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Business Insurance®

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

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Updates

UPS hit with lawsuit alleging package insurance fraud

DAYTON, Ohio—Customers of United Parcel Service of America Inc. are charging in a lawsuit that the shipping giant defrauded them over the last 16 years by collecting fees for package insurance that was fronted by a unit of American International Group Inc. and reinsured with Bermuda-based Overseas Partners Ltd.

The proposed class-action suit, filed last week in a Dayton, Ohio, state court, seeks $14 billion in compensatory damages and names several other defendants, including AIG units.

See **Updates** *on next page*

Reliance reviews its options

By DOUGLAS McLEOD

NEW YORK—Reliance Group Holdings Inc. has hired two investment firms to review "strategic and financial options" that analysts say could include selling all or part of the company.

Amid efforts to improve its poor financial performance and maintain its insurance ratings, Reliance announced that Donaldson, Lufkin & Jenrette Securities Corp. and Bear, Stearns & Co. Inc. will "work with our management team as we explore a full range of strategic and financial options for further enhancing shareholder value."

Reliance Chairman and Chief Executive Officer Saul P. Steinberg will meanwhile take over the added role of chief operating officer from his brother, Robert Steinberg, who will become vice chairman. Long-time Reliance board member George R. Baker will take on the new role of assistant to the chairman.

Reliance also reported last week that it is making progress with its recapitalization plans.

In a third-quarter 10-Q report filed with the Securities and Exchange Commission, for example, Reliance said that it is in settlement discussions to resolve liabilities connected with its role as a fronting insurer and pool participant in workers compensation reinsurance facilities managed by Unicover Managers Inc.

The Unicover facilities, which fell apart earlier this year amid charges that the manager had vastly exceeded premium projections, are expected to generate total losses for all companies involved of up to $2 billion or more.

Reliance reported that there is a "reasonable likelihood" that its settlement talks will produce "contingent settlement agreements which, if ultimately consummated," would require Reliance to take an aftertax charge of no more than 10% of its consolidated shareholders equity, or about $98 million.

While the SEC filing notes that Reliance is in arbitration with Unicover retrocessionaires Sun Life Assurance Co. of Canada

See **Reliance** *on page 37*

Bill would exempt recyclers

Superfund waiver

By MARK A. HOFMANN

WASHINGTON—A pre-Thanksgiving special carve-out from Superfund liability for some scrap recyclers is a real turkey as far as risk managers and insurers are concerned.

The carve-out is contained in the special omnibus spending bill approved by the House of Representatives and Senate late last week.

The Superfund carve-out was originally offered by Senate Majority Leader Trent Lott, R-Miss., as a stand-alone bill in August but later was added to the spending bill.

Proponents, including the Washington-based Institute of Scrap Recycling Industries and some environmental groups, hold that Superfund was never intended to impose liability on scrap recyclers.

In a statement accompanying the House vote, the recyclers group wrote: "Federal courts have ruled that Superfund imposes liability on persons who sell secondary materials for recycling. These rulings are a result of an overly broad interpretation of the law's provision which imposes liability on those who 'arrange for the disposal' of waste. These courts have presumed that any transaction involving material no longer useful in its current form must be a waste disposal transaction."

The recyclers group further noted that similar provisions in Superfund reform bills had not been adopted because "reform has remained stalled for over six years."

But risk managers and insurers remain adamantly opposed to carving out liability for any industry facing poten-

See **Superfund** *on page 37*

Oregon voids some property exclusions

By DAVE LENCKUS

SALEM, Ore.—A pro-policyholder ruling by Oregon's Supreme Court in a personal property coverage dispute could throw the state's commercial and personal property insurance market into turmoil, according to attorneys and an insurer trade group official.

The court's unanimous Nov. 4 ruling, which essentially vacates many common coverage restrictions in property insurance policies, could trigger significant rate hike requests by property insurers in Oregon, insurer attorneys say. It also could force Oregon insurers to rewrite their property policies, attorneys and the trade group official agreed.

The ruling, *Fleming vs. USAA*, turns on the court's analysis of a state statute on fire insurance policies. The Oregon statute stipulates that policy terms that abridge policyholder rights must be contained in provisions preceded by "sufficiently explanatory" titles. Although the statute does not define "sufficiently explanatory" titles, the court found that coverage restrictions do not belong in provisions with titles that imply an explanation of covered losses follows.

"This outrageous opinion applies a tortured reading of the underlying statute to undermine the clear meaning of the policy," said Melvin N. Sorensen, assistant vp and Northwest regional manager for the National Assn. of Independent Insurers in Federal Way, Wash.

Fallout from the ruling could extend nationwide. The NAII is reviewing insurance laws in other states to determine whether they have statutes similar to the Oregon law. If such statutes are common, insurers nationwide may have to rewrite and refile their policies to avoid the risk of courts requiring insurers to indemnify policyholders for

See **Exclusion** *on page 38*

Lenny batters Caribbean

By JOANNE WOJCIK KOCHANIEC

Claims from Hurricane Lenny are likely to soar as damage from the powerful, erratic and far-ranging storm is tallied.

As of last week, while the late-season hurricane was still moving through the Caribbean, initial claims in the tens of millions of dollars were reported, as well as widespread damage to resorts and commercial and residential property in the islands.

Late Friday, Lenny was downgraded to a tropical storm, and property owners and insurers began to take stock of the damage.

The Property Claim Services division of the Insurance Services Office Inc. assigned Lenny a catastrophe number, which signals that it expects Lenny to cause at least $25 million in insured property damage in the United States or U.S. territories. But single losses exceeding that threshold already were being reported to loss adjusters last week.

One of the largest insured losses as of last week was an estimated $40 million in damage to the Four Seasons Resort on Nevis, in the Leeward Islands, reported by insurance adjusters McLarens Toplis Puerto Rico Inc.

A spokeswoman for the Four Seasons hotel chain in New York was unable to provide damage estimates but confirmed that the Nevis resort will be closed at least through Jan. 1, 2000. The resort has 196 guestrooms housed in 12 two-story plantation cottages.

See **Lenny** *on page 39*

PHOTO: AP/WIDE WORLD

A majority of the boats in the St. Croix Yacht Club were damaged last week as Lenny struck the island.

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NEWSPAPER

Employee Benefits Communication Awards begin on page 3

Updates

UPS facing class-action suit

Continued from previous page

The U.S. Tax Court ruled in August that OPL, formed by UPS in 1983 and spun off to UPS shareholders, was a sham designed to shelter insurance income offshore. The court also found that UPS charged substantially more for the shippers risk coverage than commercial insurers would. UPS took a $1.44 billion charge to make a tax payment to halt interest and penalties while it considers an appeal (*BI*, Aug. 23; Aug. 16).

A spokesman for Atlanta-based UPS said the company has not yet seen the suit but believes that "it is totally without merit."

Port sues for Y2K costs

SEATTLE—The Port of Seattle is suing its insurers for coverage of between $10 million and $11 million in Year 2000 remediation costs.

Earlier this year, the Port of Seattle became one of the first commercial policyholders to indicate it would seek insurance coverage under the "sue and labor" clause for the costs it incurred to make its computers Y2K compliant when it issued a notice of claim (*BI*, June 14).

In its suit, filed last week in the Superior Court of Washington for King County, the Port states that the data processing media coverage in its all-risk property policy covers the remediation costs.

The policy covers loss of computer resources and does not require any physical loss or damage to be incurred before the coverage applies, said Dale Kingman, a partner at Peery, Hiscock, Pierson, Kingman & Peabody in Seattle who represents the Port.

Leading the Port's coverage is Lexington Insurance Co., an American International Group Inc. unit. An AIG spokesman refused to comment.

The Port also seeks coverage under the sue and labor clause in the policy, which it argues compels policyholders to act to prevent imminent loss or damage of property, court papers show. The Port, which manages the Seattle-Tacoma International Airport and the Seattle waterfront, said it became aware of the extent of its Y2K problem in 1997.

Several other commercial policyholders have previously sued their insurers under the sue and labor clause, including GTE Corp., Xerox Corp. and Unisys Corp. Also, earlier this month, Nike Inc. sued its insurers for coverage, legal sources say. Nike did not return calls.

The sue and labor claims are without merit, said Walter Andrews, an attorney at Wiley, Rein & Fielding in Washington who represents a group of 33 insurers. "Insurers insure against accidents; they are not product guarantors," he said.

Swiss Re auctions cover online

LONDON—Insurance companies and reinsurance brokers are being offered a chance to bid on reinsurance coverage in what is being hailed as the first auction of capacity over the Internet.

Swiss Reinsurance Co. last week launched its Electronic Risk Exchange on its home page, www.swissre.com, as a new marketing channel for its reinsurance capacity.

ELRiX currently will offers only a limited amount of capacity for European marine risks, windstorms in Great Britain, France, Belgium and the Netherlands; and earthquake risks in Israel. The majority of the capacity will be allocated to British windstorm risks. Capacity for the reinsurance of additional risks will be added next year.

At the launch of ELRiX during a London press conference last week, Rudolf Kellenberger, head of Swiss Re's European division, explained that ELRiX works by enabling a ceding insurer or broker to access the site and enter key risk portfolio data.

ELRiX responds by giving a minimum "reserve price" for entering the auction. A potential purchaser can then enter a bid, usually at or above the reserve price. At this point, other cedents or intermediaries can submit rival bids for the capacity the reinsurer is offering. The auction is for a fixed duration of time, and bidders can check the status of their bids at any time.

Swiss Re said the advantages of its system are speed, transparency, savings on transaction costs and accessibility between 6 a.m. and 11 p.m. Zurich time, which currently would be 5 a.m. to 10 p.m. in London and midnight to 5 p.m. in New York.

EgyptAir premiums up 300%

CAIRO, Egypt—EgyptAir will pay a 300% higher premium for the airline liability and hull insurance it has renewed with the existing underwriters on its account, according to market sources.

The premium hike brings the airline's premium to about $10.8 million from $2.7 million last year, sources say. The insurers requoted the coverage at a higher rate after EgyptAir Flight 990 crashed about 60 miles off the coast of Nantucket Island, Mass., on Oct. 31. All 217 passengers and crew perished. Market sources said that EgyptAir, which has a Nov. 16 renewal date, had received renewal quotes before the crash but had not signed off on the coverage (*BI*, Nov. 8).

Sources said insurers have set a liability reserve of between $250 million and $300 million but that the reserve is "very tentative." Insurers have valued the hull loss at $53 million.

EgyptAir's hull and liability insurance coverage is written by Giza, Egypt-based Misr Insurance Co. SAE, which almost fully reinsures the coverage with aviation markets worldwide. The reinsurance is led by Paris-based La Reunion Aerienne, with the London market's participation led by the British Aviation Insurance Group. London-based Willis Corroon Group Ltd. placed the coverage.

U.S. National Transportation Safety Board Chairman Jim Hall last week said the agency had found no evidence of mechanical failure or weather-related problems that could have caused the crash of Flight 990. The NTSB late last week was evaluating whether evidence was strong enough to suspect a criminal act downed the jet and whether the agency should turn over the crash investigation to the Federal Bureau of Investigation.

Even if a criminal act by an EgyptAir crew member caused the crash,

See **Updates** *on page 38*

Hawaii to review fee

By JERRY GEISEL

HONOLULU—The Hawaii Insurance Division is reviewing its earlier decision to assess a $406 fee against risk retention and risk purchasing groups operating in the state.

Hawaii Insurance Commissioner Wayne Metcalf said the division's legal staff now is analyzing whether Hawaii has the authority to impose the fee on risk retention groups licensed outside the state and on purchasing groups with policyholders in the state.

"We take a very conservative approach. If we are pre-empted by federal law, we will not impose any assessments. We do not intend to act out of variance with federal law," Mr. Metcalf said.

While not giving an exact date, Mr. Metcalf said the analysis would be prompt. If the division determines that it lacks the authority to impose the $406 fee on RRGs and purchasing groups, any fees already paid by the groups would be remitted, he said.

Mr. Metcalf said Hawaii's analysis began after at least one RRG notified the Insurance Division that it believed that the fee was pre-empted by the Risk Retention Act, the federal law that created RRGs and purchasing groups. Congress passed the original RRA in 1981 and expanded its scope in 1986.

A risk retention group is a

See **Hawaii** *on page 37*

Duperreault details downsides of industry overcapitalization

By DOUGLAS McLEOD

NEW YORK—Insurance company stocks are proving champion laggards in the ongoing bull market, and for good reason: The industry remains overcapitalized and held back by regulatory and rating agency constraints, a top insurer executive says.

"In the greatest bull market of our generation, our industry has been a colossal underperformer," observed Brian Duperreault, chairman, president and chief executive officer of ACE Ltd.

Insurer stocks have achieved price/earnings multiples roughly one-third lower than the Standard & Poor's 500 Index, while insurer annual reports boast of their companies' disci-

See **Industry** *on page 33*

College honors Clements

1999 Insurance Leader of the Year

By AMANDA MILLIGAN

NEW YORK—Creative energy, innovative thinking and the ability to translate ideas into action are traits that are mentioned time and again by the colleagues—both past and present—of Robert Clements.

Those qualities and a lifetime of achievement in the industry, some admirers say, explain why Mr. Clements has been named the 1999 Insurance Leader of the Year by The College of Insurance in New York.

"Bob has the ability to see the problem, develop solutions, and turn those solutions into reality," said Richard Hackenburg, president and chief executive officer of XL America Insurance in Stamford, Conn. "As a risk manager, he helped provide insurance where none existed . . . .As a director of a company (for which) I work, he has provided solid leadership and guidance."

Brian M. O'Hara, president and CEO of XL Capital Ltd. in

See **Clements** *on page 36*

Mr. Clements

Ernst & Young industry forecast:

Investors to abandon P/C

By MICHAEL PRINCE

NEW YORK—Overcapacity in the property/casualty industry will force a massive reshuffling of the field as investors move to drive out this excess capacity, two insurance consultants say.

The overcapacity within the industry is so large that about one-third of the existing capital, up to $100 billion, has to depart to bring the industry's return on equity in line with that of others in the financial services field, they said. This departure won't come about from catastrophes but will result from investors pulling out their money.

That could mean the elimination of nearly two of every three current P/C insurers, said Bob Stein, national director of financial services at Ernst & Young L.L.P. in New York, and Peter Porrino, national director of insurance industry services for Ernst & Young, at a conference.

Mr. Stein said that, in the next 10 to 15 years, investors will "wake up and force capital out" of the insurance industry through mergers of insurers.

Property/casualty insurers have lagged behind other companies in the financial services field in return on equity in recent years, Mr. Stein said. Insurers' returns largely have come from investment income, not from underwriting profits, he noted.

See **Outlook** *on page 39*

Inside

- The Hawaii Insurance Division's reconsideration of its earlier decision to impose a new fee on risk retention groups and risk purchasing groups is a welcome development, this week's editorial says. **PAGE 8**
- The supercyclone that struck the Indian state of Orissa on Oct. 29 may be the worst of the century. **PAGE 31**
- U.K. employers' insurance premiums will increase significantly if changes the Law Commission has proposed to the country's damages law are adopted, the Assn. of British Insurers is warning. **PAGE 31**

Departments

Advertiser Index **36**
Classifieds **34**
Commentary **37**
For the Record **35**
Global Briefs **31**
Insurance Services Guide **32**
International **31**
Letters **8**
Ticker **39**

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Employee Benefits Communication Awards

Winning entries in 27th EBC Awards

Fourteen companies were awarded honors in *Business Insurance*'s 27th annual Employee Benefits Communication Awards competition.

As benefit managers worked to address the needs of a diverse, global workforce, one trend among this year's entries is an increasing reliance on corporate intranet systems to communicate benefit offerings to employees. But print communication remains popular among many companies.

The 1999 competition did mark a reduction in the use of audiovisual communications and multimedia programs.

All but nine of the 69 entries submitted this year by companies in the United States and Canada were prepared with the assistance of consultants. The work of a total of 18 consulting firms was represented among the submissions, and five firms shared in awards with their clients.

This year's winners will be honored at a luncheon in New York on Nov. 22.

Stories about each of the category award winners begin on page 4.

A list of this year's judges and a discussion of what impressed them is on page 26.

TOTAL BENEFITS PROGRAM

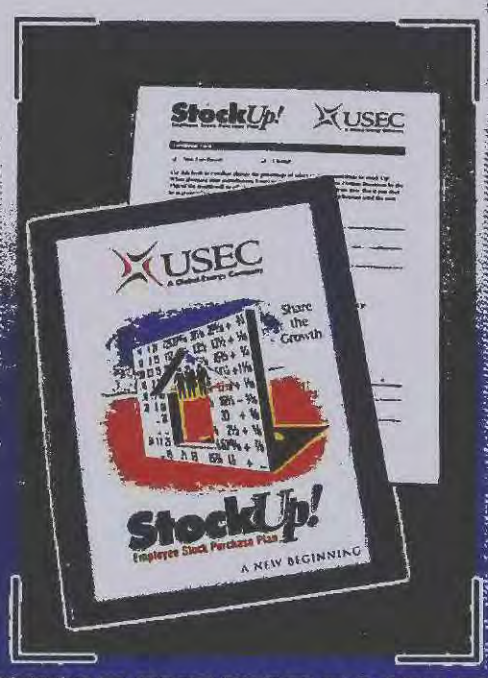
Best of Show: Clark Refining & Marketing Inc.
Award of Excellence: Lend Lease Real Estate Investments Inc.

SPECIAL PROJECT

Best of Show, intranet communication:
BellSouth Telecommunications Inc.
Award of Excellence, intranet communication:
Schlumberger Ltd.

MULTIMEDIA

Best of Show: State of Georgia



SINGLE-SUBJECT BOOKLET

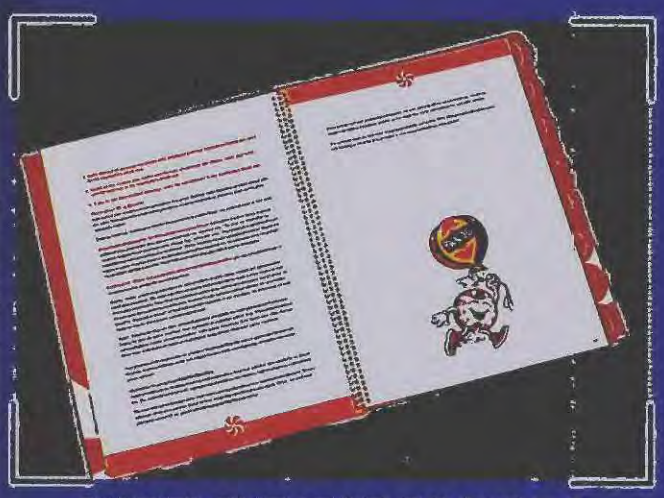
Best of Show: USEC Inc.
Award of Excellence: Reliant Energy Inc.

SPECIAL PROJECT

Best of Show, print communication:
R.R. Donnelley & Sons Co.
Award of Excellence, print communication:
J.C. Penney Co. Inc.

NEWSLETTER

Best of Show: Xerox Corp.
Award of Excellence: SAFECO Corp.



MULTI-SUBJECT BOOKLET

Best of Show: Brach & Brock

PERSONALIZED CORRESPONDENCE

Best of Show: WORLDSPAN
Award of Excellence: Edison International

Employee Benefits Communication Awards

TOTAL BENEFITS PROGRAM

Clark employees follow the signs to information on benefit changes

By AMANDA MILLIGAN

ST. LOUIS—As with road construction projects that take time to complete, Clark Refining & Marketing Inc. learned that changing benefit offerings requires keeping those affected informed about changes and what they can expect from the finished product.

The St. Louis-based petroleum company began its extensive benefits communication program in early September 1998 and continued to keep its employees informed throughout the enrollment period ending in mid-November.

For this program, Clark Refining & Marketing Inc. was awarded best of show for a total benefits program in the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

Keeping with a theme that is similar to the company's current print and broadcast advertising slogan of "more miles per dollar," Clark's benefits package was coined "Benefits at Work," said Kathy Eggering, director of employee services for Clark Refining & Marketing.

The name also acknowledges the changes the company was making to its benefits offerings, said Norine Cannon, associate communications consultant and team leader for Buck Consultants Inc. in St. Louis and a member of the design team for the Clark project.

When determining the theme, Buck wanted the idea to fit with the client's industry, meet the company's objectives, and relate to the benefits information being presented, said Don Sanford, principal and practice leader of communications for Buck in St. Louis.

Construction signs were featured on postcards mailed to employees during various stages of the Benefits at Work campaign, said Ms. Cannon.

"It was wonderful, because it also said your benefits have been under construction, literally," she said.

> *The communication program's 'Benefits at Work' theme 'worked for our employees. . . .It was just synergistic with what our company was doing.'*
> — Kathy Eggering

For example, one postcard with a sign stating "Expect Delays" had room for a benefit manager to write a message to the recipient informing him or her of additional information needed to complete the enrollment process. Another, sent upon successful enrollment, thanks the employee for returning his or her enrollment forms.Affixed to the postcard was a keychain inscribed with a construction sign touting the program.

"It worked for our employees," Ms. Eggering said. "It was just synergistic with what our company was doing."

At the time the piece was developed, the company had two objectives to meet, said Ms. Eggering. First, Clark wanted to develop one communication piece capable of appealing to two distinct groups of employees—junior employees working in a retail unit that has high turnover, and longtime refinery employees. Second, the company wanted to introduce the refinery employees to managed care options, she said.

Reaching the target audience for the benefits program was one of the challenges Ms. Cannon faced. "We really had to talk to two diverse groups with one piece," said Ms. Cannon.

Weekly features, called "Point of Interest" sheets, helped Clark with both goals, said Ms. Eggering. These pages, which could be added or added for either the retail or the refinery employees, served as quick references for contact information or provided information on such topics as managed care.

"We made sure that we really explained the managed care con-

See **Clark** *on page 6*

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Employee Benefits Communication Awards

Clark

Continued from page 4

cept in as many ways as we could," said Ms. Cannon, especially to one of the refinery locations where the fear of managed care backlash was especially strong. "In the location where they anticipated the most resistance to managed care, 58% selected it."

Because of the sensitivity associated with news of benefit changes, Ms. Eggering held focus groups to identify employees' concerns and interests and then used this information to direct the benefit offerings and communications. From these discussions Clark learned that its employees wanted a vision plan and more managed care options, she said.

Although there was much that needed to be communicated, "we didn't want to overwhelm people with too much information in one packet," said Ms. Eggering. The company's packet also included beneficiary designation and plan enrollment forms.

> *'In the location where they anticipated the most resistance to managed care, 58% selected it.'*
>
> — Norine Cannon

Ms. Eggering said that after Benefits at Work was unveiled at Clark's largest refinery, located in Port Arthur Texas, 798 out of 860 employees moved from the traditional indemnity plan to some form of managed care plan.

Prior to the rollout, 15% of Clark's total employee population was in managed care, and after Benefits at Work 74% of employees had enrolled in managed care options, said Ms. Eggering.

The company's vision coverage, new for the 1999 enrollment season, was embraced by 35% of Clark's 3,200 nationwide employees, Ms. Eggering said.

"It was a very flexible project that allowed us to be cost effective and have a common look," Ms. Eggering said, noting that, in the past, retail and refinery employees received different benefit packages, which meant more time and money had been spent on devising creative ideas and production. "All the way along, we won with this program." BI

Lend Lease invests in a brand new look for benefits material

ATLANTA—Mergers are never easy. Offices move, jobs get cut and company names change. Of course, benefit programs change, too.

But just because changes occur doesn't mean they have to create problems. In fact, sometimes a merger can create opportunities to refashion a company's benefits package and redefine it in employees' minds.

This is what happened with Lend Lease Real Estate Investments Inc. after it was created following the 1997 merger of Lend Lease with Equitable Real Estate.

The company decided that, after the merger, it needed to create "a whole new look" with its benefits communication, said Charlene Edwards, vp-employee benefits for the Atlanta-based real estate investment trust.

The goal was "to add a more-personal feel to our communication pieces," according to Ms. Edwards.

Beyond the look, the company wanted to tell its employees that the merged company would adopt Lend Lease's employee-friendly culture.

Although Lend Lease initiated the purchase, its employees constituted only about 20% of the company's post-merger workforce.

For help, Lend Lease turned to Buck Consultants Inc.'s Atlanta offices and their communication experts. The campaign, which was rolled out in the fall of 1998 for open enrollment season, featured a consistent color scheme on its array of communication pieces, smiling faces and text presented in a smooth, easy-to-read format.

That consistent and clear approach helped win the award of excellence for Lend Lease in the total benefits program category of the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

What the company unrolled was not just one communication piece but an entire campaign for the 1999 open enrollment season.

In the initial step, postcards were sent to each employee's home announcing "Open Enrollment Is Coming!"

After this, each employee received a personalized enrollment kit at his or her workplace. Each kit included the benefits guide, outlining the company's health and retirement benefits; a worksheet to determine whether a dependent care savings account was appropriate; and a Rolodex card that listed important phone numbers and World Wide Web site addresses.

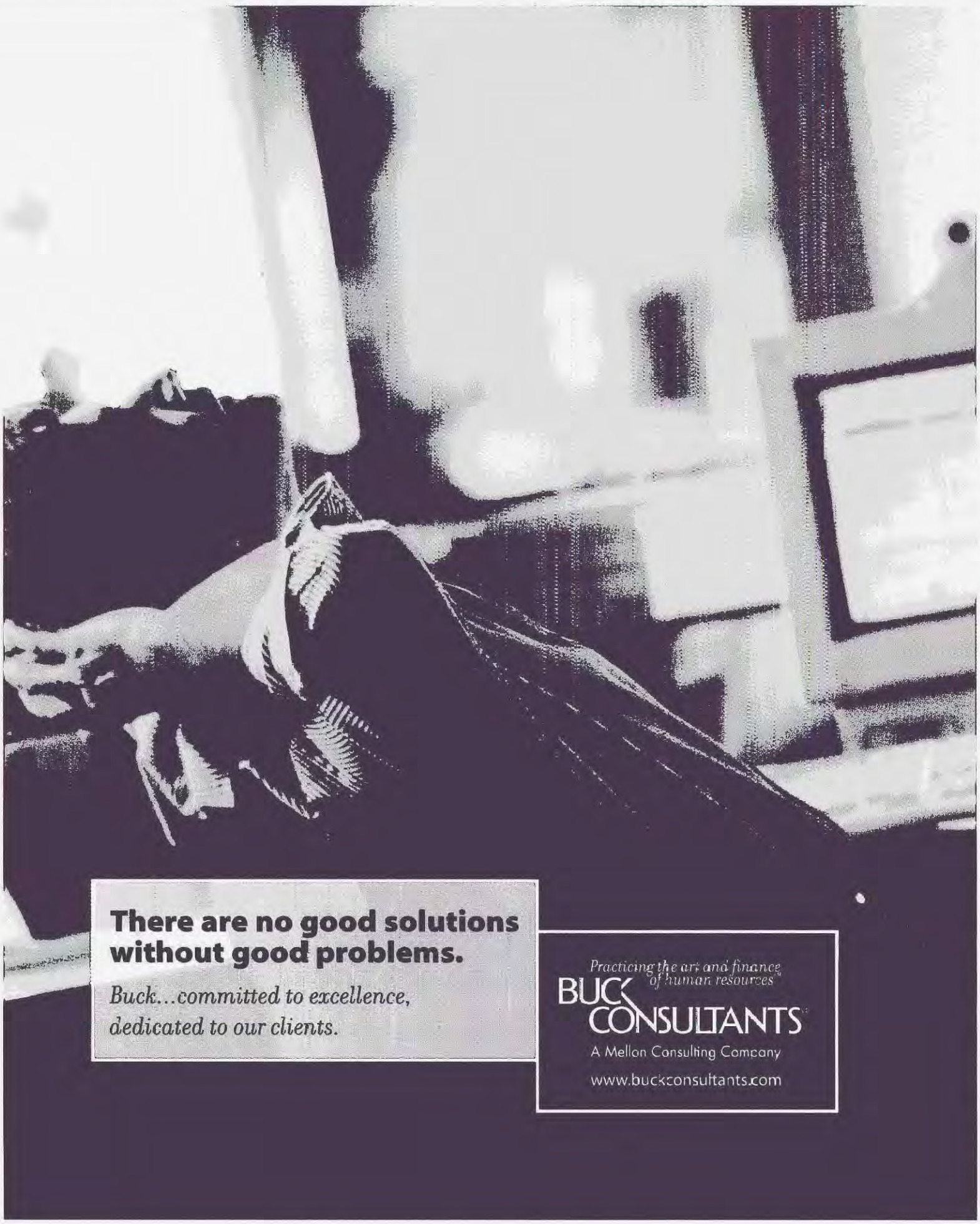
Then came posters. All the company's locations received posters reminding employees to enroll in benefits and announcing an on-site benefits and enrollment meeting.

