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Business Insurance

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

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LOOKING





Business Insurance

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HHS unveils proposed regs on patient confidentiality

WASHINGTON—Proposed patient confidentiality regulations released last week by the Department of Health and Human Services are drawing a mixed review from employers and insurers. HHS drafted the regulations after Congress failed to meet an August deadline—set under a federal law—for proposing confidentiality rules. The 600-plus page proposal, which the Federal Register is expected to publish this week, covers only electronically transmitted data.

See Updates on next page

Quality Insurance Congress likely to abandon mission

By GAVIN SOUTER

NASHVILLE, Tenn.—The Quality Insurance Congress is expected to dissolve this week, after failing to generate continued strong support from the insurance industry.

The financially troubled organization is expected to pass responsibility for its controversial Quality Scorecard to the survey's co-sponsor, the Risk & Insurance Management Society Inc.

Other educational efforts promoted by the QIC will likely be assumed by the Insurance Institute of America.

Late last month, a board meeting of the QIC due to be held in Chicago was canceled after less than half of the



THE QUALITY INSURANCE CONGRESS

board's 30 members committed to attend. The QIC's five-person executive committee subsequently agreed to

poll the board on whether to dissolve the organization. Results are expected this week.

The proposed dissolution would end the sometimes-controversial six-year history of the QIC, which was created to improve insurance industry quality through improved cooperation among

risk managers, insurers, brokers and other insurance service providers.

The Quality Scorecard, which the QIC and RIMS jointly produced, showed significant risk manager dissatisfaction with the insurance industry (*BI*, Oct. 25). Most of the industry, including leading brokers and property/casualty insurers, were awarded "C's" and "D's" by risk managers who completed the survey anonymously.

Several brokers and insurers complained that the results did not jibe with those of their own private surveys of customers.

The move to dissolve the QIC stems from two problems, said Henry L. See *QIC on page 67*

Buyers may benefit from reform bill

By MARK A. HOFMANN

WASHINGTON—Passage of financial services reform legislation could usher in a brave new world for risk managers.

The Financial Services Act, S.900, enjoys widespread support in both the House and Senate, as well as the backing of the White House. The measure would remove many of the barriers that have prevented banks, insurers and securities firms from being involved in each other's business by permitting them to affiliate with one another (*BI*, Oct. 25). It would also promote uniformity in insurance agent and broker state licensing through the creation of the National Assn. of Registered Agents and Brokers (*BI*, Oct. 18).

Risk managers generally were not involved in the often-contentious debate that accompanied the bill's progress, but many observers say that they will be among the beneficiaries of modernization. The lowering of barriers could result in more capacity, new products and new ways of approaching risk, some say. There is, however, divided opinion over which segments of the insurance industry will feel the greatest impact from the changes.

"I think the implications could be tremendous," said William J. Kelly, managing director of J.P. Morgan & Co. Inc. and a former president of the Risk & Insurance Management Society Inc. By repealing the Depression-era Glass-Steagall Act, which erected barriers between financial services entities, S. 900 could create a "stronger insurance community," he said.

Mr. Kelly said that the impact of reform could be felt in the area of operational risk insurance, "which, in order to be meaningful for major institutions, would literally require capacity in the billions of dollars."

In short, the reform would mean stronger financial institutions, "greater capacity, new products, more meaningful protection—all those things," he said.

Christopher E. Mandel, director of global risk management for Louisville, Ky.-based Tricon Global See S. 900 on page 69

HMO allows chiropractors in role

Gatekeepers under scrutiny

By JOANNE WOJCIK KOCHANIEC

CHICAGO—Benefit managers are skeptical of HMO Illinois' decision to allow chiropractors to serve as primary care physicians.

While most HMOs around the country provide enrollees access to alternative medicine, HMO Illinois has gone a step further by also giving members the option to use chiropractors as their primary care physicians.

Although HMO Illinois, the state's largest HMO, with about 700,000 members, has permitted members to choose a chiropractor as their PCP since the beginning of this year, the news is just now being widely publicized because it's time for annual open enrollment, according to a spokesman for the Chicago-based HMO.

So far, 16 chiropractors are eligible to be chosen as PCPs in HMO Illinois, which is run by Blue Cross & Blue Shield of Illinois. By year end, there will be 40 eligible chiropractic PCPs. To become eligible, the chiropractors first must be accredited by both the National College of Chiropractic Medicine in Lisle, Ill., and the National Committee for Quality Assurance, which also sets standards for traditional health care providers.

Benefit managers for Chicago-area companies were pleased with the HMO's decision to provide benefits for alternative medicine but were not alone in questioning the need for chiropractors to serve as PCPs. The Chicago-based American Medical Assn. also was surprised by the health plan's decision.

See PCPs on page 70



HMO Illinois lets enrollees select chiropractors as their primary care physicians.

Higher costs hit insured plans hardest

By MICHAEL PRINCE

Health care costs for self-insured employers are rising less than premiums paid by fully insured employers, according to a new survey.

Overall, health care costs climbed by 4.8% from the spring of 1998 to the spring of 1999, the 1999 Annual Employer Health Benefits Survey shows. But health care costs increased by only 3.7% for self-funded employers, compared with a 5.8% increase for employers with fully insured plans.

In addition, cost increases varied by plan type. Health maintenance organizations increased premiums by 5.7% in 1999, while the rate increase was 4.3% for preferred provider organiza-

tions and 3.6% for point-of-service plans, according to the survey. The survey was conducted by the Henry J. Kaiser Family Foundation in Menlo Park, Calif., in conjunction with the Health Research & Educational Trust, an affiliate of the American Hospital Assn. From 1991 to 1998, the survey had been conducted by KPMG Peat Marwick.

Health insurers boosted rates at least in part to make up for losses suffered in prior years, said Jon Gabel, vp-health system studies at the Health Research & Educational Trust in Washington and one of the survey's authors, at a news conference. According to the survey, more than two-thirds of health plans lost money in

1996 and 1997.

The most recent overall premium increase of 4.8% compares with a 3.7% increase in 1998 and a 0.8% increase in 1996, the last two years the survey was conducted. No survey was conducted in 1997.

Mr. Gabel said that, because two-thirds of large employers self-insure while only one-third of small employers do, the higher rate increase for fully insured plans will affect small businesses more.

In conducting the survey, 1,939 employers were contacted and asked a variety of questions about their health care plans. Sixty percent of the employers responded to the questions. An

See Costs on page 67

Lower cost hikes for self-insured plans

1999 percentage increases for health plan costs



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999

GRAPHIC BY ADAM DO

Updates

Confidentiality rules

Continued from previous page

The proposal embodies several principles, including limiting the release of data without patient consent, letting patients review and change information in their personal files, and providing new civil and criminal penalties for violations. For example, anyone who improperly discloses protected information with the intent to sell the information could face fines of up to \$250,000 and 10 years in prison.

Health Insurance Assn. of America President Chip Kahn in a statement praised the proposal but cautioned that "insurers, health plans, doctors and hospitals must be able to send and receive medical information to assure that consumers get high-quality health care."

The National Assn. of Manufacturers said it hopes that "the release of the regulations will be the impetus to get the congressional ball moving again. From what we've heard, these regulations are not going to help the marketplace, they're going to be very expensive," said Neil Trautwein, the NAM's director-employment policy.

The Blue Cross & Blue Shield Assn. said "it is safe to say that, with over 630 pages of bureaucratically written, prescriptive rules, the cost will not come cheap," said Mary Nell Lehnhardt, senior vp in the Blues' Washington office in a written statement.

The Alliance of American Insurers was relieved the regulations do not appear to effect workers compensation. "We're somewhat encouraged, at least in an initial reading, that they are recognizing the difference in the information needs between the property/casualty industry and the health industry," said Ken Schloman, Washington counsel for the Alliance.

ACE, Cap Re agree to new deal

NEW YORK—After a suit over the bidding for Capital Re Corp. was thrown out last week, ACE Ltd. and Capital Re agreed on new merger terms.

ACE sued Capital Re after XL Capital Ltd. had made a bid for the financial guarantee insurer last month. ACE alleged Capital Re breached its original merger agreement. XL Capital said last week that it would be "re-viewing its options."

Under the new deal, ACE would pay Capital Re shareholders \$511.3 million in a cash-and-stock deal equivalent to \$14 per Capital Re share. The deal would comprise 0.65 ordinary shares of ACE plus cash, dependent on the value of ACE shares the week before the deal closes. If ACE shares fall below \$14.34, the deal would be worth less than \$14 a share. If ACE's stock price exceeds \$19.54, however, Capital Re shareholders would receive more than the agreed offer. ACE stock closed Friday at \$19.44 a share.

ACE's initial all-stock deal in May was valued at \$605.9 million, but ACE's stock price declined and one day before the original deal was due to close in October, the offer was worth \$375.3 million.

XL then jumped in with a \$456.3 million offer last month, and both XL and ACE increased their bids over the next several weeks.

The deal is expected to close before the end of the year, subject to the approval of stockholders and regulators.

Delay sought for DOL rules

WASHINGTON—A group of nine Senate Republicans is urging the Department of Labor to take more time to revamp proposed regulations that would require employers to speed up health care coverage decisions and claims processing.

The senators, led by Labor, Health, Education and Pensions Committee Chairman James Jeffords, R-Vt., wrote in a letter to Labor Secretary Alexis Herman that additional comments will lead to better regulations. The DOL had planned to issue the regulations by year's end. "Another round of review will allow the department to perfect its regulations and, we believe, help to ensure a smoother transition and better compliance with the standards in the long run," the letter said.

The proposed regulations earlier drew congressional fire. An amendment tucked into a House-passed appropriations bill would have barred the DOL from enforcing the regulation through next September. That amendment, though, was later killed in committee.

Under the proposed rules, health plans would have 72 hours to notify a member if coverage would be provided for a service or procedure. For non-urgent care, the deadline would be 15 calendar days.

In the case of services already performed, health plans generally would have 15 calendar days to process claims. If a claim were incomplete, plan administrators would have five days from the receipt of claim to notify a participant that more information would be needed to process the claim.

Health plan lobbyists earlier said the deadlines for processing claims were too brief and would lead to higher costs and more processing errors.

Jury convicts EIM broker

DALLAS—A federal jury last week convicted former insurance broker Richard Van Weir of conspiracy and mail fraud for pocketing millions of dollars of premiums from construction industry clients from 1988 to 1995.

Mr. Weir, former principal of defunct Dallas broker Equipment Insurance Managers Inc., was indicted with another EIM official, Elaine Watson Garner, on 14 conspiracy and mail fraud charges in February.

Federal prosecutors alleged that Mr. Weir and Ms. Garner collected more than \$2 million in audit premiums from policyholders in a crane

Updates continued on page 70

Errors & omissions

€An Oct. 25 story on Year 2000 loss control quoted a loss control specialist who suggested that all businesses in locations where temperatures fall below 40 degrees Fahrenheit should drain sprinkler systems before the end of the year. Clarifying his remarks, Dennis Anderson, vp and division engineering manager of Factory Mutual Insurance Cos. in Park Ridge, Ill., said businesses should strive to maintain fire protections through the date change. Only businesses that lose heat and cannot maintain safe temporary heat sources that keep internal temperatures over 40 degrees should drain fire protection systems, he said.

Stop-loss battle to end

Insurer to withdraw from Maryland, ending challenge to law

By JERRY GEISEL

BALTIMORE—American Medical Security Group Inc. will stop marketing stop-loss health insurance policies with very low attachment points that Maryland insurance regulators said violated state law.

American Medical Security's decision reduces the likelihood of a new challenge to Maryland's stop-loss law, which an American Medical Security executive earlier said the company intended to fight on the grounds that federal law pre-empted the state statute.

As part of a consent agreement with the Maryland Insurance Administration announced last week, American Medical Security's insurer subsidiary, United Wisconsin Life Insurance Co. of Green Bay, Wis., will cease writing new small-group policies in the state and will terminate existing policies by their anniversary date that do not comply with a 1999 Maryland law.

Under that law, health insurers are barred from selling stop-loss policies with attachment points of less than \$10,000 for specific claims and an aggregate attach-

ment point of 115% of expected claims.

The consent agreement was reached after state insurance regulators issued a cease and desist order this summer against United Wisconsin to stop the sale of policies that fall under the stop-loss minimum attachment points mandated by state law (BI, Sept. 6).

American Medical Security said it agreed to the consent order as part of its decision to pull out of the Maryland small group health care market.

Tim Moore, general counsel and
See Stop-loss on page 71

Disney links managers' bonuses

Comp incentive pays off

By ROBERTO CENICEROS

MARINA DEL REY, Calif.—The Walt Disney Co.'s successful efforts to control workers compensation costs include quickly providing information to injured workers, linking managers' bonuses to their loss records, and legislative lobbying.

Providing injured employees with quick and consistent information is a key part of making the workers comp system as simple as possible for them, said Stephen M.

Business Insurance 7th Annual Workers Compensation Conference

Wilder, vp-risk management for The Walt Disney Co. in Burbank, Calif.

Eliminating worker confusion and fear of the comp system by making it simple is one of most important things Disney does, Mr. Wilder said.

The entertainment company learned that lesson after Walt Disney World opened in Florida

27 years ago and suffered an unacceptable litigation rate from workers comp claims. Disney surveyed injured employees when they returned to work, asking them why they turned to litigation.

The answer: They didn't understand what was happening, Mr. Wilder said.

See Disney on page 52

Jeep maker to appeal

By DAVE LENCKUS

NOGALES, Ariz.—DaimlerChrysler plans to appeal a \$4.3 million jury verdict in a lawsuit over the safety of the Jeep CJ-7 model, which went out of production 12 years ago.

A Santa Cruz County Superior Court jury in Nogales, Ariz., last month heard evidence that Jeep's senior managers in 1982 decided against redesigning the CJ-7 model at that time to minimize inherent risks in the vehicle's design, said plaintiff's attorney John Osborne of Goldberg & Osborne in Tucson, Ariz.

Various studies, including three of Jeep's own analyses beginning in the late 1960s, verify those risks, Mr. Osborne said. The studies showed the CJ-7's rollover risk was 11 to 15 times greater than that of passenger cars from the same era and twice that of Jeep's chief sport utility rival, he said. The studies also showed that the CJ-7 model's windshield frame had a relatively high risk of collapsing onto front-seat occupants during a rollover, he said.

Jeep's executives, though, opted in 1982 to make cosmetic changes to the CJ-7.

A corporate memo showed that Jeep executives placed a higher value on production costs than

See Jeep on page 70

Employers eye Medicare Rx

80% would keep drug plans

By JERRY GEISEL

Most employers with retiree health care plans would continue to offer prescription drug coverage if Congress enacts a Clinton administration proposal to add a new prescription drug benefit to Medicare.

Eighty percent of large employers surveyed by benefit consultant Hewitt Associates L.L.C. said they would retain retiree prescription drug benefit coverage if the Clinton administration proposal were enacted.

Under the administration plan, Medicare, starting in 2002, would pay 50% of the first \$2,000 in prescription expenses annually, with retirees paying a \$24 monthly premium. By 2008, the premium would rise to \$44, with Medicare and retirees equally sharing in the cost of the first \$5,000 of prescription drug benefits.

Employers that continue to offer prescription drug coverage at least as good as what Medicare would provide would be eligible for financial subsidies from the government. The employer subsidies,

See Drugs on page 72

Inside

€The more information made available to the Internal Revenue Service through public comment about cash balance pension plans, the more fair IRS regulations are likely to be, says this week's editorial. **PAGE 8**

€The Turkish government is promoting several proposals, including compulsory earthquake insurance, designed to minimize losses from future quakes. **PAGE 63**

€Part-time workers are reaping better benefits from employers, according to a new survey. **PAGE 69**

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Spotlight report

Reinsurance industry changes

Driven by competition, M&A activity to continue

By JUDY GREENWALD

It's not over yet as far as merger and acquisition activity in the reinsurance industry is concerned.

An obvious reduction in the number of available candidates, a consensus that the era of megamergers is over, and the recent poor performance of reinsurer and insurer stocks all suggest that M&A activity is unlikely to continue at the feverish pace of the past few years.

But most observers say that several factors will continue to drive M&A activity in the industry. These include the need for scale by all reinsurers; the necessity of small and midsize reinsurers to survive competition against larger reinsurers; and large reinsurers' desire to acquire specialty

expertise, deploy a variety of distribution channels and make use of their excess capacity.

And deals may not necessarily be confined to mergers and acquisitions, say some, who predict the arrival of more joint ventures, start-ups and similar deals as well.

At the same time, others in the industry assert that some of the primary insurers that still have reinsurance operations may decide to spin off those operations, creating acquisition opportunities for reinsurers.

Meanwhile, there is general agreement that, despite some earlier hand-wringing, insurers and the ultimate insurance buyers are largely better off as a result of the consolidation that has occurred thus far, as the better-capitalized reinsurers that have emerged can offer increased security.

Market observers also generally agree that the decline in the number of publicly held reinsurers that has resulted from M&A activity may ultimately benefit reinsurers and their clients, as it frees reinsurance companies from the burden of reporting improved earnings from one quarter to the next (see story, page 24).

In addition, despite all the talk about the capital market's involvement in the reinsurance market, observers say traditional reinsurance is likely to remain dominant for at least the foreseeable future (see story, page 16).

While there is general agreement that the diminishing pool of viable M&A candidates and the industry's recent poor stock market performance will affect the number of deals, activity is not expected to cease alto-

gether.

"I think it's going to continue, but, due to the reduced number of possible partners, it won't be as fast and furious as it has been in the past," said Steven Bolland, senior vp with reinsurance intermediary Gill & Roeser in New York.

David Robb, president of reinsurance operations for The Hartford Financial Services Group Inc. in Hartford, Conn., said, "I think, with the downward movement in market capitalization of a number of reinsurance and insurance companies over the last 90 days or so, merger activity may not be continuing the balance of this year at the same pace it was over the past two to two-and-a-half years.

"But I don't think the merger activity
See Market on page 10

Reinsurers' return to using MGAs raising questions

By DOUGLAS McLEOD

If there were a movie entitled "Return of the Managing General Agents," reinsurance industry viewers would likely be divided over whether it was a heroic adventure tale or a horror film.

As reinsurers scramble for premium volume and profitable niches, they are once again turning to MGAs, either reinsuring MGA-managed programs written for primary insurers or granting binding authorities to their own managing general underwriters.

In the 1930s, this was a formula

for disaster: Out-of-control MGAs with authority to issue policies, settle claims and place reinsurance played a major role in bankrupting such insurers as Ideal Mutual Insurance Co. and Transit Casualty Co.

Whether it could happen again, though, is a subject of some debate.

The recent demolition of workers compensation reinsurance facilities run by Unicover Managers Inc., as well as other MGA-related troubles, have raised the specter of an encore performance in the minds of some industry observers.

"History tends to repeat itself," said Michael Smith, an analyst
See MGAs on next page

Intermediaries seeing signs of firming in reinsurance rates

By SALLY ROBERTS

Continued rate deterioration that has plagued the reinsurance market for more than a decade may be a thing of the past.

Reinsurance intermediaries report that rates are stabilizing in many lines, but they are not yet ready to call the change an all-out hardening of the market. Many, however, view the development as a harbinger of a hard market to come sometime early in the next millennium.

"We hope that what we're seeing is the bottom of the market," said Paul Davies, chairman of Aon Re Worldwide, the world's largest reinsurance broker.

Salvatore Zaffino, president and chief executive officer of No. 2 Guy Carpenter & Co. Inc., agrees. "There are some changes occurring in the marketplace." While the word "hardening" is too strong, "there is less rate

erosion in certain areas," he said.

Among the world's largest reinsurance intermediaries, many say that they are seeing reinsurance rates stabilize, if not tightening up, in various markets, including retrocession, property catastrophe, workers compensation, marine, aviation, trucking and even general casualty lines.

"You'll get mixed messages depending on whom you speak to," noted Michael Caley, chairman of Lambert Fenchurch International Group Ltd., the world's eighth-largest broker. "Our view is that (the reinsurance market) is turning, not in every class or in every territory, but there are too many signs of upward movements or reductions in capacity in this class or that class for it not to be turning now."

Graham Chilton, CEO of Benfield Greig Group P.L.C., the world's fifth-largest broker, said: "My feeling at the moment

is that in many areas where we are trading, prices are firming far more considerably than many people realize at the moment.

"Some of the heavier areas of retrocession, aviation and marine reinsurance, the demand for capacity outstrips supply and therefore prices will rise and retentions will rise," he said.

Come year-end renewals, the firming may not be noticed on businesses that had prices set in multiyear deals in the past. Many areas that have a catastrophe exposure and have depended on reinsurance, however, "will see quite significant increases in retention and price," said Mr. Chilton.

Michael Brookman, deputy chairman of JLT Risk Solutions Ltd., the world's sixth-largest reinsurance intermediary, predicts that "it will be an interesting and probably quite difficult renewal season, which will set
See Brokers on page 30

Inside:

Demand for traditional reinsurance is expected to continue, despite interest in capital markets page 16

Privatization is freeing companies to focus more on their clients' needs, reinsurers say page 24

As alternative risk transfer products' popularity grows, reinsurers are eager to jump on the bandwagon page 26

Health reinsurers are looking to raise their rates, after years of worsening results page 28

Service offerings by reinsurance intermediaries are centering on modeling and online activity page 42

The unraveling of the Unicover pool has led to lawsuits against the world's largest reinsurance broker page 44

Brokers' risk securitization capabilities are increasing as brokers strive to offer clients alternatives page 44

Directory of Reinsurance Brokers page 46

Spotlight Editor: Judy Greenwald

World's 10 largest reinsurance brokers

Gross revenues are in millions of dollars

Company	Gross revenues ¹		Employees		% Treaty	
	1998	% change	1998	% change	1998	1997
Aon Re Worldwide	\$620,000,000	5.1% ²	3,100	6.9%	NA	NA
Guy Carpenter	502,000,000	6.4 ³	2,159	-8.9	96%	95%
Willis	247,000,000	2.5	849	-13.8	92	92
E.W. Blanch	163,632,000	31.2	1,164	3.0	100	99.5
Benfield Greig Group	149,257,589 ⁴	1.4 ³	455	0.0	NA	NA
JLT Risk Solutions	74,399,300 ⁴	7.4	282	-3.4	100	100
Heath Group	50,447,000 ⁵	-9.1	2,613	-1.9	61.6	59.5
Lambert Fenchurch Group	48,627,600 ⁵	10.1	2,356	1.0	49	49
Towers Perrin Re	47,500,000	6.1	215	5.4	95	96
John P. Woods ⁶	25,100,000	12.6	68	4.6	98	98

¹ Based on reinsurance brokerage and services only ² Estimated ³ 1997 revenues have been restated ⁴ British pound = \$1.657 (12/31/98) ⁵ British pound = \$1.654 (3/31/99) NA = Not available ⁶ Fiscal year ends 6/30/99
Source: BI survey

MGAs

Continued from previous page with Bear, Stearns & Co. in New York. "I have not seen anything materially different that would suggest that it's not as potentially dangerous as it was in the mid-'80s.

"Any time you let go of the critical issues involving your ultimate financial performance," Mr. Smith said, "you're taking a huge risk."

Others concede that the risk exists but say that MGAs today are operating under tighter guidelines and closer supervision by insurers and reinsurers, and that any problems will be isolated.

"There's always a risk when you give your pen away," allowed John Cashin, executive vp with the reinsurance brokerage division of Willis

Corroon Group Ltd. in New York. "However, there have been a lot of lessons learned from the negligence of the '80s."

"Back then, there were virtually no controls," said Michael D. Schnur, managing director and head of the MGA Solutions Group at Guy Carpenter & Co. Inc. in Chicago.

"Could there be an isolated pop here and there" today if an MGA program goes bad? he asked rhetorically. "Sure. Do insurance companies have a much better understanding of the MGA world than they had in the mid-80s? Sure. Way better."

The mid-1980s were marked not by isolated pops of detonating MGA programs, but by a sustained barrage.

Responding to insurers' desire for rapid premium growth, a number of MGAs committed a variety of sins

that eventually helped sink Ideal Mutual, Transit and Mission Insurance Co., and created massive losses for others, including Omaha Indemnity Co.

Those MGAs' sins included vastly

'There have been a lot of lessons learned from the negligence of the '80s,' says John Cashin of Willis.

overwriting projected premium volumes; drastically underpricing risks; failing to report or even keep track of policies issued and premiums collected; mishandling claims; and

placing reinsurance on their business with financially shaky or even fraudulent reinsurers.

In most of these cases, the insurers were acting only as fronting companies for a vast array of property/casualty risks produced by MGAs that also had authority to place reinsurance on the risks.

A few MGAs' actions were outright criminal: Omaha Indemnity, for example, was victimized by an MGA whose principals, James Wining and Willie A. Schonacher, were later convicted on fraud charges for their actions. Transit was also stung by one of its MGAs, Carlos I. Miro, who was later jailed for an unrelated insurance scam.

By 1988, MGA-assisted insolvencies led Rep. John D. Dingell, D-Mich., to launch an inquiry into the adequacy of state insurance regula-

tion. In response to the congressional scrutiny and to the insolvencies themselves, the National Assn. of Insurance Commissioners developed a new model act governing managing general agents, and insurers and reinsurers began taking a harder look at their MGA relationships.

Despite the debacles of the mid-1980s, many of those relationships have, in fact, been successful. The American Assn. of Managing General Agents, for example, has scores of member agencies that maintained strong ties to insurer and reinsurer partners throughout the 1980s and 1990s.

"If you look at programs in general, there have been MGAs that have been very successful," said William J. Adamson, chief executive officer of CNA Re, a division of CNA Financial Corp. in Chicago.

He pointed out, as an example, that CNA Re has participated for about 40 years on an architects liability program managed by The Schinnerer Group Inc., an underwriting management unit of Marsh & McLennan Cos. Inc.

"If (an MGA) has expertise in a particular line of business, it's worked out very well for insurers and their reinsurers," Mr. Adamson said.

Problems have continued to erupt sporadically, though: Chubb Corp., for example, sued Good Weather International Corp. in 1989, charging that the MGA sold \$350 million to U.S. farmers when it was only authorized to sell up to \$5 million. Chubb and thousands of farmers later shared an \$8 million settlement (*BI*, Aug. 21, 1989).

This year has seen a sudden spate of MGA/MGU problems, the most widely publicized being the disintegration of the Unicover workers comp reinsurance pool. Five life reinsurer pool members withdrew earlier this year after some charged that Unicover had hugely exceeded its projected premium volume. Losses on Unicover's business are estimated to hit \$2 billion or more, and two pool retrocessionaires have already demanded arbitration to void their contracts (*BI*, March 15, 1999).

Since then, Odyssey Re (London) Ltd. has filed a racketeering suit against several agents and intermediaries, including its own London-based MGA, Euro International Underwriters Ltd., charging that the MGA and others conspired to use Odyssey Re as a dumping ground for underpriced workers comp reinsurance risks. Euro International and other defendants have filed motions to dismiss the suit.

Separately, Risk Capital Holdings Group reported a \$15.9 million net loss for the first half of 1999, largely because of underwriting and investment losses generated by Capital Protection Services L.L.C., a New York-based MGA that Risk Capital helped capitalize.

These developments—coupled with reinsurers' growing attraction to MGA-managed business over the last couple of years—has some industry observers worried.

Reinsurers and brokers agree that program business, ranging from professional liability programs to non-standard auto and even homeowners' risks, has become a bigger target for reinsurers looking for new sources of premium growth.

The business has developed in a variety of ways.

In some cases, reinsurers form relationships directly with MGAs and then search for a primary insurer to front the business, sometimes using a reinsurer's own primary insurance subsidiary for this purpose. In some cases, MGAs take the more tradi-

See MGAs on page 6

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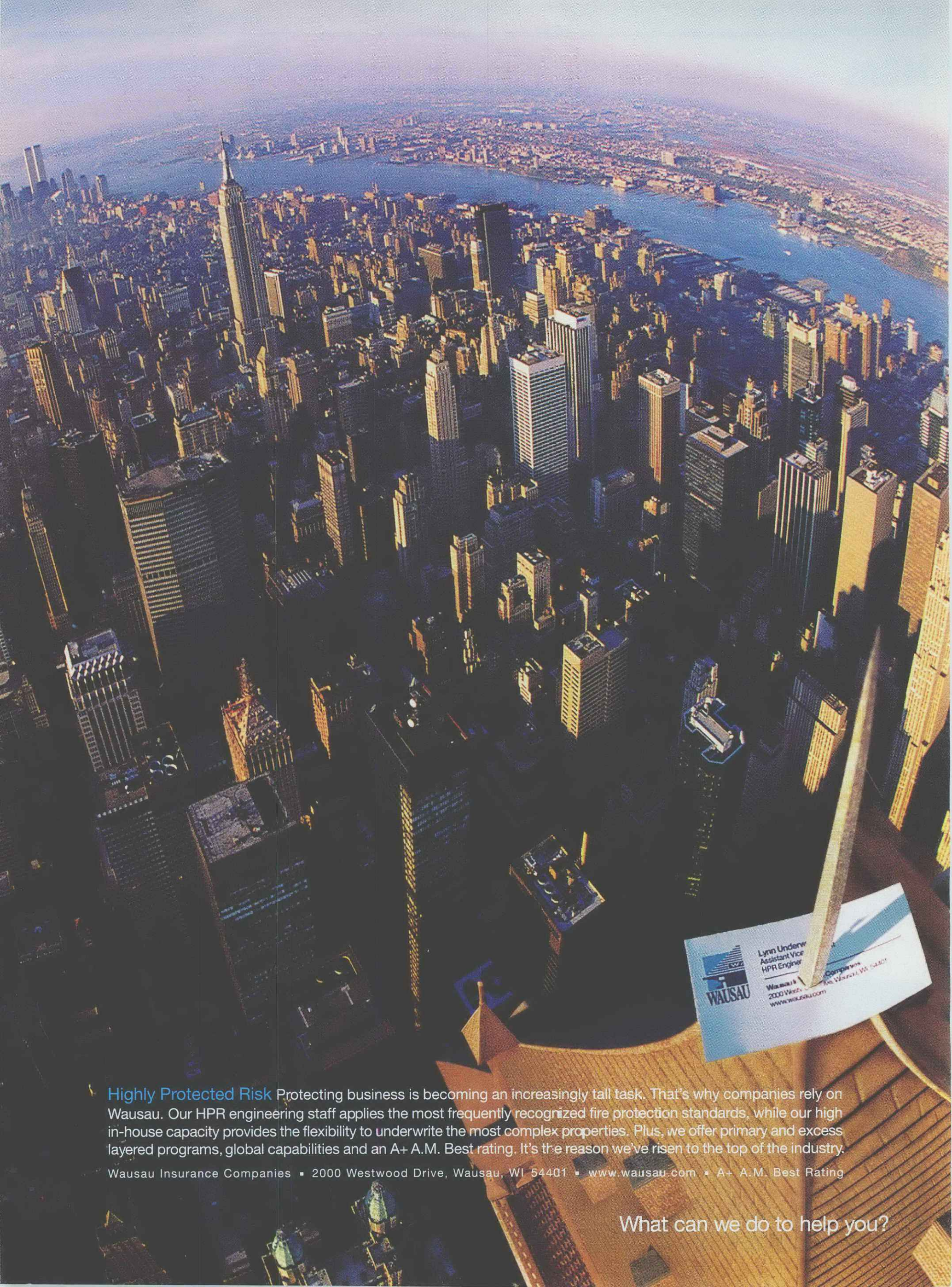
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What can we do to help you?

MGAs

Continued from page 4

traditional route of forming a relationship with an insurer and then working with the insurer to find reinsurance coverage.

In a smaller number of cases like Unicober's, the MGA has binding authority for reinsurers themselves, a situation that some observers say has been largely confined to the workers comp carve-out reinsurance arena.

Reinsurers have turned to MGAs as they've seen their traditional business erode as a result of higher retentions by ceding insurers and a shift to excess-of-loss from quota-share contracts, which had generated more reinsurance premium, explained William M. Wilt, vp and senior analyst with Moody's Investors Service Inc. in New York.

"Those two forces have really constrained reinsurers' growth from traditional sources," he said.

"A lot of reinsurers see the only growth area for them being program business," noted Steven Bolland, senior vp with intermediary Gill & Roeser in New York.

Apart from volume, reinsurers are also attracted by "the perception that a producer has expertise in a particular class of business, and that underwriters should have better results," Guy Carpenter's Mr. Schnur said.

Unlike the situation in the 1980s, when a given MGA might write a wide range of property and liability coverages, reinsurers today are typically looking for MGAs with experience in a specialized line and a stable book of business.

"If it's in a fairly focused niche and there's a high degree of expertise, it

can work fine," CNA Re's Mr. Adamson said.

When it doesn't work, though, reinsurers can find themselves in serious trouble.

In a September report describing its negative outlook for the global reinsurance industry, Moody's cited the expansion of MGA programs as one of many reasons for its pessimism.

"These initiatives often involve jumping—with both feet—into new and untested lines of business, expanding primary and reverse-flow operations—sometimes giving away the pen to MGAs/MGUs—and taking on new financial and underwriting risks in the process. In doing so, underwriting authority has often been transferred from underwriters to producers—a virtual recipe for disaster," Moody's report concluded. "You cannot put your underwrit-

ing pen in the hands of a broker. A broker doesn't know how to say no and doesn't understand that there is good business and bad business," said Mr. Smith of Bear, Stearns, describing such arrangements as "naive capacity meeting cynical demand."

After the mid-1980s, reinsurers largely abandoned such arrangements, contributing to their steady outperformance of the property/casualty industry generally, he said.

"That relationship remained very consistent over the last 15 years, and it's only in the last year or two that we've seen it begin to change," Mr. Smith said. "Very clearly, the market has chosen not to remember."

The outcome, Mr. Smith predicted, will be reinsurance company insolvencies.

"There's only one result from that," he said. "Ultimately you're going to bankrupt somebody."

While not ruling out the isolated disaster, other reinsurance industry observers point to what they describe as significant changes since the 1980s that make a recurrence of huge insolvencies unlikely.

These changes generally amount to stricter controls and greater oversight of MGA operations.

For example, insurers and reinsurers are making sure MGAs have a profitable history and the data processing systems to keep track of policies, premiums and claims, Mr. Adamson noted. Insurers and reinsurers may also impose rate and other underwriting guidelines, overall premium limits and strict reporting requirements, he said.

Companies are also auditing their MGAs more frequently than in the past, Mr. Cashin of Willis said.

"They have the time and capital to dedicate the resources to performing those oversight functions that, frankly, they failed to perform in the 1980s," he said.

The wide authority some MGAs had in the 1980s to underwrite, settle claims and place reinsurance is likewise a thing of the past, Carpenter's Mr. Schnur and other industry officials say.

While MGAs still have binding authority, relatively few have claims settlement authority and most insurers now control their own reinsurance placements, Mr. Schnur and others say.

In the 1980s, many MGAs also were compensated with overrides and other incentives geared solely to premium volume production. Now, such arrangements are structured to make MGAs accountable for the profitability of their business.

For example, while an MGA may earn an upfront commission designed to cover its costs, a large part of its compensation may be contingent on an accounting of the profitability of its business at the end of a defined period.

"The commissions paid upfront are cost-driven, and the incentive is on the back end," Mr. Cashin observed.

In some cases, MGAs actually assume some of the risk themselves through a rent-a-captive facility, providing a further incentive to produce profits, said William Eyre, managing director and CEO of Towers Perrin Reinsurance in Philadelphia.

"That certainly increases everybody's comfort level," he noted.

Nevertheless, even those who see solid opportunity in MGA/MGU programs are cautious about saying that MGA disasters like those of the 1980s can't happen again.

Reinsurers hungry for revenue growth may blindly write programs that are unlikely ever to produce a profit, Mr. Adamson said. Such programs, for example, may involve a long string of retail agents, wholesalers, MGAs, ceding insurers, third party administrators and intermediaries, all taking so many slices of the original premium that what's left for the reinsurer will never cover its losses and expenses, he said.

"The food chain is just too long," he observed. "Even with controls in there, you have to maintain a focus on profitability."

Mr. Bolland of Gill & Roeser likewise suggested that underwriting guidelines and other controls don't necessarily preclude a disaster.

"You design the box, and if a risk comes in and fits in the box, you write it," he explained. "It's a lot more controlled, but every once in a while it can still get out of control, as we've seen."

"Unicober has made us realize things can go wrong because somebody didn't define the box well enough," Mr. Bolland said. **BI**

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A chance to be heard

WE WELCOME THE Internal Revenue Service's call for public input on cash balance pension plans.

As we previously reported, the IRS is asking employers and employees for comments on the popular pension plans as part of its analysis of various issues related to regulation of cash balance plans.

We believe, as do many others, that the more information made available to the IRS, the more likely it will produce fair and balanced regulations for employers seeking to adopt cash balance plans. Employer input also could help counteract efforts by critics of the plans to undermine their effectiveness or shape regulations to their advantage.

Certainly, more guidance from the IRS on what is legal and what is not when employers convert traditional plans to cash balance plans is long overdue.

Fourteen years after the first cash balance plan was created, the IRS has yet to publish definitive rules governing how employers convert to these plans from traditional defined benefit programs.

There are no rules, to pick one example, on what interest rate assumptions an employer can use when converting an employee's accrued benefit in the company's old pension plan to an opening account in the new cash balance plan.

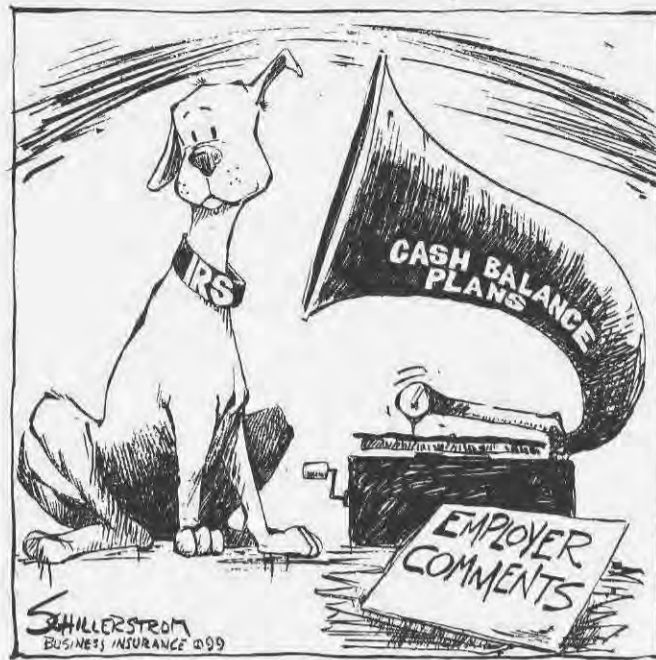
What those assumptions are will help to determine not just the amount of the opening account balance but also how long employees will have to work before they begin to earn benefits under new plans and not be subject to what often is referred to as "wearaway."

We hope that question and many others will be answered when the IRS issues regulations, which we think is the logical conclusion to its request for comments.

Aside from leading to needed regulations, the IRS call for public comment will, we hope, also begin to change the negative perception of cash balance plans, both inside and outside of government, that has developed over the past year.

That perception—the result of many one-sided news articles—is often one of avaricious employers adopting this new type of pension plan design as a subterfuge to cut employee pension benefits.

No doubt some employers have cut future pension plan costs by converting to cash balance plans. We see nothing wrong in that; employers have a right to try and control their benefit costs, just as they seek to hold down cost



hikes under health care plans.

Other companies, though, are spending about the same on their cash balance plans compared with their previous pension plans. And some companies say overall pension plan costs are unchanged as they rejigger corporate resources by putting less into the cash balance plan compared with the old plan but more corporate dollars into 401(k) retirement savings plans.

Given that this still is a voluntary retirement benefit system, companies should be free, so long as they follow rules, to decide how to design their pension plans and the amount of money they will contribute to them.

In fact, based on the evidence we've seen, the move toward cash balance and other hybrid plans has had less to do with cost and more to do with a growing awareness among corporations that they need to redesign their pension plans to make them more appealing to an ever-more-mobile workforce than was the case with their old-style plans.

Employers can assure they still have the ability to meet these needs and achieve other benefit goals by providing the IRS with much-needed input on cash balance plans. By giving the agency another view of these plans, and answering their vocal critics, employers will assure that eventual regulations are balanced and fair.

Letters

CRM also meets risk manager needs

To the editor: In the Oct. 4 "Ask a Risk Manager" column, a reader asked "how risk managers can better prepare themselves for . . . growing demands and enhance their careers in the process?"

Christopher Mandel's answer was quite expansive, but he failed to mention at least one risk management educational program: Certified Risk Managers International.

Granted, the CRM designation is new to the risk management educational arena, and for that reason Mr. Mandel may not yet have heard of it.

Certified Risk Managers International, which administers the educational program leading to the designation, is

part of The National Alliance for Insurance Education and Research, based in Austin, Texas. The National Alliance also includes the Society of Certified Insurance Counselors, the Society of Certified Insurance Services Representatives and the Academy of Producer Insurance Studies.

Certified Risk Managers International is a not-for-profit professional organization founded in 1996 to meet the growing needs of risk management practitioners for greater knowledge, skills and recognition. It offered its first program in 1997. Seventeen courses were offered that year; in 1998, this was expanded to 30. This year, 38 courses are being offered, with 47 planned for 2000.

Programs are held in various cities throughout the country, and each is taught by a team of risk management and insurance professionals. The nationally recognized faculty convey their own real-world experience through case studies and explicit examples of workplace problems and scenarios.

The CRM program is a practice-oriented program of five courses leading to

the designation of Certified Risk Manager, or CRM. The course study consists of five interdependent courses covering all aspects of the risk manager's daily work: risk management essentials, risk analysis, risk control, risk financing and risk administration.

Each course is 20 hours of practical application (rather than textbook theory), is conducted in a professional classroom setting, and is led by members of our national faculty. At the conclusion of each course, an optional two-and-one-half-hour examination is offered to those individuals desiring to achieve the CRM designation.

The CRM program is, first and foremost, an educational program. Individuals may participate in the programs without taking the examinations; however, achieving the CRM designation requires the successful completion of all five CRM courses within a five-year period. CRM offers a valuable educational opportunity to risk managers.

Wayne P. Dauterive
Vp

Certified Risk Managers International
Austin, Texas

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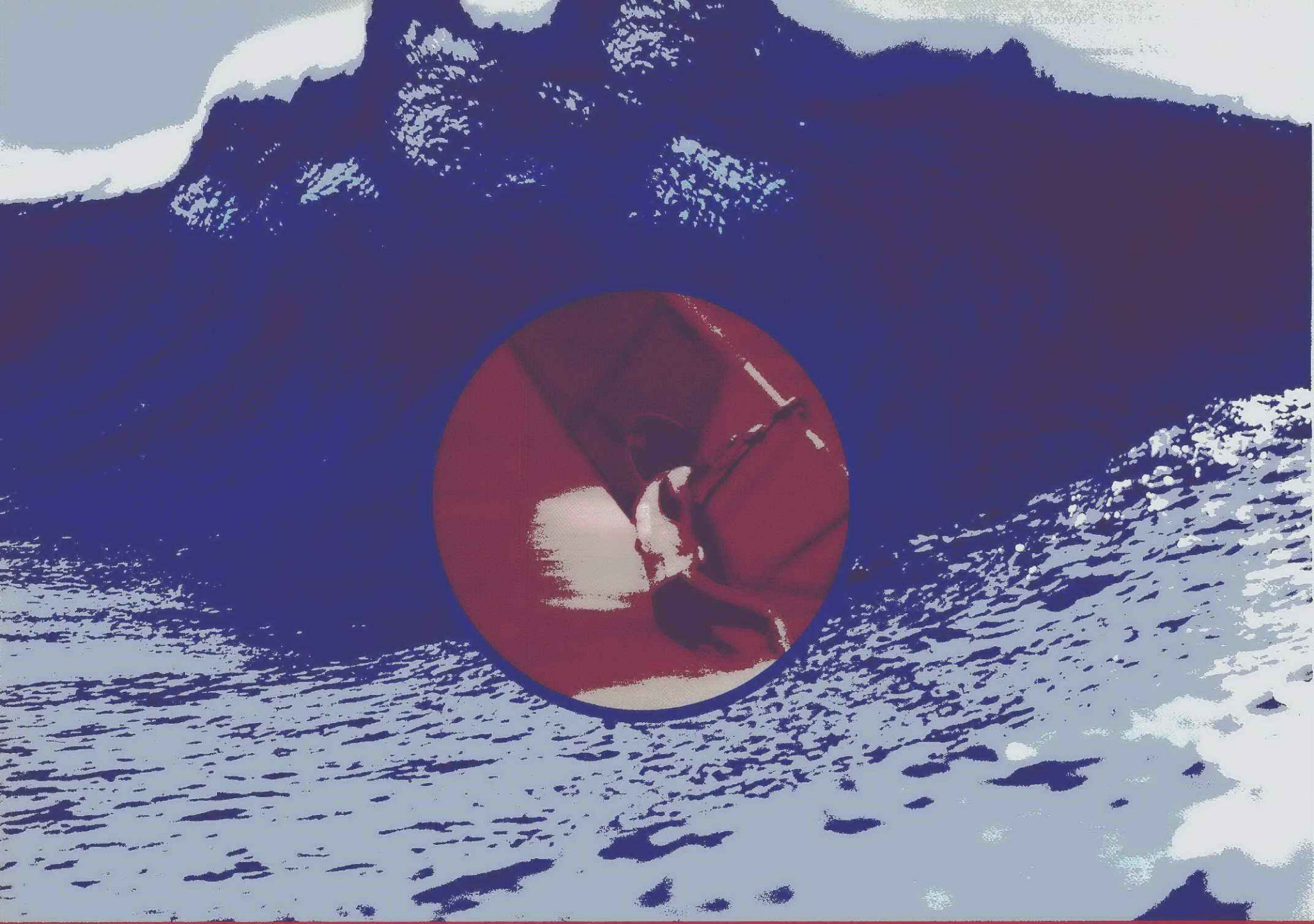
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Market

Continued from page 3

that "we've seen it over," Mr. Robb said, "and it wouldn't surprise me to see some more merger activity, if not later this year, sometime next year."

People may put M&A activity on hold for the immediate future as they wait to see what Y2K brings, said John Berger, president of Chubb Re, a Bernardsville, N.J.-based unit of Chubb Corp. But once that has passed, he predicts a surge of activity.

Mark Charron, a principal with Deloitte & Touche L.L.P.-Risk Management Consulting Services in Hartford, Conn., said larger reinsurers will "continue to acquire more specialty kinds of firms than they have in the past."

A primary reason for that is "we're seeing such a large amount of excess

capacity that the reinsurers are looking to put that capacity to use, and, obviously, one of the ways to use that capacity is to go off and buy other companies," Mr. Charron said.

He pointed to the struggle between XL Capital Ltd. and ACE Ltd. to acquire New York-based financial guarantee reinsurer Capital Re Corp. as an example (*BI*, Oct. 18).

"The interesting thing about Capital Re is it's a very specific, very specialized company, as opposed to a broad-based traditional reinsurance model, and I think what we're seeing is these larger companies trying to identify those specialties so they can build individual market niches that can be highly flexible and responsive to general market trends," Mr. Charron said.

"There are still a fair number of small and midsized reinsurers, particularly in the broker market, who are

potential acquisition targets," said Phillip N. Ben-Zvi, a principal with PricewaterhouseCoopers in New York.

"I think that it's difficult for rein-

niche," said Mr. Ben-Zvi.

"Companies that don't fit either of those categories are very much subject to potential consolidations, and, in some cases, even the specialized ones

'It's difficult for reinsurers to stay independent unless they're either very highly capitalized. . . or, on the other hand, if they're very specialized,' says Phillip Ben-Zvi.

urers to stay independent unless they're either very highly capitalized and can provide a large degree of capacity or a wide range of services or, on the other hand, if they're very specialized and satisfy a particular

attractive acquisition targets," he said.

