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Updates

ACE names executives to run former CIGNA units

HAMILTON, Bermuda—ACE Ltd. has named several senior executives who will run the CIGNA units ACE is expected to formally acquire July 1.

Dominic Frederico will be chairman, president and chief executive officer of ACE INA Holdings Inc., which will be the holding company for the former CIGNA units.

Mr. Frederico currently is president and CEO of ACE Bermuda. His position at ACE Bermuda will be filled by Gary Schmalzriedt, who currently heads CIGNA Europe.

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CNA sharpens its focus with sale

By JUDY GREENWALD and DOUGLAS McLEOD

CHICAGO—CNA Financial Corp.'s deal to sell its personal lines business to Allstate Corp. will permit CNA's management to focus more intensely on its financially pressured property/casualty operations, and that ultimately will benefit commercial insurance buyers, observers say.

Terms of the deal announced last week call for Northbrook, Ill.-based Allstate to make an up-front cash payment of $140 million at closing for the rights to the personal lines business and for five inactive CNA property/casualty insurance units.

Allstate will move the business into a newly formed company called CNA Personal Insurance, and CNA will receive a marketing royalty fee for the use of its brand name. This fee, which will be paid for six years, will be equal to 1.5% of premiums written by CNA Personal Insurance over that period. Allstate will set aside $90 million on a net present-value basis to cover the future payouts.

In addition, Chicago-based CNA will buy a $75 million 10-year note from Allstate, and payouts on the note will depend on loss development on the transferred business. The note in effect will give CNA a financial stake in the new company's performance, according to the two companies.

In selling the business, CNA will be transferring reserves and associated liabilities with a net value of about $1 billion, CNA Chairman and Chief Executive Officer Bernard L. Hengesbaugh said at a news conference last week.

About 2,000 CNA employees involved in handling the business will be moved to the newly formed company, he added.

CNA had been rumored for some

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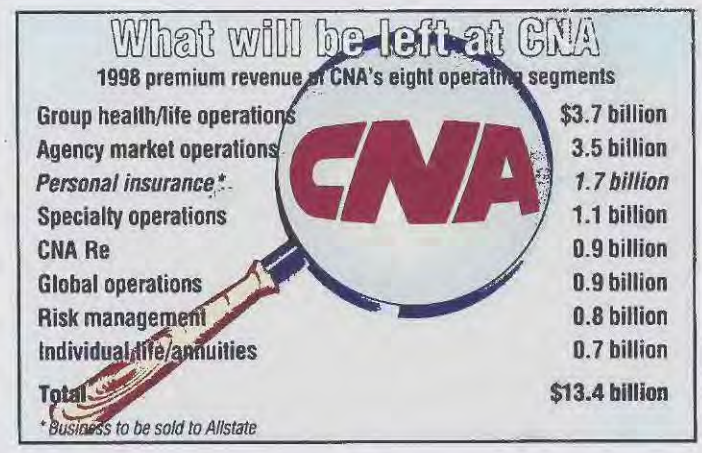

Changes sought in COBRA rules

By JERRY GEISEL

WASHINGTON—The Internal Revenue Service is being urged to clarify a new rule that gives COBRA beneficiaries more time to make up small premium underpayments before coverage is terminated.

At an IRS hearing last week in Washington, benefit administrators and consultants testified that a more-precise definition is needed for what would constitute an "insignificant" underpayment eligible for more time. Such clarification, they said, would lead to more consistent plan administration and reduce the likelihood of litigation over coverage cancellations.

"Guidance needs to be clear and exact, not ambiguous. Otherwise, how does a large employer provide fair, non-discriminatory administration?" asked Steve Schultz, the chief executive officer of COBRA Administrative Services Inc., a third-party claims administrator in Stone Mountain, Ga.

A precise definition "solves the problem. . . .No attorneys interpreting what is significant and what is insignificant," Mr. Schultz said.

COBRA administrators and benefit experts also urged the IRS to modify a proposed rule that generally would require employers to extend COBRA to terminating employees who were enrolled in health care flexible spending accounts.

These recommendations came as the IRS held a hearing last week on COBRA regulations it issued in February (*BI*, Feb. 15; Feb. 8). Most of the regulations are final, though others, such as the one that deals with the interplay of COBRA and FSAs, are proposed.

IRS officials at the hearing gave no indication of how they will respond to the suggestions.

The IRS regulations were published 13 years after Congress passed the landmark Consolidated Omnibus Budget Reconciliation Act, which requires employers to continue offering health care coverage to former employees and those employees' dependents. The regulations provide, for the most part, guidance and clarification that employers have been seeking since COBRA went into effect in 1986.

One of the new rules, however, is too vague, witnesses said. That provision pertains to whether employers should be required to give beneficiaries whose COBRA monthly premium checks are off by an "insignificant" amount more time

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Reaction to FMLA plan cool

Private sector doesn't want a mandate

By AMANDA MILLIGAN

President Clinton's proposal to expand the Family and Medical Leave Act was received less enthusiastically by employers and benefit consultants than by the college students whose commencement ceremony served as the backdrop for the proposal's unveiling.

The proposal, announced late last month at Grambling State University in Grambling, La., in part seeks to let states use a surplus in their unemployment insurance funds to fund paid leave for new parents who cannot afford to take unpaid leave under the Family & Medical Leave Act of 1993. Each state would be permitted to craft its own policy for this use of its unemployment funds.

Additionally, the proposal would allow a federal employee to take up to 12 weeks of accrued sick leave to care for an ailing dependent (*BI*, May 31). Previously, a federal employee was permitted to use only 13 days' sick leave each year to care for an ill family member.

Many employers and consultants, however, have misgivings about the two-part proposal. First, some object to what they regard as a new and unintended use of state unemployment funds. Second, others object to govern-

See **FMLA** *on page 10*

AP/ WIDE WORLD PHOTOS

President Clinton's plan to expand leave benefits drew mixed reviews.

Hospital readiness under scrutiny

Diagnosing Y2K risks

By JUDY GREENWALD

Picture this: It is Jan. 21, 2000. Inside the hospital, lights flicker as generators that have been running for three weeks begin to run out of spare diesel fuel. Medical supplies are running low, and short-handed medical personnel frantically try to get failing medical equipment to work.

Meanwhile, outside the hospital, hordes begin to gather, as community residents desperate for heat and fresh water—and aware of the hospital's extra supplies—seek shelter.

While this is certainly a worst-case scenario, the fact remains that no one knows for sure just how well prepared hospitals are for system failures caused by Y2K computer problems.

To a large extent, the issue of preparedness for possible disruptions depends on whom you ask. While hospital risk managers and others claim they are ready, some are skeptical, particularly of hospitals' ability to cope with any long-term disruptions in basic services.

Perhaps to an even larger extent than for other sectors of the economy, hospitals' Y2K preparedness cannot be examined in isolation—the overriding question of how well society at large is ready for the New Year is particularly crucial. Will it pass with barely a flicker, lead to major breakdowns in critical services, or emerge somewhere in between?

The stakes for hospitals when it comes to dealing with Y2K are unusually high.

"Hospitals, unlike other businesses who have concerns about Y2K, are in a little different position, I think, because their product, for lack of a better word, is patient care, and if we don't do our job as well as it's expected of us, if we don't act reasonably and perform diligently, then the upshot of that will be someone is harmed or killed," said Philip A. Schaedler, director of risk management for Presbyterian Health Systems Inc. in Charlotte, N.C.

"It's a tremendous burden," he said.

Hospitals report they are generally well-equipped to handle any Y2K-related problems.

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NEWSPAPER

Updates

ACE appoints executives

Continued from previous page

Steve Schleisman will be president and CEO of ACE Europe, which will be the new name for CIGNA Europe. Mr. Schleisman currently is an executive vp at ACE.

ACE Europe will be one of the operating units of ACE International, now called CIGNA International. The international operations will continue to be headed by Kingsley Schubert, president of CIGNA International.

Meanwhile, ACE is changing its logo. Last year, the insurer rebranded itself with a new logo with the letters of the company name spelled out in a circular design. The design caused confusion, however, as it was sometimes read as "CEA" rather than "ACE." The logo has been "tweaked" to make it more clearly "ACE," a spokeswoman said.

Hong Kong gets first captive

HONG KONG—GT Insurance (H.K.) Co. has become Hong Kong's first captive insurer.

The Hong Kong Insurance Commissioner's office announced last week that the wholly owned subsidiary of Tokyo-based general trading house Itochu Corp. had been authorized to conduct captive insurance business in the territory.

The business will be managed by GT's affiliated broker, Cosmos Services Co. Ltd. S.K. Leung, a senior insurance officer of the commissioner's office, said he believed Cosmos's established presence in Hong Kong was a major reason for Itochu deciding to locate its captive there.

The Hong Kong government is aiming to enhance the territory's status as a regional insurance center by promoting it as a captive domicile.

Itochu has more than 1,000 subsidiaries and affiliates worldwide. Its operations include manufacturing, trading, construction and financial services.

Lloyd's CATEX access free

LONDON—Lloyd's of London underwriters are to gain free access to CATEX, the Catastrophe Risk Exchange, following an agreement reached last week.

Lloyd's, which has been a CATEX user since February 1998, has negotiated free access for underwriters from its 139 syndicates, provided that access is from its main London trading premises.

Underwriters will no longer have to pay the monthly subscription charge, though they still will pay a commission on completed trades. This commission charge is now 0.10% of premium, having recently been reduced from 0.75%.

Bob Blatchford, general manager of Lloyd's commercial services, said in a statement: "Since its introduction over a year ago, the use of CATEX by the Lloyd's market has grown steadily, and this growth mirrors the general increase in the use of CATEX worldwide. The new service pricing that we have agreed will allow the Lloyd's market to obtain even better value from the growing range of opportunities presented by CATEX."

CATEX is a global trading service licensed by the New York Insurance Department that provides Internet access for insurance and reinsurance transactions.

UFG execs sentenced to prison

NEW YORK—Three former executives of defunct broker Underwriters Financial Group Inc. have received long prison sentences following their conviction earlier this year on charges of embezzling client premiums and defrauding three premium finance companies.

U.S. District Judge Denise L. Cote has sentenced former UFG Chairman Donald Ferrarini to 12 years and one month in prison. Former UFG Executive Vp Bruno Rumignani was sentenced to 10 years and one month, and former UFG consultant Everett Vieira was sentenced to four years and three months.

A fourth defendant, A. Michael Kagan, a former senior vp of CPF Premium Funding Inc., one of the defrauded finance companies, was also sentenced to five years and 10 months for aiding the scheme.

The four men were convicted in February on a variety of conspiracy and fraud charges stemming from schemes to prop up the financially troubled UFG. Mr. Ferrarini and Mr. Rumignani embezzled return premiums owed to insurance buyers, and the four men conspired to defraud CPF, Imperial Premium Finance Inc. and A.I. Credit Corp. by submitting phony loan applications in the names of clients and then pocketing the proceeds, the jury found (*BI*, Feb. 8).

Mr. Rumignani and Mr. Vieira reported to prison earlier this month, while Mr. Kagan is due to report in July. Mr. Ferrarini remains free while awaiting trial on unrelated bank fraud charges stemming from an allegedly phony mortgage loan application he submitted to a New York bank. The trial is scheduled to begin in August.

Delphi adds to pension fund

TROY, Mich.—Delphi Automotive Systems Corp., a parts manufacturer spun off from General Motors Corp. last month, will make a $600 million voluntary contribution this week to its underfunded pension plan.

The pension plan, covering 58,000 hourly workers, was underfunded by $2.2 billion at the end of the first quarter. Delphi's strong first-quarter cash flow, though, allowed it to make the voluntary contribution, and the company plans to fully fund the pension plan over the next several years, Delphi Chief Financial Offi-

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Employers challenge N.C. ergonomics proposal

Standard opposed

By MARK A. HOFMANN

RALEIGH, N.C.—North Carolina employers that hope to head off a controversial ergonomics standard are getting some help from their lawmakers.

Employers fear that the standard, a draft of which was published in the North Carolina Register by the state Labor Department last month, is too vague and too broad, raising the possibility that virtually any reported ergonomic problem could force them to undertake costly corrective procedures.

"Because it is written in such general terms, no matter what industry you're in, you should be concerned about it," said Mitch Byrd, manager-corporate risk for Public Service Co. of North Carolina in Gastonia.

Employers also question why there is a rush to make North Carolina only the second state to impose an ergonomics standard, given questions over whether there is enough scientific evidence to justify a sweeping standard.

The state's largest employe group—the Raleigh-based Nortl Carolina Citizens for Business an Industry—strongly opposes th ergonomics proposal. In fact, Phi Kirk, the group's president, calle it the "biggest issue facing th business community this year."

The debate in North Carolina closely mirrors the ongoing debate on Capitol Hill over the Occupational Safety and Health Administration's plans to promulgate a national ergonomics standard. In fact, the tactics of opponents of

See **Standard** *on page 33*

AIDS cap ruling reviewed

Little impact seen for group health plans, benefit experts say

By AMANDA MILLIGAN

CHICAGO—A recent ruling that the Americans with Disabilities Act does not regulate insurance coverage has drawn much attention from the insurance industry, but there is little consensus among employment attorneys and benefit consultants about what impact the decision will have.

The decision, reached earlier this month by the 7th U.S. Circuit Court of Appeals in Chicago, confirmed that Mutual of Omaha could place caps on coverage for AIDS and AIDS-related conditions (*BI*, June 7). The plaintiffs—two people who have HIV, the virus that causes AIDS—argued that the policy had less value to people with AIDS than it would to persons who had other diseases that also were expensive to treat but that were not capped.

Because the case involved individual policies and not group health plans, some say the case will have little effect on employers but that it could affect the outcome of other rulings in the future.

Disease caps are much more typical in individual policies than they are in employer-sponsored group health plans, said John Erb, area vp of Gallagher Benefit Services in Boca Raton, Fla.

"It doesn't make sense to cap diseases. It goes against the reason you provide insurance," Mr. Erb said.

This decision, he said, though, could lead insurers to impose similar caps on treatment for other conditions, such as substance

See **AIDS** *on page 35*

Investors' dividends disappoint

By SARAH GODDARD

LONDON—Lloyd's of London investors will see smaller-than-expected dividends from 1996 profits, while some will receive nothing.

LLOYD'S

As it has been widely acknowledged that 1996 will be the last underwriting account that generates sizable profits for several years, many names were counting on receiving healthy dividend checks for 1996 before having to pay their annual tax bills next month.

Earlier this year, Lloyd's announced pretax profits of £606 million ($1.02 billion) for the 1996 underwriting year that closed at year 1998. The final profits distributed to members, however, are lower, which reflects both taxes and £389 million ($654.7 million) in expenses.

A change in internal procedures at Lloyd's, however, has meant that about £100 million

See **Lloyd's** *on page 34*

Gen Re's Monrad is Woman of Year

By MICHAEL BRADFORD

Like most college students, Elizabeth A. Monrad wasn't exactly sure which career path would be the straightest to success.

Ms. Monrad

So she entered college with the vague notion that it might be a job in medicine she was after, never imagining the road that would lead her to an accounting firm and, eventually, to one of the world's leading reinsurers.

Along the way, she developed a hardworking, dedicated style that her peers say make her a deserving recipient of the award she will accept in New York on Tuesday.

Ms. Monrad, 44, will receive the Assn. of Professional Insurance Women Inc.'s 1999 Woman of the Year award in a reception at the Continental Club.

Ronald E. Ferguson, chairman and chief executive officer of General Re Corp., will make the presentation that annually is given to a woman who has achieved prominence in the insurance industry.

Ms. Monrad is senior vp, chief financial officer and a member of the executive committee of General

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Inside

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- Too few employers have gotten the message that they need clear policies regarding use of e-mail to limit their liability, this week's editorial says. **PAGE 8**
- The captive industry is watching development of a list of tax havens currently being compiled by the Organization for Economic Cooperation and Development. **PAGE 25**

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NAIC supports federal licensing plan

Reversing stance, regulators support measure that would pre-empt states' power

By MEG FLETCHER

KANSAS CITY, Mo.—The National Assn. of Insurance Commissioners plans to continue working toward uniformity in agent and insurer licensing, despite causing an uproar last week over its willingness to accept federal preemption of some of its powers to accomplish that goal.

The NAIC last week scuttled a short-lived lobbying campaign for a new package of amendments to the financial services modernization bill, H.R. 10. That package includes proposals that could preempt certain aspects of state insurance regulation.

Specifically, the NAIC proposals, among other things, would create a mechanism for federal oversight of licensing if the majority of states failed to adopt uniform non-resident agent and insurer licensing policies within three years.

The NAIC proposal is similar to a provision in H.R. 10 that would create an independent entity called the National Assn. of Registered Agents & Brokers to approve such licenses with the help of NAIC oversight. While the NAIC has steadfastly opposed the NARAB concept for years, the organization last week surprised many observers by reversing its position.

Leading regulators downplayed the significance of the NAIC's flip-flop during the NAIC's summer meeting in Kansas City, Mo.,

NAIC

last week and instead described the move as a "progressive" step in ongoing efforts to modernize agent and insurer licensing procedures.

The state regulators' unprecedented approach, which the full NAIC membership endorsed before last week's meeting by conference call, sparked significant concern at the meeting, especially from one representative of state legislators. The NAIC's change also amazed several insurance trade association representatives and observers, who variously described it as "a startling policy change," "historic" and "surreal."

Buyers could benefit from a uniform licensing approach if it results in quicker agent appointments, which may increase competition. In addition, buyers may benefit if insurers pass on their savings from reduced regulatory compliance costs in the form of lower premiums.

In light of the reaction and lack of industry consensus, however, the NAIC agreed after its meeting concluded not to push for licensing uniformity amendments in subsequent deliberations with the House Commerce Committee, an NAIC spokesman said.

The House Commerce Committee finished its markup of H.R. 10—including the NARAB proposal— last Thursday and adopted it. The legislation now moves to the House Rules Committee, which will decide which financial modernization bill to send to the House floor—the Commerce Committee's; a House Banking Com-

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Have skills, will travel

Risk managers available part-time

By MICHAEL BRADFORD

Bruce J. Birney's schedule is a little different from that of a typical risk manager.

At Midas International Corp. in Chicago, where he is listed as director of risk management, Mr. Birney is at his desk just two days a week. Much of the rest of the week, he seeks out companies that could use his risk management expertise.

Mr. Birney is one of a number of solo practitioners who are helping companies to have a risk manager on staff without the expense of hiring one or staffing a department.

"I view this as a relatively narrow aspect of risk management consulting," Mr. Birney remarked. "People often relate to me as a risk management consultant; I shy away from that. I won't take consulting business if I can't get involved in the risk management."

In this era of broker mergers and corporate acquisitions, some professionals with risk management skills have found themselves looking for new ways to make a living. Others have avoided corporate downsizing by joining consulting firms or forming their own operations to offer employers help with loss control, insurance buying, claims administration and other risk-related services.

Mr. Birney was an insurance broker for 20 years, leaving the Chicago office of Alexander & Alexander—now part of Aon Group Inc.—at the end of 1995 to establish his one-man operation.

He was hired by clients that included a steel maker and a manufacturer of railroad equipment before taking on the risk management duties at Midas, where he plans to stay indefinitely while he adds other clients.

And Mr. Birney's status as part-time risk manager doesn't mean Midas isn't getting full attention to its risks; he's always in touch by e-mail and telephone when he isn't in the office. In addition, he has made arrangements to outsource many risk management functions to brokers, claims administrators and others.

As an example of his contributions to the company, Mr. Birney pointed out that he put out to bid Midas' insurance program because he thought that underwriters and brokers weren't fairly assessing the company's risks.

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Patients' rights revisited

By JERRY GEISEL

WASHINGTON—After a three-month hiatus, patient protection legislation is back on the congressional agenda, but the long delay hasn't brought Republicans and Democrats any closer to working out a bipartisan agreement.

The House Employer-Employee Relations subcommittee is tentatively scheduled to take up this week a packet of patient protection bills—introduced by various Republicans—including measures that would: mandate external review procedures for disputed claims; give women in managed care networks direct access to obstetrician/gynecologists; allow parents to choose a pediatrician as a child's primary care physician; and guarantee coverage of emergency room services if a prudent person would consider the condition an emergency.

The subcommittee also is expected to consider a separate bill that would allow small employers to band together to self-insure their health care benefits through association plans that would be exempt from state benefit mandates and insurance capitalization requirements.

The subcommittee action would be the first on patient protection legislation since the Senate Health, Education, Labor and Pensions Committee approved a patient protection bill in March (*BI*, March 22).

Just as the Senate committee's action was partisan—all the committee's Republican members voted for a bill sponsored by Chairman James Jeffords, R-Vt., while Democrats voted against it—the patient protection maneuverings in the House also are sharply partisan.

As of last week, none of the House subcommittee's Democratic members had signed on to the package assembled by subcommittee Chairman John Boehner, R-Ohio, and several assailed the package as a sham.

"This new initiative is a compi-

See **Patient** *on page 31*

POS plans' switch may raise N.Y. rates

Community rating mandate

By MICHAEL PRINCE

NEW YORK—New York employers may see an increase in health plan premiums as point-of-service plans in the state switch to community rating next year.

Under a new requirement issued last month by the New York Insurance Department, POS plans in New York can no longer offer large employers experience rating for the out-of-network portion of their coverage. Instead, starting February 2000, the plans must base their rates on community rating formulas.

All health maintenance organizations in the state are required to use community rating, which establishes premiums based on every employer for a plan in a geographic region. HMOs that are structured to provide a POS option, however, currently use community rating only for the in-network portion of the plan.

The POS plans use experience rating for out-of-network coverage. The result, in practice, has been that POS plans adjusted the charges for the out-of-network segment to such a degree that an entire plan became experienced-rated, or based on the loss experience of each employer.

Because of pressure by employers to lower health plan rates, HMOs have been underpricing their POS plans, "producing underwriting losses and requiring a subsidization from other community-rated policyholders," according to the Insurance Department letter dated May 26 and sent to all health insurers in the state. This subsidy violates New York law, necessitating the rating change, the letter states.

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RSI a small fraction of workplace injuries

By MEG FLETCHER

ALEXANDRIA, Va.—The latest federal statistics on workplace injuries and illnesses show that repetitive motion injuries among office workers make up only a small number of total cases.

Those statistics demonstrate that office-related ergonomic injuries are not as prevalent as popular opinion would indicate, the Center for Office Technology says.

Specifically, repetitive typing or data-entry jobs continued to constitute just 0.6%, or 11,600 cases, of the total 1,833,380 injuries and illnesses requiring time away from work in 1997, the latest year for which data is available from the U.S. Department of Labor's Bureau of Labor Statistics. That percentage was unchanged from the previous year.

The total number of injuries and illnesses attributed to repetitive motion across all job categories was 75,188, or 4.1% of total cases requiring time away from work. That percentage was slightly higher than the 3.9% for the previous year.

Nearly half of the total repetitive motion cases—47.7%—occurred in the manufacturing sector, according to the COT, a national association of employers and

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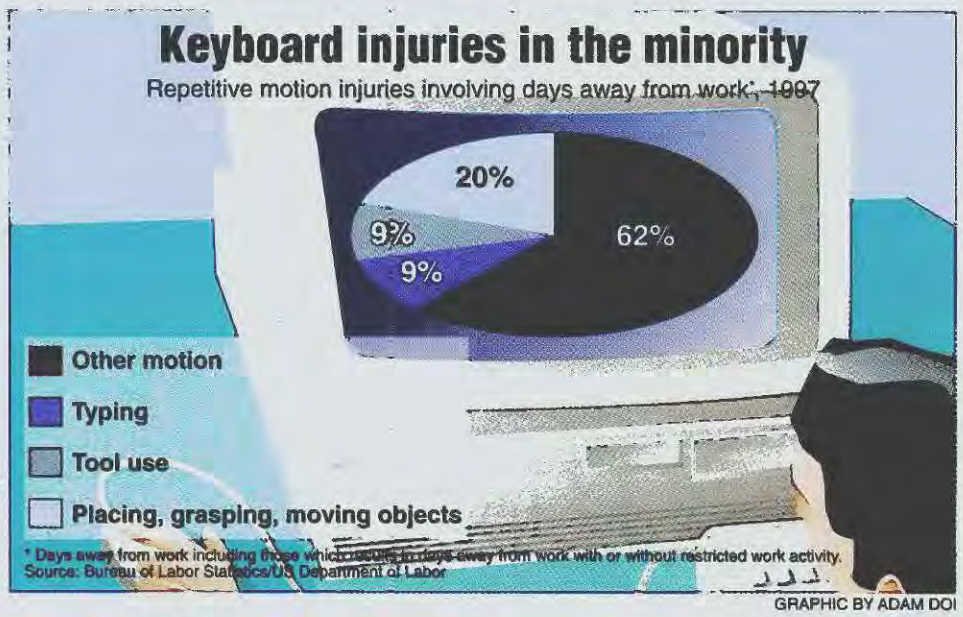

GRAPHIC BY ADAM DOI

Licensing

Continued from previous page
mittee version of the bill passed in March; or a combination of both.

"We are delighted with the Commerce Committee's final action and think that it represents protection of the consumer with direct involvement on a functional basis by state insurance regulators," said NAIC President George M. Reider Jr., the Connecticut insurance commissioner.

The NAIC began lobbying for its NARAB-type proposal as part of a second round of amendments it sought for H.R. 10 following "a major victory" last month before the House Commerce Committee's Subcommittee on Finance and Hazardous Materials, said George Nichols III, NAIC vp and Kentucky's insurance commissioner. Following a lobbying blitz by state insurance regulators, that subcommittee had earlier adopted four amendments proposed by the NAIC. Those amendments would affirm state regulators' functional authority over all insurance business, regardless of whether it is written by banks, including insurer affiliates of financial holding companies. The amendments also would require that both federal and state regulators be treated equally in insurance-related disputes.

"We got the overwhelming core of what we needed with the original four amendments," which corrected pre-emption problems in the bill, the NAIC spokesman said.

However, the NAIC is still "committed to continuing to gain commonality and we will continue to do it, with or without the (new) amendments," Mr. Reider said.

Most insurer trade groups supported those earlier amendments.

The NAIC's initial success led its leaders to develop a second package of proposed amendments, including proposals to establish a streamlined and uniform process for non-resident agent licensing as well as an expedited process for insurer admissions.

'The amendments would allow the pre-emption of state authority in multistate licensing and transfer much of that authority to the NAIC,' according to NCOIL.

Among the other eight amendments are ones that would: authorize the use of Social Security numbers for some licensing purposes; give state insurance regulators nationwide access to the national criminal history database so they can perform better background checks; exempt state regulators from the Fair Credit Reporting Act; provide confidentiality protections for communications with federal agencies; and provide immunity for NAIC database activities and for insurance companies that report agent terminations for cause.

Some critics considered the NAIC's willingness to embrace a NARAB-type proposal as merely a survival tactic to keep the United States' system of 50-state regulation viable in the global marketplace, but leading regulators disagreed.

"The time has come to fish or cut bait," said Jim Long, the North Carolina insurance commissioner and a former NAIC president.

"It's a demonstration of how committed we are to achieving uniformity and maintaining authority at the state level," said North Dakota Insurance Commissioner Glenn Pomeroy, the NAIC's immediate past president. He said he anticipates that a majority of states would adopt the needed uniformity measures before the deadline triggered creation of the federal oversight entity.

The response to some of the NAIC's proposed H.R. 10 amendments at last week's meeting, however, was overwhelmingly critical from the National Conference of Insurance Legislators as well as several trade associations.

"The amendments would allow the pre-emption of state authority in multistate licensing and transfer much of that authority to the NAIC," NCOIL explains in its June newsletter.

The National Assn. of Independent Insurers "totally disagrees" with the NAIC's new proposed amendments because they would entail federal pre-emption of state insurance laws, said Robert Zeman, vp and assistant general counsel with the NAII. "That's a major change for the NAIC."

"If it's a state problem, we ought to fix it at the state level," said Lenore Marema, vp-legal and regulatory affairs with the Alliance of American Insurers in Downers Grove, Ill.

"We are sympathetic with the intent, but they (the amendments) are very late," said Michael Lovendusky, assistant general counsel with the American Insurance Assn. in Washington. Following passage of the Commerce Committee's version of the bill, he said the AIA is ready to work with the NAIC to craft a free-standing bill that could be submitted to Congress this term. Once the NAIC fully explains its stance, he predicted it could garner broad support from industry groups and state legislators.

Regulators could better accomplish their goals using an interstate compact, recommended John M. Manders, professor of business and insurance law at The Kelley Insurance Center at Drake University in Des Moines, Iowa.

"We are encouraged that the amendments the legislators would have cared about have been withdrawn (from the NAIC's agenda) and our concerns brought to the attention of the NAIC's leadership," according to Robert Mackin, executive director of the NCOIL.

"It's difficult to see how you can preserve state regulation by preempting state authority," he said.

"The fundamental question is whether the NAIC can act for the states," Mr. Mackin said.

The NAIC is technically a nonprofit, unincorporated association known as a 501(c)6 entity, though federal lawmakers previously acknowledged a special role for the organization in developing guidelines for Medicare supplemental insurance.

"No one wants a big fight over this," Mr. Mackin said . He invited NAIC leaders to explain their new legislative approach at NCOIL's summer meeting July 16-18 in Cincinnati.

