

Business Insurance

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

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Large HMOs withdrawing from Medicare risk business

WASHINGTON—More than 700,000 retirees and disabled individuals now enrolled in Medicare health maintenance organizations could lose their coverage next year, as managed care companies withdraw from the once-promising cost-cutting approach.

Several HMOs said last week that they will significantly reduce their Medicare HMOs next year in response to inadequate government payments. The largest of those, Aetna U.S. Healthcare, is eliminating coverage
See Updates on next page

California's commissioner resigns as probes intensify

By ROBERTO CENICEROS

LOS ANGELES—The resignation last week of California Insurance Commissioner Chuck Quackenbush was no surprise, given the mounting allegations of corruption and mismanagement, business and insurance industry leaders say.

Now, however, at least two issues are of pressing concern to them.

Worried that the Department of Insurance has fallen into disarray amid various investigatory hearings, business and insurance industry representatives said they hope a new com-

missioner can quickly restore the department's integrity and operations yet give them fair representation on regulatory matters.

Gov. Gray Davis said late last week he plans to name a replacement within 30 days.

Another immediate concern involves the oversight of the state's workers compensation insurers, which have serious reserve shortfalls.

"It is critically important for all segments of the industry that the Department of Insurance get back to a normally functioning mode as soon as possible," said Mark E. Webb, vp-state affairs in Sacramento, Calif., for the American Insurance Assn. "From the business communi-

ty side, we still have some serious issues regarding the solvency of the benefit delivery system."

California insurers faced a \$4.3 billion reserve deficit at the end of 1999, according to the San Francisco-based Workers Compensation Insurance Rating Bureau. The actual deficit likely is less, however, because the rating bureau's estimate does not include reinsurance arrangements.

Mr. Quackenbush's replacement will be faced with the challenge of establishing a credible system for regulating insolvencies,

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PHOTO: AP/WIDE WORLD

Chuck Quackenbush's departure creates uncertainty in the California Insurance Department.

Brokers debate need for added cover

Dueling views on D&O

By GAVIN SOUTER

NEW YORK—New rules for independent directors on company boards will likely lead to more shareholder suits against public companies.

Whether existing directors and officers liability insurance will cover the added exposure, however, is less clear.

The world's largest brokers—Marsh Inc., Aon Corp., and Willis Group Ltd.—have recently written to their clients offering differing views on the increased liability of audit committee members of company boards.

While all three brokers agree that, in the short term, the new rules promulgated by the Securities and Exchange Commission and other securities regulators will likely lead to increased exposure, Willis and Aon hold that existing

D&O policies should cover the added exposure, whereas Marsh says it might not and additional coverage might be necessary.

At the heart of the debate is the rescission of D&O policies, a rarely used right of an insurer to reject a claim by stating there was a material misrepresentation in the application for coverage and that, in effect, the policy never existed.

Marsh holds that instances of rescission are increasing and that rescission may be used as a defense by underwriters seeking to avoid the new exposures. Consequently, some policyholders may wish to buy a new policy offered by Marsh to cover the possibility.

But Willis and Aon hold that rescission is still extremely

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Legislative doctoring Congress OKs contentious health proposals

By MARK A. HOFMANN

WASHINGTON—Separate measures that could raise the cost of health insurance for employers were approved in both houses of Congress last week.

Patient rights legislation that would allow managed care plan participants to sue over coverage decisions in federal court was attached to a spending bill that won approval by the Senate on Friday.

Also on Friday, legislation that would exempt physicians from federal antitrust laws in their negotiations with managed care plans and insurers was approved by the House.

The future of both measures is uncertain, however, and employer organizations and other opponents of the bills vow to continue fighting them. In doing so, they may have an ally in the clock, as time in the legislative calendar grows short.

The Senate patient rights measure was introduced as an amendment to a Department of Labor/Health and Human Services appropriations bill last Thursday. Unlike legislation the Senate passed last year, the amendment would grant participants in managed care plans the right to sue the plans—and, in some cases, the employers that sponsor

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In OECD's sights

Captive domiciles the OECD declared 'tax havens'

Domicile	Number of captives
Guernsey	364
Barbados	220
Isle of Man	169
British Virgin Islands	131
Turks & Caicos Islands *	129
Netherlands Antilles	18
Jersey	17
U.S. Virgin Islands	9
Gibraltar	8
Panama	2

* Excludes credit life insurers

Tax haven list includes big domiciles

By EDWIN UNSWORTH and RODD ZOLKOS

The presence of 10 captive domiciles on a list of 35 jurisdictions singled out by the Organization for Economic Cooperation and Development as having "harmful" tax practices is causing little immediate concern in the captive industry.

Many contend that the OECD has been vague in setting out what it requires of jurisdictions to avoid being labeled as "tax havens."

And, observers note, the release of a final list of jurisdictions that could be subject to possible, but as yet unspecified, "defensive measures" is a year away.

Barbados, the British Virgin Islands, Gibraltar, Guernsey, the Isle of Man, Jersey, the Netherlands Antilles, Panama, Turks & Caicos and the U.S. Virgin Islands all were named in the report released last week by the Paris-based OECD's Committee on Fis-

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**MIDYEAR
MARKET REPORT**

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UPDATES

Medicare HMOs pulling back

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for about 355,000 enrollees in 14 states. In addition, Foundation Health Systems Inc., Oxford Health Plans Inc. and Sierra Health Services Inc. also announced withdrawals in certain markets last week, though relatively few enrollees are affected by those moves. Previously, CIGNA HealthCare said it would leave markets in more than a dozen cities and states, which will affect more than 100,000 enrollees.

The pullouts came as the American Assn. of Health Plans, a managed care trade group, released a poll of member HMOs in which respondents—which account for 85% of the total Medicare HMO enrollment—said that 711,000 of their enrollees are in plans that will be terminated next year.

HMOs say they are leaving the Medicare market because government payments haven't kept up with their costs. The industry has been heavily lobbying Congress and the Clinton administration to boost the reimbursements.

With just over 6 million people in Medicare HMOs, the pullouts will affect more than 10% of enrollment in the plans. But enrollees will not be left without coverage. Some may find coverage in other Medicare HMOs in their areas, while others can return to the traditional Medicare program, though the benefits typically are far short of what the HMOs had been offering.

The contraction of the Medicare HMO market could play havoc with employers that have been finding it cost-effective to give retirees financial incentives to join Medicare HMOs, rather than covering them in corporate retiree health care plans.

Pollution ruling upheld

LANSING, Mich.—The Michigan Supreme Court has affirmed without explanation a state appellate court's pro-policyholder pollution coverage ruling.

In *Arco Industries Corp. vs. American Motorists Insurance Co.*, an appellate court in October 1998 deferred to an earlier state Supreme Court decision that the general liability policy's sudden-and-accidental pollution exclusion bars coverage of pollution damages that did not occur abruptly.

But, citing other state court decisions, including an earlier state high court review of the *Arco* case, the appellate court affirmed the trial court's decision to focus on the nature of the pollutants' release into the environment rather than on the pollutants' subsequent migration. Because the release of the pollutants was abrupt, the exclusion does not bar coverage, the trial, appellate and supreme courts agreed.

All three courts also agreed that the general liability policy's owned-property exclusion does not bar coverage for the cost of cleaning a policyholder's property in all instances. Public policy bars insurers from imposing the exclusion when the pollution threatens to migrate to groundwater, the courts found.

Reversing a trial court, the appellate court ruled—and the high court affirmed—that a state environmental agency's letter to Arco is a lawsuit that triggers the company's defense cost coverage. The letter informed Arco that it was responsible for groundwater contamination and that the company must take remediation action.

The high court's affirmation also upholds the appellate court's decision that Arco's various insurers are liable only for the portion of the loss that occurred during their respective policy periods.

The high court, with one justice not participating in the case, split 3-3 in its June 22 affirmation of the lower court's ruling. In Michigan, an equally split high court decision automatically affirms the ruling that is being appealed.

Fungicide cases reopened

WILMINGTON, Del.—E.I. du Pont de Nemours & Co. is bracing for additional claims in recently reopened cases involving its Benlate 50 DF fungicide.

Courts have permitted approximately 40 cases that had been settled in Florida and Delaware to be reopened, and a DuPont spokeswoman said the company expects similar actions in a number of other states. Claimants who petitioned to have their cases reopened charge, among other allegations, that they were misled into accepting less money than they should have received in their settlements.

DuPont, which has paid more than \$1 billion since the early 1990s to settle claims that contaminated Benlate killed crops, will "vigorously defend these cases," the spokeswoman said.

Meanwhile, in a case unrelated to the alleged contamination, a state court jury in Starr County, Texas, last month awarded \$100.3 million to two melon growers who charged that the fungicide failed to work as advertised and did not prevent a blight that killed crops.

The spokeswoman said settlements and defense costs are funded by a combination of insurance and reserves. The company plans to take a charge against earnings of about \$60 million in its second quarter to help fund defense of the reopened cases.

Comp losses worse than thought

BOCA RATON, Fla.—Further deterioration of two key loss ratios shows that 1999 was even more unprofitable for workers compensation insurers than originally calculated, according to revised estimates released last week by the National Council on Compensation Insurance.

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Australian insurer QBE wins battle to buy Limit

By SARAH VEYSEY

LONDON—In a dramatic turnaround in a lengthy bidding war, Limit P.L.C. has announced that it will accept a takeover offer by Australian insurer QBE Insurance Group Ltd.

QBE's most-recent bid, of 140 pence (\$2.12) per share, was accepted by Limit on June 28. The bid values the company at about £375 million (\$567.0 million) and would create the largest Lloyd's-based insurance business, with an estimated capacity of £950 million (\$1.44 billion). Sydney-based QBE

already operates four syndicates at Lloyd's that have a combined capacity of about £110 million (\$166.3 million).

Until its decision to accept the QBE offer, Limit had strongly opposed a takeover by QBE, instead favoring a merger with fellow London-based Lloyd's business Wellington Underwriting P.L.C. The two groups had agreed to merge in April, then QBE stepped in with a hostile bid for Limit. A bidding war for Limit ensued, with Limit saying in early June that it favored a Wellington offer of 133.5 pence (\$2.01) per share in

cash and convertible stock over QBE's cash offer of 135 pence (\$2.04) per share. At the time, Limit Chairman Jonathan Agnew said that the Wellington offer, despite being slightly lower, was a better deal for Limit shareholders.

Then, on June 26, both Wellington and QBE submitted "enhanced" bids, according to Limit, though Limit did not disclose the terms of either offer. Rumors abounded in the market that QBE was prepared to make a hostile bid if its offer was rejected by the Limit board, but Limit shareholders. See Limit on page 37

House OKs Medicare coverage expansion

Retiree drug bill advances

By JERRY GEISEL

WASHINGTON—If Congress acts to add a prescription drug benefit to the Medicare program, employers with retiree health care plans almost certainly will receive a financial windfall.

Last week, prescription drug legislation moved one small step forward when the House of Representatives passed—on a 217-214, near party-line vote—a Republican plan proposed by Rep. Bill Thomas, R-Calif., to give Medicare recipients a new drug benefit.

Underscoring the intense partisanship that has surrounded the issue, House Democrats en masse briefly walked out of that chamber prior to last week's vote on the Republican bill, and President Clinton has said he will veto the measure if it comes to his desk in its current form.

Still, there were signs that a compromise

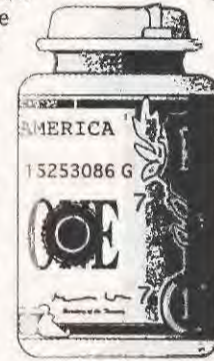
is possible, if unlikely. President Clinton said he wants to work with lawmakers to get legislation passed; and Sens. Bill Frist, R-Tenn., and John Breaux, D-La., last week unveiled what they said is the only bipartisan prescription drug bill.

In addition, Senate Finance Committee Chairman William Roth, R-Del., said his panel would consider prescription drug legislation after the July 4 recess.

Whether a compromise can be reached this year isn't known. What is known, however, is that all of the major prescription drug bills could shave billions of dollars off employers' retiree health care bills and could slow—and perhaps eliminate—the current trend of employers terminating retiree health care plans, some experts say.

"Employers would find appeal in legislation that provides subsidies for

See Medicare on page 38



Filing proposal delayed

Insurers, buyers laud further review of rate-and-form measure

By MEG FLETCHER

KANSAS CITY, Mo.—The National Assn. of Insurance Commissioners is delaying formal adoption of a package of proposed model rate-and-form filing requirements while it considers how they fit with its goal of streamlining regulation of insurance.

Critics of the requirements welcome the delay, as it may give them a new opportunity to lobby regulators on changes they seek to the proposals.

The NAIC's Executive Committee made the decision during a conference call last week held to discuss various issues that had been set aside at its recent quarterly meeting to allow regulators

NAIC

more time to discuss issues relating to financial and regulatory modernization.

The Executive Committee's agenda for the teleconference had called for members to "consider adoption" of the Property and Casualty Rate and Policy Form Model Law and accompanying regulation. The proposals, which have been in development for nearly two years, would allow a state insurance commissioner to determine the appropriate method of regulation but, unless otherwise stated, would require a regulator's

prior approval of forms and a file-and-use system for rates. The model would exempt large commercial policyholders.

Instead of adopting the package, however, committee members unanimously voted to merely receive the controversial package of proposals and pass it to the NAIC's new Speed to Market Working Group.

That working group was established in March as part of the NAIC's initiative to streamline state regulation of insurance while implementing new federal financial modernization requirements imposed by the Gramm-Leach-Bliley Act (GLBA, March 20).

Representatives of risk man-

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INSIDE

• If politicians stopped bickering, a compromise could be reached on expanding Medicare to include prescription drug benefits, one of this week's editorial says. **PAGE 8**

• Marsh Inc. is planning a major expansion of its European operations, principally by increasing the brokerage and consulting services it delivers to small- and medium-size businesses. **PAGE 29**

• American Home Products plans an appeal of the \$29.2 million award an Oregon state court awarded to two users of the company's fen-phen diet drugs. **PAGE 32**

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Business Insurance (ISSN 0007-6864) Vol. 34, No. 27, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207. \$4 a copy and \$89 a year in U.S., \$103 in Canada and Mexico (includes GST). All other countries \$209 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Copyright 2000 by Crain Communications Inc.

MIDYEAR MARKET REPORT

High cost hikes continuing for benefit plans

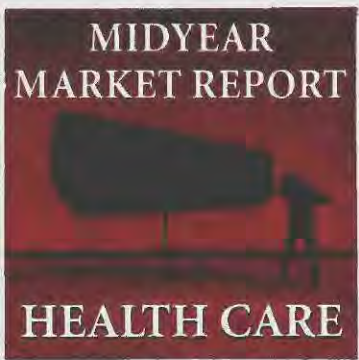
By JERRY GEISEL and MICHAEL PRINCE

Health insurance rates continue to increase, with no relief in sight. Health maintenance organizations have been boosting their rates this year by roughly 7% to 12%, though some employers have been hit with increases of more than 30%. "There have been a lot of crazy things going on," said Barry Barnett, a principal with UNIFI Network, a unit of PricewaterhouseCoopers L.L.P. in Teaneck, N.J.

Rates for other types of health plans also have been climbing in 2000. Rate hikes for point-of-service plans and preferred provider organizations have averaged roughly 10% to 12%.

Benefit managers shouldn't expect rate hikes to abate anytime soon.

Renewals at year end "could be really ugly," said Kenneth Sperling, a consultant with Hewitt



Associates L.L.C. in Norwalk, Conn.

Substantial rate hikes have become so much a part of the landscape that benefit managers whose cost increases are somewhat less than the norm—though still high compared with only a few years ago—consider themselves fortunate.

"So far, so good. Rate increases have been lower than expected," said Michael Pikelný, benefit consultant and corporate actuary with Hartmarx Corp., a clothing manufacturer in Chicago. Mr. Pikelný says HMOs that Hartmarx uses have been increasing rates by about 7% this year.

As has been the case for the last two to three years, soaring prescription drug benefits have been a prime factor fueling rate increases. Insurers, HMOs and others say prescription drug costs are rising 15% to 20% a year with double-digit annual increases likely to continue.

"There is no end in sight" to hefty cost increases, said Randall Abbott, client strategies leader in the Philadelphia office of Watson Wyatt Worldwide.

"Prescription drug costs are running away," concurred Mr. Sperling of Hewitt.

Prescription drug cost increases are being fueled by a number of factors, not the least of which is direct advertising by pharmaceutical manufacturers, which, benefit experts say, increases consumer demand.

"The pharmaceutical industry has increased awareness and prices," said Bryan Birch, chief sales officer with Empire Blue Cross & Blue Shield in New York.

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Buyers seeing signs of firming in some areas

By MICHAEL BRADFORD and DAVE LENCKUS

Whether the insurance market is hardening depends on which buyer you ask. From a buyer's perspective, the market is being characterized as crusty rather than hard. There is firming in some areas, but soft spots remain.

"There are definite signs of a turning market," said

Richard S. Betterley, president of Betterley Risk Consultants Inc. in Sterling, Mass. He characterized the prevalence of firming rates in the market, however, as "spotty" during recent renewals.

Mr. Betterley, who handles insurance renewals for the small-client segment of his practice, recently completed the process for three manufacturers

and a hotel. Generally, he said, general liability and fleet rates are up 20%, property rates are 10% higher and workers compensation prices have moved up 5%.

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Rates, terms vary by account, brokers report

By ROBERTO CENICEROS and SALLY ROBERTS

Price firming and some tightening of terms and conditions mark midyear renewals for most lines of commercial property/casualty insurance, brokers report.

More so than at year-end renewals, insurers at midyear are looking to improve their financial position either by raising rates or by walking away from less desirable accounts, several brokers report.

Insurers, however, still are setting their rates and terms on an account-specific basis, and there still are wide variations in pricing, they say. Account size, risk location and industry type are among the factors determining the size of rate increase.

Such pricing variations aside, brokers agree on the market's current direction.

"The softness of the market that we have experienced in the recent past, the continual softening, has ended," said Thomas A. Golub, president and chief executive officer of Hobbs Group L.L.C. in Atlanta. "There is no more softening."

"The thing that we are seeing throughout the year is that rates are getting stronger, not weaker," said Michael D. O'Halleran, president of Aon Group Inc. in Chicago.

Insurers are looking more closely at their business and are setting terms and prices on an account-specific basis, said James J. Braniff III, junior vp at Arthur J. Gallagher & Co. in Itasca, Ill.

"That is the healthiest thing going on in the insurance industry," he said. Insurers "are deciding what they need to get to a profitable level, as compared to (imposing) an across-the-board rate increase," he said.

Risk managers understand that the market has bottomed out, and they are accepting moderate rate increases, brokers note. Some of the larger increases, though, have caused some buyer anxiety and have prompted inquiries into alternatives to purchasing insurance.

Extreme increases, however, remain uncommon.

"I wouldn't be so bold as to describe it as a hard market," said Frank C. Witthun, president and CEO of Acordia Inc., which recently moved its headquarters to Chicago from Indianapolis.

"In some specific areas, we've seen some change...one being workers compensation in California. Some property rates are a little more difficult in some coastal ar-

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Insurers claim rate increases are across-the-board

By MARK A. HOFMANN and MEG FLETCHER

Insurers see a light—albeit still a rather faint one—at the end of a tunnel they've been traversing for more than a decade.

Underwriters say that the property/casualty insurance market, which has been soft since the late 1980s, is finally firming. Insurers say they have been able to get rate increases—some modest, others substantial—pretty much across the board during the midyear renewal season.

At the same time, underwriters are quick to point out that the market is firming, not hardening.

They aren't experiencing a reprise of the mid 1980s, when rates skyrocketed, capacity disappeared and many risk managers turned to alternatives, such as captives, for financing their risks.

In addition, insurers note that risk managers aren't vehemently resisting the increases. Some accounts—particularly those with poor loss histories and, thus, higher-than-average premium increases—are being shopped to other insurers, but many others are remaining with incumbent underwriters once the rationale behind rate increases has been adequately explained.

"The main thing we're looking at is looking at each customer in-

dividually and trying to make sure the retentions are right and the pricing is right," said Gail P. Norstrom, president and chief executive officer of Industrial Risk

Insurers in Hartford, Conn. He said underwriters have "better tools" to understand risks than they did 15 years ago, so "we're going about in a much more thoughtful way than perhaps we did in the mid '80s."

Current circumstances indicate a "firming market. We're seeing more across-the-board increases, that's what we're hearing from the agents," said Steve Pozzi, senior vp and managing director of Chubb Corp. in Warren, N.J. "It's been across the board; there's not one single area."

The rate increases have resulted from the "cumulative aggregation of lower and lower rates," said Mr. Pozzi. "It doesn't look as

much like a knee-jerk reaction," he said.

"We are clearly seeing price strengthening across commercial lines," particularly in the middle-market segment of commercial accounts—which pay between \$50,000 and \$1 million in annual premiums—for core lines of coverage, including workers compensation, general liability, auto liability and auto property as well as general property coverages, said Doug Elliot, chief operating officer-commercial lines at Travelers Property Casualty Corp. in Hartford, Conn. Mr. Elliot said Travelers has been able to get steady increases during the last

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Reinsurers driving higher rates, retentions

By GAVIN SOUTER
and DOUGLAS McLEOD

Reinsurers are paying significant increases for many of their reinsurance programs at midyear renewals.

Cedents with losses on their property catastrophe reinsurance programs are paying the largest increases, reinsurers and brokers report.

Loss-free property programs are also being hit with rate hikes and higher retentions, though, as reinsurers try to turn around their poor results.

And while casualty reinsurance rates are not hardening as fast, insurers often are paying more for coverage, reinsurers and brokers say.

The hardening likely will continue for the rest of the year, as reinsurers strive to increase profits, they say.

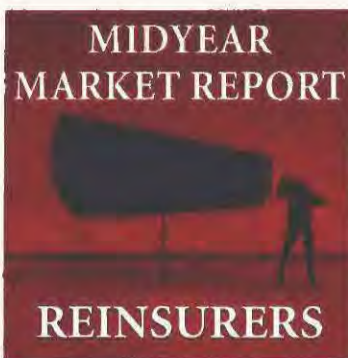
While increases vary by line, the rate reductions that have been common for the past several years have come to an end, said Jerome Karter, president and chief executive officer of SCOR U.S. in New York.

"We haven't seen any price reductions anywhere," he said.

Most reinsurers have reviewed their poor results for the past few years and determined to improve them by increasing rates, he said.

Property catastrophe reinsurance continues to lead the tightening trend in the market.

Ceding companies are seeing renewal rate increases averaging 10% to



15% on cat coverage, depending on geographic area and loss experience, said Steven Bolland, senior vp with intermediary Gill & Roeser Inc. in New York.

Companies with good experience and relatively low exposure may see 8% to 10% increases, while those with heavy losses could see hikes of up to 25%, Mr. Bolland said.

By year end, he said, some ceding insurers will likely consider raising their retentions or will look at risk transfer alternatives, such as catastrophe bonds, in response to rising costs.

Cat bonds "are not alternatives when reinsurers are giving away reinsurance. Once you start raising the price 25%, people are going to start looking at these alternatives," he observed.

"The firming that we saw in January is continuing," agreed Sean Mooney, senior vp and chief economist with Guy Carpenter & Co.

Inc. in New York. "It's very difficult for clients to get any rate reductions" for either catastrophe or property treaty programs.

Florida catastrophe reinsurance renewals renewed on June 1 with increases ranging from 10% to 25%, depending on the underlying book of business, said Russell Smith, senior vp at Renaissance Reinsurance Ltd. in Bermuda.

Many of the companies renewing derived their business from risks formerly covered by the Joint Underwriting Authority in Florida and have been established over the past three years, he said. Previously, much of the reinsurance coverage written for these new insurers was based on their business plans, but this year the coverage is based on the actual portfolio of business, Mr. Smith said.

"Those that have good business plans, an established portfolio that we are comfortable with and are making money will only have increases in the range of 10%, but those that have had rapid growth outside of their plan have seen higher increases," he said.

No insurers in Florida suffered large catastrophe losses in 1999, but some have rapidly expanded in high-risk areas so their rates are increasing to reflect the higher risk profile of the business, Mr. Smith explained.

Nationwide, insurers that were renewing on July 1 have been seeing rate increases that varied greatly depending on loss experience, he said.

Some insurers that suffered losses from Hurricane Floyd as well as other natural catastrophes in 1999 are seeing rate increases of more than 30%, Mr. Smith said.

In Europe, primary property insurers will probably not impose big rate increases even after large cat losses, said Donald Watson, a director with Standard & Poor's Corp. in New York. As a result, reinsurers will react by forcing ceding insurers to take larger retentions and by withdrawing pro rata reinsurance capacity, writing instead on an excess-of-loss basis that limits reinsurers' risk but also reduces reinsurers' premiums, Mr. Watson predicted.

The market for non-catastrophe property programs, meanwhile, is still looser than that for catastrophe risks, observers say.

"I don't see a big change," Mr. Bolland said, explaining that reinsurers in some cases are "jiggling terms," reducing rates, for example, while cutting the maximum loss recoverable under a contract.

"It's been difficult to see if there has been any price increase at all," he said.

John W. Smithson, chairman and chief executive officer of PMA Reinsurance Corp. in Philadelphia, said the property per risk reinsurance market is tightening, but slowly, with rate hikes hitting accounts that have produced losses.

"Property accounts with good experience are being treated a little differently, but prices are generally heading north," Mr. Smithson said.

Several reinsurers are refusing to support proportional property reinsurance treaties with adverse results, said Roderick P. Thaler, executive vp at Willis in New York.

And to make the treaties acceptable to reinsurers, insurers have had to take larger retentions, he said.

Also, brokers have had to make greater use of modeling and quantitative analysis to demonstrate to the reinsurers that treaties will likely be profitable, he said.

"The modeling allows you to go to a Doubting Thomas reinsurer and say, 'This really is a viable proposition,'" Mr. Thaler said.

And senior managers at reinsurers are getting more involved in the process of reviewing large treaties as the

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Our client changed partners four times in five years and we never lost a step. No wonder they're dancing on air.

