

Business Insurance

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Health care cost hikes to grow in 2002: Survey

Employers expect U.S. health care costs increases in 2002 to rise more than their already-rapid pace, according to a survey released today.

The survey, conducted by consulting firm Watson Wyatt Worldwide, found that, on average, employers anticipate that health care costs will rise by 13.6% in 2002, compared with actual increases of 12.2% in 2001. See **Updates** on next page

Industry unites on pool plan

But groups face difficulty in securing federal legislation

By MARK A. HOFMANN

WASHINGTON—In an unusual show of unanimity, all of the major property/casualty insurance trade groups are lining up behind a single set of principles for a proposed federally backed reinsurance pool for terrorism losses.

The quick consensus that was reached on the matter underscores the recognition that the problem of reinsurance for terrorism exposures is not solely an insurance industry concern.

"We have to solve the terrorism insurance coverage problem, or that issue will drive an economic crisis throughout the country," said Craig A. Berrington, senior vp and general counsel of the American Insurance Assn. in Washington.

"We believe the legislative process will move very quickly—hopefully within the next several weeks," he said.

But Mr. Berrington and others are quick to point out that building an industry consensus is only part of the task.

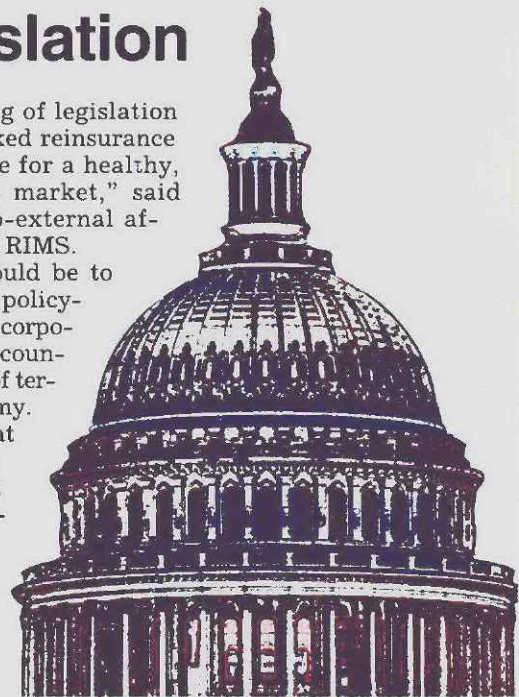
"Hopefully, when the administration and the Hill provide their perspectives on how this ought to be dealt with, we'll be able to hold the unity together," said Franklin W. Nutter, president of the Reinsurance Assn. of America in Washington.

"The next shoe to drop will be getting specific proposals from the House, the Senate and the administration, and we will be challenged again to assimilate those proposals in efforts to continue to build a consensus within the industry," Mr. Nutter said. He added that he hopes lawmakers and administration officials would be able to work off of the industry's consensus proposal.

"The fact that everybody has agreed with the principles in the proposal allows us to go to Congress with a unified position. At this point, the industry has to be unified to make the case that the legislation is needed," said Ken Schlozman, Washington counsel for the Downers Grove, Ill.-based Alliance of American Insurers. The Risk & Insurance Management Society

Inc. supports the drafting of legislation to set up a federally backed reinsurance pool "that would provide for a healthy, competitive reinsurance market," said Michael D. Phillipus, vp-external affairs for New York-based RIMS.

"The ultimate goal should be to provide stability for U.S. policyholders, whether they are corporations or individuals, to counteract the rippling effects of terrorism across the economy. RIMS is encouraged that the insurance community has come together with an industry consensus proposal," said Mr. Phillipus, who is manager-risk management for Pennzoil-Quaker State Co. in Houston. See **Pool** on page 17



Buyers may balk at brokers' effort to boost charges

By ROBERTO CENICEROS

With brokers set to raise the fees and commissions they charge their customers, risk managers say they will resist paying more or will restructure their compensation arrangements to reduce the blow.

Brokers contend that the increases are necessary because in a hardening market—which has accelerated following the Sept. 11 terrorism losses—they are working much harder to find the best coverage deals for their clients.

The stock market, in anticipation of increased broker revenues, is beginning to look at brokers' shares favorably, analysts say.

Although one risk manager says he understands the brokers' rationale, he opposes the move toward increased compensation because brokers did not lower their charges when placing coverage was simpler.

"We would and will resist that very strongly," Randy Thurman, director of risk management for Gaylord Entertainment in Nashville, Tenn., said about brokers' plans to boost charges. "They are not in a position, the brokers, to come to us and offer to lower fees when placing coverage is very easy," he said.

Various brokers place the diverse parts of Gaylord Entertainment's property/casualty insurance program, Mr. See **Brokers** on page 21

Accounting raises liquidity fears

Finite risk contracts hiding some losses

By DOUGLAS McLEOD

NEW YORK—As much as \$6 billion in losses from the Sept. 11 terrorist attacks will be masked on insurer and reinsurer financial statements this year because of accounting for finite risk reinsurance contracts, industry analysts say.

While the finite risk contracts held by many insurers will allow them to take credit for reinsurance recoverable, reducing their gross liabilities, non-U.S. reinsurers in many cases will not have to report corresponding losses in their own financial reports.

As a result, \$3 billion to \$6 billion of catastrophe losses will effectively "disappear" from the reported industrywide total, estimates Keith M. Buckley, a Chicago-based managing director of Fitch Inc.

Under many of these contracts, ceding insurers will reimburse reinsurers for their loss over multiple future years, raising the likelihood of a continuing drag on insurers' earnings, said Mr. Buckley.

"A number of primary insurers' net losses recorded in 2001 will understate the true econom-

ic impact of the events, since future expenses for reimbursements to reinsurers will be unaccounted for," he wrote in an analysis.

Another worry is how quickly some finite reinsurers—like other reinsurers facing Sept. 11 losses—will be able to pay claims, adds Donald Watson, a director with Standard & Poor's Corp. in New York. Some reinsurers, facing unexpectedly wide-ranging losses from numerous cedents, may find themselves with liquidity problems, forcing ceding insurers to liquidate assets to cover their policyholders' claims in the meantime, he said.

"The concern in my mind is not that there is this hidden receivable but that the timing" of the reinsurance recovery may weaken some insurers, Mr. Watson said.

The reinsurance contracts in question are generally aggregate excess-of-loss covers that provide catastrophe protection and that were written on a finite risk basis because traditional cat reinsurance capacity was either unavailable or too expensive. The contracts—often triggered when a ceding insurer's aggregate loss ratio passes a defined

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Demand growing for direct contracting with providers page 3

Benefits parity bill faces uncertain future in Congress page 3

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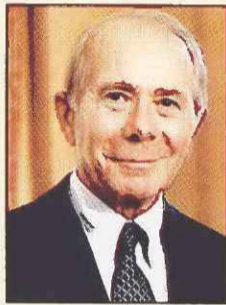
INSIDE

● **Cooperation among insurance industry groups to establish a common proposal for a federal reinsurance pool will greatly increase congressional support for the initiative and establish a long-overdue precedent of industrywide collaboration, this week's editorial says. PAGE 8**

● **In Ask A Risk Manager, Christopher E. Mandel discusses some concerns risk managers should be thinking about after the events of Sept. 11. PAGE 10**

● **A U.K. tribunal ruling granting British employment rights to four flight attendants hired in the United States and working under U.S. contracts shows that the responsibilities of multinational employers to workers based in the United Kingdom have broadened. PAGE 15**

● **American International Group Inc. has raised the estimate of its gross loss from the Sept. 11 terrorist attacks to \$2 billion, and AIG Chairman Maurice R. Greenberg warns that insurance buyers can expect to see rates "going up by leaps and bounds." PAGE 21**



● **AXA Colonia Versicherung A.G. has canceled its coverage for the 2002 soccer World Cup. PAGE 23**

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UPDATES

Continued from previous page
2001. Health care costs rose by 8.1% in 2000, the survey states. The rate of increasing costs is again highest for prescription drugs; drug costs are expected to rise by 17.0% in 2002 over this year. The rates charged by health maintenance organizations are expected to increase 13.9%, with preferred provider organization costs going up by 13.7% and point-of-service plans rising by 12.7%, the survey predicts. The survey, conducted in August, gathered data from 200 employers with more than 1.4 million employees.