However, "the horse is out of the barn" with the NAIC's reversal of its historic opposition to NARAB, said Joel Wood, senior vp-government affairs with the Council of Insurance Agents & Brokers in Washington. "These are important developments," and the CIAB supports them, he added. BI

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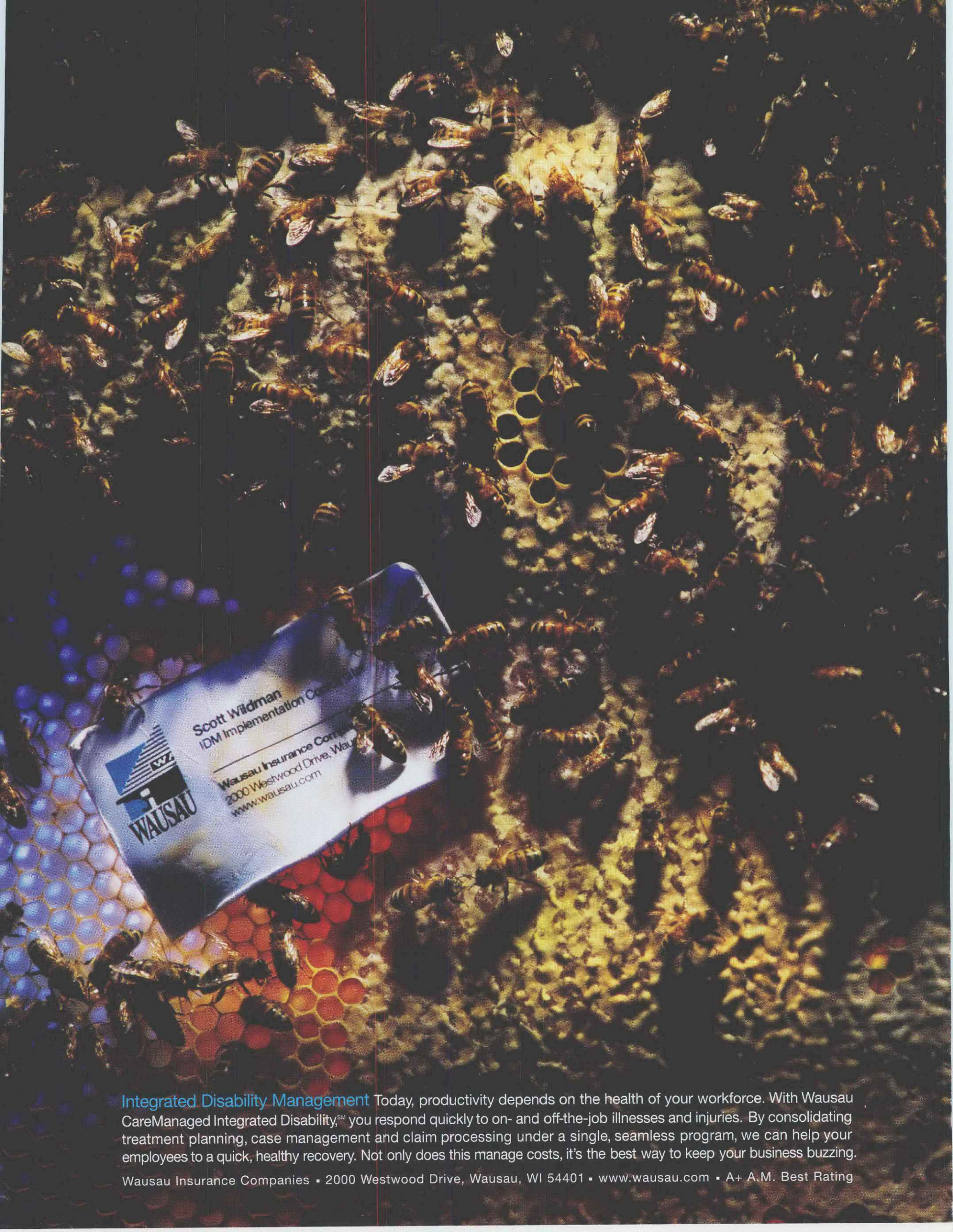
Business Insurance will publish its annual Directory of Prescription Benefit Managers on Aug. 2. The issue will contain a Spotlight report on managed care trends and issues.

The directory is published as an editorial service, and there is no charge to be included. To be listed, companies must provide an integrated package of services that controls the types and distribution methods of all prescriptions used by plan participants. The package of services must include several of the following elements: pharmaceutical benefit design consulting, disease management of participants, prescription educational services for users or physicians, utilization review and claims processing. These services must be on a unbundled basis, and clients must not be required to purchase insurance, HMO/PPO services or other services to gain access.

If your company meets the requirements and has not received a questionnaire, please request one immediately by calling Directory Editor Kevin Edison at 312-649-5279.

Copies of the questionnaire also can be printed from the *BI* Web site at www.businessinsurance.com/magazine/directories.html.

Completed questionnaires must be submitted by the extended deadline of June 28.



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What can we do to help you?

Insurer does not foresee a Y2K cataclysm

But some say large insurance claims still likely

By GAVIN SOUTER

NEW YORK—Forget about stockpiling extra cans of tuna fish, leave your money in your mutual funds, and don't even think about converting your basement into a survival bunker.

The millennium bug will not cause major disruptions for most of America, said Richard I. Thomas, senior vp, Y2K strategic planning and implementation at American International Group Inc. in New York.

AIG has surveyed 2,000 of its major clients and has reached the conclusion that corporate America's computer systems are largely Year 2000-compliant, he said.

While there likely will be some minor disruptions around Jan. 1, 2000, there is unlikely to be widespread disarray, Mr. Thomas said.

But even if most organizations do not experience significant disruptions due to Year 2000 problems, policyholders already are filing insurance claims seeking coverage for some Year 2000-related issues.

Earlier this year, the Port of Seattle filed a notice of claim with its insurers for the cost of making its systems Year 2000 compliant.

Errors and omissions and directors and officers liability insurers are also likely to face large claims next year, a panel of experts agreed.

Nevertheless, the actual effect of Year 2000 problems will likely be akin to a winter blizzard or a power black out: irritating, but temporary and manageable, said Mr. Thomas.

"There will be Y2K events in the first quarter of next year. . .but there will be no lasting impact on the U.S. economy," he said at a session on Year 2000 losses and the insurance industry during the Insurance Education Day held at The College of Insurance in New York last week.

Most corporations in the United States have taken the Year 2000 computer problem seriously and have spent many millions on remediation efforts, Mr. Thomas said.

The same corporations have also worked hard to ensure that their vendors and suppliers are Year 2000 compliant, he said.

Outside the United States, organizations in the United Kingdom, Scandinavia, Switzerland, Canada, Australia and New Zealand also have the problem under control. Other European countries, however, still may be in a race against the clock to carry out all of their remediation efforts, Mr. Thomas said.

Other areas of the world are even further behind, but U.S. corporations in those countries have recognized the problem and have developed contingency plans, he said.

The remediation efforts of organizations, however, will likely lead to insurance claims, said Peter P. McNamara, a partner at Rivkin, Radler & Kremer in Uniondale, N.Y., who represents insurers.

The Port of Seattle filed a notice of claim under the provisions of the "sue and labor" clause in its property policy, a spokesman for the Port confirmed. The insurer is Lexington Insurance Co., a unit of AIG, he said.

Under the clause, policyholders can seek coverage for expenses incurred to prevent an imminent insured loss.

The size of the claim has not yet been determined, but the Port estimates it will spend $10 million to $11 million on its ongoing Year 2000 remediation efforts, the spokesman said.

Aside from remediation-related claims, there will be some litigation surrounding property claims from Year 2000 problems, as policyholders will try to seek coverage for bodily injury and property damage claims, Mr. McNamara said.

'E&O and D&O will be ripe avenues for coverage if (Year 2000) concerns manifest themselves,' says Joshua Gold.

But most litigation will be commercial litigation where, for example, a corporation sues a supplier after a disruption in services, he said.

This underlying litigation will lead to significant coverage disputes relating to D&O and E&O coverage, said Joshua Gold, an attorney at Anderson, Kill & Olick P.C., a policyholder law firm in New York.

"Third-party claims, in our mind, will be the larger coverage battleground," he said.

E&O and D&O policies usually do not have any exclusions that are solely applicable to Year 2000 claims, Mr. Gold said.

Claims under D&O policies will likely stem from allegations such as the management of a company failing to manage Year 2000 remediation efforts, he said.

And a typical E&O claim may arise from allegations that a computer consultant failed to carry out remediation efforts adequately, Mr. Gold said.

Insurers' attempts to reject claims may be stymied by actions they took in the mid-1990s when covering technology companies. Several of those policies contained specific Year 2000 exclusions, so it will be difficult for insurers to argue that standard policies exclude Year 2000 claims, he said.

"E&O and D&O will be ripe avenues for coverage if (Year 2000) concerns manifest themselves," Mr. Gold said.

The session was moderated by Akos Swierkiewicz, president of IRCOS, a consultancy in Yardley, Pa. BI

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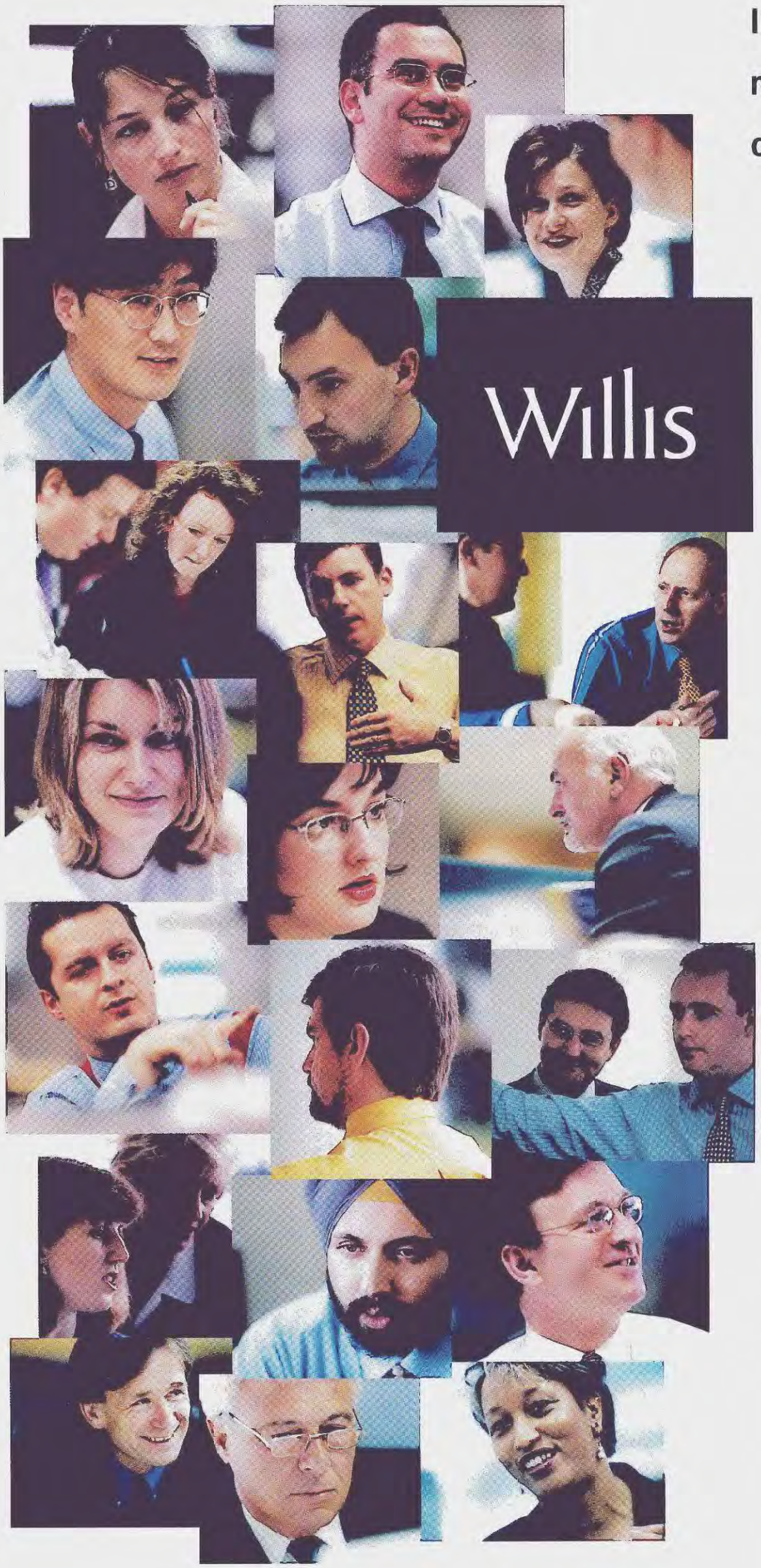

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Opinions

E-mail risk growing @ work

JUST AS ONLINE ACTIVITY GROWS in the business world, so, too, do potential liability exposures.

This is especially true regarding the risks posed by inappropriate use of corporate e-mail systems. Unfortunately, research shows that many employers are not getting the message. Businesses likely will incur sizable losses before they finally act to take even simple loss control steps.

E-mail systems today are routinely plumbed by plaintiffs attorneys trolling for electronic evidence to support claims against a company or individual. It is no longer uncommon for a plaintiff to request in pretrial discovery a copy of the defendant's entire e-mail system, which is then sifted through for evidence of an alleged tort.

Deleting e-mails is not enough to protect a company from this potential exposure, as it is relatively simple today for a specialist to retrieve deleted messages from a company's hard drives or backup files.

Companies that wish to protect themselves from such an exposure instead need to do more to ensure that inappropriate e-mail messages are not written and sent in the first place.

The key to minimizing this risk is relatively simple: Employers need to have a well-drafted e-mail policy that is communicated to all employees.

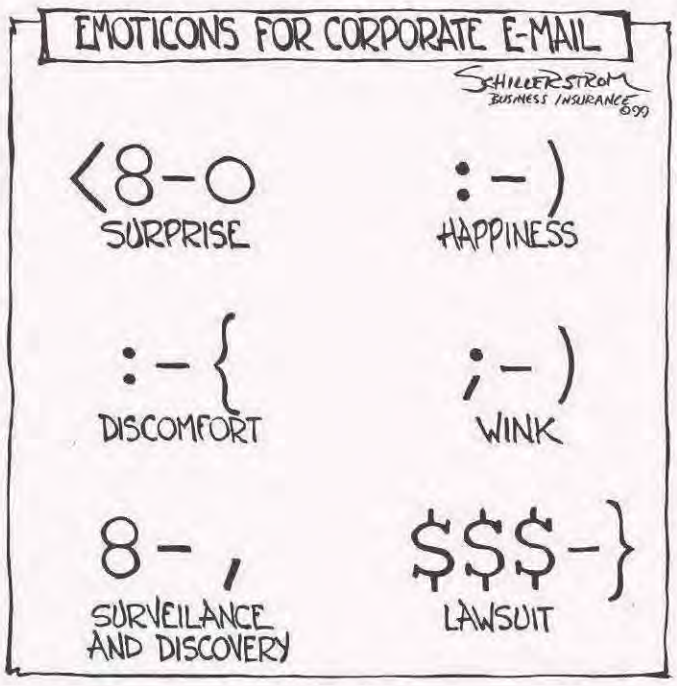
The policy should spell out that the e-mail system is to be used only as a business communication tool, not for personal messaging or exchanging potentially offensive material. Such a policy should also provide clear guidance to employees and managers on appropriate and inappropriate business communication.

Such a policy will help minimize the risk of employees or managers exchanging e-mails that could later form the basis for a workplace harassment or bias lawsuit against the employer.

But simply having a policy in place is unlikely to be enough; employers also will need to monitor the situation to assure compliance with e-mail guidelines.

That action, however, engenders its own set of liabilities. In particular, employers must be careful not to violate employees' expectations of privacy.

The key again is to create a clear policy on the issue of monitoring employee e-mail usage. Employers need to let employees know not only that inappropriate e-mail messages will not be tolerated, but also that their communication is subject to review by management. Penalties for violations also should be clearly spelled out in the strongest terms possible. Some employers also extend such monitoring to workplace Internet access and voice mail systems.



Recent research shows that many employers still do not follow these simple steps to protect themselves.

A recent survey by the American Management Assn. found that more employers today are storing and reviewing employee e-mails, though they are still in the minority (*BI*, May 31). Currently, 27% of employers do this, compared with 20.2% in 1998 and 14.9% in 1997, the survey showed.

More surprising was that more than 16% of the survey respondents do not inform employees that they are reviewing e-mails. This leaves those companies exposed to claims of violating employees' common law rights to privacy.

We hope more employers will get the message and move to minimize this exposure before it's too late.

Letters

Carve-out programs can help all parties

To the editor: Your May 17 report on the California "carve out" study, "Employers Defend Alternative Comp Programs," deserves a few comments.

Assuming that the current version of the study is more accurate than the last, which reported huge reductions in benefits and costs, it is still of little value to anyone considering the use of a collectively bargained program. As noted in the article, it is based more on opinion than fact.

The study's findings are not relevant to any program other than the few it actually looked at. California is not the rest of the country, and program results are highly dependent on the personal commitment of the parties, even in identically structured programs.

The "employee concessions" mentioned are viewed as such only by those opposed to the program. For example, carve-out program medical networks developed and controlled by both labor and management are intended to get the best practitioners involved, not to limit choice. They are used in states in which employers have statutory control over choice of physician, not just in employee-choice states. The use of ombudsmen, mediation and arbitration in addition to the possible involvement of lawyers is a plus, not a concession.

In California, 77% of injured workers and 37% of judges themselves are dissatisfied with the ethics of workers compensation judges, and personal bias by judges is viewed as commonplace.

Those of us who have been involved with the carve-out concept since before the first legislation and programs know that the driving force was the desire to obtain the ability to do a better job of delivering benefits, not the desire to obtain "huge" cost savings. It's no surprise that Bechtel Corp. did not duplicate the savings experienced on its first carve-out project. They were extreme, and no one expected a repeat performance.

However, as participants in the program know, significant savings do come.

They come not just from a reduction in litigation costs but also from reduced use of questionable medical care, from fewer delays in medical recovery and return to work, and from a reduction in the hostility often engendered by the normal workers compensation processes. Large, smart companies such as Bechtel and Cherne Contracting continue to support the program, and smaller employers in the numerous multiemployer programs around the country do so as well. They don't need a government study to tell them whether the program works or not.

If there is any real value to the study, it is to serve as a message to employers and unions that are contemplating the use of carve-out programs. That message is: The carve-out program offers the opportunity for desirable outcomes for all parties but does not guarantee them. It takes work and commitment, not just the signing of a document.

John H. Lewis
Boca Raton, Fla.

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FMLA

Continued from page 1

ment employees' expanded use of accrued sick leave to care for dependents, because they fear that same benefit will be extended by federal mandate to the private sector.

Extending the unemployment fund to include new parents could lead to more taxation of employers to offset the additional burden, said Karen King, director of benefits for Marriott International Inc. in Bethesda, Md.

Dan Danner, vp-federal public policy for the National Federation of Independent Business in Washington, said the organization opposes the proposal.

"We think that it's a bit of a bait and switch," said Mr. Danner. "It's taking money that was collected from small-business owners and other businesses and spending it somewhere else. What some consider a surplus is excess taxes."

Some, like Claire Weiler, of counsel with the Chicago-based law firm of Querrey & Harrow Ltd., say the policy is rooted in politics. The proposal "seems to be taking a system that is a true insurance system and then expanding it for many. . . .That looks more like a social income redistribution," said Ms. Weiler.

There is a danger in tapping the unemployment fund to expand FMLA, said Helen Darling, practice leader for group benefits and health care for Watson Wyatt Worldwide in Stamford, Conn.

"It's not a good idea to tap this source for any other purpose. The fact that we have the best economy in 40 years doesn't mean we'll never have unemployment," said Ms. Darling.

She questions whether the Clinton proposal would make the best use of public money, and she instead suggested that any surplus in the unemployment insurance fund should be used to retrain people, making them more employable.

Employers 'are trying to solve (work/life problems) in their own way. I think they're getting a little tired of mandates,' says Susan Snyder-Bass of Buck Consultants.

The part of the government proposal that would allow a federal employee to use up to 12 weeks of accrued sick leave to take care of an ill dependent also was received with skepticism from employers and consultants, who fear that the government may soon mandate similar benefits at private companies.

Barbara Zavodny, benefits manager for spice manufacturer McCormick & Co. Inc., said extending the proposal to the private sector would have little effect at the Loveton, Md.-based company. Such a mandate, she said, would produce a similar end result to the company's established sick leave policy. McCormick, which has 4,700 U.S. employees, does not limit the number of sick days per year employees can take for their own or for their dependents' illnesses, and it allows employees to take five consecutive sick days before short-term disability goes into effect.

"We think that people have enough paid time off that they can work through anything with the current provisions," said Ms. Zavodny. "(The proposal) is not something that's inconsistent with what companies are wanting to do for their employees."

William Glynn, an attorney in the employment law group of Wildman, Harrold, Allen & Dixon in Chicago, said that because most employers don't let employees accrue a "war chest" of sick leave, they probably won't go along with expanding the uses of sick leave.

Despite a recent increase in the number of private-sector employers offering "banks" for paid time off that pool sick days with employee vacation and personal days, the concept of an employee "owning" or being entitled to sick days is largely a public-sector mindset, said Watson Wyatt's Ms. Darling.

While such paid-time-off banks allow employees more flexibility with respect to time off, they do not put employers in the position of dealing with an employee being out of the office for 12 weeks, as the proposal would permit.

Because the private sector already has found ways to address employees' work/life needs, adopting a proposal like President Clinton's is unnecessary, Ms. Darling said. "It's almost like you want to say, 'Wake up!' Is it 1999 in the public sector?" she said. "There's a kind of disconnect between the public and private sector."

Susan Snyder-Bass, a benefit consultant with Buck Consultants Inc. in Atlanta, agreed that private employers already are responding to the work/life needs of employees.

Employers "are trying to solve it in their own way," she said. "I think they're getting a little tired of mandates."

Theawanna Sanders-White, manager of employee benefits for LEGO Systems Inc. in Enfield, Conn., said even if the private sector allowed employees to accrue sick days as the federal government does, LEGO Systems would not be greatly affected.

At LEGO Systems, its 1,400 U.S.-based employees have the option of accruing up to five sick days per year and rolling them over into the next calendar year or getting paid annually for not taking the days off. If they choose to accrue the days, they must be used by the end of the subsequent year. BI

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As a courtesy, Guy Carpenter provides this listing of 1999 Atlantic storms published by NOAA. Photo Credit: NASA

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Commercial rate cuts slowing: Study

By LEE FLETCHER

The fair-weather market for commercial insurance buyers, particularly in medical malpractice and workers compensation, is preparing to take a stormy turn, according to a Conning & Co. study.

In the immediate future, however, buyers generally will see rates leveling off rather than increasing, the study predicted.

Nancy Carini, vp of Hartford, Conn.-based Conning and author of the study, said a survey of agents and brokers earlier this year and in late 1998 on commercial property/casualty pricing confirmed Conning's suspicions that rate cuts are beginning to slow.

"What was maybe a 14% on-average decline in workers compensation (rates) is now about 5% or 6%. Maybe that doesn't seem that significant, but when you see a pullback like that, it might be a sign of something happening," Ms. Carini said.

Rate reductions in all lines of insurance "are decelerating to some degree, but workers compensation is the most rapidly decelerating field," she said.

According to the study, which included responses from about 300 agents and brokers, premiums in certain lines are well below acceptable levels.

Despite that, certain more-aggressive insurers continue to drop their prices to force their competitors out and increase their market share, particularly in workers comp and medical malpractice liability, Conning found.

Eric J. Oxfeld, president of Strategic Services on Unemployment & Workers Comp, a Washington-based business advisory and research organization, said: "We've heard of companies offering rates below loss costs, and that can't continue for very long. No responsibly managed company can give away their product and survive for very long."

Another indication of a market turn is the high level at which the 1998 accident-year loss ratio has been set, according to the study. The study examined accident-year loss ratios for the first nine months of 1998 for a sample of commercial insurers that collectively write about one-third of the industry's total premiums.

For the group of insurers studied, the accident-year loss ratio deteriorated to 77.7% for the first nine months of 1998 from 72.3% for the same period a year earlier, according to the study.

For most of the 1990s, accident-year loss ratios have been developing favorably in most commercial lines, according to Ms. Carini.

But "preliminary data from year-end 1998 confirm that—at least for workers compensation—the 1997 accident year is developing adversely," the study notes.

The study also indicates that there is increasing evidence of additions to reserves in 1998.

"We noted that, over the course of 1998, there were about a dozen companies of significant size who had announced reserve charges. They were increasing their reserves because what they had initially established was probably not sufficient," Ms. Carini said.

These charges relate to potential losses from recently written business, unlike decade-old charges for asbestos and pollution, she said.

Some insurance companies agree that changes may be on the horizon.

"Since the study has been out, there are about six companies who have sort of reiterated what we have said in the study. AIG, Chubb, CNA, The Hartford, Zenith, Cincinnati Financial and Travelers, all in one way or another, have said that there's something happening here—that stresses in the market appear to be increasing," Ms. Carini said.

"Ultimately, these changes translate into pricing," she said.

Medical malpractice and workers comp are the first two lines that have responded to those stresses, according to the study.

"The risk that companies have is that they don't want to lose too many of their customers. However, what we've seen from just a few select companies is that low single-digit increases appear to be acceptable in workers comp and medical malpractice," Ms. Carini said.

Sy Green, vp of Chubb & Son Inc. in Warren, N.J., agreed with Conning's finding that prices eventually will increase. "We are prepared to lose some of that (workers comp) business."

The good news for buyers is that no immediate, drastic spike in prices is expected.

Ms. Carini attributes the lack of price increases to the strong economy and low inflation. "It's hard to justify huge price increases psychologically under those circumstances. The turn will probably happen more slowly," she said.

Larger multiline insurers will be better equipped to deal with a market turn, Ms. Carini said. Unlike specialty companies, multiline insurers that are no longer lowering their prices or are increasing prices only slightly can afford to pull out of some markets if they don't want to suffer losses, Ms. Carini said.

"Specialist medical malpractice writers would have a tough time (pulling out of the market), because they don't have any other business to write. So they're going to have to look at their customers and then look at their underwriting performance, so they're not pricing way below what their underwriting criteria is," Ms. Carini said.

"I think that (multiline insurers) are better positioned to react more quickly to what they see in their underwriting," she added.

Although Conning has predicted leveling off in pricing in the near future, "it's impossible to know exactly when we'll see price increases across the board," Ms. Carini said.

"Who knows—there might be another bag of tricks that we're not even thinking about. It's so crazy, because these companies are trying to price a product that they don't know what the payout will be until a number of years down the line," according to Ms. Carini.

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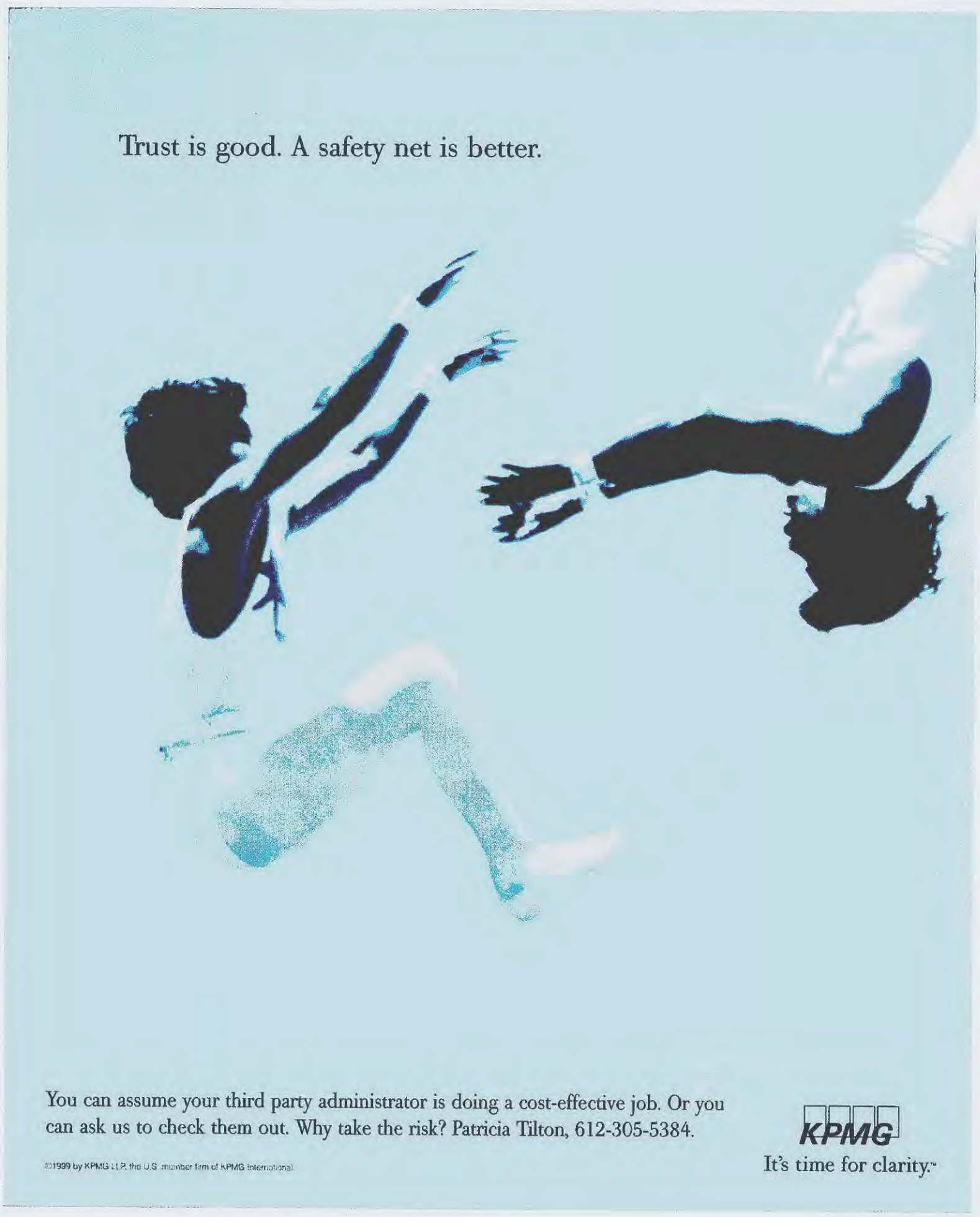
"As the Cycle Turns, Commercial Rates Bottoming in 1999," is available from Conning & Co. for $395 by calling 860-520-1521. The study also can be purchased at www.conning.com.



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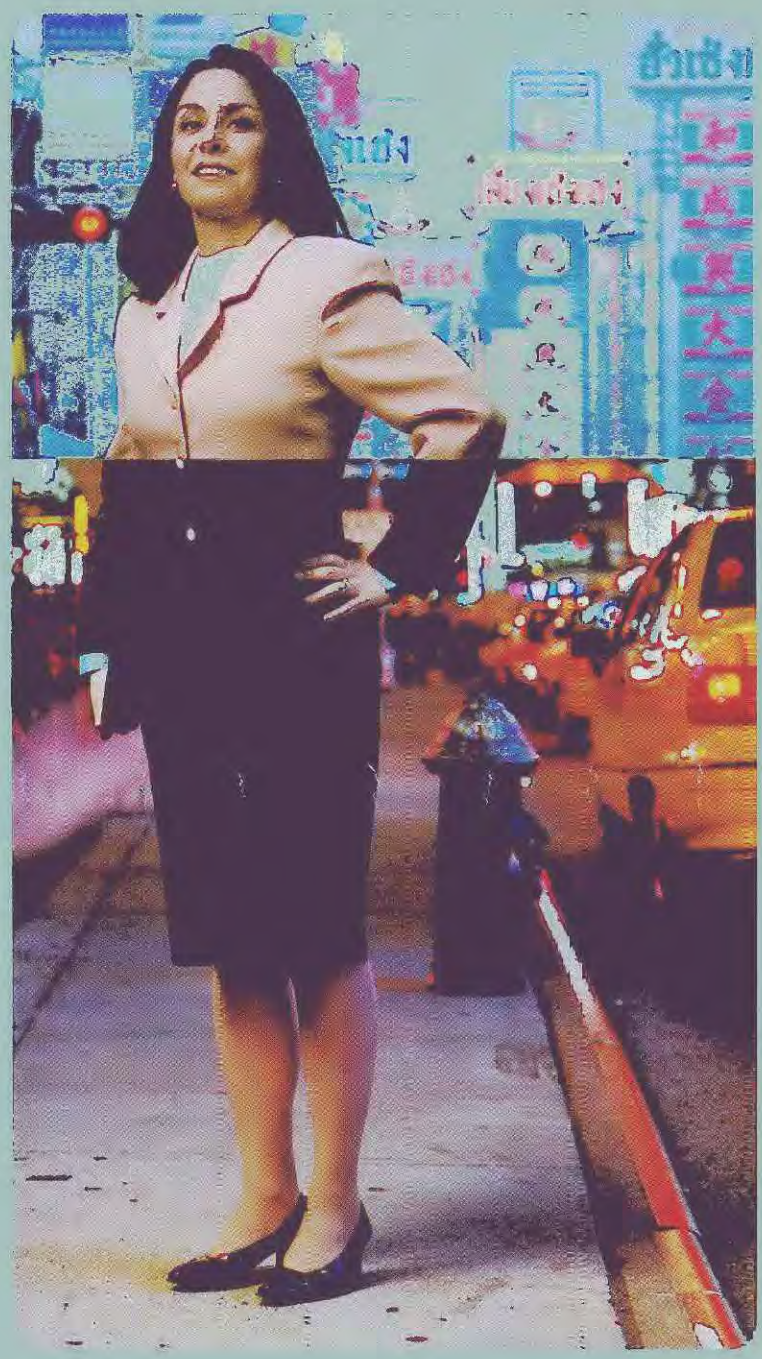

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Employers expanding benefits: Survey

By MICHAEL PRINCE

Employers are providing more benefits this year than they did in 1998, a new survey states.

