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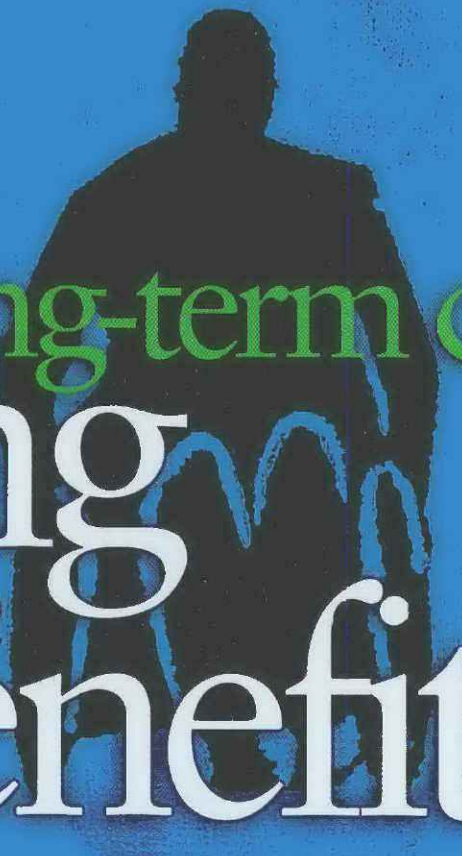
Business Insurance

Industry Focus

MARCH 2007

www.IndustryFocus.com

FOR STRATEGIC DECISION MAKERS IN COMMERCIAL INSURANCE



long-term care selling the benefit

Insurers face challenges marketing long-term care as a voluntary benefit **PAGE 10**

Privacy, discrimination concerns arise as genetic research advances **PAGE 13**

Companies turn to technology to push consumer-driven health care **PAGE 16**

**If risk management was
a game show category,
guess who would win?**

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Nearing must-have status

Long-term care is a hot product, but insurers and brokers are finding challenging going in trying to market it as a voluntary employee benefit. Here is how they're approaching the market. **Page 10**

A question of privacy

While using individuals' genetic characteristics for research and treatment could be beneficial, some fear the potential for coverage discrimination. **Page 13**

Handing customers the virtual keys

Companies are looking to technology in the form of everything from online communications to podcasts to enhance benefit products and empower consumers. **Page 16**

FEATURES

A building battle

An increasing number of claims against agents involving certificates of insurance brings to light a struggle over certificate requirements. **Page 18**

Addition by subtraction

Insurance executives will likely find it difficult to replicate the performance of 2006 unless they include tactics like identifying cost reduction opportunities in their effort to maintain profit levels. **Page 20**

Big vision, big payoff

Executives increasingly are recognizing the need to gain better control over their data management infrastructures. An enterprise-wide approach to data management can be key to meeting increased demands from both regulators and companies' customers. **Page 22**



THREE QUESTIONS

Derek Blum of Risk Management Solutions Inc., discusses a new model for assessing the risk of influenza pandemics. **Page 5**

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Battling back with good works

The insurance industry continues to battle a war of perception over its performance in response to Hurricane Katrina, and you start to wonder whether the war can ever be brought to a satisfactory conclusion.

Late last month, the industry looked to “dispel misconceptions” raised in a congressional subcommittee hearing.

Among the “misstatements” cited by the Insurance Information Institute and a group of industry trade associations—was a comment Rep. Gene Taylor, D-Miss., made to the House Financial Services Committee’s Oversight and Investigations Subcommittee that the industry was “conspiring to defraud” policyholders.

Another came from Mississippi Attorney General Jim Hood, who accused insurers of failing to pay legitimate claims to policyholders whose homes were devastated by the storm.

The industry responded by saying it had not sought to defraud, and noting that insurance companies have paid an estimated \$40.6 billion on 1.7 million claims for damage caused by Hurricane Katrina, and citing estimates showing that fewer than 2% of homeowners claims in Mississippi and Louisiana are in dispute.

Mr. Hood, a common denominator in many skirmishes in the current war of perception, also called for a repeal of the industry’s McCarran-Ferguson Act anti-trust exemption.

The Mississippi attorney general, of course, has sued a number of insurers for refusing to cover Katrina damage caused by flooding and storm surge, both typically excluded in homeowners insurance contracts. For its part, the industry says the exclusions were “explicit.”

Explicit though the exclusions were, and despite a contract being a contract, maybe State Farm Fire & Casualty Co. was right in looking to settle with Mr. Hood earlier this year, and hopefully withdraw from the image fight. Who, though, could blame State Farm for later announcing it would also withdraw from writing new homeowners and small business coverage in Mississippi.

At this point, perhaps the only certainty in this war is that it’s not likely to end anytime soon. At the Feb. 28 House hearing, Melvin

Watt, D-N.C., the subcommittee’s chairman, indicated he expects further sessions devoted to insurers’ Katrina claims practices.

As the battle rages, though, I direct your attention to a small item on page 7 of this month’s issue. It’s about Reinsurance Assn. of America conference attendees volunteering in New Orleans. Their example isn’t unique, and it’s important to note people in the insurance industry doing good works, even as the institution’s image is under attack.

Separately, I need to update some thoughts set out in this space last month. In writing about marketing and brand identity, I wrote about the Travelers umbrella, its likely fate and the impact on those for whom it remained a cherished icon.

Well, in journalism, there are deadlines, and those deadlines can be vexing sometimes. When you’re putting news in print, every now and then between the time the story goes to press and the time it lands on

IT’S IMPORTANT TO NOTE people in the insurance industry doing good works, even as the institution’s image is under attack.

people’s desks, facts can change.

Such was the case last month when I wrote about Citicorp giving up the umbrella logo it acquired when it purchased Travelers Insurance Co. As my column went to press, the facts were that St. Paul Travelers’ said it wasn’t interested in reacquiring the umbrella.

Naturally, between the time February’s *Industry Focus* went to press and the time it hit your desk, things changed. The folks in St. Paul decided they would purchase the umbrella from Citicorp, and, recognizing its iconic value and its link to the Travelers brand, announced they were renaming the company The Travelers Cos. Inc.

Hats off to everyone involved in the decision, which I believe is a great marketing move. And congratulations to the people of Hartford, whose cherished umbrella lives on.



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*Erdos & Morgan Survey of 2005 RIMS Attendees.

TSR enhances forecast power of Storm Tracker

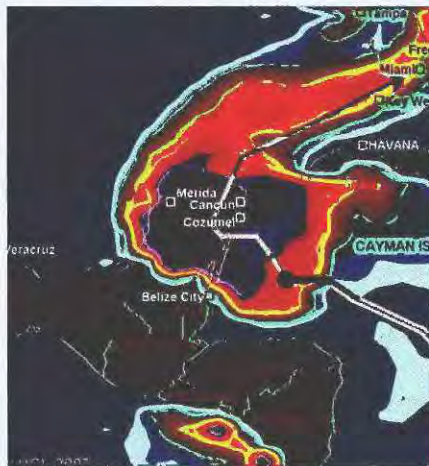
LONDON—The Tropical Storm Risk consortium has added quantitative and probabilistic rainfall forecasts for tropical storms worldwide to its Tropical Storm Tracker.

The London-based TSR consortium includes experts on insurance, risk management and seasonal climate forecasting led by the Benfield UCL Hazard Research Center. The new rainfall forecast feature, which complements TSR's existing suite of storm tracking software, is available through the www.tropicalstormrisk.com Web site.

The rainfall forecast product is intended for use by insurers, reinsurers and risk managers, and is designed to allow them to monitor threatening tropical storms, assess the risk of excessive rainfall and the potential for inland flooding.

Among the new product's features are:

- Quantitative rainfall forecasts of total rainfall at a given point over one to five days.
- Probabilistic rainfall forecasts of the likelihood that rainfall at a given location will exceed two inches, five inches



An improved Tropical Storm Tracker forecasts rainfall worldwide.

and eight inches over one to five days.

- Updated forecasts every 12 hours.
- Observed rainfall rates and totals for the last three hours and last seven days.

Examples of property losses exceeding \$1 billion from tropical storm rainfall include Tropical Storm Allison in 2001, Typhoon Maemi in 2003, and Typhoon Songda and Hurricane Ivan in 2004.

Examples of TSR's new rainfall forecast product applied to Hurricane Wilma and Hurricane Katrina can be viewed under the "Storm Rainfall Demo" link on the rainfall homepage area at www.tropicalstormrisk.com. ■

Camford National to provide cover for excess, surplus and hard-to-place risks

LEBANON, N.J.—A new specialty lines wholesale insurance brokerage, Camford National Insurance Brokers L.L.C., will serve excess and surplus lines and hard-to-place risks both in the United States and internationally.

David O'Keefe is president of the new wholesale broker based in Lebanon, N.J. Before forming Camford National, Mr. O'Keefe was vp and partner at Oxbridge Insurance Associates.

Camford National will place coverage on an admitted and nonadmitted basis through carriers rated A- or better by A.M. Best Co. Inc.