With 5000 employees and an annual payroll over \$100 million dollars, controlling workers compensation costs isn't a cakewalk for Rhode Island-based Pembroke Management Services Inc., a professional employer organization (PEO). In 1994 they hired us to help them control workers compensation costs and claims. Since that time, in their on-going effort to better manage the workers comp program and enhance the support they were receiving, the company has switched workers comp carriers several times.

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Reinsurers

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performance of those treaties can have a significant effect on overall results of a reinsurer, he said.

"So we are seeing much more committee underwriting and much more actuarial analysis," Mr. Thaler said.

The casualty reinsurance market is also seeing some increases.

"We are finding that the market is getting tighter by the day," said H. Elizabeth Mitchell, executive vp North American casualty at St. Paul

Re, a New York unit of St. Paul Insurance Cos. Inc.

Rates are increasing significantly for excess-of-loss treaties, ceding commissions are being reduced significantly for proportional treaties, and brokers are having difficulties placing poor-performing business, she said.

In the most extreme cases, casualty rates are increasing by 60%, and 10% to 20% increases "are not unusual," Ms. Mitchell said.

The reinsurance market is going through a marked change, agreed Fred Madsen, executive vp at NAC Re Corp., a Stamford, Conn.-based unit

of XL Capital Ltd.

"We are turning business down, and more often times than not we find it coming back," he said.

A year ago, if a reinsurer turned down a poorly rated program, brokers would easily find another reinsurer to take on the risk, Mr. Madsen said. But rejected business is being repackaged and presented again to reinsurers that previously turned it down, he said.

Rate increases are averaging 5% to 10% for casualty reinsurance, Mr. Madsen said.

In some cases, reinsurance capacity is drying up for particularly poor-per-

forming sectors, he said.

For example, reinsurers are walking away from programs for nursing homes in some areas of the United States where there have been large liability awards, and the primary insurers are having to walk away too or take the risk net of reinsurance, Mr. Madsen said.

Heavily reinsured programs for poor-performing areas, such as umbrella liability or workers compensation, are seeing severe retractions in capacity, said Ms. Mitchell. "There are significant rate increases and people are pulling out," she said.

Reinsurers are either not using the capacity they formerly devoted to those areas, or they are using it to cover new products, such as enterprise risk coverage and Internet liability, she said.

The casualty reinsurance market is still dragging behind other sectors.

"The news is not good" for reinsurers, S&P's Mr. Watson said, though with rates not actually falling anymore, "I really believe we are at the bottom of the market."

Accident and health reinsurance rates have jumped 20% to 45% after reinsurers were hit last year by rising pharmaceutical costs, and medical malpractice coverages are seeing "modest" 5% price increases, he said.

But rate levels are poor in the products and professional liability and workers comp reinsurance lines. And, while there is hope for improvement in general liability lines, "a lot of GL is (written) on multi-year contracts, so we won't see any improvement for a few years," he said.

In the workers comp arena, the Unicover Managers Inc. debacle has prompted withdrawal of capacity and rate increases, but the increases are still far below profitable levels, Mr. Watson observed.

A workers comp reinsurance pool that Unicover managed unraveled in 1999 when huge losses began hitting the participating reinsurers, prompting lawsuits and causing turmoil nationally in the workers comp market (*BI*, March 15, 1999).

Taylor Collings, a Seattle-based Guy Carpenter managing director and national workers comp practice leader, said that reinsurers are taking a more analytical approach to setting workers comp renewal rates. Increases have ranged from 10% to 100%, averaging about 20%, he said, with the best terms typically coming from a program's existing reinsurers rather than from new players.

Mr. Collings added that there has been little overall change in market capacity except in the unusual lower-layer programs—below \$250,000—in which Unicover was a key player.

Loss of this working-layer reinsurance has meant that most ceding insurers "have relegated themselves to taking the retentions they had before," he said.

For casualty renewals generally, "reinsurers are not behaving consistently," with some still pricing aggressively and others hanging back, Mr. Smithson said.

Underlying primary casualty prices may be rising, but not enough, he added. Although primary insurers are raising rates in the "mid-single digits" on some business, "they are still less than the double-digit increases that would really do the job," he said.

Specialty casualty, mostly written on a pro rata basis, is especially tough, Mr. Smithson said, with reinsurers facing the choice of continuing to write on a pro rata basis—taking a share of primary premiums—or shifting to excess of loss.

Overall, the renewal market from reinsurers' perspective is not getting any worse but is not improving quickly for most lines and is likely to continue tightening.

"You look at the first-quarter (Reinsurance Assn. of America) results—they're horrible," Mr. Bolland said. Reinsurers "have to do something, and I think they are going to start doing it."

"There are a lot of underwriters in this market that have never seen a hard market, and they may not know what to do," he added.

Despite some large increases at the July 1 renewal, there is still a need for further increases at year end and beyond, said Mr. Karter of SCOR. "A 20% rate increase doesn't mean much if the business is 50% underpriced," he said.

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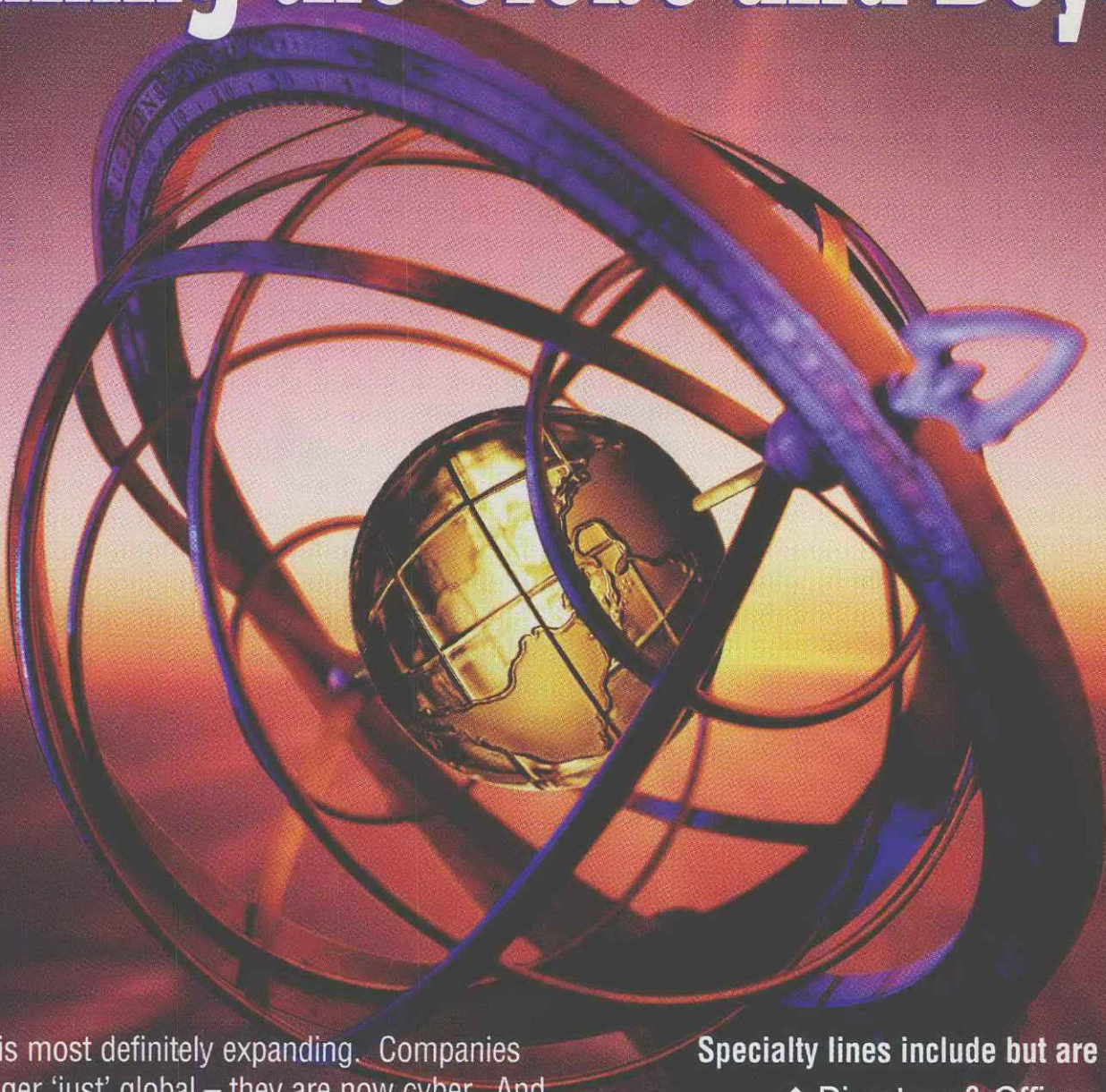
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OPINIONS

Squabbles delay Rx benefit

IT SEEMS HARDLY a week goes by that someone in Washington isn't introducing a new plan to expand Medicare to cover retirees' prescription drug expenses. Last week, Sens. Bill Frist, R-Tenn., and John Breaux, D-La., offered such a proposal, while the Clinton administration offered another. Those come on top of a plan advanced by House Ways and Means Health Subcommittee Chairman Bill Thomas, R-Calif., that cleared the full House of Representatives last week. No doubt other proposals will be introduced in its wake.

The danger of so many competing proposals, and the attacks sponsors are making on rival plans, is that no measure will garner adequate support to be enacted. Expanding prescription drug coverage for retirees, however, is a worthwhile goal and demands bipartisan support. The key, of course, will be compromise.

It's understandable why politicians are scrambling to get on the Medicare drug coverage bandwagon: This is a potent issue with the growing population of retiree voters.

Prescription drugs costs are soaring, with the annual escalation in costs now in the 15% to 20% range and showing no sign of abating any time soon.

Retirees are especially vulnerable. They are much more likely to use prescription drugs—and more of them—than are non-retirees. Just as important, because Medicare does not provide coverage of outpatient prescription drugs, retirees have to pay for this medicine out of their own pocket, unless they have purchased a Medigap policy or are covered under a former employer's retiree health plan.

This situation clearly is ripe for congressional intervention. Given both the growing cost and importance of prescription drugs to treating illnesses, coverage of medicine should be part of any government-provided health care plan for the elderly.

Unfortunately, Republicans and Democrats now seem more interested in bashing each other's proposals than working to enact meaningful reform of Medicare coverage. The odds of a compromise being reached before the legislative session ends this fall are not good.

That's a shame, because we don't think it should be that hard to craft a package that can win the support of both parties. Some of the elements are already out there.

Clearly, there has to be cost sharing on the part of Medicare beneficiaries to discourage unnecessary utilization. Both parties agree on that.

One stumbling block—whether the benefit should be offered by the Medicare program or private health insurers—can be avoided by adopting a structure that does not take an all-or-nothing approach. Just as retirees can choose to obtain hospital and physician coverage from either Medi-



care or a Medicare+Choice plan—typically an HMO—why not allow retirees to choose prescription drug coverage through Medicare, private insurers or even their former employers? The resulting competition among plans for government and retiree dollars could lead to better service and options than a system with no choice.

Any legislative package cannot ignore the role that employers still play in delivering retiree health care benefits, many of which already provide prescription drug coverage.

Fortunately, both Republicans and Democrats agree on this. Furthermore, there is agreement that employers should be encouraged to continue to provide prescription drug benefits through their retiree plans, thereby avoiding the disruption that would occur if their retired workers were shifted to a new public plan.

The Clinton plan would do this by subsidizing employers' premium costs for offering a prescription drug benefit that is at least as good as what would be provided under Medicare. Under Rep. Thomas' plan, employers would be directly subsidized for a portion of retirees' prescription drug costs that fall within certain ranges.

While we can't say which approach would work better, we're at least glad to see that both parties would provide financial incentives to keep existing private coverage of retirees' prescription drug costs intact.

We hope that by next year—perhaps when partisan feelings are not as intense as they are during this election year—lawmakers will recognize that they are in fact closer to an agreement than they now may realize.

Tax havens need to clean up act

PARENTS OF CAPTIVE insurance companies should welcome international pressure on countries that are regarded as tax havens to clean up their act.

For companies with legitimate risk financing programs operating from these countries, anything that would cast doubt on that legitimacy is unwelcome. It also may be a risk for U.S. companies that for years have faced an Internal Revenue Service that at times has appeared hostile toward captive insurance arrangements.

As we report, 35 countries have been identified as tax havens by the Organization for Economic Cooperation and Development. Of those, 10 are captive domiciles. Two of the world's largest domiciles—Bermuda and the Cayman Islands—avoided the OECD list by agreeing to end practices that drew scrutiny from the organization.

While tax advantages are a welcome benefit of owning a captive in a particular domicile, today it is rarely the primary reason for selecting the locale. And choosing a domicile because it has secretive and harmful tax practices should never be the reason for selecting a home for a captive insurer.

The OECD list by itself will not lead to punitive action

against companies with operations in these locations; it will depend on the member nations of the organization—which include most developed nations—to impose sanctions and take action.

For U.S. companies, there is a particular risk that the IRS could take some kind of punitive action against a company with a captive in a tax haven domicile. For years, the IRS has challenged the deductibility of premiums paid to legitimate captive insurance programs, pressing its view that these alternatives do not represent a valid transfer of risk. Federal courts have overturned many of these IRS actions, but only after lengthy and costly legal battles.

To give the IRS an excuse to take action against a captive insurance program that is located in a domicile that is a tax haven seems foolhardy.

We applaud the pledges made by Bermuda and the Caymans to take any steps the OECD deems necessary to avoid being labeled a tax haven.

Now it is up to other domiciles appearing on the tax haven list to do likewise and demonstrate that they offer the parents of captives far more than the avoidance of taxes.

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Business Insurance is published by Crain Communications Inc.

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Published weekly at 740 N. Rush St., Chicago, Ill. 60611-2590, Fax 312-280-3174, E-mail: biweb@crain.com, Offices: 711 Third Ave., New York, N.Y. 10017-5806, Fax 212-210-0704, CRAIN COM NYK, 473 Fairfield Ave., Gretna, LA 70056, Fax 504-364-1337; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax 202-638-3155; 6500 Wilshire Blvd., Suite 2300 Los Angeles, Calif. 90048-4947, Fax 323-655-8157; 967 Bermuda Court, Sunnyvale, Calif. 94086-6750, Fax 408-774-1155; New Garden House, 78 Hatton Garden, London EC1N 8LD England, Fax 207-457-1440; 8157 N. Torrey Way, Tucson, Ariz. 85743, Fax 520-579-3476; 777 E. Speer Blvd., Denver, Colo. 80203-4214, Fax 303-733-2244. \$4 a copy and \$89 a year in U.S. \$108 in Canada and Mexico (includes GST). All other countries \$209 a year (includes expedited air delivery). DON MIERENDORF, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 965 E. Jefferson Ave., Detroit, Mich. 48207-3185, or phone 888-446-1422 or 313-446-0450, Fax 313-446-6777. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48103. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: JOSEPH P. HANLEY, Crain News Service, 220 E. 42nd St., New York, N.Y. 10017-5806, 212-254-0890. For reprints or reprint permission contact: KAREN BROWN TUCKER, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, 312-649-5319, Fax 312-280-3174

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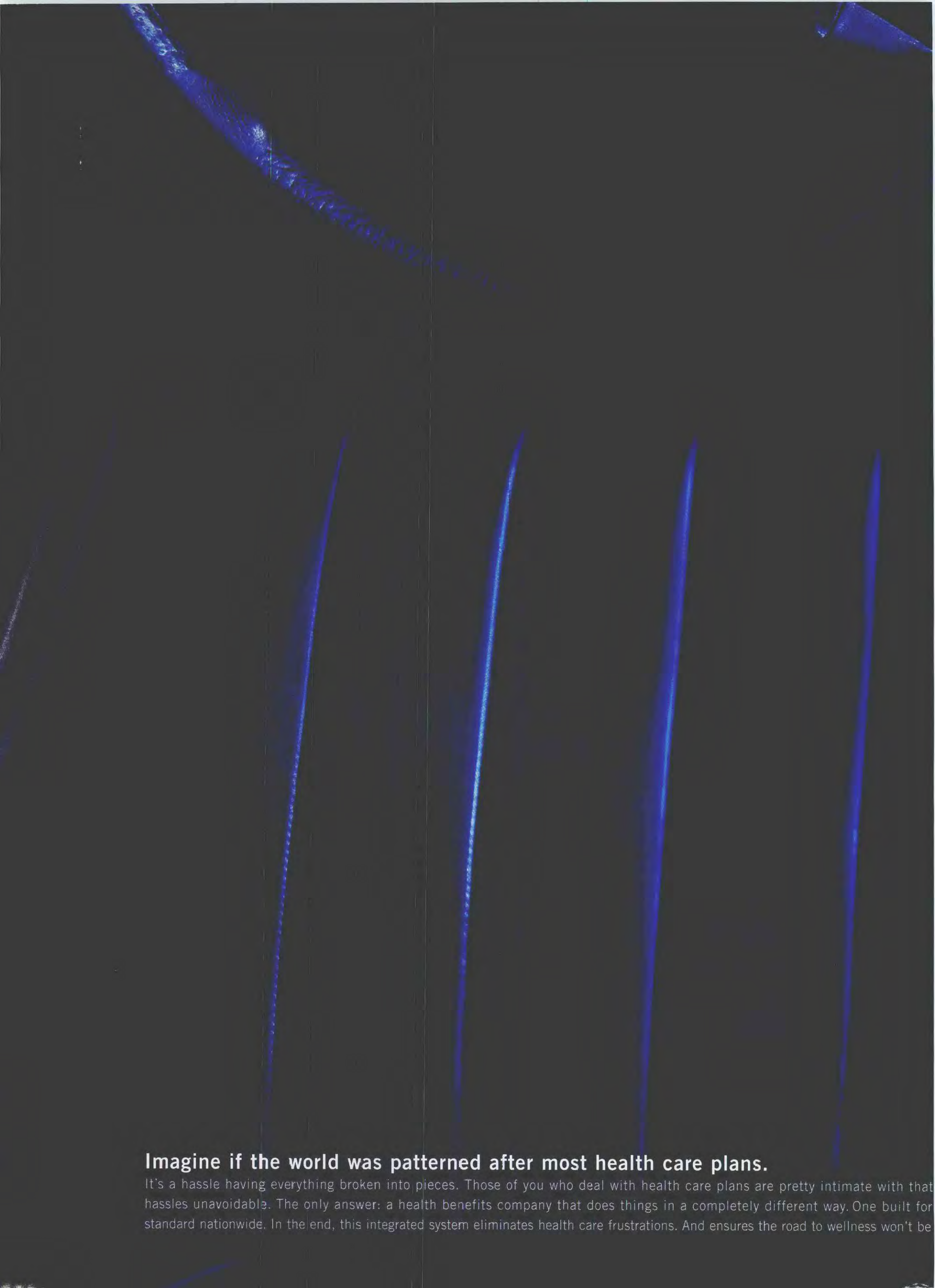
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Surplus lines benefiting as overall market hardens

By JOANNE WOJCIK
and LEE FLETCHER

As the admitted market grows more selective and charges more for the risks it underwrites, surplus lines insurers are seeing more business come their way.

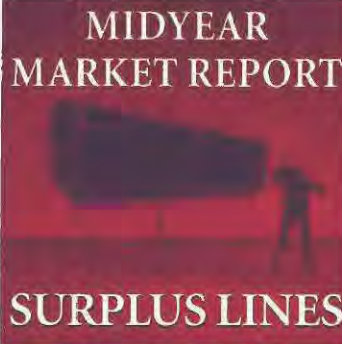
In addition to increased coverage submissions, surplus lines executives also report that they are enjoying some of the same firming of rates in selected lines—particularly for property coverage—seen in the admitted markets.

"Companies are keying in on risk selection to improve prof-

itability," said Kevin Kelley, chairman of Lexington Insurance Co., a unit of American International Group Inc. in Boston.

A more rigorous underwriting approach in the admitted market is helping surplus lines underwriters appear more competitive. For the second year in a row, the surplus lines market is reporting increased submissions and firmer pricing, especially in such lines as property catastrophe, medical liability and transportation.

"We're getting a sense from our brokers that our approach—to be responsible—is being rewarded now," said Bryan Salvatore, a vp of Zurich U.S. Specialties in New York, a unit of Zurich Insurance Co.



Indeed, as a result of the firmer pricing in the market, Zurich Specialties already has surpassed its goal of writing 10% more in pre-

miums this year than last Mr. Salvatore said.

Coverage submissions are up substantially for every surplus lines company surveyed by *Business Insurance*.

"We've seen a pretty good spike up in our submission activity overall over the last four or five months, well beyond what we anticipated," said Gerry Albanese, chief underwriting officer at Evanston Insurance Co in Evanston, Ill. "In the month of May alone, our submission activity was up about 30%."

At Farmington Hills, Mich.-based managing general agent Burns & Wilcox Ltd., submissions are up even more—approximately

75% for the year, according to Steve Allen, executive vp.

"They're definitely shopping the market," said Mr. Allen, who added that the company's writings also have climbed more than 20% over last year.

Tim Pedersen, president of Chicago-based wholesaler Travis-Pedersen & Associates Inc., offered a more cautious assessment of market conditions.

"We're seeing a firming or jelling, but I think it would be premature to call it a turnaround," said Mr. Pedersen, who also is president of the National Assn. of Surplus Lines Offices Ltd.

"We're seeing standard markets either hold the line or seek rate increases on renewal, and this forces the broker to shop around," he said. Mr. Pedersen noted, however, that there are still some standard markets capturing coverage that traditionally would be placed in the surplus lines market.

R. Max Williamson, president of Scottsdale Insurance Co. in Scottsdale, Ariz., also was cautiously optimistic.

"This is not a hard market, just a firming," Mr. Williamson said. "It's an upward trend, and I like it."

Perhaps the most striking change this renewal season has been seen in the property market, particularly for risks with catastrophe exposures, such as coastal windstorms or earthquakes, or for those with poor loss experience.

"The property business has gotten pretty hard," said Bob Greenebaum, president of Chicago-based wholesaler Insurance Brokers Service Inc. "It's characterized by increasing rates and restrictions in capacity."

"We're definitely seeing some changes," said Chris A. Brown, president of Los Angeles-based Brown & Riding Insurance Services Inc. For example, he said, "fire rates are up about 10%."

Property rates for apartment buildings in the Midwest and on the East Coast also are up between 15% and 20%, according to Burns & Wilcox's Mr. Allen.

The property insurance market also is hardening for hotels, according to Marcus Payne, president and chief operating officer of Crump Insurance Services Inc. in Dallas, a unit of Marsh & McLennan Cos. Inc.

"In the commercial property area, we're seeing the opportunity for modest rate hikes, in the neighborhood of 5% to 9%," said Mr. Williamson of Scottsdale.

"Many of the risks are coming back that were with us and then went away for a couple of years," due to soft pricing in the admitted market, he said.

As for coastal property and other catastrophe-exposed risks, such as California earthquake, rates are up anywhere from 15% to 25% compared with a year ago, he said.

"Reinsurers are trying to raise catastrophe coverage prices 10% to 15%, so this is affecting cat cover prices," Mr. Williamson explained. "We're passing this cost on to the best of our ability."

Reinsurers also are trying to reduce their catastrophe exposures in general, he said.

"The (property) values have increased so dramatically in the past couple of years that reinsurers are saying, 'No, my exposure

See Surplus on page 14

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Surplus

Continued from page 12
base is high enough,' and are declining to provide reinsurance for many catastrophe risks," Mr. Williamson said.

At the same time that property rates are climbing, insurers are asking policyholders to assume larger deductibles.

For example, Florida's wind-storm deductibles are about 2% to 5% larger, according to Crump's Mr. Payne.

And, "in DIC, there have been attempts by the major players to reduce limits and increase deductibles," resulting in an overall capacity reduction in difference-in-conditions insurance policies of, on average, about 15%, said Mr. Brown.

Some casualty lines also are tightening.

"Our professional liability lines are seeing firming almost across the board," said Zurich's Mr. Salvatore, adding that, in some casualty lines, "the rate of increase is getting larger with each passing month."

"As the different markets recognize that we need increases and that takes hold, the rates are creeping up," he said.

"Specialty commercial auto (liability), such as for sand and gravel haulers, is perhaps the firmest of all" the lines Scottsdale writes, said Mr. Williamson. Rates for this line of transportation coverage are up between 10% and 30%, he said.

"There also are changes in the context of medical business," said Evanston's Mr. Albanese. "If you

look at physicians' business the sense is that the pricing is going up. I think it's always related to losses. Severity seems to be going

Wilcox, who said that pricing for these facilities' professional liability coverage previously varied but is definitely firming.

'Our professional liability lines are seeing firming almost across the board,' says Bryan Salvatore. In some, 'the rate of increase is getting larger with each passing month.'

up."

In particular, "we've seen a lot of activity on nursing homes this past year, especially in the last six months," he said.

"I've got branches calling in asking for markets for nursing homes," said Mr. Allen of Burns &

One nursing home insured through Burns & Wilcox was forced to pay \$3 million to renew its liability coverage that cost just \$500,000 last year—a 600% increase—because of its poor loss experience, Mr. Aller reported.

Mr. Pedersen said his brokerage

also had trouble placing liability coverage for a Midwestern nursing home with adverse loss experience.

"We had a renewal coming up, but the (insurer) said it was withdrawing from the business. It extended the policy for 60 days while we tried to find a new carrier, but before we could bind the coverage, the new insurer declined the business. So we had to go to a third company," he recounted.

"The insured ended up taking the third quote, which was 30% higher than the prior year," Mr. Pedersen said.

"Nursing home lines have gotten very difficult," agreed Mr. Greenebaum of IBS. "In certain states, like Florida, there was a pretty aggressive plaintiffs bar, which has pushed through a number of patient's rights bills that resulted in pretty large awards. When the claims are larger and the premiums are not, the insurance companies don't fare very well."

Another tough line of business, perhaps as a result of volatility in the stock market, is directors and officers liability coverage for high-technology companies launching initial public offerings, according to Brown & Riding's Mr. Brown.

"It's a pretty tough market," he said. "There's also a big reduction in capacity."

Some product liability business also is starting to seep back into the surplus lines market, according to Evanston's Mr. Albanese.