Employers responded that, to counter the increases, they plan to pass on more costs to their employees. Overall, 56% of the employers surveyed said they would increase employees' contribution by the trend rate or more.

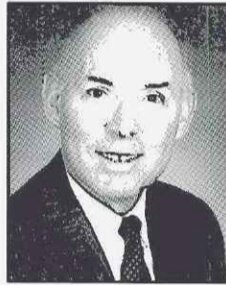
▶ **AON TO OFFER P/C COVER** Aon Corp. is expanding its insurance underwriting operations to include direct property/casualty insurance and reinsurance, in the wake of the Sept. 11 terrorist attacks. The coverages will be written through the underwriting operations that Aon is presently spinning off as Combined Specialty Corp., which will be a separate publicly traded company. Kenneth J. LeStrange, who was chairman of Aon Risk Services Cos. Inc., Aon's retail brokerage arm for the Americas, has been named chairman and chief executive officer of Combined Specialty. Michael D. O'Halloran, while continuing in his current capacity as Aon Corp.'s president and chief operating officer, also "will focus his leadership and management skills on the Aon retail brokerage business in the Americas," said Patrick G. Ryan, chairman and CEO of Aon Corp., in a written statement.

▶ **IRI DROPS LIMITS** Industrial Risk Insurers has cut its policy limits to \$10 million and is seeking business outside of its traditional market of highly protected risk insurance. The Hartford, Conn.-based insurer has also split its insurance and loss control services functions and will offer them independently of one another, said Dan Eudy, president of IRI, which is a member of General Electric Co.'s commercial insurance division. The move is a significant shift for IRI, which had previously offered up coverage limits as high as \$1 billion for HPR policies and had provided loss control services only in conjunction with insurance coverage. "We wanted a long-term business plan that would give us more predictability and less volatility," Mr. Eudy said. IRI anticipates losing some premium income due to the reduction in limits, but it hopes to increase primary premium income by offering general property insurance in addition to HPR business, he said.

▶ **AIRPORT COVERAGE AVAILABLE** Primary terrorism liability insurance for airports—which could help lead to the development of a much needed excess market—is again available in the London market, and another U.S. insurer plans to begin offering the coverage this week. The insurers writing the new coverage, however, will offer it only to existing clients. The moves come less than two weeks after aviation insurers worldwide canceled the coverage for airports in the wake of the Sept. 11 terrorist attacks. Global Aerospace Underwriting Managers Ltd. of London is now offering

its existing airport clients up to \$50 million of terrorism liability coverage, confirmed Tony Medniuk, group chief executive officer. And, early this week, Phoenix Aviation Managers Inc. of Kennesaw, Ga., also plans to offer its airport clients primary terrorism coverage, said Bill McGloin, president and CEO. As Phoenix Aviation late last week was finalizing its coverage plans, Mr. McGloin said he was "inclined" to offer up to \$50 million of limits as well. The availability of primary terrorism coverage for airports could prompt the development of an excess market for the risk, said Messrs. Medniuk and McGloin. The primary coverage now available is a fraction of the coverage that some large airports lost when insurers canceled the coverage as of Sept. 30. It is unclear how the new coverages compare in price to the \$50 million in primary coverage that American International Group Inc. began writing earlier on a standalone basis.

▶ **SCHREMPF LEAVES NCCI** Bill Schrempp has resigned as president and CEO of NCCI Holdings Inc., the holding company for the National Council on Compensation Insurance. In a statement, the Boca Raton, Fla.-based NCCI said its "board of directors accepted the resignation of Bill Schrempp as president, CEO and board member of the company, effective immediately." Mr. Schrempp told *Business Insurance* the board's request for his resignation was sudden and unexpected. "The board has said it wants different management. They haven't said why," he said. The resignation comes less than a month after the NCCI received considerable criticism from employees for banning the display of the U.S. flag in the workplace. The organization has since reversed that position.



Mr. Schrempp

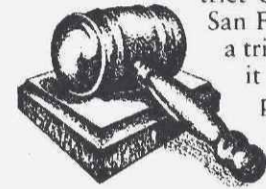
▶ **CAT REINSURER** A property catastrophe reinsurer with \$500 million in capital will be formed in Bermuda. State Farm Mutual Insurance Co. will invest \$200 million in the reinsurer, DaVinci Reinsurance Ltd. RenaissanceRe Holdings Ltd. will invest \$100 million and other investors will contribute another \$200 million. DaVinci Re will offer quotes on programs that are underwritten by RenaissanceRe. Pembroke, Bermuda-based RenaissanceRe has a similar venture with Overseas Partners Ltd., called OPCat. DaVinci Re, RenaissanceRe and OPCat will jointly offer \$200 million per program in reinsurance capacity.

▶ **FISHMAN TO HEAD ST. PAUL** Jay S. Fishman, former chairman and CEO of Travelers Insurance Group Inc. in New York, has taken over the helm of The St. Paul Cos. Inc. Mr. Fishman, who also was chief operating officer-finance and risk of Travelers' parent, Citigroup Inc., succeeds Douglas W. Leatherdale, who is retiring after serving as St. Paul's chairman and CEO since 1990. On the heels of Mr. Fishman's departure, Citigroup announced the promotion of three Travelers' executives. Charles C. Clarke is the new chairman and CEO, and Douglas G. Elliot is the new president of Travelers Property & Casualty. George C. Kokulis takes on the additional role of chairman of Travelers Life & Annuity, maintaining his previous title of CEO.

▶ **BENEFITS PACKAGE** Laid-off workers would be allowed to make penalty-free withdrawals from 401(k) and other savings plans to pay for health insurance premiums under a bill unveiled Friday by House

Ways and Means Committee Chairman Bill Thomas, R-Calif. Under the measure, the normal 10% tax penalty on preretirement distributions would be waived for laid-off employees receiving unemployment compensation payments after Sept. 10, 2001, and before Jan. 1, 2003. The package, which was awaiting committee approval late Friday, also would give the states \$3 billion to help laid-off employees pay for health insurance premiums. The measure, H.R. 3090, also would extend by one year, to Dec. 31, 2003, a federal law that allows small employers to offer their workers tax-favored medical savings accounts linked to high-deductible insurance plans.

