

Business Insurance

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

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National class-action suits filed against five HMOs

HATTIESBURG, Miss.—Health maintenance organizations are defending themselves against several suits seeking class-action status filed against them last week by a group of attorneys.

The group, called REPAIR, has filed suits against: Philadelphia-based CIGNA Corp.; Woodland Hills, Calif.-based Foundation Health Systems Inc.; Louisville, Ky.-based Humana Inc.; Santa Ana, Calif.-based PacificCare Health Systems Inc.; and Newark, N.J.-based The Prudential Insurance Co. of

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Employers vow ergonomics battle

By MARK A. HOFMANN

WASHINGTON—Employer groups renewed their pledge to block the Occupational Safety and Health Administration from implementing its controversial proposed ergonomics standard, after the latest draft was released last week.

Both OSHA Administrator Charles Jeffress and Labor Secretary Alexis Herman stressed their belief that the new proposal is narrowly drawn and is targeted at the worksites most likely to report ergonomic-related injuries or illnesses.

"This is the most flexible standard that OSHA has ever proposed," said Mr. Jeffress. "The majority of employers will be covered (by the standard) only if an employee suffers" a musculoskeletal disorder,

or MSD, he said.

Mr. Jeffress said that the proposal, which appeared in the Nov. 23 Federal Register, would cost employers about \$4.2 billion annually, which would be more than offset after projected savings in workers compensation and other costs were taken into account.

OSHA has been working on an ergonomics standard for nearly a decade, but its efforts to issue a standard have been repeatedly blocked by Congress, responding to employers' concerns that the proposed regulation isn't backed by sound science.

OSHA has disputed the contention that there is not enough scientific evidence linking MSDs and workplace risks to support the issuance of an ergonomics standard. In background material released with the un-

veiling of its proposal, the agency claimed that a "substantial body of scientific evidence" supports the link and the effective-



"This is the most flexible standard that OSHA has ever proposed."

—Charles Jeffress

ness of ergonomics programs in reducing ergonomics-related injuries. Among other

things, OSHA cited a 1998 study by the National Research Council and the National Academy of Sciences, "more than 2,000 articles on work-related MSDs and workplace risk factors" and "hundreds of published 'success stories' from companies with ergonomics programs."

Still, employers maintain that there is neither sufficient scientific evidence nor justification for imposing such a standard.

"If OSHA continues down this route, the business community" will fight the agency in both Congress and the courts, promised Randel Johnson, vp-labor policy at the U.S. Chamber of Commerce in Washington, at a press conference immediately following the announcement. Mr. Johnson said that the proposal was "so badly written" that

See OSHA on page 26

Watson Wyatt plans an IPO

A first among benefit advisers

By JERRY GEISEL

BETHESDA, Md.—Benefit and actuarial consultant Watson Wyatt & Co. plans an initial public stock offering for early next year, the first ever launched by a major benefit consultant.

In a brief statement, the Bethesda, Md.-based consultant said its board of directors has approved offering about 25% of its shares; company shares currently are almost entirely owned by active employees. The IPO is expected to involve the sale of shares by Watson Wyatt and shareholders, resulting in continued ownership by employees of about 75% of its total shares.

Watson Wyatt
Worldwide

More than 16 million shares, now valued at \$6.68 per share, are currently outstanding. It is expected that

most of the shares sold through the IPO would be newly issued.

Watson Wyatt executives, who wouldn't comment beyond a prepared statement, say the IPO is a component in its effort to grow.

"This represents an important step in our long-term growth strategy. It will give us a financial structure that will help us create new opportunities for our firm, our associates and our clients in the years to come," said Watson Wyatt President and Chief Executive Officer John J. Haley, in a written statement.

Other observers say the IPO fits with Watson Wyatt's plan to grow substantially. They note that funds raised through the IPO could be used for acquisitions. In addition, having a publicly traded, liquid stock—with a market rather than just a book value—might make it a more attractive suitor in acquisition deals.

In fact, the motivation behind Watson Wyatt's planned IPO is completely different from those of other recent financial transactions and ownership changes that have buffeted the benefits industry, observers close to the company say.

For example, the 1997 purchase of Kwasha Lipton by Coopers
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Heath, Lambert merger welcomed by clients

By EDWIN UNSWORTH

LONDON—Insurance buyers and underwriters alike are welcoming the proposed broker merger that will create HLF Insurance Holdings Ltd., according to executives of the merging brokers.

Lambert Fenchurch Group P.L.C. and Heath Group P.L.C.—the world's 10th and 12th largest brokers, respectively—announced the planned merger last week. Based on combined 1998 brokerage revenues of \$462 million, *Business Insurance* estimates that HLF would be the fifth-largest broker in the world. The new broker also would leapfrog Jardine Lloyd Thompson Group P.L.C. to become Britain's largest independent broker. The merger is expected to be completed around mid-

Combined broker would move to top 5

	 Lambert Fenchurch Group plc	 HLF INSURANCE HOLDINGS LTD.
Broker rank:	10	12
'98 gross revenue	\$258,851,000	\$232,892,225
'98 broker revenue	\$252,235,000	\$209,494,023
% of gross revenue from retail brokerage	58.8%*	45.2%
Employees	2,510	2,285

* B/ estimates. Converted at applicable exchange rates.

January.

Executives of the two brokers say their operations are highly complementary and that the union

will offer significant commercial and financial advantages.

Lambert Fenchurch is strong in
See HLF on page 25

Customers deliver lawsuit UPS to fight civil challenge to use of captive

By DOUGLAS McLEOD

DAYTON, Ohio—Only a few months after a U.S. Tax Court judge labeled its Bermuda reinsurance affiliate a "sham," United Parcel Service of America Inc. is facing a lawsuit charging that it used the reinsurer in an illegal package insurance scheme that defrauded UPS customers of \$14 billion.

Lawyers for 15 UPS customers in four states have filed a proposed class-action suit claiming that UPS acted illegally as an unlicensed insurer when it collected fees to insure packages with declared values in excess of \$100.

While UPS placed shippers risk coverage with a unit

of American International Group Inc., the shipping giant actually performed virtually all insurance functions itself, including paying claims, the suit says. Money it purportedly paid as premium to AIG actually represented huge underwriting profits on the business, which AIG passed through to Overseas Partners Ltd., a Bermuda-based UPS affiliate that AIG was fronting, the suit charges.

The complaint also names units of AIG and Aon Corp., which provided brokerage and captive management services to UPS.

Although it still has not decided whether to appeal the August tax ruling, UPS will "vigorously defend" the
See UPS on page 23



GRAPHIC BY MIKE GARVEY

Class action filed against HMOs

Continued from previous page

America. Prudential HealthCare was acquired by Hartford, Conn.-based Aetna Inc. in August.

REPAIR is led by attorney Richard Scruggs of Scruggs, Millette, Bozeman & Dent in Pascagoula, Miss., who was one of the attorneys involved in litigation against tobacco companies.

The recent suits, filed in federal court in Hattiesburg, charge the HMOs with violations of the civil Racketeer Influenced and Corrupt Organizations Act and the Employee Retirement Income Security Act, including establishing financial incentives for physicians to limit health care treatment.

The threat of class-action suits has already caused investor concern on Wall Street and hurt HMOs' stock prices (*BI*, Nov. 15). The eight HMO stocks tracked by *Business Insurance* dropped 8.3% last week.

"It really appears to be an orchestrated effort on the part of just a small group of well-funded attorneys that are using the court system to create enormous fees for themselves while, in our opinion, doing serious potential damage to the health care system in general," said Tami Durle, CIGNA director of investor relations.

This "appears to be one of many lawsuits that will ultimately drive up health care costs for consumers by forcing HMOs through unwarranted, costly and protracted litigation," said Alan Hoops, PacifiCare's president and chief executive officer, in one of the statements issued by HMOs in response to the suits.

UnumProvident exits Lloyd's

LONDON—Lloyd's of London managing agency Duncanson & Holt Syndicate Management Ltd. has ceased underwriting on five syndicates because of the withdrawal of capacity by its biggest backer, UnumProvident Corp.

Portland, Maine-based UnumProvident provided about 75% of the capital on the five DHSM-managed syndicates, which have combined underwriting capacity of approximately £240 million (\$390.1 million).

As a result of UnumProvident's withdrawal, the five syndicates have ceased accepting new or renewal business for 1999 or 2000. DHSM has instructed Eastgate Group Ltd. to develop a long-term plan for managing the runoff of the business.

UnumProvident said it decided to exit Lloyd's because it wants to focus on its core disability business in North America, the United Kingdom and Japan.

It also said the decision in part reflected "recent deterioration in projected results of the syndicates."

The Lloyd's syndicates affected are non-marine syndicate 55, aviation syndicate 957, non-marine syndicate 1101, marine syndicate 1308 and space syndicate 1999.

Lloyd's downplayed the significance of the withdrawal, saying UnumProvident's decision "is entirely in keeping with characteristic movements of capital in the Lloyd's market, both corporate and private."

DHSM could not be reached for comment.

Court denies cleanup coverage

DES MOINES, Iowa—Environmental contamination stemming from the residue of manufacturing operations is not an "accidental" exposure and therefore not covered by insurance, according to the Iowa Supreme Court.

The court also held that a policyholder has a duty to notify its insurer of a claim in a timely manner.

Ruling earlier this month in *Interstate Power Co. vs. Insurance Co. of North America*, the court found that INA does not have to cover a claim for environmental remediation costs.

In 1987, Dubuque, Iowa-based Interstate Power received a report of potential environmental contamination stemming from coal tar and other residual solids at several manufactured gas plants it owned or had previously owned. These sites, some of which had been opened in the 1800s, were all closed or decommissioned by 1957.

Two years after receiving the report, Interstate learned that remediation of the sites could cost several million dollars but did not notify its insurer until 1994.

The court wrote, "We accept as a general principle that ground contamination occurring over a period of time from a natural seeping process is not accidental when the sources of the contamination are deliberately exposed to that process."

Mark Plumer, a partner with Swidler, Berlin, Shereff, Friedman L.L.P. in Washington, who represented Interstate Power Co., said the company plans to file a motion for rehearing this week. He said he believes the court misunderstood facts involving the occurrences that Interstate deemed accidental. "Interstate didn't place waste on the ground deliberately at any of these sites," he said.

Laura Foggan, a partner at Wiley, Rein & Fielding in Washington and counsel to the Insurance Environmental Litigation Assn., said this ruling could have ramifications in other jurisdictions beyond Iowa.

The ruling solidifies the view that an insurance contract is not just a "deep pocket," but rather a contract built on mutual obligations, including prompt notice by the policyholder, she said. Companies that engage in sloppy practices as part of routine waste disposal will find this is not an insured event, she explained.

Mr. Plumer said the court's decision muddies understanding about what is accidental and what is timely notification. "I'm afraid they haven't answered the questions posed; instead they've created ambiguities under Iowa law."

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Swiss Re's Hutter resigns

Restructuring eliminates position, sparks other changes

ARMONK, N.Y.—Heidi Hutter has resigned as chairman, president and chief executive officer of Swiss Re North America Corp. following a reorganization by parent company Swiss Reinsurance Co.

Swiss Re's restructuring, announced last week, created a new Americas division and appointed another executive to run the division.

"The reorganization has eliminated the position that I had," said Ms. Hutter.

Ms. Hutter said she is considering her career options.

The North American division, which achieved its nine-month financial target, will now be merged with the Latin American division, according to Ms. Hutter.

Michel Lies, the head of Swiss Re's

Latin American division, has been reassigned to oversee Swiss Re's European division. Andreas Beerli, head of Swiss Re Italia S.p.A. in Rome, will transfer to Armonk, N.Y., to lead the united Americas division beginning in January.

A Swiss Re spokeswoman would not comment on the departure of Ms. Hutter.

Ms. Hutter joined Swiss Re as an actuarial assistant in New York after graduating from college in 1979. In 1993, she left the company to create a reinsurer to take on the past liabilities of Lloyd's of London. That reinsurer is now known as Equitas Ltd.

Ms. Hutter returned to Swiss Re as head of the North American operations in 1996.

—By Gavin Souter

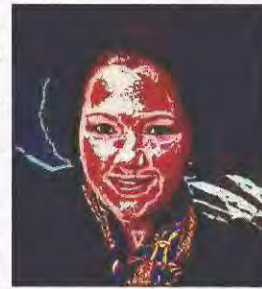


PHOTO: DAVID LUBARSKY

Reliance hires Robert Miller to improve long-term prospects

By GAVIN SOUTER

NEW YORK—Reliance Group Holdings Inc. last week named as president turnaround specialist Robert S. Miller to revitalize the ailing insurance group and attempt to hold on to its A- rating as year-end renewals heat up.

So far, the desire for continuity and a general satisfaction with Reliance's service, products and prices have kept most policyholders from defecting to other insurers, say Reliance executives and some observers.

But the insurer needs to substantially bolster its position if it is to thrive in the long term, all acknowledge.

Any downgrade in its financial ratings could severely hinder Reliance as it seeks to recover from its troubles.

The appointment of Mr. Miller as president of Reliance is just one of several moves the company has made following its announcement in its second quarter results that it was increasing loss reserves by \$227 million.

Other moves include:

- In August, Dennis Busti was moved out of the top job at Reliance National Insurance Co., the main operating unit of Reliance. He was later replaced by industry veteran Terry Van Gilder.

- Reliance announced it would cut about \$300 million in premiums from unprofitable lines of business.

- The insurer said it would raise extra capital through an initial public offering for 20% of its surety operations and by spinning off to shareholders 10% of its e-commerce business.

- Reliance began negotiations to settle liabilities arising out of its participation in the workers compensation pool managed by Unicovert Managers Inc., stating that the settlement would not cost the insurer more than \$100 million.

- It appointed investment bankers Donaldson, Lufkin & Jenrette Securities Corp. and Bear Stearns & Co. as advisers to review its financial and strategic options.

