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Updates

Dow Corning parents not immune to suits over implants: Judge

DETROIT—Women with silicone breast implants who opted out of a $3.2 billion settlement with Dow Corning Corp. may still sue its corporate parents, Dow Chemical Co. and Corning Corp., a U.S. bankruptcy court judge has ruled.

Judge Arthur Spector explained that he lacked the power to grant a release to Dow Corning's parent companies and that the bankruptcy reorganization plan he approved earlier this year wasn't designed to shield the corporate parents from liability.

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Trenwick to buy LaSalle Re

By GAVIN SOUTER

HAMILTON, Bermuda—Trenwick Group Inc. would make significant progress in its drive to become a major reinsurer following a proposed $432 million merger with LaSalle Re Holdings Ltd. and Trenwick's redomestication to Bermuda.

The deal would give Trenwick more than $1.2 billion in capital and help diversify its business with the addition of more than $100 million in property catastrophe reinsurance premiums.

The move to Bermuda also would allow Trenwick to more easily write new lines of business, such as finite risk and high excess coverage, as well as reduce the taxes on its non-U.S. business, said Steven J. Bensinger, executive vp at Trenwick in Stamford, Conn.

The deal also would allow LaSalle Re to step back from its sometimes-unsuccessful attempts to diversify and concentrate on its core business, analysts say.

James F. Billett Jr. would continue as chairman, president and chief executive officer of the new Trenwick, and Guy D. Hengesbaugh, president and CEO of LaSalle Re, would continue in those roles with LaSalle Re, which would become a subsidiary of the new Trenwick.

"The combined enterprise will have a strong presence in the three most significant insurance markets in the world: the United States, London and Bermuda," Mr. Billett said in a statement.

Analysts say, however, that the merged company would remain a second-tier reinsurer in most of the markets in which it operates.

Trenwick, however, has become a far more significant reinsurer over the past two years, following its $368 million acquisition of Chartwell Re Corp. earlier this year and its purchase of Sorema U.K. in 1998.

"It's a perfect deal for both sides," said Alan Zimmerman, an analyst at Morgan Stanley Dean Witter in New York.

The three deals transform Trenwick from a small domestic reinsurer into a sizable international entity. And LaSalle would become part of a larger and more-diverse group, rather than struggle as a monoline reinsurer in a soft market, he said.

"Investors have shown that they are not

See **Trenwick** *on page 23*

Merger to give Trenwick another boost

in millions of dollars

	1999 gross premiums written
TRENWICK GROUP INC.	$823*
LaSalle Re Limited	$139
Combined	$962

* Trenwick estimate

N.Y. lawmakers likely to extend surcharge to '03

By JERRY GEISEL

ALBANY, N.Y.—New York legislators are poised to extend with minor modifications a 1996 law that inflates employers' health care costs by hundreds of millions of dollars annually.

The New York Assembly last month passed legislation—welcomed by provider groups but disappointing to employers—that would retain through June 30, 2003, an 8.18% base surcharge on bills incurred in New York hospitals. Funds raised by the surcharge are used to fund charity care.

But the measure would drop—effective Oct. 1, 2000—the 8.18% surcharge on laboratory services.

In addition, the legislation would reduce by about 9% the size of a state pool used to fund graduate medical education. That pool is funded by a "covered lives" assessment on employers with employees living in New York.

With the size of the pool decreasing by about 9%, the amount of the covered lives assessment should decrease by the same amount. That assessment currently can cost employers—depending on where their employees reside—as little as $4 per year per employee to as much as $400 per year per employee. The New York Department of Health would determine the exact amount of the new assessment under the legislation.

Passage of the legislation by the Assembly came after a bipartisan agreement was reached on a legislative package among New York Assembly and Senate leaders and Gov. George Pataki. The Senate was expected to act on the measure late last week. Gov. Pataki was expected to then sign the measure into law.

The passage of the original law—known as the Health Care Reform Act—in 1996 caught employers nationwide

See **Surcharge** *on page 22*

Violence risk ignored

Most employers overlook risk in workplace: Study

By DAVE LENCKUS

Many risk managers are not giving the risk of workplace violence the attention it deserves, according to a co-author of a new survey and white paper.

More than two-thirds of the survey's respondents have not formally assessed their organizations' risk of violent incidents. And only a little more than half of the surveyed companies have trained employees to recognize the warning signs indicating that violent situations could be brewing, the survey found.

In addition, few companies take advantage of all the available tools to weed out potentially violent employment candidates, according to the "Workplace Violence Survey and White Paper."

The "most startling" conclusion drawn from the survey's results was that risk managers are not giving the risk of workplace violence the "top priority" status it deserves, said survey co-author Ruth A. Unks, risk manager for the Maricopa County Community College District in Tempe, Ariz.

Although 31% of the respondents reported their organizations have not experienced any incidents of workplace violence, risk managers' attention to the risk "should be moved up, regardless of whether it's happened," Ms. Unks said. "It's just a matter of time" before an incident occurs.

The problem is that "everyone has so much on their plates," Ms. Unks observed. "They're dealing with the crises at the moment."

See **Violence** *on page 21*

HMOs seek quality, not quantity

Coalitions losing clout?

By ROBERTO CENICEROS

As managed care organizations shift their focus away from winning market share, employer health care purchasing coalitions may be losing clout in obtaining large-group pricing concessions.

Some insurers have declined to bid on certain coalition business, while others say they have learned some pricing lessons from their arrangements with coalitions. As a result, purchasing groups may not be beating the market rate that large employers obtain by negotiating independently.

Coalition proponents concede that pricing negotiations have grown tougher for the groups. At the same time, they argue that they are not losing negotiating clout and can still beat the market in some cases.

In addition, representatives of the coalitions stress that their role extends beyond merely winning rate reductions. Employers participate in the groups because they improve long-term pricing by improving efficiency in the health care market, while also helping to improve plan service and care quality, coalition leaders said.

Among other projects, some major coalitions are standardizing the collection of health plan data provided by plans to their members nationwide.

There is little disagreement, however, among coalition directors, insurers and benefit consultants that investors are

See **Coalitions** *on page 16*

NEWSPAPER

Updates

Implant suits may proceed

Continued from previous page

The Dec. 22 ruling could unravel the $4.5 billion bankruptcy reorganization plan that officials of the Midland, Mich.-based manufacturer had hoped would end years of legal battles over silicone breast implants, a Dow Corning spokesman said.

"Without the release (from lawsuits), there is no plan," the spokesman said, adding that the company will appeal the judge's opinion.

It is unclear how many women the ruling might affect. Ninety-four percent of the 112,774 women voting on the bankruptcy plan approved it earlier this year. However, the companies estimate as many as 170,000 women or representatives of estates have filed claims seeking compensation from the company.

Lockheed claim dismissed

SAN JOSE, Calif.—A trial court judge has dismissed a $400 million pollution liability claim filed by Lockheed Martin Corp., which is seeking coverage for the costs of cleaning up a facility in Burbank, Calif., and 12 other contaminated sites nationwide.

The Santa Clara County Superior Court judge ruled Dec. 17 that Bethesda, Md.-based Lockheed had not presented sufficient evidence to show that pollution at its former Burbank aircraft manufacturing facility resulted from sudden, unintended and unexpected events, according to Jim Barber, a partner at Hancock Rothert & Bunshoft L.L.P., which represents London insurers involved in the case.

In a pretrial hearing, Judge Leslie C. Nichols dismissed the claim filed against underwriters at Lloyd's of London, various London market insurance companies and Continental Insurance Co. The decision applies only to the Burbank facility and not the 12 other sites disputed in *Procter and Companies vs. Lockheed Corp.* The Burbank site, however, is the largest of the 13 locations for which Lockheed has been seeking coverage, according to Mr. Barber.

Lockheed was closed last week, and representatives for the company could not be reached for comment.

Harassment coverage denied

TRENTON, N.J.—A company supervisor accused of sexual harassment is not covered under any of three insurance policies, including his employer's workers compensation and liability policies, the New Jersey Supreme Court ruled.

In a ruling last month, the state high court unanimously found that a supervisor charged in a civil suit with harassing a subordinate at Artex Knitting Mills Inc. in Westville, N.J., is not covered by Artex's workers comp policy. Artex itself, and not any individual employee, is the only insured under the policy, the court found.

In addition, the court concluded that the supervisor, John McClure, is not covered under a comprehensive general liability policy issued to Artex because the policy provided that "no employee is an insured for bodily injury or personal injury. . .to a co-employee while in the course of his or her employment." The policy also excluded coverage for "harassment, humiliation, discrimination or other employment-related practices."

Finally, Mr. McClure's homeowners policy does not provide coverage because his alleged actions occurred in the workplace, the court ruled.

Mr. McClure was sued by another Artex employee, Suzanne Miller, after allegedly making several vulgar sexual comments, forcing physical contact and threatening her with a gun, the ruling says.

Mr. McClure filed third-party complaints for coverage against New Jersey Re-Insurance Co. of West Trenton, Artex's workers comp insurer; Atlantic Mutual Insurance Co., the company's CGL insurer; and Huron Insurance Co. of Harleysville, Pa., Mr. McClure's own homeowners insurer.

Holiday bonus vanishing: Survey

LINCOLNSHIRE, Ill.—Most U.S. employers no longer provide any type of holiday bonus, and the majority of large employers have never had a bonus connected to the holiday season, a new Hewitt Associates L.L.C. survey shows.

According to the survey of 268 employers nationwide, "1999-2000 Salary Increase Survey," just 36% offer a holiday bonus. Twelve percent of the companies surveyed reported discontinuing holiday bonuses in the recent past, with 84% eliminating them in the 1990s and the remainder in the 1980s.

The primary reasons employers gave for discontinuing holiday bonuses were cost and a desire to focus more on performance-based pay, explained Ken Abosch, Hewitt's global compensation business leader.

"Companies have realized that tying bonuses to business results is a more powerful way to reward employees and improve performance," he said. "They are moving away from an 'entitlement mentality' toward a performance-based pay model."

Of the companies still providing holiday bonuses or gifts to employees, 37% provide cash, 29% give food gifts such as turkeys or hams, 26% host holiday parties and 24% give employees gift certificates to local retailers. The total percentages exceed 100% because some employers provide more than one type of bonus.

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Errors & omissions

• Due to a typographical error, a Dec. 20, 1999, story on Employers Reinsurance Corp. incorrectly reported that the reinsurer is exiting the medical liability market. ERC in November announced it was withdrawing from media liability business (*BI*, Nov. 15, 1999).

Prodigy is not held liable for false information online

By JUDY GREENWALD

ALBANY, N.Y.—Internet service providers are no more responsible than telephone companies for the data they transmit, says New York's highest court.

Some attorneys call the ruling significant because the highly respected New York Court of Appeals is the first state high court to tackle the issue of privacy and defamation in cyberspace.

Other attorneys say, though, that other courts, including federal courts, are already reaching the same conclusion presented in the Dec. 2 decision in *Alexander G. Lunney vs. Prodigy Services Co.*

The decision, in effect, weighs the impracticality of demanding that Internet service providers monitor the data they transmit against the individual's need to be protected against defamation, and it lands on the side of the ISPs.

The case involves Alexander G. Lunney, who was 15 in 1994 when someone using his name opened several accounts with White Plains, N.Y.-based Prodigy and sent vulgar, profane and threatening electronic mail, according to court papers. Mr. Lunney sued Prodigy, saying he had been stigmatized by being falsely accused of sending the messages.

In upholding a lower court decision to dismiss the case, the court said in a unanimous opinion that "Prodigy's role in transmitting e-mail is akin to that of a telephone company, which one neither wants nor expects to superintend the content of its subscribers' conversations."

"In this respect, an ISP, like a telephone company, is merely a conduit," said the court. "Thus, we conclude. . .Prodigy was not a publisher of the e-mail transmitted through its system by a third party."

See **Prodigy** *on page 22*

AHP settles jury verdict

Verdict not expected to weaken national Fen-Phen pact

FAYETTE, Miss.—American Home Products does not expect that the settlement of a $150 million verdict in Mississippi over its diet drugs will scuttle a nationwide settlement it reached last year.

In a written statement, the company's general counsel, Louis Hoynes, said that because the Mississippi verdict was for plaintiffs who had primary pulmonary hypertension and the nationwide settlement explicitly did not cover that class of people, the company "doesn't believe this verdict will have a material effect on the number of opt-outs from the national settlement or on the ultimate approval of the settlement."

PHOTO: REUTERS

On Dec. 21, a jury in Jefferson County, Miss., awarded five plaintiffs $150 million in compensatory damages because they contracted primary pulmonary hypertension after taking American Home's diet drugs, Redux and Pondimin, part of the popular Fen-Phen combination.

Immediately after the jury verdict was announced, the company agreed to settle substantially all of the diet drug suits pending in Mississippi. The amount was not disclosed.

Under the terms of the nationwide settlement, plaintiffs can decide not to participate and can bring their own suits against American Home. If enough people elect this option, American Home will have the right to back out of the deal (*BI*, Oct. 11, 1999). To date, the company has not said at what point it would back out.

The verdict was not entirely unexpected. When the nationwide settlement was reached in October, American Home set aside $1 billion for future litigation expenses, which included claims for primary pulmonary hypertension. Also at that time, analysts expected the total amount of primary pulmonary hypertension verdicts to hit $1 billion. None of that cost is covered by insurance.

—*By Michael Prince*

Comp care savings studied

By MEG FLETCHER

Using networks of medical providers to treat injured workers can significantly reduce workers compensation medical costs without increasing the duration of disability or wage-loss costs, a recent study reports.

The findings by the Cambridge, Mass.-based Workers Compensation Research Institute appear "right on" to some members of the Risk & Insurance Management Society Inc., according to Jim Green, vice chairman of RIMS' external affairs team. Mr. Green also is risk manager for Fort Worth, Texas-based Justin Industries Inc., which manufactures footwear and building materials.

RIMS members already have plans to research the same general topic in the next several months; the society is now drafting a survey and will solicit responses from multistate employers in various industry groups, Mr. Green said.

In addition, as part of their preparation of their survey, those who are drafting the RIMS survey plan to review the WCRI's new findings.

The WCRI said in a statement that its study "is the largest and most comprehensive of its kind, based on analyses of more than 160,000 closed workers compensation claims in three large and diverse states."

The claims, from workers in California, Connecticut and Texas, all had injury dates between Aug. 1, 1995, and June 30, 1997, according to the WCRI's 183-page report, "The Impact of

See **Networks** *on page 6*

Inside

• This week's editorial reviews predictions made early last year about what would be "in" and "out" in 1999, and offers some forecasts on what 2000 might hold for the risk management and employee benefits fields. **PAGE 8**

• Damage in northern Venezuela from last month's mudslides is expected to total in the billions of dollars, although the final toll is still being tallied. **PAGE 17**

• The growing problem of air rage incidents is prompting British airlines and lawmakers to take steps to minimize the risks from angry passengers. **PAGE 17**

Departments

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Vermont court ruling

Same-sex couples' right to benefits upheld

By MARK A. HOFMANN

MONTPELIER, Vt.—How Vermont lawmakers respond to a recent state supreme court decision guaranteeing same-sex couples the same rights and benefits as married heterosexual couples could mean the difference between a major or minor headache for employers in that state.

In *Stan Baker et al. vs. State of Vermont et al.*, the Vermont Supreme Court held that there was no state constitutional reason for "denying the legal benefits and protections of marriage to same-sex couples." But the court stopped short of permitting same-sex marriages, instead ordering the state Legislature to develop some means of implementing its decision.

How lawmakers choose to do so will be of great importance to employers. If legislators choose to create a system of domestic partnership, employers would probably find it easier and cheaper to comply with the law than if the Legislature decides to make Vermont the first state to recognize full-fledged same-sex marriage, experts say.

"Employers will have to wait to see what the impact will be," said John Piro, a consultant in the Rowayton, Conn., office of Lincolnshire, Ill.-based Hewitt Associates L.L.C. Mr. Piro pointed out that the court did not set any deadline for legislative action.

He also noted that many employers already provide domestic partner benefits. Employers with domestic partner benefits face the question "do they have to do something in addition to what they've already done?" he said. The answer depends on the nature of legislation drafted to implement the decision, he said. The mere fact that an employer already has a program in place "doesn't necessarily mean you can stick with that program," Mr. Piro said.

The case involved three same-sex couples who had been living together in "committed relationships for periods ranging from four to 25 years," according to the decision. Each couple sought a marriage license from their respective town clerk, and each was denied. The plaintiffs then sued the municipalities that had denied them the licenses, as well as the state, claiming that their rights under the state constitution had been violated. The state superior court ruled against the plaintiffs, but the state high court reversed the lower court on Dec. 20, 1999.

"We hold the state is constitutionally required to extend to same-sex couples the common benefits and protections that flow from marriage under Vermont law," wrote Chief Justice Jeffrey Amestoy, who was joined by three of his four colleagues in the decision.

"Whether this ultimately takes the form of inclusion within the marriage laws themselves or a parallel 'domestic partnership' system or some equivalent statutory alternative rests with the Legislature. Whatever system is chosen, however, must conform with the constitutional imperative to afford all Vermonters the common benefit, protection and security of the law," he wrote.

In a partial dissent, Associate Justice Denise R. Johnson held that the Legislature didn't have to get involved, and that by not allowing the plaintiffs to receive marriage licenses, the court majority had denied them "the relief to which they are entitled as a result of this decision."

The nature of that relief will have a considerable impact on how the decision ultimately affects employers.

For self-insured, employer-provided benefit plans covered by the Employee Retirement Income Security Act, moves to fulfill the decision's mandate by creating a system of domestic partnership rather than marriage could have considerably less impact

See **Vermont** *on page 6*

MMI purchase to boost St. Paul's med mal lead

Analysts see acquisition as a winner for buyers, too

By JUDY GREENWALD

ST. PAUL, Minn.—The St. Paul Cos. Inc.'s agreement last month to acquire medical malpractice insurer MMI Cos. Inc. for $200 million will give MMI's policyholders more security, analysts say.

MMI policyholders, which include many large hospital groups, will be better off with the financially strong St. Paul than with Deerfield, Ill.-based MMI, they say. MMI posted $105.1 million in pretax charges to earnings for the third quarter, most of which was in reserve additions. Terms of the deal also call for assumption of $120 million of MMI's debt.

"If I was a policyholder of MMI, I'd be ecstatic about this deal, because I'd replace what has become a marginal credit, MMI, with a very strong credit, St. Paul," said Michael Frinquelli, an analyst at Renaissance Fund Advisers in New York.

The deal is also seen as a good strategic move for St. Paul. Although St. Paul is the largest writer of U.S. medical malpractice insurance, it focuses mainly on small and midsize health care providers, while MMI's base is larger accounts.

Analysts estimate that St. Paul, which reported net premiums written of $575 million from its worldwide health care business for the 12 months ended Sept. 30, has about a 6% to 7% share of the highly fragmented and competitive medical malpractice market. For the same period, MMI reported net written premiums and fees of $432 million.