"I think it's a change in the other companies who are re-underwriting their book of products business. We're seeing accounts come back to the excess/surplus lines market that have been canceled out of a standard marketplace," he said.

Umbrella and excess liability pricing also is firming, as losses begin to penetrate the higher layers of coverage, according to Brown & Riding's Mr. Brown. "The primary carriers already have absorbed the losses, so now they're hitting the excess layers," he said.

Despite tightening in some liability lines, employment practices liability insurance is still being priced competitively. This is good news for buyers, who seem to be more interested in this line of coverage than they've been in the past, industry observers say.

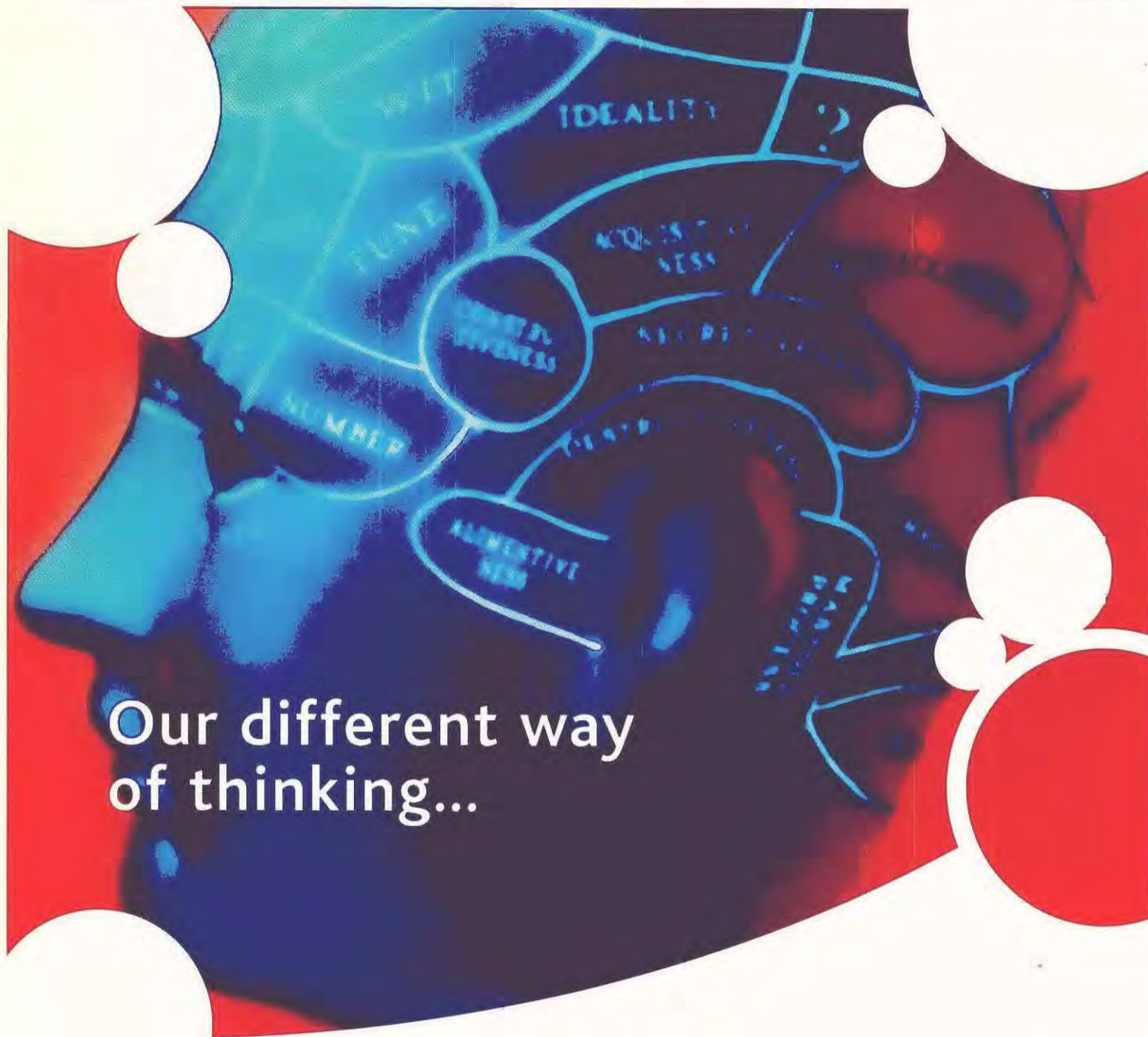
"There's more availability in employment practice liability than last year because there are more buyers," said Mr. Albanese, who estimates that interest is up about 20% compared with four years ago, when many EPL coverages were first introduced.

"It's a product reaching down to any size firm. It's been an education process to not only to educate producers, but also customers about where their exposures lie and how to best take care of them," he said.

At least one line of coverage is getting mixed reviews, depending on who is asked.

Pricing for California contractors liability is still competitive, with declining rates, according to Mr. Brown of Brown & Riding.

But Alan Kaufman, chairman of Burns & Wilcox, said that contractors liability coverage "is hardening throughout the West" as a result of the California Supreme Court's 1995 *Montrose* decision, which set a continuous trigger to pollution liability policies that also has been applied to construction defect claims. **BI**



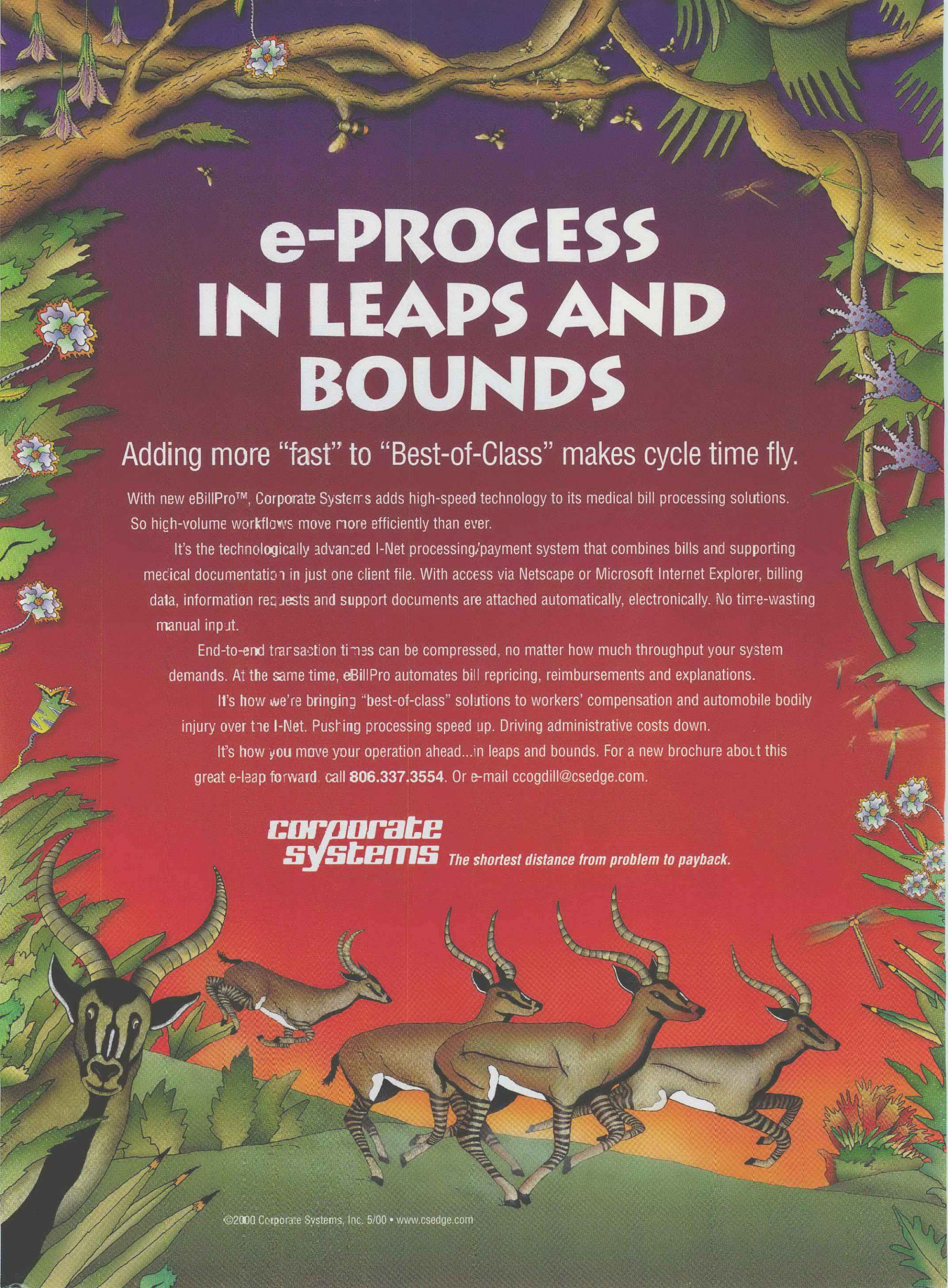
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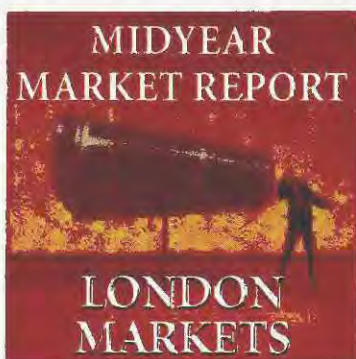
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In London, most rates appear to have bottomed out

By EDWIN UNSWORTH
and SARAH VEYSEY

Buyers of insurance have enjoyed the low point in the current underwriting cycle and are beginning to see tougher terms and conditions from London underwriters, with the prospect of even-stiffer terms to come.

A year ago, overcapacity, rampant competition and multiyear deals combined to keep London market property/casualty rates at their lowest point in years. But London market participants now say that rates are definitely off the bottom in most lines and are cer-



tain to rise further.

The ability of direct underwriters to introduce stiffer terms has been helped by reinsurers—criticized in the past for an overwill-

ingness to provide capacity to the direct market—who now take a firmer line on rates and terms as their own capacity consolidates.

Quentin Heaney, London-based international development director for the South African broker Alexander Forbes Ltd., said: "Reinsurance rates are rising quite significantly. There is, generally, a lag between reinsurance and what you might describe as retail rates, and if reinsurance rates are rising, then underwriters are going to have to put up their rates at some stage to follow."

Robert Hiscox, chairman of Hiscox P.L.C., a leading property/casualty underwriting agency at Lloyd's of London, said, "We're

seeing some heartening rate increases for reinsurance and for some of the bigger risks we underwrite." For some classes, Mr. Hiscox said, the increases are 20% to 30%.

Bob Yates, head of the insurance team at the London investment bank Fox-Pitt, Kelton Group, a unit of Swiss Reinsurance Co., said, "We believe that, although the reinsurance industry is still not out of the woods, there are indications of recovery."

While the reinsurance sector still has substantial overcapacity, consolidation has been taking place, and further contraction can be expected because many marginal players are experiencing

difficulties, Mr. Yates said.

In June, FPK released a study on the global reinsurance industry, saying that signs of an upturn were detectable in the 2000 renewals. Still, the study noted that rates, having fallen since 1994, are now only slightly above the lows of 1989 and 1990.

Rob Jones, director of insurance ratings at Standard & Poor's Corp. in London, said reinsurance rate increases are being held back this year by the large number of multiyear policies, which are not due to expire until year end. Despite this, some reinsurance sectors are seeing rate increases, notably retrocession and excess of loss, and some territories that have been affected by recent losses, such as the Caribbean, France and Denmark, also are seeing increases.

As multiyear policies expire, rates should rise further in 2001, Mr. Jones said.

"There are indications that the market is turning, but how quickly it will turn is another matter," said Robert Smith, senior analyst with Moody's Investors Service in London.

In June, Hannover Reinsurance Co. Chief Executive Officer Wilhelm Zeller said that, in property and casualty reinsurance, "rock bottom has at least been reached." He noted that favorable indications are particularly discernible in the London, U.S. and Latin American markets.

Colin Bird, CEO of Besso Ltd., a Lloyd's broker with a heavy concentration in North American risks, said, "There's no doubt rates have bottomed out. I don't think anyone's seen any major decreases in any rates."

Mr. Bird, like many others in the market, stressed that the increases are patchy. "There is a definite move upwards in American property rates... anywhere between 10% and 25%. There is a move upwards in directors and officers liability rates, certainly between 10% and 40%. And (within D&O), it depends on the class of business."

The largest D&O rate increases are for those working in the high-tech industry, where the recent volatility of share prices has generated considerable uncertainty, Mr. Bird said.

He explained that the general upward rate trend is inevitable. "There's no profit in the business, and people have seen that they've lost too much money and they can't continue," Mr. Bird said. "Some companies, particularly in America, have taken a real hammering in the last couple of years, (and) there's only so long that companies can live off investment income."

There is, however, a downside to a rising market after so many years of price declines, Mr. Bird said. "There's no doubt that there is a perception in the marketplace that many of the brokers—I mean individuals—because this soft market has gone on for so long, have never seen a hard market and so won't know how to react to it. There is a feeling that, for the past few years, people have been order-takers and not brokers."

Mr. Heaney of Alexander Forbes concurs that the market rise is not uniform.

Certain classes have "undoubtedly bottomed out," some are seeing price rises, and rates in other

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London

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classes continue to drop. "But, as a generalization, it is fair to say that rates have stabilized," he said.

Ken Carter, CEO of Jardine Lloyd Thompson Group P.L.C., expressed a slightly more positive view. Asked if he sees signs that the market is turning from last year's low levels, Mr. Carter said, "It is very sporadic, and it doesn't . . . have a real pattern other than the fact that, nowadays, if you renew a client's policy and it has had a bad claims experience, you will find the market in all areas is much harder."

There also is evidence that London is still seen by many around the world as a place to do busi-

ness, and Lloyd's has not lost its attractiveness despite its problems in the 1990s. Observers note that 12 new syndicates have been formed at Lloyd's this year, many of them of foreign parentage.

The most recent of these is Broadgate Underwriting Ltd., a corporate vehicle that was due to start operations this month. Owned by Sorema S.A., the reinsurance subsidiary of the French insurance giant Groupama-GAN S.A., and by Chaucer Syndicates Ltd., Broadgate will take over most of Groupama's existing London market international property/casualty and treaty business.

Sorema Chairman Alexis Ruset has expressed confidence in the London market.

"We believe that the Lloyd's environment will best suit our strategic objectives of diversifica-

tion and development of specialist lines of business. The London market is an extremely important center for international business," Mr. Ruset said.

'What we are seeing is, in certain pockets, there are significant rate increases,' says Patrick Gage of Groupama.

Regarding the state of the market, Patrick Gage, head of city and commercial lines for Groupama Insurances in London, said, "We are seeing quite meaningful hardening of rates in some areas of the world on facultative prop-

erty business, as local markets suffer results of underpricing. On the treaty side, we are seeing meaningful increases of rates on the risk expense program and, certainly, catastrophe programs where they have been affected by the losses last year. There is a definite contraction of capacity in certain areas, and the law of supply and demand comes into effect, and we can start pricing risks at a more sensible level."

The trend at Lloyd's has been toward consolidation among the syndicates, motivated in part by a desire to profit from increased size. Still, the overall number of property/casualty insurance syndicates is increasing, and Lloyd's continues to be popular both for investment and the placement of risks.

Lloyd's "remains an attractive

place for insurance companies to do business; that is why they are putting their money there," said Kevin Willis, an insurance specialist with Standard & Poor's in London.

In June, S&P, which rates the Lloyd's market A+, released its Lloyd's Syndicate Performance Measure 2000 Service, which enables policyholders and advisers to the Lloyd's market to compare the performance of individual Lloyd's syndicates relative to one another.

It expressed the view that "the Lloyd's insurance market will maintain its pivotal role as a center for insurance expertise."

The desire among foreign insurers to invest in Lloyd's, and among units within the Lloyd's market to consolidate, is well demonstrated by the recent takeover battle for Limit P.L.C.

Both Wellington Underwriting Group P.L.C., another integrated vehicle at Lloyd's, and the Australian insurer QBE Insurance Group Ltd. made bids to acquire Limit. Wellington sought to create one of the largest investment vehicles at Lloyd's, and QBE wanted to gain a stronger foothold in the Lloyd's market. In a surprising move last Wednesday, Limit, whose board has promoted the merger with Wellington, announced it would accept QBE's latest offer.

Speaking before the merger announcement, Jonathan Agnew, Limit's CEO, said he believes the market generally is turning upward. "In most classes of reinsurance . . . there have been some very big increases, some much less, some of 50% and some of 5%. In property, it is starting to come through, and in motor. There are some other areas where there is little sign of upward movement, but I think all sections of the market have bottomed out now," he said.

The London unit of Salomon Smith Barney Inc., in the June edition of its Global Insurance Monthly, praised QBE's interest in Limit, "given the clear evidence now that the U.K. insurance cycle has bottomed for many lines of business."

Groupama's Mr. Gage was reticent about indicating the level of rate increases. He said, "At the moment, it is not wholesale, so we could not put a percentage increase on rates. What we are seeing is, in certain pockets, there are significant rate increases. It is difficult to put a rate monitoring figure on a facultative account, for example, because some areas are hardly moving at all."

Mr. Gage did say, however, that he expects to see 15% rate increases in facultative business by the end of the year, "and then, as the market moves into 2001, I think more bad news will start filtering through, and it should continue."

London aviation rates are also on the increase.

David Whiter, senior class underwriter for aviation at the Brockbank Group at Lloyd's, said aviation rates in London "have been rising more or less since April."

Major airlines tend to renew their accounts in the final quarter of the year, and, because of their purchasing power, that is a difficult time for underwriters to impose tougher rates and conditions. But smaller accounts are being placed and renewed in the spring, and it is with these that aviation underwriters have been able to

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MARKETING STRATEGIES



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What's in a name?
Agency branding can pay off **page 20B**

Personal attention helps agents hold on to clients **page 20H**

Aon units promote wholesale services to agents **page 20I**

What's in a name? Depends on what's behind it

By JOANNE WOJCIK

While insurance agents and brokers struggle to brand themselves in today's competitive market, customers may be more interested in what agents and brokers do for them than what they call themselves.

"It's not about price and product in this market; it's about

brand identity, or reputation, and the services provided by an agency," says Jack Burke, president of Sound Marketing Inc. in Thousand Oaks, Calif.

An agency with a good brand identity will have "the ability to gain top-of-mind position within its marketplace," he said.

"A name is something that creates an impression, conjures up an image," explains Kimberly Patterson, president of Creative Insurance Marketing in Red Bank, N.J.

As such, coming up with an apt moniker "begins with quantifying who is your customer and what is your promise to that customer. Once you have a clear image of what that is, then you work on finding something to represent that image," she said.

For example, Willis contacted its risk manager customer base before deciding on a name change. And Aon's name is a Gaelic word that means "oneness."

By contrast, Acordia is a made-

up name, chosen primarily because of its early position in the phone directory, according to Charles Ruoff, senior vp of Chicago-based Acordia.

All three came up with "straplines" that reflect their brand identities in the marketplace: Willis is "the risk practice," while Aon "insures your vision," and Acordia is "America's local insurance broker."

While the largest insurance brokers have the resources to develop catchy names and slogans,



such is not usually the case for smaller agents and brokers.

That doesn't mean it can't be done.

Mr. Burke recommends that agents and brokers simply define themselves as their customers do.

"Most agencies don't know what they are. They tend to try to be all things to all people—even those who claim to be 'niching' " he said.

He suggests the following exercise: The owner or management of the agency or brokerage, its employees and its customers should all define the agency separately—in writing. They should answer the question, "What does this agency stand for?"

Owners shouldn't be surprised if different answers emerge, Mr. Burke warns.

Interestingly, when the Independent Insurance Agents of America Inc. conducted a similar survey of its members and their customers, it found that sort of difference of opinion. Insurance consumers prize services that agents don't regard as highly.

For example, 87% of consumers responding to the IIAA survey said they rated round-the-clock customer service as important, while just 34% of agents did.

In addition, although independent agents often use the Big I logo in their advertising and marketing materials, consumers cannot distinguish between independent agents and captive agents, and many do not even distinguish between agents and insurance companies, the survey found.

Mercury Insurance Co. is a good example of this, Mr. Burke pointed out.

"Although Mercury agents usually advertise by price, if you talk to a Mercury consumer and ask why they bought that company's insurance, they'll say 'I get an agent with Mercury,'" he said.

"It's an interesting dichotomy" that agents and brokers should take into consideration when creating their individual brand identities, advises Tim Cunningham, principal of Insight Management Consultants in Chicago.

"Today, the insurance product is a commodity, so the consumer doesn't perceive any difference in coverage whether they're insured by GEICO or Chubb. To them,

See **Brand** on page 20D

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Brand

Continued from page 20B

it's just an auto policy," he said. "If there isn't a focus on customer needs, then the fear of low-cost providers taking the business is going to come true."

But even if an agency is successful in defining itself and gaining name recognition in the marketplace, it also should make sure that every part of the organization consistently reflects that brand identity—from the look of the office stationery to the way the receptionist answers the telephone, experts say.

"A brand is the sum total of the clients' experience of dealing with an organization," said Ms. Paterson. "Those companies successful in branding have total alignment in all lines of business. Everyone has to work together as a team."

"It's providing a service level beyond the sales process," according to Mr. Cunningham.

"If you brand yourself as a friendly adviser of risk management services for business, it goes all the way from the look of your letterhead to the way you conduct your business—even the tonal quality of the person answering the phone," Mr. Burke concurred. "You have to demonstrate you are

what you claim to be."

For example, "if you're an agent in tornado alley, you could keep your storeroom stocked with blankets, batteries, flashlights, transis-

'The best focus group

I know of is the agency

head taking his best

customer to lunch.'

— Jack Burke

tor radios to distribute after a tornado strikes," Mr. Burke suggested. "That tells me I've got an insurance agent who cares for

me, not just the premium I pay."

Likewise, an agency seeking to build a reputation of providing personalized service should have a live receptionist answer the phones instead of using a computerized voice-mail system.

Unfortunately, egos often stand in the way of successful branding, with names sounding more like law firms than insurance brokers after a series of mergers or acquisitions, experts point out.

"So many agencies are amalgamations, naming as many people as possible so as to not damage their egos, rather than establishing a brand identity," Ms. Paterson observed.

After a merger or acquisition, "smaller brokers, unlike the alphabet houses, can't afford to spend a lot of money announcing a name change," Mr. Burke pointed out. "In some cases, it may be better to keep the existing name because the recognition is already there, and focus on building reputation."

For example, Willis—formerly Willis Corroon Group P.L.C.—set a \$5 million budget for developing a new brand name, implementing the change by reprinting business cards, making new signs and purchasing advertising space to announce the change to the public.

Some of the development money went into focus groups and telephone interviews with its risk manager customers in both the United States and the United Kingdom, according to Kevin Gwin, Willis' director of North American communications, who is based in Nashville, Tenn.

In the end, "we went with what the marketplace already knows us by," he said. It's the first name in the string of names that reflected the broker's numerous acquisitions.

But branding doesn't always have to be expensive or involve a lot of research, such as the use of focus groups.

"The best focus group I know of is the agency head taking his best customer out to lunch. It costs a lot less, and it's less formal," said Mr. Burke.

"And only three questions need to be asked in that luncheon meeting: 'What do you like about us?' 'What could cost us your business?' and 'What do you need us to be doing down the road to walk hand in hand in your future?'"

These open-ended questions can provide much more information than can the multiple-choice questions usually found on surveys, Mr. Burke said.

Despite its size, Aon, the world's second-largest insurance broker, didn't spend a lot of money coming up with its name, according to Jeff Jacobs, senior vp of brand development in Chicago.

"Having Pat Ryan's vision to start with made it easy," Mr. Jacobs said, referring to the company's founder and current chairman and chief executive officer.

Mr. Ryan's vision was that the company provide integrated solutions, working together. To represent this idea, Mr. Ryan chose the name "Aon," a Gaelic word meaning "oneness." The name also reflected his Irish heritage.

But even though the name "Aon" has some significance, "there are still people who ask, 'What's an aon?'" Mr. Jacobs said.

That's precisely why every brand name should also have a brand identity, according to Mr. Burke.

"Once you determine who you are, you have to review all aspects of your business to ensure a consistent message is being delivered," he said. **BI**

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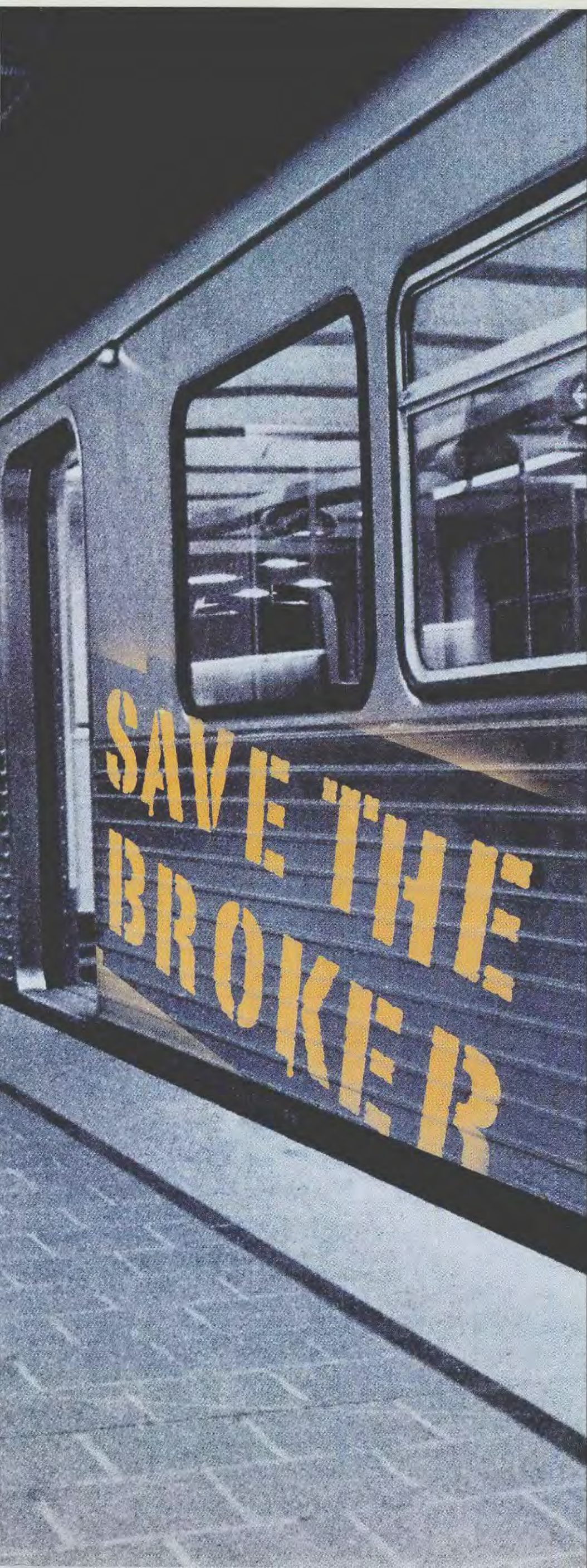
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**Business
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Fair

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bridge, over the Royal Gorge, located just outside Canon City, Colo.; and on the nearby Pikes Peak Cog Railway, which took some attendees to the top of Pikes Peak.

