises questions

CONTINUED FROM PAGE 4

paying for their own employees' health coverage, they are subsidizing the costs of the uninsured."

In California, Gov. Schwarzenegger made much the same point in introducing his own plan. Because of cost-shifting, "companies stop offering coverage, which leads to more people without insurance and the whole cycle keeps repeating," he said.

To expand Pennsylvania coverage, Gov. Rendell's plan calls for state-paid health insurance premium subsidies for individuals who make less than 300% of the federal poverty level. Such subsidies also would be available to low-income employees working at small companies that do not offer health insurance coverage and have a high proportion of low-income workers.

To encourage employers to offer coverage and provide a revenue source for the state, employers with

more than 50 employees would be liable for a new 3% payroll assessment if they do not offer health insurance coverage. In computing the tax, an employer's first 50 employees would be excluded.

Whether this effort to expand coverage and reduce cost-shifting will work is a key question.

Massachusetts—the first U.S. state to attempt this approach—is only now implementing its 2006 universal health care law. Vermont, which passed a similar law last year, also has yet to fully put it into effect.

Some health care experts are skeptical that the Massachusetts model will produce lower costs for employers already providing coverage. For example, even if health insurance coverage is made mandatory, many people still may not use the coverage, said Ted Nussbaum, North America director of group and health care consulting for Watson Wyatt Worldwide in Stamford, Conn.

Among other concerns, Pennsylvania businesses question the 3% payroll assessment on employers not offering coverage. The proposal is not clear on whether the assessment applies if most workers don't take coverage offered by employers, said David N. Taylor, executive director of the Pennsylvania Manufacturers Assn. in Harrisburg.

"The plan raises as many questions as it answers," said Brian Kelly, director of government affairs for the Pennsylvania Chamber of Business & Industry in Harrisburg.

Others say the 3% assessment might face legal challenges on grounds it violates the federal Employee Retirement Income Secu-

rity Act, which pre-empts state rules and laws relating to employee benefit plans. A law in Maryland designed to expand coverage violates that aspect of ERISA, courts have ruled (see related story).

"Almost certainly, there will be challenges," said Seth J. Chandler, a law professor at the University of Houston Law Center.

Maryland's Wal-Mart law dealt further blow as appeals court rules ERISA violation

By JERRY GEISEL

RICHMOND, Va.—A federal appeals court decision last week, which upheld a lower court ruling striking down a Maryland law that would have required Wal-Mart Stores Inc. to spend more on employees' health insurance, likely will be the death knell to that coverage approach.

The measure, which Maryland lawmakers approved last year by overriding a gubernatorial veto, would have required employers with at least 10,000 employees to spend at least 8% of payroll to provide health insurance benefits or pay the difference into a state fund covering the low-income uninsured.

Because of the way the measure was written, the law would have applied only to Wal-Mart, the giant Bentonville, Ark.-based retailer.

Maryland's law became a template for similar bills—dubbed "Fair Share" by backer AFL-CIO—that were introduced last year in about two dozen states.

But the Maryland model was dealt a blow when a federal judge

last July ruled, in a suit filed by the Retail Industry Leaders Assn., that the measure violated the federal Employee Retirement Income Security Act, which pre-empts state and local rules and laws that relate to employee benefit plans.

In the wake of that decision by Judge J. Frederick Motz, legislative interest in the Fair Share approach withered and most of the state proposals died in committee. One state—California—did approve a bill similar to Maryland's, but Gov. Arnold Schwarzenegger vetoed it.

State interest in the issue could completely evaporate in the wake of last week's 2-1 decision by a three-judge panel of the 4th U.S. Circuit Court of Appeals upholding Judge Motz's decision, opponents of the Maryland law say.

"This decision should send a strong signal to other states considering similar legislation that it will not pass judicial muster," said Steve Cannon, outside general counsel for the Arlington, Va.-based RILA, whose members include Wal-Mart.

In the ruling, written by Judge

Paul Niemeyer, the appeals panel said Maryland's goal to require Wal-Mart to spend more on health insurance "directly clashes with ERISA's pre-emption provision and ERISA's purpose of authorizing Wal-Mart and others like it to provide uniform health benefits to its employees on a nationwide basis."

Federal legislators included the pre-emption provision to minimize the administrative and financial burden on employers in complying with varying state benefit laws and rules.

"Were we to approve Maryland's enactment solely for its noble purpose, we would be leading a charge against the foundational policy of ERISA, and surely other states and local governments would follow," the court concluded.

The state has until early next month to decide whether it will seek a review by the full appeals court of the panel's decision.

Retail Industry Leaders Assn. vs. James D. Fielder Jr., 4th U.S. Circuit Court of Appeals, No. 06-1840, Jan. 17, 2007.

Letters

CONTINUED FROM PAGE 8

At the present time, the best way to make sure a buyer is getting the best deal in the market is to regularly seek a truly competitive "request for proposals" from more than one broker, with assigned insurance markets and a close follow-up. Even this was curtailed in past years with buyouts and the drastic reduction in the number of brokers, limiting competition.

For a real change and a true and honest approach, brokers should be paid as risk management advisers on a similar basis as legal advisers and accounting firms. When some of these firms were convicted of wrongdoing in the past, at least they weren't acting against their

clients' direct interest, but rather serving their own interests. This is a small consolation, but it illustrates the principle.