Products that Camford will provide include commercial general liability and property; commercial package—commercial property/commercial general liability/liquor; excess and umbrella liability; environmental liability, including professional liability; products liability, including discontinued products liability; professional liability/miscellaneous E&O/employment related practices; inland marine; and wrap-up CGL—condo/co-op/residential.

Among industries Camford National will serve are commercial and residential general contractors and trade contractors, commercial trucking, manufacturing, real estate, retail, pharmaceutical and nutraceutical, importers and exporters, and restaurants and taverns.

Other industries the new wholesaler will serve include chemical, sports and entertainment products, crane contracting, heavy equipment sales and manufacturing, machinery, petroleum, medical devices, cosmetics, tools, consumable products and processing. ■

BY THE NUMBERS

Satisfaction among U.S. consumers hit an all-time high of 74.9 in the fourth quarter last year in the University of Michigan's American Customer Satisfaction Index.

Business category	Baseline index (1994)	2006	% change from 2005
FINANCE AND INSURANCE	78.5	76.0	2.8
Property/casualty insurance	82.0	78.0	0.0
Health insurance	Not measured	72.0	5.9
Life insurance	81.0	79.0	5.3
Banks	74.0	77.0	2.7
RETAIL TRADE	75.7	74.4	2.8
E-COMMERCE	Not measured	80.0	0.5

Source: University of Michigan American Customer Satisfaction Index



Last month, catastrophe risk modeling firm Risk Management Solutions Inc. introduced a new probabilistic model for assessing the risk of influenza pandemics across multiple countries. Recently Derek Blum, vp of emerging risk models for Newark, Calif.-based RMS, discussed the model, its creation and its potential significance.

What is the basis for a model such as this? Do you start with historical information?

Absolutely. There are several differences between this and some other kinds of catastrophic perils. It does start with several different things and one is historic data. There is not extensive data, but there is some historic information. One source is the Spanish flu of 1917. It's not as rich as

we would like it to be, but there is a lot that has been written on it.

But there is also other information that plays into developing the model. The epidemiological information, the information about how disease spreads, how disease spreads from person to person. Having an understanding of that plays into it. There are also the manmade pieces of it that come into play: government response, having a vaccine available. And those are going to vary from country to country.

One of the places that the modeling starts is just by identifying a range of possible pandemic scenarios. We start by just looking at the flu viruses themselves. There's obviously quite a range of viruses, and the viruses are constantly undergoing mutations.

We look at the impacts of that and there are two obvious ones: how lethal is it and how rapidly will it spread. That allows us to arrive at an event set. We've identified a little less than 2,000 possible pandemic scenarios.

Did RMS develop this model in response to interest from clients and others in the insurance industry?

There definitely has been a significant need expressed by our client base within the insurance industry, but this is something we started looking at as early as 2004. This is something that very clearly falls in the

realm of catastrophic perils. The immediate exposure isn't as great for (property/casualty) companies, but this is something that is likely to impact every insurance company and really everybody in the world.

The level of exposure, the level of risk is obviously going to vary. A company on the life side or the health side, they have a direct risk in the claims they will incur. But they also have a risk in terms of business continuity. Then they also have a triple whammy in terms of investment income.

Would you expect the existence of a model such as this to not only provide companies a way to better manage exposures but also facilitate expanding the market for transferring pandemic risks?

We certainly hope so. The starting point for this is really for companies to understand and quantify what that base risk is.

We've heard from some of our clients (that have) an interest in transferring some of their risk. We've started to see the emergence of that, alternative risk transfer mechanisms in place. The market is still small for that, but obviously there is an interest in that. And having the model, this creates a language for helping them understand what the risk might be. ■

Chubb's modular policy to fill coverage gaps

WARREN, N.J.—Chubb Corp. is offering a new modular insurance policy for mid-size financial institutions that the insurer says will prevent potential coverage gaps that might occur under separate policies bought from different companies.

Financial Institution Portfolio is designed for insurance companies, banks, securities firms and asset management companies. Four lines of coverage are available through the policy: directors and officers liability, employment practices liability, fiduciary liability, and kidnap/ransom and extortion.

Warren, N.J.-based Chubb said customers can select the coverages they need and separate limits for each coverage or an aggregate limit for all the coverages.

Financial Institution Portfolio is available in 43 U.S. states and Puerto Rico. It was developed for banks and insurance companies with more than \$1 billion in assets and asset management companies with more than \$10 billion under management.

Among the highlights of the coverages offered under Financial Institution Portfolio, the D&O liability insurance

covers punitive damages where insurable by law, and broadens the definition of "insured person" to include foreign equivalents and "spouse" to include domestic partners. Among other things, the employment practices liability insurance includes access to Chubb's online EPL loss prevention program.

The fiduciary liability insurance includes voluntary settlement program coverage and broadened definitions of "claim" and "administration," while the kidnap/ransom and extortion insurance provides crisis management services from the Ackerman Group Inc. ■

Runoff insurers' plan effectiveness a struggle

NEW YORK—A new study suggests that while U.S. insurance companies are having success with developing strategies to manage runoff business, they're having difficulty implementing effective operational plans to meet their goals.

The study by PricewaterhouseCoopers L.L.P.'s Insurance Restructuring Group asked U.S. property and casualty insurance and reinsurance companies with discontinued insurance operations about their runoff management strategy and their plans for the future.

According to PwC, a key measure of the degree to which runoff liabilities are a primary focus for an insurance company is the extent to which the company has crafted separate strategic

plans and financial forecasts for its runoff business.

Of the companies PwC surveyed, 83% said they have strategic plans in place for their runoff operations. In most cases, those plans are supported by financial forecasts, and management and staff are measured against the goals set out in the financial model.

Almost 80% of those surveyed said their top strategic goal is to bring finality to assumed exposures, PwC said. Removing portfolio volatility and minimizing claims settlement amounts were other key goals.

PwC's survey also found that compa-

Of the companies PwC surveyed, 83% said they have strategic plans in place for their runoff operations.

nies' outsourcing of runoff management tends to be more focused on specific specialized tasks, rather than involving outsourcing management of the entire portfolio. And, while runoff generates additional regulatory

scrutiny, companies' relationships with regulators appear sound.

While most respondents indicated their runoff strategy is supported by a plan and financial model, 67% indicated they are not required to file their runoff plans with regulators.

The study "How U.S. Run-off Liabilities are Managed" can be found at www.pwc.com. ■

THE QUOTE

'EMPLOYERS ARE FINALLY beginning to understand where long-term care fits. Long-term care functions as a firewall around an employee's retirement plan.'

MIKE SKIENS, PRESIDENT, MASTERCARE SOLUTIONS INC.

Fireman's offers GridPoint product discount

NOVATO, Calif.—Fireman's Fund Insurance Co. has struck an alliance with intelligent energy management product provider GridPoint Inc. under which the insurer will offer policyholders a discount on GridPoint products.

Through its Prestige Advisory Services, Novato, Calif.-based Fireman's Fund will offer policyholders a 20% discount on GridPoint products offering clean backup power, renewable energy integration and online energy management for homeowners.

According to the insurer, the alliance gives policyholders access to an environmentally sound solution for protecting homes and businesses from power outages, easily integrating solar or wind energy sources, and increasing energy efficiency through

online energy management.

As a result, Fireman's Fund customers can reduce the risks that power outages present to homeowners—from security system failures to damage of collections in climate-controlled areas—in addition to the potential energy efficiency benefits they can realize.

Through the service, Fireman's Fund Prestige policyholders have access to GridPoint Central, a personal Web portal allowing customers to manage their household energy use online. In addition, Washington-based GridPoint's operations center constantly monitors GridPoint products to ensure optimal performance, and also handles any maintenance issues. ■

New York Life, AARP team for retirement income protection

NEW YORK—New York Life Insurance Co. has joined with AARP Financial, a Tewksbury, Mass.-based subsidiary of AARP Services Inc., to provide the AARP Lifetime Income Program, a program designed to generate a secure stream of retirement income for AARP members.

The AARP Lifetime Income Program offers annuities issued by New York Life Insurance & Annuity Corp.

New York Life has had a relationship with AARP since 1994.

After a successful pilot test in the second half of 2006, the AARP Lifetime Income Program is now available to most of AARP's 37 million members. New York Life will handle the AARP Lifetime Income Program from its dedicated service center in Tampa, Fla.

The New York-based insurer said recent research conducted by the company showed that 58% of pre-retirees surveyed thought it was important to supplement the income they will receive from Social Security or pensions by purchasing a product that provides guaranteed retirement income. ■

ING Re opens access to ROSE newsletter, ROSEBUD Fast Facts

MINNEAPOLIS—ING Reinsurance is now providing access to two publications offered through its ROSE program—the ROSE Resource Newsletter and the ROSEBUD Fast Facts—online via its Web site.

No user ID or password is required to gain access to materials in the two publications at the www.ingreinsurance.com site.