▶ **HARASSMENT CASE** Staring at a fellow employee can constitute sexual harassment when it is conducted under certain circumstances, a California appeals court ruled last week. In *Michelle Birschtein vs. New United Motor Manufacturing*, the 1st District Court of Appeal in San Francisco ruled that a trial court erred when it granted the employer's motion for summary judgment. The employer, New United Motor



Manufacturing, argued that staring at the plaintiff while she worked on an assembly line was not an actionable matter of law. The plaintiff claimed that, beginning late in 1995, while she was working in a Fremont, Calif., plant, a forklift driver asked her for a date several times. Ms. Birschtein declined. Later, while delivering parts to her work area, the driver made sexual comments to her and described fantasies involving her, court papers say. After she complained to management, the driver stopped speaking to her. But he would sit near her several times a day "just staring at me," Ms. Birschtein testified in court records. The plaintiff again complained. At one point the driver allegedly slowly drove by her work station while grabbing his crotch, according to court papers.

▶ **BRIEFLY NOTED** New York-based Marsh Inc. has formed a new crisis consulting practice to advise clients on plans for dealing with terrorism, natural disasters, product recalls and other such events. L. Paul Bremer, a former U.S. ambassador-at-large for counterterrorism in the Reagan administration, will serve as chairman of the practice. Andrew R. Daniels, a Marsh managing director, will serve as president and chief operating officer. In addition, Marsh has reached an agreement with Washington-based Control Risks Group L.L.C. to jointly provide political risk assessment services to clients...The Hartford Re unit of Hartford Financial Services Group Inc. has said that it will focus on writing North American reinsurance business and will limit future international reinsurance underwriting to alternative risk transfer, marine and catastrophe business. International reinsurance accounts for about \$150 million of the unit's \$750 million premium volume, a spokeswoman said...The Supreme Court has declined to review a Louisiana court decision that bans cities from suing gun makers to recover the costs of gun violence...The unit of TotalFinaElf that owns a French chemical plant which exploded last month said losses could exceed its liability insurance limits if it were found liable. [E]

▶ **To get breaking news as it occurs, visit Business Insurance's free online Updates, at www.businessinsurance.com. All of the material in the Updates column, as well as other content in this week's issue, is generated from daily news postings that appeared on the Web site in the previous week.**

Coalition's spun-off health care network in demand

Direct-contracting options growing

By ROBERTO CENICEROS

DENVER—In its effort to expand nationwide, a novel health care delivery system originally created by a Minnesota-based employer coalition is offering self-insured employers in Denver and Portland, Ore., an opportunity to sidestep health insurers and contract directly with medical providers.

To offer its health care delivery model in Denver and Portland—even as it loses members at home—St. Louis Park, Minn.-based health care delivery network Patient Choice Healthcare Inc. has teamed up with employer purchasing

coalitions in those cities.

Patient Choice already has entered into

agreements in place in Portland, where Patient Choice teamed up with The Oregon Coalition of Health Care Purchasers.

Expansion into those regions came about because the coalitions requested the services of Patient Choice, the spokeswoman said. Patient Choice was originally formed by the Buyers Health Care Action Group, a Minnesota-based employer coalition.

The expansion of Patient Choice could attract more members to The Alliance, said Tom Rockers, the coalition's chief

executive officer. Currently, The Alliance has 140 self-funded employers as members of its preferred provider organization and approximately 1,700 small-employer members that purchase fully insured products.

Furthermore, Mr. Rockers said, Patient Choice could provide another coverage option in a region where there are few purchasing choices for self-insured employers.

Patient Choice will be building off The Alliance's PPO arrangement, Mr. Rockers said. The teaming of Patient Choice and The Alliance could also help Minnesota

See **Choice** on page 23



contracts with more than 3,300 doctors and several hospitals in Colorado by working through a Denver-based coalition called The Alliance, a Patient Choice spokeswoman said. Similar arrange-

IRS offers pension filing relief

Deadline eased after Sept. 11 events

WASHINGTON—The Internal Revenue Service is giving limited relief to employers that didn't make required contributions to their pension plans because of disruptions caused by the Sept. 11 terrorist attacks.

The IRS said last week in Announcement 2001-103 that it would not consider a pension plan financial report incomplete or inaccurate even if the report included employer contributions that weren't made by the Sept. 15 due date.

As long as the contributions were made on or before Sept. 24, the plan administrator and actuary would not be considered as failing to file a complete or accurate report.

That is significant relief, because the Employee Retirement

Income Security Act permits the government to impose stiff penalties—up to \$1,100 for each day a plan administrator fails to file an accurate pension report after its due date.

The IRS announcement is silent, though, on whether contributions made after Sept. 15 but by Sept. 24 would be considered timely for funding as well as filing purposes.

That is because the IRS lacks authority to extend deadlines for the actual payment of pension contributions, said Kyle Brown, retirement counsel with Watson Wyatt Worldwide in Washington. Only Congress can give the IRS such authority, which legislators are expected to do in a forthcoming disaster relief bill.

"Congress has been aware of the problem and likely will grant the IRS the authority to extend the funding deadline," said Curt Cartolano, a consul-

tant with Hewitt Associates L.L.C. in Lincolnshire, Ill.

Extending filing and funding deadlines to Sept. 24 from Sept. 15 may involve only a few days, but the additional time is vital for some employers.

Some employers often deliberately wait to the very last day to make required contributions to their pension plans, says Larry Sher, a principal in Teaneck, N.J., with the Unifi Network, a unit of PricewaterhouseCoopers L.L.P. That strategy allows employers to hang onto corporate cash longer before it must be funneled into the pension plan.

But in the wake of the Sept. 11 terrorist attacks, many employers had difficulty—due to the disruption in the financial markets—in making the required contributions to their pension plans by the Sept. 15 deadline. Since then, however, those problems have eased.

—By Jerry Geisel



Sens. Paul Wellstone, left, and Pete Domenici face difficulty in bringing their mental health benefits parity bill to a vote.

Parity legislation's future uncertain amid other issues

By JERRY GEISEL

WASHINGTON—Once considered a sure thing, prospects are fading for the imminent passage of legislation mandating that most employers offer the same coverage in their health care plans for mental disorders as for other medical ailments.

With the attention of lawmakers now almost exclusively on legislation relating to the Sept. 11 terrorist attacks, congressional interest in quickly passing the mental health care benefits parity measure has slipped, Washington observers say.

"There are higher priorities on Congress' plate right now," said Paul Dennett, vp-health policy at the American Benefits Council in Washington.

"The whole environment has changed since Sept. 11. The attention to health care issues has fallen off," concurred Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

Others say congressional interest in the measure has cooled as the economy has slowed, while group health care costs are increasing by more than 10% a year.

"There is a concern about the cost impact of this measure, especially when overall

health care costs are going up so much," said Neil Trautwein, director of employment policy at the National Assn. of Manufacturers in Washington.

The mental health care benefits parity bill, S. 543, introduced by Sens. Paul Wellstone, D-Minn., and Pete Domenici, R-N.M., would expand a 1996 law, which expired Sept. 30, that barred employers from imposing discriminatory annual and lifetime dollar limits for mental disorders. That law, though, did permit employers to discriminate in other ways, such as capping the number of visits to therapists and clinics or requiring higher deductibles or copayments for mental health care.

For example, the 1996 law permitted an employer to cap the number of annual visits to a psychiatrist at 20 per year and to require a beneficiary to pay 80% of a therapist's charges for a session, while imposing no such comparable limits for visits to doctors for the treatment of other physical problems.