With what we have read in the newspapers over the years, one should ask this question: If some insurers and brokers had so little care for insurance buyers, what kind of care do they have in settling large, difficult and complex claims?

One of the first things I was taught by a wise man early in my insurance career was *caveat emptor*, or let the buyer beware. This is true more than ever, it seems.

André Goyette
Principal,
CGR
Montreal

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USI: Broker's \$1.4B deal may portend more private equity buyouts

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ed to close in the second quarter, also includes repayment of USI's existing debt obligations, which one analyst estimates at \$393 million.

While there is still time for another

USI REVENUES AND PROFITS

Year-end revenue and net income results for USI in thousands of dollars.



Source: Company reports

er firm to make an offer to acquire USI, analysts say that other bids are unlikely due to the value of the deal and the time it took to reach a definitive agreement.

According to a Securities and Exchange Commission filing, if the deal were to be terminated under specified circumstances, USI would owe Goldman Sachs \$41 million, while under other circumstances, Goldman Sachs would be required to pay USI a termination fee of \$15.7 million.

In a statement, David Eslick, USI's

chairman and chief executive officer, described the deal as being in the best interest of shareholders and that GS Capital Partners "believes in our commitment to investing in our people and is committed to working with us to deliver the most value for our clients and customers."

USI was the ninth-largest broker of U.S. business based on 2005 brokerage revenues of \$504.3 million, according to *Business Insurance's* annual rankings.

Formed in 1994 by well-known insurance brokerage executive Bernard H. Mizel, USI embarked on an aggressive growth-by-acquisition strategy and went public in 2002. As a public company, though, USI's margins have fallen below analysts' expectations recently.

As a private company, USI will be able to take a longer-term view to shoring up its financials and building the brokerage, which should ultimately result in a stronger company and benefit clients, observers say.

"The problem as a public company is that they probably couldn't get some of the improved margins that they thought they could ultimately get, because they had analysts and investors watching over them every quarter," said David Lewis, an analyst with SunTrust Robinson Humphrey Capital Markets in Atlanta. "I think under this organization, it will allow them to...make some of the hard decisions that I think ultimately will be better for their customers and their employees."

Going private will be a "real positive for customers of USI," said John L. Ward, CEO of Cincinnati-based

advisory firm Cincinnatus Partners L.L.C. "The pressure and the scrutiny that comes with being a public company and the pressure to meet Wall Street's expectations quarter to quarter sometimes doesn't always align with what's best for the customer base."

Issues such as margin expansion and integration are "oftentimes better dealt with as a private company where you can look at your progress over a longer-term horizon," he said.

Volatility shield

"This has been a story consistent with earnings volatility, and a private company can withstand that a lot better than a public company," said Nik Fiskin, a USI analyst with Stephens Inc. in Little Rock, Ark. "Private equity takes a much more long-term view, and I bet (USI) gets fixed quicker and comes back out to the public markets once we get

some rate increases instead of rate decreases."

John Wicher, principal of San Francisco-based advisory firm John Wicher & Associates Inc., said the deal benefits both USI and its customers.

For USI, it solves the "leverage issue that was banging up against (its) appetite for acquisitions," eliminates "all the headaches" of being public and gives it access to capital, he said. "For the customers, it means a stronger, better-positioned broker," Mr. Wicher said.

USI's deal is the latest in a string of deals involving private equity in the retail brokerage business over the last year (*BI*, Oct. 30, 2006).

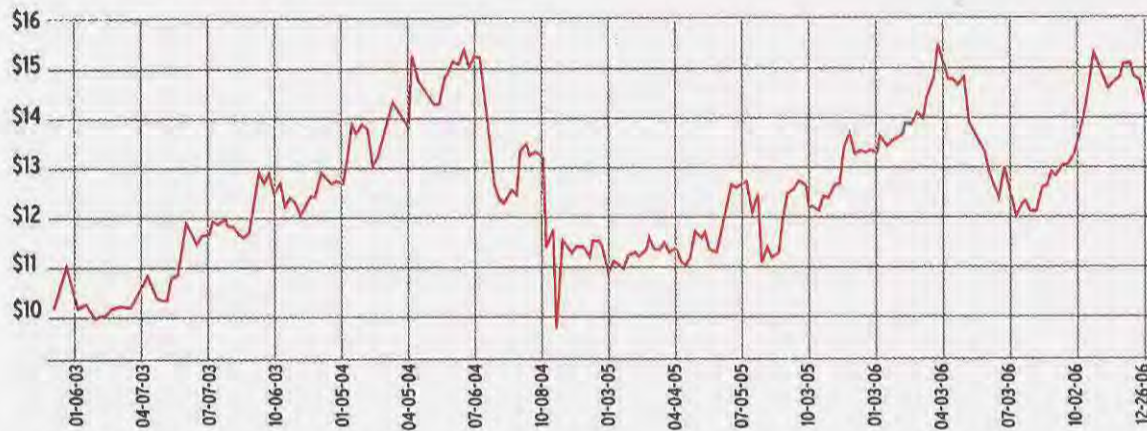
And given the continued interest among private equity firms and the amount of capital they have to invest, observers say they wouldn't be surprised to see another big publicly traded brokerage coming under private equity ownership.