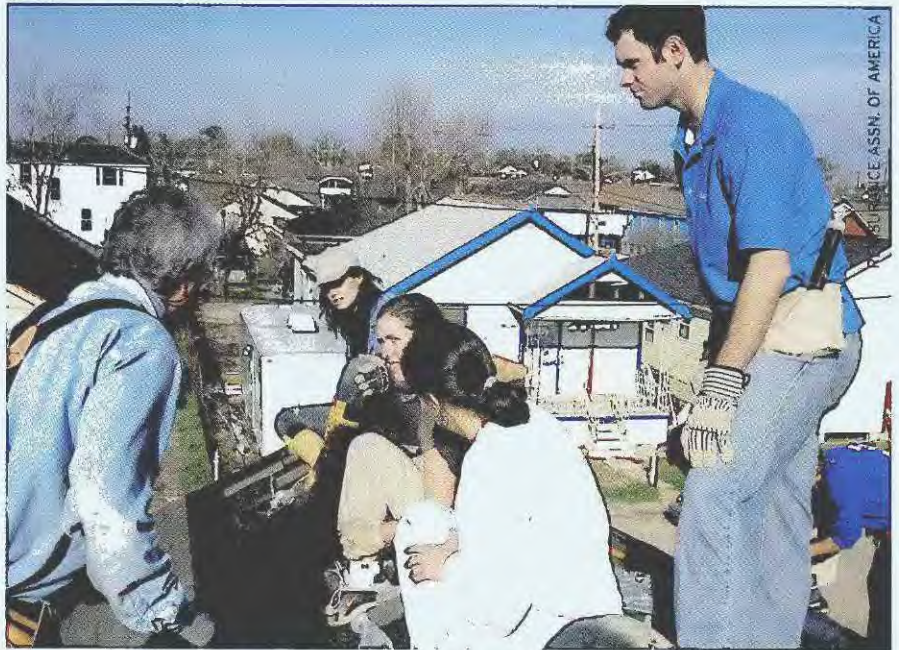
The ROSE Resource Newsletter is a quarterly publication for medical case management professionals. It regularly highlights case management issues along with the latest developments in technology and medical management. Recent articles have addressed such topics as HIV, perinatology, neonatology, oncology and disease management.

The newsletter also includes information on upcoming conferences and educational programs, market research and other resources offered through ING Reinsurance's ROSE program.

Through a new feature, the ROSE Resource Q&A, ING Reinsurance clients can submit industry-related questions on any topic, including care coordination, maximizing resources, claims administration and managing membership risk.

The ROSEBUD Fast Facts publications discuss topics related to perinatal and neonatal case management. Articles are written by ROSEBUD physician consultants on a bimonthly basis. Recent topics have included information on diabetes during pregnancy and care of the infant of a diabetic mother.

The Reinsurance Outcomes and Service Experts, or ROSE program, was created in 1984, and is designed to help ING Reinsurance clients manage catastrophic medical and disability claims. ROSE services are available to ING Reinsurance clients as an endorsement to the reinsurance contract. **IF**



Participants in a Reinsurance Assn. of America conference in New Orleans last month spent extra time in the city helping with post-Katrina relief efforts.

RAA volunteers lend a helping hand in rebuilding New Orleans

NEW ORLEANS—Participants in a recent Reinsurance Assn. of America conference in New Orleans took advantage of their presence in the city to assist local volunteer relief efforts.

Prior to its February catastrophe modeling program in New Orleans, the Washington-based RAA announced it was partnering with the New Orleans Habitat for Humanity and the city's Second Harvest Food Bank for volunteer opportunities during the association's conference.

The program drew approximately 350

attendees from around the world, many of them arriving in New Orleans early or staying after the conference ended to participate in volunteer activities.

Conference registrants worked with community volunteers on the Musicians' Village project in the city's 9th Ward, building homes for local musicians and families displaced by Hurricane Katrina. Others, working with the Second Harvest Food Bank, spent a day sorting and packing food donations to be sent to distribution centers around New Orleans. **IF**

IMCA accepting marketing award nominations

Entries are being accepted through March 30 for the 2007 IMCA Showcase Awards competition sponsored by the Insurance Marketing Communications Assn.

In its 49th year, the IMCA awards program recognizes outstanding marketing communications in the insurance industry. This year's competition features entries in 42 categories.

The awards competition is open to all

firms in the insurance industry, not just IMCA members. This year's winners will be announced at the IMCA annual meeting June 3-6 in Newport, R.I.

To enter, go to www.imcanet.com and download the IMCA Showcase Awards brochure and entry forms. For further information, contact Temie Seibert, IMCA executive director, at 206-219-9811 or tseibert@imcasnet.com. **IF**

Novato, Calif.-based Fireman's Fund Insurance Co. has named **Roger M. Nulton Jr.** president of the company's commercial business. Mr. Nulton, who previously was chief operating officer of the company's commercial business, succeeds **Gary Bhojwani**, who was named chief executive officer of Minneapolis-based sister company Allianz Life Insurance Co. of North America.

S. Ming Lee will become president and CEO of AIR Worldwide Corp. when the company's founder, **Karen Clark**, steps down April 15 from the posts and becomes vice chairman of AIR's board of directors. Mr. Lee, who joined AIR in 1996, is currently executive vp. Boston-based AIR is a subsidiary of Insurance Services Office Inc.

Daniel H. Olmsted, president and COO of the Atlantic Cos., has been named to the additional post of CEO. As CEO, Mr. Olmsted succeeds Klaus Dorfi, who will remain the New York-based company's chairman until he retires at the end of the year.

Thomas J. Elliott III has joined New York-based Mercer Human Resource Consulting in the newly created position of COO, consulting practices. Before joining Mercer, Mr. Elliott was president of Unisys Corp.'s Global Commercial Industries business unit. Also, **Robert Yungk** has joined Mercer as president

and global head of Mercer Health & Benefits. Mr. Yungk joins Mercer from Tenet Healthcare Corp. where he was senior vp-managed care.

New York-based Guy Carpenter & Co. L.L.C. has named **Ajay Junnarkar** chief financial officer. Mr. Junnarkar replaces Phil Petronis, who has been appointed COO for Marsh Products & Services Management. Before joining Guy Carpenter last year, Mr. Junnarkar was director in



Ms. Clark

parent company Marsh & McLennan Co.'s strategic development group. Meanwhile, Guy Carpenter announced that **Andrew Marcell** has been appointed CEO

of Continental European operations and head of business development and specialty practices in both the United Kingdom and Continental Europe at Guy Carpenter & Co. Ltd. in London. Most recently Mr. Marcell was head of Guy Carpenter's worldwide casualty practice. And **Nick Frankland**, previously deputy CEO of U.K. operations, was named CEO of U.K. operations. They succeed **David Priebe**, previously president and CEO at Guy Carpenter's European operations, who has been chosen to head the intermediary's global specialty operations.

F. Robert Woudstra has been named president and COO of Los Angeles-based Farmers Group Inc. Mr. Woudstra previously

was executive vp. Also, **Keith T. Schofield** has been appointed president and COO of Farmers Services, a new support services entity at the company. Ms. Schofield, who also serves on the Farmers Group board, previously was executive vp-support services.

Peter J. Imbrogno has been named U.S. COO at Cambridge Integrated Services, the Greenwich, Conn.-based subsidiary of Cambridge Solutions Ltd. Mr. Imbrogno, who will be based in Cambridge's Downers Grove, Ill., office, most recently was COO at Broadspire Services Inc.

Memphis, Tenn.-based Sedgwick Claims Management Services Inc. has appointed **Bill Brewer** executive vp, CFO and a member of the Sedgwick CMS Executive Committee. Before joining Sedgwick, Mr. Brewer was a partner in the financial services assurance practice of PricewaterhouseCoopers L.L.P.

ACE Ltd. has named **Roberto Hidalgo** president and CEO of ACE Argentina and ACE Chile. He formerly was president and CEO of ACE Puerto Rico and will be based in Buenos Aires, Argentina. **Judith Hernandez-Tate**, regional vp, property, for ACE Latin America, will succeed Mr. Hidalgo as president and CEO of ACE Puerto Rico and will be based in San Juan. She will continue in her senior commercial property insurance role for ACE Latin America.

Richard Hynes has been named president and CEO

of Willis Canada in Toronto. Mr. Hynes, who previously was managing partner of the broker's Toronto office, succeeds Wole Coaxum, who left the firm.

George Town, Grand Cayman-based United America Indemnity Ltd. has named **Saul A. Fox** CEO and named **Robert M. Fishman** CEO and president of its Bala Cynwyd, Pa.-based United America Insurance Group insurance operation. Mr. Fox was chairman of United America Indemnity's board while Mr. Fishman was CEO of United America Indemnity.

Daytona Beach, Fla.-based Brown & Brown Inc. has taken an initial step in the company's executive succession plan that anticipates **J. Powell Brown** becoming the company's CEO on Hyatt Brown's retirement in July 2009. **Jim W. Henderson**, the company's president and COO, has been named vice chairman, with J. Powell Brown, previously a regional executive vp, replacing him as president. Mr. Henderson will continue to serve as COO.