"This is another way to make the workplace more attractive," said a spokeswoman for the Society for Human Resource Management, the Alexandria, Va.-based non-profit group that conducted the survey.

SHRM randomly surveyed 2,500 of its 115,000 members; 742 responded. This sample was similar to that of last year's study, according to SHRM.

Although in some cases the increases were small, a number of benefits were offered by more employers this year compared with last year, according to the survey.

For example, the number of employers that permit telecommuting rose from 24% in last year's survey to 28% this year. Also, the number of employers offering onsite child care centers rose to 6% from 4% last year, the survey shows.

Other increases include:

- The percentage of employers that offer a compressed workweek rose to 25% from 23%.
- Employers that support childcare centers rose to 6% from 4%.
- Employers that offer paid maternity leave rose to 49% from 43%; those offering paid paternity leave doubled to 20% from 10%.
- Employers offering domestic partner benefits rose to 9%, up from 7% last year.
- Employers that have a weight-loss program rose to 23% from 19%.
- Employers that provide health screening programs grew to 48% from 45%.
- Employers with retirement planning programs rose to 44% from 41% last year; those offering financial planning services grew to 28% from 26%.
- Virtually all employers offer a health plan; employers offering a PPO plan rose to 79% from 76%, while those offering an HMO rose to 62% from 60%.

Not all benefits grew in popularity, however. The survey shows that the percentage of surveyed employers offering defined contribution plans declined to 70% this year from 73%. The percentage of employers offering defined benefit plans held steady at 52%. In addition, the percentage of surveyed employers offering job sharing dipped to 22%, down from 23% last year. Employers offering child care referral services dropped to 15% from 18%.

Lawrence Singer, senior vp with The Segal Co. in New York, said employers offer more benefits in order to attract employees.

"It's harder to get good employees in this economy," he said. Rather than offer pay increases, employers see providing benefits as a more cost-efficient approach, he said.

The study found that, in general, larger employers offered more benefits than do smaller employers. For example, 39% of employers with fewer than 100 employees offer an employee assistance program, while 95% of employers with more than 5,000 employees offer this benefit. Also, 19% of employers with fewer than 100 employees offer retiree health care benefits. This number climbs to 88% for employers with more than 5,000 employees.

The survey also shows that the most common benefit is a health plan: 99% of surveyed employers offer some type of health plan.

The other more common benefits include: life insurance, offered by 98% of employers; professional development, offered by 94%; paid vacation, 94%; dental insurance, 93%; prescription drug program, 92%; paid jury duty, 93%; and long-term disability insurance, 86%.

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Copies of the survey cost $29.95 for members of SHRM and $39.95 for non-members. They can be ordered by calling the SHRM at 800-444-5006.

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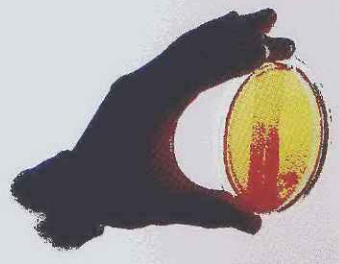

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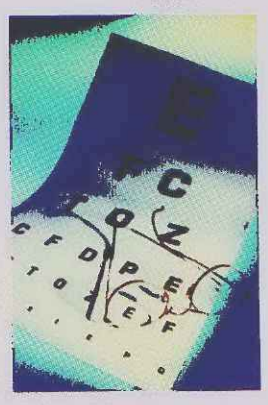

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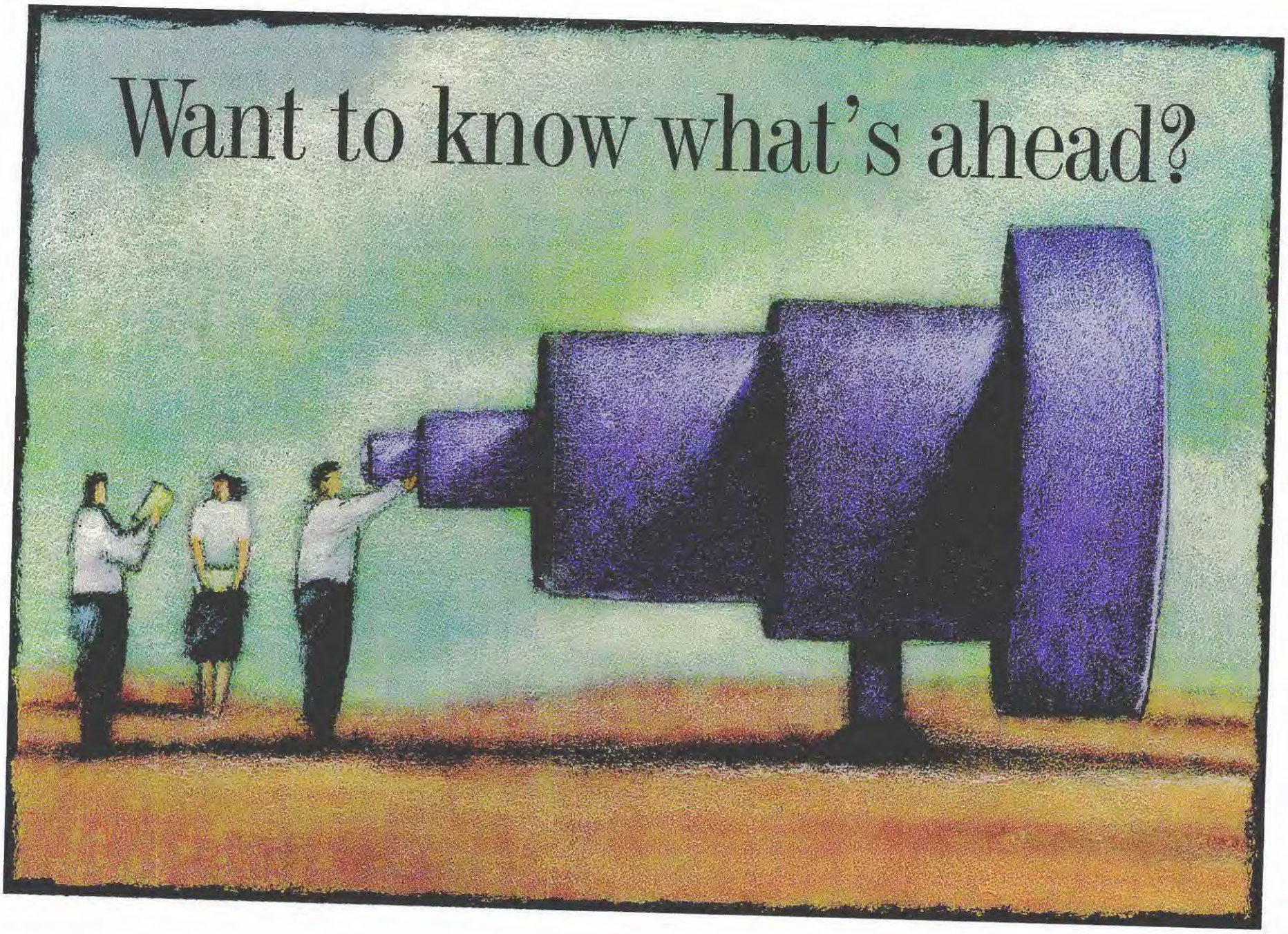

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Business Insurance's

GLOBAL FOCUS

A special section sent exclusively to readers outside the U.S.

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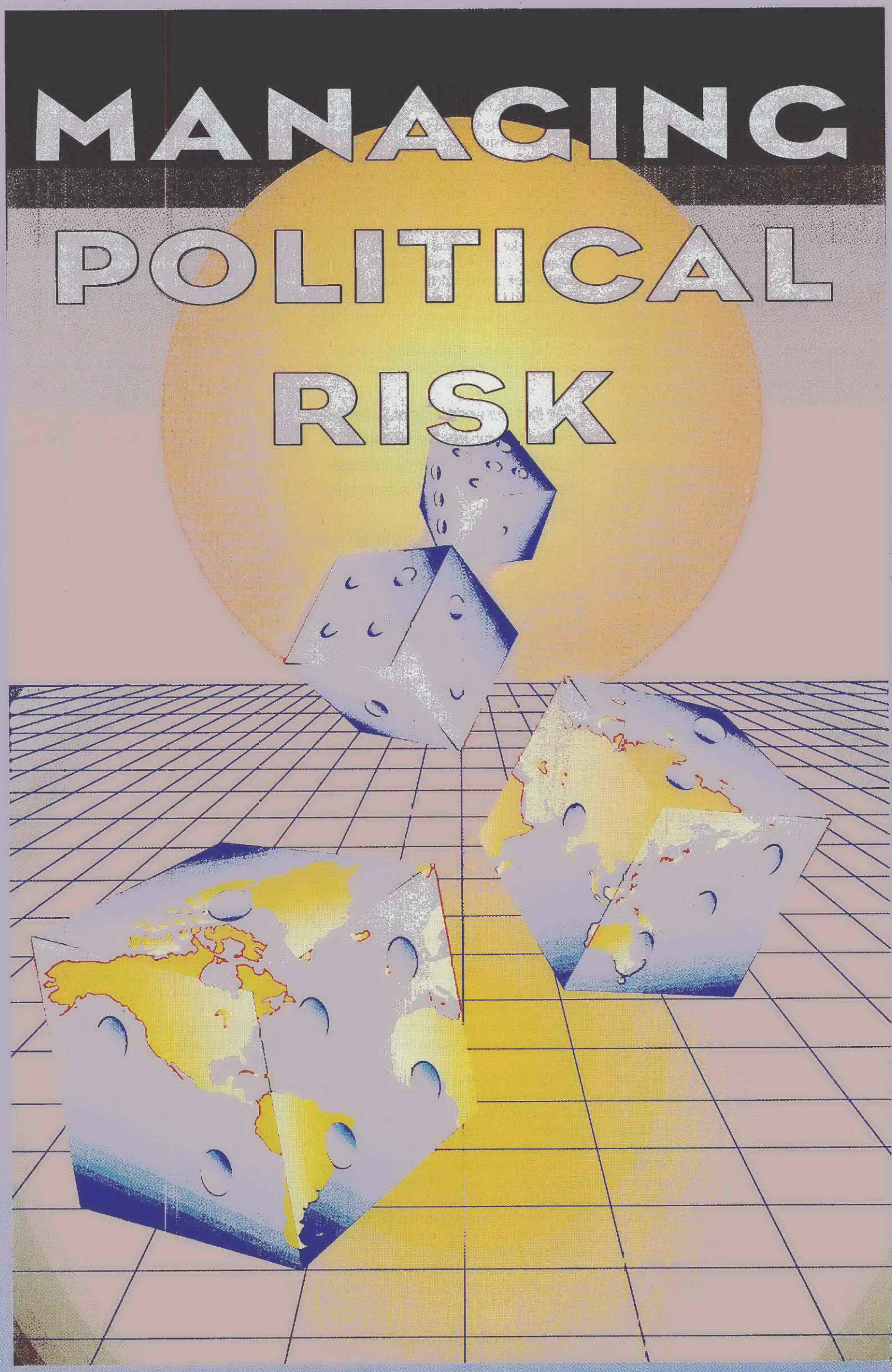
MANAGING POLITICAL RISK



GLOBAL FOCUS

Political risks emerge as global landscape changes

Managing risks of doing business internationally requires knowledge of cultures, infrastructure

By MARIA KIELMAS

Investment opportunities have multiplied worldwide in the decade since the fall of the Berlin Wall, but so have the risks and conflicts in these emerging markets.

To avoid the political and public relations disasters that numerous foreign investors have suffered, corporations must ensure they have detailed information, financing for a long-term commitment and the cultural awareness to understand the issues and sensitivities of their host countries, advise risk managers, underwriters and consultants.

"I think that one of the most difficult problems is that no one goes into a country free of value judgments. The convention has been that capitalism is good, communism is bad," said Caroline Lewis, a London-based political risk consultant. Businesses tend to take the attitude that "we are European or Americans and we are democratic, and therefore we can impose our values on you," she said.

Richard de la Falaise, a London-based consultant specializing in international crisis prevention and resolution, said: "Many company executives still live 20 years behind the times. We think our world is the only standard and that we can say, 'Hey! I'm an MBA, and I can tell you what to do.' It's a clash between our culture and seven or eight different cultures."

There is also a risk, however, in that many emerging markets have fragile state institutions, and if a company follows local practice too far, it can fall into more trouble.

"Corruption is the issue we all have to deal with. You can find yourself in a poorly developed political system where wealth is corrupted away either by an elite or corrupted away by a conflict," said David Rice, head of the policy unit for government affairs at BP Amoco P.L.C. in London.

Prior to its merger last year with U.S.-based oil company Amoco Corp. to form BP Amoco, British Petroleum experienced the consequences of not fully understanding the nature of one country in which it had invested. This was after it discovered a major oil field in Colombia in the early 1990s.

Numerous non-governmental organizations and human rights groups accused BP of fueling Colombia's internal conflict through hiring armed forces and paramilitary security guards. A lack of control of security forces combined with a migration of the unemployed to project sites often leads to harassment of local residents and riling of insurgents. BP was widely condemned in local and international media for perceived arrogance and non-communication toward local communities and government entities.

BP's Colombian experience has become a textbook example of the problems multinationals can face when doing business overseas. So what has the company learned?

"One of the major lessons is to consult as widely as possible, with as wide a view as possible," said Mr. Rice.

Ms. Lewis said consultation should be independent and include the kind of critical information that executives might not wish to hear. "That does not mean bringing in a raw graduate but spending money. You need objective third-party information. I have never met an executive with a deal in his eye who will willingly admit that he doesn't know what is going on," she said.

The manner in which many corporate executives conduct themselves during business trips—traveling in first- or business-class air travel and visiting comfortable hotels and restaurants—prevents them from gaining a real understanding of a different society.

"If you travel from the U.S. to Brazil, Russia or India, you are likely to meet those people who agree with your view of society. You need to take a skeptical view and put your ego away," said Ms. Lewis. Foreign investors should seek firsthand information by observing and talking to workers instead of relying on government sources or consultants, she suggested.

In many parts of the world, foreign investors employ local consultants as intermediaries between themselves and the government entities with which they hope to negotiate. Often, however, these intermediaries are relatives of the monarch, president or politicians, which can lead to corruption and unavailability of coverage.

> *"We think our world is the only standard and that we can say, 'Hey! I'm an MBA, and I can tell you what to do.' It's a clash between our culture and seven or eight different cultures."*
>
> — Richard de la Falaise

Political risk insurers will turn down business if they believe it could be corrupted through politically favored intermediaries.

"This is a red flag for us," said Dan Riordan, vp and managing director of Washington-based Zurich American Political Risk, a division of Zurich Financial Services. "You only have to look at Indonesia to see political operators come and go," he added.

Many government contracts with foreign investors are either under review or have been suspended in Indonesia following the departure last year of President Suharto, whose family has been widely accused of corruption in its strict control of foreign investment. In addition, new governments in Nigeria and Venezuela have announced that contracts signed by their predecessors with foreign investors are being reviewed because of alleged corrupt practices or irregularities.

Underwriters have learned to predict these matters.

In Nigeria, "this was something not entirely unforeseen with an election coming up," said Andrew Underwood, political risk underwriter at Lloyd's of London managing agency Hiscox P.L.C.

"This happens but sometimes leads to nothing. Sometimes the political rhetoric is well received by the public," said Mr. Riordan. New governments often call attention to previous corruption to draw support but seldom prosecute past offenders.

Foreign investors should be wary if a host government, such as Kuwait currently, is perceived to be in a weak negotiating position, as this could affect the future security and legality of their contracts.

The Kuwaiti cabinet recently approved a foreign investment law that has to be ratified by the national parliament. But a new assembly will be in place after the July 3 elections. As political opposition to the law has been gathering support, government ministers have adopted an aggressive pro-foreign investment position, said Jassem Al Saddoun, managing director of the Al Shall Economic Agency, a consulting firm in Kuwait City.

"It is not a very acceptable position from the Kuwaiti side. It is weakening the bargaining power of the government with future investors," said Mr. Al Saddoun. With government in a fragile position, the government may change, the parliament may change and the law may change, he said.

Foreign investment in Kuwait is politically still a gray area; people accept it, but it should proceed slowly so as not to cause too much change in the political landscape, said Mr. Al Saddoun.

Mr. Riordan said privatization and the opening to foreign investment is a volatile political matter in every country. Even the United Kingdom, whose model for privatizing utilities and other formerly state-owned enterprises has been widely copied, has drawn public criticism in cases where service has diminished.

He said he does believe it is important that foreign investors do business in joint ventures with reputable local partners, rather than always going solo.

But Ms. Lewis warns that corporations must find out everything they can about their partners, "from their clients, to their directors and what their politics are. It's no good saying they are politically well-connected. What are those political connections?"

But local partners are important in those markets, such as the reconstruction of Bosnia, where legislation and business practices are complicated and uncertain.

"Foreigners who want to succeed here really do need to find a local partner or representative who knows his or her way around," said Emily Harwitt, the World Bank's representative in Sarajevo, Bosnia.

In October 1997, the World Bank's agency, Multilateral Investment Guarantee Agency, had set up a $12 million political risk insurance facility for investors in the Bosnia reconstruction program, a $5.4 billion undertaking financed by Western governments and multilateral institutions. The response to date has been slow, and only five or six companies are in the final stages of negotiating coverage from the agency, Ms. Harwitt said.

Investors have been put off by continuing political uncertainty, local bureaucracy and corruption.

"There are 30 different laws for economic development," she said.

And there are problems associated with doing business with two national entities, the Moslem-Croat Federation and Republika Srpska, as well as the federal authorities of Bosnia and Herzegovina.

Ms. Hewitt said she believes there is a major effort under way by the authorities to sort out the investment complications in Bosnia. They are conscious that they will have to compete for investment with other parts of the Balkans when the Kosovo conflict is resolved, she said. The World Bank, in turn, is seeking to set up a larger regional political risk insurance facility for the Balkans as a whole.

BP Amoco regards itself as big enough not to need local strategic partners in its foreign markets and the problems they could bring.

"We will not use partners to do business on our behalf," said Mr. Rice. But the company consults widely with governmental and non-governmental organizations, special interest and especially human rights groups. Social impact studies as well as environmental impact studies precede every major project decision. In natural resources industries, once production of any commodity begins, the sudden infusion of wealth into a relatively poor society can be very destabilizing. In Colombia, BP Amoco's oil production generates large royalties that are transferred to local communities.

> *"We look very closely at these (security and risk) issues before deciding whether to go ahead with a deal. Sometimes this can take four to five years before the start of operations."*
>
> — Thomas Alm

"There is $100 million going into a very small area. That creates its own conflict," said Mr. Rice.

But he said he believes that wealth creation in itself is a good thing and can lead to change.

A construction multinational such as Stockholm, Sweden-based Skanska AB takes a long time gathering intelligence in countries where its security and corporate reputation may be at risk.

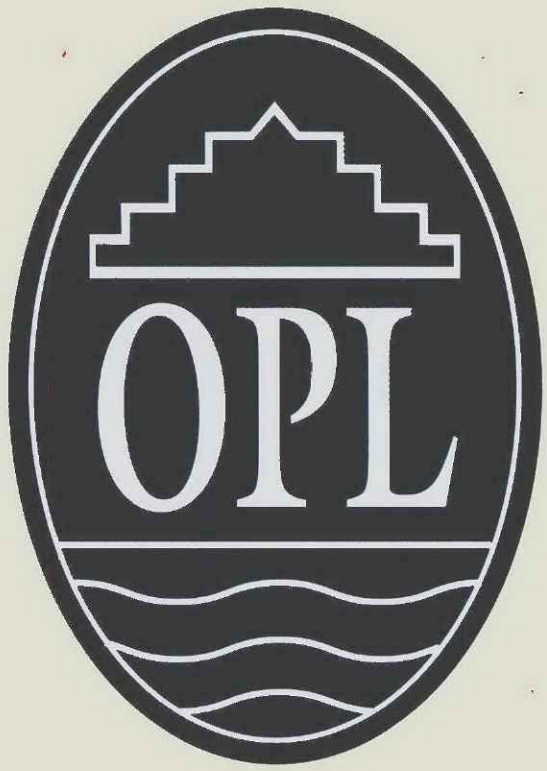
"We look very closely at these issues before deciding whether to go ahead with a deal. Sometimes this can take four to five years before the start of operations," said Thomas Alm, president and group risk manager of Skanska Financial Services, a division of Skanska AB. To get to know an unfamiliar market, Skanska may take on a small project and see how far it develops before committing the company to further investment in that country. Intelligence is gathered from independent consultants, local partners and a variety of other sources.

Mr. Alm emphasized that companies must take a long-term view in politically difficult markets, as it takes time for problems to be resolved and economic growth to develop.

Mr. De la Falaise agreed, adding that corporations should take a long-term approach—20 to 30 years—to managing the infusion of wealth in the countries where they invest. They should try to cooperate with international agencies such as the United Nations or the European Union to achieve this, he said. "You need an active partnership, not just window dressing," he said. "We still do not know how to manage societies changing. Poor people today have access to television. They see huge wealth being created from, say, oil and gas investments, and ask, 'Why aren't we getting any?' " he added.

Risk managers, however, worry about assuming the role of government. "We do not have specific rule. But we are part of society and have to act according to the society. Twenty years ago, things were different," said Mr. Alm, referring to a time before companies had to become concerned with social welfare.

See **Investors** *on page G4*



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GLOBAL FOCUS

Export credit insurance becoming part of portfolio

By CAROLYN ALDRED

At a time when risk managers of global companies face increasing concerns from an interdependent and volatile world economy, export credit risk insurance provides a way to mitigate some of the risks of conducting business internationally, insurers say.

This interdependence was dramatically illustrated last year when a global meltdown shook the world's stock markets. That crisis saw a loss of confidence in one area of the world lead to a loss of confidence in other areas, threatening even the most stable markets, and focusing many minds on credit risk.

"Credit insurance is becoming more recognized by risk managers," said Geoff Lingham, risk manager of Electrolux U.K., the Luton, Bedfordshire-based subsidiary of the Swedish electrical manufacturing group.

Credit insurance "was not an area where the majority of risk managers had any involvement in the past. But the use of risk management techniques can help with credit control, and risk managers are working more closely with their companies' finance and treasury (departments) on this aspect now," said Mr. Lingham, a member of the Assn. of Insurance & Risk Managers.

Jim O'Shea, a client sales director of Marsh Credit in London, a division of Marsh Inc., agrees that there is a much greater awareness of credit insurance among risk managers.

He believes the recent global financial crisis—which badly hit many markets in the Far East, as well as emerging markets in South America and Eastern Europe—helped focus risk managers' minds on credit risks.

Both men also say they believe risk managers now are better educated about business and financial risks and that there

See **Credit** *on page G6*

Investors

Continued from page G2

"We must never be a government," said BP Amoco's Mr. Rice.

Political risk insurers agree.

"We are not a public or a government entity. It's the international organizations who look at that. But we do look at environmental issues because we think that is good business," said Zurich-American's Mr. Riordan.

Companies must be cautious, however. "If communities do not think that they are benefiting from your operation, then you are in danger of being expropriated by some mechanism," said Mr. Rice.

The gradual tightening of regulations and incremental tax increases all can work toward making a project uneconomic. Underwriters classify this as contract frustration, which at times could lead to expropriation. But the process of dealing with government regulations in normal circumstances still is a commercial rather than a political risk, said Mr. Riordan.

This problem currently is preoccupying Vicente Martin, risk manager at Madrid, Spain-based electricity utility Empresa Nacional de Electricidad S.A. The Spanish company recently acquired control of Argentine power utility Edesur S.A., which serves half of the capital Buenos Aires, and inherited a sensitive problem. In February this year, nearly 250,000 people in Buenos Aires suffered power cuts at times for 10 days continuously because of an accident at a substation. In the wake of public outrage at Edesur's handling of the blackout, the government's utility regulator fined the company $90 million, and local businesses have filed up to $1 billion in lawsuits against the company. As governing and opposition politicians threaten to tighten regulations, Mr. Martin said it is a company priority to address the consequences of this blackout.

Most of Endesa's foreign investment is in Latin America. "Terrorism is the greatest political risk for us, even though it is localized in different centers," said Mr. Martin.

Companies dealing in natural resources, energy, infrastructure and utilities are usually the first investors in newly opened economies where war and ethnic conflict could be rife. BI

Political risk coverage offers stability

As uncertainty rocks global markets, political risk insurers provide needed relief

By SARAH GODDARD

The world's a scene of changes, poet Abraham Cowley said.

Five years ago, the so-called tiger economies of Southeast Asia were roaring and the former Soviet Union was a magnet for international investment.

But uncertainty and instability seem to have taken the place of the shining future promised in the middle of this decade for emerging economies. Nevertheless, multinationals operating from saturated marketplaces still must extend their reach if they want to grow. It is here that the political risk insurance market steps in, providing a safety net for the risks associated with doing business in new and alien environments.

At the same time, it has not been an easy ride for such insurers of late. Like many other sectors of the insurance market, political risk business has fallen prey to overcapacity and an abnormally low claims experience in recent years, with both factors pushing premium rates down. But as political instability has begun to grow, so, too, have claims, and political risk underwriters are expecting some capacity to exit the market as the losses start biting.

"During the last renewal season there was a definite tightening of the reinsurance market, and reinsurers became more wary," said Robert Chase, underwriter in the marine and special risks division of Lloyd's of London syndicate 510, managed by R.J. Kiln & Co. Ltd. What's more, he said he expects some reinsurance capacity to withdraw from the business, affecting primary rates.

Already, political risk underwriters are seeing rates bottoming out, and some are increasing premiums. But because the business is written on a case-by-case basis, rather than under a standard policy, it is impossible to say how much rates are increasing, and certain policyholders are seeing their premiums remain steady, underwriters say.

Some insurers are concerned that reinsurers may repeat the events of the early 1980s, when they withdrew wholesale from political risk business in the London market. Currently, Aon Group Ltd. in London is investigating ways to counter this threat, by pooling its reinsurance and political risk expertise.

Last year was particularly eventful on the claims front. Political risk insurers still are waiting to find out how much they will have to pay out for canceled power utility projects in Indonesia and Pakistan. The Pakistan projects represent more than $4.2 billion in investments from U.S., Japanese, European and Middle Eastern companies, according to the U.S. Department of Energy. The Asian financial crisis is blamed for the Indonesian government's suspension of several power purchase agreements, with long-term consequences reaching in the billions of dollars of lost business for investing companies. Claims from companies that invested in Indonesia could reach up to $100 million for London-based political risk insurers, according to market sources.

More recently, the Balkans conflict has interrupted shipping on the Danube River between Hungary and the Black Sea and has caused property losses for foreign companies that had invested in Serbia. As the conflict in Kosovo began to unfold, several Lloyd's underwriters responded by offering war risk policies for a number of classes of business, including cargo, marine and aviation exposures. Hiscox Syndicates Ltd., the Lloyd's managing agency arm of Hiscox P.L.C., went one step further, setting up a "rapid response underwriting service" for brokers, enabling fast-track quotations for clients wanting coverage for exposures in the Balkans.

Nevertheless, Yugoslavia is considered a "hot spot," according to Rupert Morgan, a broker at First City Trade & Political Risks, part of First City Insurance Brokers Ltd. in London. In general, Mr. Morgan said "there is certainly enough capacity to go around," though political risk underwriters also are wary of writing business in several African countries. Even so, for a favored client, even these countries are not necessarily uninsurable, he added.

As various political and economic climates become less stable, more potential clients are approaching the political risk market, according to brokers and insurers.

"As you would expect from the sorts of events of last year around the world, there is no doubt we are now seeing inquiries in a larger number of countries," said Mr. Chase of Kiln, which offers a trade disruption policy that includes political risk coverage. As the political risk class has become better known, the number of inquiries has increased, he added, and policyholders range from expanding multinationals to small companies dipping their toes in the water for the first time.

Recently, banks that have exposures in these territories are reducing their exposures or even buying more coverage themselves. Some have already been hit by plummeting exchange rates for exposures they have in certain territories, while some been burned by backing long-term projects that have subsequently been canceled.

"The banks are looking more cautious," said Mr. Chase, "giving more opportunities for insurers" to provide coverage.

"There is quite a lot more banks-related business," said Ian Harrison, underwriter for Beazley Furlonge Ltd. "The banks are looking to work with the insurance market; they are now realizing that political risk insurance policies can sit quite well alongside their own lending policies."

Although the prospects may be improving for insurers in the international political risk market, terrorism coverage is not seeing the same upturn. In particular, U.K. mainland terrorism risks are benefiting from the Northern Ireland peace agreement, brokered around Easter last year.

Pool Reinsurance Co. Ltd., the U.K. government-backed reinsurer of U.K. mainland terrorism risks, was set up in 1993 after the conventional insurance market excluded terrorism exposures from property coverages. Pool Re discounted its rates 85% toward the end of last year to reflect the absence of claims since the Irish Republican Army bombed Manchester city center in June 1996. According to Pool Re Chief Executive Leslie Lucas, the Manchester bomb resulted in £265 million ($423.7 million at a current exchange rate) in claims against the pool. The February 1996 bomb at South Quays, London, an act that unexpectedly shattered an IRA cease-fire, cost the pool about £107 million ($171.1 million at a current exchange rate).

Because Pool Re is the reinsurer of last resort, the 85% discount is solely related to claims activity, said Mr. Lucas, and he pointed out it is not just IRA-related terrorism the pool covers, but any terrorist act aimed at influencing or destabilizing government.

In addition, the uncertain state of the Northern Ireland peace agreement makes it hard to say whether the conventional insurance market will take back terrorism exposures into property coverages. Although an alternative market to Pool Re later emerged to provide buyers with a choice of insurers, it has been forced to heavily discount its rates to keep pace with Pool Re, and some alternative market underwriters are considering reducing their exposures because the rates are too low. Mr. Lucas said he has seen indications that more clients are purchasing cover through Pool Re, but he said it is unclear whether they are new to terrorism coverage or whether they have transferred their business from the alternative market.

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Credit

Continued from page G4

is greater coordination in many large companies between the finance and risk management departments.

"A lot of it is education. Those that have bought (credit insurance) in the past have come from the finance side. Now, risk managers are becoming more involved and understand the product better," said Mr. O'Shea.