Douglas Leatherdale, St. Paul's chairman and chief executive officer, said in a statement: "MMI's businesses represent a solid strategic fit with our own medical services risk management capabilities. The St. Paul will be better positioned to deliver superior

See **MMI** *on next page*

St. Paul's lead in medical malpractice market to grow

Company	1998 direct premiums	1998 market share	Adjusted loss ratios
The St. Paul Cos. Inc.	$367,552,000	6.1%	86.5
MMI Cos. Group	$208,925,000	3.5%	73.1
Combined	$576,477,000	9.6%	—

Source: A.M. Best Co.

RIMS chapters call on neighbors

By AMANDA MILLIGAN

Three Missouri-based chapters of the Risk & Insurance Management Society Inc. are proving the adage "the whole is greater than the sum of its parts."

Late last year, the RIMS chapters of Kansas City, St. Louis and the Ozarks area met on the campus of Southwest Missouri State University to discuss how they could help one of the few nearby universities that offered a risk management program.

At the same time, the chapters also talked about other areas in which they could work together, said Dick Heydinger, director of risk management services for Hallmark Cards in Kansas City, Mo.

What emerged from that discussion was the agreement to sponsor a "drive-in," where members from each of the chapters would converge upon the Missouri capital, Jefferson City, for two days in mid-February.

Members will meet with legislators about insurance and workers compensation issues. Among the topics discussed at the meeting will be commercial lines deregulation, direct placement taxes and the proposed ergonomics standard, said Mr. Heydinger.

Carol Ann Vasko, director of insurance and risk management at H & R Block Inc. in Kansas City, Mo., said the Kansas City chapter's visit to the Kansas Department of Insurance and with some legislators in 1998 helped employers communicate their opinions on critical issues. As a result, "it helped us with work comp issues and some of the taxes levied on insurance programs," she said.

"We're hoping, when we go to the Missouri Department of Insurance, that we have the same response," Ms. Vasko said.

Meeting with the St. Louis and Ozarks area chapters, Ms. Vasko said, gave her chapter an "awareness that the other chapters are probably struggling with the same concerns," such as membership and education.

"It's good to get to know members in your state, so that when you have a statewide regulatory or legislative issue, you've got friends to call on, so it doesn't become a single-employer issue," said Mr. Heydinger. "I think legislators respond more to that."

Daniel Barry, director of government affairs for RIMS national in New York, said that, by working together, neighboring chapters "can help develop and execute a coherent legislative strategy." RIMS supports such partner-

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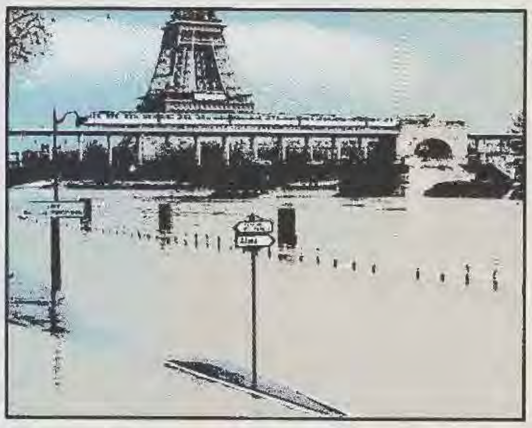

The Seine River flooded its banks in Paris (above), while winds destroyed the scaffolding on a building in Barcelona (below), as a result of two storms that hit Western Europe last week. The storms may result in record levels of insured damages. PHOTOS: AFP

Europe walloped by winter storms

Insured losses from windstorms Lothar and Martin, which pounded Western Europe in the days after Christmas, may result in unprecedented insured losses in Europe.

Hurricane-force winds, snowstorms and alpine avalanches brought on by the two storms that hit on Dec. 26 and Dec. 28 killed at least 120 people and, according to initial estimates by a catastrophe modeling company, could result more than 6 billion euros ($6.04 billion) in insured losses.

Risk Management Solutions Inc. of Menlo Park, Calif., estimated that insured damages throughout Western Europe could top those from the 1990 windstorm Daria. Daria was the most expensive insurance insured event ever in Europe, with insured losses of 6 billion euros in 1999 values.

France was hit the hardest by the storms. Sixty-eight persons died, most from falling debris. The most intense winds from Lothar, which hit early on Dec. 26, moved directly over Paris and into eastern France. Gusts of 90 mph were recorded on the streets of Paris, and the Seine River flooded several areas of the city, prompting Parisian officials to ask the government to declare Paris a natural disaster area.

The RMS reconnaissance team that had been surveying damage in France reported unprecedented levels of losses. In central Paris, an estimated 60% of buildings suffered some degree of roof damage, and in some towns in eastern France, nearly all buildings sustained at least some damage.

There was also substantial damage to historic monuments, churches and gardens in France. In Paris, spires blew off the roof of the Notre Dame cathedral, and the Saint-Chapelle church sustained torn roofing and a shattered stained glass window. And among the millions of trees uprooted throughout the country were thousands of trees in the Versailles Palace gardens, outside Paris.

—Maria Kielmas

MMI

Continued from previous page

products and services to a full range of clients, from the single-physician practice to the world's premier health care institutions."

B. Frederick Becker, MMI chairman and CEO, said "integrating The St. Paul's leadership position in health care insurance services with MMI's international reputation in health care risk modification services creates a world-class differentiated product."

In addition to insurance, MMI products and services include reinsurance, clinical risk management and operational consulting services. Its operations include Unionamerica Insurance Co. Ltd., a London-based insurance and reinsurance company, which will continue as a stand-alone operation.

Few were surprised by the deal, citing MMI's recent charge, its $57.7 million nine-month operating loss and its recent stock market performance. MMI's stock closed at $3.94 on Dec. 17, the last day of trading before the deal was announced. MMI shares had a 52-week high of $18.13.

Under terms of the deal, which is expected to close in this year's second quarter, St. Paul will pay $10 per share in cash—about $200 million—and will assume current MMI debt. MMI's reserves will be brought in line with St. Paul's conservative reserving philosophy at the deal's closing, said a St. Paul spokesman.

An integration team's work is expected to take at least two months, said the spokesman, who noted St. Paul and MMI have been in contact with one another for about a year.

No decision has been made as to whether Mr. Becker will retain his position. He joined MMI as president in 1985. Mr. Becker is former president and CEO of Ideal Mutual Insurance Co., which was ordered liquidated by a New York court in 1985. Observers at the time, however, noted Ideal Mutual was troubled before Mr. Becker took its helm.

'From a security standpoint. . .it likely puts policyholders in a better position,' says Jay Cohen of MMI's acquisition.

Observers say that while the deal is unlikely to have a significant impact on St. Paul policyholders, it is clearly a positive for MMI's policyholders. "Certainly you want to have St. Paul backing you, as opposed to MMI," said Michael A. Lewis, senior insurance analyst with Warburg Dillon Read in New York.

"MMI clearly has had balance sheet issues, so from a security standpoint. . .it likely puts policyholders in a better position," said Jay Cohen, an analyst with Merrill Lynch & Co. in New York.

The deal is clearly positive for policyholders "because it addresses an area of weakness, which is capital," said Matthew Coyle, director at rating agency Standard & Poor's Corp. in New York. MMI's reserve charge "severely weakened" its capital position, and "St. Paul, with its vast financial resources, certainly alleviated that problem."

Other analysts also point to MMI's financial condition. "MMI's deteriorating financial results had led to some concern about the company's long-term financial health, and because medical malpractice insurance is a long-tail product, policyholders have to be concerned about long-term viability," said Steve Huffines, managing director at First Union Securities in Chicago. "This transaction should eliminate any of those concerns" because St. Paul is one of the strongest insurers in the industry, he said.

"I think it's fair to say MMI was very clearly a distressed property and was beginning to lose the insurance market's confidence in its ability to remain independent going forward," said Michael Smith, an analyst with Bear, Stearns & Co. Inc. in New York. When that happens, there is the risk of a downward spiral in revenues, he said. "The only exit strategy was to sell out."

Mr. Smith said MMI's problems were caused by "underpricing and underreserving in the face of a very competitive market that finally caught up to them."

The deal is also a good strategic move for St. Paul, say observers. With the deal, St. Paul "becomes the major player in virtually all market segments in the medical malpractice market," said Mr. Smith.

The combination makes a lot of sense, said Mr. Huffines. "St. Paul is the largest med mal insurer, with roughly a 7% market share, and adding MMI will take them to 10.4% of the total market."

St. Paul has accounted for as much as 20% of the market in the past, he said, but it lost market share as pricing eroded, and it was unwilling to write underpriced business.

"Moreover, the past year and a half, pricing has been firming, albeit erratically," said Mr. Huffines. "The increased market penetration should better enable St. Paul to lead the market higher."

"Medical malpractice has been a very difficult line of business for the industry," said Merrill Lynch's Mr. Cohen. "Many companies are now trying to raise premium rates, and the timing here may prove to be good for St. Paul. . .(which is) potentially buying at the bottom" of the market.

William M. Wilt, vp and senior analyst at rating agency Moody's Investors Service Inc. in New York, said: "MMI has a particular niche in the area of risk management in the medical liability sector.

"They've got extensive databases of medical malpractice claims and what they call 'clinical practice outcome data,' and very much a part of their culture has been to couple the insurance product with risk management services." In addition to increasing its market share with the deal, St. Paul will benefit from these databases, said Mr. Wilt.

John L. Ward, of the Cincinnati-based Ward Financial Group, said that "it's not surprising that St. Paul Cos. would be interested in a medical malpractice specialty writer like MMI Cos.

"The group of medical malpractice specialty writers throughout the U.S.—of which MMI is one—has historically done an excellent job of being close to the customer, customizing a creative package of services to their physician and hospital groups, and has been tough competition for the commercial carriers such as St. Paul Cos., CNA and others."

Mr. Ward said he expects medical malpractice specialty writers "will continue to eat away" at St. Paul's market share because they have a better knowledge of the market being served.

Mr. Ward also questioned the degree to which St. Paul will retain MMI policyholders. "To the extent St. Paul comes in and raises prices, which is likely they will do, (policyholders) will go to companies that are more competitive, and that wouldn't be surprising at all," he said.

The St. Paul spokesman said: "We think this is going to position us to maintain and increase our accounts. I don't think it's certainly at all a given we would lose MMI clients." BI

Vermont

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than the more-radical response of full-fledged marriage, say experts.

Multistate employers are concerned whenever they face "any requirement to do something different in one state compared to others," said Rich Ostuw, director-global health care practice director for Watson Wyatt Worldwide in Stamford, Conn.

"ERISA, in theory, would shield them, but if the definition of spouse is changing, ERISA wouldn't shield them," he said.

"It was somewhat of a surprise that the Supreme Court did not deal with what everybody thought they would," which was the broader question of same-sex marriages, said Chris Barbieri, president of the Vermont Chamber of Commerce in Montpelier.

"The early take on this is, as far as employers go, this should not mean a significant cost increase. The reason is, it's assumed that the population that would avail itself of the benefits is not huge. There are a lot of other shoes here that still need to drop, in terms of working out the details—things like how do you define domestic partners, what are the tax implications vis-a-vis Vermont vs. the federal statute, and how do you deal with everything from estate planning to separation of partners," he said.

"Right now I think it's safe to say that we have to wait and see how the Legislature is going to respond. We're always concerned with any policy initiative that has the effect of increasing costs for employers," said Will Adams, state director of NFIB Vermont, the Montpelier affiliate of the National Federation of Independent Business.

"It's been quiet so far. I think most people are trying to step back and assess what the Legislature's options are, and we'll have to review whatever proposals they come up with," Mr. Adams said.

The Legislature's actions actually could benefit employers, said Watson Wyatt's Mr. Ostuw.

"Some employers would be happy to have this clarified in state law, because those who do offer domestic partner coverage are concerned with the lack of clarity of what is an eligible relationship. When does it start and when does it end?" he said. "I think this issue of clarity is a significant issue."

Nevertheless, Mr. Ostuw added, "even though the cost to expand coverage to domestic partners is not large, in the global competition environment, even small cost increases can be a problem."

If Vermont ultimately becomes the first state in the union to recognize same-sex marriages, the decision would raise "a lot of issues," said Mary Case a principal with PricewaterhouseCoopers in New York. A mere domestic partnership act probably wouldn't trump ERISA, though it would have an impact on insured benefit plans covered by state law, she said. Same-sex marriage would be a different matter, she said.

'Even though the cost to expand coverage to domestic partners is small, in the global competition environment, even small cost increases can be a problem,' says Rich Ostuw.

A lot of plans say eligibility includes employee spouses, she pointed out.

Ms. Case wondered whether if Vermont were to extend marriage to same-sex partners other states would have to recognize those marriages as legal marriages, given that many states have passed specific legislation forbidding same-sex marriages.

Ms. Case noted that the Hawaii Supreme Court recently declined to void a state constitutional amendment that barred same-sex marriage. The Hawaii case raised the question of the constitution's "full faith and credit" provision, which requires states to honor contracts made in other states.

The federal Defense of Marriage Act of 1996 defined "spouse" as "a person of the opposite sex" under federal law, and numerous states have adopted their own laws specifying that a marriage can occur only between members of an opposite-sex couple.

If Vermont were to extend marriage to same-sex partners, Ms. Case said, she questioned whether all states would have to recognize those Vermont marriages as legal marriages, particularly given that many states have passed specific legislation forbidding same-sex marriages.

"What will the Vermont Legislature do about same-sex marriages? If the Legislature should legalize same-sex marriages, what does that mean to the Vermont economy—this is a much bigger issue," observed the Chamber's Mr. Barbieri.

If Vermont becomes the only state to recognize same-sex marriages, "would that be an economic plus, with a lot of people coming here to get married?" he asked, noting that the Chamber has already heard from other people who have indicated they would boycott the state if it were to legalize same-sex marriage.

He accordingly predicted that crafting legislation to implement the Supreme's Court's decision "will be an extremely emotional issue" for lawmakers.

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Stan Baker et al. vs. State of Vermont et al. Vermont Supreme Court. No. 98-032. Decided Dec. 20, 1999.

Networks

Continued from page 2

Workers' Compensation Networks on Medical Costs and Disability Payments." The study was conducted by William G. Johnson, Marjorie L. Baldwin and Steven C. Marcus.

The WCRI study focused on three main types of claims, which it categorized as "back injury," "inflammations, lacerations and contusions," and "other injuries."

WCRI researchers limited their survey to closed claims. Open claims included a higher percentage of more serious claims, according to the report.

The study found large cost differences between network and non-network claims in medical costs, after controlling for medical diagnosis and injury type, age, gender, state of residence and type of claim.

Specifically, the study noted that network medical costs are generally 30% to 50% lower than non-network medical costs for similar claims in California and Texas, while network costs in Connecticut are 10% less than non-network costs for two of the three claim categories.

Savings resulted primarily from the reduced utilization of services by workers comp networks—compared to non-networks—though the lower prices network providers charge insurers or employers also helped reduce costs, according to the WCRI.

"Networks clearly reduce medical costs, and network providers appear to use fewer visits, surgeries, therapies and tests," according to a statement by WCRI Executive Director Richard Victor.

The reduced use of medical services by workers comp networks, though, did not result in injured workers staying away from work longer or in higher wage-loss payments for workers off the job due to their injuries, the WCRI study reports.

Specifically, the study found no evidence that workers comp networks saved money by cutting back on care and, in turn, increasing either the duration of disabilities or the payments for those disabilities.

"In fact, we found that indemnity costs for claims treated in workers compensation networks were lower than the indemnity costs for non-network claims. In every injury type, across all three states, the duration of disability payments was shorter and indemnity costs were lower," according to WCRI statements.

Because of the many variables that affect return to work, though, the WCRI researchers conclude only "that network savings in medical costs do not raise indemnity costs; we are not prepared to say that networks actually lower indemnity costs," the report says.

The WCRI study was limited in that it did not measure the quality of care or workers' satisfaction with care, Mr. Victor said. WCRI plans to research those issues in the future, he said.

"Given the changes in the delivery of medical care over the past decade, with the growth of workers compensation networks and managed care organizations, systematic evidence on the impact of networks is much needed as a basis for public policy and business decisions," Mr. Victor said.

RIMS thinks the outcome of its research project will be particularly useful in discussions about the topic, Mr. Green said. "It will mean more to regulators and legislators if it comes from employers who are the ones paying the bills," he said.

RIMS' project is sponsored by the organization's Dallas-Fort Worth chapter and its national external-affairs team, said Mr. Green.

One possible source of cost savings from using network medical providers that Mr. Green and other risk managers may explore is that those providers are more familiar with an employer's worksite and modified-duty options and, therefore, are more willing to release recovering workers to return to some kind of job earlier than are non-network providers, he said.

In addition, RIMS' research project—unlike two similar ones being conducted by Texas public agencies—will be able to keep individual employers' responses confidential, which may make employers more likely to participate, Mr. Green said.

Managed care techniques such as the use of network providers and early return to work are keys to reducing workers comp costs, said Chris Mandel, risk manager with Tricon Global Restaurants Inc. in Louisville, Ky.

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Copies of the WCRI report are free to members; the cost is $95 per copy for non-members. Copies may be ordered by calling 617-661-9274.

Opinions

Safe bets for new century

WITH THE 20TH CENTURY shortly drawing to a close, we are hurriedly coming up with our annual predictions on what will be "in" and "out" in the year to come before the *Business Insurance* computers are shut down to avoid the risk of potential Y2K power outages.

This marks our 13th year of making predictions of likely events and trends in the worlds of risk management and employee benefits. Looking back on our predictions for the ins and outs of 1999, we scored more hits than misses.

Some of our predictions that became reality last year include: more risk securitization and capital markets involvement in risk financing; lawsuits being filed over insurance coverage of Y2K problems; greater interest by insurers in demutualization; ACE and XL continuing their acquisition spree; insurers using the World Wide Web as more than a corporate billboard; and an end to stable health insurance premiums.

We were not without our misses, however, which included predictions of: lobbying by U.S. insurers for tax breaks on catastrophe reserves; more vertical integration among brokers and insurers; less government red tape for pension plan administrators; an end to Lloyd's of London's annual venture system; and the defeat of patient protection bills that would allow employees to sue their plan sponsors.

Our best guesses of what 2000 will hold includes:

IN: E-commerce solutions for commercial insurance.

IN: Lawsuits for coverage of Y2K remediation efforts.

IN: More lawsuits filed by governments against manufacturers of unpopular products.

IN: Generous cash balance plan conversion benefits to quell dissatisfaction.

IN: More talk than action on raising property/casualty insurance rates.

IN: Insurers and reinsurers relocating to Bermuda.

IN: Managed care reform as an election issue.

IN: Adoption by employers of "defined contribution" approach to health care benefits.

IN: Mergers of insurance trade associations.

IN: More city governments setting domestic partner benefit rules for contractors.

IN: Mergers of banks and insurers in wake of financial services reform.

"HE JUST FOUND OUT IT'S AN ELECTION YEAR!!!"

OUT: Single-digit health care cost increases.

OUT: Rigid approach to managing care by HMOs.

OUT: The word "Y2K."

OUT: Generous prescription drug benefits in employer-sponsored plans.