The Washington-based National League of Cities Mutual Insurance Corp. has named **William B. Heberton Jr.** president and CEO. Mr. Heberton most recently was senior vp for specialty lines with CNA Reinsurance Group. NLC Mutual is a member-owned reinsurance company supporting individual state risk insurance pools for municipal governments. ■



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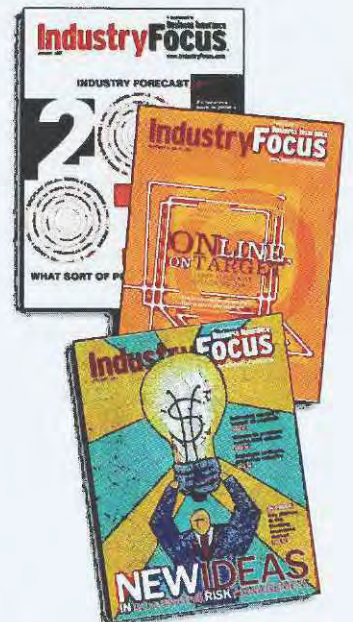
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long-term care selling the benefit

By Meg Fletcher

You see your aged father's physical health declining gradually, despite his sharp mind and strong will.

But you don't realize how much he needs help until you discover that he has a sore on his heel because he is spending too much time sleeping in his favorite chair while wearing shoes he can no longer take off by himself.

Many insurers and producers say people are going to have to experience such moments—and their emotional toll—before they decide to buy long-term care insurance for themselves or to offer it to their employees.

Traditionally, long-term care insurance has not been a popular product for employers to offer or for employees to buy, experts say. According to the latest data available, 6,577 U.S. employers sponsored group

long-term care programs in 2004 and 1.86 million employees participated in those programs, according to the American Assn. for Long-Term Care Insurance in Westlake, Calif.

Generally, "long-term care still hasn't made it to the 'must-have' list," unless a person or a loved one has had a life event where such coverage could have helped, said Scott Beck, national director of distribution and account management at the

Westport, Conn.-based long-term care unit of MetLife Inc.

Long-term care provides a wide range of services and assistance to aged adults who need help in performing basic functions, such as bathing and dressing. The levels of care begin with the less expensive home visits by trained aides or homemakers and include more expensive assisted living facilities or nursing home care.

The price of the insurance coverage is designed to remain fixed at a rate based on the age of the buyer when he or she purchases the product. Subsequent rate increases must be approved by a state insurance regulator.

Sellers, however, are trying to encourage employers to offer the coverage as a voluntary benefit by making it more available, with lenient workplace underwriting, and more affordable, with employer discounts. In addition, the product's age-specific pricing allows younger buyers to pay less for coverage through their lifetime.

12% OFFER COVERAGE

According to the U.S. Bureau of Labor Statistics, 12% of private companies offered long-term care insurance to employees in 2006, up from 11% in 2005. In addition, the coverage is offered more often to white collar workers than to blue collar workers—17% compared with 7%, the bureau reports.

The federal government and some other public entities also offer long-term care insurance through large group programs, said Jesse Slome, executive director of the AALTCL. The association represents primarily agents and brokers that sell such coverage.

About 1.9 million employees participated in 6,500 group programs in 2004, according to the association's latest statistics.

Those so-called "true group" programs are primarily insurer-driven and consider the employer as the policyholder while employees receive certificates, said Dennis Healy, vp-business development for the group long-term care department at Boston-based John Hancock Financial Services Inc.

There are several reasons why long-term care has not been popular, insurers and producers say.

"It's an icky product. No one wants to think about a nursing home or losing function," Mr. Beck said. Compared to health insurance, "it's a hard sell."

Also, there is confusion about what services Medicare or other health insurance will provide, which is typically up to 100 days of nursing home care following a three-day hospital stay, experts say.

In addition, "long-term care always has been considered a senior product," said Mike Skiens, president of Portland, Ore.-based MasterCare Solutions Inc., a brokerage that specializes in long-term care insurance. Yet, the older a buyer is, the more difficulty he or she faces in obtaining the coverage due to health status and paying for it.

For example, a "good" policy for someone who purchases coverage between 60 and 65 years of age can cost \$2,000 annually, although that person could have paid \$1,200 annually—\$800 less—if he purchased it at age 50, Mr. Skiens said.

Long-term care insurers and producers hope that the aging U.S. population will increase interest in the product.

"Statistics show that at least 6.4 million people aged 65 or older need long-term care, with one in two over age 85 requiring care," according to a survey by Westport, Conn.-based MetLife Mature Market Institute.

The annual cost of that care is an important factor, too. In 2006, the

national average rate for a private room in a nursing home was \$75,190 and the rate for assisted living was \$35,616, according to the MetLife survey.

"With the workforce growing older, the reality of the sandwich generation is sinking in," Mr. Skiens said. The compression of generations, in which middle-aged workers are trying to help their parents and children cope with changing needs, "is creating awareness."

Also, demographic shifts are swelling the pool of potential purchasers of such coverage. For those born from 1946 through 1964, "there is a wave of baby boomers looking at their own mortality," Mr. Beck said.

FINANCIAL MOTIVATION

From an emotional perspective, long-term care insurance sales are motivated by the realization that if a person can set aside a pool of money for their basic care, they will be more inclined to use it and remain independent. "It's better for them and for their children," Mr. Slome said. "Long-term care allows your loved ones to care about you—not for you—and gives you choice and control over how and where you receive care."

From a financial perspective, such sales are motivated by the realization of the cost of such care and the financial incentives that the product offers, such as the ability to lock in age-specific premiums so younger employees pay less while protecting their retirement savings, experts say.

When long-term care insurance emerged as a product in the 1970s, it provided skilled and intermediate care only in nursing homes, which most people have long considered the last place they want to be.

Since then, insurers have expanded options to allow policyholders to get such care in their own homes or in assisted living facilities.

COVER FOCUS

BENEFITS & FINANCIAL SERVICES

Of the \$3.3 billion in long-term care insurance claims paid in 2006, slightly more than 33% went to home care and nearly 30% to assisted living, according to the long-term care association.

"The benefit levels for home health care have been steadily rising," said John Hancock's Mr. Healy.

"You'll also see more flexibility, because flexibility and lower price is what people want," Mr. Slome said.

Depending on the policy, insurers pay benefits on the basis of indemnity, reimbursement or in cash, with little or no paperwork. Policies may contain a wide variety of coverage options including inflation adjustments, accelerated payment options and the return of unused premium.

HUGE MARKET

The potential employer market "is huge and there is a lot of opportunity," Mr. Healy said.

"Employers are finally beginning to understand where long-term care fits," broker Mr. Skiens said. "Long-term care functions as a firewall around an employee's retirement plan."

Employer-sponsored group sales resulted in \$60 million in annualized new premiums in 2004, according to the long-term care association AALTCI.

Among potential employer customers, sellers first target those with white collar, college-educated employees of sufficient means.

"Long-term care is for people with assets to protect and income to pay for the coverage," Mr. Skiens said. Producers often follow the "50-40-40" rule when assessing the appropriateness of approaching a group about coverage: 50% of the group should be older than 40 and make more than \$40,000 a year, although on the more expensive East Coast they may seek a baseline salary of \$50,000, he said.

"The most successful worksite program is a multilife program that essentially is a hybrid product," said Ed Jette, vp of ElderCare Insurance Agency Inc. in Oxford, Mass. "It offers the flexibility of individual products with the benefits of a group product, including discounts and relaxed underwriting."

Most employer group plans "are bro-

kerage—or agent-driven with simplified underwriting," Mr. Healy said.

A private employer that decides to offer long-term care insurance to employees typically does so in one of three ways, experts say. The most common plan is a voluntary one in which the employer pays nothing.

"Traditionally, voluntary programs have been the most common, but we are increasingly seeing employers making a financial commitment" to employees premiums, Mr. Skiens said.

Another option is the "core buy-up plan," in which the employer offers core benefits but employees are permitted to enhance those by buying broader coverage.

Finally, some employers offer an "executive carveout" program, which employers often sponsor for top compa-

ically requires the applicant to fill out a lengthy questionnaire and give an insurer access to all his medical records, experts say. In addition, some insurers may reserve the right to do a phone or face-to-face interview, especially if the applicant is older than 70, Mr. Skiens said.

Underwriting is less invasive if purchased through an employer's group program, Mr. Skiens said. For example, underwriting for employees may be done on a "guarantee issue" basis, with a few exemptions for pre-existing conditions, or through "simplified underwriting," which consists of answering about five health-related questions.

There is, however, a onetime window ranging from 30 to 90 days for employees to participate in the coverage as members of a group, producers say.

Although employer plans vary, typical features include a discount as well as age-specific pricing that is cheaper for younger workers and more expensive for older workers.

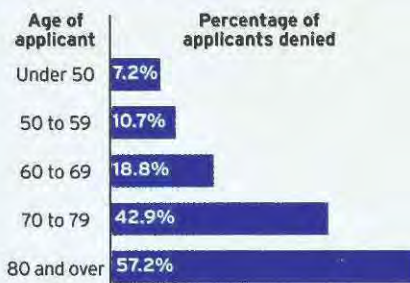
Frank J. Fimmano, a New York-based senior vp for Aon Consulting's elective benefits practice, cited a recent example in which three insurers quoted costs for a 1,000-employee company. For basic coverage that would provide \$200 per day in nursing home costs, premiums ranged from \$28 to \$36 per month for a 40-year-old employee and from \$95 to \$113 per month for a 60-year-old employee.