The company also sent follow-up reminders to employees as enrollment deadlines neared.

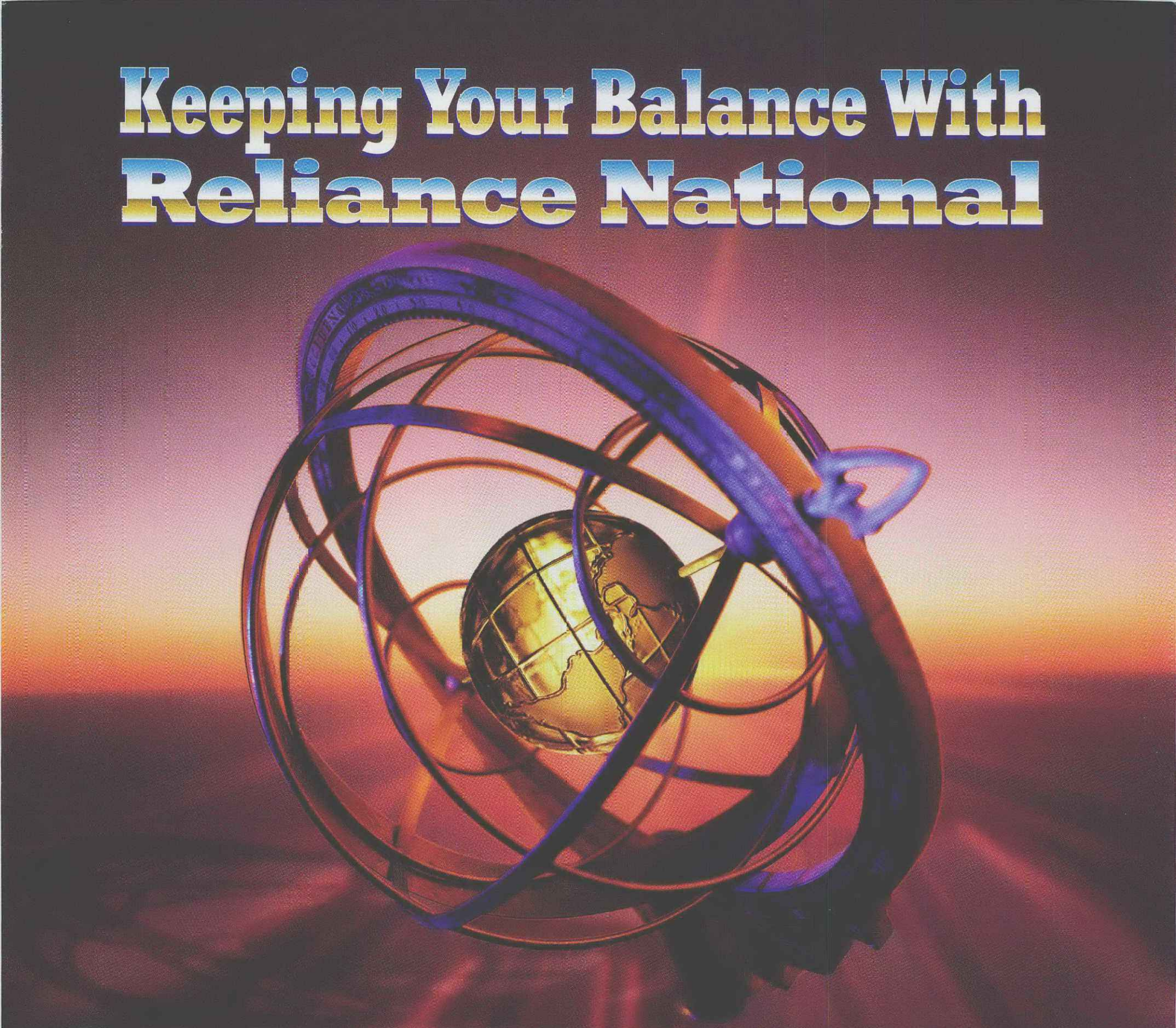
The comprehensive effort paid off. Mr. Edwards said that the number of questions the benefits department receives has declined. In addition, the questions are more specific, indicating that employees have read and generally have understood the benefits guide.

Employee response has so pleased the company that the program will soon include video tapes and a benefits guide on the company's intranet.

—By Michael Prince



Keeping Your Balance With Reliance National



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Opinions

Bid aloha to risk group fees

WE WELCOME the Hawaii Insurance Division's reconsideration of its earlier decision to impose a new fee on risk retention and risk purchasing groups.

We hope the state, upon review, will agree that its fee does not apply to the groups and eliminate its imposition on them. That action not only will restore the confidence of alternative risk financing groups in the state but also may send a signal to other states that have been attempting to charge the groups similar fees.

As we report in this week's issue, the Insurance Division has pledged a prompt review to determine if, as buyer groups argue, the state's fees are pre-empted by the federal Risk Retention Act. The fees were intended to support a new insurance regulation fund (*BI*, Nov. 8).

We are not surprised that Hawaii insurance regulators have responded so quickly to the objections that RRG and purchasing group advocates have raised to the $406 fee. We hope they ultimately will agree with the advocates' arguments.

Ever since Hawaii passed its own captive statute in 1987, Hawaii regulators have worked hard to develop the state's image as a leader in the alternative risk financing market. Their success is illustrated by the fact that Hawaii is home to more than 50 captives, making the state the second-largest domestic domicile.

Not following the rules laid down by the federal law that created RRGs and purchasing groups would certainly tarnish Hawaii's image in the alternative market.

As to what those rules are, we think there is no ambiguity. In passing the Risk Retention Act, Congress wanted to give to commercial buyers alternatives that would be easy to establish and low in cost compared with the traditional market.

To achieve those goals, Congress mandated that a risk retention group, after meeting the licensing requirements of one state, could provide policies to group members nationwide. An RRG does not have to meet requirements imposed by other states, except for those, set by federal law, such as the payment of applicable premium taxes.

In the case of purchasing groups, organizations of buyers that have come together to purchase coverage on a group basis from commercial insurers, Congress made clear that any state law or rule that discriminates against such groups is pre-empted by the federal law.

It seems obvious to us that an assessment such as Hawaii's, which is imposed on purchasing groups but not on other insurance buyers, is discriminatory. It thus is pre-empted.

Putting aside the issue of federal pre-emption, a strict but fair reading of the Hawaii law establishing the fee for the new regulation fund suggests that the statute has no applicability to purchasing groups.

The statute gives the Insurance Division the authority to impose the fee on entities it regulates. But, simply put, purchasing groups are buyers—not sellers—of insurance. And because they engage in no activities that require regulation, they should not be charged the fee.

We're confident that, after it completes its analysis, Hawaii will reverse its earlier decision and not require RRGs and purchasing groups to pay the $406 fee.

We hope that sends a message to other states that have been imposing on the groups a variety of fees that we also believe to be illegal. It would be good to see those states undertake their own reviews and rescind fees they now charge the groups.

That, most likely, would reduce the possibility of congressional intervention, a prospect, we're sure, that state insurance regulators would not welcome.

Letters

Settlements overlooked as comp tool

To the editor: Your Oct. 18 Workers Compensation Spotlight report was a helpful overview for employers and insurers looking to lower workers compensation costs.

However, there was one key oversight—nowhere do you mention the new cost savings available through the use of structured settlements.

Two years ago, Congress passed and President Clinton signed legislation designed to make it easier for employers and insurers to use structured settlements to resolve workers compensation cases.

That bill, which had strong bipartisan support, revised Section 130 of the Internal Revenue Code to allow employers to assign the whole amount of a workers compensation annuity to a third party. This makes it easier and faster for employers to take the workers compensation case off his books.

This change in the federal tax code came about because legislators saw the "win-win" aspect of structures—they protect the long-term financial security of injury victims while also offering employers another option to settle a case.

As more workers compensation cases move to settlement under this new law, you can expect to see structured settlements have an increased role in settling these cases.

Randy Dyer
Executive Director
National Structured Settlements Trade Assn.
Washington

Letters to the Editor

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USEC booklet on ESOP gets share of success

By JOANNE WOJCIK KOCHANIEC

BETHESDA, Md.—When USEC Inc. launched its employee stock ownership plan in March 1999, it faced a unique challenge: teaching former government employees about investing in their own employer.

Bethesda-based USEC, formerly a government agency, is involved in uranium enrichment, which entails transforming uranium from wartime to peacetime use. The company was privatized in July 1998, and all of the shares formerly held by the U.S. Department of Energy were made available in an initial public offering in January 1999. The ESOP was launched two months later.

"This is a former government agency, and these are government employees," explained Suzanne Samuelson, a principal in the Washington office of William M. Mercer Inc. "So we had to go through an education process to help the employees understand how stock works, because many of them never worked for an organization that offered stock," she said.

Mercer, which already was under contract to provide consulting services to USEC's human resources department, was also hired to assemble the communications program for the ESOP.

Ms. Samuelson and her staff worked with Charles Yulish, USEC's vp of corporate communications, to develop a booklet that would best characterize the organization's transition from government agency to publicly traded company.

Publishing the colorful 18-page booklet titled "Stock Up" also presented a challenge when the company added 4,000 employees—literally overnight.

Up until May 1999, USEC employed just 160 people to manage several uranium enrichment facilities formerly owned by the federal government. Another 4,000 employees of Lockheed Martin Corp. operated the facilities, Mr. Yulish explained.

But USEC's management decided it should operate as well as manage the facilities, so the employees were transferred from the Lockheed Martin payroll to USEC's.

"In just one day, we went from 160 employees to 4,160 employees," Mr. Yulish said.

To accommodate the influx of new employees, two press runs of the booklet were required: the first one in March for the 160 employees the company had at the time it went public, and another in May when the Lockheed Martin employees were added.

Despite the challenges, USEC's $55,000 investment in a booklet introducing the new "Stock Up" program paid off handsomely. While just 30% of employees usually buy stock when an ESOP is launched, twice that invested in USEC's stock, according to Ms. Samuelson.

"We ended up with 60%, which was just phenomenal," she said.

The booklet also won Best of Show in the single-subject booklet category of the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

Mr. Yulish said the booklet's title, "Stock Up," helped generate interest among employees because "it was catchy enough to create brand recognition so that everyone could talk to each other about it right way."

He said he overheard employees saying to each other, "Are you going to stock up?" which, he said, "is a lot easier to say than, 'Are you going to join the employee stock ownership plan?' "

Ms. Samuelson said a group of Mercer communications consultants held a brainstorming session to come up with the title.

The booklet also features the theme "A New Beginning," reflecting USEC's new status as a publicly held organization, she noted.

On the first inside page, USEC President and Chief Executive Officer William H. Timbers Jr. invited employees to become owners of the new company.

"My vision for USEC includes having every employee become an owner, committed to the continuing success of the company and creating shareholder value for themselves and others," he says in his introduction.

The words "vision," "committed," "success," "creating" and "value" are printed in oversized type of varying fonts to emphasize for employees what stock ownership is all about.

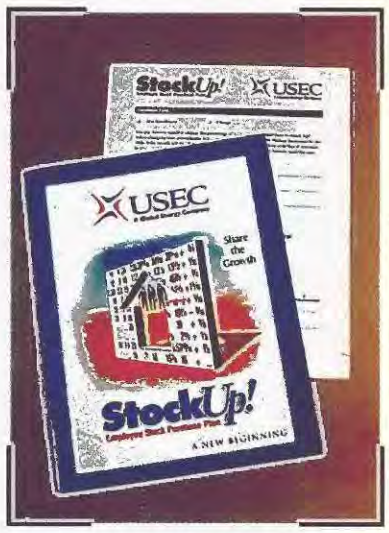
The booklet also has an easy-to-follow table of contents covering everything from how to buy USEC stock to tax issues and what an employee should do when leaving the company.

The booklet also has information on several company incentives designed to make investing even more attractive, Mr. Yulish pointed out.

Employees could buy stock at a 15% discount, their brokerage fees were paid by the company, they could buy stock through payroll deductions, and they could choose to include company stock in their 401(k) investment portfolios, he explained.

The booklet was sent to employees' homes so that their spouses and families could also learn of the ESOP offering, he added.

The booklet's message was further reinforced by posters and several on-site "clinics" at which employees could ask questions of personnel from human resources and financial services, Mr. Yulish said. BI



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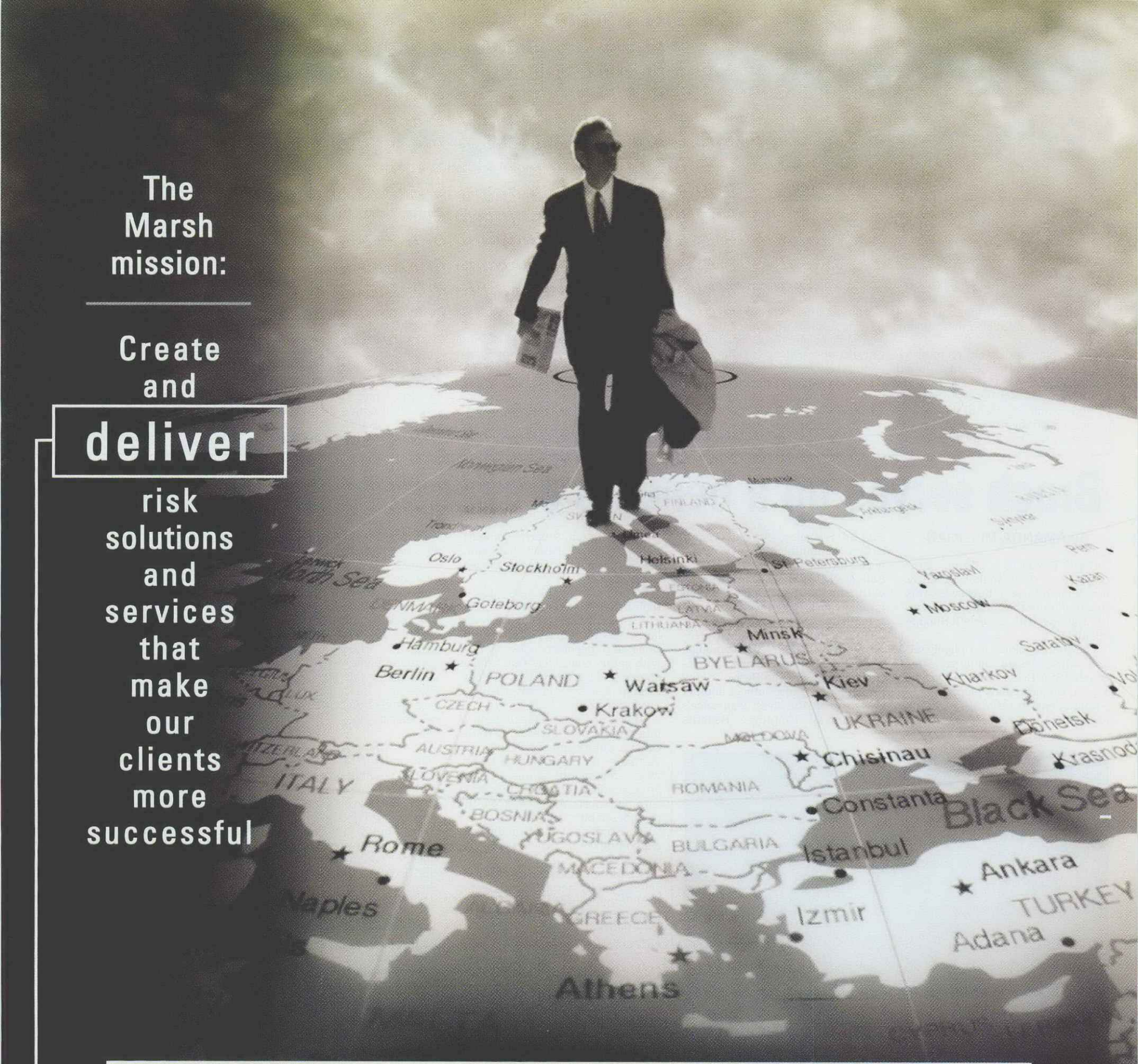

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Employee Benefits Communication Awards

Reliant Energy guide leads charge to retirement savings

An acquisition and a changing benefits program have led Reliant Energy Inc. to develop a simple yet comprehensive enrollment guide for its employee retirement savings plan.

The Houston-based utility company's FutureSave program "is an expansion of an existing plan," said Diana Nunley-Aydelott, manager of qualified plans at Reliant. "The program has evolved over many, many years."

The plan underwent its most recent changes after Reliant acquired NorAm Energy Corp., a Houston utility, in August 1997. The acquisition meant a merger of the companies' benefit plans and Reliant needed a concise way to explain its retirement savings plan and sign up employees who chose to participate.

Working with consulting firm William M. Mercer Inc. in Dallas, Reliant developed a brightly colored enrollment kit that would guide workers through the sign-up process and deliver clear information on contributions, withdrawals and other facets of the savings plan.

The result is an information and enrollment guide that has won an award of excellence in the single-subject booklet category of the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

The development of the program for Reliant's 16,000 employees in four locations cost $130,000.

The communications program consists of an introductory letter with a PIN for employees to access personal information and a 20-page brochure that offers Reliant employees easy-to-follow steps for enrolling and making contributions or withdrawals in the FutureSave plan.

Reliant began mailing the material to employees in April.

The brochure explains that employees can access the program through the Savings Instant Response Line, a toll-free call to enroll or complete transactions. Account balances, loans, withdrawals, investing in mutual funds and other functions are available through the telephone system.

The brochure explains that employees can contribute from 1% to 16% of pay to their accounts on a pretax or aftertax basis. Reliant matches 75% of the workers' contributions and may make additional contributions based on company performance.

The brochure has a section that educates employees on some of the basics of investing. Typical investor profiles are presented and employees are given direction on which mutual funds best suit their own appetites for risk. A page defines investment terms that employees are likely to encounter as they consider ways to invest their savings in the program.

The back of the guide explains how accounts are payable and the requirements for receiving distributions and paying outstanding loan balances.

A pocket on the inside back cover contains a form that can be used to roll over accounts from a former employer into Reliant's savings plan. There also is a beneficiary designation form in the pocket.

Employees' reactions to the revamped FutureSave plan have been mixed, Ms. Nunley-Aydelott said.

"Anytime you have an acquisition, there's going to be some resistance to change. But overall, they have been more positive than negative."

—By Michael Bradford

Brach serves up a benefits confection

By AMANDA MILLIGAN

CHATTANOOGA, Tenn.—Employees of candy maker Brach & Brock got a taste of how sweet it is to understand the company's benefit programs with its Benefit Shoppe booklet.

The guide booklet uses a lively red and white design modeled after Brach's Star Brites mints, as well as several cartoon candy characters to explain benefits offerings in an entertaining and readable manner, said Bill Sweeney, a vp and organization communication consultant with Aon Consulting in Winston-Salem, N.C. Mr. Sweeney worked with Brach & Brock and a design group to develop the booklet.

Its thematic concept paired with its utility in presenting benefits information helped Chattanooga, Tenn.-based Brach & Brock Confections Inc. to win the Best of Show award in the multi-subject booklet category of *Business Insurance*'s 27th annual Employee Benefits Communication Awards competition. Brach & Brock has since changed its name to Brach's Confections Inc.

To promote employees' use of their benefit booklets, Mr. Sweeney said Brach's went beyond the dry language of summary plan descriptions and decorated the booklet with candy characters that appear on many of the company's communication pieces—from advertising to business cards.

"It was just a natural extension to take them out of advertising to the general public and use them in advertising to employees," though with a few modifications, he said. For example, the cartoon Milk Maid caramel sports sunglasses on the page describing vacation time, and a Star Brites mint found on the page explaining dental benefits is clad in braces.

"Employees liked the candy characters," said Valerie Gifford, senior benefit analyst for Brach's Confections in Chattanooga. The booklet was distributed in mid-April to all non-union, active employees. She added that employees "seemed pleased" with the booklets.

Beyond designing a booklet that was a visual treat, one of the greatest challenges facing those working on the Brach's project was coordinating regional plan information and making it easy to digest, said Mr. Sweeney.

Because many of the employees' options depend on plan offerings at each regional office, Brach's and its consulting team decided to compile site-specific plan details that would eliminate the need to create a new benefit booklet for every branch office. Common benefit sections, Mr. Sweeney said, had three types of special features.

The first is "Quick Tip," a shaded box that provides employees with things to remember or consider when preparing for enrollment. A heading titled "Shoppe Talk" informs employees where in the company they should seek assistance if a question cannot be answered using the booklet. Finally, "Enrollment Steps" details exactly what must be done to select benefits.

"Putting this book out made it easier for the average employee to know the key feature about their benefits and take appropriate steps at enrollment," said Mr. Sweeney. "If someone moved from one area to another, they wouldn't have to get a separate package of what's available."

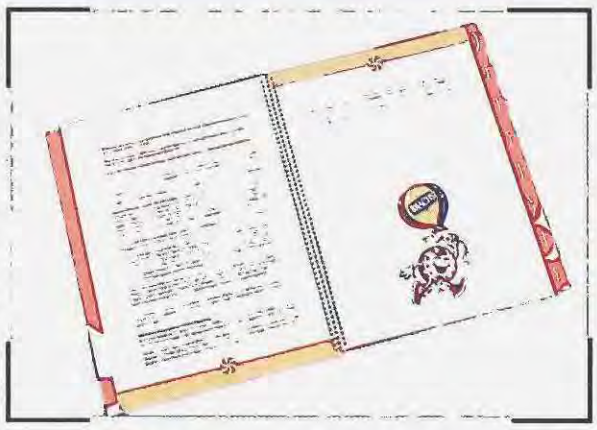
Before the booklet was distributed, there was some confusion among employees about which plans they could elect, said Ms. Gifford. "We would have people enroll for a plan that they weren't eligible for," she said. That problem "doesn't happen now, because (employees) can see what they are eligible for."

The booklet, which is divided into tabbed sections, also is tied together with Brach's online benefits enrollment Web site.

"It felt complete in that it wasn't just a well-designed piece," said Mr. Sweeney.

From the wire binding that made it easy to turn to the candy characters, "everything added value along the way. In addition to being good, it became fun," he said, noting that the booklet has "the cutest little characters this side of the Mississippi."

Ms. Gifford said the candy maker hopes to use these booklets for at least two years. Information that could change from year to year, such as plan premiums, was deliberately omitted from the booklet's language, she said. BI



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Xerox newsletter an original

NEWSLETTER

By MICHAEL PRINCE

STAMFORD, Conn.—Eggs, pigs and horses. They're the keys to an award-winning benefits newsletter.

While it's easy to imagine that Xerox Corp. would simply copy its format from other corporate communications, the company instead turned to eggs, pigs and horses for its benefits information.

No, Xerox did not send its employees to a farm to learn about its retirement plans. Nor did animal mascots roam the halls at the company's Stamford, Conn., headquarters spouting wisdom about investing. Instead, pictures of eggs, pigs and horses play roles in the company's newsletter, which is designed to educate employees on how to make wise decisions when investing for retirement.

Apparently the barnyard touch has worked, as Xerox Corp. scored a victory as Best of Show in the newsletter category of the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

A golden egg in a nest shines atop each colorful quarterly one-page newsletter sent to employees. The egg, of course, represents the goal of retirement, the golden nest egg.

The newsletters, titled "Investing for Your Future," aim to educate Xerox employees about the company's retirement plan and to provide sound tips for developing a long-term strategy for retirement savings. That's where the pigs come in, to encourage em-

See **Xerox** *on page 16*

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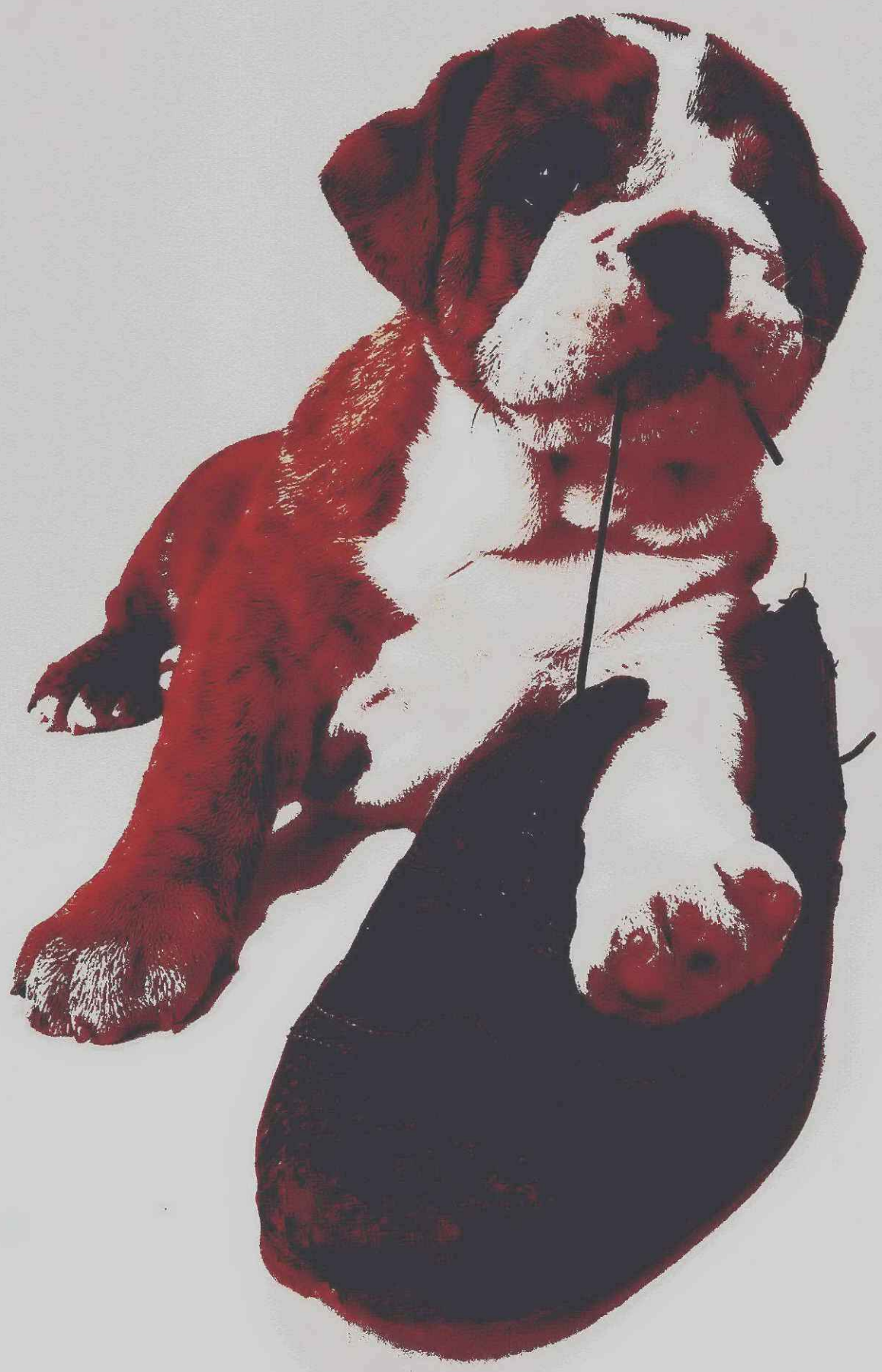

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Employee Benefits Communication Awards

Xerox

Continued from page 12

ployees to put money into their retirement piggy banks.

"We designed this so it's different, to stand out," said MaDoe Htun, principal, trust investment for Xerox. Ms. Htun oversaw the design and production of the project, which Xerox conducted without the help of consultants.

"The whole object is to not look like the other communications within the company," she said.

Enter the horses.

In a chart comparing returns over the past 25 years for U.S. stocks, bonds and international stocks, galloping horses indicate the number of years each type of investment has scored best. U.S. stocks and international stocks tied overall with nine horses each.

In addition to supplying general information on investments, the newsletter notifies Xerox employees of changes with the company's retirement plans. The newsletter's goal "is to keep employees informed of what's going on," she said.