OUT: Serious efforts to enact federal tort reform legislation.

OUT: Additional reserving for Unicover losses by reinsurers.

OUT: Multiyear property/casualty insurance policies with fixed rates.

OUT: The view that risk management should deal with only insurable risks.

OUT: NAIC foot-dragging on commercial lines deregulation.

OUT: Employers absorbing health care increases without cost-shifting to workers.

OUT: Federal regulatory opposition to funding benefits with captives.

Letters

Tribal captives not a new concept

To the editor: Regarding the article "Indian Nations Considered for Captive Insurance Role" (*BI*, Sept. 6, 1999), Mr. Rudolph's and Mr. Routman's conclusion that "an American Indian Nation represents an acceptable offshore domicile for the formation of captive insurance companies" is hardly new news. In 1986, the Red Lake Band of Chippewa exercised its sovereignty and issued an operating charter for a tribal intergovernmental risk pool. I was that pool's first chief executive officer.

We suspected that tribal sovereignty would be "discovered" by non-Native groups, one day, to form onshore havens for non-Indian captives. Our concern was that these groups would try to use a tribal charter to escape state insurance department scrutiny. After all, at the time it was already possible to create captives both in Vermont and offshore.

The most interesting aspect of this story relates less to insurance alternatives and more to the unique sovereign status of tribes. Behind the story is the interrelationship between a tribe's sovereignty and its use and protection of that sovereignty. With passage of the Indian Gaming Regulatory Act, Congress demonstrated that it was willing to limit tribal sovereignty. Few things would please me more than seeing a tribe derive needed revenue by issuing charters to non-Native captives, so long as tribal sovereignty remains immune from attack. Unfortunately, there remains in our society an element that opposes tribal sovereignty and will use whatever convenient excuse is available to attack legitimate tribal governments.

The real problem with tribes issuing charters to non-Native captives is that organizations seeking such charters are most likely to be looking for reduced regulatory oversight. The reality is that tribes are likely to have to establish greater, not lesser, levels of regulatory scrutiny in order to withstand that challenge, which is sure to follow. The end result is likely to be a relatively unattractive captive jurisdiction, given the existing domiciliary alternatives, which run the gamut from stringent to minimal supervision.

So long as a tribe limits itself to issuing insurance charters under principles of "self-governance" of tribal activities, tribal business and even insuring tribal members for risks that occur within "Indian country," challenges will be minimized. As with gaming, however, when a tribe begins issuing charters for non-Native captives, federal constraints will be sought.

Whether a tribe forms a captive or uses other alternatives, one of the best uses of tribal sovereign powers is managing tribal risk. Tribes with adequate spread of risk and financially secure tribes have much to gain by self-insuring. Even smaller and less well-off tribes can improve their lot with a captive. At a minimum, tribes can avoid paying taxes to the state in much the same way that other governments do. Intergovernmental risk pools have a proven record of serving their member insureds in a superior manner. The nuances of Indian law, application of the Federal Tort Claim Liability Act to some tribal activities, and sovereign immunity for governmental exposures requires more than a little expertise to structure a financially efficient tribal risk management program.

Although gaming has improved the financial status of some tribes and their members, many tribes continue today in much the same way as in the past—in dire need of economic assistance. Self-insuring, with appropriate excess coverage attachment points, can preserve their limited financial resources.

As an academic exercise, exploring the concept of forming non-Native captives using a tribe's sovereign status and domicile is interesting, but neither new nor particularly complicated. I am sure that many of my native American colleagues will place this discovery in the same category as Columbus' "discovery" of America.

Lee Backus
Washington

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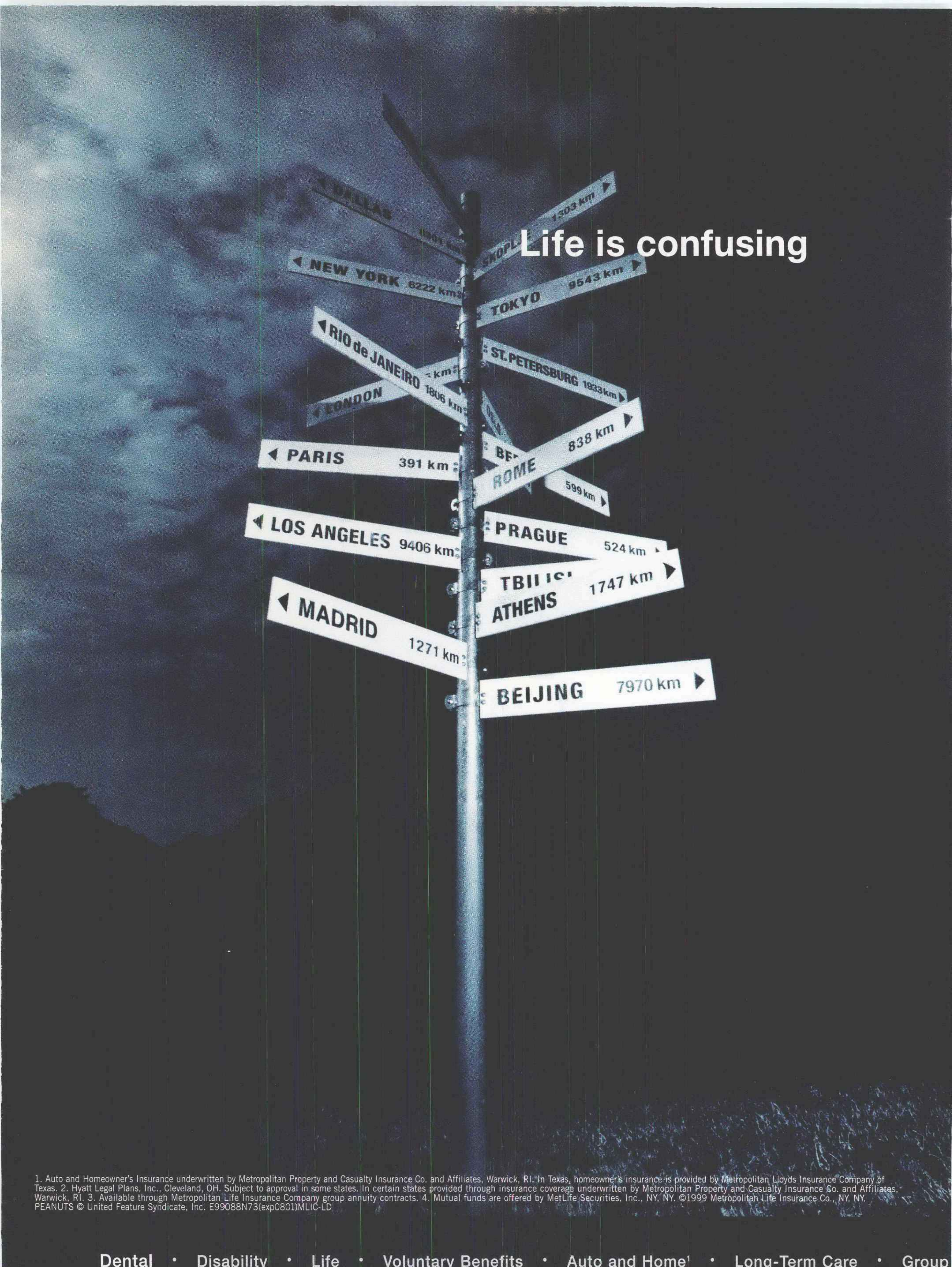

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BI listing of employee benefit information resources

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All requests must be received before **April 10, 2000.**

EMPLOYEE BENEFITS

■ **Managing Absences by Integrating Human Resource Policies and Benefit Plans,** a booklet by Aon Consulting Worldwide, contains a collection of easy-to-use, comprehensive checklists to help benefit professionals and risk managers develop effective absence and disability management policies and procedures. Request item **501.**

■ Aon Consulting's **1999 Workforce Commitment Index** booklet discusses trend measurement and major factors in employee commitment as well as offering analyses based on region, industry and age. Request item **502.**

■ ARAG Group's **How to Choose a Group Legal Plan** explains the benefit and offers tips for benefit planners on how to find legal plans that best fit their needs. Request item **503.**

■ The Bureau of National Affairs provides a summary of **Social Security and Medicare benefits,** including retirement, disability and survivors' benefits. Request item **504.**

■ Child & Elder Care Insights Inc. gives more than 70 reasons **why work/life programs work,** backed up with statistics, quotes and other documentation on the use of these programs in corporate America. Request item **505.**

■ **Understanding Interactive Voice Response Technology,** by Information Products Inc., provides an overview of IVR, including a glossary of related terms. Request item **506.**

■ The International Foundation of Employee Benefits offers its **CEBS Catalog of Information** about the 10-course professional certification program it provides for those pursuing the designation. Request item **507.**

■ **Communicating Employee Benefits via the Web,** offered by the Corporate Benefits Institute of the International Foundation of Employee Benefit Plans, reports the results of a survey on how benefit professionals use the Internet and intranets. Request item **508.**

■ **Employer-Sponsored Group Long-Term Care Insurance,** an analysis of a survey conducted by the International Foundation of Employee Benefit Plans, summarizes the relevance of the Health Insurance Portability and Accountability Act of 1996. Request item **509.**

■ **Health Benefits for Alternative Medicine,** published by the International Foundation of Employee Benefit Plans, answers questions about insurance coverage for alternative or non-mainstream methods of healing. Request item **510.**

■ Benefits Quarterly, published by the International Society of Certified Employee Benefits Specialists, focuses on **policy developments and the latest trends in benefits and compensation.** Request item **511.**

■ The International Society of Certified Employee Benefit Specialists lays out results from its survey titled, **Health Benefits for Alternative Medicine: Is There a Fit?** Request item **512.**

■ Marsh Risk Consulting provides recommendations for a new **absence management and prevention program** that monitors and quantifies all time away from work for aging employees. Request item **513.**

■ Meridian Resource Corp. offers a presentation titled **Health Care Subrogation Recoveries: Re-Inventing Subrogation for the New Millennium.** Request item **514.**

■ **Keep an Eye on Health Care Claims** by Meridian Resource Corp. encourages consumers to double-check their claims status and balances, reminding that people and computers make mistakes. Request item **515.**

■ Meridian Resource Corp. offers an article that explains the **Diagnosis Related Group system** and outlines some of its advantages and disadvantages. Request item **516.**

■ The Resource, Prosource Financial L. L. C.'s quarterly newsletter, provides **trends, statistics, charts and graphs** on employee benefit issues and concerns. The information includes surveys and analyses of regulations and cost. Request item **517.**

■ The Segal Co.'s 2000 Annual Report & Disclosure Calendar for Benefit Plans indicates general reporting and disclosure requirements applicable to **pension and welfare benefit plans** on an annual basis Request item **518.**

■ **Another look at HIPAA,** an article prepared by T.E. Brennan Co., sums up the effect the Health Insurance Portability and Accountability Act has had since its enactment. Request item **519.**

■ T.E. Brennan Co. offers a look at employee benefit trends, such as **designing benefit plans based on the needs of today's employees.** Request item **520.**

■ Watson Wyatt Worldwide offers a survey, based on interviews with more than 100 major employers, exploring the **links between best practices, lower costs and employee satisfaction** with health benefits. Request item **521.**

■ **Phased Retirement: Reshaping the End of Work,** a survey report by Watson Wyatt Worldwide, examines the growing popularity of phased retirement programs, the business case for such programs and how they are implemented. Request item **522.**

■ The Fourth Annual Survey of Employers on **Purchasing Value in Healthcare,** conducted by the Washington Business Group on Health and Watson Wyatt Worldwide, asked nearly 300 organizations to examine the strategies they are adopting to deliver value in health care in the face of rising costs. Request item **523.**

■ Watson Wyatt Worldwide, in conjunction with the Washington Business Group on Health, sums up the results of a survey of 178 major companies on their experiences with both **integrated disability management and health and productivity initiatives.** Request item **524.**

■ Westport Benefits provides a training guide for brokers on **serious illness insurance.** Request item **525.**

■ An article offered by Westport Benefits examines various **benefits of serious illness coverage** for employees and employers. Request item **526.**

■ Information from Buck Consultants Inc. **lists important employee benefit limits, filing deadlines and key Social Security and Medicare figures** for 2000. Request item **527.**

■ Buck Consultants provides an article that maps out **key Medicare values** released by the Health Care Financing Administration. Request item **528.**

■ Buck Consultants offers a **year-end review for plan administrators** that sums up the effects of provisions to employee benefit laws and ways to maximize the benefits within the confines of these laws. Request item **529.**

FINANCIAL SERVICES

■ In **Accounting for Pensions and Other Post-Retirement Benefits 1999,** Watson Wyatt Worldwide analyzes disclosures under Financial Accounting Standards Board statements 87 and 106 as amended by FAS 132 in the most recent financial reports of the largest U. S. industrial and service companies. Request item **801.**

■ **Capturing the Value: How 401(k) Plans Measure Up** by Watson Wyatt Worldwide analyzes the aggregate scores of more than 500 plans from companies responding to a written survey. Request item **802.**

■ A Buck Consultants Inc. article discusses employers' need to seek shareholder approval when considering **executive incentive plans.** Request item **803.**

INTERNATIONAL

■ The Aetna/Generali Global Benefits Network 1999 Country Benefits Manual lists the **general customary benefits,** such as health insurance and retirement planning, offered in almost 50 nations. Request item **901.**

■ A Baker & McKenzie magazine lays out the current status of **laws affecting labor, employment and employee benefits** throughout the world. Request item **902.**

■ Duff & Phelps Credit Rating Co. provides an overview of U. S. life insurers' **European medium-term note programs,** which offer investment options to pension plan sponsors and other institutional investors. Request item **903.**

■ Duff & Phelps offers a pamphlet examining competition among **Canadian life insurers.** Request item **904.** BI

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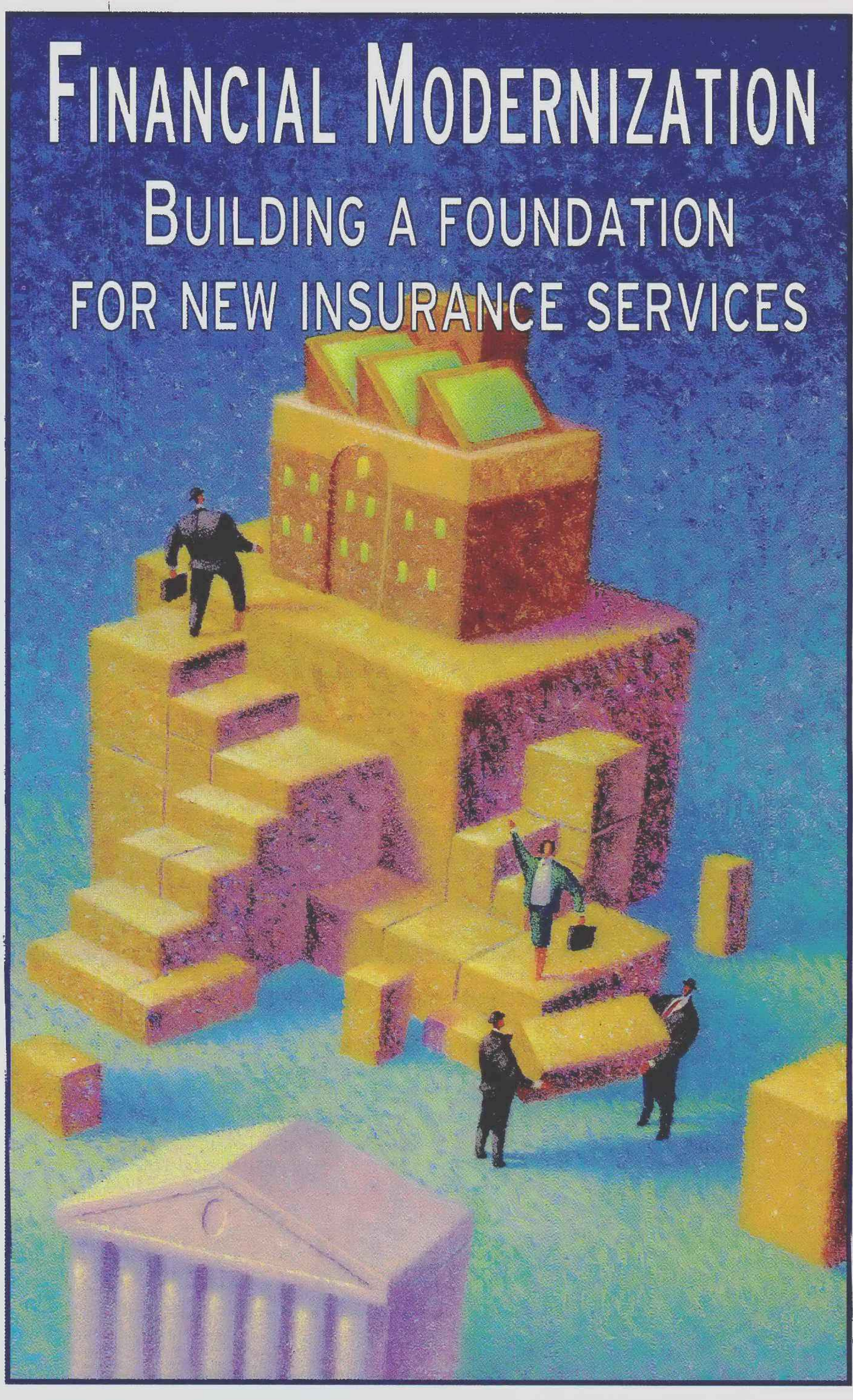
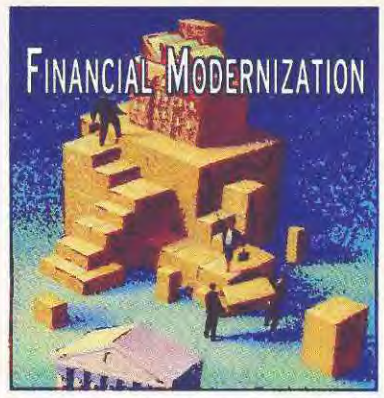


Agent/Broker Topics

Highlight of financial services legislation for intermediaries is NARAB provision

By SALLY ROBERTS



Although agents and brokers view the passage of the Financial Services Modernization Act as a positive development for the insurance industry, they do not view it as a harbinger of dramatic convergence between banks and insurance intermediaries.

Instead, agents and brokers expect more consolidation to occur between banks and insurance companies.

The culture clashes between banks and insurance intermediaries is preventing large-scale consolidation between the entities, some agents and brokers say. At the same time, they do see opportunities for agents and brokers to take advantage of the law and affiliate with banks to distribute a variety of financial products and services.

The Gramm-Leach-Bliley Financial Services Modernization Act, which President Clinton signed into law in November, removes many of the barriers that have prevented banks, insurers and securities firms from affiliating with one another and being involved in each other's business (*BI*, Nov. 1, 1999).

It also promotes uniformity in insurance agent and broker state licensing through the planned creation of the National Assn. of Registered Agents & Brokers. NARAB, which would serve as a federal clearinghouse for multi-state licensing, will be created if not enough U.S. jurisdictions act to bring uniformity or reciprocity to their licensing laws within three years.