Smaller reinsurers are themselves seeking to grow to stay competitive.

William J. Adamson, chief executive officer of CNA Re in Chicago,

said, "I think there may be a little bit more to come because there's a few of the medium-to-small people still looking to (increase their) scale. Some of it would depend on what kinds of results finally shake out for '98 and '99," said Mr. Adamson.

The rating agencies will continue to be a driving factor, said Greg Doyle, president of domestic insurance company operations for Princeton, N.J.-based American Re-Insurance Co.

As ratings begin "to become more and more a key differentiator in the marketplace," they are "going to cause more of a problem, I think" for even the well-run, small specialty-type reinsurer. This "will push continuing consolidation on the reinsurance side," said Mr. Doyle.

Michael Smith, an analyst with Bear Stearns & Co. Inc. in New York, pointed to mid-sized companies as well. "I think we're going to see more of the midsized companies getting together," he said, citing as an example The Trenwick Group's acquisition of Chartwell Re Corp. (*BI*, June 28). In the long term, the only way these companies can remain viable is if they combine their capital, said Mr. Smith.

There may also be more joint ventures.

John L. Ward, CEO of the Cincinnati-based Ward Financial Group, said that while he would not predict a big new consolidation wave, he "wouldn't be surprised to see some joint ventures, or some start-up initiatives."

Elizabeth Farrell, assistant vp at Oldwick, N.J.-based A.M. Best Co., said that reinsurers "at this point are not necessarily looking to acquire" other reinsurers. "They're looking at more-strategic types of acquisitions, books of business, primary companies. . . focusing on the distribution system and the way to access the customer, and so any means by which they can achieve that has really been the focus of the reinsurance market today," said Ms. Farrell.

Donald Watson, a director at Standard & Poor's Corp. in New York, suggested one area where there may be some activity is in the spinoff of some of the reinsurance units still operated by primary insurers.

"You might see more of those" as primary insurers decide reinsurance is not part of their core business in the current slow-growth environment, said Mr. Watson.

The Hartford's Mr. Robb, who said he could not discuss his own company's reinsurance operations, did note that "The Hartford has done renewal transactions of distinct blocks of business, where the parent company has decided to concentrate on other kinds of business and to get out of the reinsurance business."

This includes the business of: San Francisco Re, the reinsurance subsidiary of Fireman's Fund Insurance Co.; SecurityRe Cos., Orion Capital Corp.'s reinsurance unit; the La Fondiaria Group of Florence, Italy; and the reinsurance business of Vesta Insurance Group Inc.

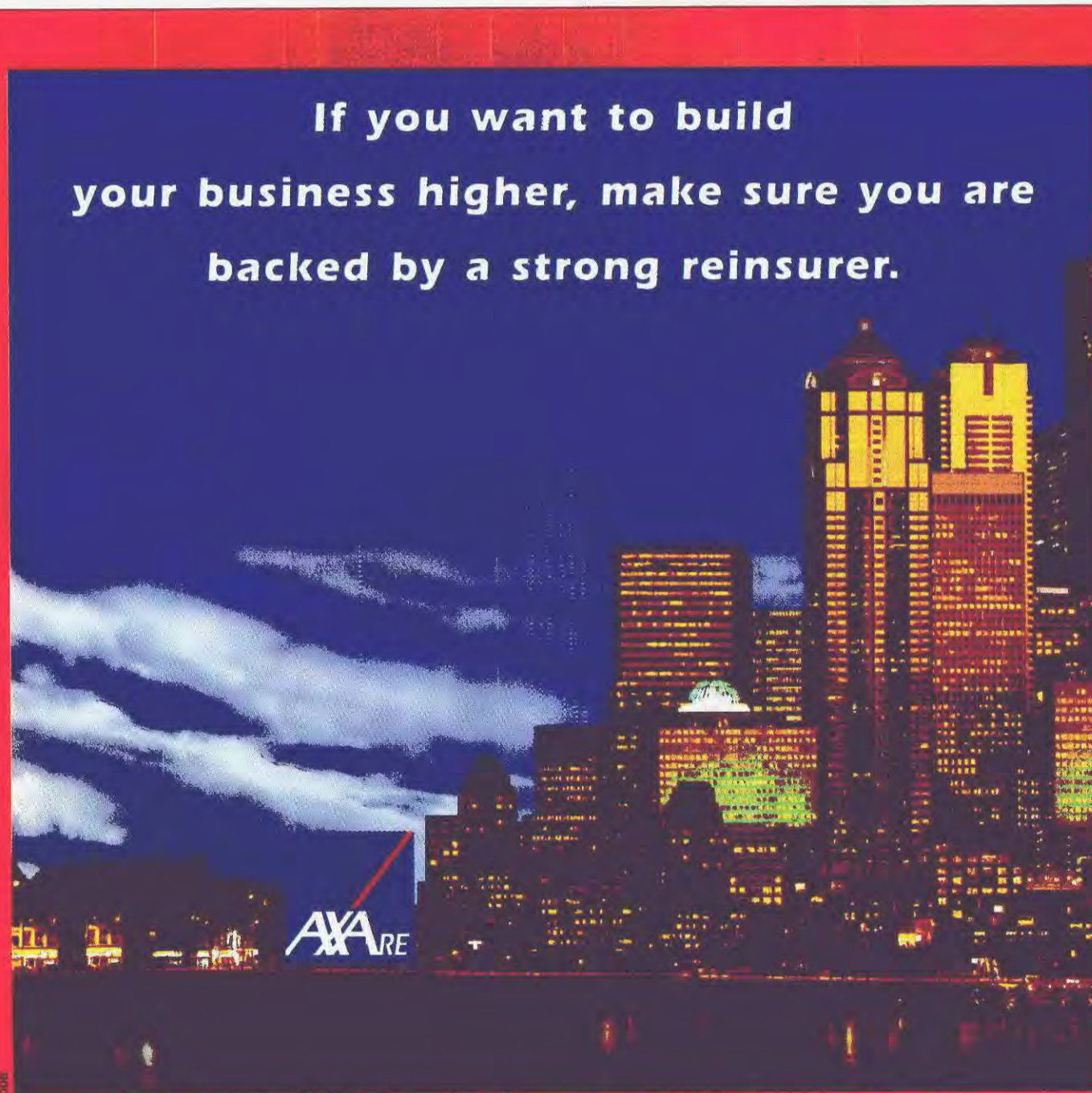
"I think that sort of thing will continue, but there are not a lot of these kinds of opportunities left," said Mr. Robb. As companies decide to leave businesses where they cannot achieve adequate scale, though, "it wouldn't surprise me if there was some more of that activity, but not a huge amount."

Others disagree about the likelihood of this sort of activity.

CNA Re's Mr. Adamson said, "There's been speculation for a long time, and there are some primary companies that have divested." But "we've really moved to the view that there's an integrated approach to transferring risk," and that approach includes reinsurance, he said. Reinsurance allows CNA, for instance, "to access more original insureds, and

See Market on page 14

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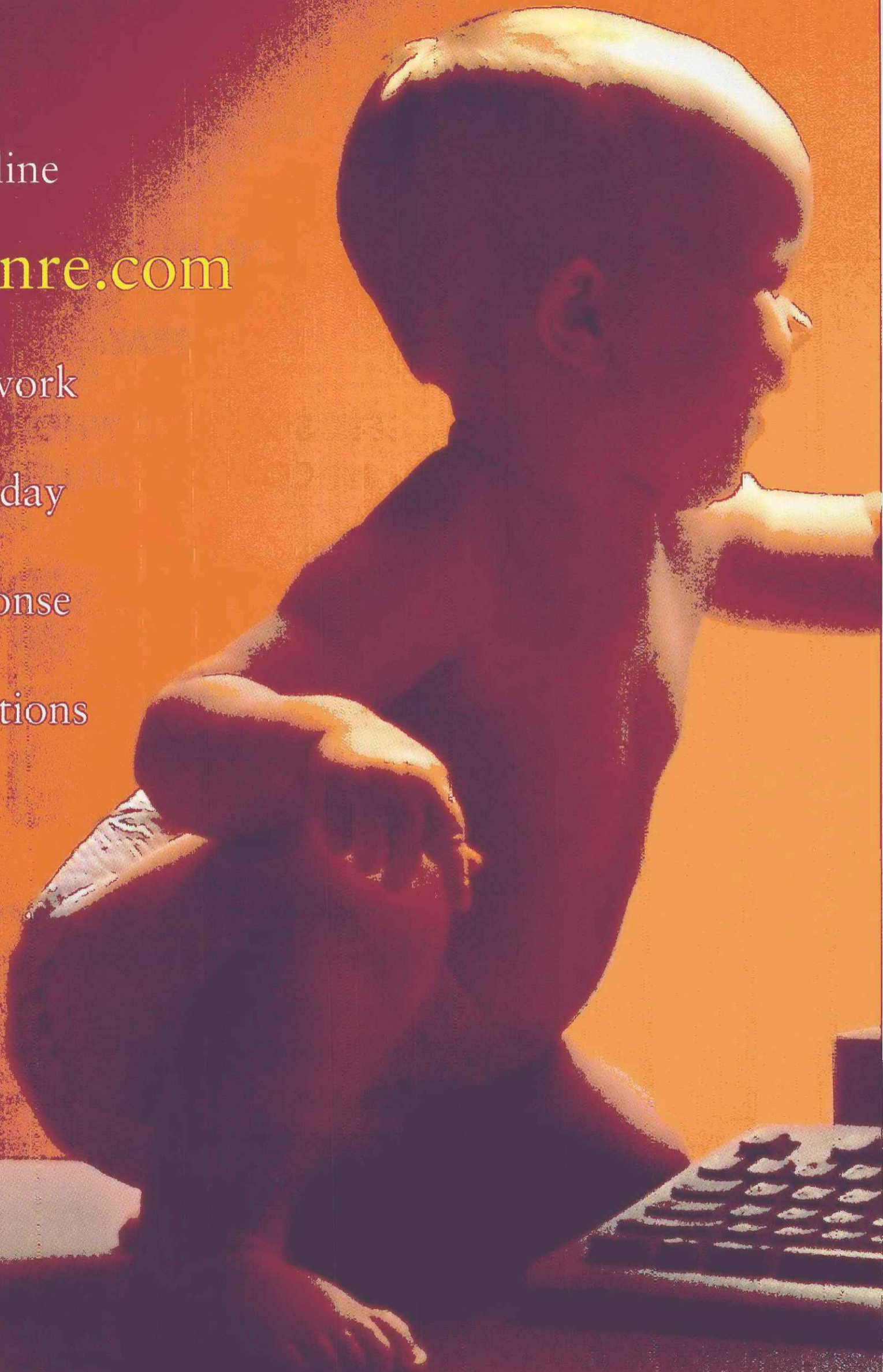
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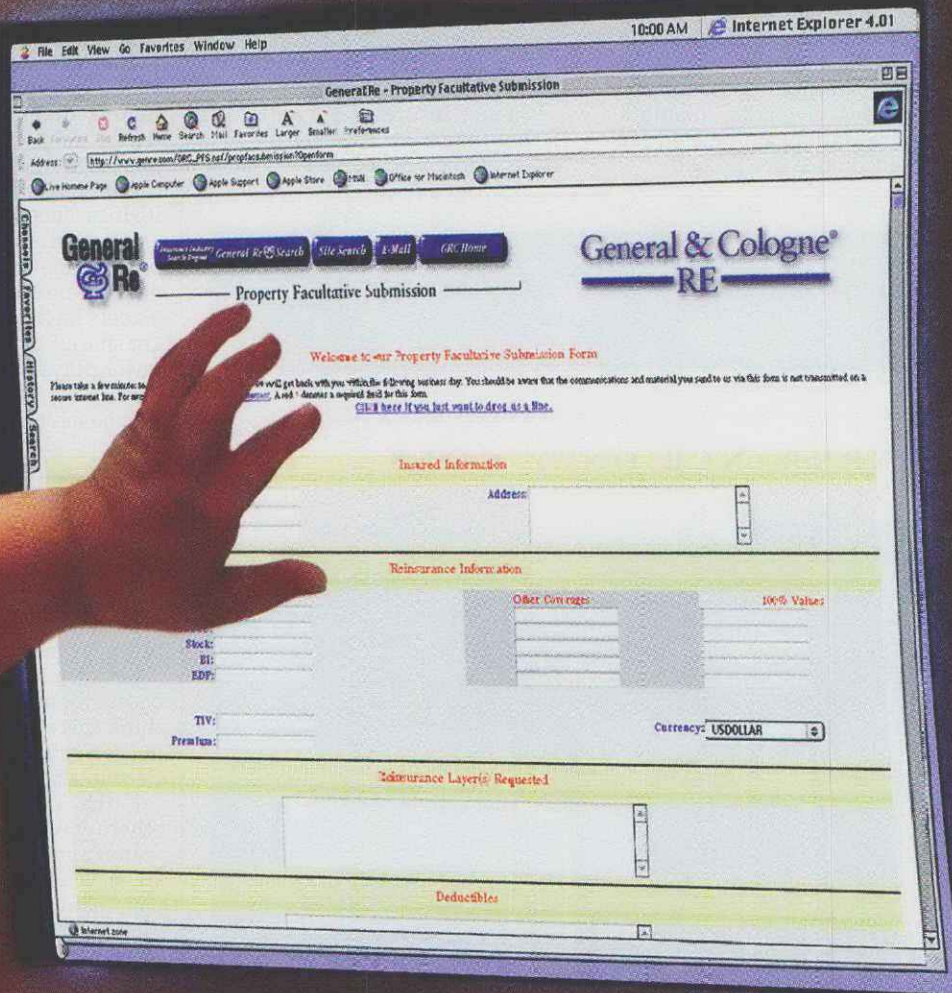
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Market

Continued from page 10

most of the other entities view it as a core business" as well, said Mr. Adamson.

Chubb Re's Mr. Berger said that he thinks "those operations have been pretty good" for their parents, and, because they are not separately capitalized legal entities, "they're pretty hard to spin off. There aren't segmented assets and liabilities that go along with the reinsurer."

John Cashin, executive vp at the reinsurance brokerage division of Willis Corroon Group Ltd. in New York, said some of these reinsurance units "are significant sources of top-line revenue growth" for primary insurers as they struggle in a depressed market.

With the reinsurance industry posting combined ratios of 106%, reinsurance is not contributing a great deal to the bottom line, "but, certainly, it's contributing to the top line and cash flow," said Mr. Cashin.

Companies' views on this issue will vary, said Mr. Bolland. One or two primary insurers may consider reinsurance a key niche area, though "a number of other companies will say this isn't a core business, it's not significant. But it does produce a lot of earnings concerns for people, and, therefore, they'll try and get out."

"It's really going to be a company-by-company decision," agreed Deloitte & Touche's Mr. Charron. "The only thing that's been consistent over the past few years is the diverse strategies organizations have been adopting."

"We're continuing to see organizations shape the strategies that they feel are going to be most successful for them," he said. "The landscape just continues to evolve."

All the consolidation that has oc-

Because consolidation has brought larger capital bases, 'there's a lot more innovation in the market,' says Elizabeth Farrell.

curred to date has created an hourglass-shaped market, said Mr. Charron. The hourglass' top half represents the giants, including Berkshire Hathaway Inc. and Munich Reinsurance Co., he said.

The bottom part represents the specialty markets, but "there's not much of a middle market. I think we're seeing the medium market disappear. These are being targeted, acquired," Mr. Charron said.

At the same time, there is a general consensus that the industry is, if anything, benefiting from the consolidation that has occurred. "I think, to some degree, people are better off, because security is such an important issue," said PricewaterhouseCoopers' Mr. Ben-Zvi.

Security has become increasingly important over the past few decades as the market has migrated to casualty and long-tail business, said Mr. Ben-Zvi. "The larger company is more likely to provide that kind of security," he said.

Primary insurers "are better off in that they have stronger balance sheets on their Schedule F" because

of greater security in their risk transfer, said Mr. Cashin.

But Tal P. Piccione, chairman and CEO of U.S. Re Corp. in New York, founded a cautionary note. "It really hasn't shown a major disruption as of yet, but the thing that we're watching is whether the combined entities are going to be offering the same cumulative capacity that they did before (a merger)."

For instance, Mr. Piccione asked whether reinsurers that write property catastrophe programs will combine their limits. To date, the story has been mixed, he said. "Some have been close to offering the same lines, and some of them have been cutting back."

The poor results of recent years are more likely to affect the market than is merger and acquisition activity, said William L. Munson, president and chief operating officer of Morristown, N.J.-based Toa-Re Insurance Co. of America.

"Certainly, the mergers have not put anyone in a position of dominance," he said. "If anything, the leaders have lost a little bit of market share," although there are now fewer players around, Mr. Munson said.

"I haven't noticed any significant impact," said Mr. Ward. "I think the average buyer may be dealing with fewer reinsurers than they did a few years ago, but my sense is the competitiveness and the pricing has not changed much." He admitted, though, that "the diversity of the product offerings maybe has improved somewhat because of that."

Because of the larger capital bases created out of the mergers, "I think there's a lot more innovation in the market" said A.M. Best's Ms. Farrell, also.

If the M&A activity continues, "there could be a lessening of innovation and competition, but, at this stage, we have not seen either happen," said John N. Gilbert Jr., president of New York-based Holborn Agency, a reinsurance intermediary.

American Re's Mr. Doyle said, "I don't think the reinsurer consolidation has had a terribly dramatic impact on the market, because it's been overshadowed by the primary consolidation," one of the most significant byproducts of which has been less purchasing of reinsurance.

"I think this has been a much more dramatic impact than anything we might have expected from the reinsurer consolidation," he said.

Meanwhile, M&A activity and consolidation aside, other issues are of concern to reinsurers. "I think, at this point, the question is whether the fundamental outlook is going to change or not" in terms of pricing, said Weston Hicks, managing director at J.P. Morgan & Co. Inc. in New York.

Willis' Mr. Cashin pointed also to the recent moves to Bermuda by reinsurers PXRE Corp., Everest Reinsurance Co. and White Mountain Insurance Group (BI, Sept. 27).

"I think the current trend is the redomestication to Bermuda to take advantage of the tax and regulatory environment there, and that seems to be the preoccupation," he said.

U.S. Re's Mr. Piccione also pointed to Bermuda's tax environment. Reinsurers are positioning themselves for a market turn, he said. In Bermuda, "they're actually going to be able to accumulate investment income on a tax-free basis," he said. That, Mr. Piccione said, will permit them to be more competitive "and, at the same time, retain more earnings." **BI**

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Role of traditional reinsurance assured, execs say

By JUDY GREENWALD

Reports of the pending demise of the traditional reinsurance market are highly premature.

Despite the capital markets' increasing interest in the reinsurance industry, traditional reinsurers will continue to play the major role in transferring insurers' and policyholders' risk, say observers.

"If it is relic, it's a \$100 billion relic," said Weston Hicks, managing director at J.P. Morgan & Co. Inc. in New York. "I think the problem is that the capital markets still lack the data and under-

writing skills that have been accumulated by some of the leading reinsurers in the world."

Opinions differ, though, as to the precise nature and size of the role capital markets might ultimately play, with some asserting the capital markets will remain essentially peripheral, and others maintaining they will become significant players.

Meanwhile, reinsurers may themselves adopt some of the capital markets' techniques, choose to work hand in hand with the capital markets or embark on a strategy that involves elements of both approaches.

Some observers also point out that the capital markets' staying

power has not yet been tested by a major catastrophe. At the same time, reinsurance executives and others say today's soft market could be dampening—if only temporarily—the capital markets' enthusiasm for the business.

"I think there's always going to be a place for traditional reinsurance," said Elizabeth Farrell, assistant vp at Oldwick, N.J.-based A.M. Best Co.

"The entities that are using the capital markets types of vehicles are certainly much more sophisticated and larger organizations; but you still have a whole population of companies out there that still require the more traditional mechanism, so I don't think you're

going to see it disappear," she said.

The capital markets are "certainly not going to replace the knowledge, expertise or capital of the established underwriting market," said John N. Gilbert Jr., president of the Holborn Corp., a New York-based reinsurance intermediary.

"I think traditional reinsurance has a lot to offer," said Mark Bain, London-based general manager of St. Paul Re's North American treaty department. "It certainly has genuine risk transfer, which is what the majority of clients have tended to require, and...the capital markets have been complementary to the tradi-

tional market."

Given the current soft market, this may not be the best time for the capital markets to be involved, say observers.

In today's environment, traditional reinsurance works very well and is easier, quicker and better understood by primary companies, "and it is not a difficult decision" to remain with it, said Don Watson, director at rating agency Standard & Poor's Corp. in New York.

But the capital markets may become more of a factor if the reinsurance market becomes extremely tight and prices rise significantly, said William L. Munson, president and chief operating officer of Morristown, N.J.-based Toa-Re Insurance Co. of America. In the absence of that, though, capital markets techniques will not dominate the industry in the near future, Mr. Munson said.

"It's very difficult for these alternative mechanisms to get hold during a soft market," agreed Steven Bolland, senior vp with reinsurance intermediary Gill & Roeser Inc. in New York.

'I think there's always going to be a place for traditional reinsurance,' says A.M. Best Co.'s Elizabeth Farrell.

"Everyone's sitting around saying, 'My price for my current reinsurance is so good. How are you going to beat this?' and most of the capital market solutions are based on good rates and good returns" for the capital markets, so they are not competitive, said Mr. Bolland. The competition may change, though, if the market hardens, he said.

The traditional reinsurance markets "will consistently undercut the price that the capital markets are asking for the risk transfer," said Michael Smith, an analyst with Bear Stearns & Co. in New York. "The capital markets will continue to be a supplement to traditional reinsurance, but never replace the traditional reinsurance markets," he predicted.

Mr. Smith said that, according to the Insurance Services Office, the insurance industry ranks only number 36 out of 55 industries in terms of return on equity, "so it's unlikely that the capital markets are going to stoop down to the insurance industry ROE requirement," he said. "If anything comes out there that has a decent price on it, reinsurers will swoop in and do the whole deal themselves."

Some reinsurance executives note the capital markets have not yet become involved in working-layer business.

"I don't know of anybody who's figured out the mechanics of getting the capital markets involved in working-layer, low-cost, high-transaction type business. It doesn't lend itself generally to that sort of thing," said David Robb, president of reinsurance operations for the Hartford Financial Services Group Inc. in Hartford, Conn.

"I think as people in the securities markets, capital markets, begin work on this, over time they

See Traditional on page 20



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Traditional

Continued from page 16
will begin to devise ways of doing this, but at the moment, the structure of the capital markets doesn't lend itself to working-layer type products," said Mr. Robb. "I think, for at least the next several years, I would see capital markets as a complementary kind of product," he said.

Steve Tirney, president and chief operating officer of Philadelphia-based PMA Reinsurance Corp., said: "I think the capital markets have been providing some high-up coverage. I don't think they're going to play lower than where they are anytime soon."

"The frictional cost of doing securities deals with the capital markets is high—it's expensive,

and I think the reinsurance market in general is more efficient than that."

Furthermore, the resilience of the capital markets has not yet been tested, say observers.

ing things that can be done with securitization," he said.

"But I think the key will be what happens after a very, very major catastrophe. Will the non-insurance supporters of the securitiza-

Willis Corroon Group Ltd. in New York, said a Hurricane Andrew-sized event "tests the willingness of a pension fund manager to reinvest in catastrophe bonds after he's wiped out not only his interest, but his principal. That will be the true test of their appetite for catastrophic risk."

But the capital markets are, nevertheless, here to stay, said Mark Charron, principal with Deloitte & Touche L.L.P.-Risk Management Consulting Services in Hartford, Conn.

"I think the capital markets have probably a lot more resilience because, inevitably, they know how to take risk and pass it around and still make money. The capital markets are much more transaction driven than retained-risk driven," though the markets are still learning how to make a profit from the

business, he added.

"I think that certainly a major catastrophe and, in some cases, cash falls are going to test some of the mechanisms which are in place," said John Wicher, managing director of San Francisco-based Russell Miller Corporate Finance Inc., an insurance investment banking firm.

"That said, the fundamental principle of creating risks which are fungible and tradable and fully enlisting the capital markets, not just the capital provided by the traditional reinsurer's balance sheet, is here to stay," said Mr. Wicher.

Mr. Wicher said he envisions reinsurers working together with the capital markets. Reinsurers may use "financial-sheet engineering to transfer (business) into the capital markets," using some of the available new tools that give them access to these markets, said Mr. Wicher.

In other words, reinsurers may serve in an intermediary capacity, "translating and acting as a gatekeeper" and funneling reinsurance contracts into the capital markets, he explained.

St. Paul Re's Mr. Bain said, "What I think we will see is more of a blending of the two disciplines, so you'll find traditional reinsurance having some kind of element of non-traditional transfer in it."

Traditional reinsurers' products will evolve, agreed Mr. Charron. "I think the capital market is going to find stiffer competition going forward as reinsurance companies continue to add the kinds of technical capabilities that previously had only been found in investment banking firms."

"I personally have talked with reinsurance companies who have hired people from Wall Street to assist them in being able to be responsive when these new product demands are being placed on them," Mr. Charron said.

"I think reinsurers have to have broad capabilities to be able to blend traditional reinsurance with more financial capabilities," said Bill O'Donnell, senior vp, property and casualty reinsurance, North America, for Overland Park, Kan.-based Employers Reinsurance Corp.

"I think clearly there's a need to blend traditional reinsurance with more of a financial market product for the business ultimately to give the customers what they want, which in some cases is a more sophisticated analysis of their business, according to Mr. O'Donnell."

"I think the capital markets will find a niche in the reinsurance industry" but not replace it, said Greg Doyle, president of domestic insurance company operations for Princeton, N.J.-based American Re-Insurance Co.

"I think that the smart reinsurance companies will recognize that there are effective capital market techniques that can be as effective—or more effective in some cases—than traditional reinsurance," said Mr. Doyle.

"However, my view of the successful reinsurance company going forward is that they will still be very much an underwriting organization with access and capability (with regard) to concepts and products that the capital markets bring," Mr. Doyle said.

Mr. Bolland pointed out that the capital markets became involved in reinsurance during the last hard market by helping to capitalize the catastrophe reinsurers, so "there's more than one way" for capital markets to play a role in the reinsurance market.

'What I think we will see is more of a blending of the two disciplines, so you'll find traditional reinsurance having some kind of element of non-traditional in it,' says Mark Bain.

"We haven't had a shock to that marketplace to see what the staying power is," said Phillip Ben-Zvi, a principal with PricewaterhouseCoopers in New York. "In theory, certainly, there's a lot of interest-

tion deals feel comfortable with it? Will they see it as more opportunity, or will they run away? Only time will tell on that."

John Cashin, executive vp at the reinsurance brokerage division of

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Private reinsurers tout freedom from investor scrutiny

By JUDY GREENWALD

A decline in the number of publicly traded reinsurers is proving to be a plus for the newly private reinsurers and, by extension, the insurance industry overall, say observers.

As part of larger conglomerates rather than independent, publicly traded companies, reinsurers are free to assume more potentially volatile business without worrying about incurring the wrath of investors, whose focus is on quarter-to-quarter results.

Furthermore, observers note that information about companies that are no longer publicly traded has not

completely disappeared from view. Data may still be available from regulators, as well as indirectly from the reinsurers' holding companies.

And some in the industry point out that the swing away from publicly traded reinsurance may eventually turn the other way.

The most prominent recent example of a reinsurer that is no longer publicly traded is General Reinsurance Corp., which was acquired last year by the Berkshire Hathaway Inc. Others that have disappeared from the stock listings over the years include American Re-Insurance Corp., National Re Corp. and NAC Re Corp.

"The day of the independent reinsurer, for all practical purposes, is over," said John Berger, president of

Chubb Re, a Bernardsville, N.J.-based unit of Chubb Corp.

And most of the companies that are still publicly traded have other businesses, including primary and excess and surplus insurance, Mr. Berger noted. "They're not living solely on reinsurance."

"It's nice not to be publicly traded," said Greg Doyle, president of domestic insurance company operations for Princeton, N.J.-based American Re, which was publicly traded prior to being acquired by Munich Reinsurance Co. in 1996. "I think, probably the strongest implication of not being publicly traded" is that American Re now can "do the things that need to be done, with less of a concern about focusing or quar-

terly results," Mr. Doyle said.

Companies such as property/casualty reinsurers, whose business is cyclical, with five to six years of good earnings followed by a period of weak results, "will be penalized by the market, so I think it's more difficult for a stand-alone reinsurance company to operate as a publicly owned company," said Don Watson, director at the rating agency Standard & Poor's Corp. in New York. But Mr. Watson added that that doesn't mean it can't be done.

A reduction in the number of publicly held reinsurers means less business will be written in response to short-term earnings pressure; reinsurers can properly price the business and make underwriting and

strategic planning decisions with a longer term in mind, said Phillip N. Ben-Zvi, a principal with PricewaterhouseCoopers in New York.

"I'm not sure there's much downside," he said. "I'm not sure it is possible for the public to really understand the complexity of a reinsurance company based on financial statements that public companies have to file," said Mr. Ben-Zvi. "They are very, very difficult to understand unless you're very, very knowledgeable about the industry."

Weston Hicks, managing director at J.P. Morgan & Co. Inc. in New York, said, "I think it goes sort of hand in hand with the need to absorb more volatility, because, if anything, the stock markets are becoming an increasingly more precise quarterly earnings calibration mechanism, and the reinsurance business is not a business that allows for a smooth growth rate in earnings from period to period. You can argue that it makes sense to be part of conglomerates or part of quasi-public companies."

Michael Smith, an analyst with Bear Stearns & Co. in New York, said the higher-volatility business that reinsurers assume from their clients leaves the publicly held reinsurer with a choice between "the prospect of seeing its comparatively high stock market valuations shredded once it started taking on that volatility" or losing its customers. As part of a larger company, reinsurers can assume this volatile business "from a more hidden platform," said Mr. Smith.

William J. Adamson, chief executive officer of CNA Re, a unit of CNA Financial Corp. in Chicago, said, "It's very difficult sometimes to do what's right for your shareholders over a long period of time and still manage the quarterly earnings gods."

Not being public "tends to put the policyholders' and the customers' interest more on the pedestal than the shareholders, and I think, given the cycles and the trends, that can be positive in this day and age," said John L. Ward of the Cincinnati-based Ward Financial Group.

Many reinsurers are now part of a larger, publicly held concern, said Elizabeth Farrell, assistant vp at Oldwick, N.J.-based A.M. Best Co. This means that, although "the information is not as transparent as it used to be," it is still available, said Ms. Farrell.

"The numbers still show up," agreed a spokesman for Overland Park, Kan.-based Employers Reinsurance Corp., which is a unit of GE Financial Services. "You can get a fairly good picture of what's going on in our organization by looking at GE data, so it's not hidden."

"It may not be as obvious or as transparent as it was when so many stocks were publicly traded," said the spokesman. "It just may be part of the cycle that now it's out of fashion, and 20 years from now, we may see a very different picture, just as we saw a very different picture five or 10 years ago."

Tal P. Piccione, chairman and CEO of U.S. Re Corp. in New York, a reinsurance intermediary, suggested that the trend away from publicly traded companies might reverse itself. When the market eventually tightens, more capital will be invested in the reinsurance market by venture capitalists, he said.

"They will always seek an exit, and one of the easiest ways to do that is to take a company public," said Mr. Piccione. "To me, this is just cyclical, that's all."

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FM Global

Demand grows for ART products despite soft market

By **RODD ZOLKOS**

The ongoing soft insurance market may have slowed the growth of the market for financial alternatives to traditional reinsurance, but demands for those products continues to increase.

The commitment that traditional reinsurers are making to financial alternatives, with several creating designated financial products units, shows their belief that a market for such products exists.

What's more, as the much-discussed convergence of banking and insurance moves forward, reinsurers see the alternative risk transfer market as one in which they must participate.

"The line between insurance and reinsurance is increasingly fuzzy," said Dirk Lohmann, chief executive officer of Zurich Re in Zurich, Switzerland. "On top of that, we have the capital markets, the investment bankers, who are increasingly trying to get into our business."

"The insurance business is a financially oriented industry to start with," said Prakash Shimpi, principal at Swiss Re New Markets in New York. "If you think about what the insurance industry and the reinsurance industry are about, they're about financial intermediation."

Reinsurers can play that role either by keeping the risk themselves through indemnification, or by helping a client keep the risk and, if need be, "spreading out the pain" over a period of time, he said.

"Capital management and risk management are kind of two sides of the same coin, is what we say around here," Mr. Shimpi said. "Once you put that view on it, it helps you understand what's going on today."

"There is a realization among both insurers and banks that there are more tools available than had previously been recognized," he said.

"It really is happening. Just this year alone, we'll provide over \$1 billion of capacity with respect to ART," said Peter Gentile, president and CEO of Gerling Global Financial Products Inc. in New York.

"I would say close to \$1.5 billion or \$2 billion of capacity" is available, Mr. Gentile said. "And the products that we're involved in really involve the entire range of ART products."

"Non-traditional" or "alternative" today is "basically anything you want it to be," said Zurich Re's Mr. Lohmann.

"The reinsurers like to think of themselves as the investment bankers to the insurance industry," he said. "In the past five or six years, we've seen a considerable amount of cross-fertilization between the insurance industry and the capital markets."

Just as reinsurers have formed their own financial products units, some investment banks also have been hiring individuals with insurance industry expertise and forming reinsurance units.

As the alternative market evolves, the fiercely competitive traditional market is having an impact on the pace of that evolution.

"Today we have a very competitive market, and it's very difficult—with the commodity products that are being offered by carriers to consumers or clients—to consider alternatives," Mr. Lohmann said recently in remarks made at the Produc-

ers' Forum in Philadelphia.

At the same event, Brian M. O'Hara, president and CEO of XL Capital Ltd. in Hamilton, Bermuda, noted that his company purchased a catastrophe-linked swap a year ago to protect its capital against a one-in-100-years or one-in-200-years event.

This year, XL went to market again for such an ART product, but found that Berkshire Hathaway Inc. was able to provide the retrocessional coverage at a better cost.

"As long as Berkshire Hathaway is willing to commit its massive balance sheet to meet the needs of companies like ours, then (the alternative reinsurance market) won't develop," Mr. O'Hara said.

"We learned in the cat bond area that there are tremendous frictional costs," Mr. O'Hara said. "Until that becomes a lot more efficient and easily replicated, it will face a struggle to become a broader part of the landscape."

The risk securitization area, in particular, seems to be one ART technique whose development has been slowed by the soft traditional market and the low prices it can provide.

"There's just a lot of capital, a lot of capacity in the insurance marketplace," said Christopher Longo, president of Chubb Atlantic Indemnity Ltd. in Hamilton, Bermuda. "Barring a turn in the marketplace, you're not going to see a lot of activ-

ity in that area."

Gerling's Mr. Gentile offered a similar view.

"Unfortunately for those who focused entirely on securitization, the timing wasn't right for that particular product," said Mr. Gentile. "But, certainly, that might change."

San Antonio-based United Services Automobile Assn. turned to the capital markets for the third straight year this year for a portion of its catastrophe reinsurance, securing \$200 million in East Coast windstorm coverage through a cat bond deal.

And Oriental Land Co. Ltd., owner of the Tokyo Disneyland theme park, raised the prospect of cisin-termediation of insurers and rein-

surers in the cat coverage market this spring, selling a \$100 million cat note deal through a Cayman Islands special-purpose vehicle.

The Oriental Land transaction was the first such deal in which a corporation transferred risks directly to the capital markets without going through an insurer or reinsurer.

Insurance-linked securitization is "a growing business," Mr. Lohmann said.

However, "the problem we have today for the investment community is there's a real limited diversification potential. You can buy Florida, Florida, Florida and, after that, Japan, Japan, Japan," he said.

Continued on next page

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Continued from previous page

"We have an issue there that the idea behind it is sound but the need for it isn't as great as the investment bankers would like it to be," he said.

Mr. Lohmann noted, though, that there are efforts to take the securitization approach into such areas as reinsuring auto and life business.

"We are seeing a growing acceptance of this product, and I do expect further evolution down the road," he said.

While they are being done more frequently, other sorts of alternative reinsurance products also typically involve a significant investment in time and effort.

"Today, everything is highly customized. There are very few providers in the marketplace," Swiss Re's Mr. Shimpi said. "There are no standards."

As a result, he said, "in these early

days, we're finding that it takes a certain amount of investment on both sides."

It takes time and effort to achieve

'A non-traditional player basically has to offer solutions and not specific products,' says Dirk Lohmann of Zurich Re.

a common language, reach an understanding of the client company's risk appetite and achieve an understanding of the true risks facing the firm, he explained.

"So you put all of these risks into perspective, and then, once you do that, you get to structuring the prod-

uct," Mr. Shimpi said.

Despite the significant "ramp up" period involved in crafting one of these approaches, Swiss Re New Markets views that effort as an investment, said Mr. Shimpi. The company benefits from undertaking such deals because it gains a greater knowledge of its clients, he said.

"You have to be very customized today," he said.

But that may ultimately change, Mr. Shimpi said.

"I would venture that, some time in the distant future, some of these things will be more standard, and you'll be able to ring up your broker and buy one of these products," he said.

Although it can make the deals time-consuming and costly, the customization of alternative risk financing products that many reinsurers are currently offering is one of their

strengths, many contend, allowing reinsurers to craft solutions that precisely fit their clients' specific needs.

"I think a non-traditional player basically has to offer solutions and not specific products," Mr. Lohmann said.

Some of those solutions are particularly popular at present. Gerling's Mr. Gentile cited whole-account aggregate stop-loss products as one such "product of the day."

"This is a product that is always in fashion but really takes on a significant role in a time of significant pain in the insurance industry," he said.

With some significant catastrophes and the fallout from the unraveling of the Uncover Managers Inc. workers compensation pool, "that's where we are today in the insurance industry—a time of significant pain," Mr. Gentile said.

What's more, he added, "surpris-

ingly, some of the lines that have been traditionally profitable are being unprofitable," such as commercial auto.

In that environment, insurers are looking to the reinsurance world "to take the bumps out of their financial results and their P&L (profits and losses)," Mr. Gentile said.

Another increasingly popular area is that of credit enhancement/financial guarantee-type products.

In the past six months, Gerling has had "significant opportunities" to wrap a conventional reinsurance transaction with a credit enhancement transaction, guaranteeing the cedent's credit performance or operating performance, Mr. Gentile said.

Those sorts of deals are "very significant transactions where the typical lines between insurance and banking are breaking down very quickly," he said.

The structure of the credit enhancement deals varies by transaction.

"One type could involve a utility coming to us to basically provide coverage that's available in the traditional market and coverage that's not available in the traditional market," Mr. Gentile said, such as combining a traditional coverage with coverage for interest rate variations.

"That's a perfect product where we can blend financial capital with traditional reinsurance," he said.

"On the other hand, there are products like a collateralized bond obligation, where we act as a traditional insurer with respect to the mezzanine tranche of a traditional bond," Mr. Gentile said. "Usually that's done as a stand-alone transaction."

"We are seeing also a greater interest in residual value insurance," noted Zurich's Re Mr. Lohmann, citing last year's British Aerospace P.L.C. deal, in which the aerospace company bought a multiyear program that protects it from both actual and contingent liabilities.

"We also see the area of project finance as an area where the ART market is becoming involved," Mr. Lohmann said. In those deals, ART approaches will be used to guarantee a project's completion or performance as promised.

"This is a dangerous area," the Zurich Re CEO said. "This is an area that I know concerns some of the rating agencies, because they're not convinced that the insurance industry understands all the risks that are there."

While the soft market might have slowed its development, Mr. Gentile said he believes the convergence between banking and insurance is beyond its formative stages, perhaps having moved to its adolescence. "And it's growing," he said.

For the Gerling Group, it's pretty obvious by the numbers that Financial Products is the fastest-growing unit in the fastest-growing company, which is reinsurance," he said. "I think our competitors are seeing similar things."

"In the pain stage of the insurance cycle, ART is a prime source of capital for insurers," Mr. Gentile said. "So there are more competitors and, probably, more deals to go around. The client base is really expanding."

Fifteen years ago, he noted, reinsurers' client base was traditional insurers, Mr. Gentile said. Five years ago, the developing financial-solutions arms of reinsurers found themselves focusing on insurers interested in stabilizing results and increasing their own capital.

"Today, the client base is names that everybody is familiar with," he said. "Not only insurers but manufacturers and distributors. So we're becoming as much insurers as reinsurers."



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Battered health reinsurers jacking up rates

By MICHAEL PRINCE

The future looks brighter for the health reinsurance market, which, after years of deteriorating results, bottomed out earlier this year.

Rates are going up, and reinsurers are looking to tighten their underwriting and cut down on underpriced business, reinsurers said.

But this revival means bad news for policyholders—in particular, self-insured employers, that may see rates for medical stop-loss insurance jump 30% to 40% next year, on top of the hefty hikes already seen in 1999, reinsurance ex-

ecutives said.

The increases come as the health reinsurers seek to generate profits after suffering several years of losses.

"For people to get back to profitability, they need those rate increases," said Michael Shevlin, senior vp for American Re HealthCare in Princeton, N.J.

He said that employer stop-loss rates have increased, on average, 10% to 15% in 1999, and those rates could see increases of 30% to 40% in 2000. In addition, provider stop-loss rates could jump as much as 50%, and health maintenance organization rates could rise by 20% to 50%, said Ned Goodhue, president

and chief executive officer of Avandel Inc. in Seattle. Avandel helps manage catastrophic care patients for employers and HMOs.

Such dramatic rate increases have not been seen in years and might be unprecedented, Mr. Shevlin said.

Changes were undertaken during the third and fourth quarters of 1999, when reinsurers made "a significant amount of effort to improve underwriting results" and their relationships with managing general underwriters, said Don Gasparro, managing director with Apex Management Group in Princeton, N.J.

The market hit rock bottom in early 1999, "and we're starting to

see improvements that will continue into 2000 and 2001," said John Fenlason, senior vp of SAFECO Life & Investments in Seattle. Banking on this rebound, SAFECO has announced a purchase of the medical excess-of-loss business of ING Medical Risk Solutions for \$34.8 million.

The turnaround will brighten the balance sheets of reinsurers that have generally taken a drubbing over the past few years. Most have lost money, and some have even opted to exit the market rather than await a turn.

Several large losses have plagued health reinsurers in recent years.

One such example is an aftertax

charge of \$16.2 million in the third quarter of 1999 announced by ReliaStar Financial Corp. in Minneapolis arising from its medical reinsurance business. As a result of that hit, the company severed its ties with two managing general underwriters that wrote the business.

Lincoln Re in Fort Wayne, Ind., expects to take a \$25 million charge stemming from its HMO excess-of-loss operations and said it has stopped writing new business in both that line and the provider excess-of-loss market (*BI*, Oct. 4). Although the company raised rates in 1999 by 30% to 35% in both lines, that was still not enough to make the business profitable, said Timothy Alford, senior vp and director of group markets for Lincoln Re. Similar increases would be needed in 2000, "and we just weren't sure the marketplace would accept those type of increases," he said.

Stop-loss coverage for medical providers has plagued numerous health reinsurers the past few years. Many HMOs sign agreements with doctors or hospitals to provide care for a flat fee per patient. This arrangement, called capitation, attempts to shift the financial risk of coverage from the HMO to the provider. Provider stop-loss, or excess-of-loss, policies to cover this risk have resulted in high losses as medical providers fail to manage the risks and pass along losses to the stop-loss insurers.

Turning away from this market, Lincoln Re has shifted its focus to employer stop-loss business. To boost its presence in that area, Lincoln Re has agreed to purchase Alden Risk Management Services from Fortis Inc. for \$41.5 million in cash.

In addition, HCC Insurance Holdings Inc. announced a purchase of The Centris Group (*BI*, Oct. 18). Centris, which owns USBenefits Inc., a leading employer stop-loss insurer, also announced it is taking a \$13.5 million charge in the third quarter due to losses in its medical stop-loss business.

This is all in addition to Swiss Reinsurance Co.'s decision to leave the health reinsurance market in 1998 after suffering significant losses for several years.

In the past, the reinsurers were hindered in their efforts to increase rates by the presence of newer entrants into the market. This "naive capacity," often looked to increase market share by taking a percentage of the business underwritten by an MGU. But this business often was not priced properly, and the reinsurers suffered losses.

Much of this capacity, however, has been driven out by heavy losses, and many of the reinsurers that have remained are walking away from arrangements with MGUs that don't deliver profitable business.

Also, many of the newer reinsurers don't "want to generate premiums unless it's good premium," Mr. Gasparro said.

Generally, MGUs' compensation is based on a percentage of the business they write, which gives them no incentive to write profitable business.

"As long as you give people an incentive to produce premium when not profitable, you will lose money," explained Bill Thomas, president of Managed Care Resources in Lambertville, N.J.

Reinsurers in the past have tried to change the compensation arrangement to one that would reward good business, but these efforts have brought little success, many said. In 1998, many reinsurers began putting pressure on their MGUs to improve

See *Life/health* on page 30

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Life/health

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the business they provided by focusing more on profitable business. This pressure increased in 1999, and many MGUs are now being evaluated "as to whether or not they will continue to be underwriters," for 2000, Mr. Gasparro said. Reinsurers are ending relationships with MGUs, putting MGUs' compensation at risk, or even bypassing them entirely and writing the business directly, he said.

It's gotten to the point where "many MGUs are finding themselves in a difficult position filling out their reinsurance capacity," Mr. Shevlin said.

In addition, reinsurers are pressuring policyholders to implement strict cost control measures, especially for large cost items such as transplants,

Avandel's Mr. Goodhue said. The losses have forced reinsurers to put "much more focus on the need to accurately predict medical costs and control them," he said.

More often, reinsurers are also incorporating these cost control measures into the underwriting process, he said. The move to managed care "is no longer optional," he said. "The only issue is how fast and how to do it."

Meanwhile, life reinsurers continue to see smooth sailing

1999 saw "a continuation of the market dynamics that began a few years ago," said Dave Hopper, senior vp for Lincoln Re in Fort Wayne, Ind. The market continues to provide life reinsurers strong opportunities to make steady profits, in spite of rates that continue to decline.

The low rates, in particular for long-term life reinsurance, have

greatly influenced the direct insurers, said Joseph Kolodney, managing director of the life reinsurance practice group at Aon Re Worldwide in Stamford, Conn. In particular, the rates have prompted the direct life insurers to pass most of their risk on to the reinsurance market.

"The majority of the aggressive term carriers are reinsuring almost 90% of their new business," he said.

Contributing to the low rates has been improved underwriting and the creation of more categories of policyholders. Individuals are now evaluated on numerous factors to determine the category of risk into which they fall. Those in the good categories receive lower rates, he explained.

Perhaps the biggest news in 1999 in life reinsurance was the consolidation that occurred among some leading players. For example, Aegon N.V. bought Transamerica Corp., which

had a significant life reinsurance business. Meanwhile, Metropolitan Life Insurance Co. purchased General America Life Insurance Co., whose Reinsurance Group of America Inc. reinsurance unit is the second-largest life reinsurer in North America, according to A.M. Best Co.

Finally, Employers Re took over Phoenix Home Life, another large life reinsurer, and merged it with its existing unit, effectively removing the Phoenix capacity from the market.

The consolidation is necessary as size has become more critical to success, said Jay Biehl, second vp and chief actuary for Lincoln Re. Large reinsurers possess the knowledge and systems to understand fully the risks they are assuming and price the business accordingly, he said.

"Small players generally will not have the expertise...to be able to do that," he said. **BI**

Brokers

Continued from page 3

the way to a hard market for the year 2002."

The soft pricing environment, however, played havoc on only one reinsurance intermediary's revenues in 1998, according to *Business Insurance's* annual rankings of the world's 10 largest reinsurance brokers.

