

Business Insurance

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

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RIMS expands membership to industry professionals

NEW YORK—The Risk & Insurance Management Society Inc. is opening up its ranks to a new group of members.

RIMS has created a membership category called Associates of the Society, which allows insurers, brokers, consultants and other professionals to belong to RIMS. The new members will enjoy most of the benefits of membership but will not be able to hold office or chair society committees.

The new category was established in October, and around a dozen professionals have signed
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Power shifts in Bermuda

But pro-business stance unlikely to change

By GAVIN SOUTER

HAMILTON, Bermuda—International businesses are expecting a change in emphasis rather than a radically different environment with the election of Bermuda's first ever left-leaning government.

Jennifer Smith, the leader of the Progressive Labour Party, last week was sworn in as Bermuda's premier, replacing Pamela Gordon.

The new PLP government is expected to continue the fiscal policies of the outgoing United Bermuda Party government, rather than jeop-

ardize a successful economy that is heavily reliant on international business.

As a result, the low-tax environment in Bermuda, which has helped insurers, reinsurers and other international businesses thrive, is unlikely to be substantially changed.

Any change in financial policy by the new governing party will more likely be a redirection of some existing resources to fund social projects.

Although the changes to the financial environment might be negligible, the election produced sweeping changes to the political land-

scape in Bermuda.

For the first time since the modern Bermudian political system was established in 1968, the island will not be governed by the UBP.

In the election held last Monday, the PLP obliterated the UBP and won 26 seats in the 40-seat parliament.

Ms. Gordon became the first woman premier of Bermuda when she took over from David Saul in March 1997 (*BI*, April 7, 1997). But with last week's election victory, Ms. Smith is the first woman to be elected premier, as well as the first PLP premier.

The new minister of finance is Eugene Cox, who replaces Grant Gibbons.

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AP/WIDE WORLD PHOTOS
Bermuda Premier Jennifer Smith

ISO deal means it will compete more with NCCI

By MEG FLETCHER

BOCA RATON, Fla.—Competition is expected to heat up early next year among providers of workers compensation rating and statistical services in light of a deal announced last week.

Insurance Services Office Inc. plans to purchase an 80% interest in Insurance Data Resources Inc. by year end.

Backing from New York-based ISO will make the considerably smaller IDR a bigger competitor of the huge, non-profit National Council on Compensation Insurance Inc., which spurned a merger with for-profit ISO seven months ago (*BI*, April 13). Both IDR and the NCCI are based in Boca Raton, Fla.

The acquisition of IDR from Beedie Group L.L.C. of Downers Grove, Ill., also fills "the major gap" in ISO's services, giving it easy access to begin providing workers comp forms, manuals and statistical services

in the 27 jurisdictions where IDR is licensed as a rating organization, advisory organization or non-profit statistical agent, according to Fred R. Marcon, ISO's chairman.

ISO currently collects data, files loss costs and provides related services for 17 other lines of property/casualty insurance. Among its 2,900 customers are all major U.S. commercial insurers, nearly all of which sell workers comp insurance, ISO said in a statement.

IDR's value lies in its 27 licenses, because it currently operates in only three states—Florida, Louisiana and Missouri—providing services to 12 to 15 clients and generating less than \$1 million in 1997 revenues, according to IDR President Michael Camilleri. He will continue to lead both IDR's non-profit statistical unit and for-profit service company for ISO, which is expected to buy the remaining 20% of IDR next year.

While employers and insurers

See Rating on page 30

Massachusetts HMOs win drug plan deadline delay

By JERRY GEISEL

BOSTON—Medicare HMOs in Massachusetts have until early this week to decide on the prescription drug benefit packages they will offer beneficiaries next year.

Citing a "unique situation," the federal Health Care Financing Administration last week agreed to waive its requirement that Medicare HMOs' final benefit packages and rates be based on submissions made in May. Allowing the plans to change their filings was urged by Sen. Edward Kennedy, D-Mass., and Massachusetts Gov. Paul Cellucci.

The Massachusetts HMOs, which cover more than 200,000 beneficiaries, now have until Nov. 17 to resubmit their prescription drug plans. Under the HCFA waiver, they are not allowed to

change any other aspects of their 1999 benefit offerings.

Several Medicare HMOs, including Blue Cross & Blue Shield of Massachusetts, Fallon Community Health Plan and Tufts Health Plan, had been expected to take advantage of the waiver to offer unlimited prescription drug coverage for 1999 only so long as another major Medicare HMO, Harvard Pilgrim Health Plan, also agreed to offer unlimited coverage.

Harvard Pilgrim, though, said late last week that it still was considering its options and had not yet made a decision. That raises the possibility that the other HMOs might not offer unlimited coverage if Harvard Pilgrim does not come on board.

Last week's action by HCFA and the Medicare HMOs marks yet another chapter in a contro-

versy triggered when Medicare HMOs in Massachusetts revealed in August that they were going to significantly cut back on prescription drug coverage they provide.

Massachusetts regulators said that action violated a state law requiring Medicare HMOs to offer either unlimited or no prescription drug coverage. The HMOs, reeling from soaring prescription drug costs, said a 1997 federal law pre-empted the state requirement, the only one of its kind. Ultimately, a federal judge sided with the HMOs (*BI*, Oct. 26).

In the wake of the court ruling, state and federal lawmakers have been urging the HMOs to continue to offer—for 1999 only—unlimited prescription drug benefits. That would give state policymakers time to develop long-term solutions to funding prescription

See Medicare on page 31

Former agent loses license over handling of funds

By DAVE LENCKUS

LOUISVILLE, Ky.—At age 37, Wilbur Anthony Huff has more than 17 years' experience as a licensed insurance agent. He has headed three brokerage firms and a national trucking association that developed insurance programs for its members.

His level of sophistication in transacting insurance deals has "really impressed" even one Kentucky Insurance Department attorney, who further described Mr. Huff as a "charismatic" and "very likable guy."

But that combination of exper-

tise and charm can be perilous for insurers, policyholders and premium finance companies, said the attorney, Pamela Farmer. Mr. Huff, she said, "can persuade you to do something you wouldn't want to do"—trust him with insurance premiums and premium financing proceeds.

In an Oct. 21 summary judgment order, Kentucky Insurance Commissioner George Nichols III stripped Mr. Huff of his ability to place himself in that position of trust by revoking his agent's license. Relying on a recommendation of a hearing officer from the state attorney general's office, Mr.

Nichols found that Mr. Huff violated Kentucky insurance regulations by misappropriating nearly \$5.7 million of insurance premiums and premium financing proceeds over a nine-year period beginning in 1989.

The hearing officer's recommendation was based on court rulings against Mr. Huff over his handling of those funds.

In relying on those recommendations, though, Mr. Nichols rejected his department's charges that Mr. Huff willfully violated Kentucky insurance regulations.

All of Mr. Huff's various
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Updates

RIMS opens membership

Continued from previous page

on, according to Linda H. Lamel, RIMS' executive director. "It will be a pretty broad cross-section of people," she added.

Ms. Lamel said RIMS for years has discussed creating such a category, which many other professional societies already have in place. Associates of the Society will pay \$400 per year to belong to RIMS, compared with annual dues of \$300 paid by full members. Like full members, associates will receive discounts on the society's annual conference registration fee and other offerings.

RIMS' membership ended a decline from previous years when it grew to 4,313 members in 1997 from 4,287 the year before. However, the number of deputy members fell to 7,848 in 1997 from 7,869 in 1996.

"Looking at the 21st century, I think this is a tacit acknowledgement that risk managers will be working with an ever-expanding group of professionals with different backgrounds and different areas of expertise," Ms. Lamel said.

Midwest storm claims tallied

Claims are mounting from widespread damage caused by the first winter storm of the season, which last week blew through the Midwest.

The Property Claim Services unit of the Insurance Services Office Inc. has declared the storms a catastrophe, meaning they caused at least \$25 million in insured property damage, but PCS does not expect to have an estimate until this week.

Insured damages reported by insurers are already exceeding that PCS threshold.

State Farm Group expects about 13,500 claims totaling about \$28.8 million. Other insurers are receiving thousands of claims, mostly from homeowners and small businesses.

Allstate Corp. had received 6,812 claims in six states last week for an undetermined amount. Nationwide Mutual Insurance Co. had totaled 1,100 claims from several states.

In several Midwestern states, high winds toppled trees, damaged roofs and blew out windows in homes and businesses. Snow blanketed some areas, causing motorists to skid off roads or into each other. Power outages affected hundreds of thousands of utility customers.

Chicago sues gun makers, sellers

CHICAGO—A second U.S. city has turned to litigation as a gun control strategy, with Chicago filing a \$433 million suit last week against 22 gun manufacturers, four gun distributors and a number of suburban gun shops.

Chicago has no gun shops.

The Cook County, Ill., government joined Chicago's suit, which charges the defendants with representing a "public nuisance," claiming their actions pose a threat to public health and safety.

The Chicago lawsuit is unlike a suit filed last month against the handgun industry by the city of New Orleans. That suit is based on product liability theories (BI, Nov. 9).

Like the New Orleans suit, however, Chicago's action seeks to recover damages for the costs incurred by the city as a result of gun violence, such as public health costs or costs of police protection.

High court passes on bias case

WASHINGTON—The U.S. Supreme Court last week declined to take a case in which an appellate panel ruled earlier this year that a mandatory arbitration agreement used in the securities industry cannot prevent an employee from pursuing a discrimination claim in federal court.

By doing so, the high court left open contradictory circuit court decisions on the issue of mandatory arbitration agreements, which have been standard on Wall Street for years.

Last May, a three-judge panel of the 9th U.S. Circuit Court of Appeals reversed a lower court decision and ruled in *Duffield vs. Robertson Stephens & Co.* that mandatory arbitration contracts are at odds with provisions of the Civil Rights Act of 1991 (BI, May 18). Robertson Stephens, now owned by BankBoston Corp., appealed the decision to the U.S. Supreme Court.

Other circuit courts have upheld the securities industry's mandatory arbitration system following the Supreme Court's 1991 decision in *Gilmer vs. Interstate-Johnson Lane Corp.*

Denver doctors may quit HMO

ENGLEWOOD, Colo.—About 175 specialty physicians in Denver are threatening to pull out of PacifiCare of Colorado's network to protest contracting terms, according to the Englewood, Colo.-based health maintenance organization.

PacifiCare recently completed contract negotiations for 1999 with Denver-area physician groups, which in turn contract with various primary care physicians and specialists.

The specialists specifically are protesting the specialty care reciprocity agreement set by PacifiCare that calls for a no-risk, fee-for-service payment schedule set at 110% of Medicare-allowable charges, known as Medicare RBRVS. The reciprocity rate is the payment rate specialists receive for care they provide to patients referred by primary care physicians outside their physician group.

According to PacifiCare, the specialists, which have formed a new organization called Integrated Specialty Care Inc., are concerned that, among other things, the new contract arrangements will restrict PacifiCare members' access to specialists, because many specialists will refuse to contract with the health plan.

Integrated Specialty Care officials could not be reached last week.

In a statement, PacifiCare said it thinks its contracts are fair. "We continue to talk with these specialists and are making every reasonable

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Indictment alleges diversion of funds

By DOUGLAS McLEOD

OKLAHOMA CITY—The operators of a failed offshore insurer are facing bankruptcy fraud charges for allegedly siphoning millions of dollars away from the company both before and after it filed for federal bankruptcy protection.

Federal agents earlier this month arrested five people involved in operating First Assur-

ance & Casualty Co. Ltd. of the Turks & Caicos Islands, which collapsed in 1993 under an avalanche of claims from the previous year's Los Angeles riots.

An indictment unsealed with the arrests charges that the five conspired to divert policyholder funds from First Assurance and to mislead an Oklahoma City bankruptcy court about the insurer's net worth in order to maintain control of the estate as a debtor-

in-possession.

The bankruptcy court later turned the estate over to an independent trustee.

The alleged diversions include \$450,000 in First Assurance funds used to capitalize International Casualty & Surety Co. Ltd. of New Zealand, which the indictment describes as a First Assurance successor company and which was named in a racketeer-

See Funds on page 29

Dow Corning outlines plan for payments on implants

By MICHAEL BRADFORD

BAY CITY, Mich.—Dow Corning Corp.'s \$3.2 billion proposal to settle breast implant cases offers claimants a range of payments or the option to reject the settlement and seek a jury trial.

The company and the Tort Claimants Committee last week filed with the U.S. Bankruptcy Court of the Eastern District of

Michigan a new plan aimed at resolving breast implant and other product liability claims. If it is approved by Judge Arthur Spector, claimants will be asked to vote whether to accept the settlement.

Dow Corning and the claimants committee agreed to the \$3.2 billion proposal negotiated by a federal mediator earlier this year (BI, July 13) and on Nov. 9 submitted to the court details on how pay-

ments would be offered.

A portion of the plan will be funded by insurance. Settlements with insurers totaling \$1.2 billion have been worked out, and more are expected.

"There will be future settlements, certainly," with insurers, said Kevin Scroggin, Dow Corning's risk manager.

The company estimates there

See Implant on page 27

FEMA may deny some flood cover

By MARK A. HOFMANN

WASHINGTON—The director of the Federal Emergency Management Agency wants to cut off federal flood insurance to people who insist on rebuilding their properties in flood-prone areas.

FEMA Director James Lee Witt made the proposal during a luncheon speech at Washington's National Press Club last week. During the speech, Mr. Witt also proposed increased insurance funding for public buildings and greater reliance on using the natural environment itself as a buffer against natural disasters.

Mr. Witt said FEMA has identified 35,000 "repetitive flood loss properties" across the nation. Those properties have had at least two flood loss claims during the past 10 years, which collectively have cost the National Flood Insurance Program more than \$200

million a year, he said. FEMA is thus preparing a strategy to cut annual losses by half in the next three years and to save nearly \$1 billion over 10 years.

FEMA officials are considering denying NFIP insurance to homeowners or businesses who have filed two or more claims that together total more than the value of the affected property and refuse to flood-proof, elevate their property or accept a buyout, he said. People who live in high-risk areas should pay the "fair market rates for insurance, instead of the lower, subsidized federal flood insurance rates."

In addition, Mr. Witt said FEMA will soon propose that "all public buildings be insured to 80% of their replacement value within the next two years." Such a requirement will cut rebuilding costs and get "essential public

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Directory deadlines nearing

Business Insurance will publish its annual Directory of Managed Care Providers Dec. 28. Companies wishing to be included must provide a health maintenance organization, point-of-service or preferred provider organization product to be included and complete a questionnaire by the extended deadline of Nov. 20.

The annual Directory of Employee Benefit Consultants will be published Dec. 14 in an issue that also will contain a report on the benefits marketplace. Companies must generate at least \$500,000 in revenues from benefit consulting to be included. The extended deadline for returning questionnaires is Nov. 20.

BI's directories are published as an editorial service; there is no charge to be included. If your company meets the criteria for either directory but has not received a questionnaire, please call Directory Editor Sandy Budde at 312-649-5279.

Inside

• New Orleans' product liability suit against handgun manufacturers is the wrong approach to curing society's ills, this week's editorial says. **PAGE 8**

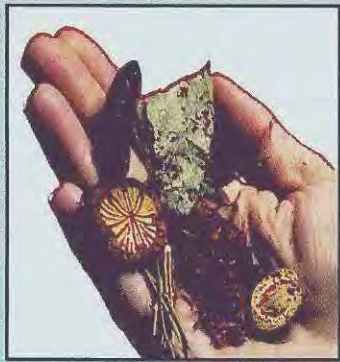
• After months of waiting, Lloyd's of London finally has given the green light for captive syndicates to start writing in the market. **PAGE 23**

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More employers look at covering alternative care

By JOANNE WOJCIK

SEATTLE—The growing popularity of alternative medicine is prompting more health plans and employers to explore the possibility of offering coverage for such treatment.

However, so far only a handful of managed care companies are attempting to integrate Eastern and traditional Western medicine, according to Dale A. White, principal of The Alternare Group Inc. of Portland, Ore.

This is partly because of the lack of consistent licensing standards for alternative medicine providers, he explained.

Still, Mr. White predicted that eventually more companies will cover alternative medicine because "it has been demonstrated to be particularly effective in fighting common

chronic conditions like arthritis, headaches, migraines, sprains and chronic pain."

In fact, the National Institutes of Health has deemed acupuncture an "acceptable alternative" to medication for treatment of chronic pain, he said.

Alternative medicine is "intended to complement conventional health care, not necessarily to replace," Mr. White explained to a group of employee benefit experts attending the 17th annual International Society of Certified Employee Benefit Specialists Employee Benefits Symposium, held Nov. 1-4 in Seattle.

Much of today's interest in alternative medicine is being driven by the media, Mr. White said. "The media has certainly fallen in love with alternative medicine," he said. "If you check the national news, syndi-

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Tough conditions to continue

Commercial market faces bleak outlook

By DOUGLAS McLEOD

NEW YORK—Commercial property/casualty insurers can look forward to continued overcapacity, stiff price competition, declining investment gains, rising losses and falling earnings through 1999, Ernst & Young L.L.P. predicts.

Commercial insurance "is a tough sector to have a lot of optimism about," commented Bob Stein, national director of the accounting firm's financial services practice.

Summarizing E&Y's annual survey of the state of the insurance industry, Mr. Stein also predicted that industry consolidation will continue, though volatile global stock markets may reduce the pace and size of the deals.

Life insurers, meanwhile, also will face earnings pressure as investment yields drop, competition rises and market share increasingly goes to the largest, "brand name" companies. These trends will fuel life insurer mergers and create even more price competition, E&Y predicts.

In addition, the largest mutual life insurers are expected to move toward demutualization, and interest in demutualized company stock offerings should be strong, especially among European insurers trying to position themselves in the U.S. market.

These demutualizations would lead to a huge increase in total life insurance industry market capitalization, which in turn would trigger "cutthroat" pricing competition and further mergers among life insurers and other financial service companies, the accounting firm's report predicts.

Overall, "1998 is an interesting crossroads," Mr. Stein observed.

Insurers with several years of favorable results behind them, he explained, are now facing the uncertainties of global financial market turmoil, a volatile U.S. stock market and the possibility of a further decline in already record low interest rates.

For property/casualty companies, these conditions not only threaten lower investment yields but could also hasten the

See *Market* on page 30

Rhode Island initiative big on disaster recovery

By MARK A. HOFMANN

PROVIDENCE, R.I.—Rhode Island may not be the "Show Me State," but it could become the nation's first "Showcase State."

That's because the Boston-based Institute for Business & Home Safety wants to put a missing piece back in the disaster recovery puzzle with the launch of a "Showcase State" initiative in Rhode Island.

That missing piece in traditional disaster recovery efforts is the consideration of businesses' needs, said Diana McClure, IBHS' director of showcase communities. IBHS is an organization backed by the property/casualty insurance industry and dedicated to reducing losses wrought by natural disasters.

The Rhode Island initiative is a public/private partnership to support communities as they move toward disaster resistance. One key component is a Business Recovery Disaster Alliance, in which

businesses cooperate with other businesses, as well as suppliers, customers and the public sector, to speed up recovery.

To achieve this end, IBHS, state officials and BRDA representatives will meet with representatives of all Rhode Island's chambers of commerce this week to discuss the initiative and businesses' role in disaster mitigation and recovery.

Although much of the Rhode Island initiative focuses on small businesses, there's a role for corporate risk managers as well, according to Ms. McClure.

"Why should risk managers be involved? If they see something like in the Showcase initiative, they'd say, 'Here's a place where my company can specifically become involved, where business-

es are getting together and looking at what their vulnerabilities are,'" she said.

"Anyone involved with business continuity planning should consider being involved in the alliance, and that would include risk managers as well," agreed

See *Disaster* on page 25



AP/WIDE WORLD PHOTOS

A Rhode Island initiative aims to improve recovery efforts following disasters such as this flood in Cranston, R.I., late last year.

Global economic ills may increase terror risks

By RODD ZOLKOS

CHICAGO—As business grows increasingly global, companies face new risks that must be managed as they take their operations overseas.

And a global economic downturn may heighten some of those risks and make planning for them even more necessary, according to speakers last week at a J&H Marsh & McLennan Inc. executive briefing conference on terrorism and international risk management.

Though the list of those risks is long, among the most noteworthy are political risks, terrorism threats and foreign currency ex-

posures.

Kent B. Brown, a senior consultant at Pinkerton Global Intelligence in Arlington, Va., said that, according to the U.S. State Department, of 226 terrorist attacks against the United States in 1997, only eight were against government facilities, while 104 were against U.S. business interests.

There can be economic as well as political reasons for terrorism, Mr. Brown said, noting that insurgent groups often use kidnapping to help finance their operations.

"A lot of these groups have thrown up their hands and said, 'This pays too well. We're not in the revolution business any more; we're in the kidnap business and

the extortion business,'" he said.

"The line has really started to get blurred between what's crime and what's terrorism," he said.

"Unfortunately, in our view, the situation is not likely to get better. It's likely to get worse in the near future," Mr. Brown said.

The key to managing terrorism exposures is developing an emergency plan, he said. And once a company has developed a plan, it must be shared with employees and practiced regularly, "because if you don't practice it, when it comes time to use it, it won't work."

In forming a plan, gathering information is key, Mr. Brown said.

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NAII chief urges unity

Solidarity can help industry achieve goals

By GAVIN SOUTER

BOSTON—A united front of insurers and insurer trade associations can influence legislators more effectively than disparate groups seeking basically the same thing, said Jack Ramirez, president of the National Assn. of Independent Insurers.

While insurers and their trade associations invariably have many differences, some of which sometimes cannot be reconciled, they should strive for unity wherever possible, he said.

Over the past year, insurers managed to find a common purpose in their support of financial services reform, and the various insurance trade associations have an ongoing friendly dialogue regarding their approach to the National Assn. of Insurance Commissioners, Mr. Ramirez said.

However, the issue of state vs. federal regulation remains a divisive one, and the NAII will continue its longstanding support of state regulation, he said.

The NAII itself has a diverse membership base, Mr. Ramirez said last week at the 53rd annual meeting of the National Assn. of Independent In-

surers in Boston.

"Yet we are all able to come together as one organization. All of us know that by working together we are much stronger than any of us can be individually," he said.

And over the past several years, the NAII and other insurance organizations have shown that the same can be said when the trade associations pull together, according to Mr. Ramirez.

The various organizations have different memberships, different philosophies, different strategies and tactics, different levels of resources and different challenges, he pointed out.

However, "more often than not we are able to get all of the differences put aside for unified action," he added.

For example, in the last session of Congress insurance groups unified around support for financial services reform legislation that would place insurers and banks on "one level playing field," he said.

Also, the NAII and other trade groups collaborate in their dealings with the NAIC, Mr. Ramirez said.

See *Unity* on next page



Unity

Continued from previous page

Prior to all of the quarterly meetings of the NAIC, the leaders of the various trade groups hold conference calls to discuss common issues, he said.

But unity is not always possible. The various insurance organizations have different views on regulation that are not compatible, he said.

The NAII always has been a proponent of state regulation of insurers, and that will not change, as there are several key reasons why federal regulation would be bad for NAII members, Mr. Ramirez said.

First, federal regulation will never completely supplant state regulation, so any federal regulations will be sure to add another level or regulatory burden on in-

surers, he said.

Second, if a single federal regulator is appointed, insurance regulation will be headed by one person who may or may not hold similar views on regulation to the insurers they regulate, Mr. Ramirez said.

Whereas the same is true for state regulators, at least all 50 states are not subject to the view of one person, he said.

"Federal regulation would spread bad regulation across 50 states," Mr. Ramirez said.

Third, state regulation allows for experiments in insurance regulation in a way that would not be possible with federal regulation, he said.

A regulation or regulatory standpoint can be tried in one state, and if it does not work, then it does not harm all insurers across the country, Mr. Ramirez said. **B**

Focus must remain on buyer even in time of change: Exec

By GAVIN SOUTER

BOSTON—Amid all the change sweeping through the insurance industry, one executive says insurers must remain focused on meeting customer needs.

Regardless of technological advances, new methods of distribution and diverse capital structures, insurers must keep their attention on the basics of serving their customers, said William R. Berkley, chairman of W.R. Berkley Corp. of Greenwich, Conn.

While the tools to meet those needs are changing, successful in-

surers will be the ones that understand how to keep their customers satisfied, he said.



Still, technological and other changes are altering the way insurers do business, several other executives say. Insurers must adapt to incorporate radical changes in their operations if they

are to succeed, they say.

They were speaking at the 53rd Annual Meeting of the National Assn. of Independent Insurers in Boston last week.

Technological changes are bringing huge changes to the insurance industry, said Mr. Berkley.

For example, policyholders can find the cheapest price for insurance by either making a quick phone call or dialing into the Internet, he said.

Insurers must acknowledge that as they seek customers whose needs they can satisfy profitably, Mr. Berkley said.

"It means that you have to price products toward risks that you want and away from other risks," he said.

Technology also is bringing changes to the distribution of insurance products, Mr. Berkley said.

But agents can retain their place in the insurance purchasing chain by continuing to focus on what they supply in terms of personal service to those customers that require that attention, he said.

Technology also can be used to provide other services that policyholders are increasingly demanding, such as sophisticated data analysis, Mr. Berkley said.

But rather than replace traditional insurance skills, the introduction of the high-tech tools and access to such a huge volume of data increases the importance of good underwriting skills, he said.

Also, regardless of the changes, successful insurers will need to handle claims fairly and in a way that customers perceive the fairness, Mr. Berkley said.

Kaj Ahlmann, chairman, president and chief executive officer of Employers Reinsurance Corp. of Overland Park, Kan., said that within the rapidly changing business world, insurers and reinsurers must focus on three key issues. Those keys are:

- First, insurers and reinsurers must focus on what they do best and outsource other services that can be provided more efficiently by other companies, he said.

Already, "you can build a virtual insurance company and probably run it at half the cost of a traditional operation," Mr. Ahlmann said.

Most insurers will have to learn how to outsource back-office functions to other companies which often may be located in other countries, he said.

- Second, insurers must offer superior quality. In the same way that top manufacturing companies are seeking to eradicate all errors in their production lines, insurers must eliminate errors in the delivery of insurance services, Mr. Ahlmann said.

To attain that goal, insurers must work with their customers and build scorecards with which they can measure their achievements, he said.

- Third, insurers must embrace technology, particularly the Internet, and use it to access their customers more efficiently, Mr. Ahlmann said.

Another change that is affecting many companies is the growth in the number of mergers and acquisitions among insurers, said Stephan L. Christiansen, senior

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Innovation

Many reinsurance companies call themselves innovative. What does it really mean to be innovative? It means being first and it means anticipating market trends. CNA Re offers a number of specialized products to help you adapt to the changing reinsurance landscape and a client-focused staff who develop the kind of creative solutions your company needs to also be a leader. Combined, our products and staff form a reinsurance company that proves innovation through action.



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**What's the
simplest way
back to work?**



AN EMPLOYEE IS AT HOME
ILL. ANOTHER IS INJURED ON
THE JOB. WITH AN INTEGRATED
PLAN FOR OCCUPATIONAL AND
NONOCCUPATIONAL ILLNESSES AND
INJURIES, BOTH CLAIMS ARE REPORTED
THROUGH A SINGLE TOLL-FREE
NUMBER. ONE NURSE MANAGES THE
DISABILITIES AND RETURN-TO-WORK
PLANS. ONE CLAIM EXAMINER INVESTIGATES
AND ASSESSES BENEFITS. AND ONE SYSTEM
PROCESSES THE CLAIMS. IT'S AN INTEGRATED
APPROACH THAT ALLOWS EMPLOYEES TO
RETURN TO WORK FASTER AND LETS
EMPLOYERS GET BACK TO BUSINESS. IT'S
INTEGRATED DISABILITY MANAGEMENT FROM
WAUSAU, THE BUSINESS INSURANCE EXPERTS.

The business insurance experts.



Change

Continued from page 4
vp at Conning & Co. in Hartford, Conn.

The driving force behind the change is the maturity of the insurance market, Mr. Christiansen said.