One major change occurred in 1998 when the company added a number of investment choices, while also starting a daily valuation of each fund that allowed employees to move their money between the investment options each day.

Although such moves are desired by employees and have become common with 401(k) plans, they can create problems. Jumping between funds runs counter to the sound investment strategy of buy and hold for the long term, especially when it comes to retirement accounts. To help prevent employees from trading unwisely, the newsletters were used to educate employees about investment strategy.

> *'It's hard not to give advice' on the funds in which employees should invest. 'Everyone wants the cure.'*
> — MaDoe Htun

The newsletters, though, must avoid offering investment advice. Providing such advice—rather than educational information—can create liabilities for employers. As a result, Xerox's newsletter must walk a fine line between the two, while also keeping to its message that employees should be thinking about their long-term investing goals.

To avoid crossing that line, the newsletter provides information on the different types of funds and their past performances, but does not indicate the funds in which employees *should* invest.

"It's hard not to give advice," Ms. Htun said. "Everyone wants the cure."

The newsletter also had to explain the new investment funds. The funds were divided into three groups, each graphically represented by a pod on a vine. Within each pod, a bean represents an individual investment fund.

The first pod—broad strategy funds—has three beans. Each represents a fund that mixes stocks and bonds, either evenly split, tilted more toward stocks or more toward bonds.

The next pod contains six focused funds. These funds, created by Xerox and run by investment advisers, invest in a specific area, such as U.S. stocks, small stocks or Xerox stock.

The third pod, called "the marketplace window," allows employees to invest in 50 mutual funds offered by several companies.

Using images of pods and beans achieves two of the newsletters' goals: They help explain to employees the similarities and differences among the funds offered, eliminating some of the mystery of investing, and they do so in a way that's easy to read and understand.

The pods also illustrate the underlying design of the newsletter, Ms. Htun said. A reader can either skim the newsletter and glean quick points, or read the articles and obtain more detailed information.

Although no surveys have been conducted, Ms. Htun said that the message of long-term investing has taken hold, and employees have not moved their money searching for the latest hot fund.

"We do feel that it's working, that people are learning to stay put," she said.

The new funds have also been well received. To date, over $300 million has been invested in the 53 new funds, of a total $2.6 billion in all the funds.

Each newsletter also publishes the investment results of the various savings plans.

Ms. Htun puts the newsletters on the company's intranet, along with an archive of previous newsletters. Although using the Web saves production costs, the company still plans to put out a hard copy of the newsletter, as not all employees have easy access to the Web site. BI

SAFECO integrates new and old

SEATTLE—When SAFECO Corp. acquired Indianapolis-based American States Financial Corp. in 1997, benefit managers faced the daunting tasks that follow the merger of two companies with broad and different benefits packages.

Both employers had established corporate cultures, and each company's benefit offerings were tied to its identity, said Lori Gleichman, SAFECO's assistant vp of public relations and manager of corporate communications in Seattle.

But changes had to be made to facilitate the integration. The goal was to develop a new benefits package that is flexible, cost-effective, manageable and that meets employee needs, while also honoring both organizations' corporate cultures, Ms. Gleichman said.

The new health and welfare and retirement offerings also had to be communicated to employees in a way that would be easy for them to understand, she said.

To accomplish this mission, benefits and communications managers first surveyed employees to find out both how they prefer to receive information and what information is most important to them, Ms. Gleichman said. In addition, consultant William M. Mercer Inc. was hired to help develop communications materials. The materials were created based on what employees said they want, she said.

The result was a series of four bulletins, distributed between August and October 1998, titled "Choices." The four topics were: health and group benefits; the new savings and retirement plan; time-off benefits, including sick leave and disability; the company's flex plan and the open enrollment process.

"It was almost a year-long process building the program before we even began to introduce the materials," Ms. Gleichman said. "So the materials very much reflect and honor what we heard from our employees. The name, Choices, was to reflect the flexibility that they wanted to choose what is important to them."

Because there were so many changes for employees to digest, SAFECO and Mercer wanted to create appealing newsletters that presented information in small chunks, said Catherine Gonchar, communications consultant for Mercer in Seattle. With that in mind, the newsletters were designed with a liberal dose of white space, and information was presented in sections and charts to make plan comparisons easier.

A 150-page handbook with comprehensive information followed the newsletters. For its efforts in successfully communicating its benefits changes to 13,000 employees spread across the country, SAFECO won an award of excellence in the benefits newsletter category of the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

Despite some initial mistrust from employees, the communications effort has proved a success, Ms. Gleichman said. Open enrollment went smoothly, and managers have been asked very few questions about how the new offerings work.

SAFECO's strategy was to be "up front" in letting employees know that significant changes were necessary, she said. The company also sought to explain that its new benefits offerings are merely different—not diminished—compared to the old ones. In some cases, employees were given even more choices under the new plan than they had in the past, Ms. Gleichman said.

—By Roberto Ceniceros

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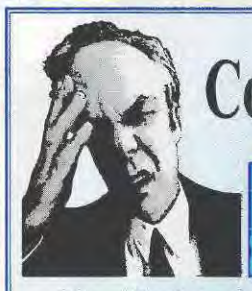

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Employee Benefits Communication Awards

WORLDSPAN retirement plans working

By SALLY ROBERTS

ATLANTA—Like other technology companies that face a tough labor market, WORLDSPAN is concerned about attracting and retaining the best employees.

One of the ways the Atlanta-based travel information systems provider has limited turnover over the years is through its benefit offerings, according to Patricia Dion, senior administrator-employee benefits for WORLDSPAN. This notion was reinforced for the company after it conducted several focus groups, surveys and interviews in 1997 regarding its retirement plan.

"We found that our employees really liked the plan," Ms. Dion said. But, she said, they didn't fully understand or appreciate it.

To correct this, WORLDSPAN teamed up with Aon Consulting's Benefacts Service, the benefit consultant's personalized communication unit, to provide each of WORLDSPAN's 2,700 U.S.-based employees with a personalized retirement statement. The statement, mailed to each employee's home, detailed his or her current savings pattern, based on the company's 401(k) plan and indicated whether he or she was on target to retire with sufficient savings. It also took into account the company's traditional pension plan and Social Security.

Depending on whether the employee's savings were on target for retirement, the personalized statements carried different messages.

For example, a statement for an employee projected to fall short of the target would remind that individual that inflation will be just as much a factor during retirement as it is today. On the other hand, a statement sent to an individual thought to be on target would inform that person that, based on all the calculations, he or she may not need to change savings strategies.

In addition to giving an employee information about the adequacy of his or her savings approach, the statement also provides options to help with his or her savings planning.

For example, a graphic provided for an individual who is not on target shows the difference in savings that would result from a change in his or her 401(k) plan contribution level. The graphic also details the savings difference between investing earnings in conservative funds and more-aggressive funds.

Because the only savings plan the personalized statement takes into account is WORLDSPAN's, the company also included a planning worksheet that allows employees who have other sources of income to factor them in when calculating whether they will meet their retirement savings needs.

At the end of the statement, WORLDSPAN also included a list of the individual's pension plan benefits, his or her current benefit elections and his or her total compensation, which includes the amount WORLDSPAN contributes to the individual's benefits.

WORLDSPAN's retirement planning statement, which cost approximately $60,000 to produce, won best of show in the personalized correspondence category of the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

Kristin Peacock, project manager for Aon Consulting's Benefacts Service, noted that, in addition to the challenge of calculating projected pension and Social Security benefits for each individual, communicating to WORLDSPAN's diverse workforce also posed certain challenges.

WORLDSPAN's workforce, which includes technical support, customer service representatives and marketing representatives, varies greatly by education level and by age, she said. One of the goals of the effort, Ms. Peacock said, was to make the retirement statement easy for everyone to read and understand.

The 12-page booklet, printed in the WORLDSPAN company colors of red and blue, uses both white space and large, bold type.

Because planning for retirement is so complex, "it was a challenge breaking it all down and just giving them the bottom line," Ms. Dion noted.

"We wanted to give them the information they needed without bogging them down with a lot of detail," she said.

The large question marks found throughout the booklet represent the underlying theme of the campaign, which had sought to answer four questions: How much do I need? How much will I have? Am I on target? What can I do?, Ms. Peacock explained.

The retirement planning statement was a success, Ms. Dion said. Employees' appreciation for WORLDSPAN's total compensation plans increased to 51% from 43%, according to a survey conducted before and after the communications campaign, she said.

"I really attribute that to employees better understanding and appreciating their benefit package," Ms. Dion said.

PERSONALIZED CORRESPONDENCE

In addition, at the end of the project, Aon conducted a diagnostic report to show WORLDSPAN where its employees were in regard to their retirement savings, Ms. Peacock said. The report found that 57% of the employees would be able to retire at the age of 62 with adequate income. And for those employees not on target, the average shortfall needed to retire at 62 was $85,000, which "is not a huge amount," Ms. Peacock said.

"This reinforced to WORLDSPAN and its employees that it does have a solid retirement plan in place," she said. BI

Edison exec package paying off

ROSEMEAD, Calif.—A comprehensive compensation and benefits portfolio not only gave Edison International executives a more-accurate view of their total compensation but it provides, in itself, an added benefit.

In detailing each component of executives' total compensation, Edison's "Your Executive Portfolio, Summary of Your 1998 Total Compensation" packages helped clarify the link between company performance and individual executives' potential rewards, and they served as an executive retention tool for the company.

What's more, by combining all plan documents in one complete package accompanied by a personalized summary compensation statement, Rosemead, Calif.-based Edison International gave its 125 executives a valuable financial planning tool.

The package, created with Hewitt Associates L.L.C., earned Edison International an award of excellence in the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

"Of our two main purposes, one was as a benefit to provide the executives with a financial planning and estate planning tool," said Margo Koss, manager of executive compensation at Edison International.

"The second main purpose for the statement was as a retention tool," she said. "To let the executives see how much they are being compensated."

"Edison came to us and wanted us to help with the executive communications, because they were unsure if the executives were understanding their compensation and the potential rewards for positive results," said Julie Pegg, a Hewitt communication consultant in Newport Beach, Calif., who worked with Edison on the package.

By all indications, the package is working on both counts.

"The feedback we've gotten from the executives has been that they're absolutely delighted," Ms. Koss said. "And what the planners are doing now is asking us, 'Is this year's statement out yet?' We hear from the financial planners that they find it really useful."

As for the package's efficacy in retaining key executives, Ms. Koss noted, "I had three different executives tell me that they were thinking about early retirement but, in looking at how their benefits would appreciate, they decided to stay."

Work on the project, which cost $285,000, began with an initial planning meeting in November 1997, with the statements distributed in August 1998.

Now Edison International, the parent company of Southern California Edison and other energy and energy-related companies with a total of 18,000 employees at 67 locations, is wrapping up the second edition of the executive compensation package.

The format is the same as the initial package, with "a few minor tweaks" based on feedback from Edison executives, according to Ms. Pegg.

"The template worked so well the first year that we didn't have to develop a new template the second year," Ms. Koss said. "It was kind of a slam-dunk."

"A number of executives have said this is the best thing they've ever gotten at Edison," according to Ms. Koss. "We've gotten really glowing feedback about it."

—By Rodd Zolkos

OUR TEAM

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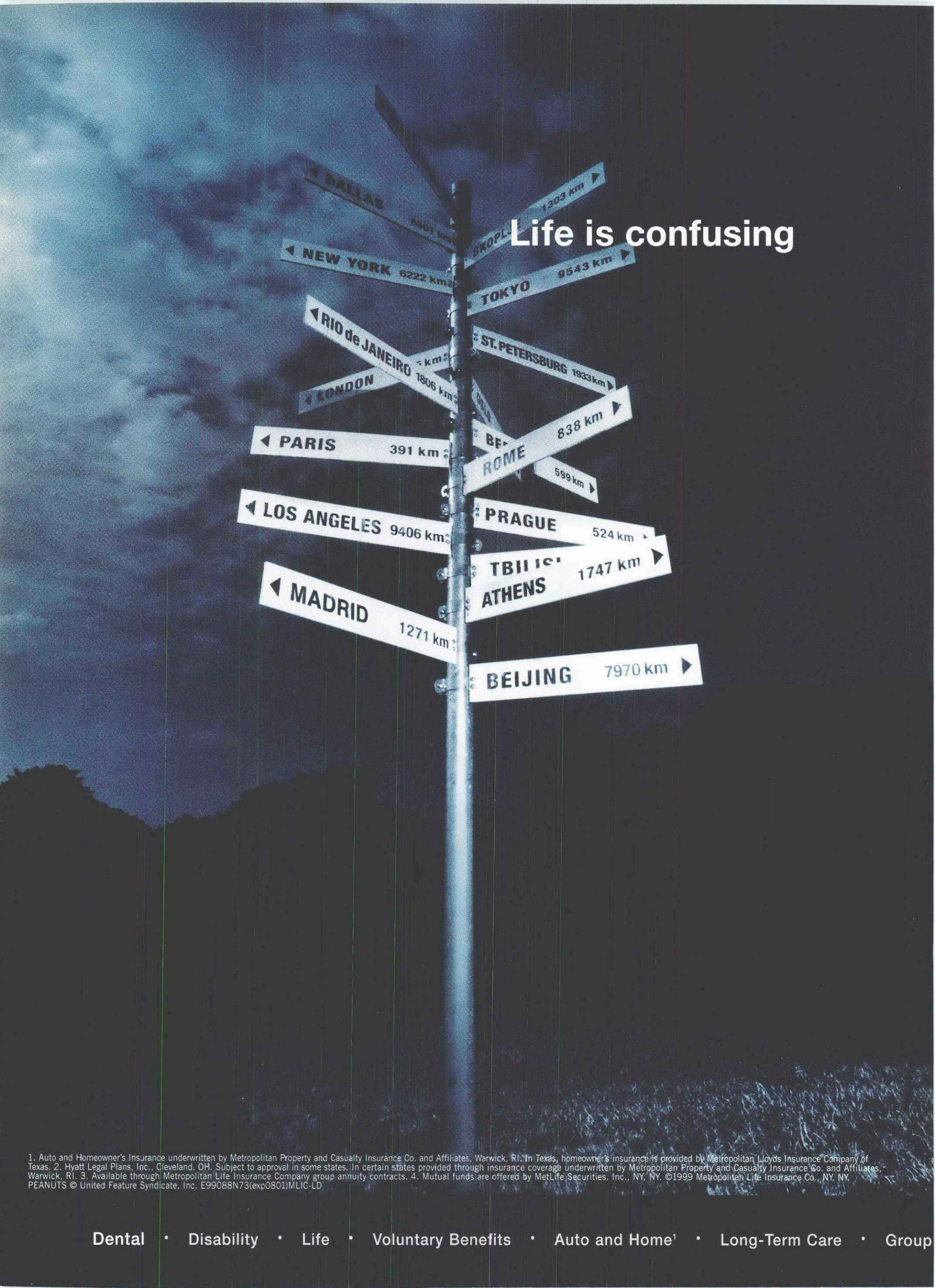

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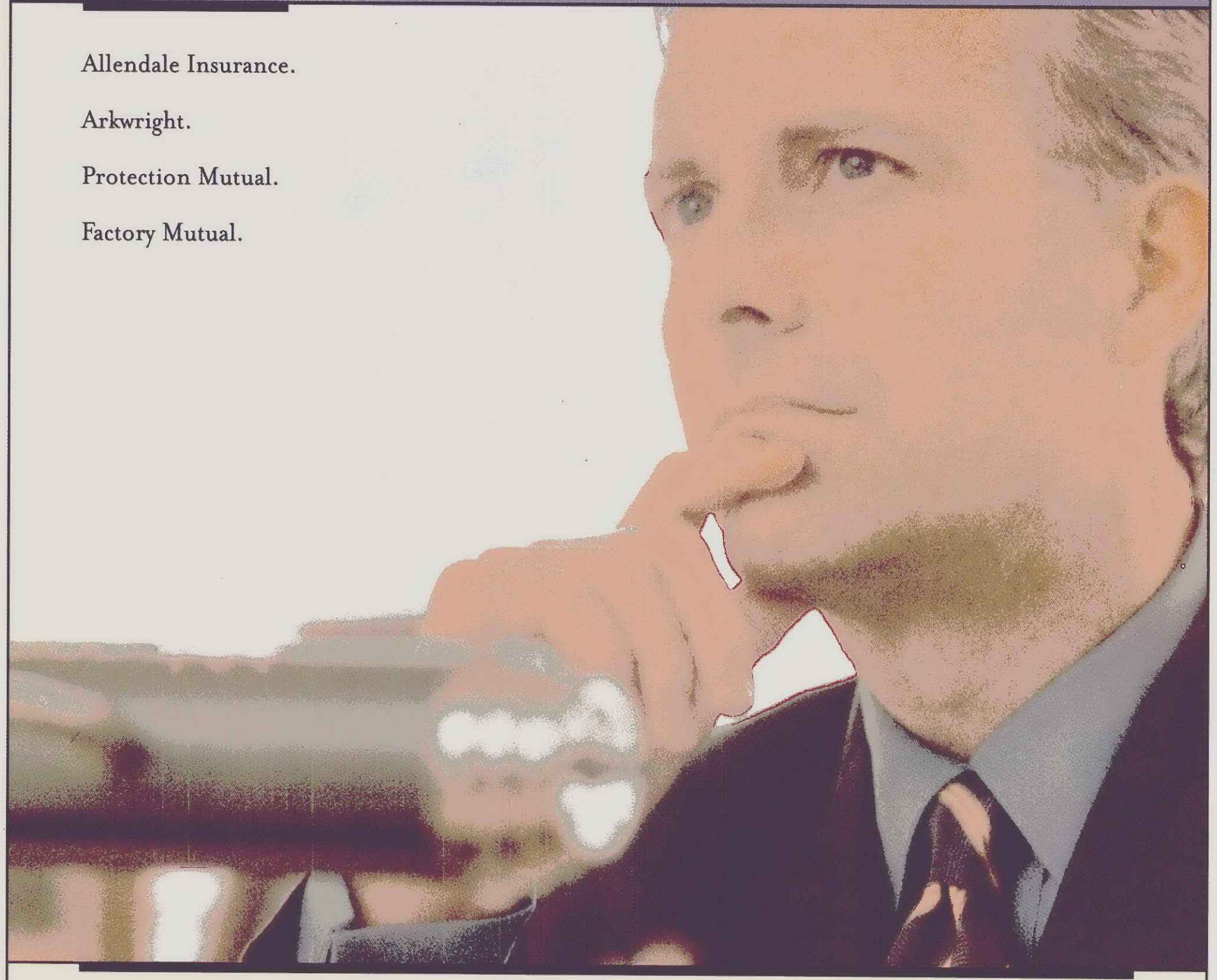

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GLOBAL FOCUS

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

Expanding European companies getting help on loss control
Page G2

Construction safety standards remain underdeveloped in India
Page G4

Fall of Berlin Wall sparked a boom in building projects, but risk control slow to grow
Page G6

GLOBAL FOCUS

German expansion a catalyst for risk management

Brokers, insurers find more opportunities to mitigate loss for a growing client list

By DON LEWIS KIRK

The rapid expansion of German companies' operations throughout Europe, as well as into Asia and Latin America, is putting a new emphasis on risk management and loss control.

Such corporate growth also is testing the ability of brokers and insurers to help mitigate losses for their commercial clients.

Insurers such as Haftpflichtverband der Deutschen Industrie VvaG, Gerling Group, Allianz A.G., Assicurazioni Generali S.p.A. and U.S.-based Factory Mutual Insurance Co. offer safety and loss control services to their clients, which include inspection of plant operations and modeling of potential risk. Industrial policyholders in Europe say they appreciate these kinds of services.

"Expansion takes many by surprise," admits Andreas Pflugrat, chief engineer of Hannover, Germany-based Hannover Sicherheits Technik, a risk engineering subsidiary of the German industrial insurer HDI.

"What starts as a small assembly plant expands to a new factory, a new section is added, and new materials are used. Before you know it, you have a huge risk that no one anticipated," Mr. Pflugrat said.

Just such a case led to a fire in 1995 at the Suedbadische Gummiwerke, a rubber factory in Donaueschingen, Germany. The blaze, which interrupted business production for nine months, caused losses totaling 20 million deutsche marks ($10.6 million at the current exchange rate). A defective thermostat in the manufacturing equipment allowed machinery to overheat and catch fire, which quickly ignited flammable substances.

To minimize the risk of a recurrence, HDI assessed the factory's risk by evaluating the organization, its technical standards and safety precautions. Based on HDI's findings, the company built new firewalls between production and storage areas and installed sprinklers. The fire department is automatically informed once a sprinkler activates. A new ventilation system was also installed.

> *'What starts as a small assembly plant expands to a new factory, a new section is added, and new materials are used. Before you know it, you have a huge risk that no one anticipated.'*
>
> — Andreas Pflugrat

Last year, a similar fire occurred—after the failure of a backup temperature regulator suggested by HDI—but damage was limited to 100,000 deutsche marks ($50,300).

"Some companies just have to live with high risk," said Mr. Pflugrat. "A metal lathe can heat up quickly, creating sparks that ignite cooling oil. Once you recognize the risk, you apply the technology that controls the fire should it occur," he said.

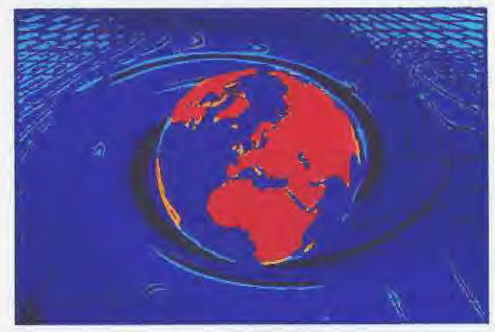
For example, a well-placed carbon dioxide fire extinguisher can help workers quickly put out such a fire before it escalates into a major blaze, Mr. Pflugrat suggested.

HDI employs 27 loss control engineers in Germany and 38 worldwide, who inspect more than 3,000 companies every year. About half of the insurer's loss control consulting is performed as part of underwriting industrial risks. The other half is pure service to aid loss prevention, Mr. Pflugrat said.

"Our company was founded as a loss prevention company. We are dedicated to servicing industrial clients first," said Mr. Pflugrat.

The most important factor in risk management is experience, he said. "If we are very lucky, we get in on the planning of a new factory," Mr. Pflugrat said. In one case, HDI persuaded a factory owner to install a sprinkler system in a production area where there were none. That precaution prevented a costly loss, Mr. Pflugrat pointed out.

"A short circuit in a battery-powered sweeper caused a fire that I'm sure would



have caused damage in excess of 30 million deutsche marks ($15.8 million). Thanks to the sprinklers, it was 150,000 deutsche marks ($79,200)," he said.

Like other major industrial insurers, the global expansion of HDI's clients has broadened the insurer's horizon and made jetsetters of its engineers, who now have permanent offices in locations such as Malaysia, the United States and Brazil.

"We seek cause and effect of property and business interruption losses with the goal of minimizing a company's lost time, should loss occur. Of course, the priority is not to let a loss occur at all," Mr. Pflugrat said.

One way companies can prevent losses from happening is through annual risk analysis. This practice has helped German electronics giant Siemens A.G., a client of Factory Mutual, which does business as FM Global.

"A 1997 fire at one of our foreign factories would have been a major multimillion-dollar loss had we not changed the insulation on a ventilation shaft," explained Reimund Gerer, assistant director-global property insurance at Versicherungsvermittlungs und Vekehrskontor GmbH, Siemens' in-house broker. "We were using a fiber that would have burned. Worse yet, it would have been impossible to extinguish the blaze, because firefighters had such a hard time getting to it."

Mr. Gerer said he firmly believes that FM Global's worldwide experience with factories was the reason the potential danger was eliminated.

"Large risks are examined at least once a year by a team of outside experts and insurance experts, who work over safety guidelines. In many cases, we work with scenarios and model potential so that we can make the right decision about safety and insurance," he said.

Modeling is particularly important in evaluating business interruption potential, he said. "We can judge the effects of our actions better, if they determine tendencies in advance. It is a means to determine what risk we self-insure and what risk we transfer," Mr. Gerer said.

International expansion has raised Siemens' risk management demands. In some countries, like Singapore, national law requires that factories be built using highly protected risk standards. Siemens was able to apply the HPR guidelines it uses elsewhere in the world for its facilities in Singapore, including a catalog of measures to contain losses after an accident.

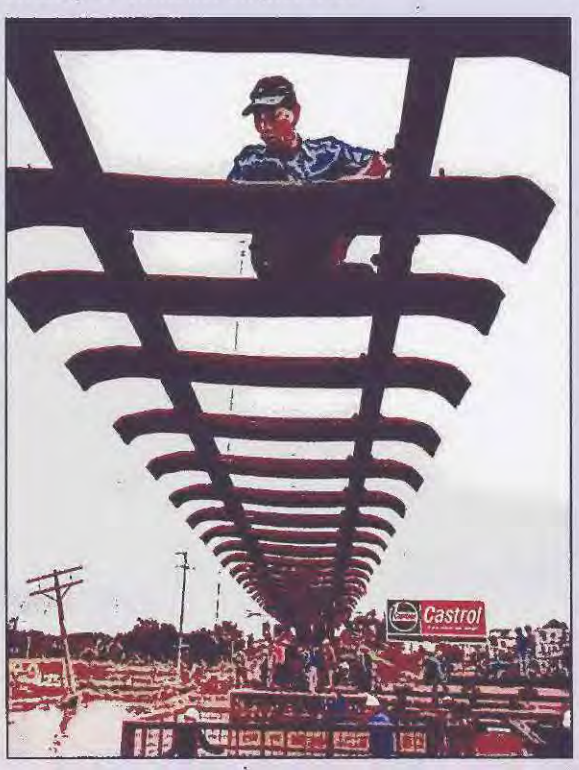
"We have strict guidelines about reporting accidents and first-reaction measures to limit damage and we have worked out all the steps for rapid cleanup," explained Mr. Gerer. "Service companies specialize in techniques that can protect equipment from rust should they get wet. That's es-

See **Loss control** *on page G4*

Recent flooding losses around the world

Unusually severe weather has caused several flood-related catastrophes in late 1999:

- October: A "supercyclone" strikes the eastern India state of Orissa, causing widespread flooding and claiming at least 9,500 lives.
- November: A tropical depression in Southeast Asia causes the worst flooding in a century in central Vietnam. At least 550 people dead, nearly 1 million homeless.
- November: Southwestern France suffers its worst floods in 57 years. Nearly as much rain fell in the region during a 24-hour period as normally occurs in a year.



In central Vietnam, floods washed away this railway's foundations.

Children cross a flooded foot bridge in eastern India.

In southwestern France, flooding turned some roads into chasms.

PHOTOS: AFP

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How do you predict a winning strategy? Until mathematician, John von Neumann and economist, Oskar Morgenstern set their minds to the problem, it was anybody's guess. Chess inspired them to create a new type of mathematics - one that predicted probable outcomes with unpredictable human nature as a variable. The partnering of their individual strengths culminated in the publication of "Theory of Games and Economic Behavior". Game Theory chartered a course that changed the way corporations do business, risk is managed, insurance is provided and investments are made.

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GLOBAL FOCUS

Loss control

Continued from page G2

pecially important with sensitive electronic data-processing equipment."

The German risk management tradition started with insurers, insists Alois Kolvert, director of the Risk Management Division of Cologne-based Gerling. "Gerling insures a wide variety of industrial risks worldwide, which give us valuable data. Local conditions considered, such data allows assessment of good and bad risks," he said.

Loss control isn't limited to physical damage, however. A company's response to a major accident can harm its public reputation, noted a communications officer for Hoechst A.G.

In 1993, a gas explosion at a Griesheim factory owned by the German chemical giant caused losses of 40 million deutsche marks ($21.1 million) to the facility and surrounding area. Far more damaging to Hoechst than the explosion, however, was criticism of the company's poor communications with the public. "We learned from the experience," said Carsten Henschel, Hoechst's communications officer.

Following that loss, Hoechst turned to loss control consultants for advice on improving its public relations channels.

In 1996, an accident in another section of the same facility in Griesheim was quickly and decisively handled, with immediate statements issued by Hoechst Chief Executive Officer Juergen Dormann.

Gerling, one of Hoechst's advisers, contends that the loss control worked much better and the environmental impairment loss was substantially less, totaling about 10 million deutsche marks ($5.3 million), Mr. Kolvert said.

"Risk management is often a question of local laws and requirements," noted Mr. Kolvert. While Gerling tailors its risk management consulting for different geographical areas, "our standards remain high—no matter the country."