"My sense is that the tier-one private equity firms have a heightened interest in insurance brokers and, as I understand it, Goldman Sachs was not the only one interested in USI," Mr. Fiskin said. "So I think there is at least (one private equity firm) left with an appetite."

"I wouldn't be shocked to hear of another major deal...just because of the amount of capital floating around," said Timothy J. Cunningham, a principal with insurance advisory firm OPTIS Partners L.L.C. in Chicago.

"There continues to be a lot of talk" among private equity firms, which are attracted to the retail and wholesale brokerage industry for several reasons, he said. It's not "a terribly capital intensive business," it generates "a fair amount of cash flow" if run properly and it is a "fairly simple" business to understand. "The negative is the soft market and its duration."

USI FIVE YEAR STOCK PRICE



Source: Yahoo! Finance

IPOs: Reinsurance investors take advantage of market conditions

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Laline Carvalho, a credit analyst and director at Standard & Poor's Corp. in New York, in a statement. "These companies had a very good year because we didn't see a lot of catastrophe losses...that makes their prospects for an IPO more favorable."

Timing, climate combine

"The timing (of an IPO) depends a lot on the market...and market conditions are favorable at this point," said Robert DeRose, assistant vp, reinsurance ratings, at Old-

wick, N.J.-based A.M. Best Co. Inc.

"Capacity is still tight right now in the property catastrophe market, and that's in contrast to some pretty significant rate pressure in other lines," said Mark Rouck, a senior director at Fitch Ratings in Chicago.

"Back when these companies were formed and started getting put into place, we said that we thought their goal ultimately was to conduct IPOs," said Mr. Rouck. "It has happened maybe a little bit earlier than we thought. We were thinking more along a three- to five-year time frame."

Ms. Carvalho noted that the

'There is definitely a different group of investors for the class of 2005/2006,' which are mainly hedge funds and private equity firms.

Laline Carvalho, Standard & Poor's

investment climate for the newest startups has changed greatly since the period following the Sept. 11, 2001, terror attacks when a number of reinsurers formed.

"There is definitely a different group of investors for the class of 2005/2006," which are mainly hedge funds and private equity firms, she said.

"There is the general view that the people who are looking at these companies are generally looking for shorter-term investments," Ms. Carvalho said. "The time horizon of the investors may not be as long as an insurance broker that may have

invested in a startup company many years ago and kept that investment" for a longer period of time.

"We will likely see more" IPOs in the coming weeks and months from the latest group of startup reinsurers, Ms. Carvalho said.

"If they didn't conduct an IPO right now, there is still somewhat a window of opportunity" to do so, said Mr. Rouck, though he noted that it "gets harder to do as hurricane season approaches."

"It might die down when you get to the April, May, June time frame," Mr. Rouck said.



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Canadian firms expected to escape stock scandals

Insurers still question options granting practices

By GLORIA GONZALEZ

Canadian companies have largely been insulated from the stock options scandal that has affected more than 100 U.S. companies because of Canada's securities laws and tax rules that impede backdating of options, lawyers and insurance market sources say.

While insurers are asking Canadian policyholders about option granting practices, options backdating is not expected to be a major issue from a directors and officers liability insurance perspective. Questions, though, have arisen about whether these laws and rules are sufficient to prevent backdating in Canada.

Only one Canadian company—Research in Motion Ltd., the maker of the BlackBerry wireless communications device—appears to be caught up in U.S. investigations of retroactively dating stock option grants to boost profits for the recipients. The Waterloo, Ontario-based company said its audit committee was voluntarily reviewing its option granting practices and that it had received a letter of informal inquiry from the U.S. Securities and Exchange Commission related to its stock option grants and practices.

In response to inquiries from Canadian market participants spurred by news of the U.S. probes, the Canadian Securities Administrators—the council of securities regulators of Canada's provinces and territories—has published a notice of Canadian regulatory and legislative requirements that the organization said may reduce the opportunity for Canadian companies to backdate option grants.

For example, the Toronto Stock Exchange, where the majority of publicly listed Canadian companies are traded, requires that the exercise price for options granted by listed companies not be less than the market price of the underlying securities when the options are granted, and that the exercise price be based only on publicly disclosed information.

While a company could ignore the TSX rules, it would be highly visible to securities regulators and make it "harder for people to manipulate the system, even if they wanted to," said John Tuzyk, a partner in the business/securities group at law firm Blake, Cassels & Graydon L.L.P. in Toronto.

Also, Canadian securities law generally requires company insiders to file an electronic report within 10 days of any change in their direct or indirect beneficial ownership, control or direction of company securities, including options.

These requirements are reinforced by Canadian tax rules that

provide favorable tax treatment for employee stock options, provided the exercise price is not less than the fair market value on the grant date, said Andrew MacDougall, a partner in the business law department at law firm Osler, Hoskin & Harcourt L.L.P. in Toronto.

Rules have no bite: Study

Recently published research by three University of Manitoba professors, though, questions if the securities rules are sufficient to prevent stock option backdating, pointing to enforcement gaps and the lack of stiff penalties for violations. Despite the 10-day reporting requirement, the professors found almost 17% of all insider option grant reports are filed late. "What the CSA seems to be missing is that these rules do not necessarily have bite in terms of reducing backdating," the study said. "Certainly, they serve to make backdating an illegal activity, but still the opportunity to backdate remains if companies are willing to break the rules."