In the 1960s and 1970s, property and casualty insurers were growing at such a pace that their main concern was how to cope with that growth.

Now there is little growth in demand for insurance, so the principal way in which insurers now grow is by purchasing other insurance companies, Mr. Christiansen said.

But in the rapidly changing environment, insurers must proceed with caution when they make acquisitions, warned Employers Re's Mr. Ahlmann.

The absorption and integration of another company is distracting, and as the market is so competitive, insurers risk being outflanked by a competitor while they concentrate on internal is-

Tax-free cat reserves would put insurers in a better position to pay claims after the event, says Robert T. Herres.

sues, he said.

"If you acquire another company, you really have to be on top of the situation and do everything really fast," according to Mr. Ahlmann.

One change that has not yet taken place in the insurance industry

but should is the establishment of tax-free catastrophe reserves, said Robert T. Herres, chairman and CEO of USAA Group in San Antonio, Texas.

"Catastrophe management is one of the largest problems of the industry," he said.

One day, a hurricane will hit the United States and cause \$100 billion in damage, and the insurance industry will not be able to deal with such a large loss, Mr. Herres said.

If insurers were allowed to set aside a limited amount of tax-exempt catastrophe reserves that could only be used to pay claims after a large catastrophe, they would be in a much better position to pay claims after the event, he said.

Robert L. Bailey, chairman and CEO of State Auto Insurance Cos. in Columbus, Ohio, moderated the session. **BI**

Renewals, sessions draw many to NAI

BOSTON-Nearly 1,600 registrants attended the 53rd annual meeting of the National Assn. of Independent Insurers held Nov. 8-11 in Boston.

Several hundred others attended to hold renewal meetings outside of the main event. Throughout each day, suites and lobbies in the convention hotels were filled with insurers, brokers and reinsurers embroiled in year-end renewal negotiations.

Inside the convention, attendees heard a lively group of speakers analyze the recent congressional elections, economics and insurance regulation.

The speakers included George

Stephanopoulos, the former senior adviser to President Clinton; Christopher Matthews, host of a program on the CNBC cable network; Laura Ingraham, a political analyst for NBC News; Paul Krugman, an international economist and consultant; Harry S. Dent Jr., a business author who sees strong links between economic performance and population statistics; and George M. Reider Jr., commissioner of insurance in Connecticut.

The 1999 meeting will be held Oct. 31 to Nov. 4 in San Diego. More information is available from the NAI at 2600 River Road, Des Plaines, Ill. 60018; 847-297-7800; fax: 847-297-5064; www.naii.org.

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Opinions

Gun suit misses the mark

NEW ORLEANS' LAWSUIT seeking to hold gun manufacturers liable for the public cost of handgun violence misses the target.

A recent lawsuit filed by the city seeks to recover millions of dollars of public money spent in response to handgun violence, such as medical and police services, by alleging that handguns are unreasonably dangerous products (*BI*, Nov. 9). The suit seeks compensatory and punitive damages based on the costs of responding to accidental shootings by children, teen suicides, homicides committed by children and violent crimes committed with stolen weapons. The lawsuit is the first of its kind by a public entity, and other cities may follow suit.

But, as we said when this theory of liability was first tested in California in 1994 by victims of a rampage in a San Francisco law firm, using product liability law to try to solve societal problems is inappropriate. Those laws are intended to allow consumers to sue manufacturers and sellers of products that, because of defects, cause unexpected injury or damage. By expanding and distorting product liability law to fit this situation, manufacturers of all products will find themselves with a greater exposure to frivolous litigation.

Where will such expanded product liability suits end? Will pharmaceutical companies be sued for drug overdoses? Will utilities be sued for accidental electrocutions?

To be sure, responding to criminal and accidental violence involving handguns costs public government enormous amounts of money in terms of medical and law enforcement services. When guns accidentally kill or injure children, it is painful and tragic. When guns are as readily found in the hands of lawbreakers as they are in people with legal uses for guns, it is downright criminal.

But the fact that guns cause injury or damage is neither a surprise nor the result of a design flaw; it's what the product was designed to do. It's not as though consumers bought a product designed to make toast but found out it could kill people.

In addition to misusing product law, New Orleans' entire strategy of filing a civil suit seeking damages seems misdirected. How effectively will the problem of handgun violence be solved by a lawsuit that exacts a penalty for losses after the fact? And who really benefits? The city or shooting victims? Not likely. It's the attorneys who are driving this litigation that stand to gain, regardless of the outcome. As the Warren Zevon song says, we're talking about "lawyers, guns and money."

Letters

'Faceless' brokers lack client concern

To the editor: Many laborers in the insurance vineyard would like to see come true the prediction made by Edmund F. Kelly, the president and chief executive officer of Boston-based Liberty Mutual Insurance Co., of an end to the soft market (*BI*, Oct. 19). The forecast of a relatively gradual and gentle tightening of the market is even more delightful to contemplate. A return to profitability without trauma would be ideal.

However, whether current business is profitable or not has never been an indicator of a turn in the insurance cycle. As a group, insurance companies have the will—and the accounting systems—to continue to write unprofitable business until cash flow reverses. It is only when the money flowing out to

pay losses and expenses exceeds the premiums and investment income flowing in that the market changes. That is how it has played out in the past.

By the time cash flow is negative, insurers can no longer survive on premiums that are only adequate. They have to pay for unfunded losses already in the pipeline. They need premiums that are excessive. For that reason, among others, soft landings have not been a characteristic of changes in the underwriting cycle.

The love affair between insurers and some of their commercial clients is not a new one. Many insurers and risk managers have often wondered aloud about the function of the agent or broker. Resentment of intermediaries is legendary. "Non-broker options" were inevitable.

As brokers become larger, they are beginning to resemble insurers. Burdened with bureaucracies and governed by unwieldy procedures, both scratch to maximize their profit on the insurance transaction at every level. As the local independent agent is replaced by branch offices of international brokers—staffed by people who learned the business working for insurers—who can blame the client for being confused? How



That's why we believe that if cities such as New Orleans—and Chicago, which is suing gun sellers for damage caused by handguns under public nuisance laws—really want to curb handgun violence, there are far more direct methods of achieving this.

Government entities should have the courage to take more direct steps to eliminate the problem.

Some local governments have tried to ban handguns outright, even in the face of constitutional challenges. Others impose purchase limitations and strict licensing requirements, including waiting periods and background checks. Some have laws banning the sale of guns to minors, while some also have child access protection and safe storage laws. If cities want to cut the cost of handgun violence, those are far more proactive approaches than suing for harm already caused.

New Orleans may well argue that its lawsuit will force gun manufacturers to make their products safer. But will that really happen? It's not likely.

Even if hand gun manufacturers devise new safety products, the onus is on the gun owner to purchase these enhancements, or to trade in a gun for a safer model.

That still shifts the ultimate responsibility and liability for gun safety to the gun owner. That, we believe, is where it belongs.

can a client distinguish between the two? Both speak the same language and have the same agendas.

The gaggle of international brokers with more capital than many highly visible insurers is a relatively new development. The independent agency run by an entrepreneurial individual or family, with roots and interests in a specific community, created the insurance business as we know it. Now many such agencies have been replaced by corporate brokers just as faceless as the insurers they represent. Brokerage services are sold as a commodity just like the insurance packaged with them.

Insurance sold to industrial and commercial interests was, until just a short time ago, brokered by knowledgeable entrepreneurs who were savvy and aggressive. In response to challenges such as the change in the cycles, they improvised, found alternatives to insurance, and educated their clients in the complexities of the marketplace. The profitability of their business came second to the welfare of their clients. They would give up a chunk of business before endangering the interests of their insured.

However, that is now looked upon as the

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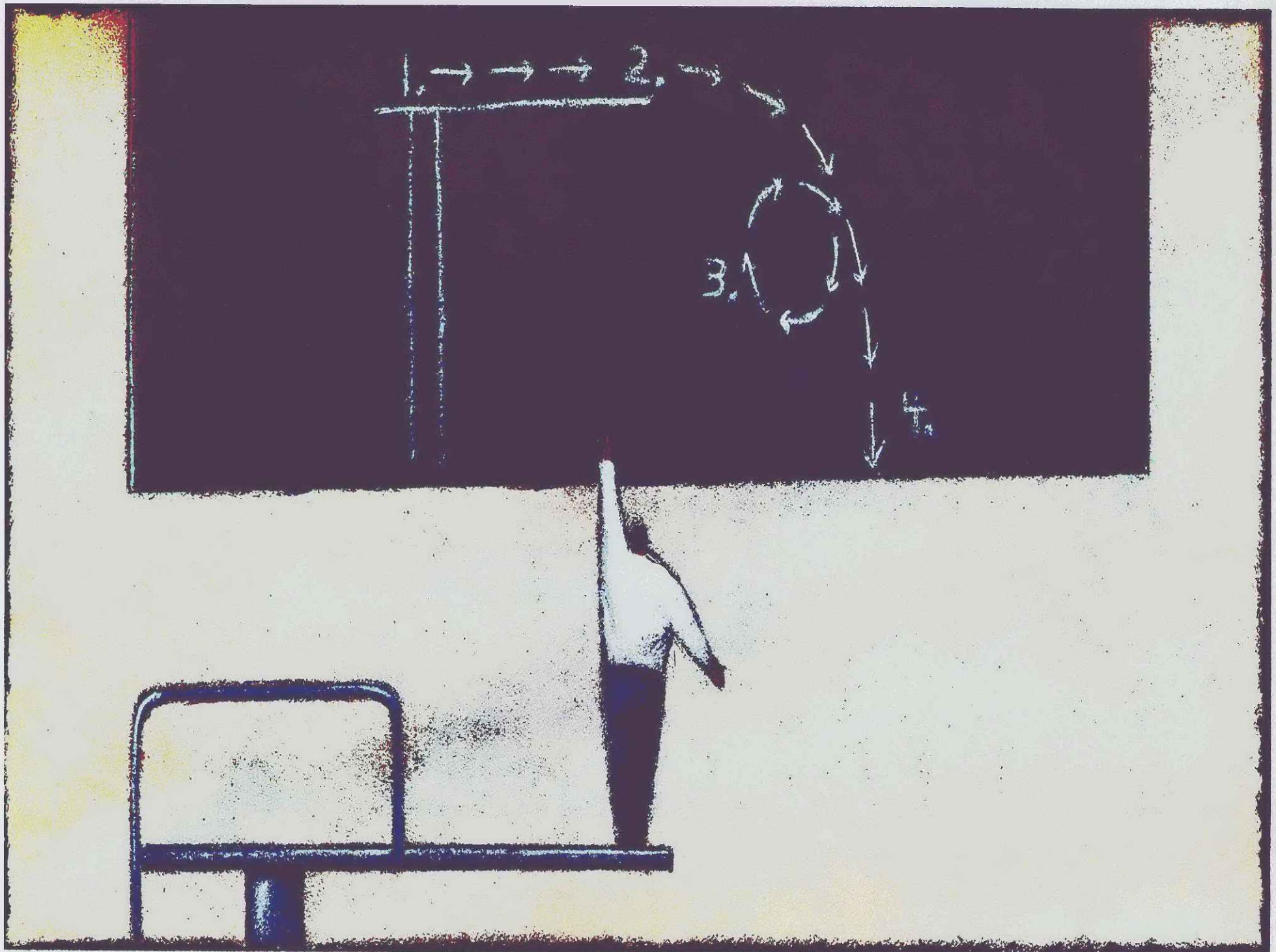
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Medicine

Continued from page 3

cated TV shows or your local media, there isn't a week that goes by (without) a story about complementary and alternative medicine."

He also suggested that many people may be embracing "high-touch" alternative medicine in response to the perception that they are receiving less care from their health maintenance organizations.

"The growing popularity of alternative medicine can be tied to the backlash against HMOs," he said.

Indeed, alternative medicine is one of the fastest growing segments of the U.S. health care industry, according to a 1993 study by the Harvard Medical School that found \$13 billion is spent annually on alternative procedures.

The study also found that patients made more visits to alternative medicine practitioners than to their primary care physicians.

"It was a very defining moment," according to Mr. White. "It was a watershed study that gave the impetus to traditional medicine to look at complementary medicine."

Currently, 40% of Americans use some form of alternative medicine, according to a study published this year in the Journal of the American Medical Assn.

But while alternative medicine may be growing in popularity, it is still considered akin to "witchcraft" by many of those unfamiliar with the procedures, Mr. White pointed out.

"When people think of complementary medicine or alternative medicine, they instantly think of this very little matchbox store where the beads are hanging down and you have incense burning in the background," Mr. White described. "And for those of you who are 'Deadheads,' the Grateful Dead is playing on the stereo, and, of course, the owner is from Eugene, which is in Oregon, and drives a Volkswagen bus."

But companies like Alternare, in attempting to integrate alternative medicine into traditional

Western medicine, are working to change that image, according to Mr. White.

"We want to professionalize the industry and move away from that stereotypical image...and apply what we learned in the world of managed care to the world of complementary and alternative medicine," he said.

Alternative medicine focuses on maintaining the health of the "whole person" through natural methods, Mr. White explained.

Perhaps the most well-known

The growing popularity of alternative medicine can be tied to the backlash against HMOs,' says Dale A. White.

types of alternative medicine treatments are: acupuncture, chiropractic care, naturopathic medicine, nutritional supplements and massage therapy.

"Those four or five disciplines are...probably the most sought-after disciplines by consumers, health plans and employers groups," Mr. White said.

"But that's not where alternative medicine stops," he pointed out.

"There's obviously a whole host of more esoteric services that complement what we call mainstream alternative medicine," he said. These include: aromatherapy, homeopathy, hypnotherapy, magnetic therapy, meditation and yoga.

"I think it's misleading to say if you've added chiropractic treatment and acupuncture to your benefit program that you've responded to this demand for alternative medicine," Mr. White contended.

"The challenge downstream... is how will we respond to the more esoteric therapies downstream when customer demand and consumer interest begins to focus on some of those therapies," he said.

The fact that not every state requires alternative medicine

providers to be licensed is one of the major challenges managed care organizations face when considering adding coverage for such treatments, according to Mr. White.

"Only chiropractors are licensed in all 50 states," Mr. White said, while acupuncturists are licensed by 34 states, massage therapists in 25 states, naturopaths in 13 states and homeopaths in four states.

"The absence of consistent licensing standards has slowed acceptance by managed care," he said. "But some managed care organizations are developing their own credentialing standards regardless."

Another obstacle to integrating alternative medicine is that such procedures are administered primarily on a cash basis, Mr. White added. And few, if any, alternative medicine practitioners purchase medical malpractice insurance.

Despite those roadblocks, Mr. White said he believes more and more HMOs, insurers and self-insured employers will begin to provide coverage for alternative medicine.

"Already many HMOs are offering complementary and alternative medicine in order to differentiate themselves in the market," he observed.

And a number of employers are offering access on a discounted fee-for-service basis through networks like Alternare, he said.

Mr. White provided examples of some common coverage arrangements:

- \$10 or \$20 per visit copayment with a \$500 to \$1,500 maximum annual benefit.
- A 12- to 24-visit limit per year with coverage of \$20 to \$30 per visit.
- 50% coinsurance up to an annual maximum benefit of \$500 to \$1,000.

While these coverage limits may seem low, they are sufficient based on a study of Alternare member usage, according to Mr. White.

"Utilization has been lower than anticipated," he said, with the average user spending just \$300 to \$400 per year. **BI**

Aging workforce likely to raise costs

By JOANNE WOJCIK

SEATTLE—The graying of the U.S. workforce will pose new challenges for employers.

Because older workers suffer from more chronic diseases and take longer to heal after injuries, employers will pay more for health care in their benefit and workers compensation programs.

And with fewer new workers paying into Social Security, the

1950s through the 1990s, the "baby boom generation may not retire," she said.

Fortunately, technological advances of the past decade will make it possible for aging baby boomers to keep on working, she said.

"Eighty-eight percent of today's jobs are knowledge-based jobs," which can be performed well by older workers, Dr. Crosby said.

Even though standard IQ tests only apply to those under age 65, "there's not a significant decline in IQ until after you reach age 80," she said.

And while younger workers are faster, older workers are more accurate, she said.

Still, older workers are likely to take a toll on employee benefit plans and workers compensation programs, Dr. Crosby acknowledged.

"As you age, the body's reserve becomes less. You're literally 'running on empty' by using more reserves for your everyday needs," she explained. "It's a setup for cumulative trauma disorders," such as carpal tunnel syndrome, lower-back strain and shoulder injuries.

Employers can help prevent CTDs by implementing ergonomics programs, instituting job rotation and requiring workers to take regular breaks.

For example, computers could be equipped with chimes that sound every 30 minutes to remind workers to take a break and stretch, she suggested.

Because chronic disease statistically affects one-third of older workers, employers should institute disease management programs.

"The good news is 80% of chronic disease is related to changeable lifestyle factors like smoking and obesity," she pointed out.

But employers will have more to worry about in the future than increased health care costs among their own workers.

See **Workforce** on page 14

17th Annual ISCEBS Employee Benefits Symposium

federal government will likely increase payroll taxes, predicted Dr. G. Kristin Crosby, during a presentation at the 17th Annual International Society of Certified Employee Benefit Specialists Employee Benefits Symposium held Nov. 1-4 in Seattle. Dr. Crosby is the national medical director for Intracorp, a Philadelphia-based managed care company.

But the news isn't all bad, according to Dr. Crosby. Older workers also are more productive than their younger counterparts, and they adapt easily to technology and have fewer unscheduled absences, she said.

"Nobody's ever lost a penny betting on the baby boomers," said Dr. Crosby, advising employers to keep an eye on the group of employees born between 1946 and 1963.

The leading edge of baby boomers will turn 65 in the year 2011, and in the year 2022, those born in 1957—the peak year of the baby boom—will turn 65. On average, 40% of the workforce—55 million workers—will be over age 60 in the year 2015.

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Workforce

Continued from page 12

"Uncle Sam wants you. He wants you to pay his bills," Dr. Crosby warned.

"Your plans will have to integrate with Social Security," and "if there's any tax increase, guess who pays the bill? You as employers and we all as employees."

She predicted that Congress likely will pass legislation making retirement plans portable, similar to the Health Insurance Portability and Accountability Act that made health care coverage portable.

"We may see new vesting schedules to account for job mobility," she said.

And while benefits have been exempt from taxation, that may change as the government looks for new ways to pay for its services. The Balanced Budget Amendment, which requires that any future tax cuts be

paid for, could lead to taxes on employee benefit plans, Dr. Crosby cautioned.

"This will be a cultural step employees may have to take," she said. Tax-free benefits are "an anachronism from World War II, when wage and price controls prevented employers from giving raises. Instead, they gave workers benefits."

To keep health care costs in check in the future, employers will likely have to force more employees into health maintenance organizations.

"Spread the concept of the defined benefit to other benefits, such as health care. For example, employers would contribute a set amount and the employee can contribute more for more expensive plans," Dr. Crosby said, noting that the base amount paid should be that for a basic managed care plan or HMO.

"We need to dissuade the population from the notion that more care is better care," she said. **B1**

Tailored work/life benefits fit needs best: Consultant

By JOANNE WOJCIK

SEATTLE—To be effective, work/life benefits should be tailored to meet the needs of each employer population, a benefits expert says.

While the work/life benefit trend started off as providing child care programs as part of employee benefit plans, "it's not child care. It's not time off. The solution for every employer is very employer-specific," said Carol M. Sladek, a consultant at Hewitt Associates L.L.C. in Lincolnshire, Ill.

"Unfortunately, many employees are stuck in the work and fam-

ily bubble, which can generate backlash," Ms. Sladek told attendees at the 17th Annual International Society of Employee Benefit Specialists Employee Benefits Symposium, held Nov. 1-4 in Seattle.

Perhaps because many employers haven't expanded beyond child care, less than 50% of workers say they have used work/life benefits, Ms. Sladek said, citing a recent Gallup Poll.

"Why aren't more employees using them?" she asked. "Because they don't meet all the employees' needs."

Many employees also fear that taking advantage of these benefits

will hurt them professionally, she said. But the objective of work/life programs is to help employees balance their work and

17th Annual ISCEBS Employee Benefits Symposium

personal lives so that they can be more productive on the job, Ms. Sladek explained.

"For years, we were told, 'If you're having a bad day at home, don't bring it to work,'" she said. "But today, there's the recognition that we can't separate the two."

Because "time is really the great equalizer—we all have only 24 hours in a day," it should be the centerpoint of a good work/life benefit program, according to Ms. Sladek.

For example, employers can offer alternative work schedules so that employees work the same number of hours but at times that are more convenient for them.

Employers also need to train supervisors not to penalize workers who use work/life benefits.

"For work/life programs to be effective, most organizations must change. It really has to be something that your culture embraces," Ms. Sladek said. "You have to get to the middle managers and make them understand the business connection" of work/life benefits.

For example, employers need to focus more on results and less on hours worked. They also will need to give workers more control over their time.

"In other words," Ms. Sladek said, "treat people like adults."

When applied appropriately, work/life benefits can have a positive impact on company loyalty and morale, she said, pointing to a paid time-off program instituted at St. Louis-based Ralston Purina Co.

Under the program, employees are able to save up sick days, vacation days and personal days in a "paid time-off bank" to be tapped whenever they need them. And after five years, employees are eligible to take a sabbatical using the time in their PTO bank account.

"They believe it has had a positive impact on retention, because people stay until they get their sabbatical," she said.

Because the needs of employees are constantly changing, a good work/life benefit program should, too, according to Ms. Sladek. "Otherwise, you'll end up in two or three years where you are now. It's a kind of constant benchmarking situation," she explained.

What should employers measure?

"Everything," she said. "How many are using it? Who's using it? What's the business result? What effect has it had on productivity? How do managers feel about it? What is it costing?"

"The more statistical information you get, the more that feeds into management buying into the program," Ms. Sladek said. "They want to be able to see that it works." **B1**

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Formal process advised in vendor searches

By JOANNE WOJCIK

SEATTLE—The question for most employers today is not whether to outsource employee benefits administration but rather how to outsource, benefits experts say.

Why has outsourcing become the trend?

As more and more companies "rightsize," they are focusing on their core competencies, which seldom include employee benefits administration, explained Peter E. Warner, senior manager of the Employee Benefit Group at Deloitte & Touche L.L.P. in San Francisco.

Companies also are responding to employee demands for better service, Mr. Warner told those attending a session on outsourcing at the 17th Annual International Society of Certified Employee Benefit Specialists Symposium, held Nov. 1-4 in Seattle.

"They want to see the same technology and service levels as they get from their banks with ATMs," Mr. Warner said. "But companies don't have the money for this. The more difficult it becomes to support these programs, the greater the reason for outsourcing."

Indeed, Stamford, Conn.-based Xerox Corp. decided to outsource most of its benefit administration six months ago in order to get a better value for its employees, according to Kathleen Russell, manager of employee benefits and corporate human resources in Stamford.

"Our new hires wanted immediate 401(k) participation," Ms. Russell explained. "But we did not have the technology in-house to process benefits in a daily environment."

In addition, employees wanted to do their own retirement savings

projections and have Internet access.

"Xerox wasn't going to spend money on that," she said. "So outsourcing made sense."

Not only was outsourcing more cost-effective, it actually saved Xerox money, according to Ms. Russell.

"We came in 20% lower than business-as-usual costs," Ms. Russell said.

Perhaps the most difficult part of outsourcing is selecting a vendor or vendors, depending on the route an employer chooses to take, according to Mr. Warner.

"There is no one best vendor," Mr. Warner said. "Finding a vendor is like matchmaking. It depends on the corporate culture, what is the best fit for your organization."

Mr. Warner said he always recommends that his employer clients use a formal bidding process to select an outsourcing vendor.

"It's a mistake to use your existing vendor," Mr. Warner said. "Let the process, not politics, choose the vendor. It's a fiduciary process that's fair and not politically driven."

Ms. Russell agreed that politics should be separated from the vendor selection process.

"People come at it with real passion, especially since many of them will be out of a job at the end of the process," she said. "You just want an arm's-length process."

She cited her own experience as an example.

"The treasury department controlled \$6 billion in pension assets; the HR department had plan design. The challenge was how to get these different parts of the organization to work together," she explained.

Mr. Warner also cautioned employers to consider each vendor's

self-interests while reviewing bids.

"Everyone has an agenda. Consultants want all of your consulting business, banks and investment organizations want to manage your assets, and insurers want to sell you insurance products," he said.

He also pointed out that the best vendors, which he defined as those

with the most outsourcing experience, are likely to have waiting lists.

"The larger the project, the longer it will take to implement," he said.

Ms. Russell concurred.

"When I talked to vendors, I was surprised at the waiting lists," she recalled. "Some said, 'I'll take your business, but it will take two years.'"

The recent merger and acquisition activity in the consulting business also has reduced the field of potential players, she added.

"A contract I worked on for six months now has to be redone" as a result of a merger, she said.

But even though total outsourcing is difficult because of the limited number of vendors that have the capability, outsourcing parts of employee benefit plan administration is much easier, according to Mr. Warner.

"Total outsourcing is not a very mature market, and the maturity of the market dictates availability," Mr. Warner explained. "By contrast, the defined contribution market is mature. The market is highly competitive now, and it's a good time to look for a vendor."

Similarly, health and welfare administration with interactive voice response technology is available to virtually every employer regardless of size, Mr. Warner said.

However, the "defined benefit administration market is not as available unless you're willing to let the vendor manage your assets, too," he said.

Employers that outsource their benefits administration should be aware that they are not transferring their fiduciary obligations in the process, Mr. Warner pointed out.

"No vendor will accept liability," Mr. Warner said, adding the caveat: "However, the courts may deem the vendors to be fiduciaries."

Still, it's important to put specific liability language in the outsourcing contract, Mr. Warner emphasized. "It's a great safeguard to have."

Ms. Russell said Xerox "tried to get the vendors to take on fiduciary liability" but was unsuccessful. "This is where vendor management is important," she said, explaining that if the vendors won't accept liability, they need to be watched very carefully.

As an alternative to shifting liability, Ms. Russell recommended that employers put vendors' fees at

risk, so that they pay for their mistakes.

Regardless of what performance guarantees are negotiated, employers should make sure they have contracts with every vendor, Mr. Warner advised.

"It's a big mistake not to have a contract," he said, recounting the tale of a company that invested \$2 million in fees with a vendor that's not performing as well as expected. "They can't get out because there wasn't a provision for a way out."

Mr. Warner listed the key elements of an outsourcing vendor selection process:

- Complete your strategic outsourcing planning.
- Gather and review information on your current process.
- Conduct a request for information.
- Conduct a request for proposal.

• Host a bidder's conference where vendors will be quizzed.

• Analyze the RFP responses.

• Select finalists.

• Conduct a vendor "discovery process," thoroughly reviewing the organization's capabilities.

"Sometimes it's good to have the outsourcing vendor come in and see what you've been doing internally," Mr. Warner suggested.

"Their fees may come down when they see what they're getting into."

Ms. Russell agreed. "If they know what your data looks like, they may price the job better," she said.

Mr. Warner also recommended employers check all vendor references.

"You need to probe far enough, because vendors won't give you the names of those who are displeased with their service," he said.

Finally, "think through what all the things are that could happen and put them in the contract," he advised. **EB**

'There is no one best vendor. Finding a vendor is like matchmaking. It depends on the corporate culture, what is the best fit for your organization,' says Peter E. Warner.

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Internet use a priority for retirement planning

SEATTLE—The use of Internet technology for retirement planning is employee benefit professionals' top priority for 1999, a new survey shows.

Results of this year's "Top Five Benefit Priorities for 1999" survey were announced at the 17th Annual International Society of Certified Employee Benefit Specialists Employee Benefits Symposium, held Nov. 1-4 in Seattle. The ISCEBS and the Employee Benefit Group of Deloitte & Touche L.L.P. jointly conducted the survey.

Evaluating, implementing and expanding the use of Internet and intranet applications for retirement planning was ranked highest, with 47.4% of respondents picking it as their top priority from a list of topics.

Other key concerns of benefit specialists, in order of importance, are:

- Providing financial/retire-

ment planning tools and information, 42.3%.

