

Business Insurance

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

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UPDATES

Health care costs up 13% for 2001 and rising: Survey

Employee and retiree health care plan costs are increasing by an average of 13% this year, with no end in sight to the soaring costs, according to a survey of employers released today by consultant Towers Perrin in New York.

The survey of 221 U.S. employers—primarily Fortune 1,000 companies—was conducted last October and November.

While survey respondents said they expect employee health plan costs to rise an
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Kaye deal boosts Hub in U.S.

By SALLY ROBERTS

TORONTO—Hub International Ltd.'s planned acquisition of broker Kaye Group Inc. not only moves Hub into the U.S. insurance spotlight but it also brings the Canadian broker closer to its goal of becoming one of the world's largest insurance brokers.

Since the Toronto-based broker's creation in November 1998, it has acquired approximately 40 agencies in Canada, which has

helped make it one of the three largest brokers in that country, along with Aon Group Inc. and Marsh Inc. The proposed acquisition of New York-based Kaye would be Hub's third purchase in the United States and would be the largest deal it has done to date in either country.

Kaye reported \$47.2 million in brokerage revenues in 1999, making it the 30th-largest broker of U.S. business, according to *Business Insurance's* annual ranking.



Kaye posted \$78.6 million in total gross revenues in 1999. Hub in 1999 reported \$54.5 million in

brokerage revenues, but the broker was not among BI's 100 largest brokers of U.S. business, because most of its business is derived from Canadian clients. Hub's total gross revenues for 1999 were \$57.4 million. Neither company has released results for 2000.

"Our goal is to have \$300 million in revenue by the end of 2002 or beginning of 2003," said Marty Hughes, chief executive officer of Hub's U.S. operations. "This ac-

quisition, plus a couple of others that we'll do shortly, will put us in excess of \$200 million in revenues," he said. Mr. Hughes stressed, however, that although Hub is pursuing an aggressive growth-by-acquisition strategy, it is not just buying revenue. "We're not a typical consolidator," he said. "We're very selective."

Mr. Hughes is the former president of Chicago-based Mack & Parker Inc., which Hub acquired
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Warehouse employees in San Francisco wait for power to be restored after a rolling blackout on Jan. 18.
PHOTO: REUTERS

Few insured losses

Companies cope with outage risk

By ROBERTO CENICEROS

Risk managers are developing contingency plans to minimize losses stemming from the power outages currently plaguing California, but they expect few insurance claims to develop if the lights go out.

Business interruption claims are unlikely because outages are too brief to trigger coverage under most property policies, brokers say. There is always a possibility that some insurable claims could arise from outages, but most risk managers are focusing on implementing contingency plans to minimize potential losses rather than considering whether their policies would apply.

While Southern California had, as of last week, been spared from power outages, Northern California communities have suffered through several. The power problems stem from the way in
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MGA facing fraud suit

By DOUGLAS McLEOD

AKRON, Ohio—A California managing general agency and the insurer it represents are facing civil bankruptcy fraud charges, the latest twist in a saga that began with a fatal auto accident on a nearly deserted California highway in 1996.

The bankruptcy trustee for Irvine, Calif.-based API Insurance Services Inc. filed the fraud lawsuit last month against an alleged API successor corporation, Carousel Insurance Services Inc., and Guaranty National Insurance Co. of Connecticut, a unit of Royal & SunAlliance Insurance Group P.L.C. for which Carousel manages an auto dealer insurance program.

The trustee alleges that API's operators put the MGA in bankruptcy to defraud creditors—including the surviving driver in the 1996 accident, who is suing the MGA—and that they set up a series of successor corporations to carry on the MGA's business with Englewood, Colo.-based Guaranty National.

API principals "engineered the demise of the debtor corporation for personal advantage, namely to enable (them) to avoid their obligations to creditors and emerge with newly formed corporations," the trustee's complaint charges.

None of the defendants has yet answered the fraud complaint. Dennis M. Smith, a principal of API, referred questions to Carousel President Christopher Mercer, who denied the charges. "We don't think there is any basis to them," Mr. Mercer said.
See API on page 6

MGA timeline

August 1997:	Charles Stevens sues API Automobile Insurance Services and Guaranty National Insurance Co.
November 1997:	Guaranty National appoints A&S Insurance Services Inc. as agent in California
October 1999:	California appellate court rules that Mr. Stevens may sue API on behalf of other car buyers under state unfair business practices law
November 1999:	API files for bankruptcy liquidation in Ohio
April 2000:	Guaranty National appoints Carousel Insurance Services Inc. as agent in California
May 2000:	Bankruptcy judge adds A&S Insurance Services to API bankruptcy
December 2000:	Bankruptcy trustee for API sues Carousel and Guaranty National for fraud

Source: Court filings and California Insurance Department records

Mine premiums to rise

New black lung regs increase benefit costs

By MEG FLETCHER

WASHINGTON—The U.S. Department of Labor's new federal black lung regulations, which greatly expand the ability of miners to obtain benefits for the disease, are being challenged in court by the National Mining Assn. and other plaintiffs, including some workers compensation insurers.

If implementation of the new regulations is not halted, mine operators will face huge premium increases to pay for the benefits under a liberalized claim determi-

nation system. Estimates of those premium increases vary widely, from 39.3% projected by the Labor Department, to anywhere from 230% to 540% estimated by the National Council on Compensation Insurance.

The new regulations "will certainly put an additional financial strain on our company," and "self-insured coal operators will have to bear the additional costs directly," said Paul Piccolini, manager of personnel and employee relations at the Ohio Valley Coal Co. in Alledonia, Ohio. The

company employs about 435 salaried or hourly workers in the underground mining of bituminous coal in southeastern Ohio. It self-insures its black lung liability.

"Our company is already operating marginally and these new regulations may push us into reducing production, which would result in a loss of jobs," Mr. Piccolini added.

The regulations also may cause higher coal prices, which heavy users such as electric utilities may
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UPDATES

Health care costs still rising

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average of 12% this year, they predicted even-steeper cost increases for their retiree health care plans.

For example, survey respondents said they expect costs for plans covering retirees under age 65 to increase by an average of 17% this year, while costs for Medicare-eligible retirees are expected to climb by 18%.

Because prescription drug use is much higher among retirees than among employees, the sharp rise in prescription drug costs in recent years has an even greater impact on retiree health plans than on plans covering active employees.

With a tight labor market, employers have been reluctant to pass on cost increases to plan participants. This year, for example, employees will pay an average of 19% of the premium for coverage of single individuals, down from 21% last year, and 22% of the premium for family coverage, down from 23%.

More than 90% of respondents said they expect double-digit annual cost increases to continue over the next several years.

Individual copies of the 2001 Towers Perrin Health Care Cost Survey are available by calling Towers Perrin at 800-525-6741.

A similar survey of 360 large employers in December, the preliminary results of which were released late last week, projects overall health care costs rising by 10.3% this year and prescription drug costs growing by 14.6%. Results of that survey, conducted jointly by Watson Wyatt Worldwide, the Washington Business Group on Health and the Healthcare Financial Management Assn., are available at www.watsonwyatt.com. Complete survey findings will be published in March.

P/C rates hardening: CIAB

WASHINGTON—Commercial property/casualty insurance prices are continuing their climb for all sizes of accounts, according to a survey released today by the Council of Insurance Agents & Brokers.

The survey, which drew 121 responses from CIAB members, asked respondents to compare pricing on Jan. 1, 2001, to that of a year earlier. Respondents reported no decrease for any size account over the past year.

Among large accounts—those generating more than \$100,000 in annual fees and commissions—29% reported increases of up to 10%, and 66% reported increases of more than 10%. Information was not available for 5% of those accounts. Seventy-eight percent of the medium-size accounts—those generating between \$25,000 and \$100,000 in fees and commissions—reported increases of more than 10%, as did 36% of the small accounts. The majority of the small accounts—58%—reported increases of up to 10%, as did 18% of the medium-size accounts, with the rest in both categories not reporting.

The same pattern emerged in results for the fourth quarter of 2000, though some respondents reported no change for accounts of all three sizes during the quarter. But the overwhelming trend was upward, with medium-size accounts reporting the most hardening and small accounts the least.

Workers compensation appeared to have hardened the most since Jan. 1, 2000, with 91% of respondents calling conditions "somewhat hard" or "very hard." Eighty-seven percent of respondents used the same two terms to describe both commercial automobile and property coverages, while smaller percentages deemed general liability or umbrella "somewhat hard" or "very hard."

Munich Re securitizes cat risks

MUNICH, Germany—Munich Reinsurance Co. has placed \$300 million of risk-linked securities in what the reinsurer says is the largest-ever placement to provide reinsurance protection against multiple natural catastrophes.

The company said the placement will give it additional protection from a "super cat" in areas with particularly high insurance exposure. The deal covers Munich Re's exposure to hurricanes in Florida and New York, earthquakes in California and windstorms in Europe. The placement has a three-year term, which began Jan. 1.

The securities are based on five triggers by which any losses are directly linked to parameters published by government geological and meteorological agencies.

In greater Miami and greater New York, triggers are based on the central pressure of hurricanes making landfall along specified sections of coastline. For the San Francisco Bay and greater Los Angeles areas, triggers are based on earthquake magnitudes within several areas surrounding sources of major tectonic activity. The European windstorm trigger is a weighted index calculated from wind speeds measured at 600 stations across five countries in Western Europe.

Manfred Seitz, head of Munich Re's alternative risk transfer division, said in a statement that "the parametric triggers were designed to serve as benchmarks for risk transfer to capital markets." He expects them to become "a standard feature, facilitating greater standardization, acceptance and liquidity in the catastrophe securitization market."

Mr. Seitz noted in the statement that Munich Re would like to have placed even more than \$300 million, but "the capacity available in the capital markets for catastrophe risks is limited."

Risk modeling company Risk Management Solutions provided the risk analysis, and Goldman Sachs, Lehman Brothers and American Re Securities Corp. placed the bonds.

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Errors & omissions

• Due to an editing error, a Jan. 8 story on surplus lines renews incorrectly stated that Reliance Group Holdings Inc. was seeking bankruptcy protection. While Reliance has presented a reorganization plan to Pennsylvania insurance regulators, the insurer as of Friday had not formally filed for Chapter 11 bankruptcy protection.

New commissioner aims to regain accreditation

By ROBERTO CENICEROS

OLYMPIA, Wash.—Insurers in Washington state are looking forward to relations with the new insurance commissioner that are warmer than those they had with his predecessor.



Mr. Kreidler

Mike Kreidler, a Democrat who was sworn into office Jan. 10, said he will review a controversial contraceptive coverage mandate imposed on health plans in the final hours of his predecessor's tenure. Another top priority, he said, is winning back accreditation by the National Assn. of Insurance Commissioners. The state's Office of the Insurance

Commissioner last year withdrew from the accreditation program after the NAIC proposed suspending its accreditation because Washington had too few financial examiners reviewing insurer operations (*BI*, June 5, 2000).

But insurers say they are most encouraged by Mr. Kreidler's demeanor and early indications that he will consider their input in the regulation-making process. The new commissioner replaced Deborah Senn, who did not seek re-election. She was known for her contentious relations with insurers and her strong pro-consumer stance, to the point that a Seattle newspaper, in an editorial endorsing Mr. Kreidler, referred to Ms. Senn's style as "bombastic populism."

Ms. Senn sought a seat in the U.S. Senate but lost her bid in the Democratic primary election. She

See Kreidler on page 10

Potential competitors cry foul

Utah comp fund seeks to expand

By ROBERTO CENICEROS

SALT LAKE CITY—Insurers are charging unfair competition over moves by state workers compensation funds to expand their underwriting to provide coverage to employers outside their home state boundaries.

The latest political battle over the issue is shaping up in Utah, where a bill, H.B. 59, is moving quickly through the state Legislature that would give the Salt Lake City-based Workers Compensa-

tion Fund the ability to sell insurance to employers operating in states outside of Utah.

Proponents who favor such expansion say it is a progression of the trend to privatize state comp funds, many of which have moved beyond their roles as residual markets. The fund proponents contend they must expand their geographic reach to diversify their risks as well as boost their premium volume. They are not apologetic for their competitive bent.

"We were formed to compete

and compete is what we are all about," said Lane Summerhays, president and chief executive officer of the WCF. Mr. Summerhays is also a board member of the American Assn. of State Compensation Insurance Funds.

Utah-based employers stand to benefit from the bill's passage, said Gene Denning, risk manager for Salt Lake City-based Associated Food Stores Inc. Associated purchases coverage from the WCF and wants the insurer to meet all

See Funds on page 21

Third party suing insurer

NAII asked to file brief in case over delayed payments

LOS ANGELES—A California appeals court has asked the Des Plaines, Ill.-based National Assn. of Independent Insurers to file an amicus brief in a case that will decide whether a non-insured third party can sue an insurer based on the insurer's alleged negligence in delaying claim payments to a policyholder.

The case of *Adelman vs. Associated International Insurance Co.* involves a property insurance policy sold to a condominium association in Southern California. The policy covered the condominium association's property but not the individual condominium units. The condominium complex was damaged in the 1994 Northridge earthquake, and the condominium association sued Woodland Hills, Calif.-based Associated

International over a claims-payment dispute. But a Los Angeles County Superior Court granted Associated International's request for a summary judgment, concluding that the insurer's handling of the claim was reasonable.

In a separate action, though, owners in the condominium complex sued Associated International for negligence based on the insurer's alleged delay in handling the condominium association's claim. The owners claim they suffered damage as a direct result of the defendant's alleged breach of contractual obligations to the condominium association. A superior court in 1999 ruled in favor of the insurer, and the plaintiffs appealed to the California's 2nd Appellate District Court in Los Angeles.

If the appeals court finds for the condominium owners, insurers could be liable to non-insured third parties in other cases, including those involving commercial insurance policies, said Sam Sorich, NAII vp and Western regional manager in Sacramento, Calif.

"A decision by this court to expand liability exposure for insurers could mean drastically reduced availability of insurance in California," Mr. Sorich said.

Among other arguments, the NAII in its brief maintains that finding in favor of the plaintiffs would mean that, while an insurer may not have liability to its insured under its insurance policy, it could, nonetheless, be liable to third parties for negligence in claims handling.

—By Roberto Cenicerros

INSIDE

• Employers and other health care payers that want to be sure that their dollars are being well spent should make greater efforts to obtain—and use—outcomes data about medical procedures, this week's editorial says. **PAGE 8**

• In Perspectives, Jerry Dudek, vp-financial services at Near North Insurance Brokerage Inc. in Chicago, writes that risk managers should take an active role in safeguarding executive benefits. **PAGE 12**

• Chubb Corp. is making a bid to acquire Hiscox P.L.C., a leading insurer within Lloyd's of London. **PAGE 15**

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PHOTO: REUTERS
Recent snowstorms, such as this one at Chicago's O'Hare International Airport on Dec. 11, have highlighted weather-related risks.

Weather cover sees potential buyers come in from the cold

By RODD ZOLKOS

The unusually harsh winter weather that much of the United States has already experienced this season is increasing interest in various tools to manage weather-related risks.

And though this year's severe cold and heavy snowfall—following several consecutive mild winters—might be taking some insurance buyers by surprise, ultimately, it should be good for the weather risk market, industry participants say.

The most common winter weather risk products are snow removal cost insurance, which is typically purchased by municipalities, airports, hospitals, large condominium associations and shopping mall owners; and weather derivatives, typically purchased by utilities to hedge the impact of unusually warm winters on their revenues.

Lauralee Tillman, president of Good Weather Insurance Agency in Salem, Mass., noted that her firm quoted a number of weather insurance programs early in the season, but in the wake of three consecutive mild winters in the Midwestern and Northeastern United States, many potential clients chose not to buy.

"A lot of them didn't buy this year because of past winter weather and have not taken advantage of buying during the season," Ms. Tillman said.

"Most clients believe weather

insurance can only be purchased prior to the start of the season. That isn't the case," Ms. Tillman said. In fact, now, because much of the current winter season is already past and policies are priced proportionally to the amount of the season remaining, "cost is at its lowest," she said.

"It's never too late to buy weather insurance," Ms. Tillman said. "But a lot of clients don't think they can buy it this late in the season."

Ms. Tillman said she definitely expects interest in weather insurance to increase next winter. Severe weather creates a weather insurance "domino effect" for future years, she said, though "not the current year, unfortunately."

But many businesses could still do well this winter to purchase weather insurance for key sales or manufacturing periods that might be affected by severe weather, she advised.

"Because of the severe weather in the Midwest, they should also be thinking about weather insurance for specific dates for key periods," she said. "So there are still lots of opportunities to purchase insurance to contain their costs or protect their earnings."

One entity that did buy snow insurance this year is the Alexandria, Va.-based Metropolitan Washington Airports Authority.

See Weather on page 10

New U.S. head of IUMI stresses recruiting, safety

By MICHAEL BRADFORD

NEW YORK—The first American president of the International Union of Marine Insurance is working to expand the organization's membership and tackle marine safety issues.

Richard DeSimone, New York-based president of global marine for St. Paul Fire & Marine Insurance Co., was elected to a three-year term as president of the organization of marine insurance associations at its annual conference in London last fall. He is the first American to lead the group in its 126-year history.

"From a personal point of view, it's an honor," Mr. DeSimone said of being IUMI's first American president. "But it also reflects on the U.S. marine market, which is a strong, well-financed marketplace. It reflects the quality and status of the U.S. market."

Mr. DeSimone said that although the London ma-



Mr. DeSimone

rine market "historically has been the center of the marine universe, over time there has been a dispersion of that. The expertise in the U.S. is equal to or greater than anywhere in the world. There is a solid base of companies here."

During his tenure, Mr. DeSimone said he and IUMI will make a "concerted effort to expand the membership," which currently stands at 52 associations. Those members are heavily concentrated in Europe and North America, though there are smaller concentrations in Asia and North Africa.

The new president said he would like to see a larger number of Asian members and the inclusion of members from Central America and South America.

Apart from increasing IUMI's membership, Mr. DeSimone said he will focus on the group's commitment to safety issues.

See DeSimone on page 19

Scientific validity, effectiveness of therapy questionnaire debated

By JOANNE WOJCIK

LAGUNA HILLS, Calif.—A new program that systematically measures patients' progress in psychotherapy could improve the effectiveness and reduce the cost of mental health treatment, its promoters say.

But at least one independent psychologist is skeptical of the program's validity, saying that it needs to be reviewed by experts outside the field of managed care.

So far, more than 20,000 patients have been put through the program, which was launched two

years ago by Laguna Hills, Calif.-based PacifiCare Behavioral Health, a subsidiary of PacifiCare Health Systems Inc. The results have been gathered into a single database that is now being tapped to benchmark and improve treatment methods, according to psychologist Edward Jones, PacifiCare Behavioral Health's corporate clinical director.

By comparing information provided by both the patient and his or her psychotherapist to that contained in the database, the program can predict how a patient in treatment is likely to

progress, Mr. Jones said during a recent telephone press conference. The program also has identified some undetected risks—such as suicidal patients and those with chemical dependency problems—that therapists missed, he said.