German brokers such as Aon Jauch & Huebener and Marsh & McLennan/Gradmann & Holler have equally long traditions of risk management consulting in industry, brokerage executives say. Aon Jauch & Huebener, for example, maintains a consulting staff of 23 fire safety and environment safety engineers, chemical experts, electronics and machinery experts—even a sea captain—to advise clients.

"The transport of goods to Asia might require my presence on board," said Capt. Carl Topp, cargo superintendent for Aon Jauch & Huebener in Muehlheim, Germany. "When the same losses occur on a regular basis, we accompany the transport to check the cause on the spot. Afterward, we recommend loss control measures."

One of Aon's loss control consulting clients is Bremen-based Herfurth & Co. Shipping GmbH, a shipping intermediary that loads and unloads container ships carrying goods worldwide.

"Cooperation with our broker is useful," said Herfurth's risk manager, Juergen Steen. "Jauch & Huebener works with us on a joint survey which gives us information on the condition and safety requirements of the goods we ship. In the past, this has helped improve stowing procedures" with special materials, such as synthetic packaging, he said.

Such surveys provide manufacturer information about goods so that the shipping company can take appropriate steps to ensure the goods it ships arrive in good condition. "We get useful information about the place and time of damage occurrence," Mr. Steen said.

For example, Herfurth works with a leading U.S. barge company, Forest Line, that specializes in sea and inland river transport. "It can happen that we send wire rods for steel-belt radial tires to the U.S. We need special stowing procedures to protect the wire from rust. Such joint surveys, which give us information from the manufacturer, are helpful in developing safety techniques," said Mr. Steen.

"We have account executives for industry clients, whose job it is to know the changes that affect risk," said a spokesman for Aon Jauch & Huebener. "If a new building goes up, it's our duty to advise on safety features. It's part of the job to develop damage scenarios and be ready for eventualities."

German paper manufacturer G. Haindlischen Paperfabriken KgaA in Augsburg also has profited from the broker's advice. In preparation for expanding operations in Bavaria to the Duisburg-Walsum region in the late 1970s, the paper company hired broker Jauch & Huebener to provide technical drawings for a sprinkler system. That system controlled a 2 million deutsche mark ($1.1 million) fire loss two years ago that Chief Executive Officer Franz Teiser estimated could have cost 80 million deutsche marks. "We avoided the worst," he said. "Three hundred sprinklers extinguished the fire in 15 minutes."

Production at the Duisburg-Walsum plant resumed in 13 hours, compared with six months, which Mr. Teiser estimates it would have cost the company to recover from a large-scale fire.

The paper company's division chief, Hans Joachim Gossmann, said management initially was reluctant to install the sprinkler system. "I was almost glad we had the fire because it proved our precautions were warranted," he said.

Haindlischen opened another plan in Schwaig, Germany, in 1993, that uses state-of-the-art fire protection equipment designed by Aon Jauch & Huebener. BI

India's safety practices still under construction

By KAUMUDI MARATHE

BOMBAY—India's construction industry is poised for growth, but safety and loss control practices at project sites remain few and far between, observers say.

With a new government in place and forecasts for economic growth, India is attracting more foreign investment, particularly for infrastructure projects.

"There is definitely a boom in infrastructure projects," said Jagdish Rele, a structural engineer who heads CHAIAM Consultants, a Bombay-based construction management firm.

K.T. Ravindran, a Delhi architect and planner, agreed that there is "huge investment in the sector, with automobile-related projects, such as bridges and highways, taking precedence."

But Mr. Ravindran and others note that the Indian government has not stressed the need for safety and loss control measures.

No new safety laws have been enacted in the past two years, Mr. Ravindran said, and the enforcement of existing laws remains negligible. Construction companies, hurt during the past few years of economic recession, are not attempting to improve safety standards, either. "In fact, people often cut more corners now," he said.

Although the Ministry of Urban Development has established detailed safety guide-

> *'Certain precautions are taken on large projects' to protect construction workers, 'but in the case of smaller contractors, the issue of maintaining safety is very difficult.'*
>
> — Jagdish Rele

lines for the industry, Mr. Ravindran admits that most architects and contractors "would be hard-put to know what these are."

One reason for the apathy toward improving safety practices may be India's lack of professional training in this area.

Architects say construction safety is taught neither at the undergraduate nor the graduate level. Mr. Ravindran, a faculty member at New Delhi's School of Planning and Architecture, admitted that "we do teach fire safety, but there are no courses anywhere in India on construction safety."

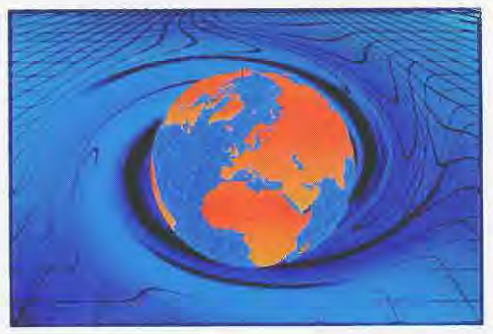
While some contractors may be licensed engineers, many are uneducated. And construction workers are rarely provided with training, safety gear or worksite protection, observers say.

Vivek Monteiro, a labor activist based in Bombay, said that "present laws do not provide incentives to employers to ensure worker safety. The situation of unorganized labor, including construction and quarry workers and loaders, is deplorable. The fact that they are itinerant, illiterate and unrepresented precludes their fighting for their rights."

Among the safety hazards that many construction workers face are rickety wooden ladders, bamboo scaffolding, improper electrical wiring, and outdated loading and transportation equipment, according to observers.

"Certain precautions are taken on large projects," said CHAIAM's Mr. Rele, "but in the case of smaller contractors, the issue of maintaining safety is very difficult." Some of CHAIAM's clients, however, are becoming "more conscious of safety requirements, insisting on safety provisions" in work bids and ensuring that they are implemented. "Proper and safe barricades, with standard warning signs, are finally becoming more common on sites," Mr. Rele said.

"I don't think much improvement has been made in safety and loss control," said Rahul Mehrotra, a Bombay-based architect whose firm, Rahul Mehrotra Associates, conducts commercial, residential and conservation projects. On some restoration projects, however, especially those directed by committees, clients have begun to insist on insurance coverage for both the architects and contractors, along with greater safety



standards, he said.

"I suppose awareness is creeping in through organized groups, where different people act as checks and balances. The chance of someone being safety-conscious within a larger group is much greater than an individual," Mr. Mehrotra said.

But others say that even knowledgeable companies are unwilling to pay more to ensure safety. Safety-conscious contractors often lose out if their bids show "extra" safety costs, architects and contractors say.

While safety helmets are becoming more widely used, Mr. Rele said a contractor at one CHAIAM site refused to give workers safety shoes or belts, claiming the workers would sell them for profit.

With the advent of Indian economic reforms in 1991, a number of urban projects—for roads, highways, bridges, industrial parks and airports—were started. What was formerly solely a public sector was opened to private participation.

Major projects recently completed or under construction include Enron Corp.'s Dabhol power plant in Dabhol, Maharashtra; India's largest refinery project, located in the state of Gujarat; and various highway projects, including the nation's first toll roads.

Mr. Rele said that he is confident that foreign investment, new technologies and an emphasis on ethics can improve India's safety standards. BI

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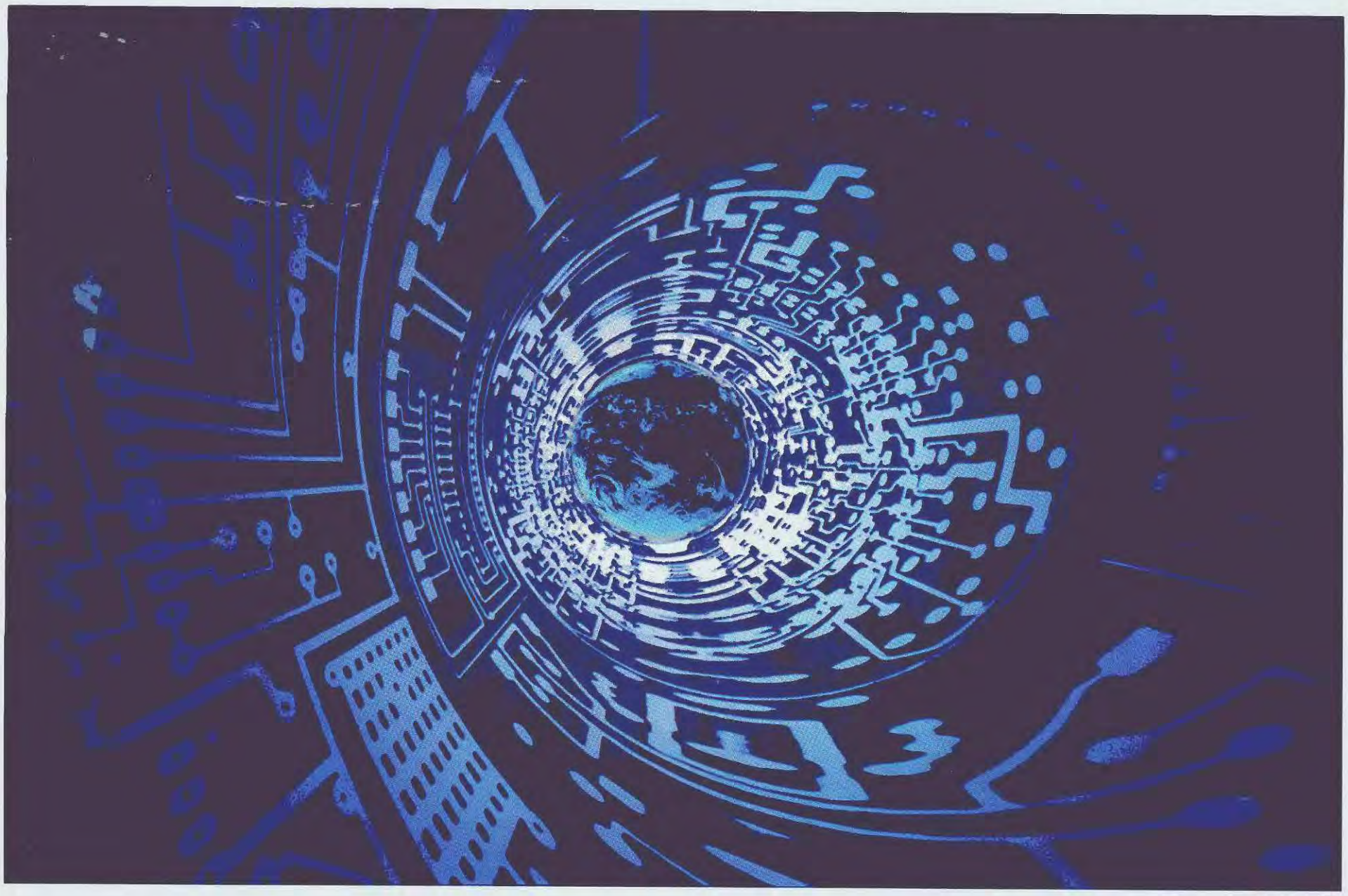

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GLOBAL FOCUS

Building risk awareness a prolonged project

By MARIA KIELMAS

Ten years after the fall of the Berlin Wall, the post-Communist states in central and eastern Europe still face a mountain of social and legal problems that have stymied the development of risk awareness in the construction and engineering industries.

Safety and property loss control standards are slowly increasing in those states, especially as foreign capital and consultants pour into these countries and investors seek to protect their investments.

Many projects are underway, for example, to retrofit existing structures and facilities, such as nuclear power plants, to minimize the risk of property damage from inadequate or inappropriate building codes. This is especially the case in countries with an increased exposure to the risk of earthquake damage, such as countries on the Balkan peninsula.

But foreign investors and contractors often must work hard to overcome local inertia, customs and mistrust of foreign practices to raise local standards.

The end of communism led to a time of euphoria and triumphalism leading some to believe that the process of building market-oriented economies, democratic societies and good governance in the former Eastern Bloc would be simple and quick, the London-based European Bank for Reconstruction and Development observed in a recent report, "Transition Report 1999: Ten Years of Transition."

"Some thought that the dynamism and efficiency of the market system would lead inexorably to rapidly rising living standards and strong economic growth. But the experience has demonstrated that the process of transition from the command to the market economy is complex, difficult and lengthy. The dislocations and stresses can be profound and severe," the report said.

PHOTO: AP/WIDE WORLD

The collapse of the Berlin Wall and Iron Curtain a decade ago brought new risk management standards and practices to many eastern and central European countries.

The challenges of this transition are evident in both new construction and engineering projects, especially when contrasted with some Soviet-era design and construction standards.

"I've been here all my life and I can say there is a huge difference between the old times 10 years ago and now. But there is still a long way to go," said Jacek Sawicki, general manager of Warsaw-based Biuro Doradztwa Technicznego dla Energetyki, a subsidiary of The AES Corp., an Arlington, Va.-based energy company.

Poland has witnessed vast amounts of foreign investment in construction projects over the last 10 years, such as in infrastructure and commercial real estate projects.

Greater awareness of the need to improve building safety on these projects and in general have been sharpened by foreign investor pressure, such as through project finance requirements, Mr. Sawicki said.

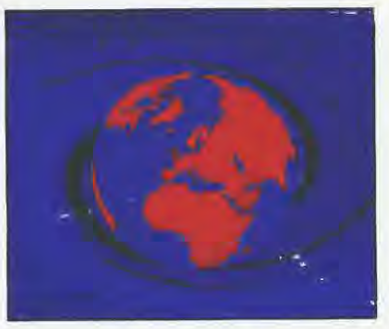
"This has forced Polish construction companies and even their subcontractors to move in a positive way toward international standards," he said.

Steve Stacey, executive director of Aon Construction & Engineering in London, a division of Aon Corp., agreed that high risk management standards and foreign investment go hand in hand.

"If you move in terms of private finance covering a certain project then you have a much greater emphasis placed on loss prevention and safety. If that is not addressed from the start, then in many cases the financing will not be available for the project," said Mr. Stacey.

Local enforcement of higher building standards is critical to improvement, one consultant says.

Even if a country has agreed to adopt international standards in its building regulations, these are only good if they are properly enforced, said Andrey Mladenov, export manager of Helsinki-based engineering consulting company Mestra Engineering Ltd. Mestra has worked on infrastructure projects



in Russia, the Baltic States and Poland.

One of the greatest challenges to applying international design and construction standards, such as those applied throughout the European Union, is overcoming existing practices and traditions in a given country.

Even if adherence to specific internationally accepted building practices is stipulated in a contract between a local contractor and a foreign company, there can be trouble if the international standards conflict with past and still-accepted local building practices, according to Mr. Mladenov.

If disputes arise about which standards were applied, "it is usually the foreign contractor or foreign consultant who has to pay in order to stay in that market," Mr. Mladenov said.

While small and medium-sized foreign contractors may have to make such compromises with local partners to gain entry to the transition economies of eastern and central Europe, multinational corporations have the power of deep pockets to decline to do projects unless they are conducted according to their standards.

"We structure all our contracts to comply with international practice not only on the legal side but on the financial side," said BDT's Mr. Sawicki. He added that, without such protections, sometimes local subcontractors and partner companies in the former communist states are reluctant to adopt higher construction standards than those to which they are accustomed.

This reluctance is due in large part to the indoctrination induced by the communist system that led many people to avoid assuming responsibility.

"You can't just say, 'Let's get on with the job and do it.' Everyone is seeking a reassurance. It's like a cancer that needs to be removed," said Manfred Unterkofler, the founder and owner of Bonn-based Forplan GmbH, a consultant specializing in research and planning for emergency services. Forplan has extensive experience in the former East Germany.

Once the euphoria of German unification was over, for example, western investors also had to be careful not to create resentment among their eastern employees and business partners by immediately pushing for dramatic changes in how things are done, he said.

"You couldn't keep saying that everything good comes from the west and everything under communism was wrong," said Mr.

See **Builders risk** *on next page*

Anxiety in Italy over building collapses

Problems with shoddy construction and the failure to comply with building codes is far from limited to former Eastern Bloc countries.

This was demonstrated earlier this month by the sudden collapse of an entire apartment block in Foggia, Italy, which caused 62 deaths. That exceeds the previous worst death toll from a building collapse in 1959, when 60 people died after a building collapsed in Barletta.

The Foggia disaster follows the collapse last December of an apartment block in one of Rome's more-expensive neighborhoods.

These collapses, all of post-war buildings that were only 30 to 40 years old, have caused a wave of anxiety about the safety of modern structures in Italy, a country otherwise full of historical structures and monuments that have stood for centuries.

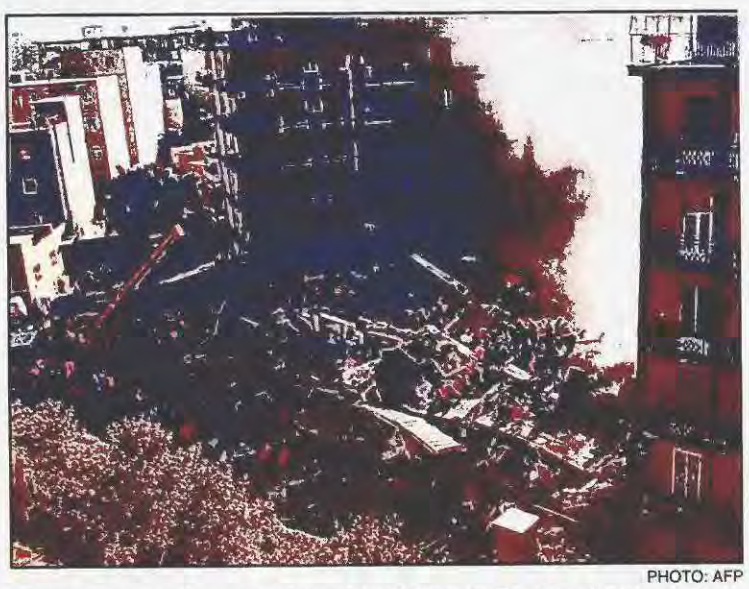


PHOTO: AFP

The collapse of an apartment building in Foggia, Italy, on Nov. 11 killed 60 people and injured dozens more.

Speculation following the Foggia collapse focused on allegations of corruption and Mafia bribery, as well as the theft of building materials from the construction site, causing a substandard building to be erected.

But the cause may have more to do with a lack of technology and money during the 1950s and 1960s period when many such building were constructed, according to Massimo Cestelli Guidi, owner of a Rome engineering company, Engineering & Consulting Services, and a member of the board of directors of the engineering consultants group Associazione delle Organizzazioni di Ingegneria e di Consulenza Tecnico Economica.

Mr. Cestelli Guidi is involved in the investigation of the collapse of the Rome apartment building.

"I think the reason is a technical problem. In the 1950s and the 1960s, the concrete used in reinforced concrete buildings in Italy was made onsite and was probably of poor quality," he said.

In addition to using poor materials, construction shortcuts were often taken if funds were limited, Mr. Cestelli Guidi said.

For example, the thickness of columns was often reduced onsite if money was tight, he said.

"We probably have a lot of buildings where the quality is not so good. Immediately after the war, contractors were not so skilled. Really, the structures of 40 years ago were built with very poor control," he said.

The 1970s marked the availability of premixed cement in large quantities and changed construction safety dramatically. This is because knowledge about the performance of concrete improved, and regulations on its mixture could be enforced, Mr. Cestelli Guidi explained.

Italy also improved its building code in 1971 for the first time since 1939, he noted. The code has been updated more recently and now includes, for example, provisions for earthquake-resistant designs that comply with international standards.

—By Maria Kielmas

Builders risk

Continued from page G6

Unterkofler.

One major legacy of communism has been large numbers of potentially unsafe nuclear power plants—called VVER reactors—that are of the same Soviet design as the one that exploded in Chernobyl, Russia, in 1985.

Efforts to retrofit these reactors to international standards for safety are under way in several countries.

"We were lucky in Poland," said BDT's Mr. Sawicki, explaining that one such nuclear plant planned for construction ran out of funding before it could be completed. As a result, he said, the project did not move beyond the construction of foundations.

BDT's parent, AES, will begin construction of a new gas-fired power plant on that site next year.

Bulgaria, on the other hand, has six VVER reactors that need upgrading.

Part of this task has been assigned to EQE Bulgaria, a subsidiary of San Francisco-based engineering consultant EQE International. The company is applying both U.S. and E.U. engineering standards for earthquake-resistant design to the nuclear facilities, said Marin Jordanov, a structural engineer and senior consultant for EQE Bulgaria in Sofia.

"We are making analyses and seismic safety assessment for these facilities," he said of EQE's role.

The Balkan states, including Bulgaria, have a much higher exposure to seismic activity than Western Europe.

The engineer said that, contrary to the situation in some former communist countries, Bulgarian authorities maintained relatively strong building codes.

Although the Bulgarian regulations on earthquake design during communist times did not incorporate as much international know-how as today, Mr. Jordanov said they were generally good and well-enforced compared with the situation in some other countries, such as neighboring Turkey.

Mr. Jordanov said he had surveyed part of the damage resulting from August's destructive earthquake in Izmit, Turkey, and was shocked by the damage resulting from inadequate building codes.

> *The way many Russian building regulations were implemented during the Soviet era still poses a great danger to structures today.*
>
> — Andrey Miadenov

"It was not just that these practices (used in Turkey) were illegal, they did not make any sense," he said.

He said, for example, that some of the poor building practices he saw would not have been allowed in Bulgaria in communist times, such as reinforcement bars in concrete being plain, smooth steel rods rather than reform bars, the spirally-wound steel bars which allow for both ductility and strength.

Mr. Jordanov also cited poor ties between columns and beams and poor quality concrete used in Turkish buildings, both of which he contends would have been banned in Bulgaria.

"One of the positive things from communism was that enforcement (of construction codes) was very high, the control was very strict and disciplined. If the design was not implemented correctly the punishment was severe," Mr. Jordanov said.

Mestra Engineering's Mr. Mladenov, a Bulgarian by birth who emigrated 30 years ago, expressed skepticism, though, that the Bulgarian regulations were really as good as claimed.

"Is it because the Bulgarians are less greedy? Is it because they have better supervisory authorities? I doubt it," he said.

Mr. Mladenov worked for many decades as an earthquake engineer, especially in Russia. The way many Russian building regulations, in particular earthquake-resistant design regulations, were implemented during the Soviet era still poses a great danger to structures today, he contends.

Mr. Mladenov said that these regulations were generally drafted in major academic institutions in the major Russian cities. They were then uniformly implemented by directive in all of the vastly different regions of the former Soviet Union.

However, he said, earthquake codes must be individually designed to reflect the risk of each particular region. The Soviet approach "meant that buildings were never designed individually," he said.

Mr. Mladenov said that even when people knew building regulations were improper, they could do nothing about it. Safety concerns and the suggestion that a more conservative design approach should be taken were ignored.

"If you did something which was not in the norms you could be held responsible. If you wanted something to be built safer, you would be criticized because you went too much over the norms, overspecified, and put (the extra) money into your pocket," said Mr. Mladenov.

Another major hurdle to changing local building practices in central Europe is corruption.

"If there was ever an industry which was exposed to corruption it is the construction industry," said Mr. Mladenov.

In Russia, for example, every engineering firm or consultant needs a license from the government, he said. The time needed to obtain these licenses, however, is lengthy and all of the paperwork has to be submitted in Russian. "It's very expensive," said Mr. Mladenov, who added that bribery of government officials to streamline the process is widespread.

In addition to the risk to Soviet-era reactors, Eastern and central Europe also have a legacy of poorly constructed concrete apartment blocks.

Shoddy workmanship and design was immediately apparent when the buildings were newly built in the 1960s and 1970s, but they were occupied nonetheless because people typically had to wait 10 to 15 years to obtain their own apartment.

"If you wait for 11 years for a few square meters of your own you will take anything," said Mr. Mladenov.

Today, however, these buildings pose a grave safety risk to their residents.

"These buildings will have to be demolished some day and the state will have to pay for it," he said.

The problem with the apartment buildings and Soviet-era construction in general is that no one took responsibility on the construction site for quality and safety.

"Things have to have an owner to be built properly. We were told that we (the nation) owned things, but that was never accepted. If you don't own anything yourself, you never value it," Mr. Mladenov said.

Aon's Mr. Stacey said that, in many cases, it was not possible to refurbish older buildings in Eastern Europe after communism's fall because their ownership was disputed.

Buildings dating from pre-World War II times would have been expropriated by incoming communist governments in the 1940s, he noted. Today, some of these properties have been restored to their original owners or their heirs. But even so, disputes within a family over who gets what shares in a building can postpone refurbishment, he said. BI

Project helps track Y2K readiness of trading partners

By Don Cruickshank

A GREAT DEAL of public attention has been given to the potential impact of the Year 2000 date change, and governments throughout the world have been working to ensure their countries will be prepared for the new millennium.

The results of rigorous independent assessments give us confidence that the millennium bug will cause no material disruption to essential services in the United Kingdom, but the lack of comprehensive information on the readiness of the United Kingdom's major partners has raised concern about possible effects on U.K. infrastructure and businesses.

Only a few countries have a policy of complete transparency of information regarding their state of readiness. Based on the information we have, only a handful of countries have established as comprehensive and robust a program of work and have made as much progress as the United Kingdom. Although Action 2000's remit lies in getting the United Kingdom ready for the millennium and extends as far as the country's borders, we are very aware that everyday life does not happen in isolation from other countries.

Where services consumed in the United Kingdom have foreign dependencies, the international element has been included in Action 2000's infrastructure assessment. The foreign component of services delivered both domestically and internationally has not been included, however.

Action 2000 announced in July that it hopes to better inform the public as to where international shortcomings might affect essential services covered by Action 2000's National Infrastructure Forum. The Foreign and Commonwealth Office has been conducting a major information gathering exercise with British embassies overseas, and Action 2000 will continue to push for the release of this information on Y2K preparations abroad.

Infrastructure sectors such as aviation, finance, shipping, telecommunications, postal services, police and weather information clearly have international aspects. Most of the infrastructure sectors recognized their international interdependencies at an early stage and have done a substantial amount of independent work on these aspects, including developing contingency plans.

Global Focus Perspective

On the business side, the latest State of the Nation research by Action 2000 showed that 38% of midsize businesses—those with 10 to 249 employees—and 71% of large businesses traded with countries outside the United Kingdom. The top 10 partners for U.K. exports are: the United States, Germany, France, Holland, Republic of Ireland, Belgium, Italy, Spain, Sweden and Japan. The top 10 partners for imports are: Germany, the United States, France, Holland, Italy, Japan, Belgium, Republic of Ireland, Spain and Norway.

With regard to companies' attitudes toward international readiness, Action 2000's research found they were most concerned about disruption to their business in relation to trade partners in Asia, Latin America and Africa; the least concern was shown for North America and Western Europe. In addition, although they didn't necessarily trade with companies in such regions, businesses thought the millennium bug was most likely to have an overall impact on countries in Central and Eastern Europe, followed by Latin America and Western Europe.

There has been a lot of speculation over where each country ranks in terms of readiness, but there is insufficient information in the public domain to allow us to make a confident judgment, and the United Kingdom has therefore made a policy of not ranking other countries. One also must take into account that cultural issues have a bearing on how much information is released, and just because little information is available on a specific country, it doesn't mean nothing is being done.

We only know what the countries have said, and though many countries have established a Y2K team and set up a Web site for Y2K information, there is no way to verify that information. An increasing number of countries, however, are putting out more information and are participating in the International Year 2000 Co-operation Centre—which was set up with World Bank funds—to share information and best practices. Companies trading internationally should make every effort to discuss Year 2000 issues with their international partners in order to get a feel for preparations in that country and to ensure that any potential glitches in the supply chain are ironed out.

Action 2000 has put together a list of links to the Year 2000 Web sites of more than 66 countries, as well as some general sites with information on Y2K preparations. For the sake of convenience, a summary of all the information countries have already put in the public domain can be found on the Action 2000 site, www.bug2000.co.uk.

Britain has risen to the challenge, and the threat of serious disruption over the millennium is now falling.

Nevertheless, the dissemination of comprehensive and reliable information on the international state of readiness will give the United Kingdom a better chance of ensuring no disruption from the bug. BI

Don Cruickshank is chairman of Action 2000, a U.K.-based organization that promotes corporate readiness for the millennium computer problem.