For Reliance to recover fully, it must increase its capital, said

Matthew Coyle, a director of Standard & Poor's Corp. in New York. Standard & Poor's is currently reviewing its A- rating of Reliance.

"It is as simple as that, and time is the enemy," he said.

Shareholders' equity fell to \$981 million in the third quarter. Reliance needs to boost its capital to reassure the rating agency and policyholders that it remains a strong insurance company, Mr. Coyle said.

The insurer also needs to refinance \$500 million in debt payments, which are due in the spring and fall of 2000, Mr. Coyle said.

"To improve their capital and refinance their debt obligations, they are going to have to rely on external means," he said.

It is not clear how much money Reliance will be able to raise with the proposed sale of portions of its surety and e-commerce subsidiaries, Mr. Coyle said. "They are at the mercy of the market."

Although financial, rather than operating, issues should be the

See Reliance on page 27

BI buyers directory CD-ROM available

The latest edition of Business Insurance's annual directory of buyers of Insurance, Benefit Plans & Risk Management Services is now available.

The 1999/2000 edition of the "Business Insurance Directory of Corporate Buyers of Insurance, Benefit Plans and Risk Management Services" includes information on more than 14,400 executives from nearly 2,700 U.S. companies.

The directory is available in a

692-page printed volume and, for the first time, also on a CD-ROM for Windows-compatible computers.

The guide's listings consist of a variety of corporate data, including addresses, phone and fax numbers, Web site addresses, SIC codes and the names and titles of executives responsible for finance, risk management, employee benefits, human resources, pension/retirement planning, insurance, legal coun-

sel and private medical/health plans. Revenue or asset information and number of employees are provided.

The directory contains rankings based on number of employees and revenues or assets.

The buyers directory costs \$95. In addition, the directory is available on CD-ROM for \$595.

To order copies, please call Business Insurance's Single-Copy Sales Department at 888-446-1422.

Inside

- The unveiling of proposed ergonomic standards by the U.S. Occupational Safety and Health Administration is premature, this week's editorial says. **PAGE 8**

- The Turkish government led a far more organized rescue effort after a second major earthquake hit the country earlier this month, compared with the deadly Aug. 17 quake. **PAGE 19**

- The push toward greater European economic and monetary unity might also drive an increase in self-insurance, according to a broker's recent study. **PAGE 19**

- Quality Insurance Congress eulogized. **PAGE 25**

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GRAPHIC BY MIKE GARVEY

Hewitt tries online bids for clients' health plans

By JOANNE WOJCIK KOCHANIEC

LINCOLNSHIRE, Ill.—The Internet may make buying books, airline tickets and even stocks a lot easier, but does it also make sense for buying health care benefits?

Benefit managers and consultants are skeptical that a recent online auction conducted by employee benefits consultant Hewitt Associates L.L.C. is the wave of the future for group health care purchasing.

The Lincolnshire, Ill.-based consultant held the auction in July on behalf of several clients to encourage price competition among health maintenance organizations, explained Ken Sperling, a principal in Hewitt's Norwalk, Conn., office.

After a week of back-and-forth bidding on a special Web site, on which the 50 competing plans could see what their competitors were charging in 14 markets, the three participating employers wound up with HMO contracts that collectively saved \$1.1 million, with Year 2000 premiums averaging anywhere from 2% to 8% less than they're paying in 1999.

On average, the HMO auction process yielded a 2% greater savings than the traditional renewal process, according to Hewitt.

Only two of the three employers would allow Hewitt to identify them: IBM Corp. and IKON Office Solutions Inc. None of the companies would agree to an interview with *Business Insurance*.

Prior to holding the auction, Hewitt conducted a traditional request-for-proposal process, collecting renewal rate information from HMOs through the usual means of in-person interviews either by mail or by phone, Mr. Sperling explained.

This information, along with the scores each plan received after being evaluated by Hewitt's Health Plan Value Initiative, was included on a Web site Hewitt created on the Internet for each employer-client.

Then, all of the participating health plans were given passwords that gave them access to their own information as well as that of their competitors; the identity of the competing plans was not disclosed, however.

The auction for the employers' business took place over a five-day period, opening on Monday and closing at the end of the day on Friday. In most cases but not all, the employers chose the low bidders, according to Mr. Sperling.

"Not surprisingly, most of the activity occurred on Friday," he said.

Despite Mr. Sperling's insistence that Hewitt's experiment was "not just a price auction," some benefit managers were skeptical that an auction is the best way to choose a health plan.

"That particular model works if all things are equal," said Ralph Kimmich, director of benefits and compensation at Dallas-based Southwest Airlines Co. But that's rarely the case, he said.

At Southwest, for example, "we don't select health plans solely based on price," he said.

Accessibility of plan providers is a high priority for the airline, he explained. In fact, Southwest conducts "a disruption analysis whenever we consider changing plans," he said. "We also value our long-term relationships," he added.

"It's a novel idea, but I don't think it would work with different types of health plans" besides HMOs, observed Michael Pikelny, corporate actuary and employee benefits consultant for Chicago-based Hartmarx Corp.

"It's more than just premiums that you consider when you're looking for a medical provider," he said.

See Auction on page 23

Creativity helps captives serve larger business goals: study

By RODD ZOLKOS

MIAMI—Case studies of three captive insurance companies show that, in addition to meeting their parent organizations' insurance needs, captives can advance broader business goals.

Discussing the history of the Vermont-domiciled Public Utility Mutual Insurance Co., Barry M. Port, executive director of the Public Utilities Risk Management Assn., the captive's parent, said PUMIC is part of the association's effort "to develop programs and products that will help our members survive."

Speaking at the World Captive and Alternative Risk Financing Forum earlier this month in Miami, Mr. Port noted that his association and its captive, which was formed in 1997, had their origins in an insurance buying group formed by New England public power systems in 1977.

Among the captive's objectives are providing high-quality, cost-effective risk funding and long-term savings for members, along with superior loss control and other risk management services, he said.

PUMIC currently provides general liability, excess liability, fiducia-

ry and employee benefits liability, public officials liability, employment practices liability, and business auto and professional liability coverages.

"The property market, at least as far as we're seeing, is beginning to harden," Mr. Port said, so the association may roll members' property coverage into the captive in the future.

Explaining the captive's initial focus on liability, Mr. Port noted that "traditionally, utilities have very low liability losses." So PURMA members, he said, felt safest

See Goals on page 6

Banks threaten to command the marketplace: Wasserman

By MICHAEL BRADFORD

MIAMI—Insurers must become more innovative and aggressive if they are going to survive in the same market with banks that are hungry for risk, says a reinsurance executive.

"Commercial banks and the investment banks are eager to enter our industry," said David Wasserman, president of Centre Solutions in New York. "They find our weaknesses to be exploitable opportunities."

That exploitation will become easier because of the re-

moval of barriers that, for the most part, have kept banks out of the insurance market, Mr. Wasserman said. With President Clinton's signing of financial services reform legislation earlier this month, "the fences are essentially down," he said.

Mr. Wasserman's warning to the insurance industry of increasing competition from other financial services companies was delivered in his keynote presentation at the World Captive and Alternative Risk Financing Forum, held Nov. 14-17 in Miami.

"I feel a little bit like Paul Revere," he said. "I'm here not to tell you that the British are coming, but to tell you that the banks are coming. And we all better prepare. We all better react to that change, or we'll all starve to death."

Bloated with excess capital and suffering from weak demand for their product, insurers have watched much of their business move to alternative risk transfer vehicles, Mr. Wasserman noted. Already underperforming compared with other financial services companies, insurers could now be in for serious trouble in a marketplace with no boundaries, he warned.

With few exceptions, "the insurance industry hasn't demonstrated enough innovation or aggressiveness to thrive in today's market," Mr. Wasserman said, "much less in the coming deregulated market."

To prosper amid this new competition, it's going to take new thinking by insurers as to what types of risks can be insured, he told his audience.

See Changes on next page



Miami hosted this year's forum, held Nov. 14-17.

Unrelated business can boost profits, if handled shrewdly

By MICHAEL BRADFORD

MIAMI—There are plenty of opportunities for captives that write unrelated business, but owners need to beware of snares that can trip them up, a captive expert says.

Many captives already are writing unrelated business and don't realize it, said James D. Cameron, a partner with Baker & McKenzie in New York. "For those of you who are looking for unrelated business, you might start out by looking at what you already have in your captive."

He said Internal Revenue Services challenges to owners have led Baker & McKenzie to discover for its captive clients that some business being written through captives should have been classified as unrelated. It's an important distinction, he said, because tax deductions depend on whether business is considered related or unrelated.

"An example of this," Mr. Cameron explained, "would be a broad form vendor's endorsement where we managed to convince the (IRS) that the endorsement was an extension of cover."

For those captives that aren't already writing unrelated business or want to expand those writings, there are plenty of opportunities, he pointed out.

Speaking at the World Captive and Alternative Risk Financing Forum in Miami earlier this month, Mr. Cameron said there are unrelated coverages that can be

specific to particular businesses and others that can be used to enhance the business of many captive parents.

For example, writing credit card insurance through a captive is best handled only on behalf of the parent company because the company can easily tack the charge for the coverage onto a monthly bill it already sends its customers. A company other than a credit card issuer, though, would have the high cost of sending out bills each month just for the cost of the coverage, Mr. Cameron noted.

Similarly, cell phone companies can sell insurance for their product through a captive and easily add the charge to their monthly service bills. "That's a very profitable business," Mr. Cameron said of the coverage.

See Unrelated on page 11

**Additional coverage of the
Ninth World Captive and
Alternative Risk Financing Forum
in next week's issue
of *Business Insurance***

Changes

Continued from previous page

Insurers can take clues from the banks that for years have shown how they can provide innovative solutions to insurance problems, Mr. Wasserman remarked. He referred, for example, to the move made by investment banks after Hurricane Andrew to solve a catastrophe capacity problem by contributing \$4 billion to form Bermuda-based reinsurers.

The banks, which needed insurance company sponsorship because of regulatory barriers, later sold their interests in the facilities and "got out with a very attractive return," Mr. Wasserman said. In a deregulated market, the banks will be able to make such moves by themselves, he added.

"The point is, they saw an opportunity and were able to access the

capital markets for \$4 billion literally in months."

The slower-moving insurance industry, however, has remained "hobbled by an age-old definition of what insurable risk is," according to Mr. Wasserman. "Homogeneous exposures, predictable exposures" and other defining characteristics of risk are outdated, he said.

The insurance industry "has too much expertise" to remain constrained by old ways of thinking about risk, he argued. "I think the insurance industry should expand that definition, update it."

A new definition should stipulate that a risk is insurable if it is understandable, measurable, "modelable" and manageable, Mr. Wasserman suggested. "An underwriter can understand the forces at work, as well as the nature and probabilities of various risks, and has the right kinds of data and in-

formation to measure it, model it and analyze it—and can use underwriting techniques and his own diversified portfolio of risks to manage it."

The insurance industry is 'hobbled by an age-old definition of what insurable risk is,' says David Wasserman.

Mr. Wasserman gave examples of some of his company's projects that demonstrate how insurers and reinsurers must expand their notions of insurable risks.

Coverage has been arranged, for example, for a hotel under construction in Miami's trendy South Beach area. The policy guarantees

that, once the hotel is up and running, it will provide sufficient income to pay off its debt. "In return, we get paid a premium and we're getting a piece of the project," Mr. Wasserman explained.

In another deal, a company that wanted to build a manufacturing plant purchased a policy guaranteeing that, over five years, its product would bring a minimum price. In return, the underwriter received premiums and additional payment if the product price went higher than a predetermined ceiling.

Richard M. Inserra, assistant treasurer at Union Carbide Corp. in Danbury, Conn., joined Mr. Wasserman in the conference program and asked how Centre Solutions knows which risks are good ones.

"You have a wide variety of risks in your portfolio," Mr. Inserra said. "How do you manage such disparate risks?"

"We have a model for every transaction," Mr. Wasserman explained. Although every transaction begins with an identical model, "we customize it for each transaction," he said.

Centre has run 600 transactions through the model over its 11-year history, according to Mr. Wasserman. The model can consider such factors as changes in interest rates or foreign currency values, a rise in catastrophe costs or other factors. The model provides a way to "see what kind of stress is required for that portfolio to start to show losses."

Most insurance companies have the same capability but have parceled it out to different departments that don't communicate with each other, he said.

Michele Cournier, director of risk management for Alcatel in Paris, also participated in the program. He agreed that a more innovative approach by underwriters is needed.

"And I think captive insurance companies and reinsurers should be a part of this process," Mr. Cournier said. But rarely are existing captives used to fund deals involving financial markets; instead, special-purpose vehicles are formed, he pointed out.

Mr. Wasserman said that capital markets have different legal and tax requirements than do reinsurers and, therefore, need a special-purpose vehicle "that is not doing anything else."

But that appears to be changing, he noted, partly because there is a trend to structure special-purpose vehicles as a number of protected "cells" that allow the vehicle to

Richard M. Inserra says he is communicating 'that the traditional insurance area is looking at risk more broadly.'

handle different kinds of business and offer each cell protection from the others' exposures.

The risk managers on the panel illustrated the different approaches that companies take when funding financial risks.

In one case where Alcatel required a special-purpose vehicle for a financial transaction, Mr. Cournier said he was not consulted by others in the company, because "it was considered a pure financial solution."

Better solutions to funding risk can be gained, however, if financial and risk management professionals join together with insurers and reinsurers to create products to handle such risks, he said.

Mr. Inserra said he has been consulted on such integrated projects at his company, and he has begun to "communicate within the organization that the traditional insurance area is looking at risk more broadly."

Even so, Mr. Inserra added, he envisions a time when the chief financial officer or treasurer will have a relationship with an investment bank or other such institution that will pitch risk funding solutions.

"That's fine," he said, but the next step should be for the CFO to take that information to the risk manager. "If not, it indicates that you're viewed within the organization a little differently than you may want to be. I'd do something about it."

Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*, moderated the session. **B1**



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Opinions

Ergonomics push premature

WHY THE RUSH?

The U.S. Occupational Safety and Health Administration should await the outcome of congressionally mandated research on ergonomics before rushing to implement its controversial ergonomics proposal. To push ahead with its plan now only will invite litigation by businesses and the wrath of lawmakers.

As we report on page 1, OSHA last week unveiled its proposed standard for how ergonomics programs should be structured, after nearly a decade of considering the controversial issue. OSHA officials, in an effort to allay employer concerns, say the standard is aimed only at work sites with manual handling or manufacturing production jobs—those most likely to give rise to musculoskeletal disorders.

The truth, however, is that, because of the proposal's wording, compliance with the one-size-fits-all standard would be mandatory for virtually any employer that receives a single employee complaint of an MSD.

It is premature to implement this kind of sweeping proposal before the conclusion of research by the National Academy of Sciences. The NAS was charged by Congress with reviewing the vast body of research on workplace ergonomics, a task that should be completed within the next year or so. The House already has passed legislation that would forbid OSHA from issuing a final rule until the NAS study is complete, and there's a chance the Senate will follow suit early next year.

Such research is needed to provide evidence of whether MSDs can truly be blamed on work-related tasks, as alleged, or whether work-related tasks may aggravate ailments caused by existing injuries or physical conditions. At present, that research is not as conclusive as OSHA's push for a mandate would suggest.

Employers also rightly question the need for a government-imposed standard when many employers already have effective voluntary programs to identify and correct ergonomics problems in the workplace.

Apart from their desire to protect workers from injury, employers have a strong financial incentive to eliminate ergonomic hazards in the workplace: the risk of higher workers compensation costs resulting from a high incidence of MSD claims.

OSHA's regulatory overkill is not required, and its goal can be accomplished with far less red tape and expense. Indeed, instead of a mandate, a more collaborative approach would be far less confrontational and, thus, likely prove more effective. OSHA could instead focus on providing advisory assistance and research on ergonomics hazards—especially to smaller employers that lack the resources to implement



stronger programs on their own.

But the biggest problem by far with OSHA's rush to mandate is that it will encourage a flood of litigation—both against and by employers.

The generous benefits mandated by the standard will no doubt tempt some suffering from non-work-related maladies to fraudulently seek compensation under the new system. If such claims are challenged by an employer, it's only a few steps to the courtroom.

Meanwhile, businesses have already said that they will not willingly accept promulgation of an ergonomics standard. The U.S. Chamber of Commerce, for example, has pledged to sue to block implementation of the proposal. In fact, the Chamber has indicated it may sue even if the NAS study backs OSHA's argument that such standards are needed.

OSHA should delay its effort to force an ergonomics standard on all employers. Not only should it wait until the NAS study is completed, but it also should use that time to reconsider whether it would be more effective to collaborate with employers to solve such problems, rather than issue overly broad mandates.

Rushing a standard through now, as OSHA appears bent on doing, has at least the appearance of being a ploy to get a standard in place before the current administration leaves office—or before the votes are tallied in the next election. The matter has waited nearly a decade. Waiting a little while longer for a final scientific study that could indicate whether such a standard could work—or is even justified—strikes us as the more prudent way to proceed. In this case, patience is surely a virtue.

Letters

Sue and labor claims don't hold water

To the editor: I have been reading similar articles in several publications regarding Y2K liability. Some policyholders are seeking to recover their Y2K remediation costs from the sue and labor provision of their insurance policy.

In this regard, they cite the wording of the clause. Ironically, though, they include the very wording which would seem to preclude their claim. The wording quoted states that the "... imminent loss or damage..." be "... by a peril insured against."

The foundation of sue and labor dates back hundreds of years, to the origins of insurance as we know it today. This might explain the misleading (and possibly inaccurate) analogy offered,

whereby Y2K is compared to a ship recovering under sue and labor for the cost of repairing a crack in its hull. Such an example would be more analogous to a ship recovering under sue and labor for the expense of navigation equipment and crew wages in averting collisions. Among other things, it is simply not reasonable.

More accurately, in order for a shipowner to recover the repair of a crack (even under an all-risks policy) the owner must show that the loss was not proximately caused by three factors: inherent defect; ordinary wear and tear; or intentional misconduct.

Ship's records are then examined to find a causing event and corresponding

date of occurrence. Failing that, the repair would more likely be addressed by doctrines and/or principles of damage date unknown, and/or damage last known not to exist, and/or progressive or cumulative damage, rather than sue and labor.

These and other principles, doctrines, customs and traditions are well established by time-tested practices and even case law. Proximate cause is no less significant than peril insured against, when honoring the history of insurance.

It is reasonable to accept that these and other insurance fundamentals apply to a policy stating that "Physical loss or damage shall include any destruction,

Letters continued on page 27

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Making captives fit post-merger reality

By MICHAEL BRADFORD

MIAMI—A company that finds itself with two captive insurers after a merger or acquisition faces some tough decisions about the future of those entities.

A case study presented at the World Captive and Alternative Risk Financing Forum, held earlier this month in Miami, illustrates some of the decisions that must be made when a company finds itself with an extra insurer. In addition, a separate presentation gave attendees some guidance to use when it is time to wind up a captive.

In an example of how a health care company handled the problem of having too many captives after an acquisition, Michael Maglaras explained how he helped the owner make the call.

Mr. Maglaras, principal with the risk management and consulting firm Michael Maglaras & Co. in Stamford, Conn., said his marching orders were to determine which of two captives would survive and the shape the surviving captive would take under the merged parent.

It was a process that included some tough calls, Mr. Maglaras said. Two sets of service providers meant that a request-for-proposal had to be carried out to determine who would stay and who would go.

And there was "great wailing and gnashing of teeth" over decisions such as which risk management department would survive the acquisition to oversee the captive, he said.

Corbette S. Doyle, chief executive officer at Aon Healthcare Alliance in Franklin, Tenn., also participated in the presentation, telling attendees that the risk manager for the acquiring company can have a part in the pre-merger decision-making.

"One of the main reasons for doing due diligence is that if you find

something that will materially impact the deal, you can bring it to management's attention," she said. While it is rare for a risk manager to find something that would materially affect the deal, it is likely that something could be uncovered that could alter the purchase price, Ms. Doyle noted.

The case-study captives were based in different domiciles, one in Bermuda and the other in Cayman. The Bermuda captive had assets of \$23.3 million and liabilities of \$16.4 million. The Cayman insurer had assets of \$19.1 million and liabilities of \$14.2 million.

Both captives wrote hospital professional liability and commercial general liability coverages, but in different layers.

The Bermuda captive also wrote

workers compensation and provider stop-loss coverages, while the Cayman company wrote primary directors and officers liability coverage and physician reinsurance.

Mr. Maglaras explained that one critical issue was determining which domicile to choose for the survivor. In the end, he said, both offshore locations were scrapped in favor of Vermont, where the company formed a new risk retention group.

The reasons behind choosing a U.S. domicile had to do with cost and regulatory differences, Mr. Maglaras noted, as well as "the general feeling of acceptance of this business in Vermont."

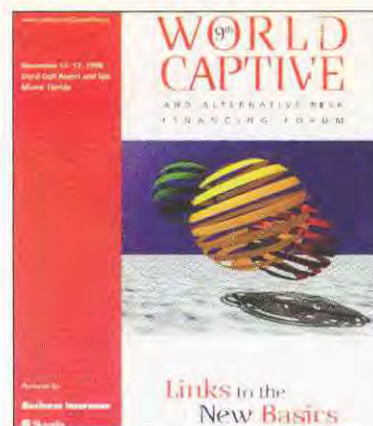
The remaining entity, it was decided, would purchase higher reinsurance limits, because it was not

big enough to cover the risks of the combined company on its own. In a soft market, though, "the effect was not a lot more pricing," he said.

Workers comp and provider stop-loss coverages would no longer be a part of the mix of business, Mr. Maglaras pointed out. For the workers comp risk, "it was cheaper to insure it" in the commercial market, he explained. Stop-loss was abandoned because it was a money loser, he noted.

It was decided that the captive would write increased amounts of physician reinsurance and D&O coverages. It also took a retention on employment practices liability exposures.

Hospital general liability and commercial general liability limits were established, and when the sur-



viving RRG was rolled out, it retained less risk at "no meaningful additional cost," Mr. Maglaras noted.

The new company brought claims adjusting in house, he said, a wise move that other captives should consider. "When you get a taste for See Mergers on next page

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Captive forum attracts 300

MIAMI—The 9th World Captive and Alternative Risk Financing Forum drew nearly 300 risk managers, captive owners, reinsurers, brokers, consultants and others to the Doral Golf Resort and Spa in Miami Nov. 14 through 17.

The Forum was co-sponsored by *Business Insurance*, Skandia International Risk Management/SINSER and Tillinghast-Towers Perrin. Those attending the conference heard presentations examining both the state of the art of alternative risk transfer and the likely shape of future ART financing.

Additional *BI* coverage of the meeting will appear in the Dec. 6 issue.

Next year's World Captive and Alternative Risk Financing Forum will be held Nov. 13-15, 2000, at the PGA National Resort and Spa in Palm Beach Gardens, Fla.

For more information about next year's gathering, write to the World Captive Forum, 4248 Park Glen Road, Minneapolis, Minn. 55416; or call 612-928-4659.

Mergers

Continued from previous page

adjusting your own losses, you never want to go back" to relinquishing that control to an outsider, Mr. Maglaras emphasized.

The process to establish the Vermont-based RRG took 185 days, he said.

Ms. Doyle told attendees that, in some cases, an acquiring company without a captive may pick one up in the deal. In such cases, it can make sense for the company to keep the insurer.

With a larger pool of losses as a result of the acquisition, "it's easier to overcome a fixed-cost hurdle to funding losses," she said. And, if there are multiple alternative funding vehicles in place, they can be merged into a single captive.

James M. Dineen, a principal with the consulting firm The Knowledge

Guild Inc. in Jacksonville, Fla., pointed out in a separate presentation that some captives are going to be lost in acquisitions simply because they are no longer needed.

While working as the risk manager for Barnett Banks Inc. in Jacksonville, Mr. Dineen became responsible for combining six captives that were in place after the bank was acquired by NationsBank.

"It was easy to bring four wholly owned captives into one Bermuda-based captive," he recalled. The two remaining facilities, which were group captives that wrote D&O liability coverage for banks, are currently running off their business.

Two of the four wholly owned captives were located in Cayman, while one was in Bermuda and the other was in Vermont.

"There was no strategic reason to have four different companies, though they wrote slightly different

things," Mr. Dineen said. "Strategically, they needed only one captive on a wholly owned basis."

"It was a simple decision," he said. "I don't need to pay four different managers, accountants, actuaries, etc. Just roll them all into one, and go from there."

Because the D&O market has "softened considerably" since the two group captives were formed in 1986, Mr. Dineen noted, the insurers' ownership diminished as members turned to the traditional market for the coverage. Rather than try and meet the disparate needs of the remaining members, NationsBank and the other remaining members decided to place the group captives in runoff.

Sanford Bragman, vp of risk management services at Tenet HealthSystem in Dallas, has been involved with a number of captives during his risk management career. He urged captive owners to use

common sense when deciding whether to shut down a captive.

Joining Mr. Dineen on stage, Mr. Bragman said, "You go through a great deal of analysis in making the determination to create your captive. Don't sell yourself short" when deciding whether to take it down.

"You need to do as much analysis and due diligence when taking it down—and that is not going to be cheap," he said.

"Ditto," said Mr. Dineen. Draw up a business plan to guide the dismantling process, he urged. "You want to make sure you've covered every base."

C. Richard Cornelius, vp-insurance services with VHA Inc. in Berwyn, Pa., moderated the session on mergers and acquisitions.

The session on shutting down captives was moderated by Robert J. Rosser, senior vp at Skandia International Risk Management Ltd. in Bermuda. **BI**

Unrelated

Continued from page 3

He reminded audience members that, when shopping for a car, they are often offered a blitz of coverages that include credit life and extended warranty insurance that are funded through captives. "What you may not know is that the automobile dealer makes more money off of that sale than he does off the car," he said.

Another example of coverage best accessed by a specific parent would be wrap-up coverage for contractors, he said, whereby a large business uses a lot of contractors and offers them various coverages through the captive.

Other, more-general coverages can be written to enhance a parent's business.

Coverage for the shipment of a manufactured product to a buyer can be written through a captive, Mr. Cameron explained, "by giving the customer title to it at the factory door."

Supplies shipped to the parent can be covered in the same way, he added.

"Another opportunity is integrating product liability insurance for a component supplier," Mr. Cameron remarked. "Taking their product liability and wrapping it into your cover and taking that risk into your captive."

Writing unrelated business can bring headaches if it is not properly handled, says James D. Cameron.

Insurance for businesses managed but not owned also can be written in a captive, he suggested. Examples are coverages for hotels and apartment buildings under management by the captive owner.

Professional liability coverage for joint ventures and for-profit subsidiaries can also be written in a captive, according to Mr. Cameron.

Mitchell J. Cole, a principal with Tillinghast-Towers Perrin in New York, joined Mr. Cameron in the presentation and gave other examples of ways a captive can creatively expand its writings.

He referred to a captive that put together weather protection coverage for automobile transmission businesses. Because transmissions need more repairs during periods of extreme high and low temperatures, the business risk, Mr. Cole said, is that the shops will encounter extended periods of mild weather. The captive provides coverage for loss of business that occurs during stretches of mild weather.

And contractors in the homebuilding industry have created mortgage insurance captives to help their sales, according to Mr. Cole.

Mr. Cameron warned, however, that writing unrelated business can bring headaches if it is not properly handled. The recent case in which United Parcel Service of America Inc. was found by the U.S. Tax Court to be operating a "sham transaction" is an example (*BI*, Aug. 16).