"What we found is that there is frequently a lack of congruence between the provider's assessment and the patient's LSQ score in suicide risk cases. It was the same for chemical dependency," Mr. Jones said.

The "LSQ" Mr. Jones referred to is an acronym for the "life status

See LSQ on next page

Refocusing on quality

Changes, spinoffs lead BHCAG back to its original mission

By MICHAEL PRINCE

BLOOMINGTON, Minn.—Four years after it started operating its own health plans in an attempt to improve the health care market in Minnesota, the Buyers Health Care Action Group is undergoing a dramatic change of its own.

Steve Wetzell, the longtime executive director, left the employer purchasing coalition at the end of last year, along with some other staff members. And the buyers coalition that had hoped to transform the health care marketplace in Minnesota is refocusing its efforts, said Carolyn Pare, chairwoman of BHCAG's board of directors, which took over Mr. Wet-



Ms. Pare

zell's responsibilities on Jan. 1. Ms. Pare said the organization has no plans yet to replace Mr. Wetzell. In 1997, the Bloomington, Minn.-based BHCAG started its care systems in an attempt to significantly change the health care marketplace in Minnesota. The systems—groups of health care providers that contracted directly with BHCAG members—were to

work in conjunction with its other efforts to improve quality. "But it became the center of our focus," Ms. Pare said. The organization talked about this product, and "we weren't talking about what was next," she said.

In particular, she said the group started to focus less on improving health care quality, one of its primary goals.

Over time, the BHCAG also has found that its members have become less engaged in the group's activities, she said. This was most dramatically displayed when a founding member, Wells Fargo, pulled its employees out of the care system in 1999. "The loss of a

See BHCAG on page 20

Managing data helps keep medical cases small

By MICHAEL PRINCE

NEW YORK—Sophisticated data management using the Internet can improve patient quality and drive down the cost of health care, experts say.

Merrill Lynch & Co., the New York-based securities firm, set out a few years ago to improve its health care system. Its new system centers on the employer's "manage care, not access" philosophy, said Kenneth Reifert, director of global benefits for Merrill Lynch in New York.

The company wanted to develop

patient-centered health care programs that would generate meaningful feedback from employees and improve outcomes. At the same time, the company wanted a high level of employee satisfaction from its plan while keeping its costs in check.

It's hard to get all of this in one plan, so the company found a number of plans and "integrated them into a customized health plan," Mr. Reifert said last week at The 2001 Employer Health Care Conference, sponsored by The Conference Board in New York.

To achieve its goal, Merrill Lynch relied on a medical data management system that helps spot potential major health care cases before they turn into severe problems with high costs. This is critical to the success of the program, Mr. Reifert said, because the company found that 5% of its employees account for 55% of its costs. Helping this small group of employees get better care will produce an increase in productivity while lowering costs, he said.

The system the company chose is offered by ActiveHealth Management Inc., a health care data

management company based in New York. Its system uses the Internet to obtain health care information from various sources and create detailed profiles of individual patients.

In today's health care system, a few patients account for a lot of costs, said Charles Blanksteen, vice chairman of ActiveHealth Management. For example, 0.5% of patients account for 25% of all costs and 17% of all families account for 75% of all costs, he said.

Also, he maintains that the current health care system in the United States is replete with er-

rors. For example, his company has found that of all the drugs prescribed, many are never taken by the patient and some are the incorrect drug for the patient. Drugs that should not be taken in combination are also frequently prescribed to the same person, he said.

These problems reveal themselves in patient care and in costs. In a sample of 100 large-cost cases—those costing more than \$50,000—50 were handled correctly, 25 were preventable and the other 25 could have been

See Data on page 21

LSQ

Continued from previous page questionnaire," a form developed by PBH in conjunction with researchers at Brigham Young University in Salt Lake City. Its questions focus on the quality of the patient's family life, his or her moods and feelings about the future, his or her degree of satisfaction with work, and whether he or she has problems with alcohol or drug use.

If there is a discrepancy between what the patient reports on the 30-item questionnaire and the diagnostic information provided by the therapist, a care manager from PBH alerts the therapist that he or she may need to alter the treatment plan, Mr. Jones said.

In fact, the program is even called "ALERT," an acronym for "algorithms for effective reporting and treatment."

"We've identified cases where doc-

tors were not aware of the level of risk," Mr. Jones said, because, "with any paper-and-pencil test, people will respond differently than they would in an in-person interview with a therapist." Typically, individuals are more likely to disclose sensitive personal information in writing than in conversation, Mr. Jones said.

"When we see a disparity, we call the doctor and discuss the treatment," he said. "But that's all. The doctor still controls the treatment."

The provider groups under contract with PBH can use the ALERT outcomes data, though, to improve their own performance compared to that of other groups under contract.

One employer enrolled in the program said that it's about time that mental health treatment was evaluated scientifically.

"This is how we handle medical. Why should we handle mental any differently?" said Patti Bennett, regional

director of benefits and employee services at Catholic Healthcare West's Southern California region in Pasadena. "I think this is taking the (employee assistance program) and mental health programs many steps ahead."

Catholic Healthcare West enrolled its 12,000 California employees and their dependents in the program at the beginning of this year, after reviewing the ALERT program's results.

But Laguna Nigel, Calif., psychologist Marc Skelton, who serves as the chair of the division of clinical practice of the California Psychological Assn., questioned whether the approach really is scientific.

"Any effort to try to systematically review treatment is a good effort," Mr. Skelton said. "But I'm not sure that's what this is. It may be being used as a vehicle to cut off treatment early in order to cut costs."

And "the measuring process itself introduced to something as confiden-

tial as therapy can potentially affect the outcome negatively," he said. "It's intrusive."

"It's fine to come up with a measurement system, but to say it's a scientific, state-of-the-art standard is another thing. It needs to be reviewed by an impartial third party outside of managed care," he said.

Mr. Skelton also questioned the validity of the 30-item questionnaire, contrasting it against the Minnesota Multiphasic Personality Inventory, which is widely used to conduct psychological evaluations. The MMPI, he said, "is 567 items long and includes a validity scale."

A validity scale is a method of determining whether a respondent is answering questions truthfully. The MMPI asks the same question in a variety of ways to see whether the responses are consistent, he said.

He also questioned whether the sampling of patients used as a bench-

mark in the ALERT database is a scientifically valid cross-section similar to that used in independent studies.

Furthermore, many people seeking psychological treatment are suffering great psychological distress, so "their ability to accurately report what's going on is questionable," he said.

PBH's Mr. Jones explained how the ALERT program works by providing an example. "A 28-year-old woman called for an authorization to see a therapist," he said. "At the first session, the patient does the initial LSQ which is faxed to PacificCare Behavioral Health and uploaded into the database, where it is scored and compared with normative data."

In this case, the patient scored 65 points, which indicates a relatively high level of stress but is not a "red flag" that would signal suicide risk, Mr. Jones said. The highest score possible is 120 points, with each question given a weight of four points.

At the second session, the therapist completes a Provider Assessment Report, which includes his or her diagnosis of the patient, a rating of the patient's symptoms, an assessment of the patient's risk of suicide and an estimation of the likelihood that the patient

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BI promotes two staffers

CHICAGO—Business Insurance has promoted two members of its editorial staff.

Mark A. Hofmann has been promoted to senior editor in the magazine's Washington office, and Kathy Barnes has been promoted to assistant managing editor-graphics in Chicago.

Mr. Hofmann, 48, has served as BI's Washington editor since 1996, coordinating news coverage of federal and state government issues. He joined the magazine in 1987 as an associate editor in Chicago before moving to Washington in 1991.

Before joining BI, Mr. Hofmann was associate editor of Professional Agent

magazine in Alexandria, Va. Prior to that, he was in the editorial department of the Winston-Salem Journal in Winston-Salem, N.C.

Mr. Hofmann has a bachelor of arts degree in history from Wake Forest University in Winston-Salem, N.C.

He can be reached at 202-662-7244.

Ms. Barnes, 44, has served as BI's graphics editor since 1996. In her new role, she will be responsible for the production and layout as well as graphic design of the newsmagazine and special editorial projects.

Before joining BI, she was in charge of editorial systems support in the pro-

duction department of Crain Communications Inc. Prior to that, she held various managerial and supervisory roles for the composing and typesetting departments at Crain in Chicago. Ms. Barnes joined Crain in 1979 as an advertising production manager.

Ms. Barnes has a bachelor of arts degree in graphic arts from Illinois State University in Normal.

She can be reached at 312-649-5485.



Mr. Hofmann



Ms. Barnes

"The word 'proactive' is it just me, or is it disappearing from the language of business? First State on the other hand — they know what it means. And our brokers salute them for it. It means coming in with fresh ideas and fresh approaches to special programs that I can sell. Examples? There are plenty: liquor liability, stamps and other collectibles, health care facilities — the word 'flexibility' keeps coming to mind. Throw in some other words like experience, reputation, service, and you see why the proactive pros at First State can star in my program any day."

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LSQ

Continued from page 4

has problems with chemical dependency. The completed report is also faxed and uploaded into the database.

At the third session, the patient completes another LSQ. "We found an increase in the score to 74, and there were red flags now indicated for suicide risk," Mr. Jones said.

This information is collected by the PBH care manager, who then calls the

therapist to discuss the patient's treatment plan. In this case, the patient was referred to a psychiatrist, who prescribed antidepressants.

At a subsequent session, after the medication had taken effect, the patient was given the LSQ again and her score had dropped to 60.

"So, we're seeing clear improvement," Mr. Jones said. "At session five, she completes the psychotherapy but continues on the medication. Then, six months later, the LSQ is mailed to the patient. The score is now just 40."

In the last step of the process, the information from the case is aggregated with that from other cases and added to the ALERT normative database, Mr. Jones said.

Based on a sampling of more than 7,300 patients who participated in the program between May 1, 1999, and April 30, 2000, ALERT found that, on average, 10% of change or improvement occurs after the first call is made to an intake counselor. The sampling also found that, on average, 62% of change occurs during treatment and

28% occurs after treatment has ceased, Mr. Jones said.

Because the system monitors the progress of individual patients, it can quickly isolate problematic cases, such as those patients who are at high risk of suicide. The monitoring also can spot instances of unmanaged long-term therapy. In that way, "it helps to control costs, but not at the expense of quality," he said.

And, because the LSQ "is an instrument sensitive to change, it can pick up daily changes, disparity or lack of

congruence in a short time," he said.

The care managers, who are master's- and doctoral-level psychologists with clinical experience, also work with the treating therapists in a collegial way, "to focus on the high-risk cases and better allocate our human resources," Mr. Jones said.

Ms. Bennett predicted that the ALERT system will reduce costs while increasing the level of patient care, because, she said, PBH's case managers follow patients' progress both during and after treatment has ended. **[B]**

API

Continued from page 1

Guaranty National officials did not respond to calls seeking comment.

API, Carousel and Guaranty National, meanwhile, are facing the lawsuit filed by Charles Stevens, the driver who caused the 1996 wreck. Mr. Stevens charges, among other things, that API was never licensed by the California Insurance Department and that its auto physical damage program represented an unfair business practice for which it should be forced to disgorge about \$7 million in commissions and fees.

Mr. Stevens earlier won a California appeals court ruling allowing him to sue on behalf of other consumers under a state unfair competition law, and his suit has named dozens of California car dealers that participated in the API program.

API and Guaranty National have flatly denied Mr. Stevens' charges, maintaining among other things that Mr. Smith—not API—was the licensed agent for the program; that API performed only clerical, back-office functions; and that the program's structure was approved by California regulators.

Guaranty National and other defendants have filed motions to dismiss the suit. A hearing is scheduled in Los Angeles County Superior Court for early February.

The insurance program at issue was

launched by Guaranty National in California in 1995. According to the insurer's court filings, the program was designed to provide short-term physical damage coverage protecting car dealers and buyers in cases where buyers had no auto insurance already in place.

Under the program, Guaranty National's MGA issued master policies to dealerships, which could then add uninsured car buyers as additional insureds. Often using brokers who worked on their lots, dealers could fax applications to the MGA for immediate binding. The insurance was aimed largely at covering the dealers' risk in cases where the buyer takes possession of a car pending completion of financing and title transfer, according to Guaranty National.

The trouble now facing the insurer and its MGA began in 1996, when Mr. Stevens bought a Ford Mustang from a dealer in Glendale, Calif., along with physical damage coverage through API.

A few months later, Mr. Stevens rammed another car while driving drunk on a California highway, killing the driver of the other car. He served three years of a six-year prison sentence for vehicular manslaughter and paid \$341,000 in restitution to the estate of other driver, according to court filings and Mr. Stevens' lawyer in the civil case, Norman Goldman of Encino, Calif.

In 1997, Mr. Stevens launched his suit against API, Guaranty National

and a number of other defendants. The complaint leveled multiple charges against various defendants, including that API and the dealer improperly sold him unnecessary coverage intended for the dealer when Mr. Stevens in fact paid cash for the car; and that he was charged unjustified policy and broker fees for which no services were performed.

The lawsuit also charged that API was never licensed as an agency in California, despite being named by Guaranty National as an MGA for the dealer program, and that the program was therefore illegal and constituted an unfair business practice under state law. In this charge, Mr. Stevens sought to act as a "private attorney general" under California law, representing all other consumers who bought the Guaranty National coverage through API, and sought to have Guaranty National held liable for restitution for the acts of its agent.

API and Guaranty National countered that the state's Unfair Competition Act does not allow private citizens to sue for alleged violations of the insurance law, which they said is the province of state regulators. A Los Angeles Superior Court judge agreed, but in October 1999 a three-judge panel of the California Court of Appeal unanimously overturned the ruling, finding that state law does allow a private action like Mr. Stevens' because the insurance code does not specifically prohibit it.

The appeals ruling signaled the be-

ginning of the new phase in the court battle.

A month after the ruling, API filed for Chapter 7 liquidation in U.S. Bankruptcy Court for the Northern District of Ohio in Akron.

Mr. Mercer, an official of API and Carousel, said that bankruptcy was a result of long inactivity at API: "The company had shut down. It had not been active in business for a couple of years."

In a letter to the court-appointed bankruptcy trustee, though, a lawyer for Mr. Smith and Mr. Mercer cited another reason. "According to my clients, this bankruptcy was filed for the primary reason of obtaining protection from the California state superior court action known as *Stevens vs. API et al.*," wrote Donald W. Sieveke, a Santa Ana, Calif., bankruptcy specialist.

Mr. Sieveke and Mr. Mercer declined to comment on the letter.

API's reasons for filing its petition in Ohio are also in dispute. William P. Holder, a Fairlawn, Ohio, lawyer who initially represented API in the bankruptcy, said that the MGA had an Ohio office for about two years before the filing and that it had planned to market a warranty program in the state.

Mr. Sieveke, however, said in his Oct. 20, 2000, letter to the bankruptcy trustee that API's earlier filings "falsely represent that API Insurance Services Inc., a California corporation, had its principal place of business in Ohio." The letter goes on to suggest that the liquidation be moved to Orange County, Calif.

Rather than change jurisdictions, though, the trustee, Akron lawyer Kathryn A. Belfance, last month filed suit in bankruptcy court charging that business assets of API had been fraudulently transferred to successor companies, including Carousel.

The suit was brought on behalf of both API and Irvine-based A&S Insurance Services Inc., which U.S. Bankruptcy Judge Marilyn Shea-Stonum had previously added to the liquidation after identifying it as a "doing business as" name for API.

Named as defendants are Carousel and Guaranty Gap Plus Insurance Services Inc., both based at the same Irvine offices used by API and A&S; Mr. Smith and Dennis M. Smith Inc.; Mr. Mercer; Barbara Ann King and Richard O. Davis, California agents working for Carousel; and Guaranty National.

The complaint alleges that "one or more" of the individual defendants formed Carousel and Guaranty Gap Plus to carry on the same business that API and A&S had done, and that they channeled business to the new corporations, triggering API's demise.

"The newly formed defendant corporations were formed for the purpose of continuing (API's) business and were employed as a means of perpetrating fraud upon (API's) creditors," the lawsuit charges.

The trustee's complaint asks the court to order that the defendants be considered "alter egos" of API and A&S and held responsible for the two agencies' debts.

California records offer conflicting information about the roles played by the different agencies at various times.

The Insurance Department has no

licensing records for API, which Mr. Stevens alleges was never licensed as an agency.

A&S Insurance Services was licensed in June 1997 and appointed as an MGA for Guaranty National in November 1997, a few months after Mr. Stevens sued API, according to Insurance Department records. Carousel was incorporated in California in January 2000 and was licensed and appointed as an MGA for Guaranty National in April 2000, shortly before A&S was added to the Ohio bankruptcy, records show.

Guaranty National, meanwhile, offers different reports of its MGA dealings in annual statements filed with the California department. For year-end 1997, it reported API as its non-exclusive MGA for auto physical damage business and said that API had produced \$3.4 million in premiums. For 1998, the insurer again reported API as its MGA, with premium volume falling to \$2.9 million for the year.

For 1999, though, Guaranty National reported Carousel as its MGA, despite Insurance Department licensing records that show Carousel was not appointed until April 2000. Carousel produced \$1.1 million in 1999 premiums, according to Guaranty National's statement.

Guaranty National's filings also show the same Federal Employer Identification Number for API and Carousel.

In an interview, Mr. Mercer suggested that Guaranty National's filings are mistaken in reporting API instead of Mr. Smith personally as the insurer's MGA. The filings are also mistaken in reporting the same federal identification number for API and Carousel, he said.

"There is no relationship" between the two companies, Mr. Mercer said.

He added that there are two different Carousels, one of which was a "doing business as" name for A&S—a licensed MGA for Guaranty National—and the other of which was incorporated in January 2000. Mr. Mercer said he is "not aware" that the Carousel incorporated last year was licensed as an MGA for the insurer.

Insurance Department licensing records do not show Carousel as a "dba" name for A&S.

As the bankruptcy trustee's suit against Carousel and others moves forward, so will Mr. Stevens' suit against API: The bankruptcy judge lifted the automatic stay against litigation to allow the Stevens case to proceed.

Mr. Stevens' lawyers have also incorporated some of the same charges leveled by the API trustee: An amended complaint filed this month adds A&S and Carousel as defendants, and Mr. Stevens argues that they should be held liable for API's actions as successor corporations.

Carousel "is right now conducting precisely the same business as API/A&S, with the same post office box, the same phone number, same address, same people and so on," Mr. Stevens' lawyers say in court filings. "Bankruptcy should not protect API/A&S/Carousel. Carousel is now a busy company, carrying on API's business from API's offices with API's crew. Nothing has changed but the name." **[B]**

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OPINIONS

Teamwork yields best outcome

Employers and other health care payers that want to be sure that their dollars are being well spent should make greater efforts to obtain—and use—outcomes data about medical procedures.

This data would be extremely valuable to all who have a stake in the quality of the health care system—patients, payers and providers. The data could be used to ensure that the most effective procedures to treat injury and illness are being performed, and that the use of such procedures is being rewarded by payers. While top-quality health care may cost more initially, it will ultimately lead to lower medical costs.