The backdating scandal's key impact is a heightened insurer focus in questioning the option granting

practices of Canadian policyholders as well as executive compensation practice, brokers say.

Insurers "dislike the risks where it's been a poor year for the company and record results for the executives," said Jonathan Ashall, senior vp, regional director for the executive risk practice of Willis Canada in Toronto.

Plaintiff attorneys are starting to examine compensation committees and boards for approving "egregious" executive salaries, said Scott Saddington, chief underwriting officer for Toronto-based Executive Risk Services Ltd.

Canadian law does protect directors making compensation decisions in good faith, lawyers say.

The introduction of new corporate disclosure requirements in Alberta, Manitoba and Ontario, though, create a potential liability for Canadian companies and their directors and officers, who could be sued in relation to a material omission or materially incorrect statements in earnings reports, among other items related to executive compensation, Mr. MacDougall said (BI, Jan. 8).

TAKING STOCK

Canadian companies may want to evaluate their stock option granting practices and consider the following steps:

- Adopt blackout periods to preclude option grants when executives have material information not yet released publicly.
- Adopt a fixed schedule of option grant dates, but refrain from making grants on those dates when executives have market-moving news.
- Keep detailed minutes of compensation committee and board meetings during which options are granted or discussed.
- Refrain from making option grants for a retroactive date.
- Assess the federal investigation risk by reviewing past grants to determine if the grant date matches the grant approval date and whether options were granted when stock prices were depressed.
- Prepare to meet new U.S. Securities and Exchange Commission disclosure requirements by gathering information on the timing and exercise price of 2006 executive option grants

Source: Osler, Hoskin & Harcourt L.L.P.

IBM: Cash balance plans

CONTINUED FROM PAGE 3

are expected to take up cash balance plan age discrimination rulings, though when that will happen is not known.

Experts doubt if Congress will return to the issue anytime soon. As part of a comprehensive pension funding measure passed last year, Congress protected new cash balance plans—those established after June 29, 2005—from age discrimination suits so long as the plans meet a few basic standards (BI, Aug. 7, 2006).

"There was a strong lobbying effort to make the cash balance provisions retroactive and Congress didn't do it," said Nancy Ross, a partner with McDermott, Will &

Emery L.L.P. in Chicago.

While the roughly 1,200 to 1,500 employers that have the plans are anxiously awaiting the outcome of suits, other employers interested in setting up new plans—thanks to the prospective cash balance plan protection provisions in last year's pension law—have no such worries.

New plans

And benefit consultants expect new plans to be established as employers analyze and come to appreciate the advantages of cash balance plans.

"These plans still make enormous sense and sophisticated plan sponsors will come to realize that," said Kevin Wagner, a senior consultant in the Atlanta office of Watson Wyatt Worldwide.

For example, unlike 401(k) plans, in which employer contributions are locked in, contributions to cash balance plans, which legally are defined benefit plans, can be slashed if plan assets earn superior investment results. Employers decide how plan assets are invested.

At the same time, one financial risk of traditional pension plans—that retirees may live longer than expected, resulting in longer-than-calculated monthly annuity payments and greater employer costs—is not much of a risk in cash balance plans, Mr. Wagner said.

That is because the overwhelming majority of cash balance plan participants take their accrued benefit as a lump sum when they leave, ending the employer's benefit obligation.

D&O: General counsels face exclusions

CONTINUED FROM PAGE 1

Wakefield, Mass., became one of the first executives to settle with the SEC over civil fraud charges stemming from the backdating scandal. Mr. Sorin—who agreed to pay more than \$3 million in civil penalties, disgorgement and prejudgment interest—in August was charged with creating phony company records to permit the backdating of stock options at Comverse and its Ulticom Inc. subsidiary. A Comverse spokesman would not comment on insurance coverage.

The involvement of general counsels in the backdating of stock options calls attention to a possible deficiency in insurance coverage for corporate general counsels. "I think there is a lot of finger pointing at general counsels and I don't think they're adequately protected," said Brian Rosenbaum, senior legal consultant for the financial services group of Aon Reed Stenhouse Canada in Toronto.

Under traditional D&O policies, general counsels at a public company can typically be indemnified as officers of the company.

"Except for obvious exclusions for intentional misconduct...coverage would be afforded to general counsels," said Michael Price, New York-based vp of Hartford Financial Products, a unit of Hartford Financial Services Group Inc.

Still, some D&O policies have professional service exclusions that could bar coverage if an insurer takes the position that certain tasks performed by the general counsel are outside the scope of an officer's duty, brokers and insurers say.

"As a general matter, under most D&O policies the general counsel is covered as an executive of the company," said Ann Longmore, a New York-based senior vp and the D&O

product leader with the executive risk practice at Willis North America, a unit of Willis Group Holdings Ltd. "However, they are not covered for their professional exposures and that's the puzzle we have."

In the event of a claim, an insurer could argue that a general counsel offering legal advice to the board of directors was acting in a capacity of a lawyer, separate from the role of a company officer, experts note.

A "potential argument that someone could make that 'this is a D&O contract and we don't cover you as you are making decisions as a lawyer,'" said Heather Fox, chief underwriting officer and senior vp, National Union Fire Insurance Co.

of Pittsburgh, Pa., a New York-based unit of American International Group Inc., who added that the general counsel "in our contract is expressly named."