By contrast, the Wellstone-Domenici bill would require true parity for mental health and medical/surgical benefits. Parity would not be required, though, for the treatment of

See **Parity** on page 22

Worker exposed to toxin must use comp system

By JUDY GREENWALD

LOS ANGELES—A reluctant state appellate court said a worker who was knowingly exposed to toxic chemicals by his employer must still seek compensation through the workers compensation system, despite the employer's "egregious conduct."

The unanimous ruling by a three-judge panel in *Ross C. Gunnell vs. Metrocolor Laboratories Inc.* affirmed the ruling of the trial court, whose decision also invalidated a \$6.7 million jury award to Mr. Gunnell.

"We observe that the facts of this case reveal egregious misconduct by the employer,

who failed to take steps to assure the safety of workers hired to use a dangerous chemical substance and concealed the danger from those employees," said the Sept. 28 decision. "While we do not condone the employer's misconduct, we feel constrained" by a 1980 California Supreme Court decision "whose holding we are required to follow."

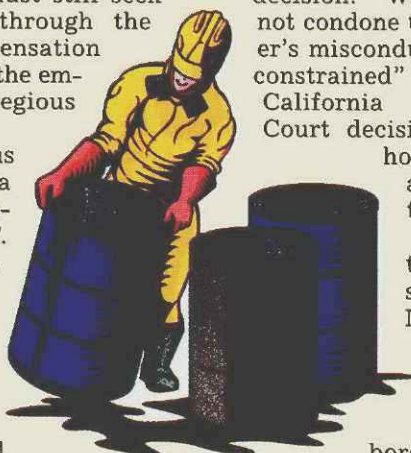
According to the decision, in 1989 Mr. Gunnell, along with two other laborers, worked for four and one-half months at Metrocolor, where they were assigned to clean walls, pipes and other parts of the interior of a film

lab. Culver City, Calif.-based Metrocolor was subsequently taken over by New York-based Time Warner Entertainment Co.

The workers were told to use a blue-green substance they thought was cleaning soap. "Metrocolor provided no hazard training, posted no signs about chemical hazards and never told the laborers what the 55-gallon barrels contained," the decision noted. Mr. Gunnell said he saw his supervisor removing labels from each barrel before they were given to the workers.

By the end each day, Mr. Gunnell's clothing and feet were soaked with the solution. The only protective gear provided him were rubber gloves, which disintegrated after about a half-hour of use, and a paper suit that did not protect him from being soaked, according to the decision. He

See **Toxic** on page 22



Changes prompting revision of self-funded plans

By MEG FLETCHER

CHICAGO—Many companies that self-fund their employee medical benefits need to revise the structure of their benefit delivery systems to survive new—and growing—legal and regulatory changes, attorneys advise.

The attorneys say employers and administrators should consider adopting an administrative structure similar to that for a pension plan. Such a structure would more clearly delineate lines of authority between an employer and its plan's overseers, rather than allowing those roles to blur, as some group plans have

during the past quarter-century.

Several legal and regulatory developments—and some that are anticipated—are causing “the greatest upheaval in our industry that there has ever been,” said John Eggertsen, the named partner in a law office in Northville, Mich. Previously, Mr. Eggertsen worked for 25 years with Honigman Miller Schwartz and Cohn L.L.P. in Detroit.

Those changes include some court decisions in Employee Retirement Income Security Act cases that limit the scope of federal pre-emption of state laws, according to Michael J. Friedman, an attorney and consultant with

Honigman Miller in Detroit. In addition, employers and plans face new regulations from the U.S. Department of Labor, as



well as congressional efforts to give employees greater rights to ensure the privacy of their personally identifiable health infor-

mation, Mr. Friedman said.

The two attorneys, who spoke at the recent Self-Insurance Institute of America Inc.'s national education conference and expo, discussed a new conceptual framework and model for an optimal group self-insurance program. Their panel discussion was held during the 21st annual conference of the Santa Ana, Calif.-based organization, held Oct. 3-5 in Chicago.

The attorneys said adopting an administrative approach more like that of a pension plan would require employers and group plans to:

- Establish a separate trust fund for the plan to handle to all money dedicated to its self-funded medical plan and have all financial transactions go through that trust.

Mr. Eggertsen stressed that checks should not be issued on any other bank accounts, even those controlled by the employer or third-party administrator affiliated with the plan.

- File the appropriate annual report—Form 5500—with the Internal Revenue Service. Before that can be done, though, the plan must hire an independent accountant to audit its financial records.

- Designate the claims supervi-

sor—which might be a TPA or an employer's head of its self-administered program—in the plan document as the “named fiduciary” for purposes of claims handling.

- Require that the administrator of the plan, who is often an employer representative, sign all service contracts, including those with TPAs and all other vendors.

That person also should be appointed as the administrator for claim information as well as the ERISA fiduciary, but only to the extent of his or her discretion for the handling of plan assets.

That approach, though, likely will end the use of broad-based indemnification clauses in service agreements that previously helped immunize the administrator from liability. Broad indemnification clauses are not consistent with being a fiduciary under ERISA, Mr. Eggertsen said. In addition, “there is also more and more resistance on the part of employers” to such broad clauses, he said.

- Require that the plan—not the employer—purchase all stop-loss insurance.

The session was moderated by Sidney L. Meyer, executive vp, chief legal and legislative affairs officer for the MultiPlan, a New York-based health care provider network. **BI**

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Programs to manage chronic diseases cut employer costs

By MEG FLETCHER

CHICAGO—Employer-based disease management programs not only can reduce the cost of treating chronic illnesses but also improve the quality of life for workers.



Programs that can help workers control diseases such as diabetes, asthma and depression are particularly suited to self-insured employers, because such employers have a great deal of control over their health care benefit programs, said Melissa Tobler, director of disease management with consultant Innovative Resource Group L.L.C. in Waukesha, Wis. Ms. Tobler spoke at the Self-Insurance Institute of America Inc.'s national conference, held Oct. 3-5 in Chicago.

Ms. Tobler uses the definition of disease management put forward by the Disability Management Assn. of America: “Disease management is a multidisciplinary, continuum-based ap-

proach to health care delivery that identifies populations with, or at risk for, established medical conditions.” Such programs, she said, include several components, including:

- Supporting the physician/patient relationship and plan of care.