In brief, outcomes data is information about how patients fare after various medical procedures. Examples include data about how many patients developed infections after a particular type of surgery, how many died following a procedure and how many made a full recovery from a certain injury or illness.

Some employers have been talking for years about using such data to make sure their resources were being used to pay for only the most effective and highest-quality treatments. Until now, though, relatively few made the effort to obtain this data—let alone use it—to shape their purchasing decisions. That is changing, however, as medical inflation has resumed an upward trend.

Unfortunately, both the quality and the quantity of the outcomes data that is available to payers often is poor.

The reason behind the poor quality of outcomes data is clear: There are no standards for how the information is gathered, analyzed or reported. Each provider may use a different way to describe the outcomes of a particular procedure, even though their results may be the same.

The reason for the scant quantity of data is less evident; for some reason, many providers do not make this data more widely available—at least not to those footing the bill for their services. Physicians may worry that the gathering of data will become yet another layer of administration imposed by health care plans on top of other rules that they view as burdensome. Or the dearth of information may result from nothing more than hubris, as physicians balk at the thought of medical decisions being guided by statistical analysis rather than by training and instinct.

Whatever the reason, this situation has to change. If employers are to continue to finance the majority of private health care services, they must ask for—and use—better information about what their health care dollars are buying.

Solving the problem of the poor quality of outcomes data should be fairly easy, provided there is resolve among the stakeholders to find a solution. For starters, advances in information technology should be applied to the collection and tracking of this information. Next, standards for the reporting of outcomes should be developed and implemented.

While it may be impossible to develop standards to report the precise outcome of every procedure, there is no doubt that the vast majority of commonly un-



dertaken procedures could be described using common medical terms and information. That would be a good start.

One means of ensuring a successful effort—as well as achieving greater uniformity—would be to involve the federal Health Care Financing Administration, which, among its other responsibilities, runs the Medicare program. There is no reason that private and public payers should rely on differing systems for the reporting of outcomes, and the participation of the HCFA would ease any reporting burden on providers now caused by the use of dual systems.

As for compelling physicians and hospitals to provide this data, the first step should be for payers to engage them in a dialogue about how the analysis and dissemination of outcomes data will benefit them just as it will benefit payers. Once the data is gathered, analyzed and disseminated, providers would have statistical evidence about which medical procedures work best. Medical schools could focus their training on the most effective courses of treatment. Medical researchers could gain a huge body of information to use for their studies and for the establishment of benchmarks.

Finally, lawmakers and regulators should work to ensure that medical privacy guidelines will not restrict the collection of outcomes data. It should be possible to collect, analyze and disseminate this information without having the identity of individual patients known to anyone but the patients' own physicians.

It is to be hoped that providers would readily see the benefit of working with payers to develop such a uniform information-gathering system. Improvement in the delivery and financing of care is the likely result. If providers remain unwilling to participate, though, private and public payers surely have the clout to force them to provide such data, either through their purchasing power or through their lobbying of lawmakers.

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Kreidler

Continued from page 2
served two four-year terms as insurance commissioner.

"Clearly, we are very positive and excited about the opportunity to increase the level of collaboration we have with the office of insurance commissioner," said a spokesman for Regence Blue-Shield, a Seattle-based health plan with 1.1 million members. "He has a very different style than (former) Commissioner Senn."

"The last four years have been challenging," said Donna Steward, director of the Assn. of Washington Health Plans in Lacey, Wash. She said her organization feels very optimistic about its chances of establishing "a working relationship" with Mr. Kreidler over the next four years.

Mr. Kreidler said he is confident he will be able to restore NAIC accreditation, possibly by late spring.

"It won't come without some pain, however," he said. That's because maintaining accreditation has the potential to create a significant financial strain on his department's annual budget of approximately \$13 million. Paying the salaries of financial examiners will take more of his department's financial resources and could re-

comments from employers, insurers, and consumers concerning the contraceptive-coverage rule adopted by Ms. Senn, he said. Depending on the input he receives, he may consider changes.

The rule was adopted Jan. 9, just one day before Mr. Kreidler was sworn in. It states that health plans that provide maternity ser-

ceptive drugs and devices as well.

Mr. Kreidler said insurers have indicated their opposition, but he had not yet gotten input from employers. He said he realizes, though, that placing such mandates on health plans could increase employer benefit costs.

The Assn. of Washington Health Plans wants the commissioner to review the rule's adoption to make sure the legal process for doing so was not violated in the rush to implement it, Ms. Steward said. It is possible that parties significantly affected by the rule may not have been given the appropriate opportunity to voice concerns that is required by law, she said.

"It vastly expands what an employer may feel comfortable offering to their employees," Ms. Steward said. "Plus, it's expensive."

Mr. Kreidler said his willingness to receive insurer comments and re-evaluate the rule is an opportunity to show he has a different style than his predecessor.

"I fully recognize you need to sit

down and talk with all parties," he said. "It is not (an approach) where you are going to dictate a solution and make one party the bad guy and the other party the good guy. It's going to involve us dealing with (insurance) companies and saying, 'How can we address what we see as the most-overriding issue most effectively?'"

Observers in Washington say the difference between the styles of Ms. Senn and the new commissioner may stem, in part, from their varied political career paths. The insurance commissioner post was Ms. Senn's first major political office, coming before her bid for the U.S. Senate. In contrast, Mr. Kreidler served in the U.S. House of Representatives from 1993 to 1995, after 16 years spent as a state legislator.

A former optometrist, Mr. Kreidler most recently worked as a regional head of the U.S. Department of Health and Human Services. **BI**

Mike Kreidler is confident he will be able to restore NAIC accreditation. 'It won't come without some pain, however,' says the insurance commissioner.

sult in a \$1 million deficit after two years.

But Mr. Kreidler vowed to seek from state legislators the necessary funding to cover the shortfall.

Mr. Kreidler also is seeking

vices must cover "the full range of related services, including pregnancy prevention, (voluntary) termination and sterilization." The rule also states that health plans that cover prescription drugs must provide for prescription contra-

positions," Mr. Phelan said.

In a typical year, "most of the positions are put on by mid-September," Mr. Phelan said. This year, however, "in a lot of areas, November-December has been one of the coldest time frames in the past 20 years," he said.

"So it's certainly good for the market, because there was the fear that, after the past three warm winters, clients would never want to protect against cold winters again," Mr. Phelan said. "We have started to see some interest

way market."

Lynda R. Clemmons, president and chief operating officer of Element Re Capital Products Inc. in Stamford, Conn., agreed that this winter's cold, coupled with dramatically higher natural gas prices, is increasing interest in cold weather hedges.

"A lot of your traditional energy companies who've always thought 'cold winter—good, warm winter—bad,' now realize it can be too cold," in certain fuel-price scenarios, she said.

'Now you need to protect yourself from something that's warmer than normal as well as colder than normal if fuel prices are at a certain level,' says Lynda R. Clemmons.

for next winter already."

This winter's extreme weather should prove beneficial not only for participants in the weather market, but also their clients, Mr. Phelan suggested.

"We're seeing activity in both directions," he said, with a market for hedges against both unusual warmth and unusual cold.

"So it's going to be good for both buyers and sellers," he said. "If no one wants to buy protection against cold and there's a trend toward warming and everybody wants to buy protection against warm, you'll have kind of a one-

"From a planning perspective, we can well afford a couple thousand dollars up front," as opposed to the hundreds of thousands in costs that can be associated with a worst-case winter, Ms. Stewart said.

Snowfall is the only weather event for which the authority buys insurance. "I know there are other policies out there, but for us, that's the only thing that applies," she said.

In the weather derivative market, Brock Webel, manager of the weather desk at Hamilton, Bermuda-based Tempest Reinsurance Co. Ltd., said a combination of factors reduced utilities' activity in warm weather hedges this season.

"We've just come off three very warm winters in the Northeast and the Midwest," Mr. Webel said, noting that the successive mild winters drove up the cost for coverage for an unusually warm winter. Given that higher cost, and the absence of an El Nino or La Nina phenomenon, fewer utilities purchased warm weather hedges this year, he said.

But the weather derivatives market has seen another sort of activity this year, said Christopher J. Phelan, managing director at Commercial Risk Capital Markets in Hamilton, Bermuda.

"This winter has been different from last winter in the weather derivative market, in that you've seen a lot more activity after the start of the season than you have previously. A lot of fine-tuning of

Weather

Continued from page 3

"My story is that when I buy the insurance, it doesn't snow, and when I don't, it does," said Mary L. Stewart, the authority's risk manager. "And so we've had a very good year."

"Ever since I've purchased this, I've never had to really present a claim," Ms. Stewart added.

Despite that, the authority each year evaluates whether to purchase the coverage, Ms. Stewart said. And after looking at this year's forecasts, it decided the premium cost was a worthwhile expenditure, she noted.

"We evaluate it every year," the risk manager said. "We didn't buy it in '99, but we did purchase it in the fall of 2000. I went with the almanac, and it said we were going to get hit hard."

"For us, it becomes more of a planning issue. The premium isn't that much," she said. "We present it to our upper management and our board every year."

The airport authority's current coverage is triggered on the basis of cumulative snowfall at each of its airports: 35 inches at Ronald Reagan Washington National Airport or 41 inches at Washington Dulles International Airport.

Ms. Stewart noted that the airports' operations staffs base their budgets on whether the authority has purchased insurance and the point at which the coverage attaches.

accustomed to focusing on the impact of weather on their bottom lines.

"It's not all that easy a job for someone who has not been focused on that in the past, and utilities have been focused on that for a long time. That's what they do," he said. "It will not come as easily to those (other) industries in purchasing these types of products."

Pamela G. Rogers, assistant treasurer-risk management at Sears, Roebuck & Co. in Hoffman Estates, Ill., said Sears' business is affected by weather, "but it's not something we look to transfer at this point."

"Probably down the road, but not right now," Ms. Rogers said.

For many businesses, "The awareness of exposure is commonplace, but when you get to where (companies are asking), 'Has anybody really focused on this and determined how bad this can be?'—that's largely untouched," said William W. Johnson, risk financing manager at Hallmark Cards Inc. in Kansas City, Mo.

Hallmark fits that description, Mr. Johnson said.

"Weather exposure for us in our core business is what a prolonged period of bad weather might do to us around a key selling period, like a holiday," he said. "The one that is the most volatile for us is Valentine's Day."

In the greeting card business, the Valentine's Day sales window is a brief one, Mr. Johnson noted, adding, "We've had some experience with real nasty weather just a few days before Valentine's Day, which is when that window opens."

The bad weather immediately affects the independent retailers selling Hallmark's cards, hitting Hallmark the next year when those retailers order fewer cards because of the weather's impact on the prior year's sales.

"We've looked at finite arrangements from time to time to solve certain problems and we've looked at what we might sweep into that, and some type of weather insurance is one of the things we've talked about," Mr. Johnson said. "But we've never been out to a market to evaluate that exposure."

"Like so many companies, we're working our way through an enterprise risk-type of analysis," Mr. Johnson noted. "In that kind of project, we at some point might get to where we decide where we want to go" with regard to weather risk, he said. **BI**

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Legislation top issue for benefit managers

Q

What do you see as the key issues confronting benefits professionals in 2001?

A

As usual, there is no shortage of issues with which we need to be concerned, but I will attempt to keep the list short. The major issues that I see include: legislative efforts—both ongoing and potential; the stock market and how it may affect

what you do with your retirement plans; health care costs; the use of technology for the administration and communication of your benefit plans; and the importance of conveying to employees the value of their benefits.

With regard to legislative and regulatory matters, although not much legislation passed in 2000, we can expect some activity in the new Congress. Some issues that were addressed in failed legislation last year include pension simplification, a so-called "patients' bill of rights," and matters relating to cash balance plans and stock ownership. In addition, some very big issues regarding the long-term viability of Social Security and Medicare have been under consideration by lawmakers. With the elections now behind us, I expect that Congress will pass legislation that addresses some of these areas.

Some significant regulations from the past year include final rules on electronic administration, plan loans, rollovers, mandatory cash-outs and the elimination of certain optional forms of benefits. In addition, regulations have been proposed with regard to the use of cross-testing for defined contribution plans. Also, the Treasury Department has issued cafeteria plan regulations that clarify when a participant may revoke an existing benefit election and make a new election during a period of coverage.

In another area of interest, the stock market has been extremely strong during the past several years, and, as a result, employees have become accustomed to double-digit returns in their equity funds. Given the recent downturn in the stock market, however, plan participants are now struggling with how to invest their funds.

Employees currently have many more investment choices than they had in the past. Surveys show that the average number of funds offered to employees ranges from eight to 12, with some plans offering an entire family of funds.

Furthermore, some plans offer the ultimate in investment options by providing a brokerage and/or mutual fund window. In such situations, employees can invest in individual stocks or can choose from among hundreds of mutual funds.

Although it is good to give plan participants choice with regard to investment options, employees need to know more about investing if they are to make good choices. I see the potential for many plan participants to make poor investment choices. The most common situation that I see is plan participants "chasing rates"—reviewing the latest investment returns and moving their money out of funds that performed poorly in the latest period and into those funds that have performed well. This practice will ensure that the participant is selling at a loss and possibly buying high, which is not a sound investment strategy.

Given the volatility of the stock market and the increased choice of investment vehicles, plan participants need help in making the right investment decisions. Plans can help employees by improving the investment education they offer and

even by providing investment advice. Many employers offer some sort of investment education; according one survey by Hewitt Associates L.L.C., 86% of plans do so.

But most of the education I see takes the form of retirement planning and is usually offered to those employees who are closer to retirement age. There needs to be more education for younger employees, so that by the time those employees qualify for the retirement-planning education, they will have had a savings and investment plan in place for many years and will not need to scramble to save late in their careers.

I am seeing more investment education taking place online. And, in addition to education, I am seeing an increasing number of plans using online tools to offer investment advice. Through the use of such tools, investment advice can be combined with investment education and, ultimately, the online tools will provide specific investment advice for individual plan participants. Such online investment advice can specifically recommend which particular funds offered in your plan an employee should consider based on his or her responses to a set of questions. Such a tool could be a very good option for many plans.

Given the increasing balances in our defined contribution plans, it is critical that employees invest these funds effectively.

In the area of health care, one disturbing trend is that costs are continuing to rise. According to the William M. Mercer Inc. annual health care cost survey, total health care costs over the past five years have increased or decreased as shown below:

Health care cost rise	
Year	% increase
1996	1.4%
1997	(2.9)
1998	6.2
1999	7.3
2000	8.1

Source: William M. Mercer Inc.

While there are many reasons for this trend—including rising prescription drug costs, Medicare cost-shifting and improvements in technology—it appears to me that we have "maxed out" with respect to what managed care can do in terms of containing costs.

For example, the increase in the cost of health maintenance organizations from 1999 to 2000 was 8.7%, while indemnity plans increased 6.2%. I don't mean to suggest that we should start moving our employees back into indemnity plans; indeed, the cost for such plans remains higher than for managed care plans. But we may have maximized what managed care can do for us, because many organizations have already shifted as many employees as they can into managed care. In addition, the last few years have seen something of a managed care "backlash," in that employees, employers and Congress have voiced concerns about certain managed care practices.

The major health care providers are starting to look for new ways to manage care most efficiently. Recently, some start-up organizations have emerged that are taking a fresh look at health care and may potentially provide employers with new options. One new option involves what has been referred to as "defined contribution health care." The concept in such an approach is to shift the responsibility for

health care decision-making back to employees. In some cases, this involves employers moving out of providing health care plans, with employees buying health care on a fee-for-service basis using employer-funded accounts. I believe that this may be the next area of hope in our health care system. However, there is some controversy surrounding the notion of employers moving out of the business of

The major health care providers are starting to look for new ways to manage care most efficiently. Recently, some start-up organizations have emerged that may provide employers with new options.

providing health care.

The implications of new technology for plan administration and communications is another important issue.

The administration of benefit plans has improved dramatically with the use of the Internet and intranets. Employers are using such tools for 401(k) administration and for benefit plan administration, including inquiries about plan provisions and coverage levels. The tools also are being used for certain transactions, including enrollment, both for new employees and for annual insurance enrollment.

Online tools for 401(k) administration have been used for some time and are therefore more efficient and refined. Administration for insurance plans is still evolving, but it has progressed considerably in the past two years.

Some employers have even moved away from voice response systems and now require employees to perform all benefits-related transactions via either an intranet or the Internet.

In terms of cost, personal interface is the most expensive approach to benefits administration, followed by voice response systems and then the Internet/intranet.

Employers and plans can be at their most efficient by moving as much of the administration process to the Internet. However, the extent to which that process can be moved online will be strongly influenced by that company's culture. Some company cultures will allow for exclusive use of the Internet, while others still require personal interaction.

With regard to the latter, the issue is whether the interaction needs to involve the benefit administrator down the hall, someone at a centralized internal service center, or an outside vendor contacted via a toll-free number.

From a service and cost perspective, we should be reviewing how much we can use Internet/intranet technology in benefit administration.

Communication is critical to benefit plans. Employees must be aware of the benefit programs available to them, of how to access information about the programs—including using toll-free numbers or the Internet—and of the value of the benefits your organization is providing. Employees' level of satisfaction with your organization's benefit program is dependent on how well you communicate about that program.

Organizations are investing a great deal of money into these programs—about 35% of total payroll costs. I view communication as an investment in your benefit program. You can maximize the value of your program through a generally small—as a percentage of the total benefits budget—investment in communication.

Internet/intranet technology can easily expedite
Continued on next page

Continued from previous page

the communication of a benefits program. In the current "war for talent," we need to ensure that employees know and understand the benefits an employer is providing.

We need to consider carefully the items discussed above to ensure that our benefit plan offerings are meeting the needs of our organizations and that our programs are being effectively administered. In today's competitive environment, there is increasing pressure on all of us to ensure that our programs are as effective and efficient as possible.

Materials in this article do not constitute accounting, tax, legal or business advice. You should review your specific situation with professional advisors. **EI**

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four quarterly features in the Perspectives section of Business Insurance can give you some answers.



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This month's column on employee benefit management issues is written by Dennis J. Nirtaut, managing director of

compensation and benefits for Arthur Andersen L.L.P. in Chicago. Christopher E. Mandel, senior director-risk management, claims and safety at Tricon Global Restaurants Inc. in Louisville, Ky., answers questions on risk management issues. William J. Miner, retirement practice leader and actuary with Watson Wyatt Worldwide in Chicago, answers actuarial questions on benefits issues. Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.

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Risk managers safeguard exec benefits

By Jerry Dudek

Will your company's top executives retire with their promised benefits packages? Do they have estate plans in place that will minimize the taxes and maximize the wealth they pass on to their heirs? Are they covered in the event of kidnapping, ransom or extortion?



A sizable majority of risk managers are increasingly being called upon to manage the assets of their top executives as well as those of their corporations. And the trend is not limited to Fortune 1000 companies—risk

managers at companies of all sizes must often answer these types of questions. The ability to address concerns related to executive asset protection requires a combination of knowledge and access to resources in three key areas.