UPS's practice of insuring packages valued at more than \$100 in its captive was an example of using a "very controlled piece of business and, in fact, using it to earn a lot of money," Mr. Cameron explained.

See Unrelated on next page

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Property and Liability Insurance

Unrelated

Continued from previous page

Before moving the business to its Bermuda captive, UPS charged its customers a fee for insurance on packages valued at more than \$100 and assumed the losses.

But when UPS decided in 1984 to create Overseas Partners Ltd. in Bermuda to fund the shipping risk, Mr. Cameron said, "they made a few mistakes that came back to haunt them."

In particular, he said, UPS stopped reporting charges to its customers for coverage as income, subject to taxes.

Even though it continued to collect the charges and pay claims, the balance of the funds after claims payments was sent to fronting insurer National Union Fire Insurance Co. of Pittsburgh, Pa. The insurer, which had no role in claims adjusting, collected a fronting fee and ceded the risk to OPL (BI, Aug. 16).

Mr. Cameron said the tax court ruled that there was no real risk transfer in the transaction and that UPS was assuming the losses and simply sending to Bermuda money that was later brought back to the parent in the form of profits. UPS argued that it created OPL because of concern that state regulators would consider it an illegal insurer under its old method of directly assuming losses.

"There is a sense, as you read the opinion, of disbelief coming

from the judge," Mr. Cameron said. The judge denied deductions for premiums and fees paid to National Union and called the arrangement a "sham transaction."

Mr. Cameron warned captive owners that as they consider ways to move additional business into a captive as UPS did, "you've got to make sure you put this together on an arm's-length basis so you don't get caught in that kind of trap."

Tillinghast's Mr. Cole said captive owners should consider

whether they have solid reasons for diversifying their business before they enter a new marketplace.

"Are we concocting some unrelated business and looking for some justification for it, or are we actually pursuing some real-life examples of support within our organization?" he asked. "Is the captive going to provide a business purpose for us? Is it going to provide some strategic assistance to us?"

Captive owners should do

enough analysis to determine whether the business will be profitable, Mr. Cole advised.

He also warned that "it's one thing to move into these areas with strategic support," but another thing to have to "ask for capital at the end of the day because we've made some mistakes."

Mr. Cole said there should be a reasonable amount of confidence that "we're not going to have to go back to the board of the captive and the board of the parent and ask for more capital."

He also urged those considering entering a new business area to make sure they can get out of it if needed.

"Can the new business be easily or inexpensively unwound or run off? Do we have an exit strategy? If you get into some of this business, it can be tough to get out," he cautioned.

The session was moderated by risk management consultant Michael Maglaras, principal with Michael Maglaras & Co. in Stamford, Conn. **BI**

More interest in group captives expected

By MICHAEL BRADFORD

MIAMI—Changing insurance market conditions may prompt renewed interest in group captives.

The days when the "market was out of control, losses were outrageous" and premiums were skyrocketing are behind the property/casualty insurance industry, said Michael B. Ducey, president of Helmsman Insurance Agency in Boston, a unit of Liberty Mutual Insurance Co.

But turbulent times may not be gone forever, and the value of group captives likely will be rediscovered by some companies, according to panelists at a presentation during this month's World Captive and Alternative Risk Financing Forum in Miami.

George Chaffee, president of Skandia International Risk Man-

agement Ltd. (Vt.) in Burlington, Vt., made a somewhat tongue-in-cheek prediction that, "since the soft market is going to end on March 15 of next year—the ides of March—with the results of year '99 flowing in," group captives could re-emerge as an attractive risk financing alternative.

The growth of membership in group captives has slowed as insurance coverage has become less expensive, Mr. Ducey acknowledged.

But, he noted, "I think we are going to see a resurgence in the next year or two, when people start to see what value they can get for their money."

Mr. Ducey suggested that those who are already involved in group captives are staying put.

"Once people become educated, once they get smart, they don't go

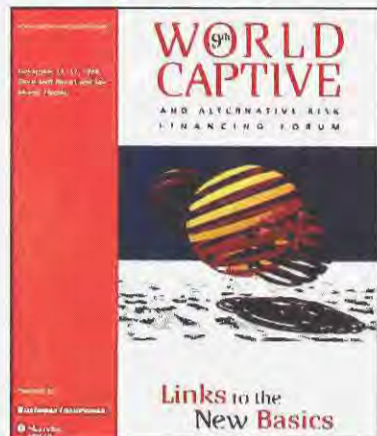
back. They don't get dumb all of a sudden," he said.

Mr. Chaffee pointed out that group captives continue to serve the purpose for which they were conceived.

"I think you'd have to say, generally, that group captives have been quite successful," he said. "They sprang up in the mid- to late '80s, when we had the severe market conditions, and group captives relieved a considerable amount of that pressure."

That pressure remain, Mr. Chaffee acknowledged, face new challenges in a different marketplace: "Mainly, how do you compete and make yourself a viable alternative to the traditional market? That's been tough, because the typical group captive doesn't have the surplus to withstand a long competitive price cut."

In an attempt to attract and retain members during the soft market, many group captives have developed additional services for



their members, are well capitalized and so forth."

The soft market isn't the only threat to captive membership, according to another panelist that participates in a group captive.

"We're having trouble keeping our membership, but not for the reasons of the commercial market," said Robert S. Wilkinson, ex-

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'Once people become educated, once they get smart, they don't go back. They don't get dumb all of a sudden,' Michael B. Ducey says of group captive members.

their members.

Claims management and loss control services that focus on specific industries, Mr. Chaffee said.

The strategies typical of successful group captives are pretty basic, he pointed out. "There's no magic to it. They write only the best risks, they underwrite carefully, create a good plan written at appropriate

executive vp for plan operations at Univera Healthcare in Baldwinville, N.Y.

Mergers and acquisitions among the captives's members—health maintenance organizations—have trimmed its ranks, he pointed out.

For many group captives, members are leaving because coverage is lower priced in the traditional market, Mr. Wilkinson said. But, he noted, "we've been able to keep our market rates competitive. No one's really going to bolt for two or three cents per member per month."

The soft market isn't a threat to well-planned and well-run captives, according to Mr. Chaffee.

He emphasized that the "indicators of a successful captive are broad support and participation, long-term commitment with some value added. That will carry you through the soft market."

Mr. Chaffee stressed that "one of the purposes of a captive is to iron out the peaks and valleys over time and gain some control over your insurance destiny." Forming or participating in a captive is not just about creating an "insurance product, i.e., a policy. You've created a financial tool that can be used for many purposes, and, I think, that is probably where you can find long-term economic value," he said.

The discussion was moderated by Gaelen W. Cole, marketing director, diversified risk for Fireman's Fund Insurance Co. in Novato, Calif. **BI**

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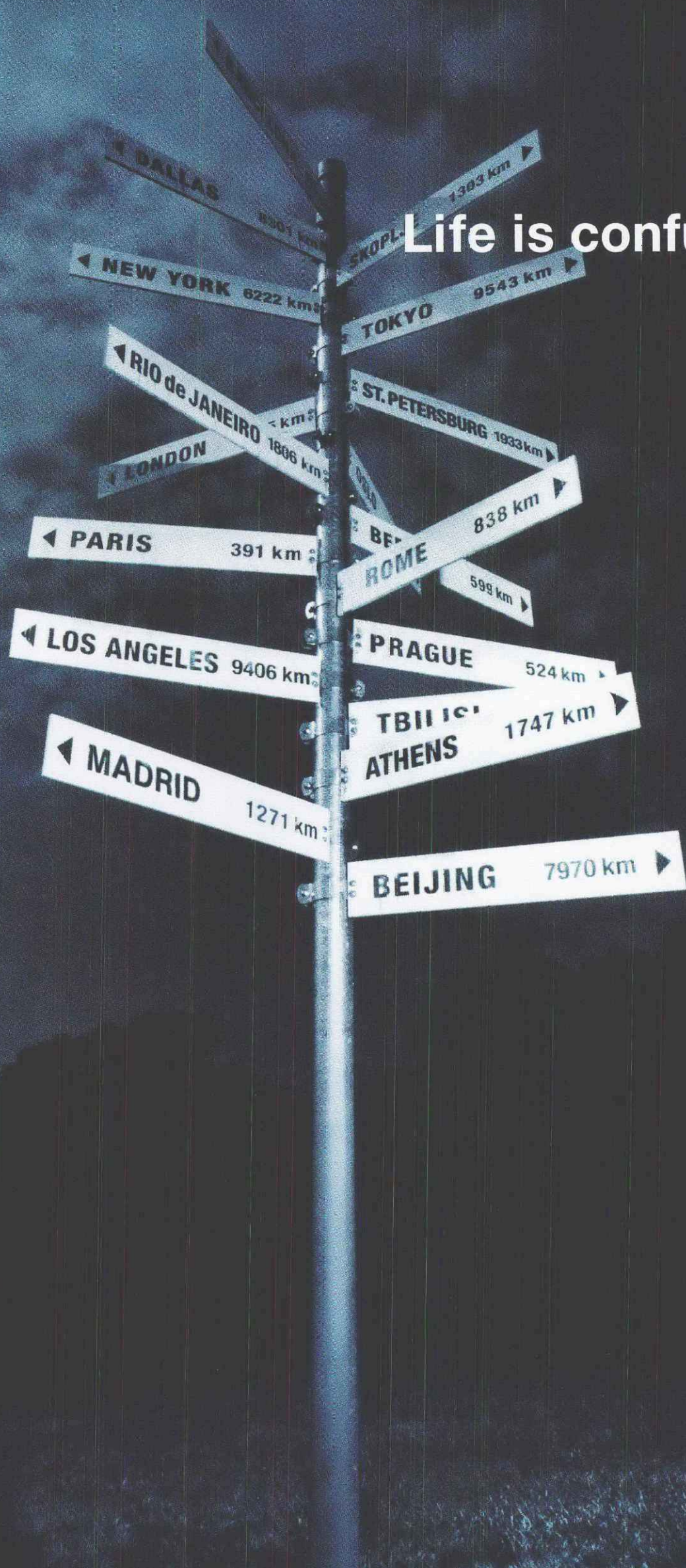
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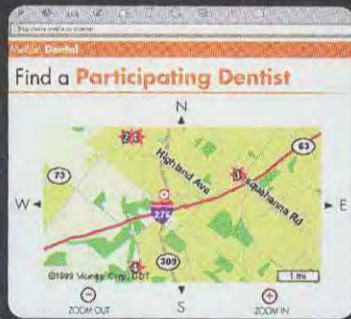
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REQUEST FOR PROPOSAL

PUBLIC NOTICE City of New York

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 21499000212) 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".

PUBLIC NOTICE City of New York

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 21499000212) 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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UNITED STATES BANKRUPTCY COURT
 SOUTHERN DISTRICT OF NEW YORK

In re
 Petition of Anthony James McMahon
 and Philip Wedgewood Wallace, as Joint
 Provisional Liquidators of SOVEREIGN
 MARINE & GENERAL INSURANCE
 COMPANY LIMITED,

Debtor in Foreign Proceedings.

In a Proceeding Under
 Section 304 of the Bankruptcy Code
 Case Nos. 97-B-44652(CB)

NOTICE OF MOTION FOR PERMANENT INJUNCTION PURSUANT TO SECTION 304(b) OF THE BANKRUPTCY CODE

PLEASE TAKE NOTICE that pursuant to an order of the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), a hearing will be held on December 30, 1999, at 10:00 a.m. (the "Return Date"), or as soon thereafter as counsel may be heard, before the Honorable Cornelius Blackshear, United States Bankruptcy Judge, in Courtroom 601 of the Bankruptcy Court which is located at The Alexander Hamilton Custom House, One Bowling Green, New York, New York, 10004, to consider the motion (the "Motion") of the Provisional Liquidators of SOVEREIGN MARINE & GENERAL INSURANCE COMPANY LIMITED ("Sovereign Marine") for entry of an order pursuant to 11 U.S.C. § 105(a) and 304(b) granting permanent injunctive relief (the "Permanent Injunction Order") giving full force and effect in the United States to the Scheme of Arrangement dated October 15, 1999 (the "Scheme of Arrangement") between Sovereign Marine and its Scheme Creditors (as defined in the Scheme of Arrangement).

The Provisional Liquidators have formulated and proposed the Scheme of Arrangement pursuant to section 425 of the Companies Act 1985 of Great Britain. Pursuant to an order of the High Court of Justice of England and Wales (the "High Court"), the Provisional Liquidators are authorized to convene a meeting of Scheme Creditors in London on November 29, 1999.

On or about October 18, 1999, the Scheme of Arrangement and the related Explanatory Statement (together, the "Scheme Document") and notice of the meeting of Scheme Creditors were mailed to all known policyholders and creditors of Sovereign Marine and all known agents and brokers involved in Sovereign Marine's business. A summary of the Permanent Injunction Order is set forth on pages 57 through 59 of the Scheme Document.

If the requisite statutory majorities (i.e. a majority in number representing 75% in value of those in each class present and voting in person or by proxy) approve the Scheme of Arrangement, a hearing to sanction the Scheme of Arrangement will be held before the High Court on December 20, 1999.

Copies of the Provisional Liquidators' Motion, the Scheme Document, the form of the Permanent Injunction Order to be presented on the Return Date, the section 304 petition dated July 11, 1997, which was filed to commence the above-captioned ancillary proceeding, and the Memorandum of Points and Authorities in Support of the Motion for a Permanent Injunction are available by written request to the Provisional Liquidators' counsel:

Cadwalader, Wickersham & Taft
 100 Maiden Lane
 New York, New York 10038
 (212) 504-6000 (Telephone)
 (212) 504-6666 (Facsimile)
 Attention: M. Jennifer MacKay

PLEASE TAKE FURTHER NOTICE that any and all objections to the Motion must be in writing, filed with the Bankruptcy Court, with three copies delivered to the Chambers of the Honorable Cornelius Blackshear, Room 603, and another copy served on counsel to the Provisional Liquidators so as to be received on or before December 15, 1999.