• Offering increased investment education, 38.6%.

• Emphasizing/improving the quality of employee communications materials, 36.4%.

• Expanding the use of employee self-service technology for communications and/or administration, 32.7%.

A total of 652 employee benefit specialists attended this year's symposium. Next year's symposium is scheduled to be held Oct. 3-6 in Orlando, Fla.

For more information about the conference, the survey or the ISCEBS, visit the ISCEBS World Wide Web site at www.ifebp.org/ishmpage.html.

The ISCEBS can be contacted at 18700 W. Bluemound Road, P.O. Box 209, Brookfield, Wis. 53008-0209; 414-786-8771; fax: 414-786-6647; e-mail: iscebs@ifebp.org.

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Errors & Omissions

Finding the right keys for

loss prevention

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Retrofit initiative putting focus on disaster mitigation

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CPCU conference: Measuring change needs more attention

page 16H

Internet use requires E&O risk management

By RICHARD TROUT

Even though advances in technology are revolutionizing insurers' business practices, avoiding errors and omissions liability on the Internet is a matter of old-fashioned common sense.

Confidentiality of information and unauthorized access probably will be the main issues surrounding E&O exposure on the Internet, said Bruce B. Coates,

profit center manager for the Insurance Industry Professional Group of Employers Reinsurance Corp., both based in Overland Park, Kan.

As insurers and agents contemplate a future of doing business on the Web, they also will have to consider ways to keep their systems secure. For example, hackers might be able to gather sensitive information on an insurance company's clients if the insurer's World Wide Web site has weak security.

"There are additional (E&O) exposures—though not insurmountable, by any means—that the traditional insurance policies haven't kept up with," said Chip Lawson, senior product manager at IVANS in Tampa, Fla. For example, Web sites may contain complicated or inadequate explanations of coverage. IVANS provides information technology and networking services to the insurance industry.

But, the insurance industry's future Internet E&O liability ex-

posure will depend on how much business is transacted online, he said.

It is the end users, after all, who will determine whether selling insurance online will be a successful endeavor, let alone whether E&O liability will be a significant issue, said Mr. Lawson.

"There is a question whether consumers will realistically buy insurance on the Internet," he says.

At the same time, insurers and



agents "need to understand how their customers are probably more eager to start using these new technologies than they are," said Virginia M. Bates, president of Boston-based VMB Associates, an agency consultant.

Mr. Lawson said he is not aware of any insurers or agents that bind insurance policies on the Internet, though many do online marketing and provide informational Web sites. "The focus is on customer service and marketing, not selling, and there is a big difference between shopping and buying," he said.

Selling an insurance policy is a fairly complex financial transaction and, therefore, not ideal for the Internet, Mr. Lawson explained. "Making claims payments, renewing a policy or changing a policy are far simpler transactions with far less financial risk than buying insurance," he said.

If selling insurance online never takes off, it's possible the problem of E&O liability for Internet transactions will barely exist, Mr. Lawson added. Other E&O exposures may crop up among the community of users—among agents or between agents and insurers—but he said he doesn't foresee much E&O exposure for direct sales of insurance over the Internet.

Although the law of supply and demand ultimately will determine whether insurance companies can take advantage of the Internet, reducing the number of mistakes in online transactions will make doing business over the Internet more attractive to buyers and thus increase demand.

Using disclaimers is one step agents can take to reduce their E&O liability, said Madelyn Flannagan, manager-information services for the Independent Insurance Agents of America Inc. in Alexandria, Va.

"Every agency has disclaimers on their answering machines about what you can and can't do via the voice mail or the telephone messaging system," she said. "Agents will need to have those same disclaimers on their Web sites. . . . Those are things that we'll be working on and recommending as these things develop."

Ms. Flannagan said Internet E&O liability hasn't been a significant issue because most agencies have disclaimers on their Web sites to protect against potential E&O lawsuits. For example, a disclaimer may state

See **Electronic** on page 16D

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Electronic

Continued from page 16B

that coverage can't be bound immediately if an e-mail is sent on Sunday evening when the agency isn't open. "Those are places where misunderstandings can arise, so it is incumbent upon the agent to make sure he has the proper disclaimers in place," she said.

Ms. Flannagan predicts best practices will come to the forefront as agencies conduct more business on the Internet. "An agency that operates itself ethically and always has will do so using this method as well," she said. "You sort of have to trust business to be conducted in an ethical manner using this method, just as you would any other way." Checking the authenticity of e-mails, for example, is no different from checking someone's identity on the telephone, she noted.

Ms. Bates of VMB Associates agrees that producers can avoid errors and omissions if they apply the same principles for electronic communications as they have for conducting business in the office environment. "An agency shouldn't be canceling a policy from an e-mail transmission, any more than they should be canceling a policy from a simple note in the mail," she said. "All e-mail is, is fast regular mail."

"Agencies should use their same E&O thought process for fast mail as they do for traditional mail. They're really not two separate thought processes," Ms. Bates said. Indeed, agencies should be more sensitive to e-mail transactions, because those are easier to forge. "It can be electronically clipped and saved to the electronic file much more credibly than paper can be copied and saved," she said.

There are four categories of risk involving E&O liability over the Internet, she said. They are:

- **Marketing.** Because Internet access is worldwide, agents and insurers have to put disclaimers on their Web sites that list the states or jurisdictions in which they are licensed to operate.

- **Agency licensing.** This category reinforces the licensing disclaimer of the first category by listing the states or jurisdictions in which the insurers they represent are licensed.

- **Viewing online transactions as normal operating procedure.** For example, explaining coverage incorrectly on an agency Web site can lead to an E&O claim just as explaining it incorrectly in policy documents would.

- **Accuracy of databases and e-mail transmissions in a new work environment.** Because agencies are beginning to link their databases to their Web sites, the agency is not the only user. "For instance, the insured contractor who is putting a bid together at night who needs to have a certificate won't have to wait until 9 o'clock in the morning and ask the

agency to get a certificate to him," Ms. Bates said, because he will have access to the agency's database.

"What e-mail is going to do is make the agent totally accessible, which means the agency's database is going to be totally accessible, which means the database has to be right, and agents are not in the habit of keeping their databases right," she said. In addition to being accurate, databases also have to be up-to-date, she added.

To reduce the potential for Internet E&O claims, agents will have to improve the accuracy and timeliness of their internal operations; they will have to advance techno-

logically in a very short period of time, Ms. Bates said. "Agents are going to have to change their internal operations to make them good enough not only for inspection but for use by the outside world."

However, Web site technology and e-mail might actually reduce E&O exposure, Ms. Bates stressed, because they allow agents to work more accurately and efficiently. She predicts that within two years, half of all business transactions now done via the telephone will be done through e-mail.

Electronic commerce holds opportunities as well as pitfalls, agreed Mr. Coates. "It gives agents

a tremendous opportunity to provide very fast very efficient service and information to their clients whenever they want it—seven days a week, 24 hours a day," Mr. Coates said.

But a technological advance such as e-mail can be a two-edged sword. Because e-mail is permanent documentation, it can reduce the "he says, she says" confusion inherent in regular mail, such as when an agent mails an updated policy to an insurer but it never arrives. It is far easier to prove that an e-mail was sent and received, as opposed to a letter, phone message or fax.

Agents need to understand,

however, that deleting an e-mail message on their screen doesn't mean it's gone. The permanent nature of backup copies and electronic "carbon copies" should cause an agent to think twice before putting something in an e-mail that he or she wouldn't put in a letter to a client, said Mr. Coates.

E-mail poses another potential threat in that computer viruses can be attached to such communications, he added. If an agent gets an e-mail from an underwriter with a virus attached and sends that e-mail to a client, "does a general liability policy cover that? I'm not sure." **BI**



Retrofit project aims to promote loss control

By AMANDA MILLIGAN



cured to surfaces.

A fishbowl seems harmless, but when a natural disaster

strikes, it can become a deadly object, say volunteers in a pioneering project by the Institute for Business & Home Safety to retrofit the nation's day care centers to protect the children who spend much of their day in the centers.

The IBHS is a Boston-based insurance industry initiative with the goal

of minimizing the devastation of natural disasters, from human suffering to property damage.

One IBHS goal is to retrofit 93,000 non-profit child care centers over the next five years. In doing so, the group hopes to show citizens of every community how to protect themselves and their property from extensive damage caused by natural disasters. Many of these measures are alternatives to filing insurance claims to cover preventable damages, said Harvey Ryland, president and chief executive officer of the

IBHS.

In addition to attaching potentially mobile objects to secure surfaces, other volunteers placed plastic tubes over fluorescent lighting to catch the shattered glass from broken bulbs, attached reinforcements to shelves to prevent them from tipping, and installed "catch latches" to cabinet doors to hold them closed if they are rattled by tremors.

Comparing the group's disaster mitigation efforts to the car safety campaigns of 30 years ago, Mr. Ryland explained that it is important

to instill the proactive loss control philosophy in school-aged children.

"One day (these children) will not live or work in a building that is not safe from natural disasters," he said. "If we don't start today, we'll never get there."

Although he had never heard of the IBHS prior to this project, insurance agent Jeff B. Hurliman, principal of Jeff Hurliman Insurance Services in Tillamook and a retrofit volunteer, said he was pleased IBHS selected his community for the first retrofitting project. The small coastal town, about 75 miles west of Portland, Ore., has experienced bad flooding in recent years, and Mr. Hurliman said it is also projected as the site of a major earthquake within the next 10 years.

Because non-structural retrofitting requires only minor fixes, the cost of these day care projects is relatively small, Mr. Ryland said. IBHS member SAFECO and a local grocery chain footed the bill for costs not covered by donations.

Mr. Todd, who is also the chairman of SAFECO's community involvement program in the Portland region, said the day care retrofit project fit into the insurer's sense of giving to the community, and it leaves volunteers with a good feeling. "The work that's required to do this isn't rocket science," he said. "We feel that issues relating to promoting safety in the business and home are vitally important."

"It's Saturday-morning work experience for insurance company employees," said Mr. Ryland.

The IBHS also is working toward greatly reducing the costs for major structural retrofitting projects, such as ways to strengthen the roof, rafters and shingles of homes and commercial properties that have traditionally been subject to damage from high winds and water in natural disasters.

The IBHS deals with more than just making modifications to existing structures, though. The group also advocates enforcing building codes and encourages adding damage mitigation features as new structures are built; these changes typically raise construction costs by only 0% to 5%, Mr. Ryland said. Also among the group's initiatives is encouraging property developers to be more aware of "natural hazard vulnerabilities," such as the hazards inherent in building in coastal areas or near fault lines.

A spokesman for the Independent Insurance Agents of America said the IBHS produces consumer awareness materials that the Big I's 300,000 member agents can disseminate.

"They have the message, they have the research, we have the grassroots public relations," he said, noting that, as partners, the Big I and the IBHS can make a difference.

A spokesman for SAFECO also commented that the IBHS's message promotes responsibility for the care of one's possessions instead of relying solely on insurance. "They're right on the brink of having an impact based on the way people think about protecting their property," he said.

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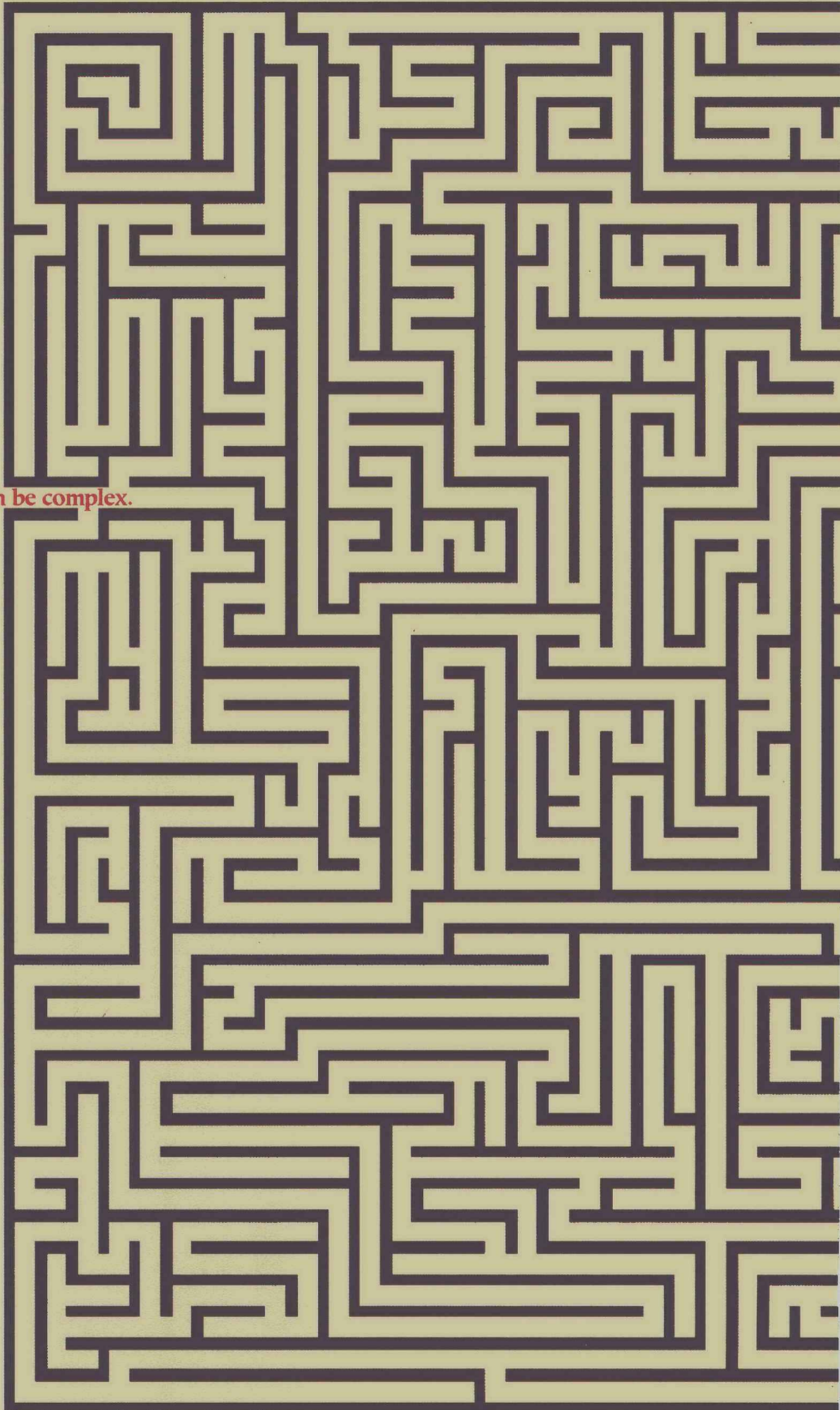
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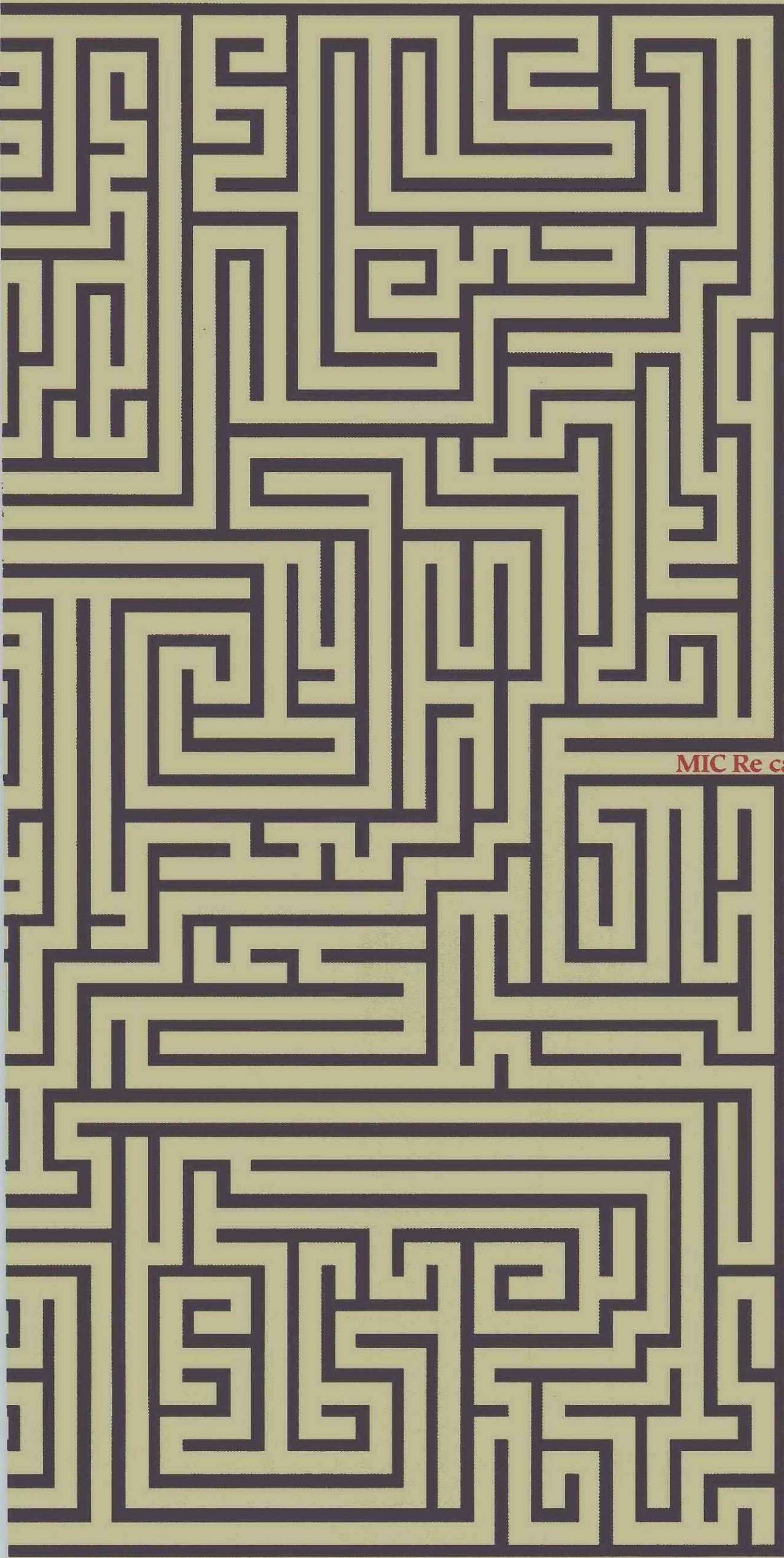
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Group aims to speed insurer access to sites

By AMANDA MILLIGAN

The electricity is out. Trees, tossed like javelins, block deserted thoroughfares. Broken windows and missing roofing shingles invite in the driving rain.

A disaster has wounded this community, and a devastated populace awaits an opportunity to report the extent of its damage. Efforts by the Institute for Business & Home Safety that encourage

states to give insurers quicker access to disaster-stricken areas could make this happen more expeditiously, said Harvey Ryland, president and chief executive officer of the Boston-based IBHS. The IBHS is an insurance industry-backed initiative whose goal is to minimize losses caused by natural disasters, from human suffering to property damage.



James Russell, vp-outreach for IBHS, points to one state's plan that serves as a model for other states to follow.

In 1997, the Florida Department of Insurance and the Florida Insurance Council drafted a plan called the Florida Emergency Management/Insurance Community Cooperation Pact that encourages joint effort between the state's emergency management department and the insurance industry.

The voluntary plan calls for insurance disaster assessment teams

to fly over or walk through affected areas to preliminarily gauge damage. It also gives adjusters the earliest possible access to such areas. Finally, the plan also mandates that after a disaster, an insurance industry representative be present round-the-clock in the state's emergency operations center to field questions from residents.

The IBHS not only supports the Florida plan but IBHS representatives travel nationwide trying to convince state officials to adopt a

similar doctrine, said Mr. Russell. To date, the IBHS has pitched the Florida plan to 22 states. As a result, six states have agreed to the plan or have devised something similar.

"Florida really has this (plan) pretty well honed," Mr. Russell said. "We would like to institutionalize it" in every state.

Sam Miller, vp of the Florida Insurance Council in Tallahassee, said the organization has worked with the IBHS in the past.

"Florida is the battleground for catastrophes," he said. "It's just a natural fit. The things that IBHS is concentrating on are so important in a state like Florida." **BI**

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Industry lacks tools to measure ability to cope with change

By ROBERTO CENICEROS

The property/casualty insurance industry lacks systems to measure its capacity to change, even though there has been a dramatic increase in the rate and complexity of change affecting insurers.

However, the industry has achieved "moderate success"—meaning that insurance companies are successful more often than not—in adjusting to changes, according to the findings of a study sponsored by the CPCU Society.



Mergers, acquisitions and the shifting focus and operations of companies characterize the turbulence that insurers and their employees experience, agreed a panel of industry leaders who discussed the report at the CPCU Society's 54th annual meeting, held last month in San Diego.

The stresses on employees and their ability to adapt to a turbulent environment are key issues for insurance leaders who set company direction, according to the panel members and study's findings.

Of the three options presented, the study found that 38% of the chief executive officers and industry leaders who participated in the project gave the most weight to the consideration of people issues when making decisions about how to implement change.

Another 33% rated making the right decisions about what to change as most important, while 29% gave equal weight to both concerns.

The CPCU Society sponsored the study to better understand the industry's capacity for change and how key leaders approach change, said Anita Z. Bourke, CPCU Society

president and vp-strategic planning for Willis Corroon Americas in Nashville, Tenn. The findings contained in "Building Nimble Organizations: Facing the Challenge of Change" are based on interviews with 38 industry leaders and 64 respondents to a survey.

The results present an opportunity to help the industry stay competitive during this time of rapid change, Ms. Bourke said. Among other things, the report recommends setting aside organizational resources and leadership time to build into organizations the capacity to change.

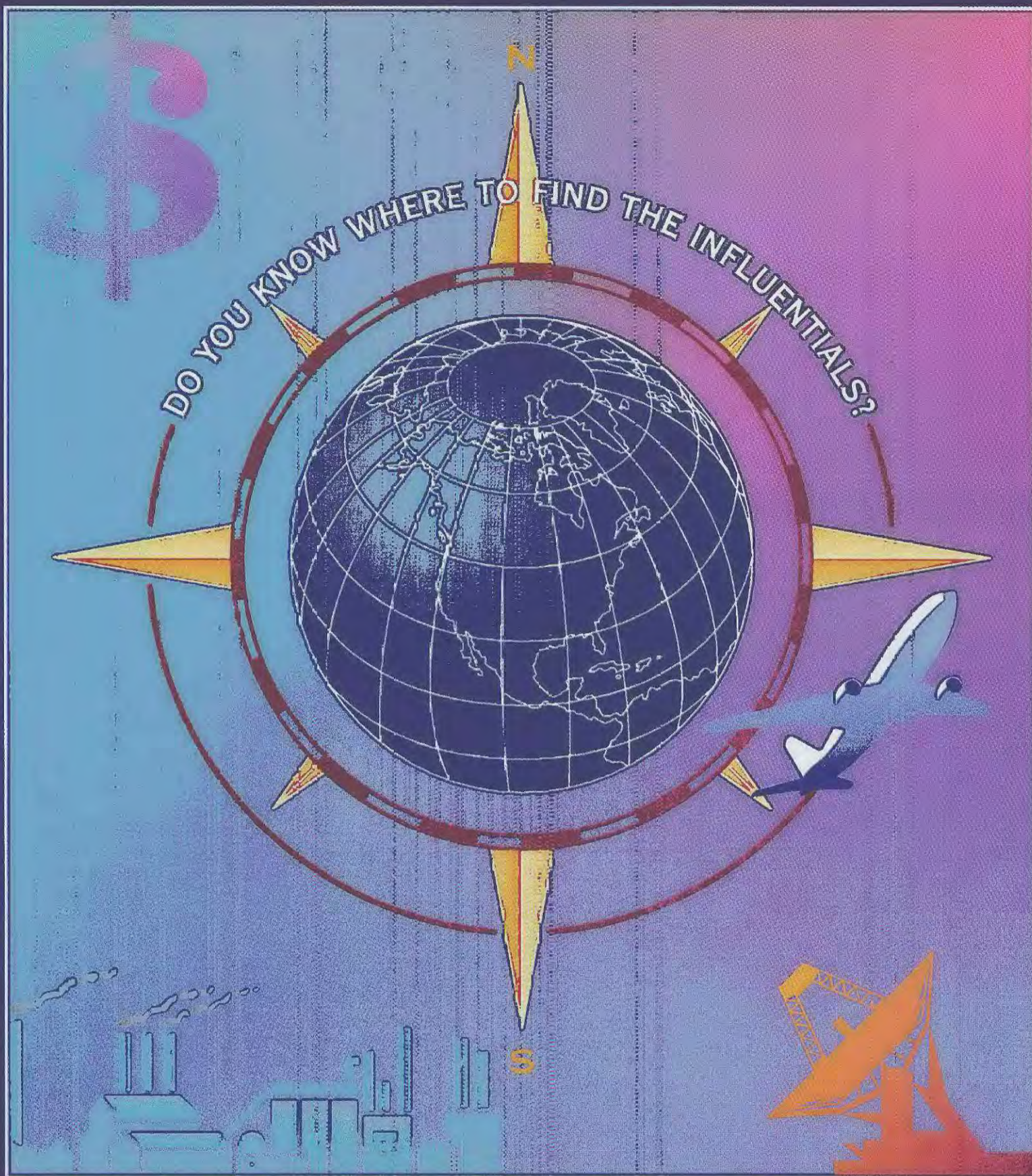
"There appears to be a lack of structured, systematic mechanisms for measuring current change capacity and change load, a potential risk as future change demands continue to escalate," the report states.

Yet, despite the lack of structured systems for gauging overload, many insurance leaders are "unconsciously competent," meaning that they have a well-grounded perspective and that they are making effective moves, the study found. The move toward "conscious competence" will require bolstering decisions based on intuition with structured processes that will help managers display effective behaviors.

A company's ability to absorb change fast enough influences executive decisions. The CPCU Society study examined whether leaders had ever stopped or canceled needed changes because employees already were faced with too much turbulence or too many responsibilities. Fifty-five percent of the leaders have stopped or canceled needed changes due to change overload, while 35% have not, and 10% have tried or considered it.

To succeed while the speed of change is increasing, insurers need to surround themselves with employees who have either a predisposition for change or the ability to bounce back from turbulence, the

See **Change** on page 16J



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Change

Continued from previous page report said.

An employee's disposition for change can be enhanced to some extent after he or she is hired, said Daryl Conner, CEO of ODR Inc., an Atlanta-based research and development firm specializing in change management and human resiliency. But it is better to start with an employee who has a high threshold for change, he said.

"I would be cautious about saying a leader's job is to take change-weary people and somehow do something and make them adaptable," Mr. Conner said. "The most critical role

leadership has today is not how to give the proper inspirational talk at the moment of crises, but how do we intentionally hire people with a higher threshold for learning change."

ODR Inc. conducted the study for the CPCU Society, and Mr. Conner was among the panelists who addressed the annual meeting.

"You can't pour resiliency into people, but you can draw it out," he said. "There is an art form to how far you can push people to change without tearing the muscle fiber."

While companies can strive to hire employees with an aptitude for change, existing employee bases can present leaders with challenges when opportunities for change are

pursued, panelists said. Studies show that about one-third of a work force has the necessary disposition for change, Mr. Conner said.

But about one-third of the work force may be well below the necessary threshold. That is not a pleasant thought, and it has significant social implications, Mr. Conner said.

"I think what we have to come to grips with is realizing there may not be a panacea for everybody that is working for us," he said. "I hope it's not as high as one-third, but I can tell that one-third has held up as we look at mergers and acquisitions."

Mr. Conner said he did not have answers for the problem, though some change-resistant employees will leave voluntarily because they

don't like the new situation.

"So far, my only response is, 'Do you have a closet where you can put people where transition is not going to affect them?' To a greater and greater extent the answer is, 'No,'" Mr. Conner said.