"European exporters are more aware of credit risk and more concerned about it as a result of the crisis during 1997 and 1998," agreed Jerome Peze, director of risk underwriting for the London-based credit insurer EULER Trade Indemnity P.L.C.

The events of the past two years made some booming markets—such as Brazil and the so-called tiger economies of Southeast Asia—suddenly seem unstable. Even some more-mature economies, such as Japan's, began to show signs of strain, noted Mr. Peze.

As a result, "exporters are more uncertain about the world, and they are right to be so," he said.

The crisis also "gave a lot of credibility to European credit insurers," said Jerome Cazes, managing director of the Paris-based Coface Group, one of the world's leading credit insurers.

While banks readily abandoned their short-term credit products when the situation worsened and political risk insurance proved inappropriate for the losses, credit insurance stood up to the crisis, Mr. Cazes noted.

"It reinforced the value of the product," he said.

Despite this, EULER's Mr. Peze said he believes that "credit insurance still is not well enough known by exporters."

Other insurers concur.

"Virtually all companies insure themselves against a wide range of potential losses, such as fire in their buildings and theft. But many still do not insure what would be their largest asset—money owed to them, which can often be as high as 40% of the balance sheet," said Gary Hicks, head of public affairs for NCM Credit Insurance.

Businesses face unprecedented changes, including more open trade, rapidly developing emerging markets, free movement of capital, globalization, advances in information technology and e-commerce; all of these factors affect credit risk enormously, said Mr. Hicks.

"These risks have been compounded by the domino effect, whereby shocks from one economy are transmitted to others previously thought reasonably financially strong," he pointed out.

Credit insurance can provide business with protection against the failure of customers to pay their trade credit debts for various reasons, including war, natural catastrophes, currency devaluations, and even Year 2000 computer problems.

"On average, companies have 40% of their current assets in the form of trade debtors. For some companies, this figure can be much higher," states a EULER Trade Indemnity brochure. The brochure adds that "companies are unable to predict the vast majority of failures to which they are exposed. Between 25% and 50% of failures concern customers that were considered to be both long-standing and previously prompt-paying."

EULER points out that credit insurance allows for a reduction in a company's bad-debt reserve, which releases capital previously tied up. The insurance also can create more access to financing by providing greater security to lenders.

Marsh's Mr. O'Shea agreed that risk managers often view credit insurance only as a traditional risk-transfer tool, ignoring the additional benefits that credit insurance provides.

Credit insurance not only "acts as a safety net; it also is a sales support," said Mr. O'Shea, noting that it "enables companies to continue business. . .and allows companies to get into new markets."

"Most companies these days are lean and mean. The larger the company, the tighter the financial management. If they look at traditional methods of financing export trade, it can tie up vast amounts of capital. Credit insurance can be used to strengthen the balance sheet and as security against borrowing," he explained.

Meanwhile, the information provided by export credit insurers is "very much an area of added value," according to Mr. O'Shea.

Insurers can provide valuable information that can help companies decide which markets they can build up and how to approach different markets, he said.

"Credit insurers give us a lot of information about countries to which we are selling which is not readily available. We do rely on their expert local knowledge in areas," said Ian McLennan, customer financial services manager for 3M United Kingdom P.L.C., based in Bracknell, Berkshire.

Mr. McLennan, a member of the Leicestershire, England-based Institute of Credit Management, said that, for many companies, particularly those without full-time credit managers, the credit information insurers provide is invaluable.

Electrolux's Mr. Lingham said his company looks for credit insurers that have an in-depth knowledge of each local market in which the company operates. Electrolux does not buy much export credit risk insurance, because it has operations in so many territories. But it does buy a lot of domestic credit insurance locally in various territories.

"We are paying for their information and knowledge of the local market," he said.

Because of the increasing consolidation and globalization of its customer base, however, the group is moving toward a more cohesive and centralized control of credit risk.

Insurers also are consolidating and becoming more global in order to provide worldwide services to their multinational clients.

The past few years have seen a rapid consolidation among credit insurers, creating a handful of global groups.

Paris-based Coface Group, whose shareholders include SCOR S.A. and Groupe AGF, has insurance operations in 38 countries and credit information agencies in 60 countries, according to Mr. Cazes.

The company also has formed Credit Alliance, in which Coface operations and other insurers worldwide, including CNA Financial Corp. in the United States, can pool their information and resources. The Alliance provides such services as credit information, insurance, debt collection and reinsurance. It has access to information on more than 20 million buyers worldwide.

"Our objective, during the last decade, has been to become more international and more service-oriented," said Mr. Cazes.

"Credit managers' jobs are becoming more and more international. Companies have a worldwide credit policy and want a consistent approach," he said.

In addition, companies require more than just risk transfer. "International groups have more and more capacity to take their risk. The risk-taking is not their main concern. Risk assessment, debt collection and dispute management are services companies want," Mr. Cazes said.

Credit insurance "also is a way to outsource the internal debate between sales operations and the finance department, or between a parent company and its subsidiary," he explained. Rather than finance and sales departments arguing about whether or not to trade in a territory, the credit insurer can help the company make the decision.

EULER also has expanded its operations considerably; it has operations in France, the United Kingdom, Belgium, the Netherlands, Italy, the United States and several other countries.

Last July, EULER formed credit insurer EULER International, based in London and Brussels, Belgium, for multinational clients.

Amsterdam, Netherlands-based NCM also is expanding and has operations in Belgium, Denmark, France, Germany, Ireland, Italy, Malaysia, Sweden, the Netherlands, Norway, the United Kingdom and the United States.

Last June, Zurich, Switzerland-based Swiss Re acquired a majority shareholding in NCM.

"This new strategic partnership is assisting NCM's continued international expansion," said a company statement.

Last year, the group also formed NCM Re, a dedicated credit reinsurance company in Dublin, Ireland, and developed more credit management packages and services, including debt collection.

And while the big groups get bigger, more capacity is being created by the smaller players.

"There's been a marked addition to capacity, with more insurers in Lloyd's of London and the London market," said Marsh's Mr. O'Shea.

Lloyd's of London deregulated credit insurance last year, and that has increased capacity, said Paul Sweasey, a director of the London broker Crawley Warren Political & Financial Risks Ltd.

"There is plenty of capacity available for the right risk, and the market is competitive in terms of price," said Mr. Sweasey.

Some risk managers, however, believe there still is room for improvement.

For example, there still are many areas in the world where underwriters will not cover risks, pointed out Tony Griffin, a risk manager for the pharmaceutical group SmithKline Beecham P.L.C. in Brentford, Middlesex.

For risk managers trying to assemble global credit programs, there are several areas that underwriters are unwilling to cover, Mr. Griffin said, including countries in Eastern Europe, Asia, Africa, South America and the Middle East (see chart).

As a result, there are easier ways of managing the risk through treasury functions, he noted.

Mr. Lingham also pointed out that while several groups have formed worldwide networks to provide global coverage, they do not necessarily provide the best option in each market where they have a presence.

"I am not convinced that there is yet one insurer who can provide a totally pan-European service yet," let alone a true worldwide operation, he said.

Coface's Mr. Cazes defended the French credit insurer's position, however.

"We accept 80% of all the risks presented to us. Of course, we have to exclude some areas, but those countries avoided by insurers represent much less than 15% of world trade," he said, pointing out that, for good clients, the group considers coverage in all difficult areas. BI

A world tour of export credit risk

Areas where underwriters advise coverage include:

Japan	Corporate failures increasing, value of bad debts likely to rise.
Southeast Asia	Economic recovery progressing in Thailand and South Korea. Coverage very restricted in Indonesia but available in Malaysia, despite political uncertainty.
Pakistan	Coverage very restricted.
India	Bad debts rising and political outlook uncertain regarding Pakistan. Coverage available.
China	Privatizations creating credit uncertainty, but coverage available.
Russia	Very limited coverage for difficult trading environment.
Africa	Diverse. Coverage available for Ivory Coast, Cameroon, Senegal. No coverage or limited coverage in Angola, Rwanda, Tanzania, Zambia, Congo and Zimbabwe. Signs of improvement in Nigeria but coverage very limited.
Middle East	Coverage becoming more limited for United Arab Emirates, Saudi Arabia and Kuwait due to falling oil prices.
South America	Export credit insurers cautious on Brazil, but coverage available for Argentina and Mexico.

Source: Jerome Peze, EULER Trade Indemnity P.L.C., London

Discipline, innovation key to underwriting political risks

By Ben Garston and Bernie de Haldevang

Perspective

Volatile conditions in the international political landscape continue to plague global companies with operations in areas currently torn by political strife and civil unrest.

The challenge for insurers underwriting political risks in this environment is to reintroduce some of the market's former underwriting discipline without losing sight of the need for innovation and development.

Over recent months, NATO missiles have pounded Serbia as the situation in Kosovo has escalated. In the Russian Federation, foreign business interests are hampered by organized crime, endemic bureaucracy, debt default and rising nationalism. Fifteen of Africa's 54 countries have seen war and internal conflicts in the last two years that have weakened industries and threaten to destabilize surrounding territories.

Meanwhile, in parts of Southeast Asia, civil unrest and exchange controls take their toll on established, once-profitable investments. And China faces massive problems, including: falling foreign direct investment, which has been the main fuel on which the engine converting communism to capitalism has fed; rising political dissent; persistent corruption; and staggering unemployment.

Overall, the world is still coming to terms with the idea that the bipolar system of major powers has collapsed. The resulting vacuum is being filled with turf wars and religious conflicts.

And yet, against this backdrop, trade continues and investments are made. This is the environment the political risk insurance market faces at the close of the 20th century.

For many years, Lloyd's of London's political risk market was subject to various restrictions, principally the financial guarantee exclusion, which prevented the underwriting of credit and contract frustration risks; and the waterborne agreement, which prevented underwriting risks involving war on land. These restrictions gradually have eroded as underwriting techniques for risk assessment and aggregation monitoring have become more sophisticated.

Today, the Lloyd's market is able to insure a broad range of political risks, including fixed and mobile confiscation, non-payment, insolvency, non-delivery risks, exchange transfer, war on land, riot and terrorism.

World capacity for political risks is at a record high, due to surplus capital and reduced profit margins in the more-traditional insurance markets. This has caused inexperienced players to become involved in the class, often widening coverage and reducing rates to a fraction of those seen in previous years. The current estimate for worldwide confiscation capacity per risk is $1.5 billion, and the capacity for contract frustration is $750 million.

Given all this, how does a political risk underwriter rate a risk?

There is no rate formula. The various national Export Credit and Investment Insurance Agencies once used formulas frequently, but that was more for the sake of simplicity rather than because the rates were technically correct. The underwriting approach used by banks is more technical, taking into account the effect of supply and demand plus the cost of funds and risk appetite. The pricing mechanisms of the private insurance market in trade and investment insurance—a market that is now just under 20 years old—have developed out of this background. Initially, the private market used the export credit agency rates as benchmarks but also paid close attention to the cost of capacity and reinsurance, as well as to loss history and the politico-economic volatility of the risk.

Ultimately, though, there is no right or wrong price. Certainly, a good risk is one that is well assessed and well underwritten. But, primarily, it is one that does not result in a loss for reasons that might have been predicted.

Buyers of political risk insurance are not required to insure; they do so of their own choice. They have many sources available to them to transfer risk, and insurance often is not the first source. Thus, this is not a class that can successfully be addressed by volume underwriting, as history has demonstrated. Quite often, the greater skill is to understand why a policyholder has opted to buy insurance—to understand the reasoning behind the decision, rather than simply to concentrate on the risk of the particular country. The prudent private market underwriter's skill lies in the selection of risk, rather than in its pricing.

Perhaps then, it is no surprise that the combination of surplus capacity and widened coverage, coinciding with recession and war in many parts of the world, has produced some of the largest claims ever seen in this class. These range from extended confiscation policies that have paid for canceled projects in Indonesia and Pakistan to significant losses for non-delivery of metals from the Russian Federation.

One of the most fascinating features of political risk is its ability to change, often overnight, so that an underwriter suddenly is faced with an entirely different risk.

If insurers can continue to respond to new risks and maintain disciplined underwriting, this volatile class, which historically has been very profitable, can become so again. BI

Ben Garston is a political risk and terrorism underwriter and Bernie de Haldevang is a war and political risk underwriter at Wellington Underwriting P.L.C. in London.

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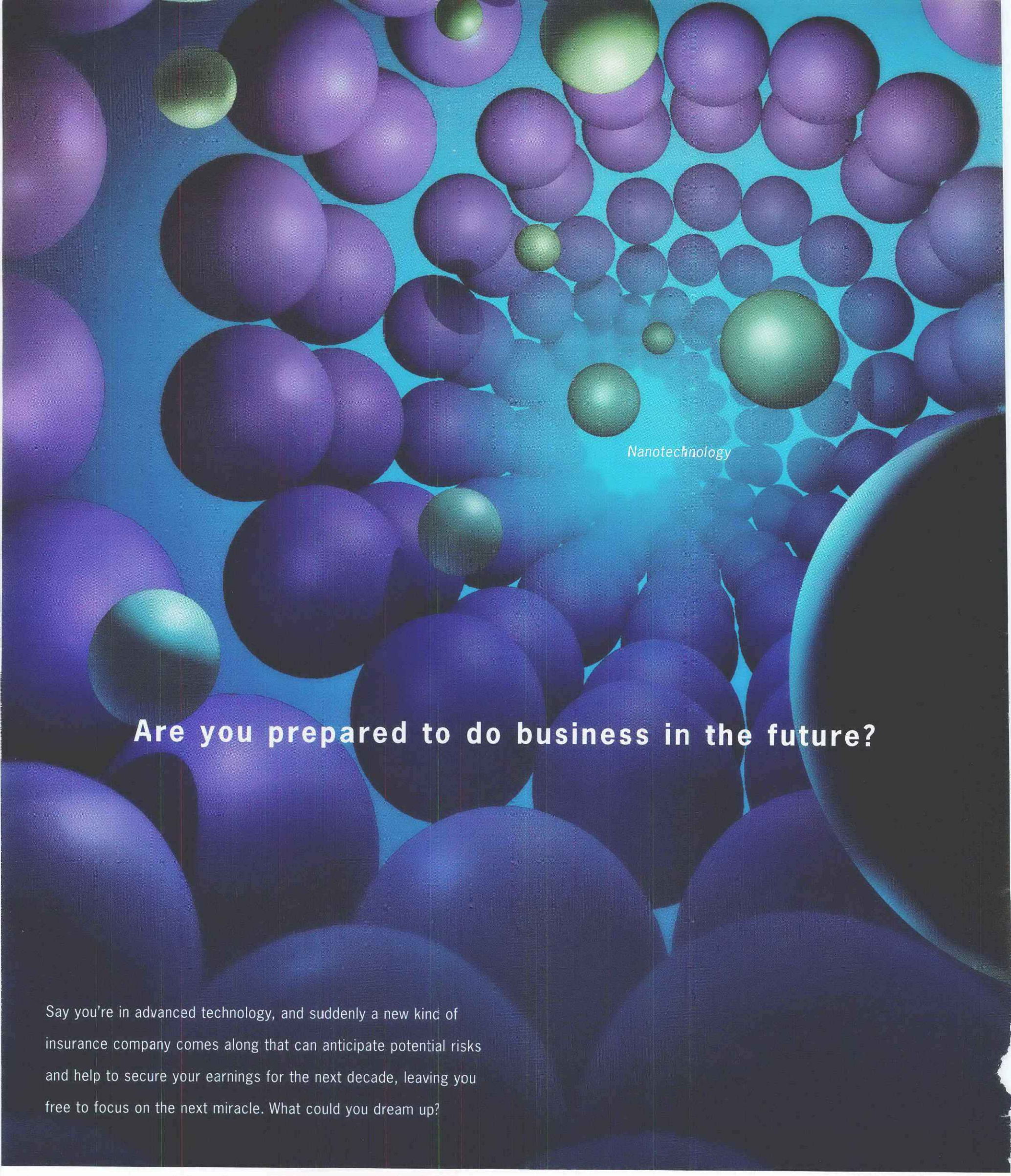

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Adjusting behavior a key safety tool

Insurers find modifying workstyle can help in soft-tissue injuries

By William Cesare, Steven Lucci and Peter Rousmaniere

SEPARATION OF CLAIMS STAFFS from loss-prevention staffs is common in workers compensation. In the normal course of business, these staffs seldom collaborate. Therefore, the safety agenda of the loss-prevention unit may differ from what the actual injuries and claims are saying are the problems.

Now, two insurers are doing something about closing this gap. The Beacon Mutual Insurance Co. of Rhode Island and The Workers Compensation Board of British Columbia—the largest workers comp insurers within their respective jurisdictions—are taking a careful examination of actual injuries, in part to help develop their loss prevention agendas.

For the soft-tissue portion of their lost-time injury claims, they are assigning people to visit the worksite shortly after the date of injury and carefully inventory the causes of injury and remedial steps.

Both insurers use the same balanced, laptop computer-based worksite assessment tool and train field personnel in its use. Information collected during the assessment is loaded into a database for subsequent analysis.

The results from more than 800 worksite assessments (complete with extensive checklists and digitized photographs) are revealing. Post-injury analyses of a wide range of employers show that remedial safety recommendations may be high in volume but less expensive than commonly assumed.

During 1998, 866 worksite assessments were performed in Rhode Island and British Columbia in response to soft-tissue injuries, such as musculoskeletal injuries. The assessments were conducted among the insurers' very broad employer bases, and injured workers were invited to participate during most of these worksite visits. Assessments resulted in 4,409 individual remedial recommendations, averaging slightly more than five recommendations per injury.

The outcome of these assessments is remarkable in two respects.

First, a high number of recommendations was recorded. This number resulted from careful attention to all aspects of a worker's job, not simply his or her primary tasks.

Second, fewer than one out of four recommendations involved a redesign of the workplace. The vast majority of recommendations dealt with relatively simple changes to employer practices and human behavior, at little or no cost.

These findings suggest that many soft-tissue injuries can be addressed by low-cost remedies—largely modifications in worker behavior. This is good news to the employer community, which should move toward a balanced understanding of what is required to make a job safe to perform.

An initial step toward this balanced understanding is to ensure that at least a portion of loss prevention interventions are prompted by actual injuries.

Recommendations are organized into three classes:

- Workplace modifications. These include modifications to the workstation, tool and seating design, and devices such as chain hoists and pallet jacks.
- Changes in standard operating procedures. Such procedures include job rotation, work breaks, stretching, etc. These typically involve group training of the workforce.
- Changes specific to the injured worker's personal workstyle. These changes can include workers' habits of gripping, lifting, extending and posture.

Examples of corrective measures include: keeping the back straight while lifting, alternating the use of hands and reducing bent wrists while grabbing.

The majority of recommendations involve what we call workstyle. These involve changes to individual behavior of the worker, and they require coaching the worker one-on-one.

The chart shows that more than half of all the recommendations—59%—were in the workstyle class.

The next leading class was modifications to the workplace, accounting for 22% of total recommendations. Modifications to standard operating procedures accounted for the 18% balance of total recommendations.

Put another way, about half of safety remedies require changes by the employer, while the other half involve individual employee changes.

Conversations with employers suggest that when they think about remedial safety steps, their attention turns to workplace redesign—new work stations, tools, chairs, keyboards, etc.—and the relatively high cost of these changes. One could infer from conversations with plant managers that workplace redesign might be involved in a half of all remedies. While these measures have their place, they amount to just one-quarter of all suggested improvements. A balanced approach emphasizing all three classes of remedies is in order. In many cases, a typical injured worker simply needs to be trained to go about her or his tasks in new ways.

This finding underscores the value of having the injured worker join in the assessment of her or his injury. It is quite likely that if the worker is present during the assessment, some subtle factors of body mechanics crucial to understanding the cause of injury could become apparent. The worker can receive instruction at that moment on correcting behavior. Once taught better methods, the worker may feel more comfortable about returning to work safely.

The worksite assessments also revealed that the remedial recommendations vary to large extent by the type of injury. For example, wrist injuries are twice as likely to trigger a workplace redesign than back injuries.

The most frequently cited recommendations for all injuries are as follows:

For workplace redesign, workstation modifications and tool redesign topped the list. For standard operating procedures, stretch breaks were most frequently recommended. For workstyle changes, the types of changes were so numerous that no one type of change was predominant.

Many employers are concerned that safety recommendations come with large price tags. The results of the worksite assessment, however, show that the average cost of a safety recommendation is very low.

A blend of the three categories of recommendations would cost, per recommendation, less than $50 to implement. In fact, the majority of the workplace redesign changes were less than $50.

Our findings suggest that workplace redesign remedies may be overemphasized within safety circles. It is not that they are not valuable. Rather, excessive reliance on them may not cure the safety problems they are intended to solve—and may cost more than is necessary.

It is possible that overemphasis on workplace redesign stems from some safety professionals' focus on physical hazards, as well as the focus of some ergonomists on workplace modifications.

It also is possible that many safety investigations, such as plant walk-throughs, tend to highlight the workplace design problems and under-report workstyle issues.

Data drawn from a large number of worksite assessments point to ways to improve safety without relying excessively on expensive redesigns. The cost of safeguarding the workplace may be lower than is commonly expected among employers. This more balanced view of safety remedies comes from careful assessments prompted by actual injuries.

Encouraging an injured worker to take part in the assessment and to consider his or her workstyle likely will yield several low-cost improvements to behavior, speed recovery and prevent reinjury. Low-cost standard operating procedures such as stretch breaks and job rotation also will likely help.

Focusing on actual injuries with a balanced, comprehensive assessment instrument is one way to restore balance and avoid bias. The experience of two insurers suggest that a more balanced approach helps to develop a more realistic approach to safety. BI

Addressing workplace injuries

Most recommendations involve changes to workstyle

Type of recommendation	All injuries	Back injuries	Wrist injuries
Workplace design	22%	17%	35%
Standard procedures	18%	8%	17%
Workstyle	59%	75%	48%

William Cesare is president of Industrial Health Strategies in Providence, R.I. Steven Lucci is director of disability management of Industrial Health Strategies. Peter Rousmaniere is president of Rousmaniere Designs of Cambridge, Mass.

PPOs must strengthen vulnerable areas

By Douglas L. Elden

RECENT POSITIVE DEVELOPMENTS promise an era of growth and profitability for preferred provider organizations and provider organizations. To compete and create value for their owners and customers, however, these organizations must address several weaknesses.

These organizational vulnerabilities can destroy profitability and market value. Unless PPOs/POs detect and treat these problems, their value as managed health care organizations will be severely impaired.

Positive developments for PPOs and POs include:

- Health maintenance organizations are facing a consumer-led backlash, eroding profits and the need to increase premiums. As a result, HMOs are vulnerable to competitors such as PPOs and POs.
- PPOs are now the nation's most popular health care delivery system. Marketing themselves as accessible networks, more patient-friendly and as "traditional," PPOs are avoiding the negative managed care label that is becoming synonymous with HMOs.
- Investors' disenchantment with HMOs is giving PPOs the opportunity to make acquisitions or initial public offerings.
- HMO vulnerability and PPO ascendancy have strengthened the market position of provider organizations. To stem losses, HMOs are subcontracting risk to POs, and PPOs are engaging POs to obtain "instant networks" and are offering more-favorable fee schedules and less risk than HMOs.

HMO losses, premium increases and rising costs from accelerated regulation have focused scrutiny on failed and failing HMOs. Investors, payers, employers and regulators all use due diligence to detect the biggest problems in managed care organizations, including PPOs/POs.

Many PPO/PO owners fear that detection of weaknesses during an IPO or by a purchaser during an acquisition may lead to the cancellation of the deal or a substantial reduction in price.

Payers have concerns as well. Many health care payers fear that a "rented" PPO/PO will be unable to fulfill its contractual obligations due to a reduction in cash flow, network disruption or loss of network and claims-payment problems.

Anticipation, detection and response to challenges to PPOs and POs are crucial to maximizing their market opportunities.

The most significant challenges PPOs/POs face are contracting, solvency, the failure of discounts and risk arrangements to decrease costs, the danger of risk arrangements, the weakness of the provider network, provider termination litigation, the lack of sophisticated management information systems, a lack of differentiation from HMOs, proposed legislation and accreditation.

Anticipation, detection and response to these challenges by the highest levels of management are crucial to maximizing these organizations' market opportunities.

Effective internal due diligence may require external expert assistance. Key personnel must be able to recognize limitations within the organization restricting their ability to anticipate, detect, treat and distinguish true vulnerabilities and have the confidence to seek objective advice.

Significant weaknesses and their solutions are:

■ **Contracting and "silent PPO" practices.** Incompetent or inadequate contracting may lead to liability for "silent PPO" practices, in which payers obtain provider discounts to which they are not contractually entitled.

By permitting inconsistent terms in the chain of PPO contracts and failing to address the issues raised in Assn. of Managed Healthcare Organizations/American Assn. of PPOs' industry contracting guidelines, PPOs/POs invite silent PPO practices. Meanwhile, the increasing consolidation and sophistication of providers is leading to greater detection efforts and litigation to attack those practices.

The solution is contract due diligence. Terms of contracts of PPOs/POs should be consistent through the chain: the provider/PPO contract, the PPO/payer contract, the PPO/network lessee contract, the network lessee/payer contract and the network lessee-network lessor contract.

PPOs/POs should have written policies and provide procedures to monitor contracts and contract terms at each stage of the contracting process through implementation. To avoid the taint of "silent PPO" practices, PPOs/POs should use the contracting guidelines as a checklist.

■ **Solvency.** Many PPOs/POs lack sufficient capital to compete with better-capitalized organizations. A PPO or PO should establish a business plan with a market analysis to determine if it has sufficient capital to compete. If the market analysis indicates insufficient capital, options such as a merger should be explored.

■ **The failure to decrease costs through discounts and risk arrangements.** The PPO industry is built on the ability to negotiate discounts with providers. POs exist to obtain discounts from members and to accept risk. The employer/payer community, however, is asking, "If the prices of health care are discounted, why aren't the costs decreasing?" In other words, are these discounts valid, and are risk arrangements effective?

The solution is to demonstrate the reduction of costs. Future requests for proposals from payers/employers and their consultants will require PPOs/POs to demonstrate that engaging the network will reduce costs. These demonstrations will need to include documentation of: the legitimacy of discounts, the contractual authority to apply discounts to claims, the competitiveness of fee schedules, the effectiveness of risk arrangements, the lack of incentives for overutilization and the ability to prevent underutilization—or denial of care.

With the pressure to decrease costs rather than merely provide discounts, the ability to demonstrate effective credentialing will be essential.

Payer and PO cost—rather than price—savings can be achieved by a credentialing program designed to contract with high-quality, cost-efficient providers and by eliminating poor-quality providers.

Effective credentialing includes compliance with the highest level of accreditation agency credentialing standards, including primary source verification for all providers and the use of utilization management data in credentialing. Such a program may help shield PPOs/POs from liability for negligent credentialing.

Pressure to reduce costs will increase demands by payers or their agents for the PPO or PO to manage utilization or measure the performance of utilization management. Without efficient utilization management, the increase in care will offset any discounts.

The most significant concerns in utilization management are the failure to perform effective utilization management and the backlash from allegations of denial of care.

■ **The danger of risk arrangements.** HMOs have suffered by failing to control medical costs under premium risk arrangements with providers. As a result, HMOs are attempting to subcontract the risk to provider organizations.

POs accepting risk have exposures on several fronts. POs must conduct credentialing and perform utilization management and quality control to reduce costs. Otherwise, the providers will have to absorb the costs and will be subject to the same "denial of care" accusations as HMOs.

Acceptance of standard payer/HMO contracts by POs for risk arrangements may expose the PO and the providers to more risk than is expected. Adhesion terms for penalties for exceeding budgets, paybacks by POs and providers, personal liability for providers, and reliance on payers/HMOs to perform utilization management in risk arrangements can result in unintended and unknown consequences.

The solution is an analysis of risk arrangements. A PO must understand the terms of the risk arrangements, determine whether compensation is appropriate and whether it is receiving the payments. If the PO is relying on the payer to manage utilization, it must determine if the payer is performing these obligations.

The employer/payer community is asking, 'If the prices of health care are discounted, why aren't the costs decreasing?'

■ **The weaknesses of the provider network.** The provider network is the major asset of the PPO and PO. Loss of the provider network or significant disruptions in the operation of the provider network are substantial and often undetected problems.

The solution is due diligence of provider contracts, which is imperative for "rented networks" and for determining the PO's authority to bind individual providers. In addition to examining the network contracts, the PPO/PO should determine, based on accreditation standards, the adequacy of the network and its accessibility to members.

■ **Provider termination litigation.** As networks attempt to control costs, the membership may become restricted to "preferred" providers. In the past, attempts to decrease the network size resulted in litigation and created pressure for any-willing-provider legislation.

Unless the health care industry agrees on an effective, cost-efficient provider termination procedure, PPOs/POs may suffer the same costs of due process as hospitals in medical staff cases.

PPOs and providers, through their trade associations, should establish a provider termination summit to create a fair, effective and cost-efficient provider termination procedure. Such a procedure could prevent network disruption from provider termination litigation.

In addition, PPO/PO trade associations should oppose the any-willing-provider statutes.

■ **The lack of sophisticated management information systems.** A crucial component of the foregoing problems is the lack of sophisticated management information systems. Information requirements enacted by legislation, the detection of silent PPO practices, the infrastructure for risk arrangements, proof of cost reduction, control and payment of claims, provider profiling for rejection or termination of providers and general business administration require a sophisticated MIS.

Without such an system, a PPO/PO may be unaware of internal deficiencies and unable to respond to change until it is too late.

The solution is an analysis of the MIS. The system should be analyzed to determine adequacy for future market conditions. A PPO should determine if the system will perform the functions required to eliminate PPO/PO vulnerabilities while providing for future expansion and more-complex administration. A PO accepting risk should determine if the system will be adequate to integrate the infrastructure required to manage risk. If the existing MIS is inadequate, a new system should be acquired immediately.

■ **PPOs/managed care organizations that are undifferentiated from HMOs.** The vulnerability is that the public, employers and legislators may not be able to

Continued on next page

Continued from previous page
differentiate PPOs and other managed care organizations from HMOs.

The solution is a "branding campaign" to distinguish PPOs and other managed care organizations from HMOs. Concerted action by trade associations and individual PPOs/POs is necessary for maximum effectiveness.

■ **The dangers of proposed legislation.** Recent and ongoing attempts by Congress to pass patient protection acts and random state laws proposing to govern managed care, such as through data requirements, are affecting PPOs/POs. The continuation of this trend could result in substantial costs to PPOs/POs or substantially impair their ability to continue as viable competitors.

The solution is legislative initiatives. PPOs/POs should support the legislative initiatives of their trade associations. To date, these legislative initiatives have been successful in pressuring Congress and the states to distinguish PPOs/POs from HMOs.

■ **Accreditation.** RFPs of payers/employers and their consultants are requesting the accreditation status of PPOs/POs. As these payers/employers and their consultants become more sophisticated, accreditation will become a requirement for doing business. In addition, accreditation may become required to obtain licenses in various states similar to American Accreditation HealthCare Commission/URAC utilization management accreditation.

If PPOs/POs are unable to satisfy accreditation standards or if the cost to satisfy accreditation standards becomes prohibitive, PPOs/POs may be unable to compete.