London-based Heath Group P.L.C., which makes its debut on this year's chart in the No. 7 spot, saw a 9.1% decline in revenues to \$50.4 million. Heath previously did not participate in *Business Insurance's* directory of intermediaries and therefore was not ranked.

E.W. Blanch Co. Inc. reported the biggest revenue increase among the Top 10. The Dallas-based reinsurance broker's revenues climbed 31.2% to \$163.6 million, enough to move it up one notch in the rankings to the No. 4 spot. Blanch superseded Benfield Greig, which recorded a 1.4% increase to \$149.3 million.

John P. Woods Co. Inc. and Lambert Fenchurch Group P.L.C., helped by new business, were the only other reinsurance brokers to report double-digit revenue growth last year. John P. Woods reported a 12.6% increase to \$25.1 million, placing it in the No. 10 spot. Lambert Fenchurch reported a 10.1% rise to \$48.6 million, though the addition of Heath kept Lambert in the same position at No. 8 in the *BI* rankings.

Consolidation has been a key for reinsurance brokers, though there were no mergers or acquisitions within the Top 10 in this year's *BI* ranking of the largest reinsurance brokers.

While some of the brokers spent 1998 integrating their previous acquisitions, others made new acquisitions, chiefly as a means of expanding geographically.

Aon Re, for instance, filled out its global presence with acquisitions in France, Spain, Norway, Italy, Greece and Israel.

Willis, the world's third-largest reinsurance broker, made an acquisition in Germany and Italy, while E.W. Blanch recently acquired the remaining 30% share of its international joint venture with Swire Blanch Insurance (Holdings) Ltd., which has offices all over the world.

Other reinsurance brokers made new ventures into Latin America to take advantage of opportunities there.

The Instituto de Reaseguros do Brasil, for instance, is expected to release its monopoly on the reinsurance market early next year (*BI*, Oct. 4).

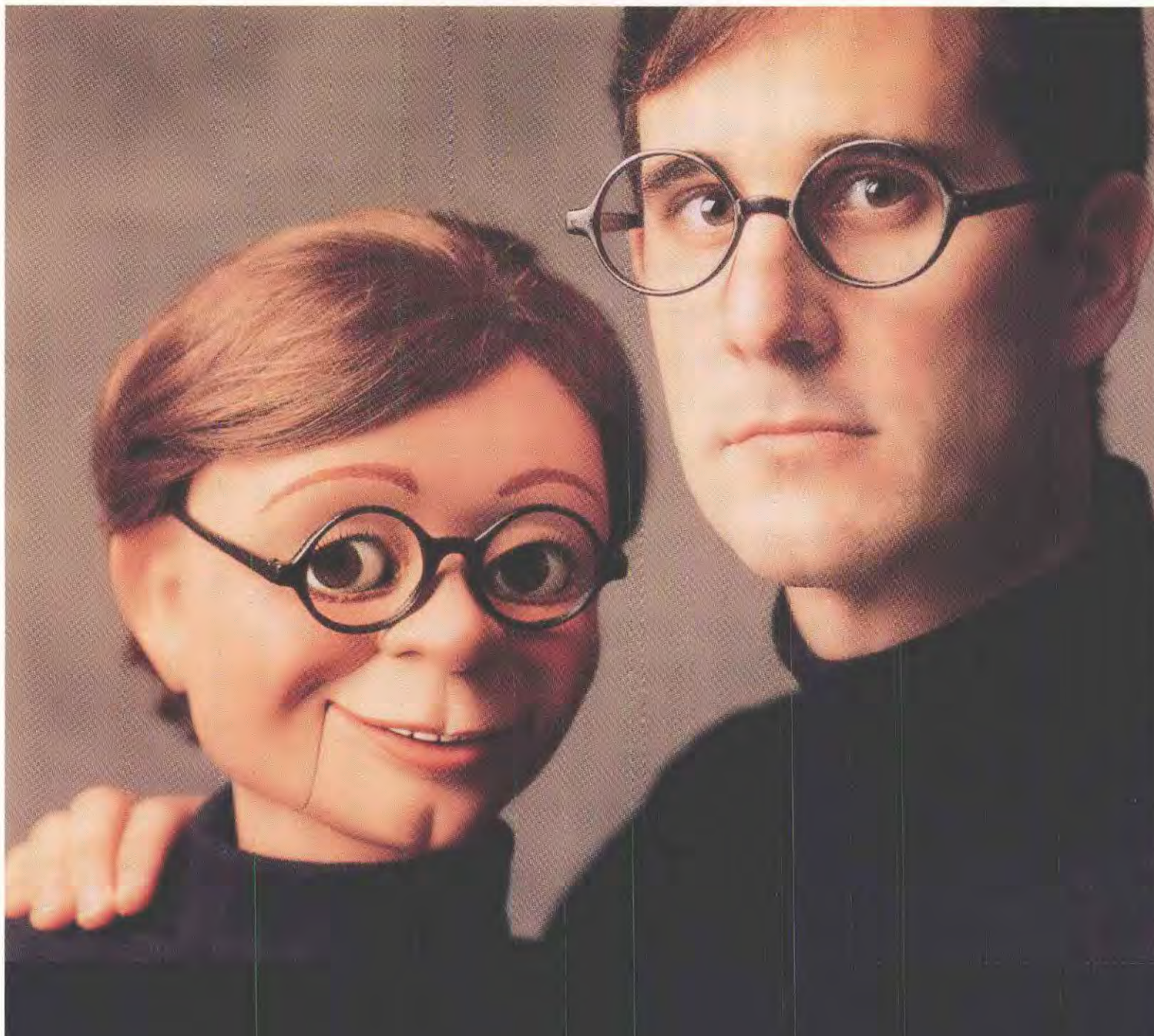
"This is probably one of the last and biggest opportunities for international business, so a bunch of international insurers and reinsurers and brokers are trying to position themselves," explained Lambert Fenchurch's Mr. Caley. "It's a massive economy, so if you're good and your products are good and your servicing is good, there's got to be opportunities," he said.

To capitalize on this opportunity, John P. Woods Co. recently entered into a joint reciprocal marketing agreement with a large independent primary broker in Brazil. Towers Perrin Re, the world's ninth-largest reinsurance intermediary, made an acquisition in Argentina and hopes to establish a new office in Brazil during the first half of 2000.

Global expansion aside, broker, insurer and reinsurer consolidation is a trend that continues to define the marketplace.

The market is "certainly challenging, with consolidation going on with clients and the reinsurance markets," noted William H. Eyre Jr., managing director and CEO of Towers Perrin Re. Broker consolidation during the

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Brokers

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past several years, however, "has provided us with more opportunity as an independent firm," he said.

Mr. Caley added that "pretty well everyone is in play now. Hardly a month goes by when we talk to somebody about something they're doing or they talk to us about something we're doing and someone says, 'Hey, wouldn't it be interesting if...?' It's just an ongoing thing," he said.

John Pelly, chairman and CEO-reinsurance at Willis, said that consolidation has resulted in "a limited number of global players, a limited number of highly competent specialty players and there's even less choice in the reinsurance industry than there is in the retail in-

dustry."

"I think the cost of truly competing in the global reinsurance intermediary environment is such... that it's not going to be very easy for new entrants to come into that aspect of the market," Mr. Pelly said.

He pointed out, however, that there is still plenty of choice for clients, noting that there are a great number of reinsurers that operate on a direct or semi-direct basis.

Other brokers look to how a changing market might play out with respect to broker consolidations.

"The rapid onset of a hardening market will be the first test of the post-consolidation intermediaries and will put any shortcomings into sharp relief," predicts JLT's Mr. Brookman.

"Whilst their leverage will mean accessing capacity is not a problem

for the global brokers, increasing rates and premiums will consequently increase clients' expectations. The difficulty for the global brokers is effectively and efficiently focusing their resources in order to provide the service clients require," he said.

At the same time, "the smaller brokers must be concerned that their lack of leverage will be a considerable disadvantage as a capacity squeeze ensues," Mr. Brockman said.

Benfield Greig's Mr. Chilton noted that "people want independents in the chain, otherwise business is purely created by leverage, which means at times you don't always get the right or best advice. And as we get into a hard market, that will play into our hands even more."

Consolidation is not the only game in town for reinsurance bro-

kers, however.

Over the past year, many intermediaries have expanded their product offerings to include risk securitization capabilities.

While the capital markets have yet to take off as a risk transfer market, reinsurance brokers say, many of the intermediaries have established their own dedicated units or have access to outsourced capabilities to structure capital market-based deals (see story, page 44).

All of the world's largest reinsurance brokers offer catastrophe, financial and actuarial modeling capabilities, though some prefer to offer the services in-house, while others outsource. And a trend toward offering Internet-based products is emerging at a few reinsurance intermediaries (see story, page 42).

Profiles of the world's largest reinsurance brokers follow:

Aon Re Worldwide

Organic growth in North America and larger companies buying down their self-insured retentions are responsible for Chicago-based Aon Re Worldwide's 5.1% increase in revenues to \$620 million.

The 1998 revenue figure is an estimate and includes a full year of reinsurance operations from Paris-based Group Le Blanc de Nicolay; Madrid, Spain-based Gil y Carvajal Group; and Oslo, Norway-based Grieg Insurance.

These 1998 acquisitions are part of larger deals made by parent Aon Corp., which has acquired several brokers over the past few years.

Aon Re has added three reinsurance operations so far in 1999: Nikols Sedgwick Group of Milan, Italy; Turner Reinsurance of Athens, Greece; and A.G. Reinsurance of Tel Aviv, Israel.

These acquisitions have helped to "round out" Aon Re's geographic position around the world, said Rucker Channell, president of Aon Re Worldwide.

With a presence in more than 40 countries, Aon Re is positioned to deploy its skill sets anywhere in the world, he said.

"That does not mean that we will not look at additional acquisitions," he said. "But we're not compelled to do it."

"One of the benefits from the mergers made in the past two-and-a-half years is the expertise we now have," Mr. Channell said. "We're really getting some great opportunities to cross-sell" the full range of products and services Aon has to offer, he said.

This process is known within Aon as "interdependence," and the organic growth in 1998 and 1999 in North America has been driven by that approach, said Paul Davies, Aon Re's chairman. "North America is having one of its best years in '99."

Growth also is coming from its niche product lines, Mr. Davies said. One area Aon Re is emphasizing is program business. All of Aon Re's program business is now coordinated under one group and handled through its Dallas, Minneapolis and Chicago offices.

"We found that with all of our past mergers and acquisitions, in looking at our book of program business, we placed \$1.5 billion in premiums in the market... and it came from all over the place," Mr. Davies explained.

"We've coordinated that so our program business is channeled in and out of the company in a better manner."

Growth also is coming from Aon Capital Markets, a unit established to securitize risk transfer for clients. Aon has been involved in nine capital market insurance transactions since June 1998 (see story, page 44).

Within the past year, Aon Re launched a strategic account management initiative within its reinsurance operations. Under the "SAM Re" initiative, one individual is designated to oversee an account, with responsibility to coordinate all of Aon's services for that client, Mr. Davis explained.

Aon Re Europe, the umbrella under which Aon Re's European operations were organized last year, has been "a big success," Mr. Channell said. Aon Re now is bringing together its Latin American operations under the name Aon Re Latin America.

Guy Carpenter & Co. Inc.

With the integration of Sedgwick
See Brokers on page 34

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Brokers

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wick Re nearly complete, Guy Carpenter is focusing on bringing its combined strength to its customers.

These strengths include Guy Carpenter's broadened global reach, its expanding client service centers and its actuarial modeling group, Guy Carpenter INSTRAT.

The integration of Sedgwick Re also strengthened revenues at the world's second-largest reinsurance intermediary, adding a little more than \$100 million. Overall, Guy Carpenter's revenues increased 6.4% in 1998 to \$502 million when adding in a full year of Sedgwick Re revenues on a pro-forma basis in 1998 and 1997.

"It was a very successful integra-

tion, and it was done in record time," said Salvatore Zaffino, president and CEO of Guy Carpenter. Mr. Zaffino, who formerly was chairman and CEO of Sedgwick Re, succeeded Brandon W. Sweitzer, who became chairman of Guy Carpenter.

As a result of the merger, Guy Carpenter now is located in 23 countries, which "gives us the combined global strength necessary to grow in this environment," he noted. Prior to the Sedgwick integration, Guy Carpenter reported subsidiaries and affiliates in 13 countries outside the United States.

Mr. Zaffino attributes the growth in 1998 to new business in Guy Carpenter's traditional major stock company clients as well as new business from regional and specialty company clients, which the broker has been targeting for the last couple of years.

Over the past year, Guy Carpenter developed seven specialty practices, each with a specialty leader and various team members throughout the United States. The seven practice groups, which Mr. Zaffino said will expand into other areas, are: personal lines, accident/health, finite, managing general agencies, professional liability, surety/fidelity and workers compensation.

Combining the resources in specific practices will allow the broker to bring a more focused approach to solving clients' problems, Mr. Zaffino said.

Guy Carpenter and Sedgwick were separately working on establishing specialty teams, and those efforts also were combined this year, he noted.

Guy Carpenter also continues to focus on regionalizing its business. As part of this effort, the broker is ex-

panding its processing units, called "client service centers," into regional areas to be closer to and better respond to its regional and specialty clients.

The reinsurance broker also is putting its efforts behind building its Guy Carpenter INSTRAT unit.

INSTRAT, Sedgwick's former actuarial modeling group, provides extensive actuarial, catastrophe and financial modeling products and services. INSTRAT was merged into Guy Carpenter's similar unit, and the new unit retained the INSTRAT name.

The unit, which has been linked with all of Guy Carpenter's offices around the world is updating its catastrophe modeling feature to include hail and tornado models in addition to its existing hurricane and earthquake models, Mr. Zaffino said.

"We feel that we've been the pio-

neer in this area, and our goal is to stay a few miles ahead in front of everyone else," he said.

Willis

The reinsurance brokerage side of the world's third-largest insurance broker, Willis Corroon Group Ltd., has changed its name again. Since mid-1999, it has been known simply as Willis, a scaling down from the name it took on a year ago, Willis Faber Re, having previously been known as Willis Faber Global Reinsurance.

According to John Pelly, London-based chairman and CEO-reinsurance, the name change is part of an effort by the parent to eliminate sub-brands "so people will regard us as one entity servicing the needs of our clients whatever they may be." All operations of Willis Corroon Group now come under the umbrella slogan, "Willis—The Risk Practice".

Mr. Pelly stressed that, unlike the megabrokers created over the last few years, most parts of Willis have been working as one for many years as a global business unit.

Revenues rose 2.5% in 1998 to \$247 million. While Mr. Pelly admits to being disappointed with this result, he said he considers it creditable, given market conditions.

Willis' market share grew last year in all major markets, particularly in the four key areas it has targeted over the last two years: U.S. property/casualty business, Continental Europe, specialty lines and consulting.

Willis already is big in the United States in specialty lines, such as marine and aviation, medical malpractice, and accident and health; but it wants to expand its main core property and casualty client base.

"Increasingly, clients and prospects want truly impartial advice, and we have an increasing number of people who can provide that independent view and advice and research-backed opinions," Mr. Pelly said.

In terms of European expansion over the past year, Willis acquired Mansfeld Hubener, a small Hamburg, Germany-based reinsurance broker specializing in property/casualty coverages and consulting. In Italy, Willis recently expanded its Genoa-based operation by adding a broker.

The United States and Europe are instrumental to Willis' objective of increasing its retail reinsurance brokerage operations, said Grahame Millwater, Willis' chief operating officer-reinsurance. "We want to produce that business globally, on the ground, and not be reliant on any third party," he said.

In specialty lines, Willis has invested heavily in areas such as accident and health, health care and alternative risk transfer skills, and the broker has brought in specialty skills in other areas, including casualty, said Mr. Millwater.

The fastest-growing area of Willis' business is consulting, he said. Consulting is done through two operations, Willis Consulting and Cordis Consulting, said Mr. Millwater. Willis Consulting increasingly is used as part of integrated programs to help insurers increase shareholder value, manage risk, model assets and liabilities, and enhance security ratings, among other things. Cordis Consulting was set up 18 months ago to handle "stand-alone" work, according to Mr. Millwater.

E.W. Blanch Co. Inc.

New business production and growth in its international business and its capital markets unit were responsible for a 31.2% increase in revenues at E.W. Blanch Co. Inc. in 1998.

Blanch's \$163.6 million in 1998
See Brokers on page 36

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Brokers

Continued from page 34

revenues was enough to move it up one notch to the No. 4 spot, supplanting Benfield Greig Group.

In terms of new production growth, it was split 50/50 between new clients and the expansion of existing relationships, said Christopher L. Walker, chairman of E.W. Blanch Co. In addition, "we had good strong growth internationally."

Mr. Walker said that Blanch's year-old Blanch Capital Markets unit "started strong" and grew 100% in its first year. Much of the unit's activity focused on placing industry loss warranty coverages and weather coverages.

One of Blanch's greatest strengths, Mr. Walker said, is the

products and services it offers clients. Over the past year, Blanch introduced several Internet-based offerings (see story, page 42).

In addition, last February, Blanch subsidiary Paragon Reinsurance Risk Management Services Inc. entered into an agreement with Oldwick, N.J.-based A.M. Best Co. to develop a comprehensive database of insurers' catastrophe exposures.

Under the agreement, Best will use Paragon's CATALYST 3.0 catastrophe modeling software to analyze U.S. hurricane and earthquake exposures. The information will then be used to create the database, which will aid in assessing aggregate catastrophe loss exposures as well as individual insurers' shares of such losses.

The agreement will create a common platform for evaluating

an insurer's relative catastrophe exposure on an insurer-to-insurer basis and insurer-to-industry basis, using a single benchmark model, explained Eill Ashley, executive vp at Blanch.

"We're rabid about the fact that we want to make a measurable contribution to our customers' success," Mr. Walker said.

As part of an effort to expand its global network, Blanch last month acquired the remaining 30% share of its international joint venture with Swire Blanch Insurance (Holdings) Ltd. "We felt it was a good time to pick up the remaining 30%," he said.

Terms of the deal were not disclosed. The unit, renamed E.W. Blanch (Holdings) Ltd., has offices in Buenos Aires, Argentina; Copenhagen, Denmark; Hong Kong; London; Mexico City; Mia-

mi; Singapore; and Sydney, Australia.

In September, Blanch acquired JD Warren Inc., a Pittsburgh-based technology company specializing in the identification and recovery of outstanding third-party deductibles for the insurance industry.

Benfield Greig Group P.L.C.

The modern glass-and-chrome offices of the executives of Benfield Greig Group P.L.C. epitomize the no-fuss, futuristic thinking of one of the world's largest privately held independent reinsurance brokerages.

Even the company's computer system, only a couple of years old and with slim screens and high-speed modems, is too out-of-date, contends CEO Graham Chilton.

Benfield Greig plans to install new computers as the intermediary moves quickly into the world of Internet insurance and reinsurance.

In September 1998, the company launched Benfield Greig Interactive Ltd., a new media company specializing in the development, management and marketing of products on the Internet. BGIL works closely with mainly Lloyd's of London underwriters to develop interactive online insurance products.

In addition to its four insurance trading Web sites, BGIL intends to launch about 20 new Web sites in the next four months, including some for reinsurance transactions (see story, page 42).

The e-commerce business is just part of Benfield Greig's total group businesses, which include corporate finance, asset management, sports consulting and reinsurance.

"We're a solution-provider, whether it be reinsurance, risk management, corporate finance, asset management, Internet, sports consultancy or whatever," Mr. Chilton said.

Mr. Chilton said he believes that "100%" of Benfield Greig's reinsurance products can be considered "alternative" because the group is a bespoke intermediary, specializing in customized solutions. "Therefore, each product we have is not a standardized product. It's an alternative method for transferring risk between two parties."

Benfield Greig also offers risk modeling to give each client an idea of what kind of reinsurance program it needs. The service is offered by Benfield ReMetrics Inc. in Seattle, which comprises financial modelers, actuaries and geophysicists.

Benfield Greig is a privately held company and will remain that way for the distant future, its CEO said. "I'm building a business. Why would I want to sell the business?" asked Mr. Chilton. "We're on Chapter Two of a 12-chapter story of the Benfield Greig Group."

But he won't say what's in the next few chapters.

In 1998, Benfield's gross revenues remained fairly static at £90.1 million from a restated £89.9 million in 1997. Those figures were restated to reflect investment income from reinsurance-related business, which the broker did not previously include. In dollar terms, revenues increased 1.4% to \$149.3 million.

The flat revenues reflect the reduction in premiums from the group's traditional clients, offset by "a considerable amount" of new business, according to Mr. Chilton. The new business was generated across the board, from the Far East and Japan, to marine and aviation and non-marine retrocessional business to ReMetrics, he said.

JLT Risk Solutions Ltd.

Against a background of increasing consolidation in the reinsurance market and integration following the merger that created Jardine Lloyd Thompson Group P.L.C., the reinsurance broker posted an increase in revenues.

Gross reinsurance revenues for JLT increased 6.1% to £44.9 million in 1998. Converted to dollars, revenues increased 7.4% to \$74.4 million.

Now, as a result of major internal restructuring at the beginning of this year, the reinsurance operations of Jardine Lloyd Thompson Group no longer sit alone within

See Brokers on page 38

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ERRORS & OMISSIONS/LOSS PREVENTION



E-COMMERCE OFFERING REWARDS AS WELL AS RISKS

Inside:

E-commerce changing face of E&O liability page 36B

Informing clients about e-commerce risks page 36G

Excess capital is keeping the market soft page 36M

Preparation important when facing an E&O claim page 36E

Making the most of contingent commissions page 36J

Internet presence crucial for E&S industry page 36N

E-commerce offering new area for E&O

By LEE FLETCHER

E-commerce and automation can serve as new tools to reduce agents' errors and omissions liability, but as with any new business practice, they also can pose new areas for claims, agents and insurers say.

The technology is helping to improve agencies' communication and documentation, which, along with education and train-

ing, can help to reduce agents' E&O exposures.

"Agents need to embrace (e-commerce) and not be afraid of it. I think it's an excellent way for agents to give 24-hours-a-day, seven-days-a-week service to their policyholders," according to Bruce Coates, manager of the Assn. Segment for Overland Park, Kan.-based Employers Reinsurance Corp., which underwrites an E&O liability insurance program for members of the Independent Insurance Agents of

America Inc.

"We've seen some real benefits when agents start using electronic mail and the Internet to communicate with their insurance company—there's a definite document trail," Mr. Coates said.

Although technology is beginning to play a significant role, improving communication and documentation, Mr. Coates warned that agents need to be aware that problems may come to light with regard to the nascent world of e-commerce.

"As much as automation is right around the corner, agents can't forget the basic tenets of good agency procedures, and that starts with a manual, good documentation, good communication with their staff, with their carriers, and with their policyholders and finally the consistency of the practices that they do on a daily basis," said Ruth Anne Bearce, vp of agents/brokers professional liability at Reliance National Insurance Co. in New York.

Errors & Omissions/Loss Prevention



Skip Counselman, president of Baltimore-based consultant Riggs, Counselman, Michaels & Downes Inc., said that even though e-commerce can improve documentation, "there's the potential for claims when you're introducing something new." Mr. Counselman also is a founding director of Professional Agencies Reinsurance Ltd., a Bermuda-based captive insurer that writes agents/brokers E&O liability coverage for members of the Council of Insurance Agents & Brokers.

"Policies in general will respond to claims arising out of e-commerce, but there's not yet the claim experience as a result of agents becoming involved in e-commerce," Mr. Counselman said.

The Choice, a policy created by Reliance National, covers agents' and brokers' e-commerce transactions, including any transactions over the Internet and any computer networking of two or more systems, according to Ms. Bearce. Reliance National's policy is endorsed by the National Assn. of Professional Insurance Agents on behalf of its members.

Employers Re also plans to introduce an errors and omissions liability policy in early 2000 called the Pinnacle Series that will cover e-commerce risks in addition to professional liability, Mr. Coates said. He emphasized that loss control services are one of the strengths of Employers Re's E&O policies.

"We hold seminars and give premium credit to those of our policyholders who participate. We also encourage agencies to get independent audits, which we've also found as a very effective tool. Loss control is a big, important part of what we do," Mr. Coates said.

Scrutiny of each and every customer account, whether personal or commercial lines, is an extremely important aspect of reducing E&O liability risk of agents and brokers, according to Roy L. Phillips, vp of Dan R. King & Associates Inc., a Houston-based agency consultant.

"I think the three most devastating words in the cases that I've had are where some plaintiff attorney will stand up and read the agent or staffperson's instructions as 'renew as is,'" he said.

The soft market has led to a reduced emphasis on education and training, which are important in preventing costly errors, Mr. Phillips said.

"Many (agencies) have cut their education budget. When

See E&O on page 36D



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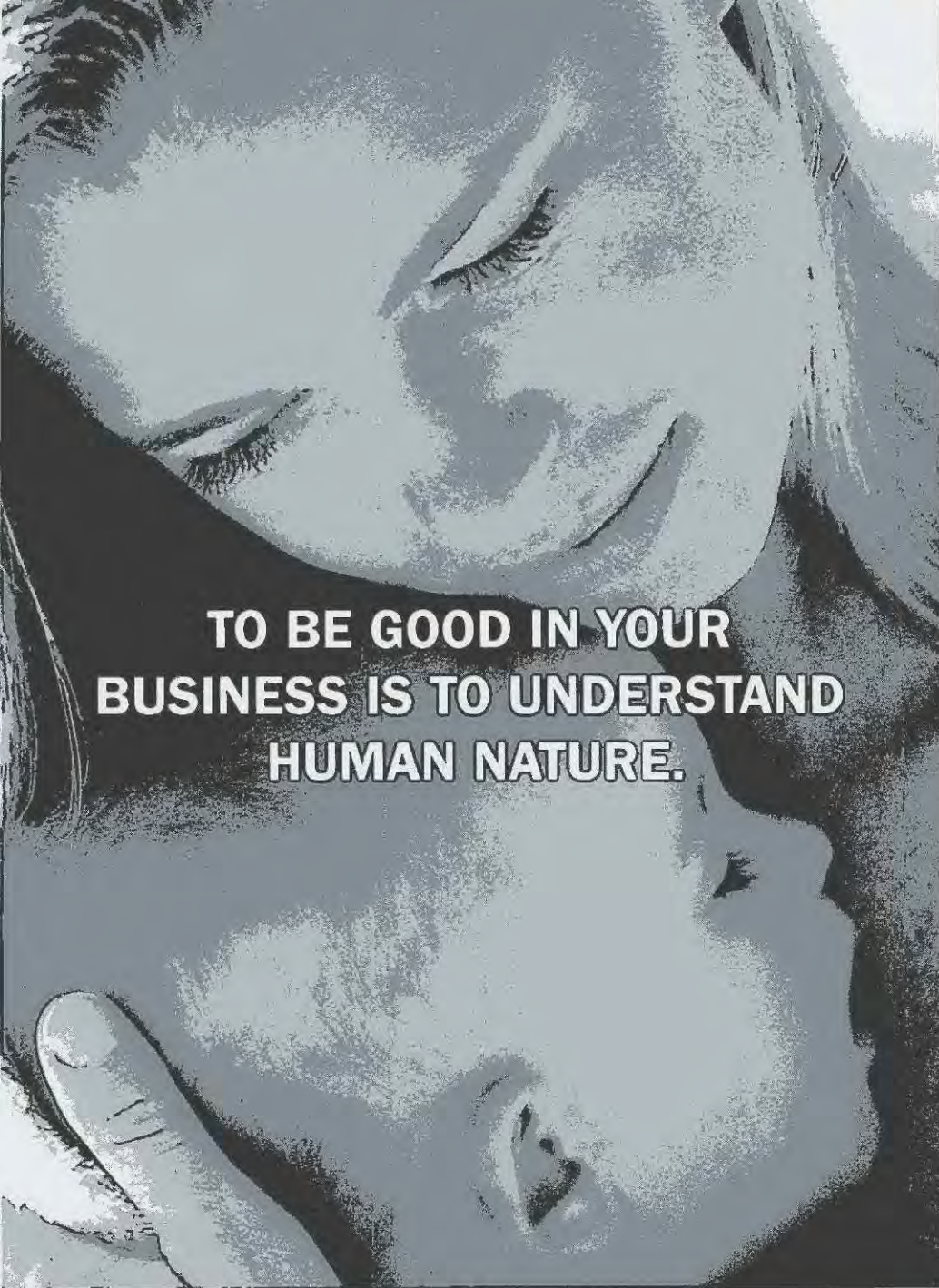
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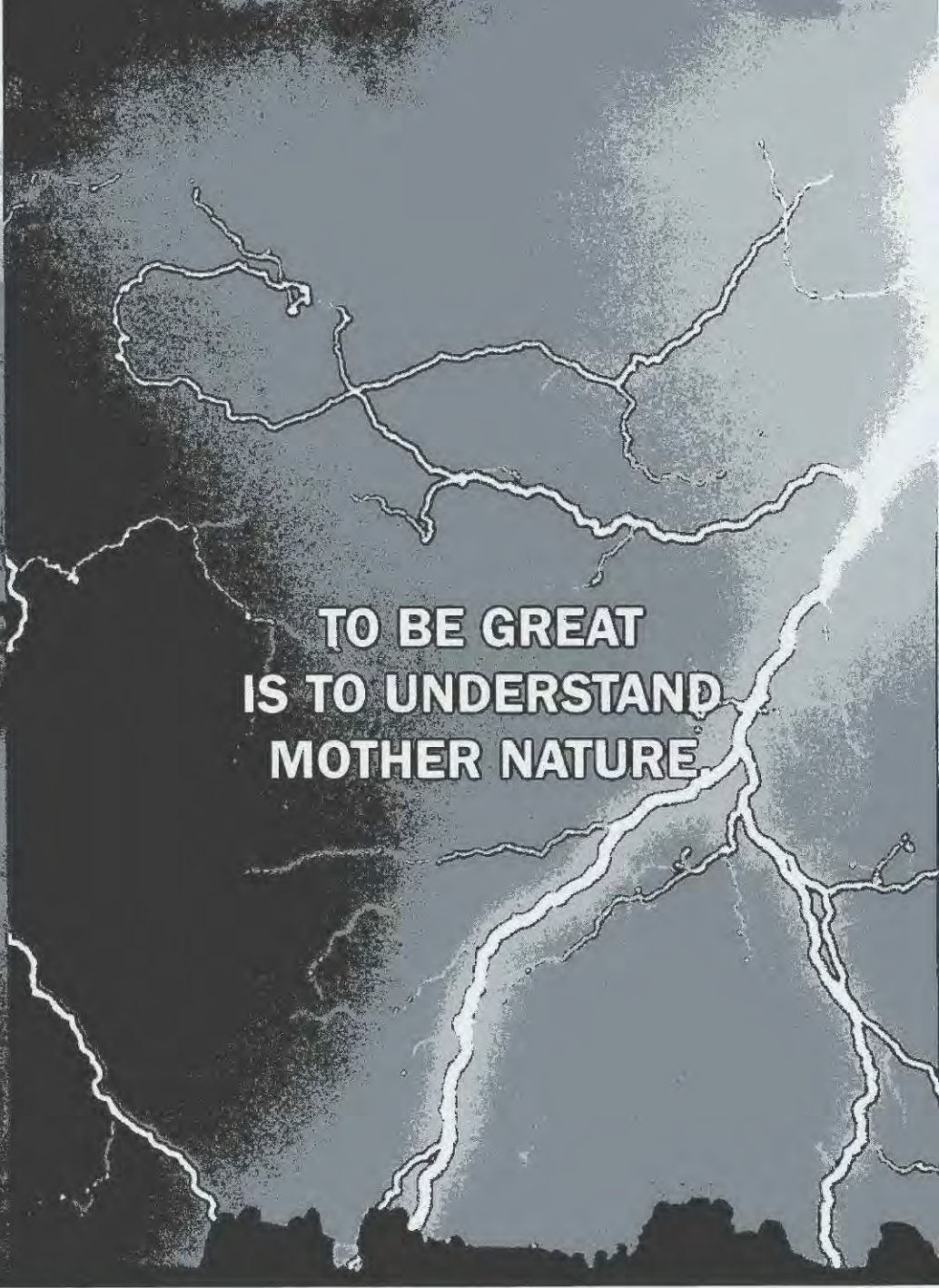
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*Rose diamond necklace with mysteriously set ruby and diamond brooch and ear clips courtesy of Van Cleef & Arpels.



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E&O

Continued from page 36B

people start to pack their parachutes differently, you can really have a problem. This lack of training is leading to staff people really not understanding coverages like they used to," Mr. Phillips said.

Insurers and consultants have said that the E&O liability market in general is extremely competitive, continually contributing to a decline in rates.

"One definite trend in the past few years is that there is more concentration on loss control and

quality management standards. So, there's more careful documentation and follow-through that reduces the exposure to claims. Since the ultimate cost of this insurance is driven by the level of claims, agents and brokers have taken loss control, quality management and risk management all very seriously," Mr. Counselman said.

Agents can only drive down rates so far, however, with these types of improvements, he added.

"Once you're doing all of the right things, then the next trend is going to be the impact of attorneys bringing claims against agents. If there is a great frequen-

cy of that, then unfortunately, rates are going to have to rise because the premiums are going to have to be at a level to cover the claims," said Mr. Counselman.

The E&O marketplace was also described by Mr. Coates as a "double whammy."

"Companies are competing very aggressively for E&O business. The double jeopardy to it is that because the commercial lines market is so competitive, insurance agents' commissions and premiums are down. They're still writing the same business, but the rating base is off," Mr. Coates said.

He also added that commercial

lines prices are beginning to firm, which will present some challenges for agents.

"My advice to agents is to start talking to your commercial customers now—start preparing for the party to be over. Prices are going to firm up and it's much better to have those conversations now as opposed to waiting for when they have a 30% increase that they have to deliver. Do it now while it's not emotional," Mr. Coates said.

Another issue agents will need to approach carefully is the Year 2000 computer problem. E&O liability insurers and consultants have varying philosophies about

agents' exposures with respect to Y2K.

Mr. Counselman, however, emphasized that "all E&O insurers are holding their breath for Y2K because most, not all, of the policies respond to those types of claims because they don't exclude them."

"I think the whole insurance industry is feeling fairly confident that they've done the right things in preparation for Y2K. Hopefully, we can get through without too many claims and get back to the business. If the number of claims, however, goes up in 2000, then we'll be distracted for some time," said Mr. Counselman. **B**



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Preparation, cooperation needed when facing E&O claim

By Michael J. Rosen
and Larry A. Hoellworth

AN E&O CLAIM is like an approaching train. You can hear it first—even when you can't see it—by placing your ear on the rail. Then you can see it in the distance even before the crossing bells ring and the gates drop. The sooner you become aware that the train is coming, the better you can plan for its arrival. You don't want to wait until the crossing gates are dropping.

Generally, as an insurance producer, you first become aware of a possible claim against you when a policyholder informs you of a loss and wishes to have it reported to an insurer. Soon after, you may become aware of a coverage dispute between the insurer and the policyholder. Many times, the dispute erupts into litigation, and a request is made for your documents. At each step, it is your opportunity and obligation, to yourself and to your E&O insurer, to recognize, evaluate, and properly respond in order to manage the potential for a serious claim.

Report of the loss or event

Typically, the policyholder notifies the producer before the insurer that a loss has occurred and that the policyholder will seek coverage for the loss. The policyholder may ask you, as its representative, to report the loss to the insurer. It is at this point that you, in reviewing the client file, have an opportunity to recognize any potential problems—for your client, the insurer or yourself.

Important: You have a responsibility to act on behalf of your client. Doing so also serves to deflect a possible claim against you arising out of a coverage dispute. Your ability to place a claim into the right frame of reference may be important in shaping the policyholder's expectations of how the claim will be resolved. Take care not to inflate those expectations, especially if the policy wording makes full recovery—or any recovery—unlikely. If the policyholder decided at the time of purchase that he or she didn't want certain coverage, or didn't want higher limits, then gentle reminders from you may help prevent the matter from developing into litigation.

For claims that may potentially be covered, it can be important to lay the groundwork for the insurer's claims personnel by articulating the claim in a way that will warrant a favorable response from the insurer. Presenting the claim fairly and in the right manner may encourage the insurer to honor the claim, or at least to resolve the claim subject to a reservation of rights, thereby avoiding a potential dispute and any risk of the situation escalating out of control.

Remember: Whatever you say or write down may be used against you later. It is also important groundwork for your subsequent defense.

If a dispute develops, be careful about remaining consistent in your representations to both sides. It is generally better that one person at the agency or brokerage be assigned to respond to all communications regarding given claims, and that all communications with the outside be channeled through that individual. That individual may or

may not be an attorney, depending on the nature and magnitude of the dispute, as well as the intended strategy for dealing with the situation. Finally, it is important that any strategy for handling reported losses be thoughtfully planned out, so that the firm isn't forced to develop a strategy in haste under the pressure of the moment.

Served with discovery

Being served with discovery papers should make a warning light go on. Litigation signals the

existence of a serious dispute, and it indicates that at least one party to the litigation is resolved to avoid responsibility for a loss and place it on someone else. The fact that you have not been brought into a lawsuit initially should not be taken as an assurance that you will not be included later.

If there is a request for discovery of documents, then privilege, privacy, and ownership concerns need to be carefully examined.

The request for documents must normally be made within

reasonable bounds. You can force the requesting party to formally obtain a subpoena, or ask a judge to make a ruling by means of an order, but it is preferable to cooperate to the fullest extent possible and thus maintain some control over the discovery process. Resisting discovery of documents may result in surrendering management of discovery to another power, and it may also be taken by others as a sign of defensiveness or may

See **Claim** on next page

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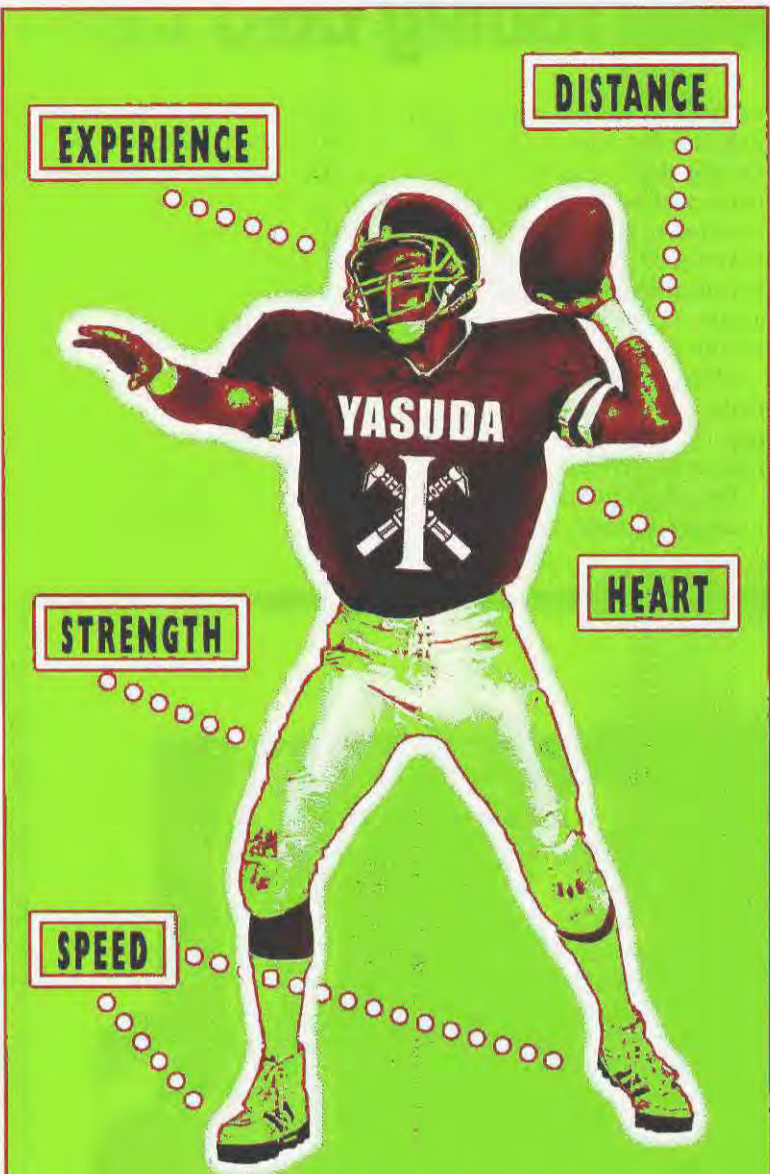
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Claim

Continued from previous page
generate unnecessary hostility. Here are 10 commandments regarding documents:

- Allow any requesting party access to its own records.
- Do not allow any inspecting party access to your files before you screen the files for privileged communications, documents inadvertently misfiled and documents belonging to another party.
- Before allowing an inspecting party to review another party's documents, obtain written consent from the other party or require the person requesting the files to obtain that consent or a court order.
- If documents are produced to an inspecting party in litigation, be sure to notify the other party. Generally, the owner of the documents is allowed to review the documents before they are produced to the third party; this gives the owner an opportunity to object to production of documents it believes are confidential or privileged, or that contain trade secrets.
- Do not, under any circumstances, lose control or custody of your own documents. Make the inspecting party look at the documents at your premises. Make photocopies at their expense, but only by consignment to an independent copy service. Do not release documents to the custody of any other party for copying or any other reason.
- Produce only those documents requested. Unless you have carefully considered the ramifications, do not voluntarily produce documents that have not been requested.
- All documents should be marked with identifying letters or numbers to indicate that they are being copied from your file. In insurance malpractice cases, it is often as important to show that an insurance sales representative did not receive a certain document as it is to show that he or she did receive a document.
- Maintain neutrality. Allow access to documents by all parties. It is best to remain neutral and allow the policyholder and insurer to settle the dispute between themselves.
- Maintain written records of all document production. Send cover letters with any documents or photocopies that are shared with anyone, and record visits to review files.
- Any review of original documents in your office should be monitored or supervised by your own staff; do not leave other parties alone with your original files.

Has there been a deposition request or subpoena? If so, here are some important tips:

Treat a request for a deposition in any type of coverage action with utmost care. Often, the deposition of the producer is the precursor to an action against the producer. Take every deposition seriously—the purpose of a deposition may be to document a case against you.

Be well-prepared for a deposition. Do not testify until you have reviewed the file documents, including all contractual agreements with the insurers or the policyholders in the matter at issue. Your attorney should have reviewed both parties' pleadings to ascertain the issues and to prepare you for questions that are likely to be asked at the deposition.

In the absence of a clear statement that no action will be filed against you, you should be accompanied by your own counsel at your deposition. Other attorneys in the litigation expect this to occur, so this will not be seen as an admission of culpability. Your attorney can also protect you from unnecessary admissions, violations of privilege in communications with other parties, wasting your time on unnecessary lines of questioning ("fishing expeditions"), and other unintended detrimental results of an unprotected deposition. In addition, be sure to check out counsel for any conflicts of interest so that you are not later forced to replace the attorney who has the most knowledge about the case.

When the claim is made

The fact that you have been sued is not an automatic indication that a party may believe you liable. Attorneys frequently name all parties involved in a transaction for several reasons, including to comply with statutes of limitations, to avoid discovery problems, to avoid the need to amend pleadings later, and to avoid claims of malpractice against them for failing to sue a party later found to have been responsible.

Given that you may not be the target, a good strategy may be to "lay low" as the battle ensues between the insurer and the policyholder. Carefully pick only those fights that are necessary to properly defend yourself, without turning unnecessary attention toward your conduct.

Other circumstances may warrant vigorous participation in the litigation, even if you have little or no liability exposure. If you have been frivolously sued, then aggressive discovery by your counsel may hit sensitive nerves in the plaintiff organization. This may cause plaintiffs to drop the suit against you because you are a nuisance and are harming the development of the case against others.

If possible, adopt a position of "appropriate neutrality" and refuse to take sides with either party. Of course, this depends on the situation, as there are many occasions when alliances with other parties may benefit you.

Contractual indemnity

As soon as you become aware of a coverage dispute that might lead to litigation, carefully review all contracts entered into with the insurer (and, occasionally, contracts with the corporate policyholder). Typically, insurer contracts indemnify producers under certain conditions. After consulting with

counsel, all appropriate contractual rights should be asserted. These contracts may also define other aspects of the relationships between the parties that may be relevant to the litigation.

Former employees

If former employees of your agency or brokerage are subpoenaed, contact your insurer.

There may be coverage issues between the agency or brokerage and a subsequent employer of the individual. Questions to consider include:

- Is the former employee's current employer now handling the same account that is at issue in the litigation?
 - Does the former employee's new employer have a conflict of interest with your agency or brokerage?
- When the answer to these questions is "No," it is quite common for former employees to be represented by counsel for the firm where they formerly worked, as long as the subject matter of the lawsuit relates primarily or solely to the work performed for the former employer.

A former employee may request an indemnification letter or a promise of insurance coverage. Do not give a definitive response until you have first obtained your insurer's advice and consent in dealing with former employees. In the absence of conflicts, your insurer may, in consultation with you, appoint counsel to represent former employees as well as current employees.

All former employees—and current employees, for that matter—need to be reassured that they are insured for the claim, consistent with the terms of the policy, in the event that they are personally sued by the insurer or the policyholder for a third-party liability. This is often reflected in the "Definitions" section of the insurance policy, which may state:

"Insured means the person or entity stated in ITEM 1 of the Declarations, and any natural person who was, is, or shall become a director, officer, employee, or partner thereof, but only while such person was, is, or shall be acting within the scope of his or her duties as such."

No insurance producer ever wishes to experience the trauma of defending against an E&O claim. Unfortunately, you don't have to do anything wrong to have a claim made against you. You may not always be able to prevent a claim being made, but you can manage your daily work to minimize your exposures, and you can take steps to handle the trauma of any claim that is made against you. **[B]**

Michael J. Rosen and Larry A. Hoellworth are partners with Peterson & Ross (Chicago), who practice primarily in the areas of directors and officers liability and professional liability defense litigation. They are also risk management counsel for Chubb Executive Risk's Insurance Agents Unit, the executive protection underwriting division of Chubb & Son Inc.

Agents urged to eye clients' e-commerce risks

By SALLY ROBERTS

As e-commerce continues to become more of a reality for businesses today, agents and brokers need to stay on top of all the risk management implications and new exposures that the virtual world presents for their clients, an expert advises.

Because coverage remains limited in the market, agents need to focus on emerging trends, provide clients with the best advice and implement effective loss control steps, said Jeff Behm, e-commerce manager for Atlantic Mutual Cos. in Madison, N.J.

E-commerce allows instantaneous business transactions and brings a much wider range of customers, Mr. Behm said. So if there's a business interruption, a product defect or a copyright infringement, it can lead to huge customer retention problems or rapid development of class-action suits, he said.

Other e-commerce exposures include the company's intellectual property, its computers, high-tech crime and an increased risk of carpal tunnel syndrome, he added.

"If you think that the only method to secure protection is to go out and get coverage, you'll spend lots of money and may not get the kind of protection that you need," Mr. Behm said. He noted that the market offers some e-commerce-related coverage, but it is "expensive and hard to find."

"There are a lot of loss prevention techniques that are more important than coverage," he said.

During a session at the recent Independent Insurance Agents of America Inc.'s 104th annual convention in Las Vegas, Mr. Behm discussed e-commerce exposures and various loss prevention techniques.

"When you move toward a dot-com company, you don't eliminate exposure, you add to existing exposures," Mr. Behm said.

To find these new exposures, he advises agents "to separate the hype from the reality." In many cases, he said, a business with a new Web site might think it has a host of new exposures, when in reality it does not.

Next, agents need to look at what the business is trying to accomplish by moving into a virtual world, he said. The core business of Amazon.com, for example, is not selling books; it's customer relationship management, he said.