Dennis H. Chookaszian, chairman of the board and CEO of CNA Financial Corp., agreed. He said he has found that about one-third of employees elect to leave when a company changes directions, such as when CNA Financial Corp. merged in 1995 with Continental Corp.

"We went through a lot of change and a lot of new people coming in and people leaving the organization," he said. "I think that is

healthy. I think that is what you have to do."

Ms. Bourke, too, has witnessed the rapid change and behavior described by Mr. Conner, she said. When a Kohlberg, Kravis Roberts & Co. L.P.-led consortium recently purchased Willis Corroon, it did so because of the employees working for Willis, Ms. Bourke said.

"They came and looked at what we were doing and liked it, only they wanted it (done) faster," she said. "It's monumental and very quick change. The challenge to us is to be able to implement those changes effectively."

But, Ms. Bourke admitted, she does see "change overload in some places in our company." **BI**

Unsupervised kids create liabilities: Experts

By ROBERTO CENICEROS

Public and private entities face some troublesome liability issues from the growing number of unsupervised children, insurance and legal experts say.

Liability involving children can be particularly difficult because some states require courts to hold

defendants to a higher standard when children allege injury, according to speakers at the Chartered Property Casualty Underwriters Society's 54th annual meeting in San Diego last month.

"Even when there isn't a statutory or case law tightening of the standards, I can tell you by experience that judges and juries are likely to include (tightening)," said Scott R. Cook, a managing attorney

and insurer defense attorney at Cook & Finch in Englewood, Colo. "They are going to move the standard up. Why? Because we all care about children. And even those (plaintiffs) who don't necessarily care recognize there is potential economic gain."

Underwriters need to pay special attention because of a long latency period for claims involving children, Mr. Cook said. In some states, the statute of limitations begins when the plaintiff reaches age of majority.

"A minor doesn't need to respond to a wrong today," he said. "So the risk isn't for today, tomorrow or the regular statute of limitations. The risk may be for 21 or 28 years. You need to be aware of that."

Estimates vary on the number of children who are left unsupervised before and after school, said Sharon E. Spung, regional claims manager-Dallas in Plano, Texas, for SAFECO Insurance Cos. But the number

likely ranges into the millions, and a general conclusion of studies on the issue is that 15% of our country's child population fits the category, she said.

Poverty, a growing number of single-parent homes and more households where both parents work to keep pace with an increasingly materialistic society all contribute to a rise in the number of unsupervised children, Ms. Spung said. Child care and afterschool programs have not kept pace.

One study found that more than 150,000 children a year are left unsupervised in pet stores, toy stores, playgrounds and parks. One out of 43 of them is injured while not supervised, Ms. Spung said.



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The trend also can be found at upscale toy stores where "children are being left for hours and hours at a time while their parents go have their hair done, or their nails done, shop or have dinner," Ms. Spung said.

Nationally recognized amusement parks are not immune to the typical problems that companies experience. In fact, companies that advertise to attract children may be more at risk of suffering liability losses because juries and state laws place a greater expectation on such companies to protect children, the panelists said.

"The risks that these entities are seeing are violence, vandalism, injuries and children who are stranded after concerts because their parents have left to do other things," she said. "And these entities are in the business of entertaining children, so they are not in the position to discourage children. But they are not in the position to incur the types of problems they have, so they are caught between a rock and a hard place."

Public entities also are grappling with the problem. Recent media stories have highlighted that unsupervised children regularly are being found in libraries. They are a popular location for unsupervised children because libraries exist in all communities across the country, and they are thought to be safe places, Ms. Spung said.

Los Angeles County alone estimates that 3,900 kids daily are left alone in its libraries. College campuses also are depositories for children of students and employees.

So who is responsible for injuries? "Generally, the answer to that is guided by the theory of landowner liability," Ms. Spung said. The property owner can be held liable whether the children are invited guests or trespassers.

The acts of employees and third parties also are a concern, and this concern extends beyond a potential defendant's immediate property.

Underwriters and risk managers also need to consider any acts or locations—such as neighboring properties—that are "sufficiently connected" to the defendant's property, the speakers said.

States also are imposing additional laws on companies.

See **Children** on next page

Children

Continued from page 16H

For example, Nevada law now states that organizations have a reasonable duty to conduct a background check of employees who work with children. What is "reasonable" is left for a jury to decide, said Mr. Cook, the insurer attorney.

Juries are particularly apt to rule harshly where a position of trust is involved, such as in day care centers, foster homes or group homes, Mr. Cook said. The issue at stake is whether the defendants have assumed control or the role of a parent.

"And if they have, despite all of the instructions and all of the arguments and mechanics that we as trial attorneys go through, the question for the jury becomes, did that person act as the reasonable parent that I believe they should be and not just the parent that I think I am. The standard is generally higher."

To protect themselves, some "drop in" day care centers are outfitting parents with pagers so they can be immediately contacted if their children experience any difficulties or health problems, said Greg S. Thompson, president of Thompson Insurance Enterprises Inc., an Atlanta-based managing general agency specializing in liability coverage

for child care centers.

Drop-in centers, which are increasingly found in public places such as shopping malls, frequently take in children who are unfamiliar to them.

One of the best risk management practices is to have a policy regarding age and supervision on the premises, Ms. Spung said.

Risk managers and underwriters should know the risks and stay abreast of changing laws, Mr. Cook added.

A defendant's legal case can be helped by having a well-documented risk management plan, employees who understand their jobs and surveillance of the facilities, the speakers said.

Surveillance should not be limited to a company's immediate property. Rather, it should extend anywhere a wrongdoing might take place that may be connected to the operation.

Building a good defense also requires evaluating an entity's history, Mr. Cook said. Having a good risk management department and a security manual in place are important. "But when the plaintiff's attorneys produce police reports for the last 450 police calls at that site, you begin to look inadequate," Mr. Cook said.

The moderator was Stewart J. Ellenberg, risk manager for the City of Fort Collins in Colorado. **BI**

Mexico's commercial market expected to grow: Experts

By **ROBERTO CENICEROS**

Commercial insurance coverages that were practically non-existent in Mexico before the North American Free Trade Agreement are gaining attention there.

Various types of liability coverages are among the insurance products expected to see premium volume growth, said several Mexican insurance experts speaking at the 54th annual meeting of the Chartered Property & Casualty Underwriters Society in San Diego last month.

Mexican company penetration into the United States, the spread of multinational companies operating in Mexico and the country's dependence on exports are factors fueling increased interest in liability coverage.

"It's a very important issue now that the frontiers are opening between the two countries," said Salvador De Maria y Cam-

pos Q., director-corporate risks in Mexico City for Allianz Mexico S.A.

Less than 3% of premiums currently written in Mexico are for liability coverage, he said. Because lawsuits are not common, Mexican companies and consumers traditionally have escaped the need for liability insurance.

But changes are in store, the experts predict.

Because of NAFTA, "We are adopting a lot of the liability consciousness or the litigious environment that you have in the United States. . .," said Fernando Ortega, managing director in Mexico City for the brokerage Brockman y Schuh, a unit of Marsh & McLennan Cos. Inc.

The country's economy is increasingly driven by exports to countries such as the United States. Therefore, Mexican companies whose products are pene-

trating U.S. markets are aligning their risk management approach with the U.S. style of risk management. They are weighing the purchase of insurance for liability-related litigation that could come from the United States.

"You will find directors and officers coverage becomes more of an issue in the next three to five years," Mr. Ortega said. "There are many Mexican companies publicly traded on the New York Stock Exchange, through American depository receipts, that have to buy directors and officers liability coverage. The same thing happened 15 years ago in Spain. D&O was a non-issue, and it has become one of the largest growing lines of insurance in Spain. We expect that will happen in Mexico."

The popularity of coverage for potential liabilities within Mexico also is expected to spread.

"Professional errors and omissions for architects and engineers, medical malpractice, etc., will eventually grow in our country as well."

See **Growth** on next page



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Growth

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become more litigious," Mr. Ortega said.

Purchasers of insurance in Mexico agree that increased liability exposure is becoming an issue for them as they expand their business into the United States.

"On the liability side, the culture and the extent of the exposure is flowing from the United States to Mexico and Central America," said Carlos Burkle Elizondo, director-international risk management for Gruma Corp., a Mexican milling products company that markets

Mission brand tortillas in the United States. It has nearly \$2 billion in annual worldwide sales.

His company has a global insurance program with "high limits" for D&O coverage because of exposure in the United States, Mr. Burkle said. In contrast, "half a million dollars is enough coverage for Latin America, where here (in the United States), the exposure is maybe 20 times that or more."

The presence of multinational companies in Mexico is spreading awareness throughout the country about the need for other types of commercial insurance, the experts say.

For example, only multinational

companies now have structures in Mexico protected by highly protected risk insurance programs. The

'Most of the sophisticated risk management will prevail in large corporations,' says Fernando Ortega.

same is true for coverages such as business interruption. But there is a growing awareness among Mexican companies that business interruption insurance may be necessary to protect against stoppages due to

damage to buildings or machinery, Mr. Ortega said.

"Even though it is not a very big part of premiums written in the country, it is an important exposure," he said.

An interest in insurance concepts such as total cost of risk also is spreading, as is an interest in alternative risk mechanisms, such as captives, the experts say.

"We will find in our country, and in many other countries of Latin America, such as Argentina, Chile and Brazil, more sophisticated risk management will take place even though our country in many respects is not as developed insurance-wise," Mr. Ortega said.

"Most of the sophisticated risk management will prevail in large corporations," he continued. "Higher retentions are becoming more common. It used to be in Mexico there was not even a deductible for property policies way back in the dark ages. I'm talking maybe 15 or 18 years ago. But now you can buy deductibles, and large corporations are thinking about higher and higher retentions."

Overall, insurance in Mexico accounts for only 1.3% of the gross national product, and the industry grew 6.22% from 1988 to 1997, the experts say.

The country still needs many new insurance products and an improved distribution system, said Alberto Estavillo M., president of the risk management consulting firm Asecor Consultores in Mexico City. But there is great expectation that the country will privatize large economic sectors now monopolized by the government. Meanwhile, the economy will strengthen and grow while the insurance industry will rise to meet increasing demands for products, he said.

Currently, \$4.02 billion in premiums are written in Mexico, including life, health and property/casualty coverages. According to 1996 data, Mexico is the third-largest insurance market in Latin America, smaller only than Brazil, with a \$16.15 billion premium market, and Argentina, with a \$4.05 billion premium market. Chile trails Mexico, with \$2.39 billion in premium volume. Together, the four countries account for 86% of the premiums written in Latin America, Mr. Estavillo said. **BI**

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SAN DIEGO—About 4,000 people attended the CPCU Society's 54th Annual Meeting and Seminars, held Oct. 25-27 in San Diego. Next year's meeting will be Oct. 17-19 in Boston. For more information, contact the CPCU Society, 800-932-2728.

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Let the buyer beware of overcharges

By Howard C. Alper

INSURANCE COMPANIES HAVE significantly reduced their premium audit departments' quality control as a cost reduction measure. Today, more so than ever, it is critical that insurance buyers realize the consequences they face when insurance companies determine the final premium cost on auditable policies—that is, premium overcharges.

Most insurance buyers are forced to deal with the uncertainty of their premium calculations, relying on their insurance companies to apply the proper rules and interpretations without being monitored. After all, isn't it true that:

- Insurance buyers are protected because insurers are monitored by state rating bureaus and regulations?
- Insurers place their policyholders in the lowest rate category available?
- Insurers have quality control procedures to prevent errors?

In a word—no! The calculation of workers compensation insurance premiums is regulated more than is other insurance coverage. Even with this extraordinary regulation, overcharges frequently occur in the workers comp premium determination process. Caveat emptor—let the buyer beware.

As with anything outside your area of expertise, it is difficult to analyze and understand the technical application of insurance manuals and procedures. Consequently, the work insurance companies do in calculating final premiums is rarely challenged with the technical expertise necessary to draw accurate conclusions.

Premium overcharges occur more often than most insurance buyers ever realize. To avoid unintentional premium overcharges, you should study everything from the basic premise of defining your business enterprise to the re-evaluation of the experience modification factor. Uncovering and recovering a premium overcharge causes the insurance company to do what they should have done in the first place—charge the correct premium.

Fortunately, you do not need to remain in the dark about premium calculations. There are areas that can and should be analyzed by trained insurance reauditing professionals to identify premium overcharges. Some of the important areas that should be examined include:

- Auditing errors.
- Final premium calculation adjustments.
- Experience modification calculations and loss runs.

Analyzing the insurance company work papers that document how insurance premium auditors determine payroll and sales exposures is a dilemma for buyers. In the past, one could look at the handwritten auditor work papers and reasonably judge if the insurance company representative competently managed the flow of information. Experts in analyzing these work papers could visualize the source materials used to collect the information, and they were able follow the flow of information to its conclusion. If the information appeared haphazard and jumped from one aspect of the work to another without continuity, the reviewer could decide if he or she wanted to study further.

Today, if the insurance buyer requests a copy of the audit work papers, the insurance company shows the reviewer no more than a cursory recap of the ultimate conclusions.

Important details of the audit are often missing. These include what payroll periods were included, what classifications were assigned to various departments, how the payroll segregation was accomplished, what specific state exceptions were applied, and what exclusions were allowed.

The audit conclusions are downloaded directly into a premium calculation format. Much of this work receives little or no quality control until it arrives

back at the insurance buyer's office in the form of an invoice.

Because insurance brokers do not guarantee that premiums will be calculated correctly, the invoice is normally accompanied with the broker's cover letter explaining that the broker has checked the mathematical aspect of the calculation (e.g., payroll times rate), and urging the insurance buyer to verify the exposures used to calculate the premiums. Unless a broker has a qualified expert on staff to manage this for clients, the broker is, in effect, telling the client, "You must be expert in understanding the insurance manuals and procedures that govern how this work is done."

You would think that because computer programs drive the determination of the final premium cost, there would be no reason to question the accuracy of the resulting calculations. Contrary to belief, however, final premiums calculations are often wrong for a variety of reasons. For example:

- The "basic" insurance manuals outline procedural guidelines. Insurance companies, by consensus agreement, use these guidelines in the premium determination process. The guidelines contained in the basic manuals are further redefined by what are referred to as the state exception pages. Thirty-five states or jurisdictions stipulate in the state exception pages that different guidelines apply in their areas.

When you add to that the independent rating bureau where the basis manuals don't apply, for all intents and purposes, almost every state has its own set of procedures. Often those exceptions are not properly programmed or are not applied correctly. To manage the analysis of a final premium calculation, the reviewer must know which states have different rules and the effect of those rules.

- Some states offer special considerations to certain business enterprises that ultimately serve to lower policyholders' final workers comp insurance costs. Sometimes those considerations take the form of applying different class codes to certain aspects of a business enterprise than would normally apply in other states, and sometimes they take the form of offering special programs where, if the policyholder qualifies, special credits are applied against its premiums.

An example would be the application of a credit resulting from the implementation of the contracting classification premium adjustment program. Although much work is needed to apply for this special program during a policy period, the premium savings are evident on the final premium calculation. It is very possible that the expected rating bureau acknowledgment hasn't been properly recognized even if the insured completed all the appropriate forms and forwarded them in a timely manner. Again, the reviewer must be aware of the availability of these special plans and understand how and when they are implemented.

- There is a lot of confusion in the insurance industry deciding if, when, and how an experience modifier can be used in the final calculation of premiums. Just because a factor is endorsed on a policy and that same factor is used on the final premium adjustment doesn't necessarily indicate that it is correct.

Why? Often initial modification calculations are revised because different risk experience information becomes available.

When that happens, rating bureaus will issue revised experience modification calculations. Often, neither the insurance company nor the policyholder is even aware that a revised modification factor was calculated. If it is determined that a corrected modification factor has been calculated, it is critical that the reviewer monitor the application of this new factor in accordance with the State Exception Rules referred to above. Some states have very specific rules regarding if, when, and how a modification can be applied.

Your loss runs are your first line of defense in securing a correct experience modification calculation. Be certain that you do your homework before you venture into this arena. Because this is a heavily regulated process, you should learn what can and cannot be done, so you can manage this work to your best advantage.

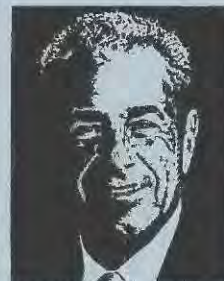
Rating bureaus use what is referred to as "risk experience" in calculating experience modifications. Risk experience, in simple terms, consists of payroll and loss history. Risk experience is reported to the rating bureaus in the form of Unit Statistical Reports. The probability of an error occurring on the series of reports used in calculating a modification effective for a given policy period is actually very high. Data entry errors are common in any business environment; other, more technical errors can also cause you to overpay.

There are numerous aspects of the experience modification calculation that must be critiqued annually to insure a correct modification factor. It is important that you focus your attention on the entire spectrum of current and prior modification calculations. For instance, if there is a subrogation recovery, a claim that was judged non-compensable or claims that were closed at no payment, certain actions should follow. As an example, if a driver were involved in a vehicular accident, the injured employee's first remedy is your workers comp coverage. As defined in the manuals, the value of that claim will appear as risk experience on three experience modification calculations. It is important that you monitor this type of claim to be sure the workers comp insurance company subrogates when appropriate.

When a recovery is eminent, the insurance company is required to file reports that a third-party recovery has occurred. This should automatically prompt the recalculation of certain experience modifications. However, many insurance companies fail to file the required reports. Consequently, the modifications affected by the claim remain unchanged. Because subrogation matters take time to mature, this claim often will not be reflected on the current calculation. Actions must be timely, as there is a window of opportunity to have past modifications recalculated to make allowance for the actual net cost of the claim vs. the initial incurred valuation.

Premium overcharges occur more often than insurance buyers realize. Understanding the entire spectrum of the premium adjustment process can be a very long and steep learning curve. The more you eventually know, the more you realize why this process is the cause of so many unintentional premium overcharges.

The truth is, if businesses weren't frequently yet unintentionally overcharged by insurance companies, there wouldn't be any insurance cost reduction experts. The best way to pay for these services is strictly on a pay-for-performance basis. Anyone claiming to be an expert and in this business for the long run should be willing to put his or her reputation on the line and offer the client the service on a contingency fee basis. In addition, there should be an agreement that the expert will not be entitled to a fee until the incorrectly charged premiums have been refunded to the policyholder. **BI**



Mr. Alper

Howard C. Alper is president of AuditRate Inc., an insurance cost reduction consulting service based in Chicago.

Look at law firms a a helpful service for readers

**"Profit and the Practice of Law:
What's Happened to the Legal Profession"**

By Michael H. Trotter

Published by the University of Georgia Press,
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By Kevin M. Quinley

SINCE 1960, powerful and influential law firms in America have shifted from genteel professional service organizations to profit-oriented businesses. This will come as little surprise to risk managers, who often—along with insurance companies—foot the bills of legal beagles. In the good old days, though, bills were submitted "for services rendered" and were paid. There were no budgets, bills, auditors or detailed expense guidelines. Flat-rate pricing or competitive billing proposals among law firms were non-existent. It's a new dawn, though, and law firms increasingly are waking up and smelling the coffee.

To explain how and why this transformation from gentility to commerce has occurred and how it has affected both lawyers and clients, "Profit and the Practice of Law" examines the histories of the eight largest Atlanta law firms and similar firms throughout the country.

Over the past 36 years, the number of lawyers in the United States has grown more than 225%. Large law firms have grown by 700%. Lawyer compensation has increased greatly in excess of inflation. Ironically, as

Books & Ideas

these firms have flourished, many of their lawyers have become more disenchanting and clients more distrustful and disdainful of them.

Author Michael H. Trotter is a Harvard-trained lawyer and historian. No ivory tower academician, he is not only an adjunct professor of law at Emory University but a senior partner with the law firm of Kilpatrick & Stockton.

He decries many of the billing practices that have become prevalent in the legal profession. Further, he believes that the obsession with billing has caused many lawyers to burn out and turn away from the practice of law. This author knows of many attorneys in private practice who are eager to "escape" and seek in-house legal positions with corporations.

If you think this is just a book for lawyers, think again. Many risk managers have law degrees. More importantly, this book provides a fascinating peek at the practice of law that will hold the interest of risk managers regardless of their educational or career backgrounds. After reading "Profit and the Practice of Law," you will never view a legal bill the same way.

This is a thoughtful book that does not paint lawyers as the bad guys, a habit common to similar books with a lawyer-bashing theme. Rather, it sees attorneys as usually well-meaning individuals trapped in a system that ignores ethics and invites abuse. The problem is easier to present than to remedy, but Mr. Trotter does make some suggestions:

- Propose volume discounts with firms: Agree to give selected firms more business in exchange for lower hourly rates.
- Avoid firms that have minimum billing requirements, e.g., 1,800 hours per year.
- Realize that negotiations are too important to be left to lawyers, who have vested interests in stringing things out.
- Ask lawyers for answers, not for 40-page legal memoranda.
- Put the kibosh on excessive and unfocused legal research.

Most of this is just good, common-sense litigation management. Much of it boils down to client empowerment. Increasingly, the day of the potted-plant client who simply processes unitemized bills for "services rendered" is going the way of the dodo bird. With the new era of frugal clients and the kind of rigorous oversight suggested by Mr. Trotter, inefficient lawyers and law firms may also become endangered species. **BI**



Kevin M. Quinley is senior up-risk services for MED-MARC Insurance Co. Inc. and subsidiary Hamilton Resources Corp., both of Fairfax, Va. He holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations.

Fictional characters offer insurance observations

"Armadillo"

By William Boyd

Published by Alfred A. Knopf
201 E. 50th St. New York, N.Y. 10022; 212-751-2600
\$24

By Mark A. Hofmann

INSURANCE PROFESSIONALS AREN'T going to be outnumbering private detectives any time soon in popular fiction, but they can take comfort in the higher fictional profile they're enjoying.

Carl Hiaasen's comic novel "Stormy Weather," for example, featured a claims supervisor who gets to the bottom of post-Hurricane Andrew insurance fraud in South Florida (*BI*, Oct. 2, 1995). In Paul Levine's "Flesh and Bones," Miami Dolphins linebacker-turned-lawyer hero Jake Lassiter gets mistaken for a hotel risk manager.

But it took William Boyd, a British novelist, to make a claims adjuster the central character in a kaleidoscopic tale of a fire investigation gone wrong in "Armadillo."

Lorimer Black, "a young man not much over 30," goes out on a routine call to a burned-out factory and finds the body of the man he's supposed to meet hanging from a water pipe. As the police officer investigating the suicide casually remarks, "Not your average beginning to your average sort of day, sir, I would imagine."

For Lorimer Black, that's an understatement. The discovery of the hanged Mr. Dupree is the first in a series of steps and missteps that lead Lorimer off the road of professional success at GGH Ltd., the London claims adjusting firm that handles cases for insurer Fortress Sure P.L.C. Lorimer soon discovers that things are rarely what they seem.

And this deception is fitting, for Lorimer himself is not what he seems. His very name is assumed, for he was born Milomre Bloej, son of refugee Gypsies. Lorimer, who suffers from serious sleep disorders, keeps a journal called "The Book of Transfiguration," in

Books & Ideas

which he jots down his thoughts and those of others on matters light and weighty, including the meaning of the insurance business.

The series of events that begins with the death of Mr. Dupree involves Lorimer with Flavia Malinverno, a beautiful actress he glimpses in a taxi. There's also the crazed rock star named David Watts—a name that comes from the title of a circa-1967 rock song by the Kinks—who's threatening litigation over insurance to cover a canceled tour. And there's the major commercial fire that Lorimer is entrusted with adjusting, a fire that reeks of fraud on many levels, though Lorimer cannot even imagine how complex the conspiracy involving the fraud will ultimately prove to be.

Tart observations on the business of insurance punctuate this darkly comic tale in the form of entries in "The Book of Transfiguration."

For example:

- On insurance: "Insurance exists to substitute reasonable foresight and confidence in a world dominated by blind chance and apprehension. This has a supreme social value."
- On the nature of the specialist insurance adjuster, as put forth by Lorimer's boss, the aptly named George Hogg, as he is quoted in *The Book of Transfiguration*: "...in your armed forces you've also got your specialist elite units. Very small in number and with vigorous and highly demanding selection procedures. Many fall by the wayside. The choice is fundamental, is absolute, membership very restricted. SAS, SBS, Navy Seals, your Stealth bombers, spy planes, saboteurs, your FBI and MI5, agents and sleepers in the fields. Secrecy shrouds them, Lorimer, like a shroud. We've all heard of them, but we know (next-to-nothing) about them, in brutal reality. And why is this the case? Because they do vital jobs, jobs of importance. Covert operations. Counterinsurgency. Still part of the larger concept of 'armed forces,' yes—but a tiny, sub-sub-subsection, and also to be borne in mind, one of the armed forces' most deadly and violently effective components.

"That is us, Lorimer. This is the analogy to hold on to. Like them, we are specialists, the specialist loss adjusters. Everyone knows what a loss adjuster does in the wider, above-the-board, larger world. But just like the elite forces, no one really knows what us specialists get up to. But that larger world needs us, Lorimer. Oh, yes. Just as the armed forces have to rely in special circumstances on the SAS or the bomb makers or the assassins. You see, only we can do certain jobs, the difficult jobs, the discreet jobs, the secret jobs. That's when they call the specialist loss adjusters in."

• On the philosophic role of the insurance adjuster, once again courtesy of Mr. Hogg as quoted in "Transfiguration": "We have a philosophical duty to perform when we adjust loss, he told us. When we do our adjustments of loss, we frustrate and negate all the bland promises of insurance. We act out in our own small way one of the great unbending principles of life: Nothing is sure, nothing is certain, nothing is risk-free, nothing is fully covered, nothing is forever. It is a noble calling, he would say, go out into the world and do your duty."

A warning: "Armadillo" is by no means a standard mystery or potboiler. Readers looking for the winter equivalent of beach books or John Grisham clones won't have their desires met here. What the thoughtful reader will find is much more rewarding. Sometimes savagely funny, often profane, and constantly entertaining, "Armadillo" is also a thought-provoking treatise on the nature of insurance and how life, despite the best-laid plans, can go quite awry. **BI**



Mark A. Hofmann is Washington Editor of Business Insurance.