The solution is participation in accreditation based on new standards. Intensive efforts of AMHO/AAPPO have produced new, more-realistic URAC standards and, as a result, the number of PPOs/POs applying for URAC accreditation has dramatically increased.

The continuation of this process and member company participation is essential to maintain a "level playing field" with accredited HMOs.

By participating in URAC accreditation, PPOs/POs will need to apply accreditation standards to their organizations. The preparation for accreditation and the accreditation process will result in the detection of many PPO/PO vulnerabilities.

In an era of the ascendancy of PPOs and the re-emergence of provider control of the practice of medicine through POs, optimism should be tempered by an acknowledgement that these entities do have weak areas. The vulnerabilities, if discovered and addressed promptly, will allow PPOs/POs to increase in value for their owners, investors and customers and to attain market dominance. BI

PHOTO: STEVE LEONARD

Douglas L. Elden

Douglas L. Elden is a partner in The Elden Law Firm in Chicago and chairman of the American Assn. of Preferred Provider Organizations.

Contributing to this article were Charles M. Jacobs, consultant and former chairman and chief executive officer of InterQual Inc., and Robbin C. Elden, a partner in The Elden Law Firm.

Address potential for violence to reduce risk

"Preventing Workplace Violence: A Guide for Employers and Practitioners"
By Mark Braverman
Published by Sage Publications Inc., 2455 Teller Road, Thousand Oaks, Calif. 91320; order@sagepub.com or 805-499-0721
$24.95

Books & Ideas

By Amanda Milligan

As I prepared to discuss how essential "Preventing Workplace Violence: A Guide for Employers and Practitioners" is for everyone from line managers to chief executive officers, I had a hard time envisioning my editors ever needing the advice contained in this 141-page guide. But that's the underlying danger of workplace violence, as author Mark Braverman points out.

An employer could be surprised to learn that a female employee who has been married for 12 years conceals a turbulent home life and carries fear with her to the office. And in a economy teeming with merger and acquisition activity, downsizing presents a very real potential for violent behavior or threatening remarks.

When a threat of violence or perceived danger hinders normal office activity, managers must proceed carefully, but they must take charge of the situation, advises Mr. Braverman. Inaction or taking the wrong action could lead to an escalation of the violent behavior and also can leave threatened employees feeling unprotected and angry that the company hasn't tried to intervene.

Using actual scenarios in which he served as a violence consultant and corporate adviser, Mr. Braverman clearly illustrates some of the potential pitfalls for employers and outlines possible responses. He advocates a team approach, in which a company draws on the expertise of many areas of the corporate hierarchy.

Workplace violence, like sexual harassment, should be formally addressed in the company's handbook, Mr. Braverman advises. He provides a sample zero-tolerance policy at the end of the book.

Perhaps the most sensible information in the book deals with the legal aspects of screening an employee to determine the potential for violence once a threat is made.

Such risk assessments must be conducted by a licensed professional, but the employer has to get the results—which requires permission from the potential aggressor. If the threat was "empty," this evaluation could clear the employee without consequence, Mr. Braverman asserts. If the aggressor is deemed a real threat to workplace safety, the company can consider the evaluation as evidence defending a dismissal.

Certainly, due to the sensitivity of the issue, a company could find itself a defendant in a wrongful termination suit. But recounting a discussion he had with an attorney, Mr. Braverman asks, "Was (the attorney) prepared to take responsibility for someone's being harmed because we had felt constrained from taking prompt and appropriate action?"

It is easier to defend oneself from termination suits than it is to take no action and violate the Occupational Safety and Health Administration mandate to provide a safe work environment, he says.

Mr. Braverman takes a complex, multilayered topic and works through the issues thoughtfully and methodically. The book's organization is straightforward, and it has a summary chapter that can be used for quick reference. BI

Amanda Milligan is an associate editor in Business Insurance's Chicago office.

Damage from sewer backup not excluded: Court

Legal Briefs

A pollution exclusion in a city's liability insurance policy did not apply to damages caused to a business by a sewer backup, according to the Court of Appeals of Wisconsin.

In May 1995, a sewer in Onalaska, Wis., backed up into the basement of a flower shop owned by Ron and Kathy Guenther. The basement was flooded with 26 inches of water, human waste and other debris. As a result of the flooding, the Guenthers lost inventory, office supplies and business documents stored in the basement. They also had to replace the water heater, repair the furnace and repaint the basement floor.

The Guenthers sued the city and its insurance company, Cities & Villages Mutual Insurance Co. The insurance policy in question contained a broad policy exclusion excluding coverage arising out of contamination by pollutants. The trial court concluded that the policy exclusion clause excluded coverage and dismissed the suit.

The appellate court disagreed and concluded that the policy exclusion did not apply to damage resulting from the liquid, non-toxic nature of the domestic sewage that was discharged into the Guenther's basement. Therefore, the court said, there was coverage under the policy for at least some of the Guenthers' damage. The court also concluded that the policy was ambiguous and should be construed in favor of coverage. The trial court decision was reversed.

Guenther vs. City of Onalaska, Court of Appeals of Wisconsin, Nov. 19, 1998 (*BI*/01/Ju.-$10).

Alien ineligible for comp benefits

While an employee's false representations as to his immigration status would not preclude an award of workers compensation benefits, it did nullify his status as an "employee" for purposes of receiving benefits, according to the Supreme Court of Virginia.

Jose Ismael Granados was employed as a carpenter's helper by Windson Development Corp. in January 1995. To gain employment, Mr. Granados attested that he was an alien lawfully admitted for permanent residence in the United States. He submitted forged documents to support his statement. In fact, he was ineligible for lawful employment in the United States both on the date he began work and on the date in February 1995 when he sustained a work-related injury. Mr. Granados filed for workers compensation, but his claim was denied.

On appeal, Mr. Granados argued that it was error to deny him benefits because there was no causal connection between his false representations and the injury he sustained. The court agreed that it was error to rule that Mr. Granados' false representations precluded an award of benefits. However, the court nonetheless denied him benefits because under the federal immigration law, an illegal alien cannot be employed lawfully in the United States. Therefore, the court said he was not eligible to receive compensation benefits as an "employee" under the workers compensation act because his purported contract of hire was void and unenforceable.

Granados v. Windson Development Corp., Supreme Court of Virginia, Jan. 8, 1999 (*BI*/04/Jy.-$10). BI

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

THE SEVENTH ANNUAL

Business Insurance®

WORKERS COMPENSATION AND DISABILITY MANAGEMENT CONFERENCE

OCTOBER 18-20, 1999

The Ritz-Carlton Hotel
Marina del Rey, California

WHO SHOULD ATTEND

Risk managers, loss prevention and safety managers, benefit managers, workers compensation and disability managers, along with representatives from state and local governments ... plus insurers, brokers, consultants, and representatives from HMOs and PPOs.

PRELIMINARY AGENDA

MONDAY, OCTOBER 18

9:30 AM
GOLF TOURNAMENT*

3:00 PM
EARLY REGISTRATION

4:00 PM
EMPLOYERS' PRIVATE ROUNDTABLE
Moderator:
Kathryn J. McIntyre
Vice President, Publisher and Editorial Director
Business Insurance

5:30 PM
PRE-CONFERENCE WELCOME RECEPTION*

TUESDAY, OCTOBER 19

7:45 AM
REGISTRATION AND CONTINENTAL BREAKFAST
Hosted by: Specialty Risk Services

9:00 AM
OPENING REMARKS
Alexandra Scott
President & CEO
International Business Forum

9:05 AM
KEYNOTE: How Disney Does It — "It's all about dealing with people"
Stephen M. Wilder
Vice President, Risk Management
The Walt Disney Company

9:45
INTEGRATED DISABILITY MANAGEMENT
Robert Gelb
Vice President, General Manager
QTC Management Inc.

10:30 AM
TABLE-TOP EXHIBITS & REFRESHMENTS
Hosted by: Wausau Insurance Cos.

11:00 AM
WORKERS COMP 2000: CHANGES ON THE HORIZON
Jeffrey W. Pettegrew
V.P. Ins. & Risk Management
Westaff

Edward Frackiewicz
Director, Risk Management
Del Monte Foods

Larry L. Hansen
National Practice Leader
Wausau Insurance Companies

Kenneth R. Ross
Sr. VP, Product Development & Management
Intracorp

12:00 PM
LUNCHEON*

1:15 PM
BUILDING A WINNING TEAM
Barry E. Thompson
National Practice Co-Leader
WC Disability Management Services
Deloitte & Touche LLP

Dave Chetcuti
Director of Workers Compensation
Sysco Food Services

Bernadette Melchionne
Senior Corporate Insurance Administrator
Mattel, Inc.

Suzanne Guyan
Director of International Workers Compensation
Costco

2:30 PM
COMBATING FRAUD
Keith Neuman
Deputy Commissioner
California Department of Insurance

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John P. Massucco, Jr.
Chief, Insurance Fraud Division
San Diego County
District Attorney's Office

Bill Strickland
Special Investigation Unit Manager
Liberty Mutual

3:30 PM
TABLE-TOP EXHIBITS & REFRESHMENTS
Hosted by: Bayne Consulting Group, Ltd.

4:00 PM
CONCURRENT SESSION: A OR B

Session A:
NIOSH ADVICE ON EASING THE IMPACT OF JOB STRESS AND SHIFTWORK SCHEDULES

Dr. Steven L. Sauter
Chief of Applied Psychology and Ergonomics
National Institute for Occupational Safety and Health

Dr. Roger R. Rosa
Research Psychologist
National Institute for Occupational Safety and Health

Session B:
HOW TO MEASURE PERFORMANCE OF EMPLOYER PROGRAMS

Anshell Boggs
Workers Compensation Manager
Pep Boys

Jill A. Dulich
Regional Director
Marriott Claims Services

Peter Rousmaniere
President
Rousmaniere Designs

Maria Bayne
President
Bayne Consulting Group, Ltd.

5:00 PM
COCKTAIL RECEPTION
Hosted by: GENEX Services Inc.

WEDNESDAY, OCTOBER 20

7:45 AM
CONTINENTAL BREAKFAST
Hosted by: Intracorp

9:00 AM
CASE STUDY: TEXTRON AUTOMOTIVE COMPANY WORKERS COMP 'BOOT CAMP'

Douglas Hamrick
Director of EH&S and Energy
Textron Automotive Company

10:00 AM
ERGONOMICS: EFFECTIVE WORKPLACE PROGRAMS
Winner of *"The 1998 Outstanding Office Ergonomics Award"*

Presented by:
The Center for Office Technology

Marynka S. Rojas
Safety and Ergonomics Manager
City of San Jose

11:00 AM
TABLE-TOP EXHIBITS & REFRESHMENTS*

11:30 AM
RETURNING INJURED WORKERS TO MEANINGFUL JOBS

Annette Sanchez
Vice President of Business Development
Specialty Risk Services, Inc.

Marshall Sherman
Director, Risk Management
Aramark Corp.

Philip B. Renaud, II
Vice President of Insurance
The Limited, Inc.

W. Tom Fogarty, M.D.
Sr. VP, Chief Medical Officer
Concentra Managed Care, Inc.

12:30 PM
LUNCHEON WORKSHOP
Hosted by: HNC Insurance Solutions Alta Analytics

HIGH-TECH SOLUTIONS TO WORKERS COMPENSATION PROBLEMS

Paul Jester
Vice President
HNC Insurance Solutions

Dick Hughes
Director
Alta Analytics

Michael Gantt
Sr. Vice President
Claims and Benefits Solution Group
Policy Management Systems

2:00
CONFERENCE ADJOURNS

COMMENTS FROM SOME OF LAST YEAR'S ATTENDEES:

"The conference helped us to look at new ways of managing workers compensation and gave us a network, heads up on industry trends."
Babs Troutman • *Director, Risk Management* • Trans World Airlines, Inc.

"The conference was excellent with very well organized exhibits and great networking opportunities."
Nancy Geedey, RN, CCM • Managed Care USA

"The conference had a well rounded program with excellent and diverse employers attendance."
Karol Hosking • *Workers Compensation Claims Manager* •
Catholic Healthcare West

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BI #6

Injuries

Continued from page 3

manufacturers based in Alexandria, Va.

According to the BLS statistics, jobs with a high risk of repetitive motion injury include those of assemblers, non-construction laborers, textile sewing machine operators, truck drivers and cashiers, as well as packaging and filling machine operators. Other high-risk activities include the repetitive use of tools and the repetitive placing, grasping or moving of non-tool objects, the federal research shows.

The fact that the number of office-related repetitive motion claims held steady, "despite ever-increasing computer usage at home and work, demonstrates that these incidences are not the growing menace often reported in the media," according to a statement by P.J. Edington, the COT's executive director.

Also, job categories that would be assumed to include a preponderance of typing and keying—such as secretary—represented just 2.5% of all repetitive motion cases, while data-entry keyers represented 1.6% and typists represented less than 1%.

"As an association concerned about office workplace safety, we think it is important for computer users to adopt work habits and techniques that ensure they are working comfortably, but we also want people to understand that the office remains one of the safest workplaces," Ms. Edington said.

"As OSHA seeks ways to protect workers by enacting an ergonomics standard, they should consider that, in the administrative support job category, which includes clerical jobs, there were more incidences resulting in days away from work from injuries caused by 'contact with an object'—21,963—and 'falls on the same level'—15,867—than from 'repetitive motion,'" she said.

The low incidence of office-related repetitive injuries also is reflected in reduced litigation.

"The number of lawsuits filed against computer manufacturers has dwindled very significantly" in recent years, said another COT spokeswoman.

"After more than two dozen losses, plaintiffs attorneys don't seem to be filing such cases any longer," the spokeswoman said. BI

Part-time

Continued from page 3

With a new broker and insurer, Midas saved about $200,000 on commissions and premiums and "locked it up for three years," Mr. Birney said of the new coverage.

Using a part-time risk manager "becomes for many a very cost-effective approach," said Charles Cox, president of Aldrich & Cox Inc., an Orchard Park, N.Y.-based risk management consulting firm with several employees.

Mr. Cox said many of his fellow members in the Society of Risk Management Consultants are solo practitioners, pointing out that many members—whether they are individuals or firms—provide some employers with nearly all the functions of a risk management department.

While part-time risk management may be ideal for small companies, not all businesses that choose the approach are small, say those who provide the services. They say the arrangement is well suited for various size companies and types of business.

Doug Miller, a sole practitioner who operates as Employers Risk & Insurance Management Inc. in Birmingham, Ala., said companies that get the most value from a part-time risk manager generally are those with 300 to 1,200 employees, a size that usually means the operation is large enough to have sufficient insurance premiums or exposures that need oversight.

Jim Mahurin, a sole practitioner in Franklin, Tenn., said his 45 clients range from some so small that they need his advice only about once a year to others, such as a European-based steel consortium that has U.S.-based energy holdings and needs more-consistent and complex services.

Another client "has me involved in virtually every business decision they make," Mr. Mahurin noted. "It's been a long-term relationship with a rather complicated account."

How much time a part-timer should spend with a client is "dependent on (the client's) desires and the work that's needed," said Carl Lidstrom, who operates under the banner of Professional Risk Management Inc. in Eden Prairie, Minn.

One of his 32 clients, a plastic parts manufacturer, "has me come in on a regularly scheduled basis," Mr. Lidstrom said. "The owner feels that if I don't take the time to meet with each plant manager on a regular basis, I won't know what's happening in the company. All the others have me come in to work on specific projects."

Robert Duty, president of Cardinal Risk Management Alternatives Inc., a three-person firm in Dallas, targets clients that are growing. "We look for companies in a fairly high growth mode with a need for a risk manager," but not on a full-time basis, he said.

By providing services such as contract review and negotiation, the arrangement of loss control through insurers or brokers, guidance on risk retention and other matters, Cardinal is able to provide a "higher level of expertise at the same or less cost than having somebody on staff," Mr. Duty said.

Most solo practitioners handle safety and loss control by working with insurers and brokers that provide experts to visit worksites and advise employers how to reduce exposures. Other aspects of risk management translate very well from company to company.

"My specialty is not loss control," Mr. Lidstrom pointed out. But when a client is having trouble containing losses, it is his responsibility to uncover a resource that can solve the problem, whether it be an insurer, a broker or a consultant with that expertise. "I'm the gatekeeper for these types of services," he explained.

Mr. Lidstrom stressed that "my specialty is insurance, and insurance doesn't really change from industry to industry. Property insurance is still property insurance. It's the same thing with liability; it's written on a commercial general liability form and will have certain endorsements. It does not change significantly from industry to industry."

"Even though my clients are manufacturing different products, I still have to buy product liability insurance," he concluded. "It's still insurance."

"I don't think you can be all things to all people," said Mr. Miller of Employers Risk & Insurance Management. He doesn't handle loss control directly. "Part of my function is to evaluate other services" provided by risk management vendors, he said.

Others have different specialties.

When it comes to insurance, "something I try to do is work with the brokers," said Mr. Mahurin. "They know the insurance market, and I don't. I look at my job as helping the insured identify risk and taking a strategic look at how they can reduce that risk and retain what they can."

He points out that some aspects of loss control—disaster recovery, for example—can be taught across industry lines. A jewelry distributor client saved millions of dollars after heeding Mr. Mahurin's advice to store offsite a backup copy of retail customers' billing and account information. A fire that spread from an adjacent building destroyed the original information a few months after the same level'—15,867—than from 'repetitive motion,'" she said.

The low incidence of office-related repetitive injuries also is reflected in reduced litigation.

"The number of lawsuits filed against computer manufacturers has dwindled very significantly" in recent years, said another COT spokeswoman.

"After more than two dozen losses, plaintiffs attorneys don't seem to be filing such cases any longer," the spokeswoman said. BI

recommendation.

Some consulting firms offer a stable of risk management experts who can provide on an outsourced basis what amounts to a remote risk management department.

"We do what a risk manager would do," said Susan Kaufman, a partner and executive vp at Leonard R. Friedman Risk Management Inc. in Great Neck, N.Y. "We generally are hired to stay on as an outsourced risk manager."

Often, a company turns to the firm because it doesn't have a risk manager or because the responsibility is assigned to someone such as a chief financial officer. Ms. Kaufman's company is able to take on that responsibility. In some cases, the firm provides support to employers that have a risk manager who needs help with some aspects of the job.

She said the majority of the firm's clients have sales of between $25 million and $1.5 billion.

Barron S. Wall, managing associate at Insurance Consulting Associates in Mahwah, N.J., said his 50-person operation handles risk management duties for about 300 companies, including some that are so large, such as Office Depot, that they have recognizable names, and others as small as a one-man distribution company that outsources all its functions.

"Of the 300, 95% don't have a risk management department," said Mr. Wall. In some cases, Insurance Consulting Associates will work with a large client to develop a risk management department and then provide it with support services. BI

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Hobbs Group appoints CFO

Bret Quigley has been named chief financial officer of the Atlanta-based brokerage Hobbs Group L.L.C. In his new position, he will oversee the company's financial operations, particularly in the area of mergers and acquisitions. Prior to joining Hobbs Group, Mr. Quigley was senior vp and director of investment banking for First Union Capital Markets Corp.

Mr. Quigley

In other broker changes:

Acordia Inc. of Indianapolis has appointed **Deborah M. Broderick** vp-finance, treasurer and assistant secretary. Ms. Broderick, who joined Acordia in 1991, most recently was regional CFO of Acordia's Midwest region. Acordia also named **James R. Harper** senior vp with responsibility for business development.

Ms. Broderick

Aon Risk Services Cos. Inc., part of Chicago-based Aon Corp., has named **John Trask** as executive vp and manager of the company's Sacramento, Calif., office.

Bradley M. Busch has been named vp and property broker for American E&S Insurance Brokers California Inc. of San Francisco. Previously, Mr. Busch was a producer for San Francisco-based Tri-City Brokerage Inc.

Comings & Goings: Industry

Insurers

Boston-based CGU Insurance, a division of U.K. insurer CGU P.L.C., has named **Richard Hirtle** vp and treasurer. Before joining CGU, Mr. Hirtle was vp-strategic development and treasurer for The Manufacturers Life Insurance Co. of North America.

CNA Surety Corp. of Chicago has named **David Paul** vp-international surety. He previously was managing director-international surety operations for the Atlanta-based construction division of Willis Corroon.

Specialty insurer American Modern Insurance Group Inc. of Cincinnati, a wholly owned subsidiary of The Midland Co., has named **Werner E. Kruck** to the position of chief information officer. He previously held the position of chief knowledge officer, and he will continue to serve as senior vp on AMIG's executive committee in his new position.

Frontier Insurance Group Inc. of Rock Hill, N.Y., has appointed **Ted Rupley** as executive vp. In addition, Mr. Rupley will serve as president of Frontier Insurance Co., the group's largest subsidiary. In his most recent position, Mr. Rupley was president, chief executive officer and chairman of the New Hampshire Group of New York-based American International Group Inc.

Louisville, Ky.-based Humana Inc. has appointed **Bonnie C. Hathcock** to the position of senior vp-human resources. She previously was vp-human resources and development for US Airways Inc. in Crystal City, Va.

Reinsurers

Stephen Slade has joined American Re-Insurance Co. of Princeton, N.J., as senior vp of the company's domestic insurance company operations division. Mr. Slade last worked in New York for Centre Solutions, where he was a senior vp. American Re also has appointed **Robert W. Trainer** executive vp-HealthCare and head of the company's health care initiative, American Re HealthCare. He previously was executive vp of American Re's domestic insurance company operations. BI

INTERNATIONAL

Global Briefs

Assurances Generales de France has sold its non-life subsidiaries in Italy and Germany. Finnish insurer Sampo Insurance Co. has bought subsidiaries AGF IART and AGF MAT in Cologne, Germany, while Royal & Sun Alliance Insurance Group P.L.C. has bought the subsidiary AGF IART in Milan, Italy. . . . **WISE (world insurance e-commerce)**, the first global organization to promote e-commerce in insurance and reinsurance, was launched June 1. It combines the activities of the London Insurance Market Network, the Reinsurance & Insurance Network and the World Insurance Network. Its new logo is available at www.moffatt-associates.com/wise.html. . . . **Zurich Specialties London Ltd.**, a unit of Zurich Financial Services Group specializing in unique and hard-to-place risks, has appointed Robert Torrance chief operating officer. In mid-August, Alan Fairhead will become Zurich Specialties' corporate products account team manager. Mr. Torrance formerly was group finance director of Eagle Star Insurance Co. and a director of Eagle Star Re, and Mr. Fairhead currently is property manager of the London market division of Guardian Insurance Ltd. . . . AIG Europe (UK) Ltd. has launched **WORLDRISK**, an insurance product for companies involved in international trade. Apart from core coverage of international property, international general liability and directors and officers liability, WORLDRISK adds crisis containment insurance and also can include additional classes, such as marine cargo, trade credit, political risk, kidnap and ransom, crime, and personal accident. . . . The United Nations Environment Programme hosted the largest-ever international conference on **insurance and investment industries and the global environment** June 10-11 in Oslo, Norway. Klaus Topfer, UNEP executive director, said it was time for insurers "to move from assessing the environmental challenge to implementing solutions." More than 120 executives from insurers, banks, brokers and pension funds attended. . . . Loss adjuster **Crawford-THG (UK) Ltd.** has bought Alea Peritaciones, a Spanish loss adjuster with representation in nine Spanish cities and in Portugal. Ron Elder, Crawford-THG managing director, said the acquisition will improve its ability to deal with domestic and international clients and is part of a continued strategy to increase international operations. . . . **Octavian Syndicate Management Ltd.** is merging its Lloyd's of London aviation Syndicate 959 into its Syndicate 1009 for the 2000 year of account. Ray Busbridge, active underwriter for Syndicate 959, will leave the company. Until the merger is completed, Mr. Busbridge will be replaced by Jason Prior, its deputy underwriter. Octavian said the merger follows an ongoing review of business it manages; the review already has resulted in the merger of its two motor syndicates, 554 and 1228. . . . **Willis Corroon Group Ltd.** has formed a partnership with the Defence Evaluation and Research Agency to enable Willis to provide its clients a combination of science, finance and technology solutions to risk-related problems. DERA, a unit of the U.K. Ministry of Defence, has scientists and engineers operating nationwide to create and develop new technologies for both defense and civil applications. Tim Hopkirk, principal of the Willis Risk Solutions team, said the partnership "enables us to deliver truly integrated risk solutions," rather than just financial solutions. . . . Lloyd's of London broker HSBC Gibbs Ltd. has changed its name to **HSBC Insurance Brokers Ltd.** as part of the implementation of a single global brand name by its banking and financial services parent, the HSBC Group. . . . **Brockbank Group P.L.C.** has appointed Michael Esposito and John Loudon as nonexecutive directors. Mr. Esposito and Mr. Loudon are chairman and director, respectively, of XL Capital Ltd., which owns Brockbank.

OECD eyeing 'tax havens'

List of domiciles offering unfair advantages planned

By EDWIN UNSWORTH

LONDON—Parents of captives in tax-friendly domiciles could see the advantages they enjoy reduced or eliminated if those domiciles end up on a list of tax havens currently being compiled.

The Paris-based Organization for Economic Cooperation and Development will release the list of tax havens next year. The list will come out of an ongoing OECD investigation that began last October and is expected to last until the end of this year.

The 47 jurisdictions so far identified by the OECD for possible inclusion on the list have been invited to meet with the OECD's Forum on Tax Competition. These meetings will give domiciles an opportunity to convince the OECD that they do not meet its criteria as tax havens, or that they are prepared to change some practices in order to stay off the list.

Tax havens are defined by the OECD as jurisdictions that generate harmful tax competition by offering low or no taxes in combination with other tax measures that either favor local units of foreign firms or are not wholly transparent.

The OECD, made up of 29 nations, including the United States, exists to develop and improve economic and social policy.

Frances Horner, head of the OECD's tax competition unit, is keen to stress that the group is not against jurisdictions simply because they offer low, or even no, taxes.

This is apparently confirmed by the fact that Ireland, which has a European Commission exemption that allows it to offer a 10% corporate tax rate until the end of 2001 and a 12.5% rate thereafter, is not one of the jurisdictions under OECD scrutiny, according to a spokesperson in Ireland's Department of Finance.

Ireland's favorable tax regime has helped Dublin to become the eighth-largest captive domicile in the world, with 153 captives in the decade since it has permitted their formation (*BI*, April 12).

In fact, no OECD member country is among the 47 that have been identified.

Ms. Horner said that to be on the list of tax havens, a jurisdiction must offer low or no taxes in conjunction with at least one other of three conditions.

These are: a lack of effective exchange of information among tax authorities of different jurisdictions; a lack of transparency in tax rules; and allowances for companies to benefit from low or no taxes without

See **OECD** *on next page*

But overcapacity unlikely to raise E&O rates

$146 million in awards hit insurers

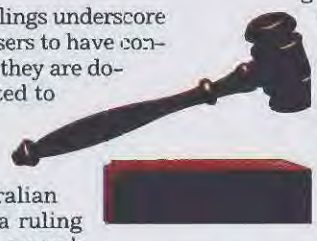
By MATTHEW MacDERMOTT

SYDNEY, Australia—Australia's professional indemnity insurance market recently was hit by two major damages rulings, highlighting the growing risks faced by professional advisers.

But the two court judgments, which totaled $221 million Australian ($146 million), are unlikely to increase professional indemnity premiums in Australia, according to Robert Beaton, manager of Sydney-based CGU Professional Risks Insurance, a division of insurer CGU Australia Ltd.

Mr. Beaton said there are "too many players scrambling around for market share" in Australia's professional indemnity market, creating overcapacity and low premiums. Therefore, he said, there would need to be many more major damages rulings to lead to a change in pricing.

But, Mr. Beaton said, the rulings underscore the need for professional advisers to have contracts clearly outlining "what they are doing and what they are expected to do."



On May 13, the Supreme Court of New South Wales awarded $21 million Australian ($14 million) in damages in a ruling against two law firms and a queen's counsel—or senior barrister—who advised Australian insurer NRMA Ltd. of Sydney during its failed 1994 demutualization attempt.

The court ruled that the two law firms—Allen, Allen & Hemsley and Abbout Tout, both of Sydney—and QC Dyson Heydon, a barrister based in Sydney, were equally liable for the $21 million Australian award.

The court ruled the three parties were negligent in their failure to warn NRMA directors that a pending high court of Australia appeal, in an unrelated case, could adversely affect NRMA's plans to list on the Australian stock exchange.

Even though the court delivered a ruling on the appeal six months after NRMA aborted its demutualization, the Supreme Court ruled that the lawyers and QC should have included details of the case in their advice to NRMA.

CGU's Mr. Beaton said NSW lawyers buy compulsory insurance covering claims of up to $1.5 million Australian ($988,000) through the NSW government's LawCover statutory insurance plan. He says most Australian law firms also buy excess coverage through

See **Rulings** *on page 27*

Dioxin in food prompts bans

By SARAH GODDARD

GRAMMENE, Belgium—A loss assessor's investigation into unusually high mortality rates in hatching chicks has led to widespread international bans on Belgian chicken and egg products.

Some countries have extended bans to other Belgian meat and dairy products and to a range of farm products coming from other European countries.

Insurance executives, however, are unclear how much the ban and resulting product recall will cost the industry.

Inquiries by Belgian authorities following the loss assessor's report revealed that dioxins may have contaminated animal feed distributed to Belgian chicken and egg producers in January. This led to the European Commission imposing a ban on animal feed distribution among EC-member countries earlier this month.

That ban subsequently was extended to pork, beef and certain dairy products, as investigations showed that producers in these sectors also may have been using the contaminated feed. Some French and Dutch livestock companies also were supplied with the contaminated feed.

International response varied from country to country; while countries such as Russia reacted by clearing only Belgian poultry and meat imports from supermarket shelves, others decided to enforce a ban on poultry, meat, egg and dairy products from all European Union countries.

See **Dioxin** *on next page*

Typhoon, quake in Asia cause little insured damage

By MATTHEW MacDERMOTT

MANILA, Philippines—Businesses and insurers appear to have escaped unscathed from separate natural disasters, a typhoon and an earthquake, in Southeast Asia this month.

Typhoon Maggie swept through the Philippines, Taiwan and Hong Kong June 4-7. The typhoon, with wind speeds of more than 70 mph, killed three people in the Philippines and one in Taiwan. The typhoon was downgraded to a tropical storm after it passed through Hong Kong, and there were no reports of deaths in the Chinese province.

On June 7, an earthquake of magnitude 5.5 hit the small agricultural town of Bayugan in the Philippines. No deaths were reported, but five people were injured.

Insurer trade associations in both the Philippines and Hong Kong said they were not expecting major insured losses to result from the two disasters.

Santiago Gascon, general manager of the Manila-based Insurance & Surety Assn. of the Philippines, said member insurers had not reported many claims from the earthquake.

Bayugan, 500 miles southeast of Manila, has a population of about 90,000.

Mr. Gascon said Bayugan is predominantly an agricultural area, which limited the potential impact of the earthquake. But, he said, there was some damage to buildings, shops and homes.

"There is not a lot of damage, and I don't think much of it will be insured anyway," Mr. Gascon said.

In 1990, an earthquake of magnitude 7.7 hit the northern Philippines, killing 2,000 people.

Typhoon Maggie killed three people on the main Philippines island of Luzon. Two children were buried by a landslide, and a motorist died when he drove into a ravine.