Many employers do not contribute financially to group long-term care coverage offered to their employees, although their interest in the program is important. "There is a definite correlation between employer endorsement and employee interest," even if the employer is not contributing any money to the program, MetLife's Mr. Beck said.

The market trend in product offerings is toward simplification, Mr. Beck said. "There is a demand for a simpler and more affordable product."

In addition to employer group sales, long-term care insurance is sold through association programs, which resulted in \$25 million in annualized new premiums in 2004, according to the AALTCI's latest statistics. ■

WHO QUALIFIES?



Source: 2006 Sourcebook, American Assn. for Long-Term Care Insurance

ny executives and their spouses who receive coverage as a free benefit.

Employees' litany of reasons for not buying the coverage include "I'm too young, poor—or rich—and I'll never use it," Mr. Jette said.

The real reason employer-sponsored voluntary coverage has not had greater worksite penetration is that most insurers and producers "don't allocate enough man-hours and resources to educate, sell and enroll applicants," he said.

Mr. Healy said underwriting criteria for long-term care insurance typically follows the standard industry practice of: "The smaller the size, the more stringent the underwriting criteria."

Underwriting for a long-term care policy purchased by an individual typ-

PCR #	Size of DNA	Primer #	Com
# 1	$845 - 376 = 467$	47, 48	HR N
# 2	$644 - 105 = 539$	49, 50	
# 3	$2421 - 980 = 1441$	51, 52	
# 4	$732 - 340 = 392$	53, 54	
# 5	$2068 - 1477 = 591$	55, 56	P-b
# 6	$72 - 1576 = 516$ bp	57, 58	HR CN-
# 7	$2433 - 1546 = 887$ bp	59, 60	HR c-
# 8	$23 - 11 = 12$	61, 62	HC 12
# 9	$23 - 11 = 12$	61, 62	

a question of privacy

By Meg Fletcher

Lawmakers look to safeguard individuals from possible genetic discrimination

Most U.S. residents are shying away from genetic testing because they fear that information may fall into the hands of employers or insurers who might use it to discriminate against them, experts say.

The Genetic Information Nondiscrimination Act of 2007 (GINA) proposes to ban discrimination on the basis of genetic information in health insurance and employment. Identically named bills, which are pending in both houses of Congress, also propose to extend medical privacy and confiden-

tiality rules to the disclosure of genetic information. (See box on page 15.)

While everyone—including opponents—endorses the goals of the legislation, there is a difference of opinion about how to achieve them without opening the door to unintended consequences.

Supporters of GINA in the Coalition for Genetic Fairness include civil rights, patient and health care groups, and a few employers. In addition, about half of all members of Congress are co-sponsoring the bills, which the Bush administration has endorsed in concept.

They favor uniform, federal nondis-

Keys to better health programs

IT applications bolster efforts to advance consumer-driven models

By Rodd Zolkos

As health plans work to move participants to a more consumer-driven model, various technology tools are proving essential to the goal of enabling plan members to play a greater role in directing their medical care.

One factor behind the move, no doubt, is a growing expectation among consumers—particularly younger plan participants—to be able to get information quickly and whenever they choose.

"There's always going to be this generational thing with technology, and I think kids coming out of college, they're not going to put up with calling (human resources) to get a form," said Andrew Ceccon, chief marketing officer at Online Benefits Inc. in Uniondale, N.Y.

Greater, though, is the recognition of the role that personalized information plays in empowering health care consumers.

"The personal health record is in many ways the foundation for a lot of a consumer's decisions," said Bobbi Coluni, director of product innovation at health care information and research firm Thomson Medstat in Ann Arbor, Mich.

ONE STEP BEYOND

Beyond that, health insurers and plan sponsors need to go beyond simply providing that health record to actually providing a set of health management tools to health care consumers, Ms. Coluni said.

Among the companies with which Medstat has partnered is CapMed, a division of Newtown, Pa.-based Bio-Imaging Technologies Inc. that focuses on personal health information.

CapMed's core offering is a personal health record product, said Wendy Angst, the company's general manager. CapMed has been in the personal health record space for about 10 years, "which has really given us an opportunity to help kind of shape the space as well," Ms. Angst said.

CapMed delivers its personal health record product in three applications: a desktop version, a USB flash drive called Personal HealthKey and an online application.

The Personal HealthKey allows individuals to carry their entire



'THE USE OF portable PHRs is an excellent example of how this technology can improve care by greatly increasing accuracy and timeliness of medical records and facilitating patient-physician communication.'

DR. JOHN S. JAFFE
LEHIGH VALLEY
PHYSICIAN HOSPITAL
ORGANIZATION

The Personal HealthKey allows individuals to carry their complete medical record with them at all times.

medical record in their pocket. Both the Personal HealthKey and the desktop formats offer consumers full Internet connectivity, allowing them to communicate and manage their medical information online.

The flexibility offered by providing health record information in various formats allows consumers or provider customers to choose a delivery method that best fits their needs, Ms. Angst said.

Recognition of the importance of personal health records and ready access to them led to Lehigh Valley Hospital and Health Network in Allentown and Bethlehem, Pa., to decide recently to provide CapMed's personal health records to its physicians and employees.

The CapMed tools allow users to track and manage their personal health and wellness information, upload readings from home monitoring devices, link to relevant patient education, and receive personal alerts and reminders.

"The use of portable PHRs is an excellent example of how this technology can improve care by greatly increasing accuracy and timeliness of medical records and facilitating patient-physician communication," Dr. John S. Jaffe, executive medical director of Lehigh Valley Physician Hospital Organization, said in a statement.

For many health plan providers, the first application of technology is during open enrollment. Online enrollment and online calculators allow plan participants to determine what plan makes the most sense for their personal situation, according

to Barry Barnett, principal at PricewaterhouseCoopers L.L.P. in New York.

Once participants have chosen consumer-driven programs, "The technology around health risk assessment, online assessment tools—those tools are really getting more robust," Mr. Barnett said. The tools go through the process of considering the plan participant's demographic information, wellness, medical history "and give you links to information you should know,"

he said.

For example, a woman with a family history of breast cancer would be directed to information suggesting more frequent mammograms than would typically be recommended for her age group.

In his own case, Mr. Barnett had a stent inserted after a physical detected a blockage in an artery supplying blood to his heart. "I now get messages focused around healthy eating, diet and that kind of stuff," he said.

"Some employers start it before enrollment," Mr. Barnett said, to get plan participants accustomed to using the online health risk assessment so when the open enrollment process begins, they're already experienced with the Web-based tools.

"It's really employee self-service in a way, but expanding the service with a very robust set of tools," he said.

COST BENEFITS

The online tools can also offer a way to help control health care costs by providing plan participants with information about costs of doctor visits, various medical options or on the availability of generic drugs, for example, Mr. Barnett noted.

CapMed's Ms. Angst offered a similar view, suggesting that the increased patient awareness that comes with using personal health record management systems could help reduce insurance costs in several ways, including better management of chronic diseases and reduced redundancy in tests and treatments.

The self-service aspect, particularly in



Online Benefits Inc. soon will release Benergy 2G, an online tool to help users make better decisions about their health care.

terms of maintaining and finding information, is only likely to grow as consumer-driven health care gains momentum. Andrew Ceccon, chief marketing officer at Online Benefits Inc. in Uniondale, N.Y., which provides the Benergy online benefits information product, said he sees recognition of that trend among brokers and employers.

Online Benefits surveyed employers and brokers and found that the top two factors those groups see as essential to the success of CDHPs are good health plan education and plentiful wellness education information, Mr. Ceccon said.

"To me it's not just consumer-driven plans. Even if you have a traditional (point of service) plan, employees still need information about their

plans...and employers can save money if employees use their plans correctly," he said.

Online Benefits was recently acquired by health and wellness content provider A.D.A.M. Inc., which brings to the company's offerings an "amazing" library of online information focused on teaching individuals about their health, Mr. Ceccon said.

A new version of Benergy, Benergy 2G, will be released soon. The centerpiece of that tool will be its Web site and the information available there, Mr. Ceccon said. "The other thing we're doing is we have modeling tools that will help employees estimate their health expenses," he said.

One area that Mr. Ceccon sees as a coming trend in online health information offerings is video. "I think where things are going is video, YouTube," he said. "More than just video—multimedia."

Online Benefits has a video library explaining "every kind of benefit program you could think of" in English and Spanish, Mr. Ceccon said.