"This is an argument that has come up repeatedly...it's really an attempt to engage in an improper dodge," said William G. Passanante, a partner at New York policyholder law firm Anderson Kill & Olick P.C.

Whether this argument will be raised by insurers with regard to backdating claims remains to be seen, but as claims volume stemming from options probes increases, insurers will be pressured to take a "hard-line position," Aon's Mr. Rosenbaum said.

Avoiding coverage potholes

Brokers say one way to plug any potential insurance coverage gaps for a company's general counsel and other in-house counsel is through an employed lawyers professional liability policy, which is designed to eliminate ambiguity about general counsel being covered in an official or unofficial capacity.

The coverage—which is widely available and offered by most major D&O insurers—can be purchased as an attachment to a traditional D&O policy or as a stand-alone policy, brokers say.

To some degree, investigations into corporate stock option practices are prompting corporate lawyers to encourage their employers to address any potential gaps in insurance coverage.

"Absolutely, more lawyers are asking about it...in-house lawyers are more attuned to their own potential liability now

in a post-Enron world, and there are more questions being asked about whether existing coverages, primarily D&O, is sufficient," said William A. Boeck, senior vp, insurance and claims counsel at Lockton Financial Services in Kansas City, Mo.

"I'd say it's being purchased with greater frequency today than it was five or six years ago," said Nicholas Conca, managing principal and head of the New York management risk practice for Integro Ltd.

Regardless of employed lawyers coverage, policyholders should ask for more detailed language in their D&O policies to specifically cover general counsel, recommended Mark Keenan, an insurance attorney and shareholder at Anderson Kill & Olick P.C. in New York.

—By Rupal Parekh and Gloria Gonzalez

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News In Brief

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approximately 550 job eliminations and the closure of its existing Houston and New York-based service centers, the Chicago-based brokerage said. Aon said that "more routine" administrative functions will be outsourced to Genpact, a business process outsourcing firm.

MMC names vice chairman

Marsh & McLennan Cos. Inc. has appointed David Nadler as vice chairman, Office of the CEO, for the company. Mr. Nadler will have primary responsibility for developing MMC's major North American account relationships. He will continue to directly serve clients as a senior partner and chairman of Mercer Delta Consulting.

Delaware enacts comp reforms

Delaware Gov. Ruth Ann Minner has signed into law comprehensive workers compensation reform legislation that establishes a new medical payment system and practice guidelines. The law also mandates that a new workers comp rating plan be filed with the insurance commissioner designed to lower employers' rates. The bill will "result in estimated savings of 20% or more," Gov. Minner said in her State of the State address to the Assembly last Thursday.

Lloyd's exec James to join Lockton

Julian James, director of worldwide markets, will leave Lloyd's of London in April to become an executive chairman of broker Lockton Cos. International Ltd., a newly created position. He has been at Lloyd's for nine years and previously served as head of the market's North America business unit.

Nonresident dependents get Tenn. comp benefits

Nonresident foreign nationals can be considered dependents under Tennessee's workers comp laws and receive death benefits if a family member is killed at work, said the Tennessee Supreme Court in a unanimous decision. The decision in

George R. Fusner Jr., as designated representative of the Mexican Consulate vs. Coop Construction Co. L.L.C., et al., concerned Jaime Humberto Diaz Pedraza, a Mexican national who fell to his death at a Nashville construction site on Oct. 3, 2002. An attorney appointed by the Mexican consulate is representing Mr. Pedraza's parents, who live in Mexico.

Utah captive formations double

The Utah Department of Insurance licensed a record 16 captive insurance companies in 2006, doubling the state's captive roster to 30. Of the new formations, 15 were single-parent and one was a risk retention group. Additionally, one captive that was licensed in 2005 voluntarily decided not to renew its license last year. Nearly half of the new captives were formed by parents in the real estate or construction industries, said Donnie R. Spann, the state's captive insurance director.

Canadian pharmacists seek to block Rx exports

Four pharmacy groups are urging Canada's minister of health to prevent the bulk export of prescription drugs in response to a bipartisan bill introduced in the U.S. Congress to allow prescription drugs to be re-imported from Canada. The Canadian Pharmacists Assn., the Ontario Pharmacists Assn., the Canadian Assn. for Pharmacy Distribution Management and the Best Medicines Coalition sent a letter to Minister of Health Tony Clement asking him to respond proactively to the U.S. legislation introduced recently. A bill (C-378) being considered by the Canadian government would amend Canada's Food and Drugs Act to give the minister of health the power to ban prescription drug bulk exports.

Reinsurer group seeks regulatory reforms

The Reinsurance Assn. of America said it is pursuing regulatory reform for reinsurance this year. "Reinsurance is a global business involving transactions between sophisticated parties," RAA President Franklin W. Nutter said in a statement. "An appropriate reinsurance regulatory structure should include a single regulator for reinsurance with national oversight. That regulator should be authorized to enter agreements with other countries to provide for recognition and enforcement of substantially equivalent regulatory standards and enforcement in other competent regulatory jurisdictions," he said.