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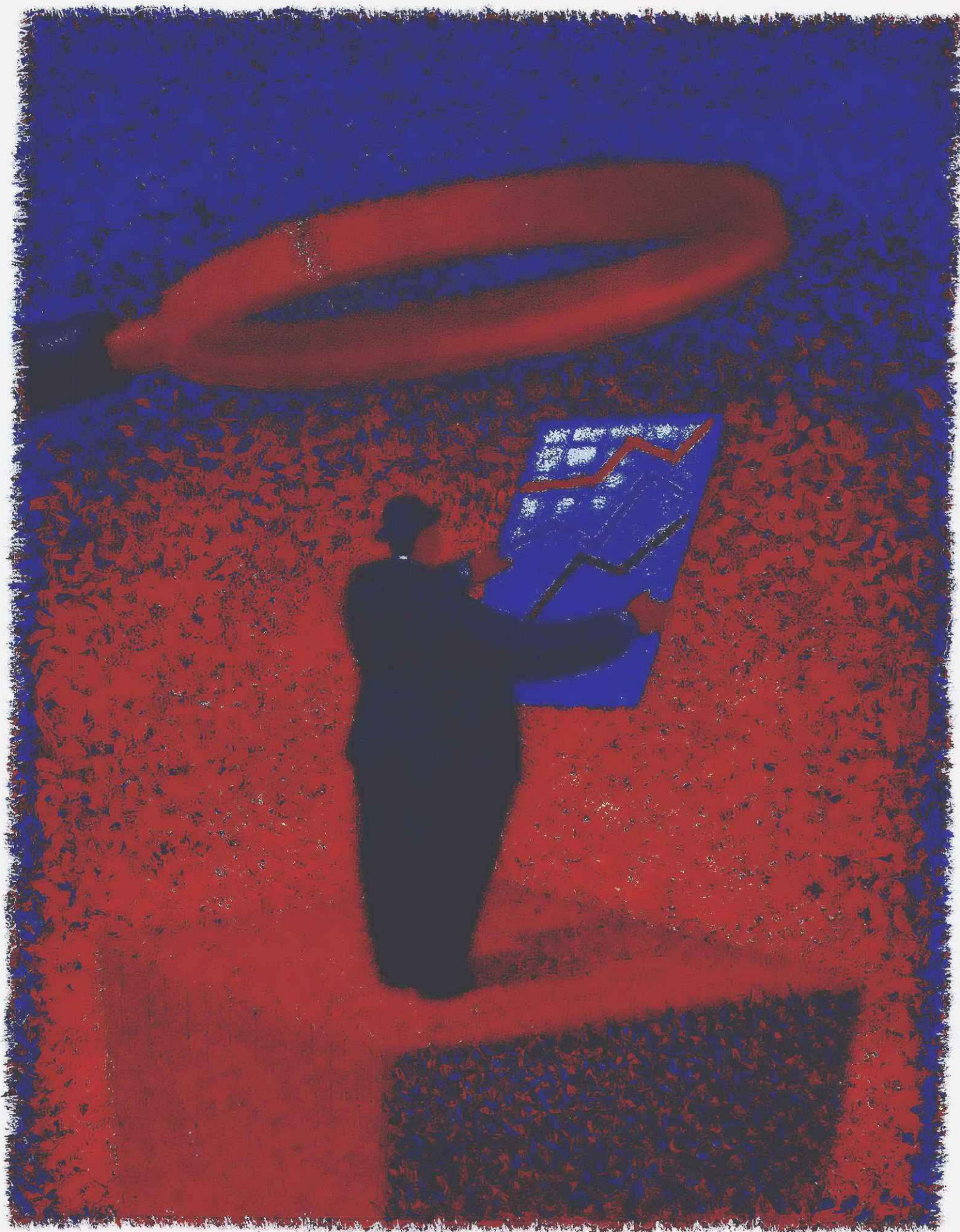
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INTERNATIONAL

Global Briefs

Stamford, Conn.-based GE Capital Corp. has announced the purchase of Paris-based insurance broker and third-party administrator Moral S.A. Moral, which employs 126 people in Paris. Moral will be operated by GE Capital's Employers Reinsurance Corp. Terms of the deal were not disclosed. Moral will be renamed ERC Services Moral and will become part of ERC's European operation, ERC Frankona. It will continue to operate from Paris. . . U.K. medical professional liability insurer Marketform Ltd. has formed a new liability insurance syndicate at Lloyd's of London. The new syndicate, 2468, will write general and product liability, professional indemnity and medical professional liability insurance. The syndicate will be managed by Marketform Managing Agency Ltd., which was recently established by Marketform and London-based insurer Unionamerica, a subsidiary of MMI Cos. Inc. of Deerfield, Ill. Holly Bellingham, executive chairman of Marketform Managing Agency, said syndicate 2468 will allow Marketform to expand its geographic and product scope. . . Total group revenues for France's AXA Group have stalled in 1998, according to the Paris-based company's latest financial reports. AXA's consolidated revenues for the first nine months of 1998 were 271.81 billion French francs (\$48.16 billion), up only 0.1% from the corresponding period last year. Worldwide property and casualty insurance premiums dropped 6.1% to 67.9 billion French francs (\$12.03 billion), with European and North American businesses both suffering. Premium income at AXA Global Risks fell 20.5% to 5.8 billion French francs (\$1.03 billion), which AXA executives said reflects loss of customers and fierce price competition. AXA's international reinsurance revenues dropped 10.7% to 7.8 billion French francs (\$1.38 billion). Meanwhile, AXA is selling its 90% stake in Luxembourg-based life insurance company PanEuroLife to Nationwide Global Holdings Inc., a subsidiary of Nationwide Insurance Co., based in Columbus, Ohio. . . Arson is costing British insurers an estimated £80 million (\$132.7 million) a year, according to the U.K. Arson Prevention Bureau. Tony Baker, APB chief executive, said a growing number of struggling businesses are resorting to arson as a way out of financial problems. The bureau is promoting closer cooperation among insurance companies, police, fire services and arson investigators to aid the early assessment of potentially dishonest claims. . . Standard & Poor's has upgraded its credit rating of Winterthur International Insurance Co. U.K. Ltd. from BBB to AA-. WIUK is the London-based European non-life operation of Switzerland's Winterthur International. S&P says WIUK has maintained strong operating profitability in the face of increased competition. . . Willis Corroon Group P.L.C. was officially re-registered as a private company Nov. 10 under the name Willis Corroon Group Ltd. This completes the final stage of the London-based broker's acquisition by Trinity Acquisitions P.L.C., a consortium led by Kohlberg Kravis Roberts & Co. . . Nick Leighton has joined Lloyd's of London syndicate 991, managed by A.E. Grant (Underwriting Agencies) Ltd., to underwrite North American professional indemnity and specialty casualty classes. Mr. Leighton previously was an underwriter at Lloyd's syndicate 484, managed by ACE U.K. Ltd. . . Ecclesiastical Insurance Group P.L.C., a specialist U.K. insurer of churches and charity groups, has purchased, for an undisclosed sum, Ansvar Insurance Co., a provider of similar policies in the United Kingdom, Australia and New Zealand. Graham Doswell, Ecclesiastical managing director, said Ansvar, based in East Sussex, England, will complement Ecclesiastical's strong niche in the United Kingdom and provide geographical expansion.

Rate increases planned

Competition, storms lower profits for CGU, RSA

By EDWIN UNSWORTH

LONDON—A marked downturn in nine-month results for Britain's two largest insurers might mean higher prices for buyers.

The chief executive of CGU P.L.C. said his company would increase rates, while "aggressively addressing" underwriting with a view to securing better rates is one step Royal & Sun Alliance Group P.L.C. plans to take.

More intensified global competition and significantly greater weather-related losses contributed to the decreased earnings in most lines, the two insurers said.

CGU P.L.C., created in June by the merger of Commercial Union P.L.C. and General Accident Fire & Life Assurance Corp. P.L.C., reported a 56% fall in pretax profits to £581 million (\$988 million) for the first nine months of 1998 from a restated £1.3 billion (\$2.2 billion) for the same 1997 period. However, the more recent period included a £105 million (\$179 million) charge for merger costs.

A 16% increase in life profits, to a record £340 million (\$578 million), was more than offset by a 60% decline in profits on general insurance to £237 million (\$403 million), attributed to a combination of price competition and a £134 million (\$228 million) increase in severe weather claims to £272 million (\$462 million). CGU's underwriting losses on property/casualty insurance more than doubled, to £581 million (\$988 million) from £274 million (\$466 million).

Underwriting losses in the United States increased to £185 million (\$315 million) from £140 million (\$238 million) during the nine-month period, partly as a result of a rise in severe weather claims to £92 million (\$156 million) from £34 million (\$58 million).

CGU Group Chief Executive Bob Scott said the insurer will address its current difficulties by implementing rate increases and concentrating on areas that will produce higher returns, especially in the United Kingdom.

According to Peter Foster, CGU's group

Nine-month downturn

The top U.K. insurers' earnings fell in the first nine months of 1998, partly due to weather-related losses

	Pretax profits in millions	% change
CGU	£581*	-56%
Royal & Sun Alliance	£636	-24%

* Reflects £105 million charge related to merger of Commercial Union and General Accident.
Source: Company reports

finance director, most of the rate increases will be in homeowners and auto sectors. He said the commercial market remains competitive, though CGU is "trying wherever we can" to implement rate increases. The U.K. commercial market is "bumping along" See Earnings on next page

Gerling to cover political risks

German monopoly faces challenge

By DON LEWIS KIRK

COLOGNE, Germany—Exporters based in Germany soon will have a choice of insurers offering political risk coverage for the first time in nearly four decades.

Cologne-based Gerling A.G. is seeking to break a German political risk insurance monopoly held by Hermes Kreditversicherungs A.G. Gerling's credit insurance arm, Gerling-Konzern Spezial Kreditversicherung A.G., announced late last month that it will insure political risks, in addition to its existing export credit guarantees.

Since 1949, Hermes, a Hamburg-based subsidiary of Allianz A.G. Holding, has been the sole administrator of government guarantees for German exports. Last year, Hermes handled more than 37 billion deutsche marks (\$26 billion) in guaranteed credits and political risk insurance, for which the German government paid more than 100 million deutsche marks (\$56 million) to cover costs and fees. Hermes would not disclose what percentage of its business comes from the German government.

GKS' export credit premium volume grew to 497.1 million deutsche marks (\$276.5 million) last year from 457.1 million deutsche marks (\$296.8 million) in 1996. Most of that business came from non-German companies.

Credit insurers have long envied Hermes' monopoly position, but none would take the risk of offering political risk insurance, said Volker Weisbrodt, a member of the GKS executive board. "The big problem was reinsurance. It was just not available. But the situation has changed. Now we have new options, because reinsurers accept this kind of risk," he said.

Increased capacity in the reinsurance industry and more competition have led insurers and reinsurers to take on business they previously were reluctant to underwrite. As a result, Gerling will offer political risk insurance beginning in 1999.

See Gerling on page 25

Generali forms global network

By MATTHEW MacDERMOTT

In response to the changing needs of large corporate insurance buyers, Italian insurer Assicurazioni Generali S.p.A. has established a global network of "one-stop shop" offices.

The offices will provide a single access point for non-life and life insurance and other risk management services.

The new specialized insurance network, Generali Global, is aimed at multinational and large corporate clients with annual revenues of £100 million (\$165.9 million) or more.

Generali executives, who made a presentation on the Generali Global concept to brokers and intermediaries in London this month, say modern risk management needs have precipitated the development of such a network.

"Clients are looking for global solutions, and this is our response," said Jeff Argue, manager of Generali Global London.

Trieste, Italy-based Generali has opened eight Generali Global offices—in Frankfurt, Germany; Paris; Madrid, Spain; New York; Miami; Tokyo; Hong Kong; and London—during the past year.

The opening of the London office this month completes the network.

However, Generali executives did not rule out the possibility of opening more global offices in the future, particularly in China if the country is opened to foreign insurers.

Mr. Argue said Generali is pleased with the progress to date of the Generali Global offices, which allow greater cross-marketing of the group's services.

Generali previously has offered its range of insurance and risk management services to large buyers through separate divisions.

But Mr. Argue said large companies now are seeking See Generali on next page

Lloyd's approves captive syndicates

By SARAH GODDARD

LONDON—After months of waiting, Lloyd's of London finally has given the green light for captive syndicates to start writing in the market.

The next five years could see a plethora starting up, according to a market executive.

The launch date for captives is Jan. 1, 1999, and already the Lloyd's regulators have received an application from a large multinational to set up a syndicate from that date. Captive syndicates will be able to start trading at any point in the underwriting year, and Lloyd's anticipates the approval process for each new syndicate

will usually take about eight weeks. Even with these advantages, Lloyd's does not anticipate much activity for several months, but it expects to see more applications for syndicates starting in the year 2000.

"There are several benefits to setting up a captive at Lloyd's," said Alastair Rodger, business development director with AMLIN Capital Management Ltd., part of AMLIN, an organization with several Lloyd's businesses.

First, setting up a Lloyd's captive would give the captive owner access to a network of more than 60 overseas licenses, allowing the captive to write global programs.

That network is increasing all the time, said Mr. Rodger. For example, Lloyd's is in the process of increasing its Singapore operations to allow it to write business directly in a number of other Southeast Asia countries, he said. In addition, it is looking at licensing opportunities in India and China.

The international licenses also will mean that captives based at Lloyd's will not need to pay fronting fees to local insurers. Although Lloyd's costs are high, this factor—along with exemptions from withholding taxes and federal excise tax because of double taxation treaties—will mean that for large multinationals, See Captives on next page

INTERNATIONAL

Captives

Continued from previous page

the costs will be lower than if the captive were located in an off-shore domicile, said Mr. Rodger. Lloyd's recently lowered its annual fees to 2.45% of capacity beginning next year.

In addition, although captives will be required to keep at least 50% of their intended premium capacity at Lloyd's, they will be able to do this in the form of a letter of credit or use a parental guarantee rather than paid-up capital.

By having the captive in an on-shore location, parents will be able to avoid potential tax disputes that can come from trading offshore and will have onshore control of the operation, pointed out Mr. Rodger. And a captive syndicate immediately will be able to take advantage of Lloyd's A+ rating from Standard & Poor's in London and A from Moody's Investors Service.

Jenny Hill, an associate with

Willis Risk Solutions in London, sees access to the expertise within the Lloyd's market as the major advantage.

"Ideas and innovations spread quickly in such a market, and a captive syndicate would have access to existing and future knowledge banks," according to Ms. Hill.

As captives increasingly take on traditionally uninsurable risks, Lloyd's is a natural market for these types of exposures, she said. With Lloyd's, a self-regulating market, captives will find themselves subject to minimal U.K. or European regulation. At the same time, they will be able to account on a three-year basis, allowing them to defer taxes until the fourth year.

Setting up a captive will cost £10,000 (\$16,630) in application fees, as well as the annual costs of 2.45% of capacity, but Ms. Hill foresees that agency charges may well be higher than most other captive domiciles.

Costs still will be lower than traditional syndicates, however,

because each captive syndicate's underwriter will be allowed to underwrite for other syndicates as well.

Nevertheless, Mr. Rodger calculated that the costs in terms of

captive syndicate could shut down its operations if a large problem were looming on the horizon.

Ms. Hill pointed out that names currently are nervous that captive syndicates will put an "unbear-

able burden" on the Central Fund and that captive owners will allow their operations to fail in adverse circumstances.

Both Mr. Rodger and Ms. Hill

identified large multinational corporations—organizations in the Fortune 500 or FTSE-100 league—as the natural parents for Lloyd's-domiciled captives.

"Lloyd's is unique for big multinational companies that spend more than £15 million to £20 million (\$24.9 million to \$33.3 million) on insurance," said Mr. Rodger. In addition, Mr. Rodger said he thinks operations such as oil companies involved in joint ventures that require rated paper could find Lloyd's a suitable domicile.

So far, no Willis clients have chosen Lloyd's as a domicile, though several have approached the market. AMLIN Capital Management is hoping to receive authorization for one of its clients within the next two weeks, and although there are no others in the pipeline yet, Mr. Rodger is confident Lloyd's will blossom as a location.

"In five years' time, I anticipate there will be between 50 and 70 captive syndicates in the market," he said, writing up to \$1 billion in premiums. **BI**

As captives increasingly take on traditionally uninsurable risks, Lloyd's is a natural market for these types of exposures, says Jenny Hill.

management fees would be between 20% and 50% more expensive than offshore domiciles because of the regulatory requirements and the higher costs of operation. And the heavy regulation now prevalent at Lloyd's could mean that captive syndicates may be less flexible than their offshore counterparts.

Finally, exposure to the Central Fund could be seen as a disadvantage, said Mr. Rodger, though a

able burden" on the Central Fund and that captive owners will allow their operations to fail in adverse circumstances.

"Conversely, potential captive syndicate owners are afraid that the Central Fund will be an unbearable burden and that names will allow their underwriting divisions to be influenced by the possibility of a few 'long pockets' behind it," she said in a briefing note.

Both Mr. Rodger and Ms. Hill

Generali

Continued from previous page

holistic and global insurance solutions accessed through an easy, single line of communication.

He said Generali Global aims to meet those needs by providing a central access point for all global insurance needs, including property and casualty insurance and employee benefits, alternative risk financing, captive management and risk consulting services.

"Multinational corporate needs are changing, and we (insurers) have to move with the marketplace," Mr. Argue said.

A spokesman for the Assn. of Insurance & Risk Managers declined to comment directly on the Generali development.

However, he said the globaliza-

tion of business, coupled with the concentration of the insurance brokerage market, means risk managers are increasingly looking

'Multinational corporate needs are changing, and we (insurers) have to move with the marketplace,' says Jeff Argue.

at new ways of arranging their insurance purchases.

Mr. Argue said the aim of Generali Global is to bring "focus and coordination" to insurance buying by grouping different risk services in single access points, linked to a

global network of similar offices.

Benito Pagnanelli, Generali's deputy general manager, offered an example of the single-point access: A U.K. multinational can contact Generali Global London for insurance requirements for its corporate motor fleet in Japan, and the purchase will be coordinated through the Generali Global Tokyo office.

The headquarters of Generali Global will be split off from the corporate headquarters in Trieste and moved to London within the next year, according to Mr. Pagnanelli.

Meanwhile, Generali has announced a cooperation deal, backed by cross-shareholding, with German bank Commerzbank A.G.

Under the 1.2 billion deutsche mark (\$712.9 million) deal, Generali will take a 5% stake in Commerzbank, which will use the money to take a 2.5% stake in Generali.

The "bancassurance" setup will allow Commerzbank to distribute the insurance products of Aachen-er & Muenchener Beteiligungs A.G., a Generali-owned company based in Aachen, Germany, on an exclusive basis in Germany.

In return, Commerzbank will become the primary banker for Generali in Germany and one of the group's core bankers worldwide. **BI**

Earnings

Continued from previous page the bottom" but starting to show modest signs of improvement, he said. Among the areas CGU is prepared to shed market share in are marine and energy, he added.

However, Mr. Scott said "excellent" progress was being made in merging the two insurers. He said that annualized cost savings as a result of the merger reached £18 million (\$31 million) at the end of the third quarter and should reach the target of £270 million (\$459 million) per annum by June 2000.

Meanwhile, Royal & Sun Alliance Insurance Group P.L.C. reported a fall of nearly 24% in pretax profit for the same nine-month period in 1997, to £636 million (\$1.1 billion) from £832 million (\$1.4 billion). Underwriting losses more than doubled, to £494 million (\$840 million) from £219 million (\$372 million).

The insurer attributed the deterioration to continuing price competition, particularly in the United Kingdom and Continental Europe, and a £164 million (\$279 million) increase in weather losses to £403 million (\$685 million). Weather claims included almost £60 million (\$102 mil-

lion) of claims from Hurricane Georges.

Other factors affecting results included the £16 million (\$27 million) set aside for claims resulting from the Sept. 25 gas explosion in Victoria, Australia (BI, Oct. 5), and a £71 million (\$121 million) fall in investment income to £604 million (\$1.0 billion) for the nine months.

U.S. results were particularly affected by weather-related claims. In the first nine months, these increased by £18 million (\$31 million) to £40 million (\$68 million), largely as a result of claims from Hurricane Georges and storms in the Northeast. This contributed to a rise in Royal & Sun Alliance's U.S. underwriting losses to £48 million (\$82 million) from £31 million (\$53 million) and to its profits on U.S. property/casualty insurance business falling to £108 million (\$184 million) from £123 million (\$209 million).

Bob Mendelsohn, Royal & Sun Alliance group chief executive officer, acknowledged that the results were "disappointing." He said that, for the remainder of 1998 and throughout next year, the group "will be aggressively addressing both the underwriting and expense components of all our operations."

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INTERNATIONAL

Gerling

Continued from page 23

Some risk managers welcome the move, saying competition will benefit buyers. "More capacity is needed in the market," said Harry Daugird, risk manager of ABB Asea Brown Boveri A.G. in Heidelberg, Germany. "There are areas of the world, like Iran, where American insurers, for example, will not cover such risks."

Mr. Weisbrodt said that midsize businesses, in particular, will benefit. "In the past, political risks for threat of war or even currency fluctuations were typically excluded from credit insurance for midsize companies. But with reinsurance available, Gerling is looking to offer political coverage to clients looking to export."

But even with reinsurer backing and a strong potential market, Gerling is braced for an uphill fight; Mr. Weisbrodt said its main German competitor has an unfair advantage. "By dominating the market for guaranteed export credit and political risk insurance, Hermes can expand business while others are left out in the cold," he said.

Hermes profits from its government ties in two ways, said Mr. Weisbrodt. Not only does the government cover Hermes' costs but it also provides tax advantages enjoyed by no other insurer in Germany, including Gerling. While other insurers—and, indirectly, their clients—pay a non-deductible premium tax of 15%, government-supported Hermes insurance is exempt. "Clients don't understand why they should have to pay the tax with us and not with Hermes," said GKS Chairman Bernd Meyer. "Especially since buyers can't deduct this tax."

Despite the tax disadvantage, Gerling plans to go ahead with political risk insurance. Mr. Meyer admitted that the move is taking Gerling into a new realm of business that it will have to carefully calculate. Mr. Meyer said that in war-torn regions and other politically unstable countries, Gerling

will be selective in the risks it writes.

Gerling has petitioned the German government to break Hermes' monopoly. A Trade Ministry spokesman said a decision will be made in the best interests of industry.

But the chances of a change are not particularly high, said a Hermes spokesman. "Of course, we are a monopoly, but our only task is to administer government business. We've gone to great lengths to ensure that government credit business doesn't mix with our private business. A change would be costly and cost 400 people their jobs."

The spokesman insisted that Hermes' expertise also supports the status quo. "Hermes has experience no insurer can match. It's a working relationship the government would be loath to lose."

But Hermes has drawn criticism because it not only administers government guarantees but also insures private credit risks for commercial clients.

The spokesman denied that Hermes' business mix presents any conflict of interest. "Both areas of business are separate. We have separate databases, and the two areas do not converge. Different agents are responsible for private and government-backed credit business," he said.

Last year, however, agreements within the Paris-based Organization for Economic Cooperation & Development forced member nations' government-sponsored monopolies like Hermes to give up short-term guarantee business. The agreements aimed to benefit private insurers. As a result, Hermes' private insurance arm gained a large degree of what the government arm lost.

Political risks remain difficult, however, even for Hermes' private insurance arm. Nevertheless, Hermes' private arm plans to write more political risk business, the spokesman said.

"However, any insurer—including Gerling—will be very hesitant to insure political risks" in politically unstable countries, he said. **BI**

Disaster

Continued from page 3

John Preli, senior staff engineer at Allendale Mutual Insurance Co. in Johnston, R.I., and the insurer's spokesman for the initiative. Business leaders met at Allendale's headquarters last month to discuss the program.

"We'll always explore a forum for sound property loss prevention. This provides us with another avenue to promote that," he said.

The initiative aims to bolster private-sector participation in what has often been viewed as a purely public-sector concern.

"We think that for a state or a community to become disaster-resistant, it can't be done by the public sector alone," said Ms. McClure.

"What's been missing in traditional disaster planning is taking business needs into account," she said. "It's really asset management—how are we managing all of our assets? We have found that the term 'asset management' really resonates with business people."

"If a disaster strikes, and there was huge devastation and businesses went under, and they were not able to recover, that has a huge impact on the community, its viability and whether it will be there at all," she said.

A state disaster planner agreed.

"I've always felt that government has not taken into account the problems businesses face following a disaster," said Raymond LaBelle, executive director of the Rhode Island Emergency Management Agency in Cranston. Business' post-disaster problems hit home two years ago when a major water main broke, cutting off water to three towns, he said. Ten days without water meant closed businesses and economic hardship, he said.

Rhode Island made sense as the first candidate for Showcase State status for a variety of reasons, said Ms. McClure. The IBHS already had a strong relationship with the Rhode Island Sea Grant program, for which Ms. McClure had previously worked. The Sea Grant program, which is part of the National Oceanic and Aeronautic Administration, unites 29 individual state Sea Grant programs and more than 200 colleges and universities in efforts to solve coastal problems, including hazard mitigation.

"What was going on in Rhode Island was 100% in sync with what IBHS was trying to do," said Ms. McClure.

In addition, "Rhode Island is a small state, and lot of people (in business) know each other," she said.

Three key objectives propel the Showcase State program:

- Help a state and its citizens help themselves by reducing vulnerability to natural disasters.

- Generate a "me-too" attitude among other states by showcasing the successful efforts of particular states.

- Learn what works and doesn't work to reduce the financial and emotional devastation caused by natural disasters.

IBHS has set 14 areas for participation by a state. These include completing a statewide risk assessment of natural hazards and providing assistance so municipalities can identify their hazards; developing public/private partnerships for coordinated mitigation, preparedness, response and recovery; adopting or agreeing to adopt the latest version of one of the various model building codes; agreeing to address hazards in land-use decisions; and requiring certification and continuing education for building officials and contractors.

"For too long, business has not trusted government and government has not trusted business," said Mr. LaBelle of the Rhode Island Emergency Management Agency. "We've found that not only can we help them, but they can help us."

For example, as state and local authorities concentrate on opening major roads after a blizzard, businesses with heavy equipment can help clear secondary roads so that supplies can move more quickly, he said.

The Rhode Island program, which will be formally announced later this year, will revolve around a Disaster Recovery Business Alliance, or DRBA. The DRBA concept views the entire business "lifeline" of services and conditions that must be in place before recovery can occur (*BI*, Feb. 17, 1997). Several business recovery alliances have been created around the country, including IBHS' Showcase Communities of Evansville/Vanderburgh County, Ind., and Deerfield Beach, Fla.

"DRBA really helps business on the recovery side of the equation. But recovery happens through preparation," said Stephen Baruch,

co-founder of Los Altos, Calif.-based DRBA, and businesses need both internal and external planning, he added.

"If you develop a business recovery plan in isolation, I think you're just kidding yourself," he said.

Mr. LaBelle of the state emergency management agency agreed. He said he finds the DRBA concept attractive because it gets businesses talking to businesses about disaster matters. Businesspeople often find talking to each other easier than listening to "bureaucrats," he said.

Keeping the lifelines, such as communications, transportation and power, operational is critical to small business, said DRBA's Mr. Baruch. He noted that most businesses in Rhode Island are small business, which are particularly vulnerable to large-scale disasters. As suppliers of parts and materials to larger companies, small businesses rely on customers who follow a "just-in-time" inventory philosophy, which means they don't stockpile parts. If a disaster strikes and the small business can't get its products to the customer quickly, the small business may lose the business for a long time as the customer finds new suppliers that aren't affected by the disaster, he said. In fact, small businesses can be driven out of business under such circumstances, he said.

"There's a benefit for the large businesses, too. That is if your suppliers and your customers haven't recovered, then nobody wins," agreed a spokesman for Westwood, Mass.-based AT&T Wireless, which is part of the program.

"AT&T Wireless represents a lifeline business operating in Rhode Island. We felt it was important to take a lead role in the initiative because when disaster hits, what we found is that utilities and communications can be put back into place relatively quickly, but very often what's lacking is the recovery of the local suppliers and small businesses. What we're hoping is, through the organization and our involvement, that we can spread the awareness of this and do some proactive planning, so that all of the businesses in the region will recover quickly," he said.

IBHS's Ms. McClure said the Rhode Island initiative "is testing a concept," which is the 14 criteria. IBHS is seeking to answer the question: "Is this a good way to organize? We're very clear that this is not the be-all or end-all," she said. **BI**

Pledge to customers
Group to work for more market efficiency

By EDWIN UNSWORTH

LONDON—As the new representative body for insurance companies active in the London market officially came into being last Wednesday, its chairman-designate pledged to offer an improved service for policyholders.

After general insurers and marine insurance companies voted unanimously to merge their separate representative bodies into the International Underwriting Assn., Tim Carroll, who will become the new association's chairman, immediately called for wide-ranging reforms to make the London insurance market more efficient and accessible.

Setting out his agenda, he said, "Our priority must be to work with all who have an interest in the London market, to update and streamline practices where necessary, improving efficiency and providing customers with the best possible service."

Although the full merger of the London Insurance & Reinsurance Market Assn. and its neighbor in London representing marine insurers, the Institute of London Underwriters, will not be completed until near the end of the year, elected members of the IUA's 16-member board will meet and attempt to implement Mr. Carroll's reforms.

Mr. Carroll, who is also chief executive of ERC Frankona Re Ltd., already has asked the London Processing Centre to recommend the best way to speed up claims processes.

"My target is that by this time next year, all undisputed claims in the London company market will be met within a specified and short time frame," which will provide a new benchmark, he said.

He pledged to work with the Lloyd's of London market, also. He said he has already approached Lloyd's about bringing closer together the work of the LPC, and Lloyd's own processing bureau, the Lloyd's Policy Signing Office. He wants the organizations to have similar working methods in order to harmonize systems and simplify processes for claimants.