Intermediaries view the NARAB provision as one of the bill's strongest elements.

"One of the big issues for brokers has been a national platform for agent and broker licensing, and one of the big benefits of that bill was to come up with some consistency with statutory licensing regulations," said Gary Griffith, chairman and chief executive officer of Summit Global Partners Inc. in Dallas.

Bill Caplice, managing director at Aon Risk Services Inc. in Chicago, agrees.

"Anything that better manages the licensing process will reduce costs and increase quality," he said. "Those are good things for the business."

In terms of convergence, however, "I'm not sure a lot will change for us in the insurance brokerage and consulting world," Mr. Caplice said. "We need to continue to be solution providers, effectively helping our clients analyze their business risks and implement solutions to meet their needs.

"I see the banks more likely to take advantage of the coming reforms and entering the life insurance business, rather than the property/casualty or broker/consulting side of the business," he said.

Other brokers agree.

"I think (the law) will create a pathway for major financial service companies to enter the insurance market," Mr. Griffith said. "My feeling is that their primary interest is in underwriting and less in distribution. This will lead to further consolidation among the large bank holding companies and insurers."

"I think it gives us the option to team up with banks to create the ability for them to distribute our products, but I don't see an immediate ground swell of interest from banks wanting to enter the insurance sales arena," Mr. Griffith said.

Bernard H. Mizel, chairman and CEO of USI Insurance Services Corp. in San Francisco, said that banks are not entering the insurance distribution arena because they have not figured out how to manage effectively the process of insurance sales.

"It's very hard culturally, because banks are bureaucratic, autocratic and have a very difficult time dealing with entrepreneurial organizations," Mr. Mizel said.

Although financial moderniza-

Continued on next page

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tion creates great opportunities for insurance brokers, "there has to be a decision made at the senior level of a bank to really commit to offering a fully integrated financial services program to their clients."

"Whoever can put together the right model will reap the harvest," he said.

USI currently has an affiliation within Chase Manhattan Corp., in which the companies cross-sell each other's products. Mr. Mizel said that the affiliation has been successful so far because it targets a very limited market, adding that the arrangement is "insignificant in terms of the overall capital structure and cash flow."

"Banks must have significant cash flow to justify their efforts" in purchasing an insurance agent or broker, Mr. Mizel noted.

For Brown & Brown Inc., affiliating with a bank does not make financial sense, according to the broker's chairman and CEO.

There is "some good stuff" in the new law, but "it will not change the way we do business," said J. Hyatt Brown. "We're not interested in partnering with a bank. It's very difficult for one to achieve a 25% pretax margin today and try to partner with a bank that wants 20% to 25% of your commissions. How do we make (the agency) grow on that?"

> *There is some 'good stuff' in the new financial services reform law, but 'it will not change the way we do business.'*
>
> —J. Hyatt Brown

In addition, banks historically have found buying insurance agencies a bad investment, Mr. Brown said. The banks "didn't like running agencies and dealing with the street mentality of a salesperson. They found that repugnant."

Other brokers see the passage of the modernization act as having a larger impact on the insurance industry.

Andrew L. Rogal, chairman and CEO of Hilb, Rogal & Hamilton Cos. in Glen Allen, Va., said that he expects to see "a burst of more players and a lot of consolidation" in the upcoming year as a result of the passage of S. 900.

Citing the hybrid Citigroup, formed in 1998, Mr. Rogal noted "the industry sort of blew by Congress."

Very aggressive banks in some geographic regions, such as BB&T Insurance Services in the Southeast and several banks pursuing insurance business in Michigan, will continue to purchase small regional agencies, Mr. Rogal predicts.

"It all comes down to value," said Kavin Smith, director of brokerage operations for Palmer & Cay Inc. in Savannah, Ga. "We've got to be nimble and quick and change with the industry."

Amanda Milligan contributed to this report.

NARAB concept may benefit insurers as well as agents

Lower costs seen from streamlining of licensing paperwork

By MARK A. HOFMANN

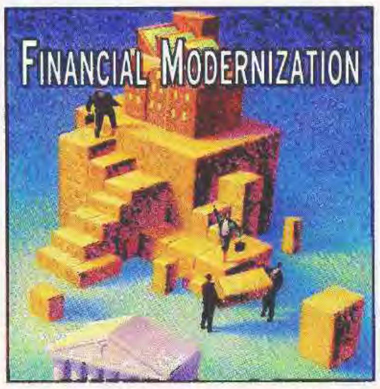
Agents and brokers aren't the only parties pushing for greater uniformity and reciprocity in state producer licensing laws.

Although the Washington-based Council of Insurance Agents & Brokers took the lead in promoting the National Assn. of Registered Agents & Brokers provision of S. 900, the federal financial services modernization act, insurers also have an interest in the realization of greater uniformity in agent licensing. The CIAB and many insurers have long maintained that the current patchwork of state licensing laws needs to be streamlined to eliminate unjustified expense and paperwork, thus reducing costs to intermediaries and consumers alike.

Some critics of NARAB, though, view the measure as a backdoor route to federal pre-emption of state insurance regulation. They say that the existing state system can be reformed to meet the goals of NARAB without the creation of a federal role.

In fact, the NARAB provision can be rendered moot, but only if a sufficient number of U.S. jurisdictions act to bring uniformity or reciprocity to their licensing laws within three years.

The National Assn. of Insurance Commissioners wants to head off NARAB by getting enough states to adopt licensing laws in compliance with S 900's requirements (*BI*, Dec. 20, 1999). But many observers contend



that achieving that goal by the Nov. 12, 2002, deadline will be very difficult, if not impossible.

Under S. 900, NARAB would be blocked if at least 29 states and territories achieve either reciprocity or uniformity within three years of the measure's enactment. Reciprocity means that states would permit reciprocal non-resident licensing subject to a few qualifications, somewhat similar to the way states treat legally licensed out-of-state drivers. Uniformity, however, would mean that resident and non-resident agents would be subject to all the same requirements, such as continuing education rules.

> *'A state regulatory regime going in 50 different directions isn't the answer to international competition and cooperation.'*
>
> — Joel Wood

If the states fail in their efforts, NARAB would be created to function as a clearinghouse for multistate licensing. NARAB would set licensing and professional qualification standards, and it would have the authority to reduce duplicative requirements on agents and brokers whose clients require them to do multistate business, thus preempting state licensing laws.

Joel Wood, the CIAB's senior vp-government affairs, said he believes NARAB could actually serve to promote state regulation, even though the idea could give "heartburn" to commissioners and state legislatures.

"We think that the platform of NARAB may be just what is ultimately needed to save state insurance regulation," he said.

"To the extent that there is pre-emptory authority in NARAB, it is specifically limited under S. 900 to laws that discourage competition, not laws that foster competition. A state regulatory regime going in 50 different directions isn't the answer to international competition and cooperation. The rifleshot peremptory authority given

See **NARAB** *on page 12F*

NARAB

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to the NAIC through NARAB may actually help state insurance commissioners survive the battles surrounding regulatory turf in the wake" of the new law, Mr. Wood said.

The CIAB is far from alone in its support of lowering the barriers hindering multistate business, and insurers are among the brokers' major allies in this effort, though there is some disagreement as to how its goals should be achieved.

"We certainly did support NARAB. Uniformity is something we've been working with; we've endorsed the NAIC model law as well. Basically, this is going to facilitate multistate policies, and that helps the customer who's doing business in more than one place," said Leigh Ann Pusey, senior vp of the American Insurance Assn. in Washington.

"Now NARAB is a fact, and it's kind of set the agency licensing debate on its ear. There are very specific things that states have to do to satisfy NARAB," said Larry Kibbee, vp-public affairs and head of the Downers Grove, Ill.-based Alliance of American Insurers' marketing committee.

The Alliance is interested in NARAB because "our companies—and we have both direct writers and agency companies—are going to have to comply with agency licensing laws," he said. "The fact is that NARAB has come along and forced reciprocal arrangements" that will lead to efficiencies, he added.

> *'Do we want to see NARAB go into effect? No. But we're in favor of the incentive that it creates to create more uniformity.'*
>
> — Roger Schmelzer

The National Assn. of Mutual Insurance Cos. in Indianapolis also supports NARAB, to a point.

"We're in favor of NARAB because it promotes uniformity. (Uniformity) is very important to us," said Roger Schmelzer, NAMIC's vp-regulatory affairs.

"Do we want to see NARAB go into effect? No. But we're in favor of the incentive that it creates to create more uniformity."

The Des Plaines, Ill.-based National Assn. of Independent Insurers has consistently opposed NARAB while supporting the idea of uniformity.

"We look at NARAB as setting a precedent that we don't want Congress to duplicate in other legislation," said Robert Dibblee, senior vp in NAII's Washington office.

"We prefer that now that the strong arm has been flexed by the federal government," that such a move is not duplicated in the future.

Mike Koziol, senior director and counsel in the NAII's headquarters, said that the group's concern rests upon "federal pre-emption of state law, primarily."

"It's extremely important the NAIC act, because some state legislatures meet every other year, and legislative sessions start early (in 2000), so the time is now," he said.

"We believe there's a good chance it can be done in time," added Mr. Koziol.

"Our goal is to do whatever we can to make sure that things will go on as they need to make deadlines," said the NAII's Mr. Dibblee. "Our folks are optimistic that we can work with the NAIC."

Congress could add an extension to the deadline, said Mr. Koziol, "but you cannot presume that."

"I think that the NAII has a point, which is, if states fail to meet this federal requirement, there is going to be significant pre-emption of state law. We differ over whether or not that preemption is justified," said the CIAB's Mr. Wood.

> *'It's extremely important that the NAIC act, because some state legislatures meet every other year, and legislative sessions start early (in 2000).'*
>
> — Mike Koziol

Currently, no two states are truly reciprocal or uniform, noted Mr. Wood. Getting 29 states to achieve either status in less than three years "is going to be an extremely difficult hurdle to overcome," he said.

In addition, "the collective forces of parochialism are the greatest enemy, be that from state insurance departments, state legislatures and probably most importantly, state insurance agent associations," said Mr. Wood.

He noted, for example that some state insurance agent groups are skeptical of changes that would open their members to competition from out-of-state producers.

It's "too early to tell whether they can do this in the three-year time period or not," said AIA's Ms. Pusey.

"There's truly a big job that needs to be done," said the Alliance's Mr. Kibbee. He said he's optimistic that it can be done, but the insurance industry will need help from regulators, who must make the effort part of their legislative packages. "It's probably going to be more efficient" to have recommendation for passage come from the regulators, said Mr. Kibbee.

Mr. Wood said he is "extremely encouraged" by the response of state insurance commissioners at the recent NAIC meeting in San Francisco (*BI*, Dec. 20). The commissioners agreed to amend the NAIC's model agency law to bring it into compliance with NARAB's mandates.

NAMIC's Mr. Schmelzer said he thinks that going for reciprocity—rather than uniformity—"makes it a little easier" to get 29 jurisdictions to enact legislation.

But if a sufficient number of states fail to act, "it truly is the proverbial camel's nose under the tent in terms of moving toward a national regulatory scheme," he warned. BI

Bright future if agents, regulators adapt to change

By Ken A. Crerar

We have finally reached 2000, and with the new year two big, familiar issues for insurance agents and brokers loom larger than ever: regulation and the Internet.

In the wired world of the new millennium, insurance intermediaries, insurers and customers are transacting business in a truly global marketplace: While most agents and brokers still focus on the U.S. market, it is now a market in which everyone crosses borders with a mouse click. This poses a huge challenge for a slow-moving, state-regulated system, and the demands on the insurance regulatory system to evolve quickly will only grow stronger. On top of this, agents and brokers face their own business challenges to stay ahead in the lightning-fast Internet economy.

Can we keep up? What is the role for intermediaries in an electronic marketplace where corporate risk managers and commercial buyers can gather information and make purchases that were previously beyond their reach?

At The Council of Insurance Agents & Brokers, our forecast is that a bright future awaits those commercial insurance agents and brokers who understand how to use Internet technologies to strengthen customer relationships and deliver new services, especially expert advice and counsel.

Reforming the regulatory system

The passage only two months ago of sweeping financial services reform is closely related to the Internet challenge.

For years, The Council led the effort to reform the antiquated insurance licensing system for agents and brokers. The passage of National Assn. of Registered Agents & Brokers provisions as part of The Gramm-Leach-Bliley Act (S. 900) will force the states to move on licensing reform.

But NARAB's approval was only the first step. Agents and brokers across the country should not lose any opportunity to tell their state regulators and their state legislators that uniform licensing rules are fundamental to the Internet economy. How can we succeed if we have modern technology that affords access to vast markets and numbers of customers, while our hands are tied by anti-competitive and market-restrictive rules like non-solicitation laws?

The National Assn. of Insurance Commissioners promises to act on a model producer licensing law that would at least allow reciprocal licensing among the states. But will state legislatures, often protective of their turf, actually pass the law? We hope so, and we strongly urge all agents and brokers to take part in the effort to ensure the creation of a modern and effective regulatory environment.

A reformed state-based system is only the first step. With the integration of all financial services, however, there will be a renewed and vigorous debate about the role of the federal government in insurance regulation. Washington already is involved in some insurance regulation, with the Employee Retirement Income Security Act and the federal flood

A/BT Perspective

insurance programs being prominent examples.

But the passage of S. 900 means that, for the first time, traditional banking regulators—the Federal Reserve and the Treasury Department—will be the lead regulators of diversified financial services companies that sell and underwrite insurance products. Agents and brokers must recognize that additional federal regulation of insurance is inevitable. We will begin to see a more sophisticated federal-state regulatory structure that will change the way agents and brokers approach their business.

At The Council, we strongly believe the fundamental issue is not state vs. federal regulation but, rather, "What is the most effective system?"

Effective regulation is the foundation upon which to build the regulatory structure. It is the key for the fast-evolving and global Internet-driven insurance industry.

Harnessing the Internet

On a business level, insurance intermediaries who fail to grasp the power of the Internet economy will not succeed. Without a clear e-commerce and e-business game plan, an agency or brokerage will find it increasingly difficult to remain competitive.

The Internet offers pitfalls as well as promises.

First, you must understand how the Internet works and is being

See **Forecast** *on next page*

Forecast

Continued from page 12G

used—not only by the insurance industry but also by other financial services industries. Then you must carefully think through your strategy. The bottom line is that your firm should never begin spending to build a Web site until it has completed a thorough analysis of its business and marketing goals.

The Council recently published a comprehensive report on harnessing the Internet. We found that there are six key areas in which insurance intermediaries must focus their efforts on analyzing and building their Internet strategy. Those areas are:

Communication: Most agents and brokers today use e-mail, while a smaller number use chat technology that allows two people to communicate immediately and to bypass voice mail.

To interact efficiently with clients and prospects, however, agents and brokers should consider using a mailing list server to handle the many administrative and distribution requirements of communicating with a large audience. Forums and video-conferencing are two other technologies that should be considered to facilitate communication among a firm's employees.

Information: It is crucial to consider how your current or future Web site is designed and whether it delivers a good overall user experience and easy navigation from page to page. The ease with which information can be accessed and the quality of your content will determine both the success of your information offering and the likelihood that clients, prospects and business partners will return to your site.

Servicing: The rapid expansion of Internet access requires that intermediaries allow clients to access a Web site and request policy changes or print certificates of insurance at their convenience. Without these and other e-commerce offerings that facilitate the servicing of client needs, a firm runs the risk of losing business.

Advertising: As an insurance intermediary, it is more likely that you will be buying space on someone else's site to attract business to you, rather than selling space on your own Web site. Up to now, neither agents and brokers nor the insurance industry as a whole has taken great advantage of this medium. An advertising strategy is crucial, and you must make it a key component of your Internet business strategy.

Selling: While the global nature of the Internet encourages geographically distant clients and intermediaries to meet in the electronic marketplace, online sales of commercial insurance currently are severely constrained by state insurance regulation.

Also, most lines of business insurance are too complex for buyers to purchase confidently online. For now, a sound course of action is to use a Web site to gather data on customers and prospects and then forward the information to executives in the firm.

Consulting: Agents and brokers with risk assessment and management skills have the opportunity to extend those skills by empowering clients through online interactive risk assessment tools. By encapsulating the knowledge of a firm's most skilled practitioners in software tools, and making them available via the Internet to many more potential customers, firms can create enormous potential for revenue.

Some of our members who have pioneered the use of the Internet in servicing clients say that a growing number of customers want to log on to an Internet site and request policy changes or print certificates at their convenience. These expectations will become commonplace in the near future. Here, too, we see that regulation must evolve to remain effective in the new marketplace.

Opportunities for insurance intermediaries to make a successful leap into the new regulatory environment and wired marketplace are enormous. The winners will be those agents and brokers who are willing to make the commitment now to redesigning their businesses and pushing for an effective regulatory system.

Regulation and the Internet—these are the twin challenges for insurance agents and brokers as we enter the exciting era ushered in by the new millennium. The Council of Insurance Agents & Brokers is committed to helping lead the change, because innovation and more-effective models for our industry are the ticket to our success in the 21st century. BI

Ken A. Crerar is president of the The Council of Insurance Agents & Brokers in Washington.

New guide to finding producers

The Independent Insurance Agents of America Inc. recently released the latest tool in its continuing Best Practices program.

The new manual, "Top Producers: Discover, Train, Reward," tells agents how to find top producers, how to create career training paths, and how to manage and motivate experienced producers.

"Finding new producers has always been a key need for independent agencies," Chris Amrhein, IIAA vp-industry affairs, said in a statement. "But it's no longer enough to focus on hiring a new producer, or even an experienced producer. Independent agents must find top producers."

"An effective producer, in particular, can significantly enhance an agency's ability to grow revenue, secure company relationships, perpetuate internally and increase the overall value of the agency," Mr. Amrhein said. "But all too often we are reactive, not proactive, in meeting agency staffing needs and approach the hiring process as a necessary evil, rather than what it really is—a substantial investment in the future of your agency."

The "Top Producer" guide is designed to educate agencies about what characteristics to look for in candidates; what interview approaches will uncover the important characteristics of potential top producers; and what processes, training and tools are necessary to develop highly successful producers and to keep them motivated.

The manual is divided into three sections: selection, development and motivation. Each section is designed to stand alone or fit into an overall producer development plan.

Worksheets provided in the manual allow agents to set goals, calculate related expenses and appropriate compensation, measure sales potential and track producer activities.

The manual also contains sample contracts, a detailed appendix with interview questions, and a diagnostic tool that measures agency sales performance according to benchmarks set by the most successful agencies in the country.

More information on the Best Practices program is available in the "Insurance Industry Professional: Research & Education" area of the IIAA Web site, located at www.independentagent.com, or by contacting the IIAA at 800-221-7917. BI

AB/T briefs

MGA support provided

CHICAGO—Aon Re Worldwide, the world's largest reinsurance broker, recently formed the Program Business Practice Group to coordinate support services for managing general agencies and ceding companies.

The new group, consisting of a steering committee and 10 regional coordinators, serves as the central clearinghouse for Aon Re's program business throughout the United States.