Blast: Report slams BP over safety management

CONTINUED FROM PAGE 3

that BP leadership set the process safety 'tone at the top' of the organization and establish appropriate expectations regarding process safety performance." It also said that BP "has not provided effective leadership in making certain its management and U.S. refining workforce understand what is expected of them regarding process safety performance."

BAKER PANEL RECOMMENDATIONS

- Corporate management, including the board of directors, "must provide effective leadership and establish appropriate goals for process safety."
- BP "should establish and implement an integrated and comprehensive process safety management system that systematically and continuously identifies, reduces and manages process safety risks."
- BP "should establish and implement an effective system to audit process safety performance at its U.S. refineries."

In addition to calling on management to provide more process safety leadership, the panel, among other things, called for an integrated and comprehensive process safety management system and development of a process safety culture. The Baker panel also urged BP to "clearly define expectations and strengthen accountability for process safety performance at all levels in executive management and in the (oil) refining managerial and supervisory reporting line."

In a statement accompanying the release of the report, BP said it "already has taken a number of actions which align with the recommendations" of the panel "and will, after a more thorough review, develop plans for additional action" at its U.S. refineries and elsewhere.

'Deficiencies' abound

The Baker panel said that while the report dealt with BP, "we intend it for a broader audience. We are under no illusion that deficiencies in process safety culture, management or corporate oversight are limited to BP."

Workplace safety experts said the emphasis on management commit-

ment cannot be stressed too strongly.

"Management commitment is absolutely the most critical element in driving a safety culture," said Sam Gualardo, president of National Safety Consultants in Salix, Pa., and a former president of the Des Plaines, Ill.-based American Society of Safety Engineers.

"Employees don't come to work with the intention of getting hurt or killed," Mr. Gualardo said. "The bottom line is that management, particularly senior management, sets the tone in the organization's response to safety issues."

"You've got to create these management systems and processes to exercise some control over those operational exposures," said Jim Smith, Southeast regional risk control manager for Arthur J. Gallagher Co. of Florida, in West Palm Beach, and an ASSE vp. "Generally, when you're having a lot of claims, management has some control or lack of control over those processes. That's why it's critical for management to commit to developing these systems and processes to integrate into these business practices."

"I think the report is going to contribute to more proactive occupational health and safety processes," said Darryl Hill, ABB Inc.'s safety and health officer for North America, in Auburn Hills, Mich., and an ASSE vp.

Management support for safety efforts isn't enough, said Mr. Hill. "They also should demonstrate that they are actively engaged—that's the key word—in the process."

Mr. Hill said active management engagement in ABB's safety process has led to improvement in the company's safety performance. "Unless the senior leadership team is actively engaged in driving the process through all levels of the organization, it's going to be difficult to have exemplary safety performance."

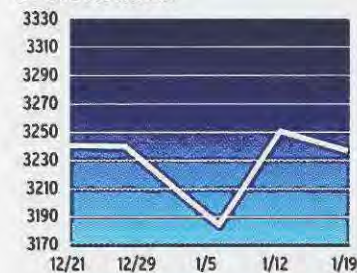
"I really think the problem is bigger than any particular commission," said Mr. Gualardo. "We can establish commissions to look at scenarios after the fact, look at incidents after the fact, but my concern is that a commission really doesn't have the weight necessary to change the cultural issues that affect management decision-making. As long as an organization focuses on profits and puts those profits ahead of safety within the workplace, we're going to face similar circumstances."

Stock Index

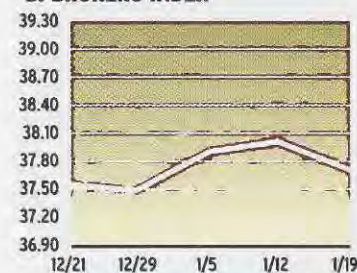
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Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.BusinessInsurance.com.

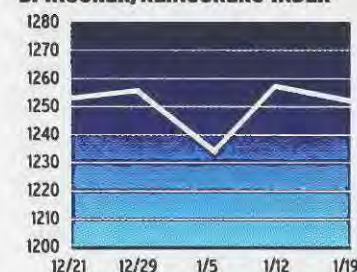
BI STOCK INDEX



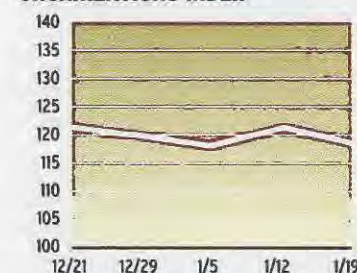
BI BROKERS INDEX



BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	3235.86	↓ -0.42%
DOW JONES	12565.53	↑ 0.08%
S&P 500	1430.50	↓ -0.02%

LARGEST GAINS

USI Holdings Corp.	6.11%
Tower Group Inc.	2.78%
Willis Group Holdings Ltd.	2.40%
American Safety Ins.	1.92%
Argonaut Group Inc.	1.64%

LARGEST LOSSES

RenaissanceRe Holdings Ltd.	-5.56%
IPC Holdings Ltd.	-4.44%
Harleysville Group Inc.	-4.32%
RLI Corp.	-3.80%
Gainsco, Inc.	-3.59%

Source: Financial Content Inc. <http://financialcontent.com>



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REUTERS/LANDOV

K-Fed is on your side, Nationwide

Nationwide Mutual Insurance Co. hopes that Kevin Federline can sell more insurance than he has albums.