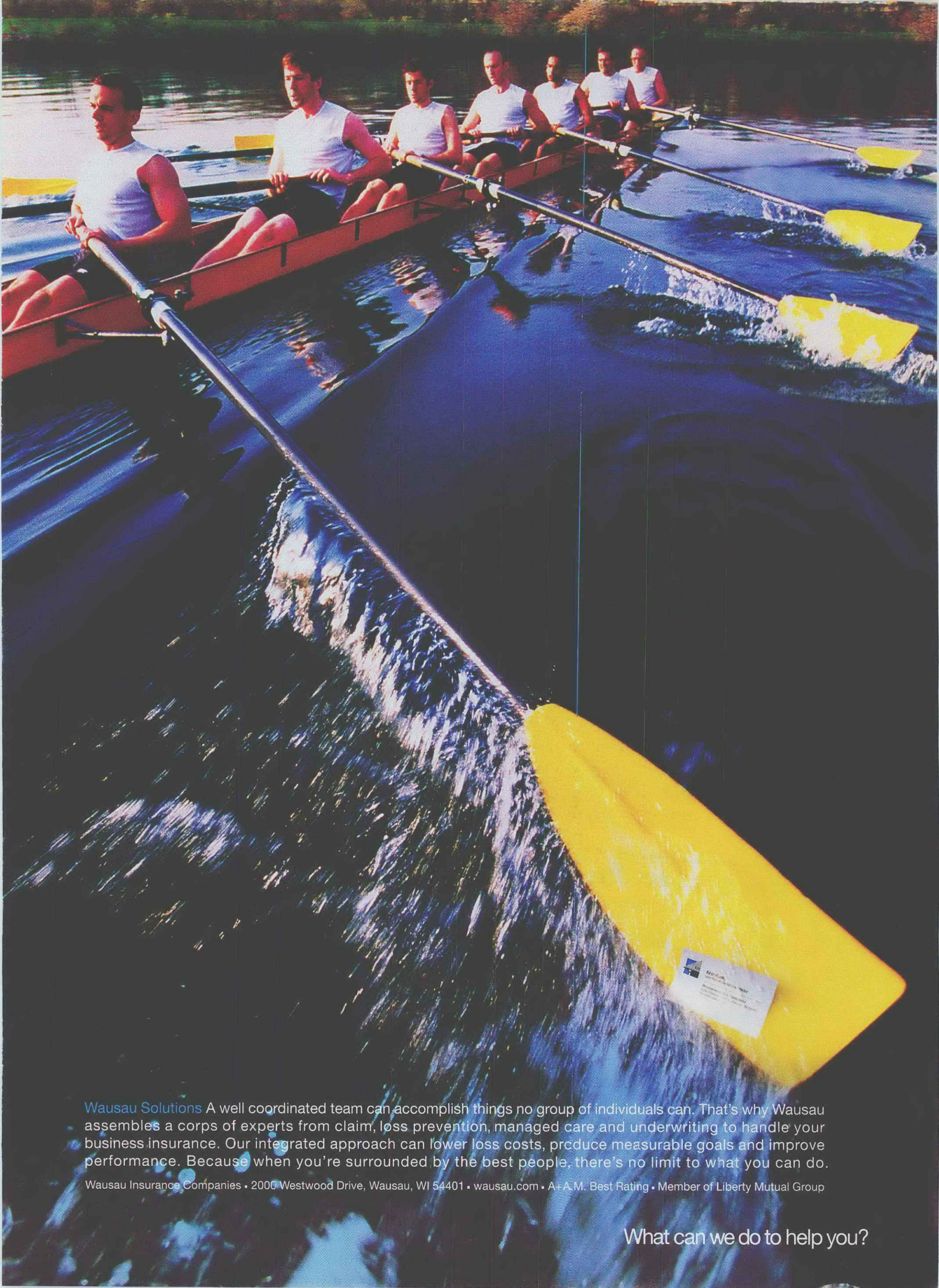
- Emphasizing the prevention of complications by using cost-effective, evidence-based practice guidelines and patient self-management.

- Evaluating outcomes with the goal of improving overall health.

In establishing a disease management program, an employer must identify “who is costing you what,” she said. For example, a stable workforce of older workers is not going to need a medical management program to control neonatal risks, while such a program may be of greater help to a younger and mostly female workforce.

In addition, an employer should consider several factors when choosing a vendor for its disease management program. These include deciding between a general managed care vendor and one that deals only with specific diseases. An employer also should consider the vendor's experience and outcomes, references, specific services and the timetable for providing

See **Chronic** on page 16



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What can we do to help you?

Bills would offer laid-off workers COBRA help

By JERRY GEISEL

WASHINGTON—Laid-off employees who have lost their employer-sponsored health insurance as a result of the Sept. 11 terrorist attacks may soon get federal help to pay health care continuation premiums.

Since the terrorist attacks, more than half a dozen bills have been introduced in Congress to provide federal subsidies to reduce the out-of-pocket cost of COBRA premiums to laid-off workers.

In addition, the Bush administration has thrown its weight behind federal subsidies for COBRA pre-

miums, though it has provided few details.

While it is unclear what direction Congress will take, Washington benefit observers say that, given the bipartisan support for some sort of package and the administration's backing, legislators will likely pass COBRA premium relief.

"It is quite likely that we will see a COBRA subsidy for individuals who were dislocated by the events of Sept. 11. It is something that Democrats are insisting upon. I am expecting that it will happen," said Frank McArdle, a consultant in the Washington office of Hewitt Associates L.L.C.

COBRA, short for Consolidated Omnibus Budget Reconciliation Act, is a 1986 federal law that allows an individual and his or her dependents to continue coverage under a former employer's group health care plan for a limited time. Employers can charge beneficiaries a premium equal to 102% of the premium they would pay for the employees under a group plan.

The introduction of COBRA premium subsidy bills began just 10 days after the Sept. 11 attacks in the United States. The first, S. 1454, introduced by Sen. Jean Carnahan, D-Mo., would require the federal government to pay the COBRA pre-

miums of airline and airport employees who lose their jobs as a result of the reduction of service by carriers and the closure of airports.

Last week, the Senate narrowly rebuffed an effort by Majority Leader Tom Daschle, D-S.D., to attach the Carnahan proposal to an aviation safety bill. Senate Republicans said they did not necessarily oppose the COBRA expansion but said the aviation safety bill was not the right vehicle for it.

Another measure, S. 1502, introduced by Sen. James Jeffords, I-Vt., would give laid-off employees a tax credit equal to 50% of COBRA premiums. In no case, though, could

the credit exceed \$1,320 for individual coverage and \$3,480 for family coverage. The tax credits would be available to all laid-off workers, not just those in the airline and related industries.

And a Bush administration proposal would give states up to \$3 billion to subsidize 75% of the cost of COBRA coverage for employees who lost their jobs as a result of the Sept. 11 attacks.

The motivation behind the proposals is obvious. Without federal assistance, the high cost of COBRA premiums, which can easily be \$600 or \$700 a month, puts the coverage out of reach for many laid-off workers. Indeed, only about 20% of eligible beneficiaries opt for COBRA coverage.

To date, though, the federal government has never directly subsidized COBRA premiums, and the prospect of such a subsidy concerns some business groups.

"In reality, you are asking employers to subsidize the cost of displaced workers. A COBRA subsidy is, in effect, a back-door tax," says Neil Trautwein, director of employment relations at the National Association of Manufacturers in Washington.

Surveys have found that the claims costs of COBRA beneficiaries run, on average, about 50% more than those for active employees. That is because the eligible beneficiaries most likely to opt for COBRA coverage are those most likely to use health care services.

If the government subsidized COBRA premiums, adverse selection presumably would be reduced, because more beneficiaries—not just those who anticipate heavy use of medical services—would opt for COBRA.

Even so, some question whether COBRA subsidies are a good use of government tax dollars. "This would be the most expensive way to go," says Jack Strayer, vp-external affairs in Washington for the National Center for Policy Analysis, a think tank that advocates free-market approaches to problems.

Mr. Strayer suggests an alternative to subsidized COBRA premiums would be to give laid-off workers tax credits to offset the cost of buying coverage in the personal lines market. That coverage, while typically much less generous than group plans, also costs substantially less.

If there are to be subsidies from the federal government, they should be provided in the most cost-efficient way, Mr. Strayer said.

"We might be moving a little faster in trying to address this," Mr. Strayer said, adding that if Congress decides to subsidize COBRA premiums for airline employees and others affected by the Sept. 11 attacks, it could set precedent for employees in other industries.