He also promised to encourage cooperation between the IUA and Lloyd's to create a single, unified system of policy wordings for the London market.

The IUA also will strongly support the convergence of the three international electronic insurance networks: the London Insurance Market Network, the Reinsurance Network and the World Insurance Network.

Members of LIRMA and the ILU had been expected to vote on the IUA merger last summer, but the ILU vote was delayed because of problems relating to the lease on its current premises on Leadenhall Street in London. These problems were only recently solved, but are expected to cost ILU members a total of about £43 million (\$71.3 million) to meet outstanding liabilities on the premises. **BI**

Disability education partnership

Curriculum for professional designation will be on Internet

SAN DIEGO—The Disability Management Employer Coalition and the Insurance Educational Assn. have joined forces to make the certified professional in disability management designation available nationwide.

The designation curriculum, developed by the DMEC, will be available on the Internet in February. San Diego State University is responsible for the technical design, and the IEA will hold ownership of the program.

The cost of the three-course Internet program will be \$675 per course, or \$625 each if participants register for all three at the same time. For more information, call the IEA at 800-655-4432, ext. 1.

San Diego-based DMEC's purpose is to educate professionals involved in some aspect of occupational or non-occupational disability management about the concept of integrated disability management and to generate understanding of the importance of integrat-

ing benefit programs, according to Sharon Kaleta, a co-founder of the organization and the chairman of the board. Additionally, DMEC strives to communicate with vendors about the types of products professionals need in order to integrate disability programs.

DMEC's 1999 agenda also includes developing a program to educate the medical community on the role physicians should play in returning disabled employees to work as soon as possible, said Ms. Kaleta, who is director of risk and benefits at Paragon Steakhouse Restaurants Inc. in San Diego.

The biggest issue employers interested in integrated disability management face is the medical aspect—the feasibility of having a truly integrated medical network and, in general, the medical community's apparent lack of understanding of how to return an injured employee to work, she said.

The DMEC is trying to determine the best format for conduct-

ing these educational sessions for the medical community. The organization hopes the effort would foster a dialogue with physicians, Ms. Kaleta said.

The DMEC also will start three chapters next year, bringing the organization's total number of chapters to 13. The chapters will be sponsored by CIGNA Integrated-Care, which recently agreed to become the organization's national "diamond" sponsor. The diamond designation means CIGNA will be the exclusive sponsor of three new DMEC chapters annually.

The chapters slated for opening next year are in Atlanta, Dallas and Phoenix. At least two of them will be active by midyear, Ms. Kaleta said.

More information about DMEC can be found on its Web site, www.dmec.org. The organization will hold its next annual conference July 19-21, 1999, at the Hilton Long Beach in Long Beach, Calif.

—By Roseanne White

The Professional Marketplace

RATES AND CLOSING TIME:

Rates: Display classified is \$180.00 per column inch, minimum of one inch. Straight classified is \$16.00 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional \$25.00 charge for all blind box ads. Only those responses which fit into a business size envelope will be forwarded. Responses are forwarded daily.

Closing: Published every Monday. Copy must be in typewritten form by 5:00 Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Most major credit cards accepted. Mail ads to, Irais Amleshi, Classified Advertising, 740 N. Rush St., Chicago, IL 60611. For more information call 312-649-5340, FAX 312-649-7937, or e-mail iamleshi@crain.com

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Group Insurance/Pension Professional, CEBS, CHFC selling book relocating to Southwest Florida or North Carolina. Looking for company or agency sales mgmt. position or to buy out retiring principals. Respond to:
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MANAGEMENT OPPORTUNITY
Growing Chicago based insurance firm has ground-floor opportunity for general manager of a start-up P&C agency. 10+ years experience. High 5 figure salary plus substantial bonus. Call David at (312)629-6235.

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SR. RESEARCH ANALYTICAL CONSULTANT: At int'l risk mgmt constgng co. Apply knowledge of gbl business insurance, operational research & advanced statistics to develop alt. risk transfer solutions for multint'l clients. Develop complex cost-efficient risk mgmt pgrms thru tradit'l ins., gbl capital mkt's & finl engrng. Design quantitative models and computer prgms to support risk mgmt rec's. MBA or equiv. & 1 yr of relevant exp. 20% travel. \$62k/yr. Send resumes to IRMG, 99 Wood Ave. S., Iselin, NJ 08830, attn: HR

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The Daniel & Henry Company is the largest independent insurance agency in St. Louis. We seek an individual with insurance company/agency management experience to hold a top position within our Agency. The person selected will be responsible for the successful operation, management, and administration of the 15-member Commercial Marketing Department.
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Robert Long, Entrepreneur Equity Corp., 345 Route 17 S., Upper Saddle River, NJ 07458, fax: (201)934-4225.

LEGAL NOTICE

LEGAL NOTICE

LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE PETITION OF MALCOLM BUTTERFIELD AND ANTHONY McMAHON, AS JOINT PROVISIONAL LIQUIDATORS OF BELVEDERE INSURANCE COMPANY LIMITED, CASE NO. 98-B-47660 (JLG)

NOTICE IS HEREBY GIVEN THAT IN CONNECTION WITH THE PETITION FILED PURSUANT TO SECTION 304 OF THE BANKRUPTCY CODE WITH RESPECT TO BELVEDERE INSURANCE COMPANY LIMITED (THE "COMPANY"), THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK (THE "BANKRUPTCY COURT") HAS ENTERED A PRELIMINARY INJUNCTION ORDER DATED NOVEMBER 4, 1998 (THE "ORDER"):

(1) ENJOINING ALL PERSONS AND ENTITIES FROM: (A) TRANSFERRING, RELINQUISHING OR DISPOSING OF ANY PROPERTY OF THE COMPANY IN THE UNITED STATES, OR THE PROCEEDS OF SUCH PROPERTY, TO THIRD PARTIES; (B) COMMENCING OR CONTINUING ANY ACTION OR OTHER LEGAL PROCEEDING (INCLUDING, WITHOUT LIMITATION, ARBITRATION OR ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY ACTION, PROCEEDING OR PROCESS WHATSOEVER) AGAINST THE COMPANY, OR ANY PROPERTY IN THE UNITED STATES THAT IS INVOLVED IN THE FOREIGN PROCEEDING, OR ANY PROCEEDS THEREOF, AND SEEKING DISCOVERY OF ANY NATURE AGAINST THE COMPANY; (C) ENFORCING ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY JUDGMENT, ASSESSMENT OR ORDER OR ARBITRATION AWARD AGAINST THE COMPANY, AND COMMENCING OR CONTINUING ANY ACT OR ACTION OR OTHER LEGAL PROCEEDING (INCLUDING, WITHOUT LIMITATION, ARBITRATION OR ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY ACTION, PROCEEDING OR PROCESS WHATSOEVER), TO CREATE, PERFECT OR ENFORCE ANY LIEN, SETOFF OR OTHER CLAIM AGAINST THE COMPANY, OR ANY OF ITS PROPERTY IN THE UNITED STATES, OR ANY PROCEEDS THEREOF, INCLUDING, WITHOUT LIMITATION, RIGHTS UNDER REINSURANCE OR RETROCESSION CONTRACTS; AND (D) DRAWING DOWN ANY LETTER OF CREDIT ESTABLISHED BY, ON BEHALF OR AT THE REQUEST OF, THE COMPANY, OR WITHDRAWING FROM, SETTING OFF AGAINST, OR OTHERWISE APPLYING PROPERTY THAT IS THE SUBJECT OF ANY TRUST OR ESCROW AGREEMENT OR SIMILAR ARRANGEMENT IN EXCESS OF AMOUNTS EXPRESSLY AUTHORIZED BY THE TERMS OF THE CONTRACT AND ANY RELATED TRUST OR OTHER AGREEMENT PURSUANT TO WHICH SUCH LETTER OF CREDIT, TRUST, ESCROW, OR SIMILAR ARRANGEMENT HAS BEEN ESTABLISHED; EXCEPT, HOWEVER, NO DRAWING AGAINST ANY LETTER OF CREDIT SHALL BE MADE IN CONNECTION WITH ANY COMMUTATION UNLESS THE AMOUNT HAS BEEN AGREED IN WRITING WITH THE PETITIONERS OR PERMITTED BY FURTHER ORDER OF THE COURT;

(2) REQUIRING ALL PERSONS AND ENTITIES IN THE POSSESSION, CUSTODY OR CONTROL OF PROPERTY OF THE COMPANY IN THE UNITED STATES, OR THE PROCEEDS THEREOF, TO TURN OVER AND ACCOUNT FOR SUCH PROPERTY OR ITS PROCEEDS TO THE PETITIONERS;

(3) REQUIRING ALL PERSONS AND ENTITIES THAT ARE BENEFICIARIES OF LETTERS OF CREDIT ESTABLISHED BY, ON BEHALF OR AT THE REQUEST OF, THE COMPANY OR PARTIES TO ANY TRUST, ESCROW OR SIMILAR AGREEMENT IN WHICH THE COMPANY HAS AN INTEREST, TO: (A) PROVIDE NOTICE TO PETITIONERS' UNITED STATES COUNSEL OF ANY DRAWDOWN ON ANY LETTER OF CREDIT ESTABLISHED BY, ON BEHALF OR AT THE REQUEST OF, THE COMPANY, OR ANY WITHDRAWAL FROM, SETOFF AGAINST, OR OTHER APPLICATION OF PROPERTY THAT IS THE SUBJECT OF ANY TRUST OR ESCROW AGREEMENT OR SIMILAR ARRANGEMENT IN WHICH THE COMPANY HAS AN INTEREST, TOGETHER WITH INFORMATION SUFFICIENT TO PERMIT THE PETITIONERS TO ASSESS THE PROPRIETY OF SUCH DRAWDOWN, WITHDRAWAL, SETOFF OR OTHER APPLICATION, INCLUDING, WITHOUT LIMITATION, THE DATE AND AMOUNT OF SUCH DRAWDOWN, WITHDRAWAL, SETOFF OR OTHER APPLICATION AND A COPY OF ANY CONTRACT, RELATED TRUST OR OTHER AGREEMENT PURSUANT TO WHICH SUCH DRAWDOWN, WITHDRAWAL, SETOFF OR OTHER APPLICATION WAS MADE, AND PROVIDE SUCH NOTICE AND OTHER INFORMATION CONTEMPORANEOUSLY THEREWITH; AND (B) TURN OVER AND ACCOUNT TO THE PETITIONERS FOR ALL FUNDS RESULTING FROM SUCH DRAWDOWN, WITHDRAWAL, SETOFF, OR OTHER APPLICATION IN EXCESS OF AMOUNTS EXPRESSLY AUTHORIZED BY THE TERMS OF THE CONTRACT, ANY RELATED TRUST OR OTHER AGREEMENT PURSUANT TO WHICH SUCH LETTER OF CREDIT, TRUST, ESCROW OR SIMILAR ARRANGEMENT HAS BEEN ESTABLISHED;

(4) REQUIRING EVERY PERSON AND ENTITY THAT HAS A CLAIM OF ANY NATURE OR SOURCE AGAINST THE COMPANY AND THAT IS A PARTY TO ANY ACTION OR OTHER LEGAL PROCEEDING (INCLUDING, WITHOUT LIMITATION, ARBITRATION OR ANY JUDICIAL, QUASI-JUDICIAL, ADMINISTRATIVE OR REGULATORY ACTION, PROCEEDING OR PROCESS WHATSOEVER) IN WHICH THE COMPANY IS OR WAS NAMED AS A PARTY, OR AS A RESULT OF WHICH A LIABILITY OF THE COMPANY MAY BE ESTABLISHED, TO PLACE THE PETITIONERS' UNITED STATES COUNSEL ON THE MASTER SERVICE LIST OF ANY SUCH ACTION OR OTHER LEGAL PROCEEDING, AND TO TAKE SUCH OTHER STEPS AS MAY BE NECESSARY TO ENSURE THAT SUCH COUNSEL RECEIVES (A) COPIES OF ANY AND ALL DOCUMENTS SERVED BY THE PARTIES TO SUCH ACTION OR OTHER LEGAL PROCEEDING OR ISSUED BY THE COURT, ARBITRATOR, ADMINISTRATOR, REGULATOR OR SIMILAR OFFICIAL HAVING JURISDICTION OVER SUCH ACTION OR LEGAL PROCEEDING; AND (B) ANY AND ALL CORRESPONDENCE, OR OTHER DOCUMENTS CIRCULATED TO PARTIES LISTED ON THE MASTER SERVICE LIST;

(5) PROVIDING, WITH RESPECT TO ANY CLAIM, ACTION, ARBITRATION OR OTHER PROCEEDING WHICH MAY BE COMMENCED OR BECOME KNOWN TO PETITIONERS IN THE FUTURE, OR THE ENTITLEMENT OR ALLEGED ENTITLEMENT OF ANY BENEFICIARY OF ANY LETTER OF CREDIT ESTABLISHED BY, ON BEHALF OR AT THE REQUEST OF, THE COMPANY, OR OF ANY PARTY TO ANY TRUST OR ESCROW AGREEMENT OR SIMILAR ARRANGEMENT IN WHICH THE COMPANY HAS AN INTEREST THAT IS IDENTIFIED BY THE PETITIONERS IN THE FUTURE (EACH A "SUBSEQUENT CLAIM"), THAT:

(A) WHEN INFORMED OF A SUBSEQUENT CLAIM, COUNSEL FOR PETITIONERS SHALL SERVE UPON THE HOLDER OF SUCH CLAIM A COPY OF THE SUMMONS, PETITION, AND THE MOST RECENT INJUNCTION ORDER ENTERED BY THE COURT;

(B) THE HOLDER OF A SUBSEQUENT CLAIM WILL HAVE TWENTY (20) DAYS FROM SERVICE OF THE SUMMONS IN WHICH TO FILE AN ANSWER OR MOTION WITH RESPECT TO THE PETITION; AND

(C) ON NOT LESS THAN TWO (2) DAYS NOTICE TO COUNSEL FOR THE PETITIONERS, THE HOLDER OF A SUBSEQUENT CLAIM MAY FILE A MOTION SEEKING AN ORDER OF THE COURT VACATING OR MODIFYING WITH RESPECT TO SUCH SUBSEQUENT CLAIM THE INJUNCTION ENTERED IN THIS PROCEEDING. SUCH REQUEST SHALL BE THE SUBJECT MATTER OF A HEARING AS SCHEDULED BY THE COURT. OTHERWISE, THE HOLDER OF A SUBSEQUENT CLAIM MAY FILE OBJECTIONS AND BE HEARD BY THE COURT IN ACCORDANCE WITH THE TERMS OF ANY ORDER OF THE COURT PROVIDING FOR A HEARING IN THE FUTURE ON THE RELIEF SOUGHT BY PETITIONERS IN THIS PROCEEDING; AND

(6) PROVIDING THAT NOTHING IN THE ORDER SHALL IN ANY RESPECT PREVENT THE COMMENCEMENT OR CONTINUATION OF PROCEEDINGS AGAINST ANY PERSON OR ENTITY OTHER THAN THE COMPANY; PROVIDED, HOWEVER, THAT IF ANY THIRD PARTY SHALL REACH A SETTLEMENT WITH, OR OBTAIN A JUDGMENT AGAINST, ANY PERSON OR ENTITY OTHER THAN THE COMPANY, SUCH SETTLEMENT OR JUDGMENT SHALL NOT BE BINDING ON OR ENFORCEABLE AGAINST THE COMPANY OR ITS PROPERTY.

THE ORDER SHALL REMAIN IN EFFECT PENDING A HEARING SCHEDULED TO BE HELD ON MAY 19, 1999 AT 10:00 A.M. (THE "RETURN DATE") BEFORE THE HONORABLE JAMES L. GARRITY, JR., UNITED STATES BANKRUPTCY JUDGE, IN ROOM 610-2 OF THE ALEXANDER HAMILTON CUSTOM HOUSE, ONE BOWLING GREEN, NEW YORK, NEW YORK. ALL PAPERS SUBMITTED FOR THE PURPOSE OF OBJECTING TO CONTINUATION OF THE ORDER AFTER THE RETURN DATE SHALL BE FILED WITH THE BANKRUPTCY COURT, WITH A COPY TO THE CHAMBERS OF THE HONORABLE JAMES L. GARRITY, JR., AND SERVED ON CHADBOURNE & PARKE LLP (ATTN: HOWARD SEIFE, ESQ.), SO AS TO BE RECEIVED AT LEAST FOURTEEN (14) DAYS PRIOR TO THE RETURN DATE.

ANY PARTY-IN-INTEREST THAT HAS NOT RECEIVED A COPY OF THE PETITION AND/OR THE ORDER SHOULD CONTACT COUNSEL FOR THE PETITIONERS AT THE ADDRESS BELOW:

CHADBOURNE & PARKE LLP
ATTORNEYS FOR THE PETITIONERS
30 ROCKEFELLER PLAZA
NEW YORK, NEW YORK 10112
(212) 408-5100
ATTN: HOWARD SEIFE, ESQ.
LISA DORR, ESQ.

HELP WANTED

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ENVIRONMENTAL CLAIM SPECIALIST - New Jersey (Job #CL29C6813-ADBI)
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REQUEST FOR PROPOSAL

REQUEST FOR PROPOSAL

The Management Benefits Fund ("Fund") of the City of New York is soliciting competitive proposals from qualified sources for Group Vision Care Benefits Administrative Services for its approximately 19,500 active and retired members and their eligible dependents which include the management, supervisory, and administrative employees of the City not covered by a collective bargaining agreement. This Request for Proposals is available 11/20/98. Proposals will be due on 1/8/99. To receive a copy of the RFP or if you have any questions, please contact Lou Porpora at (212) 306-7306.

REQUEST FOR PROPOSAL

FUND ADMINISTRATOR — PROPOSAL REQUESTED.

The California Self Insurer's Security Fund (SISF) is a non-profit mutual benefit corporation formed in 1984 pursuant to Labor Code 3740 et seq. SISF's primary purpose is to ensure that employees of self insured employers continue to receive workers' compensation benefits whenever employers fail to meet their statutory obligation due to bankruptcy or other financial default. SISF seeks to contract out for comprehensive administrative services, including functions such as day-to-day management of the Fund, corporate record keeping, financial and investment management and the full range of support services — all as detailed in a Request for Proposal available upon request addressed to Wynne Carvill, Suite 2100, 2 Embarcadero Center, San Francisco, CA 94111 (or e-mail "wcarvill@thelenreid.com"). Bids are requested no later than December 18, 1998.

LEGAL NOTICE

ICS Reinsurance Private Limited RMCA Reinsurance Limited Schemes of Arrangement

NOTICE IS HEREBY GIVEN, that the fourth annual meeting of the Scheme Creditors (as defined in the Schemes of Arrangement) of the above named companies ("the Companies"), convened pursuant to Clause 44.2 of the Schemes of Arrangement made between the Companies and their respective creditors, which came into effect on 26 April 1994 will be held at 11:30 am on 18 December 1998 at the offices of PricewaterhouseCoopers, Plumtree Court, London EC4A 4HT, for the purpose of receiving the Joint Scheme Administrators' report on the conduct of the affairs of the Companies.

Scheme Creditors may attend in person or they may appoint another person whether a Scheme Creditor or not as their proxy to attend in their place. Scheme Creditors must lodge the instrument appointing the proxy, at PricewaterhouseCoopers, Plumtree Court, London EC4A 4HT, UK, not less than seven days before the meeting.

P J Singer & C J Hughes
Joint Scheme Administrators
ICS Reinsurance Private Limited
RMCA Reinsurance Limited
Dated this 5th day of November 1998

Business Insurance

Circulation Breakdown Commercial Consumers

Administrative:

CEO's, Presidents, and Owners, 5,007
Vice Presidents, General Managers and
Other Administrative Personnel 5,346

Financial:

Chief Financial Officers and Vice Presidents
of Finance 4,872
Secretaries, Treasurers, controllers and
other Financial Personnel 3,927

Risk/Employee Benefits:

Vice Presidents, Directors, Managers, and other
related department personnel of insurance, risk,
employee benefits, personnel, compensation,
pension, safety, security, industrial relations,
human resources and employee/
labor relations 13,774

Sub-total **32,926**

Associations 259
Government, Unions and
Educational Institutions 831

Commercial Consumers

Sub-total **34,116**

Insurance Agents and Brokers 7,735

Insurance Companies 6,668

Accountants, Actuaries,

Attorneys & Consultants 2,520

Adjusters, Appraisers, TPA's, Captive Managers

& Health Care Providers 1,432

Others Allied to the Field 759

Total Qualified **53,235**

Non-qualified/Paid Subscribers 17

Single Copy Sales 3

TOTAL CIRCULATION **53,255**

★ Source Business/Occupational
breakdown of qualified circulation,
May 25, 1998 Issue, as
submitted to BPA for June 1998
BPA Publisher's Statement

Terrorism

Continued from page 3

"You want to identify what the threat is in the area where you're doing business... and you want to develop a plan to address what the threat is in your area."

Current worldwide economic forces may also present businesses with international operations with political risks such as nationalization or forced divestiture, said James E. Pulbratek, a senior vp at J&H Marsh & McLennan in Stamford, Conn.

Mr. Pulbratek said that over the past five to seven years, political risk claims activity has been "very modest." But that might be about to change, he said, largely because of the current global economic climate, leading perhaps to as much as \$2 billion in claims over the next year.

"Political risk claims tend to be low-frequency (but) very high-severity," he said.

In recent years, the political risk insurance market has become more favorable for buyers, Mr. Pulbratek said. "Over the last couple of years, political risk underwriters have been increasing their capacity," he said. Also, they are now writing longer term policies than in the past, up to 10 years in many cases.

However, given his prediction that

claims activity will soon be on the rise, "the best opportunity to purchase political risk insurance might be right about now or a couple weeks ago," Mr. Pulbratek said. If claims activity does increase, it could make political risk coverage more expensive or reduce capacity.

Still another exposure international businesses with European operations face is the potential impact of the adoption of the euro as the currency of the 11-nation European Monetary Union.

The adoption of the euro "is not an economic process or a business process. It is a political process," said Kevin Mellyn, a vp at Mercer Management Consulting Inc. in New York. The basis for adopting the euro, Mr. Mellyn contends, is to force the pace of European integration and give Europe a weapon in the global economy.

Mr. Mellyn noted that the euro is a fiat currency without the backing of a centralized sovereign, and he said, "Unless there is a real federal taxation system and a real federal budget, this thing is really hard to imagine. This is an enormous act of political will being conducted in the face of economic logic."

Consequently, he said, the risks in the process are "huge." Companies with operations in EMU countries, he said, need to evaluate what their exposures might be and how to address

them.

"The real question is, 'What are your receivables in Europe going to be worth?' 'What is your portfolio of investments in Europe going to be worth?'" Mr. Mellyn said.

Foreign currency exposures are a key risk faced by international businesses, though financial derivatives—financial instruments that derive their value from changes in the value of some underlying asset—can help businesses manage those risks, according to Jay R. Feuerstein, managing director at Bear Stearns & Co. in Chicago.

While there's a tendency to think of derivatives as being extremely risky "and the idea of derivatives vs. insurance as being an oxymoron," in fact, derivatives were created to help manage various risks, Mr. Feuerstein said.

Often various instruments might serve to transfer the risk in question, though "there are always trade-offs," Mr. Feuerstein said. In looking at the transaction, one method might offer greater safety but at a higher cost, while another is less expensive but riskier.

"I would recommend to constantly look at these kinds of strategies," he said. "There are many different kinds of strategies that we can employ in the open marketplace that can augment and safeguard the kinds of coverage that you are getting." **BI**

Implant

Continued from page 2

are 136,000 U.S. claims and 40,000 non-U.S. claims related to its breast implants.

Under the proposed plan, a woman who does not intend to file a disease claim can settle immediately for \$2,000. A woman who qualifies for disease payments would receive from \$10,000 to \$250,000, depending on the seriousness of her condition. Under both options, an additional \$20,000 each would be available to those women whose implants ruptured, and \$5,000 each would be paid if implant removal was required.

If a woman's medical condition changes after she has been compensated, additional payments could be made.

Women who have implants made by other U.S. manufacturers that used Dow Corning material may qualify for up to 40% of the expedited or disease payments. They would not be eligible for any of payments tied to ruptures or implant removals.

Dow Corning is not protected from future suits under the proposal. Women who reject the settlement

would be allowed to file lawsuits that seek jury trials.

The plan also would provide payment to people with claims related to other products, such as artificial joints. Those who apply for payments other than those for breast implants could choose an expedited payment or one of four payment options for medical conditions.

"This is a landmark settlement that moves the process forward to fairly resolve the breast implant controversy," Dow Corning President Gary E. Anderson said in a written statement. "Both sides have compromised so that women can finally resolve their claims."

Dow Corning said approval could come by the middle of 1999, and that the plan could be implemented shortly thereafter.

The proposal won't go entirely unchallenged.

A New Orleans lawyer who praised the plan as a victory for claimants also pointed to what she sees as a problem with the proposal.

"I think it's an excellent plan in that it recognizes the fact that silicone implants cause disease," said Dawn Barrios, an attorney with Barrios, Kingsdorf & Casteix in New Orleans.

That's a point that Dow Corning

denies, saying in material explaining the plan that "overwhelming scientific evidence from almost 30 studies shows no link between implants and disease."

Ms. Barrios is concerned that the plan lets Dow Corning's shareholder parents Dow Chemical Co. and Corning Inc. off the hook for making payments.

She represented 1,900 women in a trial against Dow Chemical that ended last year with a jury ruling that the company suppressed or concealed the dangers of using silicone in the body (*BI*, Aug. 25, 1997). The ruling is being appealed in Louisiana's Fourth Circuit Court of Appeals.

Corning Inc. was released from the case before the trial began but after an appeal was reinstated as a defendant.

Ms. Barrios complained that it appears Louisiana women would waive all rights against Dow Chemical and Corning Inc. if they accept the Dow Corning settlement.

That would mean the parent company would gain bankruptcy protection even though it didn't file for bankruptcy, Ms. Barrios argued. "We will file the appropriate pleadings; we will raise these issues with the judge," she said. **BI**

Back pain leading disability: Study

By MEG FLETCHER

A person is more likely to miss work and collect disability-related income because of a sprain, strain, or sore back than from any other illness or injury, a survey confirms.

The survey, conducted by The Gallup Organization of Princeton, N.J., for CIGNA IntegratedCare, was based on a randomly selected national sample of 7,565 adults who reported they work or had worked outside the home during the past three years. Of those, 10.3% had missed time from work due to a work-related injury or illness, pregnancy, or non-work-related injury that caused them to miss more than five consecutive workdays.

According to respondents, musculoskeletal conditions typically

accounted for a median five weeks away from work and were more likely to result in either very short or very long periods of disability.

On average—per incident—workers with musculoskeletal injuries were absent 144 days from work, compared with 89 days for workers with other medical problems, such as heart disease, asthma, cancer and severe cold or flu. Workers were absent 111 days with other health problems, including mental illness, substance abuse, poisonings and burns.

The survey noted that averages often are distorted by extreme cases; however, risk and benefit managers often set budgets based upon averages.

Asked how they would improve the benefits process, the respondents with musculoskeletal in-

juries had three main suggestions:

- Pay their benefits on time, which 63% of them recommended.

- Require them to contact only one office, rather than multiple offices, 62%.

- Allow them to see their usual doctor, 60%.

The information in the six-page report suggests that "employers need to do a better job of preventing injuries and other conditions from becoming long-term by effectively managing them," said Donald M. Duford, president of CIGNA IntegratedCare, a CIGNA affiliate.

A free copy of the report is available by contacting Christie Shaw of IntegratedCare at christie.shaw@cigna.com or 215-761-6590.

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Leicester University
United Kingdom

Huff

Continued from page 1

Kentucky enterprises previously had closed.

In an interview and in court documents, Mr. Huff portrayed himself as the fall guy for several parties: an irresponsible policyholder, a former attorney who made a critical error in a lawsuit against Mr. Huff, and a premium-financing company that he said concocted charges against him to rescind a completed deal when the company got cold feet too late.