The Columbus, Ohio-based insurer has tapped the aspiring rapper—better known as the soon-to-be ex of Britney Spears—to star in a Super Bowl commercial.

The TV spot is the latest in the insurer's "Life Comes at You Fast" campaign, which underscores the importance of preparing for unexpected changes.

In the spot, Mr. Federline is seen rapping in a music video, but after a quick cut, the commercial reveals that his rhymes are being recorded by a security camera—at the fast-food restaurant where he works.

"The 'Life Comes at You Fast' concept was created to remind people that they need to think about preparing for the future," Steven Schreiber, vp of advertising and brand management for Nationwide, said in a statement.

K-Fed's debut album, "Playing With Fire," was released to much fanfare last October, but sold only about 6,500 copies in its first week, according to media reports.

Mr. Federline is not the first well-known hip-hop figure to appear in Nationwide's campaign.

A 2005 spot featured MC Hammer performing his Grammy-winning 1990 hit "U Can't Touch This" in a mock music video filmed in front of a palatial home. A cut to "15 minutes later" shows a dejected Hammer sitting in front of the same mansion, now in foreclosure.



REUTERS

Wynn laments holes in painting, coverage

Casino mogul Steve Wynn's self-admitted clumsiness in handling a multimillion-dollar painting by Pablo Picasso could cost him more than expected—if his insurers refuse to pay up.

Mr. Wynn, who admitted he poked a hole in the 1932 work "Le Rêve" has filed a bad-faith suit in U.S. District Court in Manhattan seeking to force Lloyd's of London underwriters that wrote coverage for the depiction of Picasso's mistress, to pay the cost of restoring the work.

In media reports, Mr. Wynn described the damage to the painting as a "thumb-sized flap" and admitted it was "the world's clumsiest and

goofiest thing to do."

Mr. Wynn reportedly poked a hole in "The Dream," as it is known in English, with his elbow while showing off the work to a group of friends. But Mr. Wynn's insurers balked when he filed a claim seeking not only \$90,000 to repair the painting but also the diminished amount of its value.

The painting, valued at \$139 million as recently as November, may be worth no more than \$85 million today as a result of the accident.

Calls to Mr. Wynn's representatives were not returned. A spokesman for Lloyd's said it would be "inappropriate" to comment at this time.

Come to Jamaica and feel... better, officials say

As if the tropical climate, Captain Morgan and reggae weren't enough to lure visitors to Jamaica, the Caribbean nation now wants to add cardiac care to its list of its attractions.

Aloun Assamba, Jamaica's minister of tourism, entertainment and culture, is urging businesses to increase their investments in medical and retirement tourism, noting that these segments of the economy are poised for growth throughout the Caribbean region.

"The health, wellness and retirement subsectors are indeed growing in intensity. There is a swelling, excitement of thought, feeling, energy and enthusiasm, a new wave, which is fully backed by government through policies and the facilitation of financing," the minister told attendees Jan. 12 at the Jamaica Stock Exchange's second annual conference on investments and capital markets in Montego Bay.

In particular, Ms. Assamba recommended that Jamaica's government provide incentives to the business community to foster the development of renal care equipment; cardiac care centers; paramedic and emergency health services including ambulances, equipment and facilities for bypass surgery; retreat villas for recuperative and palliative care; and retirement communities.

Ms. Assamba specifically pointed to the United States as a target for the health care tourism effort. In 2005, a record 3 million visitors traveled to Jamaica, and 1 million of the total came from the United States—a record from a single market, the government agency said.



Ex-California insurance regulator now patrols a different beat

Former California Insurance Commissioner Chuck Quackenbush is keeping "paradise" safe as a night-shift sheriff's deputy in a place far from his scandal-plagued days of protecting policyholders.

"Working to keep paradise safe," is the Lee County, Fla., Sheriff's Office motto. Mr. Quackenbush began his job there in June 2005, according to the Sheriff's Office in Fort Myers, Fla. The starting pay for Lee County deputies is about \$38,000 a year—about \$100,000 less per year than he earned in the California regulator post.

The 52-year-old recently told a

Florida newspaper he would like to put the past behind him, but the newspaper's lengthy article recounting Mr. Quackenbush's history in California probably isn't helping.

Mr. Quackenbush resigned in 2000 from the elected post as California's insurance commissioner. He left amid several investigations examining allegations that he allowed personal lines insurers to forgo paying fines for improperly handling claims from the 1994 Northridge, Calif., earthquake.

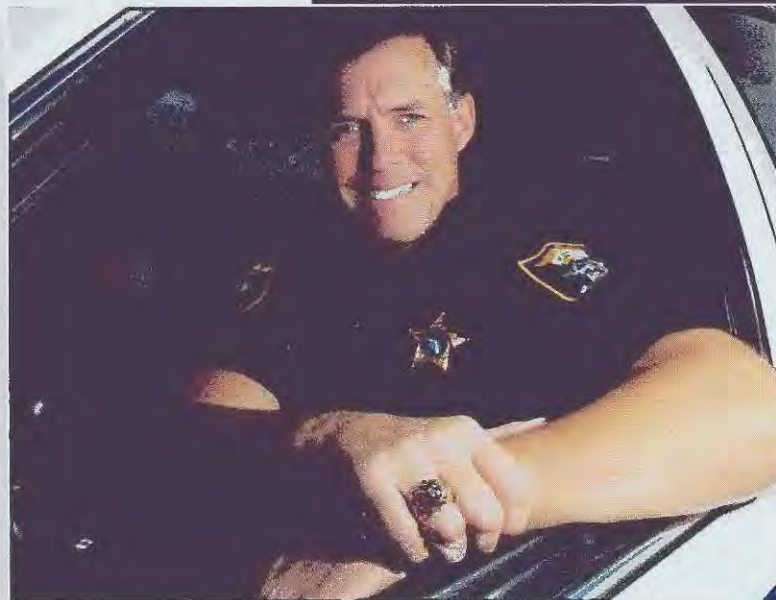
Instead, insurer money allegedly went to political consultants aiding