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ERRORS & OMISSIONS

• Due to a reporting error, a Oct. 8 story on business interruption losses from the Sept. 11 terrorist attacks misidentified the name of Dempsey, Myers & Co. L.L.P., a Wilton, Conn.-based certified public accounting firm that specializes in the preparation of business interruption claims.

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OPINIONS

Insurers find common ground

TIME AND AGAIN, a cacophony of voices on matters of importance to the insurance industry has confused and perplexed lawmakers, leading to lukewarm support for these initiatives and, ultimately, to their defeat.

We've seen it happen repeatedly as lawmakers are lobbied by a multitude of insurance trade groups, each pressing its own agenda. Such was the case with failed attempts to reform the Superfund law and to establish natural catastrophe reinsurance pools. Even the passage of early financial services reform measures was threatened by insurance industry discord.

Given this historical lack of harmony, we are especially pleased to see that representatives of the insurance industry recognize the importance of working together and speaking with a single voice as the industry now lobbies lawmakers for a federal reinsurance pool to provide coverage for terrorism risks.

We expect this collaboration will prove far more effective than previous approaches; it truly is in the best interests of the industry and its customers.

When this proposal was first advanced in the wake of the Sept. 11 terrorist attacks in the United States, it appeared that the old way of doing things was being undertaken again, with seemingly every insurance industry trade group promoting its own proposal. That approach soon gave way, though, to the joint lobbying effort we see today. The groups coming together behind a common proposal include every major insurer, reinsurer and producer trade group in the United States.

While there may not be unanimous support for every provision of the terrorism reinsurance pool proposal, there is agreement on the general elements of such a reinsurance mechanism. Those in-

clude:

- A reinsurance pool for terrorism risks would be formed as a state-chartered mutual insurance company.

- Retrocessional protection for the pool would be provided by the U.S. government, in exchange for a premium.

- Coverage from the pool would be available for all types of property/casualty insurance, though personal and commercial lines risks would be segregated in separate accounts.

- Pool participation would be voluntary, though insurance companies that did opt in would be required to place all of their terrorism risks in the pool to avoid adverse selection.

- Participants would retain 5% of insured terrorism risks, with 95% ceded to the pool.

- Although this proposal would not result in federal regulation of insurance, certain state insurance laws would be pre-empted to allow for the formation of the pool as planned.

Putting forth a united front to lawmakers is also important for insurers because there is very likely a narrow window of opportunity to win federal support for this proposal.

Not only is there a limited amount of time remaining before Congress is expected to take a recess for the remainder of the year, but also legislators are soon likely to become overwhelmed with requests for aid from other sectors of the U.S. economy.

No doubt a point will soon be reached at which legislators take a more jaundiced view of such requests. Therefore, the sooner the industry can agree on its aims and present them to Congress, the more likely the insurance industry will win the relief it



needs to continue covering terrorism risks.

As observers inside and outside the insurance industry have noted, maintaining this coverage is critical to recovering from the terrorism attacks and to achieving broader economic recovery. Put bluntly, without this coverage, commercial real estate developers and other businesses aren't going to get loans they need to rebuild lower Manhattan. Without this coverage, business also are unlikely to secure loans to expand in other areas, either. Further economic slowdown is something that already reeling economy can't afford.

We have said before that the federal government should play a role in covering terrorism risks. It would be a shame if, as in the past, a good objective was not undertaken because lawmakers were confused by differing and competing requests from insurers about how it should be achieved. This time, thankfully, the outcome may be different.

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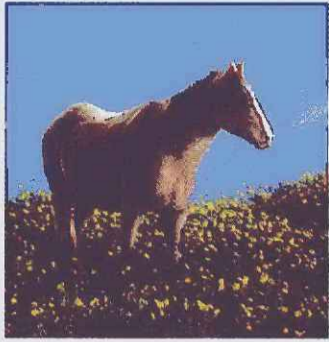
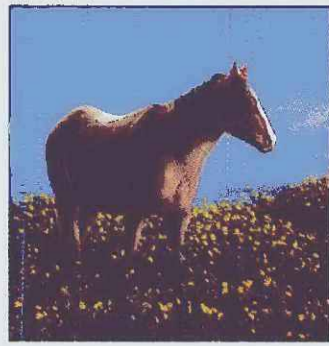
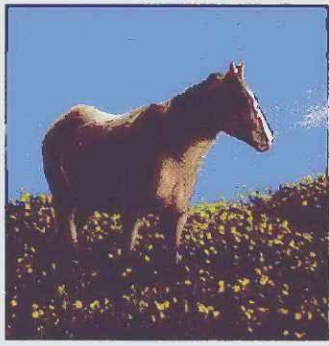
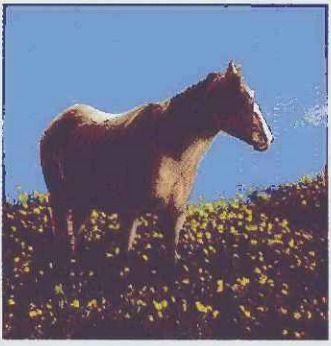
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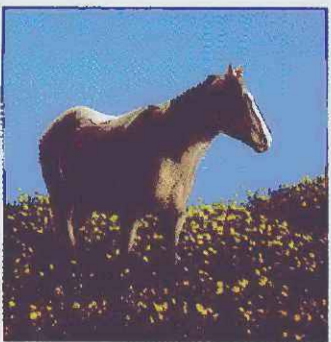
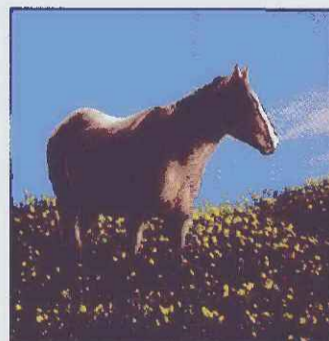
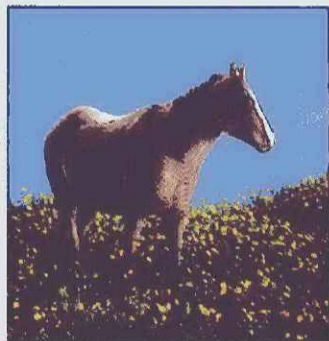
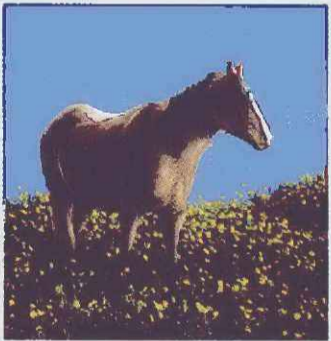
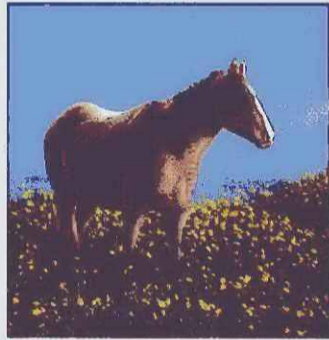
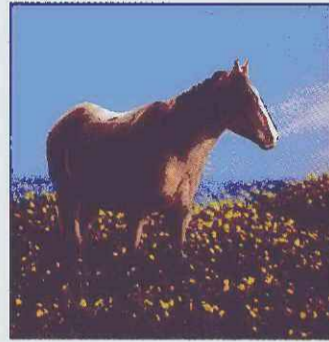


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ASK A RISK MANAGER

Impact of attacks felt across all lines

Q

In the wake of the World Trade Center attack, there have been lots of opinions about risk-related concerns. Which ones are reliable, and what priorities should risk managers have at this time?