The two-day event was an open forum where independent agents could communicate directly with the niche specialty insurance operations that comprise AMO and ASG.

"Given our sense of importance and value that independent agents and brokers provide our operations, we created a forum so they'd have the opportunity to network with all of our resources," said Larry Sorensen, executive vp of AMO in Chicago. The resource fair is intended "to be an educational- and informational-type conference, with a bit of marketing," Mr. Sorensen said.

AMO is Aon Group's 3-year-old specialty underwriting unit that comprises 22 managing general agencies, including Media/Professional Insurance Agency Inc., Muirfield Underwriters Ltd., K&K Insurance Group Inc., SLE Worldwide Inc. and Wexford Underwriting Managers. Mr. Sorensen said that 90% of AMO's premiums come from independent agents and brokers.

"We're very bullish on the independent agency business," said Michael D. Rice, chairman of ASG, during a news conference at the event. If the independent agency system were to fail, "we'd have 30 companies go out of business," Mr. Rice said.

ASG, Aon's specialty insurance and administrative services arm houses several wholesale operations, including Sherwood Insurance Services, Swett & Crawford Group and Insurance Brokers Service Inc.

Of ASG's premium volume,

80% comes from independent agents and brokers, Mr. Sorensen said.

Since the resource fair, AMO, which is led by Kenneth J. LeStrange, has become a unit of ASG. The move is a reflection of Mr. LeStrange's recent appointment as chairman of Aon Risk Services Cos. Inc. of the Americas, Aon's retail brokerage operations, the company said.

In addition to strengthening existing relationships and fostering new ones, AMO also used the occasion to launch two new offerings.

Princeton, N.J.-based Spectrum Captive Services is a new agency

captive services company that coordinates the design, sales and management of alternative risk programs using various Aon-owned or Aon-managed rent-a-captives. In addition to targeting large corporate clients, Spectrum targets independent agents and those MGAs that want to share in the profits of their preferred books of business by forming agency captives. Spectrum, which currently has three affiliated rent-a-captives—two in Bermuda and one in the Cayman Islands—can arrange fronting, reinsurance, claims handling, underwriting and technical support.

Also during the resource fair, AMO showcased its new comprehensive insurance Internet portal, dubbed Specialty Insurance Risk.net, which gives agents access to more than 300 specialty insurance coverages and programs offered through AMO's managing general agencies. In addition to the searchable database, there are also links to industry trade publications, breaking news about product development and trends in the specialty insurance markets, and online discussion forums and bulletin boards. More information is available at www.sirisk.net. **BI**

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Agent/Broker Topics

A/BT Briefs

BB&T acquisition

RALEIGH, N.C.—BB&T Insurance Services Inc. is expanding its Georgia operations with the acquisition of Pruden Risk Management Inc., which has offices in A-pharett, Chatsworth and Dalton, Georgia.

The transaction is expected to be complete in August. Terms were not disclosed.

Raleigh, N.C.-based BB&T, a subsidiary of Branch Banking & Trust Co., ranked as the 12th-largest broker of U.S. business in 1999, based on \$80.7 million in U.S. brokerage revenue, according to *Business Insurance's* annual broker rankings.

InsuranceNoodle

CHICAGO—New insurance e-broker InsuranceNoodle.com recently announced that The Hartford Financial Services Group, American International Group Inc. and CNA Surety Corp. will be offering a full range of commercial insurance products for small-business owners via its Web site.

Chicago-based InsuranceNoodle has contracts pending with three other top 10 commercial insurers and a number of specialty insurers, the company said. It expects to launch its site in late July.

The Web site will provide complete online solutions to small-business owners and access to tailored insurance coverage. Commercial insurance products sold via the site include business owner policies, workers compensation, commercial automobile, umbrella, surety and other specialized products.

In a statement, Richard Madock, co-founder and president of InsuranceNoodle.com said, "Small-business owners will be able to access the site directly or through partnerships with professional and industry associations, financial institutions and traditional insurance agencies."

"By teaming with partners who have built strong relationships in the small-business community, InsuranceNoodle.com will provide a valuable addition to existing service offerings," Mr. Madock said.

Herndon award

WASHINGTON—The Independent Insurance Agents of America Inc. and the Professional Independent Insurance Agents of Illinois recently presented its Maurice G. Herndon National Legislative Award to the Independent Insurance Agents of Louisiana.

The Herndon Award is bestowed annually upon the state association whose legislative achievements on behalf of the IIAA and its members have been deemed most outstanding.

The Louisiana association was honored for its lobbying efforts in the state Legislature; its successful work with Insurance Commissioner James H. Brown; its members' high rate of participation in the state's

and IIAA's government affairs programs; and its commitment to the IIAA's political action committee, InsurPac.

In addition to the Louisiana IIAA chapter, Mike Thompson, 1999 chairman of the Independent Insurance Agents of Arkansas' InsurPac fundraising efforts; and Randy Allison, the Arkansas state association past president, were jointly awarded the Bernard J. Burns Award for outstanding fundraising work in their state.

The Burns Award is presented annually by the Independent Insurance Agents of Connecticut.

The IIAA also honored L. Scott Stanford, the 1999 New Jersey InsurPac chairman, with the InsurPac Young Agent Recognition Award. The award is presented annually to the agent who has made the greatest overall contribution and has exhibited the most dedication to InsurPac fundraising and increasing the involvement of young agents in the IIAA's government affairs endeavors.

The awards were presented at the IIAA's 24th annual National Legislative Conference, held recently in Washington.

Scheduling system

SAN MATEO, Calif.—Xtime, a San Mateo, Calif.-based electronic appointment and reservation technology company, recently announced a free Web-based scheduling system for small and medium-sized businesses.

The system, Xtime Scheduler 1.0, allows small businesses such as insurance agencies to service clients, accept new appointments, confirm appointments via e-mail, build customer profiles and check their appointment books using a Web browser.

For more information, see the Xtime Web site, at www.xtime.com.

BrokersPortal

WRENTHAM, Mass.—StarNex Inc., an insurance technology service company, recently launched BrokersPortal.com, an electronic marketplace that connects insurance providers, brokers and other vendors.

"The role of the independent insurance broker is being challenged, largely by technology, and we're here to provide technological solutions that will preserve the valuable role the broker plays," said John Unipan, president and chief executive officer of StarNex, based in Wrentham, Mass., in a press release.

With both online and offline applications, BrokersPortal eliminates redundant paper processing when quoting or distributing insurance products, the company explained in the release.

StarNex is concentrating its initial sales and marketing efforts on employee benefit brokers. It has the ability to process both small and large employee benefit plan requests for proposals. In the future, StarNex will expand its offerings into other insurance lines, including specialty commercial property/casualty insurance. BI

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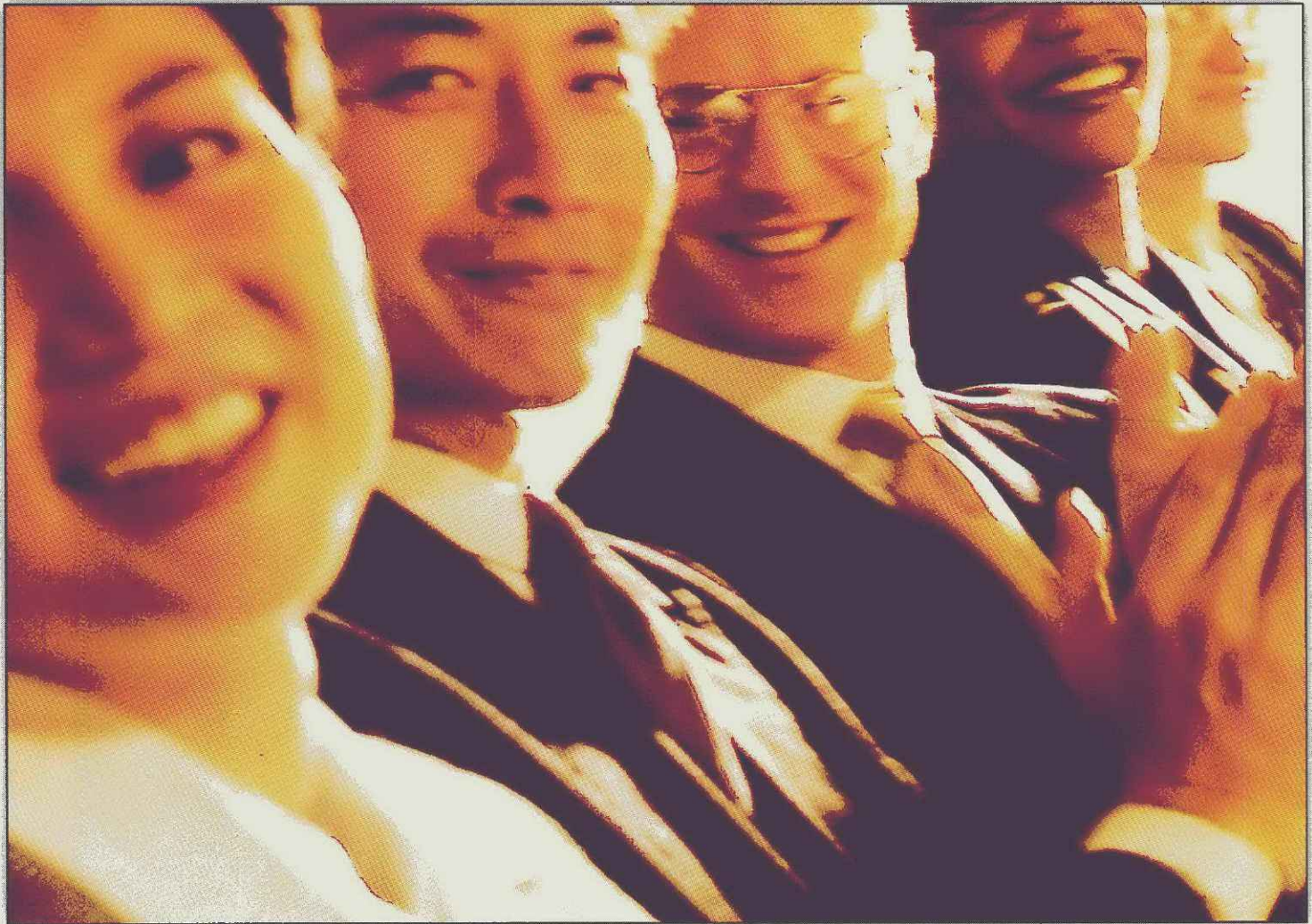
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Continued from page 20

implement increases of up to 10% to 15%, Mr. Whiter said.

This, however, represents an increase from very weak levels, he said.

Mr. Whiter added that total premiums being collected previously by aviation underwriters were sufficient to cover only about half of their claims. Even with rate increases, total premiums are sufficient to meet only about 55% of claims.

Mr. Whiter is confident, however, that aviation rates in the London market are set to rise further. He compared the current state of the market to that of the spring of 1991, when rates were recovering from a very deep trough. That spring, rates

increased by around 10% to 15%, and by the end of the year, they had doubled. While Mr. Whiter would not go so far as to say the same will happen this time around, he predicted "we are going to have a very big reaction at some stage. I would not be surprised with 50% increases to very clean accounts within 12 months."

In the marine sector, rates remain low and are, at best, only starting to firm.

Mr. Hiscox said the London marine market is exhibiting "a depressing lack of sense," with business still being done below cost. He said marine rates "have probably leveled," but they are still unprofitable.

S&P recently said of the marine market at Lloyd's that "only now, in 2000, do we see any real signs of rate hardening in this key Lloyd's

market sector but the benefits will be slow in arriving in view of the prevalence of multiyear policies written within recent years."

One event overshadowing the Lloyd's market is the *Jaffray vs. Lloyd's* fraud trial, now being heard in London. A ruling in the case, in which the plaintiffs allege they were duped into joining loss-raking syndicates, is expected in the fall.

Dominic Skeet, associate director at S&P, said he found it hard to predict the ramifications of Lloyd's being found guilty of fraud. "It is difficult to speculate to what extent the Lloyd's brand would be tarnished, but it is safe to say that there would be a difficult period for Lloyd's to get over," Mr. Skeet said. "Lloyd's reputation will, to some extent, be harmed regardless of the outcome." **BI**

Buyers

Continued from page 3

Product liability rates are flat, while general liability for risks, such as hotels, that have a public service exposure are firming, said Mr. Betterley, whose clients report annual sales of \$25 million to \$100 million.

Mr. Betterley said that while underwriters are trying not to impose tougher terms and conditions, many have "stiffened their backs" on rates and are not negotiating on the amount of increases they will accept. "When they say 20%, they want it—not 10%."

The hotel client was given that "take-it-or-leave-it" ultimatum from a general liability insurer, he said.

Some underwriters were willing

to negotiate rates during the recent renewal, but insisted on a rate hike of some measure, according to Mr. Betterley. Those insurers, he said, "negotiated because they came in higher than they needed to be and rolled back rates to make you feel good."

For example, one client—a windstorm risk located in the Southeast—faced a 15% rate hike from its highly protected risk property insurer. That client had not seen a rate hike in 15 years, Mr. Betterley noted. "We got it down to a 10% increase."

Hartz Group Inc. of Secaucus, N.J., was hit with a 28% rate hike on its property renewals, according to Anita DiGiulio, director of insurance and risk management.

The company suffered a \$10 million loss two years ago and was hit with a rate hike last year as well, she noted.

The good news was that the recent hike "was a little better than we expected," based on warnings from broker Marsh Inc., Ms. DiGiulio said. Hartz was braced for as much as a 45% increase.

The primary property market was considerably tougher than the excess market, Ms. DiGiulio said. Rates for primary coverage were up 35%, while excess rates increased 15%, she said.

To hold down the primary coverage rate increase, Ms. DiGiulio added a second market to that layer. The renewing insurer and the second market now participate in the layer on a 50/50 quota-share basis, she said.

At the same time, some policyholders faced the repercussions of insurers modifying their risk portfolios.

Mr. Betterley said the umbrella liability insurer for a manufacturer with a fleet loss sought such a large rate increase that the figure is "not even worth printing." In that case, the insurer, which wrote limits of \$20 million excess of a \$5 million primary layer, "really wanted out and was doing it by jacking up rates," he said.

"There has been a lot of moaning and groaning from underwriters on how bad their fleet losses have been," Mr. Betterley said. Policyholders with substantial fleets saw rates rise 20% to 25%, and those with small fleets were handed increases of around 10%, he said.

Michael Benishek, risk manager for Pacific Tomato Growers in Palmetto, Fla., and 33 other companies under the ownership of four individuals, said workers comp costs for his companies' operations in California spiked by 36% at his most recent renewal.

Still, he emphasized, the price for the coverage is lower than it has been in the recent past. "It's still a deal, compared to what it was five years ago," he said.

Two of the companies outside California renew their workers comp coverages in August, and Mr. Benishek said he doesn't foresee hikes on those risks, which are large-deductible programs written by Liberty Mutual Insurance Co. "I've had everybody come in and quote. When they see what I'm paying, they shake their heads and walk away."

Other buyers are wondering where the hard market is hiding.

"I haven't felt it," said Georges Balcer, director of risk management at Bowater Inc., a timber products company in Bowater, S.C. "Maybe it's because we went to market and got competitive bids. I'm very pleased."

With a change of insurers, **See Buyers on next page**

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Buyers

Continued from previous page

Bowater was able to score a 15% drop in the cost of its casualty coverages at recent renewals, Mr. Balcer noted.

He declined to name the previous insurer or the new one but said: "We were not very satisfied with the service and the reorganization" of Bowater's insurer after it had gone through a merger. "We wanted to see if someone could offer us a better service package. And, lo and behold, they offered us better financials as well."

The July 1 renewal sewed up workers comp, general liability and commercial automobile coverages for Bowater. The coverages were renewed at expiring limits with no significant changes in terms and conditions.

Renewing excess casualty layers at SunTrust Banks Inc. in Atlanta cost a little more "but nothing huge," said June H. Dickinson, first vp and risk manager.

The bank owns Madison Insurance Co., which writes the primary layers on its parent's commercial auto, general liability, workers

comp and financial bond risks. The bank renewed excess layers with all expiring insurers except one. Coverage limits were renewed at expiring levels.

The market "is hardening a little bit," Ms. Dickinson noted, but she doesn't believe it will reach the in-

Ms. Dickinson said SunTrust is comfortable making such commitments. "We like long-term relationships," she said, and the bank is an understanding buyer when an insurer can justify a rate hike.

"We don't want to see them shoot themselves in the foot; we don't

'We wanted to see if someone could offer us a better service package. And, lo and behold, they offered us better financials as well,' says Bowater's Georges Balcer.

tensity of the last hard market cycle in the mid-1980s. "Not unless we have some bad catastrophes along the way."

SunTrust is moving toward multi-year policies when possible, Ms. Dickinson said, to save time and expense on the renewal process. The bank's casualty program was written on a three-year policy, and property coverages that expired at the end of last year were on a three-year schedule put together by London market underwriters.

drive a hard bargain and we don't scream and yell and change carriers if there is a tiny increase," Ms. Dickinson said.

Rates have been so attractive on some casualty risks that buyers are increasing their limits.

The directors and officers liability insurance market in late June was "very favorable," said Joe Kovalcik, vp-risk management for Wendy's International Inc. of Dublin, Ohio.

"Pricing was down and, frankly,

it was a surprise to me," Mr. Kovalcik said. Rates dropped more than 10% and rate cuts were obtained on all three layers of coverage, he said. Last August, Mr. Kovalcik budgeted for a 3% "cost-of-living" rate increase.

Because rates were low, Mr. Kovalcik said he increased Wendy's D&O limits by adding a fourth layer of coverage to the three-year policy. And coverage terms allow Wendy's to reinstate its limits once in the second or third policy year at 150% of the original premium.

Mr. Kovalcik said underwriters also broadened D&O coverage. For example, the purchase price of an acquisition now can be as much as 25% of Wendy's total assets before Wendy's would have to pay additional premium. The previous threshold was 10%, Mr. Kovalcik said.

Wendy's is "not terribly active" in acquiring companies, Mr. Kovalcik noted.

Underwriters also deleted their pollution exclusion for claims filed outside the United States, another remote risk for Wendy's, Mr. Kovalcik said.

Even rates for employment practices liability coverage are reason-

able for some risks.

Mr. Betterley said one of his clients got a rate cut on its EPL insurance at the last renewal. In other cases, rates were flat for the coverage.

Renewing at a flat rate is like getting a rate decrease, Mr. Betterley observed, because exposures build up every year under the provision that extends coverage to the inception date of the claims-made policy for the risk.

Mr. Balcer said he thinks Bowater may not have an entirely smooth experience with its property coverage renewals later this year. London market insurers are talking about the need to change some terms and conditions in the coverage. "We sort of expect on the property to have some difficulties," he said.

Mr. Benishek said he expects to cruise through his August property renewals. Written for the past six years by Zurich U.S., the cost of the coverage has never risen, and "I get more coverage every year," he said.

The 34 companies he watches over have never had a general liability claim, he pointed out, and coverage costs are not expected to rise this year. **BI**

Brokers

Continued from page 3

As for middle-market accounts, there is greater consistency in insurers' willingness to increase rates across all lines. "We didn't see much of a (price) bump in January," said Bernard H. Mizel, chairman and CEO of USI Insurance Services Corp. in San Francisco. "We are now starting to see some momentum... it's starting to develop." Most of USI customers are midsize companies.

In general, Mr. Mizel said that he is seeing rate increases of 7% to 10% in the overall property/casualty marketplace. Workers compensation coverages are experiencing some of the greatest change, shooting upward 20% to 50%, depending on the state where the risks are located, he said.

The California workers compensation market has seen the steepest increases, several brokers agreed. Middle-market accounts in general are seeing rate increases, with the possible exception of very profitable accounts, said Gallagher's Mr. Braniff. He added that middle-market accounts with exceptionally bad loss histories could see increases of 50% to even 100%.

Middle-market liability rates generally are rising by 5% to 10%, noted Kevin McGill, a casualty expert and senior vp and director of Willis of New York Inc.

Insurers writing that coverage have been successful in pushing through rate increases, Mr. McGill said. The increases can be considerably greater, though, for accounts with losses.

Generally, for middle-market accounts, property rates are increasing 10% and higher, while primary casualty and umbrella rates are flat or increasing up to 5%, Aon's Mr. O'Halleran said. Workers comp

rates are up 10% and higher, depending on where the account is located.

Middle-market professional liability rates are up between 5% and 10%, he said, noting that D&O rates for technology firms are "up significantly."

In the large-account market,

losses, are driving the rise in property insurance rates, several brokers said.

Some "high-hazard" industries, such as chemical manufacturers, and health care and tobacco companies, are facing an increasingly tough market for liability insurance, several brokers said. For one,

'Most underwriters will put out feelers about getting increases, but attractive accounts are still getting attractive renewals,' says Willis' Kevin McGill.

there is greater competition for business, brokers say.

"Most underwriters will put out feelers about getting increases, but attractive accounts are still getting attractive renewals," Mr. McGill said. "Some pretty competitive deals are still available for an account everybody would like to have."

Even among large accounts, however, there are some variations.

The property market for large accounts is "a very hardening market," Mr. O'Halleran noted. Not only are rates increasing by 10% or more, but terms and conditions also are tightening. Insurers, for example, are not offering as low an aggregate attachment point as they once did, he said.

Brokers say that properties with poor loss histories or those located in catastrophe-prone areas, such as the coasts or seismic zones, are seeing some of the stiffest increases.

An account with few or no catastrophe exposures might escape without a rate increase, except for a price rise for increased property values, said Mr. Golub of Hobbs Group.

At the other end of the spectrum, an account that has faced significant losses and has property exposures in a catastrophe-prone area could see rates rise 200% to 300%, Mr. Golub said.

In general, property coverages for catastrophe-prone areas are experiencing rate increases of perhaps 20% to 50%, said Mr. Braniff of Gallagher.

Reinsurers, attempting to compensate for recent international

there are fewer underwriters that will write that business compared to last year.

Accounts with those exposures may not find the specific limits or conditions they are seeking, brokers said. When the higher limits are found, they are not likely to come at prices seen during past renewals.

"Everybody might not be running to quote a chemical manufacturer with some of the more hazardous chemicals in their account," said Mr. McGill of Willis. But coverage is still available, and, overall, pricing is being determined on an account-by-account basis, Mr. McGill said.

"Certain lines have gone bonkers," noted J. Hyatt Brown, chairman, president and CEO of Brown & Brown Inc. in Daytona Beach, Fla. In particular, rates for nursing home professional liability coverage—particularly in Florida, Texas and California—have gone up substantially.

"Many nursing homes are going bare because they can't afford the premiums," he said. He attributes the rate hikes in Florida to the plaintiffs bar, which has "convinced juries... that bedsores are malpractice."

Mr. Brown also characterized the market as "firming."

"I cannot make a categorical statement" with regard to rate increases, "because it simply doesn't apply across the board," he said.

Mr. Brown said that within the last 90 days, he has seen general liability insurance for residential building contractors in Nevada and

Arizona move into the surplus lines market, because standard insurers are not willing to renew those policies.

He attributes this movement to the California Supreme Court's 1995 ruling involving Montrose Chemical Corp., which allowed policyholders to tap all of their general liability insurance policies from the time damage first begins until liability is known. Attorneys have been using this case, which originally dealt with pollution, in various construction defect cases (*BI*, Feb. 10, 1997).

Some risk managers are responding to the current market by seeking alternatives, some brokers say.

Compared with six months ago, Gallagher has been getting more calls from risk managers who want to evaluate alternatives, such as forming captives or increasing their retentions, Mr. Braniff said. Those calls are coming from existing clients and new prospects alike.

Mr. O'Halleran noted that rate

increases for many of Aon's middle- and upper-market clients are not that severe because Aon, "as advocates of the clients, will seek other alternative solutions, some of which will not get the double-digit numbers being sought out by the markets today," he said.

Mr. Brown pointed out that buyers generally have acknowledged price declines over the last 10 years and are accepting 10% rate increases with little objection.

"A 25% increase, however, is a whole different ball game and creates anxiety," he said. Although clients may be inclined to take their business elsewhere if they see a 25% increase at renewal, in more and more cases, they cannot find coverage that is less expensive, he said.

Mr. Golub noted that buyers are seeking higher deductibles or are looking to self-insure more of their risks, perhaps through an existing captive. That is particularly true of property coverages, he said. **BI**

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Insurers

Continued from page 4
three quarters.

"In general, we are seeing a firming; I wouldn't call it a hardening," said Jim McIntyre, executive vp-commercial insurance markets at Wausau Insurance, a Wausau, Wis.-based unit of Liberty Mutual Insurance Co.

The severity of rate increases depends in part on geography, said Joe Gilles, senior vp-commercial markets for Boston-based Liberty Mutual. He said 18% to 21% increases on all lines are being seen in some states—including California, Illinois, New Jersey, New York, Pennsylvania and Wisconsin—because of losses. Increases of about 10% are being seen in the South, southwest

Texas and Oklahoma.