Mr. Huff also characterized the Kentucky Insurance Department's Ms. Farmer as overzealous. And, he said, the hearing officer's handling of the case was unfair.

Mr. Huff plans to appeal the license revocation order to the Franklin Circuit Court in Frankfort, Ky., said his attorney, Scott Zoppoth. Mr. Zoppoth, formerly the general counsel for Mr. Huff's trucking association, now is a partner with Zoppoth Valenti & Hanley P.L.L.C. of Louisville, Ky.

Mr. Zoppoth said the appeal will reiterate his earlier motions to the hearing officer. In those, he argued that the officer is precluded from relying solely on briefs and previous court judgments against Mr. Huff and refusing to hear testimony from Mr. Huff and other defense witnesses. The hearing officer ruled that Mr. Huff was legally barred from relitigating the prior judgments against him.

In the meantime, Mr. Huff said, he is performing consulting work nationwide. He said he is consulting for, among others, trucking companies, employee- and driver-leasing companies, and companies that want to finance their truck leasing agreements, equipment and receivables.

The two judgments on which the Insurance Department built its case against Mr. Huff reflect only part of the problems that the department says he has created for insurers and policyholders. In a statement of charges the department filed against Mr. Huff in February, regulators also accused Mr. Huff of violating Kentucky insurance regulations by failing to remit a total of more than \$2.6 million of insurance premiums to two other insurers.

The department dropped those charges, though. The separate lawsuits those transactions spawned have not resulted in any judgments on which the department could rely,

Mr. Farmer explained.

"Our goal was to take away his insurance license and do so as soon as we could" to "get him off the streets," Ms. Farmer said. To that end, the Insurance Department declined to pursue monetary penalties against Mr. Huff, she said.

In one of those cases, Liberty Mutual Insurance Co. charges Mr. Huff and two of his brothers, among others, with racketeering. A trial is scheduled to begin in August 1999. Mr. Huff said he resolved the other case, filed by Vanliner Insurance Co., by paying the insurer a \$50,000 "nuisance" settlement after a judge had dismissed Vanliner's racketeering charges against Mr. Huff.

One series of insurance transactions that led to Mr. Huff's license revocation began in November 1989, when Mr. Huff was president of the

agency never received the premiums the agency was accused of failing to remit.

In the Oklahoma litigation, Mr. Huff's attorney at that time failed to file certain documents with the court, Mr. Huff said. The court entered its default judgment as a result, he said.

Because of that judgment, no court would review evidence that the \$113,000 LaGere & Walkingstick sought represented a portion of the \$200,000 of premiums that trucking companies owned by Charles G. Phelps never paid for their National American coverage, Mr. Huff said.

A January 1991 accounts receivable report on Kerr agency letterhead that Mr. Huff submitted to the department and the hearing officer showed that one of Mr. Phelps' companies then owed the Kerr agency

& Walkingstick never has acknowledged that the premium shortfall stemmed from uncollected premiums.

Pat Gilmore, general counsel for LaGere & Walkingstick, said the agency continued to do business with Mr. Huff after he moved to CIS because "we were just misled by Mr. Huff and assumed he wouldn't defraud us, and that's been litigated."

Mr. Gilmore said the agency continues to pursue the Oklahoma judgment but has been unsuccessful in garnishing any income or seizing any assets from Mr. Huff. Mr. Gilmore said the agency is "attempting to follow Mr. Huff through a maze of companies to locate some tangible assets which have not been placed out of the reach of creditors."

The other half of the Kentucky Insurance Department's case against Mr. Huff was based on a dispute over how he used nearly \$5.5 million of financing proceeds that his North American Trucking Assn. obtained in January 1996 from Transamerica Insurance Finance Corp. (BI, Oct. 7, 1996).

TIFCO, a Towson, Md., subsidiary of Transamerica Corp. of San Francisco, sued NATA and Mr. Huff after he passed along only a fraction of the proceeds to an Illinois Insurance Exchange syndicate that had agreed to underwrite a master truck physical damage program for NATA members. NATA then had a membership of about 650 trucking companies and 20,000 drivers, according to Mr. Huff, who was the association's president.

Mr. Huff said he arranged the coverage with exchange syndicate Britamco Underwriters Inc. through Louisville broker All Risk Services Ltd., where he had been president until late 1995. Britamco since has withdrawn from the exchange, now named INEX.

TIFCO argued that the financing agreement clearly indicates the proceeds were to be used to finance 80% of the \$6.8 million premium Britamco charged for the coverage.

A copy of the Jan. 16, 1996, agreement obtained from the department lists information about only the Britamco coverage, including a nearly \$1.4 million cash down payment that Britamco required from Mr. Huff, but which he never made.

In an August 1996 affidavit, TIFCO Customer Relations Manager Christine Carpenter Martin said she prepared the premium financing agreement based on information about the Britamco coverage. She said Mr. Huff provided her the information during a Jan. 16, 1996, telephone conversation.

When Britamco had received only about \$300,000 of the \$5.5 million by early February, two weeks after TIFCO said it was due, TIFCO rescinded its agreement with NATA. Britamco canceled the coverage around the same time.

Forensic accounting reports produced for TIFCO show—and Mr. Huff does not dispute—that he used the TIFCO proceeds for a variety of purposes. For example, the report states that nearly \$1.8 million was used for financing a new Vermont captive for NATA. Mr. Huff wrote checks totaling more than \$2 million to repay another insurance premium-financing company. All Risk received checks totaling about \$270,000. And, Mr. Huff received a \$50,000 check.

Ms. Farmer said TIFCO funds also backed a \$78,000 counter check that Mr. Huff issued to his father. A counter check is a generic instrument that a bank allows a customer to use to access funds in the customer's checking account.

A week before NATA and TIFCO settled the case, a federal district court judge in Kentucky extended an earlier injunction that barred

NATA from using the nearly \$1.8 million it had set aside for its captive. In that ruling, the judge said NATA had breached its contract with TIFCO.

Under the settlement, NATA agreed to return \$1.7 million to TIFCO. But Mr. Huff said TIFCO also agreed to pay him \$200,000 to help him retire some debt.

Mr. Huff said TIFCO decided to rescind the deal after its general counsel learned about the peripheral involvement of a NATA consultant whom TIFCO encountered in an earlier, unrelated matter.

TIFCO's willingness in the settlement to forgive \$4 million of debt reflects the true nature of the financing agreement, according to Mr. Huff.

Mr. Huff said he had told TIFCO representatives that he planned to use the \$5.5 million of proceeds to pay off various debts, including \$50,000 he said he incurred personally for business-related expenses. Mr. Huff said he could not recall issuing a counter check to his father, but he said his father had loaned All Risk and NATA a total of \$150,000 before then.

In an affidavit, a TIFCO sales representative indicated that Mr. Huff discussed various business projects, including the planned NATA captive, during a business solicitation meeting TIFCO had requested with All Risk officials in early January 1996.

Mr. Huff said TIFCO representatives told him the premium financing agreement was a "dummy document" designed to allow TIFCO to close the deal quickly.

A down payment figure had to be included in the pre-printed agreement, but Britamco never actually required those funds, Mr. Zoppoth said.

Mr. Huff said he was assured that documents outlining the true deal would follow soon afterward but that TIFCO never sent them. Mr. Huff also said he never has spoken with TIFCO's Ms. Martin, who processed the agreement.

As for the proceeds he did advance to Britamco, they represented the full year's premium for the NATA-member trucking business the syndicate wrote for a few weeks before canceling the program, Mr. Huff said.

He also said the proceeds were issued by a TIFCO subsidiary that finances many types of business activities besides insurance premiums. He added that financing proceeds typically would be sent to the insurer or producer of an account and not the insured entity.

The premium financing agreement identifies NATA's Chicago office as the insured. But it also lists NATA's, Louisville office as the producer, and TIFCO's Ms. Martin said Mr. Huff identified NATA as an insurance producer.

In addition, a Jan. 12, 1996, document bearing Mr. Huff's signature authorizes insurers and brokers to provide TIFCO with "information about the agency named below." NATA was the identified agency.

Mr. Huff said he was not aware of that document.

A TIFCO attorney could not be reached.

Mr. Huff questioned why the department, and particularly an "over-emotional" Ms. Farmer, has pursued him so doggedly. He said no policyholder ever has lost coverage as a result of any of his business transactions.

Ms. Farmer responded that Mr. Huff is the "worst violator" of Kentucky's insurance codes she has seen. She said his actions drive up insurance costs for everyone.

"If he's offended that I want him off the streets, I take that as a compliment."

'Our goal was to take away his insurance license and do so as soon as we could' to 'get him off the streets,' says Pamela Farmer, a Kentucky Insurance Department attorney.

Rudd A. Kerr Agency Inc. in Louisville, Ky. At that time, agency owner Rudd Kerr was Mr. Huff's father-in-law.

The Kerr agency signed a producer agreement with the underwriting management division of retail and wholesale broker LaGere & Walkingstick Insurance Agency Inc., a Chandler, Okla., subsidiary of Chandler (USA) Inc. The agreement authorized the Kerr agency to bind coverage and collect premiums and remit them to LaGere & Walkingstick.

Eleven months later, the Kerr agency owed more than \$113,000 in premiums, less commissions, to LaGere & Walkingstick on policies written by National American Insurance Co., according to department and court documents. National American is another Chandler (USA) subsidiary.

The Kerr agency and Mr. Huff, who had left the agency in July 1990 to form Corporate Insurance Services Inc., signed a promissory note in October 1990 to repay LaGere & Walkingstick the debt plus about \$2,500 of interest over the next six months.

After Mr. Huff and the Kerr agency defaulted on the promissory note, LaGere & Walkingstick and National American filed suit in Oklahoma state court. In the fall of 1991, the court awarded the plaintiffs \$187,000 in a default judgment, finding that Mr. Huff failed to remit the premiums.

Mr. Huff, who to date has not paid the judgment, filed for bankruptcy in April 1994. He argued in bankruptcy court that the LaGere & Walkingstick debt could be discharged because he did not incur it in a fiduciary role with that agency.

Federal bankruptcy law bars discharging debts incurred through embezzlement while acting in a fiduciary capacity.

The bankruptcy court refused to discharge the debt.

Ultimately, the 6th U.S. Circuit Court of Appeals ended the dispute by ruling in September 1987 that Mr. Huff's original \$113,000 could not be discharged in his bankruptcy.

Michael Head, the hearing officer for Kentucky's attorney general in this case, relied, in part, on that litigation trail to conclude that Mr. Huff violated Kentucky regulation.

The problem with that litigation, Mr. Huff said, is that a lawyer's mistake prevented the courts from hearing evidence that shows the Kerr

nearly \$115,500.

Mr. Huff also submitted as evidence a letter to Mr. Phelps written on Kerr agency letterhead four months after Mr. Huff had left the agency. In a copy of the letter obtained from the department, Mr. Huff asked Mr. Phelps to sign the letter to acknowledge that he agreed with the balances that the agency maintained it was owed by Mr. Phelps' companies. The letter does not state the balances. A signature for Charles G. Phelps, dated Jan. 10, 1991, appears at the bottom of the letter.

"How can an agent misappropriate premiums he never collected?" Mr. Zoppoth asked.

In an interview, Mr. Huff said LaGere & Walkingstick understood in the fall of 1990 that the \$113,000 premium remittance shortage stemmed from the Phelps account. That, plus Mr. Huff's ability to produce profitable business, is why the Oklahoma agency signed another producer agreement with Mr. Huff after he started CIS, Mr. Huff said.

Under that new agreement, which was for trucking business, LaGere & Walkingstick agreed to pay CIS a higher than typical commission, Mr. Huff said. The understanding was that Mr. Huff would use that extra commission to pay off the \$113,000 debt, Mr. Huff said.

But within the next year, LaGere & Walkingstick pulled out of the trucking business. That action led to the demise of CIS, which specialized in transportation business, Mr. Huff said. In addition, he said, Mr. Phelps died, and his companies went bankrupt. Those developments, Mr. Huff said, left him unable to pay LaGere & Walkingstick the full \$113,000.

But he said he paid down the debt to \$85,000. He also said that about \$55,000 in premiums that the Phelps companies eventually paid should have reduced the debt to about \$30,000. Instead, he said, LaGere & Walkingstick applied that \$55,000 to the premiums the Phelps companies owed for new coverage they obtained from National American after the fall of 1990.

Mr. Huff said he expects to settle with LaGere & Walkingstick early next year, but not for the \$100,000 he said the Oklahoma agency wants. Mr. Huff said he has offered \$40,000. That, he said, is "plenty of interest on \$30,000."

In Mr. Head's recommended ruling, the hearing officer said LaGere

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Commentary

Mom and Dad, just turn the page

The Federal Emergency Management Agency has a new plan to reduce its exposure to flood losses that makes plenty of sense, but I know it will do nothing to endear me to my family.

FEMA has proposed a plan to limit support for flood-prone properties that is the insurance equivalent of the three-strikes law for repeat felons. Under the plan, property owners who have filed two or more claims that together equal or exceed the value of their property and who refuse to reduce their exposure or accept buyouts will no longer be eligible for coverage under the National Flood Insurance Program. FEMA has identified 35,000 "repetitive flood loss properties," which have had at least two flood claims exceeding their value within the past 10 years. Collectively, the properties cost the government about \$200 million annually. FEMA wants to cut losses by half within three years and to save almost \$1 billion over 10 years.

It makes perfect sense to me that if someone chooses to locate a home or business in an area obviously at risk of being blown away, shaken to pieces or otherwise reduced to rubble by Mother Nature, then perhaps that property owner should be paying more for insurance.

That's why this FEMA proposal strikes me as a common-sense approach to underwriting. But then, I've been brainwashed by the insurance industry—or that's what my family thinks.

You see, I have not one but two family members who choose to live near the sea.

My mother has lived on the Hawaiian island of Kauai since the early '80s. In 1992, Hurricane Iniki roared over the island, destroying homes, hotels, businesses and crops. My mother's house lost part of its roof and sustained limited structural damage and extensive water damage.

It was a bright day, indeed, as light bulbs went off in the minds of underwriters everywhere after that storm. As they woke up to the fact that the island had a hurricane exposure, they fled Kauai like rats leaving a sinking ship. Those that remained jacked rates skyward.

When my mother complained to me about exorbitant insurance prices, I explained to her the economics of underwriting and pricing insurance. The high premiums you pay now, I told her, are not only because you have just cost the insurance industry \$1.6 billion but also because for years you have been paying premiums that were far too low for your actual risk.

She looked at me as if suddenly doubting that she had given birth to me. Either that, or I was growing horns and a tail before her very eyes. To this day, I try to avoid the subject of insurance with my mother.

My in-laws also live on an island, Sanibel Island, off the Gulf Coast of Florida. Ever since Hurricane Andrew, the insurance situation in that state has not been pleasant for homeowners.

Recently, my father-in-law questioned why no single insurer was willing to write all the coverages needed by residents of Sanibel Island, with separate premium checks going to the state and private insurers for windstorm, flood, property and liability coverage. With the high cost of such coverage, he wondered why no single insurer would write all of that protection, thereby lowering his costs.

I kind of thought the reason was obvious, given Florida's rich and colorful history of hurricanes. I explained that no insurers want to get nailed by the triple whammy of wind, flood and any other kind of property damage all in one fell swoop, and that they are trying to limit their exposure in an area that is a known hurricane risk.

He fixed me with a look not unlike Foghorn Leghorn explaining in an aside that his nephew isn't right in the head. I had a brief flashback to my conversation with my mother.

Sanibel, he assured me, has never been hit by a hurricane in recent memory. That kind of talk, to my superstitious way of thinking, merely invites a hurricane to visit one's doorstep.

In fact, just the week before, I had sat glued to the Weather Channel as experts projected that Hurricane Georges would round the keys and skip up the Gulf Coast of Florida, running right over tiny Sanibel Island. It veered to the northwest instead, where I have no relatives.

While I love my parents and in-laws dearly, I still think FEMA's approach is sound. Of course, that's because I live in Illinois. And because I'm reasonably sure my family will never read this column.

Editor Paul D. Winston's commentary appears biweekly.

Funds

Continued from page 2
ing lawsuit filed by First Assurance's bankruptcy trustee.

Charged in the indictment are:

- Jesse J. Maynard, who was First Assurance's owner; president of Impact III, its Enid, Okla., management company; and a director of IC&S.

- Donald P. Havenar, First Assurance's former chief executive officer.

- Samuel B. Love, owner of IC&S; and president of Frontier Administrators Inc. and Premier Administrators Inc., two Scottsdale, Ariz., companies that managed First Assurance and IC&S, respectively.

Frontier Administrators is unrelated to Frontier Insurance Co. of Monticello, N.Y.

- Clara Jones Faulk, secretary/treasurer of First Assurance, Impact III and Frontier Administrators.

- Vikash Jain, a Plano, Texas, businessman who was a director of First Assurance and IC&S.

Messrs. Maynard, Love and Jain and Ms. Faulk were released on bond after their arrests this month. They are expected to plead not guilty to the charges at a hearing scheduled for today in U.S. District Court in Oklahoma City.

Mr. Love called the indictment "a bunch of garbage" and denied any role in the alleged diversions of funds.

Messrs. Maynard and Jain, Ms. Faulk and her attorney could not be reached.

Mr. Havenar was not arrested and is now a fugitive, according to Dan L. Vogel, an FBI special agent in Oklahoma City.

Sources familiar with First Assurance say they believe Mr. Havenar is living in Mexico.

Susan Dickerson Cox, assistant U.S. attorney, declined to comment on Mr. Havenar's possible whereabouts, but said she has been in contact with the Justice Department's office of international affairs, which among other things handles international extradition proceedings.

First Assurance's lifespan was brief: The insurer wrote most of its business, including various commercial property/casualty coverages, in the early 1990s through California surplus lines brokers.

The 1992 Los Angeles riots buried First Assurance in claims from small-business owners, and in October 1993—after the California Insurance Department concluded it was insolvent and barred it from underwriting—the company filed for bankruptcy protection in Oklahoma City.

Mr. Maynard had intended to remain in control of the insurer's estate as a debtor-in-possession, but First Assurance claimants later convinced a bankruptcy judge to appoint an independent trustee. The claimants charged that the filing was a sham aimed at avoiding claim payments and that Mr. Maynard continued to siphon money out of the company (BI,

March 7, 1994).

Mr. Maynard then filed an ancillary petition in the Turks & Caicos attempting to transfer jurisdiction over the insurer's liquidation, but this attempt failed, according to Janice Loyd, the Oklahoma City-based First Assurance trustee.

In 1996, Ms. Loyd filed a civil racketeering suit against several parties connected to First Assurance, including: Paine Webber Inc., which managed accounts for the insurer; Mr. Love; IC&S of New Zealand; James R. Ray, First Assurance's auditor; and Sphere Drake Underwriting Management (Bermuda) Ltd., First Assurance's excess-of-loss reinsurer.

The suit charged that First Assurance was an "engine of fraud," capitalized with worthless assets and looted of its premiums.

It also alleged that First Assurance fraudulently transferred \$450,000 to set up IC&S as a successor company. IC&S was formed in New Zealand in August 1992—two months before the First Assurance bankruptcy filing—by Messrs. Maynard and Jain and others. Mr. Love took over the insurer in August 1993, records show.

Paine Webber settled the racketeering complaint for \$7 million, which ultimately accounted for the bulk of the estate's assets. IC&S settled for \$150,000 on behalf of itself and Mr. Love, and Sphere Drake settled for \$25,000, those involved in the case say.

Donald P. Havenar was not arrested and is now a fugitive, says Dan L. Vogel, an FBI special agent in Oklahoma City.

Mr. Ray's errors and omissions liability insurer also settled for \$250,000, according to Robert L. Brace, a lawyer with Hollister & Brace in Santa Barbara, Calif., who represented Ms. Loyd.

Overall, the First Assurance estate recorded \$16.9 million in approved policyholder claims, on which it has so far paid \$4.2 million, according to Mr. Brace. Roughly \$1 million still available to policyholders will be distributed before the end of the year, he added.

The estate still faces numerous claims from trade creditors and others, who will have to divide what is left after the last policyholder distribution. Less than \$50,000 will be available for these claims, Ms. Loyd said.

The indictment, originally filed Oct. 21, charges Messrs. Maynard, Havenar, Love and Jain and Ms. Faulk with conspiring to commit bankruptcy fraud by transferring and concealing First Assurance's assets.

As part of the alleged conspiracy, the defendants collected millions of dollars for First Assurance policies "without maintaining sufficient funds necessary to

pay claims," the indictment states.

They also created an array of companies, including Impact III and Frontier Administrators, to provide purported management, claims and consulting services to First Assurance.

In the year before the bankruptcy filing, the defendants and their service companies diverted more than \$6 million from First Assur-

In 1996, Janice Loyd filed a civil racketeering suit against several parties connected to First Assurance.

ance. The total included \$5.4 million to Impact III, \$765,232 to Frontier Administrators, \$194,745 to a claims firm controlled by Mr. Jain and \$147,088 to Mr. Maynard, prosecutors charge.

The defendants also transferred \$450,000 to set up IC&S, and Mr. Love later wrote to a First Assurance surplus lines broker requesting that the insurer's business be shifted to IC&S, the indictment alleges.

Shortly before the bankruptcy filing, Messrs. Havenar, Maynard and Love also agreed to divert a \$270,000 return premium owed to First Assurance by Sphere Drake, which had canceled its reinsurance cover, according to the indictment and sources familiar with the case.

Along with the conspiracy charge against all five defendants, the indictment charges Messrs. Havenar, Maynard and Love with concealment of assets, including the Sphere Drake return premium. It also levels six charges of embezzlement against Mr. Maynard and Mr. Love for alleged diversions of First Assurance funds after the bankruptcy filing.

In an interview, Mr. Love said the \$450,000 transfer to IC&S happened before he took over the New Zealand company and that he had nothing to do with transferring the \$270,000 Sphere Drake reinsurance refund. Mr. Love said he heard that the refund was transferred to a First Assurance account in Panama and later transferred back to an account in the United States but said he does not know what happened to the money after that.

He also said that money he helped take out of the First Assurance estate after the bankruptcy filing went to pay the insurer's bills on instructions from Mr. Maynard, who then controlled the estate.

Mr. Love said he thinks the indictment "is probably a good thing," however, because it may help him clear the reputation of IC&S, which he said has been operating under a cloud of suspicion because of its links to First Assurance.

"I really and truly believe that," he said. "This is a way to get out from under it once and for all." **BI**

rate megabroker can do the job as well as the independent agents of the past.

Unfortunately, that turn in the market seems to be so far away that Y2K problems likely will not be part of the challenge but a footnote describing a historic incident.

Charles A. McAlear
New Orleans

Letters

Continued from page 8
highest kind of folly by a generation given more to worshipping "the bottom line" than client relationships.

Insurance buyers that enter into arrangements with either brokers or insurance companies that propose they can respond most effectively to all of a client's needs are candidates for a trip to Oz.

A financial organization, be it a broker or insurer, that puts the interests of the client before its own is located somewhere over the rainbow, in a place where the shareholders of such entities don't demand that their own interests come first.

The next difficult market is going to be an interesting test of whether the international corpo-

Rating

Continued from page 1

ance regulators generally favor increased competition as the best way to encourage better customer service and prices, they have mixed reactions to the acquisition.

Self-insurers favor the increased competition as long as it does not require them to report their loss data to more than one statistical agent, said Robert B. Stegert, president of the National Council of Self-Insurers. He is also vp-casualty claims for Washington-based Marriott International Inc.

Such duplicate reporting is not anticipated, sources said.

Billie Fae Fuschi, director of workers comp for Methodist Healthcare in Memphis, said, "It was probably a good move for ISO." However, she said she had mixed reactions because "ISO is looked at as an octopus. It's getting into everything and pushing itself as the standard."

On the plus side, though, Ms. Fuschi praised IDR for its "customer-friendly software" and Web site. However, "I don't know if they can deliver the goods" in terms of needed workers comp data services, such as calculating an employer's experience rating modification factor.

NCCI could use the competition, Ms. Fuschi said, because it "has gotten complacent, and its customer service is not where it should be." She recounted difficulty she had with an NCCI representative while trying to obtain experience rating modification information for her company.

NCCI President and CEO Bill Schrepf said customer service is a high priority for the NCCI, however, and surveys show its customer service efforts have gotten "quite good" ratings.

In terms of the overall effect of ISO acquiring IDR, Mr. Schrepf anticipates little change from the current situation, in which competition among the rating organizations usually results in the NCCI submitting the lowest bid and winning, he said. The NCCI currently operates in 39 states and serves 700 customers. It generated \$142.4 million in 1997 revenues.

However, the impact of requiring multiple rating organizations to exchange information, especially on multistate employers, may increase costs that are ultimately borne by policyholders, Mr. Schrepf said.

Regulators support increased competition but are concerned about its impact on the overall database.

Consider that it costs the NCCI about \$16 to experience-rate an employer but another \$10 to \$20 in administrative costs to transmit that same information to a competing rating organization, he said.

An ISO spokesman countered, "That (calculation) doesn't reflect the potential cost savings that can be achieved by providing customers an alternative to a sole provider that may introduce efficiencies into the system."

Meanwhile, state insurance regulators generally support increased competition but are concerned about its impact on the overall database.

"I think it probably makes sense for ISO and IDR to share resources and systems," said Darla L. Lyon, the South Dakota insurance director. She also chairs the Workers Compensation Task Force for the

National Assn. of Insurance Commissioners.

However, the emergence of multiple rating and statistical organizations is raising questions among regulators, including issues about other regulators' access to information that may be unprofitable for the statistical agent to provide, she said. The NAIC's Multiple Rating Organization Study Group began meeting in September to develop a guide for states to follow when facing licensing requests from multiple organizations.

State insurance regulators face the challenge of encouraging low-cost services to rating organizations' customers, which include insurers and self-insured employers, while providing for an efficient workers comp system and access to essential data they need to justify rates.

Paramount in their minds should be preserving the integrity of the workers comp database on which employers' workers comp rates are based, said Bruce C. Wood, assistant general counsel of the Washington-based American Insurance Assn.

"AIA believes that retaining the current rating organization structure is far preferable to allowing multiple data organizations to operate simultaneously," Mr. Wood said in a recent statement to the Oklahoma Rating Board, which was considering licensing multiple data organizations.

While data organizations can compete on the basis of price and service, it is "extremely important to require multiple data organizations to adhere to a uniform statistical plan, classification system and experience rating plan. These very important factors serve as the foundation of workers compensation rating," he said.

The NCCI, ISO and IDR now compete directly only in Florida, where all three are licensed as statistical agents. **B**

Market

Continued from page 3

contracting level of demand for property/casualty coverages.

In unsettled economic conditions, insurers will have a tougher time masking operating problems—such as underreserving—and will have to demonstrate that they can perform, tightening their strategic focus and emphasizing cost controls, the report suggests.

"Clearly, 1998 shows that too much of a good thing maybe doesn't help you in the long run," Mr. Stein said of recent years' good experience.

Commercial insurers' prospects are particularly daunting, according to E&Y.

This year's third quarter will see a "sudden halt" to increases in property/casualty insurer surplus fueled by capital gains, according to the report.

Catastrophe losses have pushed down pretax operating earnings, and this, combined with declining premium volume, adverse reserve development and lower interest rates will depress insurers' net income for the year.

"In the past, a concurrent drop in surplus and investment income has ultimately led to a pricing recovery," the report notes. "But, given the unusual level of overcapitalization in the industry, a return to significantly harder pricing conditions is unlikely."

This year also saw a continued division of the "traditional" insurance business into three segments: risk financing, risk management and risk transfer.

That trend has brought competition in these segments from "untraditional" players, including brokers,

investment bankers and reinsurers, as the lines among financial service companies continue to blur.

Commercial insurers also have been slow to respond to the shift in the U.S. economy from primarily manufacturing to service-based businesses. Many insurers continue trying to build premium volume and market share in traditional ways in insurance markets where demand is eroding, the report says.

As a result, innovations in risk financing and risk management are being left to market participants who understand the shift and to others outside the traditional market, including securities firms, according

With overcapitalization in the industry, 'a return to significantly harder pricing conditions is unlikely,' the report says.

to the report.