A

Like many, I've spent a lot of time these past few weeks trying to digest the large volume of commentary and opinion available from various sources. It's a daunting task, especially in a time of crisis, which invariably produces lots of new work. While I hold no crystal ball,

here are my thoughts on a few of the more significant concerns risk managers should be thinking about.

First and foremost, let's acknowledge the personal tragedies of those directly affected by the attack, both among those we know and the many we don't. The emotional toll on the survivors will be great. As we get back to our routines, we need to recognize that returning to business as usual will not come easily or quickly. Our friends at Marsh and Aon, in particular, have a massive job ahead of them, attempting to rebuild parts of their practices severely affected by the crisis. They will need our patience and assistance in doing so. I am certain that the risk management community will rally around these essential business partners in supporting their recovery. And I am sure that many of you have already experienced what I have: the extraordinary efforts of many of those directly affected partners in working to make the impact of this event imperceptible to buyers attempting to complete renewals and conduct ongoing business. Some of these efforts have been nothing short of remarkable.

Next, we should acknowledge that there is a more subtle impact on our companies, their employees and our staff. For the most part, it is not all that apparent, but it is present. It will reduce morale and the ability to focus on day-to-day work. It will affect productivity. And it needs a thoughtful, sensitive response. That may include revisiting goals and objectives, being more flexible in regard to time off, taking some pressure off where possible and just letting people vent without taking it personally. It may not be business as usual for some time to come.

Now to the direct business impact. There are lots of opinions about the cost of this disaster. Most major stock analysts have published initial and updated opinions on the expected losses and disruption to the insurance industry. The loss estimates in these reports vary widely, but they seem to follow a similar pattern—lower early estimates and subsequent upward revisions. Estimates ranged from between \$15 billion and \$30 billion in the first few days to between \$30 billion and \$70 billion—and, in one case, as high as \$100 billion—during the ensuing weeks.

Having read most of these reports, I find the Morgan Stanley assessment, which is updated regularly, to be the most persuasive. On Sept. 27, Morgan Stanley said it expected insured losses to be \$35 billion to \$41 billion. One thing seems certain—early loss estimates will grow as more information is obtained, allowing better analysis. Even at \$41 billion, total losses would not threaten industry solvency, with total property/casualty capital estimated at \$300 billion, \$200 billion of which is on the commercial side. Standard & Poor's Corp. said that the "insurance system" would not be at risk unless total losses exceed \$50 billion—which they very well may. Market segments, of course, are threatened, and reinsurers are most at risk of selective insolvencies.

Where the losses fall

A consensus seems to have emerged about which lines will be hardest hit by this event. Direct property losses will likely be in the range of \$8 billion to \$12 billion, including claims for the World Trade Center itself (\$3.5 billion in real property values alone) and surrounding properties, including an untold number of personal autos. Liability, indirect property or business losses and contingent

business interruption losses (\$4 to \$7 billion) will add to the total.

Contingent business interruption, which covers losses incurred because supplying companies upon which a policyholder depends cannot provide needed goods or services, is perhaps one of the most worrisome exposures to insurers, due to the wide variety of potential claim sources around the world. Liability claims against airports, airlines, construction companies and others are another difficult area to estimate, with figures ranging from as low as \$2 billion to as high as \$20 billion. Aviation hull and liability losses are estimated at \$3 billion to \$7.5 billion. Workers compensation loss estimates currently range from \$3 billion to \$6 billion, while life and travel-accident claims are estimated at between \$4 billion and \$6 billion. All other miscellaneous losses are estimated at \$1 billion to \$3 billion.

After the WTC attack, we can't this year afford a major natural catastrophe of the magnitude of Hurricane Andrew or the 1994 Northridge earthquake, due to the impact on reinsurance treaties now so much at risk.

All told, these estimates range from a total of \$25 billion to \$61.5 billion, so there is clearly a great deal of guesswork involved, particularly on the high end. Regardless, the consensus is clear—this will be the largest insured loss event in history. By comparison, the largely uninsured 1995 earthquake in Kobe, Japan, produced economic losses estimated at around \$120 billion.

The line that faces the most trouble is aviation. In the aftermath of this heretofore-unpredictable risk, the probabilities and severities have now been cast in an entirely new light. That is not to say we have any better idea of likelihood or probable maximum loss, but it seems clear now that neither airlines nor their insurers are in any position to finance the risk, even within the bounds of reasonable probability. You should now look for underwriters to consider the outer bounds of the probability distribution for pricing exposures with catastrophic potential. One-in-1-million-year events may take on a new distribution curve.

It was not unreasonable to expect that some form of government mechanism would emerge, as Congress created recently, to buffer aviation risk as it relates to war and terrorism risks. The near-immediate withdrawal of war risk coverage in aviation forms following the attacks is ample evidence that what underwriters feared most when they drafted the standard terms for this coverage is not only possible but also more likely than ever before.

The property and workers compensation markets also face problems. The property markets are already contracting severely, making near-term renewals a nightmare for many. Rethink your retention philosophy and get management to agree to higher, yet financially supportable, levels of risk assumption. Don't forget the emphasis you'll need to put on controls. Like any pure self-insurance program, higher retentions presume good loss controls. These controls, of course, take many forms, from pure safety-related prevention programs and processes to contractual transfers of risk to business partners able to absorb more of their share. At the extreme, it may mean getting out of certain occupancies, such as high-rise buildings, or certain high-risk zones, such as earthquake-prone properties in California.

What, you say, does California quake coverage have to do with this tragedy? Nothing and everything. Many of the same reinsurers are behind risks previously regarded as uncorrelated that, in the wake of Sept. 11, may no

longer be uncorrelated. Let's face it, after the WTC attack, we can't this year afford a major natural catastrophe of the magnitude of Hurricane Andrew or the 1994 Northridge earthquake, due to the impact on reinsurance treaties now so much at risk.

As for our priorities at this time of crisis, they are many. At the top of the list is revisiting renewal and placement strategies for the lines hardest hit by this tragedy. Aviation reinstatements are already available with premium impacts of 10% to 15% on hull and 15% to 25% on liability. This will typically get you only to your expiration date, though. Near- to middle-term eventualities are those for which you'll need to develop new strategies. One consideration should be the elimination or reduction of the use of private jets in your operation. They may be a convenience you won't be able to afford for a while.

For similar reasons, you can't afford to assume your strategies on any line of risk won't need to be revisited. For example, directors and officers liability and other professional liability risks are not immune from the impact of this event. Many of the insurers up to their necks in property and liability losses from the WTC provide this type of coverage. You can expect lots of pressure to raise prices in seemingly unaffected lines, not to mention difficulty in securing capacity. Effective and early planning for these renewals will be critical to handling them with some success.

A clear opportunity that emerges out of this disaster is the ability to spread the risk management philosophy across the enterprise. Nearly everyone is considering risk-related concerns at this time, and that represents a unique chance for risk managers to broaden their reach into their companies and to get more people thinking about risk in a disciplined way. Your goal should be to get consistency applied to risk decision-making.