The first area is safeguarding retirement benefits. If a benefit plan is not properly structured, those assets may become an easy target. When a hostile raider acquires a company, an unsecured promise for deferred compensation or a supplemental pension may go unfulfilled. The board of directors may rescind the promised benefits due to either internal changes or external forces. If the employer becomes insolvent, creditors may go after the assets funding the benefits. And if it is the executive who develops financial troubles, creditors may seek to collect what is due them from the benefit plan.

Risk managers should be part of the team charged with building a solid foundation under those promised benefits. Securing an executive's retirement benefits should be considered a function of the risk manager, because it is necessary to insure the benefits and the assets funding them, either through a commercial insurance policy or through self-insurance.

To understand the mechanisms available to secure executive benefits, it's important first to comprehend the difference between qualified and non-qualified retirement plans.

Qualified retirement plans meet Internal Revenue Service rules and therefore provide tax advantages to the employer. This type of plan is also beneficial for the executive. By placing the funds in a separate trust, totally segregated from the company's and the executive's other assets, the funds are virtually untouchable by creditors and raiders.

But even though federal rules and laws protect the assets in a qualified trust, a change in management can still threaten the security of these assets. One way to further safeguard the assets is to add a section to the trust that prevents potential abuses. For example, it's advisable to add a statement that allows only an institution unrelated to a raider to replace the trustee.

The major disadvantage of qualified retirement

plans is the limit placed on the amount of benefits that can be paid through them. Additionally, the IRS code prohibits qualified plans from discriminating in favor of highly paid employees on the basis of pay. As a result, a qualified plan typically provides only a fraction of an executive's total retirement benefits package.

Conversely, non-qualified retirement plans allow an employer to offer an unlimited level of benefits to a select group of management or highly compensated employees. The major disadvantage to a non-qualified plan is that it has to be unfunded.

But there is a way to bypass the unfunded rule and secure the benefits—by creating a rabbi trust. A rabbi trust typically is an irrevocable trust established by an employer, which gives up all rights to the assets and may not terminate the trust. The irrevocable, untouchable nature of the rabbi trust satisfies both IRS and Department of Labor

The ability to address concerns related to executive asset protection requires a combinations of knowledge and access to resources in three areas: retirement benefits, estate planning and kidnap and ransom.

rules that assets be segregated. It is important to remember, though, that the employer's creditors have access to the assets in a rabbi trust should the company become insolvent.

Yet fully funding a rabbi trust takes a significant amount of corporate cash out of commission. An option is a letter of credit that provides immediate payment of the amount needed to fully fund the trust upon a change in control or upon the failure of the company to contribute the necessary amount.

With the appropriate funding method and a strong, impartial trustee who will fight for the participants should the company repudiate the benefits, the assets in a rabbi trust have a higher degree of security.

Other security devices can be used in conjunction with qualified and non-qualified plans. One such device is a non-qualified supplemental executive retirement plan within a qualified plan, known as a Q-SERP. This relatively new, still-evolving method allows an employer to increase the pensions of a select group of executives by a specific percentage.

Another way to protect assets in an executive's non-qualified plan is executive deferred income insurance. An EDII policy pays the vested benefits in the event of a company's bankruptcy or repudiation. EDII can be purchased only by executives using their own money. An employer can, though, give an employee a bonus in the amount of the premium, provided there is no formal agreement. EDII is available only to public companies.

The second area of concern to a risk manager who seeks to provide executive asset protection is the reduction of estate taxes. When an individual's net worth is in excess of \$675,000, or when that of a couple is in excess of \$1.35 million, estate taxes are triggered. Without a carefully constructed plan, estate taxes can reduce an estate by as much as 55%. But by using estate planning, it is possible to minimize taxes and probate complications and to maximize beneficiaries' inheritance.

When he or she has some basic knowledge of estate planning tools and the ability to recommend advisers, a risk manager can be a valuable resource for company executives.

There are four key players in the estate planning process. One of the most important of these individuals is the attorney, who drives the process because of his or her knowledge about tax laws and ability to develop wills, trusts and other legal documents. The trust officer is essential for managing assets both before and after the death of the executive. Another key player is the accountant, whose role is to monitor the change in the value of the executive's assets. The insurance professional also has an important function—identifying insurance products that can help execute estate plans.

Together, these players can help executives determine the smartest way to own assets and prepare to pay estate taxes. An executive's estate plan should be re-evaluated every two to five years in order to take into account new tax laws; increases or decreases in total assets; and changes in his or her personal life, such as marriage or the birth of children.

There are two methods for effectively gaining control over estate taxes—trusts and insurance products.

Many types of trusts are available, each with varying purposes and benefits. One type of trust that is increasing in popularity is a charitable remainder trust. When an individual donates assets to a charitable trust, he or she realizes an immediate tax deduction and receives income for a predetermined number of years. At the individual's death, the assets go to charity. And because the charity sells the asset, there are no capital gains taxes. In addition to these financial benefits, charitable trusts also allow an individual to meet philanthropic goals.

While the provision of financial security to surviving family members is the primary function of a life insurance policy, a policy can also create liquidity to pay for estate taxes. One example is an irrevocable life insurance trust. In addition to creating liquidity, the proceeds from an irrevocable life insurance trust can be used to pay the potential taxes on assets, preserving them for the next generation.

Protection against kidnap, ransom and extortion is the third area in which a risk manager must have knowledge and resources. An executive traveling

Continued on next page

PERSPECTIVE

Continued from previous page

abroad may be held up at gunpoint. The son or daughter of a CEO may be in danger of being kidnapped. A computer system may be threatened by a virus. Product tampering may result in a nationwide recall. These are situations in which risk managers need to protect not only an executive's assets but also his or her well-being.

Executives can be safeguarded from risks such as these with either an individual or a corporate kidnap, ransom and extortion insurance policy. From a public relations standpoint, it is advisable that corporate policies name all employees, not just select individuals.

The policies cover not only the executives but their families and the guests who stay in their

homes. Coverage is provided for a wide range of losses, including ransom; legal expenses and judgments; the replacement or repair of damaged, destroyed or recalled goods; business interruption; crisis response/public relations expenses; and lost salary resulting from involuntary confinement.

There are benefits to the company as well as the executive. For example, if an executive who had been kidnapped were to conclude that the security arrangements had been inadequate and he or she were to sue the company, the policy would pay for the associated costs.

These policies are purchased not only for financial protection but also to marshal the vast resources insurers maintain to prevent as well as to respond to kidnap, ransom and extortion situations. These

resources include strong relationships with the Central Intelligence Agency, the Federal Bureau of Investigation, Interpol, negotiators, local and international crisis management teams, and consultants who can train staff members about security procedures.

So, while protecting an executive's assets may not be part of the formal job description of most risk managers, they are involved in this area to some extent. By arming themselves with knowledge and resources in the areas covered, risk managers can handle these responsibilities well. **BI**

Jerry Dudek is vp-financial services at Near North Insurance Brokerage Inc. in Chicago.

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By GAVIN SOUTER

Users of Warren Brockmeier's comprehensive directors and officers liability policy reference work, "D&O MAPS," who wish to free up some room on their bookshelves will welcome the publication's transfer to the Internet.

The policies and analyses that were formerly found in four 3-1/2-inch thick volumes were transferred to the Web last year. Now, instead of leafing through the 4,000-page reference work to find details on just about any of the major D&O policies on the market, users can navigate

the work through a series of clicks on the easy-to-use Web site.

The Web site has three main areas. The first area is a guide to D&O markets that lists all the major insurers offering D&O liability coverage. The insurers are listed by categories, such as primary general, financial institution, non-profit, health care and initial public offerings.

While this area of the Web site is open to non-subscribers, access to the other two areas is restricted to subscribers only.

The second area sets out the provisions of typical D&O policies, including application forms, coverage agreements, coverage limitations and exclusions.

The third and largest area contains specific information on each insurer, including: contact name, number, address and e-mail; information on how to access the insurer; how long it has been writing D&O liability coverage; capacity; and the types of accounts it covers. This section also offers copies of the individual policy forms and an analysis of the forms that identifies

both pros and cons.

Mr. Brockmeier developed "D&O MAPS," which stands for "market information, analysis of policies and policy service," as a consultant at The Wyatt Co. When Wyatt sold its risk management consulting unit to Tillinghast-Towers Perrin in 1998, Mr. Brockmeier exercised his option to buy the D&O MAPS copyright.

The last hard-copy edition was published in July 1999. All future editions will be published online. **BI**



Gavin Souter is New York bureau chief for Business Insurance.

Kansas court clarifies policy conversion rights

State law allowing a policyholder to convert "an individual policy of life insurance without disability or other supplemental benefits" did not apply to a group accidental death and dismemberment policy, according to the Court of Appeals of Kansas.

Richard Stockham had been employed by the city of Wichita, Kan., and was enrolled in two group insurance policies provided by the city and issued by Life Insurance Co. of North America. Mr. Stockham quit his job May 3, 1996. By their terms, the policies issued by LINA terminated on the next premium date following termination of employment, which was May 17, 1996. These policies allowed conversion to an individual policy if the conversion were accomplished within 31 days after group coverage ended. The LINA policies were never converted.

Mr. Stockham had begun employment with Maude Carpenter Children's Home on April 30, 1996. He enrolled in MCCH's group insurance plan and was issued a certificate of group insurance by Advance Insurance Co., with an effective date of June 1, 1996. Mr. Stockham died on May 29, 1996. State law provides that a person covered under a group life insurance policy is entitled, upon termination of employment, to convert his or her policy to an individual life insurance policy. In addition, the law provides that if the person dies during the period in which he or she was entitled to convert to an individual policy, the amount of insurance to which the individual would have been entitled under the individual policy can be claimed under the group policy, regardless of whether application for the individual policy or payment of the first premium had been made. Mr. Stockham's wife and daughter sought to recover life insurance

LEGAL BRIEFS

proceeds from LINA. The trial court denied recovery.

The appellate court said that it is clear that an accidental death and dismemberment policy is not the same as a life insurance policy. Thus, the court concluded that an AD&D policy was not covered by the state law that provides that an individual may convert a life insurance policy. According to the court, the state law permits conversion only of an individual life insurance policy that has no disability or other supplemental benefits. Furthermore, the court said that the Advance policy issued to Mr. Stockham, by its own terms, became effective after his death. The trial court decision was affirmed.

Stockham vs. Life Ins. Co. of North America, Court of Appeals of Kansas, June 9, 2000 (BI/02/D.-\$10).

Bilateral arrangements OK in ERISA plans

Special offers made by an Employee Retirement Income Security Act plan administrator to a firm's employees do not change the contents of the plan applicable to other employees, according to the 7th U.S. Circuit Court of Appeals.

Cultor U.S. Inc. in 1996 acquired American Xyrofin, a manufacturer of food additives, and renamed the new subsidiary Cultor Food Science. Later, Cultor Ltd., the parent of Cultor U.S., bought another food additives group from Pfizer Inc. and merged that business into CFS. As part of the acquisition, Cultor promised Pfizer that it would

give Pfizer employees who joined CFS but later lost their jobs, benefits tracking those of the severance-payment plan that Pfizer maintained under ERISA. At the end of March 1996, when CFS ended the employment of former Xyrofin employee Violet Velasco, it offered her a severance package that included six weeks' pay as well as one additional week's pay for each year she had been employed by Xyrofin. A few weeks later, CFS decided to terminate Kenneth Sandstrom, who was Ms. Velasco's supervisor. However, he was not offered a severance package. Mr. Sandstrom filed suit under ERISA, contending that the company's offer to Ms. Velasco demonstrated that CFS had an "informal plan for severance benefits" that also applied to him. The trial court ruled against Mr. Sandstrom.

The appellate court ruled that written plans may be altered only in writing. "Statements by plan administrators, side agreements and understandings, or even special offers made to many of a firm's employees, do not change the contents of the plan applicable to other employees," the court said. Bilateral arrangements are compatible with ERISA, the court said, and they do not modify the plan applicable to other employees who did not receive the offers. The trial court decision was affirmed.

Sandstrom vs. Cultor Food Science Inc., U.S. Court of Appeals for the 7th Circuit, May 25, 2000 (BI/03/D.-\$10). **BI**

These abstracts were prepared by Mayo H. Stiegler. Copies of these decisions are available, at \$10 each, by sending a check payable to Mayo H. Stiegler, to Business Insurance 740 N. Rush St., Chicago, Ill 60611-2590. Provide the listed number for each opinion ordered.

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GLOBAL BRIEFS

Munich Reinsurance Co. is reorganizing its principal reinsurance unit, basing the new structure solely on product lines. The reorganization will replace Munich Re's current system, which organizes the Munich, Germany-based reinsurer's operations both geographically and by business lines. The change will reduce the number of departments at Munich Re to seven from 18....Following the recent announcement by troubled U.S. insurer Reliance Group Holdings Inc. that it had put its London specialty lines and commercial insurance company subsidiary, **Reliance National Insurance Co. (Europe) Ltd.**, into runoff, Oldwick, N.J.-based rating agency A.M. Best Co. affirmed its D, or poor, financial strength rating on Reliance National Insurance Co. (Europe). Best said that move was based on its belief that the insurer's runoff will be achieved in an orderly fashion. Best added, though, that the low rating reflects the weak financial condition of the parent and the growing likelihood of more formal or restrictive oversight by U.S. insurance regulators due to the non-resolution of debt restructuring....**Assurances Generales de France S.A.**, the Paris-based subsidiary of Munich, Germany-based Allianz A.G. Holding, has acquired the 51% of Westminster Insurance Agencies Ltd. it did not already own. Westminster, an aviation underwriter that operates in the London market under the name Westminster Aviation Insurance Group, recorded premium volume of \$94 million in 2000....Britain's **Health and Safety Commission** has invited public comment on its draft code on health and safety responsibilities for company directors and board members of public sector organizations. The main features of the proposals include making a board responsible for its organization's health and safety performance, appointing one board member for health and safety issues, ensuring that individual board members recognize their personal liabilities and responsibilities under health and safety law and making sure that all board decisions reflect the organization's health and safety policy....Lloyd's of London broker **London Special Risks Ltd.** has appointed Marlene Wald a senior vp of Angel, its unit specializing in employment practices liability insurance. Ms. Wald, previously a vp and facultative casualty manager at QBE Reinsurance Corp., will be based in Angel's newly opened New York office, where she will focus on the expansion of Eastern U.S. underwriting activities through the development of key brokers and agents of small to midsized commercial risks.... Britain's largest insurance company, **CGNU P.L.C.**, has announced that Richard Harvey, currently its deputy group chief executive officer, will become group CEO on April 24, following the retirement from the board of Bob Scott. The planned succession is in line with policy set out last February, when CGU P.L.C. and Norwich Union P.L.C. announced plans to merge....**Entec U.K.**, an environmental and engineering consultant, has appointed Doug Scott as an associate director in the risk management group based in its London office. Mr. Scott, a chemical engineer, has specialist experience in risk management and loss prevention in industries including energy. Mr. Scott previously was a vp in the marine and energy division of Marsh Ltd.... American International Group Inc. has been licensed to sell commercial and personal lines **property/casualty insurance in India** through its joint-venture company, **Tata AIG General Insurance Co. Ltd.** The company, based in Mumbai, will open branches in Delhi, Chennai, Hyderabad, Bangalore and Calcutta by the end of the first quarter, an AIG statement said. It will initially sell property, casualty, directors and officers liability, accident and health, homeowners, and automobile insurance.

Dotcoms unaware of risks: Survey

By SARAH VEYSEY

As the risks associated with online businesses continue to emerge, a recent survey of managers and legal department heads at European dotcom companies has revealed that many may be ignoring certain exposures and, in some cases, inviting litigation.

A survey published this month by Landwell, the legal consulting firm affiliated with London-based accounting firm PricewaterhouseCoopers, revealed that 20% of European dotcoms are not worried about any legal risks stemming from their online activities, while nearly 90% of the dotcoms are not concerned about their legal responsibility for Web site content.

Landwell surveyed 400 managers of dotcom companies based in the United King-

dom, the Netherlands, France and Germany, as well as 100 heads of legal departments in business-to-business and business-to-consumer online enterprises. The survey was conducted jointly by Landwell and PwC between July and October of last year.

"Legal risk poses a real threat to European dotcoms—but, properly managed, the legislative framework also represents an opportunity to protect exciting business models, develop a competitive edge and establish trust," the report's authors said. E-commerce is governed by both European Union and national law, which can give rise to differences in countries' regulatory approaches. "E-business survival does not hinge on technical capability—regulatory awareness and legal risk control are essen-

tial elements of the security that underpins all trust-based business relationships."

The multijurisdictional nature of the Internet makes legal issues all the more pertinent for dotcom companies, according to Landwell.

"E-business is, practically by definition, multijurisdictional business. International legal awareness should also be a priority—but it is woefully inadequate," said the report's authors.

"European dotcoms should be keenly aware of regulation and legislation in their overseas markets—if not aware of the relevant laws in each jurisdiction where their Web site is being accessed. Most dotcoms believe their Web site is regularly accessed in more than 10 overseas countries, but de-

See Online on next page

Perceived threats

Managers surveyed on risks to business continuity

- 82%** Loss of information technology
- 62%** Fire
- 59%** Loss of skills
- 55%** Loss of site
- 50%** Damage to corporate image/reputation

Source: Institute of Management

Firms need contingency plans: Study

By CAROLYN ALDRED

Many businesses in the United Kingdom still have inadequate contingency plans despite the fact that fuel, flood and rail crises affected most companies last year, according to a survey conducted this month by the Institute of Management.

The London-based IM, a professional organization representing 89,000 managers and 560 organizations, interviewed 341 managers in the private and public sectors between Jan. 3 and Jan. 12.

Nearly all managers surveyed—93%—admitted that their businesses had been disrupted by a fuel crisis last September that left nearly all U.K. gas stations without fuel for days. The crisis developed as

See Plans next page

Chubb makes offer to take over Hiscox

LONDON—Chubb Corp. is making a bid to acquire Hiscox P.L.C., a leading insurer within Lloyd's of London.

"We are in discussions with Chubb, and they are continuing," said a spokeswoman for Hiscox in London.

Warren, N.J.-based Chubb, which confirmed that it has "made an approach" to Hiscox, already holds a 27.7% stake in the insurer. That stake is currently Chubb's only investment in a Lloyd's syndicate.

No details of the offer were made public. Hiscox would only say that an announcement would be made "in due course."

Hiscox underwrites a variety of business at Lloyd's—including non-marine property/casualty lines and excess-of-loss reinsurance—via composite syndicate 33. The syndicate is forecasting a loss of approximately £18 million for 1998—or 5% of its £360.4 million (\$594.9 million) in underwriting capacity for that year—which is the next to close under Lloyd's three-year accounting system. Hiscox's underwriting capacity for 2001 is £360 million.

Rating agency Standard & Poor's Ltd. in London indicated a positive outlook for Hiscox in light of Chubb's takeover offer. S&P placed its BBB+ long-term counterparty credit and insurer financial

strength ratings of Hiscox Insurance Co. Ltd., the company's operating subsidiary, on CreditWatch with positive implications.