He noted that the key exposures for an online company are related to its core business. For Amazon.com, its greatest asset is its complex database of more than 10 million customers, he said. Amazon.com's exposures lie in how it uses, loses or abuses that asset, Mr. Behm said.

In addition, Amazon.com also "touches" thousands of affiliates and therefore has to manage all of those rights, Mr. Behm added.

In terms of specific loss scenarios and prevention techniques, Mr. Behm said that high-tech crime

risks, including hacking and computer viruses, are often covered in package policies under vandalism and malicious mischief insurance.

In many cases, a policy will not clearly define what will be covered, Mr. Behm noted, but e-commerce risks may not be specifically excluded. He said, however, that fraudulent transactions are often not covered in a typical package policy.

In addition to high-tech crime, violation of privacy is a growing concern, Mr. Behm said.

"Privacy is one of the more critical

issues in e-commerce," he said.

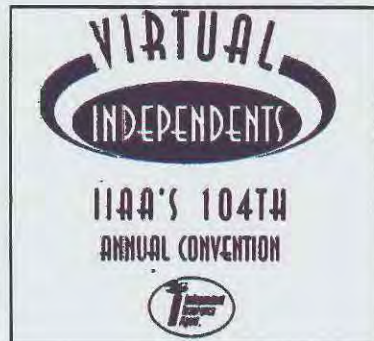
If a client is doing anything on the Web with customers, it needs to post its privacy policy on the site, he said.

E-business clients should not release any customer information, such as credit card numbers or medical histories, via the site to third parties without the customer's consent, Mr. Behm said. If the customer's data is to be used, he suggests e-businesses include an "opt-in" feature in the privacy policy. This way, customers can determine whether their information can be used, he said.

In addition, e-businesses need to use secure online payment methods to protect client information. "There are very secure ways to handle this information," Mr. Behm said. "It's not rocket science—it's available. Make sure your clients are using it," he urged agents.

He also noted that agents should advise clients to avoid sending unsolicited commercial e-mail, known as "spam," which is becoming illegal in more and more states.

Business interruption is another exposure e-businesses face, Mr.



Behm said.

"Obviously, customers need business interruption insurance," he said. "In addition to coverage, make sure you take some basic loss prevention steps."

See **Online** on next page

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Online

Continued from previous page

He suggests, for example, having regular offsite backups, good security, alternate host sites, employee training and screening, a reputable Web host with certificates of insurance and a business continuity plan.

Because of the volatility of the relatively new world of e-commerce, agents need to keep in touch with clients on a regular basis and update limits and coverages more frequently, Mr. Behm recommends.

E-businesses also face exposure to employee dishonesty, with between 50% and 60% of high-tech crime

coming from within the company, he said. "It's very difficult to find good IT people today," he said, noting that 10% of IT jobs go unfilled.

Mr. Behm suggests all e-businesses conduct full background checks on workers who have access to valuable goods and sensitive information.

E-businesses also need errors and omissions liability insurance to cover any failure of the product, the design or the intended work, he said.

Various loss prevention methods—including written policies to ensure consistent employee activity, training, offsite backup of customer data and security—also must be implemented to reduce E&O exposure.

Intellectual property rights, or the

risks associated with gathering and communicating information, present a key exposure for e-businesses, Mr. Behm said. Copyright, trademark and patent infringement are commonplace on the Web, he said, noting that many sites use unauthorized logos and links to other sites.

Not surprisingly, intellectual property is excluded from most package and E&O policies due to frequent claims, poor loss results and the difficult control issues, he said.

E-businesses should certainly consider coverage if it's available, Mr. Behm said, but every e-business should have written policies on its Web site development and a legal review of the site's content. **BI**

Virtual village greets new online neighbors

By SALLY ROBERTS

With a theme of "Virtual Independents," it's not surprising that a host of new technology-related products and alliances were unveiled at the Independent Insurance Agents of America Inc.'s annual con-

vention and trade show, held recently in Las Vegas.

The IIAA used its convention to showcase its Virtual Big I Village, an interactive "neighborhood" of all of the association's online products and services, some of which premiered at the convention.

The Village includes:

- **Big I MARKETS**—IIAA's new agents' market access program that provides IIAA agent members with online access to a menu of specialty and niche insurance coverage endorsed by the association. The online program will provide underwriting, coverage and insurer credential information about these products, as well as online e-mail quotes and applications.

Rollout is expected before the end of the year; products will be phased in and generally available to all IIAA members by early 2000.

- **Big I CERTS**—IIAA's new online program for certificates of insurance. Developed in conjunction with San Diego-based CertificatesNow.com, the program allows a policyholder to log onto an agent's World Wide Web page and issue his or her own certificates of insurance, eliminating for agents the time, effort and expense of processing certificates.

Big I CERTS, which goes live today, will be in a free test phase until Jan. 1.

- **Big I EFT**—IIAA's electronic funds transfer product that enables a participating IIAA member to debit an insurance premium from a policyholder's bank account and deposit it directly into the agent's account. In conjunction with Savannah, Ga.-based The ACH Processing Co., Big I EFT also allows for such transactions as payroll direct deposit, trade-vendor accounts payable, electronic federal tax payment and bank account management.

Big I EFT is currently available to agents.

- **Big I Virtual University**—IIAA's online university that offers online classes, seminars and research, a bookstore of best-practices offerings, a research/database piece, and a comprehensive nationwide continuing education calendar.

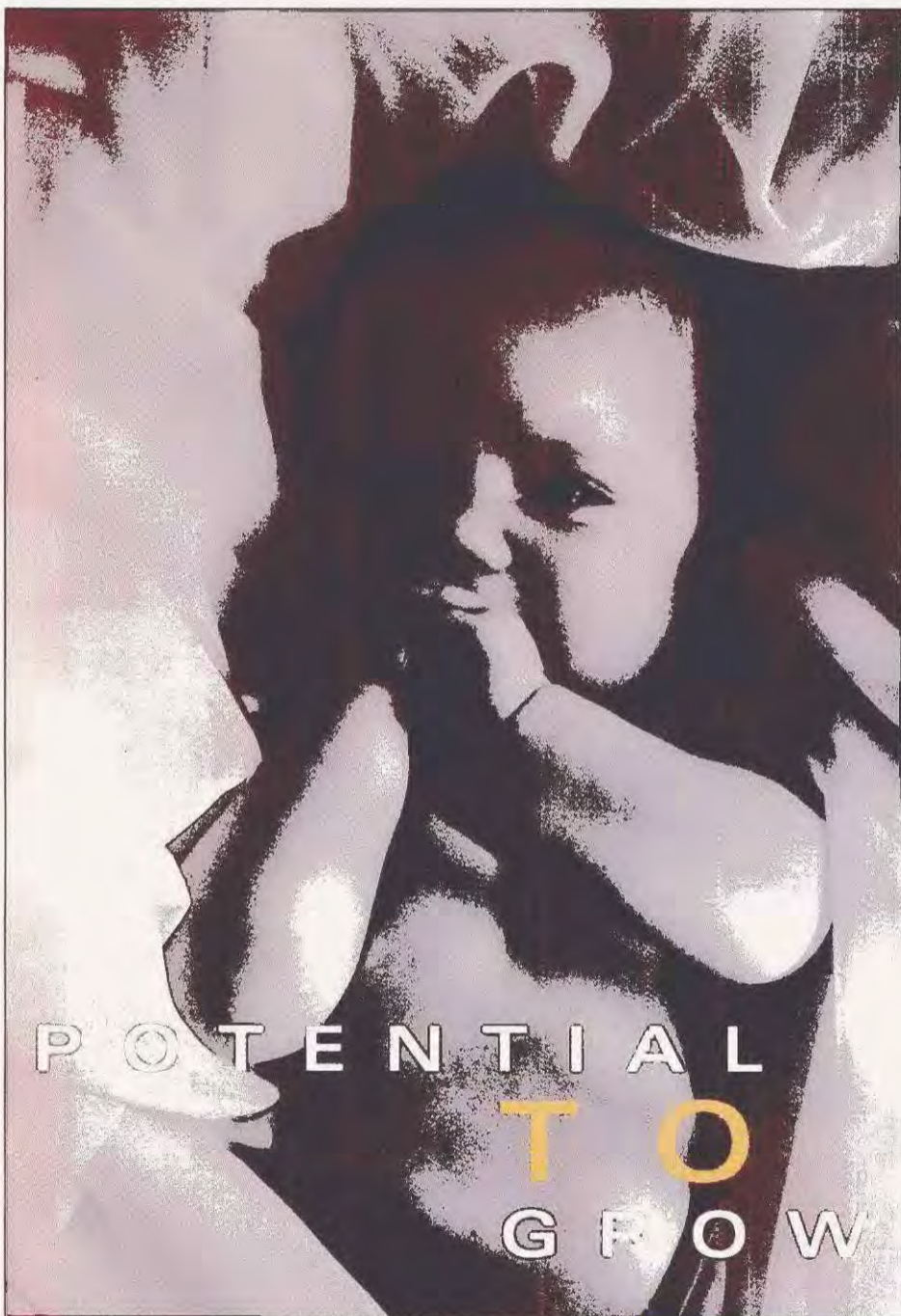
The Virtual University is set to go live Jan. 1.

- **IIAA Website Factory**—a year-old online product that provides free Web site design to member agents. The program was recently upgraded with new templates and a function that allows users to add street directions to an agency's site, as well as logos of all the insurers an agency represents.

The Website Factory-created pages will be available on the World Wide Web, as well as on IIAA's Agent Locator database, which lists more than 25,000 independent agencies across the country.

- **The IIAA's Agents Council for Technology**—a two-tiered advisory board of agent and industry repre-

See **High-tech** on next page



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High-tech

Continued from previous page
representatives established to help agents better understand and use technology. At the convention, ACT revealed its blueprint for e-commerce, which provides specific recommendations to independent agents and others in the industry.

• InsurBanc—IIAA's federal thrift, which has a pending application for charter. After the application is approved and InsurBanc becomes operational, plans call for participating agents to be able to offer bank products to clients. The IIAA anticipates that the charter application will be approved in the first quarter of 2000.

IIAA members can access the Virtual Big I Village through the "members-only" link on the IIAA's newly redesigned Web site, www.independentagent.com.

Also at the convention, the IIAA announced a new alliance with insure.com for the joint development and delivery of new online tools for independent agents.

Under the joint agreement, insure.com will provide IIAA member agencies with access to consumer insurance news and information features for agencies' individual Web sites and customer service materials. In return, the IIAA will grant insure.com use of the IIAA's exclusive Agent Locator database.

Also announced at the convention:

• Agency Company Organization for Research and Development announced the completion of a standardized vocabulary for insurance industry electronic communications, called extensible markup language, or XML.

Spearheaded by IIAA's ACT and based on the ACORD ObjX and AL3 standards, the XML standards will allow agents and insurers to move data much more efficiently with the common language and the Internet, reducing the need to enter data multiple times.

AMS Services and The Hartford Financial Services Group Inc., which are testing the standards, announced a successful two-way transfer of ACORD data using an XML interface.

Simulating the agent's role, AMS uploaded policy data over the Web to The Hartford, which, in turn, quoted the policy and returned the quote.

• Provo, Utah-based InsurQuote Systems Inc. announced a comprehensive online insurance sales and distribution system.

The InsurQuote system includes a suite of integrated software products that are built on a single, scalable Internet-based rating engine to ensure compatibility and interaction among agents, insurers, consumers and Internet service providers. The system can serve as the techno-

logical foundation and distribution mechanism for all online insurance rating.

The InsurQuote system was designed to ease the slow and complex insurance rating process when shopping for insurance policies online. It also allows agents, insurers, consumers and Internet service providers to communicate with each other.

• Long Grove, Ill.-based Kemper Insurance Cos. announced that it has entered into a joint venture with The Madison Consulting Group to launch nekema.com, a company that offers expertise, customized financial products and transaction services designed

to support agents and financial industry partners in their e-commerce efforts.

Internet tools available from nekema.com include Web design services, a complete online sales and delivery e-commerce platform that can be used by any financial services provider, online insurance quoting-to-purchase capabilities across a set of insurance products, and online lead generation and sales referrals.

Nekema.com's customer base will consist mainly of financial institutions and small businesses, with a special focus on independent agents.

Kemper also unveiled its new

Kemper e-Source online underwriting tool, which gives Kemper agents online access to the insurer's HealthyReturn workers compensation insurance product. Via Kemper's Web site, www.kemperinsurance.com, agents can quote and bind new workers comp policies online.

Kemper e-Source underwriting now is available in Arizona, California, Mississippi and New York; other states will be added in November and December.

• Sybase Inc. of Emeryville, Calif., and Newport Beach, Calif.-based CAIR Systems announced a strategic agreement to provide a data warehousing solution for

the property/casualty insurance industry.

Under the agreement, CAIR Systems will offer customers the data warehouse product based upon the Sybase Industry Warehouse Studio family of products.

Sybase's Property/Casualty Insurance Warehouse Studio 2.0 contains a wide range of prepackaged applications as well as a framework to provide for company-specific customization and data warehouse design.

With the product, agents and brokers will be able to identify and analyze critical data that is specific to their industry and marketplace. **BI**

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Consultant advises agents to boost profits by negotiating contingent commissions

By SALLY ROBERTS

Independent agencies seeking a boost in profits need look no further than the commissions they receive from insurers they represent, a consultant contends.

Contingent commissions, those paid to agencies by insurers based on the volume and profitability of business placed, vary tremendously among insurers—often by tens of thousands and even hundreds of thousands of dollars, said Chris Burand, president of agency consulting firm Burand & Associates L.L.C., based in Pueblo, Colo. Mr. Burand encourages agencies to analyze their own contingency contracts to determine whether they should move business to the better-paying insurers or negotiate for additional compensation.

"I cannot overemphasize that

the money is there for you," Mr. Burand told agents attending a seminar at the recent Independent Insurance Agents of America Inc.'s annual convention held in Las Vegas.

He noted that most insurers have at least two contingency contracts, but he said he knows of at least one insurer that uses seven different contracts.

Because of this, agencies need to make sure that they are receiving the best arrangement available, he said. In most cases, however, the insurance marketing representative with whom an agent is dealing does not know whether there is a better contingency contract available. Mr. Burand suggests going to the senior vp level or above at the insurer to get that information.

"There is no harm in asking for more money," Mr. Burand said, noting that to have bargaining

leverage, an agency needs to have at least \$500,000 in volume placed with the insurer. "When you get up to \$1 million (in volume) you can do a whole lot more with that," he said.

"I cannot overemphasize that the money is there for you."

— Chris Burand

One of the results of analyzing contingency contracts is that an agency can move its business to the better-paying insurers, Mr. Burand said.

"Choice exists," he said. While it costs a good year's commission to move an account, the acquiring insurer will pay for it, he said.

In today's market, with net

written premiums growing at a pace less than inflation, where are insurers getting new business? Mr. Burand asked. That business is coming from other insurers, he said. "They want your business, and they will pay for it."

Mr. Burand told agents that they need to reduce the number of insurers they represent.

"There are very few agencies that could not get rid of at least one company," he said.

He recommends taking a look at each insurer represented and rating each one on a scale of one to 10 based on claims, policy issuance, products, automation, underwriting, marketing, education, agency management, commissions and incentives.

Mr. Burand said agents should also chart the number of submissions made to each insurer, the number of quotes received and the number of policies written.

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If any insurer scores low, "get rid of them," Mr. Burand said.

If after analyzing the contingency contracts the agency wants to maintain the relationship with the insurer, Mr. Burand suggests negotiating with the insurers for additional compensation.

"Every smart company negotiates," Mr. Burand said.

In discussing a few negotiating points, Mr. Burand suggested that agents need to be careful when negotiating growth provisions in contingency contracts.

He said he has seen a contract that contained a provision stating that if premiums fall even \$1, the agency is excluded from contingencies. At the same time, "there is no sense of reality" for a provision calling for a 15% growth rate in order to be eligible for contingencies, he said.

Agencies also could negotiate additional commission if the insurer is unwilling to pay better contingencies, he said.

Agents also can negotiate for marketing assistance, he said.

"Every company has a budget for (marketing assistance), but they never spend all of it because agencies don't ask for it," Mr. Burand said.

He added that, in half the cases, there is no "price to pay" for receiving such assistance.

Other negotiating points include: incentives, mix of business, underwriting and pricing guidelines, automation, billing procedures, volume requirements, who the underwriter and marketing representative should be, and the availability of consulting services.

Another strategy that producers can use after analyzing contingency contracts is negotiating loss reserves, Mr. Burand said. The loss reserves an insurer sets for a book of business can affect the amount of contingent commission it pays for the business.

While negotiating this issue can be difficult, "lots of times, insurers will bring reserves down if you ask them," Mr. Burand said.

He also suggests obtaining loss runs from insurers to make sure all the cases that should be closed are closed. If there are closed cases that are open on the books, the loss ratio will be adversely affected.

In order to use contingency contracts more strategically, Mr. Burand said that agents need to check for mistakes.

Overall, he said that by analyzing contingency contracts, agents will know how the contracts work and can make more money without working any harder. **BI**



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IIAA annual meeting draws nearly 2,500

By SALLY ROBERTS

Las Vegas once again played host to nearly 2,500 independent agents attending the 104th annual Independent Insurance Agents of America Inc. convention and trade show.

The theme, "Virtual Independents," reflected the convention's many workshops on technology and the hands-on exposure to many exhibitors' new high-tech wares. And the theme was carried further in that nearly all the convention's events were broadcast live via the Internet.

The convention's taped World Wide Web broadcasts remained on the IIAA's Web site through the end of October.

Those attending the convention were treated to presentations by authors Stan Davis and Harry Dent. Also back this year was the IIAA's popular political roundtable. Paul A. Equale, IIAA's chief executive officer, and Robert A. Rusbuldt, IIAA's executive vp, teamed up with George Stephanopoulos, former senior adviser to President Clinton, and Laura Ingraham, host of cable network MSNBC's "Watch It with Laura Ingraham," for a lively debate.

The convention also featured several workshops and sessions, with topics that included commercial excess liability and umbrella coverages, making technology work, agency/company contracts, and employment practices liability.

During the closing general session, William M. Houston, branch manager of Riedman Insurance Corp. in Denver, was installed as the 95th president of IIAA. He succeeds William B. Greenwood, president of Lawton

Insurance in Central City, Ky.

Also during the convention, past IIAA President Ronald A. Smith was presented with the Woodworth Memorial Award. IIAA's highest honor, the award is given to the individual who has performed special, meritorious and outstanding service on behalf of the independent agency system and IIAA members everywhere.

The IIAA's outstanding state association awards also were presented. These awards recognize

noteworthy service in such areas as education, communications, federal and state government affairs, civic contributions, and the development of comprehensive member products and services.

The Independent Insurance Agents of South Carolina took top honors in the less-than-300-members category; the Oklahoma Assn. of Independent Agents won in the 300-to-600-members category; and the Michigan Assn. of Independent Agents received the award in the

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more-than-600-members category.

Next year's convention and trade show will be held Oct. 27-Nov. 1 in Orlando, Fla.

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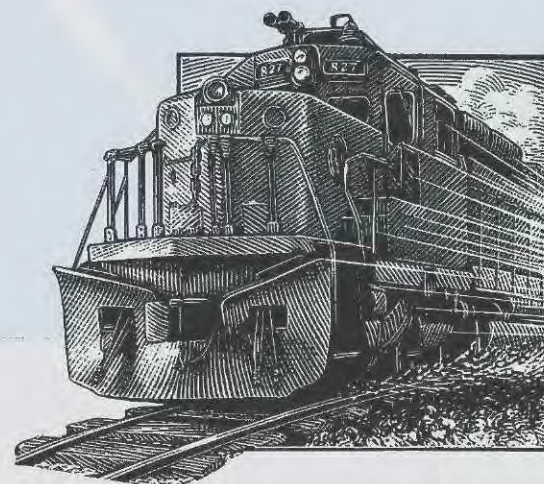
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Efficiency viewed as the heart of e-commerce

Agents can use Internet to broaden reach, decrease costs, deliver more value: Expert

By **RODD ZOLKOS**

Though there's been an enormous increase in the use of technology in the insurance industry, "the problem is it's not used very well or very efficiently," according to one industry expert on e-commerce.

Speaking to the Fourth Annual Producers' Forum, sponsored by Commonwealth Risk earlier this month in Philadelphia, Tim J. Higham, principal of iNEX Inc. in Tampa, Fla., first dispelled what he sees as some widely held myths about the Internet.

"Everyone won't buy off the Internet," Mr. Higham said, noting that, instead, many people will use the Internet as a source of information.

Along that line, he suggested, retail stores won't disappear, and the Internet won't expand indefinitely. "Lest we start to populate Venus and Mars, the Inter-

net will not grow forever," he said.

Finally, Mr. Higham disputed the suggestion that the Internet will result in the extinction of insurance agents.

"That is not correct," he said. "Agents provide an extremely valuable role in the insurance purchasing process."

Instead, Mr. Higham said, e-commerce should be used to enhance the role of intermediaries.

"It doesn't mean that, if you build a Web site and it's really, really good, people will come and start buying from you," he said. An agent or broker must use the Internet as a business-to-business tool to decrease the costs of doing business, Mr. Higham said.

For agents and brokers, the Internet also can serve as a tool to open markets and broaden reach. And it can simplify transaction processes currently run on legacy-based, or traditional mainframe systems, he said.

With the Internet, "what you're able to do is put a user-friendly, nice front end on a legacy system," Mr. Higham said.

It's essential, though, that agents and brokers look ahead and keep pace with customers' expectations. "You must be ready to do Internet commerce when your customers are ready to do commerce with you," the Internet expert said.

And, he added, "the insurance industry is extremely behind the rest of the world when it comes to using the Internet."

One effect of e-commerce is that consumers are learning the "real value of the middle-man," and are redirecting purchasing decisions as a result, Mr. Higham said.

Noting the impact on travel agents of airlines' efforts to encourage customers to use online ticket purchasing systems, Mr. Higham said producers face a similar situation if they don't find ways to deliver real value to their clients.

He also noted the effect that banks are likely to have as competitors in the future.

With the convergence of banking and insurance, banks are making plans to sell insurance over the Internet as part of a full range of financial services. To that end, they are making massive investments in their online systems, Mr. Higham noted.

"The reason they're doing that is that they want to retain the customer," he said. "People recognize that, the more things you sell an individual, the more likely it is that that individual isn't going to leave you."

"They want to sell everything, they want to do everything, and they're going to start eating at your market share—even in the alternative market," he warned.

And the trend toward e-commerce in insurance isn't going to affect just personal lines, he said.

Citing studies showing risks faced by U.S. life/health insurers in a converging financial market and others showing online insurance sales increasing rapidly—with much of it by banks, Mr. Higham said, "It's only a matter of time before these sorts of studies also start to show how commercial insurance is going to be highly impacted."



The key factors agents and brokers should consider in developing Internet tools for customers are information-based utilities, transaction-based applications, the reliable exchange of data and the secure movement of documents.

Agreeing with producers that relationships are important, Mr. Higham said the Internet can offer them more and better opportunities to "touch" their customers.

"Relationship is important, but you often touch your customers insignificantly," he said. "You don't touch your customers very often, and you need to increase that customer contact."

And, Mr. Higham said, "if you increase your retention rates by one point, your entire e-commerce strategy will probably pay for itself in the first year alone." **BI**

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Producer-owned captives offer flexibility: Executive

By **RODD ZOLKOS**

Producer-owned captives offer several advantages to agents and brokers trying to take a more-strategic approach to their business, according to a reinsurance underwriter who specializes in working with the alternative market.

"There are only two divisions left anymore in the captive industry," said David Babcock, a director with Swiss Re New Markets Corp. in New York. "There are pure, single-parent captives, and then there are all the rest of them."

And, Mr. Babcock said in a presentation to the Fourth Annual Producers' Forum, sponsored by Commonwealth Risk earlier this month in Philadelphia, almost any commercial risk can be dealt with today in a captive.

A captive can be a particularly useful vehicle for an agency or brokerage that has a number of clients in the same industry with

similar risks, Mr. Babcock said.

The structure of such captives can take several forms, including sole ownership by the agency or brokerage, majority ownership by the producer with minority ownership by the policyholders, or a controlling interest by the producer with outside investors owning the balance.

Of the various factors that have prompted producers to form captives, closures and mergers of insurers are probably at the top of the list, Mr. Babcock said.

Shrinking revenues also have played a role. "Certainly, that's a close second to what drives a producer into a producer-owned captive," Mr. Babcock said.

Another factor often cited by producers that have formed captives is a lack of experienced underwriters, a phenomenon Mr. Babcock termed "the teen-age expert underwriter."

Among insurers, "those year-long training classes and regimens are long since gone," he said.

"And there's no consistency



anymore," he said, noting that underwriters these days move quickly from one business area to another, leaving producers constantly working with new individuals at their insurers.

Another reason behind forming a producer-owned captive is to get away from "in-the-box underwriting" and do something for a significant customer that a traditional insurer will not do, he said.

From the producer's perspective, the owned captive can allow better service and coverage for policyholders, underwriting control, control over revenues, and control over the agency's or brokerage's destiny, Mr. Babcock said.

Typical "success factors" that reinsurance underwriting partners will look for in a producer-owned captive are a 10-year claims history of the risks to be placed in the captive, reasonable stability in that book of business, more than \$10 million in volume, and a 50% or better earned-to-incurred loss ratio.

"Are any of these set in stone?" Mr. Babcock asked. "No, none of them are. But the hardest one is that 10-year history," he said, adding that it's probably also the most important factor to the reinsurer.

In starting up the operation, the business plan "is the key document," Mr. Babcock said. "It is the heart and soul, the alpha and the omega."

He suggested that, in crafting such plans, producers be as candid as possible and avoid being overly optimistic or pessimistic.

"When a captive gets in trouble in the third or fourth year, you go back to that plan, and, invariably, they are way off that plan," Mr. Babcock said.

Domicile selection "is one of the last things we decide," he said.

"Generally speaking, almost all producer-owned captives are off-shore, because onshore domiciles don't accommodate group captives very well," Mr. Babcock said. He noted that there are some exceptions, pointing out, for example, that "Nevada has a specific provision for agency captives, which is a major breakthrough for agency captives."

Relationships with consultants, reinsurers, third-party administrators, fronting insurers and captive managers are important factors, Mr. Babcock said, adding that "these people are all your partners." He encouraged producers that are forming captives to establish relationships with those partners early in the process.

"They're with you in this venture," he said. "Once they're with you at the table, they have the same desire you do—that everybody comes out OK, that everybody makes money on this thing." **BI**

Experts debate prospects for an insurance market turn

Anticipating an upswing, insurers that won't remove excess capacity help keep the market soft

By **RODD ZOLKOS**

Though there are signs that seem to point to a turn in the insurance market, they remain in the shadows of the industry's overabundance of capital, according to one panel of experts.

"It seems like every company of any size likes to tell investors they have a lot of capital and 'Boy, are they going to make a lot of money when things change,'" said Weston M. Hicks, managing director of J.P. Morgan Securities Inc. in New York. "The problem is, when every-

body is in that position, things don't change."

Speaking as part of a panel examining the prospects for a market turn at the Fourth Annual Producers' Forum, sponsored by Commonwealth Risk earlier this month in Philadelphia, Mr. Hicks noted that "the question on investors' minds is 'Are we in a countdown to ecstasy or extinction in the industry?' The stocks are certainly acting like extinction right now."

Mr. Hicks noted that, while the broader stock market has increased in value in recent years, the value of insurance company stocks has trended downward.

"The market is incredibly effi-

cient, and what the market is telling us, I think, right now is there are big problems ahead for the P/C industry," he said.

Investor concerns include insurers' lack of revenue growth, declining returns on equity, deteriorating operating cash flow, poor quality of earnings, rising interest rates and a lack of progress among insurers in managing their capital.

Another panelist, Patrick Sheehy, senior casualty underwriter at the DP Mann syndicate at Lloyd's of London, wondered aloud how there could possibly be an upswing in the market until the excess capacity is removed, and why anyone would remove that capacity if they anticipated an upturn in pricing.

"I think the problem with the insurance industry is that we've been positioning ourselves for that turn for too long," Mr. Sheehy said.

"If we constantly cry out, 'Here comes the turn,' I think we'll never see it," he said.

With that in mind, he said, he doesn't expect a widespread market turn, though there will be upticks in certain lines.

Mr. Sheehy said he's beginning to see "some people do some underwriting," adding, "I think, over the next year, the bottom 10% or 20% of people's books won't be fought over."

"So I see gradual improvement, rather than a real turn," he said. "But I do hope I'm wrong."

Nancy E. Carini, a vp at Con-

ning & Co. in Hartford, Conn., noted that "the business cycle is something that is very common to all business."

Each business has its own set of circumstances that drive its cycle, she said. In insurance, the cycle is greatly influenced by four types of risk: pricing risk, reserve risk, investment risk and catastrophe risk.

"Perhaps the factor that is most difficult to understand and predict is the psychology of the cycle," Ms. Carini said.

Basically, she said, that psychology reflects insurers' optimism or pessimism.

"Even as we see the market tightening, I still would say, as you stand back and look at the market overall, you see a sense of optimism," she said.

Ms. Carini noted that pricing trends show a deceleration of the rate at which prices have been decreasing, but, she noted, "this is occurring with a generally optimistic viewpoint of the market."

And, she said, typically, if insurers see a soft market ending, they want to stay in the market to reap the benefit of higher prices.

So, though the commercial market is bottoming, Ms. Carini said, "the point we're not sure of is how long that bottoming will occur."

The question, then, is whether the market will return to another round of price decreases or move to a more traditional cycle.

Among the "wild cards" the



industry faces in the year ahead, Mr. Hicks said, is whether the Year 2000 issue will be the next major litigation crisis.

"It seems like the liability tide is turning, which is one of the things that has perpetuated the soft market," he said. "There just haven't been any large liability catastrophes."

Declining industry cash flow is one key indicator suggesting that a pricing turn could be near, Mr. Hicks said.

"The industry is subsidizing underpricing new business with the release of reserves from prior years," he said. "Simply put, the market will turn when these reserves play themselves out."

Mr. Hicks laid out a P/C industry "road map to recovery," which runs from declining returns to red ink to a major crisis and, ultimately, a cycle turn.

He suggested that last year's declining returns are moving to red ink this year, and a major crisis next year will lead to a cycle turn in 2001.

"We think that, if you get some of these wild cards hitting in the next year, such as the Y2K problem or a major catastrophe, we think we can see prices go up in 2001," he said. **BI**

230 gather to discuss industry innovations

The Fourth Annual Producers' Forum, sponsored by Commonwealth Risk, drew 230 total attendees to Philadelphia's Park Hyatt at the Bellevue Oct. 18-20.

The gathering of insurance agents, brokers and reinsurance intermediaries included presentations on innovative program design, changes in the Bermuda market, new approaches to risk management,



industry consolidation, the impact of the Internet, producer-owned captives and branding.

For more information on next year's forum, contact Commonwealth Risk at 215-963-1607.

Internet called crucial to E&S insurance industry

Brokers and insurers not online could lose out to competitors such as banks and other financial services firms, consultant says

By **JOANNE WOJCIK KOCHANIEC**

The excess and surplus lines insurance market can't afford to ignore the Internet any longer—it's coming and it's coming fast, technology experts say.

If they fail to keep pace with such developments, these companies will lose business to non-traditional competitors such as retail insurers, banks and other financial services firms whose e-commerce initiatives are further advanced than those of the surplus lines market, said Mike Zawaki, president of Presentation Dynamics Inc., a Boca Raton, Fla., consultant to the insurance industry.

"Any corporation that's not marketing a product over the Internet today will go out of business

by the year 2008," Mr. Zawaki predicted.

"Learn the technology; don't be afraid of it," he urged those attending a panel discussion on "The Changing E&S Distribution System" at the 25th annual conference of the National Assn. of Professional Surplus Lines Offices, held Oct. 6-10 in New York.

By using the Internet, surplus lines insurers not only can get their name out to more potential customers, but they also can save money by conducting their business more efficiently and with less paperwork, according to Mr. Zawaki.

"E-business will save hundreds of thousands of dollars in transaction costs," he said.

Fortunately, it's not too late for the surplus lines market to merge into the growing traffic on the proverbial "information super-

highway," Mr. Zawaki said.

The first commercial Web site was launched just seven years ago, so "if you think you're out of date with business technology, you're not," he told the NAPSLO members.

Furthermore, the infrastructure still hasn't been fully developed to meet all the needs of businesses that want to do business on the Internet, Mr. Zawaki said.

"2003 is a key year. It will take that long for the technology to be developed to meet the needs of business," he predicted.

What's needed are fiber optics and other advanced technology that will cut communication costs in half by speeding information delivery to more than a million bits per second, he explained.

The Internet also can help develop widespread brand recognition for surplus lines insurers, said Jeremy Cooke, president and chief financial officer of Investors Insurance Co., a surplus lines insurer in Red Bank, N.J. These insurers traditionally have focused marketing efforts on wholesale brokers, rather than consumers.

"The Internet is a crucial part of the changing (insurance) distribution system," said Mr. Cooke.

"Many of you still think your customer is the retail agent or broker," he said, addressing the surplus lines insurers, brokers and

managing general agents in the audience.

"But the customer is viewed today as the ultimate consumer—the person who writes the check," Mr. Cooke said.

This means surplus lines insurers' real customers are risk managers and other types of insurance buyers, not the intermediaries who bring the business to the insurers, he explained.

"There is change everywhere; we need to adapt," he said.

Surplus lines insurers that also offer buyers an opportunity to transact business on the Web will be even further ahead of the curve, said

Nicholas Cortezi, executive vp of All Risks Ltd., a surplus lines broker in Timonium, Md.

"Clearly there's a segment of (the buyer) population that wants to look at options on the Web," he said. "The thing we struggle with is the pace of change. Now everything is a 'dot com,'" he said.

Mr. Cortezi predicts that, four years from now, retail agents will be able to press a key and send submissions to every insurer, managing general agent and surplus lines broker capable of accepting such information via the Internet, and "if we can't accept the data or need to translate it, we'll be behind the competition."

The primary problem with surplus lines insurers' existing computer systems is that they often require duplicate data entry because they don't accept standardized forms, pointed out Mr. Zawaki of

Presentation Dynamics.

But that problem can be overcome, he said.

"You think you're so highly specialized that you'll never find a single software program to work for you. You're probably right. But you can standardize the telecommunications function," he said. "You have to go back to basic Web development; you have to tell developers what you need."

For example, there's no insurance industry-specific search engine. Such a tool could make it easier for consumers to find the types of insurance—and insurers—they need more easily, Mr. Zawaki said.

Richard Bouhan, executive director of NAPSLO, moderated the panel. **B**



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NAPSLO draws 2,150

A total of 2,150 surplus lines insurers, brokers and managing general agents attended the 25th annual National Assn. of Professional Surplus Lines Offices Conference, held Oct. 6-10 in New York.

Former President George Bush was the conference's keynote speaker. He entertained the group with humorous anecdotes from his term in the White House during a standing-room-only presentation in the art deco ballroom of the Waldorf Astoria hotel.


Other sessions at this year's NAPSLO conference focused on how members could use technology to make their operations more efficient and profitable.

In addition, several NAPSLO member companies were given plaques recognizing their contributions to the organization throughout its 25-year history.

Next year's NAPSLO conference will be held Sept. 12-17, 2000, in Chicago.

For information about that conference, contact the National Assn. of Professional Surplus Lines Offices Ltd., 6405 N. Cosby, Suite 201, Kansas City, Mo. 64151; 816-741-3910.





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May 25	Environmental Risk Management Consultants
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Surplus lines industry told to strive for standardization

By JOANNE WOJCIK
KOCHANIEC

It may be time for the excess and surplus lines industry to stop thinking of itself as being "special" and start conforming with the rest of the insurance industry, experts say.

And this will require a significant investment in information technology—something the E&S market has been reluctant to make, industry experts point out. E&S insurers may have to standardize their submission processes and many of their policy forms if they want to compete with the standard market, these experts said during a panel discussion entitled "The Four Corners of Technology: the Retailer, the Company, the Reinsurer and A.M. Best: What's a Wholesaler to Do?"

It was the second of two controversial panel discussions on technology at the 25th annual National Assn. of Professional Surplus Lines Offices meeting, held Oct. 6-10 in New York.

"Just how special are you? How special should you be? Where should you differentiate yourselves?" queried Patricia A. Borowski,

division vp of the National Assn. of Professional Insurance Agents in Alexandria, Va.

While independent agents traditionally have placed business with E&S insurers only during hard retail markets, a significant amount of specialty lines business has remained in the non-standard market despite the current soft market, Ms. Borowski pointed out.

But that may change as retail agents spend more on technology to streamline their own business operations, she warned.

Agents want to do business with insurers that have compatible systems—something surplus lines insurers often lack.

Ms. Borowski estimates that the average agency with \$4 million to \$4.5 million in annual premium volume is spending as much as \$150,000 over a three-year period to upgrade its computer systems.

"Yet 90% of our membership report still having to deal with E&S carriers on a manual basis. They can't afford that," she said.

Not only does it take additional time and effort to conduct business manually, agents "cannot afford this, from an errors and omissions standpoint," Ms. Borowski said, ex-

plaining that completing submissions electronically generally reduces the number of mistakes made.

When insurers in the NAPSLO audience asked Ms. Borowski which systems they need to link up with the retail brokerage community, she replied: "Retailers are going everywhere... There's no single platform. So the E&S market should seek versatile platforms."

She also said that retailers already recognize that continual investments will need to be made in their IT systems in order for their agencies to remain competitive.

The E&S market should likewise have a dedicated IT budget so it, too, can keep pace, Ms. Borowski urged.

Unfortunately, the insurance industry as a whole is so conservative and risk-averse that it's not making the appropriate investment in IT, according to Pat Saporito, vp and director of insurance information strategies at META Group, a Stamford, Conn.-based IT research and market assessment company.

Instead, the majority of the industry's IT dollars has been spent on Year 2000 compliance efforts, according to Martin Sheffield, vp-property/casualty division of A.M. Best Co. in Oldwick, N.J.

In fact, "the surplus lines industry has spent more than the standard market on Y2K," he said.

"Nobody wants to be first," Ms. Saporito said. But with some \$54 million in redundant business process system costs, "there's a lot of fat to be cut out of the insurance industry," she said, citing an estimate META Group derived from a survey of the insurance industry it conducted last March.

She agreed with Ms. Borowski that E&S insurers are not spending enough on IT. But they are not alone, she said.

"Most insurance companies spent



less than 3% to 4% of revenues a year on technology, but banks and financial services companies spend two to three times that amount," Ms. Saporito said.

As a result, insurers in both the standard and E&S markets risk losing business to this new competition, she said.

According to the META Group's analysis, which was released at the NAPSLO conference, "ambivalence to organizational change, coupled with a desire to fully depreciate legacy system and distribution investments, is extending the window of opportunity for banks and financial services organizations to leverage existing infrastructure and invade traditional insurers' turf."

"By 2006, banks and financial services companies will leap from owning less than 1% of the U.S. insurance market to commanding a 10% share. Upstart 'virtual insurers' and direct players with more-flexible organization and system structures will also capture 2% to 5% market share at the expense of current industry leaders," according to the analysis, which was based on a survey of the IT investment strategies of some 100 insurers, brokers and reinsurers representing a cross-section of both the standard market and the E&S industry.

A November 1998 study of NAPSLO member companies conducted by KPMG L.L.P. also concluded that increased use of technology could help the industry compete more effectively, pointed out Euclid Black, the president of Black White & Associates and the moderator of the panel discussion.

The KPMG report, based on interviews with NAPSLO member insurers, wholesale brokers and independent retail agents, also found that NAPSLO members tend to be risk-averse and conservative in the use of technology.

And a report by A.M. Best Co., also distributed at the conference, further reinforced the notion that E&S insurers and marketers need to think more about high-tech issues.

"Although a few insurers are offering Web site users quoting and sales over the Internet, most insurers' Web sites are basically electronic brochures," according to the "Annual Review of the Surplus Lines Industry" published last month by Best.

"The objective should be to move beyond these static Web sites and develop Web-enabled processes that interact with consumers, as well as provide reduced costs through a paperless environment," suggested the Best report.

In particular, the use of Internet technology could eliminate many redundancies and inefficiencies that have contributed to higher product costs in the surplus lines market, the Best report said.

The study said that "increased use of technology is critical for the in-

dustry to compete more effectively."

The Best report also suggested that surplus lines insurers should standardize data and integrate systems across distribution channels.

"An extensive effort is required for insurers to link the Internet with current processing and underwriting systems and to launch Internet sales without disrupting the current sales force," the report said.

At present, however, state insurance regulation poses a significant obstacle to Internet-based insurance sales, the Best report acknowledged.

"State regulators are significantly behind the times when contrasted with the global reach of the Internet, particularly regarding agent licensing," the report observed.

That obstacle could be removed if Congress passes financial services modernization legislation that includes a national electronic licensing system for agents, the National Assn. of Registered Agents and Brokers, according to the Best report (BI, Oct. 18).

But that would not eliminate the other obstacle the E&S market faces: the lack of standardization of both its submission process and its policy forms, pointed out the PIA's Ms. Borowski.

Agents prefer uniform property/casualty policy language because "it makes it easier to do an apples-to-apples comparison" when shopping business, and it "alleviates their E&O fears," she said.

As deregulation of the commercial insurance market makes it easier for standard insurers to offer more-customized products—products similar to those traditionally sold by the E&S market—agents will likely go to the standard market because its insurers offer such uniform policy language, she pointed out.

"Just how 'special' does the specialty market have to be?" Ms. Borowski asked.

If the products are basically the same but an E&S insurer requires the agent to use a paper ACORD application and a typewriter and a fax machine to complete a submission, while a standard market insurer provides a template that can e-mailed, the standard market insurer will win the business, she said.

But E&S insurers, like the rest of the insurance industry, have been slow to embrace Internet technology, acknowledged Christopher Henson, vp of Stamford, Conn.-based General Reinsurance Corp.

"Those of us with 20-plus years in the industry have been here as long as we've had computer technology," he said. "IT used to be a backroom function."

But now that the Internet is permitting personal lines insurance to be distributed more easily and cost effectively, "it means it may not be hard to distribute commercial lines that way too," he said.

And perhaps it's time IT came out of the backroom and moved into the forefront of insurance marketing, Mr. Henson suggested. **BI**

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Brokers

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their own subsidiary, but are fully integrated within a new operation—JLT Risk Solutions.

JLT Risk Solutions combines the group's London-based insurance and reinsurance teams and provides conventional insurance program and alternative risk transfer design and placement to corporate and reinsurance customers, according to Deputy Chairman Michael Brookman.

The division draws business from the company's international offices, which now form part of sister subsidiary JLT Corporate Risks and Services, as well as from producing brokers worldwide and direct clients, he noted.

Overseas, the JLT Group sub-

siidiaries that place reinsurance are Intermediary Insurance Services Inc. in San Francisco; Jardine Sayer & Co. Inc. in Lawrenceville, N.J.; Jardine Lloyd Thompson Asia Pte. Ltd. in Singapore; and JLT Re Pty. Ltd. in Sydney, Australia.

The prime motive for the restructuring "was to concentrate skills and capabilities from both insurance and reinsurance backgrounds in order to ensure that we are able to coordinate the expertise most relevant to our clients' requirements, and to provide a platform for creativity between insurance and reinsurance disciplines," Mr. Brookman said.

The principal challenges faced by the reinsurance market have been created by "evolving client requirements and the wave of consolidation sweeping the sec-

tor," he said. "Clients are increasingly looking to their brokers to provide a broader service, and to act in an advisory, as well as transactional capacity," Mr. Brookman said.

"JLT Risk Solutions' primary objective is to work closely with our clients, understand their needs and ultimately develop effective and, where necessary, innovative bespoke programs," he explained, adding that "we believe our size and structure allows us to perform this role very effectively."

There is close cooperation between the group's reinsurance team and the alternative risk transfer specialists in its special risks business unit, to design "state of the art" solutions for reinsurance and corporate customers, said Mr. Brookman.

JLT also has been working with several investment banks to develop securitization capabilities and identify further opportunities created by capital and insurance market convergence.

Heath Group P.L.C.

Heath Group P.L.C. acknowledges that 1998 was not an easy year for improving its business. Among the factors taking their toll were continued tough market conditions, a dwindling client base owing to mergers and acquisitions in the insurance sector and clients taking higher retentions.

As a result, gross revenues from reinsurance for the year ended March 31 fell nearly 10% to £30.5 million. Converted to dollars, Heath's revenues fell 9.1% to \$50.4 million.

While North American business has been difficult for Heath as an independent broker, the company is seeing growth elsewhere, a spokesman said.

Heath has some core geographic areas round the world where it has enjoyed a strong showing, said John Mackenzie Green, group chief executive of Heath.

"We have seen good growth in areas of the world where we have our own operations, but our star reinsurance areas are Latin America, Caribbean, Scandinavia and the U.K.," he said.

The broker also is setting up offices to take advantage of opportunities in Eastern Europe, the spokesman said. During fiscal 1998, for example, Heath opened reinsurance brokerage offices in Cologne, Germany, and Prague, Czechoslovakia.

Heath sees itself as a reinsurance broker mainly to medium-sized companies.

"The reinsurance operations concentrate on giving an extremely analytic and in-depth service, which tends to suit the medium-size client most," Mr. Green said.

While Heath does some alternative risk transfer, deals tend to be low-profile, such as multiyear balance sheet protection mechanisms, the spokesman said.

"We have identified some exciting areas that suit individually tailored reinsurance programs and our plans are well advanced," Mr. Green said.

In the mid-1990s, Heath started concentrating its interests solely on insurance brokerage, divesting itself of underwriting and computer operations, Mr. Green noted.

"I believe there is now a platform in reinsurance to try and grow areas, whether it be by acquisition or portfolio. And this is the year when we'd like to do something about it," he said.

Meanwhile, Heath has been building "a strong network of offices around the world, which is really accelerating the business activity and makes us an attractive place to work, for both existing and new teams," Mr. Green said.

Lambert Fenchurch Group P.L.C.

It took "a lot of hard work," new ideas and stiff competition for Lambert Fenchurch to increase its fiscal year-end reinsurance revenues by 9.3%, according to Chairman Michael Caley.

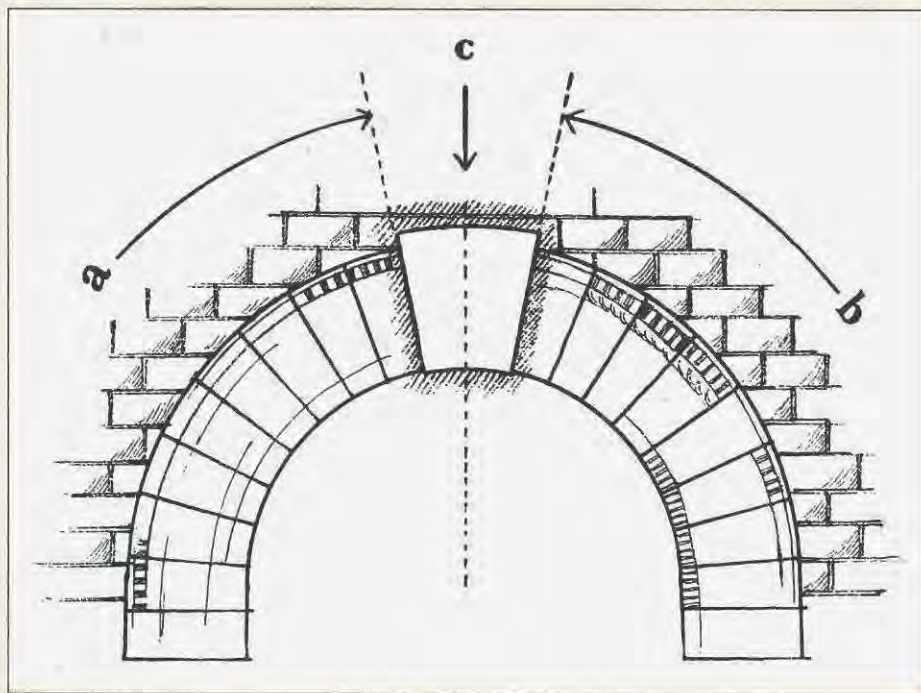
Despite a tough, competitive year, the group's reinsurance revenues grew to £29.4 million for the year ended March 31. In dollar terms, revenues increased 10% to \$48.6 million.