Again, Mr. Gascon said Philippine insurers had not reported major claims stemming from the typhoon. "I don't expect big damage," he said.

Typhoon Maggie killed one person in Taiwan and reportedly caused significant crop damage on the island. However, it was unclear whether such damage was insured.

See **Asia** *on page 28*

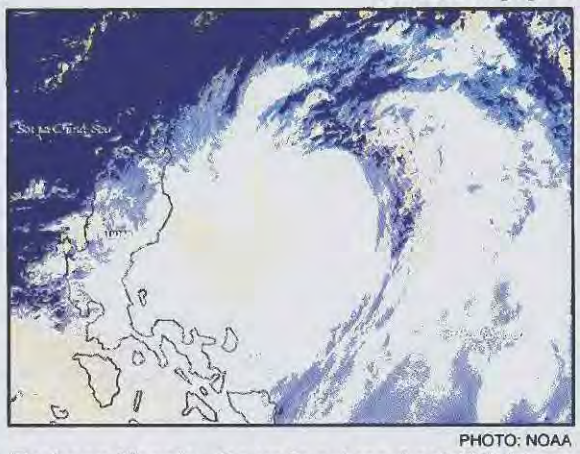


PHOTO: NOAA

Typhoon Maggie, shown in a June 4 satellite image, attained top wind speeds of more than 70 mph.

OECD

Continued from previous page

requiring them to operate in the domicile—in some cases, even prohibiting them from operating locally.

The main issue for captives will be whether they benefit from regulations in their offshore jurisdiction that are lower than those they face at home, she said.

Captives in jurisdictions that make the list would find themselves most likely fall under one of the first three conditions, said Ms. Horner. There will be penalties for jurisdictions that land on the tax haven list, she said.

For those jurisdictions that will not end tax practices harmful to the tax bases of other countries, OECD member countries will take countervailing measures. Those could include:

- The elimination of tax deferral in the parent's home country on any income accrued by an operation in one of the domiciles.
- The denial of certain deductions, such as the ability to offset tax paid in one jurisdiction against tax payable in another.
- The denial of tax treaty advantages to entities benefiting from harmful tax practices.

One noted captive expert thinks the OECD's list of tax havens will never achieve its objective, however, and will have little effect on offshore captive domiciles.

Hugh Rosenbaum, a principal with Tillinghast-Towers Perrin in London, said "it won't come to pass" that so-called tax havens will be eliminated.

He cited two main reasons: The United Kingdom, which has links with the major offshore domiciles, won't cooperate by initiating counteracting measures; and captive business still will go to centers of expertise.

He said the United Kingdom, which has strong political and trade links with centers such as Guernsey, Jersey, the Isle of Man, Bermuda, Gibraltar and the Cayman Islands, is not sufficiently committed to anything that might harm those economies. It has, therefore, the power to delay, if not defuse, the efficacy of the tax havens list, said Mr. Rosenbaum.

Mr. Rosenbaum said he believes the U.K. government's Edwards Review of Financial Regulation in the Crown Dependencies, which was published last November and concluded that captive operations in Guernsey, Jersey and the Isle of Man are basically well regulated, was intended as a "neutralizer" for the OECD tax havens list.

A spokesperson on the U.K. Treasury was unaware of the OECD examination of tax havens and said she did not think the U.K. government so far had made any announcements as to how it will deal with the issue.

However, even if countries on the list of tax havens do adopt tougher tax regulations in an effort to get off the list, "it won't matter, in the same way as it didn't matter for onshore domiciles," said Mr. Rosenbaum.

If all captive domiciles used the same tax practices, parent companies would continue to select domiciles such as Bermuda and Guernsey, "because that's where all the expertise is," he said.

Not surprisingly, jurisdictions are not keen to publicize that they are under OECD scrutiny as possible tax havens, and some were unable to find an appropriate person to comment.

Additionally, government officials overseeing captive operations sometimes said they were not aware of the OECD's inquiry, saying it was a matter for their governments' finance departments.

However, those officials and captive managers that do acknowledge that their jurisdictions are being investigated and who are prepared to comment are expressing concern.

The OECD's list of tax havens will have little effect on offshore captive domiciles, says Hugh Rosenbaum.

Guernsey's Financial Services Commission issued a statement saying it "has submitted (to the OECD) a detailed argument as to why it is not a 'tax haven' and why it does not possess a tax structure which is harmful to international trade."

The GFSC statement also says it trusts the OECD will recognize it is not a tax haven but a "high-quality finance center" which, by routing business to London and other European cities, benefits OECD members.

The Isle of Man also acknowledged it is a jurisdiction under OECD investigation. Its Insurance and Pension Authority said in a statement: "Regarding the captive insurance sector, it is now widely accepted that tax or the avoidance of it, is not a prime motivation in captive formation."

In addition, tighter tax rules in the United Kingdom have had "little effect" on captive formations by U.K. parent companies, the statement says.

Both Guernsey and the Isle of Man pointed out, too, that their corporate tax levels are fair, set at a level that helps them balance their budgets. Guernsey said its tax on income and corporate profits has remained unchanged for more than 40 years, and it also hit back at the OECD by pointing out that the island does not have the resources to fund the incentives and subsidies many OECD member countries can offer to attract investment.

Bermuda, the world's largest captive domicile, is similarly determined to convince the OECD that it is a fiscally responsible country.

Robert Steinhoff, managing partner of KPMG in Bermuda, said: "Bermuda is not a tax haven, it's not a harmful tax jurisdiction. One of our challenges is to help the OECD understand Bermuda. It's different from other offshore jurisdictions. We are a substantive financial center, our clients are blue chips, we're a well regulated financial center."

He said the Bermuda tax system is different from that of some OECD countries in that it is based on the government's spending needs, rather than corporate income. "But it's a fair system and its applied consistently to local companies and to international companies," added Mr. Steinhoff.

He also said Bermuda does not "ringfence," or use differing tax regimes for local and international businesses, which is another practice the OECD considers harmful.

Nick Wild, director of captive operations Europe for International Risk Management (Guernsey) Ltd., said the OECD's investigation "has to be of some concern."

He said that while the OECD cannot force Guernsey, which is not a member, to alter its tax regulations, it can encourage member countries to eliminate provisions in reciprocal tax arrangements that are necessary for parent companies to establish a Guernsey captive.

Charles Parkinson, a senior partner in the Guernsey office of chartered accountants Pannell Kerr Forster, said captives "might be" affected if Guernsey makes the OECD list.

Guernsey currently offers captives the option of paying taxes a rate lower than its standard 20% rate for corporations.

Mr. Parkinson said he thinks Guernsey may have to reach an agreement with the OECD, such as harmonizing its tax structure for both domestic- and foreign-parented companies, to resolve the matter.

It is also his view that the OECD wants to maintain a dialogue and sincerely seeks a compromise with countries in danger of making its tax havens list.

Some jurisdictions may be prepared to amend their tax laws so as not to offend, particularly by eliminating special tax regimes for selected companies or for particular types of economic activity and instead apply a single rate of corporate tax, he said.

Others, such as the Cayman Islands, can argue that, in having no corporate tax at all, they treat all companies the same. They and other jurisdictions will stress that their economies are heavily dependent on their low tax rates and that change would be very damaging to their economies.

Mr. Parkinson said that the OECD realizes all of this and that if it wants changes, its members will have to be prepared to help.

He also said, however, that life could get hard for jurisdictions that eventually make the list, particularly if countries controlling major financial markets, such as the United States, Germany and Japan, "decide they want to be nasty" and strongly enforce counteracting measures. BI

Dioxin

Continued from previous page

"We don't have any estimates of damage," said a spokesman for the Belgian insurance association, Union Professionnelle des Entreprises d'Assurances. "The only thing we know is there are some insurance policies to cover certain kinds of damage. It is the larger food industries and supermarket chains which are most likely to have cover for loss of business and product recall."

A Belgian farmers group has estimated the contamination incident has cost Belgian food producers about 2 billion Belgian francs ($52 million). About 400 cattle producers, 750 pork producers and 440 chicken producers may have bought the contaminated feed, according to the Belgian Ministry of Agriculture. As a result of the incident two senior Belgian ministers have resigned just days before an election.

The Belgian contamination is thought to have originated from a company called Verkest, which provided animal fats to animal feed manufacturers.

At the beginning of March, Belgian chicken breeding company De Brabander informed its insurers it was suffering higher-than-expected losses in chicken production from egg hatchings. Tests ordered by the insurance company-appointed loss assessor, a member of the Institut d'Expertise Vitirinaire/Instituut voor Veterinaire Keuring, pointed toward a problem in the animal feed used by the chicken producer. Government investigations showed that an animal fat storage tank belonging to Grammene, Belgium-based Verkest was badly contaminated with dioxin, highly carcinogenic substances that do not break down in body tissue. The Belgian authorities identified nine Belgian, one French and one Dutch animal feed manufacturer that had bought contaminated fat from Verkest.

Subsequently, two Verkest executives were arrested and charged with fraudulent accounting and merchandise fraud, on the grounds that they issued receipts for 100% pure animal fat for the contaminated product. They have been released on conditional bail, and further investigations are being carried out to determine whether the contamination was accidental or deliberate.

Although the food scare centers on Belgian products, the ramifications could go further, said Ron Piper, joint manager of the products guarantee and recall division of London broker Houlder Insurance Services Special Risks Ltd. "Chicken is often used in other products," he explained. "As at this moment, we don't know precisely to what extent (contaminated products) have reached the U.K." As of the middle of last week, Mr. Piper was aware of two notifications of potential contamination exposures in the United Kingdom. "The U.K. imports huge amounts of poultry," he said.

In addition, Mr. Piper explained that the effects of dioxin often are not seen for many years after contamination.

Belgian authorities took a month to warn European Commission officials about the contamination; taking that much time may lead to claims against the government, said the UPEA spokesman. BI

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Scots sue employer's U.S. parent

By CAROLYN ALDRED

GREENOCK, Scotland—A group of Scottish women are suing their employer's U.S. parent company in a California court, claiming they developed cancer as a result of their work at the National Semiconductor Corp. factory in Greenock, Scotland.

The case has been filed at a court in Santa Clara County, Calif., on behalf of dozens of former and current employees who have developed cancers, including leukemia and breast cancer; suffered miscarriages; and have had hysterectomies. Some women have had children with birth defects or have suffered infertility problems, according to their lawyer, Frank Maquire of the London-based personal injury law firm Thompsons.

The women claim that these problems resulted from exposure to chemicals, gases, acids and solvents used in the microchip manufacturing process. Their suit alleges that management was aware of the dangers but did not adequately protect employees against exposure.

"The Greenock plant is a wholly owned subsidiary of the U.S. parent company, and it is appropriate that this action for damages on behalf of Scottish workers is raised at the Santa Clara County court. Management at the company's headquarters in the U.S.A. had the ultimate responsibility for the safety of employees worldwide," said Mr. Maquire.

National Semiconductor (U.K.) Ltd. said in a statement that it "is committed to providing a healthy and safe working environment. The welfare of our workforce is never compromised, and we have every confidence in the procedures we have in place for workers' protection."

Indeed, the Greenock facility "has received numerous British Safety Council awards and was the first semiconductor company in the U.K. to receive the International Standard ISO 14001 certification," a safety certification, the company added.

The factory is monitored regularly by the U.K. government's Health and Safety Executive and the Scottish Environmental Protection Agency, the company's statement continued.

"We believe the lawsuit is without merit. An individual's health is affected by various factors, such as family history, eating, drinking and smoking habits. The Annual Report of Public Health 1996 for Argyll and Clyde Public Health Department indicates that the Inverclyde area—where the plant is based—has a higher rate of 'coronary heart disease, strokes and cancers' and that much of this can be attributed to 'lifestyle factors such as smoking and poor diet,'" the company pointed out.

Efforts to reach an official at National Semiconductor's California headquarters for comment were unsuccessful. BI

Rulings

Continued from page 25

commercial insurers.

Mr. Beaton said he expects the $21 million Australian damages ruling to be "spread across several insurers." CGU does not insure any of the three parties found liable.

In another ruling, the full bench of the Supreme Court of South Australia on May 20 dismissed a request for rehearing of a February 1998 ruling by the South Australia Supreme Court involving the Australian accounting firm of Nelson Wheeler Pty. Ltd. of Perth. The Supreme Court had ruled in 1998 that Nelson Wheeler was liable to pay $93 million Australian ($61 million) in damages for providing a negligent accountant's report to the Duke Group Ltd., an Australian gold mining corporation that collapsed in 1989. The high cost of buying fellow mining company Western United Ltd., which was overvalued by Nelson Wheeler in its 1987 report, contributed to the Duke Group's collapse, the court had found.

The 1998 ruling was appealed by Nelson Wheeler's lead insurer, HIH Insurance Ltd. of Sydney.

In dismissing HIH's appeal, the full bench of the Supreme Court increased the damages award against Nelson Wheeler to $200 million Australian ($132 million). HIH is still considering whether to seek leave to appeal the ruling to the High Court of Australia, the country's highest jurisdiction, said Ray Williams, HIH chief executive officer.

The increased damages award would have "no material impact on HIH's profit and loss," Mr. Williams said in a statement.

He said the net impact on HIH from the ruling could not exceed the $1 million Australian ($659,000) that HIH has reserved against the claim since it was first notified of the claim in 1991.

Mr. Williams said HIH, as Australia's largest professional indemnity insurer, has always heavily protected its bottom line through reinsurance. Consequently, the vast majority of HIH's exposure to the Duke case ruling will rest with HIH's reinsurers, he said.

Mr. Williams said the Duke ruling is "yet another forceful reminder" for all professional advisers to have professional indemnity policies with appropriate levels of indemnity. BI

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INTERNATIONAL

Russia to delay opening of insurance market

By MARIA KIELMAS

MOSCOW—Russian legislators and insurers hope to delay the scheduled July 1 opening of the insurance market to foreign investors, even though they claim the industry is recovering from last year's financial crisis and is showing signs of growth.

Politicians and company executives say the insurance market still is not developed enough to handle much-stronger foreign competition.

"We need a transitional period. It cannot open in one fell swoop," said Igor Yurgens, president of the All-Russian Insurance Assn., an industry group of Russian insurers.

Eduard Pleskanovsky, the head of strategic analysis at Russia's largest insurance and reinsurance company, OSAO Ingosstrakh in Moscow, agreed, saying: "At present, the Russian market is developing. We cannot compete with companies such as (American International Group Inc.) and (Allianz A.G. Holding). We don't think this (opening) is the right thing to do at the moment."

The opening of the insurance market was planned under an agreement between the Russian Federation and the European Union in 1994. "The idea of the agreement was to create the right conditions for foreign insurers in Russia. But we need the means to develop the Russian market and other regulations and make them more understandable to foreigners," said Mr. Pleskanovsky.

ARIA's Mr. Yurgens said Russian insurers don't want a repeat of what occurred in Hungary, where foreign competition was allowed into the market without restriction in 1997. Within one year, all Hungarian-owned insurers ceased to exist. He added that a suitable transition period for Russia could be between three to five years, though some local executives have been lobbying for a transition period of about 10 years.

"But it is a good thing to lift the 49% limit on foreign participation," said Mr. Yurgens. Foreign companies currently are allowed to hold up to 49% of a licensed Russian insurer.

Understandably, foreign insurers object to the proposed restrictions.

"It will not play well with foreign insurers," said Paul Gonchareff, director of insurance at AIG Russia in Moscow.

The state Duma, the Communist Party-dominated lower house of the Russian parliament, voted April 3 to delay the market opening. The amendment is now being considered by the Council of the Federation, the upper house of parliament. If the upper house agrees to the change, the amendment has to be approved by the cabinet and President Yeltsin.

On May 12, President Yeltsin fired Prime Minister Yevgeny Primakov and replaced him with Sergei Stepashin. One member of the new Cabinet appointed by Mr. Stepashin is Mikhail Fradkov, the new minister of foreign trade, who previously was executive director of Ingosstrakh. Mr. Yurgens said he believes Mr. Fradkov will give the Russian insurance sector a sympathetic ear in the government.

And senior politicians from Russia's economically liberal groups say they don't think the new government will open the market on July 1.

Speaking at a June 1 meeting in London, Boris Nemtsov, the first deputy prime minister between 1997 and 1998, said the Stepashin government is an improvement because it does not have the Communist Party makeup of the Primakov administration. Therefore, he said, it is more open to economic reform.

But, Mr. Nemtsov said, the ongoing political and economic crisis in Russia, combined with the uncertainty of President Yeltsin's actions and upcoming local and presidential elections, make it unlikely that the Stepashin government will be able to make many changes. It could, however, reach an agreement about foreign debt with the International Monetary Fund, Mr. Nemtsov said.

Many Russian insurers faced technical bankruptcy last August, when the ruble was devalued by 34% and the government defaulted on $40 billion in payments of domestic debt. By law, domestic insurers were obliged to hold at least 70% of their assets in government bonds. As a result, only 1,700 of 2,500 licensed Russian insurers have managed to stay in business. As of June 9, the ruble exchange rate was 24 to the dollar.

The Russian market 'cannot compete with companies such as (AIG) and (Allianz),' says Igor Yurgens.

Nevertheless, Mr. Yurgens claimed the debt problem has been solved. He explained that medical insurance companies and those companies that provided insurance for state employees were compensated for 100% of their losses by the government. The government also has promised to redeem 30% of its debt to other insurance company creditors.

Taking into account Russia's severe economic problems, "we got the best possible compensation," he said.

Still, AIG's Mr. Gonchareff doubts that the remaining Russian insurers have much financial strength.

Ingosstrakh, Russia's dominant insurer, with a 15% control of the market, claims not to have been affected by the financial crisis. Mr. Pleskanovsky said all the insurer's ruble and hard-currency premiums and liabilities were correctly matched; the company, he said, did not suffer at all from the crisis. Furthermore, Ingosstrakh reported a gross premium income of 1.3 billion rubles in 1998, a 12.6% increase over 1997.

Yet 1998 losses were 1.7 billion rubles, about five times the 1997 total. This increase was due to a $140 million payment for two losses: the failure of the Coupon satellite, owned by the Russian Central Bank (*BI*, April 6, 1998); and a plane crash in the Siberian city of Irkutsk.

Ingosstrakh said in a statement that a significant portion of the losses was reinsured but did not give the amount.

But ARIA's Mr. Yurgens said the average retention of a Russian insurer is about 10% of insured value, with a top retention of $5 million. About one-third of the reinsurance is placed in the Russian market, where a pool of 20 Russian reinsurers operate.

According to ARIA statistics, total 1998 premium income in the Russian market was 42 billion rubles. In dollar terms, this translates as $6 billion, said Mr. Yurgens. He expects total premium income to grow by 15% to 20% a year, in ruble terms. In 1998, 50 insurance companies that were partly owned by foreign capital were licensed in Russia, he said.

Messrs. Yurgens and Pleskanovsky said the Russian market is becoming more aware of risk management methods. ARIA has created a special risk management committee to develop the discipline, having received a grant of 2.5 million euros ($2.6 million) from the European Union. The grant comes from the European Union's special fund to develop business expertise in Russia and the Commonwealth of Independent States.

Every major Russian insurer now sends its staff to a risk management course, said Mr. Yurgens.

Mr. Pleskanovsky said most major Russian companies, such as energy and major exporters, know of risk management; it's becoming a bigger part of Ingosstrakh's service. But smaller companies are not so aware.

"If you go to a middle-sized Russian company and ask about risk management, they will not know. It's a new thing," he said. BI

Asia

Continued from page 25

The wind speed of Typhoon Maggie dropped below 70 mph when it passed through Hong Kong. The typhoon was then downgraded to a tropical storm but continued to move north, dumping heavy rain on Hong Kong's New Territories region, near the border with mainland China.

The typhoon hit Hong Kong in the early hours of June 7. Subsequent power disruptions forced Hong Kong schools to close all day. Hong Kong banks, courts and the stock exchange were closed for half a day.

A spokeswoman for Hong Kong's insurer trade association, the Hong Kong Federation of Insurers, said the typhoon's impact on Hong Kong was not as big as first expected. She said the HKFI did not yet have any figures on insured damage from the typhoon, though the final bill was not expected to be large.

It was uncertain whether business interruption losses would stem from the power disruptions, as businesses were not affected for too long, she said.

Carol Hui, assistant commissioner of the Hong Kong government's Office of the Commissioner of Insurance, also did not have any estimates on damage resulting from Typhoon Maggie, which she said "did not hit that hard."

A spokesman for the U.S. insurer American International Group Inc. in Hong Kong said early indications are that there will not be significant insured damage from the typhoon. He also did not yet have any figures on estimated damage. BI

CEO leaves London broker

LONDON—David Young has left his position as chief executive officer of London-based broker Bradstock Group P.L.C. just weeks after the broker announced that Richard Cooper was taking over Mr. Young's other role as finance director.

Mr. Young's immediate departure last week was announced along with the broker's six-month results, which included a £2.9 million ($4.7 million) pretax profit for the half year that ended March 31, 1999. That profit was the same as for the same period in the prior year.

After taxes and exceptional items, Bradstock made a £2.2 million ($3.5 million) profit for the six months, compared with a £3.2 million ($5.3 million) loss for the corresponding fiscal period a year before.

Mr. Young has been widely acknowledged for successfully turning the company around, improving company systems and developing best practices within Bradstock.

Mr. Young's decision to leave was based largely on his belief that there were "too many executive posts" being created at the top of the organization, a spokesman for Bradstock said.

Mr. Young was appointed CEO last June. At that time, the group had a non-executive chairman, Eddie McGrath. Last month, Alan Williams, a former senior executive at Aon Group Ltd. in London, took over Mr. McGrath's position in an executive capacity, which effectively added two more executive positions over the past few weeks.

There are no current plans to fill the CEO role at Bradstock, though the organization is looking to appoint another non-executive director in the near future.

—By Sarah Goddard

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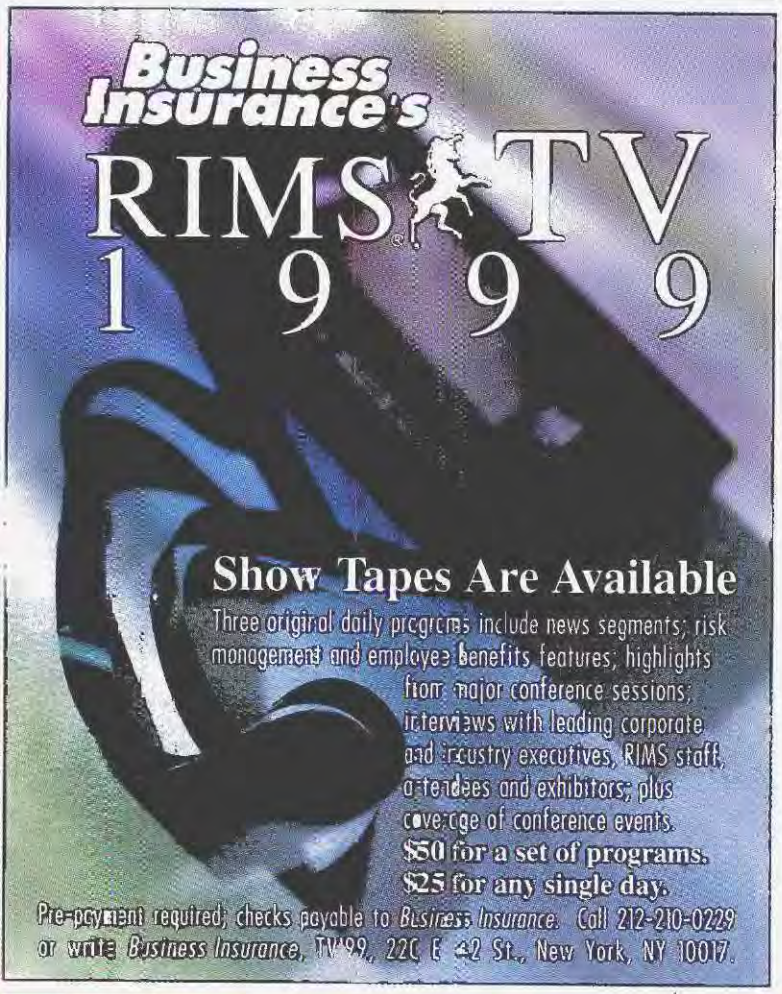

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Taking care to be compliant

Here is a partial list of areas that hospitals should certify as ready for Jan. 1, 2000:

Information technology/ data management:

- Stand-alone desktops or personal computers
- In-house networks
- Connections to off-site networks

Facility/utility systems:

- HVAC
- Fire detection
- Security
- Sterilizers
- Medical gas

Biomedical systems:

- Diagnostic systems
- Life-support systems
- Therapeutic
- Home health (devices located at patient's home)

Communications systems:

- PBX/switchboard
- Pagers
- Cellular phones
- Overhead paging
- 911/EMS
- Telemetry

Pharmacy systems:

- Automated pharmacy dispensing and ordering

Business relationships:

- Government/regulatory interface
- Health care providers
- Hospital insurers
- Suppliers of medical or surgical equipment

Source: Coastal Insurance Group

Hospitals

Continued from page 1

According to a survey of 583 hospitals conducted in February by the Washington-based American Hospital Assn., less than 1% of hospitals expressed concern about not being completely prepared by year end.

"We have no reason to think that the results are unreliable," Maureen Mudron, the AHA's Washington counsel, said of the survey findings. "We see this reflecting what we have otherwise been hearing from members as we talk to them anecdotally," she said. "The picture that we're seeing is that patient care is the priority, and hospitals are actively engaged in doing what it will take to be ready for the new year."

Others, though, are more skeptical of the AHA survey response.

"Most proprietary surveys would naturally, where possible, be likely to share an optimistic view," said Gary Setterberg, co-founder and senior vp of the Minneapolis-based non-profit Rx2000 Solutions Institute, which focuses on health care Y2K readiness.

Mr. Setterberg added he is not accusing the AHA of not telling the truth, merely that "this information will be positioned most favorably for the association."

Mr. Setterberg said health care generally is recognized by his institute as well as others as falling last among all industry sectors, including financial services, manufacturing and retailing, in its Y2K preparedness. Smaller rural hospitals in particular often tend to be less prepared than their large metropolitan counterparts, he said.

"All hospitals have underestimated the costs involved in doing their assessments and in then paying for remediation and in purchasing new equipment," said Mr. Setterberg.

"Generally, no one really knows how ready they are or not," said Michael Paskavitz, president of the Beverly, Mass.-based Health Care Safety Institute. "That's one of the mystifying things about this in health care. We haven't been working from any rules," he said.

"There have been no regulators, no authoritative groups, (no) federal government. No one has set benchmarks for the industry. No one has told them how to do it. . .so everyone's sort of guessing," said Mr. Paskavitz.

"There are a good deal of hospitals out there that, for a variety of reasons, want the problem to be minimal, so they treat it as such. There are others who understand the full scope of this and the complexity of it, and they're spending a great deal of time and money getting ready," he said.

The most important issue is "that despite all the publicity around this, by and large Year 2000 is still perceived as a technical problem and not a risk management problem," said Mr. Paskavitz. "When you perceive it as a risk management problem, it evokes a whole new way of going about it, and there's a little light bulb that needs to go on in people's head about what this really is."

'I believe the risk management approach to this is exactly what's needed here,' says Dale L. Schultz.

It is hospitals' information technology officers, in fact, who frequently run their facility's Y2K readiness committees, and hospital risk managers' roles vary from making major contributions to playing only a peripheral part.

"In many cases it's an information services or information technology-driven project, but they can't do it alone," said Dale L. Schultz, a risk manager and vp-business health at Phoenix-based Samaritan Health System. He has a major role in his system's $20 million Y2K compliance project.

"I believe the risk management approach to this is exactly what's needed here," said Mr. Schultz. "It's identify the potential risks, analyze the potential size or scope for those and implement preventative action where you can, and then do the monitoring to make sure that in fact things are being done that are supposed to be done."

Those risk managers who are closely involved with their facilities' Y2K projects say they think they are as well-prepared as they can be.

"I think we've managed the risk pretty well, and I don't think we have any glaring problems," said Mark L. Hubbard, vp-risk and human resources management at Loma Linda University Adventist Health Services Center Inc. in Loma Linda, Calif.

Loma Linda "may have a couple of minor glitches here and there, but I think for the most part we've addressed them," Mr. Hubbard said.

"While I don't know that we're going to be able to say that we're 100% sure everything's going to be OK, I think that what a prudent organization would do, we've done, and it's not over. We're continuing with it," said Leilani Kicklighter, assistant administrator-risk management services at North Broward Hospital District in Fort Lauderdale, Fla.

Hospitals' Y2K preparedness issues generally can be classified into two broad areas: checking equipment and preparing contingency plans.

The list of equipment used by a typical hospital is daunting, and while priority is given to the "mission critical" equipment used in patient care, everything from pagers to time clocks must be checked as well.

Hospital employees often check the equipment themselves, either each individual piece or representative models. In other cases, they seek verification from the manufacturer that the equipment is Y2K-ready. In some cases, the equipment is simply being replaced.

Oakland, Calif.-based Kaiser Permanente, for instance, found that out of its 139,000 pieces of medical equipment nationwide, 2,800 were not Y2K-complaint but had manufacturers' solutions, and another 1,400 needed to be replaced, said a spokesman.

Samaritan's Mr. Schultz said: "We started with the premise we weren't going to believe anybody. We were going to test ourselves, so we've done extensive testing of all our critical medical equipment, our critical hardware and critical software," he said.

Mr. Schultz said that while generally he has been pleased by the extent to which medical equipment, hardware and software were already Y2K-compliant, "some of the software that our vendors have certified was Y2K-compliant wasn't, and we've had to make patches and send it back and get new versions."

"The main problem is many manufacturers don't seem to know whether their equipment will work or won't work," said Mel Capell, senior vp at the Montgomery, Ala.-based Coastal Insurance Group, a medical malpractice insurer.

There also can be a problem in testing the equipment, he said. "To test a piece of biomedical equipment you've got to trick a machine into thinking it's the year 2000, and some of the machines are not easily tricked, so even if you're testing, you're not absolutely certain you've tricked it into thinking it's the year 2000."

Even if the equipment in a hospital works, Y2K problems could cause it to use or report an incorrect date. Dates are particularly critical to medical malpractice insurers in recreating a paper trail in the event of claims, said Mr. Capell.

That problem can be resolved by introducing a procedure for correcting inaccurate dates, said Michael Evans, vp of risk management and insurance at Sutter Health California Health Care System in Sacramento, Calif. Sutter has tested 50,000 pieces of equipment. Furthermore, biomedical engineers will be on standby that night to reset equipment if necessary, said Mr. Evans.

Joe Mailloux, director of risk management and safety at Fletcher Allen Health Care in Burlington, Vt., said he is concerned about the possibility of an incident involving a failed piece of equipment where the hospital will be charged with not being Y2K-ready, or of not having done adequate due diligence, when Y2K in fact "may have absolutely nothing to do with it."

No serious problems with biomedical equipment in general are expected, though, said Alistair Stewart, Chicago-based senior adviser at information technology consultant firm Giga Information Group.

"The types of failures we'll see. . .will very rarely have to do with direct delivery of therapy to the patients. They'll have to do with monitoring type-devices," and in the vast majority of cases, this problem "can be overcome with human intelligence," said Mr. Stewart.