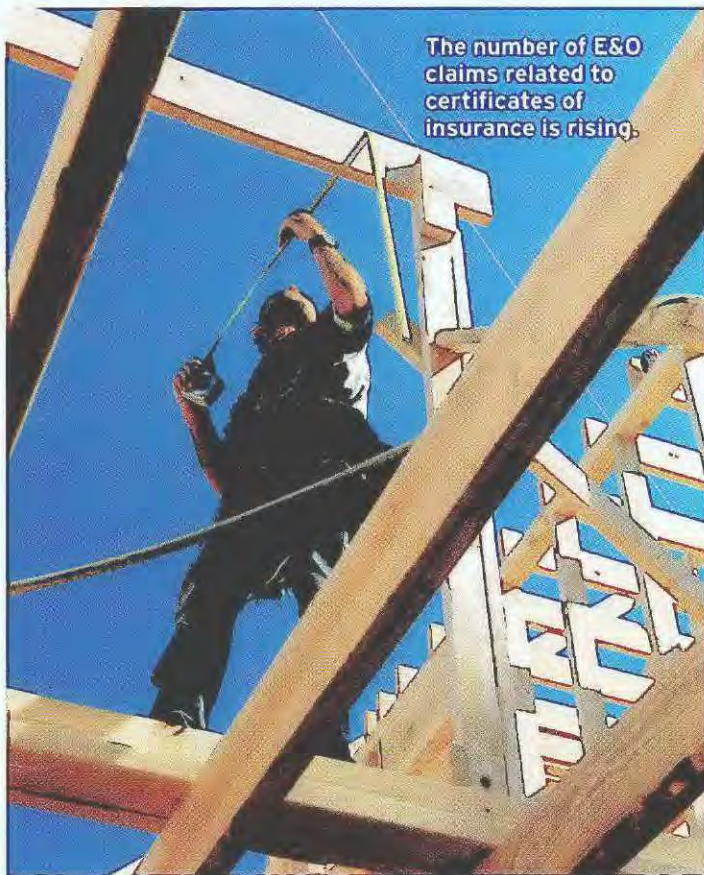
VIDEOS EMPOWER USERS

There are also thousands of videos covering a variety of health issues, he said. For example, a plan participant with a sprained ankle can watch a video discussing first-, second- and third-degree sprains and determine whether the injury is one that can be treated at home or whether a hospital visit is necessary. "There are also things like Care Guides," he said.

"I think that's kind of at the heart of consumer-directed or consumer-driven health care," Mr. Ceccon said. "It's taking charge of your own health care."

Online Benefits will also offer a private personal health record through Benergy, into which plan participants can input their medical information, history, etc. "We're realistic here. I don't think a lot of people are going to jump to this immediately," Mr. Ceccon said. "But part of taking care of your health is keeping your records." ■





The number of E&O claims related to certificates of insurance is rising.

New twists on a building problem

Agents, lenders face off in continuing battle over certificates

By Meg Fletcher

Inurance agents and mortgage lenders each are trying to gain ground in a tug of war over certificates of insurance that is exacerbating a longstanding problem and creating new concerns.

Agents should analyze their operations and adopt more effective loss-control techniques in response to an increasing number of errors and omissions claims related to the insurance certificates requested by third parties, according to a report from the Alexandria, Va.-based Independent Insurance Agents & Brokers of America Inc.

In addition, mortgage lenders are negotiating to tighten some standard certificate of insurance forms. Mortgage lenders want the certificates to reflect the existing wording in the underlying policies, which obligates insurers to notify the lenders when a borrower's property insurance coverage no longer is in force.

Every year, U.S. policyholders request millions of such certificates to provide a snapshot of coverages, sources estimate. Requiring such certification from a lesser party to a contract is an essential risk management tool, although not a trouble-free one.

In a typical scenario, a building contractor asks each subcontractor to provide a certificate that confirms that the subcontractor has general liability and workers compensation insurance and lists the policy limits, or at least stipulates that policy limits meet the contractor's minimum requirements.

NOT ALWAYS BUSINESS AS USUAL

Sometimes, however, the relationship is more complex when the contractor wants to become an additional insured on the subcontractor's policy, giving the contractor some rights under that policy.

"Certificates of insurance have always been a problem," said David Golden, director of commercial lines for the Des Plaines, Ill.-based Property Casualty Insurers Assn. of America.

There is an ongoing struggle to balance the rights and responsibilities of policyholders, agents, insurers and certificate requesters.

"The current certificate of insurance process is an imperfect solution to a legitimate need," said Jack P. Gibson, president of the International Risk Management Institute, a Dallas-based research and publishing company that specializes in risk management and property/casualty insurance.

The aim is to inform a third party—such as a contractor, mortgage holder or governmental entity—of the existence and amount of insurance that a policyholder has so that the third party can protect its interests, said Bill Wilson, associate vp of the IIABA's Education and Research Department. He also directs the IIABA's Virtual University that provides online services and publications to members.

Mr. Wilson wrote the IIABA's 53-page white paper, "Certificates of Insurance: Issues and Answers." According to his analysis, three problems stand out as most significant.

The first involves large companies and governmental entities that use their leverage to transfer liability by making "onerous insurance requirements...that cannot be met by coverages typically available in the admitted marketplace," the paper says.

For example, a contract might require that the certificate requester be named as an additional insured or provided with a type of coverage that the insurer cannot or will not provide, Mr. Wilson said.

"There is often a disconnect between what certificate holders include in the indemnity provisions of contracts and what insureds can get or what their insurers are willing to provide," said Lee Roth, vp-business development for Hemet, Calif.-based Jenquest Inc., doing business as Insurance Data Services. IDS will process more than 3 million insurance documents, including certificates of insurance, for 200 clients this

year, he said.

"Refusing to do so, agents are often faced with the claims from the insured or certificate requester that they know of agents who can or will provide such certificates," Mr. Wilson wrote. "Failure to do the same could mean the loss of an account for the agency. These unreasonable requests too often lead to the issuance of fraudulent certificates by insureds or agents," he said.

Risk managers for contractors sometimes try to alter existing certificate of insurance forms to meet their needs, Mr. Gibson said. "They try to turn the certificate into a contract rather than an indication of coverage," he said.

The second problem is certificate fraud by agents and insureds.

Agents' errors and omissions claims have increased 28% in the past three years, according to the white paper, which is based on data from the IIABA's own E&O insurance program.

About 21% of certificate E&O claims involving agents are related to "misrepresenting coverage on the certificate that doesn't actually exist," Mr. Wilson said. Such misrepresentation is often done "so an insured subcontractor can get a construction job or get paid for one," he added.

A more common error—in 36% of certificate E&O claims during the three-year-period—has been failure to add or improperly identify additional insureds.

In some cases, insureds make use of increasingly sophisticated word processing capabilities to produce fraudulent documents that look real, Mr. Roth said. "Now, those who have untoward intentions have more tools at their disposal," he said.

STATE ACTION

A number of states have taken legislative or regulatory action to address some of the problems, Mr. Wilson said. For example, Alabama requires that insurers file any certificate that is not a standard form used by the Assn. for Cooperative Operations Research & Development in Pearl River, N.Y., or by the Insurance Services Office Inc. in Jersey City, N.J.

The vast majority of the IIABA's 25,000 member agencies obtain their E&O liability coverage through the association's program, which is marketed through its state affiliates. The association, which handles the program's marketing and loss control, provided data about percentage changes, but declined to provide claim numbers.

The third significant problem, according to the IIABA white paper, is insurers' unwillingness to provide notice of cancel-



Mr. Wilson

lation to certificate holders, despite language in some certificates that state the companies "will endeavor to" provide such notice.

Some mortgage lenders, including the Federal National Mortgage Assn., are so concerned about the latest version of ACORD forms—primarily forms 27 and 28—that they have refused to accept them, according to a Mortgage Bankers Assn. spokeswoman.

Lenders need timely and accurate insurance policy information to protect their and investors' interests, she said. The latest version of each of those forms contains the "endeavor

to" wording rather than clearer language that was used as recently as 2003, which obligated the insurer to contact the certificate holder, which the lenders prefer.

ESTABLISHING BOUNDARIES

The Independent Insurance Agents & Brokers of America Inc. recommends in a recent white paper that an insurance agent take these steps to help decrease his or her legal liability related to certificates of insurance:

- Provide the client with information or a disclaimer that indicates you will only provide current, accurate information on certificates.
- Provide appropriate legal or contractual authority; never exceed it.
- Minimize the review of contracts for insureds and use a disclaimer.
- Refuse to modify an ACORD contract.
- Refuse to issue a non-ACORD certificate without insurer approval.
- Proofread all certificates and perform periodic quality control checks.
- Establish a procedure for handling certificates.
- Send a certificate holder the entire certificate.
- Send copies of all issued certificates to the identified carrier(s).
- Use the correct coverage form to fulfill certificates requests.
- Refuse to certify coverages that do not exist.

A STEP TOO FAR

Essentially, "lenders want the (certificate) form to act as a substitute for the policy and summarize the terms and conditions of the contract," said Ken Stoller, senior counsel with the Washington-based American Insurance Assn. "The idea of imposing obligations on the insurers is really going a step too far," said Mr. Stoller, who noted it is the policyholder's responsibility to show the policy to the lender.

Standard insurance policy wording expressly requires that lenders be notified if a policyholder/buyer's coverage is no longer in force and that policy-stated requirement supersedes any wording in a certificate of insurance, several sources said.