Greg Vezzosi, chief underwriting officer for Royal & SunAlliance USA Inc., in Charlotte, N.C., said that increases have been more prevalent in the Northeast than in other parts of the country, with the exception of the California workers comp market.

For Liberty Mutual's middle-market client companies, which it defines as those "up to Fortune 500 companies," rates are going up an average of 14% this year to date on a variety of general coverages, compared with last year at this time, said Mr. Gilles. Last year, rate increases for this group were in the single digits, he said.

Fortune 500 companies, however, are facing average rate increases of 5% to 7% this year, which are smaller increases than they saw at midyear 1999. Such

companies, however, are seeing more changes in terms and conditions. For example, such clients are seeing increases in both deductibles and maximum premiums on retro policies, Mr. Gilles said.

Wausau is getting rate increases of about 10% in general liability accounts, said Mr. McIntyre.

Commercial automobile rates have risen by the low double-digits, said Mr. McIntyre. Trucking accounts seem to be firming a lit-

'Prices are firming across the board,' says Ron Chronister. 'We've been able to get the price we want among the accounts we want to retain.'

Of the various lines Liberty Mutual writes, Mr. Gilles said general liability rates have gone up the least, with average increases of 9% this year to date.

tle more than general commercial auto, he added.

Rates on most professional liability coverages are "pretty stable," except for those for dotcom

companies, said Clive Tobin, chief executive officer of XL Insurance Co. Ltd. in Hamilton, Bermuda. XL writes excess casualty and liability as well as property coverages. It also writes directors and officers liability cover, including coverage for large intermediaries, such as brokers, and large accounting and law firms.

"For the dotcoms, it's a very different market," he said. They are only able to get \$5 million to \$10 million in limits, compared with about a \$200 million maximum for other types of D&O liability risks.

In addition, there has been "turmoil" in the market as D&O underwriting teams have changed companies, he said.

For D&O, fiduciary liability, kidnap/ransom and ocean marine coverages, rate adjustments are running from flat to about 7% higher for current renewals, said Royal's Mr. Vezzosi.

Excess liability and casualty rates are not increasing, but there is not the drive that there has been to decrease rates, said Mr. Tobin of XL.

Prices for employment practices liability are stable, and there is increased demand for that coverage, which is still written on a claims-made form, said Mr. Tobin.

Rates for both physician and hospital malpractice coverage are on the rise as well, said Ron Chronister, vp-regulatory affairs for PHICO Insurance Co., a Mechanicsburg, Pa.-based company that specializes in liability insurance for health care providers. "Generally, what we're seeing is a continuing hardening in the marketplace. Prices are firming across the board," with rate increases ranging from the high single digits to double digits, depending on the size and loss history of the account, he said.

He said that some customers do shop their accounts after being presented with a rate increase upon renewal, "but we've been able to get the price we want among the accounts we want to retain."

Hartford Steam Boiler Inspection & Insurance Co.'s typical customer has seen an average 7.5% increase for boiler and machinery coverage since the beginning of this year, said Normand Mercier, senior vp of the Hartford, Conn.-based speciality insurer.

Some special risk customers are getting 10% increases due to poor loss experience. Rates may stay steady only if a customer had some kind of price increase last year, he said.

The longstanding soft market for property coverage also is showing signs of significant firming, according to underwriters.

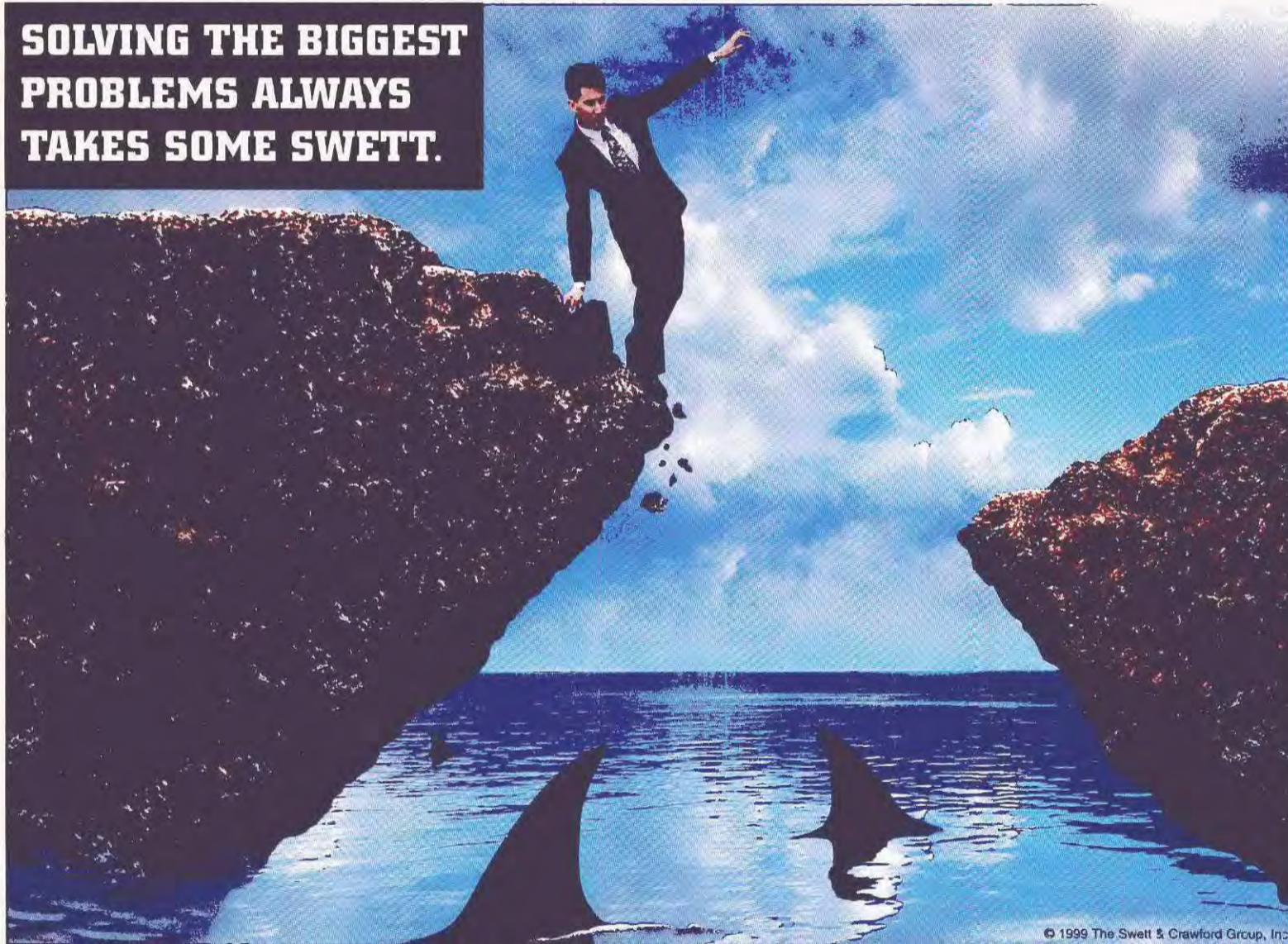
A drying up of property coverage availability in catastrophe-prone areas is bringing Royal some new customers, said Mr. Vezzosi. And the insurer is charging them 25% to 50% above the expiring rates written by previous companies, he noted.

The "volatility" of that business is driven by a variety of factors, including changing weather patterns and the development of coastal areas, said Mr. Vezzosi of Royal. Flooding is more prevalent because wetlands have diminished, he said. In addition, "a lot of flood maps are out of date and not as useful as they used to be," he said.

Property rates are up 15% to 20% for classes of risks with the worst experience, including

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Insurers

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petrochemical risks and risks with significant losses, said XL's Mr. Tobin. In addition, risks in cat-prone areas, such as southeast Florida, or earthquake-prone areas of California have seen hikes in the 15% to 20% range, he said.

Unsatisfactory results for highly protected risks have led to a decreased appetite for such business, especially for large industries, said HSB's Mr. Mercier.

Underwriters of highly protected property risks had "very poor results" in terms of combined ratio in 1999, and they are returning to underwriting-driven results, said Roland Bonitati, senior vp at Factory Mutual Insurance Co. in Johnston, R.I.

After a downward pricing trend that has lasted for about a decade, "it's fairly predictable that, ultimately, you will reach a point where that can't continue, and I think that's where we are," he said.

"We've been seeking pricing change across all our business," driven in part by the impact of a "significant amount of catastrophes" through the end of last year, said Mr. Bonitati.

The "market was positioned at end of year to begin to change," and change it has, with Factory Mutual "now getting roughly 10% to 15% rate increases on average," he said. And accounts with bad loss histories are facing even higher rate increases, he added.

Rates are rising in workers comp as well, underwriters say.

Wausau has been able to get double-digit rate increases in

workers comp, which is its core business, said Mr. McIntyre.

The increases in the market are being driven by "profitability—or lack thereof—of the workers com-

'We are willing to negotiate, but we'll walk if we can't get the price we want,' says Joe Gilles of Liberty Mutual.

pensation writers," he said.

For workers comp in California, Royal expects to get increases in the 35% to 40% range on business that the insurer would like to retain, said Mr. Vezzosi.

The rate hikes don't mean that

most customers will face an availability crunch, though, say underwriters.

"There is a significant amount of capacity available," especially from the London market, said HSB's Mr. Mercier.

"The London market has not yet begun to firm as the U.S. market has," and it appears to be lagging behind the U.S. market by about six months, he said.

XL's Mr. Tobin said there is still an abundance of excess casualty and liability capacity, so most buyers will not experience availability problems unless they are located in cat-prone areas.

And market firming hasn't yet sent clients to the alternative risk financing market, say underwriters.

"Alternative risk financing mechanisms are not a major factor

in the market today," because coverage continues to be reasonably available and affordable, said Mr. Elliot of Travelers.

XL's Mr. Tobin agreed. "I don't think the market is at the stage to stimulate the alternative market," he said, noting that the current price increases have come after several years of decreases. "Prices are going up because they were low relative to loss costs," so turning to self-insurance won't help a customer get a better deal, said Liberty Mutual's Mr. Gilles. At the same time, there is a move toward increased risk sharing through retro plans and a decrease in guaranteed-cost plans, he said.

"Price firming in the U.S. is not radical enough to encourage customers to seek out alternatives," said HSB's Mr. Mercier. "Alternative risk financing has not taken off in any big way," he said.

The slow change in market conditions hasn't triggered mass resistance from risk managers, say underwriters.

Despite rate increases, retentions have been "very strong," said Mr. Elliot of Travelers. "We've seen customers and agents willing to work with us for price adequacy."

"We're trying to get out ahead of the curve" and explain well before renewal date, said Wausau's Mr. McIntyre. "We're finding acceptance where there are no surprises."

"It's never easy" to get customers to accept rate increase, but if "you take the time to explain it," there is less objection, said Chubb's Mr. Pozzi.

Most risk managers understand the reasons behind rate increases, said IRI's Mr. Norstrom. "All we're trying to do is have a reasonable discussion with our brokers and our risk managers about what the drivers of pricing are and how it affects their particular situation," he said.

"We are willing to negotiate, but we'll walk if we can't get the price we want," said Mr. Gilles of Liberty Mutual. Although Liberty Mutual's willingness to do walk away from business hasn't changed much since last year, "I think the industry is probably walking away more this year than in the past," Mr. Gilles said.

"Insurers and reinsurers are more willing today to walk away from inadequately priced risks than in the past," said Mr. Elliot. "Terms and conditions are about the same."

In addition, insurers and reinsurers are pushing to write only annual policies rather than multi-year policies, because they don't want to be locked in at this time. Part of that reluctance stems from uncertainty about the outcome of Y2K claims, said Mr. Tobin of XL.

Underwriters have been able to control terms "slightly better" this year, so there is less willingness to use customers' own manuscripted forms, said Mr. Tobin. Reinsurers also are requiring more information about international exposures of global U.S. companies because of last year's earthquakes in Turkey and Taiwan, he added.

"We are getting significant improvement in terms and conditions, which may be worth more to us," said Royal's Mr. Vezzosi. For example, Royal is getting customers to assume larger deductibles, which requires a customer to retain more of the risk and, thus, address it more aggressively. "Whenever customers have more skin in the game they have a greater commitment to safety and loss control than when they didn't."

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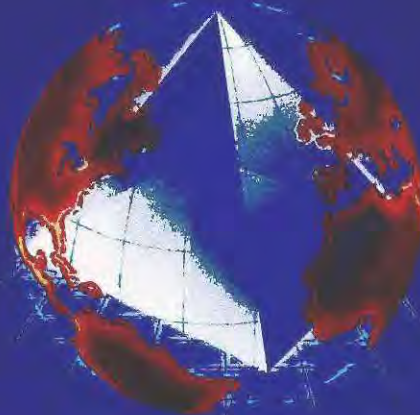
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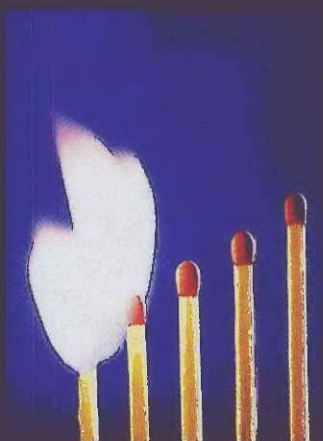
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Health

Continued from page 3

Soaring prescription drug costs are one of several factors fueling rate hikes. Providers are demanding and winning rate increases from health insurers and HMOs, which the plans are passing on to customers.

Doctors are bargaining harder as "they haven't made any money in a while" and are looking to increase their incomes, said Blaine Bos, a principal in the Chicago office of William M. Mercer Inc.

"There are clear indications that doctors are rebelling," added Phillip Neff, national practice leader for Willis Benefits in Wichita Kan.

At the same time, hospitals around the country, whose oper-

ating costs are rising substantially, are raising their rates.

"Hospitals are being squeezed. Reimbursement from Medicare hasn't been keeping up with costs while their operating expenses keep rising," said Michael Seibold, chief operating officer with Blue Cross & Blue Shield of Illinois in Chicago.

"They are demanding huge increases," said Bob Pures, senior vp and chief financial officer at Horizon Blue Cross & Blue Shield of New Jersey in Newark, N.J.

And as insurers are pressured to increase what they pay providers, those cost increases are being passed on to employers.

"This is one of the reasons we are seeing increases in our rates to employers," said Stephen Bocma, senior vp of sales and marketing with Blue Cross & Blue Shield of

Massachusetts in Boston.

Not only are providers—hospitals and physicians alike—winning rate increases, but there also has been "an expansion of

turned by market share underwriting in the mid-1990s, now feel pressure from investors to keep their financial statements healthy. The message from investors was

'We are in a tight job market. Employers are making sure they have a motivated workforce and they are not passing on rate increases,' says Harvey Sobel.

claims," says Mr. Seibold, attributing that factor to an aging population.

"There is an uptick in utilization as the population ages," agreed Hewitt's Mr. Sperling.

To be sure, insurers and HMOs,

"profitability was more important than market share," Mr. Pures said.

"The days of trying to grab greater market share by underpricing rates...we don't see that today," Mr. Bocma said.

Even as insurers and HMOs raise rates, employers have been reluctant to pass on, in any significant way, those cost increases to employees.

With many employers unable to fill jobs, the last thing they want to do is discourage—by passing on health care premium increases—prospective employees from joining or encouraging existing employees to leave.

"Nobody wants to chase away their employees by adopting cost-shifting strategies," said Kenneth Jacobsen, senior vp and national health practice director for The Segal Co. in Atlanta.

"We are in a tight job market. Employers are making sure they have a motivated workforce and are not passing on rate increases," said Harvey Sobel, a principal with Buck Consultants Inc. in Seaucus, N.J.

"The bottom line is change is slow," Mr. Sobel adds.

Still, this isn't to say that changes aren't occurring in the design of benefit plans. More employers, for example, are moving to a three-tiered drug plan where the lowest copayment is for a generic drug, a higher copayment for a non-generic drug on an approved list and the highest copayment for a brand name drug not on the approved list.

And there has been discussion—though not much action yet—of a four-tiered prescription drug reimbursement system. In this fourth-tier would be so-called lifestyle drugs, like Viagra. Employees would pay lower prices for the drugs, through the buying clout their employers' pharmacy benefit managers have, but their employers would not pick up any of the costs.

"This is just starting. Employers are moving to the general philosophy of giving access to pharmaceutical products, but are not necessarily paying for the costs," Mr. Sperling said.

Health plans themselves hope to cut costs by relying more on the Internet to process claims and interact with providers.

"We are moving in that direction," said Empire Blue Cross & Blue Shield's Mr. Birch, referring to the insurer's goal of increasing its e-commerce initiatives.

Meanwhile, employers continue to move away from traditional HMOs in favor of more open-ended products, like PPOs, because of employee dissatisfaction with more restrictive plan designs, said Carmine Morano, president of Anthem Health & Life Insurance in New York.

"Right now, the HMO is not selling. It is dead in the water," Mr. Pures said.

Amid the current pricing situation, some believe costs can again be kept under control through a greater emphasis on quality of care and wellness programs. Managed care has wrung out all the savings it could from the health care system, they contend.

Improving quality of care and disease prevention "will be the only way to help things down the road," said Elaine Morrow, director of corporate benefits at Amerada Hess Corp. in New York.

And prescription drugs, now a culprit behind rising benefit costs, could, some say, be the hero in bringing costs down.

"I'm optimistic that there are technological forces that will hold down costs. Wouldn't it be nice if one could take a handful of pills to cure an illness? Technology may be the key," said Mr. Sobel of Buck Consultants.

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INTERNATIONAL

Global Briefs

Pan-European insurer **Eureko B.V.** has said it will make an announcement today regarding its future. The Amsterdam-based group of eight mutually owned and listed insurers and financial service groups is widely expected to unveil details about its long-term strategy to expand and attain a stock market listing via an acquisition. . . . An alleged insurance fraud in Canada has been detected by the **RISKMASTER/World** software system, developed by **Policy Management Systems Corp.** of Columbia, S.C., doing business as **Mynd**. The system identified 40 questionable claims on the database of the Toronto Transit Commission by recognizing common characteristics, such as type of accident, injury and settlement. . . . Changes to the way the **London Processing Centre** is operated are expected after the board of the International Underwriting Assn. last week was granted control of the center, which processes claims for the insurer members of the IUA. IUA Chairman Tim Carroll said it did not make sense to keep the LPC as it is, given the consolidation of companies and Lloyd's syndicates within the insurance market. Options being considered include a convergence with the Lloyd's bureaus, continued independent operation, a sale of the bureau or outsourcing of some of the services the LPC provides. Mr. Carroll said that there was no timetable for changes but that he hoped they would be implemented quickly. . . . Moody's Investors Service Ltd. has changed its rating outlook on **Swiss Reinsurance Co.** and its subsidiaries to negative from stable. The credit rating company said that, although it still views Swiss Re as one of the strongest reinsurers in the world, the change in outlook reflects mounting evidence that market and shareholder pressure are driving Swiss Re to take a comparatively aggressive stand in capital management, acquisition and business development, leading to a deterioration in the company's underwriting discipline as the result of an effort to maintain or increase market share. The change in outlook also reflects Moody's negative view of the reinsurance industry as a whole. . . . **Michael Spencer** is joining the construction risk solutions team of Zurich Specialties London Ltd. In his new role, Mr. Spencer, who previously was manager for engineering risks worldwide for Assicurazioni Generali S.p.A. in London, will provide integrated insurance for large construction project owners and large global contractors. . . . **Andre Clerc** has been appointed chairman and managing director of La Reunion Aeriennne and La Reunion Spatiale, the French aviation and space insurers, where he was previously general manager. Mr. Clerc replaces Jacques Gangloff, who is retiring after 47 years, having helped found the two groups. Jean-Michel Gicquel has been promoted to general manager from deputy general manager. . . . Risk and claims management group **Crawford & Co.** has won the contract to supply desktop and traditional claims handling services for the online commercial insurance business of HSBC Select (U.K.) Ltd. The service, aimed at small and medium-size businesses, operates from the Web site www.totalinsurance.co.uk. . . . In its latest analysis of the **Dutch life insurance industry**, Moody's says it expects its ratings on Dutch insurers such as AEGON N.V. and ING Verzekeringen N.V. to be increasingly influenced by their expanding U.S. and other non-domestic operations. Moody's says the ambitious strategy of international expansion of Dutch life insurers and the resulting reduction in the relative contribution of their domestic operations to their total revenues is accompanied by a gearing up of their balance sheets or a redeployment of surplus capital out of domestic companies to fund acquisitions. The risks involved have led Standard & Poor's to assign negative outlooks to AEGON and ING Verzekeringen.

Claims likely in deadly fire

Century-old hostel insured for damage resulting from fatal blaze

By DAMIEN TOMLINSON

MARYBOROUGH, Australia—The Queensland government has launched a fire safety initiative following a fatal fire in a hostel in Childers, Australia.

Fifteen backpackers, from Australia and other countries, are confirmed dead after a fire ripped through the Childers Palace Backpackers' Hostel early in the morning on June 23. At least 60 backpackers escaped the fire, which is believed to have been deliberately set. Childers is 220 miles north of Brisbane, near the city of Maryborough. Backpackers are attracted to the region to work on farms during the fruit- and vegetable-picking seasons.

Following a nationwide manhunt, police on June 28 captured Robert Long, a backpacker and

former hostel resident. Witnesses said Mr. Long, who was wanted for questioning in the incident, left the scene soon after the fire erupted.

Raymond Jones, Australian general manager of Sydney-based QBE Insurance Group Ltd., confirmed that QBE was the insurer of the 100-year-old hostel, but he refused to provide details of its coverage.

Mr. Jones said QBE sent representatives to Childers to assist forensic and fire investigators in piecing together the circumstances surrounding the tragedy.

"We're currently going through the preliminary steps of assessment, but it is particularly complicated, as you can imagine, with a fire, as well as the loss of life," he said.

Questions have arisen as to
See Hostel on next page



PHOTO: AFP
An early-morning fire at this 100-year-old hostel in Maryborough, Australia, claimed the lives of at least 15 backpackers.

Results speak well of bespoke names

Traditional members posting better returns than corporate investors

By SARAH VEYSEY

LONDON—Traditional unlimited-liability bespoke names are achieving better results at Lloyd's of London than are corporate investors, according to a study by the Assn. of Lloyd's Members and A.M. Best International Ltd.

For the 1997 underwriting year, traditional unlimited-liability bespoke names—those who decide for themselves which syndicates they invest in—made, on average, a profit equal to 0.2% of their individual capacity, compared with a marketwide loss of 1.8% of invested capacity.

For the 1998 year, which will close at the end of 2000, the projected results are an average loss of 3.8% of individual invested capacity for traditional names, compared with an average loss of 7.2% of invested ca-

capacity for corporate investors.

"The insurance companies who have come into Lloyd's aim to manage their syndicates in a conventional big-company way. The latest results demonstrate that this ap-

LLOYD'S

proach will produce an inferior financial performance," said Michael Deeny, chairman of the ALM.

Mr. Deeny, who also is a promoter of rock concerts and whose clients include the band U2, said that the names still underwriting at Lloyd's bear out the maxim "survival of the fittest."

"The names that are still underwriting at Lloyd's are battle-hardened survivors. They have learned to be cautious, and they have learned the importance of syndicate selection," Mr. Deeny said.

"We believe that many of the big insurance companies that come into Lloyd's are not suited to Lloyd's. Names have learned from experience, where some of the new corporates have not."

Private capital accounts for about 33% of Lloyd's £10.05 billion (\$16.23 billion) capacity in 2000, compared with 34% of 1999's £9.87 billion (\$16.38 billion). Mr. Deeny said, however, that the ALM expects new names to enter the market in the next few years.

"We believe there will be new names joining Lloyd's. We will probably see them
See Names on next page

Benefits satisfying for U.K. workers

But study identifies areas for improvement

By STACY SHAPIRO

Employee benefit packages are meeting the needs of most workers in the United Kingdom but not everyone is satisfied with the benefit communications they receive, according to a recent study.

These conclusions are just a small part of the "UK@Work 2000" report issued by Aon Employee Risk Solutions Ltd. last month. The study is designed to provide "a unique source of information on employee attitudes and commitment within the U.K. workplace" and the effectiveness of various organizational practices "all from the perspective of the employee," said Patrick Carter, managing director of Aon Employee Risk Solutions in London.

The study, based on 1,570 telephone interviews with U.K. employees, found that 41.2% of respondents are not satisfied with their "overall recognition and rewards."

In addition, 53.6% said they ex-

perience a level of stress at work that is higher than expected. Meanwhile, only about a third, 39.2%, feel management recognizes the importance of balancing personal and family life with work.

However, within the study, Aon points out that benefit packages "are in general meeting the needs of most workers."

Among the survey respondents:

- 76.1% feel their benefit programs meet or exceed their needs; 60.3% are "very satisfied" with their pension/retirement plan, while 22.1% are not. The others in the study had no definite opinion.

- 50.3% are very satisfied with the communications they receive about their benefit programs, while 23.2% are not. The others had no definite opinion.

- 47.4% feel their benefits are about the same as what other organizations offer, 32.3% feel theirs are better, and 20.3% feel theirs are worse.

Despite these fairly positive results, Aon says 44.5% of the respondents report that their benefit program is not particularly important in keeping them from looking

See Aon on page 31

Marsh to bolster European offices for small clients

LONDON—Marsh Inc. is planning a major expansion of its European operations, principally by increasing the brokerage and consulting services it delivers to small and medium-size businesses.

Dan Jones, appointed in January to the newly created position of president and chief executive officer of Marsh Europe in London, is spearheading the expansion beyond Marsh's traditional client base of large companies.

"There are significant opportunities to develop Marsh business in every business sector in Europe," Mr. Jones said in a statement at the time of his appointment.

Over the next five years, Marsh plans to hire about 3,000 additional people—1,800 in continental Europe and 1,200 in the United Kingdom.

Despite the expansion program's focus on small and medium-size companies, growth will be sought in all areas of Marsh Europe's operations, including financial services, affinity arrangements, risk consulting and high net worth individuals. Marsh Europe also aims to increase its specialty business, such as transportation and directors and officer liability cover.