Contingency planning, which involves considering the possibility, no matter how remote, of a widespread breakdown, is crucial as well. This includes planning for the possibilities of disruption in the delivery of supplies ranging from life-saving medicines to fresh linen, as well as the long-term cutoff of utilities.

Rx2000's Mr. Setterberg estimates the average large metropolitan hospital has 3,000 to 5,000 goods and services vendors.

Hospitals generally keep little inventory on hand, though, says Mr. Setterberg. "Most hospitals function on a 'just in time' delivery basis; therefore, most hospitals do not have an extra warehouse to store

See **Hospitals** *on next page*

FTR FOR THE RECORD

Amendment aims at explicit material

WASHINGTON—Retailers who knowingly sold books, games, recordings, films or other items containing "explicit sexual or violent material" to minors would face new civil and criminal penalties under an amendment to a juvenile justice bill.

Rep. Henry Hyde wants new penalties for retailers selling explicit material.

The amendment, sponsored by House Judiciary Committee Chairman Henry Hyde, R-Ill., also would impose fines of up to $1,000 a day against retailers that refused to allow adults to read the lyrics of compact disks or tapes sold in their stores.

The portion of the amendment dealing with the sale or exhibit of explicit sexual or violent material defines such material as that which "predominantly appeals to the prurient, shameful or morbid interests of minors, is patently offensive to prevailing standards in the adult community as a whole with respect to what is suitable for minors and is utterly without redeeming social importance to minors." Violators would be subject to fines and imprisonment of up to five years, with those who commit multiple offenses under the amendment subject to up to 10 years of imprisonment.

A vote on the measure could come as early as this week.

Vote on merging ACE syndicates misses

Plans to merge the four Lloyd's of London syndicates managed by ACE Global Markets for the 2000 year of account may have been stymied by capital providers.

Although the majority of names on Syndicate 488 voted in favor of merging the syndicate with syndicates 2488, 960 and 219, the total number of votes for the proposal narrowly missed the 75% mark required under Lloyd's regulations to let the merger go ahead. Lloyd's can, however, exercise its discretionary right to allow the merger to proceed despite the shortfall in votes.

Lloyd's and ACE are now in talks about the agency's various options.

Last month, another ACE syndicate issued cash calls for its 1997 and 1998 years of account. Syndicate 47, which wrote a general non-marine book and was merged into syndicate 219 for this year, has made cash calls of 7.5% of capacity for the 1997 account and 5% of capacity for the 1998 account. The calls were made because of the heavy funding requirements for U.S.-regulated business, according to ACE Secretary Mike Glover.

Comings & Goings: Industry

Gregory Myers has been named president and chief executive officer of Atlanta-based Becher & Carlson Cos., which is a part of American Re-Insurance Co. subsidiary Am-Re Global Services Inc. **Robert B. Henry** has been named president and CEO of another Am-Re Global services company, Am-Re Brokers Inc. in Princeton, N.J. He previously was executive vp of Am-Re Brokers.

Mr. MacColl

John A. MacColl has been elected executive vp and general counsel for The St. Paul Cos. Inc. Since February 1998, he has been executive vp-Baltimore operations, assisting in the integration of USF&G's Baltimore operations. Before the merger, he was executive vp-general counsel and human resources for USF&G.

Martin L. Vaughn III has been appointed chief operating officer of Glen Allen, Va.-based brokerage Hilb, Rogal & Hamilton Co. He comes to HRH from American Phoenix Corp.—which HRH acquired in May—where he was president and CEO. In addition, HRH has named **John P. McGrath** senior vp of business and product development. His most recent position with the company was vp. HRH also has named three new vps: **Karl E. Manke**, vp of marketing and sales development; **Robert B. Lockhart**, vp/director-Northeast region; and **Benjamin H. Tyler**, vp/director-Florida region. BI

Hospitals

Continued from previous page
(extra items) in the event there's a disruption of daily delivery of foods, linens or other key products."

Most hospitals, for instance, use disposable bed pans. "What happens if all of a sudden the company that delivers those bed pans can't get them?" Mr. Setterberg asked.

Supplies is one of the issues being examined at the Salt Lake City-based Intermountain Health Care Inc. hospital system, said Harlan Hammond, assistant vp-risk management services.

"Do we increase our own inventory and have to store that in a contingency mode, or do we simply rely on our suppliers to do that?" asked Mr. Hammond. A balance has to be struck so the facility neither goes overboard in stocking up nor runs into supply problems.

Some of the issues hospitals take into account in their contingency planning are not immediately obvious. For instance, Ms. Kicklighter noted one concern is getting staff to the hospital if non-Y2K compliant gas pumps fail to work.

Y2K "is not going to just affect our patients, but is going to affect each of the individuals that we rely on to serve our patients and their families as well," said Mr. Schaedler.

As a result, "you've got to factor in that people are going to be uncertain about their own families and their own situations, and it's going to be difficult for them to get their minds off their own personal problems and focus on their patients, who are basically helpless and reliant on us to take care of them, so it's an enormously complicated problem."

Risk managers say their disaster preparedness plans are likely to come in handy in their contingency planning. "Health care institution entities have always had to have disaster plans in place," said Sutter's Mr. Evans. "In our particular case, they're being tweaked to take into account some of the peculiar problems of Year 2000," he said.

Although most hospitals do have disaster recovery plans, "a fundamental issue that many hospitals have not fully come to grips with. . .is that hospitals' disaster recovery plans are very localized," Mr. Setterberg said.

For instance, a disaster preparedness plan does not have to consider the potential for failure of the entire power grid and can safely assume that a hurricane, for example, will not also hit another hospital 500 miles away. Furthermore, "Do hospitals have enough diesel fuel to survive for weeks, as opposed to hours or days? . . .A disaster recovery plan is not a contingency plan," said Mr. Setterberg.

But risk managers respond that they are focusing on possibilities both within their grasp to handle and relatively likely to occur.

"Our main focus has been to identify and resolve those issues that lie within our control," said Mr. Hammond. "Some of the huge issues that we're still hopeful will be resolved deal with support services," including electricity, utilities, natural gas, telephone service, water, and sewage.

"These are huge issues that in and of themselves render our facilities unusable under certain circumstances, but we've been very active in working with our local communities and making sure services are Y2K-ready, and we'll be able to rely on that to a large extent," said Mr. Hammond.

Although Samaritan has examined longer-term potentials with city, county and state officials, its principal focus has been on the short term, said Mr. Schultz.

"It's sort of risk categorization," Mr. Schultz said. "The greatest risk I have is our not being ready." The second biggest is the next three days after the New Year. The likelihood of problems beyond that, however, is relatively remote, he said. "So, do we have plans? Yes. Are we committing a significant amount of resources to it? No," said Mr. Schultz.

"I may have a five-day water supply, but I'm not going to have a three-month water supply, because that would be prohibitive, and the risk is small."

Mr. Schultz noted that the City of Phoenix has decided to sponsor a millennium party on New Year's Eve. As many as 1 million people are expected to be crammed into about a square mile of space in a park just a mile from the hospital. That could cause lots of problems with drugs, alcohol and traumatic injuries. "I'll worry about the next three months after I get through that night," he said. BI

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Monrad

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Reinsurance Corp., the parent of General Re and other holdings. The award recognizes her rise to that position, as well as her leadership ability and her commitment to the advancement of women in the industry.

Mr. Ferguson is among those who know well Ms. Monrad's dedication to her profession.

"Betsy has been an important part of General Re's success since she joined the company in 1992," he said in a written statement announcing the award. "It is gratifying to see her contributions to General Re and the industry recognized with this award."

Among Ms. Monrad's responsibilities at the Stamford, Conn.-based reinsurer are those of corporate treasurer of General Re Corp. and chairman of General Re Corporate Finance, General Re Funding and General Re Investment Holdings, three affiliate companies of General Re Financial Products. She also serves on the boards of several companies within the General Re Group.

Those positions weren't exactly her career goals when she started out.

After deciding that pre-med studies weren't for her, Ms. Monrad graduated with honors from Wellesley College in 1976 with a liberal arts degree. She worked briefly with The Boston Co., a money management firm that later became part of Mellon Bank.

From there, Ms. Monrad pursued more education, earning a master's degree in management from the Sloan School at the Massachusetts Institute of Technology. That led to the job that would put her on the path to General Re.

Ms. Monrad began her career in earnest when she joined the Boston staff of the accounting firm Coopers & Lybrand in 1980, finding that she was well suited to accounting. She rose in the ranks until she was named a partner in the firm in 1989.

'It helps having some mentors along the way—people who are going places. Identify the people who are on the fast track,' and try to work with them, says Elizabeth Monrad.

"I had about 15 insurance clients," Ms. Monrad recalled of her days at Coopers & Lybrand. Her work with insurance industry clients was "mostly audits and some consulting," she said.

She also was involved with clients from other industries, such as manufacturing and technology, which provided varied experiences that she believes served her well. "In accounting, I got to view many different industries and build a profession at the same time."

Her move to General Re was unexpected.

"I was at Coopers for 12 years and had no plans to leave," Ms. Monrad recalled. At first, a call from an executive recruiter didn't pique her interest when he mentioned that a company was looking for a corporate controller.

"But then the recruiter said it was Gen Re," she said, and that got her attention.

Ms. Monrad knew the reinsurer was a well-respected presence in its field and, after meeting with Mr. Ferguson and others, she was eager to join the company. "They had a great balance sheet, smart people, and were doing some very interesting things," Ms. Monrad said.

"I had a feeling that it would be something different," she remarked, and she said she hasn't been disappointed in the challenges she has encountered since joining the reinsurer in 1992.

In 1994, she was involved in General Re's due diligence efforts related to the acquisition of a controlling interest in Cologne Reinsurance Co. The following year, she worked on the reinsurer's due diligence in the acquisition of New England Asset Management, and in 1996, she found herself helping in negotiations that led to the acquisition of National Reinsurance Corp.

Last year, Ms. Monrad was involved in two big deals: General Re's acquisition of Lloyd's of London managing agency DP Mann Holdings Ltd. and her own company's sale to Berkshire Hathaway Inc.

While she wasn't involved in negotiations in the Berkshire Hathaway deal, Ms. Monrad was a part of the implementation team that helped make the arrangement work.

Ms. Monrad stressed that, as she has moved up the ranks at General Re, she has been helped by those who have mentored her. "It helps having some mentors along the way—people who are going places. Identify the people who are on the fast track," she advised, and try to find a way to work with them.

Mr. Ferguson's help has been invaluable to her, as has that of other executives and former executives of General Re, she said.

Ms. Monrad suggested that advancement within any organization is partly the result of "hard work, commitment, and making sure you are keeping abreast of everything that is going on."

It's a standard she sets for herself as well as for those she works with, her co-workers point out.

Annette Morrill, a vp who has been with General Re for four years, works closely with Ms. Monrad in Stamford. "What I like best about her is she lives up to her own standards," Ms. Morrill said. "The standards she sets for herself, she follows strictly."

And Ms. Monrad doesn't ask those who work for her to do anything she wouldn't be willing to take on, Ms. Morrill added. "Her demands are in line with what she does herself. She leads by example."

Ms. Morrill called Ms. Monrad "very thorough," noting that she works "very hard" and often for long hours.

Franklin W. Nutter, president of the Reinsurance Assn. of America, has known Ms. Monrad for about eight years and works with her in her capacity as chairman of the RAA's accounting committee.

"She's always been supremely professional in the ways she has handled matters," Mr. Nutter said.

Her position with the RAA is challenging, Mr. Nutter said, because "it's not always easy to be a diplomat and be successful in achieving objectives for committees." But he pointed out that Ms. Monrad has a "nice touch" that allows her to gather support for her committee work.

Ms. Monrad "has done an impressive job of distinguishing herself" in a male-dominated industry, said Katherine Letsinger, London-based chief financial officer of General Re Europe Ltd.

Ms. Letsinger, who works closely with Ms. Monrad by telephone and sees her a few times a year, pointed out that she "has everyone's respect. And she's had to earn that" in the General Re organization.

Mr. Nutter said he has an enduring image of Ms. Monrad that he uses to describe a woman who has managed to stand out in her profession. "I will never forget going into a meeting that she was chairing. I came in late, and it was all men and Betsy.

"She was wearing a bright red dress among a sea of dark suits," Mr. Nutter recalled. "She truly was a rose among thorns." BI

Patient

Continued from page 3

ation of eight separate bills that constitute a thinly veiled attempt to create an illusion of comprehensive managed care reform without providing it," Rep. William Clay, D-Mo., wrote in a statement.

Rep. Clay and other subcommittee Democrats say the Boehner package is lacking in several areas, most notably in not giving patients the right to sue health care plans under state law for damages incurred as a result of the plans' coverage decisions and in not mandating that doctors should have full control of making medical decisions.

The partisan bickering is a continuation of longstanding Republican and Democratic wrangling over the scope of patient protection legislation. That political warfare grew so intense last year that Senate leaders could not even agree—despite passage of the measure by the full House—on rules for debating patient protection proposals on the Senate floor.

Indeed, some Washington observers question whether Republicans and Democrats are more interested in using patient protection legislation as an issue to bash the other party than in trying to forge an agreement.

"This is a wide-open question: Do some members want a bill rather than a campaign issue?" asked Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

'This is a wide open question: Do some members want a bill rather than a campaign issue?' asked Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

"Throughout this process, there has been almost no middle ground established," added Paul Dennett, vp-health policy with the Assn. of Private Pension & Welfare Plans, an employee benefits trade group in Washington.

Still, observers say an agreement could be fashioned, as at least some Republicans and Democrats would like to get the issue off the table after years of discussion.

Meanwhile, in another Washington-related health care development, the Clinton administration is continuing to fine-tune a proposal in which Medicare would offer prescription drug coverage.

As part of the proposal, employers would be able to purchase the coverage for their retired workers rather than buy supplemental coverage from insurers.

But many issues, such as whether employers that now offer prescription drug coverage to retirees would have to maintain their current level of coverage for a certain period of time, have yet to be resolved.

"The administration is not close yet on all the details," Mr. McArdle said.

The administration has floated suggestions that the monthly premium for the prescription drug package would be about $25. But it hasn't disclosed any information about the scope of benefits.

That low monthly premium could mean a skimpy benefit package unless the administration is considering subsidies from other sources, such as diverting a portion of the federal budget surplus to subsidize premiums, Mr. McArdle said. BI

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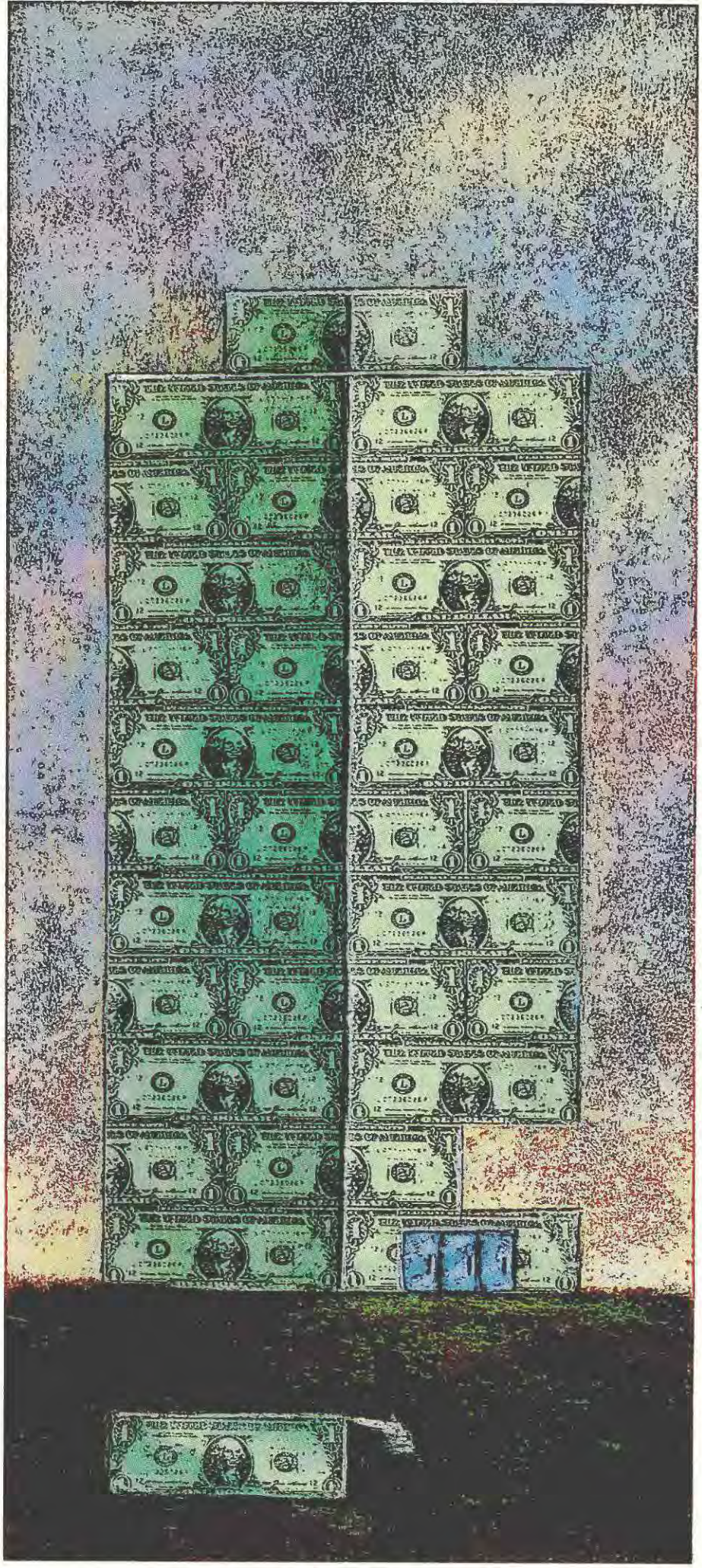

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Commentary

To stop HMO fiction, plans should face facts

In last week's episode of the CBS television show "Chicago Hope," an HMO refused to authorize payment for a particular medicine to treat a manic-depressive patient.

Because the patient could not afford the preferred drug, the treating doctor prescribed another antidepressant on the HMO's approved list, selecting what he considered the next best. But the patient was afraid to take the prescribed medicine because he previously had suffered unbearable side effects from it. Without any medication for his illness, the patient became so anxious that he tried to kill himself.

Confronted by the treating physician with the attempted suicide, and a bedside visit to the very ill patient, the HMO representative still coldly refused to authorize coverage for the more-expensive medicine that the patient would take. He shrugged his shoulders, saying his hands were tied by the HMO's rules. The segment ended with the doctor shouting: "It's unfair."

Sure it's unfair, I thought to myself, but this is just another incidence of Hollywood's HMO bashing.

Upon reflection, however, I think this television show and others, as well as recent movies in which HMOs and other health insurers are portrayed in a less-than-flattering light, should be a wake-up call for HMO executives and employers that contract with HMOs. The ever-increasing number of TV shows and movies in which HMOs in particular and health insurers in general are depicted as unfair, uncaring and even corrupt reflect public perceptions. At the same time, these depictions reinforce the public's dissatisfaction with the health care reimbursement system. Both of these circumstances should concern HMOs and employers.

Kathryn J. McIntyre

Those who don't want to confront these issues could hope that few people saw "Chicago Hope" last Wednesday and were instead glued to the Knicks vs. Pacers playoff game. But I suspect there were plenty of people looking for a little entertainment who were either soured on the strike-damaged NBA or, as I am, are too unaccustomed to the Bulls' absence in the playoffs to care who wins the NBA championship this year.

I can only infer that most viewers of "Chicago Hope" thought not only that the HMO was wrong not to cover the more-expensive drug the patient would have taken but also that this incident was more the norm than the exception for HMOs. While that inference is only speculation, I and others who saw "As Good As It Gets" or "The Rainmaker" in theaters can confirm that the audiences were downright hostile to the HMO and insurance company positions denying coverage for treatment patients needed. I was actually taken aback by how vocal the crowds were in their response to the depiction of HMOs as unfair in "As Good As It Gets" and of the insurer as not only uncaring but also crooked in "The Rainmaker."

The increasing portrayal of HMOs and health insurers as unreliable providers of reimbursement for health care has significant implications for public policy. As Congress considers patient protection legislation, such negative depictions reinforce the perception among Americans that HMOs and insurers need to be better regulated or else will deny treatment that patients deserve. Representatives and senators obviously are getting this message from their constituents.

Those in the business of insurance—and in the business of reporting on it—understand that not all procedures and medicines can be covered under all health plans if health insurance is to remain affordable. But to dismiss these dramatic TV shows and movies as unfair generalizations of but a few coverage denials ignores another real possibility: That HMOs and health insurers more often than we may realize are denying coverage for treatments that, in all fairness and for the long-term health of the patient and the long-term cost to the system, should be covered.

HMOs and other health insurers could go a long way to diminish the distrust the public has for them by allowing patients to submit treatment disputes to an independent, external review panel for a speedy, binding decision. There is no need to wait for Congress to mandate this right for health plan members; HMOs and insurers could offer it freely.

Just the existence of these panels would dispel the perception that HMOs and health insurers are a power unto themselves.

And when that happens, dramatic plots involving greedy and unfair health insurers will stop ringing so true with audiences.

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

COBRA

Continued from page 1
to make an additional payment to cover the shortfall before terminating coverage.

Under the IRS rule, an employer has two options when it receives an underpayment: It can either write off the underpayment or notify the beneficiary of the amount of the underpayment and give that beneficiary a reasonable time to pay the shortfall. The IRS says 30 days would be a reasonable period. That 30-day period would be stacked on top of the normal 30-day grace period that employers already must offer for late premiums before they can terminate coverage.

The IRS, in the interest of fair administration and reducing the potential for litigation, needs to define precisely what it would consider an "insignificant" premium shortfall, according to Mr. Schultz and other witnesses.

Mr. Schultz suggested that insignificant be defined as an amount no greater than 5% of the premium due. The percentage could then be published in employee booklets and COBRA notification forms. "That solves the problem," he said.

Other witnesses suggested different approaches. For example, Andy Anderson, a consultant with Hewitt Associates L.L.C. in Lincolnshire, Ill., said an insignificant premium amount should be simply defined as $10, a flat dollar amount that would be easier for automated administration systems to handle.

In addition, to prevent abuse, beneficiaries should be allowed to take advantage of the "insignificant amount" rules only once during their COBRA continuation period, Mr. Anderson said.

Colleen Clearwater, a senior vp with COBRA Compliance Systems Inc. in Clearwater, Mich., said in written testimony that beneficiaries should be given only 10 days—not 30—to make up for insignificant premium shortfalls.

"If an individual pays the COBRA premium by an amount that is not significantly less than the amount due, why allow the 30-day safe harbor period? They already have been given a 30-day grace period. Why not a 10-day safe harbor period or define an exact grace period requirement," Ms. Clearwater said in her written testimony.

Mr. Schultz acknowledged that his preferred approach would be to limit the total grace period to 30 days and not establish a second 30-day grace period for insignificant premium shortfalls.

"My recommendation, based on administering COBRA for thousands of employers, is not to give additional time. If the premium is less than the amount due, by either $1 or $500, we must collect the amount in full" by the end of 30 days, not 60, he said.

Another issue of concern for benefit experts is the potential for abuse under the IRS proposal involving COBRA coverage for flexible spending accounts, or FSAs.

The IRS has proposed extending the FSA benefit generally only for the duration of the plan year that the beneficiary became eligible for COBRA. That would mean that—depending on when during a plan year an FSA participant became eligible for COBRA coverage—COBRA could have to be offered for as little as one month or as long as one year.

Opting for COBRA would make sense for financially savvy employees in FSAs. For example, assume an employee agrees to pay $100 a month to a health care FSA. After one month, the employee quits the job and opts for COBRA coverage for the FSA. The employee, once on COBRA, could continue the FSA by paying $102 a month in aftertax dollars.

The employee then incurs $1,200 in dental expenses. Under other IRS regulations governing FSAs, the employer would have to promptly reimburse the former employee for the full amount—in this case $1,200—that the employee has agreed to contribute to the FSA during the plan year. That reimbursement would be required even if the employee's FSA did not yet have the $1,200 the employee agreed to contribute to the FSA at the beginning of the plan year.

But a COBRA beneficiary could drop out of the program after incurring those expenses, leaving the employer to pay the brunt of the bill. An employee, for example, could drop COBRA after making one $100 pretax contribution to the FSA while he or she is employed and another $102 aftertax contribution under COBRA. In effect, the employee would have $1,200 to draw upon for reimbursement even though he or she contributed only $202.

To reduce such "gaming," John Hickman, a partner with the law firm of Alston & Bird in Atlanta, and Hewitt's Mr. Anderson both suggested an FSA spend-down approach rather than extending participation in FSA through COBRA.

Under the spend-down approach, employees with FSAs who terminate employment could use the balances in their FSAs to pay for health care expenses through the end of the plan year. Under current IRS "use it or lose it" rules governing FSAs, any unused account balances must be forfeited when an employee terminates employment.

By allowing terminating employees to spend down their FSA balances, gaming would be reduced while employees with positive FSA balances would be protected, Mr. Hickman said.

This approach "would allow departing employees to receive reimbursements equal to premiums paid to date without requiring the creation of COBRA processes, enrollment complications and costs," Mr. Anderson said. BI

Standard

Continued from page 2
both proposed standards dovetail in some respects.

Just a few days ago, Rep. Harold Brubaker—a Republican former speaker of the state House who represents Randolph county—offered an amendment to state budget legislation that would greatly restrict what the Labor Department can do in regard to ergonomics, just as congressional foes of a national standard have done with past OSHA proposals.

Under his amendment, "the department cannot expend any funds to develop a proposed regulation," said Rep. Brubaker. He added that the department can, however, continue to study ergonomics. The fate of the restriction now rests with the North Carolina Senate.

"I had been following ergonomics. I've talked to the commissioner of labor and told him that he ought to slow down his proposal and give more study to the issue," said Rep. Brubaker. If there is a minor problem, he said, the state should "not use a elephant gun to kill a gnat."

Despite the Brubaker amendment, "we're still moving ahead," said a spokesman for Labor Commissioner Harry Payne. The spokesman said that the process had begun last year, adding that Mr. Payne "has had ergonomics concerns for several years.'

An earlier draft standard appeared last November and was subsequently amended. The new ergonomics proposal has been the subject of public hearings, and the department will accept written comments on the proposal until July 2. If it survives legislative hurdles, the proposed standard would go into effect in January 2001.

This is the "only standard we're aware of that allows a safe harbor for businesses that are already doing a good job," the commissioner's spokesman added.

Among other things, the proposal would require that all employers provide ergonomics training to all employees within "90 days of employment and no less than every three years thereafter." Employers with 10 or fewer workers would be permitted to substitute written materials for training.

The instructions provided by employers in either category would have to include information about "ergo stressors" to which employees could be exposed. The proposal defines ergo stressors as "repetition, force, awkward work postures, lifting heavy or awkward objects, extended reaching, vibration or cold temperatures."

The proposal says that employers would be required to tell workers to report "at the earliest possible development" any "ergo symptom," which the proposal defines as "pain, swelling, numbness, tingling or loss of function."

The employer then would have 30 days to determine whether the symptom is temporary. If, after 30 days, "a reasonable employer would determine" that the symptom is "causally related" to the employee's job, the employer would be required to implement at least one of three specified controls—engineering, work practice or administrative controls.

The only caveat is that employers would not be required to implement controls that were not economically and technologically "reasonable and feasible."

In addition, the proposal would require employers to provide medical care for musculoskeletal disorders.

As the commissioner's spokesman noted, the proposal does include a safe harbor provision for employers that are in substantial compliance with the ergonomics standards.

Employers, however, remain firmly opposed to the proposal.

"My biggest concern is the way that the proposed standard is written in such general terms," said Public Service's Mr. Byrd. He said the proposal's general nature may reflect a "lack of scientific specifics to allow them to write a very technical guideline."

Mr. Byrd also cited the difficulty of determining whether any symptoms exhibited by workers truly arise from ergonomics problems at work. "In this proposal, as well as the national standard, no one even scratches the subject of how do you determine what's job-related and what's not as it relates to a repetitive motion problem."

"One of the things that I have a real argument over is use of the word 'repetition,' " said John Toay, a member of the Risk & Insurance Management Society Inc.'s External Affairs Team..

"It is impossibly broad, everything you do is repetitious. There is nothing in the work force that does not involve some form of repetition. How do we address every single form of repetitious activity?" asked Mr. Toay, a retired risk manager who is president of Loss Prevention Management Inc., a consulting firm in Fort Mill, S.C., a suburb of Charlotte, N.C.

"How do you regulate something that includes everything?" he asked. Mr. Toay said that he opposes the ergonomics measure even though it could be a bonanza for him and other consultants.

"Anybody who is involved in ergonomics of any kind can look at this proposal and say, 'Wow, open the vault doors.' " BI

CNA

Continued from page 1

time to be looking to sell the personal lines business as it faced stiff competition from larger rivals.

"We couldn't get ourselves to a market leadership position," Mr. Hengesbaugh conceded, explaining the reasons for the sale.

The auto and homeowners book had produced an aggregate combined ratio of 104% to 106%, he said.

The sale follows several other recent moves by CNA to shed unwanted operations, including blocks of small-group medical, entertainment and agricultural insurance business.

The moves are all part of a "turnaround plan" in which CNA, in addition to improving underwriting discipline and cutting expenses, is focusing on where best to deploy its capital to generate the highest returns, Mr. Hengesbaugh explained.

CNA's options include making new acquisitions, buying back its own stock or putting more money in its existing businesses, he noted.

Which of these steps CNA will take is uncertain.

In 1998, CNA's property/casualty operations reported a 115.2% combined ratio vs. a 109% combined ratio in 1997. This compares with the 105.1% aggregate combined ratio reported to *Business Insurance* by 21 major property/casualty insurers (*BI*, March 29).

Mr. Hengesbaugh conceded that soft market conditions have held down returns on CNA's existing commercial business. He said its focus on improved underwriting and cost-cutting are part of an effort to see which businesses can produce returns that justify a commitment of more capital.

"That initial step is what we're engaged in right now and will be for the rest of the year," he said.

Meanwhile, the deal is expected to have little or no immediate impact on commercial buyers, though they are ultimately expected to benefit, as the deal will let CNA's management focus more closely on those operations.

Ken Zuckerberg, an analyst with Keefe, Bruyette & Woods in New York, said, "One could clearly argue that, by devoting more resources to its commercial lines operations, they will be looking to provide better products and services to the commercial buyer, so from that basis, I would probably view it as a positive."

John L. Ward of the Cincinnati-based Ward Financial Group said that because the company will be able to focus its efforts entirely on its commercial and specialty books of business, "I believe the company will be more efficient as a result, and the agents and policyholders will realize benefits from the transaction."

CNA itself will not be put on the block, company representatives say. "That's not going to happen," a CNA spokesman said.

Bernard H. Mizel, chairman and CEO of San Francisco-based USI Insurance Services Corp., a major CNA producer, said, "I have no evidence" the company plans eventually to sell off its property/casualty operations. USI is "absolutely committed to CNA" and the company's growth and development, and that would not be the case "if I didn't have confidence they would stay around."