Mr. Quackenbush and a football camp attended by his son.

A deputy insurance commissioner and an athletic foundation director eventually went to jail over the matter, but investigators did not link Mr. Quackenbush to any wrongdoing.

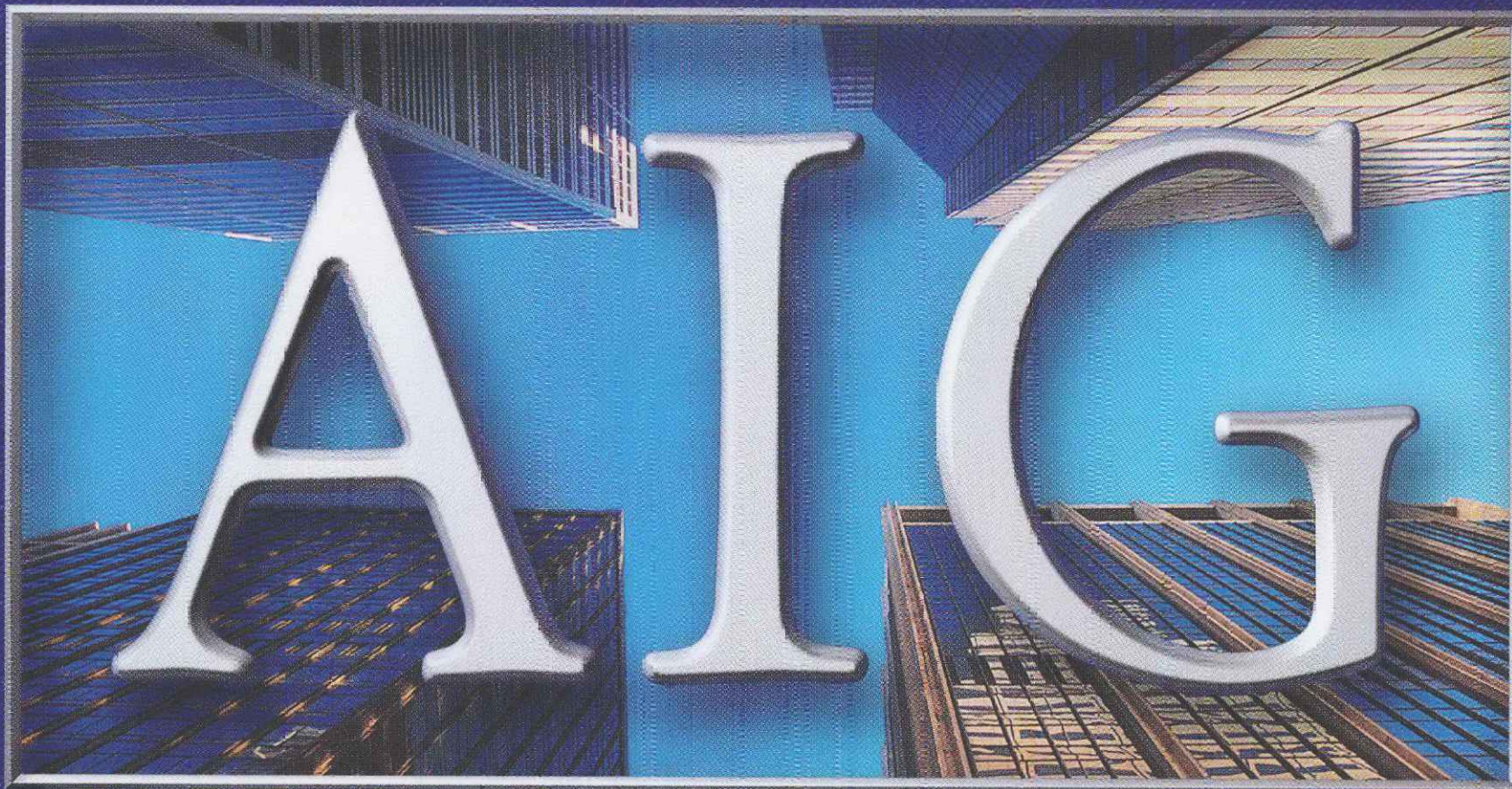
The commissioner was considered a rising star in the California GOP before he quit the state post and headed south.

While applying for his current job, Mr. Quackenbush reportedly told the Lee County Sheriff's Office that being a police officer was a lifelong dream.



THE NEWS-PRESS

Former California Insurance Commissioner Chuck Quackenbush now works as a sheriff's deputy in Florida's Lee County.



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