The group coordinates a broad range of services that are available directly from Aon, including actuarial analysis, claims management, policy processing, catastrophe modeling, capital generation, offshore captive operations and access to issuing insurers.

"Not only do we have the expertise, but we also have access to all of the services and resources that are essential to administering a successful program in today's market. It makes perfect sense that we have a team of brokers dedicated to coordinating these services for both our MGA and company clients," Paul R. Davies, chairman of Aon Re, said in a statement.

Gallagher/ARM team up

ITASCA, Ill.—Arthur J. Gallagher & Co. has teamed up with Associated Risk Managers International to form an exclusive partnership that will allow the brokers to distribute each other's products.

ARM, a distribution network made up of more than 400 independent agencies, says it is "excited" about the opportunities Gallagher brings to the relationship. Gallagher has "brought to the table valuable corporate insurance relationships, specialized niche products and programs, leadership and commitment that allows us to do the thing that we do best—sell insurance," Leon Blanchette, chairman of ARM, said in a statement.

The partnership gives Gallagher access to products, programs, services and distribution available throughout the ARM network.

"Gallagher is committed to the independent agency system, and this venture strengthens both partners by making a broader array of choices available to our clients," Michael Cloherty, Gallagher's executive vp, said in a statement.

Web site honored

CHICAGO—Coregis Insurance Co.'s Web site has won a Standard of Excellence award in the 1999 WebAward corporate Web site competition, sponsored by the Web Marketing Assn. Inc.

The site, www.coregis.com was recognized for its ability to improve the quality of service the insurer provides to agents, brokers and its public-sector insurance customers. Among other services, the site offers electronic claims reporting capabilities and loss-run ordering. Agents and brokers also have the ability, via private access, to augment their sales and marketing efforts by downloading resource materials from the site.

AIG site enhanced

NEW YORK—American International Group Inc. is now offering an online system that provides property/casualty insurance brokers access to client billing records via AccessAIG, the insurer's Web site specifically designed for brokers.

The site, www.aig.com, gives brokers access to client billing records, which AIG posts weekly, through a secure, password-protected section. Brokers can then download the data into a spreadsheet program, which allows them to sort and analyze the billing data according to specific client needs and to distribute the information to clients.

"The implementation of online billing further demonstrates our determination to utilize Internet technology to help streamline the flow of information between AIG's member companies, brokers and their clients," Kristian P. Moor, AIG executive vp, said in a statement.

Joint convention is set

ALEXANDRIA, Va.—The Independent Insurance Agents of America Inc. will host its 2000 annual convention jointly with the annual meeting of the National African-American Insurance Assn.

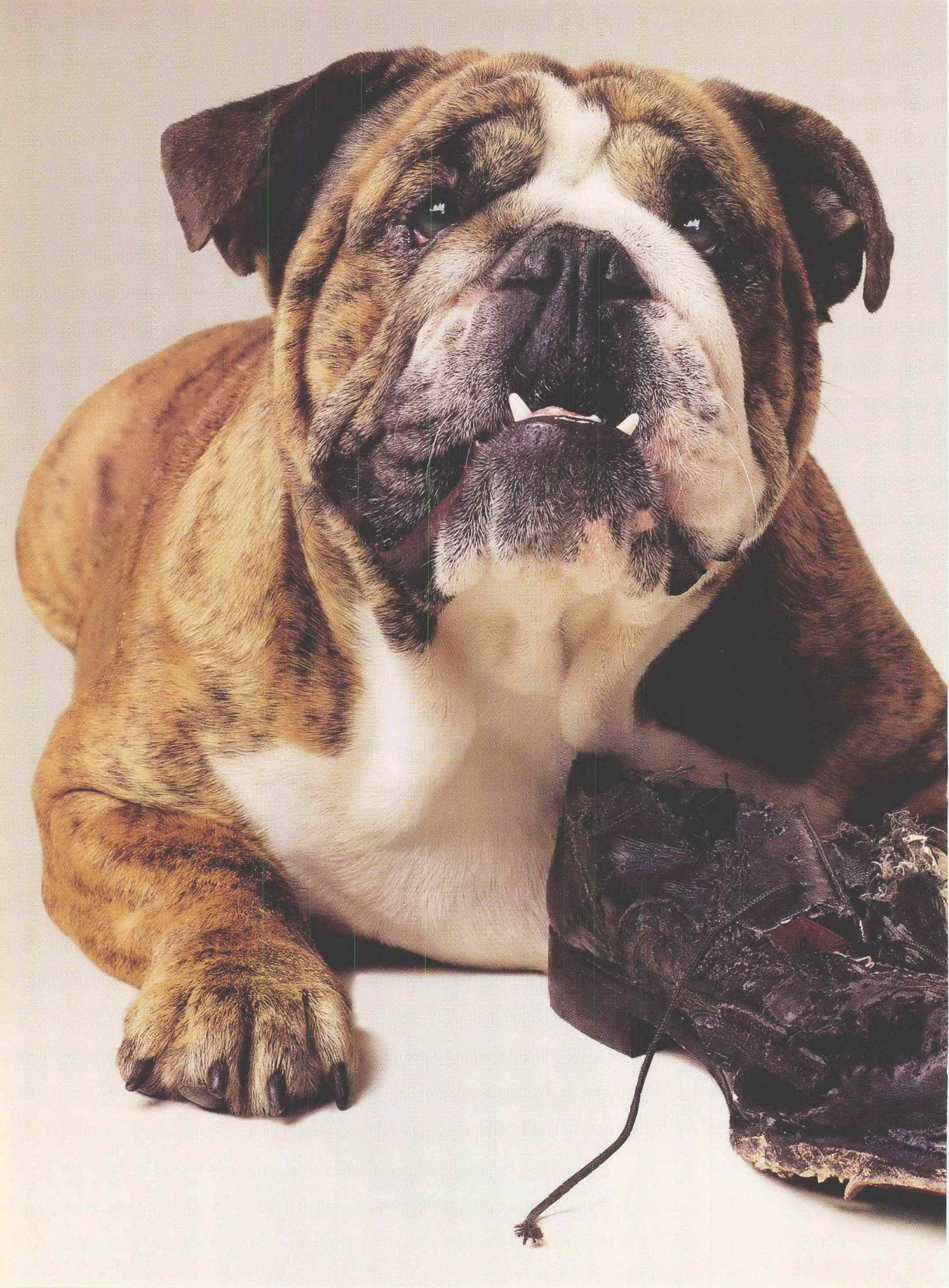
The convention is scheduled for Oct. 28-Nov. 1 at the Marriott World Center in Orlando, Fla. All NAAIA and IIAA attendees will be able to participate in the entire range of convention events, including several new workshops on multicultural agent and urban coverage issues.

"Our most important goal at the convention is to match minority agents with companies that desire to expand into urban markets," Jerald Tillman, NAAIA founder and owner of the Cincinnati-based J.L. Tillman Insurance Agency, said in a statement. "Minority representation in our industry is beginning to grow, and NAAIA believes the numbers will continue to increase as we stay committed through joint efforts such as these."

HISC acquired

DALLAS—Summit Global Partners Inc. recently acquired Houston Insurance Service Center, which will become a division of Summit Global Partners of Texas-Houston. HISC provides benefit consulting and executive compensation services to corporate clients in the greater Houston area.

Also at Summit Global Partners, Barbara A. Reynolds was recently appointed president and chief executive officer of Summit Global Partners of Arizona Inc. in Scottsdale. BI



Coalitions

Continued from page 1

forcing some health plans to shift their focus from building market share to improving profits.

"Wall Street is only interested in (health care) companies that have a very solid financial base, and they are not interested in how many lives you have or what percentage of the market you have if you don't maintain a strong financial approach," said Larry Boress, executive director of the Chicago Business Group on Health, which represents 13 employers that collectively pay $100 million in annual HMO premiums.

As a result, some large health insurers have reconsidered contracting with groups that use multiple competing plans, he said. Some of these insurers are losing interest if they can't write an employer group's entire business or implement employee contribution strategies that encourage use of the insurer.

UnitedHealthcare and CIGNA Corp. declined to consider CBGH business this year, Mr. Boress said. Other large insurers and several regional plans, however, were happy to participate, he added.

"I don't think you will find that the purchasing coalitions are losing their impact or their (negotiating) leverage because plans are not wanting to deal with them," Mr. Boress said. "It's just that we are moving our business."

Some health plan underwriters that have tightened up their pricing maintain that their competitors cannot continue to operate at a loss. But Mr. Boress said he believes that, over the long term, health plans cannot afford to ignore the premium volume that coalitions bring.

Nevertheless, Mr. Boress and other employer coalition leaders say that rate negotiations have grown challenging.

A year ago, for example, rate increases in the Chicago market for individual employers in managed care plans averaged about 5% to 7%, and CBGH was able to beat the market, keeping its members' average increase to 4%, Mr. Boress said. For 2000, those Chicago market increases have averaged 8% to 15%, and CBGH has held average member increases to about 8%, he said.

Employers nationwide faced increases in their total group health care costs in 1999, according to a recent study by William M. Mercer Inc. (*BI*, Dec. 13, 1999).

'Most of the purchasing coalitions came together when the market was falling,' says Eileen Raney.

Some CBGH members did receive below-market average rate increases for 2000, Mr. Boress said, including the rate Dayton Hudson Corp. obtained for its Marshall Field's retail stores.

Marshall Field's did win "significant rate reductions," probably as a result of working through the Chicago coalition, said Carolyn Pare, director of benefits and risk for Dayton Hudson in Minneapolis.

Members in other coalitions, though, report that rate negotiations have grown tougher.

"A couple of years ago, our negotiating alliance was newer, and we seemed to have a little more clout at that point because the HMOs thought that we were going to steer a lot of people in their direction," said Claire Carter, director of benefits for Oakland, Calif.-based transportation company APL Ltd. Ms. Carter was chairwoman of the 1999 Health Negotiating Alliance of the Pacific Business Group on Health, a San Francisco-based purchasing coalition.

"Now, there is a different reality going on" because that migration of employees is not occurring, and HMOs "need to satisfy their shareholders or their bankers. Hence, we got a much larger (rate) increase than we have had for the last five years," she said.

Between 1995 and 2000, the PBGH held members' plan costs to a net 5% increase. In July, however, the PBGH announced that health care premiums would rise about 10% for 2000, under an agreement reached between members of the PBGH Health Negotiating Alliance and 11 California HMOs.

HMO underwriters and other market observers in California—where PBGH membership is concentrated—say that, on their own, large employers have seen an average increase of 7% to 9% for renewals of 2000 contracts. They stress that comparisons are imprecise, however, because of differences in groups' risk profiles, morbidity characteristics, programs and services provided, and considerable variation in regional health care costs throughout the state.

Additionally, PBGH's announced renewal rate increases are for a standard benefit model design that has remained unchanged over the years, said Emma Hoo, PBGH senior project manager. In comparison, other employers may be changing their plan structure—such as modifying their pharmacy copayment amounts—to obtain lower rates.

The PBGH is still very competitive, she said, especially when the purchasing group is examined for the cumulative rate reductions it has brought over the years to its members; the increases, while of a similar percentage, are on top of rates that had been kept low, she said.

But others see purchasing groups losing ground on the price issue.

"Most of the purchasing coalitions came together when the market was falling, but they were just capitalizing on a downward trend in premiums," said Eileen Raney, national practice leader in Los Angeles for Deloitte & Touche L.L.P.'s integrated health care group. Ms. Raney advises employers and health insurers in their renewal negotiations.

"Now it's very difficult for them to deliver a differentiated premium or premium reductions better than market. I don't think they are achieving better than market anymore," she said.

The CBGH's Mr. Boress pointed out, however, that purchasing coalitions reduce employer need for benefit consultants, so consultants tend to downplay the value that the coalitions bring to employers.

'Some of the larger players, including ourselves, are willing to walk away from business,' says David Olson of FHS.

Ms. Raney said that health plans made pricing mistakes in previous years, and they are realizing they cannot continue to undercut themselves by giving lower rates to coalitions than they give to large employers that negotiate independently.

Some insurers confirm that they have finally drawn the line on rates.

"If there is a sea change, it is that some of the larger players, including ourselves, are willing to walk away from business if it is not economic, and I'm not sure we would have done that five years ago," said David Olson, senior vp of industrial relations at Foundation Health Systems in Woodland Hills.

At the same time, some large insurers are still chasing membership, said Glenn Terwilliger, vp of corporate underwriting at PacifiCare Health Systems in Cypress, Calif. PacifiCare, he said, has learned some lessons in pricing coalition business, and it has adjusted its underwriting strategy to look at the risks more closely. Nevertheless, coalitions will remain a force and will continue to be important clients for PacifiCare, Mr. Terwilliger said.

When purchasing groups and large employers focus only on price reductions—arguing they can get the right price elsewhere—then a health plan's ability to differentiate itself by its quality and programs is diminished, said Jay Silverstein, chief marketing officer in Minneapolis for UnitedHealthcare.

"And history has proven that, quite frankly, in many cases we are able to work with individual purchasers and deliver better value to each individual purchaser than we are to a mass buying cooperative," he said.

It is costly for health maintenance organizations to market to thousands of employers in one group and then enroll very few of them because several plans were offered to the same group, Mr. Silverstein added.

Rate fluctuations aside, the larger focus of purchasing groups has always been on obtaining overall value; they were not created merely to win cost reductions, said Louise Probst, executive director of the St. Louis-based Gateway Purchasers Alliance. Purchasing groups push for system changes that reduce long-term medical costs and improve standardization and quality measurement in plan design across the health care market, she said.

Because of a policy of not publicly discussing the group's rates, Ms. Probst declined to say whether Gateway currently is beating market prices charged individual employers. "We are doing pretty well," she said.

Among other efforts, the coalition recently worked with its health plans, medical providers and employers to develop common practice guidelines for diabetes care.

The collection of trend and quality data by coalitions has increased their ability to participate in quality improvement, she said. Three years ago, coalitions were just trying to establish measurements and obtain data on issues such as consumer satisfaction and clinical outcomes.

Now they have three to four years of such data, allowing them to increase their impact on care quality. For example, Ms. Probst said Gateway will begin looking at health plan efforts in menopause counseling.

Coalition directors and health plan representatives say purchasing groups continue to raise the bar in their demand for health plan data and performance guarantees, such as target rates for diabetic examinations.

Ultimately, businesses join coalitions because of the comprehensive, long-term impact on health care and the improvements they can bring to employee health and productivity, the PBGH's Ms. Hoo said.

But purchasing groups continue to demand accountability for cost increases, because there still is waste in the health care system, Ms. Probst said. One way to eliminate that waste is to push for uniformity in certain reports.

Her purchasing group is one of eight major coalitions—including PBGH and CBGH—that have been standardizing their request-for-information formats. Doing so will ensure they all are requesting comparable data in a similar fashion, verifying that data in a similar manner, and presenting it to employers in the same format.

As a result, Ms. Probst said, coalition members with employees in various regions nationwide will be able to easily compare and comprehend their health care costs and determine whether plans are meeting the employers' criteria equally. BI

ADVERTISER INDEX

Issue of January 3

Global Briefs

Lloyd's of London underwriting group Hiscox Group P.L.C. has signed an agreement with **WISe**, an insurance e-commerce initiative, to use the WISe Trusted Trading service. The service is a new insurance trading framework that lets brokers and insurers to do business over the Internet. . . .New research into **construction accidents** will be undertaken by scientists from Loughborough University and the University of Manchester Institute of Science and Technology. The three-year study will be funded by the U.K. Health and Safety Executive. . . .A practical method for assessing the **risk of musculoskeletal disorders**, such as back problems, has been developed by two scientists from the Robens Centre for Health Ergonomics at the University of Surrey. The assessment tool applies to a variety of activities, including viewing computer monitors, manual handling, assembly tasks, warehouse and shop work. The ergonomics guide, "Evaluating Changes in Exposure to Risk for Musculoskeletal Disorders—A Practical Tool" is available for £25 ($50) from HSE Books, 44-178-788-1165. . . .Liability underwriter John Murphy will begin underwriting on a new **liability and professional indemnity syndicate** at Lloyd's in January. Syndicate 2525 will be managed by Trinity Syndicates Ltd., now owned by CBS Insurance Holdings. Mr. Murphy will be assisted by Glenn Marshall, who will specialize in underwriting employers, public and products liability, and Ian Noble, who will underwrite a professional indemnity account . . . .**Ockham Holdings P.L.C.** is moving £70 million ($113 million) of private and commercial motor underwriting capacity out of Lloyd's and into a new insurer subsidiary, Highway Insurance Co. Ltd., as of Jan 1, 2000. Ockham said the change was prompted by "the relatively high compliance and other regulatory cost of operating a motor insurance business within Lloyd's". . . .**Erwin W. Heri** will take over as chief financial officer of Swiss insurer Winterthur Group in April 2000, following the retirement of **Gerhard Christen**. Mr. Heri also has been appointed deputy to Chief Executive Officer Thomas Wellauer. **Peter Hoehn** will assume the group's newly created position of chief technology officer in January, responsible for the group's e-commerce strategy. . . .Paris-based European insurance association Comite European des Assurances last month signed the **Maritime Industry Charter on Quality**. The charter, proposed by the European Commission, encourages organizations to combat the use of substandard ships. CEA signed the charter on behalf of European marine insurers. . . .**The St. Paul Cos. Inc.** last month won approval from Australian regulators to sell insurance. Starting Jan. 1, St. Paul Insurance Australia will focus on commercial clients, particularly in the technology, financial and professional services sectors as well as marine, surety and medical sectors. The Sydney-based branch of the St. Paul, Minn., insurer is headed by Chief Executive Officer Peter Lepparde. . . .Moody's Investors Service Inc. has revised its outlook to stable from negative for Japanese insurers **Nippon Life Insurance Co., The Dai-ichi Mutual Life Insurance Co. and Mitsui Mutual Life Insurance Co.** The insurance financial strength ratings of Aa3, A3 and Baa3, respectively, remain unchanged. The ratings agency also placed the Caa2 rating of **Toho Mutual Life Insurance Co.** on review for possible upgrade following the company's announcement that it has reached an agreement to transfer Toho Mutual's policy contracts and other assets to GE Edison Life Insurance Co. for about $2.33 billion. The transaction is expected to close in March. Edison Life is the joint-venture company formed in 1988 by GE Financial Assurance Holdings Corp., a unit of General Electric Capital Corp., and Toho Mutual.

Floods devastate Venezuela

By MARIA KIELMAS

CARACAS, Venezuela—Billions of dollars in damages are expected as a result of torrential rains and mudslides in late December that caused Venezuela's worst natural disaster of the 20th century.

Out-of-season rainfall triggered massive mudslides and flooding in the states of Vargas, Miranda, Falcon, Nueva Esparta and Zulia, causing an as-yet-undetermined death toll that will range between 20,000 and 50,000, with some 150,000 people left homeless and a further 70,000 evacuated from certain areas.

George Weber, the secretary-general of International Federation of Red Cross and Red Crescent Societies, flew over the area and said the disaster was the worst in Latin America in the 20th century.