Over the past several years, New York-based Marsh has already successfully increased its business in the small and middle-market sectors in the United States.

—By Edwin Unsworth

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Hostel

Continued from previous page
whether the hostel, a two-story timber structure, had taken adequate fire-safety precautions, or whether its protective system was faulty. The hostel was listed with the Queensland Heritage Council, which protects and governs the use of historically significant buildings.

Responding to suggestions that fire safety rules for Heritage-listed accommodations are not sufficiently tough, Richard Balsillie, executive director of the Fire Protection Assn. Australia in Melbourne, said that the rules are based solely on how structures are used, not on their age. "An old motel would require the same level of fire protection as a new one," he said.

A high-level government task

force has been formed to head the new safety effort, which will inspect structures that provide accommodations throughout the state and determine whether changes to fire safety legislation are needed, said Queensland Emergency Services Minister Stephen Robertson.

The task force will evaluate current fire safety legislation and regulations, as well as the enforcement of existing fire safety measures. Mr. Robertson, who established the task force, said several steps already have been taken in the campaign, including providing multilingual fire safety brochures to guests upon check-in at backpacker hostels, distributing safety brochures in Internet cafes frequented by backpackers and posting information on popular backpacker Web sites.

"Fire officers will inspect all Queensland premises offering backpacker accommodation to ensure they have fully operating fire protection systems, such as

fire alarms, fire evacuation plans and clearly marked emergency exits," Mr. Robertson said.

Officers of the Queensland Fire and Rescue Authority have authority to inspect and close down buildings for violations.

Insurance brokers say it is difficult to place coverage for old buildings—particularly Heritage-listed buildings—in part because it is expensive to refurbish the structures.

David Harris, managing director of Brisbane-based Premier Insurance Brokers (Aust.) Pty. Ltd., said a "worrying number" of hotel and motel fire claims involve arson, because of the "free access" to many people. Few Australian underwriters will insure Heritage-listed hotels and motels, he said.

Graham Jones, Queensland regional manager of the Insurance Council of Australia, the representative body for insurers, said older premises generally require higher rates for coverage. **BI**

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INTERNATIONAL

Names

Continued from previous page
coming in on a limited-liability basis. There won't be a flood in the next 12 months, but when the rates turn further, then we will see new names coming into the market," he said.

Although traditional names are outperforming the market, Mr. Deeny said he did not foresee a return to a market dominated by private investors.

"There will always be insurance companies at Lloyd's," he said. But he added, "I can certainly see participation by names going back up to 40% or 50% of Lloyd's capacity."

Mr. Deeny said that there may be more companies, such as QBE Insurance Group Ltd. of Sydney, Australia, that seek to snap up so-called integrated Lloyd's vehicles, which are listed on the London Stock Exchange. QBE, which has a Lloyd's syndicate that is not listed on the stock exchange, has been engaged in a hostile takeover bid for Limit P.L.C. since last year. In a surprising announcement last

week, Limit said it was accepting QBE's most-recent offer.

"There will be corporations like QBE who think ILVs are good value, and those companies will come in," Mr. Deeny said.

The share prices of integrated Lloyd's vehicles have performed badly in recent years.

According to Chris Hitchings, an insurance analyst at Commerzbank in London, the share prices of most Lloyd's vehicles are about 40% to 60% below their levels of two years ago. In a special report for the ALM, Mr. Hitchings said that, though the QBE bid for Limit has prompted a recovery in the sector of listed Lloyd's vehicles, corporate investors are shying away from putting their money into the stocks.

"On the corporate front, the rush of insurers anxious to buy up Lloyd's businesses has slowed, and a few are now withdrawing," Mr. Hitchings said. "More to the point for the ongoing businesses, two or three years ago, unlimited amounts of capacity were available for almost any Lloyd's project; now, capital-raising proposals for Lloyd's go down like the proverbial bacon roll at a bar mitzvah." **BI**

Medical technology poses risks: Taylor

By EDWIN UNSWORTH

LONDON—Hospitals and doctors must consider the increased liability risks they face as use of technology rises in the health care industry worldwide, the chairman of Lloyd's of London said.

Addressing the Physician Insurer Assn. of America annual conference last month in Washington, Lloyd's Max Taylor warned that the increasing use of computers to store patient records and to run equipment is creating a host of new legal liabilities. The most significant exposures involve the potential for breaches of patient confidentiality and for misdiagnoses, according to Lloyd's summary of Mr. Taylor's speech.

Mr. Taylor cited some recent cases that illustrate the risks he outlined. In one, a hacker copied patient records from a medical school's database and published them on an Internet bulletin board. In another, patient medical records at the University of Michigan's hospital were accidentally

placed on the Internet.

In addition, he described a major incident, made public earlier this year, at the Northern General Hospital in Sheffield, England, where a computer malfunction led to 154 women being misdiagnosed as being at risk of having children with Down's syndrome. At least one of those patients has said she is considering suing the hospital, Mr. Taylor said.

Mr. Taylor told his audience of doctors and health industry managers that, with regard to hackers and computer viruses, "unless safeguards are put in place, hospitals could find themselves increasingly entangled in litigation resulting from technological failures."

Mr. Taylor said Lloyd's already has a cyber-insurance policy, E-Comprehensive, which has been endorsed by the American Hospitals Assn. The policy includes coverage for extortion, costs associated with hackers and viruses, fraudulent acts by employees and intellectual property losses. **BI**

INTERNATIONAL

Weather risk hedge to keep bars' business from drying up

By CAROLYN ALDRED

LONDON—In one of the first European weather derivative deals of its kind, a group of London-based wine bars is protecting itself against a cold British summer.

Corney & Barrow Wine Bars Ltd., which owns 12 wine bars in London, has struck a deal with Enron Europe, a subsidiary of Houston-based Enron Corp., according to Corney & Barrow Managing Director Sarah Heward.

The deal is based on the number of Thursdays and Fridays between June 1 and Sept. 30 of this year in which the temperature falls below 24 degrees Celsius (75 degrees Fahrenheit). If the number of days exceeds a specified amount, Corney

& Barrow will receive £15,000 (\$22,457) for each Thursday and Friday this event occurs, said Ms. Heward, who would not disclose how much the deal cost the company.

Several of the bars, located in London's financial district, have outside seating and attract more drinkers on warm days.

Research regarding typical summer temperatures in London and the point at which temperature affected the company's business was conducted by London-based Speedwell Weather Derivatives Ltd., which also arranged the transaction.

According to Speedwell Director Rob Preston, the Corney & Barrow deal is one of the first primary deals

of its kind in Europe. However, it likely will herald a huge growth in the field, Mr. Preston predicted.

"Since the beginning of the year, there has been a growing number of transactions by energy companies in Europe, but the Corney & Barrow transaction is one of the first highly tailored specific deals in another sector," Mr. Preston said.

Now that one company has "dipped its toe in," though, others will feel more confident, Mr. Preston said. He predicted a "massive potential" for individual deals and said that Speedwell has already received two commissions for studies in the restaurant and bar sector since news broke of the wine bar deal.

According to Mr. Preston, indus-

tries likely to benefit the most from weather derivatives include:

- Tourism and leisure. Two ski resorts in Japan recently arranged deals based on the level of snowfall, he pointed out.

- Agriculture.

- Transportation.
- Government sectors, such as the health service and social services. For example, colder weather can increase the number of people using the health service and local government must maintain roadways that are affected by the cold.

- Retailers in many areas, including food and clothing.

Speedwell provides a fee-based consulting service for corporations. Even if the consulting does not result in a deal, it will help the client

learn a lot about its business and the extent to which its profits are weather-related, Mr. Preston said.

Speedwell also provides advice to the professional market, including investment banks, reinsurers and brokers.

Although the weather derivatives market was developed by deregulated U.S. energy companies in 1997, deregulation in many European countries has led to trading by European energy companies. Investment banks, insurers and reinsurers also are becoming major players in the market, Mr. Preston said.

As a result, Speedwell recently has been approached by several insurance brokers that want to add weather derivatives to their clients' insurance programs, he noted. **BI**

Aon

Continued from page 29

for a job elsewhere and only 26.6% feel that it is very important or critical. "So, benefit programs are perhaps not a strong retention factor for most workers," the study concludes.

A benefit package in the United Kingdom typically includes a pension and life insurance, though sometimes a company car and private medical coverage are included. Senior executive benefit plans might also include reimbursement for travel to work; tuition for private schools; and membership in local health clubs.

'Benefit programs are perhaps not a strong retention factor for most workers,' an Aon study has found.

The Aon study identifies four areas in which U.K. organizations can improve to meet employee needs: rewards, including salary and benefits; internal communications, particularly when announcing changes to the company; work/life balance; and job stress.

In particular, when adjusting the work/life balance of employees, organizations should "recognize that employees are individuals with personal and family needs," the study says.

Therefore, companies should create flexible programs and practices that allow employees to balance their work and personal lives and reduce the amount of time lost to stress, the study says. For example, the company should offer: employee assistance through occupational health; flexible working practices; preventative medical/dental care benefits; family/employee-friendly time-off programs; and time management courses that focus on work and personal issues.

The study concluded that "there is significant opportunity to improve employee commitment. Organizations expect that employees will work longer hours, that they will work harder and that they will have more pride in their organization and products. To realize the increase in commitment, organizations need to improve workplace practices that most significantly affect commitment."

For copies of the report, contact Charlotte Mandel at Aon Consulting Ltd., 15 Minories, London EC3N 1NJ; 44-207-767-2220; e-mail: aers@aonconsulting.co.uk.

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Inamed increases cover

Breast implant maker has \$100 million for liabilities

By CAROLYN ALDRED

SANTA BARBARA, CALIF.—Inamed Corp. has more than \$100 million, including more than \$65 million in insurance coverage, to meet liabilities arising from the removal and replacement of Trilucent breast implants in up to 10,000 women in Europe.

The British Department of Health early last month advised women with the breast implants to have them removed as a precautionary measure, following the release of new data from the U.K. Medical Devices Agency on the long-term safety of the implants.

The Trilucent breast implant, which is unique in containing a soybean oil filler, was introduced by Lipomatrix Inc. for commercial sale in the European Union in 1995. It was withdrawn from sale in March 1999 following reports of swelling. In that time, about 10,500 women received the implants—including about 5,000 in the United Kingdom—according to investor information issued by Inamed last week. The product was not sold commercially in the United States.

Santa Barbara-based Inamed,

which acquired the liabilities of Lipomatrix following Inamed's acquisition of Collagen Aesthetics in 1999, has arranged to pay for all the women's medical costs through AEI Inc., a special U.K. unit based in Caversham, Berkshire. Compensation claims will be dealt with on a case-by-case basis according to a spokesman for AEI. Collagen Aesthetics had acquired Lipomatrix at an earlier date.

At the time Inamed acquired Collagen in September 1999, there was \$12 million of reserves on Collagen's balance sheet to cover potential Trilucent exposure. Since then, Inamed has increased its financial protection for Trilucent liabilities to more than \$100 million, consisting of \$35 million reserves on its balance sheet and more than \$65 million of insurance coverage, according to a company statement released in early June.

The \$35 million covers all the premiums, co-payment obligations and deductibles potentially payable under its various insurance policies, the company noted.

Inamed's insurance coverage consists of two types of policies underwritten by United States-

based carriers "with the highest category of ratings issued by A.M. Best and other rating agencies," the company stated.

The first policy is a \$50 million non-cancelable, multiyear, worldwide medical expense reimbursement policy owned by Inamed. A \$5 million premium was paid at the time the policy was written.

"This policy was specifically negotiated and designed to cover the reasonable medical costs associated with explanting and replacing all Trilucent breast implants," the company declared.

In addition, Inamed is a named insured under more than \$50 million of traditional claims-made product liability insurance coverage obtained by Inamed, Collagen and the current owner of Lipomatrix, said the company statement.

Of that insurance coverage, \$35 million is for the current policy year.

These policies have basic and extended discovery periods that range from five to 10 years, during which liability claims can be asserted and applied against the applicable policy year, the company said. **BI**

New York HMOs vary in quality

Study gauges care, patient satisfaction

By MICHAEL PRINCE

Wide variations in the quality of care and level of patient satisfaction exist at health maintenance organizations in New York, according to a study released last week.

The study examined all 25 HMOs that operate in New York, evaluating their performance with regard to 12 measures. Six of the measures focused on patient satisfaction, while the others addressed clinical quality.

Those measures provide "an enriched snapshot of how an individual HMO is doing," Dr. John McGrath, health policy adviser for the New York State Health Accountability Foundation, said at a news conference. The foundation, which produced the report, is a non-profit organization co-sponsored by the New York Business Group on Health and IPRO, an organization that evaluates health plan quality.

Results were derived from information the HMOs submitted to the National Committee for Quality Assurance and the New York Department of Health Quality Assurance Reporting Requirements. All this information is independently audited to assure its accuracy.

An employer can use the results to evaluate how its HMO fared compared to the others in the state. Each HMO is assigned a grade—average, above average or below average—for each measure, and the results are presented in a report card format.

For example, Capital District Physicians Health Plan was rated above average for five service categories and average for the sixth. On the other hand, CIGNA HealthCare of New York was rated as below average for five categories and did not report data for the sixth.

In addition, while 98% of members of Blue Cross & Blue Shield of the Rochester Area hospitalized

for a heart attack received a beta blocker drug—a proven treatment to prevent another heart attack—only 54% of such patients in Health Insurance Plan of Greater New York were given the drug, according to the study.

Other HMOs that fared well on patient satisfaction include Mohawk Valley PHP with five above-average ratings, while Preferred Care Inc. and Blue Cross of Rochester both received four above-average ratings.

On the other side, in addition to CIGNA, UnitedHealthcare of New York Inc. received five below-average ratings, while Oxford Health Plan received four below-average ratings.

The study's measures provide 'an enriched snapshot of how an HMO is doing,' says Dr. John McGrath.

The patient satisfaction measures, based on surveys of plan members, include members' overall rating of the plan, the rating of a member's personal physician, the ability to get needed care, the ability to get services quickly, customer service and the percentage of primary care physicians that stay with the HMO.

Looking at clinical quality, Blue Cross of Rochester scored above average on all six measures, while Capital District Physicians Health Plan and Preferred Care graded above average on five measures. Health Services Medical Corp. and Health Care Plan received four above-average grades.

On the other hand, Aetna U.S. Healthcare graded below average on five measures, the report shows.

Clinical measures include whether pregnant women receive early prenatal care, rates of women who received testing for cervical cancer, rates of women receiving tests for breast cancer, childhood immunization rates, percentage of members hospitalized for mental illness receiving a follow-up visit after leaving the hospital, and the beta blocker rate.

Information on plan quality is increasingly needed by employers, said Laurel Pickering, the executive director of the NYBGH. Plan quality is now almost as important to employers as plan cost, she said.

For employers concerned about their HMOs rating it's a good idea to press for changes, William Shanahan, vp of human resources for the Teachers' Insurance & Annuity Assn.-College Retirement Equities Fund, said at the press conference. Only after giving the plan a few years to make improvements should an employer consider switching plans, he said.

TIAA-CREF, based in New York, is one of the world's largest providers of retirement funds for teachers.

Only through employers pressuring HMOs by showing them quality data such as the report card will HMOs improve, Mr. McGrath said.

Copies of the report are available at the foundation's Web site, www.nyshaf.org.

Diet drug users get \$29.2 million

COQUILLE, Ore.—American Home Products will appeal a \$29.2 million award that an Oregon state court has given to two users of the company's diet drug.

AHP is uninsured for the award, having exhausted relevant liability coverage limits in prior lawsuits (BI, Oct. 11, 1999).

The Oregon case involved two individuals, Juanita Batson and her son, Richard Wirt, who took Pondimin, the company's brand of fenfluramine, which was often teamed with phen-phen to form the popular "fen-phen" drug combination.

Both Ms. Batson and Mr. Wirt developed mild heart valve damage from the drug, said Russ Abney, an at-

torney with Fleming & Associates in Houston.

Of the award, \$25.3 million consisted of punitive damages, Mr. Abney said. The plaintiffs argued in court that the compa-



ny knew the drug caused

heart valve damage but kept that information secret, he said.

What sets this case apart from prior verdicts, Mr. Abney said, is that prior

cases involved juries in more plaintiff areas, Texas and Mississippi. But this trial is "a conservative area with a conservative jury," he said.

Furthermore, in prior cases, plaintiffs had severe heart valve damage, unlike these plaintiffs, whose injuries were categorized as mild. At the trial, AHP tried to equate mild damage with no damage whatsoever, "and the jury didn't buy it," Mr. Abney said.

An AHP spokesman said the verdict would have no impact on the company's nationwide settlement of class-action fen-phen suits. In that case, the judge is expected to rule this summer on whether to approve the settlement, the spokesman said.

—By Michael Prince

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Risk management plan time-saver to launch

WESTPORT, Conn.—A new Internet service aims to drastically cut the time it takes to develop a risk management plan.

Scheduled to launch this fall, GoRisk works on a proprietary software that its developers say harnesses the knowledge of industry experts.

The software is written to assess the range of an organization's risks and advise as to the appropriate form of protection to manage that risk. That may mean a recommendation to purchase insurance or some other means to control the exposures.

Westport, Conn.-based GoRisk Inc. claims the product can reduce the time needed to complete a risk management plan to just a few days.

The software includes an online claims reporting module, which matches claims with the appropriate policies and automatically notifies the insurer of a claim. It also allows risk managers to analyze the risks associated with mergers and acquisitions, divestitures and other projects.

More information is available at www.gorisk.com.

IT start-up cover

WARREN, N.J.—Chubb Corp. is offering a new package of coverages for emerging information technology companies.

Warren, N.J.-based Chubb's Innovator program includes blanket property limits of \$100,000 and errors and omissions liability insurance to limits of \$1 million with a \$1 million aggregate. General liability is written to per occurrence limits of \$1 million, with a \$2 million general aggregate and a \$1 million aggregate for product liability claims.

An additional \$5 million in coverage is available through an umbrella policy.

Agents and brokers can submit coverage applications and bind a policy online if coverage is approved.

The blanket limit includes coverage for computers, loss of income and research and development expenses. The E&O insurance provides coverage against lawsuits alleging breach of contract and for the failure of a product that results in a financial loss for a client.

The policy's standard liability coverage extends to third parties, including vendors, lessors of equipment, leased workers and volunteers.

Commercial umbrella liability, workers compensation and commercial automobile coverage also are available under the Chubb program.

More information is available at www.chubb.com. Agents and brokers can contact local Chubb underwriters or e-mail Tim Ehrhart, assistant vp and Innovator product manager, at tehrhart@chubb.com.

Small-business cover

SAN FRANCISCO—A new "clicks and mortar" marketplace is offering commercial insurance coverage to small businesses over the Internet.

Policies geared toward businesses with 50 or fewer employees are available through InsureZone, at www.insurezone.com.

Employers can purchase property, liability, workers compensation and umbrella liability cover-

Products & Services

ages from several insurers, among them The Hartford, Kemper and St. Paul.

In addition, InsureZone offers an Internet platform and access to a call center that allows a bank or insurer to market insurance online under its own brand. Thus, companies can co-brand with InsureZone or do private-label marketing without the expense of creating their own agency force, the company said.

To get a quote, customers fill out an application at the InsureZone site.

Quotes usually are provided

within about an hour and a half, said Mark Duchesne, San Francisco-based vp of marketing and sales at InsureZone. "We guarantee eight hours," he said, but quotes generally take far less time to generate.

If the buyer has questions, a team of licensed insurance agents is available to take telephone calls.

InsureZone recently merged with Higginbotham & Associates, a Fort Worth, Texas-based agency, giving Internet insurance shoppers access to traditional agency services.

More information is available at the InsureZone Web site or from the company's San Francisco office at 415-477-3600.

Program for coaches

Gulf Insurance Group and Summit America Insurance Services are offering a new insurance program called Coaches' Choice for sports camps, sports clinics, teams and leagues.

The program provides general liability coverage for coaches and their staffs and excess medical and catastrophic medical insurance for sports participants.

The program offers limits of \$1 million in general liability coverage under the program. The life-

time medical benefits to injured players is written to limits of \$10 million. In addition, seriously disabled participants can receive up to \$500,000 in cash. A \$10,000 death and dismemberment benefit is included.

The program makes it easier coaches to obtain comprehensive coverage, according to Ronda Ashley, vp of special programs for Summit America.

For example, "in the event a coach has a year-round sports league, as well as a sports camp, the desired coverage can exist on a single insurance policy," she said in a statement announcing the program.

For more information, contact Ms. Ashley at 800-955-1991 or by fax at 913-327-0201. **BI**

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D&O

Continued from page 1
rare and is inapplicable in most instances.

If policyholders still fear rescission, there are other measures that can be taken, according to Willis and Aon.

The rules causing the debate were introduced in late 1999 by the SEC, the New York Stock Exchange, the American Stock Exchange, the National Assn. of Securities Dealers and the Accounting Standards Boards. They apply to the members of audit committees of company boards and were intended to address financial disclosure problems.

Under the new rules, an audit

committee must be comprised of at least three "financially literate" independent directors, must have a committee charter that outlines its responsibilities, must provide the details of discussions with outside auditors, and must warrant that it has discussed the financial statements with management.

Most observers expect that, in the long term, the new rules will lead to lowered liability exposure; they say that the rules will provide a system of checks and that compliance may furnish evidence that a company took the necessary measures to prevent the deception of investors.

In the short term, especially in cases where companies restate their financials, plaintiffs lawyers

will attempt to show that the new rules were not implemented properly, most observers say. The lawyers will argue, they say, that proper implementation of the rules would have prevented any misstatements.

"In the short term, we feel that there is a much greater likelihood for civil and criminal actions alleging fraud," said Dana F. Kopper, senior vp in Los Angeles and national practice leader for BoardWorks, a consulting unit of Marsh Inc.

Marsh, Aon and Willis all wrote letters—copies of which were obtained by *Business Insurance*—to their policyholders about the matter earlier this year.

The Marsh letter, dated May 5, outlined the potential increase in

short-term exposure and addressed the issue of rescission.

"We are experiencing an increasing number of situations where underwriters have asserted a right to rescind directors and officers policies based upon material misrepresentation of facts resulting from financial restatement—an audit committee oversight issue," the letter said.

In response to the short-term problems, Marsh will offer policyholders an overview of the new rules and a "new, non-cancelable insurance program for audit committee members," the letter says.

But the letter that Willis sent to its policyholder clients takes a different view of the issue.

The Willis letter, which is dated June 1, says that, while there is a

heightened exposure as a result of the new rules, the exposure will still be covered by standard D&O policies.

"Because the audit committee is a branch of the board of directors and is typically composed of a small number of the directors, this exposure is clearly encompassed by standard D&O insurance," the letter says.

And many policies protect individual directors against the unlikely possibility of rescission through severability clauses, the Willis letter says. Severability clauses ensure that the insurance policy is considered a separate contract as to each policyholder, the letter says.

"Even without severability, See D&O on next page

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D&O

Continued from previous page
however, the remedy of rescission is uncommon and would primarily occur with first-time D&O purchasers or first-time excess D&O purchasers, or when significantly increasing limits. In such instances, main form applications or warranties may be signed that the insurer relies upon in deciding to underwrite the risk. Again, even in this instance, rescission is a remedy of last resort," the letter says.

Willis does not recommend that policyholders buy additional coverage, but it does urge them to review their policies and the extent of any severability clauses and to consider whether they need to increase their limits to address the increased exposure, the letter says.

If a policyholder is still worried about the possibility of rescission, it could set up an individual trust account for each of its audit committee members, said the author of the Willis letter, Susanne Murray, senior vp and national D&O liability practice leader in New York.

"That would be solely for the defense costs in the unlikely and strange event that a D&O policy is rescinded," Ms. Murray said.

Aon, in its letter, dated June 15, agrees that the new rules could lead to increased exposure.

"These new rules enable plaintiffs to, at least, plead a more-persuasive case for director wrongdoing and, thus, may result in not only a higher frequency of cases against committee members but also larger settlements," the Aon letter says.

But existing D&O policies should cover the increased exposure, Aon says.

"Absent extraordinary circumstances, the new rules do not appear to increase the need to purchase a separate D&O insurance policy," the letter says.

And the new rules will not likely increase the use of rescission by insurers, Aon says.

"Rescission remains an extreme remedy for carriers that, absent particularly damaging facts, is a difficult argument upon which to prevail," the letter says.

If a policyholder is still worried about any increased exposure, its existing policy can be "tweaked" to give more protection to independent directors, said Kenneth Ross, director of Aon Financial Services Group Inc. in New York.

"I don't think that you need to buy a separate policy," Mr. Ross said.

In most cases, the increased exposure will likely be covered by existing D&O policies, said Marsh's Mr. Kopper.

But Marsh says that some policyholders may want to buy its new policy.

"We are not saying that rescission is likely or that underwriters intend to use rescission as a tool for all financial restatement issues. But we are saying that it is something that is on underwriters' radar screens," Mr. Kopper said.

The new Marsh policy, which was introduced last month, is designed to offer more protection to independent directors of boards, said Don Bryan, a managing director at Marsh in Chicago.

The policy covers the personal liability of directors and would apply to any type of claim made against an audit committee member, Mr. Bryan said. The new policy has strengthened wording that should cover a board member if an existing D&O

policy is rescinded, he said.

"You cannot rescind (the new policy) unless there is fraud in the initial application for coverage," Mr. Bryan said.

So while the policy could be rescinded if the financial statement

'Any time new rules are introduced, you need to be circumspect,' says Carol A.N. Zacharias of CNA Pro.

that was included in the application was restated, an underwriter will not be able to rescind the policy if financial statements for subsequent years are restated, he said.

The policy is underwritten by a recently formed company, Global Risk Specialists, and supported by Swiss Reinsurance Co. and Liberty Mutual Insurance Co., Mr. Bryan said. The average premium will be about \$2,000 to \$5,000 per \$1 million of coverage, he said.

The policy acts like a difference-in-conditions policy, covering the gaps in an underlying D&O policy, Mr. Bryan said.

The Marsh policy is "extremely contingent coverage," said Tony Galban, vp and D&O underwriting manager at Chubb Executive Risk in Simsbury, Conn.