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Employee Benefits Communication Awards

Georgia leaps to the future to explain flex plan of today

By MEG FLETCHER

ATLANTA—The state of Georgia took millennium madness to the extreme by leaping forward an extra 1,000 years and using the year 2999 as the setting for a futuristic videotape that describes its current flexible benefit programs.

The tape, which is titled "Discover the Best! 1999-2000 Flexible Benefits Program" and runs about 20 minutes, won best of show in the audiovisual category of the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

Georgia's eye-catching video used sophisticated computer-generated graphics to create a virtual future, including a cityscape of Atlanta with flying cars and rows of librarylike book stacks in a "Department of Historical Antiquities."

It is in that department that two coworkers "discover" a cylindrical storage capsule containing the state's 1999-2000 flexible benefit program. Their discussion of the innovative details of the 1,000-year-old plan engaged listeners, as did humorous references to the state's never throwing anything away, the clunky design of antiquated cell phones and setting the date of the discovery on April Fool's Day.

MULTIMEDIA

In addition, a narrator periodically appears to describe some of the more-technical aspects of the plan.

The videotape was prepared for the Georgia Merit System, which provides human resource services for the state government, said Commissioner Marjorie H. Young.

The video was designed to communicate current benefits information to a diverse group of more than 80,000 state employees, including workers in correctional, social service, hospital, court and clerical divisions. The average salary for a worker in these divisions ranges between $28,000 and $29,000, according to Rachel Davis, the unit's deputy commissioner.

Three versions of the videotape were prepared to meet the needs of employees who did and did not have deferred compensation benefits available through this state program, as well as those of hearing-impaired workers who needed closed captioning.

The videotape was shown from March through May of this year in anticipation of an open enrollment period that began July 1.

A copy of the videotape was previewed to human resources representatives at leader training sessions, mailed to all human resource representatives, and shown to employees during open enrollment meetings.

The videotape was designed to explain to employees various components of the programs so the employees would understand what they are, what they provide and how they differ from last year's plans, said Monirah T. Womack, the consultant in the Atlanta office of William M. Mercer Inc. who developed the project.

New highlights of the program included significantly expanded 401(k) offerings and investment options for retirement funds, said Vic Keene, division director of employee benefits.

In addition, the videotape was designed to help employees "take a proactive approach to identifying and rethinking their benefit needs, discovering all that the package offers, and designing a benefit package to best fit their needs," Ms. Womack said.

Specifically, the tape was designed to encourage people to take a second look at long-term care and other less-popular options, she said.

Developers also hoped the video would help employees perceive their flexible benefits program as progressive and comprehensive, Ms. Womack said. It was the first video Mercer had prepared for the agency, though not the first time the agency had used that medium.

One common priority of the videotape developers was that its actors reflect the broad diversity in the state's workforce. They achieved that by having a black man and a white woman portray co-workers "Ralph" and "Alice," who were dressed in ultra-modern green jumpsuits. A white man, clad in conservative business attire, served as narrator.

The reaction among state officials and employees to the video has been generally positive, though quantitative results are not available, according to Mercer and Georgia officials.

Keeping the $87,000 videotape cost effective was a primary goal for Georgia officials.

"We were really pleased that the virtual set made the production affordable," said Marcia White, benefits manager.

The videotape and story line made it more interesting than the typical "talking head," Ms. Young said.

For her part, Ms. Womack said she was pleased that Georgia officials were willing to adopt a futuristic theme that required a little more imagination. BI

R.R. Donnelley employees see green in 401(k) message

By LEE FLETCHER

CHICAGO—Brightening up workshop materials about investment and savings with vibrant colors and familiar printing terms led to a 55% on-the-spot 401(k) plan enrollment rate among workshop attendees at R.R. Donnelley & Sons Co.

The effort also earned the Chicago-based printer the best of show special projects award for print communication in the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

Donnelley's educational materials, titled "What Color is Your Future?," were created for two workshops conducted nationwide for its employees, one that focused on savings and another that focused on investing. Packets of the colorful, award-winning materials were distributed at the workshops.

According to Lori Miller, communication consultant at Lincolnshire, Ill.-based Hewitt Consultants Inc., the savings workshop was designed for employees who were not yet contributing to Donnelley's 401(k) plan. The investing workshop was created for those employees who were already contributing to the plan but wanted some tips about how to invest their money wisely.

"Of the people who attended the savings workshop, 55% enrolled on the spot. If you can get people in a room for two hours and, at the end of that, they sign a piece of paper that says, 'Yep, deduct my money out of my paycheck,' we're really thrilled," Ms. Miller said.

"Donnelley recognized that their employees needed more than your standard black-and-white communication to get this message across. People who are in a printing company obviously know a lot about color and ink and paper," Ms. Miller said.

Also contributing to the success of the materials and the workshops was the timing involved, according to Courtney Thompson, manager of total compensation communication at Donnelley.

"We were in a position where we were announcing some plan changes to the 401(k) plan—we were announcing a matching contribution—so the timing was pretty right. The employees were looking for some more information about the plan," Ms. Thompson said.

According to Ms. Miller, even with a theme as basic as color, much can be done. She also said that 89% of the 4,486 workshop attendees evaluated the materials as "very valuable."

Ms. Thompson said she expects that the materials will have a relatively long shelf life.

"There are all sorts of things in there that I think are helpful for employees, either on an annual basis or at a time in their lives when it's natural to look at the 401(k) plan and look at their investment choices and see if they need to change them based on life events or time horizons," Ms. Thompson said.

Each savings and investment kit included a large "paper scale" that illustrates how much an employee can earn by contributing to the 401(k), depending on the individual's income level and amount of savings. Kits also included numerous worksheets designed to help employees understand topics that range from credit and taking control of one's finances to designing detailed investment strategies.

"It really gives people an estimate of how much a company match can mean—it's free money," Ms. Thompson said.

She also said that the materials were helpful because they made comprehensible to laypeople investment terms such as "compounding, stable value, stocks and bonds."

"I think some people were enrolled in the plan because they knew they needed to save for their future, but you hear all of these fancy investment terms and you don't really know what they mean," Ms. Thompson said.

She also said that using color terms such as "true-blue investments" and "growing your green" made it more fun for employees.

SPECIAL PROJECT

An excerpt from one of the workshop fliers used colors to paint appealing images that can be achieved through investment planning and saving.

The flier reads, "Like the ink we use for printing, plans for the future come in thousands of shades: the sunshine yellow of a family picnic in the park...the oaken brown of a deck for the backyard...the brilliant red, white and blue of a cross-country journey. But reaching your goals often takes just one color: green."

"We really wanted to educate employees in terms of saving for their future. The government invests in your future, Donnelley invests in your future, but you are responsible for your future. Education in the 401(k) program is going to help people plan for their future," Ms. Thompson said. BI

Project helps J.C. Penney sell new associates on saving

PLANO, Texas—In an effort to boost participation in its 401(k) savings plan and introduce the plan to newly acquired associates, J.C. Penney Co. Inc. opted for a lighthearted approach.

During an eight-and-one-half-minute video, for instance, while upbeat music plays in the background, an actor counts down the top-10 reasons why employees should be saving through the company's 401(k) plan. The video also features actual J.C. Penney employees and was shot at a variety of J.C. Penney stores.

The information in the video and the accompanying brochure was presented in an easily understandable manner, which was one of the goals for the project.

"We wanted to make the information compelling, so people would read, understand and take action," said Kathy McHugh, a communications consultant at Hewitt Associates L.L.C. in Lincolnshire, Ill., who worked on the campaign. "We tried to break out the benefits of participating in such a plan as clear and as concise as possible, so it was not a lot of work to read."

"It's great to see great results due to something that is lighthearted," said Erik Smith, a communication consultant with Hewitt who also worked on the project.

J.C. Penney's entire "Top Ten Reasons to Save" campaign, which includes a video, brochure, calculator wheel and a contest announcement, received an award of excellence in the special project category of the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

The video was shown during 20-minute store meetings that were held in more than 2,000 locations from October 1998 through January 1999. Participants were the 150,000 employees of Plano, Texas-based J.C. Penney and Eckerd Corp., a Clearwater, Fla.-based drugstore chain that J.C. Penney recently acquired.

Afterward, employees were given "Top Ten Reasons to Save" kits.

Included in each kit was a six-page brochure that reiterated from the video the top-10 reasons an employee should invest in the J.C. Penney 401(k) plan. Sticking to its lighthearted approach, the brochure is laid out in a seemingly casual manner with graphics that make the information easy to read.

Each employee also received a calculator wheel, which, among other things, allows an individual to easily determine how much to contribute to the company's 401(k) plan to meet financial goals.

Employees also received fliers announcing the details of a contest to award $1,000 gift certificates to 10 associates, chosen at random from among those who either joined the savings plan or increased their contributions. The prizes were awarded earlier this year.

The reverse side of the flier provided step-by-step instructions for using J.C. Penney's automated telephone system to verify current contributions or to make changes in contribution levels to the company's 401(k) plan.

All of the campaign components featured J.C. Penney's preferred color palette of rusts, golds and blues. These colors have been used consistently with all of the company's benefit announcements, which makes them readily identifiable by employees, Mr. Smith said.

Representatives at J.C. Penney's could not be reached for comment.

—By Sally Roberts

Employee Benefits Communication Awards

BellSouth calls upon its strengths for benefits Web site

By MICHAEL BRADFORD

ATLANTA—BellSouth Telecommunications Inc. says it believes that what's good for the customer is good for its employees.

Because the Atlanta-based company is in the business of providing computerized communication services to its clients, it decided that employees should also benefit from that expertise. So it settled on an interactive World Wide Web site when revamping its employee benefits communication program.

SPECIAL PROJECT

> *'We wanted to offer employees a service like BellSouth sells to its customers.'*
>
> — Ann DeBellis

"We wanted to offer employees a service like BellSouth sells to its customers," said Ann DeBellis, communications manager at BellSouth's Birmingham, Ala., location.

The $1 million project that took BellSouth into the era of paperless benefit communications is called Benefits@Your Fingertips, an Internet and intranet site that lets employees access a number of benefits functions.

"It's been in place since July 1998," Ms. DeBellis said. "Up until that point, we were delivering paper."

BellSouth's site has won the best of show award in the special projects category for intranet communications in the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

BellSouth settled on the Web site partly because of the response it received from focus groups among its 60,000 employees. Members of the groups asked for a way to get benefits information that is quick and easy, because their business and personal lives had become more hectic.

The company also wanted to help employees become more familiar with the Internet technology it offers and to reduce printing and distribution costs.

BellSouth hired William M. Mercer Inc. to create the site and, with the help of principals Tim Stentiford in Boston and Jackie Cuthbert in Atlanta, crafted the online program that features these offerings:

- Online enrollment and functions for updating address and dependent information.
- A library of commonly used forms.
- A benefits index with the phone numbers, addresses and links to the Web sites of more than 40 providers. Ms. Cuthbert of Mercer said this is one of the site's most convenient features, allowing employees to reach providers' Web sites for the selection of doctors and other information.
- Links to the company's savings plan and service award Web sites.
- News stories and facts about the company.
- Answers to frequently asked questions.
- A suggestion box to gather feedback regarding the site.

As an incentive to visit the site, BellSouth's stock price and the Dow Jones Industrial Average are updated on its home page every 20 minutes.

Ms. DeBellis said giving employees the ability to check 401(k) balances through the site drives a lot of traffic to Benefits@Your Fingertips.

Two new services were started this year to attract more visits to the site. One is an online shopping service that allows users to get quotes on a range of products, including insurance and mortgages. The other service offers assistance with "dependent issues," Ms. DeBellis explained. For example, the service can provide a list of caretakers for children or nursing homes for elderly parents in an employee's geographic area.

Other additions are planned, Ms. DeBellis pointed out. "We are hoping to expand the retiree portion in the near future," she said. "We have a fairly full-blown site for all active employees and hope to have the same for retirees."

BellSouth sent a brochure introducing the site to the homes of employees about two weeks before it opened. The colorful trifold brochure includes a photo of the BellSouth home page and a quick tour of the functions. The brochure also encourages employees to keep their personal information secure, shows them how to sign up for discounted Internet services through BellSouth, and provides a step-by-step guide to logging in to the Benefits@Your Fingertips site.

Once it was up and running, the site was accessible on the Internet and through the BellSouth intranet.

Promotional efforts to visit the site continue through reminders in the company's internal newsletter, Ms. DeBellis noted. "We remind them of transactions they can do online, information they get." Changes to benefit offerings are highlighted in newsletter articles, and readers are directed to visit the site to make any changes in their programs.

Each employee also received a reminder in the form of a palm-sized foam computer—a squeezable stress reliever. The foam screen has the Web site name and address printed on it, and a card accompanying the "computer" urges employees not to get stressed out when they need benefits information. "Help us share the news," the card reads, "Benefits@Your Fingertips can take the stress out of finding benefits information."

Response to the site has been "very positive," Ms. DeBellis said. Since its launch, there have been about 500,000 visits to the site. Annual enrollment figures for the fall of 1999 were being compiled in November. Last fall, 28% of all active employees, which included 45% of active management employees, used the site. Ten percent of retirees making changes enrolled online last year. BI

Schlumberger site helps workers worldwide explore perks

NEW YORK—With an employee base that is strewn across the globe, Schlumberger Ltd. wanted to let employees know "where in the world" they could find user-friendly and up-to-date personalized benefits information.

"There is this feeling that some employees have benefits across the world," said Peg Bailey, manager of benefit plan compliance for New York-based Schlumberger, a provider of a wide range of oilfield services that include exploration, project management and well evaluation.

She added that the where-in-the-world theme ties into the international aspects of the company. Using an intranet World Wide Web site, dubbed Schlumberger Automated Benefits Link, the company can link benefits departments and personal information. The site even enables an employee to model scenarios for a loan against his or her 401(k) account balance.

The site, said Lillian Petty, Schlumberger's manager of benefits for North America, was established to apply the company's business strategy of customer service to its employees as well.

The first of SABL's three phases, rolled out in May 1998, dealt with retirement and savings. This phase won an award of excellence in the 1999 *Business Insurance* Employee Benefits Communication Awards competition in the special-project category for intranet communication.

Information about all of Schlumberger's health and welfare benefits are now online, and, as of October, all 15,000 of the company's U.S.-based employees had completed enrollment electronically, Ms. Bailey said. "We see this as a continuously evolving tool that will be available to employees," she said.

In the near future, the company hopes to have continuous online enrollment available for new employees and to have daily statements of benefits for established workers. "We hope that the employees will continue to use it and will become more reliant upon it when they need benefit information," said Ms. Bailey.

Employees targeted by the SABL Web site range from oilfield services workers to research scientists. Personal computers modified to function as kiosks enable those employees without their own terminals to use SABL.

"Employees were asking for more information, and they wanted it faster," said Valerie Wise, a New York-based consultant with Watson Wyatt Worldwide who worked on the Schlumberger project. "Because of their technical sophistication, they wanted that from their organization."

To inform this diverse employee population of SABL's rollout, a pilot program was conducted and managers were educated in using the Web site. The managers were also given posters and mouse pads for their offices, said Linda Mott, human resources technologies practice leader with Watson Wyatt in New York.

Response from employees, said Ms. Petty, has "been phenomenal, especially for those who did not have desktop capabilities. For them, it's like a new toy." She added that the company even received thank you notes from employees who were pleased with SABL.

—By Amanda Milligan

Judges cite creativity, simplicity as determiner of awards

By LEE FLETCHER

Simple yet creative employee-specific guidance was the trend this year in successful employee benefits communication education campaigns.

"The focus seems to be on educating (employees) on certain information and then helping them to understand what else is available, either through references or Web sites or other materials, to try to get the message out about what needs to be said. But, also, you have to have some responsibility, as the employee, to get that information," said Bernard Knobbe, senior manager of global benefits at Andersen Consulting in Chicago.

Mr. Knobbe was one of eight judges for the 1999 *Business Insurance* Employee Benefits Communication Awards competition.

Mr. Knobbe also noted that the good campaigns this year had a focus "outside the norm." For example, he said, a successful company campaign might have tied the educational materials to that company's business or to a theme that could attract attention.

"The creativity is necessary, and it looks like people were trying to make that effort. I think that has a better chance of success than something that is just ongoing, the same old thing; it's not going to get noticed," he said.

Fellow EBC Judge Stephanie Caloumenou, compensation and benefits manager and acting human resource information systems manager at Trading Publishing Co. in Norfolk, Va., agreed that the employee benefits communication submissions were improved through easier-to-understand materials.

> *'They've taken a lot of the legalese out, and they're getting a lot more user-friendly.'*
>
> — Stephanie Calomenou

"They've taken a lot of the legalese out, and they're getting a lot more user-friendly," Ms. Caloumenou said.

Automated employee benefits communication was also an important issue with this year's judges.

Fellow Judge Kevin Goslin, manager of corporate health plans at CVS Corp. of Woonsocket, R.I., said that technology is allowing communication to become much more personalized.

"The wave of computers is a great thing for some companies, because they can reach all the employees," Mr. Goslin said.

Ms. Caloumenou agreed that automation could make employee benefits communication more efficient.

"I think it could make things easier, but it depends on legislation. They are still debating what can and cannot be done online," she said.

Ms. Caloumenou continued, "We know when we give you a handbook and you sign it, you've got it. Online, they haven't found a way of doing that properly yet; we can't verify what employees have seen the materials."

The other 1999 EBC judges are:

Sandy Andreades, manager of human resources at Crain Communications Inc. in New York.

Jane Roth, promotion manager at Investment News in New York.

Michelle DeMarco, promotion manager at Pensions & Investments in New York.

Carol Lynn Wilson, vp at PG Impressions in Chicago.

Jennifer Herren, manager-people communication and ownership services at United Airlines Inc. in Elk Grove Village, Ill.

BI

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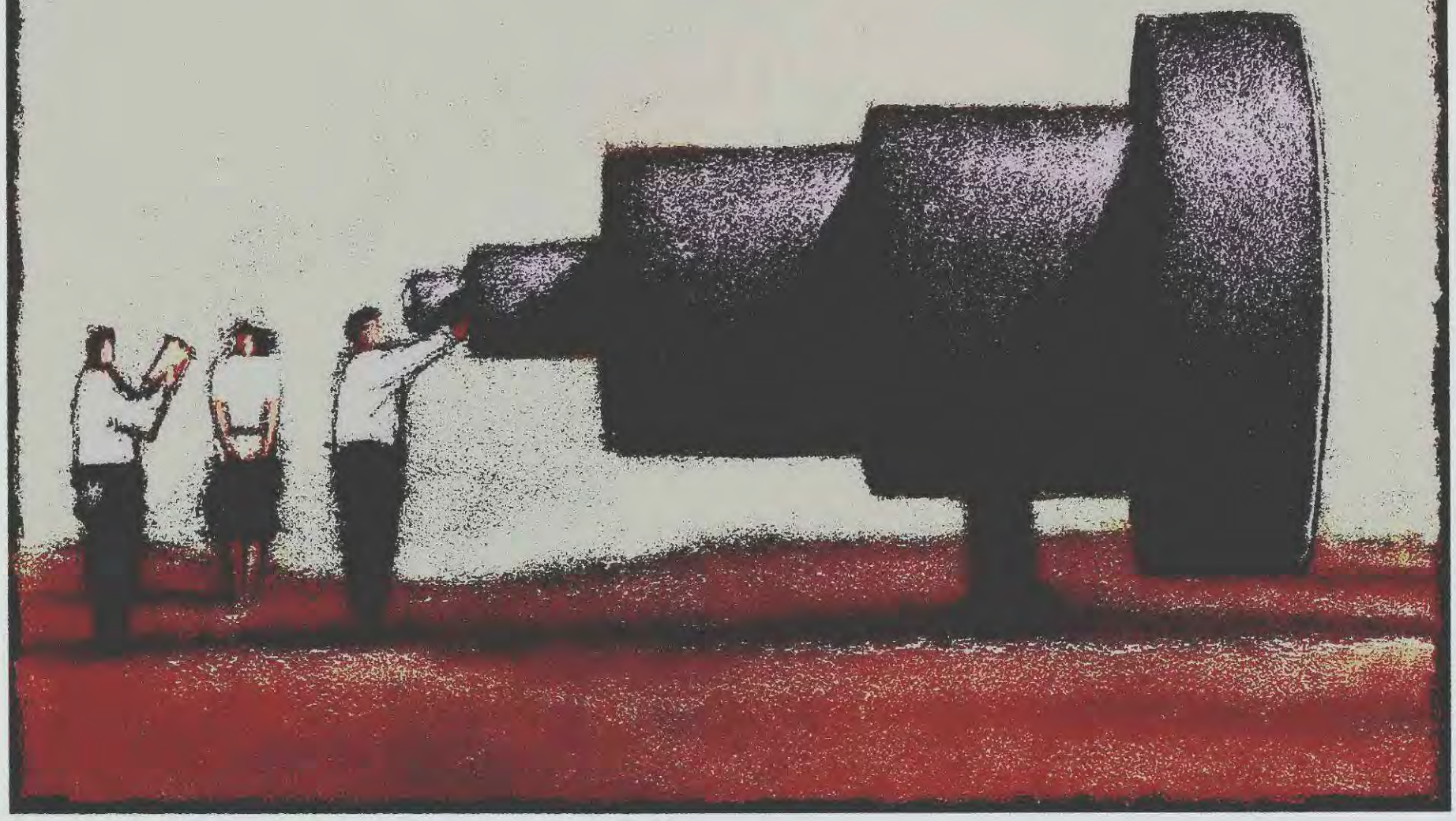

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Oct 11			Sep 29
Oct 18	Workers Compensation [RS] *Directory: Safety Consultants & Rehabilitation Services* Information Resource: Workers Comp *Distribution: BI Workers Comp Conference, CPCU*	IT Employee Recruiting & Training	Oct 6
Oct 25	International Benefits & Risk Management [RS] *Directory: International Insurers & Benefit Networks* *Distribution: ASHRM; CIAB/CICE; ISCEBS; NAIC; NAPSLO*	GLOBAL FOCUS	Oct 13
Nov 1	Reinsurance: Trends & Issues *Directory: Reinsurance Brokers* *Distribution: NAII*	ABT E & O/Loss Prevention	Oct 20
Nov 8	Professional Liability [RS, SS] *Distribution: ARIMA; PLUS*		Oct 27
Nov 15	*Distribution: World Captive Forum* [RS]	IT Loss Control/CPCU Report	Nov 3
Nov 22	Benefits: Effective Benefit Communication/EBC Awards	GLOBAL FOCUS	Nov 10
Nov 29			Nov 15
Dec 6	Risk Management Systems/Online Resources [RS] *Directory: Risk Management Information Systems* *Distribution: NAIC*	ABT New Business Opportunities	Nov 22
Dec 13	Benefits: Market Report [RS] *Directory: Benefit Consultants*		Dec 1
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RS: Reader Service, SS: Starch Study

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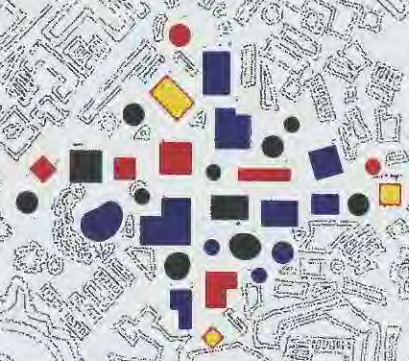

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INTERNATIONAL

Global Briefs

The 13-member **International Group of Protection & Indemnity Clubs** is doubling its limits for shipowners oil pollution liability coverage to $1 billion for the year 2000. The coverage, required mainly for ships traveling in U.S. waters, where liability for oil spills is greatest, means that shipowners will save on the insurance coverage, which they generally purchase separately in excess of the existing limit of $500 million. . . .**Guardian Employee Benefits,** a unit of AEGON N.V. based in the United Kingdom, has launched a World Wide Web-based employee benefits product for small to medium-sized employers, located at www.guardianeb.co.uk. Called Employee Protection Menu, it is intended to be a tool for independent financial advisers, with five menus offering a combination of benefits. . . .Standard & Poor's Corp. has affirmed its BB counterparty credit rating on **Willis Group Ltd.**, as well as its BB bank loan rating and its B+ senior subordinated debt rating on Willis Corroon Corp., but S&P revised the outlook on the ratings to "negative" from "stable." S&P said the revision reflects the earnings pressure on Willis and its various debt-servicing protection measures, including interest coverage and fixed-charge coverage. While Willis' overall financial leverage, at about 75%, has remained virtually unchanged since its 1998 takeover by KKR, interest coverage and fixed-charge coverage have been below expectations, S&P added. . . . St. Paul Syndicate Management has increased the underwriting capacity of its Lloyd's of London syndicate 1211 with the creation of **sub-syndicate 1511**. Writing global property, 1511's team consists of Martin Pope as underwriter, Colin Clulow as deputy underwriter, Christian Corby as junior underwriter, and Simon Duke as assistant underwriter. . . .Standard & Poor's Corp. has assigned a BBB long-term counterparty credit rating, with a positive outlook, to **Eureko B.V.**, the Dutch-based company owned by seven European insurers. S&P said the rating reflects Eureko's strong position relative to its currently modest liabilities, the very strong financial flexibility that it derives from the alliance of its partners, and a powerful management team. Offsetting these are Eureko's lack of significant operational substance and track record. . . . French insurer **Groupe des Assurances Nationales**, a unit of GROUPAMA, has responded to the floods in southwest France, which have killed about 30 people, by making immediate interim payments to policyholders of 10,000 francs ($1,587) each. GAN said the payment is double the amount it would normally pay in a catastrophe situation. . . .**Hiscox Insurance Co. Ltd.** has had the outlook on its long-term counterparty credit and insurer financial strength ratings from Standard & Poor's Corp. improved to "positive" from "stable," which the credit rating agency also affirmed at BBB. A.M. Best has also affirmed its A- rating on the insurer. S&P said its ratings reflect Hiscox's strong management team and capital position, improving operating performance and good financial flexibility, while A.M. Best said its rating reflects the company's presence as a leader in several chosen specialist markets, its improving underwriting performance and its conservative reserving and investment strategies. Both rating agencies, however, said the ratings were partly offset by weak operating performance, including underwriting losses. . . .**Wellington Underwriting Inc.**, the U.S. subsidiary of Wellington Underwriting P.L.C., has appointed Stanley J. Kott as senior vp and a member of the board, effective Dec. 1. Mr. Kott, who was formerly executive vp with NAC Re Corp., will be based in Hartford, Conn., and will have responsibility for the development and management of Wellington's Eastern region.

Uninsured cyclone losses grow

By KAUMUDI MARATHE

BHUBANESHWAR, India—The supercyclone that struck the Indian state of Orissa on Oct. 29 may be the worst this century has witnessed.

Not only did it cause more than 9,500 deaths and displace more than 12 million people but also it devastated millions of dollars in infrastructure across half the state, one of India's poorest. And as storm waters recede further daily, more and more destruction becomes evident.

The state of Orissa, located on the northeastern coast of India, south of Calcutta, covers approximately 62,000 square miles and, according to figures provided by the Indian Embassy in Washington, D.C., has a population of approximately 32 million.

While the cyclone did the most damage in 10 coastal districts, the state capital of Bhubaneshwar was also brought to a standstill.

There, winds and lashing rains washed away homes, people and livestock; downed trees and electrical and telecommunications lines; and inundated roads and highways.

"The place looked like a house of cards that had collapsed," said Orissa's special relief commissioner, D.N. Padhi, who is based in Bhubaneshwar. "No trees, no buildings, no roads left. It was nature's fury at its worst."

Deepa Zachariah, a first-year student in the master's in business administration program at the Xavier Institute of Management in Bhubaneshwar, witnessed the cyclone firsthand. "We knew it was coming," Ms. Zachariah recalled, "but we had no idea what it would be like. We certainly hadn't expected it to hit Bhubaneshwar so hard."

PHOTO: AFP

Students inspect the damage to their school building in Jagatsingpur, in the Indian state of Orissa. Orissa, on the northeastern coast of India, was devastated by a supercyclone that struck on Oct. 29.

The 20-year-old said she and 500 others were stranded on campus for three days without food, water or electricity. "We

See **Cyclone** *on next page*

Study predicts weak rates, profits

Lloyd's rates 76% of 1993 levels

By EDWIN UNSWORTH

Insurance rates and underwriting profits both have continued to weaken in the Lloyd's of London market during 1999, though there are some early signs of recovery, a new study suggests.