The hardest-hit area was a 60-mile stretch of the coastal strip in Vargas state known as La Litoral. La Litoral contained shantytown settlements on the sides of Mount Avila, which separates the capital of Caracas from the Caribbean Sea, beach developments and the port of La Guaira. Until the disaster, the port had handled 15% of the country's imports. The area was blanketed in mud and rocks at thicknesses of up to 20 feet.

The mudslides also caused the collapse of a road tunnel that linked Caracas with Maiquetia International Airport, the country's main international airport and the collapse of the El Guapo irrigation dam in Miranda state.

The airport remained closed until Dec. 27. Airlines such as United Airlines, British Airways and Iberia announced the cancellation of all flights to Maiquetia or their diversion to other Venezuelan or Caribbean airports through mid-January.

Insurance executives are being cautious in their initial loss estimates.

David Wilson, managing director of loss adjuster Crawford Venezuela in Caracas, said that overall losses, including insured

See **Venezuela** *on next page*

PHOTO: AFP

In what is Venezuela's worst natural disaster of the 20th century, floods and mudslides have killed tens of thousands and caused billions of dollars of damage.

Airlines looking at ways to quell air rage risks

By CAROLYN ALDRED

LONDON—Increasing incidents of air rage are focusing attention on ways to reduce airlines' exposure to in-flight passenger tantrums.

At least one airline has revised its risk management and insurance policies to cover air rage incidents, and a Lloyd's of London syndicate has devised a new air rage insurance policy. Meanwhile, the British government recently introduced a new law to make air rage a criminal offense.

Air rage incidents, in which passengers become unruly and difficult to control while on board aircraft, are increasing in frequency. Such incidents have led to passenger and cabin crew injuries, and they can even result in aircraft being diverted to airports many thousands of miles from their original destination.

In a particularly dramatic example of such a diversion, a Lufthansa Airlines flight en route from Germany to Mexico on Dec. 18 had to land in Chicago because a passenger had become violent. U.S. prosecutors said it took eight people to wrestle the passenger, a Russian national, to the ground, and a doctor on board the flight had to inject him with two doses of Valium. Prosecutors said the passenger tossed one airline official around like a rag doll.

According to the International Air Transportation Assn., occurrences of disruptive behavior by passengers have increased 400% since 1995, to about 2,000 incidents per year.

British Airways P.L.C., one of the world's largest airlines, recently changed its guidelines provided to staff members about how to deal with such incidents and expanded its employer liability insurance coverage to compensate employees when such incidents occur, said a BA spokeswoman.

"Extending our employers liability policy to include strict liability for incidents in the air and on the ground indemnifies the airline and opens the door for compensation claims

See **Air rage** *on next page*

AP/ WIDE WORLD PHOTOS

U.K. officials are calling for more safety checks on Korean Airlines' aircraft following the crash of this KAL cargo jet last month.

KAL crash spurs safety checks

By CAROLYN ALDRED

STANSTED, England—More safety checks on Korean Airlines planes will be carried out following the December 23 crash of a Boeing 747 cargo plane shortly after takeoff from an airport in Stansted, England.

The plane crashed minutes after taking off, bursting into flames and killing its crew of four. Although the crash site lay between two villages close to Stansted Airport, no one on the ground was injured.

The crash—KAL's fifth fatal accident in 12 years and its third fatal crash in two years—reinforced grave concerns about the airline's safety practices.

John Prescott, U.K. government minister for the environment, transport and the regions, ordered further safety checks on KAL aircraft. At least three ground checks on KAL planes already have been performed by the United Kingdom's Civil Aviation Authority during the last year, following earlier concerns by the DETR, a spokesman at the department confirmed.

The South Korea government itself recently imposed a 12-month ban on new international routes for the airline following a U.S. report, released in November, on the crash of a KAL Boeing 747 on the Pacific island of Guam in August 1997; the report blamed the accident on pilot error. The ban has now been extended an additional six months, until May 2001, according to reports from Seoul.

Delta Airlines suspended a four-year-old partnership agreement with KAL in April, pending a review of Korean Airlines' total operations, including its safety practices. Delta is still talking with KAL, as well as other airlines, about the possible formation of a global alliance, a spokesman for Delta said.

The latest KAL loss is insured with Oriental Fire & Marine Insurance Co. in Seoul for a hull value of $38 million. However, the Korean insurer retained just 0.3 percent of the risk, reinsuring the remainder in the U.K., French and German markets, according to a Lloyd's of London spokesman. The spokesman noted that Lloyd's wrote 25% of the reinsurance.

INTERNATIONAL

Air rage

Continued from previous page

by our own people," according to a statement issued by the airline.

The change in policy "is to give people the confidence to tackle violent and disruptive passengers, knowing that, in the unlikely event of bodily injury, they're covered by the airline," said Gordon Simpson, an insurance claims manager for British Airways.

"It applies to all our people, not just air crew. Any employee injured while trying to restrain troublesome passengers can now recover reasonable, proven damages," he explained.

"It's important that our people feel they have British Airway's full backing when tackling disruptive passengers," agreed David Hyde, BA's director of safety, security and environment.

Lloyd's syndicate 861, managed by Brockbank Syndicate Management Ltd., in 1999 developed an insurance policy to indemnify airlines for the costs of air rage incidents, including expenses incurred in diverting aircraft to other airports and in compensating employees and other passengers for injuries or economic losses incurred as a result of the incidents.

'The new offense shows this government is prepared to get tough on air rage,' says Lord Macdonald.

"Although we have had a huge amount of interest in the insurance from airlines and lawyers, we have had a very disappointing takeup so far," said the syndicate's underwriter, Martin Reith.

Mr. Reith said he believes that many airlines have chosen to absorb any potential losses on their balance sheets.

This fall, the British government introduced a new law making it a criminal offense for air travelers to act "in a disruptive manner." The new offense, aimed at a passenger who threatens, insults or abuses a member of an airline crew or interferes with his or her duties, carries a maximum penalty of an unlimited fine and/or two years imprisonment.

"The new offense shows this government is prepared to get tough on air rage," said Transport Minister Lord Macdonald in a statement. BI

Venezuela

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and uninsured damage, could total about $2 billion.

Mr. Wilson, who flew over the disaster zone in a helicopter, said he believes that perhaps just 15% of the total property that had been damaged was insured or belonged to individuals with income levels high enough to consider purchasing insurance.

Mr. Wilson also reported that about three-quarters of the electrical distribution substations in the state of Vargas were down at the time of his visit. The substations belong to the power utility Electricidad de Caracas C.A., based in the capital.

Telecommunications in the state of Vargas, Venezuela's smallest state at about half the size of Rhode Island, had been restored by telecom company CANTV.

But about 70% of the water and sewage lines in Vargas were damaged, and those water lines that continued to function became polluted with mud. With no water supply in the area, emergency services were anxious to bring in drinking water.

Mr. Wilson said authorities had restricted access to the area with the greatest damage on the Vargas coast, and the national guard had been moved in to the area to prevent looting.

The Maiquetia International Airport did not sustain any damage, he said.

Edgar Fernandez Ponce, the president of Caracas broker Seguconsult Corretaje de Seguros C.A.,

See **Venezuela** *on next page*

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HELP WANTED

CITY OF LOS ANGELES REQUEST FOR PROPOSALS

The City of Los Angeles is seeking proposals for a study to benchmark and compare fire protection services at the Port of Los Angeles (Port) with other similar port facilities to determine the most cost-effective and efficient delivery of fire protection services. The study will require a review of the current services, equipment and facilities used by the Los Angeles Fire Department to provide fire protection to the Port. Information and recommendations developed from this study will help the Port and City management in developing a comprehensive plan for the provision of fire protection services, consistent with the needs of the Port and its customers, at the lowest possible cost.

A Proposer's Conference to clarify RFP objectives, answer questions, and tour various fire facilities in the Port will be held at 10:00 a.m., Thursday, January 13, 2000 in the Board Hearing Room at the Port's Administration Building, 425 South Palos Verdes St., San Pedro, CA 90731.

Proposal packages may be picked up after 9:00 a.m., December 21, 1999 from the Reception Desk, Office of the City Administrative Officer, 200 N. Main St., Room 1500CHE, Los Angeles, CA 90012. Written questions regarding the RFP or requests for mailing of the RFP package may be sent to Deidre Reyes by FAX at 213/687-8213 or 213/485-3568.

Proposals must be completed according to instructions contained in the RFP and submitted, by Friday, January 28, 2000 at 4:30 p.m. (PST). Proposals must be marked "Fire Protection Services at the Port of Los Angeles" and addressed/delivered to: Office of the City Administrative Officer, 200 North Main St., Room 1500CHE, Los Angeles, CA 90012, Attn: Deidre Reyes. The City will not be responsible for any cost of preparation or delivery of proposals whether accepted or rejected by the City. The City is an "Equa Opportunity Employer." CN551282 1/3/00

HELP WANTED

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Administrative:	
CEO's, Presidents, and Owners,	4,194
Vice Presidents, General Managers and Other Administrative Personnel	3,965
Financial:	
Chief Financial Officers and Vice Presidents of Finance	4,190
Secretaries, Treasurers, controllers and other Financial Personnel	4,945
Risk/Employee Benefits:	
Vice Presidents, Directors, Managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/ labor relations	13,572
Sub-total	**30,866**
Associations	237
Government, Unions and Educational Institutions	972
Commercial Consumers Sub-total	**32,073**
Insurance Agents and Brokers	7,763
Insurance Companies	6,357
Accountants, Actuaries, Attorneys & Consultants	2,361
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,347
Others Allied to the Field	1,008
Total Qualified	**50,909**
Non-qualified/Paid Subscriptions	21
Single Copy Sales	3
TOTAL CIRCULATION	**50,933**

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

Hotel curbs risks to young guests

ATLANTA—Responding to the rising number of business travelers who bring their children on trips, an Atlanta-based hotel chain has established a program to make guest rooms safer for young visitors.

The program, dubbed Protect Our Little Ones or POLO, was put in place by The Ritz-Carlton Hotel Co. Under the program, guests with young children are given a kit of items to choose from, including a night light, electrical outlet covers, a first-aid kit and a bathtub spout cover. The safety devices are installed by a bellman on check-in.

Although the hotel has had very few incidents of injury involving children, a spokeswoman for Ritz-Carlton said the hotel wanted to continue that record in light of the increased presence of children in their facilities. The hotel, which began to implement POLO about a year ago, has not examined whether the program has lowered the number of child-related incidents, she said.

"We can't guarantee that these things won't happen, but we can make the rooms a little more child friendly," she said.

ALCOA adopts coal-tar safety steps

PITTSBURGH—ALCOA Inc. recently sent letters to thousands of current and former employees of the company's smelting facilities, warning they could be at a higher risk of developing cancer due to workplace exposure to coal-tar pitch than previously realized.

ALCOA

Excessive exposure to the substance can lead to lung or bladder cancer.

After seeing the results of studies on exposure to coal-tar pitch above the levels approved by the Occupational Safety and Health Administration, the Pittsburgh-based aluminum manufacturer decided to issue the warning letter and take steps to enhance its workplace safety program, a company spokesman said.

A "small increase in cancer could be expected at lower levels of exposure than had previously been accepted," the Alcoa letter read. In addition, the letter said, "absorption through the skin and ingestion through the mouth as a result of eating or smoking in environments where coal-tar pitch is present may also be significant sources of exposure."

As a result, ALCOA's 22 smelting facilities now require additional safety measures for employees working with or near the substance.

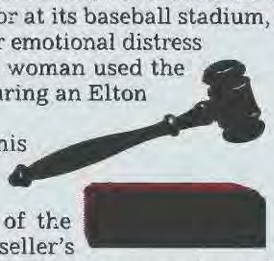
Under the program, worker clothing is laundered by the company, showering after exposure is mandatory, and eating and using tobacco are restricted to designated areas within the facilities. In addition, ALCOA improved its respiratory protective gear.

These efforts contributed to ALCOA's reduction of exposure levels to one-fourth of OSHA's permitted level, the spokesman said.

ALCOA has not received notice of any lawsuits from employees involving overexposure to coal-tar pitch, he said. "It's really to alert them to (the study findings) and have them discuss this with their family physician."

Bizarre California lawsuits of the '90s

SACRAMENTO, Calif.—A California man sued the City of San Diego and a beer vendor at its baseball stadium, demanding punitive damages for emotional distress he allegedly suffered when a woman used the men's room at the stadium during an Elton John concert.



The plaintiff claimed in his suit—which recently was named one of the most outrageous California lawsuits of the 1990s—that it was the beer seller's fault that he repeatedly used the men's room and was there when the woman opted for a shorter line, according to the Civil Justice Assn. of California, a Sacramento-based tort reform organization.

"Kudos to the federal judge who eventually slapped the man and his lawyer with penalties for filing a frivolous lawsuit," the CJAC statement said. The tort reform group nominated this lawsuit and others as the most outrageous lawsuits of the decade.

Other nominations from the CJAC include:

- A bank robber sought $2 million from a bank, the City of Oakland and its police department after a bundle of marked bills with a timed-delay tear-gas device exploded in his pants, burning him.
- The Walt Disney Co. was sued for the emotional distress suffered by several children who unexpectedly learned that Disneyland cartoon characters are make believe when they saw the characters taking off their costumes.
- A failing law student sued a college of law for not warning her that students with her admission scores have a minimal chance of becoming attorneys.

Fraud prevention training software

AUSTIN, Texas—The Assn. of Certified Fraud Examiners has produced a new CD-ROM-based training program for professionals involved with fraud prevention, detection and deterrence.

The program, Investigating Fraudulent Financial Transactions, is a basic-level course designed to assist anyone with fraud prevention and detection responsibilities. Two CD-ROMs cover the basic principles, skills and techniques involved in fraud examination.

The first, Key Elements of Fraudulent Transactions, outlines the types of occupational fraud—financial statement fraud, bribery and corruption, and asset misappropriation—and discusses such schemes as revenue and receivables skimming, larceny, fraudulent disbursements, bid rigging, kickbacks and other illegal acts. The CD-ROM also recommends how to prevent fraud.

The second CD-ROM, Key Elements of Investigation Techniques, focuses on interview and research skills. Topics include the five types of interview questions, the subtle signs of deception, how to seek an admission of guilt, how to obtain a binding confession, and how to document the results of an investigation in a written report. Also discussed are several sources of information, such as public records and the Internet, and how to use them.

The CD-ROMs may be purchased as a set or separately. The set costs $149. If purchased separately, each CD-ROM is $75. Purchasers can earn up to 10 hours of continuing professional education credit by completing the final exams on the CD-ROMs.

For more information, contact the Assn. of Certified Fraud Examiners, at 800-245-3321 or 512-478-9070; or visit www.cfenet.com.

Lloyd's insures Hermitage exhibit

ROME, Italy—A huge Impressionist art exhibition in Rome's papal palace, featuring 100 works of art on loan from Russia's Hermitage Museum in St. Petersburg, has been insured at Lloyd's of London for $1 billion, making it the largest single art risk ever placed at Lloyd's.

The complex policy was led by Nigel Paxman of syndicate 575, which is managed by SVB Holdings P.L.C., and was placed by Lloyd's broker Besso Ltd. The policy covers the whole exhibition, including while it is transported from the Hermitage to Rome, during its display and to its return to St. Petersburg.

The exhibition, the largest of its kind in Italy, will be displayed in the refurbished wing of the papal palace, now the official residence of the president of the Italian republic.

"We are proud to be leading this risk in the Lloyd's market. It demonstrates the increasing maturity and breadth of our underwriting skills," said Michael Wade, deputy chairman of SVB.

Comings & Goings: Industry

P. Richard Hackenburg has been appointed president of XL Market Services, part of Hamilton, Bermuda-based XL Capital Ltd. He previously was chief executive officer of XL Insurance Co. of New York. . . .New York-based Willis Faber North America Inc. has named **James E. Ryan** senior vp and chief information officer. Prior to joining Willis, Mr. Ryan was a director at Swiss Reinsurance Co. BI

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Venezuela

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also estimated initial economic losses from the disaster at approximately $2 billion.

"It's difficult to know exactly if something is insured," he said.

Venezuela's largest business organization, the Caracas-based Fedecamaras, estimated that losses and reconstruction costs in the wake of the disaster could total between $15 billion and $20 billion over the next two years. That figure includes the cost of public infrastructure repair, housing, roads, utilities and new job creation.

'No one can sensibly and responsibly state a figure right not,' Roy Alvarado says of disaster estimates.

Some insurance industry sources, though, are skeptical of this figure.

"No one can sensibly and responsibly state a figure right now," said Roy Alvarado, manager at broker Marsh Venezuela C.A. in Caracas.

"There is quite a lot of uncertainty and quite a lot of speculation. The situation has not been clarified as to how things will work out in practice," he said.

Mr. Alvarado noted that the economy in the most-affected areas in Vargas state was based on tourism and commerce. "It was not an industrial area," he said.

Claims are expected for losses to vacation apartments, leisure clubs, boats, vehicles, personal accident and container losses from the port of La Guaira, as well as eventual business interruption losses, he said.

Insurance executives note that there has been no single large loss from the disaster that could result in a major claim.

The rains and floods caused considerable damage to the El Guapo irrigation dam in Merida state, southwest of Caracas.

"It was an earth-fill dam which failed and flooded the local areas," said Francisco Centeno, secretary of the Caracas-based Sociedad Venezolana de Geotecnia. The state authorities in Merida foresaw the risk of dam failure and had evacuated about 90% of the population that could have been affected, said Mr. Centeno.

Although the loss was significant, the dam is owned by the state, and no commercial insurance claim is expected, Mr. Fernandez said.

Interior Minister Julio Montes announced that it would cost $40 million to repair the El Guapo dam, which would take some two years. BI

Commentary

Dear diary, welcome to Y2K

While most everyone else spent 1999 worrying about Y2K and whether the world would have running water, electricity and functioning ATMs, I was more concerned about whether I'd have my trusty "Disaster Diary" to see me through 2000.

This extremely witty pocket calendar pokes fun at about every aspect of the insurance and reinsurance business and many of its celebrities. Its lists of best sellers, achievement awards and glossary entries are unique. And few other diaries record the dates of disasters—both real and imagined—hence its name.

In my commentary last January on the 1999 "Disaster Diary," a gift of TIG Re to its clients and brokers, I fretted that this treasure might be a casualty of Fairfax Holdings Ltd.'s purchase of TIG Holdings Inc. I need not have worried. The "Special Millennium Edition (Oh-oh!)" has just hit my desk.

Not only did the "Disaster Diary" survive as TIG Re morphed into Odyssey Re but it also is as irreverent and funny as ever. Author Mark Hinkley, whom I've dubbed the Mark Russell of the reinsurance business, has managed to outdo himself once again. How this executive vp of Odyssey Re comes up with this stuff eludes me.

The "Special Millennium Edition" first bids adieu to the second millennium. "Goodbye, old years. So long, King John, Eric the Red and the Magna Carta. See ya, Medicis. Bye bye, Wordsworth, French Revolution, Logical Positivism, Dairy Queens and Mead Re. Au revoir, black-and-white TV, push mowers, 70% of book value, silly stock options, Fen-Phen and EMF."