Rescission of D&O policies is extremely rare, and most insurers use it only as a last resort when policyholders are blatantly fraudulent, Mr. Galban said.

"I've seen a handful of rescissions in the past 10 years," he said.

Many D&O policies have exclu-

sions for misrepresentations or fraud, "because it's never our intention to cover deliberately bad behavior," Mr. Galban said. But most policies also include a severability clause that restricts the exclusions to those directors or officers who knew about the fraud or misrepresentation, he said.

Consequently, an independent director would not be excluded from coverage if a misrepresentation was made in a policy application, Mr. Galban said.

"Any time new rules are introduced, you need to be circumspect and make sure that the audit committee complies with the new rules," said Carol A.N. Zacharias, general counsel at CNA Pro, a New York-based unit of CNA Financial.

But, in the event that all the rules were not complied with—if, for example, an audit committee lacked a sufficient number of qualified members—the failure of a director or officer to follow the rules would probably fall within the definition of a wrongful act under a traditional D&O policy, Ms. Zacharias said.

And the failure to follow the rules would likely be added to other allegations, she said.

"While there's no doubt that a violation of audit committee rules could form the basis of an action against a director alleging breach of fiduciary duty, what's more likely is that those allegations will be added as additional alleged transgressions in the increasing number of financial fraud cases," she said.

Nevertheless, policyholders should review their D&O coverage in light of the new rules, Ms. Zacharias said.

Directors and officers should check to be sure there is a severability clause in their policy that would protect directors who act in good faith and should review other exclu-

sions and the limits of the coverage, because the new rules may lead to an increase in allegations against audit committee members, she said.

Claims that revolve around the restatement of financials are more likely to bring a threat of rescission from insurers, said Wayne Borgeest, a partner in the insurer law firm of Kaufman, Borgeest & Ryan in New York.

"One of the issues with respect to companies that restate their financials is that directors face a risk of liability and seek coverage under a D&O policy, and the threat of rescission is part of this," Mr. Borgeest said.

When companies restate their financials, underwriters are more likely to say that there was a material misrepresentation in the application and attempt to rescind the policy, he said.

Although rescission is still uncommon, it is effectively used as a threat by insurers in claims settlements, Mr. Borgeest said.

When D&O policies incorporate broad severability clauses, there is much less likelihood that a policy can be rescinded, Mr. Borgeest said. "But there are quite a few policies out there that do not have severability."

National Union Fire Insurance Co. of Pittsburgh, Pa., introduced severability into a D&O wording released in February to address fears of rescission, said John Keogh, president of the American International Group Inc. unit.

Previously, National Union did not include severability clauses in many of its policies.

"We are trying to address the exposure that has developed over the past 12 months," Mr. Keogh said, noting the National Union rarely attempts to rescind D&O policies. **BI**

Captives

Continued from page 1
cal Affairs. The OECD's report identifies jurisdictions that fit criteria the group outlined in 1998 to identify tax havens. The OECD, which comprises 29 nations, including the United States, seeks to develop and improve international economic and social policy.

Six jurisdictions, including Bermuda and the Cayman Islands, avoided inclusion on the list by making what the report called "a public political commitment at the highest level...to eliminate their harmful tax practices and to comply with the principles of the 1998 report."

"I'm not overly concerned," said Stephen C. Eldridge, a tax attorney, certified public accountant, and captive expert at the Eldridge Law Firm in Weston, Conn. "Look at what's happened. Bermuda and Cayman were not on that list.

"And I believe that if you look at the tone of that report, these countries are being asked to present a plan to bring their countries in line with international standards," Mr. Eldridge said. "I find it hard to believe that a place like Barbados...will not be able to comply and resolve any issues. After all, the United States has an income tax treaty with Barbados."

"If the two big domiciles were on the list, then I believe it would have more of an effect," said W. Scott Frazier, director of Aon Insurance Managers (USA) Inc., in Burlington, Vt. "But I'm not sure that even if they were on the list, if the big domiciles had just ignored the OECD, what impact this might have."

In 1998, the OECD published a report, "Harmful Competition: An Emerging Global Issue," that established an international framework to counter the spread of harmful tax

competition.

Under OECD guidelines, a member country must eliminate by April 2003 any features of its tax system that the OECD regards as harmful to competition. A grandfather clause for taxpayers benefiting from such tax preferences requires that those benefits must be removed by the end of 2005.

The recommendations also call for a dialogue with non-OECD countries on how they would apply the guidelines. To counter the spread of the harmful tax practices, the guidelines set out criteria for identifying tax havens. Those criteria include having no or only nominal taxes, having a lack of effective exchange of information, having a lack of transparency and attracting business with no substantial activities.

Steve Butterworth, director of insurance in Guernsey, said he wasn't surprised to see his jurisdiction included on the OECD list. "We fully expected to be on this initial list," he said.

"This is a technical list," Mr. Butterworth said. "It's not the blacklist. That comes out in 12 months' time."

Indeed, the current report, presented June 26 at the OECD's 2000 Ministerial Council Meeting, notes that its tax haven list isn't intended to reflect the committee's technical conclusions or serve as the basis for any coordinated defensive measures.

Instead, the group will develop a further "List of Uncooperative Tax Havens" for that purpose.

That group of jurisdictions—those that choose not to eliminate what the OECD regards as harmful tax practices—"could be the subject of a coordinated approach to defensive measures," the report said.

"The commitment necessary to avoid inclusion on the List of Uncooperative Tax Havens is a public political commitment by a jurisdiction to adopt a schedule of progressive changes to eliminate its harmful tax

practices by Dec. 31, 2005," the OECD report said.

"We consider that we will continue to cooperate and have dialogue with the OECD over the next 12 months," Mr. Butterworth said. "The problem with the OECD is they've asked us to sign up to some vague commitments, but they haven't told us what, precisely, they want."

Offering Gibraltar's perspective on the OECD's list, Paul Savignon, chairman of Norwich Union Gibralt-

'If the two big domiciles were on the list, then I believe it would have more of an effect,' says W. Scott Frazier.

tar and managing director of European Insurance Management Services Ltd., said: "I don't think it's got anything to do with captives necessarily. I don't believe that it's detrimental."

"It's a change that all finance centers will have to go through," Mr. Savignon said. "Gibraltar is cooperating to the hilt with OECD. Government policy on it is, Gibraltar will not trailblaze."

"We don't believe that by not being within the list of those six (cooperating countries), Gibraltar is saying it won't cooperate," Mr. Savignon said. "At the moment, there's a lack of definition as to what 'exchange of information' means."

"The OECD has set a time scale of 12 months before it sets its blacklist, and I can assure you, Gibraltar won't be on it," he said.

The Isle of Man government issued a statement June 26 saying: "After two years of preparation, we embarked last week upon a tax re-

form program to adapt our legislative and regulatory environment to meet the rapidly changing needs of the global economy. So, as far as we are concerned, the OECD report is already outdated."

"On international tax practices, we support the OECD aim of creating fair tax competition, even though its work is still clearly at a preliminary stage," said John Cashen, chief finance officer of the Isle of Man.

"There is a long way to go before the international community speaks with one voice," Mr. Cashen said. "We see not only discrepancies between international bodies, but between influential member countries of the OECD itself."

In the report, the OECD notes that its goal is not to promote the harmonization of income taxes or tax structures, nor is it to dictate the appropriate level of tax rates.

"Rather, the project is about ensuring that the burden of taxation is fairly shared, and that tax should not be the dominant factor in making capital allocation decisions," the report said. "The project is focused on the concerns of OECD and non-OECD countries, which are exposed to significant revenue losses as a result of harmful tax competition."

But several observers note that, typically, captive income is taxed and that captives are rarely formed solely for tax purposes.

In the case of U.S. companies, "virtually all captive income is currently taxed," noted Mr. Eldridge, a tax attorney. "Most captives that are offshore choose these places for regulatory reasons."

"There would be a U.S. tax in any event," he said, noting that if an offshore captive elected not to pay federal income tax, it would likely be subject to a federal excise tax.

"If you look at what happens in the U.K., if it's a U.K. parent of a Guernsey captive, the U.K. is getting

their tax," Mr. Butterworth said. "Once results are declared, if there's any profit, 90% has to be dividended back to the U.K. So the U.K. is only gaining from that. In my opinion, that's not harmful at all. But I don't think the OECD understands that."

"It's possible (that), in the following 12 months, we can convince them of this," he said.

Rather than tax-structure issues, Mr. Eldridge said he believes the OECD's real concern is the elimination of financial secrecy.

"From the insurance industry point of view, if what they want is exchange of tax information, I don't think we'd have a problem with that at all," Guernsey's Mr. Butterworth said.

While noting that it's still too early to draw solid conclusions, Mr. Frazier said it's possible the "tax haven" designation could cause a handful of captives owned by U.S.-based parents to redomesticate onshore from offshore domiciles.

"There are the odd two or three companies that might move because of perception," Mr. Frazier said. "But then, if they were concerned about that perception, they probably wouldn't be offshore in the first place."

In general, Mr. Butterworth suggested, fallout from the report likely will be minimal.

"We're not getting particularly excited at this stage," he said. "I don't think there will be any effects on the captive industry."

"In fact, we're getting more inquiries," Mr. Butterworth said. "I've had an inquiry from a leading insurance company today for setting up a protected-cell company."

"I get the feeling that whatever the OECD issues truly are, the popular captive domiciles will be able to, and will want to, bring their laws into OECD conformity," Mr. Eldridge said. **BI**

NAIC

Continued from page 2

agers, insurers and state legislators say they are pleased the rate and form proposals are before the new forum and are hopeful that they will get another chance to push for various changes to the regulations before they are formally adopted. Those include a desire to clarify the definition of large commercial policyholder, to liberalize rate and form approval requirements and perhaps even to extend some of these deregulation measures to personal lines.

One regulator cautioned, however, against viewing the delayed approval as anything more than a move of convenience.

"I don't think that at this point anything should be read into that," said Frank Fitzgerald, chairman of the Speed to Market Working Group. "It was seen as the most efficient manner

of handling that as we continue to work over the summer on the issue of trying to make the process approval for rates, forms and advertising far more efficient and hopefully more centralized than it is now," he said. Mr. Fitzgerald is Michigan's commissioner of insurance.

The idea of handling the proposed models in this manner was broached during the Executive Committee teleconference by South Dakota Insurance Director Darla Lyon. Ms. Lyon chairs the NAIC's Property & Casualty Committee, which approved the models at the NAIC's quarterly meeting in March.

Ms. Lyon prefaced her remarks by saying: "I'm sure that you have all heard that the model is not consistent with the (NAIC's) Statement of Intent. I suspect that the source of this complaint is the choice of prior approval as the default for forms."

That was one of several criticisms from industry representatives. Others

included the perception that the model rate and form law and regulation were too conservative and inflexible, and that they were out of step with an earlier NAIC white paper favoring deregulation of commercial lines.

Despite these criticisms, Ms. Lyons praised the drafting group that produced the models and said they contain "substantial improvements" over existing models, including the introduction of exemptions for certain commercial insurance buyers as well as provisions that address the concerns of multistate insurance buyers.

However, Ms. Lyons also emphasized that the NAIC's new blueprint for financial modernization and regulatory streamlining only came into existence as the drafting group was ending its work and as the new Speed to Market Working Group was beginning its review of regulations. "I believe that this model may be an excellent guide for that group," she said.

It's "an appropriate time" for the

Speed to Market group to have this detailed analysis of "the thorny issue of rate and form filing," concurred NAIC Vp Kathleen Sebelius, the Kansas insurance commissioner.

Representatives of risk managers and other industry observers regard the NAIC Executive Committee's action as a positive development. Many hope that it opens the door to further consideration of their major concerns with the proposed models.

The Risk & Insurance Management Society Inc. "fully supports efforts for deregulation, provided there are proper safeguards," said Daniel Barry, director of government affairs for the New York-based organization. For example, he would like the NAIC to review the definition of risk manager contained in the model's exemptions to ensure it properly considers their qualifications and also excludes those who have a conflict of interest, such as brokers or consultants who may fill this role but also receive com-

ensation for providing insurance services.

In addition, RIMS wants to work with regulators so the definition of an exempt commercial policyholder "is not inappropriately diluted," as some states adopt deregulation legislation, he said. Several states already have adopted form and filing deregulation proposals with varying criteria for exempt policyholders.

Some risk managers have said they fear small companies—some with as little as \$25,000 in annual insurance premiums—would have the same broad exemption from regulation as larger companies, though they might lack the same level of risk management expertise. If that freedom from regulation resulted in a loss, they said, a regulatory backlash against deregulation might affect all buyers large and small (*BI*, June 2, 1999).

The Alliance of American Insurers is urging regulators to initially focus on commercial lines deregulation issues, said Rita Nowak, assistant vpproperty and casualty for the Downers Grove, Ill.-based organization.

The National Assn. of Independent Insurers would like to see the working group consider expanding its deregulation efforts to include some aspects of personal lines, said Donald Cleasby, assistant general counsel for the Des Plaines, Ill.-based association.

Meanwhile, the American Insurance Assn. wrote a letter to commissioners last week urging them to reconsider what it described as "the most onerous" provisions on the proposed model, including file-and-use for rate regulation, prior approval for forms and a \$500,000 minimum premium threshold as one of several criteria designating an exempt commercial policyholder.

The AIA is urging adding "a free market approach" to the regulations, like that used by Illinois, said Phillip Schwartz, vp-financial reporting and associate general counsel with the Washington-based organization.

Also, the National Conference of Insurance Legislators supports the NAIC's recent action, but urges state regulators to consider adopting a single model that both state regulators and legislators can support, said Robert Mackin, the organization's executive director in Albany, N.Y. Several states have already adopted versions of NCOIL's model. **BI**

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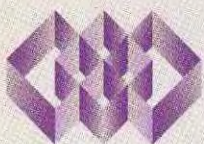
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Insurers' client a matter of policy

I was astonished last week to hear someone ask a group of insurance company marketing professionals: "Is the insurance company's customer the agent or the policyholder?"

I was even more astonished to hear several people vehemently answer: "The agent."

I thought the answer to the question "who is the insurance company's customer?" had been answered years ago. And I thought the answer was an undisputed endorsement of the "the policyholder" as the ultimate customer.

The setting for this exchange was the annual meeting of the Insurance Marketing Communications Assn., where I was moderating a panel on e-commerce in the insurance business. The members of IMCA are the marketing and communications specialists for primarily property/casualty insurance companies, some of which write commercial lines and others which are personal lines specialists.

The questioner was the previous speaker, who at the end of his keynote address was nicely setting the stage for our panel discussion on trends in e-commerce—that is until he endorsed the proposition that it is the agent rather than the policyholder, who is the customer of the insurer.

I am adamant that the insurance company's customer is the policyholder. Of course, the agent or broker can be an indispensable member of the team handling a company's or individual's risk management needs. The bottom line is, it is the policyholder that foots the bill for the premium and it is the policyholder's assets that are protected by the insurance policy. If there is a loss, the check is made payable to the policyholder. Therefore, it seems obvious that the policyholder is the ultimate customer.

The agent/broker's obligation to place a client's insurance with the company best suited for the policyholder, not the agent, also supports my position.

Even the current mantra among insurance brokers that they are evolving into advisers and consultants from intermediaries for the insurance transaction reinforces my position that the insurance company's client is the policyholder, not just the agent/broker.

Indeed, *Business Insurance* was founded in 1967 on the premise that the policyholder is the ultimate client and those buying commercial insurance needed more information about the insurance business to make informed purchasing decisions.

Those who still consider the agent the insurance company's exclusive customer are holding on to the notion that without the agent to "produce" the business for the insurer, there would be no policyholders. Therefore, they conclude that the agent is the customer.

Of course, insurance companies that accept business from agents and brokers should consider them customers. But insurance companies should realize their more important customer is the policyholder, who is also a customer of the agent or broker.

I should have expected that the agent- vs. policyholder-as-client debate would surface again as insurers, brokers, policyholders and e-commerce gurus explore how the Internet's "better-quicker-cheaper" applications can improve insurance-related transactions, both in personal lines insurance and commercial insurance.

After all, the Internet can put the policyholder and insurer together without the help of any agent. There is an explosion of dotcom companies seeking to carve their niche in insurance cyberspace, some of them seeking to bypass the agent/broker. I'm convinced that the next generation of consumers will certainly buy their homeowners insurance and auto insurance over the Internet. And I suspect some will use agents and others won't.

As for commercial insurance and reinsurance transactions, I can imagine some commodity insurance products being purchased over the Internet, even directly by risk managers.

The real promise of the Internet is its ability to reinvent how information is exchanged and how policyholders are serviced by their brokers, insurers, third-party administrators and advisers. There also are much needed efficiencies to be gained in information exchanges between insurers and their agents and brokers.

I don't have a lot of confidence in my ability to foresee how the Internet will change the way insurance is marketed, purchased and serviced. I am sure, though, that the e-commerce companies that keep their eye on the policyholder as the insurance company's ultimate customer will be the winners in the long run.

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



Kathryn J. McIntyre

Congress

Continued from page 1

them—over coverage decisions. The new Senate approach would not, however, expand liability nearly as much as a measure the House passed last year.

To date, however, Senate and House conferees have been unable to work out differences in those original patient rights proposals. The amendment's significance, however, may lie more in signaling that Senate Republicans are willing to accept some expansion of liability in managed care legislation rather than in any chance that expanded liability will be approved this year.

Although the appropriations bill was approved in the Senate by a 51 to 47 vote on Friday, it has to be reconciled with the House appropriation measure and faces a possible presidential veto over unrelated provisions in the legislation that would delay promulgation of an ergonomics standard by the Occupational Safety and Health Administration.

The idea of expanding health care plan liability may ultimately be determined by the legislative calendar, as the July 4 recess and looming political conventions occupy lawmakers' time.

"I think the prospects for enactment of a patient's bill of rights remain clouded. Time is running out in this short session of Congress," said Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington. "Partisan differences dominate the debate, and there is uncertainty as to whether a sufficient number of House Republicans would vote for a bill like this. And even if House and Senate Republicans agree on the measure, it could still face a presidential veto," he said.

"But the action is significant because for the first time in this long debate the Senate has approved language allowing health plans to be sued for denial of coverage in federal court," as well as permitting suits against employers that act as the final decision-makers in claims requiring a medical judgment, Mr. McArdle said. "But participants would first have to exhaust all internal and external appeals" before they could sue, he noted.

The amendment would change the Employee Retirement Income Security Act by creating a "cause of action relating to denial of a claim for health benefits" that resulted in death or "substantial harm" to the participant. This would cover both failure to comply with external review or a wrongful determination resulting in delay in providing benefits by a designated decision-maker. Decision-makers are defined as

those people who have "exclusive authority" to make coverage decisions.

The amendment would ban punitive damages and the filing of class actions against health care plans. Although litigants would be entitled to unlimited economic damages, non-economic damages—such as awards for pain and suffering—would be

'I think the prospects for enactment of a patient's bill of rights remain clouded,' says Frank McArdle.

capped at \$350,000.

Even the limited scope of the proposed liability, however, worries some employer representatives.

Kate Sullivan, director-health care policy for the U.S. Chamber of Commerce in Washington, expressed concern about the expansion of liability contained in the Senate amendment. "Employers ought to be very nervous" about the willingness of previous foes of expanded liability to back some liability expansion, she said.

The amendment contains "more liability than we can ever feel comfortable with," said Neil Trautwein, director-employment policy for the National Assn. of Manufacturers in Washington.

Hewitt's Mr. McArdle said that "even if nothing happens this year, the issue will certainly be taken up again next year. With this new Senate action, the bar has been raised, with liability being a starting a point."

Meanwhile, the House proposal to exempt doctors from federal antitrust laws in their dealings with health care plans also faces an uncertain future.

Although the Quality Health Care Coalition Act won House approval by a 276-136 vote early last Friday morning, no companion legislation has been introduced in the Senate.

Proponents of the measure, which was drafted by Rep. Tom Campbell, R-Calif., claim that an antitrust exemption would allow physicians to band together and better promote their patients' interests while improving the bargaining position of independent physicians when negotiating with large managed care organizations.

Opponents of an exemption, which include many employers and the U.S. Justice Department, argue that the measure would allow doctors to form cartels and drive up the cost of health care without increasing its quality.

to proceed," he said. "The combination of Wellington and Limit would have created a leading independent force within the London insurance market, generating substantial benefits for shareholders, clients and

'The combination of Wellington and Limit would have created a leading independent force,' says Ian Agnew.

employees." But Wellington may yet step in to buy Limit if the QBE offer falls through, market sources say.

An announcement of a formal offer is expected from QBE soon. Frank O'Halloran, QBE's managing director and chief executive officer,

The American Medical Assn., the chief proponent of the measure, hailed the vote as a "milestone victory for America's physicians and their patients." The measure "provides a much-needed counterbalance to the growing power of insurers as they merge and use their ever clout to dictate medical decisions," the AMA added.

But, as with the patient rights legislation, foes of the antitrust measure hope that the dwindling legislative calendar will not allow further action on the measure.

Support for the proposed physician antitrust exemption had ebbed in the weeks before the vote, noted the Chamber's Ms. Sullivan.

"It is closer than where we were about four weeks ago. I think people really started realizing what is in and what is not in the this bill vs. what they don't like about managed care," she said.

"We are going to be letting the full Senate know that we have great concerns about this moving forward. More importantly, we've going to continue to watch what's going on in the managed care conference," she said. Ms. Sullivan said that "a lot of the debate" late last week focused on perceived flaws with managed care.

The NAM's Mr. Trautwein said, "We'll have to take a lot of care to make sure that the Senate doesn't take the wrong conclusions from the House vote."

He said he wasn't certain of the short legislative calendar's impact. "This time of year, if experience teaches us anything, it's to be extremely wary—anything and everything could happen yet."

The vote on the antitrust exemption came less than a week after the American Assn. of Health Plans, a Washington-based trade group representing managed care plans, released a study that claimed the Campbell bill could increase health care expenditures by \$141 billion over a five-year period.

The AAHP study projects that private health care costs would increase about 8.6% by 2004. The study also predicts that passage of the legislation would add about 3 million people to the ranks of the uninsured by 2005.

The survey's estimate of the costs of the measure are considerably higher than those projected by the Congressional Budget Office in an analysis released in mid-May.

James Langenfeld, director of LECC, an economic consulting firm in Evanston, Ill., and co-author of the new survey, said the disparity stemmed from the CBO's use of overly optimistic assumptions, particularly regarding the percentage of eligible physicians who would take advantage of the antitrust exemption. **BI**

said in a statement that he is "pleased with the outcome of negotiations."

Last summer, Limit rejected a bid from QBE of 170 pence (\$2.57 at the current exchange rate) per share; in March of this year, it began pursuing a merger with Wellington to create a new company, Ensign Underwriting P.L.C. After those plans were scuttled by QBE's intervention, the Limit board consistently and vehemently rebuffed QBE's advances, strongly supporting Wellington's offers.

A spokesman for the U.K. Assn. of Insurance & Risk Managers said it was too early to comment on the effect that a merger between QBE and Limit might have on insurance buyers.

Last year, QBE acquired Iron Trades Insurance Co. Ltd., the United Kingdom's fifth-largest employment practices liability insurer, for £175 million (\$264.6 million). **BI**

Limit

Continued from page 2

ers proved amenable.

Amid speculation that Limit shareholders were, in fact, pushing for the board to accept the highest cash offer, Mr. Agnew announced that Limit would agree to QBE's bid of 140 pence per share. The QBE offer was accepted on the grounds that it was significantly higher than any Wellington offer and that QBE was more likely to be able to deliver an offer, Mr. Agnew said in his statement.

Wellington Chairman Ian Agnew—who is not related to Jonathan Agnew—said that, in the interests of its own shareholders, Wellington was not likely to make a higher offer.

"The board of Wellington greatly regrets that Wellington's proposed acquisition of Limit is now unlikely

Resign

Continued from page 1
Mr. Webb said.

The commissioner resigned last Wednesday, a day before he was expected to be grilled by the Assembly Insurance Committee. The committee, investigating the allegations against Mr. Quackenbush, was collecting evidence for potential impeachment proceedings stemming from the use of assets held by a foundation that was created to aid victims of the 1994 Northridge earthquake.

Earlier last week, an Insurance Department staff attorney testified before the Assembly Committee that Mr. Quackenbush directed staff lawyers to collect \$4 million from settlements with title insurers. The money was to be used to buy media advertising featuring the commissioner.

Another department attorney also testified last week that senior aides to the commissioner directed her and others to shred documents related to settlements with insurers over Northridge quake claims.

Legislators and state Attorney General Bill Lockyer began investigating the commissioner after allegations surfaced that Mr. Quackenbush allowed personal-lines insurers to forgo paying around \$1 billion in potential fines for improperly handling earthquake claims (BI, June 12).

Instead, the insurers were encouraged to donate \$12.8 million into a foundation created by the department. A judge recently froze the assets of the foundation after finding that its money was mis-spent (BI, June 26).

According to testimony in the legislative hearings, substantial amounts went to political consultants and others who arranged for public-service television advertisements featuring the commissioner. A portion of the money also allegedly went to a football training camp attended by Mr. Quackenbush's sons.

Some of the Insurance Department staff's testimony has contra-

dicted the commissioner's earlier statements that he did not personally participate in negotiations over contributions to the foundations.

Mr. Quackenbush had been considered a rising star in California's Republican Party and was expected to seek higher office when his current term expired in November 2002.

When the investigations began, Mr. Quackenbush characterized the hearings as a political witch hunt by Democrats. But as the hearings continued, Republican legislators were among Mr. Quackenbush's harshest critics and toughest questioners. They did not come to his defense.

When the commissioner finally resigned, he provided little explanation. In his June 28 letter to the California secretary of state, the commissioner merely stated, "I hereby resign my position as insurance commissioner of the state of California, effective July 10, 2000."

Mr. Lockyer, the attorney general, issued a statement saying he would continue his investigation and seek criminal prosecution, if appropriate.

After Mr. Quackenbush's resignation, several insurance industry associations also issued statements.

"We encourage Gov. Gray Davis to quickly appoint a new commissioner who can restore the integrity and credibility to the office that is essential to both insurers and consumers," said a statement from the National Assn. of Independent Insurers.