The study, by SBW Insurance Research Ltd., a specialist insurance analyst owned by Amlin Group P.L.C., contends that Lloyd's rates, which are still falling, currently stand, on average, at 76% of 1993 levels.

The greatest rate decreases have been in the marine market, where rates are "still falling quite rapidly" and currently stand at less than 60% of 1993 levels, the study found.

Aviation rates now are around 65% of 1993 levels. Even the September 1998 crash of Swissair Flight 111, which killed all 229 passengers and crew, failed to generate an expected improvement in aviation rates, though the study says the loss has probably contributed to a pause in the downward movement in rates. The study was conducted before the Oct. 31 EgyptAir crash (*BI*, Nov. 8), but SBW said, in releasing the analysis, that this most recent loss "could be a catalyst for change

See **Study** *on next page*

Code may aid search for past insurers

By CAROLYN ALDRED

LONDON—The U.K. government and the Assn. of British Insurers have issued a code of practice that would make it easier for victims of work-related illnesses to track down the liability insurance policies of former employers to file claims.

In addition to helping current claimants trace past employers' insurers more effectively, the code aims to ensure that those who might need to file claims in the future have access to insurers' details, particularly if an employer goes out of business, according to the Department of the Environment, Transport and the Regions, which published the code late last month.

The voluntary code is applicable to all members of the ABI that transact employers' liability business or have transacted such business in previous years, according to the DETR.

Under the code, insurers must respond to inquiries from potential claimants within 20 working days. They must "make every practical effort within reasonable bounds to try to establish whether they were on risk at the time of the injury or during the period of exposure," the code states.

If an insurer is unable to trace any record of relevant insurance, it will advise the inquirer that the matter will be referred to the ABI.

The ABI will circulate details of the pending inquiries every 20 working days to all insurers, and each insurer must respond to the ABI within 20 working days. When an insurer, or insur-

See **Search** *on next page*

U.K. reforms may hike rates, insurers warn

By CAROLYN ALDRED

LONDON—U.K. employers' insurance premiums will increase significantly if changes the Law Commission has proposed to the country's damages law are adopted, the Assn. of British Insurers is warning.

The Law Commission, a government-funded body established in 1965 to promote legal reforms, recommended earlier this month that medical costs incurred by the National Health Service due to accidents should be paid by those responsible for the accidents. So, for example, a U.K. government-funded hospital would be able to recoup costs from an employer for the treatment of an individual who was negligently injured at work.

Although the ABI and insurers could work with these proposed changes, it would result in significant rate increases for employment liability insurance, said an ABI spokeswoman, who estimated that the proposals could result in the National Health Service recovering up to £1 billion ($1.62 billion) per year from insurers.

"It is not a free solution. Instead of funding the NHS through taxation, employers and motorists would be funding it through increased insurance premiums," the spokeswoman said.

In addition, the proposed changes could entail huge legal costs for efforts to establish liability following accidents, she said.

Meanwhile, in a separate report published at the same time, the Law Commission has recommended that the list of those who can claim damages as a result of a wrongful death be broadened to include anyone who "was wholly or partly dependent on the deceased."

"The present law confines recovery to, essentially, relatives and heterosexual cohabitees. We recommend that the test should be one of financial dependency on the deceased so that, in contrast to the present law, a same-sex partner, or a godchild, or a friend of the deceased, provided they can establish financial dependency on the deceased, would be able to recover damages for their loss of dependency," the Law Commission states in its report.

Bereavement damages, which are awarded for distress caused by a wrongful death, should also be raised to £10,000 ($16,200) from £7,500 ($12,150) per grieving party, the report recommends, and a child, long-term cohabitee, fiance(e) or sibling should be able to make a claim. But the Law Commission has suggested that no more than £30,000 ($48,590) should be paid in total bereavement damages for a single death.

The revised level of bereavement damages has been criticized as being far too low by the Assn. of Personal Injury Lawyers.

"While the Law Commission's proposal is certainly a step forward, it does not address the anomaly that, while those who are injured in accidents can claim full compensatory damages, bereaved people are woefully undercompensated," said the APIL's president, Ian Walker.

"We have recommended that compensation for wrongful death should at least be comparable to the amount payable to someone who has suffered the most severe of personal injuries," Mr. Walker said.

Cyclone

Continued from previous page
could not walk outside because the winds were so strong and the rain pelted down so hard. The city was submerged in four feet of water," she said.

"We were completely unprepared and cut off from the rest of the world. This is something you see on TV. You say, 'How sad,' and change channels. Until it happens to you, you cannot imagine what it's like. Then you realize that nothing man has ever built can protect you," Ms. Zachariah said.

But journalist P. Sainath, who has covered the region extensively, said, "The much-greater danger comes in the aftermath of the storm. First of all, Orissa's infrastructure is demolished—roads, transformers, water tanks, electricity lines. Second, over $227 million worth of houses and property is lost, with no question of it being insured. Third, the state is on epidemic alert. There is the threat of gastroenteritis, cholera and the plague. There is still no water or electricity in some of the affected regions. Those people who survive will have to start over from scratch."

The cyclone struck Orissa's eastern coast on the Bay of Bengal, with powerful winds of between 155 and 161 mph, heavy rain and tidal waves that were up to 20 feet high. The cyclone lasted for three days, following on the heels of one that hit the southern part of the state just 12 days before. Relief operations, which were initially hampered by the inclement weather, submerged aircraft landing sites and damaged highways, are still in progress.

"We have had a great deal of support," Mr. Padhi said, "from the unaffected western part of Orissa and local (non-governmental organizations), as well as other state governments. The Indian government has been very helpful in sending army and air force troops. International agencies, such as UNICEF, CARE and Rotary International, have also provided great assistance."

Loss assessment, the commissioner explained, is still not a priority. "We are only now beginning to calculate the extent of damage." He admitted, however, that the destruction of private and government property, power lines, communication links, roads and highways was widespread. According to his department's preliminary figures, the state electricity provider, GRIDCO, suffered losses worth $57 million, while authorities at Paradip port, in the eye of the storm, estimate their losses at $16 million.

The commissioner said that 1.4 million homes were damaged or destroyed by the storm; 70% were impermanent mud and thatch structures, and the rest were concrete buildings. The state's chief source of agricultural income, 4 million acres of rice, was also completely inundated. "Usually, at least 40% of the annual crop is retained by farmers for their own consumption," Mr. Padhi said.

'You realize that nothing man has ever built can protect you,' says graduate student Deepa Zachariah.

Orissa's economy is largely agrarian. Agriculture provides 80% of rural employment and more than half of the state's income, according to the Indian Embassy. One-tenth of India's rice production comes from Orissa. Other major crops include legumes, oil seeds, jute, sugar cane, turmeric and coconut.

Jagdish Pradhan is an activist and member of the Orissa Disaster Mitigation Mission, which has coordinated NGO relief work in the state, and he also serves as secretary of Sanghati, a network of NGOs in Orissa. "Two million metric tons of (rice) was ruined," Mr. Pradhan said, "which means that 15 million people will now face a food shortage."

Eighty-two thousand acres of other cash crops, including oil seeds, sugar cane, coconut and betel leaf, were destroyed as well. Mr. Pradhan estimated that the total agricultural loss was about 75% of the annual harvest. He said that although the government had recently announced new crop insurance plans, none was in place at the time of the cyclone.

Mr. Padhi, the special relief commissioner, confirmed that "most property, private or government, houses, animals and crops were not insured."

However, the state government announced a standard compensation package of 75,000 rupees ($1,700) for families of victims, he said. The prime minister's relief fund will contribute two-thirds of this amount, with the Orissa government providing the rest. Injured persons are receiving free medical aid and compensation of 5,000 rupees ($114) each.

Interim house repair funds are also being distributed until permanent rehabilitation can begin. "We are giving 3,500 rupees ($80) to people whose homes are destroyed, 2,000 rupees ($45) for partly damaged homes, and 1,000 rupees ($23) where only minimal damage has taken place," Mr. Padhi explained.

Meanwhile, the chief problem the affected people now face is the lack of drinking water, the ODMM's Mr. Pradhan said.

Open wells have been polluted by the carcasses of animals, and the pump mechanisms for tube wells–closed wells that tap into aquifers and are operated by hand or electric pumps–have been submerged under flood waters, Mr. Pradhan explained. "There is no drinking water to be had," he said.

On Indian television last week, there were reports of some people resorting to drinking boiled sewage water.

Amid all the devastation, humans were not the only ones to suffer. Millions of animals have died, and it is estimated that at least 5,000 trees, some of which had withstood severe earlier storms, were felled by this cyclone. Numerous animals and reptiles, including 12 alligators and snakes, are missing from Bhubaneshwar's famed Nandan Kanan Zoo and Botanical Gardens.

Damage in the 176-acre gardens is estimated at $113,000, but the recovery of rare species could take years, officials said. Ninety percent of the park's rare flora, including 1,006 species of trees, plants, bushes and creepers, were completely destroyed.

Still, the people of Orissa feel it is their good fortune that none of the famed Hindu temples along Orissa's coast suffered any damage in the storm. Among the sites that survived the cyclone are the Sun Temple at Konark, a UNESCO-designated World Heritage property; the Jagannath Temple at Puri; and several historic temples at Bhubaneshwar, which is known as the "Temple City of India."

Mr. Padhi said that the ancient temples, huge tourist attractions that had withstood centuries of natural disasters, were once again "spared by God himself." BI

Study

Continued from previous page
in the sector."

Automobile insurance is the only sector where rates are rising. Automobile rates have risen by more than 8% in the past year, though SBW says that "it is still unclear whether this will be sufficient to re-establish underwriting profitability in the sector."

This year's rise takes auto rates to 105% of their 1993 level.

The report says underwriting profit margins on both main marine and non-marine business have been falling since 1995, and a further drop is expected this year.

A modest improvement, however, is expected in aviation underwriting results this year, though a loss is still expected. SBW acknowledges, however, that this tentative forecast may prove optimistic following the EgyptAir loss.

In the Lloyd's market as a whole, SBW expects rate reductions to cause a decline in underwriting margins each year between 1997 and 1999—all years that have yet to close under Lloyd's three-year accounting system.

In the Lloyd's market as a whole, SBW expects a decline in underwriting margins each year between 1997 and 1999.

Meanwhile, Moody's Investors Service Inc. last week downgraded its profit forecasts for Lloyd's open years.

Moody's said 1997 is looking increasingly marginal, while the extent of 1998 and 1999 losses appears to be increasing. While Moody's said it expects market conditions to improve next year, it still forecasts an overall loss by Lloyd's for 2000, partly as a result of the threat of potential Y2K claims.

Moody's said the Lloyd's market is likely to show bottom-line pure losses of 1.4% of capacity in 1997, 7.4% in 1998 and 6.9% in 1999. While 1997 is expected to produce a small profit with the help of prior-year releases, Moody's said the same cannot be expected for the two following years. It also maintains that the small reduction in the 1999 loss compared with 1998 is due not to improved market conditions but to the departure from the market of syndicates with below-average results.

Commenting on prospects for 2000, Mark Hewlett, managing director of Moody's European property/casualty and reinsurance division, said: "Our current view is that market conditions for 2000 will be only a small improvement on those in 1999. This, coupled with the extent of losses forecast for 1998 and 1999, does not currently suggest to us that 2000 will be anything but loss-making."

•

For further information about SBW's study, Rating Trends and Underwriting Margins—September 1999, contact Miles Trotter, SBW Insurance Research Ltd., 1 Whittington Ave., London, EC3V 1PH; telephone: 44-207-860-8655; fax: 44-207-860-8773.

Search

Continued from previous page
ers, has been found, the ABI will notify the inquirer within five working days and will supply the name of a contact at the insurer, the code states.

Insurers to which the code applies must:

- Provide a statement as to the date from and the manner in which they can search historical data.
- Undertake to record and maintain all current and future policies for a period of 60 years in a form that facilitates ready searches.
- Undertake to train all relevant staff in the procedures for handling inquiries.

The ABI will produce an annual report on the efficacy of the code in tracking down inquiries.

'A voluntary code without really strong sanctions is simply not going to work,' says Frances McCarthy, vp of the APIL.

The Assn. of Personal Injury Lawyers has criticized the measure. The "new code of practice designed to help sufferers from industrial disease seek compensation does not go far enough and lacks teeth to make it work," APIL said in a statement.

"While any attempt to improve this situation has to be applauded, a voluntary code without really strong sanctions is simply not going to work and almost certainly won't be efficient enough to deal with the predicted future increase in asbestos-related claims," said the APIL's vp, Frances McCarthy.

"We have consistently campaigned for a central register of employers' liability insurers to deal with (the industrial disease) problem, and there is also a serious need for a new employers' insurers bureau, which could operate as an insurer of last resort for the many people who are not going to be helped by this new code," Ms. McCarthy said. BI

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E-commerce cover available in existing policies: Experts

By DOUGLAS McLEOD

NEW YORK—As companies conduct more of their business on the World Wide Web, they face a wide range of added property and liability exposures that should be addressed under existing or new insurance policies, a panel of experts advises.

Exposures can range from loss or theft of a company's computer data to unfair competition and copyright infringement claims, insurance and legal experts say. And, while many of these risks are similar to traditional property/casualty exposures and can be dealt with under existing policies, others may require new forms of coverage.

Insurers themselves, meanwhile, have been slow to embrace e-commerce in the face of regulatory concerns and, in some cases, fear of disenfranchising agents and brokers, panel members told an audience at the 12th annual conference of the Professional Liability Underwriting Society in New York this month.

"It's a global and borderless world we live in now," said Emily Q. Freeman, a senior vp with Marsh Inc. in San Francisco.

E-commerce will not only account for a growing part of businesses' sales but also will cut costs, she said, noting a study showing that Internet banking has cut banks' costs of processing transactions to five cents per transaction from 56 cents using a teller.

Electronic commerce will also bring its own challenges, including heightened competition that comes with easing competitors' entry into given markets and legal and regulatory problems arising from the worldwide scope of Internet transactions, Ms. Freeman said.

Legal concerns are many and varied, agreed Joseph L. Kish, a lawyer with the firm of Severson & Werson in San Francisco.

For example, in offering products and services on the Internet, companies must be aware of both federal and state unfair competition statutes regarding false or misleading advertising. The variety of state unfair trade practices laws are "a trap for the unwary," Mr. Kish said.

Regulations governing advertising vary around the globe: For example, while comparative advertising—in which one company compares its product to another company's—is an accepted norm in the United States, it is illegal in certain other countries, Ms. Freeman and Mr. Kish observed.

The two panelists noted several other e-commerce exposures, including:

As companies engage in e-commerce, 'the ability to be defrauded increases many, many times,' warns attorney Joseph L. Kish of Severson & Werson.

• Copyright and trademark infringement, improper use of Internet domain names and infringement through the use of "metatags," which steer Web users to particular sites and can be used to misdirect Internet traffic.

Copyright infringement in particular has become much easier with the advent of the Internet simply because so much more copyrighted material is so easily available, Mr. Kish observed.

• Collection, use and dissemination of personal information, such as employee e-mails. Companies can avoid at least some of these problems by notifying employees that all computers and data, including e-mails, are property of the company.

"The privacy issues can be obliterated with good employment practices policies," he said.

• Theft, damage or disclosure of electronic data, including customer information. "Without your data, you have no e-business," Ms. Freeman observed.

Data theft or destruction, she added, is often the work of computer hackers inside the company.

• Fraud, which becomes a larger risk because of the essentially anonymous nature of e-commerce transactions. "As you engage in e-commerce, the ability to be defrauded increases many, many times," Mr. Kish said.

Companies can counter this threat by using strong encryption systems, though these systems don't rule out human errors such as mistakenly forwarding confidential information to the wrong parties, he said.

• Defamation or invasion of privacy claims that could arise from information a company published on a Web site.

• Criminal prosecution. Transgressions like copyright and trademark infringement not only create the potential for civil lawsuits but can also bring criminal

See **Internet** *on next page*

Industry

Continued from page 2

plined underwriting, Mr. Duperreault told an audience at the 12th annual conference of the Professional Liability Underwriting Society in New York this month.

"Thanks to disciplined underwriting," Mr. Duperreault said, parodying comments in such annual reports, "our company has a combined ratio of 120%."

The reasons for property/casualty insurers' poor performance are not new, he suggested.

The industry continues to be "awash" in capital and, while "you'd be amazed at how quickly capital can evaporate" with mounting losses, overcapitalization has fueled rate cutting that has brought poor underwriting results, he said.

That may be changing, though.

"Right now, the industry is feeling pain and a few of its leaders are saying, 'No mas,' " Mr. Duperreault observed. "I suspect they've had enough."

"The cycle is turning, slowly and inexorably," he added. "I don't think there will be a meteoric change. . .but I do think we have hit bottom."

Along with the problem of too much capital, parts of the industry are also suffering as they try to keep up with the increasingly global reach of their clients' business, Mr. Duperreault said.

Insurers must have a local presence anywhere in the world their clients operate, and the largest insurers are increasingly putting pressure on regional insurers that formerly had local business more or less to themselves, he said.

"Today, these regional oligopolies are being supplanted by a few global oligopolies," such as American International Group Inc., AXA Group and ACE, he said.

U.S. insurers, meanwhile, face the added disadvantage of the U.S. system of state regulation, he added. Noting that he has never seen a cost/benefit analysis of the state regulatory system, Mr. Duperreault said "the cost of compliance is staggering."

With 50 state regulators imposing different requirements on policy forms, for example, the system has created "a field day for lawyers (and) a nightmare for the rest of us.

"I've never called for uniform federal regulations, but the case for them is becoming compelling," said Mr. Duperreault.

Insurance rating agencies have also played a role in dampening insurers' performance, requiring redundant capital for insurers to win the agencies' highest ratings, he said.

This has prevented insurers from writing more business against their policyholder surplus and, in turn, has held down returns on equity, he noted.

The combination of rating agency demands and policyholders' desire for security actually represent a form of solvency regulation, he added.

"Even without strict solvency regulation, adequate capital is assured by market forces," Mr. Duperreault said.

Looking ahead, he predicted that the two biggest forces affecting the insurance industry overall will be the growth of Internet transactions and the demise of Glass-Steagall Act barriers to the integration of banking, insurance and securities businesses.

In both cases, though, the property/casualty side of the insurance industry will remain in the background, he said.

While online sales of some personal lines products have expanded, the same has not been true of commercial P/C products.

"E-commerce will change the property and casualty world, but it doesn't look like it will happen today," Mr. Duperreault said.

While financial services companies merge, meanwhile, "the banks are not going to rush out and buy (property/casualty) insurance companies," the ACE CEO predicted.

"I don't think banks could live comfortably with the volatility," he explained. "P&C companies don't have precisely defined solvency margins because they don't know what their liabilities are."

While property/casualty insurers will eventually follow life insurers into financial services integration, "I would not expect it to happen in the first wave," Mr. Duperreault said. BI

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Internet

Continued from previous page

charges, Mr. Kish pointed out.

"Just wait until the Department of Justice knocks on your door and says, 'Us, too,' " he noted.

Risk managers must take a few key steps in arranging coverage for e-commerce exposures, said Gregory F. Gamble, a vp with Reliance National Insurance Co. in New York.

The steps are identifying the computer network activities the company engages in, identifying the insurable perils connected with those activities and identifying the insurance policy features that are appropriate for those risks, he said.

"It's a simple task of matching a business activity with the e-business peril and looking to see if a traditional policy covers it," according to Mr. Gamble.

For example, companies face a property damage and business interruption risk if their computer data is destroyed, he said.

If the data is wiped out by a non-traditional peril, though—that is, by something other than fire or windstorm—would a traditional property policy cover it? he asked rhetorically.

"What if your system is fried by an evil hacker somewhere? Is your coverage designed to respond to that?" Mr. Gamble asked.

Risk managers can address the exposures in different ways, he noted, including:

• Affirmative coverage grants, in which the policy clearly spells out what is covered and what isn't.

• Broadening policy definitions to include e-business exposures. A policy's definition of "property," for example, could be expanded to include computer data.

• Modifying exclusions; for instance, by wording a property exclusion to apply only to "tangible" property, making the exclusion inapplicable to data.

Many e-commerce risks can be taken care of by modifying existing coverages, says Gregory F. Gamble.

• Ensuring that policies provide "severability" between the company and its employees, providing coverage for employee abuse of computer access and other intentional acts by employees undertaken without the company's knowledge.

This coverage is important, Mr. Gamble noted, because many cases of unauthorized computer access involve hackers inside the company.

For most companies, a large number of e-commerce risks can be taken care of by modifying existing property, errors and omissions, media liability and other coverages, Mr. Gamble said.

Insurers themselves, meanwhile, have been slow to jump into the stream of e-commerce transactions, said James H. Kallianis Jr., a lawyer with Bates, Meckler, Bulger & Tilson in Chicago.

This is due in part to the industry's general resistance to change: "Why change what's worked so well so far?" Mr. Kallianis remarked.

Insurers have also worried about cutting out agents and brokers, the middlemen in insurance transactions, by going direct to policyholders, he added.

Many companies dealing on the Internet adopt the philosophy, "ask forgiveness, don't seek permission," in dealing with regulators, he said, explaining that companies in a fast-moving competitive environment often feel they can't wait for regulatory approval before taking action.

This philosophy is antithetical to the insurance industry, which is long used to seeking state regulatory approval for many of its actions, he explained.

Still, some signs of progress are visible, Mr. Kallianis said, with the National Assn. of Insurance Commissioners recommending that states eliminate countersignature laws that impede e-commerce, allow digital signatures and Internet delivery of insurance documents and eliminate restrictions on electronic premium payments. BI

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NOTICE IS HEREBY GIVEN, that the fifth annual meeting of the Scheme Creditors (as defined in the Schemes of Arrangement) of the above named companies ("the Companies") convened pursuant to Clause 44.2 of the Schemes of Arrangement made between the Companies and their respective creditors, which came into effect on 26 April 1994 will be held at 11:30am on 17 December 1999 at the offices of PricewaterhouseCoopers, Plumtree Court, London EC4A 4HT, for the purpose of receiving the Joint Scheme Administrators' report on the conduct of the affairs of the Companies.

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

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The City of New York Office of Labor Relations (OLR) is soliciting competitive proposals from qualified sources for Life Cycle Resource and Referral Services for The Management Benefits Fund. This Request for Proposals (PIN 214990000212) will be available on November 29, 1999. Proposals are due on January 17, 2000. To receive a copy of the RFP, please visit the OLR web site at **www.ci.nyc.ny.us/html/olr/home.html** To download the RFP, scroll to the bottom of the page to "Request for Proposals" and click on "Management Benefits Fund".

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The City of New York Office of Labor Relations (OLR) is soliciting competitive proposals from qualified sources for Elder Case Management, Information, and Referral Services in the NY Metropolitan area for The Management Benefits Fund. This Request for Proposals (PIN 214990000212) will be available on November 29, 1999. Proposals are due on January 17, 2000.To receive a copy of the RFP, please visit the OLR web site at **www.ci.nyc.ny.us/html/olr/home.html** To download the RFP, scroll to the bottom of the page to "Request for Proposals" and click on "Management Benefits Fund".

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NOTICE IS HEREBY GIVEN that the Minnesota Workers' Compensation Assigned Risk Plan is seeking joint proposals, submitted by two partnered entities, to provide general administrative and managed care services. Interested parties may obtain the RFP by making written request to: Mark Sheehan, Plan Administrator, Minnesota Workers' Compensation Assigned Risk Plan, 4500 Park Glen Road Suite 410, Minneapolis, MN 55416. Requests may be faxed to (612) 922-5423. Interested parties may request the RFP be 1) available for pick up at the Plan Administrator's Office, 2) sent via email, or 3) sent via regular first class mail. Response to the RFP will be due by 4:00 p.m. on Monday, January 24, 2000.

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Voluntary safety audits rising

WASHINGTON—A recent survey conducted by the Occupational Safety and Health Administration found that more than 85% of employers conduct voluntary self-audits of their worksites.

The survey, conducted by telephoning nearly 500 large and small employers, found that the number of employers conducting such audits was up more than 60% from 1981, when a similar study was conducted by the National Institute for Occupational Safety and Health.

Employers that conduct self-audits cited "reducing injury and illness rates," "doing the right thing" and "to be in compliance with OSHA regulations" as the top reasons for voluntarily auditing themselves.

In the construction industry, almost 95% of companies surveyed conducted self-audits. Of companies in general industry with more than 20 employees, 89.4% conducted self-audits. Among companies with fewer than 20 workers, a majority said no self-audit had ever been performed.

In October, OSHA said it would no longer routinely demand access to voluntary self audits when inspecting a worksite (*BI*, Oct. 11).

Stolen painting recovered

NEW YORK—The Art Loss Register has recovered a valuable Cezanne painting that was stolen 21 years ago.

The painting, "Bouilloire et Fruits," is one of the ALR's most significant recoveries in terms of value and the length of time it had been missing.

Because of ongoing law enforcement investigations into the theft, an ALR spokesman could not discuss the painting's value at the time it was stolen from a private family collection in 1978.

The painting currently is valued at $15 million to $20 million, according to Sotheby's London auction house. Sotheby's is scheduled to auction off the painting Dec. 7.

Paul Cezanne, who inspired Cubism and other modern art, painted the piece from 1888-1890, according to Sotheby's. The painting depicts an arrangement of colorful fruit nestled next to a pewter pitcher in the folds of a white tablecloth.

The ALR is.the world's largest private computerized image database of art, antiques and valuables.

In an unusual operation, the ALR itself recovered the painting in October, 10 months after an insurance company inquiry alerted ALR that the painting had surfaced.

The ALR spokesman also could not identify the insurer, because it is an ALR client and because of the ongoing investigation into the theft.

PHOTO: AFP

Students at Texas A&M University help to carry away logs after the collapse of a structure for an annual bonfire. Eleven students were killed in the accident last week.

Texas A&M probes accident

COLLEGE STATION, Texas—Texas A&M University police are trying to determine what caused a giant stack of logs for a bonfire to collapse, killing 11 students and injuring 28 last Thursday.

Witnesses said the center pole around which students built the 60-foot structure, appeared to have cracked just before the logs fell.

The bonfire, which was to be lit Nov. 25, is a Thanksgiving tradition at the university before the school's football game with rival University of Texas.

Genevieve Stubbs, senior associate for the university's general counsel, could not say last week whether the school has insurance coverage that will respond to the accident.

As of late last week, no lawsuits related to the accident had been filed.

Interest growing in integrated benefits

SAN FRANCISCO—The integration of employee benefit programs is becoming reality for employers of all sizes, according to a recent survey.

The survey, by the San Francisco-based Integrated Benefits Institute, found that 45% of 782 responding employers said they were seeking change compared with 55% satisfied with the status quo.

IBI defines integrated benefits as including various approaches to consolidating the delivery or purchase of two or more benefit programs, including workers compensation, group health and non-occupational disability.

Surveyed employers said integration goals they seek include: lower overall benefit costs, 89%; enhanced workplace productivity, 87%; improved employee health, safety and ease of benefit use, 82%; and increased administrative efficiency through reduced premiums and consolidated vendors, reports and bills, 79%.

The survey also shows that integration supporters believe that the advantages of benefit integration outweigh obstacles, such as organizational infighting and the isolation of benefit programs in different parts of an organization.

Employers that don't wish to integrate their benefits say their employees are happy with their current benefits and would likely resist change to a more integrated program.

Copies of the survey, "Turning to Benefit Integration," are available for $50 each from the Integrated Benefits Institute, 415-222-7280.

Comings & Goings: Industry

Effective Jan. 1, Hilb, Rogal & Hamilton Co. Chief Executive Officer **Andrew L. Rogal** will assume the additional post of chairman, while **Robert H. Hilb** will become chairman emeritus. Mr. Hilb, a co-founder of the company and chairman since 1991, will remain an active member of the board. Also at the Glen Allen, Va.-based brokerage, Chief Operating Officer **Martin L. Vaughan III** will assume the added title of president, a post now held by Mr. Rogal.

In other broker changes, **Richard Rohde**, a principal at San Diego-based Barney & Barney L.L.C. Insurance Brokers, is retiring after 25 years to lead a start-up e-commerce company to assist agents in transacting business online.

Products & Services

NEW YORK—Marsh Inc. has introduced a new insurance program that protects organizations against a wide range of professional liability issues associated with real estate ownership, investment, management and operations.

The program is designed for pension funds, real estate investment trusts, general and limited partnerships, financial institutions, joint ventures and other real estate property owners and managers.