Mr. Caley credits "new ideas and new initiatives" for boosting revenues. For example, Lambert developed some alternative risk transfer products for reinsurers. "We're certainly very much involved in ART. What we haven't done, as far as I'm aware yet, is the cat bond situation, which people like the Winterthur have been developing," he said.

Although he wouldn't be specific, he said examples of Lambert's ART products include balance sheet smoothing and protection using such tools as captives and finite risk protection.

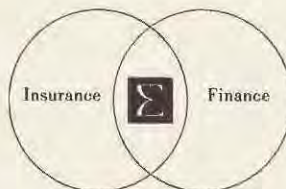
Lambert also has been successful in marine reinsurance this past year, particularly marine protection and indemnity reinsurance, Mr. Caley said.

The rest of the growth has been
See *Brokers on page 40*



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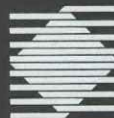


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Spotlight report

Brokers

Continued from page 38
attributed to "territorial developments" in areas such as Spain and Singapore, Mr. Caley said.

Lambert Fenchurch also is a strong broker in Eastern Europe and is looking at opportunities in Brazil if and when the reinsurance market is privatized.

Despite the good times, business has been tough.

Some accounts have been lost because of mergers and acquisitions within the reinsurance industry, Mr. Caley admits. "It seems to me just about every time we put a new account on our books or an existing account grows, somebody like ERC Frankona comes along and buys them," he said.

Competition is tough, too, from "the big two," said Mr. Caley, referring to Aon Corp. and Marsh & McLennan Cos. Inc.

However, "we are looking to respond to the very significant clout which the big two have by continuing to be faster on our feet, recognize their strengths (and) exploit their weaknesses, be they territorial or functional," he said. "Being a smaller operation, Lambert can provide speed and guaranteed performance on documentation such as claims collection. Territorially, Lambert Fenchurch is still strong in the U.K. and has a dominance in Eastern European countries like Croatia."

Last July, Lambert Fenchurch completed its restructuring to form three main groups within the overall group. These divisions include the overseas operations within Lambert Fenchurch Overseas Ltd.; U.K. retail business in Lambert Fenchurch U.K. Group Ltd.; and London market divisions and reinsurance within Lambert Fenchurch International Group Ltd. The international group's units include marine; cargo; aviation and aerospace; non-marine special risks, such as fine art and entertainment; and reinsurance. Reinsurance business is placed through Kininmonth Lambert Ltd.

The restructuring was done in part to reflect the changes in London, particularly at Lloyd's, where syndicates now write a wider range of risks, Mr. Caley said.

Towers Perrin Reinsurance

Growth in traditional reinsurance business, program business, accident and health business, and finite reinsurance business helped boost Towers Perrin Re's revenues 6.1% to \$47.5 million in 1998.

"Our ability to provide a broad range of offerings... has really been the key to our success," said William H. Eyre Jr., managing director and CEO.

"Our focus has been to continue to grow, globalize and work closer" with Tillinghast's property/casualty and financial services unit, Mr. Eyre said.

Indeed, Consultative Placement, a unit formed about two years ago by the broker and its sister management and actuarial consulting company, Tillinghast-Towers Perrin, is operating out of four offices now, he said.

The unit provides structuring, implementation and administration of risk financing programs for corporations, governments, captives and pools using various insurance, reinsurance and capital market solutions.

"What we are trying to do is to

grow both in the insurance and reinsurance fields," Mr. Eyre said. "The key is to be able to provide consultative advice as well as risk distribution to insurance and reinsurance clients."

The reinsurance broker also is growing in terms of its presence around the world.

Last December, Towers Perrin Re made its first foray outside North America by establishing a Sydney, Australia, operation. Last month, the broker made its second move by acquiring Re America S.A., a small reinsurance broker based in Buenos Aires, Argentina.

Mr. Eyre said that Towers Perrin Re will be focusing on Latin American business through its new Buenos Aires office as well as its existing Fort Lauderdale, Fla., office. In addition, "we hope to set up an operation in Brazil in the first half of 2000," he said.

"We see new opportunities in the accident and health and workers compensation arenas in Latin America," he noted.

After the integration process is complete in Buenos Aires, Towers Perrin Re will set its sights on expanding in Europe, Mr. Eyre predicts.

"We're part of a \$1.4 billion privately held firm with 85 offices around the world," he said, referring to parent company Towers Perrin. "We have the ability to set up offices anywhere."

Among its new product offerings, Towers Perrin Re recently introduced a new employment practices liability insurance product being marketed to midsize clients.

The broker also sealed a relationship last year with Menlo Park, Calif.-based Risk Management Solutions Inc. to offer clients a broad range of catastrophe modeling services.

And earlier this year, Towers Perrin Re established a new risk securitization unit called TP Financial Solutions (see story, page 44).

John P. Woods Co. Inc.

Increased revenues from new and existing clients in both the property/casualty and accident/health and life business helped increase revenues 12.6% to \$25.1 million at the Jersey City, N.J.-based reinsurance broker.

"Our growth has not been concentrated in any product type, but we have seen more revenues in the program and workers compensation areas as well as long-term disability and life," said President Jay Woods.

Additionally, "the reinsurance market continues to consolidate, and this bodes well for our organization," he said, referring to its independence. "Reinsurers as well as buyers do not wish to be relegated to a few sources of insurance and reinsurance distribution."

Overall, "we are very optimistic about our future and project double-digit growth for the next two to three years," Mr. Woods said.

To do this, the reinsurance broker will continue to focus on its "turnkey" products initiative. Under this initiative, the broker is able to come to clients with reinsurer partners that are willing to offer everything "from soup to nuts to underwrite a new product line," Mr. Woods said.

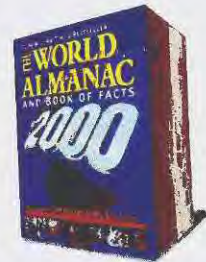
Often, the costs associated with establishing a new product line, including hiring consultants and lawyers, and the research and development are cost-prohibitive.

See **Brokers** on page 42



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Brokers

Continued from page 40

These turnkey products, which include first-dollar medical, non-standard auto and employment practices liability insurance, give insurer clients the opportunity to write new products without all the additional costs, he said.

The reinsurance broker also is spending more time working with clients on captives, Mr. Woods said,

noting that the broker conducts captive feasibility studies for clients.

"In the last 12 months, we've picked up a lot of new business," he said.

For some clients, captives "are the flavor of the month," while others regard establishing a captive "as a prelude to a perceived change in the market."

On that front, John P. Woods is considering becoming a joint owner in a rent-a-captive, Mr. Woods said.

With this alternative vehicle, the reinsurance broker would be able to offer managing general agencies an opportunity to retain risk. Mr. Woods said that more insurers and reinsurers are willing to work with MGAs on program business if the MGAs are willing to share the risk.

In the past year, John P. Woods entered into a joint reciprocal marketing agreement with Fecus Seguros, a large, independent primary broker in Brazil, in anticipation of the market opening up to foreign

insurers.

Mr. Woods said that John P. Woods previously had an investment in Brazil, but the market never opened. "It's supposed to open in 2000," he said.

Instead of investing capital into its own catastrophe or dynamic financial models—as many of its competitors have done—John P. Woods Co. contends it adds value by explaining to clients all the different models available in the market and then buying the model the

client prefers on its behalf.

"It changes so quickly," Mr. Woods said of the models. "We'd rather offer what is cutting-edge than offer what's in-house," he said.

The broker also pledged resources within the past year to delve into the risk securitization market (see story, page 44).

Edwin Unsworth, Stacy Shapiro and Carolyn Aldred contributed to this report.

Online, modeling products central to brokers' offerings

By SALLY ROBERTS

Reinsurance intermediaries agree that the products and services they offer are what set the brokers apart from one another in the highly competitive reinsurance marketplace.

Many, therefore, are unwilling to describe in detail any new products and services they have developed for clients.

They will say, however, that in addition to various alternative risk transfer products, they also are providing catastrophe modeling, dynamic financial analysis and actuarial modeling services.

And the Internet is beginning to play a major role in various products being introduced by at least two of the world's largest reinsurance brokers.

"We don't talk openly about any new products because we regard as generally confidential products that we've created or developed for one specific client," said John Pelly, chairman and chief executive officer of reinsurance for Willis Corroon Group Ltd. in London.

"Our new products generally come out of a particular issue in the market or, more specifically, a specific client need," he said, adding that the reinsurance industry tends to bespoken, or customize, new products.

"Whereas one or two of our other competitors create a product and then go and see whose throat they can thrust it down... we know what (clients') needs are, then we propose some ideas to solve their particular issues. We don't wait for them to say 'We've got a problem,'" Mr. Pelly said.

He did note, though, that the London-based reinsurance broker is "big" in financial modeling and catastrophe modeling solutions.

"Modeling is something which we regard as a great assister to us in actually understanding a client's exposures," Mr. Pelly said.

Michael Brookman, deputy chairman of JLT Risk Solutions Ltd. in London, said his company uses a similarly need-based approach.

"Providing solutions to our clients' needs is our defining objective," he said. "To this end, we have increasingly placed more emphasis on providing bespoke, rather than product-based, solutions. We try to always approach our clients' business with a blank sheet of paper and deliver the most appropriate answer to their requirements, and this means utilizing both conventional and alternative reinsurance mechanisms," he said.

"There is also considerable collaboration between our reinsurance team and the ART specialists of our special risks business unit," Mr. Brookman said. "Together, they have designed and executed

numerous state-of-the-art solutions for both reinsurance and corporate customers," he said, noting that client confidentiality prevents him from providing further details.

"We can confirm that we have been very active in developing non-conventional risk transfer and financing transactions for both London-based and international insurance companies," Mr. Brookman added.

In addition to various ART products and modeling capabilities being offered by reinsurance intermediaries, at least two reinsurance brokers have set their

1998 revenues were generated by BGIL, but he did say that "it's trendy to run Internet companies which lose money. Being a private business, I don't like to be in a business that loses money."

BGIL has been operating for only 18 months and may now have more live insurance Web sites than any other provider of that service, Mr. Chilton said. "Therefore, it's a growing area of business. If you believe, as we do, that e-commerce will, for the financial services industry, become enormous, then I'd rather be one of the first people in it with some of the most effective sites."

"We know what (clients') needs are, then we propose some ideas to solve their particular issues. We don't wait for them to say 'We've got a problem,'" says John Pelly of Willis.

sights on the Internet.

In September 1998, London-based Benfield Greig Group P.L.C. launched Benfield Greig Interactive Ltd., a new media company specializing in the development, management and marketing of Internet-based products. BGIL works closely with Lloyd's of London underwriters in particular to develop interactive products to trade on the Internet.

The first Web-based product, launched last September, was called CargoInsure. The Web site, www.cargoinsure.com, is accessible to both brokers and clients, who can use the site to obtain online cargo coverage quotations and bind risks.

Since then, BGIL has launched ArtInsure, www.artinsure.com, to provide coverage for private collectors, museums, dealers and exhibitions; InternetInsure, www.internetinsure.com, to cover online risks; and FreightInsure, www.freightinsure.com, for freight forwarders and household goods movers. All these insurance policies, which are targeted to medium-sized businesses, are written by Lloyd's underwriters.

In August, BGIL acquired Wild.Net in New Orleans for an undisclosed sum. Wild.Net is an Internet solutions provider, and its operations involve the design, development and construction of interactive Web sites and support of network infrastructure. BGIL intends to launch around 20 new Web-based trading sites during the next four months, including sites for reinsurance coverage. The company will have the capability to launch between 20 and 30 Web sites each year for customers, said Graham Chilton, CEO of Benfield Greig.

Mr. Chilton would not disclose what percentage of Benfield

Dallas-based E.W. Blanch Co. Inc. also has gone virtual with its product offerings.

The reinsurance broker recently created CATALYST e-Access, an online version of its CATALYST 3.0 catastrophe modeling software. With this password-protected product, insurer clients that subscribe to the service can evaluate their own risk drivers and map out their own exposures, explained Bill Ashley, executive vp of E.W. Blanch.

The cost of the service ranges between \$15,000 to \$20,000, which is a far cry from the average \$75,000 to \$100,000 it costs a typical insurer to obtain catastrophe models, he said. Blanch is able to offer the discounted price because most of the modeling work will already be done under an agreement

it reached last February with A.M. Best Co., he said. Under the agreement, Best will use the CATALYST 3.0 catastrophe modeling software to analyze and create a database of U.S. hurricane and earthquake exposures (see profile, page 34).

Also building off its catastrophe model, E.W. Blanch recently announced a new product called CATALYST INSVIEW.

With this product, insurers, adjusters, governmental entities and others are able to view on their computers high-resolution aerial photographs taken of homes and commercial buildings in various cities across the United States. When a catastrophe strikes those areas, customers will then be provided with post-loss images of the structures within 24 to 36 hours after the event, Mr. Ashley explained. They then are able to lay the pictures over one another to assess damages, he said.

CATALYST INSVIEW has high-resolution images of Palm Beach County, Fla., and has plans to photograph the 20 most populated areas of the United States within the next five years, Mr. Ashley said.

In September, Blanch announced a new alliance with Wichita, Kan.-based WeatherData Inc. to provide real-time severe weather information to the insurance industry. This information will be available to clients via Blanch's password-protected Web site at www.ewb-catalyst.com. Information will include data on severe storms, tornadoes, hail, winter freeze and tropical storms as well as proprietary hurricane landfall predictions.

WeatherData also will provide clients real-time nationwide radar feeds and satellite images, as well as high-resolution images of areas affected by an event.

With this product, clients will be able to generate a list of policies

that have a potential loss hours after an event occurs, Mr. Ashley said. In addition to allowing quick initial loss estimates, it also provides clients with a tool to identify potential claims and possibly mitigate any further loss, he said.

This product "gets claims departments moving in real time before the phone rings," Mr. Ashley said.

In October, K2 Technologies Inc., an E.W. Blanch subsidiary, introduced a wireless application for the trading of insurance risk.

This application lets the user trade risk remotely via the Palm VII hand-held wireless computer manufactured by 3Com Co.

The Web-based application was developed for CATEX, the real-time Internet-based insurance and reinsurance trading network, which Blanch partially owns.

Via the application, U.S.-based CATEX subscribers can quote, price, bind, negotiate terms and conditions and trade insurance and reinsurance risk in real time using the Palm VII.

Mr. Ashley said CATEX, which was launched a couple of years ago to offer a 24-hours-a-day, seven-days-a-week forum for reinsurance transactions over the Internet, has expanded its subscriber base.

"The number of subscribers has doubled over the last year," he said, noting that roughly 150 insurers, reinsurers, brokers and Fortune 1,000 companies now use CATEX.

"Blanch put a significant portion of its reinsurance renewals on it" this year, Mr. Ashley noted.

The CATEX application is free for subscribers and is available for download at www.catex.com or www.palm.net/apps/index.html.

Edwin Unsworth, Carolyn Aldred and Stacy Shapiro contributed to this report.

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Intermediaries jumping into capital markets fray

By SALLY ROBERTS

Risk securitization capabilities are more the norm than the exception these days among the world's largest reinsurance intermediaries.

Despite a less-than-booming securitized risk transfer market, deals are being done, and many reinsurance brokers are jumping on the bandwagon to take advantage of the developing trend.

The capital markets marketplace is growing, "but the marketplace itself is one that still has to compete with the reinsurance marketplace, and the reinsurance marketplace has so much capacity and prices are so attractive, capital markets have not been able to compete effectively," explained Rocker Channell, president of Aon Re Worldwide Inc. in Chicago.

Aon Re's Aon Capital Markets unit has been in the forefront of risk securitization deals within the reinsurance brokerage community.

Aon Re first made headlines in 1996 when it and Centre Reinsurance Co. sealed a \$50 million catastrophe put program with RLI Corp. that would come into play in the event a California earthquake blew through RLI's existing catastrophe reinsurance programs (BI, Oct. 14, 1996).

"Of all the structured capital market deals... we've been involved in probably 90% of them," Mr. Channell said.

While Aon Re generally works in conjunction with various investment bankers, it also has been successful in working on its own to structure and securitize deals.

Since June 1998, Aon Re has been involved in nine capital market insurance transactions, Mr. Channell said.

While Aon Re may have a head start on the competition in terms of the number of capital markets deals completed, it is not the only reinsurance broker to be involved with these products.

In 1997, for instance, Guy Carpenter & Co. Inc. established

Marsh & McLennan Securities Corp., a specialized investment banking arm that, in addition to offering a range of merger and acquisition services, develops integrated risk transfer programs. It structures and securitizes both insurance and complex financial risks through a wide range of techniques, including capital markets products.

The unit was responsible for the December 1998 deal in which British Aerospace P.L.C. sealed a 15-year financial risk insurance program that protects the airplane maker from losses arising from actual and contingent liabil-

linked reinsurance contracts triggered by industrywide losses; and weather covers, which use a blending of derivatives and insurance to hedge risks associated with temperature and precipitation.

Other reinsurance brokers also are delving into risk securitization.

"Capital markets is a burgeoning area for us," noted John Pelly, chairman and CEO-reinsurance of Willis Corroon Group Ltd. in London. "We're building the expertise and the capability in capital markets in London, Bermuda and New York, but it works very

much in cahoots with the rest of the reinsurance operations," he said.

Overall, "what we're trying to do is provide more of an integrated solution," he said. "And

capital market products, whatever they may be, may be the correct solution to a certain client's needs."

Mr. Pelly said that, in the last six months, Willis has been most active in weather derivatives that combine insurance and capital market products.

In addition, "we have Willis Asset Management, which is a catastrophe fund where we invest in insurance derivatives, which is now based in Bermuda," he said.

Towers Perrin Reinsurance obtained its broker/dealer securities license and earlier this year established a new risk securitization division, called TP Financial Solutions.

"We're working with a couple of investment bankers and are presently working on two securities opportunities," said William H. Eyre Jr., managing director and CEO of Towers Perrin Re in Philadelphia.

While he sees a slowdown in risk securitization at the moment, Mr. Eyre said he expects it to pick up in the near future, especially as retrocession capacity continues to diminish.

John P. Woods Co. Inc. also is getting into the risk securitization business.

About a year ago, "we decided

to make a pledge of resources" to look at the risk securitization market, said Jay Woods, president of the Jersey City, N.J.-based reinsurance broker.

"We assigned primary responsibility of risk securitization, finite reinsurance, loss portfolio transfer together with other non-traditional reinsurance to our chief financial officer, who has been developing a team to work with a select group of investment brokers as well as specialty reinsurers,"

Mr. Woods said.

JLT Risk Solutions Ltd. also has been working closely with several investment banks to develop risk securitization capabilities and identify further opportunities created by capital and insurance market convergence, noted Michael Brookman, deputy chairman of the London-based reinsurance broker.

Edwin Unsworth and Carolyn Aldred contributed to this report.

'We're trying to provide more of an integrated solution. Capital market products, whatever they may be, may be the correct solution to a certain client's needs,' says Willis' John Pelly.

ities up to £2.4 billion (\$4 billion) (BI, Dec. 14, 1998).

M&M Securities also recently completed a \$50 million insurance-linked swap transaction for an unnamed insurer. The swap, conducted among multiple investors and the insurer, involved earthquake risks in the New Madrid region.

Salvatore Zaffino, president and chief executive officer of New York-based Guy Carpenter, said that while there was "some success over the last year" in terms of transactions made, "it was at a slower pace than expected." He attributes this to the cost of such deals.

While risk securitization via the capital markets has been slow to take off, Mr. Zaffino views possessing the capabilities as "a total necessity. The market could change very, very, quickly."

E.W. Blanch Co. Inc. also has been involved in structuring various capital markets deals.

The Dallas-based reinsurance broker's year-old Blanch Capital Markets unit "started strong" and grew 100% in its first year, said Christopher L. Walker, chairman of E.W. Blanch.

Much of the unit's activity focused on placing industry loss warranty covers, which are index-

Unicover fiasco stirs up lawsuits against Aon Re

By SALLY ROBERTS

Fallout from the collapse of the Unicover Managers Inc. workers compensation pool, which unraveled earlier this year, has hit at least one of the world's largest reinsurance brokers.

Aon Re Worldwide has been named in a lawsuit brought by Allianz Life Insurance Co. of North America Inc. that alleges fraudulent, negligent and innocent misrepresentations. Allianz is asking that the reinsurance it issued be rescinded or that it be awarded damages.

Phoenix Home Life Mutual Insurance Co. and Sun Life Assurance Co. of Canada also have filed suit against Aon Re, seeking access to Aon's records regarding Unicover. Aon Re provided some back-office support work for the workers compensation pool, a spokesman said.

Unicover, a Lisle, Ill.-based underwriting manager, operated three insurance facilities through which life insurers assumed low-layer "carve-out" risks, comprising the accident and health portion of workers comp policies. The facilities fell apart after an explosion of premium volume led several pool members to withdraw.

Total losses are estimated to be \$2 billion, a majority of which is expected to be borne by the pool's retrocessionaires.

In addition to being involved in the placement of reinsurance coverage for some of the pools, Aon placed retrocession business with Allianz on behalf of Centaur Underwriting Management Ltd., a managing general agency. Centaur was working on behalf of American Phoenix Life & Reassurance Co., Phoenix Home Life Mutual Insurance Co. and Sun Life Assurance Co. of Canada, collectively referred to as the APS Insurers. The APS Insurers provided certain reinsurance coverages to a pool of insurers and to certain facilities managed by Unicover.

In its quarterly report to the Securities and Exchange Commission, Aon states that it

believes Aon Re has "meritorious defenses" and that Aon Re "intends to vigorously defend this claim."

The 10-Q states that, of Aon's 1998 revenues, \$15 million came from reinsurance business obtained by Unicover pool members. For the first six months of 1999, Aon earned \$9 million from the pool business.

Aon Re is not the only reinsurance broker involved in placing reinsurance coverage for Unicover, however.

Allianz is asking that the reinsurance it issued be rescinded or that it be awarded damages.

Salvatore Zaffino, president and chief executive officer of Guy Carpenter & Co. Inc., confirmed the reinsurance broker made "a dozen or so" reinsurance placements. He said Guy Carpenter expects to assume no liability as a result of the pool's unraveling.

Christopher L. Walker, chairman of E.W. Blanch Co. Inc., said that the Dallas-based reinsurance broker also placed a "fair" amount of reinsurance business with Unicover. He declined to comment further.

Aon Re is not the first broker to be sued over potential Unicover losses.

Bermuda broker Stirling Cooke Brown Holdings Ltd. recently filed a motion to dismiss an amended racketeering lawsuit brought by Odyssey Re (London) Ltd.

Odyssey Re, a unit of Toronto-based Fairfax Financial Holdings Ltd., charges that Stirling Cooke and others conspired to use it as a dumping ground for underpriced workers comp business, including contracts reinsuring Lincoln National Corp.'s Unicover risks.

Stirling Cooke contends that it is not subject to the jurisdiction of the New York federal court, where Odyssey Re filed the suit (BI, Oct. 11).

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OdysseyRe®



Business Insurance directory of reinsurance intermediaries

A

Administration of Special Risks Inc. (ASR)

379 Princeton-Hightstown Road, Building 2, First Floor, Cranbury, N.J. 08512; 609-371-0800; fax: 609-371-0803
www.irc-asr.com

	1998	1997
Premium volume	\$7,000,000	\$8,500,000
% Facultative	100%	100%
Gross revenues	\$550,000	\$630,000
Total employees	4	2

Reinsurance brokering began: 1995.

Conducts business: Colombia, Ecuador, Mexico.

Contact: Ruth Poveda, president; irc997@rcn.com.

Agnew International Inc.

14 Washington Road, Princeton Junction, N.J. 08550; 609-799-7373; fax: 609-799-2265

	1998	1997
Premium volume	NA	NA
% Treaty	10%	10%
% Facultative	90%	90%
Gross revenues	\$672,000	\$535,000
Total employees	6	6

Reinsurance brokering began: 1976.

Conducts business: United States and worldwide, with an emphasis in Mexico.

Officers: Patrick Agnew, president; W. James Cook, vp; Gustavo A. Bravo, assistant vp.

Contact: Patrick Agnew.

Am-Re Brokers Inc.

685 College Road, Princeton, N.J. 08543; 609-243-4921; fax: 609-243-4940

	1998	1997
Premium volume	\$425,000,000	\$450,000,000
% Treaty	100%	100%
Gross revenues	\$21,375,000	\$23,322,000
Total employees	30	31

Reinsurance brokering began: 1985.

Parent: Munich Reinsurance Co.

Branch offices: Chicago, Boston, New York.

Conducts business: worldwide.

Membership: Brokers & Reinsurance Markets Assn.

Officers: Mahmoud Abdallah, chairman; Robert Henry, president/CEO; Robert MacSwan, senior vp/COO.

Contact: Timothy Schmidt, tschmidt@amre.com.

Aon Re Worldwide Inc.

123 N. Wacker Drive, Chicago, Ill. 60606; 312-781-8818; fax: 312-781-8819
www.aon.com

	1998	1997
Gross revenues*	\$620,000,000	\$590,000,000
Total employees*	3,100	2,900

*Estimated. Figures are pro forma to reflect acquisitions.

Parent: Aon Corp.

Acquisitions: Gil y Carvajal, Spain, February 1998; Grieg Insurance, Norway, April 1998; Le Blanc de Nicolay, France, February 1998; A.G. Reinsurance, Israel, July 1999; Nikols Sedgwick, Italy, July 1999; Turner Reinsurance, Greece, July 1999.

Branch offices: Glendale and San Francisco, Calif.; Stamford, Conn.; Miami; Atlanta; Chicago; Boston; Minneapolis and St. Paul, Minn.; Parsippany, N.J.; New York; Burlington, N.C.; Philadelphia; Dallas; Buenos Aires, Argentina; Sydney, Australia; Baku, Azerbaijan; Central Manama, Bahrain; Hamilton, Bermuda; Rio de Janeiro, Brazil; Brussels, Belgium; Montreal; Toronto; Santiago, Chile; Bogota, Colombia; Quito, Ecuador; London; Basel and Paris, France; Hamburg, Germany; Athens, Greece; Guatemala City; Hong Kong; Mumbai, India; Tel Aviv, Israel; Milan, Italy; Tokyo; Almaty, Kazakhstan; Kuala Lumpur, Malaysia; Mexico City; Amsterdam, Netherlands; Auckland, New Zealand; Ruwi, Oman; Karachi, Pakistan; Lima, Peru; Moscow; Singapore; Johannesburg, South Africa; Seoul, South Korea; Madrid, Spain; Taipei, Taiwan; Bangkok, Thailand; Dubai, United Arab Emirates; Kiev, Ukraine; Tashkent, Uzbekistan and Caracas, Venezuela.

Officers: Paul Davies, chairman; Mike Bungert, Mike Cashman, Don Koziol, Dennis

Mahoney, vice chairman.

Contact: Rocker Channell, president.

Associated Intermediaries Inc.

P.O. Box 3306, Gainesville, Ga. 30503; 770-536-9800; fax: 770-536-0093

	1998	1997
Premium volume	\$17,500,000	\$15,500,000
% Treaty	100%	100%
Gross revenues	\$1,225,000*	\$1,250,000
Total employees	4	6

*Estimated.

Reinsurance brokering began: 1982.

Parent: Associated Reinsurance Management Corp.

Branch offices: Welaka, Fla.; Marietta, Ga.; Waynesville, N.C.

Conducts business: Bermuda, Cayman Islands, United Kingdom and the United States.

Officers: Alph H. Browne, president; Diana D. Browne, executive vp/corporate secretary; Steve McFarland, Alice Williams, vps.

Contact: Alph H. Browne or Diana D. Browne.

B

Ballantyne McKean & Sullivan Ltd.

Latham House, 16 Minories, London EC3N 1AX, England; 44-207-480-7288; fax: 44-207-488-9837
www.bmands.co.uk

	1998	1997
Premium volume*	\$289,975,000	\$303,030,000
% Treaty	100%	100%
Gross revenues*	\$14,674,392	\$15,190,812
Total employees	62	71

*Converted at applicable exchange rates.

Reinsurance brokering began: 1980.

Parent: BMS Associates Ltd.

Conducts business: Canada, United Kingdom and the United States.

Officers: Hugo Crawley, chairman; Christopher Manwaring, deputy chairman; Roger Cooper, managing director.

Contact: Hugo Crawley.

Barrington Insurance Group L.L.C.

Zurich Towers II, 1450 American Lane, Suite 1525, Schaumburg, Ill. 60173; 847-517-7100; fax: 847-517-7105
www.bigus.com

	1998	1997
Premium volume	\$40,000,000*	NA
% Treaty	98%	NA
% Facultative	2%	NA
Gross revenues	\$925,000	NA
Total employees	11	NA

*Estimated.

Reinsurance brokering began: 1998.

Parent: Florida Family Insurance Services L.L.C.

Conducts business: United States.

Officers: Walter D. Hardy, managing partner; John P. Doyle, president; William H. Wiggs, CFO.

Contact: Nicole Lietz, executive assistant; nlietz@bigus.com.

Benfield Greig Group P.L.C.

55 Bishopsgate, London EC2N 3BD, England; 44-207-578-7000; fax: 44-207-578-7001
www.benfieldgreig.com

	1998	1997
Gross revenues*	\$149,257,589	\$147,210,336**
Total employees	455	455

*Converted at applicable exchange rates.

**Restated.

Reinsurance brokering began: 1973.

Branch offices: Brussels, Belgium; Santiago, Chile; Munich, Germany; Tokyo.

Subsidiaries: BG ReMetrics Inc., Seattle; Benfield Greig Ltd., Auckland, New Zealand; Benfield Greig Ltd., London; Benfield Greig Pty. Ltd., Sydney, Australia; Benfield Greig Pty. Ltd., Johannesburg, South Africa; Benfield Greig S.A. de C.V., Mexico City; Benfield Greig Asia Pte. Ltd., Singapore; Benfield Greig Canada Ltd.; Benfield Greig Ellinger Inc., New York and Philadelphia; Benfield Greig Iberica Correduria de Reaseguros S.A., Madrid, Spain; Benfield Greig Paris S.A., Paris.

Conducts business: Australia, Belgium, Brazil, Canada, Chile, France, Germany, India, Italy, Japan, Mexico, New Zealand, Peru, Singapore, South Africa, Spain, Turkey, United Kingdom

and the United States.

Membership: Brokers & Reinsurance Markets Assn.

Officers: D.J. Coldman, chairman; G.D. Chilton, chief executive; D.H. Spiller, managing director.

Contact: D.J. Coldman.

E.W. Blanch Co. Inc.

500 N. Akard, Suite 4500, Dallas, Texas 75201; 214-756-7000; fax: 214-756-7001
www.ewb.com

	1998	1997
Premium volume	\$4,500,000,000	\$2,484,000,000
% Treaty	100%	99.5%
% Facultative	NA	.5%
Gross revenues	\$163,632,000	\$124,729,000
Total employees	1,164	1,130

Reinsurance brokering began: 1957.

Parent: E.W. Blanch Holdings Inc.

Branch offices: Los Angeles and San Francisco; Miami; Atlanta; Chicago; Boston; Minneapolis; New York; Philadelphia.

Subsidiaries: E.W. Blanch Ltd.

Conducts business: Argentina, Australia, Brazil, Chile, China, Denmark, Hong Kong, Malaysia, Mexico, Paraguay, Singapore, United Kingdom, United States, Uruguay and Vietnam.

Membership: Brokers & Reinsurance Markets Assn.

Officers: Edgar W. Blanch Jr., chairman/CEO-E.W. Blanch Holdings Inc.; Christopher L. Walker, president/COO-E.W. Blanch Holdings Inc.; Ian D. Packer, executive vp/CFO-E.W. Blanch Holdings Inc.

Contact: Ian D. Packer, ian_packer@ewb.com.

Burns & Wilcox Re Inc.

345 Route 17 S., Upper Saddle River, N.J. 07458; 201-934-4223; fax: 201-934-4422

	1998	1997
Total employees	3	NA

Reinsurance brokering began: 1999.

Parent: Burns & Wilcox Ltd.

Membership: Brokers & Reinsurance Markets Assn.

Officers: Steven P. Kiernan, president/CEO.

C

Guy Carpenter & Co. Inc.

2 World Trade Center, New York, N.Y. 10048; 212-323-1000; fax: 212-313-4970
www.guycarp.com

	1998	1997
Premium volume	\$9,700,000,000	\$9,000,000,000*
% Treaty	96%	95%
% Facultative	4%	5%
Gross revenues	\$502,000,000	\$472,000,000*
Total employees	2,159	2,359

*Figures are pro forma to reflect acquisitions. *Restated.

Reinsurance brokering began: 1923.

Parent: Marsh & McLennan Cos Inc.

Branch offices: Glendale, Los Angeles and San Francisco, Calif.; Hartford and Stamford, Conn.; Miami; Roswell, Ga.; Chicago; Carmel, Ind.; Minneapolis; Philadelphia; Dallas; Seattle.

Subsidiaries: Balis & Co. Inc., Philadelphia; Guy Carpenter & Cia. S.A., Madrid, Spain; Guy Carpenter & Co. AB, Stockholm, Sweden; Guy Carpenter & Co. GmbH, Munich, Germany; Guy Carpenter & Co. Ltd., Hong Kong, Toronto and London; Guy Carpenter & Co. Pty. Ltd., Sydney; Guy Carpenter & Co. Pte., Singapore; Guy Carpenter & Co. S.A., Buenos Aires, Argentina, Brussels, Belgium and Paris; Guy Carpenter Reinmex, Mexico City; Mees Guy Carpenter & Co. B.V., Rotterdam, Netherlands; Paul Napolitan Inc., New York; Reinmex Florida, Coral Gables, Fla.; Sellon Associates Inc., New York.

Acquisitions: Sedgwick Re, 1998.

Conducts business: worldwide.

Membership: Brokers & Reinsurance Markets Assn.

Officers: Brandon W. Sweitzer, chairman; Stanley C. Allain, vice chairman; Salvatore Zaffino, president/CEO.

Contact: Sean Mooney, 212-323-1345.

Herbert Clough Inc.

Financial Centre, P.O. Box 10216, Stamford, Conn. 06904; 203-357-8883; fax: 203-328-6408
www.clough.com

	1998	1997
Premium volume	\$545,000,000	\$760,000,000

	95%	95%
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$12,955,000	\$12,560,000
Total employees	57	61

Reinsurance brokering began: 1926.

Parent: General Reinsurance Corp.

Conducts business: worldwide.

Membership: Brokers & Reinsurance Markets Assn.

Officers: Dallas W. Luby, president/CEO; Lawrence C. Magnant, executive vp; Roger J. Bel, senior vp.

John B. Collins Associates Inc.

8300 Norman Center Drive, Suite 1275, Minneapolis, Minn. 55437; 612-820-0012; fax: 612-820-2700

	1998	1997
Premium volume	\$810,000,000	\$600,226,000
% Treaty	100%	100%
Gross revenues	\$15,400,000	\$12,215,000
Total employees	60	58

Reinsurance brokering began: 1987.

Branch offices: San Francisco; Hartford, Conn.; Columbia, S.C.; Dallas.

Conducts business: worldwide.

Officers: John B. Collins, president/CEO.

Contact: Gregory L. Brettingen, executive vp/COO.

Cooper Gay Steele & Co. Ltd.

120 Wall St., New York, N.Y. 10005; 212-248-1150; fax: 212-248-1181

	1998*	1997*
Premium volume	\$40,000,000	\$37,000,000
% Treaty	15%	15%
% Facultative	85%	85%
Gross revenues	\$2,500,000	\$2,300,000
Total employees	14	13

*Fiscal years ending 9/30/98 and 9/30/97.

Reinsurance brokering began: 1988.

Parent: Cooper Gay (Holdings) Ltd.

Conducts business: Canada, Caribbean, Colombia, Dominican Republic, Ecuador, Mexico, United Kingdom and the United States.

Officers: Stephen Brewer, Tim Poeton, executive vps; Peter Gorman, vp.

Contact: Stephen Brewer, mail@cgsny.com.

E

EWI RE Inc.

63 Wall St., 30th Floor, New York, N.Y. 10005; 212-248-3980; fax: 212-248-3981

	1998	1997
Premium volume	\$115,000,000	\$95,000,000
% Treaty	95%	90%
% Facultative	5%	10%
Gross revenues	\$4,000,000	\$3,350,000
Total employees	17	13

Reinsurance brokering began: 1988.

Branch offices: Dallas.

Conducts business: United States.

Officers: James C. Epstein, president; Jorge I. Cardona, senior vp/COO; Michael D. Elliott, Charles T. Black, senior vps.

Contact: Jorge I. Cardona.

F

Financial Reinsurance Inc.

140 S. Atlantic Ave., Suite 400, Ormond Beach, Fla. 32176; 904-677-4453; fax: 904-673-1630

	1998	1997
Premium volume	\$8,400,000	\$4,500,000
% Treaty	100%	100%
Gross revenues	\$504,000	NA
Total employees	2	2

Reinsurance brokering began: 1960.

Parent: Ormond Re Group Inc.

Subsidiaries: W.J. Burt & Associates Inc., New York.

Conducts business: worldwide.

Officers: W. Lockwood Burt, president; John B. Deiner, executive vp/secretary/general counsel; Anthony L. DiPardo, senior vp.

Contact: John B. Deiner, ormondre@bell-south.net.

C.L. Frates Reinsurance Intermediary Inc.

2 Greenwich Plaza, Greenwich, Conn. 06830; 203-629-5600; fax: 203-622-0777
www.clfrates.net

G

Arthur J. Gallagher Intermediaries

111 John St., New York, N.Y. 10038; 212-732-9855; fax: 212-619-7957

	1998	1997
Premium volume	\$50,200,000	\$36,000,000
% Treaty	60%	40%



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The ZB-10 was a revolutionary shoe. Unfortunately, the country it was distributed from was experiencing political unrest. Now the manufacturer's entire inventory is stuck in a warehouse 12,000 miles away. Aon could've helped by designing capital and distribution alternatives in the event of economic, political or environmental crisis. It's just one of the services from Aon, the leader in integrating risk management and consulting. Contact Aon. Find the solutions to insure your vision. www.aon.com

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Broking Ltd.-Dubai, United Arab Emirates; Heath Ruckversicherungsmakler GmbH, Cologne, Germany; A&B Reinsurance, Milan, Italy; Heath Kazakhstan Ltd., Almaty, Kazakhstan; Al Mulla Insurance & Reinsurance Broking Co. WLL, Safat, Kuwait; Agencia Interocceanica Asesores e Intermediarios S.A. de CV, Mexico City, Mexico; Nilsen Brokers Ltd. A/S, Lysaker, Norway; CE Heath & Partners LLC, Ruwi, Oman; Heath del Peru Corredores de Reaseguros S.A., Lima, Peru; Heath Polska, Warsaw, Poland; Heath & Amorim Re Sociedade Corretora de Resseguros S.A., Lisbon, Portugal; Heath Seoul Ltd., Seoul, South Korea; Heath-Re Y Asociados S.A. Correduria de Reaseguros, Madrid, Spain; Heath Insurance Brokers Inc., Chicago, Dallas and Houston, United States; Heath Bloodstock Ltd., London, United Kingdom; Heath de Venezuela Sociedad de Corretaje de Reaseguros C.A., Caracas, Venezuela.

Acquisitions: Heath Ruckversicherungsmakler GmbH, Cologne, Germany, October 1998; Heath (CZ) AS, Prague, Czech Republic, February 1998.

Conducts business: worldwide.
Officers: John Mackenzie Green, group chief executive; Tim Tookey, group finance director.
Contact: Tim Tookey, tookeyt@heathgroup.com.

Hemispheric Underwriting Managers L.L.C.*

2600 Douglas Road, Suite 807, Coral Gables, Fla. 33134; 305-443-6660; fax: 305-443-6648

Reinsurance brokering began: 1999.
Parent: Hemispheric Holding Co. L.L.C.
Conducts business: Caribbean, Central and South America, Portugal and Spain.

Officers: John H. Blake, president/CEO; Julio Jimenez, vp-underwriting; Nitzia Rivera, corporate secretary.

Contact: John Blake.
**Founded in August 1999 with an estimated gross revenue of \$820,000 for 1999.*

Holborn Corp.

88 Pine St., 22nd Floor, New York, N.Y. 10005; 212-797-2285; fax: 212-964-0919
www.holborn.com

	1998	1997
Premium volume	\$456,000,000	\$450,000,000
% Treaty	100%	100%
Total employees	45	45

Reinsurance brokering began: 1920.
Conducts business: Australia, Bermuda, United Kingdom and the United States.

Membership: Brokers & Reinsurance Markets Assn.
Officers: John N. Gilbert Jr., president/CEO; Frank Harrison, senior vp/COO; Keith D. Gillies, senior vp.

Contact: Frank Harrison.

I International Brokerage Services Inc.

322 Stonecrest Court, Chesterfield, Mo. 63017; 314-469-8582; fax: 314-453-0967

	1998	1997
Premium volume	\$83,000,000	\$30,000,000
% Treaty	99%	100%
% Facultative	1%	NA
Gross revenues	\$561,000	\$270,000
Total employees	3	2

Reinsurance brokering began: 1996.
Conducts business: Bermuda, Cayman Islands, United Kingdom and the United States.
Contact: Woody Sprouse, president.

J JLT Risk Solutions Ltd.*

Jardine House, 6 Crutched Friars, London EC3N 2PH, England; 44-207-528-4000; fax: 44-207-528-4500

	1998	1997
Gross revenues*	\$74,399,300	\$69,287,400
Total employees	282	292

**Converted at applicable exchange rates.*
Reinsurance brokering began: 1981.
Parent: Jardine Lloyd Thompson Group P.L.C.
Subsidiaries: Intermediary Insurance Services Inc., San Francisco; Jardine Sayer & Co., Lawrenceville, N.J.; JLT Re Pty Ltd., Sydney, Australia; Jardine Lloyd Thompson Asia P.L.C. Ltd., Singapore.

Conducts business: worldwide.
Officers: E.J. Lloyd, chairman; M. Brookman, A.D.J.B Collins, deputy chairman; S.P. McGill, chief executive.

**JLT reinsurance business was merged as part of an internal reorganization with Jardine Lloyd Thompson Ltd. The merged company was renamed JLT Risk Solutions Ltd.*

Jardine Sayer & Co. Inc.

Princeton Pike Corp. Center, 1009 Lenox Drive, Lawrenceville, N.J. 08648-0400; 609-896-0555; fax: 609-896-2666

	1998	1997
Premium volume	\$420,000,000	\$390,000,000
% Treaty	98%	98%
% Facultative	2%	2%
Gross revenues	\$10,700,000	\$10,200,000
Total employees	36	33

Reinsurance brokering began: 1979.
Parent: Jardine Lloyd Thompson Group P.L.C.
Branch offices: San Francisco, Dallas.
Conducts business: United States.
Officers: John D. Sayer, president; John E. Januszewski Jr., COO/controller; Alfred H. Blanton, executive vp.

Contact: John E. Januszewski Jr., jaj@jardine-sayer.com.

Figures included in consolidated JLT Risk Solutions Ltd. listing.

L Lambert Fenchurch Group P.L.C.

Friary Court, Crutched Friars, London EC3N 2NP, England; 44-207-560-3000; fax: 44-207-560-3502

	1998*	1997*
Premium volume**	\$598,748,000	\$559,922,000
% Treaty	49%	49%
% Facultative	51%	51%
Gross revenues**	\$48,627,600	\$44,169,800
Total employees	2,356	2,332

**Fiscal years ending 3/31/99 and 3/31/98.
**Converted at applicable exchange rates.*

Subsidiaries: Amanah, Kuala Lumpur, Malaysia; Assiteca, Milan, Italy; Edward Lloyd, New York; Interbroker, Barcelona and Madrid, Spain; Kininmonth Lambert (S) Pte., Singapore; Kininmonth Lambert Australia Pty., Sydney, Australia; Kininmonth Lambert Zagreb Ltd., Zagreb, Croatia; LL (M.E.) E.C., Manama, Bahrain; LSN Reassurances, Paris; Lambert Brothers, Hong Kong; Lambert Fenchurch Asia Pacific, Kuala Lumpur, Malaysia.

Conducts business: worldwide.
Membership: Brokers & Reinsurance Markets Assn.

Officers: M.J. Caley, chairman-Lambert Fenchurch International Group Ltd./chief executive-Kininmonth Lambert Ltd./executive director-Lambert Fenchurch Group P.L.C.; F. Ewen, managing director-Kininmonth Lambert Marine Division; J. Forster, managing director-construction division.

Contact: M.J. Caley, 44-207-560-3223.

W.J. Lehrke Co.

6600 France Ave. S., Edina, Minn. 55435; 612-920-1667; fax: 612-920-2039

	1998*	1997*
Gross revenues	\$2,700,000	\$2,400,000
Total employees	11	10

**Fiscal years ending 2/28/98 and 2/28/97.*
Reinsurance brokering began: 1973.
Conducts business: United States.
Officers: Thomas Alan Lehrke, president; Soren P. Sorensen, vp; Mark F. Noack, assistant vp.
Contact: Thomas Alan Lehrke, tom@lehrke.com.

Edward Lloyd Ltd.

100 Merrick Road, Suite 210 W., Rockville Centre, N.Y. 11570; 516-763-9320; fax: 516-763-6722

	1998*	1997*
Premium volume	\$7,500,000	\$7,500,000
% Facultative	100%	100%
Gross revenues	\$750,000	\$750,000
Total employees	4	5

**Fiscal years ending 3/31/98 and 3/31/97.*

Reinsurance brokering began: 1984.
Parent: Lambert Fenchurch Group P.L.C.
Conducts business: worldwide.
Officers: John Mannix, president; Rambha McCanless, vp.

Figures are included in consolidated Lambert Fenchurch Group P.L.C. listing.

M MBR Reinsurance Pty. Ltd.

Level 28, 264 George St., Sydney, New South Wales, 2000 Australia; 61-2-9251-2200; fax: 61-2-9251-2443
www.mbr.com.au

	1998	1997
Premium volume!	\$586,857,000*	\$245,548,000**
% Treaty	92%	93%
% Facultative	8%	7%
Gross revenues!	\$17,486,200*	\$9,227,600**
Total employees	67	69

**Reflects eighteen months for fiscal year beginning 7/1/97 and ending 12/31/98.
**Reflects nine months for fiscal year ending 6/30/97.*

!Converted at applicable exchange rates.

Reinsurance brokering began: 1985.
Parent: MBR Pty. Ltd.
Branch offices: Beijing; Wellington, New Zealand.

Conducts business: Australia, China, Denmark, Mexico, New Zealand, United Kingdom and the United States.

Officers: Brendan J. Roche, CEO. Paul Allison, COO; Maria Tolentino, CFO.

Contact: Paul Allison, paul.allison@mbr.com.au.

Meadowbrook Insurance Group

26600 Telegraph Road, Southfield, Mich. 48034; 248-358-1100; fax: 248-358-1614
www.meadowbrookinsgrp.com

	1998	1997
Premium volume	\$61,000,000	\$36,100,000
% Treaty	100%	100%
Gross revenues	\$2,200,000	\$1,800,000
Total employees	9	9

Reinsurance brokering began: 1985.
Subsidiaries: Meadowbrook Intermediaries, New York; Meadowbrook International, Hamilton, Bermuda.