"I see CNA being a player in the commercial lines business for a long time," said Peter F. Patrino, assistant vp at rating agency Duff & Phelps Credit Rating Co. in Chicago.

Alan Murray, senior vp at Moody's Investors Service Inc. in New York, said the management of New York-based Loews Corp., which owns the bulk of CNA Financial, is "looking more closely at CNA and, in light of all the ongoing restructuring activity, they're clearly very much focused on making CNA into a profitable insurance enterprise."

"Whenever you sell something of that size, you have to consider what your options are and how do you reinvest the money," said Gary Ransom, senior vp with Hartford, Conn.-based insurance research firm Conning & Co. "If they want to be invested in the insurance business, for example, they probably get less dollars for CNA relatively than they would have to pay for something of better quality."

As a result, Mr. Ransom said, until management is confronted with a deal that makes sense, it is unlikely to sell the operation.

Mr. Zuckerberg, however, said: "Long term, when I look at CNA, I see a large company that could be easily viewed as a takeover candidate in the U.S. commercial market. It think it's a no-brainer that CNA will be looked at more as a takeover candidate at this juncture," he said. "My gut feeling is they're probably going to sell to a strategic buyer."

The $1.7 billion in personal insurance business Allstate is acquiring represents the majority of premiums written by Continental Insurance Group, which CNA acquired in 1994. But the business is only about 12% of CNA's 1998 gross premium volume of $13.4 billion, and only 10% of its $17.1 billion in total 1998 revenues.

The personal lines book was one part of CNA's agency marketing operations segment, which last year generated an additional $3.5 billion in premiums from small and medium-sized commercial property/casualty risks, excess and surplus lines risks and employee leasing business, according to CNA financial reports.

CNA still writes a variety of commercial business in its other operations, including professional liability through its specialty operations segment; reinsurance through CNA Re; marine, surety and warranty coverages through its global operations; large commercial accounts through its risk management unit; and group health benefits and life products through two other segments. BI

Lloyd's

Continued from page 2

($160.5 million) will be withheld in members' funds at Lloyd's to pay future claims on open years.

Lloyd's officials insist the step is another move to strengthen policyholders' protection, following the recent purchase of insurance coverage for Lloyd's Central Fund (*BI*, April 26).

Under the change, the distribution of profits and a test to gauge the solvency of individuals, called the "coming-into-line test," are performed concurrently under a procedure referred to by Lloyd's as the "glass test."

Previously, Lloyd's would distribute profits each summer—before tax bills were due—and apply the coming-into-line test in the fall. That test compares each individual member's assets against estimated future liabilities and requires funds from the member should there be a gap.

What seems to have upset Lloyd's members is not the application of the glass test , which reduced the size of the profit distributions, but that there was little advance notice of the test.

Speaking at Lloyd's annual general meeting Friday, Lloyd's member Daniel Farr described the procedural change as "unacceptable." Many members are seeing their 1996 profits drop by between 20% and 25%, said Mr. Farr, and, in severe cases, members will receive no profits at all.

What's more, members' distribution statements showing their 1996 profits did not reflect the market's intended retention of funds due to the glass test, he said. The statements, released last month, were "at best, highly misleading," said Mr. Farr.

Lloyd's Chairman Max Taylor explained that the glass test was originally outlined last June in a consultative document looking at the treatment of members' premium trust deeds. The objective of the glass test is "to move away from a situation where profits are released and later (members) are asked to provide cash for coming into line," he said.

The detailed regulations surrounding the glass test were not finalized by the Lloyd's Council until April. It was only after approval that Lloyd's began work on the computer model to assess each members' overall solvency position, and that delayed notifications to members, explained Mr. Taylor.

Michael Deeny, chairman of the Assn. of Lloyd's Members, criticized Lloyd's failure to provide members with forecasts of the glass test's effect on profits. "Members' agents should have been involved at an earlier stage about the calculations of the test," he said.

Lloyd's Finance Director Bob Hewes said in an interview, however, that the change was "logical" and provided another tranche of protection to policyholders.

He acknowledged that names that have left the market with solvency deficiencies relating to their underwriting in 1997 "are not going to be the most inclined" to pay cash into Lloyd's under the coming-into-line requirements once they receive their profit checks, but he was adamant the move was not a step against unlimited liability names or corporate members. "Some individual members are wholly untouched," he said.

In fact, about 4,500 of the 15,000 members expecting 1996-related profits will be affected by the change, said Mr. Hewes. Of these, about 1,800 will see £5,000 ($8,026) or less shaved off their profit checks, and another 750 will be affected to the tune of £10,000 ($16,052) or less.

These numbers "are changing every day," said Mr. Hewes, as members and agents organize funding arrangements to reduce the impact on their profit checks.

Two days before the AGM, Mr. Taylor circulated a letter to all corporate members explaining the change in profit distribution and pointing out that the changes apply to all members of Lloyd's. In the letter, he said there are "several routes. . .available to corporate members to enable the release of retained profits."

Market rumors that corporate members may find themselves forced to cut their planned dividends to shareholders as a result of the changes were dismissed by Tony Hobrow, chief executive officer of the Lloyd's Market Assn., a group representing the interests of corporate capital providers at Lloyd's.

"From a corporate standpoint, (introducing the glass test) hasn't been helpful," he said, "but I don't know of anyone who won't be paying or who will be reducing dividends."

Lloyd's also used the AGM as an opportunity to announce the formation of proportional reinsurance syndicates in the market.

These are syndicates capitalized by unlimited liability names providing proportional reinsurance capacity to syndicates wholly owned by corporate capital providers—the integrated Lloyd's vehicles. Following a Council decision last week, PRS syndicates will be allowed to start trading from the 2000 year of account.

Mr. Taylor also revealed to members at the AGM that Lloyd's is paying £15.75 million ($25.3 million) in annual premiums for the insurance of its Central Fund. The coverage, backed by six international insurers, runs for five years with an aggregate claims cap of £500 million ($802.6 million). BI

Updates

Delphi adds to pension fund

Continued from page 2

cer Alan Dawes said in a statement. Current funding of the plan exceeds minimum federal regulatory requirements, he said in the statement.

Delphi has no hourly retirees and expects "only a limited number" of retirees in the next few years, he added.

The majority of Delphi's hourly workers are members of the United Auto Workers, which is about to begin negotiating a new contract with GM. Delphi has told its workers they will receive the same pension benefits granted to GM employees.

Ex-boxer wins libel suit

NASHVILLE, Tenn.—A federal court jury in Nashville, Tenn., last week awarded former heavyweight boxer Randall "Tex" Cobb $8.5 million in compensatory damages in a libel suit against Sports Illustrated, and the jury was to return to court Friday to decide the amount of the punitive damages award.

SI was withholding any comment on the verdict, as well as any insurance information, until after the issue of punitive damages was resolved.

Mr. Cobb sued the magazine in 1994 over a 1993 article that claimed he had participated in a fixed fight and used cocaine with the losing boxer and the fight's promoter after the 1992 bout. He had sought $50 million in compensatory damages and $100 million in punitive damages.

SI is owned by Time Inc., which is a unit of Time Warner Inc.

P/C underwriting loss triples

NEW YORK—Property/casualty insurers' net underwriting loss more than tripled to an estimated $2.9 billion during the first quarter of 1999 from $900 million registered during the same period last year, according to a survey released by the Insurance Services Office Inc. and the National Assn. of Independent Insurers.

Net investment income dropped slightly to $9.6 billion during the first three months of this year from $9.7 billion posted during the same period last year, according to ISO/NAII estimates. Net written premiums grew by only 1.6% to $71.9 billion during the first quarter from $70.7 billion a year earlier.

The first-quarter combined ratio for the industry deteriorated to 103.0% from 100.2% a year earlier, according to the survey.

The lower results, though offset somewhat by increased realized capital gains and a drop in federal income taxes, led to a 3.6% drop in the industry's estimated net aftertax income to $9.2 billion during the first three months of this year, compared with the $9.5 billion registered during the same period last year.

The industry's surplus, however, grew by 1.1% to $337.2 billion as of March 31, 1999, from $333.5 billion at the end of last year.

ISO/NAII's survey is based on reports from insurers representing 96% of the nation's property/casualty premium volume.

A *Business Insurance* survey of 20 major commercial property/casualty insurers showed that group posting a 31% drop in net income to $2.42 billion for the first quarter, while 1999 first-quarter combined ratio deteriorated to 104.8% from 103% (*BI*, May 24).

Briefly noted

The Senate Health, Education, Labor and Pensions Committee postponed markup of **medical records privacy legislation** once again (*BI*, June 7). The markup, which was scheduled for last week, has been tentatively set for this week. . . .The U.S. Senate is expected to vote this week on a measure that would grant businesses some relief from liability stemming from the **Year 2000 computer problem**. The bill, S. 96, enjoys bipartisan support but is opposed by the White House. . . .The House Commerce Committee gave its approval to **financial services modernization legislation** last week. . . .**Superfund reform** cleared a first hurdle last week when the House Water Resources Subcommittee passed a bipartisan but limited reform bill. The measure, sponsored by the subcommittee's chairman—Rep. Sherwood Boehlert, R-N.Y.—and Rep. James Barcia, D-Mich., focuses its liability relief efforts on small businesses, municipalities, recyclers and waste cleanup contractors rather than calling for an across-the-board repeal of Superfund's imposition of retroactive liability. . . .The Pension Benefit Guaranty Corp. is taking over and terminating two **underfunded pension plans** sponsored by the Norwalk, Conn.-based retailer Caldor Corp., which is in bankruptcy and is liquidating its assets. The two plans, which have about 11,000 participants, are underfunded by about $10 million, with $35 million in liabilities and $25 million in assets. . . .North Carolina Gov. James B. Hunt Jr. has signed legislation that removes language in a 1997 law that required the state Industrial Commission to adopt new rules governing **communication** between employers paying workers compensation and physicians treating injured workers. Risk managers and insurers had charged that the rules, which never were implemented, would have been unjustifiably burdensome and could have invited workers comp fraud (*BI*, July 13, 1998). . . .Standard & Poor's Corp. on Friday **affirmed its ratings on SAFECO Corp.** and related subsidiaries, but revised its outlook to negative from stable. S&P stated the negative outlook reflects its opinion that SAFECO's profitability may be negatively affected by the soft U.S. property/casualty market, a higher frequency of catastrophe losses, and lower investment income related to reduced cash flow and lower interest rates. S&P also contends SAFECO's 1997 acquisition of American States Insurance Co. has yet to prove successful in terms of "expense efficiencies, distribution management, and increased sales.". . .Three people, including two 10-year-old boys, were killed and fewer than 10 people hospitalized Thursday following an **explosion of a 16-inch gasoline pipeline** located near the City of Bellingham (Wash.) Water Treatment Facility. The pipeline was operated by Renton, Wash.-based Olympic Pipe Line Co. An investigation is under way as to the cause of the rupture in the pipeline. Police also are investigating reports that fireworks may have ignited the gas that was released because of the rupture.

AIDS

Continued from page 2

abuse.

Henry Saveth, an attorney with William M. Mercer Inc. in New York, said the decision is "relatively unimportant" as it pertains to AIDS caps but could lead to similar rulings on infertility caps, for example.

"This decision will make it easy for employers to claim that infertility limits in medical plans are not a violation of ADA," he said.

Mary Russell, a partner in the labor and employment law section of Luce, Forward, Hamilton & Scripps L.L.P. in San Diego, said because this case was brought under the ADA's Title III, which regulates accommodation, rather than Title I, which addresses employment issues, employers should proceed with caution when placing caps on any sort of disease. Imposing disease caps might be permitted through ERISA, she said, but the ADA might impose more-stringent requirements.

"Plan administrators should not believe that this case gives them free rein to impose these caps," said Ms. Russell.

Barry Barnett, a principal with PwC Kwasha HR Solutions in Teaneck, N.J., said, "The courts are really sending a strong message that the ADA should be used for getting people back to work, not for insurance coverage."

But employers may elect not to place caps on specific diseases, because "it sends a bad human resources message," he said.

David Weinstein, a partner and head of the labor and employment group at Wildman, Harrold, Allen & Dixon in Chicago, said bad publicity from an AIDS cap could make employees wary of other, more-common diseases becoming targets of caps. "One could imagine the same type of analogous, dramatic limits for other conditions," he said.

"There are companies that view their benefits programs, including the group health plan, as a recruiting tool," Mr. Weinstein said. "If this can be done for AIDS, why not do this for an array of conditions?"

Courts are 'sending a strong message that the ADA should be used for getting people back to work, not for insurance coverage,' says Barry Barnett.

In 1992, Circle K, a convenience store chain, halted a policy excluding health care coverage for lifestyle diseases that had created ill will between the corporation and AIDS and gay rights groups. Circle K adopted the policy in the late 1980s to combat rising health care costs in its self-insured plan.

Having an AIDS cap in a policy "pretty much guarantees you a spot on the nightly news," said Mercer's Mr. Saveth. AIDS in today's world isn't the most costly disease to treat. Heart disease and premature births are much more expensive, he noted.

Often, employers' prescription drug plans cover the cost of drugs that would treat AIDS or AIDS-related conditions, Mr. Barnett added.

There may also be administrative problems associated with placing caps on AIDS.

The real difficulty insurers face, said John Ermlich, vp and corporate risk manager for USI Insurance Services Corp. in San Francisco, is determining whether to cover conditions, such as pneumonia in AIDS patients, that can arise because the person has AIDS or occur as separate diseases.

"That's an issue everybody has to get their arms around," said Mr. Ermlich. "It's not the actual AIDS cap itself; it's how do you deal with a condition a person might say is related to AIDS."

If caps are going to be part of the policy, then insurers must be clear and specific about how they plan to respond to these situations, he said.

Mr. Ermlich said he does not believe this case will set a precedent and that the issue eventually will be considered by the U.S. Supreme Court. He said that because Mutual of Omaha could not actuarially show any adverse effect on the business that would justify the use of the AIDS cap, he wondered how a maximum benefit could be set.

Harold Zarkowsky, Midwest regional director of Aetna U.S. Healthcare in Chicago, said caps should be adjusted in line with the costs of inflation and advancing technology to treat diseases. As a result, he said, caps in some cases may be reached faster than they would have been when they were first established.

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John Doe and Richard Smith vs. Mutual of Omaha Insurance Co.; No. 98-4112; 7th U.S. Circuit Court of Appeals, June 2, 1999.

POS

Continued from page 3

The change may force POS plans to charge more to employers that have good experience and currently enjoy low prices, said Ed Kaplan, vp-national health practice for The Segal Co. in New York.

On the other hand, employers that currently have higher rates because of poor claims experience may see a rate decrease, he said.

As a consequence of the ruling, employers may abandon their POS plans and move toward preferred provided organizations, where experience rating is permitted, Mr. Kaplan said.

"This may crush the momentum of POS growth," he said.

The ruling changes the current practice in New York so that health insurers will no longer be able to offer employers HMO-type networks along with experience rating not allowed by HMOs, explained Carmine Morano, president of Anthem Health & Life Insurance Co. of New York.

Many employers with large premium increases for POS plans will shop for other plans, particularly PPOs, predicts Carmine Morano.

"I think the impact is huge," he said.

He also predicted that many employers hit with large premium increases for POS plans will shop for other plans, particularly PPOs.

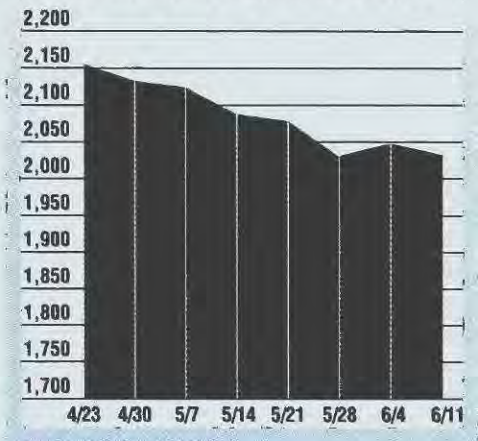
The ruling does not affect employers with fewer than 50 employees, because those employers were already required to buy plans with rates based on community rating.

The regulatory change is not necessarily a done deal, however.

The trade association for New York HMOs is looking at whether the change can be implemented by letter or requires a more-formal regulatory process, said Leslie Moran, senior vp for the New York Health Plan Assn. in Albany.

Ms. Moran refused to say what affect the change will have, because, she said, "we're not prepared to assume" the change will take effect. BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: *Nordby International Inc.* (nordby.com) Boulder, Colo.

PCS catastrophe options

As of June 11

Call spread	Price bid/ask
National Annual 1999	
40/60	15.0/19.0
60/80	9.0/16.0
80/100	5.0/—
150C	5.3/9.0
200/250	3.6/6.0
Southeastern September 1999	
40/60	2.8/—
60/80	2.3/—
80/100	2.4/—
Eastern September 1999	
40/60	3.3/—
California Annual 1999	
60/80	0.8/1.8
80/100	0.6/1.6
150C	1.2/2.5
Western Annual 1999	
80/100	0.8/1.9
Midwest June 1999	
10/20	8.5/9.5
Florida Sept./Dec. 1999	
100/150	1.8/—

Total volume: 0 Total open interest: 10,676

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

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	386	5.6	10.0	3.4	400-300
Legal & Gen	175	21.7	3.6	2.6	237-162
Royal & Sun	535	18.2	23.0	5.5	633-455
Brokers					
Lmbrt Fenchurch	83	7.0	5.7	8.3	94-58
JLT	237	10.6	12.0	6.4	248-166

Note: Prices are June 11 closings; other numbers from June 10.

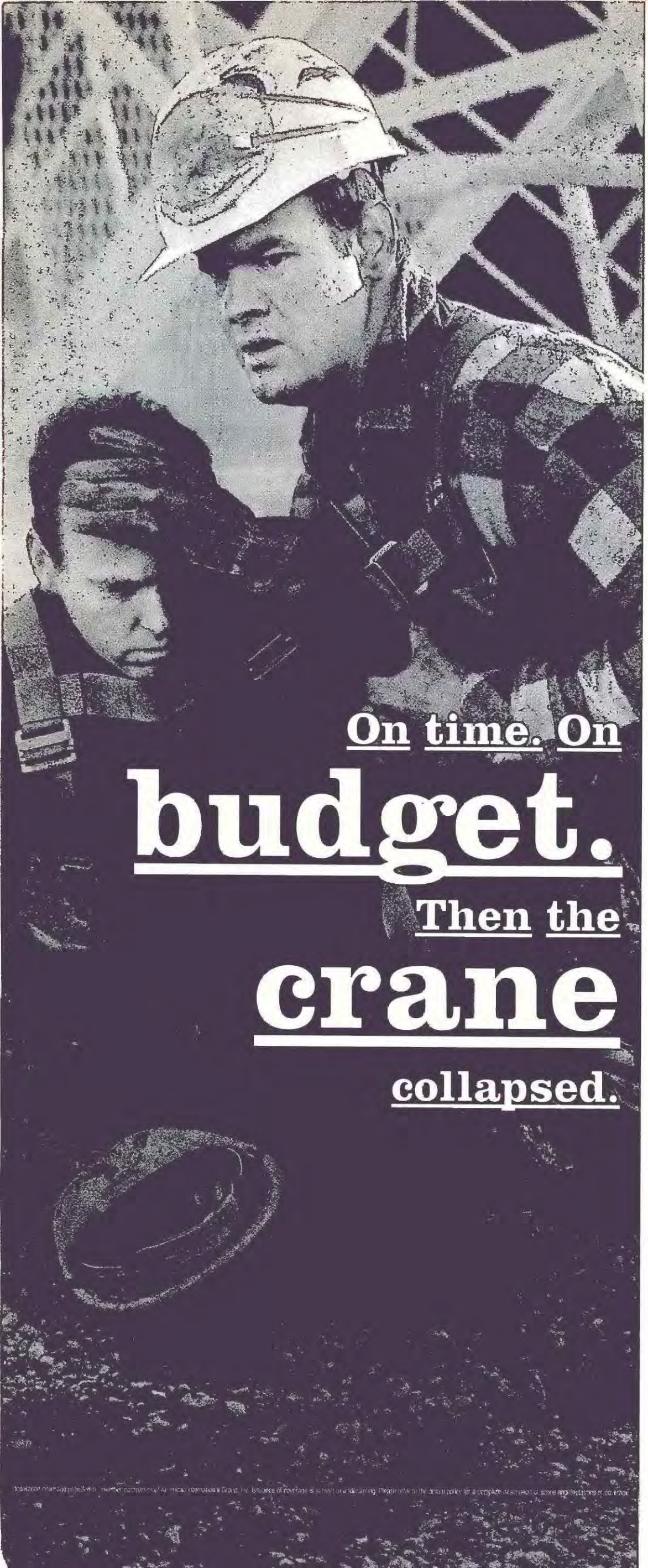
Source: *Nordby International Inc.*(nordby.com) Boulder, Colo.

BI Industry Stock Report JUNE 7, 1999, THROUGH JUNE 11, 1999

		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)
BROKERS							
Aon Corp.	NYS	42.00	-2.04	12.37	50.38	32.19	1464
E.W. Blanch Holdings Inc.	NYS	64.81	3.39	38.82	64.88	34.88	187
Gallagher Arthur J. & Co.	NYS	48.06	0.00	9.86	50.63	34.88	236
Hilb, Rogal & Hamilton	NYS	21.69	3.89	16.44	21.88	15.38	56
Kaye Group Inc.	NDQ	7.63	4.27	5.17	8.06	5.00	26
Marsh & McLennan	NYS	72.94	-1.77	23.36	81.13	43.38	1610
Brown & Brown	NYS	36.19	-0.52	3.58	42.50	29.31	9
BROKERS	AVERAGE		1.55	16.21			
INSURERS/REINSURERS							
ACE Ltd.	NYS	28.56	-3.38	-12.62	43.00	24.38	3056
Accel International Corp.	NDQ	2.25	28.57	-25.00	3.38	1.50	75
Acceptance Insurance Cos.	NYS	15.25	1.24	-23.27	25.63	12.06	56
AEGON N.V.	NYS	79.69	-4.42	-34.65	130.13	69.25	418
Aetna Life & Casualty	NYS	93.94	3.30	17.70	99.88	60.19	2061
AFLAC Inc.	NYS	46.63	1.36	5.97	56.75	25.13	2646
Allmerica Financial Corp.	NYS	57.75	0.22	1.99	75.25	38.38	303
Allstate Corp.	NYS	38.03	6.38	-1.22	52.38	34.75	13449
AMBAC Indemnity Corp.	NYS	56.06	-3.03	-6.47	65.94	40.88	479
American Bankers Ins.	NDQ	54.00	0.58	13.09	61.31	30.13	746
American Financial Group	NYS	33.50	-0.92	-18.66	45.25	30.50	119
American General	NYS	70.38	-4.50	-10.06	79.00	52.38	1589
American Heritage Life Ins.	NYS	23.13	-1.86	-3.90	26.69	18.63	177
American Indemnity/Fin'l	NDQ	13.88	0.00	30.59	15.38	10.25	1
American Intl Group	NYS	114.25	-2.97	17.33	134.00	64.88	5652
American Safety Insurance	NYS	8.81	1.44	-7.24	12.63	6.63	28
Argonaut Group	NDQ	26.19	0.72	9.11	33.25	21.25	61
AXA-UAP Group	NYS	57.94	-3.24	-19.04	80.25	38.25	168
Baldwin & Lyons Inc.	NDQ	20.63	-2.37	-11.76	26.00	18.50	231
Berkley W.R. Corp.	NDQ	25.56	-1.21	-24.26	49.00	23.50	276
Berkshire Hathaway Inc.	NYS	71500.00	0.28	4.69	84000.00	57000.00	1
Capital RE Corporation	NYS	16.56	0.76	-15.34	38.19	11.94	313
Capitol Transamerica Corp.	NAS	14.94	-0.42	-15.55	22.75	13.31	39
Centris Group Inc.	NYS	9.56	-4.97	2.00	14.06	7.94	50
Chartwell Re	NYS	14.19	-5.81	-38.98	30.94	13.50	113
Chubb Corp.	NYS	68.31	-1.97	5.20	88.81	54.00	2626
CIGNA Corp.	NYS	93.31	-2.80	20.02	98.63	57.19	1921
Cincinnati Financial Corp.	NYS	38.75	-3.28	8.58	42.25	30.50	731
Citigroup	NYS	43.06	-1.43	27.75	51.75	19.00	29653
CNA Financial Corp.	NYS	40.81	-4.25	3.82	48.75	33.00	395
CNA Surety	NYS	15.00	1.69	0.42	16.00	10.19	267
EMC Insurance Group Inc.	NDQ	11.50	0.00	-9.80	15.19	9.00	16
ESG Re Limited	NDQ	15.63	-17.22	-21.14	23.88	12.75	972
Enhance Financial Services	NYS	19.94	3.91	-34.09	37.31	17.31	268
Everest Reinsurance	NYS	31.75	-2.31	-13.46	43.50	28.75	400
Executive Risk Inc.	NYS	84.00	-0.88	55.92	92.88	35.50	227
EXEL Ltd.	NYS	58.13	-2.31	-18.78	83.25	54.50	605
Fremont General Corp.	NYS	19.00	-6.46	-21.24	30.06	16.50	569
Frontier Insurance Group	NYS	15.94	-0.39	27.50	24.00	10.88	410
Gainsco Inc.	NYS	4.19	4.69	-33.66	8.06	3.94	75
Harleysville Group	NDQ	20.13	1.26	-21.08	27.25	17.00	51
Hartford Steam Boiler	NYS	41.06	-0.76	2.18	59.56	34.75	112
HCC Insurance Holdings	NYS	21.19	-1.17	25.09	23.19	16.00	260
ING Groep N.V.	NYS	53.50	-1.38	-12.30	76.75	36.06	346
IPC Holdings Ltd.	NDQ	20.06	2.56	-11.81	30.63	17.38	171
Hartford Financial Services	NYS	58.94	-4.94	5.60	66.44	37.63	1923
LaSalle Re Holdings Ltd.	NYS	15.19	2.53	-26.36	39.19	11.63	169
Lincoln National	NYS	101.00	-1.58	21.87	105.88	67.00	1126
MAIC Holdings Inc.	NYS	28.06	3.94	-12.30	33.13	23.25	87
Markel Corp.	NYS	181.56	-2.52	0.73	193.00	132.00	5
MBIA Insurance Group	NYS	64.94	-2.17	-2.07	80.13	46.06	1195
Meadowbrook Insur. Group	NYS	13.00	-5.88	-20.31	31.50	12.75	62
MMI Cos. Inc.	NYS	14.75	-5.98	-11.61	23.44	13.75	88
Mutual Risk Mgmt. Ltd.	NYS	36.44	-0.85	-3.95	43.25	25.38	539
NAC Re Corp.	NYS	53.50	-1.38	14.59	60.81	43.69	276
Navigators Group	NDQ	14.38	0.00	-5.74	19.50	13.25	25
NYMagic Inc.	NYS	13.94	4.21	-33.23	28.63	12.00	60
Ohio Casualty Corp.	NDQ	38.81	-0.16	-5.62	48.13	33.75	407
Old Republic Int'l	NYS	17.88	-1.38	-16.62	31.25	17.88	1754
Orion Capital Corp.	NYS	29.44	-3.29	-24.88	59.25	27.56	180
Partner Re Ltd.	NYS	36.75	-2.16	-18.67	52.50	33.63	392
Penn-America Group Inc.	NYS	10.94	0.57	18.24	17.50	8.13	27
PMA Capital Corporation	NDQ	20.44	-1.51	4.47	23.75	16.63	114
Philadelphia Cons. Holding	NDQ	24.13	1.05	13.53	25.50	18.63	71
PXRE Corp.	NYS	17.88	-2.05	-29.21	31.75	16.00	33
Reliance Group Holdings	NYS	9.75	-2.50	-24.64	19.81	7.31	723
ReliaStar Financial Corp.	NYS	41.06	0.77	-8.24	52.44	29.00	1369
RenaissanceRe Holdings Ltd.	NYS	37.75	1.17	4.50	48.31	30.00	68
Risk Capital Holdings	NDQ	16.00	5.79	-24.26	25.50	12.00	44
RLI Corp.	NYS	36.38	-0.17	8.99	45.63	27.88	29
St. Paul Companies	NYS	33.13	-4.68	-5.36	45.13	28.06	2358
SCOR	NYS	50.63	-0.98	-22.12	72.75	49.06	23
SAFECO Corp.	NDQ	42.44	-0.73	-0.15	49.38	36.69	1383
SCPIE Holdings Inc.	NYS	29.06	2.88	-3.33	36.06	23.69	NA
Seibels Bruce Group	NDQ	4.75	-5.00	35.71	7.50	2.69	61
Selective Ins. Group	NDQ	18.56	-1.33	-8.33	26.00	16.69	242
Terra Nova Ins Co. Ltd.	NYS	26.69	-3.83	9.49	35.00	21.25	82
Tokio Marine & Fire	NDQ	59.50	4.62	1.06	62.88	39.00	67
Torchmark Corp.	NYS	33.50	0.94	-3.60	47.19	30.69	1004
Transatlantic Holdings	NYS	73.94	-2.47	-2.23	94.50	73.63	63
Travelers Property Casualty	NYS	39.75	1.27	29.80	45.75	24.13	693
Trenwick Group Inc.	NDQ	29.75	14.42	-5.93	40.00	25.25	38
Unico American Corp.	NDQ	10.63	2.41	-7.86	15.75	8.63	25
United Fire & Casualty	NDQ	26.50	1.68	-20.38	41.50	22.25	31
Unitrin	NDQ	34.50	-2.82	-2.65	38.00	27.88	197
UNUM Corp.	NYS	58.06	5.69	-3.13	62.50	41.75	2602
Vesta Insurance Co.	NYS	4.56	-10.98	-20.65	27.38	3.38	385
Zenith National Ins.	NYS	24.31	6.87	5.14	28.56	20.31	35
INSURERS/REINSURERS	AVERAGE		-0.75	-4.45			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	18.19	-4.59	65.34	30.19	5.88	931
Humana Inc.	NYS	14.50	7.41	-23.43	32.13	10.06	4614
Oxford Health Plans	NDQ	19.19	-4.21	37.05	24.25	5.81	2254
Pacificare Health Sys.	NDQ	89.94	-0.55	25.79	98.13	53.75	95
Safeguard Health Enter.	NDQ	2.75	0.00	-22.81	8.13	2.34	65
Sierra Health Services	NYS	15.19	-2.80	-27.25	26.00	10.44	144
United HealthGroup	NYS	69.75	5.98	56.52	69.75	29.56	4890
Wellpoint Health Networks	NYS	87.81	4.15	2.26	89.19	50.50	7188
HMOs	AVERAGE		0.67	14.18			
ALL COMPANIES	AVERAGE		0.49	8.65			

Top advancing issues: Accel International Corp., Trenwick Group Inc., Humana Inc. Leading decliners: ESG Re Ltd., Vesta Insurance Co., Fremont General Corp. Most active issue: Citigroup. The *BI* Index decreased 0.7%; the Dow Jones 30 Industrials fell 2.9%; the S&P 500 declined 2.5% and the NYSE Composite decreased 2.4%. Average P/E: Brokers, 19.0; Insurers/reinsurers, 19.1; HMOs, 24.4.

Source: *Nordby International Inc.* (nordby.com), Boulder, CO



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