The program, RealSecure, was developed by Marsh and Lexington Insurance Co., a unit of American International Group Inc. RealSecure provides up to $100 million of coverage to protect corporate assets and partnership entities. The integrated policy can include coverage for directors and officers liability, professional liability, pollution liability resulting from professional negligence, employment practices, and general partners liability resulting from real estate operations.

Available on a single-year or multiyear basis, RealSecure provides an aggregate limit across all lines of coverage under the program and offers the flexibility to establish a different deductible and reinstatement for each line.

For information, contact Chris Crawford, 213-346-5512; Susan Friedman, 212-345-6500; or Tom Zacharopoulos, 404-586-8398. BI

Banks can guard against money laundering by clients

By DOUGLAS McLEOD

NEW YORK—Financial institutions must become more alert to the risk of illegal money laundering by their clients, especially in light of recent highly publicized cases of U.S. banks being used as conduits for tainted overseas funds, a panel of experts warns.

Discovering possible money laundering activity is only the beginning of a bank's problems, though.

Even banks that cooperate with federal investigators can face a succession of thorny problems with their liability insurers, the panel told an audience at the 12th annual conference of the Professional Liability Underwriting Society in New York this month.

In addition, institutions that are actually found criminally liable themselves in money laundering cases face the possible loss of their government charters, a death sentence for the bank, panelists noted.

Chartered financial institutions "need to avoid at all costs—at all costs!—taking a criminal plea for money laundering," advised Ian M. Comisky, a white-collar criminal defense lawyer with Blank, Rome, Comisky & McCauley in Philadelphia.

While panelists cited no names, money laundering has recently made headlines with the indictment of a Bank of New York official for allegedly helping to launder $7 billion in Russian funds and admissions by Citigroup Inc.'s Citibank unit that it was lax in monitoring suspicious transactions by private banking clients.

While federal statutes provide legal definitions of money laundering, "it is essentially moving criminal proceeds to conceal the underlying criminal activity," said Peter Djinis, associate director for regulatory policy and enforcement with the U.S. Treasury Department's financial crimes enforcement network.

The process starts with getting the money—usually cash—into the financial system through banks, securities brokers or other institutions, he noted. Criminals then move on to a "layering" phase, in which the money is shifted between accounts and sent from one institution to another to muddy its trail. Finally, the money is "integrated" with other funds, possibly legitimate, to further cloud its origins.

"At this point, the funds are for all intents and purposes legitimate funds," Mr. Djinis said.

In moving or receiving laundered funds, criminals use various routes other than bank and stock brokerage accounts, including casinos—the method pioneered by the late mobster Meyer Lansky—postal money orders and jewelry stores, he said.

To preserve the data necessary to investigate money laundering schemes, federal law requires financial institutions to keep records of wire transfers, large volumes of money orders and cash transactions of more than $10,000, he noted. International travelers must also declare cash or bearer instruments they may be carrying in excess of $10,000.

Banks are further required to have systems to detect suspected illegal transactions and to report these to regulators in "suspicious activity reports."

So far, only depository institutions are required to file SARs, though the government is considering extending the requirement to casinos, stock brokers and money transfer businesses, Mr. Djinis said.

While imposing the SAR requirement, Congress also granted banks a safe harbor provision, exempting them from any civil liability arising from SAR filings, he noted.

The law also carries an anti-disclosure provision forbidding banks from disclosing the filing of SARs, a provision designed to keep potential targets of investigations from being tipped off, he added.

The anti-disclosure rule can become the first in a series of headaches for banks involved in money laundering probes, panelists agreed.

Directors and officers liability insurers normally want banks to provide a warranty saying the bank has no knowledge of an act, error or omission that could give rise to a claim, observed Katherine H. Doyle, a senior vp with Marsh Inc. in New York.

In a case where it has filed an SAR, the bank does have such knowledge but is forbidden by federal law from revealing it, she noted.

One possible solution is to change the standard warranty to read that the bank has no knowledge of situations that could produce a claim exceeding the bank's deductible, which for large banks could be as high as $25 million, Ms. Doyle said.

The fact that banks can't reveal SARs doesn't mean that they can't disclose some of the underlying transactions that gave rise to the SARs, Mr. Djinis pointed out.

Thus, a bank could inform its insurer of a problem with a particular customer and that it has fully reserved for any loans to that customer, Mr. Comisky said.

The bank could also agree to "carve out" coverage of any claims arising from the problem customer's business, Ms. Doyle added.

"No underwriter wants to insure a burning building," she said. "What you can do is carve out this floor of the burning building."

Playing the role of a bank president, Mr. Comisky posed a hypothetical case in which he had filed an SAR and received a grand jury subpoena relating to the bank customer. The president, however, went ahead and signed a warranty for D&O insurers—who would not provide coverage without it—saying that he knew of no pending investigations that could produce a claim. A year later, the grand jury indicts the bank customer for money laundering, implicating the bank.

In this case, Ms. Doyle said, the insurer could very well try to cancel the policy from inception on the grounds that the bank failed to disclose what it knew.

The bank would then be forced to ask a court for a temporary restraining order blocking the cancellation, Mr. Comisky observed.

Mr. Comisky posed another hypothetical case in which federal prosecutors discover money laundering at the bank and demand the bank's cooperation in setting up an undercover FBI agent as a bank employee to monitor the ongoing illegal operation.

Mr. Djinis said that prosecutors would typically grant the bank immunity from criminal charges in such a case. Mr. Comisky, though, raised the question of whether the bank should also get immunity from civil suits from the

See **Banks** *on next page*

Banks

Continued from previous page
undercover operation—which would be beyond the scope of the SAR safe harbor against civil suits—and immunity from any civil forfeiture actions.

Mr. Comisky also wondered whether the bank would be able to tell its D&O insurer about the operation; Mr. Djinis said that prosecutors might be willing to disclose some information to underwriters on a confidential basis.

If a bank later sued its insurer for denying D&O coverage in this situation, the bank may not get much sympathy from a judge, panelists suggested.

In the role-playing exercise, Baltimore-based U.S. District Judge Marvin J. Garbis played a judge and had this reaction to the hypothetical bank's lawyer: "The bank is. . .a criminal that agreed to cooperate and now you want an order that everyone is supposed to treat you nicely?" Judge Garbis asked. "You're in big trouble."

Any federally chartered bank convicted of money laundering offenses automatically faces a federal "death sentence," panelists noted: After such a conviction, the law mandates an administrative hearing on whether the bank's charter should be revoked.

The administrative law judge handling the hearing may also be bound by conclusions the trial judge reaches in sentencing the bank in its criminal case, making the sentencing phase of the criminal case very important for the bank, Judge Garbis observed.

"The (criminal) sentencing hearing is very critical to the future financial solvency of this wonderful criminal organization," he said.

The bank may ask its D&O insurer for help pleading its case in the sentencing phase of the criminal trial, by arguing that the insurer would be helping itself avoid the policy limits claim that would surely follow the bank's shutdown, Ms. Doyle suggested.

The insurer, though, would be worried about trying to help the bank and then being blamed if it did no good, said Larry Goanos, senior vp with National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.

The insurer would probably help if it could get a waiver of liability from the bank, he said. BI

Chubb unveils product

NEW YORK—While members of the Professional Liability Underwriting Society discussed physician liability issues at the group's 12th annual conference this month, one conference sponsor—Chubb Executive Risk—unveiled a new managed care liability product aimed at employers.

The new Chubb program, dubbed Plan Purchaser Protection, is designed to cover corporations against employee claims arising from the company's managed care decisions.

Under one plan option, employers can add a bodily injury coverage extension to an existing fiduciary liability policy. The extension would cover employee claims for benefit denial or delay and negligent selection of managed care providers, and would cover liability for a plaintiff employee's legal expenses.

Another option provides a stand-alone policy that offers the coverages in the bodily injury extension as well as covering claims for breaches of patient confidentiality; the company's handling of claims services, case management and utilization review; and vicarious liabilities for medical malpractice. The stand-alone policy covers health, vision and dental plans.

In addition to managed care liability issues, PLUS conference attendees heard speakers on a variety of topics ranging from Internet liabilities to handling complex directors and officers liability claims.

Next year's PLUS conference will be held Nov. 8-10 in San Antonio. For more information, contact PLUS at 4248 Park Glen Road, Minneapolis, Minn. 55416-4758; 800-845-0778 or 612-928-4644. PLUS also has a Web site at www.plusweb.org. BI

Next lawsuit target: physicians

Managed care backlash likely to hit doctors soon: Panel

NEW YORK—The wave of patient lawsuits against the managed care industry will eventually swamp doctors, too, a panel of experts predicts.

While large class-action suits filed this year have targeted health maintenance organizations for allegedly misleading plan members, it is only a matter of time before physicians and their practice groups also become defendants in such suits, experts told an audience at the 12th annual conference of the Professional Liability Underwriting Society in New York this month.

"I don't think there is any good news in health care," said Christopher Kerns, a lawyer with Sedgwick, Detert, Moran & Arnold in Chicago. "I just don't think physicians in the long run will be able to stave off the forces underpinning managed care."

While doctors have organized themselves as practice groups or independent practice associations to deal with HMOs, this could come back to haunt them as it makes them more attractive targets in managed care litigation, he said.

Plaintiffs, for example, may in the future argue that physicians act as administrators of employee benefit plans and, thus, may sue them not only for medical malpractice but also for breach of fiduciary duties in administering benefits, Mr. Kern said.

Mr. Kern and other panelists also agreed that the federal government will increasingly target doctors in litigation over Medicare billing errors.

"It's a lot easier to attack a physician than it is to attack a hospital," Mr. Kern commented.

Insurance policies will be tailored to cover doctors for defense costs as well as civil fines and penalties in such cases, said Edward Stone, a health care underwriter for Lloyd's of London underwriting manager SVB Syndicates Ltd.

Because doctors who lose Medicare billing cases can be barred from dealing with Medicare in the future, many of these cases will be settled before trial, a situation that should encourage sales of policies that will cover settlements, Mr. Kern added.

The growth of the World Wide Web, meanwhile, has brought both good and bad news to the health care field, he observed.

On one hand, patients and physicians now have access to much more information than was readily available before the Internet, including information about alternative treatments.

"You will see a better educated consumer," Mr. Kern noted. "You will also see more questioning of physicians' decisions."

Also participating on the panel were Gerry Lewis-Jenkins, senior vp with Copic Cos. in Englewood, Colo.; and E. Dow Walker, chairman of the Willis Corroon National Healthcare Practice Group and senior vp with Willis Faber North America in Nashville, Tenn.

The panel was moderated by Edward B. Robin, president of NAS Insurance Services Inc. in Encino, Calif.

—By Douglas McLeod

Clements

Continued from page 2
Bermuda, said Mr. Clements is "a great innovator who was willing to take major risks to solve the problems of his customers and, in the course of it, had a major hand in spawning what has become one of the most significant marketplaces in the insurance and reinsurance world today."

Mr. O'Hara credits Mr. Clements for developing the Bermuda market into an insurance and reinsurance stronghold. Through his work at Marsh & McLennan, Mr. Clements was instrumental in the formation of ACE Ltd. and XL Capital Ltd. in the 1980s and Mid Ocean Reinsurance Co. Ltd. in 1992, he said.

"Bringing that amount of capital and organizing serious players in Bermuda saved the promise of Bermuda and propelled it to where it is today," said Mr. O'Hara. "Bob Clements came up with the idea of putting a large capitalized insurer in Bermuda where capital would come from the policyholders and would underwrite large capacity without the use of reinsurance."

Dick Heydinger, director of risk management services at Hallmark Cards in Kansas City, Mo., worked with Mr. Clements when the hard market of the 1980s made coverage expensive and capacity difficult for risk managers to find. Hallmark was one of more than 35 original companies that participated in the creation of ACE, Mr. Heydinger said.

"He was clearly very energetic and drove the (deal) through and had a vision for it," Mr. Heydinger said.

Brian Duperreault, chairman, president and CEO of ACE Ltd. in Hamilton, Bermuda, said in a statement that he has always admired the manner in which Mr. Clements has conducted himself.

"Bob is one of those unique individuals who combines a singular clarity of purpose with grace and bonhomie," said Mr. Duperreault, who has known Mr. Clements for more than 20 years. "Not everyone is able to execute as well as Bob has been able to—with what I would describe as a nice, quiet type of style."

Tony Bridger, Toronto-based director of risk management for the Bank of Montreal, said he met Mr. Clements as a business contact in the 1970s.

"He was a very free-thinking intelligent individual, and I respected his opinion," said Mr. Bridger. He was especially impressed with Mr. Clements' receptiveness to new and different ways of doing things.

Mr. O'Hara, who has known Mr. Clements for 15 years, said Mr. Clements' "casual demeanor belies a very tough competitor" who is eager to accept challenges.

Mr. Clements began his career in the insurance industry in 1957 with Royal Insurance Co. Two years later, he joined Marsh & McLennan in Toronto, where he worked for 16 years before transferring to the company's New York office.

Richard Stewart, chairman of Stewart Economics Inc. in Chapel Hill, N.C., and a member of the college's Insurance Leader of the Year selection committee, has known Mr. Clements for 25 years.

In the mid-1970s, Mr. Clements was instrumental in establishing a joint underwriting deal in which Marsh & McLennan shepherded personal lines business from corporate executive clients to Chubb, which sought to write personal insurance policies for homeowners with extraordinary or very expensive items. To make the venture successful, Chubb gave up control over what risks they accepted and Marsh & McLennan gave up the ability to shop the business among insurers, said Mr. Stewart, who was senior vp in charge of Chubb's personal lines business at the time.

"Both companies had to be willing to do things outside of their culture," said Mr. Stewart. "This was a typical Bob Clements performance."

"He is outstanding among insurance people, broker and company alike, for the breadth of his imagination and his willingness to depart from the conventional ways of doing things," said Mr. Stewart. "Those are rare and very valuable qualities in the insurance business, and he has them in abundance."

While at Marsh & McLennan, Mr. Clements held many distinguished titles—among them, chairman of the insurance brokerage subsidiary, then vice chairman, and finally, president of the parent holding company, Marsh & McLennan Cos. Inc. In 1995, he retired from the company and now is chairman of Risk Capital Reinsurance, based in Greenwich, Conn.

Currently, Mr. Clements is a director of XL, Danish Re, Annuity & Life Re, and Stockton Holdings. He also formerly served as a director of Mid Ocean Reinsurance and Hiscox P.L.C.

In his capacity as the chairman of The College of Insurance, Mr. Clements has "galvanized" today's insurance leaders into committing themselves to the betterment of the college, said Mr. O'Hara.

"He's doing a wonderful job of leading The College of Insurance into a new (strategic) horizon," said Dick Meyer, chairman and CEO of Latin American Reinsurance Ltd. in Hamilton, Bermuda.

Mr. Clements "exemplifies leadership in every way," said Ellen Thrower, president of the college. He has been involved with The College of Insurance for about seven years.

"He has, as chairman of the board of trustees, overseen a period of remarkable growth and advancement at The College of Insurance," said Ms. Thrower. "I think Bob is absolutely one of a kind."

Mr. Clements said he believes insurance is "an essentially honorable business" and presents a "unique opportunity" to learn about other industries.

"I've been really blessed by having the opportunity to work in almost every aspect of the industry," he said. "It's a splendid way to spend your working life."

The Insurance Leader of the Year award is given to an individual whose service and leadership in insurance and financial services stands out among his or her peers or to someone who, through a single outstanding act of leadership, has contributed to the future of the industry.

Since 1995, The College of Insurance has named an Insurance Leader of the Year. Prior winners of the honor were: Edward Muhl, the former insurance commissioner of New York; Sir David Rowland, the former chairman of Lloyd's of London; Patrick Ryan, chairman and CEO of Aon Corp.; and Maurice R. Greenberg, chairman and CEO of American International Group Inc.

In addition to Mr. Stewart, other members of the 1999 selection committee included: Peter Walker of McKinsey & Co.; George K. Bernstein of The Bernstein Law Firm; and Dan R. Anderson of the School of Business at the University of Wisconsin-Madison. The selection committee was chaired by Kathryn J. McIntyre, publisher and editorial director of *Business Insurance.* BI

ADVERTISER INDEX

Issue of November 22

ADVERTISER	PAGE #	ADVERTISER	PAGE #
American Equity Underwriters	16	Kemper Professional	5
ARAG Group	18	Liberty Mutual	9
AXA Nordstern Art Insurance	4	Marsh Inc.	11
Buck Consultants, Inc.	6	McLarens-Toplis	10
Burnham Systems	32	Metlife/Synchrony	17
Business Insurance	27, 30	Metropolitan Life Ins. Co.	22/23
Carvill Inc.	33	Metropolitan Life Ins. Co.	20/21
Deloitte & Touche	12	QualChoice	27R
Delta Dental Ins. Plan	27R	Reliance National	7
ECS Underwriting Inc.	19	RiskPartners, Inc.	33
FM Global	24	Royal & SunAlliance	40
Fortis Inc.	28/29	Travis Software	16
Fringe Benefits Management	18	WLT Software of FL, Inc.	32
General Reinsurance	13, 14/15		

Commentary

Industry has much to give thanks for

It is once again that time of year when many Americans take a break from their jobs, strap on the big-buckle shoes and hats, roast large birds until bone dry, bake the humble sweet potato with the miniature marshmallow and give thanks that the pilgrims had the intestinal fortitude, faith and means to leave the Old Country and move to North America.

After all, if they hadn't, I might today be in Norway preparing for a big meal of pickled herring, flatbrod and a Ringnes instead of turkey, cranberries and a Budweiser.

But they did; and that's truly something to be thankful for. Indeed, the Thanksgiving holiday is the time of year when we traditionally give thanks for our many blessings.

For many of us, giving thanks is as simple as recognizing the blessings of health, happiness, love, good fortune and miniature marshmallows.

Others, however, may be searching for more tangible and concrete blessings for which to offer thanks. Some in the insurance industry may even feel that they are accursed and have nothing for which to be thankful. Faced with rampant competition, surging losses, increasing class-action lawsuits, plunging stock prices, job anxiety, Internet and banking challenges, regulatory and legislative threats and so on, they may have a hard time mustering any sense of appreciation for their many blessings.

Paul D. Winston

For those wayward souls, maybe I can offer a few meaningful suggestions:

For risk managers:

- Thanks for ongoing competition, which is keeping insurers from raising rates as much as they'd really like.
- Thanks to the Port of Seattle for bringing the sue and labor clause to our attention.
- Thanks for excess capital among traditional insurers, which is keeping us from having to learn complex capital markets terminology for a few more years.
- Thanks to the Risk & Insurance Management Society for keeping the Quality Scorecard alive, so we can hold our service providers' feet to the fire.

For employee benefit managers:

- Thanks to congressional leaders for stalling on the patient protection legislation that could expose us to unlimited liability.
- Thanks to the Internet for making it easier to answer all those benefits questions.
- Thanks to the Labor Department for agreeing to consider a kinder, gentler stance on insuring benefits through our captives.
- Thanks to our workforce for not taking up arms when we converted to a cash balance pension plan.

For insurers and reinsurers:

- Thanks that everybody else is feeling enough pain that we can safely afford to only cut rates by the single digits this year without risk of losing too much business.
- Thanks to whoever in our company took a pass on reinsuring the Unicover workers compensation pool.
- Thanks that flood losses, Turkish earthquakes and Indian cyclone devastation generally are not insured.
- Thanks for the Internet, which we are told will give us a new distribution channel for our products if only we can figure out how.
- Thanks to Congress for passing S. 900, which will make it easier for banks to buy insurance companies. On second thought, never mind.

For health care companies:

- Thanks to UnitedHealth Group for showing us a way to improve our image and cut expenses at the same time.
- Thanks to congressional leaders for stalling on the patient protection legislation that could expose us to unlimited liability.
- Thanks that Texas so far is the only state that allows self-employed doctors to unionize and collectively bargain for better terms with us.
- Thanks to the Wall Street analysts who have decided that we are a better investment these days than only a few short months ago, raising our stock price.

I am hopeful that these many blessings show the insurance industry how much it has to be thankful for at this time. If these won't do the trick, there is always one more thing they can be thankful for: That they are not a turkey.

Editor Paul D. Winston's commentary appears fortnightly. He can be reached at pwinston@crain.com

Reliance

Continued from page 1

and Phoenix Home Life Mutual Insurance Co., the filing does not say whether the potential settlements involve only those two companies or cover all of Reliance's Unicover exposures, including liabilities to ceding insurers.

A Reliance spokesman declined to comment on the record, as did a Sun Life spokeswoman. A Phoenix Home spokesman confirmed only that the insurer is discussing a settlement with Reliance.

"Resolving the Unicover issue is an important task for Reliance to take care of, especially in light of its need to improve and raise capital," said Matthew Coyle, a director of Standard & Poor's Corp. in New York, which last month placed Reliance's credit ratings under review with negative implications.

"When you have a cloud of issues such as Unicover," Mr. Coyle said, "that can impede their ability to affect this recapitalization."

Other steps Reliance is taking include launching an initial public offering for 20% of its surety operations; spinning off to shareholders 10% of its e-commerce insurance business; and implementing $50 million in expense savings over next year.

'Resolving the Unicover issue is an important task for Reliance to take care of,' says Matthew Coyle of S&P.

Reliance's review of "strategic alternatives" with DLJ and Bear, Stearns—which were already involved in the surety IPO—comes in addition to the above steps.

The Reliance spokesman would not elaborate on what the alternatives might include, though industry analysts say a sale of the company is likely among them.

Reliance has been under mounting pressure to improve its finances and operating performance. In addition to the S&P rating action, A.M. Best last month placed Reliance's A- rating under review with negative implications.

The insurer last week reported a nine-month net loss of $187.5 million, in part reflecting a $227.2 million reserve increase covering a variety of business lines.

The company has seen its stock price slide from just over $15 per share a year ago to $3.94 on Friday.

Separately, the Unicover imbroglio has affected the ratings of several other insurers.

Moody's Investors Service Inc. has placed its insurance financial strength and other ratings of companies including Lincoln National Life Insurance Co., John Hancock Mutual Life Insurance Co. and Phoenix Home under review with negative implications.

Lincoln National acted as a fronting insurer, pool participant and retrocessionaire of Unicover facilities, while Phoenix Home was a pool participant and retrocessionaire and John Hancock a retrocessionaire only. BI

Superfund

Continued from page 1

tial Superfund liability, because it would result in cost shifting to other potentially responsible parties.

"We would view this as cost shifting to other parties in the system," said David M. Farmer, senior vp-federal affairs for the Alliance of American Insurers in Washington. Mr. Farmer added that the provision "continues the failed and flawed program, which, in the absence of more-comprehensive legislation, continues to impose a fundamentally unfair and costly liability system on American business."

"RIMS continues to stand against carve-outs, due to the fact that the business community should move forward as an entire unit, not as individuals, The old adage of 'united we stand, divided we are conquered' is exemplified in this case," said Lance Ewing, chairman of the New York-based Risk & Insurance Management Society Inc.'s external affairs team and director of insurance and loss prevention for GES Exposition Services Inc. in Las Vegas.

"This is bad news, because it will result in a cost shift from the exempted recyclers to remaining parties at Superfund sites," said a spokesman for the American Insurance Assn. in Washington, noting that the Congressional Budget Office has estimated that this exemption would result in cost shifting of $700 million over 10 years.

"Fortunately, we were able to block further carve-outs. What this may also do is, once these additional costs start hitting remaining parties, it may spur enough of an outcry to enable comprehensive Superfund reform to be passed," he said.

Mr. Farmer shared that sentiment. "Hopefully, it will stimulate greater activity towards more reform of the system for all parties" sometime in the near future, he said. BI

Hawaii

Continued from page 2

special group captive that can operate nationwide after meeting the licensing requirements of at least one state. A purchasing group is simply an organization that buys insurance on a group basis from a commercial insurer.

RRG and purchasing group advocates welcome the division's decision to review the fee.

"We are very pleased. All we ask is that the division give the issue—as we are sure they will—thoughtful consideration," said Jon Harkavy, a member of the National Risk Retention Assn.'s government affairs committee and vp and general counsel in the Arlington, Va., office of Risk Services L.L.C., an RRG and captive management company.

"A review is very appropriate, and we appreciate that," said Beth Kravetz, a Washington attorney who represents about 50 purchasing groups. In sending out fee notices, "regulators can inadvertently include entities they shouldn't," Ms. Kravetz said.

The controversy arose after the Hawaii Insurance Division last month began sending out invoices for $406, due Dec. 30, to the more than 20 RRGs domiciled outside the state and the more than 140 purchasing groups that have policyholders in Hawaii (*BI*, Nov. 8).

The assessments are being collected to support a new "insurance regulation fund." That fund, created under legislation passed earlier this year, is to be used to defray the administrative costs of the Hawaii Insurance Division and to make the division self-sufficient.

The assessment is not imposed on Hawaii-domiciled captives, which pay fees that are set under the state's captive statute. Commercial insurers in the state, however, must pay the fund assessment, which, in their case, is based on a number of factors, including market share.

Hawaii insurance regulators earlier said the state law gives them the authority to impose the assessment on RRGs and purchasing groups.

But RRG and purchasing group advocates disagreed. They said the Risk Retention Act clearly pre-empts such assessments.

While non-domiciliary states can impose premium taxes on RRGs and require them to file financial reports, they cannot directly regulate them, RRG advocates earlier noted. And a fee or assessment, they say, is a form of regulation.

'All we ask is that the division give the issue—as we are sure they will—thoughtful consideration,' says Jon Harkavy.

Purchasing group representatives raised two objections to the Hawaii fee. First, they said, the federal Risk Retention Act pre-empts state laws or statutes that discriminate against the groups. Because the Hawaii assessment is not imposed on other consumers, it discriminates against purchasing groups and thus violates the federal statute, they said.

Second, while the Hawaii law gives the division the authority to assess fees on "regulated entities," purchasing groups, as mandated under the Risk Retention Act, are not regulated by the state and thus are not subject to the assessment. Ms. Kravetz, the Washington purchasing group attorney, made this point when she earlier wrote to the Hawaii insurance division.

If the division does rescind the $406 fee, it will mark the second time that lobbying from the groups has paid off in their protests against state fees.

In 1997, the Maryland Insurance Administration, after protests from the NRRA, rescinded a $1,000 fee it had initially tried to impose on RRGs to support its efforts to fight insurance fraud.

The NRRA also won a major victory in the courts, when a U.S. District Court and, later, the 5th U.S. Circuit Court of Appeals, struck down 1995 Louisiana licensing procedures that required RRGs domiciled outside the state to pay a $1,000 fee and maintain at least $5 million in capital and surplus.

But RRGs and purchasing groups have been less successful in convincing states to drop other fees. Currently, more than 30 states now require RRGs and purchasing groups to pay initial and/or annual registration fees, which inflate the groups' overhead (*BI*, Nov. 15).

While the groups say the fees are pre-empted by the Risk Retention Act, they say they lack the resources to battle regulators over every state fee.

Aside from registration fees, RRGs have protested a $500 fee imposed in Oklahoma to fight insurance fraud, while purchasing groups have resisted a $650 fee the Indiana Insurance Department has demanded they pay for participating in a Year 2000 computer readiness survey (*BI*, Oct. 25).

Currently, about 70 RRGs and 750 purchasing groups operate nationwide. Under federal law, the groups can provide coverage for members' commercial liability risks, with the exception of workers compensation risks. BI

Exclusion

Continued from page 1

losses that insurers never intended to cover, Mr. Sorensen said. That would be an expensive administrative burden for insurers, he said.

Attorneys and Mr. Sorensen disagree, though, over whether the Oregon statute and the state high court's ruling also apply to general liability policies that cover third-party fire losses.

Defendant United Services Automobile Assn. plans to ask the Oregon Supreme Court to reconsider its ruling.

The ruling, which drew four amicus briefs from policyholder and insurer groups, effectively bars insurers in the state from basing coverage denials on any exclusionary policy language that is not contained in a separate and appropriately headlined policy provision.

Property policies, including the Insurance Services Office Inc.'s commercial property form, contain provisions that are headlined with the word "exclusions."

But in those same policies, provisions that identify covered perils define coverage both in terms of losses that are covered and losses that are not covered.

Under the ruling, insurers may not refuse to cover losses that insurers exclude only in a policy's coverage section.