"The CreditWatch action reflects the potential benefit to (Hiscox Insurance Co. Ltd.), in terms of capitalization and financial flexibility, that being part of the Chubb Group could confer," S&P said in a statement.

S&P rates Chubb and its main operating entities AAA.

Hiscox's share price leapt last Tuesday, after it publicly confirmed that it had received a takeover offer from Chubb. Hiscox shares on the London Stock Exchange closed at 222.5 pence (\$3.25) Tuesday, up 54.5% over the previous day's close. The insurer's stock closed Thursday at 199 pence (\$2.91).

Hiscox shares debuted on the London Stock Exchange in July 1997.

Since its price hit an all-time high of more than 250 pence (\$3.66) in mid-1998, Hiscox's stock has been struggling. The price plummeted to an all-time low of 81 pence (\$1.19) last March.

The share prices of other Lloyd's quoted vehicles have also been suffering in recent months, reflecting concerns about the profitability of the sector.

—By Sarah Veysey

Charges mulled in U.K. rail crash

By SARAH VEYSEY

LONDON—The British Transport Police and the United Kingdom's Health and Safety Executive might file corporate manslaughter charges against senior executives of Railtrack P.L.C., the United Kingdom's rail operator, and its maintenance contractor, Balfour Beatty P.L.C., in the wake of the Oct. 17, 2000, fatal crash at Hatfield, Bedfordshire.

In its second report into the causes of the crash, the HSE confirmed that a damaged rail was the cause of the accident, which claimed four lives and injured more than 30 passengers (*BI*, Oct. 30, 2000).

The driver of the train, a trainee under supervision at the time, was exonerated of any responsibility for the crash, in which the train derailed, causing some railcars to overturn.

In a press conference announcing the publication of the report last week, the HSE confirmed that it was considering bringing corporate manslaughter charges. Under current law, in order for a charge of manslaughter to be

See Hatfield on next page

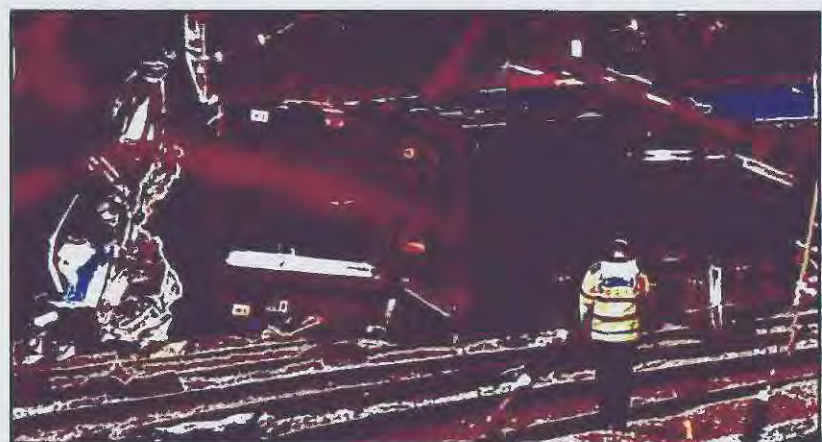


PHOTO: AFP

The Oct. 17, 2000, train crash at Hatfield, England, may result in criminal charges of corporate manslaughter against executives of Railtrack P.L.C. The crash killed four people.

Plans

Continued from previous page
protesters complaining about high fuel prices blockaded oil refineries. The fuel shortage meant supplies could not be delivered and many employees struggled to get to work.

Sixty-six percent of managers said that their businesses were also affected by the recent disruption of the United Kingdom's rail network, after a major crash led to safety checks and speed restrictions on many lines. Once again, employees struggled to get to work.

Finally, 64% of managers reported that the unusual and heavy flooding that hit many areas of the United Kingdom last fall had disrupted their businesses. Flooding further increased employees' and suppliers' travel problems, as well as damaging many business

premises.

Yet despite the drastic impact these events have had on so many businesses, most have not put in place contingency plans should they occur again, according to the IM survey. Only 45% of the managers reported having taken measures to reduce the impact of a future fuel crisis, and just 16% and 23%, respectively, have thought about preparing for additional rail and flood problems, the survey found.

"Businesses are failing to learn the simple lesson of 'once bitten, twice shy.' Having been hit by a series of crippling crises during 2000, few have thought about what they will do should similar problems strike again. Business continuity management is a key management discipline which all organizations, small and large, should incorporate into their business," said John Sharp, chief executive officer of Worcester,

England-based Business Continuity Institute. BCI is a professional institute for business continuity professionals and one of the sponsors of the survey.

Even among those organizations that do make plans to safeguard against disasters, there is still room for improvement, according to the IM survey.

Less than half of the organizations questioned—49%—tested the effectiveness of their business continuity plans at least once a year, and 40% never tested their plans at all. Meanwhile, 48% of managers said that they did not compare their plans against any sort of objective standards.

"By taking time to assess risk and plan in advance, companies can manage effectively if and when disaster strikes. What is essential is that employees throughout the organization take part in the planning and know how to act when the worst happens. Equally,

by testing the effectiveness of their plan on a regular basis, organizations can ensure it continues to meet the needs of the business," said Mary Chapman, director general of the Institute of Management.

The key perceived threats to the continuity of business identified by the managers surveyed were:

- Loss of information technology, cited by 82% of the managers surveyed.

- Fire, 62%.
- Loss of skills, 59%.
- Loss of site, 55%.
- Damage to corporate image or reputation, 50%.

Although 59% of managers fear that a loss of skills would have a significant effect on business performance, only 28% said their organizations had any plans to deal with this situation, the survey found.

In addition to BCI, other sponsors of the survey include the

Assn. of Insurance & Risk Managers, based in London; BAE SYSTEMS P.L.C., based in Farnborough, England; Computer Services & Software Assn., based in London; FM Global, based in London; Guardian iT Group P.L.C., based in Surrey; the Loss Prevention Council, which is part of the Building Research Establishment of Watford; and Marsh Inc., based in London.

Royal & SunAlliance Insurance Group P.L.C., based in London; and The Disaster Management Forum, based in Reading, England, also were sponsors of the survey.

As part of a weeklong campaign to highlight the importance of business continuity, the group of sponsors has also published a Business Guide to Continuity Management. The guide is available free of charge through the Internet, at www.thebci.org or at www.bjcm.co.uk. **BI**

Online

Continued from previous page
spite this, the vast majority (80%) operates just one Web site from their home base." For example, laws on electronic signatures and distance-selling vary from country to country.

Of the companies surveyed, about 40% had not yet registered their domain name—the name used in a Web site address—outside their home jurisdiction, which leaves such companies open to intellectual property infringement risks.

"Dotcoms display a worrying degree of complacency. Notwithstanding the minimal steps taken to secure overseas trademark, patent and domain name protection, over 70% of respondents are confident that they have dealt with the legal risks facing their businesses abroad," the report said.

The survey revealed that many dotcom companies are failing to protect themselves against trademark infringement. More than 30% of those dotcoms surveyed had not registered their trademark in their domestic market or in other countries. And less than half of the companies surveyed

had registered a trademark abroad.

"There is minimal expenditure by dotcoms on the protection of domain names, trademarks and patents in their domestic markets," the report read. About 40% of respondents have invested less than 8,000 euros (\$7,475) on trademark protection, the survey showed. "In overseas markets, where the risks of infringement are even harder to control, 82% of respondents have spent nothing on patent protection," the report's authors said. "Although this is less surprising, it is by no means clear that all relevant companies have considered this issue. Forty percent have spent nothing on trademark protection."

The report also pointed out that many respondents do not obtain legal advice on the international enforceability of online contracts. In France and Portugal, for example, contracts are not binding unless they are presented in the local language, the report notes. "It is therefore extraordinary that over 30% of respondents fail to take advice on the international enforceability of their online contracts. Moreover, one in five dotcoms attaches little or no importance to limiting their liability in international customer contracts."

The survey also revealed that many dotcoms are failing to conform to other national laws that pertain to Web site content. "About one-third of Web sites have failed to ensure that their Web sites conform with the law when it comes to linking with other Web sites and allowing people to post

'There are significant risks for those dotcoms that fail to pay attention to legal fundamentals,' says Simon Walker.

information on their own sites," said the report.

Almost 90% of respondents said they were not concerned about their legal liability for Web site content. "The legal framework is rapidly growing in complexity, and, in this environment, it is essential for dotcoms to protect themselves against liability and limit the consequences. Breaches in security can irreparably damage brand reputations—they can also result in expensive and poten-

tially catastrophic litigation."

Simon Walker, head of e-business at Landwell, said that dotcom companies should become more aware of the benefits of legal risk management. "Of course, there are significant risks for those dotcoms that fail to pay attention to legal fundamentals," he said. "At the same time, these companies need to be aware of the real benefits that legal risk management can provide—including higher market valuations, better prospects of flotation, and enhanced market reputation and brand integrity."

Meanwhile, a security glitch and an embarrassing e-mail scandal at two U.K.-based companies in recent weeks have highlighted yet again the importance of risk management for companies using the Internet.

U.K. insurance giant Royal & SunAlliance Insurance Group P.L.C. received some unwanted press last month when it suspended a group of employees after they were found to have distributed obscene material via the company's e-mail system.

The U.K. tabloid press seized upon the report that obscene images of cartoon character Bart Simpson had been circulated via e-mail by some of

the London-based company's staff. RSA announced earlier this month it was taking disciplinary action against a number of employees.

The insurer said that, in most cases, this involved temporary suspension, but in a minority of cases the conduct had led to dismissal. "We wish to make it clear that this action has not been taken lightly," RSA said in a statement. "Contrary to some reports, the material revealed by our investigation is not confined to questionable cartoon adaptations; it is pornographic and obscene and goes well beyond anything that any reasonable person would describe as permissible."

RSA said it had developed a policy on acceptable use of e-mail with trade unions in June 2000 and would rigorously enforce that policy.

Meanwhile, earlier this month, Cambridge, England-based UUNET, an Internet service provider, found itself unable to distribute e-mails for several days after being targeted by a hacker. More than 2,000 unsolicited e-mails arrived in UUNET's system, causing it to crash. A spokesman for UUNET said that the company had hired a team of specialists to help it identify the culprit. **BI**

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Business Insurance

Hatfield

Continued from previous page
brought against a company, prosecutors must establish that a "controlling mind" of the company was directly responsible for the management failure that caused the accident.

The British Transport Police, which conducted an investigation into the crash, said it had interviewed several senior figures at Railtrack and Balfour Beatty and that it is considering bringing a corporate manslaughter case.

The Department of Environment, Transport and the Regions has ruled out a public inquiry into the crash, though. A spokesman for the DETR said the case for a public inquiry "had not been made."

"It is not normal to have a full-blown inquiry after every accident," the spokesman said.

In a statement issued after HSE report was published, Railtrack said that it "continues to cooperate with the HSE and the British Transport Police in their ongoing inquiries into the accident at Hatfield." The company said it accepted that the condition of the track was "wholly unacceptable" and that it had undertaken a repair program. **BI**

Insurer wins 'dinosaur' case

Client won't have to pay damages

By DAMIEN TOMLINSON

ADELAIDE, Australia—An Australian insurer has won its appeal of a \$31.25 million Australian (\$17.39 million) award in the destruction of a 40-ft. high, 18-ton model dinosaur in a 1985 fire.

Non-life insurer CIC Insurance Ltd., now owned by Sydney, Australia-based HIH Insurance Ltd., was originally found to be responsible for paying 30% of the damage.

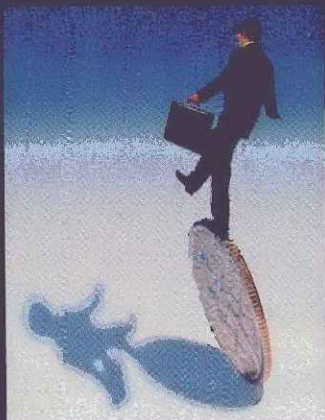
But in an appellate decision handed down in late December 2000, the full court of the South Australian Supreme Court has excluded CIC's client, the Royal Agricultural

& Horticultural Society of South Australia from liability and reduced the total damages and interest to \$10.25 million Australian (\$5.70 million).

The trial court judge, Judge Robin Millhouse, in his 1999 finding, said the large sum was to compensate the model's owner for the loss of potential earnings from exhibiting the dinosaur in the United States and having it appear in feature films.

CIC, based in Sydney, insured the Royal Agricultural & Horticultural Society of South Australia in 1985, which leased the Royal Adelaide *See Dinosaur on page 18*





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Dinosaur

Continued from page 16

laide Showground where the dinosaur, with an estimated value of \$2.8 million (\$1.6 million), was destroyed on Sept. 26, 1985 (BI, Dec. 20, 1999).

Judge Millhouse determined that the fire had been started by workers using an oxyacetylene welding torch to dismantle a protective steel tent around the dinosaur model. The tent was erect-

ed to shield the model after it had been featured in the annual Royal Adelaide Show.

The dinosaur model itself was sheathed in a polyurethane skin, which caught fire after it was ignited by sparks from the welding equipment.

Judge Millhouse awarded 30% of costs against the society, 10% against an uninsured scrap collector hired by the dinosaur's owner to dismantle the exhibit, a total of 50% against two demolishers who worked with the scrap collector,

and 10% against an uninsured rigger employed by the demolishers.

The demolishers had a public liability insurance policy, but an exclusion disallowed the use of a crane.

Five defendants appealed the decision, claiming it "defied logic." One defendant, Jonathon Foote, who operated the oxyacetylene welding torch, did not appeal.

Appellate judges John Doyle, Margaret Nyland and Brian Mar-

tin delivered their decision late last month in favor of the defendants.

CIC's lawyers persuaded the court that the show society did not owe any duty of care to the model's owner. The judges said that, while the fire occurred on the society's property, the society neither undertook a dangerous activity nor gave their permission for another party to do so.

"The harm, or the risk of harm...did not arise in any way from the state of the premises or

from activities conducted by persons for whom the society was responsible," the judges said.

The appellate judges instead assigned liability to the scrap collector, the demolishers and the rigger. The judges awarded damages of \$3.25 million Australian (\$1.81 million) for the cost of rebuilding the dinosaur and \$5 million Australian (\$2.8 million) for the loss of commercial opportunities. Interest of \$2 million Australian (\$1.1 million) was also awarded. **EI**

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Black lung

Continued from page 1
pass onto customers already burdened by high utility bills.

In addition, the new regulations outlaw workers comp insurers' use of a 16-year-old NCCI endorsement that insurers attached to policies. The Labor Department contends the clause unfairly limited insurers' liability for black lung claims (see related story). As a result of this change, coal mine operators may ask their insurers to check whether any claims were inappropriately denied during that period.

The Labor Department's new black lung regulations went into effect Jan. 19, 30 days after the 187-page package of regulations was published in the Federal Register. The regulations update the Coal Mine Health and Safety Act of 1969.

The federal black lung program provides nearly \$460 million annually in monetary and medical benefits to about 81,000 claimants and their survivors. Those claimants worked primarily in underground coal mines in the Appalachian region of the southeastern United States and in some western states.

The new regulations expand the definition of black lung disease, or pneumoconiosis, from one that was "quite brief" to one that codified the results of about 25 years of litigation, said James DeMarce, director of the federal division on Coal Mine Workers' Compensation.

"Miners who get sick should be compensated, but this law goes beyond that," said Mark E. Solomons, an attorney with Arter & Hadden L.L.P. in Washington. The new law "over-includes cigarette smoking-related illnesses in this program," said Mr. Solomons, who is the lead attorney representing the mining association, insurers and others in their quest for an injunction halting the new regulations. That lawsuit was filed last month in the U.S. District Court for the District of Columbia.

As a result, the new regulations create "retroactive liability for

previously ineligible claims...that had been denied or were never made because the injuries could not be causally linked to coal dust exposure," according to the Boca Raton, Fla.-based NCCI, an information and rate advisory organi-

The NCCI estimates that the new rules will force insurers to increase reserves retroactively by \$230 million to \$560 million.

zation.

The NCCI estimates that insurers will have to increase reserves retroactively by \$230 million to \$560 million for new or reopened black lung claims filed under policies providing coverage between 1973 and 1999. "Even insurers that never wrote policies covering black lung benefits could still face a share of retroactive liabilities of \$70 million to \$170 million through participation in the National Workers Compensation Reinsurance Pool," according to an NCCI analysis. The pool—to which most workers comp insurers belong—is an NCCI-administered mechanism for reinsuring many state assigned risk plans.

The negative impact of the liabilities on the pool is the main reason Old Republic Insurance Co. of Greensburg, Pa., is a plaintiff in the lawsuit. From 1974 to 1995, the insurer was the principal servicing carrier for about 24,000 claims filed under the act.

Other portions of the new regulations are designed to streamline the benefit determination process, according to the Labor Department.

The United Mine Workers of America—which describes the new rules as a "modest" step forward—says the primary way the regulation will ease the process for black lung claimants is by limiting to two the number of medical reports each side can present on a disputed issue. There had been no limit previously and a coal company could afford to present testimony from

numerous medical experts, while an individual miner could not afford to do that.

In addition, the new regulations "also help the victim by placing more emphasis on his or her treating physician's opinion and by inserting language that confirms the UMWA's long-held contention that black lung disease does progress as the victim ages," according to a union statement.

The mining association, however, maintains that "the new regulations will not streamline or expedite the claims process as the department contends. On the contrary, the rules will cause delays in the claims process" because of the increased number of claims that will be filed, said Bobby Jackson, the association's vp-human resources. Therefore, deserving claimants will be denied a speedy award of benefits, according to the association.

Because of these and other changes, the NCCI estimates that

current claims acceptance rates of 5% to 10% will increase to 25% to 35% for future claims. As a result, loss costs for benefits, which have a direct impact on policyholders' premiums, are expected to increase 230% to 540%, according to Barry I. Llewellyn, the NCCI's senior divisional executive for regulatory services in Hoboken, N.J. The NCCI is currently preparing new filings for rate increases in several states where insurers underwrite black lung-related risks.

Other regulatory provisions also impose a new 90-day deadline on coal mine operators and their insurers to document fully any denial of responsibility for a claim. There had been no comparable deadline previously, Mr. DeMarce said.

In their lawsuit, the mining association and a few insurers are asking a federal court to "declare that the challenged regulations are arbitrary, capricious, an abuse of discretion and unlawful" under

several federal statutes, including the Fifth Amendment of the U.S. Constitution.

They also are challenging the federal agency for allegedly exceeding its statutory authority, failing to observe required procedure and crafting regulations "unsupported by substantial evidence and unwarranted by the facts in the record," according to the complaint.

The mining association and insurers believe that seeking an injunction offers the best opportunity for halting implementation of the new black lung regulations, Mr. Jackson said. Trying to lobby Congress to exercise its authority under the Congressional Review Act—a strategy the National Assn. of Manufacturers is employing in an attempt to overturn the new federal ergonomics rules—is not realistic, he said. That is because Congress would likely be distracted by the ergonomics rule, which has more widespread impact. **[E]**

Insurer liability broadened Labor Department nullifies NCCI black lung endorsement

Coal mine operators may want to contact their workers compensation insurers to find out what, if any, federal black lung claims the insurers may have rejected under a policy endorsement that has limited insurers' liability for more than 16 years.