Dated: New York, New York
 November 19, 1999

CADWALADER, WICKERSHAM & TAFT
 Attorneys for the Provisional Liquidators

By: /s/ Ken Coleman
 Ken Coleman (KC 9750)
 Stephen Doody (SD 6738)
 100 Maiden Lane
 New York, New York 10038
 (212) 504-6000

Business Insurance

Circulation Breakdown Commercial Consumers

Administrative:
 CEO's, Presidents, and Owners, 4,194
 Vice Presidents, General Managers and
 Other Administrative Personnel 3,965

Financial:
 Chief Financial Officers and Vice Presidents
 of Finance 4,190
 Secretaries, Treasurers, controllers and
 other Financial Personnel 4,945

Risk/Employee Benefits:
 Vice Presidents, Directors, Managers, and other
 related department personnel of: insurance, risk,
 employee benefits, personnel, compensation,
 pension, safety, security, industrial relations,
 human resources and employee/
 labor relations 13,572
Sub-total **30,866**
 Associations 237
 Government, Unions and
 Educational Institutions 972

Commercial Consumers
Sub-total **32,073**
 Insurance Agents and Brokers 7,763
 Insurance Companies 6,357
 Accountants, Actuaries,
 Attorneys & Consultants 2,361
 Adjusters, Appraisers, TPA's, Captive Managers
 & Health Care Providers 1,347
 Others Allied to the Field 1,008
Total Qualified **50,909**
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TOTAL CIRCULATION **50,933**

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FTR FOR THE RECORD

Banks won't target brokers: Ryan

NEW YORK—Investors expecting Aon Corp. and other large insurance brokerages to be bought by commercial banks following passage of financial services reform likely will be disappointed, says Patrick G. Ryan, chairman and chief executive officer of Aon.

Addressing the Insurance Federation of New York Inc. last week after receiving its 1999 Free Enterprise Award, Mr. Ryan said it is more likely that banks wishing to enter the insurance distribution business will develop their own operations.

And banks that want to underwrite will more likely try life—rather than property/casualty—insurance, Mr. Ryan said.

The day S. 900 was passed, removing restrictions that had prevented affiliation between banks and insurers, Aon's stock price climbed 20%, he said. "But nothing changed for the insurance brokerage world," Mr. Ryan said.

Prior to the passage of the legislation, banks could have bought insurance brokerages, he said. Buying a large insurance brokerage would be expensive for banks, and the business cultures would not easily mesh, he explained.

The new legislation is unlikely to lead banks to enter the property/casualty underwriting market either, he said. "I don't think they will be risking their capital twice—both in commercial banking and underwriting," Mr. Ryan said.

Instead, banks are likely to take advantage of the financial services reforms to enter the life insurance market, which, especially on the asset management side, is more akin to banking than is property/casualty insurance, he said.

Industry raises funds for City of Hope

CHICAGO—Insurance industry executives raised more than \$820,000 for the City of Hope at an event honoring Quill O. Healey, chairman of the Americas for Marsh Inc. and this year's recipient of the organization's "Spirit of Life" award.

More than 450 insurance professionals attended the annual event, held in Chicago in late October, whose proceeds benefit the Duarte, Calif.-based facility. The City of Hope facility conducts research, performs treatments and counsels patients of cancer and other life-threatening diseases.

Since 1993, the Chicago-based Insurance Industry Council has raised more than \$4 million to assist the City of Hope's breast cancer research and treatment efforts.

Zurich U.S. policy bolsters bond issue

SCHAUMBURG, Ill.—A political risk policy provided by Zurich U.S. enabled a Mexican brewer to obtain an investment-grade rating on a recent \$150 million bond issue.

The bonds, issued by Femsa Cerveza S.A. de C.V., were enhanced by the coverage for currency inconvertibility and transfer risk written by Zurich's new political risk group in Washington (BI, Nov. 1). The insurance allowed the brewer to obtain an A- rating on the bonds, which were sold through a private placement from the Fitch IBCA rating agency.

The new Zurich U.S. political risk product is designed to provide coverage for bond issues in emerging markets, and the Femsa Cerveza policy was the first issued by the Zurich political risk group to protect a capital markets transaction.

PacifiCare seeking to settle

SANTA ANA, Calif.—PacifiCare Health Systems Inc. says it is working to develop an "amicable settlement" of Justice Department allegations that a health plan PacifiCare acquired two years ago deliberately overcharged for federal employee health care services.

The department has been probing billings from 1990 through 1994 by TakeCare, a unit of FHP International Corp. that PacifiCare acquired in early 1997.

"We have adequate reserves to cover the issue," a PacifiCare spokeswoman said.

Health maintenance organizations that cover federal employ-

ees undergo routine audits by the Office of Personnel Management to determine whether the government is receiving the lowest available rate. Disputes over the proper calculations aren't uncommon, but when the government suspects intentional wrongdoing, the dispute is referred to the Justice Department for investigation.

Meanwhile, PacifiCare of Colorado's transition plan for providing replacement coverage for some 77,500 members of QualMed Plans for Health of Colorado Inc. was approved by the Colorado Division of Insurance. QualMed, a subsidiary of Foundation Health Systems Inc., is withdrawing from Colorado commercial HMO and point-of-service markets as of March 21, 2000.

Comings & Goings: Industry

Peter Appel has been promoted to executive vp and chief operating officer for Greenwich, Conn.-based Risk Capital Holdings Inc. and its Risk Capital Reinsurance Co. subsidiary. In addition, he will serve on the companies' board of directors. . . . NAC Reinsurance Corp. of Greenwich, Conn., has named C. Fred Madsen executive vp and chief underwriting officer. He previously was executive vp, casualty for NAC Re. . . Hartford, Conn.-based MedSpan Inc. has appointed Sandra Armstrong chief operating officer. Prior to her promotion, Ms. Armstrong was vp of plan administration and strategic implementation.

Information in brief

Tillinghast-Towers Perrin has sold its annual **Captive Insurance Company Directory** to A.M. Best Co. The directory lists about 4,000 captive organizations worldwide and their parents or sponsors, as well as captive managers. . . . Englewood, Colo.-based **Great-West Life & Annuity Insurance Co.** has entered into a definitive agreement with General American Life Insurance Co. of St. Louis to acquire General American's group health and related products division. This division provides medical stop-loss and related life, accidental death and dismemberment, dental and disability products. The transaction, which is expected to close at the end of the year, is subject to regulatory approval. The terms of the deal were not disclosed. **BI**



Mr. Ryan

UPS

Continued from page 1
proposed class action, a UPS spokesman said.

"We believe it is totally without merit, and we intend to fight it with everything we have," he said.

An AIG spokesman declined to comment. Aon officials could not be reached.

The tax case that triggered the proposed class action suit ended a 15-year program under which UPS offered "excess value" insurance to its customers.

Before 1984, UPS itself assumed the risk of loss or damage to customer packages, collecting a charge of 25 cents per \$100 of declared value in excess of \$100 and reporting the revenue in its tax returns.

After consulting with broker Frank B. Hall & Co. Inc.—since merged into Aon—UPS formed Overseas Partners in 1983 to provide

100% reinsurance to AIG's National Union Fire Insurance Co. of Pittsburgh, Pa., which issued a shippers risk policy covering UPS customers. Although UPS initially owned OPL, the reinsurer was quickly spun off to UPS' employee shareholders, who received one OPL share for each UPS share owned.

UPS continued to collect excess value charges from its customers, but now remitted the funds, after claim payments, to National Union, which collected fronting and other fees and ceded the business to OPL. In 1984, for example, UPS collected charges of \$99.8 million and paid \$22.1 million in claims; after a \$1 million fronting fee to National Union and other deductions, OPL received net payments of \$60 million.

Under the new arrangement, UPS no longer reported the excess value charges as income, treating them as transactions directly between customers and National Union.

The Internal Revenue Service first challenged the program in 1995, and U.S. Tax Court Judge Robert P. Ruwe in August ruled against UPS, concluding in a strongly worded opinion that the company had no business reason other than tax avoidance for forming OPL.

The rate UPS charged for package insurance, the judge also found, was "far in excess" of what it could have negotiated commercially, an indication that the National Union/OPL program was a "sham."

Earlier this year, UPS paid the IRS \$1.34 billion to stop the accumulation of interest and penalties on 15 years of back taxes while it considers an appeal (BI, Aug. 23).

In October, the company also stopped using OPL to reinsure shippers risk and reports that it is now providing the coverage through an Atlanta-based subsidiary, Glen Lake Financial Corp.

Plaintiffs' lawyers filed their proposed class action this month in Montgomery County Common Pleas Court in Dayton, Ohio, saying customers had no way of knowing of the alleged fraud until the Tax Court ruling and subsequent publicity.

The complaint charges that while UPS told customers they were paying for package insurance from National Union, the shipping company actually acted illegally as an insurer itself.

Holding no licenses as an insurer, agent or claims adjuster, UPS collected premiums, adjusted and paid claims, handled claim disputes and

assumed the risk of non-payment of premiums by customers, all without any reimbursement from National Union, the suit says.

On a monthly basis, UPS deducted the claims it paid from the premiums it collected and remitted the balance to National Union, which then deducted fronting and other fees and forwarded the money to OPL.

National Union and OPL themselves paid out little or none of the money they received to cover claims, said Gary F. Gardner, a lawyer with Gardner, Ewing & Souza in Louisville, Ky., one of three firms representing plaintiffs.

"I would say OPL never paid a quarter in reinsurance (claims), just like National Union Fire never paid a quarter in primary coverage," Mr. Gardner said.

The lawsuit, echoing the Tax Court ruling, also argues that UPS charged customers far more than an arm's-length, commercially negotiated rate for package insurance. Judge Ruwe had cited expert testimony that UPS experienced a 33% loss ratio on the \$845 million in insurance premiums it collected between 1984 and 1989, suggesting significant overcharging.

"Customers of UPS had no reason to know that the money they paid for

insurance premiums was being diverted for the benefit of defendants," the suit charges. "UPS collected all monies paid as insurance premiums and adjusted claims on its own behalf, not on behalf of an insurance company."

Because UPS did not have the legal capacity to enter into insurance contracts with customers, it must return the premiums it collected, Mr. Gardner argued.

"The law says you have to give all that money back, and you have to give back the money you made on the money," he said.

The \$14 billion in compensatory damages the suit seeks includes all excess value premiums UPS has collected since the beginning of 1984, he said.

Charging that UPS violated an Ohio corrupt activity statute, the suit also seeks to treble the damages to \$42 billion.

The complaint also levels charges of conspiracy, breach of contract, unjust enrichment, misrepresentation and fraud.

The proposed class action suit was filed about one week after UPS launched an IPO that raised \$5.5 billion, the largest initial public offering ever. **BI**

Auction

Continued from page 3

Smaller employers, however, that are less likely to customize their health plans may find such online comparison shopping useful, Mr. Kimmich suggested.

Indeed, more and more small employers already are taking advantage of another online service that allows them to comparison shop for HMOs.

BenefitMall.com has quoted more than \$3 billion in health insurance for employers with fewer than 100 employees since it went online in November 1997, according to Mark Davis, vp-marketing. The Dallas-based company was spun off by Humana Inc. in June 1999.

"We were the first to put our insurance quoting capability on the Web,"

he said.

On BenefitMall.com, employers submit an online application for group health care coverage that includes demographic information about their employee populations. Employers receive quotes from interested health plans in just 60 seconds via e-mail, Mr. Davis said.

But while the employers can "see" the various plans and prices on their computers, they can't actually buy the coverage without using a licensed insurance broker, he said.

"A lot of people are nervous enough about buying shirts online," he said, so it makes sense that employers considering a purchase as significant as health care plans seek out the advice of a professional.

"As emotional as employee benefits and insurance is, you've got to have a human element," Mr. Davis said.

Colorado Springs, Colo.-based ChannelPoint is another online service attempting to make health plan purchasing as easy as point-and-click.

But unlike BenefitMall.com, ChannelPoint didn't begin in the insurance industry; ChannelPoint is a technology company created by former employees of Sun Microsystems Inc.

The company has partnered with San Francisco-based broker USI Insurance Services Inc., which will use its software to perform health plan comparison shopping for clients, explained Lyle Ekdahl, vp-product marketing for ChannelPoint.

But even if companies such as Hewitt, BenefitMall.com and ChannelPoint build an Internet-based health plan shopping system for employers, some consultants are skeptical that most benefit managers will use it.

"The use of the Internet is literally revolutionizing everything," said Helen Darling, practice leader-group benefits and health care for Watson Wyatt Worldwide in Stamford, Conn., and a former benefit manager. "We send out RFPs, and vendors respond via e-mail. This saves everybody money, and it cuts the time dramatically. What literally used to take two or three months to do can now be done almost instantaneously."

"If I felt completely comfortable that everything was identical but the price, that would be OK," she said. While online comparison shopping of prices may work for commodities such as airline seats, "the quality and service of health plans vary," Ms. Darling pointed out.

Recognizing this, "sometimes employers may be willing to pay a little more for better quality," she said. **BI**

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Commentary

QIC may be undone, but it's not unsung

I'm not the only one mourning the death of the Quality Insurance Congress.

In response to my last commentary, I heard from insurance industry customers, brokers, insurers and consultants who also regret that the board of the QIC voted this fall to dissolve the organization after six years of existence.

And I didn't hear from anyone who supports the decision to kill the QIC.

"I applaud your concern about the quality of service from the perspective of the insurance consumer," wrote Michael Borinski, the controller at manufacturer Bradford White Corp.

"Any leader in a service industry should realize what I feel is the critical point you raise: When the commitment to the satisfaction of the customer becomes secondary, don't be surprised if customers demote that very service to secondary when a viable alternative becomes available."

Steve Wilder, vp-risk management of The Walt Disney Co. and former QIC president, wrote: "Thanks for your comments in the Nov. 15 issue of *BI*. They are right on the mark."