Kathryn J. McIntyre

The "warning" for the year: "The paradigm for the next millennium assumes that demand is inelastic and supply is constrained only by the scarcity of knowledge transfer bridges, and these are causative factors in the secular shift within financial services, bringing reinsurance into alignment with the dairy cattle industry, where supply and marginal utility is governed by the subtle co-dependency of weather, farm subsidies, the popularity of 1% milk and the fundamental attitude of cows about reinsurance. Our ability to live on a happy farm is the central question of the next millennium because, as you see, the spelling of dairy is extremely close to diary, which confirms our keen eye for the obvious."

Don't bother to read that again, as there is an additional warning: "Portions of the above paragraph, perhaps all, are meaningless."

The reinsurer's prayer is restated this year: "God grant me the knowledge to understand the gross, the decimals to calculate the net, and the wisdom to know the difference." God's reply this year: "Fa'geddaboutit—Better start pairing off again. http://www.unoah.who.uare.com"

Among the "Reinsurance Best Sellers" are: "Can't We All Just Be French?" reporting the "secrets of state-owned companies that no one wanted to tell," and "War & Buffet in Line for Lunch," which is the "reinsurance company buyers' guide." The "Reinsurance Achievement Awards" include a not-so-veiled reference to the acquisitive Fairfax CEO Prem Watsa: the "What's-a-Watsa Award to that insurance executive who can acquire a stable of companies solely using eBay."

The glossary is back this year, with such astute definitions as:

Carveout — a U-shaped hole in the ground where underwriters hide during the soft market.

Finite Insurance — insurance of finites, small ferret-like creatures found offshore who live on interest rate spreads.

Non-admitted reinsurance — password deficient; treaties you don't admit you are on.

Salvage — laminated TIG stock certificates make excellent placemats.

Underwriting Profit — (definition lost in the mid-'80s, never seen since.)

In between all this clever stuff is a usable pocket diary, with the dates of major disasters noted, such as the sinking of the Titanic (April 15, 1912) and the Northridge Earthquake (Jan. 17, 1994). But only in the "Disaster Diary" will you learn that it was on July 8 (year not noted) that "reinsurance brokers strike over airline upgrade policy. Replacement brokers warming up in Tampa." All the traditional holidays are noted, as is the obscure fact that "February is Rudeness Awareness Month around meeting of French waiters and Lloyd's underwriters."

If you want more of this "Special Millennium Edition," drop Mark a note at Odyssey Re in Stamford, Conn. He may send you one—assuming the Y2K bug hasn't halted mail service.

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

Violence

Continued from page 1

The report's authors outlined 16 measures that risk managers should take to prevent and reduce losses attributable to workplace violence.

The project was a joint effort of the Risk & Insurance Management Society Inc. of New York and the Risk Management/Insurance Division of the American Society of Safety Engineers of Des Plaines, Ill. JoAnn Sullivan, administrator of the ASSE's risk management and insurance division and a vp in Marsh Inc.'s Phoenix office, co-authored the project.

RIMS and the ASSE surveyed 1,000 risk managers and 500 safety professionals in the fall of 1998 and received 299 responses, a 20% participation rate. The respondents did not answer every question, however, so the percentage of responses to certain questions does not total 100%.

The survey results and white paper were released in December.

In its definition of workplace violence, the survey includes homicides, physical attacks, rapes, aggravated and other assaults, threats, intimidation, coercion, harassment and any acts that create hostile work environments.

Among the survey respondents, 22% reported that incidents of workplace violence had increased, and 41% reported that the number of such incidents had remained stable. Six percent reported a drop in the number of incidents.

Nationwide, workplace homicides fell nearly 18%, to 709, in 1998 from 1,080 in 1994, according to the U.S. Department of Labor.

Still, more than 2 million violent victimizations occur at workplaces every year, according to the U.S. Department of Justice. Approximately 12% of the non-fatal crimes cause injuries, about half of which require medical attention, according to the latest Justice Department statistics.

The white paper's authors noted that, under various federal and state workplace safety regulations and case law, employers can be held liable for the harm their employees suffer at the workplace.

The survey found that 70% of the survey's respondents had not formally assessed the risks of workplace violence their organizations face, and 14% were unsure. Only 16% had assessed their risks.

Yet 58% of the respondents reported that their organizations' employees had expressed fears of violence in the workplace. Fourteen percent were unsure, and 28% reported that their employees had not expressed any such fears.

Conducting a formal risk assessment, or a vulnerability audit, is one of the authors' 16 recommendations to risk managers and safety departments for reducing the risk of workplace violence.

Risk assessments can involve the use of employee surveys, specially created focus groups or existing committees to better understand the general attitude of the workplace, the authors wrote. They recommended analyzing how employees treat each other and how management treats subordinates.

In addition, organizations should "promote harmony in work groups, and encourage teamwork and supportiveness among co-workers," the authors said.

Though many organizations have not formally assessed their workplace violence risks, some have taken measures to minimize the risks, the survey found. Still, that number is low, and those organizations often do not use all of the risk control resources at their disposal, according to the survey.

For example, less than half—49%—of the respondents reported that they thoroughly investigate the backgrounds of employment candidates. The white paper's authors characterized that low figure as "startling."

'Terminate with care; the potentially violent should feel they were cared for while employed,' the report advises.

Among those respondents who do investigate employee backgrounds, 88% check references, 79% verify previous work histories and reasons for dismissals, and 72% check for criminal backgrounds. Less than 60% check motor vehicle records, and a similar percentage verify education degrees. And less than 40% look into military discharge information and conduct credit checks.

Only 4% reported that they use psychological testing as a standard hiring process to weed out employment candidates who have propensities for violence.

"Obviously, we'd like to see more investigation," Ms. Unks said.

The white paper recommended that employers improve their hiring practices by using all of the tools available to assess the risks that employment candidates may pose.

A greater percentage of employers—58%—train employees to recognize the warning signs that indicate a person may become violent, the survey found. Thirty-eight percent do not provide such training, and 4% of the respondents were unsure, the survey found.

Among those organizations that offered training and responded to the follow-up question regarding which department provided the training, the human resources department—at 24%—most often was charged with that responsibility. Safety departments conducted the training in 14% of the organizations, and risk management and security each conducted the training in 13% of the organizations. Legal departments provided the training for 3% of the respondents.

Ms. Unks said she was not concerned about which department trained employees, "as long as someone was leading the training."

She noted, though, that she is surprised "no one was taking the lead" in so many instances.

Some survey results were encouraging, though, Ms. Unks said. For example:

- Sixty-two percent of the respondents have written policies addressing violent acts in the workplace, and 82% have written policies addressing weapons in the workplace.

The white paper's authors stressed that upper management "first and foremost" must promote "a clear anti-violence corporate policy" in a formal, written document that is distributed to and discussed with employees. The organization has to make clear that its zero-tolerance policy will apply even to a "star performer," the authors noted.

- Many employers have implemented beefed-up security measures. For example, almost 59% had added check-in desks for visitors, 48% had installed access-card entry systems, and 39% require all employees to wear or display photo identification badges.

The white paper's authors urged risk managers and safety departments to recommend to management various measures to prevent workplace violence, such as interior and exterior surveillance cameras and security guards.

- Many employers had employee assistance plans that responded after violent incidents occurred in the workplace. Nearly 56% of the respondents offered counseling to employees not directly involved in incidents, but only 22% offered counseling to victims. Less than 15%, though, offered counseling to victims' families. Just slightly fewer—13.4%—offered counseling to assailants.

Five percent allowed an employee to take a liberal leave after a violent workplace incident. Between one-fourth and one-third of the respondents aided employees in finding new jobs outside or within their organizations.

The white paper's authors recommended that employers also use EAPs to counsel laid-off and fired employees and to help employees locate confidential counseling services for financial, legal, personal and emotional problems.

Other recommendations in the white paper include:

- Establish effective grievance polices and encourage empathetic management skills to eliminate leadership styles that tend to promote on-the-job violence.
- Establish termination policies. "Terminate with care; the potentially violent should feel they were cared for while employed," the report advises.
- Train management in threat assessment and de-escalation techniques.
- Develop a plan on how the company will respond during and after an incident. The plan should include having a media spokesperson.
- Review insurance policies that may cover losses stemming from workplace violence.

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A copy of the "Workplace Violence Survey and White Paper" is available at the RIMS World Wide Web site, www.rims.org, under Capital Alerts.

Environmental directory near

Business Insurance will publish its 2000 directory of Environmental Risk Management Consultants in the Feb. 7 issue.

The issue will also have an editorial feature on environment risks.

The directory, which is being published earlier in the year than in previous years, is an editorial service, and there is no charge to be included.

Companies must simply submit a completed questionnaire by the extended deadline of Jan. 14.

If your company provides environmental risk consulting on an unbundled basis, with gross revenues of at least $250,000, and you have not yet received a questionnaire, please request one by calling Assistant Directory Editor Michel Schwartz at 312-649-5313, or by downloading one from *BI's* World Wide Web site at www.businessinsurance.com/magazine/directories.html.

Surcharge

Continued from page 1

by surprise (*BI*, Nov. 25, 1996).

That was because, under the original law, any employer—not just those located in New York—faced surcharges on bills of up to 57.26% if it failed to meet a short deadline for filing paperwork in connection with the law. To avoid the higher charge, employers had to apply to pay surcharges directly to a state pool, rather than have providers individually collect the charges and pass them on to the state.

'This package falls well short of our goals,' says Elliott Shaw. 'It is a missed opportunity to make health insurance more affordable to those already providing it.'

For example, take the case of an Illinois employer with an employee who took a business trip to New York in 1998, was injured in an auto accident and was taken to a hospital in New York City. If the Illinois employer had not applied to pay the surcharge directly to the state pool, providers would tack onto its charges a surcharge totaling as much as 57.27% of the employee's medical bill.

To avoid the surcharge, employers and plan administrators initially were given only until Dec. 2, 1996, to mail an election form indicating they would directly pay the 8.18% surcharge to the state pool.

Since then, the state has given employers and plan administrators periodic opportunities to file the necessary applications to pay the lower surcharges directly to the pool administrator. But those elections only apply prospectively.

As the 1996 law neared its Dec. 31, 1999, expiration date, employers urged New York legislators to pare back the surcharges and assessments.

Among other things, business groups argued that it is unfair to have New York employers subsidize the cost of graduate medical education through the covered lives assessment.

Business groups noted that the money raised by the assessment helps pay the cost of training provided in state teaching hospitals to interns and residents who later may leave the state. The groups also said it is unfair for employers that are not in areas with teaching hospitals to subsidize the cost of those facilities.

Others also complained that the surcharges for indigent care are unfair to employers that already pay for health care coverage for their employees. In a sense, they argue, those employers pay for health care twice—once for their own employees and, through the surcharge, a second time for the uninsured.

But those arguments apparently made little impact on legislators, who were lobbied heavily by hospital labor unions to renew the 1996 law.

"This package falls well short of our goals," said Elliott Shaw, director of government affairs for The Business Council of New York in Albany. "It is a missed opportunity to make health insurance more affordable to those already providing it," he said.

But a spokeswoman for the Albany-based Healthcare Assn. of New York State, a provider group, described the legislative package approved by the Assembly as one that will "meet the needs of New Yorkers and the providers that care for them."

Back in 1996, benefit experts predicted that passage of the New York surcharge legislation would lead other states, eager to tap new revenue sources, to enact similar measures.

But that has not happened. Only one other state—Massachusetts—has implemented a surcharge law. That law, though, is far simpler than New York's, with a flat 3% surcharge imposed on hospital bills and no application deadlines or penalties.

States' need for new revenue sources to fund hospital care for the poor has been somewhat offset by the booming economy, which, in many cases, has increased tax revenues beyond projections.

In addition, many states are sharing in a more than $200 billion windfall as part of a settlement with tobacco companies. In fact, the legislation passed by the New York Assembly calls for using a portion of tobacco settlement money, as well as a 55-cent-per-pack increase in the state cigarette tax, as an additional revenue source for hospitals to offset their cost of providing indigent care. BI

Prodigy

Continued from page 2

Furthermore, said the court, "the public would not be well served by compelling an ISP to examine and screen millions of e-mail communications, on pain of liability for defamation."

Thomas V. Marino, a New York-based attorney who represented Mr. Lunney in the case, said, "I think it's a very important decision, and the court was confronted with a basic policy choice, and it found in favor of the industry over what, I would arguably claim, are very elementary individual rights."

"Frankly, I think it's clear that, in order for the rule of law to apply to the Internet, there has to be personal accountability. The court gave Prodigy immunity from negligence for opening accounts in other people's names, and it had no responsibility to the law, according to the court, to determine who was opening the accounts. . . .In effect, Prodigy ensured that its impostors would remain anonymous."

"If impostors are anonymous, and Prodigy is immune, who is personally responsible to the law?" Mr. Marino asked. "As far as I can tell, no one, and if no one was responsible to the law for the usurpation of individual identify, I think it's fair to argue that there is no rule of law on the Internet," he said.

J. Robert Lunney, an attorney with Lunney & Murtagh in White Plains, N.Y., who originally filed the case on behalf of his son, said he was disappointed, "in that the appellate court failed to recognize all the facts in the case."

Jacob Zamansky, an attorney with Zamansky & Associates in New York who represented the successful plaintiff in a comparable case decided in New York Superior Court in 1995, *Stratton Oakmount Inc. vs. Prodigy Services Co.*, said, "I believe that they wrongly decided the negligence issue."

"Prodigy clearly did not meet industry standards in requiring accountability for customers by obtaining valid credit card and address information so that if someone committed a wrongful act they could be held accountable," Mr. Zamansky said.

'I think another outcome would have had a pretty extreme, chilling effect on ISPs,' says Gretchen Sayers.

Others, however, applauded the ruling.

The decision is rational and well reasoned, said Gretchen Sayers, senior claims counsel for Media/Professional Insurance in Kansas City, Mo. "I think another outcome would have had a pretty extreme, chilling effect on ISPs," Ms. Sayers said.

If Internet providers were saddled with the obligation to monitor the data they transmit, "you would just have snail mail," said attorney Michael J. Silverberg with Phillips Nizer Benjamin Krim & Ballon, who represented Prodigy in the case.

Blake Bell, an attorney with Simpson, Thacher & Bartlett in New York, said, "The court really did take some fairly well-established and old legal principles and applied those to a fairly new set of circumstances arising out of the Internet." It took a "very practical and pragmatic approach," he said.

Mr. Bell said he believes the decision will be very influential, "precisely because it comes from the highest court of the state and, quite frankly, because that state happens to be New York."

The New York Court of Appeals is "one of the most highly respected state final courts in the U.S.," said Mr. Bell. Other courts will look at the decision in considering comparable cases, he noted.

The Court of Appeals is "generally considered around the country to be a very prestigious court," said Mr. Silverberg.

Others, however, feel the decision is not necessarily of major significance. "I think other courts were already on that track," said Ms. Sayers. "It's consistent with the law as we have understood it to be" since the enactment of the federal Communications Decency Act of 1996, she said.

"I don't think it will be tremendously influential," said Mitchell Karmack, a partner with Rosenfeld, Meyer & Susman L.L.P. in Beverly Hills, Calif., who frequently represents celebrity clients with Internet issues.

"It again establishes in certain areas ISPs are going to be treated as publishers and in certain other areas they're going to be treated as common carriers," he said. "This is just another case going in that direction."

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Alexander G. Lunney vs. Prodigy Services Co. et al., State of New York Court of Appeals; 99 B, Int. 0165.

Updates

Holiday bonus vanishing: Survey

Continued from page 2

The majority of employers that still provide bonuses—59%—budgeted less than 1% of total payroll expenses for the awards. By comparison, employers budgeted an average of 9.3% of payroll for performance-based pay plans in 1999, according to Hewitt's study.

The average monetary value of holiday bonuses and gifts varied greatly by award type, with cash awards tending to have the highest value. For example, cash awards averaged $767 per employee, while companies hosting holiday parties spent an average of $52 per employee, and those providing gift certificates spent $35 per employee. The average monetary value of a food gift was $23.

E&Y settles with Cendant

NEW YORK—Ernst & Young L.L.P. says a $335 million settlement of accounting negligence litigation brought by Cendant Corp. shareholders is "well within the firm's capacity, given our substantial insurance coverage and overall financial strength."

The firm would not disclose details of its insurance coverage.

The suit, filed last year in federal district court in Newark, N.J., claimed that Ernst & Young was negligent in failing to detect accounting fraud at CUC International Inc., a company acquired by Cendant in 1997. The accounting firm had been CUC's outside auditor.

A statement from Ernst & Young said the firm was "the victim of intentional, collusive fraud on the part of CUC's management," adding that "even the best-planned and -performed audits of financial statements cannot be relied upon to detect material misstatements in these circumstances."

While acknowledging that the settlement is large, Ernst & Young said it was not an admission of wrongdoing "but simply a recognition that, in the litigious environment in which we operate today, settlements are an unfortunate reality and, sometimes, the only realistic option."

The firm said it would continue to pursue its fraud claims against New York-based Cendant—which has its own suit against Ernst & Young pending in federal court in Newark—and against Cendant personnel it claims were involved in the fraud.

Bermuda captive use down

HAMILTON, Bermuda—Single-parent captives in Bermuda saw a 28% decline in gross premiums written in 1998, according to figures just released by the domicile's regulators.

"More companies take advantage of the preferential premium rate available in the commercial market in place of utilizing their captives," Robert D. Steinhoff, chairman of Bermuda's Insurance Advisory Committee, said in a statement.

Multiowner captives, however, saw a 10% increase in gross premiums in 1998.

Single-parent captives, or Class 1 insurers, saw gross premiums fall to $2.1 billion in 1998 from $2.9 billion in 1997; multiowner captives, or Class 2 insurers, reported an increase to $4.4 billion from $4 billion. Gross premiums for Class 3 insurers (finite risk and other smaller reinsurers) increased 16% to $14.8 billion; and gross premiums for Class 4 insurers (catastrophe reinsurers and excess liability insurers), fell 12% to $2.9 billion.

Overall, gross premiums for all insurers in Bermuda, including life insurers, increased 5% to $26.6 billion in 1998. Bermuda permits insurers to file statutory returns up to nine months after companies' fiscal year ends.