The Sacramento-based Assn. of California Insurance Cos. said it was disappointed the commissioner had been forced to resign, because consumer confidence in the regulatory system will suffer.

The ACIC said it supported Mr. Quackenbush's election "because we agreed with his free-enterprise philosophy." But the ACIC added that "his resignation is disappointing but understandable, given what has transpired—according to public testimony—at the Department of Insurance."

Mr. Quackenbush received more

than \$8 million in campaign contributions from insurers, according to The Foundation for Taxpayer & Consumer Rights, a Los Angeles-based group headed by consumer advocate Harvey Rosenfield. The commissioner continued to receive insurer campaign contributions after his re-election to office in 1998, even though state law prohibited him from seeking re-election after his current term expired, according to the foundation.

His troubles aside, Mr. Quackenbush often sided with commercial policyholders, said Willie Washington, legislative director for the Sacramento-based California Manufacturers & Technology Assn.

There were very few instances when the association sought Mr. Quackenbush's support and did not receive it, Mr. Washington said.

Gov. Davis now must pick a new commissioner to finish Mr. Quackenbush's term, and the Legislature must confirm the appointment.

So far, a number of names have surfaced in Sacramento as potential candidates to fill the vacancy. One person whom insurers and business leaders like is state Sen. Patrick Johnston, a member of the Senate Insurance Committee. He earlier served as chairman of the Assembly Insurance Committee and the Senate Industrial Relations Committee, which oversees workers comp regulation.

In those positions, he authored bills that showed an understanding of the financial complexities of insurance, Mr. Webb said.

The state senator also has been fair to commercial policyholders, Mr. Washington added.

Sen. Johnston said he would be "honored" but thought the governor would "first choose a professional regulator rather than someone from the political realm."

Meanwhile, legislation that would allow the reopening of litigation for Northridge quake-related claims has passed the Senate.

S.B. 1899, authored by Senate President Pro Tem John Burton, D-San Francisco, does not distinguish between personal and commercial property claims. **BI**

Medicare

Continued from page 2
benefit programs they now have," said Peter Riemer, a consultant in the New York office of Watson Wyatt Worldwide.

Currently, prescription drug coverage makes up roughly half the cost of a typical employer health plan offered to Medicare-eligible retirees. Benefit consultants estimate that the Thomas bill, for example, could cut employers' health care costs for Medicare-eligible retirees by between 10% and 35%.

That cost savings would be achieved through a "reinsurance" mechanism that is an integral part of the Thomas bill.

Under the bill's standard prescription drug plan, which could be offered either by private insurers or directly by employers, a beneficiary would pay the first \$250 of prescription drug bills. The next \$2,100 would be shared equally by the beneficiary and his or her health care plan, and prescription drug expenses over \$6,000 would be fully covered by the plan.

In addition, employers and insurers could offer plans that were the "actuarial equivalent" of standard plans. For example, a plan could have a higher deductible if it covered a greater share of the costs above the deductible.

Regardless of whether an employer or insurer uses the standard plan or one that is equivalent, it would be eligible for Medicare subsidies.

In a standard plan, Medicare would

reimburse plans for 30% of expenses that fall between \$1,250 and \$1,350; 50% of costs between \$1,350 and \$1,450; 70% of costs between \$1,450 and \$1,550; 90% of costs between \$1,550 and \$2,350; and 90% of costs exceeding \$7,000.

The Clinton administration's plan would take a somewhat different approach in regard to both the design of the prescription drug benefit and the employer subsidies.

Under that proposal, Medicare—rather than insurers—would offer prescription drug coverage, with Medicare initially paying half of the first \$2,000 of a beneficiary's expenses. That limit would gradually rise to \$5,000 by 2008.

Employers whose retiree health care plans offer prescription drug coverage at least equal to Medicare's would receive cash payments from the government roughly equal to \$200 per retiree and ultimately increasing to about \$350 per retiree, according to estimates earlier made by Hewitt Associates L.L.C.

Providing subsidies to employers that offer prescription drug coverage—whether through reimbursement of a portion of costs or simple per-retiree payments—sharply contrasts with the approach Congress took when it last expanded Medicare.

Under 1988 law—repealed after one year—Medicare was expanded to cover a much greater portion of beneficiaries' hospital and physician expenses. That change allowed employers to cut back on retiree health care plans so their plans did not duplicate

the expanded Medicare program.

But, rather than allowing employers to pocket the savings, the 1988 law required them to distribute savings to retirees, either by enriching other benefits or providing cash, in a "maintenance of effort" provision.

None of the prescription drug proposals includes any such requirement. Instead, because of the subsidies, "employers would have a strong financial incentive to retain coverage," said Frank McArdle, a consultant in Hewitt Associates' Washington office.

Others, though, say it remains to be seen whether employers would, in fact, retain coverage. "I don't think anyone knows the answer to that," said Mary Case, a principal with Unifi Network, a unit of PricewaterhouseCoopers L.L.P. in New York.

Some employers, for example, might terminate coverage and, instead, reimburse retirees for a portion of retirees' prescription drug premiums. Through such an approach, employers' liability for retiree health care costs would be limited to a fixed amount, pointed out Nick Vasilopoulos, leader of managed pharmacy consulting with William M. Mercer Inc. in New York.

But, Mr. Vasilopoulos cautioned, although employers might shave retiree health care plan costs if Medicare covers prescription drug costs, some of those savings could be offset by higher taxes that might be needed to fund the new benefits.

"Medicare costs have to be funded, and that funding could come from other taxes," he said. **BI**

UPDATES

Comp losses worse than thought

Continued from page 2

The Boca Raton, Fla.-based NCCI's update of its April estimates found that the 1999 accident-year combined ratio climbed to 134.6% from 130% estimated in April for losses from accidents only in that year, regardless of when claims were paid. The combined ratio for the 1999 calendar year deteriorated to 116.8% from 115% estimated in April for all losses paid in that year, regardless of when the accident occurred.

"The announcement of these new numbers only re-emphasizes the speed at which the market is declining. The negative developments that we are seeing suggest that the final numbers for accident-year 1999 could be even worse than these estimates," said NCCI President and Chief Executive Officer Bill Schrepf.

Among the factors Mr. Schrepf identified as having a negative impact on the market were excess capacity driving competitive pricing, an increase in assigned-risk applications, rising claim costs, pending state or federal proposals for benefit increases, proposed rollbacks of legislative workers comp reforms, and challenges to the workers comp system as an exclusive remedy for injured workers.

One favorable development is a 24% drop in the frequency of workplace injuries between 1990 and 1999, though it is unlikely that decline can continue indefinitely, he said.

Deal boosts asbestos trust assets

DENVER—The trust that owns most of Johns Manville Corp. will see its assets swell and its ownership shrink under a \$3 billion leveraged buyout of the roofing-products manufacturer.

The proposed purchase of Denver-based Manville by Hicks, Muse, Tate & Furst Inc. and Bear, Stearns & Co. would pump \$1.6 billion into the Manville Personal Injury Settlement Trust. The trust, which currently owns 76% of the company, would be given an 8.5% stake under the new ownership.

The trust was established to pay claims to victims of asbestos-related ailments blamed on products manufactured by Manville. Thousands of asbestos-related claims have been filed against Manville, which declared bankruptcy in the early 1980s.

The trust has paid approximately \$2.3 billion to settle around 300,000 asbestos claims and its liabilities remain at about \$20 billion. Claims are expected to continue to be paid until around 2049, according to David Austern, general counsel for the trust.

As of May 31, the trust's assets stood at approximately \$956 million.

Aetna U.S. Healthcare fined

PHOENIX—Aetna U.S. Healthcare Inc. has agreed to pay a \$10,000 fine for violating numerous provisions of a 1998 Arizona law that gives health plan members the right to appeal their plans' coverage decisions.

The fine is the maximum that state insurance regulators could have imposed for unintentional violations, an Arizona Insurance Department spokesman said.

The settlement over Aetna's violations, which largely involved group plans, is the first that regulators have secured as they assess how well plans are complying with the law. Regulators found that Aetna U.S. Healthcare routinely failed to complete expedited medical reviews of urgent cases on time, to explain its formal coverage review decisions to plan members and to inform plan members who were denied coverage that they could seek external independent reviews of their cases.

An Aetna spokesman said the problems were procedural and not substantive. He also said the National Council on Quality Assurance awarded the plan with a three-year accreditation in the midst of the 13-month audit process.

Briefly noted

The District of Columbia's City Council has given preliminary approval to a package of insurance reforms, including a broad **commercial insurance deregulation bill** and a measure that would establish Washington as a captive domicile. Final council approval of the reforms is expected July 11, but the legislation must undergo congressional scrutiny before taking effect. . . . The National Assn. of Insurance Commissioners this week formally approved a resolution establishing July 1, 2001, as the new deadline for insurance-related companies to implement the **consumer privacy regulations** that the NAIC is drafting. The regulations are required by the Gramm-Leach-Bliley Act. The resolution, which extends the compliance date from Nov. 13, 2000, makes state regulators' deadline for insurance-related companies identical to one federal authority previously adopted for the banking and securities industries. . . . Connecticut's newly appointed insurance commissioner is **Susan Cogswell**, the state Insurance Department's former chief of staff and spokeswoman. She replaces George M. Reider Jr., who voluntarily retired to pursue other activities, including teaching, according to the office of Gov. John Rowland. . . . President Clinton signed into law on Friday a measure that gives **electronic signatures** the same legal status as their traditional ink counterparts under most circumstances. . . . Moody's Investors Service Inc. has downgraded its financial strength rating of **Reliance Group Holdings Inc.** to Ba2 from Baa2. . . . The Hartford Financial Services Group will change the name of its runoff unit next week to **Horizon Management Group L.L.C.** from ITT New England Management Co. Inc. The name change is intended to reflect the third-party runoff services the company offers.

FTR FOR THE RECORD

Excerpts from BI's Daily Online Updates, June 26 - June 30, 2000

MARRIOTT'S DAVENPORT RETIRES Arnold Davenport, a former *Business Insurance* Risk Manager of the Year, is retiring after 23 years at Marriott International Inc. Bradley R. Wood, who is vp-risk management for the Washington-based company, succeeds Mr. Davenport.



Mr. Davenport

Mr. Davenport, who retires June 30 as senior vp-risk management, said he plans to "pursue a personal life for a change" and will not become a consultant or start a business. He is moving to an island home on the St. Lawrence River in Canada. Mr. Davenport was named *BI's* Risk Manager of the Year in 1991. He was Marriott first risk manager, having joined the company in 1977 as director of casualty claims.

MANAGED CARE SUITS FILED Six managed care companies are accused of defrauding their members in lawsuits filed late last month in federal court in Miami. The suits, filed by attorneys representing members of the plans, charge that the insurers failed to disclose to members that doctors were offered incentives to deny care and limit hospital admissions. Plaintiffs charge that the plans violated federal racketeering laws by defrauding members. Named in the suits are Aetna U.S. Healthcare, CIGNA HealthCare Inc., Foundation Health Systems Inc., PacificCare Health Systems Inc., Prudential Health Care and United Healthcare Corp. An Aetna spokesman said that the plaintiffs are "stretching legal theories that don't exist." Attorneys may seek to have the suits against the insurers consolidated, along with a similar suit against Humana Inc. filed earlier, into a single case.

PENSION SURVEY A significant proportion of employees either have Internet access to their pension plans from home or want such access, according to a survey sponsored by CIGNA Retirement & Investment Services. Of employees that have Internet access at home, 35% can gain access to their retirement information online, the survey said. Of those who have Internet access but can't reach their pension information online, 38% want such access, the survey said. The greatest interest in receiving pen-

sion information through the Internet was expressed by employees aged 18 to 24, of which 38% wanted online access. That compares with 35% of employees aged 35 to 49 who wanted the access; 32% aged 25 to 34; 29% aged 50 to 64; and 28% over age 65. The survey of 1,013 employees nationwide was conducted in June for CIGNA by Bruskin Audits & Surveys Worldwide.

P/C NET INCOME DOWN A variety of factors contributed to a decline of about 28% in the property/casualty insurance industry's 1999 net income, according to a study released last week by the Insurance Services Office Inc. According to the ISO, the industry's net aftertax income fell to \$22.17 billion last year, compared \$30.77 billion in 1998. The ISO report cited increased underwriting losses, lower investment income and realized capital gains and very sluggish premium growth as reasons for the drop. Insurers' underwriting losses grew by more than 39% to \$23.39 billion last year compared to 1998, while net investment income fell 3.3% to \$38.61 billion in 1999.



STATE SUES GUNMAKERS New York has become the first state to sue gunmakers. In a suit filed in Manhattan last week, the state said it seeks to alter the way that gun manufacturers and wholesalers conduct business. The lawsuit, which does not seek monetary damages but instead aims to change gun industry practices, charges eight gunmakers and eight wholesalers with contributing to a public nuisance by manufacturing and distributing guns they know will end up in the hands of criminals. Specifically, the suit seeks to require gunmakers to add safety features to handguns. In addition, it seeks to prevent sales to those retailers that have track records of selling to criminals and to create a court-appointed monitor of the system by which guns are distributed. The illegal possession or distribution of handguns is a public nuisance under New York law. Such an approach makes this



lawsuit a greater threat to the gun industry than the numerous suits filed by cities, according to the New York attorney general's office. Those lawsuits assert that gunmakers have been negligent, which is a harder standard to prove.

FEMA EVALUATES EROSION COSTS Exposure to erosion losses should be taken into account when National Flood Insurance Program rates are set, according to a report issued last week by the Federal Emergency Management Agency. Erosion along U.S. coastlines could cause an estimated \$500 million in losses annually if cur-



PHOTO: DAVE SAVILLE/FEMA NEWS
Ocean-front homes, such as this on on Oak Island, N.C., are susceptible to erosion damage.

rent population and erosion trends continue, said FEMA Director James Lee Witt as he released FEMA's "Evaluation of Erosion Hazards" at a Washington press conference. Roughly 25% of the structures currently within 500 feet of Atlantic, Gulf Coast, Pacific and Great Lakes shorelines will be lost to erosion within the next 60 years, he said. As a result, the report recommends that Congress allow FEMA to account for the cost of erosion when setting NFIP rates, said Mr. Witt. Current law forbids FEMA from considering erosion risks when determining rates. The report also recommends that Congress authorize FEMA to prepare erosion maps similar to the flood plain maps the agency already charts. Such maps would allow municipalities and developers to choose less erosion-prone areas on which to build.

TOBACCO COMPANIES WIN CASE Smoking was not a substantial cause of a longtime smoker's lung cancer, a New York state court jury found last week in a surprise legal victory for

the tobacco industry. Other factors, such as exposure to asbestos, carcinogenic plastics and fumes—and not 30 years of smoking—caused Clyde Anderson's cancer, the jury ruled, according to attorneys in the case. The decision "shows that these cases are truly individual, and you cannot determine liability without looking at the individual facts of each case," said Michael York, a lawyer representing Philip Morris Cos. Inc. The decision by the Kings County Supreme Court also supports tobacco companies' contention that smokers are aware of the inherent risks of smoking, said Stephen J. Kaczynski, a lawyer at Jones, Day, Reavis & Pogue in New York who represented R.J. Reynolds Tobacco Holdings Inc., which was the lead defendant in the case.



BRIEFLY NOTED The Senate Judiciary Committee last week voted 11-7 in favor of the Class Action Fairness Act, which would permit the removal of certain interstate class-action suits from state to federal courts. The bill's supporters, including employer groups, say it will greatly reduce so-called forum shopping, in which plaintiffs attorneys attempt to file national class-action suits in the most plaintiff-friendly state courts. . . Fitch IBCA has upgraded its financial strength rating of the Insurance Co. of North America intercompany pool to A+, with a stable outlook. The INA pool represents the bulk of Bermuda-based ACE Ltd.'s U.S. operations. Fitch said the upgrade reflects improved underwriting results. . . A.M. Best Co. has upgraded its financial strength rating of Farmers Insurance Group to A+ from A. Best's upgrade reflects Farmers' improved performance and strengthened capitalization as part of the Zurich Financial Services Group.

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

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BI Industry Stock Report JUNE 26, 2000, THROUGH JUNE 30, 2000

BROKERS						INSURERS/REINSURERS						HEALTH MAINTENANCE ORGANIZATIONS															
Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)										
Aon Corp.	NYS	31.06	-3.68	-22.34	43.63	20.69	3191	Gainsco Inc.	NYS	5.00	1.27	-6.98	6.94	3.94	86	Vesta Insurance Co.	NYS	6.19	-1.00	59.68	7.88	3.44	107				
Brown & Brown	NYS	52.00	5.32	35.73	52.19	30.75	131	Harleysville Group	NDQ	16.75	3.88	17.54	20.88	11.63	48	XL Capital Ltd.	NYS	54.13	-1.14	4.34	63.50	39.00	1701				
Clark Bards Holdings	NDQ	16.50	3.13	14.78	21.00	11.63	85	HSB Group Inc.	NYS	31.13	1.43	-7.95	42.25	21.50	500	Zenith National Ins.	NYS	21.25	-6.85	3.03	26.69	18.75	105				
E.W. Blanch Holdings Inc.	NYS	20.31	6.21	-66.84	71.75	16.56	650	HCC Insurance Holdings	NYS	18.88	2.03	43.13	25.13	8.00	1033	INSURERS/REINSURERS AVERAGE			-1.37	-4.26							
Gallagher Arthur J. & Co.	NYS	42.00	7.35	29.73	43.44	23.06	961	ING Groep N.V.	NYS	67.50	7.36	10.66	67.50	46.81	446	HEALTH MAINTENANCE ORGANIZATIONS											
Hilb, Rogal & Hamilton	NYS	34.69	2.78	22.79	35.25	20.38	238	IPC Holdings Ltd.	NDQ	14.00	0.00	-5.88	22.50	9.75	73	Foundation Health Systems Inc.	NYS	13.94	8.78	40.25	20.06	6.25	4279				
Kaye Group Inc.	NDQ	5.81	-3.13	-30.60	11.88	5.00	14	Harford Financial Services	NYS	55.94	4.92	18.07	64.00	29.38	5443	Humana Inc.	NYS	4.88	-2.50	-40.46	15.19	4.75	8833				
Marsh & McLennan	NYS	104.44	-0.83	9.14	112.50	61.75	3266	John Hancock Financial Service	NYS	23.88	10.40	40.44	24.63	13.44	5275	Oxford Health Plans	NDQ	23.81	5.25	87.68	24.60	9.75	4799				
BROKERS AVERAGE						2.95	-3.01							Pacificare Health Sys.	NDQ	60.19	0.21	13.56	91.00	31.13	3369						
INSURERS/REINSURERS												LaSalle Re Holdings Ltd.	NYS	14.19	-3.81	-14.02	16.63	10.88	133	Sierra Health Services	NYS	3.19	-31.08	-52.34	15.75	2.75	1107
ACE Ltd.	NYS	28.00	4.19	67.79	31.44	14.06	3339	Lincoln National	NYS	36.13	-6.02	-9.69	57.50	22.63	4414	United HealthGroup	NYS	85.75	7.36	61.41	89.00	39.38	6701				
Accel International Corp.	NDQ	0.69	9.92	-31.30	2.25	0.50	3	MAIC Holdings Inc.	NYS	11.25	3.45	-46.90	29.05	10.00	251	Wellpoint Health Networks	NYS	72.44	0.17	9.86	97.00	48.25	1791				
Acceptance Insurance Cos.	NYS	5.00	8.11	-13.04	15.94	2.75	273	Markel Corp.	NYS	141.63	-2.75	-8.63	192.00	111.50	109	HMOs AVERAGE	-1.69	17.14									
AEGON N.V.	NYS	35.63	-1.89	-25.39	49.13	31.50	521	MBIA Insurance Group	NYS	48.19	-2.90	-8.76	66.31	36.31	1572	ALL COMPANIES AVERAGE			-0.04	4.29							
Aetna Life & Casualty	NYS	64.19	-2.28	15.01	97.19	38.50	3950	Meadowbrook Insur. Group	NYS	5.13	5.13	-21.90	14.06	4.50	43	BI Insurance Index											
AFLAC Inc.	NYS	45.94	-2.91	-2.65	54.25	33.56	2797	MitLife	NYS	21.06	9.08	47.81	21.56	14.25	16446	2,300											
Allmerica Financial Corp.	NYS	52.38	-6.99	-5.84	64.81	35.06	833	Mutual Risk Mgmt. Ltd.	NYS	17.31	-3.82	2.97	37.75	9.81	1155	2,250											
Allstate Corp.	NYS	22.50	-5.76	-6.49	39.31	17.19	8842	Navigators Group	NDQ	9.00	0.00	-7.69	16.00	8.63	8	2,200											
Ambac Financial Group	NYS	54.81	4.65	5.03	63.00	38.88	2255	NYMagic Inc.	NYS	14.25	-1.72	8.06	19.50	12.25	15	2,150											
American Financial Group	NYS	24.81	-6.37	-5.92	35.44	18.38	711	Ohio Casualty Corp.	NDQ	10.63	-3.41	-33.85	20.13	10.50	1852	2,100											
American General	NYS	61.00	-4.22	-9.60	82.19	45.63	4191	Old Republic Int'l	NYS	16.50	-2.22	21.10	18.88	10.63	1460	2,050											
American Intl Group	NYS	117.50	-0.16	8.67	124.06	78.56	12458	Partner Re Ltd.	NYS	35.44	-0.70	9.25	39.75	28.38	341	2,000											
American Safety Insurance	NYS	4.19	-2.90	-35.58	9.06	3.75	39	Penn-America Group Inc.	NYS	7.88	3.28	1.61	11.00	6.63	14	1,950											
Argonaut Group	NDQ	17.13	-3.52	-13.84	27.00	16.50	181	PMA Capital Corporation	NDQ	19.00	1.33	-4.40	21.00	15.50	102	1,900											
AXA-UAP Group	NYS	79.56	5.12	12.06	81.50	53.75	359	Philadelphia Cons. Holding	NDQ	16.81	-3.24	15.95	24.63	10.81	137	1,850											
Baldwin & Lyons Inc.	NDQ	17.06	0.37	-22.88	24.00	15.94	65	PXRE Corp.	NYS	13.50	-3.57	3.85	19.56	9.94	116	1,800											
Berkley W.R. Corp.	NDQ	18.75	-4.76	-10.18	27.94	14.00	278	Reliance Group Holdings	NYS	0.75	-42.86	-88.68	10.06	0.75	8972	2,202.99											
Berkshire Hathaway Inc.	NYS	53800.00	-1.10	-4.10	73000.00	40800.00	2	ReliaStar Financial Corp.	NYS	52.44	-0.24	33.81	52.69	23.75	2248	Base=100 on Dec. 29, 1978											
Capitol Transamerica Corp.	NAS	11.81	-6.44	17.39	15.25	9.38	8	RenaissanceRe Holdings Ltd.	NYS	43.56	1.48	6.57	44.13	33.19	226												
Chubb Corp.	NYS	61.50	-4.37	9.21	74.13	43.25	2961	RLI Corp.	NYS	34.75	2.77	8.21	38.81	26.25	51												
CIGNA Corp.	NYS	93.50	0.00	16.06	99.50	60.75	4801	St. Paul Cos.	NYS	34.13	-2.50	1.30	39.38	21.31	4488												
Cincinnati Financial Corp.	NYS	31.44	-8.21	-1.37	43.31	26.19	2012	SCOR	NYS	43.38	0.14	-1.98	53.63	38.38	32												
Citigroup	NYS	60.44	-2.32	8.53	67.63	40.13	36661	SAFECO Corp.	NDQ	19.88	-6.47	-20.10	44.88	18.00	3236												
CNA Financial Corp.	NYS	34.00	-2.68	-12.68	43.69	24.56	381	SCOPI Holdings Inc.	NYS	20.50	5.13	-36.19	36.94	19.00	NA												
CNA Surety	NYS	11.94	-3.54	-8.17	15.56	9.75	292	Seibels Bruce Group	NDQ	1.16	23.33	-33.93	5.69	0.75	99												
EMC Insurance Group Inc.	NDQ	8.75	5.26	-4.11	13.38	6.81	112	Selective Ins. Group	NDQ	19.00	8.57	10.55	22.50	14.63	256												
ESG Re Limited	NDQ	3.94	0.00	-43.24	20.06	3.19	200	Tokio Marine & Fire	NDQ	59.50	1.71	0.63	67.00	45.00	134												
Enhance Financial Services	NYS	14.38	0.44	-11.54	22.63	8.63	324	Torchmark Corp.	NYS	24.69	-1.25	-15.05	36.94	18.75	1542												
Everest Reinsurance	NYS	32.88	2.94	47.34	36.50	20.50	1286	Transatlantic Holdings	NYS	83.75	-2.62	7.29	91.56	68.75	63												
Fremont General Corp.	NYS	3.94	-4.55	-46.61	21.25	3.88	1632	Trenwick Group Inc.	NYS	14.56	-2.10	-14.02	31.00	12.00	219												
Frontier Insurance Group	NYS	0.63	-26.57	-81.82	17.19	0.63	1550	Unico American Corp.	NDQ	5.88	-2.08	-16.07	10.75	4.50	11												
												United Fire & Casualty	NDQ	15.50	-3.88	-31.49	26.56	15.50	313								
												Unilin	NDQ	29.38	-6.84	-21.93	42.38	29.38	612								
												UNUM Corp.	NYS	20.06	0.31	-37.43	56.88	11.94	3516								

Top advancing issues: Seibels Bruce Group, John Hancock Financial Service, Accel International Corp. Leading decliners: Reliance Group Holdings, Sierra Health Services, Frontier Insurance Group. Most active issue: Citigroup. The BI Index increased 0.04%; the Dow Jones 30 Industrials rose 0.4%; the S&P 500 went up 0.9%, and the NYSE Composite increased 0.3%. Average P/E: Brokers, 20.5; Insurers/reinsurers, 16.6; HMOs, 13.7.

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

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There are so many things out there that can cause your business to go up in flames. That's why you want an insurance partner who knows your needs inside and out. One who has walked a mile in your shoes. And one who can provide the best possible coverage, in 130 countries worldwide, for matters you may never see coming.



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