That means commercial property insurers in Oregon that use the ISO commercial property form now face the prospect of having to cover, among other losses:

- The loss of currency, deeds or other evidences of debt, money, notes or securities.
- The cost of researching, replacing or restoring information on valuable papers and records, including information on electronic media.
- The cost of building foundations below the lowest basement, or below ground level if there is no basement.
- The cost of repairing or replacing underground pipes, flues or drains.
- Losses due to cold weather.
- Losses from vandalism committed in the course of thefts.

While policy language clearly excludes coverage for all of those perils, that language is contained under policy provisions headlined as "COVERAGE" or "COVERED CAUSES OF LOSS." The Oregon Supreme Court ruled that fire insurance policies designed in that manner violate state statute by failing to adequately alert policyholders that those provisions abridge policyholders' rights.

Besides the coverage restrictions that the court nullified, the decision jeopardizes other policy provisions, said insurer attorney Mark Seplak, who represents the Insurance Environmental Litigation Assn. The IELA filed an amicus brief in the case.

Mr. Seplak, an attorney with Clausen Miller P.C. in Chicago, said he was not sure whether even the title "EXCLUSIONS" would be strong enough language for the court.

He said the ruling also may invalidate a key policy insuring agreement—that only losses that happen during the policy period are covered.

For some large commercial risks, however, property policies may be structured differently, because insurers are willing to customize property policies for those policyholders.

The litigation is rooted in a property coverage dispute over a loss that a landlord of a residential rental property in Banks, Ore., suffered as a result of illegal drug activity by one of his tenants, according to court papers.

The tenant operated a methamphetamine laboratory on the premises. The lab contaminated the property with high levels of lead and mercury.

After police shut down the lab in 1993, landlord Terry Fleming filed a claim for between $30,000 and $35,000 with his property insurer, USAA.

'If left to stand, the Supreme Court ruling means that all forms previously filed with the Insurance Department must be rewritten and refiled,' says Melvin N. Sorensen.

San Antonio-based USAA, citing the policy's pollution exclusion, denied coverage.

A jury in 1993 ordered USAA to pay Mr. Fleming $25,000.

But an Oregon appellate court overturned that ruling in 1996. It ruled that the policy's pollution exclusion clearly applied to the loss at Mr. Fleming's property.

USAA had included the exclusion in a policy provision titled "PERILS INSURED AGAINST." The appellate court ruled that such policy construction did not violate the Oregon statute requiring fire insurers to itemize coverage exclusions under a separate provision that has a "sufficiently explanatory" title. The Oregon law also requires that the title must be in capital letters and in no smaller than eight-point type. The law does not define "sufficiently explanatory."

The appellate court agreed with USAA that the "PERILS INSURED" provision could include statements of inclusion and exclusion. The court ruled that if the Legislature had intended to require insurers to present all exclusions in a separate policy provision, lawmakers could have done so in far clearer terms.

But in a unanimous decision written by Justice Susan M. Leeson, the state's high court ruled that the statute clearly requires insurers to package all coverage exclusions in a separate, clearly titled provision.

The court ruled that a provision titled "PERILS INSURED AGAINST" does not give the policyholder ample notice that the provision may also contain coverage exclusions.

Policyholder attorney John A. MacDonald, who co-wrote an amicus brief for United Policyholders, praised the decision. "If you have to read an entire policy in order to find a particular exclusion, that's a problem. If you're going to do that, you might as well not have headings (in policies) to begin with," said Mr. MacDonald, a partner with Anderson Kill & Olick P.C. in Philadelphia.

Insurer representatives said the ruling could disrupt Oregon's property insurance market and may cause more widespread problems.

John H. Holmes, an attorney who filed an amicus brief for the NAII in the case, called the ruling a "terrible decision" that "just defies reason or common sense." The ruling strikes down the plain language of a policy approved by the insurance commissioner, influenced by regulatory and court rulings, and used to determine rates, said Mr. Holmes of Holmes & Rickles in Portland, Ore.

"If left to stand, the Supreme Court ruling means that all forms previously filed and approved by the Insurance Department must be rewritten and refiled—a requirement that could seriously disrupt the Oregon insurance market," said Mr. Sorensen.

The rating implication of the decision could be immediate.

Mr. Sorensen noted that Oregon's insurer solvency regulations state that rates cannot be inadequate.

Mr. Holmes said that, as a result of the ruling, insurers may have to seek approval to boost rates even for in-force policies, because insurers did not rate those policies for all the risks they now must cover.

Mr. Sorensen would not comment directly on the potential of insurers pulling out of the state if they cannot obtain rate relief or approval to overhaul their policies. But, he said insurers are weighing all of their options.

The Oregon Insurance Division has not studied the rating implications of the decision, so no official would comment on the potential of rate hikes.

But Patrick Fitzgerald, manager of the rates and forms section of the Oregon Insurance Division in Salem, said the agency would be "receptive" to policy redesigns.

Attorneys were not sure whether other states have laws like the Oregon statute that requires clearly titled insurance policy provisions.

But Robert E.L. Bonaparte, Mr. Fleming's attorney, noted that Oregon statutes are modeled after other states' statutes. Mr. Bonaparte is a partner at Bonaparte, Elliott, Ostrander & Preston P.C. of Portland.

The NAII's Mr. Sorensen also said he would not be surprised to see statutes similar to Oregon's law elsewhere in the country.

But Mr. MacDonald, the policyholder attorney, said his Internet search found that Oregon's law is unique.

Even so, the Oregon Supreme Court decision could influence courts in other states, he said.

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Fleming vs. USAA, Oregon Supreme Court, Nov. 4, 1999, No. S44805.

Info Resource listings sought

Business Insurance will publish its annual Information Resource sections on employee benefits and risk management in January.

The Information Resource is a list of free products and informational materials available to *Business Insurance* readers.

The employee benefits Information Resource will be published Jan. 3, and the risk management resource will run Jan. 17.

The materials must be informational or educational in nature; promotional or marketing materials will not be accepted.

The listings are published as an editorial service; there is no charge to be included.

Organizations wishing to submit materials for Information Resource sections should contact Assistant Directory Editor Michel Schwartz at 312-649-5313 and request a questionnaire. The questionnaire also will be available at *BI's* World Wide Web site, at www.businessinsurance.com/-magazine/directories.html.

Updates

EgyptAir premiums up 300%

Continued from page 2

the airline's liability insurance would not be jeopardized, airline insurance legal experts said. In addition, the Warsaw Convention would prohibit plaintiffs from recovering punitive damages against EgyptAir, the experts said. The airline, however, had previously waived the liability restrictions that the Warsaw Convention and subsequent accords established for claims arising from harm to passengers on international flights.

Education benefit extension

WASHINGTON—Legislation approved by the House of Representatives last week would extend through Dec. 31, 2001, from May 31, 2000, a section of the Internal Revenue Code that gives tax-favored status to employer-provided educational assistance benefits.

Under Section 127 of the code, an employer can reimburse an employee for up to $5,250 in annual educational expenses for undergraduate-level work without the reimbursement being added to the employee's taxable income.

The same bill also extends through Dec. 31, 2005, from Dec. 31, 2000, Section 420 of the code, which allows employers that meet certain strict criteria to transfer surplus pension assets to special accounts to pay for retiree health care expenses.

The educational assistance and retiree health care provisions are part of a broader disability benefits bill, which the Senate is expected to approve this week.

Columbine H.S. claim paid

LITTLETON, Colo.—Chubb Insurance Co. has paid more than $1.6 million to the Jefferson County School District for property damage claims stemming from the April 20 Columbine High School shooting.

The insurer paid for damage to school property, building contents and personal property and for extra expenses the school district incurred while the library and cafeteria were under repair, according to Sally Phillips, insurance manager/risk manager.

The school district also has paid numerous workers compensation claims for the teacher who was slain and other employees who were injured either physically or psychologically during the shooting spree in which two young gunmen killed 12 schoolmates and a teacher before taking their own lives.

Though the school district has not yet been sued by parents of shooting victims, it has received 17 notices of intent to maintain the right to sue from them, Ms. Phillips said. The district has limited governmental immunity from liability under state law, but suits may be filed against the district in federal court, she said.

Jefferson County Schools has $3 million in liability coverage above a $300,000 self-insured retention under an excess liability policy written by Genesis Insurance Co., a unit of General Re Corp. (*BI*, April 26).

Briefly noted

The U.S. Occupational Safety and Health Administration expects to issue its long-awaited **ergonomics standard** this month, possibly as early as this week. Business groups have opposed promulgation of such a standard, holding that not enough scientific evidence linking ergonomic ailments to job factors has been gathered to justify the costs of implementing a national standard. . . .Washington state Insurance Commissioner Deborah Senn has adopted a new rule allowing **deregulation of commercial lines**. The suspension of rate filings will apply to most property/casualty policies with annual premiums in excess of $25,000. . . .**Jeffrey W. Greenberg**, president of Marsh & McLennan Cos. Inc., was elected chief executive officer by M&M's board last week. He succeeds A.J.C. Smith, who will remain chairman of Marsh's board until he retires at age 65 after Marsh's 2000 annual meeting. Mr. Greenberg also resigned last week as a director of ACE Ltd. in Bermuda and was replaced by Roberto Mendoza, vice chairman of J.P. Morgan & Co. Inc. in New York. . . .**Dominic Frederico** has been named president and chief operating officer of ACE Ltd. He will retain his position as non-executive chairman of ACE INA Holdings Inc., the holding company for ACE's U.S. business and much of its international business. . . .**Lloyd's of London** has won another case against U.S. members who were seeking to have their cases heard in the United States instead of the United Kingdom. Justice Herman Kahn, a New York state trial court judge, rejected arguments by Lorraine and Oliver Grace that they had been denied due process after U.K. courts ruled that they should pay Lloyd's more than $750,000. . . .The American Council of Life Insurance's board of directors last week voted to change the trade group's name to the **American Council of Life Insurers**. The name change reflects the development that, for most members, premium income now is also generated by non-life insurance products, such as pensions and other retirement savings products. . . .**Frontier Insurance Group** lost its A- financial strength rating last week when A.M. Best downgraded the insurer to B++. Best's downgrade followed Frontier's announcement of a $136 million charge related to loss development in medical malpractice and general liability. . . .**Vice President Al Gore**, while on the campaign trail last week in New Hampshire, said that employers switching to new pension plan designs need to give employees more advance notice of the change, as well as provide to each employee a clear individual statement about how his or her benefit will be affected by the switch. . . . Standard & Poor's Corp. placed **Acceptance Insurance Cos. Inc.**'s credit ratings on CreditWatch with negative implications after the Omaha, Neb.-based holding company announced it was taking a $44 million reserve-strengthening charge in the third quarter. The charge is primarily associated with policies AIC issued prior to 1996 to California contractors and subcontractors, AIC said in a statement. . . .The **Occupational Safety and Health Administration** is seeking public comments by Dec. 16 on its proposal to grant final approval to Nevada's bid to administer its own OSHA program independent of the federal agency. If approval is granted, Nevada would become the 16th state permitted to do so. For information on submitting comments, contact OSHA at 202-693-2350.

Outlook

Continued from page 2

Return on equity has dropped so low that it's nearly impossible for a new P/C insurer to raise capital, Mr. Porrino said. Bermuda-based insurers, however, possess regulatory advantages that make raising capital easier for them, he said.

The industry's low returns and inability to raise capital eventually will get so bad that many companies will simply stop writing business, Mr. Porrino predicted, as their ratings fall too low for policyholders to risk buying products from them. "There will be more property/casualty companies that won't be able to compete in today's marketplace," he said.

Many "companies will come to the realization they cannot compete in the industry and just give up," Mr. Porrino said.

Someone outside the P/C industry will find a creative solution "to take these dying companies out of their misery" and turn them into profitable operations, he said.

In addition, the overcapacity will force more mergers within the insurance industry. Although there has been a lot of consolidation, it has not changed the percentage of the market controlled by the top companies, Mr. Porrino said. Comparing the P/C industry with banks and life insurers shows that the top 25 banks and life insurers each control around 70% of their respective market share. The top 25 P/C insurers, however, control only 59% of the market, a figure that has not changed in more than five years.

One industry that won't save the insurers is banks, they said. Although the recently signed financial services reform law opens the way for banks and insurers to combine, Mr. Porrino said he doesn't see banks buying insurers. Customers have not demanded one-stop shopping for financial services, he said. Instead, people want to buy the best version of each product.

So why should banks "go into another capital-intensive business" by buying an insurer that doesn't provide a good return on equity? Mr. Porrino asked.

Instead, Mr. Porrino said he foresees alliances between companies, so customers can select from not just the products of one company but the offerings of many companies.

Looking ahead, Mr. Stein said three types of financial service companies will emerge. The first type will be enormous financial supermarkets, such as Citigroup. The second type will consist of global or regional specialists that dominate one field, such as American International Group Inc., Chubb Corp. or Merrill Lynch & Co. And the third group will consist of domestic specialty companies that operate in one field and, generally, only in the United States.

Another threat to insurers is emerging from e-commerce companies, such as Amazon.com, Mr. Stein said. Future success depends on controlling the customer relationship, and these entities, with their tremendous emphasis on customer service, could become the conduit for selling products that others create.

Another advantage these e-commerce businesses have, Mr. Stein said, is their ability to offer products from many companies, giving the customer a virtually unlimited selection. BI

Lenny

Continued from page 1

As of Friday, losses from Hurricane Lenny were still developing, according to Jeff Bowman, senior vp-managing director of Atlanta-based Crawford & Co.'s Americas division.

"Lenny as a hurricane is probably the most unusual one we've had for a long, long while," he said. "In fact, it's being called 'Left-handed Lenny' because it's going the wrong way. The path has completely confused us."

Mr. Bowman explained that Lenny had switched directions numerous times, and at one point on Friday appeared likely to rebuild strength as it headed east toward Antigua. It continued to lose strength, however, and by late afternoon had been downgraded to a tropical storm.

Paul Thornber, president of McLarens Toplis Puerto Rico, agreed that Lenny was an unusual storm for several reasons: its west-to-east direction; its strength, having reached Category 4, indicating winds of 131 to 155 mph and storm surges of 13 to 18 feet; and for its lateness in the Atlantic hurricane season, which usually wraps up Nov. 1.

"This has caused three types of damage." Mr. Thornber said in an e-mail to Bob Barnett, assistant director of the property division and catastrophe coordinator at McLarens Toplis North America Inc. in Los Angeles. Mr. Barnett shared the communication with *Business Insurance* on Friday.

Mr. Thornber reported: "Direct wind damage to those islands which were close to the center, such as St. Croix and St. Maarten; rain/flood damage to St. Kitts and Nevis and Antigua; and storm surge damage to most of the Leeward and Windward Islands."

"We have reports of damage as far south as Aruba in the Dutch Antilles and Tobago next to Trinidad," Mr. Thornber wrote. "We're dealing with damage to resorts in Grenada, St. Lucia, Nevis, Barbados, Antigua as well as the U.S. and British Virgin Islands."

"A new fishing facility in Grenada suffered surge damage provisionally estimated in excess of $500,000," he added.

Crawford's Mr. Bowman reported similar widespread destruction.

"We're getting claims in Aruba, Curacao and Grenada," he said. "No one was prepared for it there; they're hundreds of miles from where the hurricane is."

Adjusters said that St. Croix of the U.S. Virgin Islands appeared to be among the worst hit as of Friday.

"On St. Croix, there's structural damage, and quite a lot of storm surge has come out of this," said Mr. Bowman. Storm surge causes beachfront erosion, which leads to mudslides and the possibility of structures collapsing and falling into the ocean, he explained.

The worst effect so far has been on the island's northeast side, where Mr. Bowman estimated that 75% of the vessels in the St. Croix yacht club were damaged. The Divi Casino, which was under construction, also was hit, he said.

Lenny had been churning for about 24 hours over St. Maarten and St. Barthelemy as of Friday afternoon, making communications impossible.

"We have not been able to make contact with our office in St. Maarten" since Thursday afternoon," Mr. Bowman said. "The airport is closed and we can't get through on cell phones or land lines."

Another "interesting phenomenon" also is occurring, he added: "The houses on these islands are usually placed in positions on the mountains so that when hurricanes go from east to west, they're protected, but this is a west-to-east one. No one quite knows what the effect of that will be."

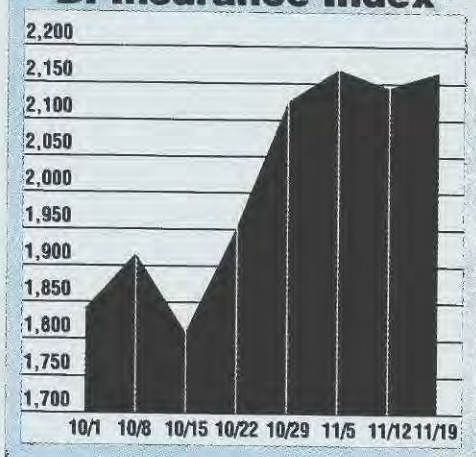
It will take at least several weeks for adjusters to tally the losses from Hurricane Lenny, Mr. Bowman said, adding that Crawford had at least 50 people working in the region.

"We had a team that was there from (Hurricane) Jose, which went through a couple of weeks ago," he explained. "We'll have more info next week."

But it will take time, he said.

"We're still trying to figure out what Floyd cost us," Mr. Bowman said. BI

BI Insurance Index



Source: *CNET Investor* (investor.cnet.com) Boulder, Colo.

PCS catastrophe options

As of Nov. 19

Call spread	Price bid/ask
National Annual 1999	
60/80	14.0/19.5
80/100	0.6/—
100/120	0.2/—
150C	0.1/2.0
Eastern December 1999	
10/20	—/4.0
20/30	—/2.0
40/60	—/2.0
60/80	—/1.8
Southeast December 1999	
40/60	—/1.8
60/80	—/1.6
80/100	—/1.4

Call spread	Price bid/ask
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
National Annual 2000	
100/150	6.7/—
150C	5.0/—
190/195	0.3/0.5
200/250	3.0/—

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

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Legal & Gen	173	21.8	3.6	2.1	237-142
Royal & Sun	416	NA	23.0	5.8	633-379
Brokers					
Lmbrt Fenchurch	124	12.0	4.2	3.4	135-58
JLT	248	11.2	12.0	4.8	286-166

Note: Prices are Nov. 19 closings; other numbers from Nov. 18.

Source: *CNET Investor* (investor.cnet.com) Boulder, Colo.

BI Industry Stock Report NOV. 15, 1999, THROUGH NOV. 19, 1999

BROKERS		Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)
Aon Corp.	NYS	37.00	-4.36	-1.00	46.69	26.06	1674
Clark Bardes Holdings	NDQ	13.13	-2.78	-22.28	21.00	11.63	114
E.W. Blanch Holdings Inc.	NYS	58.75	-0.21	25.84	71.75	39.75	239
Gallagher Arthur J. & Co.	NYS	53.88	-2.38	23.14	57.25	42.25	76
Hilb, Rogal & Hamilton	NYS	26.81	-0.46	43.96	27.38	15.56	80
Kaye Group Inc.	NDQ	8.75	-1.41	20.69	9.25	5.00	3
Marsh & McLennan	NYS	79.00	-3.88	33.62	83.38	54.81	3489
Brown & Brown	NYS	37.69	4.33	7.87	39.44	29.31	54
BROKERS	AVERAGE		-0.67	25.85			
INSURERS/REINSURERS							
ACE Ltd.	NYS	18.75	-7.41	-42.64	35.25	15.50	3014
Accel International Corp.	NDQ	1.06	61.90	-64.58	3.38	0.50	90
Acceptance Insurance Cos.	NYS	7.25	-47.75	-63.52	20.44	7.25	1402
AEGON N.V.	NYS	90.63	1.83	-25.68	130.13	69.63	729
Aetna Life & Casualty	NYS	56.94	-0.55	-28.66	99.88	46.50	4894
AFLAC Inc.	NYS	51.94	0.61	18.04	56.75	36.13	2338
Allmerica Financial Corp.	NYS	57.31	0.77	1.21	64.81	46.06	506
Allstate Corp.	NYS	28.06	-2.60	-27.11	45.00	22.88	10063
Ambac Financial Group	NYS	54.50	-5.22	-9.07	63.00	44.69	1569
American Financial Group	NYS	28.13	-2.17	-31.71	43.88	25.31	144
American General	NYS	79.19	0.88	1.20	82.19	61.88	3473
American Heritage Life Ins.	NYS	38.75	0.00	61.04	38.75	19.50	0
American Intl Group	NYS	109.56	3.61	40.65	111.88	69.38	11345
American Safety Insurance	NYS	6.69	-0.93	-29.61	10.38	6.63	45
Argonaut Group	NDQ	23.25	1.09	-3.13	28.38	22.25	37
AXA-UAP Group	NYS	71.31	-0.61	-0.35	80.25	53.75	177
Baldwin & Lyons Inc.	NDQ	20.25	-0.92	-13.37	26.00	19.63	25
Berkley W.R. Corp.	NDQ	22.13	-2.21	-34.44	36.50	20.63	220
Berkshire Hathaway Inc.	NYS	58200.00	-3.48	-14.79	81100.00	54200.00	2
Capital RE Corp.	NYS	14.06	-3.43	-28.12	22.25	9.44	507
Capitol Transamerica Corp.	NAS	11.88	1.06	-32.86	19.50	11.50	37
Centris Group Inc.	NYS	12.06	2.66	28.67	14.06	7.50	124
Chubb Corp.	NYS	56.25	-0.99	-13.38	76.38	44.00	1767
CIGNA Corp.	NYS	83.75	0.45	7.72	98.63	63.44	2990
Cincinnati Financial Corp.	NYS	34.63	-2.98	-2.98	42.50	30.69	1312
Citigroup	NYS	56.50	2.84	67.61	58.25	29.25	47577
CNA Financial Corp.	NYS	39.88	-1.09	1.43	45.31	33.00	355
CNA Surety	NYS	11.50	6.36	-23.01	16.00	9.75	149
EMC Insurance Group Inc	NDQ	10.44	7.05	-18.14	13.38	9.25	26
ESG Re Limited	NDQ	5.88	10.59	-70.35	22.25	5.13	1349
Enhance Financial Services	NYS	19.13	14.18	-36.78	30.38	15.56	502
Everest Reinsurance	NYS	24.56	-1.75	-33.05	38.94	20.50	1126
Fremont General Corp.	NYS	5.69	13.75	-76.42	25.69	4.75	2842
Frontier Insurance Group	NYS	4.00	-8.57	-68.00	17.25	2.75	6562
Gainsco Inc.	NYS	6.00	3.23	-4.95	6.94	3.94	100
Harleysville Group	NDQ	16.63	-2.56	-34.80	26.13	13.13	115
HSB Group Inc.	NYS	35.88	-1.03	-10.73	42.25	33.25	186
HCC Insurance Holdings	NYS	11.31	0.00	-33.21	25.13	8.00	842
ING Groep N.V.	NYS	61.63	0.20	1.02	70.00	47.44	280
IPC Holdings Ltd.	NDQ	17.94	-11.42	-21.15	25.38	15.38	91
Hartford Financial Services	NYS	48.81	-1.88	-12.54	66.44	36.50	2595
LaSalle Re Holdings Ltd.	NYS	14.25	-2.15	-30.91	25.63	10.88	102
Lincoln National	NYS	45.88	-1.08	10.71	57.50	36.00	2121
MAIC Holdings Inc.	NYS	23.88	4.66	-25.39	33.13	22.38	144
Markel Corp.	NYS	167.00	-0.11	-7.35	193.00	157.50	27
MBIA Insurance Group	NYS	53.25	2.04	-19.70	71.88	45.00	1861
Meadowbrook Insur. Group	NYS	6.13	-21.60	-62.45	17.44	5.88	71
MMI Cos. Inc.	NYS	4.56	-5.19	-72.66	18.13	4.38	613
Mutual Risk Mgmt. Ltd.	NYS	15.81	9.05	-58.32	43.25	9.81	1178
Navigators Group	NDQ	12.63	-0.98	-17.21	16.13	12.63	12
NYMagic Inc.	NYS	14.75	-0.84	-29.34	21.38	12.00	20
Ohio Casualty Corp.	NDQ	16.38	1.55	-20.36	21.69	14.88	596
Old Republic Int'l	NYS	13.06	-1.42	-39.07	22.75	12.88	2430
Orion Capital Corp.	NYS	50.00	0.25	27.59	50.00	27.56	32
Partner Re Ltd.	NYS	30.75	-2.38	-31.95	46.50	28.56	464
Penn-America Group Inc.	NYS	7.63	1.67	-7.57	11.44	7.00	28
PMA Capital Corporation	NDQ	20.00	0.63	2.24	21.13	17.38	360
Philadelphia Cons. Holding	NDQ	15.00	1.69	-29.41	25.50	10.81	125
PXRE Corp.	NYS	12.69	3.57	-49.75	26.25	9.94	154
Reliance Group Holdings	NYS	4.00	25.49	-69.08	15.13	2.81	4324
ReliaStar Financial Corp.	NYS	45.81	-0.27	2.37	49.81	31.69	1590
RenaissanceRe Holdings Ltd.	NYS	40.00	6.67	10.73	41.06	30.00	234
Risk Capital Holdings	NDQ	12.75	0.99	-39.64	22.63	12.00	162
RLI Corp.	NYS	35.63	0.71	6.74	38.81	27.88	22
St. Paul Cos.	NYS	32.75	-4.38	-6.43	37.50	25.38	1932
SCOR	NYS	44.44	-8.61	-31.63	68.50	44.44	14
SAFECO Corp.	NDQ	26.44	-3.42	-37.79	46.75	25.75	4164
SCPIE Holdings Inc.	NYS	35.50	2.90	18.09	36.06	23.69	NA
Seibels Bruce Group	NDQ	2.22	14.52	-36.61	6.25	1.69	404
Selective Ins. Group	NDQ	17.50	-1.41	-13.58	22.50	17.25	351
Terra Nova Ins Co. Ltd.	NYS	30.81	0.20	26.41	32.63	21.25	273
Tokio Marine & Fire	NDQ	66.50	3.50	12.95	67.00	50.00	61
Torchmark Corp.	NYS	34.19	-0.55	-1.62	40.25	24.56	2584
Transatlantic Holdings	NYS	74.75	0.17	-1.16	80.50	69.06	57
Travelers Property Casualty	NYS	34.44	-1.78	12.45	41.88	27.69	1429
Trenwick Group Inc.	NYS	20.69	0.91	-34.58	35.25	16.50	98
Unico American Corp.	NDQ	7.25	-3.33	-37.13	13.75	7.19	31
United Fire & Casualty	NDQ	23.00	2.79	-30.89	37.25	20.50	32
Unitrin	NDQ	38.06	2.01	7.41	42.38	30.50	384
UNUM Corp.	NYS	35.94	7.08	-40.04	62.50	26.00	2817
Vesta Insurance Co.	NYS	4.63	13.85	-19.57	8.38	3.38	536
XL Capital Ltd.	NYS	53.38	-4.15	-25.41	77.25	41.94	2488
Zenith National Ins.	NYS	21.25	-0.29	-8.11	26.69	20.31	68
INSURERS/REINSURERS	AVERAGE		0.75	-16.84			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	10.00	5.26	-9.09	20.06	6.25	1602
Humana Inc.	NYS	7.69	2.50	-59.41	21.38	5.88	3399
Oxford Health Plans	NDQ	16.00	0.79	14.29	24.25	9.75	5858
Pacificare Health Sys.	NDQ	53.00	3.79	-25.87	100.38	31.13	2614
Safeguard Health Enter.	NDQ	1.00	-70.37	-71.93	5.25	0.44	340
Sierra Health Services	NYS	9.94	2.58	-52.40	24.94	7.19	391
United HealthGroup	NYS	55.69	4.58	24.96	70.00	39.38	3939
Wellpoint Health Networks	NYS	64.56	2.99	-24.82	97.00	48.25	1206
HMOs	AVERAGE		-5.98	-25.53			
ALL COMPANIES	AVERAGE		-1.97	-5.51			

Top advancing issues: Accel International Corp., Reliance Group Holdings, Seibels Bruce Group. Leading decliners: Safeguard Health Enter., Acceptance Insurance Cos., Meadowbrook Insur. Group. Most active issue: Citigroup. The *BI* Index rose 1.0%; the Dow Jones 30 Industrials gained 2.2%; the S&P 500 increased 1.9%, and the NYSE Composite rose 1.5%. Average P/E: Brokers, 18.0; Insurers/reinsurers, 19.8; HMOs, 14.7.

Source: *CNET Investor* (investor.cnet.com), Boulder, CO

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