The 1984 endorsement, which was prepared by the Boca Raton, Fla.-based National Council on Compensation Insurance, was widely used by insurers until it recently was outlawed by the U.S. Department of Labor as part of new regulations updating the Black Lung Benefits Act. These regulations went into effect Jan. 19.

The issue arose in 1997 during a regulatory drafting session, when NCCI spokesmen told Labor Department officials that the 1984 endorsement had previously been approved in writing by Labor Department officials. After search-

ing their files, though, neither the NCCI nor the Labor Department could find written verification of that approval. The NCCI's record-retention policy, which has, until now, required the destruction of correspondence that was more than 10 years old, contributed to the problem.

According to Labor Department officials, the 1984 endorsement "limits an insurer's liability for claims that are based on employment that ended before an operator first obtained insurance to secure its liability under the act." In addition, the endorsement "limits an insurer's liability for claims that are approved as a result of amendments" to the act.

"I expect that coal mine operators will want to talk with insurers about the impact of the endorsement," said Bill Raney, president of the West Virginia Coal Assn. in Charleston, W. Va.

The situation "raises questions that need to be addressed," said Mark E. Solomons, an attorney with Arter & Hadden L.L.C. who is representing coal mine operators and insurers in a lawsuit. Still, Mr. Solomons estimates that few, if any, claims may be involved.

Meanwhile, Daniel Barry, director of government affairs for the New York-based Risk & Insurance Management Society Inc., urged that such records be maintained. "It is troubling that endorsements going back years could simply be nullified because government records can't be found and industry records have been purged," he said.

The NCCI agrees and is reviewing its record-retention policy, said Charles Tenser, regulatory counsel. "We don't want this to happen again," he said.

—By Meg Fletcher

DeSimone

Continued from page 3

Those issues cover a "pretty broad sweep," he noted. "To begin with, the one thing everyone wants is safer vessels....That's a big issue—to minimize the number of substandard vessels." Such ships, Mr. DeSimone explained, often are operated by undercapitalized owners and are poorly maintained.

Hazardous cargo is another problem for the marine industry, Mr. DeSimone pointed out. IUMI is working to ensure that dangerous cargo is properly handled, he said. "We have made a number of efforts to identify hazardous materials and make sure they don't cause fires," for example, he explained.

IUMI also is involved in efforts to make the U.S. fishing industry safer, Mr. DeSimone said. "It's the highest-hazard profession in the U.S., and specific work is being done to identify issues there."

IUMI hopes to strengthen its commitment to safety through ties it has established with other international organizations, such as the Belgium-based Comité Maritime International and the International Assn. of Classification Societies, said Mr. DeSimone.

Classification societies, which inspect ships and certify them as

safe, came under criticism from speakers at last year's IUMI meeting because of the number of accidents that have occurred involving certified vessels (*BI*, Oct. 9, 2000).

Mr. DeSimone said that, "for the most part, the major societies do a credible job." He added, however, that "there are a surprisingly large number of classification societies," many of which do not have the needed expertise.

The International Assn. of Classification Societies has a small membership, Mr. DeSimone pointed out, "and even within that group, only a small number distinguish themselves." He noted that the classification societies grew out of the insurance industry and that the two have "drifted farther apart than they should. There probably is an opportunity for the two to get more aligned."

While he said there is room for improvement at the societies, Mr. DeSimone stressed that the responsibility for determining which vessels are the best risks doesn't lie solely with those organizations. "It's good business to make sure you are involved with good vessel operators, charter operators" and others in the marine industry, he suggested.

Marine underwriters also came under fire at last year's meeting because, as one insurer charged, the service they provided was

"substandard." Mr. DeSimone said service is improving as the competitive marine market conditions wane.

"Lately, companies have provided a high level of service," he said. "When you're in a competitive market, service sometimes

'There is a lot more pressure to improve (hull) rates, and I think we will see rates move up in 2001,' says Richard DeSimone.

takes a back seat to price. But those with a high level of service see it as a competitive advantage."

As is the case with classification societies, it is unfair to paint all underwriters with the same brush, Mr. DeSimone said. While he acknowledged that some insurers' underwriting skills have atrophied during the prolonged soft market, St. Paul and others have consistently provided underwriting expertise and professional services, he said.

One challenge the market faces is finding new talent, Mr. DeSimone pointed out. "No question about it—the reason this business evolved was to sustain trade and commerce, and the same is true

today. It is up to us to identify younger people who have an interest in the business and to bring them along and train them."

That means recruiting at U.S. maritime schools, an approach that has been successful, Mr. DeSimone noted. Hiring college graduates with insurance-related degrees also brings new talent into the industry, he said.

Today's underwriters are finding particular challenges in the hull market. Rates for the coverage "have not moved in the way people thought they should have by now," Mr. DeSimone said. "That segment has not been particularly profitable in the last couple of years."

One reason for the sluggish growth of hull business has to do with the number of multiyear policies that have yet to come up for renewal, he said. "We're also seeing a changing reinsurance market, which will add costs to our operation and will have to be passed along. There is a lot more pressure to improve rates, and I think we will see rates move up in 2001."

Cargo rates also have been depressed in recent years, Mr. DeSimone noted. "It's not at all out of the realm of possibility that we will get some improvement" in cargo rates this year, as long as underwriters "behave as professionals" and work closely with

brokers.

Remarking on his election as the first American president of IUMI, Mr. DeSimone said he viewed the change as the continuation of a new attitude that has developed at the organization. The fact that, until now, no American has led the group had a lot to do with "internal politics," he explained.

"There was a concern that if members of the larger markets became president, they would exert undue influence over the others. That's no longer the case. My predecessor (Georg Mehl, former chairman of Württembergische A.G. of Stuttgart, Germany) was from the German market, and that is a large market. They have decided to look for the best-qualified person, regardless of the market."

Mr. DeSimone will preside over the IUMI meeting this fall in Genoa, Italy, with the theme of "partners in commerce," he said. "We are going to re-emphasize the relationship that marine underwriters have with their customers and their role in the overall trade picture."

Regarding the future of the marine market, Mr. DeSimone declared that, "personally, I'm an optimist. We've come through some difficult times. World trade is up and world economies are strong. Competent companies will survive."

Data

Continued from page 3

handled better, he explained. Reducing these mistakes and providing optimal care for every patient would not only produce better outcomes and healthier patients but also would reduce costs, he said.

The goal of the ActiveHealth system is to detect potential large-cost cases. It will also detect when patients are taking dangerous combinations of drugs or when patients are not given drugs they need for a given condition. The system looks at the patient's total medical profile and tries to determine any problems that exist and what is not being done for the patient, he said. Many times a physician cannot take such a comprehensive look because patients often see more than one doctor. And frequently, patients don't tell one doctor the treatment they are receiving from another, said Mr. Blanksteen.

To accomplish this, the data management system gathers information from drug claims, lab results that show the actual test results rather than just cost data, as well as claims data that shows procedures performed along with diagnostic codes and nurses' notes.

The system then compiles this information sent in through the Internet—from medical labs, pharmacies, benefit managers and others—and creates a profile for

each patient. These profiles are updated daily as information comes in from the data sources, Mr. Blanksteen said. And each day the system examines each patient's records to see if any changes have occurred and any problems with the patient have arisen.

"It's designed to get the right clinical resource involved and to create upfront treatment strategies," Merrill Lynch's Mr. Reifert said.

Reducing mistakes and providing optimal care would produce better outcomes and cut costs, says Charles Blanksteen.

"It's about getting the job done right the first time," he added.

The system contains certain triggers that go off when it encounters red flags. Once a trigger shows up, the system compares it with an updated set of best practices. The best practices are constantly updated from the latest medical literature, Mr. Blanksteen said.

The result is a recommendation for what care the patient should receive, or what can be done to correct any problems.

This recommendation is sent to the medical director of the partici-

pating health plan, who then transmits it to the patient's primary physician. For example, when the system receives a lab result showing a patient with high cholesterol but not a later entry indicating a claim made for a cholesterol-lowering drug, a trigger goes off and the system sends out a recommendation that the patient receive a cholesterol-lowering drug. If no response to the suggestion is received, a second recommendation goes out.

So far, the system, which Mr. Blanksteen says keeps track of several million patients, has been well received by employers, patients and physicians.

"Most doctors, when they receive one of these recommendations, just respond fantastically," Mr. Blanksteen said.

One concern that Merrill Lynch had was protecting the privacy of its employees. This has been resolved because the computerized system eliminates any identifying information when it receives the data and simply assigns each patient a number. Once a recommendation goes out, the plans translate the patient number to a patient name.

The system has worked well for Merrill Lynch, Mr. Reifert said. Since 1995 the company has seen a per-capita drop in the number of large claims, those costing over \$50,000. Plus, those large claims are costing less. And employees and management have responded positively to the system. **BI**

BHCAG

Continued from page 3

founding member, Wells Fargo, was very painful to us," she said.

To address these concerns, BHCAG is spinning off two new organizations with specific missions. In addition, it will start a drive to increase enrollment in its care systems in the hope that more numbers will provide added clout and will better position the organization to change the health care system.

"We need volume to drive the behavior," Ms. Pare said.

To increase enrollment, BHCAG is reaching out to small and midsize employers, she said. A new company formed to accomplish this, Patient Choice Health Care Inc., will oversee the care systems and offer the care-system product in a fully insured form that is better suited to smaller and midsize employers. In addition, Patient Choice will be able to customize the plan to fit various employers' needs. Ms. Pare said Patient Choice is expected to be operational and accept employers by the middle of this year. The organization is also planning to expand its care system model to Portland, Ore., and Denver.

BCHAG has formed a non-profit unit called HealthFront Inc. and infused it with a \$1 million grant as seed money. HealthFront's goal is to improve health care quality and develop new consumer tools, such as patient quality surveys. It is currently in its start-up phase and looking for an executive director.

The company hopes the moves will counter the flagging energy of some BHCAG members.

"I think we got complacent. We got comfortable with where we had come," Ms. Pare said.

The changes will allow BHCAG to focus on its original mission of driving up quality and improving the relationship between patients and providers, said Laurie Fenwick, vice chairwoman of BHCAG and manager of employee benefits for Minnesota Life Insurance Co. in St. Paul, Minn. Minnesota Life has been a BHCAG member since 1993.

"It lets us get back to the big picture," she said. The members can now address "why were these employers coming together to talk about health care in the first place," she added.

In particular, Ms. Pare noted that the organization began to look at itself as just another health plan, a view that must change.

Changing this view of the organization "is the biggest issue they struggle with," said Marcia McCarthy, health care practice leader at William M. Mercer Inc. in Minneapolis. Ms. McCarthy was previously involved with BHCAG when she was a benefit strategist with Target Corp., a BHCAG member.

One observer said BHCAG has never fulfilled its potential. "In the end, they didn't create a marketplace," said Greg Kuhn, national health care practice leader for UNIFI Network in St. Louis.

The group's original goal was to form a marketplace between consumers and health care providers. "But, in the end, they created health plans just like any other health plans," he said.

One significant problem that BHCAG has worked under is simply keeping itself together, he said, because different employers have different goals. Also, as members of the group merge with other companies, they move in and out of the group and break up its leadership.

Ms. Fenwick also acknowledged this problem exists, saying that as BHCAG grew, it became harder for all the members to agree on an issue.

One aspect of the BHCAG's approach to health care was an at-

tempt to achieve greater efficiency for health care providers. The care systems were designed so providers would receive more money if they became more efficient—creating an incentive to find innovative ways to treat patients. But this didn't happen, the consultants contend.

"I'm not sure they changed physician behavior," Ms. McCarthy said. "I'm not sure they changed patient behavior."

Rather than getting patients to think of themselves as consumers of health care every time they visited a physician, the care systems simply made them consumers once a year—when they chose a provider group each year. It also charged a low co-payment for doctor visits. A high co-payment would force patients to shop for value, much like shopping for other goods or services, the consultants said.

"In the end, it should not be about selecting a health plan. It should be about selecting a physician," Mr. Kuhn said.

Ms. Pare agrees that the group has not succeeded in this area, primarily because it has lacked the size necessary to get providers to change.

"We don't deliver enough people to the care systems to alter their behavior," she said.

But Ms. Fenwick notes that in some areas, physicians have made changes. She noted that many kept longer office hours and opened on Saturdays to accommodate patients' wishes.

The lack of people in its care systems has hurt BHCAG's efforts, said George Halvorson, president and CEO of HealthPartners, a managed care company based in Minneapolis. In the past few years, HealthPartners has lured away some BHCAG members, including Wells Fargo. "To maintain credibility with providers, they would need to increase market share," he said.

But the employer group will succeed in attracting small and midsize employers only if its new product is priced attractively, Mr. Halvorson said. Small employers won't buy the product based on BHCAG's philosophy; they will buy based on price, he said.

Despite its lack of total success, Ms. McCarthy said that BHCAG has helped improve the health care system in Minnesota. "They have been a driving force in the market," she said.

And although it has not completed its mission, Mr. Kuhn still gives BHCAG high marks for its bold attempt to tame the health care system.

Ms. Fenwick said the recent changes are part of the organization's evolution and more changes may take place in the future. "We do not feel that how the group looks right now is the end-all," she said, adding, "Who knows what it will look like two years from now?" **BI**

Battling workplace drug use

Employers confronting the costs of chemical dependency

By MICHAEL PRINCE

NEW YORK—Although chemical dependency is an insidious problem in the workplace, sapping both money and time from employers, most companies refuse to confront the problem and instead do very little about it.

"There is a silent killer in our midst," said Fred Hafer, chairman, president and CEO of GPU Inc., a utility holding company based in Morristown, N.J. "It's costing so much that we can't afford to ignore this problem," he said.

Mr. Hafer made his remarks last week at The 2001 Employer Health Care Conference, held in New York and sponsored by The Conference Board.

One in three people's lives is affected by chemical dependency, Mr. Hafer said. Those affected include not only chemically dependent people but also their spouses, other family members and co-workers.

The problem adds tens of billions of dollars to the costs of doing business, driving up the prices of virtually all goods and services, he said.

The cost of chemical dependency is staggering, according to Mr. Hafer. The direct and indirect costs of alcohol and drug abuse are an estimated \$100 billion annually, he said. For example, alcoholism alone results in 500 million lost workdays each year, he noted.

Mr. Hafer also cited U.S. Department of Health and Human Services estimates that drug and alcohol use costs taxpayers \$276 billion annually in preventable health care costs, extra law enforcement, car crashes, crime and lost productivity. Alcohol alone, according to the HHS, costs the country more than \$99 billion annually.

A key challenge of addressing this problem is that use of the leading

chemical dependency substance—alcohol—is socially acceptable and in many places socially expected, said Mr. Hafer. As a result, he said, employers often dismiss alcohol problems by workers or accept it as normal.

'Chemical dependency reveals itself in the workplace as a performance problem,' says Fred Hafer.

Mr. Hafer said that when he first started talking about the issue 13 years ago, after becoming a trustee of a substance abuse rehabilitation facility, most employers did not want to address the problem within their workforce. In recent years, though, that has changed and more and more employers are willing to talk about the problem and ways to address it.

Unfortunately, the business community has not yet done enough about it, he said, despite the huge burden and costs it places on them.

"Chemical dependency reveals itself in the workplace as a performance problem," he said.

Chemically dependent employees account for an estimated 10% of the worker population. These workers are late for work about three times as often as their peers, are five times more likely to file a workers comp claim, are 2.5 times as likely to have an absence from work in excess of seven days, and are 3.6 times more likely to have on-the-job accidents, Mr. Hafer noted. In addition, these workers function at only two-thirds of their potential, he added.

"It's not good economics to pay a

worker three hours of pay for two hours of productivity," he said.

To address the issue, Mr. Hafer recommends that every employer establish an employee assistance program. An EAP—an employer-sponsored program that provides counseling and referrals to assist employees in the identification and resolution of personal problems, including substance abuse—is a great way to help employees deal with all types of pressure and problems they experience, he said.

Employers also can create programs that focus on rehabilitation of workers with chemical dependency problems, he said.

For example, in 1999 GPU started a new program that puts all employees suspected of substance abuse into a professional rehabilitation program, with the employee receiving full pay during the rehab period.

Another way to approach the problem is for supervisors to treat performance problems of chemically dependent employees just as they would any other work-related problem, as long as the employee is not obviously intoxicated in the workplace, Mr. Hafer said. By doing this, managers will no longer create excuses for these employees, he said. Such excuses ignore the problem and turn managers into enablers, he said. If it's subsequently revealed that a performance problem stems from chemical dependency, then the employee should be placed in the EAP program, he said.

Whatever path employers choose, Mr. Hafer said that doing nothing is not a viable option.

"It's much more expensive to ignore this problem than it is to recognize this issue and do something about it affirmatively," he said.

"None of us can afford the growing cost of doing nothing," he said.

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The winter of my discontent

It's been a very cold winter so far, hasn't it?

Quite a bit colder and much snowier than the mild winters you've all enjoyed in recent years. Frost in Florida, flurries in Louisiana, unrelenting ice in Chicago and foot after foot of snow in Buffalo. The coldest November and December ever in the contiguous United States. There's also the problem of soaring heating fuel costs and that electricity crisis in California.

Meteorologists are searching for answers to whether this frigid weather is truly an anomaly or part of some cycle longer than memory. They're looking for geological clues in coral reefs, checking ice core samples and figuratively sticking their finger in the jet stream. Is it El Nino? La Nina? Greenhouse emissions? Sunspots?

It's a mystery to some, but not to me. I, Punxsutawney Phil, warned you this would happen a year ago.

Remember me now? The hairy little fellow with the overbite? I put a curse on you all on Feb. 2, 2000, and now the groundhog has come home to roost, or however the saying goes. You will continue to be chilled, buried under snow and at the mercy of rolling blackouts unless the insurance industry comes through for me before Feb. 2, 2001. Only then will I lift the curse.

Last year, I warned the insurance industry that unless I got cut in on some of that excess capital I kept

hearing about, I was putting my paw down and refusing to come out of my hole (BI, Feb. 7, 2000). For years now, the insurance industry—especially that new breed of property cat companies—has been profiting from my early wintry weather forecasts. You know how it works: I come out of my den on Feb. 2 and if I see my shadow, it means six more weeks of winter; if I don't see it, spring is near.

After my sincere offers to settle were rejected, I hired a cousin of mine to represent me in my claim (I bet you didn't

know that groundhogs are part of the rodent family). We filed suit in federal court, seeking an injunction against further Groundhog Day activities unless I received an unspecified amount of compensatory and punitive damages for the insurance industry's failure to share in the profits derived from my art.

Instead of coming to the table, insurers decided to play hardball, banding together to file a countersuit. My request for an injunction was denied, and I was dragged unwillingly out of my warm, cozy hole in a stump to stare at my shadow.