Conducts business: worldwide.
Officers: Johnnie Dobbs, executive vp; Timothy Boyd, vp; Michael Woodroffe, president (Bermuda).

Contact: Johnnie Dobbs, 212-297-1800.

P Pegasus Advisors Inc.

35 Tower Lane, Avon, Conn. 06001-4241; 860-678-5140; fax: 860-678-5137

	1998	1997
Gross revenues	\$3,138,200	\$2,233,900
Total employees	7	7

Reinsurance brokering began: 1989.
Parent: Medical Inter Insurance Exchange Group.

Conducts business: Australia, Canada, United Kingdom and the United States.

Officers: Greg Leonard, president; Larry Frank, Hugo Kostelni, vps.

Contact: Rose Komanetsky, 860-678-5140.

Preferred Reinsurance Intermediaries Inc.

14 Monckton Blvd., Columbia, S.C. 29206; 803-790-4800; fax: 803-790-4825

	1998	1997
Premium volume	\$80,000,000	\$79,000,000
% Treaty	100%	100%
Gross revenues	\$1,800,000	\$1,500,000
Total employees	16	16

Reinsurance brokering began: 1983.
Branch offices: Port Washington, N.Y.; Cary, N.C.

Conducts business: United Kingdom and the United States.

Officers: Robert H. Sanders, president; Karen N. Basso, senior vp; David L. Coulter, junior vp.
Contact: Charles W. Perry.

R R.I.B.-Reinsurance International Brokers S.p.A.

Corso di Porta Romana 122, Milan 200123, Italy; 39-02-584711; fax: 39-02-5847-1247

	1998*	1997*
Premium volume**	\$106,299,816	\$75,928,440
% Treaty	13%	11%
% Facultative	87%	89%
Gross revenues**	\$7,050,498	\$6,074,275
Total employees	39	36

**Fiscal years ending 6/30/98 and 6/30/97.
**Converted at applicable exchange rates.*

Reinsurance brokering began: 1988.
Branch offices: Genoa and Rome, Italy; Maputo, Mozambique.

Subsidiaries: R.I.B. International GmbH, Zurich, Switzerland; R.I.B. International (U.K.) Ltd., London; R.I.B. (North America) Inc., New York.

Acquisitions: M.R. Mediazione Rias.va. s.r.l., Genoa, Italy, September 1999.

Conducts business: worldwide.
Officers: Giovanni Francesco Curioni, chairman; Carlo Faina, Osvaldo Rosa, managing directors.
Contact: Mirella Boldrini, mirella.boldrini@rib.it; James Kelly, 212-943-0998; james.kelly@ribna.com.

Reinsurance Associates Inc.

1670 Fenpark Drive, Fenton, Mo. 63026; 636-349-1234; fax: 636-349-3169

	1998*	1997*
Premium volume	\$47,000,000	\$47,000,000
% Treaty	100%	100%
Gross revenues	\$1,000,000	\$1,000,000
Total employees	8	7

**Fiscal years ending 8/31/98 and 8/31/97.*

Reinsurance brokering began: 1979.
Conducts business: United Kingdom and the United States

Officers: Richard B. Croak, president/secretary; Michael A. Gardner, vp.
Contact: Michael A. Gardner.

Risk & Insurance Consulting Services

5520 Lilburn-Stone Mountain Road, Suite B, Stone Mountain, Ga. 30087; 770-923-3133; fax: 770-923-4430
www.ricsreinsurance.com

	1998	1997
Premium volume	\$50,000,000	\$1,000,000
% Treaty	100%	100%
Gross revenues	\$600,000	\$50,000
Total employees	5	2

Reinsurance brokering began: 1997.
Conducts business: Bermuda, Canada, United Kingdom and the United States.

Officers: Rick Ritchie, president; Rory Young, vp; Jeri Ott, assistant vp.

Contact: Rick Ritchie, rick.ritchie@mind-spring.com.

S SBJ Ltd.

100 Whitechapel, London E1 1JG, England; 44-207-816-2000; fax: 44-207-816-2444
www.sbj.co.uk

	1998	1997
Premium volume*	\$36,039,750	\$22,932,000
Gross revenues*	\$2,883,180	\$1,834,560
Total employees	15	15

**Converted at applicable exchange rates.*

Reinsurance brokering began: 1977.
Parent: SBJ Group Ltd.

Conducts business: United Kingdom.
Officers: Jim Clark, David Eve, Charles Ross.

Contact: Jim Clark.

Smyth, Sanford & Gerard Reinsurance

135 William St., 12th Floor, New York, N.Y. 10038; 212-374-1323; fax: 212-857-4170

	1998	1997
Premium volume	\$275,000,000	\$225,000,000
% Treaty	60%	50%
% Facultative	40%	50%
Gross revenues	\$10,000,000	\$8,800,000
Total employees	31	31

Reinsurance brokering began: 1987.
Branch offices: Coral Gables, Fla.; Brasilia, Rio de Janeiro and Sao Paulo, Brazil.

Conducts business: worldwide.
Officers: Douglas L. King, president; Carl J. Casale, executive vp; Thomas C. Chiappa, senior vp.

T THB Intermediaries Inc.

1 Liberty Plaza, 27th Floor, New York, N.Y. 10006; 212-266-0260; fax: 212-571-2420
www.nnng.com

	1998	1997
Premium volume	\$45,000,000	\$42,500,000
% Facultative	100%	100%
Gross revenues	\$3,500,000	\$3,200,000

Continued on page 50

Directory terms explained

Information in the 17th annual *Business Insurance Directory of Reinsurance Intermediaries* was gathered from responses to a BI questionnaire. The directory is published as an editorial service; there is no charge to be included.

To be included, companies must generate at least \$500,000 in gross revenues from reinsurance brokerage and must provide revenue information.

Listings begin with the company's address, phone and fax numbers and World Wide Web site address. Financial and operational information for 1998 and 1997 is provided, including the premium volume related to reinsurance, percentage of treaty and facultative business (as a percentage of reinsurance premium volume) and gross revenues related to reinsurance. The total number of employees assigned to reinsurance business is provided on a full-time equivalent basis.

Next, the year reinsurance brokering began and parent

company are noted, as well as the locations of branch offices and subsidiaries brokering reinsurance. Acquisitions in 1998 and so far in 1999 are listed next.

A list of countries in which the company conducts business as a reinsurance intermediary is also provided. In addition, membership in the Brokers & Reinsurance Markets Assn. is noted for applicable companies. Principal officers and a contact for readers seeking more information complete each listing.

Although every effort is made to obtain complete and accurate information, BI is unable to verify all information provided.

Exchange rates used in the directory: Australian dollar=\$0.629 (FYE 12/31/98), \$0.782 (FYE 6/30/97), \$0.772 (FYE 9/30/96); British pound=\$1.654 (FYE 3/31/99), \$1.657 (FYE 12/31/98), \$1.642 (FYE 3/31/98), \$1.638 (FYE 12/31/97); Italian lira=\$0.0006 (FYE 6/30/98), \$0.0006 (FYE 6/30/97).

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Disney

Continued from page 2

Disney surveys have found that injured workers develop fears over issues such as how their medical bills would be paid or how their rent would be paid if they could not work.

To remedy the problem, the employer stopped using a third-party administrator and began handling the claims itself. Contact with injured workers became an obsession and two years later the rate of litigated claims rate dropped by more than half.

"(Just) by doing something as simple as communicating how the system works, how no-fault works and that we are going to compensate them fairly," Mr. Wilder said.

To eliminate confusion, supervisors, first-aid workers, Disney's doctors, case managers, nurses, physical therapists and light-duty supervisors must all deliver the same consistent message to the injured employee.

"Which takes a lot of work, but it's worth it," Mr. Wilder said. "It takes constant communication between the case nurse, the claims adjuster, the light-duty coordinator and the area supervisor."

The message starts early. At Disney's in-house first-aid stations, workers are treated with respect by medical providers. Company workers comp representatives also are available at the first aid stations to explain available benefits and a benefits handbook is mailed out with each injury.

"Right off the bat, someone is telling you what you are entitled to," Mr. Wilder said. "We take all the guesswork and take all the fear out."

Communication with managers is as important as communicating with employees, who are called "cast members" at Disney, Mr. Wilder said. Managers also have to understand how the system works.

Part of their education on the subject includes a video on light-duty. All managers are shown the video and their department loss in-

formation is provided to them monthly, among other measures.

A company bonus paid to managers is affected by their loss results. That is a powerful tool for directing their interest to worker safety, Mr. Wilder said.

"It is amazing what happened when Walt Disney World told management that (a part) of their bonus was going to be predicated on their workers comp safety results," Mr. Wilder said. The immediate interest was "unbelievable," he said. "I say that respectfully because management was very interested before."

The most important aspect of the bonus system is that it reaffirms corporate recognition for the importance of safety, Mr. Wilder said. Risk management feels it is necessary that the evaluation of managers is tied to safety, but the department cannot enforce that alone.

Disney's risk management department is fortunate to have an executive vp of operations who pushes the bonus issue, Mr. Wilder added.

"It's a great tool to communicate all the things that management might not be thinking of because in fairness if you are running the Magic Kingdom you have a lot on your mind besides your workers compensation costs," Mr. Wilder said of the bonus system.

The litigation rate of Disney's workers comp claims remains the best existing metric for measuring the success of its workers comp efforts, Mr. Wilder said. Currently, only a small percentage of Disney's workers comp claimants seek attorney representation, he said.

"I think (the litigation rate) is more relevant than what your cost is. I think it's more relevant than the number of open claims you have," Mr. Wilder said. "I think that because our belief that success is communicating with an injured cast member is totally reflected in how many cast members go out and become represented. We feel that is one tangible that we can say to our management we are proud of."

To hold down its costs, Disney also lobbies for legislative reforms.

That is important because the company operates in California and Florida, the two states with the most expensive workers comp systems in the nation, Mr. Wilder said.

"I really do believe that Disney's most effective loss control tool is its involvement legislatively," he said. The company was influential in obtaining California system reforms in 1993, he added.

Just recently, California Gov. Gray Davis vetoed a bill that would have increased workers comp benefit costs in the state by 20% to 25%.

But the issue will soon come around again, he said.

"There are not many things that can happen like that," he said, snapping his fingers. "That will increase my costs 20% to 25%."

Employers need to band together and lobby to reduce costs and shape the system. Employers with workers in California can do that by joining a Sacramento-based employer organization called Californians for Compensation Reform, Mr. Wilder advised. **BI**

Conquering fears of ergonomics

Employers utilizing the programs are seeing positive results

By MEG FLETCHER

MARINA DEL REY, Calif.—The growth in demonstrably effective ergonomics programs is sending an important message to employers that lack such programs, a consultant contends.

Those employers need to put aside lingering uncertainties and develop effective programs for their workplaces, said Chris Schulenberg, director of ergonomics, occupational safety and health for the regional office of Clayton Environmental Consultants in Pleasanton, Calif.

He said most employers without programs approach them with trepidation because of two main fears. First, they fear the cost of a program will be excessive because every employee will request every possible ergonomic-related accommodation, from footrests to keyboard trays, he said. He illustrated his point with a cartoon of an excessively equipped typist, which drew laughter from those attending *Business Insurance's* recent Seventh Annual Workers Compensation and Disability Management Conference.

Employers' second fear comes from what they see as a lack of scientific evidence supporting the need for ergonomic improvements on the job. This concern persists despite positive gains in productivity and worker health other employers are reporting as a result of their ergonomics programs, he said.

Mr. Schulenberg likened the situation to 18th century naval captains accepting that seamen needed to eat limes to keep from getting sick, though scientists then—who did not yet fully understand how Vitamin C helped prevent scurvy—could not precisely explain why.

In addition, Mr. Schulenberg presented information about positive results of ergonomics programs that the U.S. General Accounting Office reported in case studies from several different employers, including American Express Financial Advisors Inc., AMP Inc., Navistar International Transportation Corp., Sisters of Charity Health System and Texas Instruments.

Overall, he said, those companies saw many benefits from ergonomic programs, including: reduced injuries,

illnesses and lost workdays; earlier return to work, though with restrictions; reduced workers comp costs; and improved worker morale, productivity and product quality.

For example, reductions in the frequency of injuries ranged from 35% for the Sisters of Charity Health System to 91% for Texas Instruments, while reductions in the number of lost workdays per 100 full-time workers ranged from 35 for the Sisters to 122 for Navistar.

Texas Instruments experienced the most dramatic drop in the average cost of a musculoskeletal disability claim, which went from \$21,946 before the ergonomics program was fully implemented to \$5,322 after.

For successful programs, "ergonomics is part of the whole safety and work process," Mr. Schulenberg said.

Generally, successful programs have in common what he describes as "critical program elements": management commitment, employee involvement, systematic identification of problem jobs, implementation of control options, employee education and training, and medical management.

Among the other panelists speaking were representatives of two recent California winners of The Center for Office Technology's national Outstanding Office Ergonomics Award. The City of San Jose was honored in 1998, and Intel Corp. in Santa Clara was honored in 1999.

The City of San Jose, which employs 7,000 workers, adopted several of the aforementioned components when it began its citywide ergonomics program in 1994, though it did not receive major funding until fiscal 1996, said Marynka S. Rojas, the city's safety and ergonomics manager.

The program's mission was "to reduce employee injury from exposure to risks associated with repetitive motion and cumulative trauma disorders." The program's approaches include workstation or worksite evaluation and design, informational lectures and self-assessment classes; and product evaluation.

One of the most popular services is a "motion-based ergonomics keyboard re-training program" that teaches workers a new typing technique. Similar to piano playing, the technique uses larger muscle groups

and reduces the need for repeated micro-movements. The typing program consists of 15 hours of class time over five weeks as well as evaluations by a medical doctor and instruction by a physical therapist.

In addition, the city established an ergonomics team with at least one representative from each department. Each team member undergoes 20 hours of ergonomics training and acts as a liaison between that department and the city's ergonomics program.

The program has been credited with reducing the city's workers comp claims rate per 200,000 hours worked to 21.7 from 29.9 from 1993 to 1999, Ms. Rojas said.

Intel Corp.'s ergonomics program serves the company's 65,000 employees producing computer chips and other high-tech products and services. The program is unusual because it includes a database of employee-specific workstation requirements, such as height of work surface and keyboard placement preferences, said Earnest Ray, the company's occupational ergonomist. That information is invaluable in establishing appropriate workstations, because every employee changes workstations an average of once of year, he said.

In addition, a "cross-site" team drives the direction of the ergonomics program, which includes representatives from management, occupational health personnel and other professionals, Mr. Ray said.

Intel also emphasizes medical case management, seeking to assess immediately and treat musculoskeletal first aid cases before they become more serious.

Intel's results demonstrate the program's effectiveness. In the last five years, musculoskeletal disability rates have dropped 93.9% and lost-day rates have dropped 94.3% Mr. Ray said.

Small employers have a more difficult time dealing with ergonomic problems because they often shop for workers comp coverage guided by price rather than service, said R.J. Banks, ergonomics services supervisor for the State Compensation Insurance Fund of California. "Ergonomics is an investment in the future," she said.

Mr. Schulenberg moderated the session. **BI**

Comp challenges await employers in near future

By JUDY GREENWALD

MARINA DEL REY, Calif.—Rising loss costs, pending legislative changes and a slow-growing workforce spell possible trouble for employers in the workers compensation arena at the turn of the century.

But a well-organized risk management strategy and a focus on changing companies' corporate culture can help meet these challenges, say experts.

The workers comp system may well be headed for another financial crisis as losses continue to mount and trial lawyers, unions and others begin to gain legislative ground against employers, said Peter Burton, senior vp-state relations for the Boca Raton, Fla.-based National Council on Compensation Insurance.

Mr. Burton said that, after several years of rate decreases, there are signs that workers comp rates are beginning to increase. In Oklahoma, for instance, an increase was filed for the first time in eight years, he noted.

But at the same time, the average cost per case is increasing because of rising medical and lost wage costs. Although loss frequency had been at an all-time low, it is now bottoming out and an uptick is expected to follow.

These factors, along with a high combined loss ratio, is "really a recipe for disaster," warned Mr. Burton, speaking last month at *Business Insurance's* Seventh Annual Workers Compensation and Disability Management Conference in Marina del Rey, Calif. "How that affects the marketplace is yet to be tested," he said.

Furthermore, he said, "the pendulum is about to change in the legislative arena." During the early 1990s, he said, workers comp reform legislation favored employers. Now, though, other groups, including organized labor and trial lawyers, are seeking their due as well.

If they are successful, that factor, combined with workers comp's deteriorating financial position, means "we are probably going to see a financial crisis in workers comp similar to what we saw in the '90s," said Mr. Burton.

Current legislators do not have the "appetite" to refocus on workers comp reform, nor do they now have the institutional knowledge to do so successfully, said Mr. Burton. The pendulum could swing away from reform, which could cause a serious problem, he said.

There are mitigating factors, he acknowledged. "What's in place today did not exist in the '90s," said Mr. Burton. For instance, managed care techniques are much more prevalent, claims management techniques are much better and anti-fraud techniques have had a positive effect, he said. The changes that have been embedded in the system will remain.

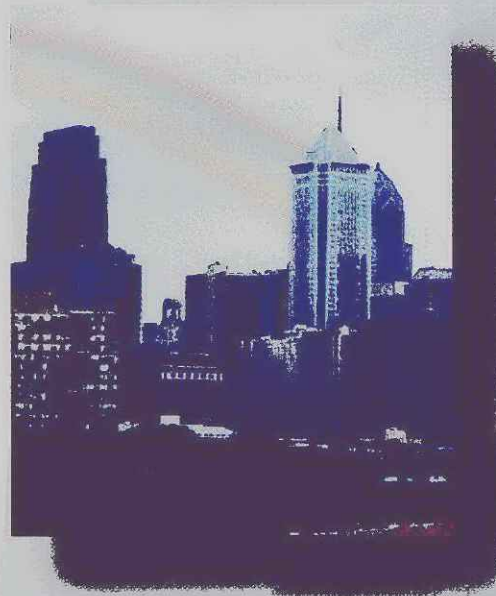
Although Mr. Burton said he feels "cautious optimism about what's in place...all indicators are the workers comp marketplace is moving in another direction."

Ken Ross, a senior vp at Philadelphia-based Intracorp, said the drivers of change include: 90 million Americans

See Future on page 54



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Future

Continued from page 52

suffer from chronic illnesses, including 39 million who have more than one chronic ailment; by the year 2025, 40% of the workforce will be considered "older"; and the workforce is growing at a rate of only 1.1% per year.

"The name of the game is getting people to work and keeping them there," said Mr. Ross.

Also talking at the session was Edward Franckiewicz, director of risk management for San Francisco-based Del Monte Foods. He described how, in 1997, the company moved from a retro large-risk contributory dividend plan to a three-year guaranteed loss combined plan that includes general liability and auto, for a present-value savings of \$1.2 million. Del Monte is a client of Kemper Insurance Cos.

"We are a slim, mean fruit/vegetable machine right now," he said.

Del Monte's program includes a dedicated claims unit in California and dedicated outside counsel. It has also introduced expanded loss control services, Mr. Franckiewicz said.

Features of Del Monte's workers

comp program include a "teleplus" accident reporting system, a return-to-work commitment, ergonomic consultant reviews, a dedicated account team, performance measurement, accountability, a preferred provider network and medical utilization review.

"What can you control and what can you not control? That's one of my big issues," he said. "There are so many things that you have very little control over."

These include: insurer or provider consolidation, acquisition vs. organic growth, merger or acquisition of the broker function, redesign of the corporate risk manager role, legislation, new insurance products, the underwriting cycle, catastrophic occurrences, the technology revolution and changes in the workplace, among others.

But having a well-thought-out risk management plan and strategy can help address events that can be controlled, said Mr. Franckiewicz.

Ask these questions: "What will your industry, company and risk management unit profile look like in one, three and five years from today?" he asked.

"Evaluate your personal comfort index—PCI—with today's technology revolution," Mr. Franckiewicz

said. "Do you know what's coming around the corner? Changes are happening weekly," he said. "Be alert to that."

Finally, he said, if you have a strategy, "put something in writing."

Larry L. Hansen, national practice leader of safety management and organizational performance services for Wausau Insurance Cos. in Syracuse, N.Y., said there are multiple strategies that have to come together on both the operational and the organizational sides of the business to generate excellence in performance.

World-class companies follow traditional strategies, including an emphasis on programs, compliance and technical aspects. But they also focus on their company's culture, said Mr. Hansen, with other critical elements that include organization systems and leadership.

The cumulative effect is "what people do," said Mr. Hansen, who added that he expects companies to move toward a recognition of a need for these strategies in the Year 2000.

The session was moderated by Jeffrey W. Pettegrew, vp-insurance and risk management, at Walnut Creek, Calif.-based Westaff. **BI**

Teamwork, creativity essential to winning

By ROBERTO CENICEROS

MARINA DEL REY, Calif.—Risk managers who've put together winning workers comp teams say that several practices, including implementing creative programs to train line managers, conducting vendor audits and hiring assertive workers comp experts, are essential.

Building a successful team is necessary, because the workers comp manager acting alone cannot reduce all injuries and their costs. Nor can a single solution solve all potential problems, the risk managers told the Seventh Annual *Business Insurance Workers Compensation and Disability Management Conference*.

Suzanne Guyan, director of international workers compensation for Costco Wholesale in Issaquah, Wash., has such a team in place. Perhaps its most unusual member, though, is Bobbi, a life-size dummy used to explain to warehouse managers how Costco's team helps injured employees recover as soon as possible.

During workers compensation boot camp, called "Bobbi Day," vocational specialists, claims representatives, a Costco attorney, an employee assistance program representative and other experts explain their roles to managers of Costco's warehouses, Ms. Guyan said.

Bobbi Day is just one of the successful programs the employer has implemented to help create a cooperative environment, lower its litigation rate, and obtain proper medical treatment for injured workers.

"In a nutshell, one of the warehouse managers told me that, as a result of the program, they now understand that, when they have an employee who has an injury, they need to do the right thing because they have no excuse," Ms. Guyan said.

In a limited pilot program in one work site, Costco is also using its EAP vendor to improve its disability program, Ms. Guyan said. "This is an area that I think is going to be up and coming," she said.

Costco has found that claimants who resist returning to work often have problems that can be solved by EAP intervention, she said. So now, after 14 days of missed work, the employer's EAP specialists contact the claimant to conduct a "quality check." If need be, they can provide counseling on any EAP issues.

"It's an intervention that is proactive, that identifies if there are any communication barriers with (the employee's) warehouse managers, at home, or with the claims unit or their doctor," Ms. Guyan explained.

Costco is now evaluating expanding the program companywide, she said.

To build its winning team, Mattel Inc.'s Corporate Insurance Department sets measurable standards for its claims handling vendors and then audits and rates their performances, said Bernadette Melchionne, Mattel's senior corporate insurance administrator in El Segundo, Calif.

Mattel's contracts also base vendor pay on their performance. Specifying precisely what is expected of vendors is crucial to avoiding misunderstandings, Ms. Melchionne said.

"You can use one particular word,

and it can have different meanings to whoever your audience is," she said. "This is probably the most critical part of this process. We came up with what we thought the standards should be, went to our vendor, and they had a different interpretation of language, and we actually fought over little words here and there."

The employer's broker conducts the audits, consisting of system and claim file reviews. How many files will be looked at, what type of files will be examined and a specific time frame for the vendor's rebuttal of the audit's findings are among the standards specified by Mattel.

"You need a limited time for a rebuttal," Ms. Melchionne said. "The first year we did this, we had a terrible time with time frame. Our vendor thought they should have forever to come back and give us a rebuttal."

Now, vendors know exactly when they have to return with a rebuttal. The rebuttal also has to be returned in written form with accompanying documentation.

"It's very easy for them to say, 'Oh yes, that was in a file,'" Ms. Melchionne said. "So, let them prove it was in a file."

At SYSCO Food Services of San Francisco Inc., David J. Chetcuti, SYSCO's workers compensation director, builds his winning team by hiring only staff members who are experienced workers comp experts. They must not hesitate to enforce workers comp laws or make changes to return-to-work policies or other programs if improvements can result, he said.

Annually, every vendor on SYSCO's workers comp account, from adjusters to investigators, gathers for an evening out, Mr. Chetcuti said.

"Sure, it costs you a few hundred dollars, but it's worth it," he said.

Meanwhile, the company has found it difficult to fit a modified-duty program into its environment, Mr. Chetcuti said. So the workers comp department invented a classroom where a teacher presents to injured workers a safety course approved by the federal Occupational Safety and Health Administration.

"As a result, we have seen a tremendous change in our work environment," Mr. Chetcuti said. "The employees that like to get off for the summer by reporting an industrial injury, now they don't do that."

"Not only that," he said, "but we saw the severity of our injuries go down. Why? Because, all of a sudden, all our injuries were medical-only claims." And Mr. Chetcuti noted that it is easier to close a medical-only claim, which involves time off solely for medical visits, than to close an indemnity claim.

Employers should not forget that the injured employee is one of the most important members of a winning team, said Barry E. Thompson, national practice co-leader of disability management services for Deloitte & Touche L.L.P. in Hartford, Conn. Don't build a complicated program and then leave the employee to figure it out on his or her own, Mr. Thompson warned.

"They need to be included," he said. "That is extremely important in team building. That is how you win the game—with the employee on board." **BI**

Raising worker involvement can limit comp battles: Panel

By JUDY GREENWALD

MARINA DEL REY, Calif.—Employers can avoid adversarial relationships with injured workers by telling workers what they are entitled to before they ever get hurt, a risk manager says.

Return-to-work programs, in particular, can be made less adversarial and more effective by encouraging a partnership involving the employee, employer and other parties involved, another risk manager and insurer say.

"We've got to get the adversarial relationship out of workers compensation," said Marshall Sherman, director of risk management for Philadelphia-based Aramark Corp.'s Campus Services and School Support divisions.

"Attorneys have no right being in workers compensation," said Mr. Sherman. Because all benefits are statutory, workers should get whatever they are entitled to "and not a penny more."

"We force people to attorneys because we're stupid," he said. "We don't tell them 'This is what you're entitled to get.'"

As a result, injured workers seeking advice instead turn to the attorneys they see advertising on television, said Mr. Sherman, who spoke at *Business Insurance's* Seventh Annual Workers Compensation and Disability Management Conference in Marina del Rey, Calif. last month.

One question workers typically have is what types of accidents must be reported, said Mr. Sherman. The answer is that even a cut finger should be reported, because if that finger turns "green and fuzzy" two

weeks later and there is no record of the accident having occurred, an adversarial relationship is immediately created.

If, on the other hand, the employer tells its employees to report any incident right away, "you're protecting yourself," he said.

The more time it takes an employee to report an accident, the more it ultimately costs, he said. "It's not rocket science."

Workers are not out to defraud their employer, and they truly want to get back to work, Mr. Sherman said. To make this happen, "I think we have to think out of the box a little bit," he said.

Some approaches for encouraging return to work are still effective, such as sending cards to injured people and keeping in touch with them.

And Mr. Sherman reminded employers to remember that "everyone's important in your organization."

Even the dishwasher might be the most important person in an operation if his or her absence means that it will shut down, concluded Mr. Sherman.

Philip S. Renaud II, vp-insurance for The Limited Inc. in Columbus, Ohio, said his company has developed a process that allows an injured employee to gradually take on tasks until he or she again reaches full duty.

The transitional assignment should be one the employee is physically capable of carrying out, said Mr. Renaud, adding that this requires a partnership involving the employee, third party administrator, employer and physician. "Each should understand their role and carry that role out," he said.

Annette Sanchez, vp-business

development for Hartford, Conn.-based Specialty Risk Services Inc. and moderator of the discussion, agreed. Nowhere is teamwork more important than in the design and execution of a well-thought-out return-to-work program, she said.

"A solid, functional return-to-work program can't be built without communication" between the employer, physician, TPA and, most important of all, the injured worker, said Ms. Sanchez.

Mr. Renaud also said that, under The Limited's program, employees must provide a written medical release indicating medical restrictions for transitional duty.

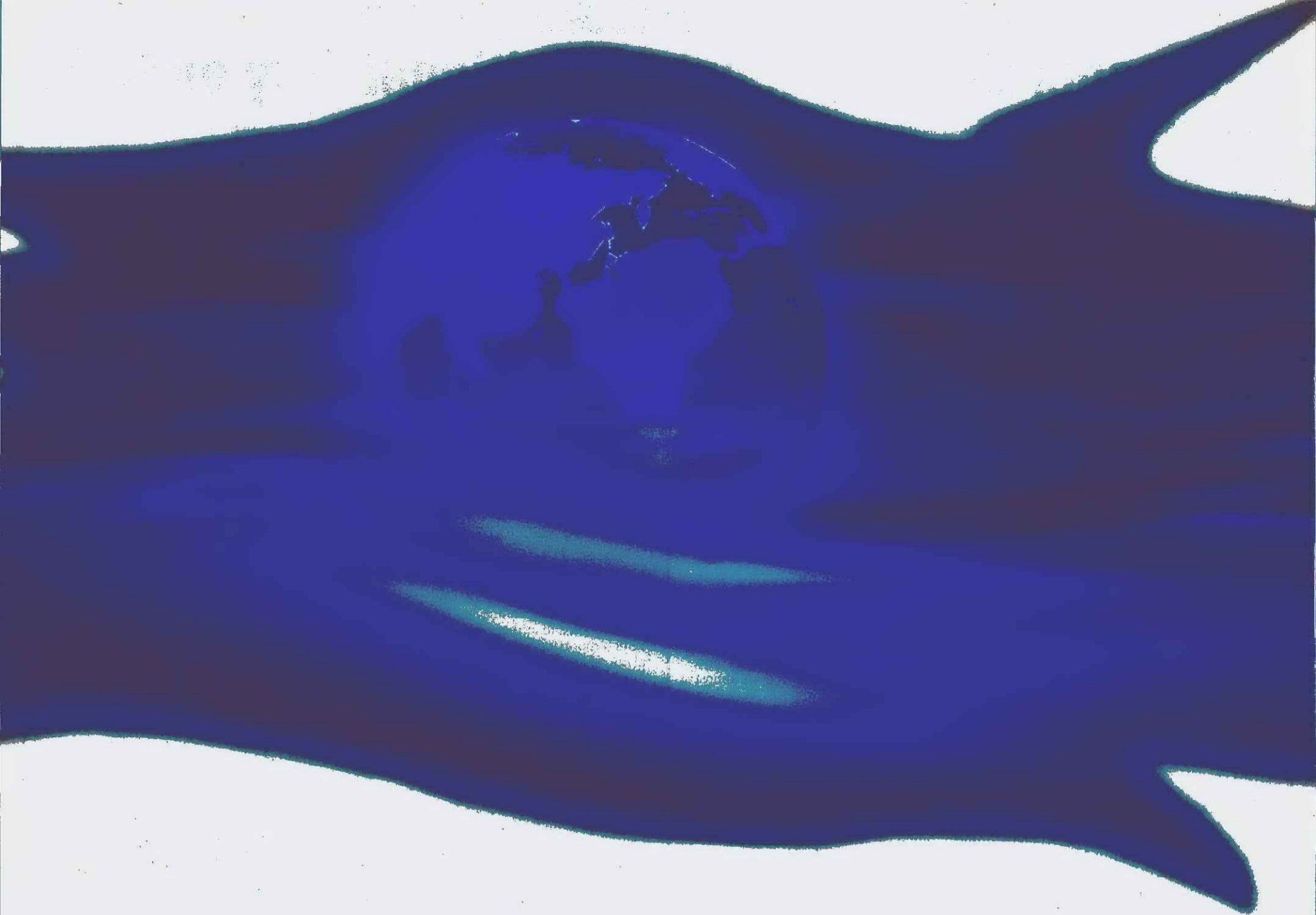
Among the factors that should be considered in assigning transitional duty are the duration of the assignment, the number of days per week the worker is available, the job description and necessary modifications, said Mr. Renaud.

Be flexible in designing transitional work assignments to accommodate the employee, he recommended. Ask the employee for suggestions, retain the previous rate of pay and "do assign productive tasks," he said.

On the flip side, employers should not assign idle tasks, exclude employees from company activities, or make assignments that are beyond employees' skills or abilities, he said.

Involve the physician as well, said Mr. Renaud. Make sure he or she understands the process and find out whether the doctor can visit the worksite.

Also speaking at the session was Dr. W. Tom Fogarty, senior vp and chief medical officer at Addison, Tex.-based Concentra Managed Care Inc.



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Close coordination keeps transitional duty on track

By JUDY GREENWALD

MARINA DEL REY, Calif.—A well-organized transitional duty program is key to a successful workers compensation program, says one manager who deals with workers comp cases.

Wynnie Primas, operations manager at Marriott Claims Services in Santa Ana, Calif., said a key element in her company's successful transitional duty program is an agreement that is reached between a coordinator and the injured employee.

Ms. Primas said once it is determined that transitional duty is appropriate for an injured worker, a coordinator from either the local or regional level is assigned to monitor the program.

This individual may be someone from human resources, or an occupational nurse, said Ms. Primas, who discussed her company's program at *Business Insurance's* Seventh Annual Workers Compensation and Disability Management Conference in Marina del Rey, Calif., last month.

A transitional duty agreement is

then drawn up and signed, said Ms. Primas. This agreement outlines both what the injured worker can do and what his or her restrictions are, with Marriott attempting to focus on the former, said Ms. Primas.

Under the agreement, there is a "clear understanding" that the worker does not receive workers comp benefits without performing transitional duty, she said. The agreement also specifies that, in the event of any disagreements between the worker and a supervisor, the coordinator "makes the fi-

nal call as to what's going to happen," said Ms. Primas.

The employee works out of his or her regular department during the first 30 days of transitional duty, said Ms. Primas. There is never a problem finding work for the employee to do, according to Ms. Primas. Even at a small employer, there are a "zillion things that need to be done, (that) nobody gets around to doing," she said.

After the first 30 days, the employee returns to the doctor to learn whether the restrictions can be lifted or whether additional du-

ties can be added to the agreement.

If transitional duty must continue, the worker does not return to his or her own department, but rather is assigned elsewhere.

One benefit of this policy, said Ms. Primas, is that most workers do not like working in other departments, which creates more of an incentive for the worker to return to his or her regular job.

After 90 days, the decision is made as to whether the worker can return to his or her regular job.

See *Transition* on page 58

Integrated programs offer potential savings once hurdles overcome

By MEG FLETCHER

MARINA DEL REY, Calif.—Integrated disability management programs are good in concept, but implementing them requires overcoming many challenges, workers comp experts say.

For most employers, "the appetite is tremendous" for integrated disability management programs, said Jerome Shalauta, manager of Zurich U.S.'s national program for accident and health special risks and who is based in Glendale, Calif.

However, "it's a longer process than we anticipated," noted Mr. Shalauta during a panel discussion on integrated programs during the Seventh Annual *Business Insurance* Workers Compensation and Disability Management Conference in Marina del Rey, Calif.

"For us, some coordination and disability management is the right thing to do," said Kathryn Florek, director of occupational health and safety at Catholic Healthcare West in Oakland, Calif. "The opportunities abound" in the company, which has 50,000 employees in 48 locations and spends about \$35 million annually in workers compensation costs, she said.

Catholic Healthcare, like many employers, has not yet developed an integrated disability management program, though, because of the many challenges involved.

The first challenge is defining the components of an integrated disability management program.

The components are "very varied," and employers often want flexibility in their programs, Zurich's Mr. Shalauta said.

Robert Gelb, vp and general manager of Bay Brook Medical Services, a Diamond Bar, Calif., division of QTC Management Inc., said there are four key components in his definition of an integrated disability management program:

- A 24-hour coverage program through alliances between workers comp and group health insurers.

- Human resources initiatives to effectively manage sick leave, long-term disability, short-term disability, workers comp, health care costs and lost time.

- Internal and external staffing of resources such as rehabilitation counselors, return-to-work coordinators, medical case managers, third-party administrators and medical providers.

- Total health care management linking employee well-being with improved productivity.

Mr. Gelb said he considers all four components important if an integrated disability management program is going to make a dent in employer costs for occupational and non-occupational health care.

He said that the average direct cost of disability as a percentage of payroll totals 6.3%, including workers comp, sick pay, short-term

disability and long-term disability, according to the 1998-99 survey by Watson Wyatt Worldwide.

In addition, the average indirect costs of disability—which includes the costs of overtime, replacement and accommodation—is almost 7% of payroll.

"If you combine those two, it is nearly 13 cents of every dollar. That's huge. That's a big number," said Mr. Gelb, who moderated the panel.

The objectives of integration, however, go beyond improving financial results, he said. They also should include speeding employees' return to work, increasing productivity, reducing administrative redundancies, improving employees' health, eliminating dual or overlapping coverages and consolidating vendors.

Implementing such programs, however, requires overcoming many challenges, such as the lack of important financial data.

Some employers have not yet quantified what they spend for non-occupational health care, including both direct and indirect costs, Mr. Gelb noted.

Catholic Healthcare, for example, has begun a benchmark study to get more information about its human resource expenditures, Ms. Florek said.

That information is particularly important because senior managers primarily have a "bottom line" orientation, Mr. Gelb said.

Other challenges include getting risk managers and human resource managers to coordinate their different views of what constitutes proper treatment of employees, said Mr. Shalauta of Zurich.

Risk managers are more focused on productivity through getting people back to work and job accommodation, while human resource managers are more focused on providing benefits to workers, he said.

"The largest problem is the absence management on the non-occupational side," said Ms. Florek. In addition, "there is a tremendous amount of education that must be done with individual (health care) providers," she said.

One example of this is explaining to medical providers the job-related accommodations employers are willing to make to bring formerly injured workers back to work sooner, the panelists said.

The growing issue about an employee's right to medical records privacy may also pose a challenge to implementing integrated disability management, Mr. Shalauta said.

In addition, employers may face the challenge of determining to what extent an integrated disability management program should be implemented as a centralized or decentralized system, panelists said.

Despite the challenges, employers can benefit from implementing such programs even though they may do so using "baby steps," Mr. Gelb said. **BI**

Fighting insurance fraud

Investigate all suspicious claims, panel says

By MEG FLETCHER

MARINA DEL REY, Calif.—The basics of fighting fraud in the workers compensation system remain unchanged: Constant vigilance in reviewing claims and reporting suspicious claims to authorities.

Such reporting, which is required in California, should be made by all insurers and self-insurers, regardless of whether the suspect is a worker, employer, insurer, health care provider or attorney, a panel of experts said during *Business Insurance's* Seventh Annual Workers Compensation and Disability Management Conference, held last month in Marina del Rey, Calif.

It is important to remember that "scam artists go to great lengths" to perpetrate fraud, said John P. Massucco Jr., chief of the Insurance Fraud Division of the San Diego County District Attorney's Office.

For example, a videotape Mr. Massucco presented showed an elderly janitor confessing to putting rocks in his shoes so he could display more of a limp before a judge during a sentencing hearing. A deputy, who had discovered the janitor's ruse after he was sentenced, returned the janitor to the court room where he received an additional scolding by the judge.

Many scam artists, though, are more sophisticated and well organized, said N.K. "Keith" Newman, a California Insurance Department deputy commissioner who specializes in fraud detection.

Insurance fraud is second only to tax evasion as the most frequent white-collar crime in the United States, said Mr. Newman, who previously worked for the California Highway Patrol.

Speakers estimated the annual cost of U.S. fraud at anywhere from \$85 billion to \$100 billion. That is for both direct and indirect costs, which include such expenses as higher prices for goods and services, lower wages and lost profits.

While the numbers may seem huge, actions by lawmakers, employers and insurers can make a difference, primarily by publicizing fraud convictions and deterring imitators, the panelists emphasized.

California workers comp reforms in 1993 stopped most of the workers comp claims "mills" that churned out suspicious medical reports for fraudulent claimants, Mr. Newman said.

There is much more to do, however. "Fraud is a dynamic game. It's not a static game," he said.

Mr. Newman said that employers, insurers and others need to develop and follow these four business management practices:

- Have a philosophy of caring for legitimately injured workers.
- Prepare supervisors and managers to investigate and report suspicious claims.
- Practice those policies in each individual case.
- Pursue wrongdoers by denying apparent-

ly fraudulent claims and reporting them to prosecutors.

"You as employers can have a dramatic effect," he said. For example, the California Highway Patrol launched a campaign a few years ago to investigate questionable requests for disability-related retirements.

The CHP rooted out three employees whose alleged "disabilities" did not interfere with their being a rodeo queen, square dance king or jet skier, respectively. The three were arrested, and publication of those arrests had a significant deterrent effect, he said. Subsequent disability-related retirement requests dropped to less than 8% from 75% previously, Mr. Newman said.

Sometimes, however, employers themselves are the problem.

California authorities estimate that of the more than 900,000 employers in the state, about 20% either do not purchase state-mandated workers comp coverage or misrepresent themselves to obtain a lower premium, panelists said.

State authorities are currently working to develop a task force that will address this issue and level the playing field for law-abiding employers, panelists said.

Using insurance industry resources, including good investigators who pursue fraudulent claims in person, can help resolve such claims, said Bill Randall, Pacific Region Manager for Special Investigations for Liberty Mutual Insurance Co. in West Sacramento, Calif.

Successful resolution can mean a return of benefit payments. According to the law, benefit payments can stop once a claimant is arrested; if he or she is convicted, all such payments must be returned, he said.

Unfortunately, California statistics indicate that many insurance companies are not reporting suspicious claims, said Mr. Randall. He urged employers and insurers to cooperate with fraud investigators by reporting them.

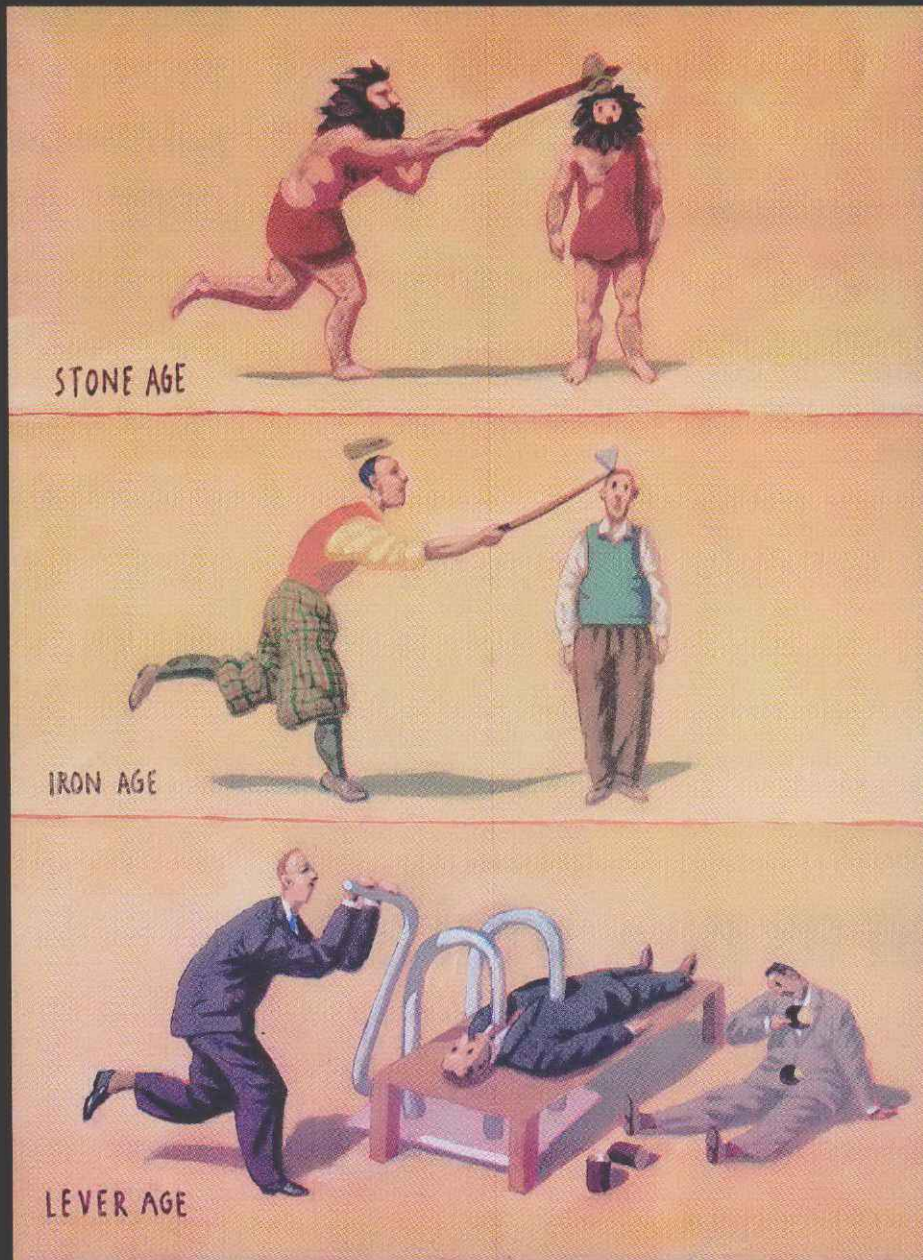
Investigators now have available more computer-based programs to help root out suspicious information that may indicate potential workers comp system abuses, said Michael D. Gantt, senior vp-Claims and Benefits Solutions Group for Policy Management Systems Corp. in Columbia, S.C.

One program entails searching for similarities in data on filed claims, including Social Security numbers or medical provider data. Finding such similarities may mean a suspicious concentration of claims being filed by one person or treated by one doctor.

Another software program that provides lost-time parameters for particular injuries may provide employers or insurers with data to speed up an injured worker's return to the job. A treating physician who sees such data may be encouraged to release the worker earlier than he or she originally planned, Mr. Gantt said.

The session was moderated by Mr. Massucco.

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Business Insurance 7th Annual Workers Compensation Conference

Transition

Continued from page 56

Many times, the worker cannot, in which case it is time to "start strategizing" to decide whether the company can provide a permanent modified-duty or alternative job, said Ms. Primas.

Transitional duty can bring substantial savings for employers, said Ms. Primas. If a company is self-insured, it pays the worker anyway. And if it is insured, injured workers affect the employer's experience modification, "so really, the bottom line is the same," she said.

Also speaking at the session was Anshell Boggs, workers compensation manager at Philadelphia-based Pep Boys, who said among the challenges facing the automotive parts retailer and repair operation is coordinating workers comp in multiple locations. Pep Boys has locations in 36 states and Washington, D.C., and Puerto Rico.

"We have a lot of challenges in keeping things consistent," said Mr. Boggs.

Furthermore, Pep Boys' workforce is diverse, and "they bring a lot of different issues to the table," said Mr. Boggs. Claims manage-

ment has been "a real challenge for us" as well, said Mr. Boggs.

Mr. Boggs said after Pep Boys' rapid expansion three years ago, each department was asked to examine how it could best retain the company's profits.

Pep Boys wanted a "cutting-edge" workers comp program, said

Data from employee surveys is used to measure 'where we're really dropping the ball,' says Anshell Boggs.

Mr. Boggs. "We're not looking for just the basics," he said. The company wanted to make sure frequency and severity were not increasing, and to focus on costs that could hurt profits.

One of the key elements in Pep Boys' workers comp program is its risk management information system, said Mr. Boggs. "We are a true believer that using these types of systems is really where it's at," he said.

In addition to working with its insurer on a RMIS system, reports

developed internally are used to "help measure the impact of our program," said Mr. Boggs.

Pep Boys also relies on a survey of its workers, asking them questions about the effectiveness of its workers comp program, including factors such as claims management and medical care. The survey also gathers worker perceptions about effectiveness of its insurer. "One thing about employees, they will tell you what didn't happen," said Mr. Boggs. All this data is used to measure "where we're really dropping the ball," he said.

Performance guarantees are another key element in Pep Boys' program. They are designed to "really stretch" the claims management process as well as the third-party administrator, said Mr. Boggs.