Lenders, however, note that insurance policies are sometimes not available in a timely way for deals to close efficiently, the MBA spokeswoman said. In addition, policy wording is often complex and not as easy to interpret as a certificate.

After hosting a well-attended conference call last month, ACORD is establishing a working group to discuss the issue in detail. "We are committed to trying to resolve the conflict," an ACORD spokesman said. ■

Editor's Note: An executive summary of the white paper is available free to all online at www.iiaba.net/vu. The entire paper is free to IIABA members and paid Virtual University subscriber. The fee for others is \$75. Also, an online supplement discussing several court cases is available to association members and VU subscribers.



Wise pruning will keep last year's growth healthy

By Jim Quallen and Rolf Thrane

Property and casualty insurance executives have entered 2007 fresh from a year in which profitability is likely to be among the highest in the past 50 years. The combined ratio for the first nine months of 2006 was 91.9%, according to A.M. Best Co. Inc., with 20 of the largest 25 U.S. insurers having stronger nine-month performance improvements in 2006 than 2005.

The data for the remaining months

of 2006 is not yet in, but there have been no shocks that suggest anything but a stellar ending for last year. Reports in this magazine suggest that 2006 will be the best underwriting profit year in the past 50 years—which ironically will put new levels of pressure on margins in 2007 and beyond.

The likelihood that the industry will have similar profitability performance in 2007 as it did in 2006 does not appear strong. Insurers benefited last year from a combination of previous rate increases, abnormally low claims frequency

and lighter hurricane incidence. This combination helped mask rising costs of health care, legal fees, auto repairs and increases in the prices of most goods and services purchased by insurers.

Should rates be steady or decline—and there are reports of market softening—and should claim frequency or hurricane severity and incidence increase, insurance executives will likely find it difficult to replicate the performance of 2006 unless they are able to materially increase business without exacerbating price pressures or find ways to decrease their costs.

We believe that the last tactic will be the easiest and quickest one to improve profits. Insurers, relative to noninsurers, have not stressed management of third-party expenses as a strategic discipline.

MISSING OPPORTUNITIES

Noninsurers in the past decade have paid much attention to managing the costs of purchased goods and services. Companies such as Merck, American Express and General Electric have built up formal purchasing departments with strong authority to determine and enforce purchasing guidelines. These departments generate tens of millions of dollars in value annually through the savings they achieve from such programs.

In contrast, insurers have not been as aggressive in managing their vendors. As a result, insurers tend to miss opportunities to improve profits in a way that is easier than selling more policies or altering their risk management profile. For larger insurers that have grown by acquisition, the savings opportunity is magnified because their purchasing power is larger and the acquired units are typically still operating in a decentralized manner with limited coordination of buying activities.

Initially, the opportunity for managing vendors tends to be difficult to spot

due to the multiple systems in which spending data on purchased goods and services is recorded (e.g. accounts payable, general ledger, claims-related spending systems, e-payment spending systems) and due to an absence of sufficient level of detail in the spending data.

MEASURES OF SUCCESS

Nevertheless, the opportunity is real. With proper support by executive management, the opportunity yields significant value. Our recent reviews of spending at several insurance firms including a P/C and two life and mutual health insurance companies provide a number of reference points for executive management to consider.

At one P/C insurer with net premiums of about \$4.0 billion, we found \$1.2 billion in purchased costs. At a mutual health insurance company, we



Mr. Quallen



Mr. Thrane

found that a company with \$3.7 billion in revenue had at least \$300 million in traditional purchased costs (excluding medical and health care services).

In another example, a life and health insurer with more than \$10.0 billion in revenue appeared to have at least \$500 million in purchased costs. For spending that is not contractually bound and for which there are multiple vendor candidates, we have observed that 15% to 25% savings is possible via vendor sourcing practices.

INSURERS TEND TO miss opportunities to improve profits in a way that is easier than selling more policies or altering their risk management profile.

These programs achieve competitive pricing on goods and services by consolidating purchases to a select set of vendors and conducting detailed, multi-round negotiations to reach the most competitive pricing available. These vendors are chosen for future business based on the combination of competitive prices of the goods and services and the quality of the goods and services committed to the purchaser.

By rigorously matching the company's demand to the most appropriate suppliers, a material cost benefit is gained.

The value of these programs is manifold, including, among other advantages:

- Rapid profit improvement without cuts in personnel that could impact revenue generation.

- Higher standardization of services and goods purchased across the organization that allow for consistent internal and

external customer services.

- Development of vendor partners motivated to help the purchaser achieve business objectives rather than to think simply in terms of discrete transactions.

Although such an approach is clearly beneficial to corporate profitability, we have found a number of driving factors that we feel contribute to insurers' lag in achieving cost benefits relative to companies in other industries:

- Lack of internal resources for vendor

negotiations. Typically, insurers have not (in our opinion) sufficiently invested in experienced people and have focused on transaction processing rather than ensuring that transactions take place at optimal terms.

- Lack of relevant internal or external benchmarks. Many of the products that make up the bulk of an insurer's cost base are reasonably unique (for example, legal defense, medical providers, claims adjusters). Without expending significant resources, it is impossible to compare pricing to the "market"—making negotiations and price determination difficult and often suboptimal.

- Lack of management attention on costs. Most organizations dedicate the bulk of management time to "front office" or revenue-generating activities. Rarely are the very best people dedicated to cost management despite the difference in profitability impact that an incremental dollar of sales has vs. an incremental dollar of cost savings.

Insurers that are able to achieve lower internal costs are likely to realize several advantages. They will be able to reinvest higher retained earnings into initiatives that are designed to generate additional revenue. Alternatively, they can deliver higher dividends to their policyholders. They can also use a low cost structure to offer lower prices that generate more customers and more policy sales.

As insurance executives consider their tactical initiatives for 2007, launching vendor cost management programs may be the easiest to achieve and provide the quickest and greatest impact. ■

Jim Quallen and Rolf Thrane are partners at New York-based management consulting firm Mitchell Madison Group.

Enterprisewide view of data proves value, convinces leaders

By Rodd Zolkos

As financial services businesses grow, often becoming global in scope, pressures from both consumers and regulators increase as well.

But, according to a report from consultant BearingPoint Inc., an enterprise approach to data management can be key to meeting increased demands from both regulators and companies' customers.

In the report, the study's author, Ari Marcus, a BearingPoint director, suggests that accurate data is necessary to manage a business effectively and that

control also can put their companies in a better position to deal with shifting regulatory requirements and consumer demands, according to the consultant.

The key to such control is an enterprisewide view of data, according to BearingPoint, and financial institutions can expect to benefit from investments in such an approach, providing those investments are aligned with overall business strategy and encompass a key set of data management infrastructure components: organization and governance; policies; and procedures, processes and technology.

The consultant stressed that enterprise data management is more than just a technology product; it is "a journey rather than a destination."

To that end, establishing a performance measurement process that can demonstrate the investment's impact can be essential in winning ongoing support and future funding for later data initiatives from the highest levels of a company's management, BearingPoint said.

BearingPoint notes that for an EDM approach to

be successfully implemented, a company must have a solid governance model in place establishing the mandate from the company's leadership for the standards and controls to be enforced throughout the data life cycle.

A "C-level" executive such as a chief data officer who can make the EDM approach an essential element of the organization's overall mindset can be a significant element in achieving effective data governance, the consultant said.

BearingPoint's report, "Delivering Business Value Through Enterprise Data Management," can be found online at www.bearingpoint.com. ■

ACORD launches London certification facility

LONDON—The Assn. for Cooperative Operations Research and Development has launched a testing and certification facility in London.

According to Pearl River, N.Y.-based ACORD, the new facility will make it easier for ACORD members to test the implementation and certify messages for ACORD Document Repository Interface standard adoption.

London market developers can send ACORD messages to the facility, where the system can validate them and return responses indicating acceptance or errors.

The system was a collaborative effort with member company TriSystems InfoBahn Ltd.

For now, the system can only be used for Document Repository Interface messages, though ACORD will evaluate expanding the system to other ACORD standards.

New tool to administer assumed reinsurance

WAYNE, Pa.—Software and information processing solutions provider SunGard has released an assumed reinsurance administration solution.

SunGard's ProSume administers assumed premiums and losses for all types of treaty and facultative contracts. ProSume also provides cash management capabilities and offers controls for receivables and payables balance and retrocessional reinsurance administration.

ProSume can be installed as a stand-alone solution or in conjunction with Wayne, Pa.-based SunGard's iWorks ProCede Advantage ceded and retrocessional reinsurance administration solution.

SunGard's iWORKS is an information technology product family for the insurance industry offering a range of products and services.

3 4 5 6 7 8 9 10 11 12 COMPREHENSIVE SUCCESS

Potentially quantifiable benefits from enterprise data management investments include:

- Added revenue from cross-selling initiatives
- Increased revenue from quicker product setups
- Reduced costs of bringing new clients on board
- Better customer knowledge
- Better asset allocation
- Decreased risk of regulatory fines and related costs
- Reduced trade failure costs
- Decreased middle-office costs
- Lower development costs

harnessing data can facilitate regulatory compliance while helping companies offer new products, increase the volume of their business and enhance customer experience.