Commenting on the QIC's "scorecard" on customer satisfaction with insurers, brokers and third-party administrators, Steve wrote: "I agree with you that the industry didn't want to hear what their scores were. It is ironic that the industry chose to shoot the messenger, but the scorecard will live on, long after the messenger is gone."

"Unfortunately, it may be the dead messenger that was the industry's best hope of creating quality in the industry. No one party, acting in isolation, can ever cure the deep-rooted problems that you refer to of duplication and rework and the myriad of data formats that exist, just to name a few inefficiencies."

"For those of us who are risk managers who have worked hard to make the QIC a breathing, living organization, we scratch our heads and wonder why we were shot down by an industry that so desperately



Kathryn J. McIntyre

needs to listen to the customer. Sure, we can, and will, continue to work with individual companies to try and raise their level of quality, as they are our partners. But will risk managers ever look at the industry as a whole and smile because we feel the same pride in the level of quality with insurance as we do when we look at our own products and services?"

Steve concluded, "A collective effort toward quality is needed by the industry, in order to survive, and without the QIC, I don't know where it will come from."

J. Patrick Gallagher Jr., chief executive officer of Arthur J. Gallagher & Co., left me a voice mail. Pat said: "I liked your QIC article. I happen to agree with you. I think we were the only broking company that voted 'no' to abandon the QIC. And it was not because the QIC was performing its function. I think, in fact, it had gotten wayward. I told you at RIMS that that scorecard would be the death of the QIC. The industry didn't need one more thing to compete on."

By publishing the scorecard, Pat said, "we were sowing the seeds of destruction among the people willing to pay \$25,000 a year to try to improve the quality. Nonetheless, the reason to be has not gone away, which is frustrating."

And Peter Rousmaniere, president of Rousmaniere Designs, a disability management consulting company based in Cambridge, Mass., wrote: "The part of the insurance industry I know a little about, the property/casualty side, has somewhat of an ambivalent attitude about the marketplace and service quality, in particular regarding the insured. I have always been impressed, for instance, that the workers compensation carriers devote so few—if any—resources to studying employer behavior on safety, labor relations and claims-making."

One insurance executive said simply, "And the industry wonders why the public has such a low opinion of it."

Obviously, support exists for a QIC. Are consumers, brokers, insurers and consultants really going to abandon a concerted effort to improve quality in the industry?

I have been racking my brain about how to resuscitate the QIC. The only idea I have come up with so far is an annual conference where we could:

- Invite speakers from other industries known to embrace quality efforts in order to learn from them.
- Showcase best practices in crucial aspects of the insurance/risk management process.
- Develop quality initiatives.

Anyone interested? Anyone have a better idea?

Kathryn J. McIntyre's commentary appears fortnightly. She can be reached at kmcintyr@crain.com.

HLF

Continued from page 1

U.K. and mainland European retail business, international wholesale, international construction, financial services and marine brokerage. Heath's strengths lie in U.K. retail, aviation, U.K. construction, personal lines, London facultative and non-marine reinsurance. Together, they operate in 41 countries.

While consolidation among insurance brokers in recent years has led to claims of restricted client choice, both insurers and analysts stress the business sense of this merger.

David Margrett, chief executive officer of Lambert Fenchurch, said he had been contacted by a number of clients following the announcement of the merger. "All of their responses have been positive. The insurance companies, in particular, have been saying it's great news," he said. Mr. Margrett will serve as CEO of the combined broker.

Roman Cizdyn, an analyst with Merrill Lynch Pierce Fenner & Smith Ltd. in London, agreed that the deal is potentially attractive to clients.

Because some clients want a broader choice apart from the two dominant global brokers, Marsh Inc. and Aon Corp., ranking among the second tier—as HLF will—is a competitive advantage, Mr. Cizdyn said.

"Being big is important, and if you get to No. 6 in the world, it's obviously going to help," he said, citing HLF's own estimate of its post-merger ranking.

Mr. Cizdyn agreed that the merger "is a reasonable fit" for both Heath and Lambert Fenchurch.

Derek Brighton, risk manager for publishing group Reed Elsevier P.L.C. in Sutton, England, and a former chairman of the Assn. of Insurance & Risk Managers, said: "This is the right move because the companies were not big enough on their own, and fewer AIRMIC members were probably using them. The new company should be able to position itself as a bigger player for multinational buyers."

Richard Reddaway, risk manager of pharmaceutical company Glaxo Wellcome P.L.C. of Greenford, England, said: "Anything which provides a more-robust alternative to the few big brokers is good news. It will give commercial and industrial buyers more options."

A spokeswoman for the Assn. of

British Insurers said the proposed merger reflects the ongoing consolidation trend in the insurance industry. "It's all part of the need to be big and to cut costs to compete in the global market," she said.

"The negative side is there is one less company competing in the market. But there's still plenty of competition, and maybe the cost benefits will be passed on to the clients," she said.

HLF, which has already been incorporated for purposes of the merger, is owned by the current institutional shareholders of Erycinus P.L.C., the parent company of Heath; members of Lambert Fenchurch and Heath management, who will collectively own 30% of the new entity; and four private equity firms, led by DLG Phoenix Private Equity Ltd.

Apart from acquiring Erycinus, HLF will acquire Lambert Fenchurch for 145 pence (\$2.35) per share, valu-

'Heath's strengths lay in areas where we're not so strong,' says David Margrett of Lambert Fenchurch.

ing it at almost £135 million (\$218.7 million). The price represents a premium of 66.7% over the 87 pence (\$1.42) closing price of the broker's shares on Nov. 3, shortly before Lambert Fenchurch announced it was in negotiations with another party. Lambert Fenchurch shares closed at 143 pence (\$2.31) last Wednesday.

The merger will mean that Lambert Fenchurch shares will be delisted from the London Stock Exchange. Heath has been privately held since a management buyout in 1997.

Avoiding the pressures of public ownership is a key attraction of the deal for Lambert Fenchurch. Lambert Fenchurch, which was formed through the 1997 merger of Lowndes Lambert Group Holdings P.L.C. and Fenchurch P.L.C., acknowledges that it has been handicapped by needing to perform to shareholder expectations.

Mr. Margrett said the merger talks with Heath had begun several months before this month's announcement, prompted in part because "we've found it difficult operating in the public domain."

IPO

Continued from page 1

& Lybrand L.L.P. was largely driven by Kwasha's recognition that it lacked the resources to move into new areas and, without a partner, might lose future business opportunities.

Similarly, Mellon Bank Corp.'s acquisition of Buck Consultants Inc., also in 1997, came after Buck executives concluded that they needed deeper pockets to finance expanding the company's benefit outsourcing operations.

By contrast, the Watson Wyatt IPO is intended to enable the company to be more aggressive in making acquisitions, some say.

The IPO coincides with a turnaround in Watson Wyatt's financial performance. For the year ending June 30, Watson Wyatt & Co. reported record net income of \$20.8 million on revenues of \$556 million. Total 1999 revenues for Watson Wyatt Worldwide, which includes Watson Wyatt & Co. and affiliated companies, was \$761.3 million, including \$647.1 million in benefit consulting revenues.

This year's record earnings are a big change from 1998, when Watson Wyatt recorded a \$126.1 million loss. That loss was exclusively the result of writing off its share of a joint benefit

outsourcing venture, Wellspring Resources L.L.C., that it launched in 1996 with State Street Global Advisors. Looking only at continuing operations, Watson Wyatt earned a profit of \$13.7 million in 1998.

The decision to pull out of Wellspring and exit the market for total benefit outsourcing services was part of Wyatt's strategy to focus more on pure benefit consulting.

As part of that strategy, last year Watson Wyatt also sold its risk management consulting business to Tillinghast-Towers Perrin, and earlier this year it transferred its defined contribution plan recordkeeping business to First Data Investor Services Group.

Observers say Watson Wyatt, under the leadership of Mr. Haley, is better run and has a better sense of the kind of firm it wants to be. Mr. Haley took over as president and CEO earlier this year.

"They really have turned things around. Their direction and vision have become much more focused," said Donn Bleau, national practice leader in the employee benefits division of Solomon-Page Group Ltd. in San Diego, an executive recruiter.

As a benefit consultant, Watson Wyatt is especially known for its expertise in retirement plans and communications consulting. Its health care consulting unit is smaller than

Both Mr. Margrett and John Mackenzie Green, the CEO of Heath and new vice chairman of HLF, emphasize the synergies between the merging companies.

Mr. Margrett said that "Heath's strengths lay in areas where we're not so strong. Almost everywhere will be strengthened."

Mr. Mackenzie Green took up the explanation, citing as an example clients in the construction business. While Lambert Fenchurch has strong representation internationally in construction, particularly in Latin America, Heath has concentrated more on U.K. construction, he explained. He maintains this is not only complementary but also provides opportunities for "generating new business, new ideas and new products."

The merger announcement said that combining the two brokers would "significantly" strengthen their regional positions in North America, Australia and Spain.

Commenting on the U.S. market, Mr. Margrett said Heath has one of the fastest-growing wholesale brokerage businesses in the United States, while Lambert Fenchurch's New York-based joint venture with Reliance Group Holdings Inc., New Century Global, would help HLF produce a broader product range.

"We have particular niches in international property, professional liability, D&O, E&O and risk transfer for bigger U.S. retail corporations. We hope to refine and grow on that," he said.

Mr. Mackenzie Green said Heath has seen strong growth in its U.S. wholesale brokerage and health care markets. In the health sector, he sees room for HLF to expand in Latin America, an area where Lambert Fenchurch also has a strong presence and where U.S. health insurers are eager to expand.

Lambert Fenchurch also announced its first-half results last week for the six months to Sept. 30. It reported a pretax profit on continuing operations of £2.0 million (\$3.2 million), up 66.7% from the same period last year. It cited steady growth in the majority of its operating areas, with some excellent new business gains. Its professional risks business had a good start, and its financial services operation continued to expand. Lambert Fenchurch said growth in these areas was offset by extremely difficult conditions in personal lines, and, to a lesser extent, commercial business. **BI**

that of its closest competitors, though the unit is profitable and growing.

The announcement of the intended IPO comes at a time when benefit consultants, including Watson Wyatt, say business is booming with double-digit revenue growth.

Growth is being fueled by several factors, including a wave of acquisitions among clients, which generates huge fees for consultants as they try to help merged firms integrate disparate benefit programs and administrative systems.

Other factors driving growth include the plethora of conversions of traditional pension plans to cash balance plans, an effort that requires significant assistance from consultants.

The intended IPO will give new insight into the market value of benefit consultants. Determining such value has been difficult, because the largest firms are either privately held or are units of other companies and, as a result, don't publicly report earnings. Watson Wyatt, however, has for several years disclosed its financial results in Securities and Exchange Commission filings.

Until now, about the only indication of the market value of benefit consulting firms goes back to 1997, when Mellon Bank reported that it paid \$225 million for Buck Consultants. **BI**

OSHA

Continued from page 1

employers would have a hard time knowing whether they were in compliance with the standard.

Meanwhile, the Senate failed to follow the House's lead and pass legislation that would prevent OSHA from promulgating a standard until the National Academy of Sciences finishes a congressionally mandated study of ergonomics. The Senate bill's chief sponsor, Sen. Kit Bond, R-Mo., has promised to continue his attempts to block promulgation of the standard until the NAS study is completed, in about a year. The Chamber's Mr. Johnson said that OSHA was "almost thumbing its nose" at Congress for proceeding on the matter before the NAS had finished its study.

Organized labor, which has long pushed for an ergonomics standard, quickly embraced the proposal. In a written statement issued before the standard was formally announced, AFL-CIO President John Sweeney called the proposal "a major step forward in the fight to end crippling workplace injuries." In addition, he blasted what he said was "an unrelenting and mean-spirited campaign by big-business groups and anti-worker members of Congress" against setting a standard.

While the Chamber's Mr. Johnson promised legal action, if needed, to block implementation of the rule, Mr. Sweeney pledged that the labor federation would "do everything we can to help OSHA complete this rule-making and to issue a strong final standard to protect workers."

The proposal would automatically cover about 1.6 million worksites where employees perform manual handling or manufacturing product jobs, as well as other general industry worksites where one or more employees experience work-related MSDs after the final standard takes effect. The measure would specifically exempt, however, the construction, maritime and agricultural sectors of the economy, though Mr. Jeffress said these sectors would be addressed in the future.

Under the proposal, employers with manual handling or manufacturing production jobs would have to implement a basic program that would include:

- Management leadership and employee participation, including having a specific individual who is responsible for ergonomics training, making sure that company policies don't discourage employees from reporting problems, and informing employees about how they can be involved in the ergonomics program.

- Hazard information and reporting. This would involve giving employees periodic information on such matters as ergonomics risk factors and warning signs of MSDs, as well as setting up a system for the reporting of MSD symptoms.

The proposal would also create a "quick fix" category for problems that can be corrected quickly. A quick fix would involve promptly providing care for the injured employee, working with employees to eliminate the hazard within 90 days, verifying that the fix had worked for another 30 days, and keeping records of the quick fix. In addition, the proposal calls for the establishment of a full ergonomics program if the quick fix fails to correct the problem or if another MSD of the same type occurs on the job within three years.

Employers with reported MSDs must implement additional measures, including:

- Job hazard analysis and control, which would incorporate analyzing jobs for ergonomics risk factors, working with employees to reduce MSDs, using personal protective equipment to supplement other con-

trols, tracking progress, and identifying and evaluating MSD hazards when jobs change.

- Training. This would include conducting employee training at least every three years. The training must be carried out at no cost to employees and in all necessary languages.

- Management for workers with MSDs, which would involve ensuring prompt responses to an injured employee and access to a health care provider, if necessary, for evaluation, management and follow-up, at no cost to the employee.