Reinsurers, E&Y notes, also are facing tougher times.

"Primary insurers whose increased retentions and cat-free experience have been a driving force in reinsurance consolidation were beckoned back to an overcapitalized (reinsurance) industry with prices so low that reinsurers may be set up for declining profit trends for years to come," the report warns.

Both property/casualty and life insurers continue struggling to broaden their distribution systems. They have seen banks and brokerage firms successfully move into annuity sales and threaten to expand into the distribution of personal lines coverages.

This trend will make life difficult,

if not impossible, for small and medium-sized insurers that do not have a strong "brand name," broad distribution capabilities and the resources to support sophisticated systems and higher levels of customer service.

Emphasizing the growing importance of the personal lines retail market over the commercial market, E&Y noted that virtually all of the large mergers this year—with the exception of the Berkshire Hathaway Inc./General Reinsurance Corp. deal—represent efforts by insurers to increase penetration or geographically expand their retail market positions.

The prime example of this, according to Mr. Stein, is American International Group Inc.'s acquisition of SunAmerica Inc. The deal can be read, he said, as AIG's response to weakening long-term prospects for commercial business and recognition of the growth potential of the SunAmerica retail life and annuity products distributed through AIG's global network.

Along with mergers, a number of insurers this year spun off businesses that didn't fit into their strategic plans. For example, Lincoln National Group assumed personal lines business from CIGNA Corp. and Aetna Life & Casualty Co., E&Y notes.

These deals "all show that business focus, size and expanded distribution are driving insurers' strategies," the report says. "Desperate searches for deals are becoming more common as midsized players assess their future and decide that it isn't pretty."

Copies of the Ernst & Young survey are available from Ann Hall, Sims & Associates Inc., at 212-725-3838.

Updates

Denver doctors may quit HMO

Continued from page 2

effort to retain them in our physician network," PacifiCare said.

Meanwhile, members of the Genesis Physicians Practice Assn. and Aetna U.S. Healthcare in Dallas have agreed to try to resolve their dispute, an Aetna spokeswoman said. In October, more than 400 doctors walked out, alleging Aetna wasn't providing enough information for them to adequately manage their risk (BI, Oct. 26).

Syntex loses dioxin ruling

SAN FRANCISCO—A state appeals court found that Syntex Corp. is not eligible for coverage of millions of dollars in cleanup costs related to the 1970s spraying of dioxin in Times Beach, Mo.

The ruling last week in *Syntex Corp. et al. vs. Lowsley Williams and Cos.* from the 1st District Court of Appeal in San Francisco overturns a February 1996 lower court finding against Lloyd's of London syndicates and 71 London market and foreign insurers.

The appeals court ruled that even though Syntex did not know that a third-party contractor was spraying dioxin-contaminated oil over roads, the spraying was "methodical and purposeful" and not "sudden and accidental," as required under Syntex's umbrella liability policies.

Syntex is evaluating whether to appeal the decision.

The case stems from an infamous hazardous waste case in which chemicals from a building owned by a unit of Syntex were sprayed, along with oil, on dirt roads, parking lots and horse arenas. The spraying was aimed at suppressing dust and resulted in the death of several animals and the illnesses of Times Beach residents.

Syntex earlier settled 2,500 personal injury claims for a total of \$27 million and incurred about \$100 million in costs for government-ordered cleanups. Last week's decision was related only to coverage of the cleanup costs.

Briefly noted

The Labor Department expects to publish—possibly as soon as next week—guidance to help employers comply with a new federal mastectomy benefits law. That law requires health plans offering coverage for mastectomies to cover reconstructive surgery on the same basis as they cover other surgical procedures (BI, Oct. 26). . . . The Pennsylvania House has passed a commercial insurance deregulation bill. If it becomes law, the measure would, among other things, exempt insurance policies from rate and policy form filings for large commercial buyers. The Senate must approve an identical bill before Gov. Tom Ridge can sign it into law. . . . Chicago-based Aon Corp. has made an undisclosed offer to buy Italian broker Nikols Sedgwick Group, a Sedgwick Group P.L.C. joint venture partnership based in Milan. Letizia Moratti, who will remain chairman of Nikols Sedgwick, said in a statement that she intends to accept Aon's offer, which she said she believes is "in the best long-term interests of both our clients and our talented, loyal employees." Marsh & McLennan Cos. Inc.'s acquisition of London-based Sedgwick is expected to close sometime in the fourth quarter. . . . Total national health care expenditures last year climbed just 4.8%—the smallest increase in nearly 40 years—to nearly \$1.1 trillion. Health care costs, as a percent of the gross domestic product, fell to 13.5% from 13.6%. . . . Florida Treasurer and Insurance Commissioner Bill Nelson rejected a request by the National Council on Compensation Insurance for a 13.1% hike in workers compensation rates, citing flaws in the NCCI's calculations. The NCCI hasn't decided whether to appeal. . . . Greenwich, Conn.-based W.R. Berkley Corp. has retained Morgan Stanley & Co. to explore strategic opportunities for its group of regional insurance companies. Morgan Stanley's analysis is expected to be completed by the end of the year. . . . The Louisiana Supreme Court refused to review a lower court ruling that Liberty Mutual Insurance Co. is not entitled to damages on its claim that regulators forced the insurer to write workers comp coverage at inadequate rates in the mid-1980s and early 1990s. Liberty Mutual originally sought around \$164 million, an amount that ballooned to \$400 million with interest, the Louisiana Insurance Department said. . . . Ira C. Magaziner, the White House aide who directed the Clinton administration's ill-fated effort in 1993 to revamp the nation's health care delivery and finance system, said he intends to step down by the end of the year as an Internet adviser to President Clinton. Separately, Mr. Magaziner asked a federal appeals court last week to clear him of a judge's accusation that he made false statements in legal testimony about the structure of the health care task force. . . . A Labor Department advisory council is expected to formally recommend next month that federal law be changed to increase the amount of employee compensation—currently \$160,000—that can be taken into account in computing benefits. The council also is expected to recommend a boost in benefits that can be funded through defined benefit plans and contributions made to defined contribution plans. . . . Vesta Insurance Group Inc. has disclosed plans to hire a new president and chief executive officer from outside the company as part of an agreement with Alfa Insurance Group of Montgomery, Ala. Alfa has said it intends to acquire up to a 36% stake in the troubled Vesta and earlier this month agreed to buy 1.8 million Vesta shares—or 9.9% of Vesta's outstanding stock—from Torchmark Corp., which owns a total of 5.1 million Vesta shares. . . . A federal judge in Macon, Ga., has ordered the U.S. Attorney's office to determine whether criminal obstruction of justice charges should be brought against E.I. DuPont de Nemours & Co. for withholding documents from plaintiffs' lawyers in litigation over its Benlate DF fungicide. A 1995 grand jury inquiry into the matter produced no charges (BI, Oct. 23, 1995; Dec. 12, 1994). . . . Benefit consultant ASA Inc. is buying the West Coast benefits practice of KPMG Peat Marwick L.L.P. The unit, which has offices in Los Angeles and San Francisco, generates about \$1 million annually in revenues. Earlier this year, KPMG sold its Northeast benefits consulting practice to Watson Wyatt Worldwide. . . . Bloomington, Ill.-based State Farm Mutual Insurance Co. will open a federally chartered savings bank. The federal Office of Thrift Supervision gave its approval to the plan last Thursday.

Bermuda

Continued from page 1

Several former UBP cabinet ministers lost their seats, including Jerome Dill, the former deputy premier. However, one UBP victor during last week's elections was Madeleine Joell, vp-marketing at ACE Ltd., who won her first seat in parliament.

Historically, the UBP has always been viewed as pro-business and the party of the establishment, whereas the PLP had a more radical socialist reputation and agenda.

However, over the past several years the PLP has changed its tone and is now viewed as a more centrist party. Several business executives draw analogies between the PLP and Britain's Labor Party led by Prime Minister Tony Blair.

Indeed, business executives expect little change in the business environment with the change of government.

"Both parties are very much middle of the road, and both are heavily committed to international business," said Glenn Titterton, chairman of the Bermuda International Business Assn. and president and chief executive officer of BF&M Ltd., a local insurance and services company.

The PLP is plainly aware of the importance of international business to the island's economy, and it is unlikely to do anything to jeopardize the considerable income Bermuda derives directly and indirectly from the sector, Mr. Titterton said.

International business is one of the two main sources of income for Bermuda and has thrived in recent years as the island has strengthened its position as the world's leading captive domicile and host to numerous highly capitalized insurers and reinsurers.

Tourism, the other main leg of Bermuda's economy, has been ebbing for several years.

The PLP is unlikely to do anything to radically change the business environment in Bermuda or seek to make international business pay increased taxes or fees, agreed Victor Blake, chairman and chief executive officer of LaSalle Reinsurance Ltd.

"It would hardly be in their interest to scare international businesses," he said. "When the dust settles they will not be so different from the outgoing party except on emphasis."

The PLP is expected to address social issues such as unemployment benefits and housing with more vigor than the outgoing government.

However, that is unlikely to require large

increases in government income, said Mr. Titterton of BIBA.

"They have said that there should be some form of unemployment insurance, but in Bermuda that is not a very large burden because we have near full employment," he said.

One issue the PLP will have to face is recent statements by the Organization for Economic Co-operation and Development and the European Union which indicate that both organizations do not favor tax havens.

The former UBP government relied heavily on advice from civil servants and business executives when formulating a strategy to deal with the tax issue, said an executive who did not want to be named.

"I think the new government will look for input from any place they think they can get intelligent input on the right way to handle the situation," he said.

In a wider context, the election of the PLP could be seen as beneficial to the reputation of Bermuda as a stable democracy, said Mr. Titterton.

"You can hardly hold Bermuda up as an example of modern democracy unless both parties can show that they can form a government," he said. **BI**

Floods

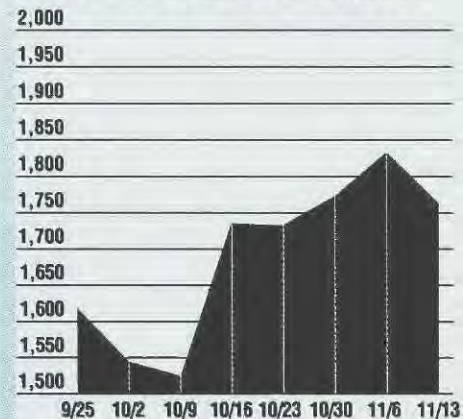
Continued from page 2

facilities" up and running more quickly after a disaster.

A third initiative would be to provide additional protection to discourage development on flood plains and wetlands, he said. Such natural features act "as sponges that soak up excess rain and flood waters," he said.

Mr. Witt's call for denying NFIP insurance to people who insist on remaining in flood-prone areas without taking appropriate steps to mitigate their situation should draw support from the property insurance industry, said Dave Unnewehr, senior research manager for the American Insurance Assn. in Washington. He said that even though private insurers aren't involved with underwriting NFIP policies, many of the exposed properties are in areas covered by residual windstorm and beach plans, where buildings would be subject to perils covered by the private market. As a result, non-flood losses will be allocated to the companies required by law to participate in the residual market, he said. **BI**

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc. (nordby.com) Boulder, Colo.

PCS catastrophe options

As of Nov. 13	Call spread	Price bid/ask	Call spread	Price bid/ask	
National Annual 1998	40/60	-713.5	40/60	9.2/15.0	
	80/100C	0.2/1.2	60/80	4.0/—	
			100/120	2.0/—	
			150C	-6.0	
National Northeast 1998	5/15	—	Western Annual 1999	80/100	0.5/2.0
Eastern September 1999	40/60	2.0/—	Midwest June 1999	10/20	1.0/1.4
Southeastern Sept./Dec. 1999	300/350	-2.5			

Total volume: 0 Total open interest: 16,255
For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.
Source: Chicago Board of Trade

Medicare

Continued from page 1

drug coverage for Medicare HMO enrollees.

By offering unlimited drug benefits for next year only, the Medicare HMOs would defuse some of the bad publicity they have received since the news of their plans to

Last week, Sen. Kennedy urged Brookline, Mass.-based Harvard Pilgrim to agree to provide full prescription drug coverage next year in its Medicare HMO.

scale back drug coverage surfaced.

The HMOs also had been feeling the heat from state officials who threatened legal action because, they said, the HMOs failed to disclose to enrollees in timely fashion that prescription drug benefits would be reduced.

The one-year moratorium on cutting drug benefits also would allow state politicians

to claim credit for protecting enrollees' benefits.

But some HMO officials say a moratorium may not be possible unless all the major HMOs sign on. That is because the HMOs fear that those plans offering unlimited coverage would suffer adverse selection as enrollees with the highest prescription drug costs would enroll in their plans, sharply raising their costs.

Last week, Sen. Kennedy urged Brookline, Mass.-based Harvard Pilgrim to agree to provide full prescription drug coverage next year in its Medicare HMO.

Even if Harvard Pilgrim comes on board and the major Medicare HMOs offer unlimited prescription drug coverage next year, the HMOs likely will sharply reduce drug coverage in 2000.

Previously, several Massachusetts Medicare HMOs said they planned to offer scaled-backed prescription drug benefit packages next year.

For example, Harvard Pilgrim intended to offer a zero-premium plan with an \$800 cap—based on retail prices—on prescription drugs, while Tufts said it would offer a zero-premium plan with a \$500 prescription drug benefit cap, based on wholesale prices. **BI**

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	281	4.6	13.4	4.6	495-227
Legal & Gen	662	19.5	13.3	2.4	796-460
Royal & Sun	483	14.7	23.6	4.7	825-437

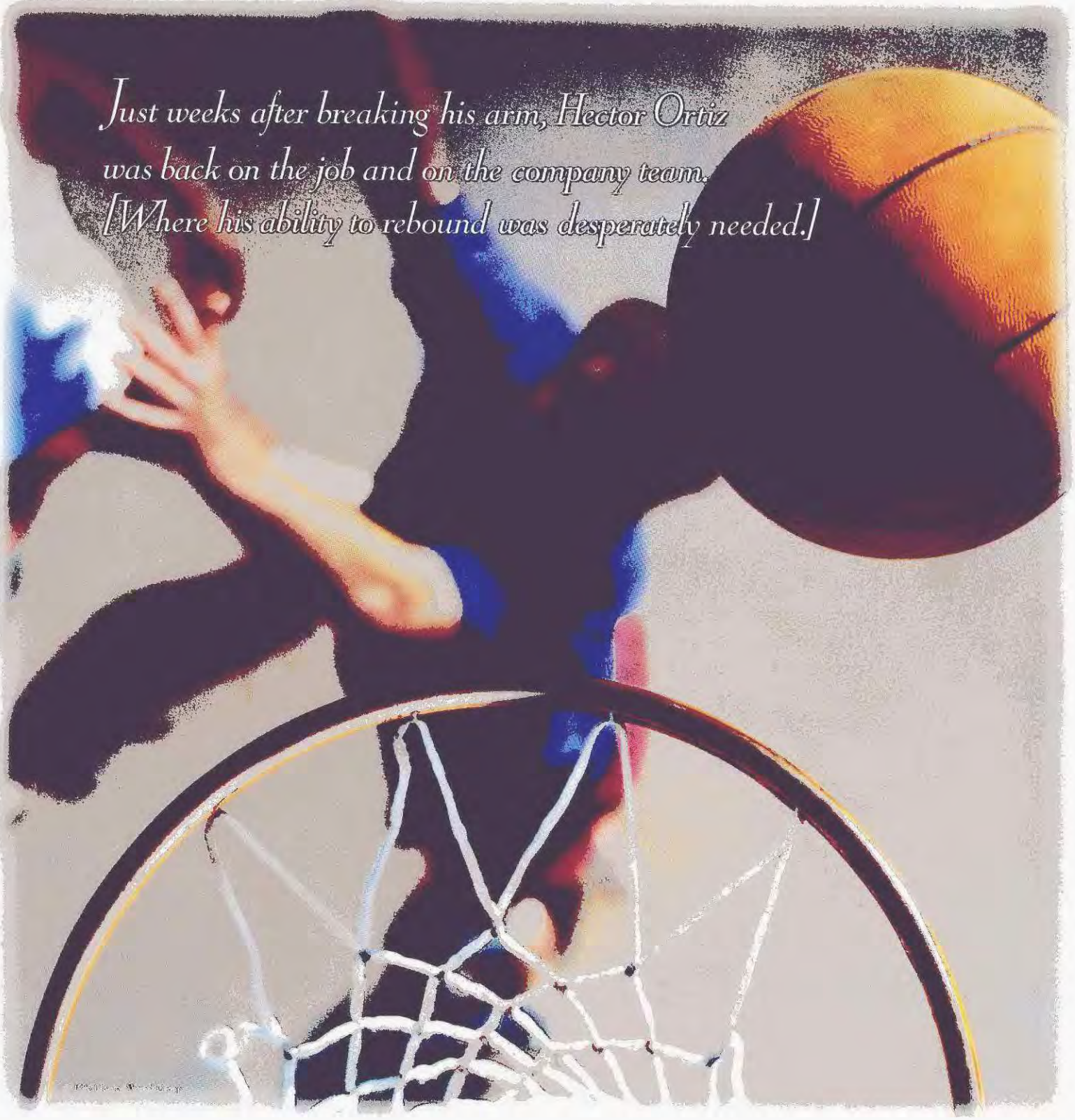
Brokers	Price	P/E	Div. pence	Yield %	52-week high-low
Lmbrt Fenchurch	92	7.3	5.7	7.6	121-92
JLT	206	12.7	10.5	6.3	236-151
Sedgwick Grp	225	—	7.0	3.1	226-120

Note: Prices are Nov. 13 closings; other numbers from Nov. 12.
Source: Nordby International Inc. (nordby.com) Boulder, Colo.

BI Industry Stock Report NOV. 9, 1998, THROUGH NOV. 13, 1998

BROKERS						INSURERS/REINSURERS						HEALTH MAINTENANCE ORGANIZATIONS											
Company	Price	Weekly % change	Year to date % change	52-week High	Low Vol.(000)	Company	Price	Weekly % change	Year to date % change	52-week High	Low Vol.(000)	Company	Price	Weekly % change	Year to date % change	52-week High	Low Vol.(000)						
Aon Corp.	NYS	57.50	1.32	-1.92	75.56	48.25	1672	Citigroup	NYS	43.44	-5.57	-19.37	73.50	28.50	59949	PXRE Corp.	NYS	25.13	-4.74	-24.29	35.25	22.25	60
E.W. Blanch Holdings Inc.	NYS	39.88	-2.00	15.79	41.13	32.19	162	CNA Financial Corp.	NYS	43.69	-0.43	2.59	53.25	34.50	176	Reliance Group Holdings	NYS	14.38	1.77	1.77	19.81	10.75	938
Gallagher Arthur J. & Co.	NYS	45.75	5.63	32.85	46.56	33.56	160	CNA Surety	NYS	14.13	3.67	-8.50	16.75	12.56	73	Reliastar Financial Corp	NYS	43.63	-4.12	5.92	52.44	29.00	1920
Hib. Rogal & Hamilton	NYS	18.88	1.34	-2.27	19.63	15.38	39	EMC Insurance Group Inc.	NDQ	11.75	5.62	-11.32	15.88	9.00	134	RenaissanceRe Holdings Ltd.	NYS	40.00	1.75	-9.35	50.75	36.88	67
Kaye Group Inc.	NDQ	6.38	-1.92	-3.77	7.81	5.13	10	ESG Re Limited	NDQ	18.13	-2.03	-22.87	28.88	12.75	444	Risk Capital Holdings	NDQ	23.00	1.94	3.37	25.50	18.81	62
Marsh & McLennan	NYS	58.00	-1.90	16.68	64.31	43.38	1304	Enhance Financial Services	NYS	29.13	1.08	-2.10	37.56	17.31	388	RLI Corp.	NYS	35.44	-1.56	-11.07	45.63	31.56	53
Poe & Brown	NYS	34.13	-7.61	14.71	42.50	26.88	27	Everest Reinsurance	NYS	33.63	-7.40	-18.48	45.25	28.75	508	St. Paul Companies	NYS	35.13	-0.71	-14.39	47.19	28.06	3749
Sedgwick Group PLC	NYS	18.88	2.03	53.30	19.00	10.31	13	Executive Risk Inc.	NYS	51.00	-3.77	-26.95	75.75	35.50	217	SCOR	NYS	58.00	-3.93	21.47	72.75	42.50	15
BROKERS AVERAGE			-0.63	18.18				EXEL Ltd.	NYS	72.50	-1.11	14.40	83.25	61.58	549	SAFECO Corp.	NDQ	43.88	-1.47	-10.00	56.00	38.25	1862
ACE Ltd.	NYS	30.38	0.62	-5.57	43.00	24.38	2157	Frontier General Corp.	NYS	46.75	-2.60	-14.61	62.13	36.00	484	SCPIE Holdings Inc.	NYS	32.06	0.00	10.80	38.38	26.63	NA
Accel International Corp.	NDQ	3.00	0.00	-17.24	4.00	2.13	1	Frontier Insurance Group	NYS	15.06	-18.58	-34.15	25.69	12.19	2538	Seibels Bruce Group	NDQ	4.13	-2.94	-45.00	8.38	3.72	32
Acceptance Insurance Cos.	NYS	18.44	0.34	-23.77	25.75	17.44	124	Gainsco Inc.	NYS	6.13	-2.00	-27.94	10.00	5.75	73	Selective Ins. Group	NDQ	20.75	-9.29	-23.15	29.25	16.69	222
AEGON N.V.	NYS	95.50	-5.74	113.11	111.31	39.06	234	General RE Corp.	NYS	229.00	-0.87	8.02	275.00	193.50	812	Terra Nova Insurance Co. Ltd.	NYS	29.25	-2.30	11.43	35.00	23.50	27
Aetna Life & Casualty	NYS	76.00	-5.81	7.71	89.38	60.19	3149	Gryphon Holdings	NDQ	17.25	-2.13	2.99	19.38	11.39	84	TIG Holdings	NYS	12.94	-8.41	-61.02	34.38	11.63	907
AFLAC Inc.	NYS	38.06	-2.25	48.90	39.88	22.13	2342	Harleysville Group	NDQ	20.94	-10.43	-12.76	28.50	17.25	201	Tokio Marine & Fire	NDQ	53.56	-7.25	-7.25	61.38	39.00	127
Allied Group Inc.	NYS	48.19	0.00	68.34	48.38	25.00	9	Hartford Steam Boiler	NYS	41.31	-0.90	12.29	59.56	33.25	421	Torchmark Corp.	NYS	36.25	-17.38	-14.07	49.81	31.81	1460
Allmerica Financial Corp.	NYS	51.06	-7.05	2.25	75.25	38.38	1209	HCC Insurance Holdings	NYS	18.88	-3.82	-11.18	25.00	15.63	747	Transatlantic Holdings	NYS	75.00	-2.04	4.90	94.50	68.25	68
Allstate Corp.	NYS	40.00	-6.98	-11.60	52.38	36.06	8152	ING Groep N.V.	NYS	51.19	-4.21	20.97	76.75	36.06	296	Travelers Property Casualty	NYS	32.31	-1.71	-26.56	46.06	24.13	931
AMBAC Indemnity Corp.	NYS	57.56	-0.54	25.14	65.94	40.13	778	IPC Holdings Ltd.	NDQ	25.38	2.01	-21.17	33.25	19.00	45	Trenwick Group Inc.	NDQ	32.88	-0.57	-12.62	41.75	26.75	32
American Bankers Ins.	NDQ	45.63	1.11	-0.68	66.06	30.13	461	Hartford Financial Services	NYS	52.56	-1.64	12.36	60.00	37.63	3098	Unico American Corp.	NDQ	11.25	-6.25	-8.16	18.13	8.88	30
American Financial Group	NYS	39.06	3.48	-3.10	45.75	30.50	185	LaSalle Re Holdings Ltd.	NYS	23.50	-7.84	-33.57	42.94	19.50	59	United Fire & Casualty	NDQ	36.88	-0.84	-16.67	47.00	32.13	20
American General	NYS	69.56	2.30	28.67	75.69	48.56	2682	Life Re Corp.	NYS	94.00	0.20	44.20	94.00	55.69	144	Unitrn	NDQ	71.13	-1.90	10.06	74.13	55.56	254
American Heritage Life Ins.	NYS	22.63	3.13	25.69	26.06	17.06	265	Lincoln National	NYS	78.00	0.56	-0.16	98.88	67.00	2108	UNJM Corp.	NYS	47.44	3.55	-12.76	59.63	41.75	2252
American Indemnity/Fin1	NDQ	11.50	-4.17	-17.12	15.38	9.50	52	MAIC Holdings Inc.	NYS	30.38	5.19	13.40	31.25	23.94	85	Vesta Insurance Co.	NYS	6.13	-35.53	-89.68	64.75	5.13	3419
American International	NYS	87.00	-2.73	20.00	102.38	64.88	8962	Market Corp.	NYS	154.75	2.15	-0.88	187.00	132.00	17	Zenith National Ins.	NYS	23.13	-4.64	-10.19	30.50	23.00	44
American Safety Insurance	NDQ	9.75	0.00	-20.81	15.06	6.75	25	MBIA Insurance Group	NYS	64.75	-1.33	-3.09	80.94	46.06	934	INSURERS/REINSURERS AVERAGE			-2.44	-5.43			
Argonaut Group	NDQ	24.00	-4.48	-29.15	37.50	21.25	89	Meadowbrook Insur. Group	NYS	16.75	5.93	-35.73	35.00	15.50	237	HEALTH MAINTENANCE ORGANIZATIONS							
AXA-UAP Group	NYS	54.69	-7.51	40.22	71.25	33.50	169	Memo Cos. Inc.	NYS	15.88	0.00	-36.82	26.50	15.25	118	Foundation Health Systems Inc.	NYS	14.81	0.42	-33.43	32.63	5.88	3961
Baldwin & Lyons Inc.	NDQ	22.75	0.56	-5.70	28.75	18.50	5	Mutual Risk Mgmt. Ltd.	NYS	36.13	-3.99	20.67	39.94	25.38	246	Humana Inc.	NYS	21.13	1.81	1.81	32.13	12.25	3940
Berkley W.R. Corp.	NDQ	33.88	-1.09	-22.79	49.88	25.25	343	NAC Re Corp.	NYS	47.38	-2.45	-2.94	55.88	43.50	194	Oxford Health Plans	NDQ	10.63	-11.92	-31.73	25.50	5.81	3341
Berkshire Hathaway Inc.	NYS	66400.00	-2.22	44.35	84000.00	43800.00	1	Navigator Group															


WITH OUR POLICYHOLDERS WE ARE ENGAGED IN A GREAT MUTUAL ENTERPRISE. IT IS GREAT BECAUSE IT SEEKS TO PREVENT CRIPPLING INJURIES AND DEATH BY REMOVING THE CAUSES OF HOME, HIGHWAY AND WORK ACCIDENTS. IT IS GREAT BECAUSE IT DEALS IN THE RELIEF OF PAIN AND SORROW AND FEAR AND LOSS. IT IS GREAT BECAUSE IT WORKS TO PRESERVE AND PROTECT THE THINGS PEOPLE EARN AND BUILD AND OWN AND CHERISH. ITS TRUE GREATNESS WILL BE MEASURED BY OUR POWER TO HELP PEOPLE LIVE SAFER, MORE SECURE LIVES.



Just weeks after breaking his arm, Hector Ortiz was back on the job and on the company team. [Where his ability to rebound was desperately needed.]

Liberty Mutual's managed care is as fast as Hector's fast break. After his accident, Hector's employer called our 24-hour claims service hotline. We found the right doctor to treat him, at the right price. A rehabilitation nurse coordinated a return-to-work plan. And through our on-site rehabilitation program, a therapist worked to help Hector properly do his job and avoid reinjury, so today Hector is back on the job (and on the boards) leading a safer, more secure life.

➤ *There's more information we'd like to share. So please call John Ryan at (617) 574-5842 or visit our website at <http://www.libertymutual.com>*

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