Briefly noted

Two subsidiaries of **American International Group Inc.** filed suit in California Superior Court last week seeking a ruling that the ongoing property/casualty business that ACE Ltd. purchased from CIGNA Corp. earlier this year be held liable for the long-term business that CIGNA had moved to a separately capitalized runoff operation in 1996 . . . .Shares in both **Zurich Financial Services Group** and **Royal & SunAlliance Insurance Group P.L.C.** rose sharply on European stock exchanges last week after newspaper reports that Anglo-Swiss ZFSG was preparing a £7 billion ($11.30 billion) bid for London-based RSA. Neither company was prepared to comment on the reports. . . . Standard & Poor's Corp. has cut the financial strength rating of **Superior National Insurance Co.** to B+ from BB+ over concerns about its cash flow, reserving practices and retention of business. The workers compensation insurer reported a $58 million third-quarter operating loss after a $60 million boost in reserves. The California Insurance Department is also withholding release of Superior National's excess deposits, citing concerns about its $175 million reinsurance claim dispute with Bermuda-based Inter-Ocean Reinsurance Co. Ltd. S&P at the same time cut the counterparty credit rating of parent Superior National Insurance Group Inc. to CCC+ from B+. . . .The **California Commission on Health and Safety and Workers' Compensation** announced on Dec. 17 the election of labor leader Tom Rankin as its chairman for 2000. Mr. Rankin is President of the Sacramento, Calif.-based California Labor Federation . . . .The Florida Supreme Court last week denied **cigarette makers' appeal** of a lower court ruling that jurors could award punitive damages as a lump sum rather than on an individual basis. Jurors in state court in Miami begin the damages phase of the trial on Jan. 18, after earlier deciding the companies were liable for marketing a defective product (*BI*, July 12, 1999). . . . **James V. Davis**, chairman of Willis' Advanced Risk Management Services in Nashville, Tenn., announced that he will retire sometime in 2000. No successors have been named. . . .Miami-based **Burger King Corp.** last week issued a voluntary recall of tens of millions of plastic Pokemon balls included with its kid's meals, after a 13-month-old California girl allegedly died from suffocation when half of one of the balls covered her nose and mouth. The balls, which open in two pieces to reveal a Pokemon toy figure, are a potential suffocation hazard to children under 3, the restaurant chain said in a statement.

Trenwick

Continued from page 1

going to pay high multiples for stand-alone catastrophe reinsurers," Mr. Zimmerman said.

The merger with Trenwick would place LaSalle within a diversified reinsurer, and that would allow the catastrophe reinsurer to focus on its core business, rather than attempt to diversify itself, said Donald Watson, a director at Standard & Poor's Corp. in New York.

LaSalle's previous attempts to diversify have sometimes been unsuccessful, Mr. Watson noted.

For example, earlier this year, LaSalle strengthened its reserves by $35 million for incurred-but-not-reported losses from extended warranty and auto reinsurance business. The increase in reserves forced LaSalle into the red for its fiscal year 1999, which ended on Sept. 30; the reinsurer lost $5.7 million, compared with a $65.2 million profit in fiscal 1998.

The loss for fiscal 1999 stands in stark contrast to the lavish profits that LaSalle and other Bermuda-based catastrophe reinsurers made in the mid-1990s, when rates were high and capacity was scarce.

LaSalle's 1999 results were also hurt by increased catastrophe losses and low rates.

"It's very difficult for a monoline reinsurer to survive soft market conditions," Mr. Watson said.

Trenwick also would diversify its book of business through the merger. In addition, it would have more than $1 billion in capital, which is a significant barrier for reinsurers to cross, he said.

Even so, Trenwick still will be a second-tier reinsurer in most of the markets in which it operates, Mr. Watson said.

"They are still not a global competitor for the big reinsurers," he said.

Under the terms of the proposed merger, shareholders of Trenwick and LaSalle will each receive shares in a newly formed Bermuda-based holding company, Trenwick Group Ltd., on a one-for-one basis.

The merger values LaSalle at $432 million, based on the closing price of Trenwick stock on Dec. 17, the last day the market was open prior to the deal's announcement.

LaSalle has more outstanding shares than does Trenwick, so LaSalle shareholders will own 54% of the new company and Trenwick shareholders will own 46%. LaSalle's two-largest shareholders, CNA Financial Corp. and Aon Corp., will each own less than 10% of the new company, said Mr. Bensinger.

The board of directors will be dominated by Trenwick, which will have 12 seats; LaSalle will hold four.

The 1999 gross premiums of the two companies total $962 million: $380 million from Trenwick America Re, its U.S. reinsurance unit; $137 million from Canterbury Financial Group Inc., Chartwell's primary program business; $174 million from Trenwick International, the former Sorema U.K.; $132 million from Chartwell Managing Agents Ltd., a Lloyd's of London syndicate manager; and $139 million from LaSalle.

By line of business, the combined company will have $338 million in casualty reinsurance, $276 million in primary insurance, $194 million in property reinsurance, and $154 million in business at Lloyd's.

Of the total premiums, 12%, or $115.4 million, is property catastrophe reinsurance.

The assets of the combined companies would total more than $3.5 billion; shareholders equity would exceed $950 million.

The merger with LaSalle coincides with the end of a quota share reinsurance contract with PXRE Corp., under which Trenwick accepted property catastrophe business underwritten by PXRE.

The establishment of a Bermuda holding company will bring tax benefits to Trenwick for business written in Bermuda. And, due to the less-onerous regulatory regime in Bermuda, Trenwick can write other lines that it could not so easily write in the United States, Mr. Bensinger said. These include finite risk programs and high excess coverage for workers compensation and professional liability risks, he said.

Several U.S.-based reinsurers have moved their holding companies offshore in recent months, seeking tax and regulatory advantages. They include PXRE Corp., Everest Reinsurance Holdings Inc. and White Mountains Insurance Group.

Ironically, Trenwick was founded as an offshore reinsurer in 1979 and soon became a leading Bermuda-based reinsurer. It purchased a U.S. reinsurance company in 1983 and later put its Bermuda underwriting unit into runoff.

The Trenwick and LaSalle merger, which is subject to regulatory and shareholder approval, is expected to close in the first half of 2000.

Donaldson, Lufkin & Jenrette Securities Corp. advised Trenwick, while LaSalle Re's advisers were Lazard Freres & Co. L.L.C., Salomon Smith Barney Inc. and Aon Capital Markets Inc. BI

Chapters

Continued from page 3

ships and hopes to see more develop in the future, he said.

Although not every state has more than one chapter, several states with multiple RIMS chapters have collaborated similarly, said Lance Ewing, director of insurance and loss prevention for Las Vegas-based GES Exposition Services and external affairs team leader for national RIMS.

Local chapters in Illinois, Texas, Ohio, Pennsylvania and California have worked together on various initiatives, he said.

For example, in 1999, all of the California RIMS chapters joined forces to defeat a proposed workers comp bill.

"It was vetoed by the governor because of the local chapter presidents' and their members' actions regarding this bill," said Mr. Ewing.

Allan Goldberg said working with other chapters when speaking out in the legislature about issues such as workers comp and tort liability reform gives them "a stronger, louder voice and a more-coordinated position."

Mr. Goldberg is corporate insurance and risk manager for Siegel-Robert Inc., a diversified manufacturing company in St. Louis.

"It was a big step forward," said Mr. Goldberg, whose company is one of about 65 member companies in the St. Louis RIMS chapter. "I think it was a good exchange."

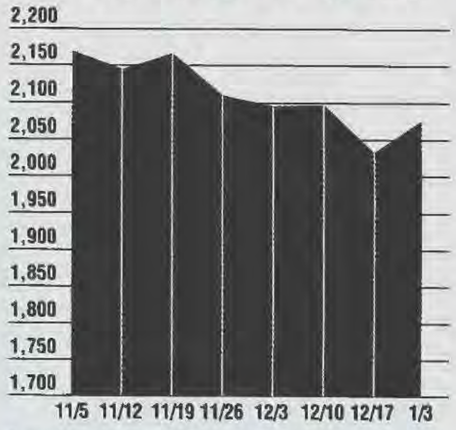
In addition to their lobbying efforts, the chapters hope to hold a joint education day. Local companies could send members of their risk management departments to attend seminars and meet with their peers. The event would be similar to the RIMS national conference, but without hefty travel and conference fees.

"We think a good start is education and political action," said Jack Hadsall, risk manager for City Utilities of Springfield, Mo. Mr. Hadsall is also the outgoing president of the Ozarks area chapter, which has 18 company members.

Mr. Heydinger said that he was quite pleased with the outcome of the joint meeting.

"For a first attempt, I think everybody certainly felt it was worthwhile." BI

BI Insurance Index



Base=100 on Dec. 29, 1978

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

PCS catastrophe options

As of Dec. 23

Call spread	Price bid/ask
National Annual 1999	
60/80	14.0/19.5
80/100	0.4/—
100/120	—
150C	—/2.0
Eastern December 1999	
10/20	—/4.0
20/30	—/2.0
40/60	—/2.0
60/80	—/1.8
Southeast December 1999	
40/60	—/1.8
60/80	—/1.6
80/100	—/1.4

Call spread	Price bid/ask
California Annual 1999	
60/80	—
80/100	—/0.4
100/150	—/0.8
Western Annual 1999	
80/100	—/1.9
National Annual 2000	
100/150	7.5/—
150C	6.0/—
190/195	0.3/0.5
200/250	3.7/—

Total volume: 0 Total open interest: 6,737

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Legal & Gen	170	21.1	3.6	2.1	237-142
Royal & Sun	448	—	23.0	5.7	633-351
Brokers					
Lmbrt Fenchurch	140	14.0	4.2	3.0	142-58
JLT	247	11.1	12.0	4.9	286-166

Note: Prices are Dec. 29 closings; other numbers from Dec. 28.

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

BI Industry Stock Report DEC. 27, 1999, THROUGH DEC. 29, 1999

BROKERS		Price	Weekly % change	Year to date % change	Year to date High	Low	Vol (000)
Aon Corp.	NYS	40.06	-0.16	7.19	46.69	26.06	1413
Clark Bardes Holdings	NDQ	14.25	3.64	-15.62	21.00	11.63	18
E.W. Blanch Holdings Inc.	NYS	61.00	5.17	30.66	71.75	45.25	196
Gallagher Arthur J. & Co.	NYS	63.81	-0.58	45.86	64.69	42.25	174
Hilb, Rogal & Hamilton	NYS	28.56	-1.51	53.36	29.13	15.56	19
Kaye Group Inc.	NDQ	8.31	3.91	14.66	9.25	5.00	5
Marsh & McLennan	NYS	94.00	-2.40	58.99	96.38	57.13	1653
Brown & Brown	NYS	38.00	-0.65	8.77	40.63	29.31	22
BROKERS	AVERAGE		0.66	35.38			
INSURERS/REINSURERS							
ACE Ltd.	NYS	16.75	2.68	-48.76	35.25	15.50	3500
Accel International Corp.	NDQ	0.88	-26.28	-70.83	3.38	0.50	14
Acceptance Insurance Cos.	NYS	5.44	6.10	-72.64	20.44	4.88	528
AEGON N.V.	NYS	95.50	-0.65	-21.68	130.13	69.63	161
Aetna Life & Casualty	NYS	54.50	0.58	-31.71	99.88	46.50	1230
AFLAC Inc.	NYS	47.25	4.71	7.39	56.75	39.00	1684
Allmerica Financial Corp.	NYS	53.50	5.29	-5.52	64.81	46.06	309
Allstate Corp.	NYS	24.00	-2.29	-37.66	41.00	22.88	8025
Ambac Financial Group	NYS	51.94	-0.60	-13.35	63.00	25.06	662
American Financial Group	NYS	26.25	1.45	-36.27	43.88	24.50	223
American General	NYS	73.25	2.09	-6.39	81.50	61.88	789
American Intl Group	NYS	108.31	-0.97	39.04	112.88	76.19	3830
American Safety Insurance	NYS	6.25	1.01	-34.21	10.38	6.00	48
Argonaut Group	NDQ	20.25	-1.82	-15.63	27.94	19.63	128
AXA-UAP Group	NYS	69.75	0.18	-2.53	80.25	53.75	96
Baldwin & Lyons Inc.	NDQ	23.00	0.55	-1.60	26.00	19.63	31
Berkley W.R. Corp.	NDQ	20.25	-0.92	-40.00	36.25	19.81	620
Berkshire Hathaway Inc.	NYS	53000.00	-1.85	-22.40	81100.00	52800.00	1
Capital RE Corp.	NYS	14.31	3.15	-26.84	20.88	9.44	239
Capitol Transamerica Corp.	NAS	10.25	5.13	-42.05	19.50	9.50	79
Chubb Corp.	NYS	56.25	0.45	-13.38	76.38	44.00	1253
CIGNA Corp.	NYS	78.63	0.16	1.13	98.63	63.44	1189
Cincinnati Financial Corp.	NYS	31.00	-4.98	-13.13	42.50	30.13	790
Citigroup	NYS	54.88	-2.01	62.79	57.56	32.69	15558
CNA Financial Corp.	NYS	38.88	-1.27	-1.11	45.31	33.00	231

		Price	Weekly % change	Year to date % change	Year to date High	Low	Vol.(000)
CNA Surety	NYS	11.38	4.60	-23.85	16.00	9.75	657
EMC Insurance Group Inc.	NDQ	9.13	0.69	-28.43	13.38	9.00	31
ESG Re Limited	NDQ	5.88	3.30	-70.35	22.25	5.13	347
Enhance Financial Services	NYS	16.13	2.38	-46.69	30.38	15.50	282
Everest Reinsurance	NYS	22.50	-0.28	-38.67	38.94	20.50	613
Fremont General Corp.	NYS	6.81	5.83	-71.76	25.69	4.69	978
Frontier Insurance Group	NYS	3.06	0.00	-75.50	17.25	2.38	1364
Gainsco Inc.	NYS	5.50	0.00	-12.87	6.94	3.94	88
Harleysville Group	NDQ	13.25	0.00	-48.04	26.13	12.63	82
HSB Group Inc.	NYS	33.25	3.10	-17.26	42.25	31.50	242
HCC Insurance Holdings	NYS	12.75	15.91	-24.72	25.13	8.00	768
ING Groep N.V.	NYS	59.63	-1.95	-2.25	70.00	21.00	117
IPC Holdings Ltd.	NDQ	15.31	-1.21	-32.69	23.19	14.25	403
Hartford Financial Services	NYS	46.13	0.41	-17.36	66.44	36.50	1912
LaSalle Re Holdings Ltd.	NYS	16.56	13.25	-19.70	22.50	10.88	556
Lincoln National	NYS	39.31	2.95	-5.13	57.50	36.00	1335
MAIC Holdings Inc.	NYS	20.56	-8.86	-35.74	33.13	19.88	278
Markel Corp.	NYS	150.75	1.17	-6.37	193.00	143.25	33
MBIA Insurance Group	NYS	51.75	1.97	-21.96	71.88	45.00	1311
Meadowbrook Insur. Group	NYS	5.94	15.85	-63.60	17.44	4.75	81
MMI Cos. Inc.	NYS	8.56	0.74	-48.69	18.13	3.31	433
Mutual Risk Mgmt. Ltd.	NYS	16.88	1.12	-55.52	43.25	9.81	493
Navigators Group	NDQ	9.75	0.65	-36.07	16.13	9.13	21
NYMagic Inc.	NYS	13.13	4.48	-27.13	21.38	12.00	25
Ohio Casualty Corp.	NDQ	16.56	0.00	-19.45	21.69	14.88	431
Old Republic Int'l	NYS	13.44	-0.46	-37.32	22.75	12.06	576
Partner Re Ltd.	NYS	32.00	3.02	-29.18	46.44	28.56	382
Penn-America Group Inc.	NYS	7.50	1.69	-19.92	11.44	7.00	16
PMA Capital Corporation	NDQ	19.81	-0.94	1.28	21.13	17.38	34
Philadelphia Cons. Holding	NDQ	15.00	-1.23	-23.41	25.50	10.81	360
PXRE Corp.	NYS	11.88	2.15	-52.97	26.25	9.94	153
Reliance Group Holdings	NYS	5.94	-9.49	-54.11	13.69	2.81	2960
ReliaStar Financial Corp.	NYS	39.25	1.29	-12.29	49.81	28.56	394
RenaissanceRe Holdings Ltd	NYS	40.38	3.19	11.76	43.19	30.00	177
Risk Capital Holdings	NDQ	12.88	10.75	-39.05	22.63	11.00	168

		Price	Weekly % change	Year to date %change	Year to date High	Low	Vol.(000)
RLI Corp.	NYS	33.75	1.50	1.12	38.81	27.88	30
St. Paul Cos.	NYS	33.19	-1.67	-5.18	37.06	25.38	1102
SCOR	NYS	44.75	4.07	-31.15	68.50	42.94	5
SAFECO Corp.	NDQ	24.63	-0.51	-42.06	46.75	21.81	2054
SCPIE Holdings Inc.	NYS	32.44	-0.57	7.90	36.06	23.69	NA
Seibels Bruce Group	NDQ	1.88	7.14	-46.43	6.25	1.50	96
Selective Ins. Group	NDQ	16.94	1.12	-16.36	22.50	16.50	259
Terra Nova Ins Co. Ltd.	NYS	29.63	0.42	21.54	32.63	21.25	343
Tokio Marine & Fire	NDQ	57.50	-3.97	-2.34	67.00	50.00	57
Torchmark Corp.	NYS	28.81	-0.86	-17.09	38.00	24.56	500
Transatlantic Holdings	NYS	77.25	0.73	2.15	80.50	69.06	16
Travelers Property Casualty	NYS	33.38	2.89	8.98	41.88	27.69	446
Trenwick Group Inc.	NYS	17.69	12.75	-44.07	35.25	14.38	830
Unico American Corp.	NDQ	7.00	-2.61	-39.30	13.75	6.38	15
United Fire & Casualty	NDQ	19.63	0.64	-41.03	35.50	19.25	31
Unitrin	NDQ	38.19	1.50	7.76	42.38	30.50	104
UNUM Corp.	NYS	30.31	1.46	-49.43	62.50	26.00	2112
Vesta Insurance Co.	NYS	3.81	-4.69	-33.70	8.38	3.38	280
XL Capital Ltd.	NYS	48.25	0.65	-32.58	77.25	41.94	1187
Zenith National Ins.	NYS	20.56	-1.50	-11.08	26.69	19.25	32
INSURERS/REINSURERS	AVERAGE		1.19	-23.17			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	9.50	-1.30	-13.64	20.06	6.25	697
Humana Inc.	NYS	7.75	4.20	-59.08	20.75	5.88	3139
Oxford Health Plans	NDQ	12.94	10.70	-7.59	24.25	9.75	8355
Pacificare Health Sys.	NDQ	53.25	3.65	-25.52	100.38	31.13	1731
Safeguard Health Enter.	NDQ	0.75	0.00	-78.95	5.25	0.44	0
Sierra Health Services	NYS	6.25	17.65	-70.06	22.13	4.63	1110
United HealthGroup	NYS	52.19	2.58	17.11	70.00	39.38	1766
Wellpoint Health Networks	NYS	65.44	1.26	-23.80	97.00	48.25	657
HMOs	AVERAGE		4.84	-32.69			
ALL COMPANIES	AVERAGE		2.23	-6.83			

Top advancing issues: Sierra Health Services, HCC Insurance Holdings, Meadowbrook Insur. Group. Leading decliners: Accel International Corp., Reliance Group Holdings, MAIC Holdings Inc. Most active issue: Citigroup. The *BI* Index fell 1.1%; the Dow Jones 30 Industrials increased 0.7%; the S&P 500 rose 0.4%, and the NYSE Composite increased 0.3%. Average P/E: Brokers, 19.5; Insurers/reinsurers, 18.7; HMOs, 13.2.

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