In addition, necessary work restriction protections would have to be provided during the recovery period. Under the proposal, an employer would have to provide 100% of regular pay and benefits for an injured employee placed on light duty during the recovery period, or 90% of the pay and 100% of the benefits for a worker who can't work due to ergonomics injuries. The benefits would last until the earliest of three events: the worker returns to work, the MSD hazard is

'OSHA says these are simple, easy things to do—this is not a simple thing to do,' says Keith Lessner of The Alliance.

fixed, or six months have passed. The work restriction pay protection could be offset by workers comp or similar benefits.

- Program evaluation at least every three years, including consultation with employees and recordkeeping requirements for employers with 10 or more employees.

Some employers would be covered by a grandfather clause if they could establish that they had programs in place that met the following conditions:

- They fulfilled the standard's basic requirements.
- They were implemented and evaluated before the standard took effect.
- They had eliminated or materially reduced MSDs.

OSHA will accept written comments on the proposal postmarked by Feb. 1, 2000. Public hearings will then be held in Washington, Chicago and Portland, Ore., and the agency hopes to issue a final rule by the end of next year. The standard would take effect 60 days after the publication of the final rule.

Judging from the comments already made by employer representatives, OSHA will be hearing quite a lot on its proposal during the next few months.

"The question that needs to be asked is, why not wait until the NAS study is completed and released before setting forth with a proposed ergonomics standard?" said Lance Ewing, chairman of the Risk & Insurance Management Society Inc.'s external affairs team and director-insurance and loss prevention for GES Exposition Services Inc. in Las Vegas.

Mr. Ewing noted that many companies already have implemented successful ergonomics programs. "Now they have to wait and see if their programs fit into the OSHA ergonomics box Mr. Jeffress has developed," he said.

He added that a number of questions need to be answered before a standard can be promulgated, including the role of workers compensation in a modified work or light-duty program, how one proves that an ergonomics injury was work related, and what happens if an employee "balks" at the OSHA quick fix.

"In addition, California has rolled out its own ergonomics standard that has proven successful in the past two years. If this is not what OSHA is

looking for, why are other states such as Rhode Island, Washington and Mr. Jeffress' own state of North Carolina trying to roll out ergonomics standards on their own? I think that what OSHA might find better is sitting down with the various state organizations, as well as industry, as well as labor, and hashing this out. I think that would be in the best interest of business and the government alike," said Mr. Ewing.

The possible impact of the proposal on workers comp has raised concerns among employers, insurers and risk managers.

"The business community sees the ergonomics proposal as guerrilla war against the state workers compensation system," said Eric Oxfeld, president of Washington-based UWC, a national business association specializing in workers comp.

"We believe that the proposed standard would amount to an enormous federal encroachment on state (workers compensation) laws by establishing a federal compensation program administered by OSHA. The standard includes compensation requirements that are far more generous than any state workers compensation program and which do not require a claimant to prove work-related disability. Employers are going to expect workers compensation insurance to cover these new obligations, and that could create tension between workers comp insurers and employers."

Others expressed additional concerns about the relationship between workers comp and the proposed standard.

"We're not arguing the merits of OSHA proposing to do an ergonomics rule. It still usurps the work comp system, because it takes those injuries caused by ergonomics into a separate class of injuries, which is not what the work comp system is all about," said Arlene Ryndak, a workers comp specialist with the National Assn. of Independent Insurers in Des Plaines, Ill.

"OSHA says these are simple, easy things to do—this is not a simple thing to do," said Keith Lessner, vp-safety and environment for the Alliance of American Insurers in Downers Grove, Ill.

Mr. Lessner noted that one of OSHA's stated reasons for issuing a standard is to urge workers to come forward with complaints of ergonomic injuries, which, in many cases, will be manifested as pain and suffering rather than a more evident physical injury.

"I think the more driving mechanism is not necessarily to encourage employees to report pain. The more important reason for using the comp mechanism is that it puts the enforcement onus on the employer," said Mr. Lessner.

"It clearly is an inappropriate use of the compensation mechanism," he said.

"Even employers with the best intentions will have a hard time knowing whether they've complied with the standard," he said.

Other observers have questioned the efficacy of the proposed standard.

"Our big issue with this is that our members have received no assurances from OSHA that what they're proposing will actually improve workers' safety. When we surveyed our membership back in March, 80% said they had written safety and health programs," said Jennifer S. Krese, director-employment policy for the National Assn. of Manufacturers in Washington.

If OSHA promulgates a standard, the NAM will join in suits to block it, she said. "In the interim, the NAM will use the force of its membership to hold OSHA's feet to the fire to have the science before it regulates," and the organization will "absolutely" be encouraging its members to submit written comments on the proposal. **BI**

Updates

Embattled regulator re-elected

BATON ROUGE, La.—Louisiana Insurance Commissioner Jim Brown is calling his re-election an exoneration by voters after a bitter campaign and his indictment earlier this year by a federal grand jury.

"I feel fully vindicated," Mr. Brown said after his Nov. 20 re-election to a third term. He said the work he has done in two previous terms as insurance commissioner overshadows his indictment by a federal grand jury.

Mr. Brown, a Democrat, captured 58% of the vote to defeat Republican challenger Allen Boudreaux in the runoff election. The candidates spent little time during the campaign discussing issues, choosing instead to attempt to smear each other through negative advertising.

Mr. Brown campaigned under the cloud of the indictment that was handed down on Sept. 24 (BI, Oct. 4). He faces 56 counts, including conspiracy and insurance fraud charges and allegations that he helped the owner of a failed insurance company avoid a \$27 million lawsuit by the state.

The insurance commissioner has proclaimed his innocence in the case, which is expected to go to trial sometime in the next year.

Ergonomic injury rates studied

Employers that invest in preventive measures are significantly less likely to have high rates of ergonomics-related work injuries than those that don't, according to a recent survey by a health and disability management services company.

The survey, released by Philadelphia-based Intracorp only a few days before the Occupational Safety and Health Administration released its proposed ergonomics standard (see related story), was based on responses from 164 companies. Each of the responding companies had more than 1,000 employees in four categories—manufacturing, transportation, wholesale/retail and health and business services.

Intracorp's survey found that while only 36% of the manufacturing company respondents said they had devoted resources to preventing "lost-time" injuries, 70% of the respondents in this category reported a high or medium incidence of repetitive motion or cumulative trauma injuries.

More than half of the respondents in the health and business services category—54%—said they had invested in prevention efforts, and only 33% of the respondents in that category reported having suffered high or medium rates of repetitive motion or cumulative trauma injuries.

Additional information on the survey is available at www.intracorp.com.

Briefly noted

The Louisiana United Businesses Assn. Workers' Compensation Fund is paying a dividend of \$2.3 million for 1999, the largest reimbursement in its history. The dividend will be shared by the fund's more than 5,500 policyholder members. According to the fund, the dividend resulted from its employer members' commitment to keeping losses down. Meanwhile, Ohio's private employers will get a dividend credit amounting to more than \$622 million on their workers compensation bill next month. The dividend resulted from better-than-expected returns on investments held by the state Bureau of Workers' Compensation. . . . **The Reinsurance Assn. of America** has voted to allow reinsurance brokers to join the Washington-based association as affiliated members. . . . Rather than combine two human resources operations that employ approximately 1,000 people, the newly merged British Petroleum and Amoco Corp., now called BP Amoco P.L.C., is preparing to **outsource its benefit administration and other HR functions** in a deal valued at \$300 million to \$750 million over five years, according to company sources. Details have yet to be announced. . . . The New Hampshire insurance commissioner has taken control of **Tufts Health Plans of New England** following a court-ordered rehabilitation of the Bedford, N.H.-based HMO. Tufts, which operates in Maine, New Hampshire and Rhode Island, had losses totaling more than \$41 million this year. . . . Metropolitan Life Insurance Co. is seeking approval for its plan to **demutualize and launch an initial public offering**. New York Superintendent of Insurance Neil Levin will hold a public hearing Jan. 24 on MetLife's plan. . . . Standard & Poor's Corp. and Moody's Investors Service Inc. have lowered their ratings of workers compensation insurer **Superior National Insurance Co.**, with negative implications. S&P lowered its financial strength rating of Superior National to BB+ from BBB, while Moody's cut its financial strength rating to Ba3 from Ba1. Both rating agencies cited, among other things, the Calabasas, Calif.-based insurer's dispute with Inter-Ocean Reinsurance Co. Ltd. over \$175 million in reinsurance recoverables. . . . **Frontier Insurance Group Inc.** reached an agreement last week with Clarendon Insurance Group of New York under which Frontier will have access to Clarendon insurance subsidiaries rated A or higher by A.M. Best Co. Earlier this month, Best downgraded Frontier to B++ after the Rock Hill, N.Y.-based specialty insurer announced a charge due to increasing liability claims. . . . A group of six companies found liable for a 1987 railroad car fire agreed last week to **settle a class-action lawsuit for \$215 million**. A Louisiana state court judge in New Orleans gave preliminary approval to the settlement offered by defendants Phillips Petroleum Co., General American Transportation Corp., GATX Terminals Corp., Mitsui & Co., Illinois Central Railroad Co. and Alabama Great Southern Railroad Co. In 1997, a jury awarded \$3.4 billion in punitive damages against four of the defendants. A hearing for final approval of the settlement will take place next March.

Reliance

Continued from page 2
current focus for Reliance, it must also ensure that policyholders do not flee to more secure insurers during the current renewal season, he said.

The appointments of Messrs. Miller and Van Gilder should help Reliance turn itself around, said William M. Wilt, vp and senior analyst at Moody's Investors Service Inc. in New York, which also is reviewing its rating of Reliance.

"They'll bring an outsider's clear, objective opinion on what needs to be done, and they won't have any emotional ties to particular businesses that need to be looked at more critically," he said.

Reliance Group's stock was trading at \$3.81 per share last Wednesday. Both new executives' compensation is tied to improvement in the company's stock price.

Mr. Miller, 58, spent 12 years at Chrysler Corp., including serving as chief financial officer and vice chairman. Then, in the late 1980s and 1990s, he took on several shorter-term appointments at troubled companies, including Morrison Knudsen Corp., Federal Mogul Corp. and Waste Management Inc. He also spent two years as an adviser at Aetna Inc. when it transformed itself from a multi-line insurer into a health insurer.

Mr. Miller said he expects to bring focus and urgency to Reliance and to help ensure that critical decisions are made and executed.

"We need to get things back on track, and there are a couple of clouds that have to be removed," he said.

The most immediate problem facing Reliance is the uncertainty over Unicover, Mr. Miller said.

"If we were 10 times larger we would fight it out in the courts, but it is a large problem for the relative size of the company. It has the potential to become a marketing issue and an issue with the rating agencies," he said.

Reliance is currently negotiating with several other parties involved in the pool, and it expects to settle its liabilities for less than \$100 million, Mr. Miller said.

There are more than 30 other parties that must sign on to any agreement, so it will likely take some time, but "we expect to get

'Mistakes were made, and it will cost the company a lot of money to deal with those mistakes,' says new Reliance National CEO George Van Gilder.

through it over the next couple of months," he said.

The settlement of the Unicover issues will put Reliance in a more certain financial position and allow it to raise capital and refinance the debt that is due next year, Mr. Miller said.

Mr. Miller will also work with Mr. Van Gilder to review Reliance's underwriting to try to ensure it will not have to take special charges to bolster reserves in the future, he said.

"The business of insurance is risk, and you'll never eliminate that, but they could have done a better job of avoiding some of things that cropped up this year," Mr. Miller said.

Many of the underwriters who were responsible for the poorly performing business have

left the company, said Mr. Van Gilder. About 200 Reliance National employees have left in recent months.

"Mistakes were made, and it will cost the company a lot of money to deal with those mistakes," he said.

Mr. Van Gilder, 55, was most recently a consultant. Prior to that he was chairman of Menlo Park, Calif.-based Risk Management Solutions Inc., and for 24 years before that he was with Chubb Corp., where he rose to the position of executive vp and chief underwriting officer.

Most of the action that needed to be taken on the underwriting side has been done with the elimination of \$300 million of poor performing business, Mr. Van Gilder said. But he will continue to oversee a review of all of Reliance National's business, and that will likely lead to the insurer dropping more unprofitable business, he said.

Reliance National wrote a total of \$3.4 billion in gross premiums in 1998.

"It doesn't seem to me that there is any major segment of this company that needs significant pruning...95% of what we have is just fine. It is put together carefully and priced right," Mr. Van Gilder said.

Thus far, Reliance National has been successful in retaining most of its profitable business despite the questions surrounding its financial ratings, he said.

"Policyholders value the skills of our people, the relationships they have and the services that we provide them," Mr. Van Gilder said.

The Reliance companies have, so far, been largely successful in retaining business, agreed Charles Ruoff, senior vp and chief marketing officer at broker Acordia Inc. in Indianapolis.

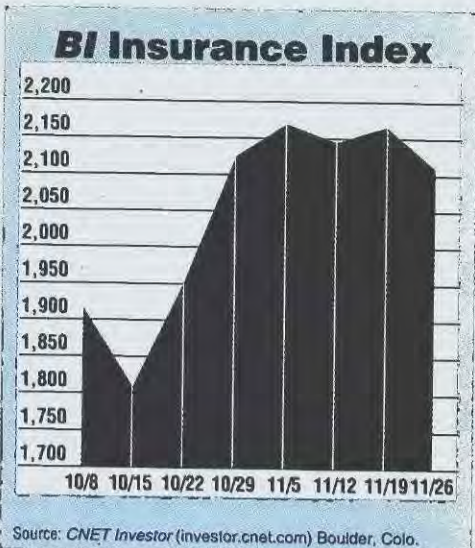
"We have given all the publicly available information to those clients that are concerned, and the majority of those have renewed with Reliance," said Mr. Ruoff.

Policyholders are making that decision for a variety of reasons, he said. Some value continuity because they have multiyear contracts or have outstanding claims with Reliance; others like the innovative products that Reliance has developed over the past several years and the prices the insurer charges; while still others prefer the generally higher standards of service that Reliance provides, he said.