Another element is a quarterly claims report card, which measures factors such as total-loss indicators, litigation, subrogation, case management and managed care. "There really shouldn't be any surprises," said Mr. Boggs.

Also speaking on the panel was Peter Rousmaniere, president of Cambridge, Mass.-based Rousmaniere Designs. The session was moderated by Maria A. Bayne, president of San Diego-based Bayne Consulting Group Ltd. **BI**

Cutting stress claims

NIOSH official urges attention to risk

By ROBERTO CENICEROS

MARINA DEL REY, Calif.—It is common for surveys of workers to reveal that one-fourth to one-third feel they are burned out, emotionally drained or stressed out, says an occupational health and safety researcher.

"I can give you many, many, survey findings that provide the same kind of data," said Steven L. Sauter, chief of applied psychology and ergonomics for the National Institute for Occupational Safety and Health's Taft Labs in Cincinnati.

Lean production staffs, longer work hours, and an aging and diverse workforce are all factors that are on the rise and adding to worker stress, Mr. Sauter said.

Work shift changes, corporate reorganizations or other management changes can exacerbate the problem, he said. But employers can take steps to alleviate the stress associated with those changes, he said. One strategy involves obtaining a work climate survey and worker input.

Some risk managers and others in corporate management tend to dismiss the impact of stress, considering it an impossible issue to manage, Mr. Sauter said. But there are actual workplace costs associated with stress—a factor that is driving more organizations and corporations to study the issue, he said during the Seventh Annual Business Insurance Workers Compensation and Disability Management Conference, held last month.

One major pharmaceutical company carefully studied its workers' stress and the related medical costs, Mr. Sauter said.

Among other findings, the study showed that workers who reported suffering from high levels of stress were, on average, 2.5 times more likely to suffer from coronary artery disease and 2.8 times more likely to suffer from increased hypertension.

The company also concluded workplace stress was adding \$4 million annually to its medical costs.

"It is no longer OK in the corporate crowd to dismiss concerns about stress at work," Mr. Sauter said. "Major organizations are developing internal programs to look fairly aggressively at this problem."

According to Mr. Sauter, a database of information provided by several large corporations was recently analyzed to evaluate the relationship between health care utilization, stress and other illnesses.

"These data very interestingly show that workers with high levels of stress have a 46% increase in health care utilization in the workplace,"

Mr. Sauter said. "Workers reporting depression have a 70% increase, and when you combine the two, you get a synergistic effect of 156% increase in health care utilization."

To help alleviate problems, NIOSH favors companies seeking worker input before major reorganizations are made in the workplace, said Roger A. Rosa, a NIOSH research psychologist. A circular survey of workers is also advised.

"Find out what is going on before any kind of changes are made," he said. "The other important part of any organizational change is participation. If you want to make changes work—not only in work scheduling, but in other rearrangements—change will work better if the dialogue is there."

A circular survey method, which evaluates and then later re-evaluates the workplace climate, can unveil worker concerns and encourage their participation in determining outcomes, the researchers said. New York-based Corning Inc. obtained NIOSH assistance and implemented such a strategy, Mr. Sauter said.

Corning began by presenting workers with a general climate survey exploring several factors, including how employees were coping with stress, their current stress levels, work satisfaction and feelings of empowerment, Mr. Sauter said.

The company then developed employee focus groups to bring to light specific risks and find solutions. In a two-step process, Corning focused on organizational changes and strategies for coping with stress. That information was used to improve team skills and organizational skills.

Corning then examined how management processes subsequently proceeded, evaluating issues such as organizational cohesion, efficiency, productivity and morale. They also assessed the impact on medical costs, looking at factors such as the use of ulcer drugs, and the incidence of tension headaches, neck and back pains.

Then they followed up with a second climate survey.

"Whether it's work schedule (changes) or team work (changes), or any type of organizational change, it's this is kind of circular process that we recommend," Mr. Sauter said.

NIOSH will assist companies by providing information booklets and study support. NIOSH can be reached at 800-356-4674. Consultants and local expertise may also be available. For example, university departments of psychology can provide questionnaires and workplace assessment tools, he said. **BI**

Technology seen as powerful ally

Comp data aids loss control, savings

By ROBERTO CENICEROS

MARINA DEL REY, Calif.—Michael J. Tilley recalls when about eight years ago, the workers compensation department of Kelly Services Inc. had just one computer for everyone to share, yet every desk had an electric pencil sharpener.

It was an inefficient way to handle the 10,000 claims per year generated by the 800,000 temporary workers that Kelly deploys annually from its 1,800 branch offices nationwide. Under this system, boxes of claims information piled up, and no one touched them, said Mr. Tilley, vp-workers compensation for the Troy, Mich.-based staffing company.

Since then, when he first joined the company, Mr. Tilley has reaped dividends from investing in a risk management information system and continually upgrading technology. Technological improvements allow him to reduce loss costs by providing quicker access to greater amounts of claims data.

Efficient use of technology also helps him avoid expanding his staff size, which is now seven.

Even a basic RMIS system can help immensely with claim processing speed and data analysis, Mr. Tilley said.

But going beyond to basics and having an almost "evangelical" belief in technology and state-of-the-art systems is becoming increasingly critical, said speakers at the Seventh Annual Business Insurance Workers Compensation and Disability Management Conference, held last month in Marina del Rey, Calif.

As greater amounts of data become available from disparate sources, including the Internet, risk managers should embrace improved technology to integrate that information and interact with the organizations that will provide it, the speakers said.

While it is trite to say that things are changing every day, there is an explosion of companies offering products that enhance access to risk

management information, said Paul Jester, vp-marketing in San Diego for HNC Insurance Solutions, a unit of HNC Software. Risk managers should have at their disposal enough information about technology to make them, at the least, more inquisitive about available products, he said.

There is a lot of value in data, and a lot of data available, Mr. Tilley agreed.

"It's amazing that today I can drill down through the data and tell you within three minutes how many injuries we have in Paducah, Ky., for individuals 18 to 21 years old for the month of January, who were hired in December, who are suffering a lower-back pain caused by slip and falls, with reserves between \$2,550 and \$3,000," Mr. Tilley said.

Such data can show him where problems are occurring, he said.

For example, Mr. Tilley can find claims he considers to be stagnant and in need of immediate attention. Those include medical claims that are still open after 40 days. He uses a 40-day benchmark because looking at 15 years of trends has shown him that medical claims typically close within that time.

Indemnity claims without financial activity within the past 90 days are also suspect, he said.

"That means our carrier has not changed their reserves, nor have they made a payment," he said. "That claim is stagnant, and nothing has happened in 90 days. I want to know why."

With his RMIS system, Mr. Tilley can identify and call up information on such claims in less than a minute, print a copy, and quickly dispatch it to one of 27 offices nationwide that process Kelly claims.

"I can actually go down and specify which branch office has the claim, and I get an immediate response, so my files are now up to date," he said.

His data analysis capabilities also are much improved, allowing him to create a wide range of loss triangles

for each state or for a group of states. Loss triangles are methods of analyzing loss development by arranging in a table various claims data over a period of time.

Being able to develop loss triangles within minutes gives him instant information on where problem areas lie, Mr. Tilley said.

Kelly also uses its data evaluation technology for other functions, such as claims inventory management, closure rate determination, spreading costs among business units and measuring various factors, such as loss rate or frequency.

There is a huge amount of data out there, and its availability continues to grow, said H. Michael Covert, research and development chief technical officer for Alta Analytics, a Westerville, Ohio, company that creates products such as data mining software called NetMap.

While vast amounts of data increasingly come from different sources and in various formats, methods of converging and converting differing data into knowledge are evolving, Mr. Covert said.

Such capabilities increasingly will help business exchange information, and they will help workers compensation managers combine data and mine it to find hidden practices, such as provider fraud or claimant fraud, Mr. Covert said. **BI**

Work comp conference at a glance

MARINA DEL REY, Calif.—A dozen sessions, including four concurrent ones, kept 245 people engaged during Business Insurance's Seventh Annual Workers Compensation and Disability Management Conference, held Oct. 18-20.

Attendees also could join a pre-conference golf outing as well as a private, employer-only roundtable discussion as part of the two-day conference at the Ritz-Carlton Hotel in Marina

Del Rey, Calif.

The conference, presented in conjunction with the International Business Forum in Rockville Centre, N.Y., analyzed several significant issues, including: integrated disability management, advice on reducing shiftwork and job stress, combating fraud, measuring the performance of employers' workers comp programs, award-winning ergonomics programs, returning injured em-

ployees to useful work and high-tech solutions to managing disabilities.

The format, which included both individual speakers and panel discussions, also allowed attendees to seek answers to specific questions.

Next year's workers comp conference will take place Oct. 16-18 at the same location. For more information, call International Business Forum at 516-594-3000.

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Business Insurance 7th Annual Workers Compensation Conference

'Boot camp' whips workers comp program into shape

By JUDY GREENWALD

MARINA del REY, CALIF.—A "boot camp" in which key employees get intensive training on fundamental workers comp principles is the centerpiece of an automotive parts manufacturer's successful workers comp program, says a company official.

"The question I pose is, how can we do better for our people?" said Douglas Hamrick, director, environmental health, safety and energy at the Troy, Mich.-based automotive trim division of Textron Inc.

"The most important thing about managing any disability is the person, and anything else takes care of itself," said Mr. Hamrick, discussing his basic philosophy.

The one reason for workers compensation is to make people better, said Mr. Hamrick. "That's it." Every worker expects to go home from his job, he said. "We expect it of ourselves and we expect it of our people," said Mr. Hamrick, who spoke at the Seventh Annual Business Insurance Workers Compensation and Disability Management Conference in Marina del Rey,

Calif., last month.

But there is also a financial element to workers comp. For every dollar spent in direct costs, including medical fees and lost-time wages, there are \$5 in indirect costs, including replacement labor, overtime, lost production, damaged equipment and goods, missed shipments and reduced productivity of the injured employee, according to Mr. Hamrick.

In his division's case, "this means we have to sell \$400 million of product to pay for workers compensation."

What can be done about this, he said, is to eliminate accidents and improve disability management.

"You've got to change the culture" to improve, said Mr. Hamrick, adding that commitment is the key to changing it. If you do not, he warned, "you'll get what you've always got."

Health and safety operating principles followed by his division, said Mr. Hamrick, are:

- There is no work performed that justifies an injury.
- All occupational injuries and illnesses can be prevented.
- Working safely is a condition of

employment.

• Everyone is responsible and accountable for the safe behavior of themselves and others. "It is not OK if someone sitting next to you is doing something wrong," said Mr. Hamrick.

• Health and safety is led by senior management and implemented by line management, with each level accountable to the one above and responsible for the one below.

• All employees will have the necessary knowledge, skill and abilities to work safely.

• Health and safety will be designed into everything that is done.

• Safety is safety, no matter what the industry.

• Safety is a process, not a program.

• Good health and safety performance is good business.

Core elements in his division's workers comp program include accident reporting, returning to work, training and education, established goals and objectives and claims management, said Mr. Hamrick.

The business' workers comp management system, he said, includes standard performance met-

rics, highly effective teams, "partnership" reviews of both the third-party administrator's performance and vendor service, and planning to succeed.

He said the challenges that faced the division in its drive to self-sufficiency at the local level have included numerous local operations, inconsistent operations management systems, an inconsistent knowledge of fundamentals, and a vaguely defined role for the workers comp coordinator, which was the added responsibility of someone in operations.

A primary solution was development of the boot camp to educate its employees. In this "total immersion" experience, workers comp coordinators, safety professionals, operations managers and others are educated on fundamental principles and best practices and are presented with a focus on returning to work rather than on litigation management or settlement. "Getting people back to work as fast as possible. That's the focus," said Mr. Hamrick. Textron also educates employees on standards of performance and health and safety initiatives.

The one-week program is designed to be an intense program, with its culmination a goal letter each person writes, said Mr. Hamrick. "We drive them pretty hard," he said "By Thursday, they're ready to kill us."

Items on the boot camp agenda include injury management concepts; labor and employment issues; system abuse; data analysis; medical cost containment; the coordination of medical care; file review; and implementation, communication and training.

Sixteen sessions have been completed since 1996, including two annually from 1998, with more than 300 people trained, said Mr. Hamrick.

Among the program's results, he said, is a total injury reduction of 70%, a 90% reduction in the rate of lost days, 6,400 fewer lost days per year and a 20% increase in annual work hours.

Mr. Hamrick said the next planned steps include an integrated disability management program and advanced training and professional development. "You can't spend too much time educating people," he said. **BI**

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NOVEMBER

NOV. 8-9. P&C Pricing and Rate Making Seminar, in Chicago, sponsored by Dorman Consulting Associates; \$895. Dorman Consulting Associates, 1 Haverhill Court, Beachwood, Ohio 22122; 216-464-5678.

NOV. 8-10. Crisis Management Planning Course, in Phoenix, sponsored by the Risk & Insurance Management Society Inc; \$675 for members and \$825 for non-members. RIMS, Professional Development Department, 655 Third Ave., New York, N.Y. 10017-5367; 212-286-9292.

NOV. 8-10. Export Credit and Political Risk Convention, in Washington, sponsored by IBC Global Conferences Ltd.; \$2,000. The Bookings Department, IBC UK Conferences Ltd., Gilmoora House, 57-61 Mortimer St., London W1N 8JX, England; 44-171-453-5498.

NOV. 9. Assn. of Lloyd's Brokers Annual Meeting, in Chicago, sponsored by the Assn. of Lloyd's Brokers; first three members of the same firm are admitted at no cost, \$30 each thereafter. Kathy Kwell, kkwel@lordbissell.com; 312-443-0700.

NOV. 10-12. Professional Liability Underwriting Society annual conference, in New York, sponsored by PLUS; \$720 for members and \$900 for non-members. PLUS office, 4248 Park Glen Road, Minneapolis, Minn. 55416; 800-845-0778.

NOV. 11-12. Life Insurance Product Development, Innovation & Distribution Summit, in New Orleans, sponsored by the Strategic Research Institute; \$1,495. Strategic Research Institute, 333 7th Ave., 9th Floor, New York, N.Y. 10001-5004; 800-599-4950.

NOV. 14-17. Mergers and Acquisitions in the Insurance and Financial Services Industry conference, in Southampton, Bermuda, sponsored by Strategic Research Institute; \$1,595. Strategic Research Institute, 333 Seventh Ave., Ninth Floor, New York, N.Y. 10001-5004; 800-599-4950.

NOV. 14-17. Ninth World Captive and Alternative Risk Financing Forum, in Miami, sponsored by Business Insur-

ance, Skandia/Sinser and Tillinghast-Towers Perrin; \$975 for risk managers, \$1,250 for all others. Tina Gassman, World Captive Forum, 4248 Park Glen Road, Minneapolis, Minn. 55416; 612-928-4659.

NOV. 15-16. Annual Employee Benefits Conference for Practitioners & Plan Sponsors, in Dallas, sponsored by SouthWest Benefits Assn.; \$250 for members and \$325 for non-members. SWBA, P.O. Box 781982, Dallas, Texas 75378-1982; 214-987-3271.

NOV. 15-16. Risk Securitization Conference, in New York, sponsored by IBC Conferences Inc.; \$1,999 for conference and workshop. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

NOV. 15-18. Annual Construction Insurance Conference, in Chicago, sponsored by the International Risk Management Institute Inc.; \$925 until Oct. 25 and \$1,025 thereafter. IRMI, 12222 Merit Drive, Suite 1450, Dallas, Texas 75251-2276; 972-960-7693.

NOV. 30-DEC. 1. Captives Conference, in Grand Cayman, sponsored by IBC Conferences Inc.; \$1,599 for conference and workshop. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

NOV. 30-DEC. 2. Global Retirement Market Conference, in New York, sponsored by IBC Conferences Inc.; \$2,299 for full three-day event. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

DECEMBER

DEC. 2. Litigating Insurance Claim Seminar, in Washington, sponsored by McKenna & Cuneo L.L.P.; no fee. Paul DeGeest, McKenna & Cuneo L.L.P., 1900 K St., N.W., Washington, D.C. 20006; 202-496-7500.

DEC. 4-8. National Assn. of Insurance Commissioners Winter National Convention, in San Francisco, sponsored by NAIC; \$425 before Nov. 3, \$450 before Dec. 1. 816-842-3600.

DEC. 5-8. Fourth Annual Summit on International Managed Care Trends, in Miami Beach, Fla., sponsored by the American Assn. of Health Plans; \$1,395 for delegate registration at U.S. AAHP,

Dept. No. 0612, Washington, D.C. 20073-0612; 877-291-2247.

DEC. 6. Competitive Intelligence in the Insurance & Financial Services Industry conference, in New York, sponsored by Strategic Research Institute; \$1,095. Strategic Research Institute, 333 Seventh Ave., Ninth Floor, New York, N.Y. 10001-5004; 800-599-4950.

DEC. 8-10. P&C Product Management Skills and Techniques Seminar, in Phoenix, sponsored by Dorman Consulting Associates; \$995. Dorman Consulting Associates, 1 Haverhill Court, Beachwood, Ohio 44122; 216-464-5678.

DEC. 9-10. Financial Services Integration Symposium, in Atlanta, sponsored by Georgia State University; \$450. Anne Shaw, Georgia State University, P.O. Box 4036, Atlanta, Ga. 30302-4036; 404-651-0931.

DEC. 9-10. Insurance Coverage and Practice Seminar, in New York, sponsored by the Defense Research Institute's Insurance Law Committee; \$595 for members and \$645 for non-members. DRI, P.O. Box 72225, Chicago, Ill. 60678-2225; 312-795-1101.

DEC. 13-14. P&C Pricing and Rate Making Seminar, in Phoenix, sponsored by Dorman Consulting Associates; \$895. Dorman Consulting Associates, 1 Haverhill Court, Beachwood, Ohio 44122; 216-464-5678.

DATEBOOK 2000:

JAN. 19-21. Products Liability Conference, in Las Vegas, sponsored by the Defense Research Institute; \$750 for members and \$800 for non-members. Defense Research Institute, P.O. Box 72225, Chicago, Ill. 60678-2225; 312-795-1101.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the cost, if any, to attend the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed. Datebook listings also are available on the World Wide Web at <http://www.businessinsurance.com>.

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Global Briefs

Rhine Re Group of Basel, Switzerland, is expanding in the United States by acquiring Equus Re of Norwalk, Conn., a division of Lumbermen's Mutual Casualty Co., which is part of Kemper Insurance Cos. Equus reinsures property and casualty risks in the broker market and provides alternative risk transfer and integrated program business. Terms of the deal were not disclosed; it is expected to be completed later this year, subject to regulatory approval. . . . PricewaterhouseCoopers has sent details of a proposed scheme of arrangement for **The Hawk Insurance Co. Ltd.** to all known creditors and brokers of the company. PwC said the scheme of arrangement aims to ensure that the runoff of the company's London market reinsurance business will be concluded within the shortest possible time, with the majority of assets distributed to creditors before the end of 2000. . . . Lloyd's of London underwriting agency **Amlin P.L.C.** has appointed Richard Hextall as finance director. Mr. Hextall will join Amlin from Deloitte & Touche, where he is a director specializing in insurance and financial services. . . . The planned merger of the non-life operations of Skandia Property & Casualty Insurance Co. Ltd. and Storebrand Skadeforsikring A/S later this year has been assigned a preliminary A rating from Standard & Poor's Corp. Subject to regulatory approval, the non-life operations will be merged into a new company, called **If...Property & Casualty Insurance Co. Ltd.** S&P also has lowered to A from A+ the long-term counterparty credit and insurer financial strength ratings of Storebrand Skadeforsikring. . . . **The Cassidy Davis Insurance Group**, a London-based unit of The St. Paul Cos. Inc., has named Gordon Colyer as chairman and chief executive officer of Cassidy Davis Insurance Services Ltd., its administration and claims handling company. Mr. Gordon currently is managing director of CDISL. . . . **AIG Europe (UK) Ltd.** is expanding its environmental liability underwriting capacity to address what it sees as increasing corporate demand for EIL coverage across the United Kingdom. It is adding a member to its environmental liability teams in both its London and Manchester offices. . . . Lloyd's of London syndicate 839, managed by Chartwell Managing Agents Ltd., has appointed Graham Young as an underwriter specializing in fine art business. Mr. Young was formerly with the fine art division of Swire Blanch Ltd. . . . **Ford Motor Co.** has agreed to set up committees to monitor racial equality at each of its 13 U.K. factories. The decision follows complaints of racial discrimination earlier this month, causing disruption at its main assembly plant in Dagenham, England (BI, Oct. 25). . . . Britain's **National Assn. of Pension Funds** has launched an initiative to improve the quality of investment-performance reporting by U.K. pension fund investment managers. The NAPF has drawn up proposals for a United Kingdom Investment Performance Standard, designed to give purchasers of investment management services a higher degree of confidence in the quality and consistency of investment performance. It will incorporate elements of the Global Investment Performance Standards launched in the United States earlier this year by the Assn. for Investment Management and Research.

INTERNATIONAL

Turkish quake reforms proposed

Government responds to public anger

By MARIA KIELMAS

ISTANBUL, Turkey—The Turkish government is promoting several proposals designed to minimize losses from future earthquakes.

Government proposals under discussion include suggestions for revising oversight of building codes, compulsory liability insurance for contractors and designers, mandatory earthquake insurance coverage and creation of a catastrophe insurance pool, among others. The proposals come as the government faces public anger over the fact that shoddily and illegally constructed buildings sustained most of the damage during the Aug. 17 earthquake and their col-

lapse caused most of the fatalities and injuries.

"The government had no plans to deal with a major disaster," said Mustafa Erdik, a professor of earthquake engineering at the Bogazici University in Istanbul. "This earthquake hit the upper and middle classes, so (the government) can't forget it. It would be different if it was in eastern Turkey," he noted.

Mr. Erdik voiced his support for compulsory liability insurance for contractors and building designers.

"Those who do not get liability insurance will not be able to practice," he said.

Insurance executives remain
See Turkey on next page



PHOTO: NEWSMAKERS
An Istanbul building lies in ruin following the Aug. 17 earthquake in western Turkey that officials say killed 15,814.

Danish Re opening Lloyd's syndicate

Company hopeful that market entry coincides with an upturn in pricing

By EDWIN UNSWORTH

LONDON—Tentative signs are emerging in the London market that reinsurers are preparing for a hardening of rates and underwriting conditions.

Danish Re Group, for example, is entering the market to take advantage of an expected upturn in rates.

Danish Re will start underwriting today on its new syndicate 1400 at Lloyd's of London, seeking gross premium volume in 2000 of up to £100 million (\$167 million). It hopes by 2005 that premium volume will rise to about £300 million (\$502 million).

Matthew Petzold, underwriter for the new syndicate, said Danish Re wants to have its capacity in place "to take advantage of an upturn before that upturn starts."

Separately, LIMIT P.L.C., the largest corporate investor in Lloyd's, said last month, when announcing a dramatic improvement in its first-half results, that the market, while still at a low point in terms of rates, is improving for under-

writers.

LIMIT Chairman Jonathan Agnew said, "There are now many classes of business where insurance rates are at the bottom of the underwriting cycle, and some classes, particularly reinsurance and commercial motor, are already recovering."

LIMIT's pretax profit for the first half of 1999 improved to £29.6 million (\$46.7 million) from a £31.6 million (\$53 million) loss for the six months to Sept. 30, 1998, the nearest comparable period.

Mr. Petzold, a former underwriter with Copenhagen Reinsurance Co. Ltd., said there are signs in certain classes of business that the market is poised for firmer pricing. One such sign, he noted, is that, with an accumulation of poor results, a number of reinsurers have dropped out of the market, thus easing some of the overcapacity.

One of those to drop out was Liberty Re Ltd., a London-based unit of Liberty Mutual

Insurance Co. Its closing, announced last January (BI, Jan. 11), less than 15 months after its startup, was attributed to a lower-than-expected return on capital.

Danish Re, however, is one of seven new entrants to Lloyd's for the 2000 year of account.

Leif Corinth-Hansen, Danish Re's chief executive officer, pointed to differences between

Danish Re and Liberty Re, stressing mainly what he sees as the greater commitment of Danish Re's backing. Danish Re is financially backed by Trident II, a private equity investment fund managed by Marsh & McLennan Capital. The financial backing has essentially been committed to Danish Re for 10 years, he said.

Also, by setting up as a syndicate at Lloyd's, Danish Re does not need to put up the same amount of initial capital as Liberty Re did as an independent reinsurer.

Mr. Petzold said the decision to set up at Lloyd's, rather than

as a separate London company, was made partly because of the strength of the Lloyd's regulatory environment, which is more hospitable than the rules of the Financial Services Authority, the regulator for the U.K. financial services industry.

Lloyd's also offers immediate access to security ratings—an A by A.M. Best Co. and an A+ by Standard & Poor's Corp.—that would be difficult for Danish Re to achieve on its own, Mr. Petzold said.

Mr. Corinth-Hansen said that, initially, at least, Danish Re intends to be primarily a short-tail underwriter. It will concentrate on areas such as property/casualty, some property facultative, and direct business and marine.

He is careful to point out that Danish Re has no intention of adding undisciplined underwriting capacity to the market.

"We won't be writing business irrespective of the rating," Mr. Corinth-Hansen said. "We are not here to write premium income, if premium income has to be achieved at the expense of profit margins." BI

Zurich U.S. premiers coverage for emerging-market bonds

WASHINGTON—Zurich U.S. has unveiled a new political risk insurance program for capital market transactions such as private placements and certain bond issues.

The insurance is designed to protect corporate bonds in emerging bond markets—such as Asia, Latin America and Eastern Europe—against the risk of currency inconvertibility, expropriation and political violence.

Zurich is the first private-sector insurer to offer such coverage, said Dan Riordan, vp and managing director of Zurich's political risk group in Washington. The U.S. government-run Overseas Private Investment Corp., however, does offer a similar product.

Zurich will offer up to \$100 million of coverage per transaction and can match

the course of a bond for up to 15 years. Zurich also guarantees to pay claims from bondholders within a 180-day period.

Mr. Riordan explains that the new insurance aims to meet corporations' needs arising from project financing. "Large corporations today, instead of borrowing, have shifted the bulk of their project finance to the capital markets," he explained. This has occurred as banks have cut back on loans for projects in emerging

markets. But just as banks had expected political risk insurance on loans for projects in emerging markets, bond issue managers, investment banks, rating agencies and bond investors want to see political risk insurance on the issue, Mr. Riordan said.

"They are looking for an enhancement," he said.

Zurich has traditionally provided political risk insurance for infrastructure projects in emerging markets. Mr. Riordan said he believes that the expansion into insuring fixed-income securities is a natural extension of the company's products. The coverage should help bond issuers to gain more access to private capital while also providing enhanced opportunities for institutional investors, he said.

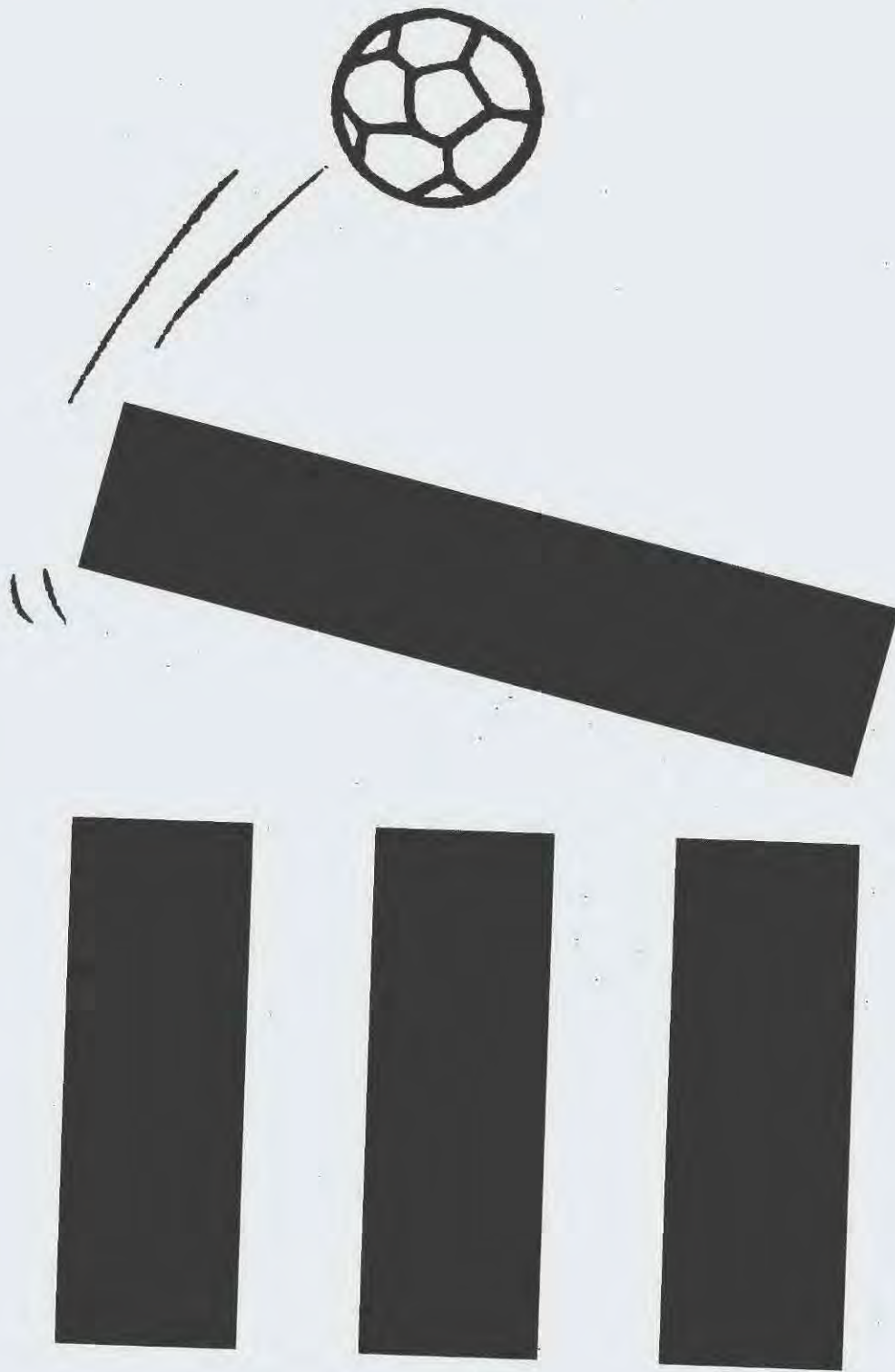
Political risk coverage can also increase a bond's rating. According to Mr. Riordan, fees for Zurich's transaction will be charged on the bond spreads. But they need not be large, as they could be charged as a percentage of one year's interest.

—By Maria Kielmas

Zurich U.S.



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Management of Capital and Risk

Boeing

Continued from page 64

cuts, and the company did not incur their wrath.

This, in part, is what Mr. Sorscher finds attractive about Boeing's cash balance pension plan.

"There is no wearaway at all," he said.

Moreover, under Boeing's cash balance plan, employees receive annual contributions to their account balances ranging from 3% of pay for young employees to 11% for employees aged 50 and older. The hypothetical accounts are credited with interest linked to the benchmark 30-year Treasury bond, but no less than 5.25%, and topping off at 10%.

Boeing also retained in the cash balance plan the early retirement subsidies from the old plan.

A company spokesman said the cash balance plan was not offered to union workers when salaried employees were switched over because it was expected to come up during the current round of negotiations with unionized workers. The International Assn. of Machinists and Aerospace Workers, which represents 44,000 Boeing employees, signed a new contract last month. They wanted to move out of the Boeing plan and be covered by the IAM plan.

Also on the table during the contract talks between Boeing and the SPEEA are:

• An increase in the standard benefit formula from \$40 a month per year

of service to \$50 a month, the same increase the IAM workers received as part of their new contract.

• An increase in the 401(k) employer match from 50 cents to 75 cents on the dollar for the first 8% of pay. That was the increase salaried employees received late last year, compensating for the shutdown of the Financial Security Plan, in which employees could claim up to 2% of company contributions in exchange for unused sick leave.

• Continuation of retiree medical coverage. Boeing discontinued this feature for employees who started after Jan. 1, but Mr. Sorscher said it is an important benefit the union would like to retain for new members.

The issue also came up during the talks with the IAM, and the company

agreed to retain the benefit for new IAM workers.

• The firing of State Street Global Advisors as administrator of the company's 401(k) plan. While the union does not expect the company to be fired, it put this on the agenda as a symbolic gesture because of SSGA's poor service, Mr. Sorscher said. Boeing hired SSGA in 1997, when it outsourced the administration of the 401(k) plan.

"SSGA has a very low regard for customer service. They seem to be indifferent to the complaints we have, and their error rate is very high," he said.

Vineeta Anand is a reporter at Pensions & Investments, a sister publication of Business Insurance.

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CENTAUR ANNOUNCES BUY-BACK PLAN

Richard S. Darling, Chief Operating Officer of the Special Deputy Receiver, representing the Director of Insurance of the State of Illinois, announces that Centaur Insurance Company, in Rehabilitation, has embarked upon a program to buy-back all liability policies where there are open and pending claims.

The Circuit Court of Cook County entered an order on August 16, 1999, directing and authorizing the Rehabilitator to seek out and effectuate policy buy-backs as part of a plan to finalize and fully resolve Centaur's liability for direct claims and to wind down and close the Centaur receivership.

The Court order grants the Rehabilitator one year to pursue policy buy-back negotiations, at which point the Court shall consider further steps respecting the termination of the Rehabilitation proceedings.

Policyholders subject to the order will soon be receiving a communication from the Rehabilitator with an invitation to participate in the buy-back program.

Inquiries can be directed to the Office of the Special Deputy Receiver at 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654.

LEGAL NOTICES

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

IN THE PETITION OF COLIN GRAHAM BIRD AND PAUL ANTHONY BRERETON EVANS, AS JOINT PROVISIONAL LIQUIDATORS OF NORTH ATLANTIC INSURANCE COMPANY LIMITED, F/K/A BRITISH NATIONAL LIFE INSURANCE SOCIETY LIMITED AND BRITISH NATIONAL INSURANCE COMPANY LIMITED, Case No. 97-B-41602(TLB)

NOTICE IS HEREBY GIVEN that on October 20, 1999, the Bankruptcy Court entered an order (the "Order") continuing the Preliminary Injunction Order pursuant to 11 U.S.C. §§ 105 and 304(b) originally entered in this case on April 7, 1997. The Order shall remain in effect pending a hearing scheduled for April 12, 2000 at 10:00 a.m. before the Honorable Tina L. Brozman, Chief Bankruptcy Judge, in the Alexander Hamilton Custom House, One Bowling Green, New York, New York. Any person wishing to obtain a copy of the Order should contact Lori Dillon (212) 504-6480.

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Interested candidates should submit their resume to:

SCGroup Incorporated
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IN THE HIGH COURT OF JUSTICE (IN ENGLAND) CHANCERY DIVISION IN THE MATTER OF

SOVEREIGN MARINE & GENERAL INSURANCE COMPANY LIMITED (IN PROVISIONAL LIQUIDATION)*

and

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that, by an order dated 5 October 1999 made in the High Court of Justice in the matter of Sovereign Marine & General Insurance Company Limited (the "Company"), a meeting was ordered to be summoned of Scheme Creditors (as defined in the scheme of arrangement hereinafter mentioned) of the Company for the purpose of considering and, if thought fit, agreeing to a scheme of arrangement proposed to be made between the Company and its Scheme Creditors pursuant to section 425 of the Companies Act 1985 (the "Scheme").

The meeting will be held on Monday 29 November 1999 at The Insurance Hall, The Chartered Insurance Institute, 20 Aldermanbury, London, EC2V 7HY, United Kingdom at 11:00 am GMT.

The chairman of the meeting will address Scheme Creditors on the Scheme and on issues relevant to voting at the commencement of the meeting.

Scheme Creditors may attend and vote at the meeting either in person or by proxy and are, in any event, requested to complete a Form of Proxy and Claims Tables for Voting Purposes (the "Form of Proxy") and return it to the Provisional Liquidators of the Company at KPMG, PO Box 730, 20 Farringdon Street, London, EC4A 4PP, United Kingdom by 4:00 pm GMT on Friday 26 November 1999, although if not so returned, it may be handed in between 10:00 am GMT and 11:00 am GMT on the day of the meeting at the place fixed for the meeting.

Each Scheme Creditor or his proxy will be required to register his attendance at the meeting prior to its commencement. Registration will commence at 10:00 am GMT.

The Scheme is proposed between the Company and its Scheme Creditors (being creditors in respect of any claim arising out of a liability to which the Company is subject at the date of the Scheme or to which it may become subject thereafter by reason of an obligation incurred before that date, except any claim which would have been preferential in a liquidation of the Company or a claim in respect of the costs or expenses of the Scheme both of which will be payable in full).

Any person entitled to attend the meeting can obtain copies of the Scheme, the statement required pursuant to section 426 of the Companies Act 1985 and of the Form of Proxy from the Provisional Liquidators of the Company at KPMG, PO Box 730, 20 Farringdon Street, London, EC4A 4PP, United Kingdom.

By the said order, the Court has appointed Anthony James McMahon, or failing him, Philip Wedgwood Wallace, to act as chairman of the meeting and has directed the chairman to report the results of the meeting to the Court.

The Scheme will be subject to the subsequent sanction of the High Court of Justice.

DATED this fifteenth day of October 1999.

Lovell White Durrant
65 Holborn Viaduct
London
EC1A 2DY
A1/SAR/RGNS

Solicitors to Anthony James McMahon and Philip Wedgwood Wallace, Provisional Liquidators of the Company

*The general insurance business of Bimeh Iran Insurance Company (UK) Limited (9Bimeh9) written by Willis Faber (Underwriting Management) Limited and Lennox Underwriting Agencies Limited in relation to the underwriting years 1976 to 1981 was transferred to Sovereign Marine & General Insurance Company Limited on 22 March 1984 in accordance with section 51 of the Insurance Companies Act 1982.

Bimeh's creditors in respect of business written after it recommenced underwriting in November 1986 are not affected by the transfer of this proposed scheme of arrangement.

No. 6343 of 1999

QIC

Continued from page 1

Good, treasurer and former chairman of the organization: the insurance industry refused to work together on quality for fear of giving up proprietary information; and risk managers were not prepared to take their business away from insurers and brokers who provided poor service.

"The industry has to work together, and in four or five years of trying, that has not happened... and customers have to do something with the scorecard, and it is clear that they are not doing anything with it except talking," said Mr. Good, who is also director-insurance at Rohm & Haas Co. in Philadelphia.

In many cases, customers are reluctant to end relationships with insurers and brokers because they have few other choices of providers, he said.

In particular, many clients of the three largest brokerages—Marsh Inc., Aon Group Inc. and Willis Corroon Group Ltd.—are reluctant to jump ship to a regional broker, as they think that a regional would lack the clout needed to negotiate the cheapest price with insurers, Mr. Good said.

Given the failure of the insurance industry to address problems with quality, it will likely take outside competition to force changes, he said.

"It will take someone from outside the industry to come in and shake it up, in the same way that the only thing that shook up the automotive industry was competition from Japan," Mr. Good said. Likely outside competitors are Internet-based companies and banks, he said.

Many members of the QIC felt it was no longer the best organization to administer the scorecard, said Richard A. Riley, chairman of the QIC and chairman and chief executive officer of North and South America for Chicago-based Aon Risk Services, Aon's retail brokerage operation.

RIMS, as the main professional society for risk managers, may be the

best organization to take on administration of the scorecard, he said.

There was never a complete "buy-in" to the concept of cooperation between risk managers and competing brokers and insurers, said Kenneth Pinkston, chairman and CEO of Willis Corroon Corp. in Nashville. "That was sad, but I think a lot of what it does can be taken up by RIMS and the IIA," he said.

Insurers and brokers are already members of many trade associations, and the dues for the QIC were seen as an unnecessary extra expense if existing organizations were available to take on its functions, said Mr. Riley.

Risk managers did not have to pay dues, but insurers and broker members each annually paid \$10 per employee up to a maximum of \$25,000.

Several members have not paid their dues to the organization over the past year, and the QIC will likely be forced to ask some of its large members to make donations so it can meet existing bills, according to a memo on the QIC vote sent out to members.

The financial trouble is one of several reasons for the QIC's likely demise, said Philip Engel, a former QIC chairman who retired as president of CNA Insurance Cos. in March.

Some members felt the QIC was of limited use because it could only advocate quality rather than mandate it; others felt it was too focused on commercial lines; and while the QIC brought different people together, they could not agree on what needed to be done to improve quality, he said.

Also, "there were some companies who felt that quality was proprietary information that gave them a competitive advantage," Mr. Engel said.

But few of the services provided by insurers involve proprietary information, said Richard Hackenbourg, president of XL America, a Stamford, Conn.-based unit of XL Capital Ltd., and a board member of the QIC. "There aren't too many secrets in this business," he said.

The QIC's likely demise is bad for the industry as a whole, he said. "The

reality is, unless we can work together to improve quality, the customer will find a way to do it without us."

The development of alternative risk transfer markets and customer-founded companies like ACE Ltd. and XL demonstrate that policyholders are prepared to walk away from the traditional insurance market, Mr. Hackenbourg said.

Several members of the QIC felt the organization itself was not creating "massive change," said Peter Conway, president of CNA Risk Management in Chicago and a QIC board member.

"Quality is not going to come as a result of some group who drives it; it's going to come from the efforts of individual businesses," he said.

Members of the QIC seem to have lost interest in working together and prefer to address quality issues as individual companies, said Jay Deragon, executive director of the QIC.

"They've lost their perception of the value of trying to work together, and they think that they can do it individually," he said.

But insurers' previous efforts to deliver quality service individually have failed, as the results of the two Quality Scorecards demonstrate, he said.

"Unfortunately, there seems to be a lack of interest in the industry as a whole," said Mark DeLillo, vp-risk

management at Celotex Corp. and a board member of the QIC.

When the QIC was established in 1993, it was expected to dissolve when quality in the industry had improved to the extent that the organization was no longer necessary, he said.

"But we are not even close to that yet. We've just taken a few baby steps," Mr. DeLillo said.

The QIC should be credited with creating some change in the industry, though, due to its efforts to promote quality through seminars and meetings and its joint promotion of the scorecard, he said.

"There are a lot of things happening in the industry that weren't happening three years ago. A lot of people in the industry have started their own quality initiatives," Mr. DeLillo said.

It is disappointing that the QIC appears to be dissolving, but the organization did help create an atmosphere for change, said David Mair, risk manager for the U.S. Olympic Committee in Colorado Springs and a member of the QIC board. "It did a great job of focusing on the issue, and we needed that third party at the table to jump start the discussions."

These discussions, however, were sometimes contentious and produced some ill-feeling, Mr. Mair said. "The QIC became a target of criticism for

the Quality Scorecard," he said.

When the first joint RIMS/QIC scorecard was published at the RIMS annual convention in San Diego in 1998, it provoked some heated discussion among risk managers, insurers and brokers (BI, May 4, 1998). Several insurers and brokers questioned the scorecard's methodology, and several significant members have since left the QIC, including American International Group Inc., Hartford Financial Services Group Inc. and General Reinsurance Corp.

The QIC made the industry aware of risk managers' dissatisfaction, but further steps now need to be taken to measure quality and to set expectations for insurers and brokers, said William J. Kelly, a managing director at J.P. Morgan & Co. Inc. in New York.

"It has to go to a whole other level, and I think that will be done by individual companies and risk managers," he said.

The vote on whether to continue the QIC is currently being carried out, but the outcome will likely be a vote to dissolve the organization, predicted Mr. Good, the QIC's treasurer.

"If they don't think it is important enough to show up for the meeting, I don't think it's likely they will vote to continue," he said. **[B]**

Costs

Continued from page 1

additional 755 employers were questioned by telephone solely to determine whether they offered health insurance.

The survey also shows that traditional fee-for-service plans have continued to decline in popularity as more people shift into PPOs and POS plans. Only 9% of workers were enrolled in traditional fee-for-service plans in 1999, compared with 14% in 1998 and 27% in 1996. The figure stood at 46% as recently as 1993.

In contrast, enrollment in PPO and POS plans has swelled, while HMO enrollment has declined in the past three years. Thirty-eight percent of workers are enrolled in PPOs, compared with 28% in 1996, while POS membership has grown to 25% of workers, from 14% in 1996. HMO membership, however, has dropped to 28% from 31% over the same time. This shift stems primarily from the backlash against HMOs and the demand by workers to have more choice of providers than is customarily offered by HMOs, the survey states.

"There has been a pronounced movement since 1996 from managed care heavy to managed care light," Mr. Gabel said.

Although premiums are going up, the share paid by employees is not, the survey shows. On average, employees choosing family coverage paid 32% of the premium, unchanged from 1998 and up from

28% in 1996. For single coverage, employees paid, on average, 16% of the premium in 1999, down from 19% in 1998 and 21% in 1996.

Despite the rising costs, most health plans are not cutting back on benefits. Overall, 84% of employees had no change in benefits in 1999. Nine percent received more benefits, while 6% were in plans that cut benefits.

HMO enrollees were most likely to have their benefits cut. Twelve percent of HMO members received fewer benefits than in 1998, compared with 6% whose benefits increased. By contrast, 12% of PPO members received more benefits while only 3% received fewer.

Despite this trend, HMOs generally still offer better benefits than do other plan types. For example, 97% of HMO enrollees receive coverage for physical examinations, compared with 80% in PPOs and 63% in traditional fee-for-service plans. With all plan types, the percentage of workers receiving prescription drug coverage has risen over the past few years, and the coverage is now provided by virtually all plans, said Larry Levitt, director of the changing health care marketplace project with Kaiser and a co-author of the report.

"If you get health insurance on the job, you're almost certain to get prescription drug coverage," Mr. Levitt said.

Employers also were asked which factors they consider important in choosing health plans. Cost of the plan, the ease of access

to specialists, and the reputation and credentials of the plan's physicians tied for first place, cited as very important or somewhat important by employers covering 95% of workers at the surveyed companies. By contrast, accreditation of a health plan by the National Committee for Quality Assurance was cited by employers covering only 29% of workers as very or somewhat important. And NCQA data on quality, called its Health Plan Employer Data and Information Set, was cited as important by employers covering only 32% of workers.

"Most employers, at this point, outside of the elite ones, don't view quality as measurable," Mr. Gabel said.

The most surprising survey result, Mr. Gabel said, was that, despite a booming economy, the percentage of employers offering health care benefits has not increased. Since 1996, as the economy has taken off, the percentage of businesses with fewer than 200 employees offering health benefits has moved from 59% to 60%, a statistically insignificant change. Virtually every firm with more than 200 employees offers health benefits.

"If we can't do well now, we'll never do well," Mr. Gabel said.

Copies of *The 1999 Annual Employer Health Benefits Survey* can be obtained at the Kaiser Family Foundation Web site, at www.kff.org, or by calling Kaiser at 1-800-656-4533 and asking for document No. 1538.

Call for Nominations

Risk Manager of the Year Risk Management Honor Roll

Nominations for the 2000 Business Insurance Risk Manager of the Year and Risk Management Honor Roll are now being accepted.

The Risk Manager of the Year Award was created in 1977 by Business Insurance to increase recognition of the risk management profession and to recognize outstanding performance in the practice of risk management.

Anyone involved in risk management for a corporation, not-for-profit institution or government entity can be nominated.

The nominations will be judged by a panel of professionals representing all aspects of risk management and the commercial insurance industry.

The honorees will be announced in the May 1, 2000 issue of Business Insurance which will be distributed at the Risk & Insurance Management Society Inc. Conference.