Even though my case is still in the courts, the past 12 months have been a little rough for me. As a result, I'm willing to come back to the negotiating table and lift the curse. But my new offer stands only until dawn, Feb. 2.

Why have I abandoned my hard-nosed litigation strategy? Frankly, I don't need the grief after what I went through in 2000.

For starters, the IPO for my e-commerce venture—mygroundhog.com—fell through last March. As a result, I had to lay off a lot of woodland creatures, who were a little angry that their stock options were now worthless.

A few months later, I broke out in a mysterious rash, after eating corn chips that I suspect contained some of that StarLink genetically modified corn.

Then my original lawsuit against the insurers got thrown out of federal court on the grounds that state court was the proper forum for my suit. It turns out my attorney was sleeping during the oral arguments and missed a few things. But given the U.S. Supreme Court's recent ruling allowing lawyers to snooze, my chances of getting a retrial in federal court are slim.

To top it all off, I did not get a PlayStation2 for Christmas. You may ask what a burrowing rodent needs with one of those high-end game boxes, but if you were cooped up in a stump all year you would soon understand.

So while I believe I still have an excellent case to bring to a state court, I'm in a mood to settle and lift the curse. I am willing to drop my claim for compensatory and punitive damages. In exchange, I'll accept insurance stock options. Ever since the tech sector went in the tank, you guys look golden.

I'll await word from your lawyers. But if this offer is rejected, let me give you a tip: better buy a snowblower before they run out.

Punxsutawney Phil and his attorneys can be reached at phil@mygroundhog.com. Editor Paul D. Winston's commentary will return in a fortnight. He can be reached at pwinston@crain.com.



Punxsutawney Phil

Outages

Continued from page 1

which California recently deregulated its electricity market in combination with a scarcity of electricity (BI, Jan. 15). Officials have warned that rolling power outages are possible in Southern and Northern California. When the electricity runs out, officials have spread outages over several locations, so they typically do not last for more than an hour or so in any one area.

At LucasFilm Ltd., the only insurance coverage that might be triggered by power-related problems would be for damage to computer data caused by a surge of electricity after power is restored after an outage, said Sue Boucke, risk manager for the San Rafael, Calif., company.

Although LucasFilm has not incurred such losses, it possibly would have coverage for that risk under a property and business interruption policy with a power interruption clause that covers destruction of data, she said. Ms. Boucke noted, however, that the coverage requires the policyholder to take action to limit potential damage.

LucasFilm took such a step last week after the local utility company warned it there was a very high possibility of a blackout, Ms. Boucke said. As a precaution, the company saved its computer data, sent employees home and closed its offices out of concern that employees could fall down stairs or suffer other injuries in a dark building. Yet the blackout never happened.

Risk managers are just starting to ponder what other potential insurance losses may result from outages, said Kathy Guthormsen, risk manager for Autodesk Inc., a software developer in San Rafael, Calif.

So far Ms. Guthormsen's preparations have focused on assisting a company disaster recovery team assure the company has a generator as an alternative power source, she said.

So far, no clients have called seeking coverage for outage-related losses because none may be available, said a spokesman for San Francisco-based USI Insurance Services.

Business interruption policies are not likely to be triggered be-

cause they typically require physical damage to the policyholder's property, said Mark Nimmo, senior vp at broker Sullivan Curtis Monroe in Irvine, Calif. They also generally require an interruption of at least 12 hours, he added.

Boiler and machinery coverage added to property policies may have an "off-premises power provision," but that requires physical damage to the power provider's property, not merely the inability to deliver adequate power, Mr. Nimmo explained.

Coverage could come into play, however, under certain all-risk property insurance policies if, for example, electronic equipment is damaged during a power surge, he said.

As for contingency plans, some risk managers are relying on

'The issue of risk cannot be addressed adequately by insurance,' says Jeffrey W. Pettegrew.

preparations already in place for other troubles that could stall production—such as earthquakes—to cope with the outages.

Walnut Creek, Calif.-based Westaff, for example, already has a backup generator nearly the size of a truck to power its headquarters during an emergency, said Jeffrey W. Pettegrew, vp of risk management and insurance. The company also has a parallel computer center in a neighboring state, well out of the way of any California earthquake fault lines or electricity woes.

In the event a catastrophe strikes Westaff's Walnut Creek office, a team of workers would rush to the alternative computer site to continue operations from there. Those preparations are necessary because Westaff's business is to provide temporary employees to client companies nationwide. To do so, Westaff relies on its computers to process tens of thousands of time cards and paychecks daily for temporary workers, Mr. Pettegrew explained.

If the temporary workers don't get paid quickly—daily in some cases—they won't work and Westaff could soon be out of business,

Mr. Pettegrew said.

"Whether you look at it from an enterprise risk management viewpoint or not, the issue of risk cannot be addressed adequately by insurance," he said. "We need to have a real system that will operate in the event of physical calamity, which includes power disruption."

Westaff's Walnut Creek office already has suffered one recent blackout that lasted about an hour because of the current power crisis.

The topic has been on risk managers' minds, said Deborah Luthi, director of risk management and benefits for University of California at Davis. Ms. Luthi participates in an informal group of risk managers that meets regularly in the Sacramento area. They had planned to discuss e-commerce issues at an upcoming meeting. But group participants requested that the e-commerce discussion be postponed to share ideas on preparing for potential blackouts.

At U.C.-Davis, Ms. Luthi participates in an emergency preparedness group that is just now starting to address the issue on campus, she said. "This is something we could face that would be a total shutdown of the campus."

One issue that has come up at preparedness meetings at Sacramento, Calif.-based Sutter Health is assuring the company has plenty of diesel fuel stored for operating hospital emergency generators, said Mike Evans, vp and risk manager for the health systems company that operates several hospitals. That issue has been a topic in meetings Mr. Evans participates in along with staff from Sutter's safety and engineering departments.

The group wants to assure Sutter facilities do not run out of diesel, if necessary, at a time when a power emergency may make it harder to obtain more.

Hospitals are required by law to have emergency generators. But hospitals are also considered essential services that electricity providers have promised to spare from blackouts. Sutter's administrative offices can survive a blackout, especially with computer data backup procedures that already are routine, Mr. Evans said.

"Nobody is taking any extraordinary measures right at the moment," he said. "We are just trying to identify what problems we may have if they come up." BI

Funds

Continued from page 2

its workers compensation coverage needs, including insurance for employees in Colorado, Idaho, Montana and Nevada.

Associated formerly purchased insurance from a national writer, but left last year when it felt it was receiving rate increases to make up for losses in California's market, Mr. Denning said.

"Any time we can introduce an additional insurer risk managers are going to support it," he said. "There is always a need for an additional point of view and the financial backing to provide that."

The WCF, like other workers compensation funds throughout the United States, originally began as a state entity to provide a workers comp market of last resort. In 1998, though, it gained autonomy and became a "quasi-public" corporation, making it a nonprofit mutual insurance company.

While it continues to serve the public as the market of last resort, it either owns or has a financial

interest in three for-profit subsidiaries, including a 52% stake in Pinnacle Risk Management Services, acquired in 1997. Pinnacle is a third party administrator with offices in Utah and at least seven other Western and Southwestern states.

WCF also owns Indianapolis-based Advantage Workers Compensation Insurance Co., which it acquired in 1998. Advantage has a certificate of authority to write workers compensation business in 42 states.

Through its TPA subsidiaries, WCF currently can provide managed care, claims handling and case management services to self-insured employers outside of Utah, Mr. Summerhays said. It can also provide those services to other state funds.

H.B. 59, sponsored by state Rep. Kevin S. Garn, R-Layton, the House majority leader, would allow WCF to provide coverage to self-insured customers—including ones based outside Utah—of its Pinnacle TPA subsidiary that wish to buy insurance. The bill passed the state House of Representatives Jan. 17, just two days

after it was introduced. Less than a week later, the state Senate Business, Labor and Economic Development Committee approved it.

Mr. Summerhays said he expects the bill will become law. He contends that the legislation has a "very limited scope."

"It's not opening offices all over Timbuktu and trying to sell insurance around the world," he said of the legislation.

But insurers see things differently. The WCF is positioning itself to provide coverage to employers throughout the Western United States and has the potential to become a national insurer, said Mark E. Webb, vp-state affairs in Sacramento, Calif., for the American Insurance Assn. While H.B. 59 would limit the WCF to providing coverage to employers serviced by Pinnacle, Pinnacle is not limited in its potential expansion, he said. So Pinnacle is free to participate in growth strategies aimed at bringing more customers to WCF, Mr. Webb said.

Insurers contend this represents unfair competition because as an

See Funds on next page

Hub

Continued from page 1

in 1999, its first venture into the U.S. marketplace. Hub completed its second U.S. deal last July, with the purchase of Boston-based C.J. McCarthy Insurance Agency Inc., which had roughly \$12 million in brokerage revenues, according to a Hub press release.

Under terms of the proposed Kaye deal, Hub will pay \$14 in cash and convertible debentures per Kaye share. According to Kaye's latest proxy statement filed with the Securities and Exchange Commission, as of April 1, 2000, Kaye had 8,463,354 shares of common stock outstanding. At \$14 per share, the purchase price would be approximately \$118.5 million, though the true figure is likely higher, because that estimate does not include the value of any outstanding stock options.

As of last Friday, Kaye's stock was trading at \$12.41.

The deal, announced last week, is subject to various regulatory approvals. Approximately 55% of Kaye's shareholders already have approved the deal and have granted Hub an irrevocable option to purchase their shares in the event that the acquisition is not completed.

Established in 1952, Kaye has made a name for itself with its large program niche. In addition to its retail operations, Kaye also owns two underwriting companies, Old Lyme Insurance Co. of Rhode Island Inc., and Old Lyme Insurance Co. Inc. in Hamilton, Bermuda. According to Kaye's 1999 10-K filing, approximately 41% of Kaye's program business is placed with its two insurance affiliates.

Mr. Hughes noted that Hub intends to grow and expand the two insurers and make them available to underwrite risks placed with other Hub offices.

The purchase of Kaye would add a Hub presence in four states: California, Connecticut, New York and Rhode Island. Hub currently has U.S. operations in Illinois and Massachusetts. The addition of Kaye's 344 employees will

bring Hub's staff to approximately 1,500, Mr. Hughes said.

"Kaye fits so nicely because we're very focused on program business," Mr. Hughes said. "It's just a terrific combination."

Bruce D. Guthart, chairman, president and CEO of Kaye, agreed. "It just made a lot of sense," Mr. Guthart said.

"I like the concept and the business plan of Hub. I look at it as a win in so many ways. It's a win for both companies' shareholders, it's a win for our employees and it's a win for our clients," said Mr. Guthart, who noted that, due to

With the Kaye acquisition, Hub 'will become another alternative for North American buyers,' says Bruce D. Guthart.

Hub's size, the broker "will become another alternative for North American buyers."

Upon completion of the merger, Mr. Guthart will become president of Hub's U.S. operations.

Unlike other broker consolidators, Hub seeks to acquire firms with more than \$10 million in revenue, a clear history of success and a key management team that intends to stay with the company, explained Mr. Hughes.

Hub's business strategy is to let acquired brokers remain independent and entrepreneurial, as opposed to being integrated into one company, and to give those brokers access to new products, services, expertise and capital to grow their business.

Another differentiating factor is that Hub has the financial backing of Toronto-based Fairfax Financial Holdings Ltd., which owns approximately 40% of Hub's outstanding shares. In fact, it was Fairfax President and CEO V. Prem Watsa who came up with the idea of establishing Hub in the first place (BI, Sept. 6, 1999).

Fairfax, which made an initial \$55 million Canadian (\$36.4 million) investment in the broker, has

committed to invest at least \$35 million in the Kaye transaction.

Overall, observers are positive about the deal, saying it puts Hub on the map in the U.S. market and offers another alternative to risk managers who are looking for more choice among insurance brokers.

"I think consolidation, from what I've heard from other risk managers and from my own experience, has not hurt anyone," noted Roger Andrews, president of the Risk & Insurance Management Society Inc.

"Certainly, having another large broker, particularly if Hub moves like it says it wants to, would provide another choice for risk managers. We do like to have alternatives," said Mr. Andrews, who is general counsel and director of risk management for E.D. Bullard Co. in Provo, Utah. E.D. Bullard's broker is C.J. McCarthy.

"It's a great fit for Hub," said John Waller, a managing director of Chicago-based Cochran, Caronia Securities L.L.C., which advised Hub on the transaction. "It needed to expand its presence in the U.S. This deal puts them on the map from a financial market standpoint, from an insurance market standpoint and from an insurance buyer standpoint," he said.

Timothy J. Cunningham, a principal with INSIGHT Management Consultants in Chicago, agrees. "This is a very meaningful and significant transaction. It clearly puts Hub on the map in the U.S."

Mark Lefenfeld of Austin, Texas-based Lefenfeld Consulting Inc. noted that the deal also "appears to be a wonderful answer to Kaye, which was running into the issue of how it was going to remain competitive in the long term on its own. As part of Hub, Kaye could do better than what it could do on its own."

Agency management consultants point out, however, that with a presence in only six states, Hub still needs to expand geographically in the United States. They note that Hub's challenge going forward will be finding good deals that meet its size requirement. **BI**

Funds

Continued from previous page

insurer of last resort, the WCF receives federal income tax-exemption, Mr. Webb pointed out. "If this were a regular insurance company, that would seem to be a reasonable and prudent growth path," Mr. Webb said. "But it's not a regular insurance company."

State funds expanding across their home-state borders, or into other lines of coverage, compete on an "uneven playing field," agreed Paul Mattered, senior vp and chief public affairs officer for Liberty Mutual Insurance Co. in Boston. Such funds were created to provide coverage in a single state to entities the private market could not insure. Therefore, they receive favorable tax status and often other advantages, such as exemptions from state regulations governing insurer investments, he noted.

Insurer political opposition to residual market writers expanding beyond their home states can be intense, said John Leonard, president and CEO of Maine Employers Mutual Insurance Co. MEMIC is a private company created in 1993 as the insurer of last resort for Maine businesses.

It encountered fierce opposition from the AIA and Liberty Mutual

when it sought to create MEMIC Indemnity Co. to write workers compensation policies in neighboring New Hampshire.

"They waged a very aggressive campaign to keep us out of New Hampshire," Mr. Leonard said. First, they lobbied Maine lawmakers and then insurance regulators in New Hampshire. Although opponents argued that MEMIC possesses unfair advantages, Mr. Leonard said it does not receive favorable tax status and operates like any other insurer. However, the AIA, in opposing MEMIC's expansion into New Hampshire, argued that MEMIC amassed a \$120 million surplus in part because it is subject to a different rate approval process than are other insurers.

In the end, MEMIC's opponents "lost, lost badly and got creamed," Mr. Leonard said.

MEMIC also provides coverage in other states through a fronting arrangement. By using paper provided by Fairfield Insurance Co., MEMIC writes about \$5 million in annual premiums for Maine employers who have expanded their business into other states, Mr. Leonard said. Fairfield, based in Stamford, Conn., is a unit of General Reinsurance Corp., which reinsures MEMIC's business.

Such growth is essential to MEMIC and other funds so they

can attract top insurance industry talent, said Mr. Leonard. He is also a past president of AASCIF, the state fund association.

Good employees are not drawn to companies that do not grow, and MEMIC has definite plans to expand into other neighboring states, he added.

With the stock market performing badly and interest rates down, diversification into other states provides compensation funds with a way to earn returns on their policyholder surplus, Mr. Summerhays said.

"We need to deploy our surplus like any other carrier," he said. "As prudent managers, we need to maximize our investment income."

He expects other compensation funds will follow a similar path of privatizing and expanding beyond their state borders.

"For those companies to be viable over the long haul, they have to do the same thing any prudent insurance company would do," he said.

That strategy might make sense when the insurance market is stable, the AIA's Mr. Webb said. But he questions whether it is appropriate public policy, because the strategy essentially turns state funds into the same kind of entity that they were created to serve as a hedge against. **BI**

UPDATES

Ruling on Oregon RRGs stands

WASHINGTON—The U.S. Supreme Court this month declined to review, and thus let stand, a federal appeals court decision that Oregon law discriminates against risk retention groups.

Under an Oregon financial responsibility law, auto dealers and distributors that buy reimbursement coverage for vehicle service contracts must do so from "authorized" insurers. To be authorized, an insurer must be a member of a state guaranty association. But, according to the federal Risk Retention Act, RRGs cannot be members of guaranty associations.

Last year, a 9th U.S. Circuit Court of Appeals panel unanimously ruled that Oregon's financial responsibility law violated the Risk Retention Act, which limits state regulation of RRGs (BI, June 12, 2000).

Regulator's allies boycott meeting

SANTA FE, N.M.—Two New Mexico officials who oppose their state commission's decision to place top state insurance regulator Don. J. Letherer on paid administrative leave pending disciplinary action boycotted last Tuesday's commission discussion on Mr. Letherer's fate.

Lynda M. Lovejoy and Herb H. Hughes, two of five elected members of the New Mexico Public Regulation Commission, which oversees the state's Insurance Division, boycotted the closed-door discussion to show their support for Mr. Letherer. Mr. Letherer is the Insurance Division superintendent.

Ms. Lovejoy said that Mr. Hughes' and her own attendance at the meeting would not have benefited Mr. Letherer, because the three other commissioners had "already made up their minds" to oust the superintendent. The three commissioners who attended the meeting did not return calls.

Ms. Lovejoy said the commission likely would take action on Mr. Letherer's fate Jan. 30, at the commission's next scheduled meeting. The commission appointed Mr. Letherer as Insurance Division superintendent in October 1999 and, by law, may fire him only for cause.

Commission Chief of Staff John B. Hiatt did not specify any reasons for first asking for Mr. Letherer's resignation in a Jan. 9 letter and then informing the superintendent in a Jan. 16 letter of the commission's vote to relieve him of his duties. Mr. Hiatt has assumed Mr. Letherer's duties during the interim, an Insurance Division employee said.

Ms. Lovejoy and Mr. Letherer's attorney contend that the commission's action is a grab for power that the commission lacks under state statute and that Mr. Letherer refused to relinquish. They said the 2-year-old commission, which the Legislature created to oversee a half-dozen state agencies, does not have the same degree of authority over the Insurance Division that it has over the other agencies.

IRS reviewing Transit records

JEFFERSON CITY, Mo.—Federal authorities have requested records from the Transit Casualty Co. receivership, and a former receivership employee has appeared before a federal grand jury in Kansas City, Mo.

Internal Revenue Service agents have requested Transit records and were specifically interested in the records of checks issued by the receivership, said James Owen, a lawyer representing Transit with McCarthy, Leonard, Kaemmerer, Owen, Lamkin & McGovern in St. Louis.

After notifying Cole County Circuit Judge Byron Kinder, who oversees the receivership, Mr. Owen asked the Missouri Insurance Division to provide whatever information investigators requested.

Mr. Owen also said it is his understanding that a former Transit receivership employee has appeared before a grand jury. He said he does not know the identity of the former employee, and Mr. Owen and Judge Kinder both said they know nothing about the purpose of the federal inquiry or even whether its focus is the Transit receivership.