"If a client is not unhappy with regards to service, then they are not necessarily inclined to move," Mr. Ruoff said.

Underlying the renewal process is a general shift in pricing in the market, he said.

"Six or nine months ago, you could have gone to another market at the same or lower price, and that may not be the case today," Mr. Ruoff said.



Source: CNET Investor (investor.cnet.com) Boulder, Colo.

PCS catastrophe options

As of Nov. 19	Call spread	Price bid/ask	Call spread	Price bid/ask
National Annual 1999			California Annual 1999	
60/80	14.0/19.5		60/80	0.1/—
80/100	0.6/—		80/100	0.1/0.4
100/120	0.2/—		100/150	0.1/0.8
150C	0.1/2.0			
Eastern December 1999			Western Annual 1999	
10/20	-4.0		80/100	-1.9
20/30	-2.0			
40/60	-2.0		National Annual 2000	
60/80	-1.8		100/150	6.7/—
Southeast December 1999			150C	5.0/—
40/60	-1.8		190/195	0.3/0.5
60/80	-1.6		200/250	3.0/—
80/100	-1.4			

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

Letters

Continued from page 8
distortion, or corruption of any computer data, coding, programs or software." The first step is to look for the cause of the event and corresponding date of occurrence.

The cause is best described as an economic decision made by companies to shorten the amount of computer coding required. Such a decision is hardly reflective of the due diligence required of a policyholder under its contractual/policy obligations. Similarly, such an economic decision is not a peril insured against, as required by the language of the sue and labor clause.

A Y2K failure, either to the computer itself or consequentially to third parties, ef-

fectively becomes a remote cause. The remote cause is rendered inevitable by the proximate cause. The proximate cause is the previous economic decision to save money by maintaining the two-digit dating system.

The diligent approach would have been to spend "a little more" money then, to avert the incurrence of significantly more money later. It does not appear that a Y2K failure falls within the scope of sue and labor. Moreover, it seems that the due diligence (or lack thereof) required by the policyholder may arguably preclude a claim for remediation.

Timothy M. Foran Jr.
Voorhees, N.J.

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Legal & Gen	179	57.5	3.6	2.0	237-142
Royal & Sun	401	—	23.0	5.7	633-379

Brokers

Company	Price	Weekly % change	Year to date % change	High	Low	Vol.(000)
Lmbt Fenchurch	143	10.5	4.2	3.0	143-58	
JLT	248	12.6	12.0	4.9	286-166	

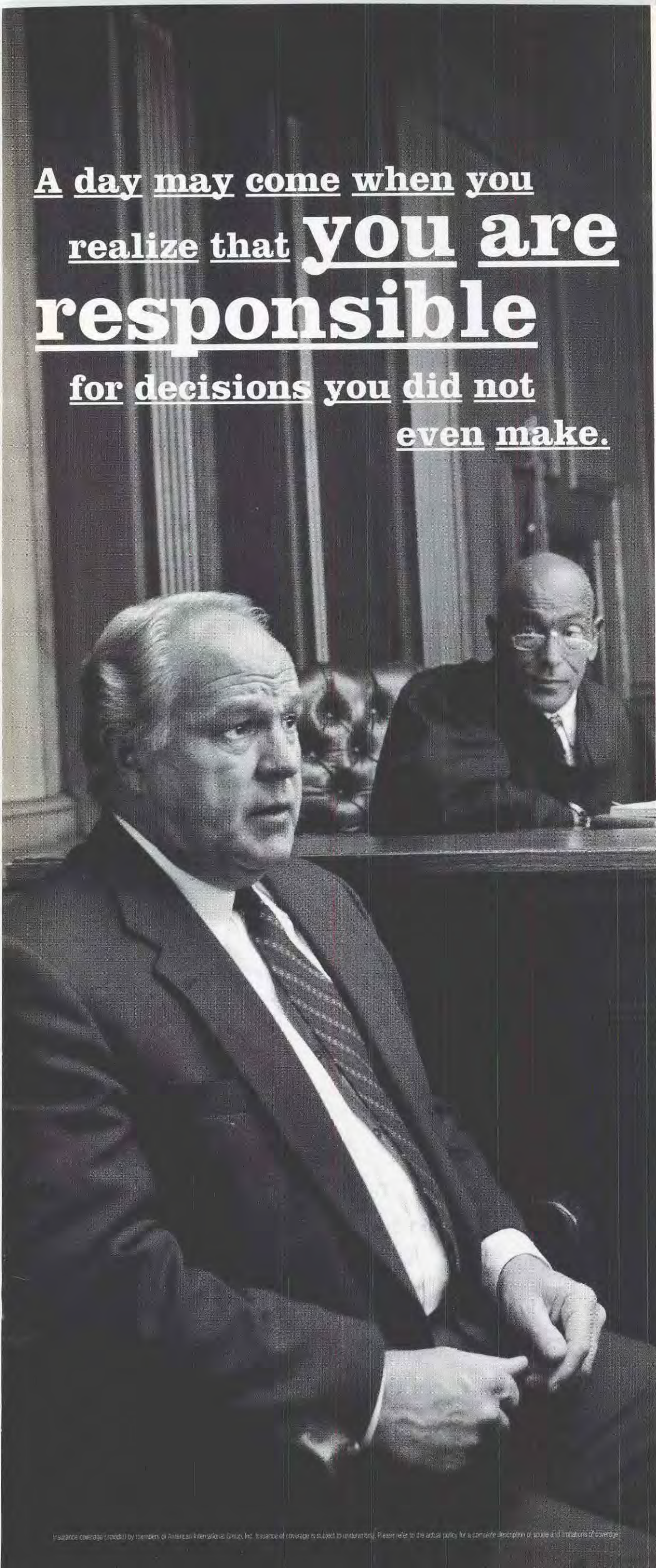
Note: Prices are Nov. 24 closings; other numbers from Nov. 23.

Source: CNET Investor (investor.cnet.com) Boulder, Colo.

BI Industry Stock Report NOV. 22, 1999, THROUGH NOV. 24, 1999

BROKERS							INSURERS/REINSURERS							HEALTH MAINTENANCE ORGANIZATIONS									
Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)			
Aon Corp.	NYS	38.19	3.21	2.17	46.69	26.06	2145	Enhance Financial Services	NYS	18.00	-5.88	-40.50	30.38	15.56	220	Terra Nova Ins Co. Ltd.	NYS	30.00	-2.64	23.08	32.83	21.25	414
Clark Bardees Holdings	NDO	13.38	1.90	-20.80	21.00	11.63	240	Everest Reinsurance	NYS	23.31	-5.09	-36.46	38.94	20.50	450	Tokio Marine & Fire	NDO	64.50	-3.01	9.55	67.00	50.00	47
E.W. Blanch Holdings Inc.	NYS	57.44	-2.23	23.03	71.75	39.75	217	Fremont General Corp.	NYS	5.13	-9.89	-78.76	25.69	4.75	1439	Torchmark Corp.	NYS	32.81	-4.02	-5.58	40.25	24.56	898
Gallagher Arthur J. & Co.	NYS	53.63	-0.46	22.57	57.25	42.25	118	Frontier Insurance Group	NYS	3.44	-14.06	-72.50	17.25	2.75	1020	Transatlantic Holdings	NYS	74.94	0.25	-0.91	80.50	69.06	50
Hibb, Rogal & Hamilton	NYS	27.00	0.70	44.97	27.38	15.56	37	Gainsco Inc.	NYS	5.88	-2.08	-6.93	6.94	3.94	33	Travelers Property Casualty	NYS	34.13	-0.91	11.43	41.88	27.69	1281
Kaye Group Inc.	NDO	9.00	2.86	24.14	9.25	5.00	5	Harleysville Group	NDO	14.63	-12.03	-42.65	26.13	13.13	257	Trenwick Group Inc.	NYS	19.75	-4.53	-37.55	35.25	16.50	102
Marsh & McLennan	NYS	77.06	-2.45	30.34	83.38	54.81	2163	HSB Group Inc.	NYS	34.81	-2.96	-13.37	42.25	33.25	216	Unico American Corp.	NDO	6.88	-5.17	-40.38	13.75	6.38	43
Brown & Brown	NYS	38.38	1.82	9.84	39.44	29.31	59	HCC Insurance Holdings	NYS	10.44	-7.73	-38.38	25.13	8.00	707	United Fire & Casualty	NDO	22.69	-1.36	-31.83	37.25	20.50	19
BROKERS AVERAGE			0.04	25.81				ING Groep N.V.	NYS	60.69	-1.52	-0.51	70.00	21.00	98	Unitrin	NDO	36.81	-3.28	3.88	42.38	30.50	194
								IPC Holdings Ltd.	NDO	17.75	-1.05	-21.98	25.38	15.38	213	UNILUM Corp.	NYS	33.38	-7.13	-44.32	62.50	26.00	2788
								Hartford Financial Services	NYS	45.56	-6.66	-18.37	66.44	36.50	1800	Vesta Insurance Co.	NYS	4.13	-10.81	-28.26	8.38	3.38	243
								LaSalle Re Holdings Ltd.	NYS	12.38	-13.16	-40.00	25.63	10.88	213	XL Capital Ltd.	NYS	52.13	-2.34	-27.16	77.25	41.94	737
								Lincoln National	NYS	43.38	-5.45	4.68	57.50	36.00	852	Zenith National Ins.	NYS	20.94	-1.47	-9.46	26.69	20.31	69
								MAIC Holdings Inc.	NYS	22.56	-5.50	-29.49	33.13	22.38	120	INSURERS/REINSURERS AVERAGE			-3.08	-20.20			
								Market Corp.	NYS	160.94	-3.63	-10.71	193.00	160.00	44								
								MBA Insurance Group	NYS	50.88	-4.46	-23.28	71.88	45.00	670	HEALTH MAINTENANCE ORGANIZATIONS							
								Meadowbrook Ins. Group	NYS	6.06	-1.02	-62.84	17.44	5.88	63	Foundation Health Systems Inc.	NYS	9.19	-8.13	-16.48	20.06	6.25	974
								MMI Cos. Inc.	NYS	4.50	-1.37	-73.03	18.13	4.31	184	Humana Inc.	NYS	7.44	-3.25	-60.73	21.38	5.88	3131
								Mutual Risk Mgmt. Ltd.	NYS	15.56	-1.58	-58.98	43.25	9.81	833	Oxford Health Plans	NDO	16.06	0.39	14.73	24.25	9.75	5091
								Navigators Group	NDO	12.13	-3.96	-20.49	16.13	11.88	17	Pacificare Health Sys.	NDO	51.56	-2.71	-27.88	100.38	31.13	1968
								NYMagic Inc.	NYS	14.75	0.00	-29.34	21.38	12.00	41	Safeguard Health Enter.	NDO	0.63	-37.50	-82.46	5.25	0.44	270
								Ohio Casualty Corp.	NDO	15.75	-3.82	-23.40	21.69	14.88	715	Sierra Health Services	NYS	9.63	-3.14	-53.89	24.94	7.19	339
								Old Republic Int'l	NYS	13.00	-0.48	-39.36	22.75	12.75	1686	United HealthGroup	NYS	52.94	-4.94	18.79	70.00	39.38	2174
								Orion Capital Corp	NYS	50.00	0.00	27.59	50.00	27.56	0	Wellpoint Health Networks	NYS	60.00	-7.07	-30.13	97.00	48.25	598
								Partner Re Ltd.	NYS	30.69	-0.20	-32.09	46.50	28.56	284	HMOs AVERAGE			-8.29	-29.76			
								Penn-America Group Inc.	NYS	7.25	-4.92	-21.62	11.44	7.00	14	ALL COMPANIES AVERAGE			-3.78	-8.05			
								PMA Capital Corporation	NDO	19.81	-0.94	1.28	21.13	17.38	37								
								Philadelphia Cons. Holding	NDO	14.44	-3.75	-32.06	25.50	10.81	212								
								PXRE Corp.	NYS	13.00	2.46	-48.51	26.25	9.94	104								
								Reliance Group Holdings	NYS	3.88	-3.13	-70.05	15.13	2.81	2433								
								ReliaStar Financial Corp.	NYS	42.38	-7.50	-5.31	49.81	31.69	1260								
								RenaissanceRe Holdings Ltd.	NYS	40.88	2.19	13.15	43.19	30.00	120								
								Risk Capital Holdings	NDO	12.06	-5.39	-42.90	22.63	11.00	161								
								RLI Corp.	NYS	34.63	-2.81	3.75	38.81	27.88	39								
								St. Paul Cos.	NYS	30.88	-5.73	-11.79	37.50	25.38	1904								
								SCOR	NYS	44.69	0.56	-31.25	68.50	44.00	22								
								SAFECO Corp.	NDO	25.50	-3.55	-40.00	46.75	24.63	2785								

**A day may come when you
realize that you are
responsible
for decisions you did not
even make.**



D & O and Corporate Liability protection

IT looked to be a year of successes. Projected sales looked good. The acquisition appeared sound. A new distribution channel promised an even brighter future. Then the world crashed around you. Projected sales never materialized. The acquisition is hemorrhaging money. The distribution channel doesn't work. It gets worse. Your stock price has fallen. Shareholders are suing. Your corporate and personal assets are at risk. It's every CEO's worst nightmare.

This isn't about misconduct. This is about good faith estimates gone terribly wrong.

This is the real world companies live in. And if your company is not properly covered, the world becomes an ugly place.

How can AIG help? By doing things others can't. By taking what you've always thought about insurance and turning that notion on its head.

Who insures you?

Take our Directors, Officers and Corporate Liability insurance. Last year, we provided expert counsel, crisis management service and loss mitigation solutions in nearly one-third of all securities-related lawsuits. From coverage for securities litigation, to discrimination and harassment suits, to the legal costs of an SEC investigation, few insurers can match the breadth of our coverage and experience. In fact, the AIG Companies have more ways to protect corporate balance sheets against risk, as well as the personal assets of individual directors and officers, than anyone else. And we have those capabilities worldwide.

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