As financial institutions have grown, whether organically or through acquisition, many have found themselves operating on multiple information technology platforms and with multiple IT processes.

But with timely access to accurate data providing a potential competitive advantage, executives increasingly are recognizing the need to gain better control over their data management infrastructures, BearingPoint suggests. Such

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Carolyn shaved in honor of her son's friend George. George is 6 years old, in remission, and on maintenance chemotherapy treatment. Photo taken by Motophoto, Louisville, Kentucky, by Jennifer Truelsen.

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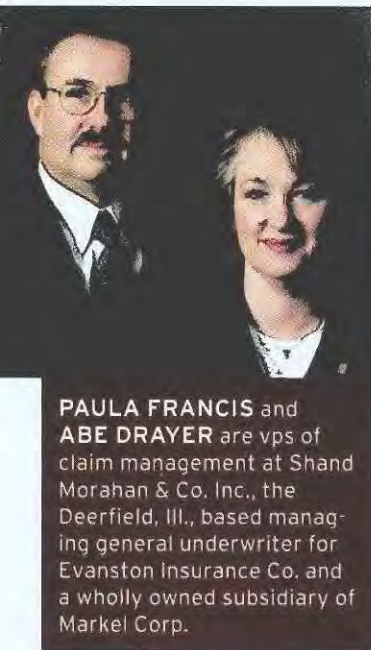
shave

volunteer

donate

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the head-shaving event for childhood cancer research



PAULA FRANCIS and **ABE DRAYER** are vps of claim management at Shand Morahan & Co. Inc., the Deerfield, Ill., based managing general underwriter for Evanston Insurance Co. and a wholly owned subsidiary of Markel Corp.

The buyer is more than a number

It's said that insurance buyers never know the true value of an insurance company until they file a claim. For insurance companies, it's wise to keep that thought in mind, because the way a company treats its policyholders throughout the claim process reveals its culture and the value it places on providing customer service.

A buyer wants claims associates to treat him or her as a person, not a file number. A company should look upon its relationship with a policyholder as a partnership. Both sides take a risk. What the insured buys is protection. It's up to the claims department to provide a sense of comfort and trust for the insured by building the relationship every step of the way, from the first claim filing through resolution.

Here are important features to keep in mind to provide effective claims management:

- Customer service is key. A company should provide a dedicated and competent team of claims professionals and/or attorneys who strive for excellence every day while resolving claims in a prompt, equitable and reasonable manner.

- How is a claims department managed? It's the manager's job to guide and mentor claims associates to ensure high-quality standards are met, while continually focusing on processing improvements and professional enhancement. A manager should foster a culture of quality and service and an atmosphere in which the staff can be innovative, creative and strive for better ways to assist their insureds.

Good management means ensuring a department has adequate staffing levels, reasonable workloads and the necessary tools for associates to handle their claims. It also includes a system of checks and balances to ascertain that there is adequate time for management to review claim files.

- How much experience do staff members hold in the field of the product lines they handle, such as health care or engineering? The person handling a claim should be able to relate to and understand an insured's unique professional needs. Long-term staff associates with the company most likely possess a great deal of experience.

- Personalized attention. It's important for a claim representative to build a relationship with the insured and communicate effectively about the claim process and whatever options are available. Since accidents happen despite the expert skills, best judgments and painstaking precautions of its insureds, the staff may need to do a lot of handholding. But since we live in an imperfect world, it's not unusual to see cases against companies and professionals who didn't do anything wrong.

Plaintiff lawyers may have only a limited obligation to investigate a client's story and suits are sometimes filed with incomplete or incorrect information. A claim strikes at a company's, or person's (in professional liability cases), reputation. Whether or not the insured is held liable, a claim made against a professional attacks his/her skills or judgment, which can deal a real blow to that person's reputation and financial stability, and could potentially lead to disciplinary action.

IT'S UP TO the claims department to provide a sense of comfort and trust for the insured by building the relationship every step of the way.

- The department must embrace new technology and use it effectively to improve claim-handling efficiency and strengthen processes. In our office, for example, our computer system immediately and automatically acknowledges receipt of a claim and provides the policyholder with the name of the person in charge of servicing their claim.

- Who handles mediations, lawsuits and court proceedings? The firms an insurance company associates with should provide reputable, competent and responsive independent adjusters and/or defense counsel who understand its product lines. Our partner firms know our lines and can handle any claims. And our claims specialists and counsel are always just a phone call away.

For insurance buyers, it's bad business to trust their reputations, or that of their companies, to an insurance company that is less than the best. For insurers, it's important to consider that perspective.

Mapping Consumer-Driven Health Care: Strategies to Drive Enrollment and Employee Understanding

A Business Insurance Online Executive Forum™



Join Business Insurance Senior Editor Joanne Wojcik on March 20, 2007, along with our expert panel, for a webinar devoted to analyzing how well consumer-driven health plans are working.

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Attend this Online Executive Forum™ for an in-depth discussion of how various types of consumer-driven health plans operate and whether they are helping employers save money by making employees better health care consumers. Hear the viewpoints of expert panelists, and ask questions during this live event.

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- **Jim Dwyer**, VP Global Benefits, American Express Co., New York
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- **Jay Savan**, Principal, Towers Perrin, Dallas, TX

QUESTIONS TO BE ADDRESSED:

- How should plan and premium contributions be structured to encourage enrollment?
- What are some of the more effective educational components being used?
- How do HRAs compare with HSAs?
- How do employers convert from HRAs to HSAs under the new federal regulation?

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Tuesday, March 20, 2007

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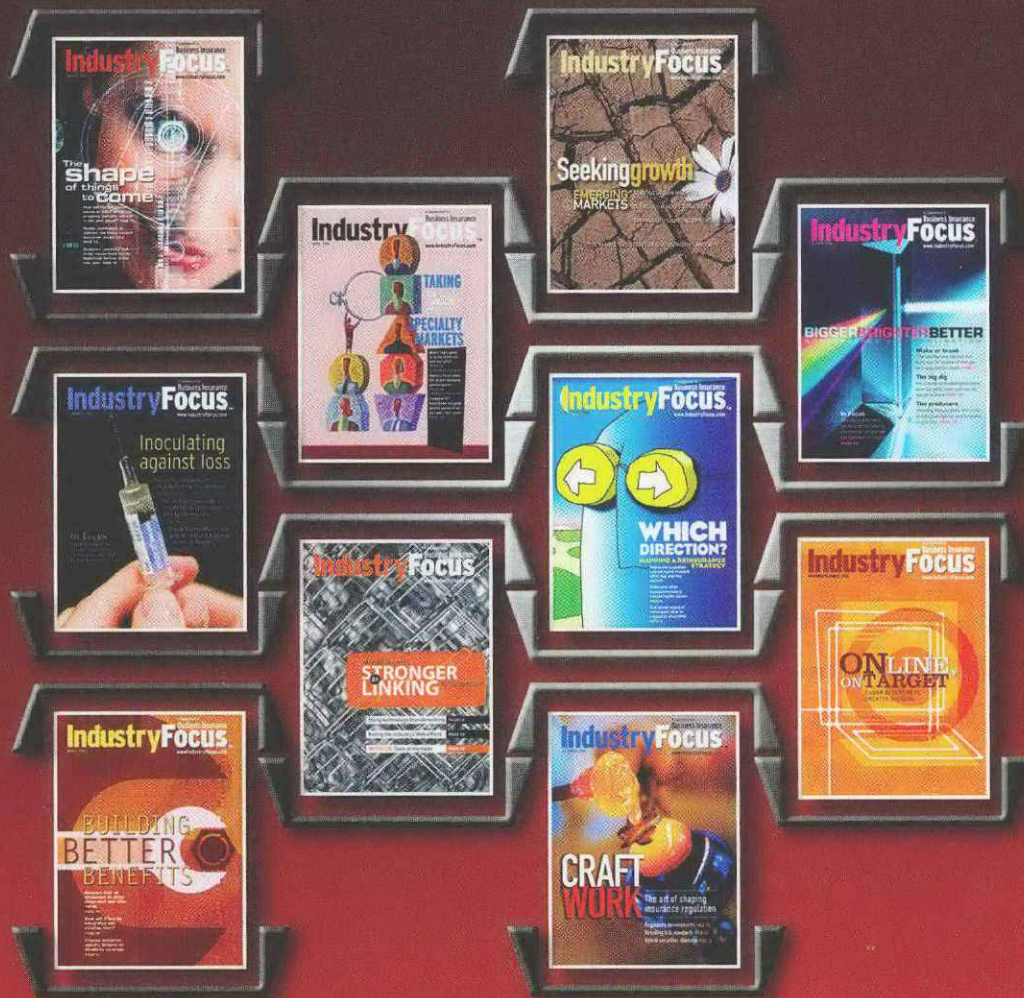
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- Health Insurers, Brokers & Consultants
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