For nominating forms and instructions, call 312-649-5319 or e-mail: ktucker@crain.com

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Traditional health plans lose ground

Percentage of covered workers enrolled in health plans by type



Sources: Kaiser/HRET survey of employer-sponsored health benefits, 1999; KPMG survey of employer-sponsored health benefits: 1998, 1993, 1996, 1998

GRAPHIC BY MIKE GARVEY



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Commentary

Have policy, will travel is my new motto

American Express just sent a notice to me, as a Platinum Card holder, stating that "you probably travel more often than most people. And because you're a frequent traveler, you run a greater risk of something eventually happening to your belongings in transit."

"That is why you should have protection against lost baggage," the letter said.

My eyes skipped down to the offer of "up to \$2,000 coverage for damaged, lost or stolen baggage... plus up to \$500 if your bags are delayed for three hours."

This was getting close to just the kind of insurance policy I had begun crafting in my mind last Monday in Berlin, nearly 48 hours after I had arrived in Germany without my luggage and as I was growing desperate to change out of the clothes I had been wearing since I began my travels. I had flown to Berlin to attend the Federation of European Risk Management Assns.' Risk Management Forum '99.

Rather than simply give me some money to cover the cost of replacing lost clothing, though, my ideal "Travelers' Inconvenience Insurance Policy," or "TIP," as I have dubbed it, would include some very special services. For starters, the insurer would assume the task of repeatedly calling the airline to try to track any lost luggage.

In addition, my TIP policy would cover the services of a personal shopper, one who would have access to clothing when stores otherwise are closed, as on Sunday in Berlin, when my hopes for a quick recovery of the lost luggage finally evaporated. The personal shopper idea came to me Monday morning as I was seeking a salesperson in



Kathryn J. McIntyre

Berlin's Ka De We department store who could speak English and help me decipher European sizes.

Proud of my new insurance product idea, I test-marketed it on attendees of FERMA.

Paul R. Aird, risk manager for global infrastructure projects at Bechtel Corp., was interested. His bags had not arrived from London on Sunday, and he told me that he was more than a little embarrassed that evening when he attended a business dinner in khakis and sneakers.

He wasn't any more embarrassed than our own editor, Paul Winston, who attended the FERMA opening reception in blue jeans and sneakers because his bag was missing until late Sunday night.

Susan Meltzer, the president of the Risk & Insurance Management Society Inc., liked my TIP idea so much she suggested with a chuckle that we could go into business together to sell it.

Susan particularly appreciated my idea for an endorsement to the TIP policy that would provide alternative transportation to one's destination in the event that an airline misses a connection and can provide no alternative flights.

This was the case on Saturday, when Susan and her son had squeezed into a rental car in Hamburg for a drive to Berlin with the three *Business Insurance* editorial staffers attending the FERMA meeting. We all had missed our connections in London, and all remaining flights to Berlin were booked solid. The only air route we were offered would have taken us through two more European cities before reaching Berlin late in the night.

We decided a single flight to Hamburg and a 256-kilometer drive was far more preferable, even though the arrival time would be about the same. Little did I know that this would be when my luggage would take an alternate route.

Under my super-endorsed TIP policy, however, not only would the inconvenience of the lost luggage have been alleviated, but the insurer also would have either flown us to Berlin on a chartered flight or would have provided a larger car and a driver for the trip to Berlin.

"What premium would you pay?" asked James Davis, chairman and chief executive officer of Willis' Advanced Risk Management Services division, when I described the TIP policy.

I said \$500 a year. Paul Winston said \$300. *Business Insurance* Senior Editor Rodd Zolkos, whose luggage successfully arrived in Hamburg, would pay \$200.

But Bechtel's Mr. Aird, who traveled globally 205 days last year, said "\$1,000, and I would charge it back to the company."

Now that's the right idea, I thought. "Of course, Jim would want \$250 in commission," Mr. Aird quipped, pointing to his Willis broker.

When I arrived home, still without my luggage, it appeared American Express was one step ahead of me. Reading the notice's fine print, however, I found that American Express' policy won't help me or many of my fellow business travelers. While the price is right, at \$9.95 per trip, it's available only if the airline ticket is charged to one's personal credit card.

I called American Express to ask if there were a similar program available for employers that buy the tickets for their traveling employees. I was told, "No, but that's an excellent suggestion."

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

S. 900

Continued from page 1
Restaurants Inc. and RIMS' vp-external affairs, said that, "in general, I see it as a new opportunity" for many risk managers.

"But, at the same time, for the many others that aren't or won't be prepared for handling financial risk management, it becomes a sinkhole," Mr. Mandel said.

"RIMS is striving to create educational and other opportunities to properly prepare the risk managers of the future for just such opportunities. They will be defined by the confluence of all types of risk. The integration of insurance with banking is the harbinger and catalyst for a significant part of this. Our banking colleagues have a jump on this, but many others are moving forward and making the necessary strides" to broaden the skills of risk managers, he said.

"Breaking down the traditional barriers separating banking, insurance and securities will be presenting new challenges and opportunities, as multifaceted financial services providers seek to manage their financial risk. A diversified financial services company may need to develop a hybrid strategy to meet its financial risk management needs," said Daniel J. Barry, newly appointed director of government affairs for RIMS (see update, page 70).

Risk managers are not the only ones who see the changes creating new opportunities for commercial buyers.

"I don't see how it can be bad news for risk managers. What does this bill mean? It means, essentially, that banks and insurance companies can get into each others' business," said Jay Cohen, first vp of Merrill Lynch & Co. in New York.

"It will probably lead to consolidation between and among insurance carriers and other sectors of the financial service industry. Ultimately, this will bring greater efficiency and even more dynamism to the market-

places. Buyers will have more choices," said Peter Lefkin, senior vp-government and industry affairs for Fireman's Fund Insurance Co. in Washington.

S. 900 "may well facilitate radical changes, but the predominant changes will occur because either existing players or new players are going to figure out more-efficient ways to provide products, cut costs to consumers and to add value to the insurance transaction," said Joel Wood, senior vp at the Council of Insurance Agents and Brokers in Washington. The CIAB supports S. 900.

"Opportunities that are presented under this new structure exceed the downside risks of new competitors," Mr. Wood said.

But not all observers share this view.

Robert Dibblee, senior vp in the National Assn. of Independent Insurers' Washington office, said: "We don't know exactly what the effect will be. We tend to think that, when it comes to P/C insurance, there still will be bright lines between banks and security firms that engage in the same business."

"We suspect that, obviously, there will be more affiliations among the three industries," Mr. Dibblee said, but he added that risk managers may not notice any changes at all.

The NAI remains opposed to the bill in its current form because of concerns over the possible weakening of state insurance regulation.

Observers were also divided as to where the impact of the financial services legislation would be felt most.

"If anything happens, banks would buy insurance companies, which potentially could provide more capacity for the industry. From a risk manager's perspective, this should be seen favorably," said Merrill Lynch's Mr. Cohen.

He added, though, that he does not expect banks to go after commercial lines companies "aggressively." Instead, "if banks begin buying insurance companies, it's more likely they

will buy life insurance companies" because of better product fit, he said. On the property/casualty side, banks would probably be more interested in personal lines companies, he said.

"The non-life insurance industry is probably due for some further consolidation, but I'm not at all certain that that changes dramatically" as a result of the new legislation, said Ronald Frank, managing director of Salomon Smith Barney in New York.

And, Mr. Frank added, "I don't think the banks have an enormous appetite" to be underwriting P/C business.

Involvement in reinsurance, though, could be a different story.

"I think banks are going to get into reinsurance, because they see that similar to the type of financial products they already sell," said Ronald Glancz, chairman of the financial services group of Venable, Attorneys at Law, in Washington. The firm has filed unitary thrift applications for a number of entities, including Travelers Property Casualty Corp.

Banks may buy or establish their own reinsurers, he said, and there could be greater capacity and lower prices.

"I think banks will basically buy the expertise. We're talking about sophisticated risk management," said Mr. Glancz.

Mr. Glancz is not alone in that assessment.

Reinsurers "want the option to think about strategic relationships with other financial services entities," said Franklin W. Nutter, president of the Reinsurance Assn. of America in Washington. The RAA supported the modernization measure.

"I really think the reinsurers have presumed that the legislation will bring new risk-taking entities into a market that reinsurers can serve," Mr. Nutter said. "In other words, reinsurers believe that they have an expertise that will be valuable to new financial institutions that are likely to emerge as a result of the financial services legislation." **[B]**

Part-timers get fuller benefits

By LEE FLETCHER

Thanks to today's tight labor market, part-time workers are reaping better benefits from employers, according to a new Hewitt Associates L.L.C. survey.

"Employers have realized that these workers are a significant portion of their workforce and that it is really important to attract and retain these people," said Carol Sladek, a Hewitt consultant in Lincolnshire, Ill.

Ms. Sladek emphasized that one of the most important benefit improvements is paid time off for part-timers.

"It used to be that if you were a part-time worker, you just didn't get time off and that was just tough luck," she said.

Ms. Sladek pointed to paid time off and alternative work arrangements as some of the most important improvements in benefits for part-time workers.

Hewitt reports that 91% of the 350 large U.S. companies that participated in the survey now offer part-time workers paid vacation days. This is an 8% increase since 1995, when a similar survey was last conducted.

Ms. Sladek said that, as more employers are offering time off, they also are more likely to provide health care coverage to their part-timers.

The survey reports that 78% of companies provide part-time workers with health and dental coverage, compared to 73% in 1995.

The trend toward improving benefits for part-timers is expected to

continue, according to Ms. Sladek.

"As we look at the demographics of the workforce, we've got the 20-somethings, the 30-somethings and the 40-somethings. They all have different needs, and they're all at different points in their lives, but everybody has some need for part-time. As more and more employees dabble in this area and realize that they can work fewer hours, we see more and more of an increase in this area. People realize that 'Wow, I really can work and have a life outside of work as well,'" Ms. Sladek said.

The improvements in part-time benefits are most visible in the service industries, because that is a market with many young and female employees, but improvements can also be seen in numerous other industries, according to Ms. Sladek.

"Employers have finally started to realize that the part-time workforce is here to stay. It's not something we're just doing to be nice, it's not something to help women come back from maternity leave, it's not just something that we do for shift workers to help with scheduling. There are a lot of good, talented people out there who are choosing to work fewer hours, for whatever reason," and employers are trying to accommodate those workers, she said.

Copies of the survey, "Part-Time Employee Benefits in 1999," are available for \$175 by contacting Hewitt Associates L.L.C., Publications Desk, 100 Half Day Road, Lincolnshire, Ill. 60069; the telephone number is 847-295-5000.

Benefits improve for part-time employees

Companies offering benefits to part-time employees working 30 or more hours per week



Source: Hewitt Associates L.L.C.

GRAPHIC BY JOHN HALL

PCPs

Continued from page 1

"What we hear from staff is that they want chiropractors and other alternative medicine therapy in their plan," said Joyce Cook, vp-benefit planning at Northern Trust Bank in Chicago.

"But what Blue Cross is doing is going even beyond that request," she said. "It's a bit early to identify whether (using chiropractors as PCPs) is meeting a need."

While Mike Pikelny, corporate actuary and employee benefits consultant at Hartmarx Corp. in Chicago, said he likes the idea of allowing people to use chiropractic services without having to worry about whether they have exceeded the permissible number of visits, "it will be interesting to see how many people pick a chiropractor as their PCP."

"I'd just feel more comfortable having an internist as my PCP. I'd like to know there's someone other than a chiropractor who can treat me for non-chiropractic conditions," Mr. Pikelny said.

It's not surprising that employers would support the inclusion of alternative medicine coverage in managed care, observed John Weeks, chairman of the alternative medicine tract for the National Managed Health Care Congress in Washington and principal of Seattle-based Integration Strategies for National Health Care.

"Employers' interests in keeping people healthy and more productive are closely aligned with that of alternative medicine providers," he said. "Alternative medicine providers try to find the cause and create a more empowered consuming public. They don't just treat symptoms."

Furthermore, alternative medicine therapies usually cost less than traditional Western medicine, Mr. Weeks pointed out.

Indeed, one objective of HMO Illinois' move is to reduce overall health

care costs, according to James Zechman, chief executive officer of Alternative Medicine Inc., the Highland Park, Ill.-based independent practice association providing the chiropractic PCP benefit to HMO Illinois members.

Based on data collected on the 100 or so HMO Illinois enrollees who have selected chiropractors as their PCP since Jan. 1, "we're seeing a reduction of more than 50% in medical costs," Mr. Zechman said.

AMI will continue to collect data and eventually publish them, he said.

"Insurers need to figure out how to hold down premiums and cut expenses instead of cost-shifting to members through higher copayments," he said. "What we call health care in this country isn't. That's a misnomer. It's really sickness care."

"In our program, we require people to see NCQA-credentialed chiropractors within the first month of enrollment and get on a wellness program," Mr. Zechman explained. Then enrollees will continue to see their chiropractor on a regular basis to ensure they stay healthy, he added.

In cases where the chiropractor-PCP finds a patient needs allopathic care, or traditional Western medicine, he or she will refer the patient to the appropriate provider, according to Mr. Zechman.

In addition, AMI's two medical directors, both of whom are medical doctors, will serve as consultants to the chiropractor-PCPs, he said.

While HMO Illinois' decision to allow chiropractors to act as PCPs is unusual, it is not the first time an HMO has permitted providers of alternative medicine to serve as gatekeepers, alternative medicine experts say.

For example, in the Pacific Northwest, Regence Blue Shield has allowed its 400,000 members to choose naturopaths as PCPs since Washington state mandated coverage for alternative medicine in 1995.

"There have been rare instances where chiropractors were used as

PCPs in HMOs," said Dr. Jerome McAndrews, national spokesman for the American Chiropractic Assn. based in Claremore, Okla.

For example, chiropractors have served as gatekeepers for treatment of people with low-back pain, general back pain and musculoskeletal pain, he said.

"This tends to surprise people. Most people think that chiropractors confine their treatment and diagnosis to the spine. But this perception is false," said Dr. McAndrews.

"Chiropractors have general health care training to do full diagnosis to the level of a general medical practitioner. So if a chiropractor finds something that requires allopathic treatment, he will refer the patient to a specialist," he said, echoing the remarks of AMI's Mr. Zechman.

AMI's data collection efforts in conjunction with its link with HMO Illinois could lend more credibility to the use of alternative medicine as a way to reduce health care costs, suggested Mr. Weeks.

"We'll have the opportunity to look at the cost implications of treating people from a natural medicine standpoint," he said.

Dr. Edward Hill, a member of the American Medical Assn.'s Board of Trustees, said he was "concerned" that chiropractors may not "have the broad comprehensive training necessary to effectively manage a person's health care."

"One of the hardest jobs in American medicine today is to be a good primary care practitioner," said Dr. Hill, who heads a residency training program for family physicians in Tupelo, Miss.

He also pointed out that chiropractors don't have prescription writing or hospital admission privileges in most states.

"That could be a significant problem," he said, which would require "needing more than one PCP. I don't see how that would be very economical." **BI**

Jeep

Continued from page 2

on possibly costly claims over occupant safety, Mr. Osborne said. In the memo, the executives said they should "forge ahead and eat the elephant one bite at a time," Mr. Osborne said.

The CJ-7 went out of production after the 1987 model year. That was the same year Jeep introduced the Wrangler model, which has much greater stability and a roll cage design that allows the window frame to absorb much greater force without collapsing during a rollover,

Mr. Osborne said.

In the product liability case, 28-year-old Carlos Yniguez argued that his personal life deteriorated after his 1994 rollover accident in his 1978 CJ-7. The windshield crushed his face, and he eventually lost his left eye. His marriage failed when he became antagonistic, depressed and suicidal after suffering "gruesome infections," failed facial reconstructive surgeries and severe seizures as a result of the injuries, Mr. Osborne said.

After assigning 31% blame for the accident to Mr. Yniguez, the jury awarded net damages of \$3.9 million to him and \$345,000 to his

ex-wife. Mr. Osborne said Daimler-Chrysler is self-insured. In 1978, now-defunct American Motors Co. owned Jeep.

Defense attorney Patrick E. Broom of Snell & Wilmer L.L.P. in Tucson said the CJ-7 is a safe vehicle. Mr. Broom said Mr. Yniguez's failure to maintain his Jeep's transmission caused it to seize, which triggered the rollover.

In an appeal, Mr. Osborne said, he likely will object to the trial judge's decision to instruct the jury to assign some blame to Mr. Yniguez, rather than merely informing the panel that it had that option. **BI**

CNA issues building safety plan

CHICAGO—CNA Financial Corp. is embarking on a plan to guarantee the safety of its Chicago headquarters following an Oct. 8 incident in which a broken window pane fell 29 floors and killed a pedestrian.

At the heart of the plan is a multimillion-dollar project to install an "anchored film system" on all 4,900 windows at the site.

The system, which will assure that a window will not fall out if broken, will consist of a strong clear polyester film affixed to the glass and then secured to the top and bottom of the window frame with metal batten strips and screws. The design and installation of the glass retention system is expected to take eight

to 10 months.

CNA also has constructed pedestrian protection canopies around its two-building complex that will be augmented by netting running from the canopies to the Chicago Transit Authority's elevated tracks adjacent to the CNA complex. Furthermore, CNA personnel have received additional training on how to inspect windows and are examining them daily. Also, the company will appoint a chief safety officer.

"We hope to have the person appointed... in the next few weeks," said Bernard L. Hengesbaugh, chairman and CEO of CNA. "They will report directly to me on safety issues." He added that CNA also has insti-

tuted a 24-hours-a-day, seven-days-a-week employee hot line for reporting safety or maintenance concerns.

The final step in CNA's response is a long-term study of the building and the identification and correction of the root causes of any safety problems.

In discussing the incident, Mr. Hengesbaugh said, "What is clear is that mistakes have been made here. Our normal policies and procedures were not being applied when this incident occurred."

"There was a series of decisions that were made at the time," he said. "Those decisions, unfortunately, were not good decisions."

—By Rodd Zolkos

Updates

Jury convicts EIM broker

Continued from page 2

operators liability program and kept the money rather than forwarding it to insurers. United National Insurance Co. and London market insurers sued EIM and Mr. Weir over the fraud in 1995 (BI, Oct. 2, 1995).

Ms. Garner pleaded guilty to one mail fraud count before trial and testified against Mr. Weir. The jury convicted Mr. Weir on all charges after deliberating for slightly more than an hour following a seven-day trial, according to Assistant U.S. Attorney Floyd Clardy.

Mr. Weir, who is free on bond, is scheduled to be sentenced in January and faces a possible jail term of more than five years under federal sentencing guidelines, Mr. Clardy said. Ms. Garner's plea agreement, which must be approved by a judge, recommends five years' probation and a \$2,500 fine, he said.

Plan to speed Centaur rehab

CHICAGO—Illinois insurance regulators are hoping to speed up the rehabilitation of Centaur Insurance Co. with an innovative plan to buy back direct liability policies from 28 policyholders.

A Cook County Circuit Court judge has given regulators one year to negotiate deals in which Centaur's direct policyholders would release the insurer from future long-tail liability claims in exchange for a lump-sum settlement. If settlements can't be reached, the court could set a bar date for submitting claims and a deadline for fixing their amount, effectively cutting off long-tail claims after a given date.

Centaur, ordered into rehabilitation in 1987, holds case reserves of \$52.1 million for 11,838 long-tail claims or reported incidents, including pollution, asbestos and product liability claims. The 28 Centaur policyholders targeted in the plan account for about 95% of these claims, according to court filings, which do not name the policyholders.

Direct claims represent just over one-third of Centaur's total current liabilities, with assumed reinsurance business accounting for the rest, said Dale Coonrod, deputy general counsel with the Illinois Insurance Department's Office of the Special Deputy Receiver. Centaur settled with its largest creditor earlier this year when it allowed a \$48 million assumed reinsurance claim to liquidators of Mission Insurance Co. Mission had sought \$100 million.

Illinois regulators are contacting the targeted direct policyholders to find out whether they are interested in negotiating buy-backs. Although some have expressed interest, it may take a couple of months for the majority to respond, said Mr. Coonrod.

Insured damage from Irene

NEW YORK—Hurricane Irene caused an estimated \$100 million in insured property damage in Florida, according to the Property Claim Services unit of the Insurance Services Office Inc.

PCS estimated last week that insurance companies will ultimately receive about 62,000 commercial, homeowners and automobile claims stemming from the storm, which struck Florida in the middle of last month. Most of the claims will involve water damage.

The estimate does not include flood losses covered by the federal National Flood Insurance Program.

Meanwhile, in the Caribbean, residents of Antigua last week were recovering from Hurricane Jose, which slammed the island Oct. 20 with maximum sustained winds of 100 mph.

Resort hotels, commercial properties and residences were among the claims being investigated last week by loss adjuster McLarens Toplis, which sent a team of 10 adjusters and surveyors to the island. While the damage in Antigua is extensive, it is not as severe as the toll from 1998's Hurricane Georges, according to a bulletin from McLarens Toplis' team. "Damage is mostly to superstructures and roofs, with much water damage," the bulletin reported.

Briefly noted

Daniel J. Barry was named as the **Risk & Insurance Management Society Inc.**'s new director of government affairs. Mr. Barry previously served as vp and general counsel-state government affairs at the New York-based Securities Industry Assn. He replaces Anne Allen, who left New York-based RIMS earlier this year to join TIAA-CREF... U.S. Secretary of Labor Alexis Herman last week disclosed that the Department of Labor will investigate the role actuarial firms have played in helping employers convert traditional pension plans to **cash balance plans**. In a letter to Rep. Ken Bentsen, D-Texas, Ms. Herman said she was troubled that benefit professionals would advise companies that concealing reductions in future benefits is an advantage of cash balance plans... The Securities and Exchange Commission is conducting an accounting review of **Aetna Inc.**'s public filings related to the insurer's acquisition of Prudential HealthCare, among other things. Hartford, Conn.-based Aetna said it believes its accounting is appropriate and has been supported by outside auditors... **North Carolina workers compensation insurance base rates** will remain unchanged in 2000 from 1999 levels... Despite \$73 million in catastrophe losses from events including Hurricane Floyd and earthquakes in Turkey and Greece, **American International Group Inc.**'s third-quarter net income rose 17.8% from the year-earlier period to \$1.27 billion. AIG's nine-month net income rose 18.4% to \$3.74 billion... In a surprise placement last week, **Deutsche Bank A.G.** sold shares in German insurer Allianz A.G., cutting its stake to 7% from 9.3%. Frankfurt-based Deutsche Bank will use proceeds from the 1.37 billion euro (\$1.30 billion) sale to a "large number of institutional shareholders" to help strengthen its balance sheet, a spokesman said... Louisiana voters will return to the polls Nov. 20 for a runoff election to determine the state's insurance commissioner, after incumbent **Commissioner Jim Brown** failed to receive a majority of votes cast in an Oct. 23 open primary election.

Stop-loss

Continued from page 2

senior vp of American Medical Security, said the insurer's controversy with Maryland officials had become a "moot point" in the wake of its decision to leave the Maryland small group market, which Mr. Moore attributed to a difficult regulatory environment in which to do business.

American Medical Security's decision to exit the small group health market in Maryland has ramifications beyond an individual insurer leaving a market.

American Medical Security has been at center stage of what has become a four-year controversy—with national implications—that has pitted state regulators against stop-loss insurers and small, self-funded employers.

Regulators say insurers selling stop-loss policies with very low attachment are in effect trying to circumvent state laws. These laws, among other things, require insurers selling fully insured health plans to abide by certain requirements, such as meeting state-mandated benefit laws.

Maryland Insurance Commissioner Steve Larsen, for example, has described stop-loss policies with very low attachment points as "sham" arrangements.

On the other hand, stop-loss insurers and third-party claims administrators say restrictions on stop-loss policies interfere with the ability of small employers to self-fund their health care programs.

In 1995, Maryland, through regulation, tried to curb stop-loss policies with low attachment points. That regulation said a stop-loss policy must have a \$10,000 attachment point for specific claims and an attachment point of at least 115% of expected aggregate claims. Policies below those levels would be considered health insurance and would have to abide by state requirements, such as offering benefits mandated by state law.

American Medical Security then challenged the regulation and U.S. District Court Judge Alexander Harvey II, and later the 4th U.S. Circuit Court of Appeals, ruled that the Employee Retirement Income Security Act pre-empted it. Judge Harvey said the regulation imposed significant restrictions on employee benefit plans and thus was pre-empted by ERISA.

In the wake of those decisions, Maryland re-drafted the regulation.

"We studied the decision and drafted language to avoid the pitfalls" of the regulation, Commissioner Larsen said earlier this year.

The new statute, state officials said, is directed exclusively to insurers and not to employee benefits. While ERISA pre-empted state laws and

regulations that "relate" to employee benefit plans, it does not pre-empt state regulation of the insurance industry.

Mindful of how ERISA pre-emption operates, the new law was crafted so as to bar insurers from selling stop-loss policies with attachment points below certain limits. By contrast, the struck-down regulation essentially dictated the terms of a stop-loss policy for self-funded employers.

American Medical Security, though, didn't see much difference between the old statute and new law. Earlier this year, the insurer filed suit in federal court to stop enforcement of the new law. The insurer argued that the new law is in "direct contravention" of a permanent injunction Judge Harvey issued because it mandates minimum attachment points for stop-loss policies.

But Judge Harvey in September ruled against American Medical Security, saying that the injunction applied only to "any then-existing regulation or statute" and not to future legislation.

In the wake of Judge Harvey's ruling, American Medical Security said it planned to ask a court to rule that ERISA pre-empted the Maryland law.

But a legal challenge to the stop-loss law no longer is relevant now that American Medical Security is pulling out of the Maryland small group market. And it is unclear if another party will challenge the law.

"I'm not sure if anyone will want to put the

money behind a challenge to the law," Mr. Moore said.

Aside from exiting the small group health market in Maryland, the insurer also will stop writing small group health policies in Minnesota and Florida. Enrollment in health care plans in those states is about 73,000 or just over 11% of the insurer's total medical membership.

American Medical Security said its decisions to eliminate small group operations in Maryland, Minnesota and Florida reflect an unfavorable regulatory environment in those states that will not allow it to make a profit on its business.

In Maryland, Mr. Moore cited heavy state benefit requirements and community rating requirements in the small employer market as impediments to doing business profitably.

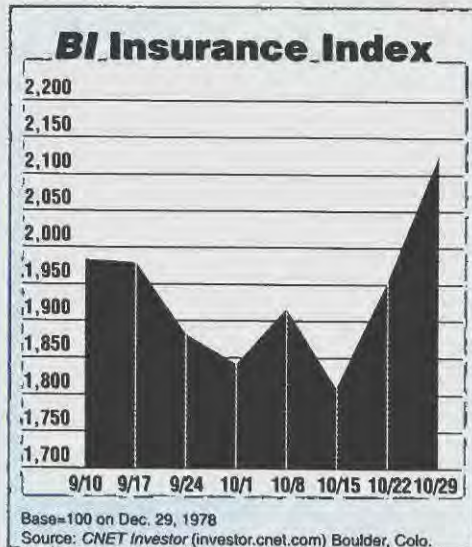
Those requirements essentially require insurers to offer the same products with little differentiation in rates they can charge.

The result is a few big insurers, because of greater buying power, can work out better deals with providers and can operate with greater economies of scale than smaller insurers, Mr. Moore said.

Ultimately, smaller insurers leave the market, resulting in less competition, he said.

But Mr. Larsen, the Maryland insurance commissioner, said the regulatory environment is one that has benefited consumers.

"We have a very successful record in terms of increasing the number of insured individuals in the small group market," Mr. Larsen said. **B**



PCS catastrophe options

As of Oct. 29	Call spread	Price bid/ask	Call spread	Price bid/ask
National Annual 1999				
60/80	14.0/19.5			
80/100	1.2/—			
100/120	0.3/—			
150C	0.2/2.0			
California Annual 1999				
60/80	0.1/—			
80/100	0.1/0.4			
100/150	0.1/0.8			
Western Annual 1999				
80/100	—/1.9			
Eastern December 1999				
40/60	—/1.8			
60/80	—/1.6			
80/100	—/1.4			
National Annual 2000				
100/150	5.0/—			
150C	5.0/—			
190/195	0.3/0.5			
200/250	3.0/—			
Southeast December 1999				
40/60	—/1.8			
60/80	—/1.6			
80/100	—/1.4			
Eastern December 1999				
10/20	—/4.0			
20/30	—/2.0			
40/60	—/2.0			
60/80	—/1.8			
Total volume: 0				
Total open interest: 6,737				

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

Buyers directory for sale

The latest edition of Business Insurance's annual directory of buyers of Insurance, Benefit Plans & Risk Management Services is now available.

The 1999/2000 edition of the "Business Insurance Directory of Corporate Buyers of Insurance, Benefit Plans and Risk Management Services" includes information on more than 14,400 executives from nearly 2,700 U.S. companies.

The directory is available in a 692-page printed volume and on CD-ROM for Windows-compatible computers.

The guide's listings consist of corporate data, including addresses, phone and fax numbers, Web site addresses, the names



and titles of executives responsible for finance, risk management, employee benefits, human resources, pension/retirement planning, insurance, legal counsel and private medical/health plans.

Revenue or asset information and number of employees are provided. The directory contains rankings of companies based on number of employees and revenues or assets.

The buyers directory costs \$95. In addition, the directory is available on CD-ROM for \$595.

To order copies, please call Business Insurance's Single Copy Sales Department at 888-446-1422.

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Legal & Gen	168	20.6	3.6	2.2	237-142
Royal & Sun	416	13.6	23.0	5.9	633-379
Brokers					
Lmbrt Fenchurch	81	7.8	4.2	5.3	94-58
JLT	255	11.5	12.0	4.7	286-166

Note: Prices are Oct. 29 closings; other numbers from Oct. 28.
Source: CNET Investor (investor.cnet.com) Boulder, Colo.

BI Industry Stock Report OCT. 25, 1999, THROUGH OCT. 29, 1999

BROKERS							INSURERS/REINSURERS							HEALTH MAINTENANCE ORGANIZATIONS									
Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)				
Aon Corp.	NYS	35.50	11.81	-5.02	46.68	26.06	7331	ESG Re Limited	NDO	7.75	-1.59	-60.88	22.25	7.50	656	Selective Ins. Group	NDO	18.69	3.82	-7.72	23.00	17.25	187
Clark Bards Holdings	NDO	13.75	-5.17	-18.58	21.00	9.75	109	Enhance Financial Services	NYS	18.25	2.82	-39.67	30.37	16.56	420	Terra Nova Ins Co. Ltd.	NYS	31.56	0.60	29.49	32.62	21.25	171
E.W. Blanch Holdings Inc.	NYS	64.75	7.25	38.69	71.75	38.87	204	Everest Reinsurance	NYS	25.75	9.57	-29.81	38.93	20.50	2177	Tokio Marine & Fire	NDO	65.00	-1.33	10.40	66.12	50.00	108
Gallagher Arthur J. & Co.	NYS	51.75	0.49	18.29	56.50	42.00	261	Fremont General Corp.	NYS	8.63	11.29	-64.25	25.68	7.18	1327	Torchmark Corp.	NYS	31.19	1.63	-10.25	45.50	24.56	1906
Hilb, Rogal & Hamilton	NYS	25.06	1.78	34.56	25.25	15.56	88	Frontier Insurance Group	NYS	8.88	6.77	-29.00	18.75	7.50	1500	Transatlantic Holdings	NYS	75.38	3.61	-0.33	80.93	69.06	90
Kaye Group Inc.	NDO	7.69	-3.91	6.03	9.25	5.00	3	Gainsco Inc.	NYS	5.69	0.00	-9.90	6.93	3.93	181	Travelers Property Casualty	NYS	36.00	9.09	17.55	41.87	27.68	2946
Marsh & McLennan	NYS	79.06	3.77	33.72	81.50	54.75	4213	Harleysville Group	NDO	17.06	8.33	-33.09	26.12	13.12	361	Trenwick Group Inc.	NYS	20.31	5.86	-35.77	35.25	16.50	191
Brown & Brown	NYS	33.75	0.00	-3.40	39.43	29.31	17	HSB Group Inc.	NYS	38.25	4.62	-4.82	42.37	33.25	367	Unico American Corp.	NDO	7.75	1.64	-32.79	13.75	7.25	38
BROKERS AVERAGE			1.56	21.32				HCC Insurance Holdings	NYS	11.25	4.65	-33.58	25.12	8.00	2625	United Fire & Casualty	NDO	22.31	0.85	-32.96	38.50	22.00	36
INSURERS/REINSURERS								ING Group N.V.	NYS	59.13	5.46	-3.07	70.00	45.06	304	Unilirin	NDO	37.44	4.36	5.64	42.37	30.50	700
ACE Ltd.	NYS	19.44	14.76	-40.54	35.25	15.50	6559	IPC Holdings Ltd.	NDO	17.00	3.03	-25.27	25.75	15.37	96	UNUM Corp.	NYS	32.94	16.34	-45.05	62.50	26.00	6861
Accel International Corp.	NDO	0.59	-24.00	-80.21	3.37	0.50	360	Hartford Financial Services	NYS	51.81	18.09	-7.17	66.43	36.50	6414	Vesta Insurance Co.	NYS	4.00	1.59	-30.43	9.87	3.37	506
Acceptance Insurance Cos.	NYS	14.44	11.06	-27.36	20.43	11.62	361	LaSalle Re Holdings Inc.	NYS	12.94	10.11	-37.27	26.00	10.87	258	XL Capital Ltd.	NYS	53.69	16.08	-24.98	78.12	41.93	1721
AEGON N.V.	NYS	91.94	6.29	-24.60	130.12	69.62	630	Lincoln National	NYS	46.13	-2.25	11.31	57.50	35.25	5461	Zenith National Ins.	NYS	22.31	-1.38	-3.51	26.68	20.31	41
Aetna Life & Casualty	NYS	50.25	-0.99	-37.04	99.87	46.50	11034	MAIC Holdings Inc.	NYS	23.38	-3.36	-26.95	33.12	23.31	137	INSURERS/REINSURERS AVERAGE			4.79	-16.23			
AFLAC Inc.	NYS	51.13	12.21	16.19	56.75	34.75	3945	Market Corp.	NYS	172.94	-0.61	-4.06	193.00	146.68	26	HEALTH MAINTENANCE ORGANIZATIONS							
Allmerica Financial Corp.	NYS	57.19	4.45	0.99	64.81	48.06	848	MBIA Insurance Group	NYS	57.06	13.98	-13.95	71.87	45.00	2580	Foundation Health Systems Inc.	NYS	6.63	-0.93	-39.77	20.06	6.25	4397
Allstate Corp.	NYS	29.00	16.00	-24.68	45.00	22.87	25334	Meadowbrook Insur. Group	NYS	8.69	-2.11	-46.74	24.87	8.00	44	Humana Inc.	NYS	6.88	15.79	-63.70	22.12	5.87	5907
Ambac Financial Group	NYS	59.75	24.80	-0.31	62.37	44.68	2843	MMI Cos. Inc.	NYS	8.19	3.15	-50.94	18.93	7.87	173	Oxford Health Plans	NDO	11.81	16.67	-15.63	24.25	8.62	7095
American Financial Group	NYS	29.63	6.76	-28.07	43.87	25.31	392	Mutual Risk Mgmt. Ltd.	NYS	15.13	1.26	-60.13	43.25	9.81	2297	Pacificare Health Sys.	NDO	39.44	19.06	-44.84	100.37	31.12	4308
American General	NYS	74.19	-0.75	-5.19	81.37	61.87	6723	Navigator Group	NDO	13.38	-0.93	-12.30	16.25	13.12	29	Safeguard Health Enter.	NDO	3.59	-0.88	0.86	5.50	2.35	58
American Heritage Life Ins.	NYS	38.75	15.46	61.04	38.75	19.50	484	NYMagic Inc.	NYS	12.81	0.49	-38.62	21.62	12.00	67	Sierra Health Services	NYS	7.31	-3.31	-64.97	24.93	7.18	322
American Intl Group	NYS	102.94	12.12	32.14	107.18	62.87	15872	Ohio Casualty Corp.	NDO	16.69	9.43	-18.84	21.68	14.87	917	United HealthGroup	NYS	51.69	6.44	15.99	70.00	36.00	4170
American Safety Insurance	NYS	7.13	2.70	-25.00	10.37	6.62	15	Old Republic Int'l	NYS	13.69	-1.79	-36.15	22.75	12.93	2513	Wellpoint Health Networks	NYS	58.00	10.34	-32.46	97.00	48.25	2900
Argonaut Group	NDO	24.06	4.90	0.26	28.37	23.37	70	Orion Capital Corp.	NYS	48.88	0.26	24.72	48.88	27.56	590	HMOs AVERAGE			7.90	-30.57			
AXA-UAP Group	NYS	69.75	4.69	-2.53	80.25	53.75	286	Partner Re Ltd.	NYS	31.19	4.39	-30.98	46.50	28.56	452	ALL COMPANIES AVERAGE			4.75	-8.49			
Baldwin & Lyons Inc.	NDO	20.63	-5.71	-11.76	26.00	19.62	73	Penn-America Group Inc.	NYS	7.38	0.00	-20.27	11.43	7.00	11								
Berkley W.R. Corp.	NDO	22.94	6.69	-32.04	36.50	20.62	415	PMA Capital Corporation	NDO	20.00	-1.23	2.24	21.12	17.37	25								
Berkshire Hathaway Inc.	NYS	63900.00	17.25	-6.44	81100.00	54200.00	2	Philadelphos Cons. Holding	NDO	14.50	-2.52	-31.76	25.50	10.81	229								
Capital RE Corp.	NYS	14.13	4.63	-27.80	22.25	9.43	1024	PXRE Corp.	NYS</														

Drugs

Continued from page 2

based on a formula, initially would be \$192 per retiree, rising eventually to \$352 per retiree, according to Hewitt estimates.

With this financial incentive, most employers would opt to continue offering prescription drug coverage. Fifty-five percent of the respondents said they would offer prescription drug coverage as a supplement to the Medicare benefit, such as, perhaps, paying for the portion of drug bills not covered by Medicare and/or paying for bills above the maximum annual drug benefit limit.

Those employers' prescription drug benefit costs would be reduced since Medicare would be picking up a share of retirees' drug bills.

Another 25% of employers would retain their primary prescription

drug benefit and accept the financial subsidy from Medicare.

On the other hand, 20% would eliminate prescription drug coverage for Medicare-eligible retirees, including 15% that would outright eliminate coverage and 5% that would eliminate coverage but pick up the retirees' Medicare prescription drug benefit premium.

These findings are based on a Hewitt survey of 327 large employers conducted for the Kaiser Family Foundation, a Menlo Park, Calif.-based health philanthropy.

When the Clinton administration unveiled its prescription drug benefit proposal this summer, some benefit experts speculated that its enactment could result in large-scale employer terminations of employer-sponsored retiree prescription drug plans (BI, July 5).

But the Hewitt-Kaiser survey reveals that, in fact, the opposite could occur with employers more likely to retain coverage.

In fact, in the absence of a Medicare expansion, 40% of respondents said they would expect to cut back on the prescription drug benefit they now provide to Medicare-eligible retirees.

Expanding Medicare to cover at least a portion of prescription drug benefit costs helps employers meet their objective of offering a valued benefit while helping to offset costs, said Frank McArdle, a consultant in Hewitt's Washington office.

"Many large employers do want to preserve prescription drug coverage, but reduce costs. This proposal helps them to achieve both objectives," Mr. McArdle said.

Meanwhile, a related survey of a constant group of 498 large employers reveals how companies are cutting back on their retiree health care plans.

For example, in 1998, 87% of those employers offered health care coverage to retirees under 65, a decline from 94% in 1991, while 78%

last year offered coverage to retirees 65 and over, a drop from 87% in 1991.

"The effects of FAS 106 still are being felt," said Mr. McArdle, referring to a 1990 Financial Accounting Standards Board rule that requires employers to recognize on their financial statements retiree health care liabilities as they accrue rather than on a pay-as-you-go basis. That rule, which generally went into effect in 1993, has made employers more aware of the true cost of their retiree health care plans.

Those employers not terminating retiree health care plans, have, increasingly, used a variety of approaches to pass on costs to retired workers.

For example, 81% of employers said they expect to increase premiums and/or boost other cost-sharing requirements within the next three to five years for Medicare-eligible retirees.

In addition, 53% said they would

seriously consider adopting a defined contribution approach to offering retiree health care coverage to Medicare-eligible retirees. Under this approach, an employer will agree, for example, to make a fixed contribution toward a retiree health care premium. If premiums rise beyond that contribution, the retiree has to pick up the difference.

The survey also found that 50% of employers said they would over the next three-to-five years seriously consider only offering a managed care plan to their retirees 65 and older.

Free copies of "Retiree Health Coverage: Recent trends and Employer Perspectives on Future Benefits," are available on the Internet at www.kff.org. Copies also are available through the Kaiser Family Foundation's publications request line at 1-800-656-4533. Request document #1541.

FTR FOR THE RECORD



PHOTOS: AP/WIDE WORLD

Citigroup's chief executive officers now comprise, from left, John Reed, Sanford Weill and Robert Rubin.

Rubin joins Citigroup executive triad

NEW YORK—Citigroup, the financial services monolith formed by the merger of Citibank and Travelers Group, has named former U.S. Secretary of the Treasury Robert Rubin as chairman of the executive committee of the board.

Although he will not be considered a third chief executive officer alongside chairmen and co-CEOs Sanford Weill and John Reed, Mr. Rubin will share in the "guidance and direction of the company," Mr. Reed said during a press conference held last week. He will have no day-to-day responsibilities, Mr. Reed emphasized, but he will work closely with Messrs. Reed and Weill.

Mr. Rubin describes his involvement as strategic, managerial and operational. He will not have subordinates reporting directly to him.

"He will help us think through our strategy—what we should be executing, how we continue to develop the culture of our company, and how we continue to develop a company that will be attractive to the best and brightest young people all over the world," said Mr. Weill. He noted that Mr. Rubin will be especially valuable to Citigroup in the area of financial services modernization.

The financial services marketplace faces several challenges in the immediate future, Mr. Rubin said. E-commerce, functioning in a global economy, dealing with the risk management issues of various markets, and the cultures and people involved are among the factors that will affect the industry, he said.

Medicare deductibles to rise

WASHINGTON—Medicare deductibles will rise next year, the Department of Health & Human Services announced recently.

The one-time deductible imposed on the first 60 days of a hospital visit will rise to \$776, up \$8, while the daily deductible for the next 30 days of an inpatient stay will increase by \$2 to \$194. The daily deductible for visits exceeding 90 days will rise by \$1 to \$388.

These increases will affect employers that integrate their retiree health care plans with Medicare to pay for charges not covered by Medicare.



HHS also said the monthly premium for Medicare Part B, which covers physician services, will remain unchanged next year at \$45.50.

Alliance seeks class action reforms

DOWNERS GROVE, Ill.—A new white paper issued by the Alliance of American Insurers is calling for reform of the class action litigation system.

In the document, the Alliance reiterates its support for federal legislation that would allow either the plaintiff or the defendant in a multistate class action to move the trial from a state to federal court (BI, Sept. 27). At the state level, the Alliance calls for legislation that would:

- Create a rebuttable presumption of validity in a civil action against a regulated entity, such as an insurance company, when the actions and practices in question have been approved by the proper regulator.
- Require a court to dismiss or abate proceedings where state agency jurisdiction is involved and further provides that relief awarded by the administrative agency be regarded as adequate even if the relief award does not include exemplary damages, multiple damages, attorneys fees or court costs.
- Stay discovery in a class action while a motion to dismiss is pending.

"The Alliance believes the time is right to achieve these reforms. Efforts by Congress to enact class action reform legislation and Alabama's recent enactment of a class action reform bill are signs that the public's tolerance of class action abuse is waning," the report says.

Single copies of "Class Action Litigation: Problems and Solutions" are available free by contacting Joyce Kraeger at the Alliance of American Insurers, 3025 Highland Parkway, Suite 800, Downers Grove, Ill. 60515; the telephone number is 630-724-2133.

Company assigned fault in car crash

CHICAGO—Illinois Auto Electric Co., doing business as M&S Transport Services, was recently found to be 75% at fault by a jury for a traffic accident that killed six children in November 1994.

Elmhurst, Ill.-based Illinois Auto Electric was the one defendant of nine who failed to contribute to a \$100 million out-of-court settlement reached in August with Duane Scott Willis and his wife, Janet (BI, Aug. 30). The Willis children died when a mud flap and tail light assembly that fell from a truck chassis struck their minivan, igniting the vehicle. Illinois Auto Electric had inspected the chassis nine days prior to the accident, said Norman J. Barry Jr., attorney for the Chicago-based Allied Products, another defendant in the original suit.

The jury also found Transamerica Leasing Inc., the owner of the chassis, to be 15% responsible, and Ricardo Guzman, driver of the truck, to be 10% responsible. Other named defendants who paid into the settlement were found to be 0% responsible.

A counterclaim was filed jointly by named defendants Chrysler, now operating as DaimlerChrysler Corp.; and Allied Products Corp., whose defunct Load Craft division manufactured the chassis, to recover from Illinois Auto Electric the money each paid to the Willis family, said Mr. Barry. Chrysler manufactured the Willis' 1994 Plymouth Voyager minivan.



Mr. Barry said a judge ruled late last month in that suit that Allied, which had paid \$14.5 million to the Willis settlement, will recover roughly \$10.9 million from Illinois Auto Electric. Allied's settlement was paid, in part, by Lexington Insurance Co. in London. Chrysler will recover \$7.5 million of the \$10 million paid to the Willis settlement from the inspection company.

Allied Products may appeal the decision in an effort to recover the full amount paid to the settlement, Mr. Barry said.

DaimlerChrysler filed a memorandum asking the judge to reconsider her decision, said Brian Bell, a partner for Swanson, Martin & Bell in Chicago who is an attorney for the carmaker. He noted, however, that "Chrysler is very happy with the overwhelming victory that the jury gave us."

The Willis family settlement is not affected by the reallocation of fault or by the Daimler Chrysler/Allied Products suit against Illinois Auto Electric, Mr. Barry said.

Counsel for Illinois Auto Electric did not return calls seeking comment.

Grace settlement covered by D&O cover

COLUMBIA, Md.—W.R. Grace & Co. will recover approximately \$3.8 million from a directors and officers insurance company as part of a settlement of suits over the severance benefits of two former chief executives of the company.

The suits, filed in New York Supreme Court against the directors of Columbia, Md.-based Grace, claimed the benefits were excessive. Corporate Officers & Directors Assurance Ltd., Grace's D&O insurer, will pay the settlement to the company, according to a Grace spokeswoman.

Comings & Goings: Industry



Mr. Klotsche

Allan J. Klotsche has been named vice chairman and chief operating officer of Milwaukee-based T.E. Brennan Co. Before joining the risk management consultant, he previously was president and chief executive officer of Willis Corroon of Minnesota. . . . John Hume has been named chief financial and administrative officer of Hamilton, Bermuda-based XL Mid Ocean Reinsurance Ltd., which is part of XL Capital Ltd. He previously was finance director and chief administrative officer at NAC Reinsurance International Ltd., which became part of XL Capital in June.

Information in brief

A proprietary survey of 21 long-term care insurers conducted by Oldwick, N.J.-based A.M. Best Co. found that, although long-term care sales have risen in recent years, the growth is far less than was anticipated. Concerns over inappropriate sales and a general lack of consumer interest have hindered growth, Best said. . . . Reliance National Insurance Co. last month revealed plans to raise some capital from its surety business. The company plans an initial public offering of up to 20% of Reliance Surety Group, a newly formed holding company for Reliance's surety and fidelity bond business. Also, Reliance plans to set up another company, Point, Click & Bind Inc., which will include CyberComp, its Internet-based workers compensation business. Ten percent of the shares in the company will be issued to Reliance shareholders. BI



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We've built our reputation on fulfilling promises. And because that reputation is solidly backed by Triple-A-rated financial strength, you can rest assured that the AIG Companies will be there for you.

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