Meanwhile, Transit has approved a distribution to claimants of roughly \$145 million, bringing the total distributed to date to about \$690 million, or 60 cents on the dollar for allowed claims from corporate claimants and 70 cents on the dollar for a small number of individual claimants. Allowed claims to date total \$1.13 billion, Mr. Owen said.

The receivership ultimately expects to have paid claimants a total of \$1.2 billion by the time the estate closes, he said. How much on the dollar this figure represents will depend on the final total of allowed claims. The Missouri court has set a March 15 cutoff date for the remaining claims.

The cost of administering the receivership since Transit's 1985 insolvency will total about \$340 million by the time the estate is wound up, Mr. Owen said.

Briefly noted

Reliance Group Holdings Inc. is still working with regulators to formulate a reorganization plan, the troubled insurer announced last week. Separately, Reliance won the continuance until Jan. 30 of a restraining order on billionaire investor Carl Icahn's tender offer for \$40 million of Reliance debt....The Financial Accounting Standards Board voted last week to eliminate the **pooling method of accounting** for business combinations, including mergers and acquisitions. FASB plans to issue a final statement in June, after which the purchase method of accounting will be required for all business combinations. Both methods have been used in the insurance industry....**P. Richard Hackenburg** has been named president and chief executive officer of Willis North America Inc.'s St. Louis office. Mr. Hackenburg returns to Willis after spending the past three years with various units of XL Capital Ltd. Before joining XL, Mr. Hackenburg served as president and chief operating officer of Willis' Advanced Risk Management Services division and chairman of Willis Risk Solutions' North American operations....The Supreme Court agreed to review the **right of employer-provided health plans to sue** to recover benefits from participants who receive payment for the same health care services from a third party. Both the trial judge and the 9th U.S. Circuit Court of Appeals had ruled in *Great-West Life & Annuity Insurance Co. vs. Janette Knudson* that plans had no such right of subrogation under the Employee Retirement Income Security Act. This is the second time in recent months the high court has agreed to review such a case, but the earlier case, *Reynolds Metals Co. vs. Robert Ellis*, was settled before the justices heard arguments in the matter.

FOR THE RECORD

Excerpts from BI's Daily Online Updates, Jan. 22 - Jan. 26, 2001

CAT LOSSES LIGHT IN 2000 Insurers sustained lighter-than-average catastrophe losses in 2000, the Property Claim Services unit of the Insurance Services Office Inc. reported last week. In fact, 2000's estimated \$4.3 billion in catastrophe claims was the second lowest in the past 10 years. The year was noteworthy in that insurers managed to escape significant hurricane losses: No major storms made landfall in the continental United States last year. According to New York-based PCS, insurers paid about 1.4 million claims stemming from 24 catastrophes last year. PCS defines a catastrophe as an event that causes at least \$25 million in insured property damage and affects a significant number of policyholders and insurers. Texas suffered the most—about \$1.2 billion—in terms of catastrophe losses. Louisiana ranked second, with \$523 million, and South Carolina, third, with \$204 million in insured property losses.

ST. PAUL PROFITS, REVENUES RISE The St. Paul Cos. Inc. has reported both top- and bottom-line growth for 2000. Total revenues for the St. Paul, Minn.-based insurer were \$8.61 billion in 2000, a 13.7% increase from 1999; net income rose 19.1% to \$993.5 million. Aftertax operating earnings dipped slightly in 2000, however, to \$625.5 million, a 1.7% decrease from the prior year. St. Paul attributed the decline largely to an increase in the effective tax rate for 2000, and noted that pretax operating earnings for the year increased 5.8% to \$845.9 million. St. Paul's net written premiums increased 15.1% over last year's level, to \$5.88 billion. For the quarter ending Dec. 31, St. Paul had \$1.5 billion in net written property/liability premiums, a 29% increase over the same period in 1999. The company's overall property/liability insurance combined ratio dropped to 104.8% in 2000 from 107.9% in 1999, and the commercial lines group's combined ratio dropped to 93.9% from 110.6%.

FEN-PHEN SUITS PROMPT BIG CHARGE American Home Products Corp. has taken an additional charge of \$7.50 billion to cover future legal costs associated with its sale of Redux and Pondimin, two diet drugs removed from the

market in 1997. The Madison, N.J.-based company, which exhausted its insurance coverage in early litigation related to the diet drugs, has taken charges totaling \$12.25 billion to cover litigation costs. AHP removed the two drugs from the market when studies indicated they caused heart valve damage in users. The company settled a class-action suit over the drugs in 1999 valued at \$3.75 billion and took a \$4.75 billion charge to cover the costs of the settlement along with all suits brought by people who elected not to participate in the settlement. AHP now says the additional money will be enough to cover the costs of all future suits involving the two drugs, noting that 80% of the suits brought by people who opted out of the class-action settlement have been settled. The charge will force American Home to post a \$901 million loss for the year after taxes. The company said no future charges are anticipated.

GALLAGHER POSTS GAINS Arthur J. Gallagher & Co. posted total revenues of nearly \$740.6 million in 2000, a 12.8% increase over the company's 1999 revenues. Net earnings for the 12-month period ending Dec. 31 were nearly \$87.8 million, up 24.9% over 1999's net earnings. For the fourth quarter of 2000, total revenues for the broker were up 15.5% over the same period in 1999, to nearly \$208.5 million. Fourth-quarter net earnings were nearly \$24.0 million in 2000, a 26.7% increase from 1999's fourth-quarter net earnings. Michael J. Cloherty, executive vp of Itasca, Ill.-based Gallagher, said in a statement, "The momentum continues in the insurance marketplace toward higher premium rates across all lines of coverage, contributing to increased commissions and growth in risk management opportunities."

STORM CLAIMS DEADLINE PASSES A glut of insurance claims that has amounted to around \$500 million, the result of a hailstorm that swept through the New Orleans area a year

ago, came to an end last Tuesday. Under state law, Louisiana policyholders have one year to file property damage claims. Acting Louisiana Insurance Commissioner Robert Wooley announced last Monday that he had determined, in response to a request by the New Orleans City Council, that the Insurance Department has no authority to extend the deadline or alter the terms of a contract between an insurer and policyholder, provided that contract complies with state law. The hailstorm pounded the area on Jan. 23, 2000, requiring extensive repairs to homes, businesses and vehicles. As of last week, five insurers, representing 60% of the Louisiana's property and automobile insurance market, had reported a total of 42,203 homeowners claims. The five said they had received a total of 37,513 auto claims. The insurers are Allstate Corp., Farm Bureau Mutual Insurance Co., Progressive Insurance Co., State Farm Group and USAA Group.

SAFECO PROFITS DOWN SAFECO Corp. reported \$114.6 million in net income for 2000, a 54.6% decline from 1999. Operating income, excluding realized gains from investments, totaled \$24.2 million—an 86.2% drop

from 1999. For the fourth quarter, the insurer reported a 77.1% decline in net income, to \$10.2 million. It posted a \$9.6 million operating loss for the period, compared to a \$30.6 million profit for the same period a year ago. SAFECO's largest operating unit, the Property & Casualty Cos., posted a \$105.4 million pretax operating loss for the year, excluding realized gains from investments, compared with a \$51.8 million profit in 1999. Fourth-quarter underwriting losses totaled \$149.1 million, a 30.4% worsening from the same period in 1999. Citing adverse weather conditions and a surety loss, SAFECO said earlier this month that it would report an operational loss for the fourth quarter of 2000.

HARTFORD SELLS SPANISH UNIT The Hartford Financial Services Group Inc. has sold its subsidiary in Bilbao, Spain, to Liberty Mutual Insurance Co. for an undisclosed sum. The purchase of the unit, which does both personal and small and medium-sized commercial busi-

ness, marks Boston-based Liberty Mutual's first venture in continental Europe. The unit, which will be renamed Liberty Seguros, had gross premiums of \$74.2 million in the first nine months of 2000. The sale also marks Hartford's exit from the European insurance market, but the insurer still has reinsurance offices in several European cities. Hartford, Conn.-based Hartford will now focus its international operations on asset accumulation business in Latin America and Asia, a company statement said.

BRIEFLY NOTED Robert J. Genader, formerly vice chairman of financial guarantee insurer Ambac Financial Group Inc., has been promoted to the post of president and chief operating officer. Mr. Genader was also named a member of the board of directors of the New York-based insurer. In addition, Chief Financial Officer Frank J. Bivona, formerly executive vp, has been promoted to the post of vice chairman... Robert W. Patin has been named chief executive officer of the CNA Life and CNA Healthcare & Benefits units of Chicago-based CNA Financial Corp. Previously, Mr. Patin was chairman and CEO of the insurance holding company Washington National Corp.... The New York State Insurance Department has fined health insurer Kaiser Permanente \$1 million for violations of New York's "prompt payment" regulations, which impose a 45-day deadline for claims payments or a 30-day deadline for denial of claims or a request for more information. The fine also relates to accounting and investment approval regulation violations. Kaiser, which had operated in New York through its Community Health Plans unit, exited the region in 1999.

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



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BI Industry Stock Report JAN. 22, 2001, THROUGH JAN. 26, 2001

BROKERS

	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)
Aon Corp.	33.88	2.65	-1.09	42.75	20.69	4249
Brown & Brown	34.88	6.49	-0.36	36.88	15.63	150
Clark Bards Holdings	11.38	5.20	12.35	17.88	8.50	17
E.W. Blanch Holdings Inc.	13.25	-2.75	-24.01	62.00	13.00	486
Gallagher Arthur J. & Co.	25.06	13.92	-21.22	34.25	11.53	2390
Hibb, Rogal & Hamilton	34.13	-2.15	-14.42	42.13	25.63	388
Kaye Group Inc.	12.41	57.54	60.06	12.50	5.00	894
Marsh & McLennan	106.25	6.99	-9.19	135.69	70.50	8157
BROKERS AVERAGE		13.34	-1.52			

INSURERS/REINSURERS

ACE Ltd.	38.44	8.08	-9.43	43.94	14.06	5315
Accel International Corp.	0.20	-13.04	-32.64	1.13	0.10	0
Acceptance Insurance Cos.	5.38	0.00	2.38	6.94	2.75	51
AEGON N.V.	38.50	6.94	-7.09	49.13	31.50	714
AFLAC Inc.	62.00	9.37	-14.11	74.94	33.56	626
Allmerica Financial Corp.	60.75	2.53	-16.21	74.25	35.06	1158
Allstate Corp.	37.88	8.99	-13.06	44.75	17.19	12905
Ambac Financial Group	54.25	15.27	-6.97	58.31	25.91	5561
American Financial Group	26.38	8.48	-0.71	29.00	18.38	1077
American General	76.75	3.02	-5.83	83.44	45.63	4344
American Intl Group	87.75	4.31	-10.97	103.75	52.38	25308
American Safety Insurance	6.50	6.12	6.12	7.38	3.25	165
Argonaut Group	19.75	1.94	-5.95	21.25	14.44	153
AXA-UAP Group	68.38	3.89	-4.79	81.50	58.25	1386
Baldwin & Lyons Inc.	24.75	-8.76	6.45	28.75	15.25	13
Berkley W.R. Corp.	36.69	-3.61	-22.25	47.83	14.00	2891
Berkshire Hathaway Inc.	67200.00	-0.59	-5.35	71600.00	40800.00	1
Capital Transamerica Corp.	12.31	0.00	-1.01	13.25	9.38	107
Chubb Corp.	73.56	7.10	-14.96	90.25	43.25	5249
CIGNA Corp.	121.25	10.73	-8.35	136.75	60.75	4241
Cincinnati Financial Corp.	36.94	2.25	-6.84	43.31	26.19	2587
Citigroup	55.19	1.49	8.08	59.13	35.34	68054
CNA Financial Corp.	34.94	1.64	-9.84	41.94	24.56	935
CNA Surety	13.13	0.00	-7.89	14.94	10.38	99
BMC Insurance Group Inc.	11.75	-6.93	0.00	13.13	6.81	16
ESG Re Limited	2.31	0.00	25.42	7.00	1.72	24
Enhance Financial Services	13.06	11.76	-15.38	17.00	8.63	1507
Everest Reinsurance	62.00	5.53	-13.44	74.75	20.69	2283
Fremont General Corp.	2.38	-11.63	-15.56	9.63	1.50	685
Frontier Insurance Group	0.16	25.00	66.67	3.69	0.06	2772
Gainsco Inc.	3.94	8.62	50.00	6.38	2.19	180

	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
Harleysville Group	NDO	25.38	-0.73	-13.25	33.63	11.63	115
HSB Group Inc.	NYS	38.75	0.00	0.00	40.53	21.50	0
HCC Insurance Holdings	NYS	23.06	4.24	-14.39	27.19	10.94	753
ING Groep N.V.	NYS	76.69	5.32	-4.29	83.94	46.81	689
IPC Holdings Ltd.	NDO	22.50	2.86	7.14	22.88	9.75	376
Hartford Financial Services	NYS	62.13	5.30	-12.04	80.00	29.38	8657
John Hancock Financial Services	NYS	34.88	4.89	-7.31	36.25	13.44	7068
LaSalle Re Holdings Ltd.	NYS	18.88	0.00	0.00	19.38	10.88	0
Lincoln National	NYS	44.69	8.83	-5.55	56.38	22.63	3621
MAIC Holdings Inc.	NYS	16.56	-7.99	-0.75	23.13	10.00	131
Market Corp.	NYS	187.50	2.60	-7.46	183.25	111.50	75
MBIA Insurance Group	NYS	88.94	11.41	-7.00	76.19	36.31	3182
Meadowbrook Insur. Group	NYS	6.63	-7.02	-18.46	8.38	3.94	20
MetLife	NYS	32.88	5.84	-6.07	36.63	14.25	15415
Mutual Risk Mgmt. Ltd.	NYS	13.38	6.47	-11.93	23.75	12.31	1579
Navigator Group	NDO	13.38	2.88	0.47	14.13	8.63	89
NYMagie Inc.	NYS	17.81	-1.04	-5.63	19.25	12.25	2
Ohio Casualty Corp.	NDO	10.94	5.42	9.38	17.88	6.13	962
Old Republic Intl	NYS	28.44	8.08	-11.13	32.06	10.63	2196
Partner Re Ltd.	NYS	50.00	-0.37	-18.03	62.50	28.38	4417
Penn-America Group Inc.	NYS	7.88	3.28	3.28	9.75	6.63	9
PMA Capital Corp.	NDO	17.94	-1.71	3.99	20.06	15.19	80
Philadelphia Cons. Holding	NDO	26.75	2.88	-13.36	31.25	14.13	222
PKFIE Corp.	NYS	17.25	4.15	2.22	17.56	11.75	313
ReliaStar Financial Corp.	NYS	53.94	0.00	0.00	53.94	23.75	0
RenaissanceRe Holdings Ltd.	NYS	74.00	10.04	-5.51	81.50	35.88	567
RLJ Corp.	NYS	45.75	3.39	2.38	46.00	26.25	95
St. Paul Cos.	NYS	48.31	-7.21	-11.05	57.00	21.31	7840
SCOR	NYS	48.50	1.31	-3.48	53.75	38.38	42
SAFECO Corp.	NDO	24.25	4.30	-26.24	35.88	18.00	5525
SCPIE Holdings Inc.	NYS	24.06	0.79	1.85	36.94	18.31	NA
Seibels Bruce Group	NDO	0.88	40.00	55.56	2.69	0.53	55
Selective Ins. Group	NDO	22.88	-3.43	-5.67	25.88	14.63	140
Tokio Marine & Fire	NDO	50.31	5.37	-11.73	61.00	45.00	127
Torchmark Corp.	NYS	35.75	7.52	-6.99	41.19	18.75	1753
Transatlantic Holdings	NYS	99.69	0.06	-5.84	107.06	68.75	68
Trenwick Group Inc.	NYS	24.50	0.51	-1.26	27.13	12.00	446
Unico American Corp.	NDO	6.13	0.00	4.26	7.88	4.50	2
United Fire & Casualty	NDO	23.00	9.20	16.46	23.31	15.50	14
Unirent	NDO	37.81	1.85	-6.92	41.94	27.19	302
UNUM Corp.	NYS	29.50	20.10	9.77	31.94	11.94	7166
Vesta Insurance Co.	NYS	6.75	-2.70	33.33	7.88	3.44	664
XL Capital Ltd.	NYS	79.63	5.73	-8.87	89.25	39.00	2605

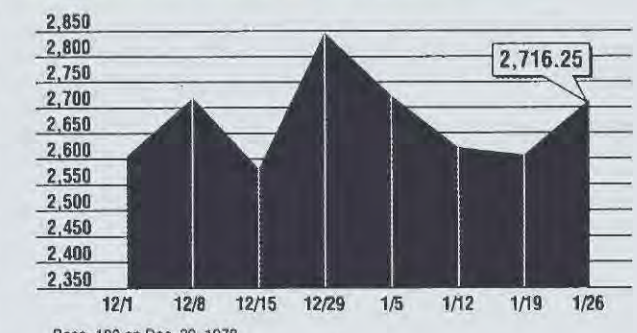
	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
Zenith National Ins.	NYS	29.19	2.86	-0.54	29.88	18.75	66
INSURERS/REINSURERS AVERAGE		4.07	-2.51				

HEALTH MAINTENANCE ORGANIZATIONS

Aetna Inc.	NYS	38.19	10.19	-4.57	42.69	32.94	2791
Health Net Inc.	NYS	21.88	9.72	-16.47	26.94	7.63	2303
Humana Inc.	NYS	12.50	13.64	-18.03	15.81	4.75	4025
Oxford Health Plans	NDO	33.75	15.38	-14.56	42.75	12.06	12453
Pacificare Health Sys.	NDO	22.50	39.53	50.00	72.31	9.81	8629
Sierra Health Services	NYS	5.04	7.23	32.63	8.25	2.44	501
United HealthGroup	NYS	59.81	16.00	-2.56	63.44	23.19	9867
Wellpoint Health Networks	NYS	98.81	11.18	-14.26	121.50	56.94	3641
HMOs AVERAGE		16.10	2.40				

ALL COMPANIES: 11.17, -0.54

BI Insurance Index



Top advancing issues: Kaye Group Inc., Seibels Bruce Group, PacificCare Health Systems Inc. Leading decliners: Accel International Corp., Fremont General Corp., Baldwin & Lyons Inc. Most active issue: Citigroup. The BI Index increased 4.2%; the Dow Jones 30 Industrials went up 0.7%; the S&P 500 rose 0.9%; and the NYSE Composite increased 1.4%. Average P/E: Brokers, 21.6; Insurers/reinsurers, 28.8; and HMOs, 15.5.

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

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Not every Risk Service Provider can actually drive up to your company and give your employees a lesson in safety. Only RSKCo has a driver simulator that lets up to eight people who drive for you simultaneously get safety training. And the more they learn, the more you gain. We have a lot of unique solutions that can help your company minimize your risks. And if a solution for your problem doesn't currently exist, we'll create one. This continued quest is just one more way we set ourselves apart. To find out more about how we can help your company, call 1.877.222.2165.



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