Don't overlook your crisis response and disaster recovery plans. Even if your company escaped any significant direct impact from the WTC attack, your insurers and management will be interested in these subjects now more than ever before. Make sure your plans are up to date and address even the remotest of possibilities. Are you prepared for a long-term disruption to operations in one of your locations? Do you have backup facilities, or have you been putting this off because of the pressing needs of day-to-day business? Lots of important people will be asking these and other questions that will make the practice of our profession more challenging than ever. Forward-thinking risk managers will be prepared to answer and respond. **B**



Mr. Mandel

Ask A Risk Manager, Ask A Benefits Manager, Ask A Benefit Actuary and Ask A Casualty Actuary answer written questions from readers on risk and benefits management issues and actuarial problems.

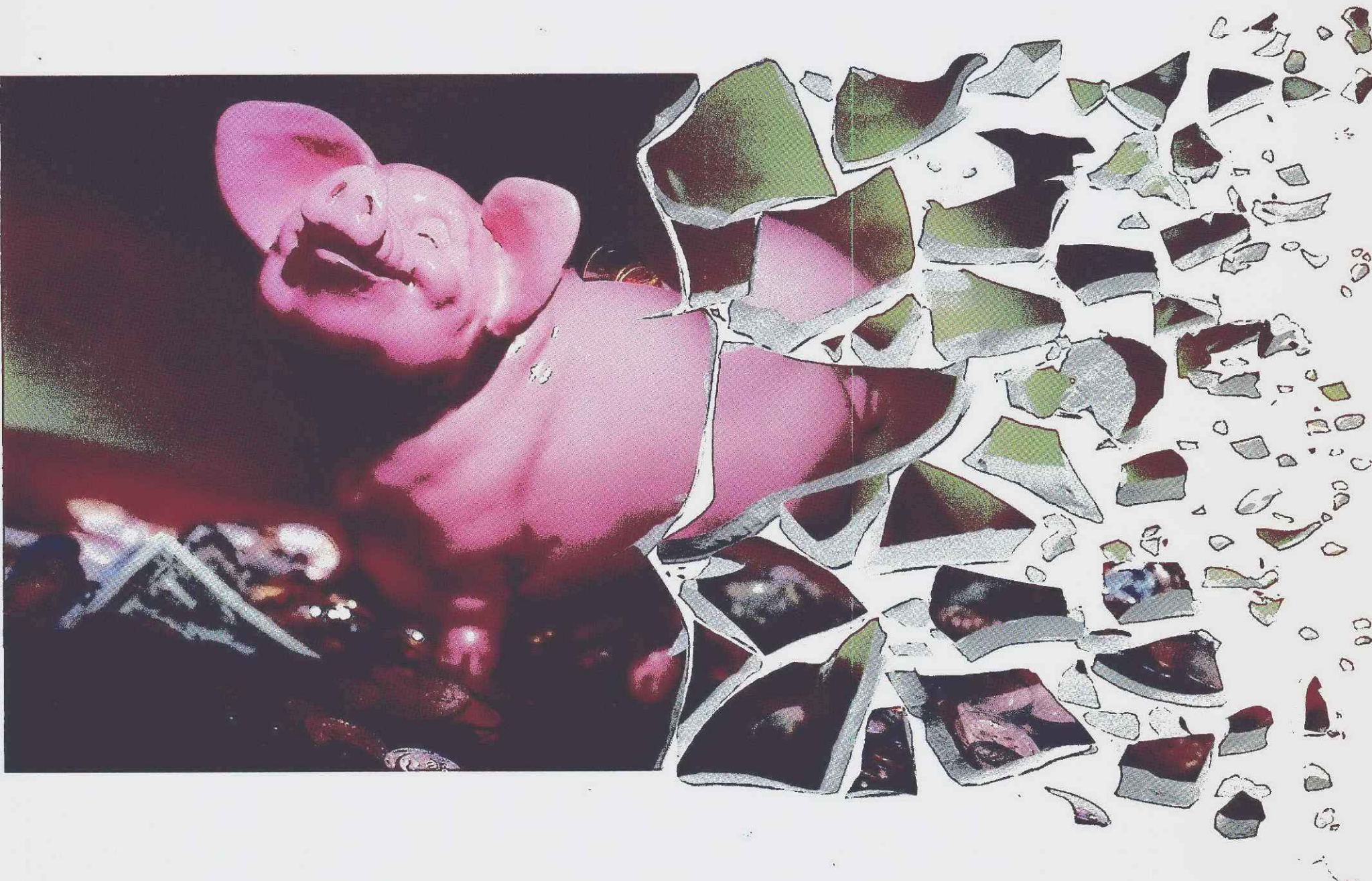
This month's column on risk management issues was written by Christopher E. Mandel,

assistant vp-enterprise risk management at USAA Group in San Antonio and first vp of the Risk & Insurance Management Society Inc.

Dennis J. Nirtaut, managing director of compensation and benefits for Arthur Andersen L.L.P. in Chicago, answers questions on employee benefit plans. William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago, answers actuarial questions on benefits issues. And Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.

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Employer's aim to limit liability overlooks value of risk control

By Steven Dranoff, Wanda Dobrich and Linda Lamel

Employers have a very serious problem. The rising costs of litigation and settlements for hostile environment harassment claims of all kinds—sexual, racial, religious, age, disability and national origin—are on a continuous upsurge. Though we are tired of hearing about it, as a famous trial attorney has lamented, “only death and taxes” are more certain than these annual increases in employee complaints. Why can't employers do a better job of preventing these claims?

In our work with employers across the country, we have discovered some very curious twists in logic that help explain why they cannot make the problem of workplace discrimination go away, no matter what they do.

Let's start at the top. The Supreme Court holds the employer to a lofty ideal. All workers have the right to an environment that is “free of hostility and intimidation” under Title VII of the Civil Rights Act of 1964. In the absence of tangible explication, case law holds that the “reasonable person” is the ultimate judge and arbiter of what constitutes harassment.

But one of the truisms that few people care to acknowledge publicly is that there is no such thing as an environment that is free of hostility and intimidation. Therefore, employers reach for the impossible when they hold themselves to the standard of creating such an environment. This fact is obscured by phrases such as “absolute liability” and “zero tolerance,” aphorisms that lead us to believe that the legal ideal is, in fact, attainable.

Employers are challenged to do the impossible—or else.

Or else, what?

Or else get sued for equitable relief, compensatory and punitive damages by plaintiffs who allege they have been subjected to treatment that has been injurious to their psychological well-being and has diminished their capacity to be productive on their jobs.

No employer can afford to be cavalier about a risk of this potential magnitude. But just as surely, no employer can rightfully be confident in its ability to successfully monitor and control all employee behavior. Zero tolerance is no more reasonable than absolute liability. But these bromides reinforce the misperception that workers can hope for an ideal workplace and employers should strive to create it.

This conundrum strikes fear deep in the hearts of executive leadership. And fear distorts perception. It leads otherwise reasonable people down unreasonable paths. We believe it also helps to account for the otherwise inexplicable illogic we are about to describe.

A major electronics company came to us to assess the rehabilitation potential of an employee accused of sexual

harassment. The individual was a valued member of the management team, and the employer did not want to fire him. On the other hand, the chief executive officer did not want to compound the company's risk by mistakenly continuing his employment. We performed a thorough psychological evaluation of the accused employee, using norm-based tests and clinical observations.

Why would executives choose to keep themselves in the dark, especially about aspects of organizational life that could get them into more trouble?

Over the course of this inquiry, we learned some very important things about the accused harasser and about the organization. These findings would unequivocally help the employer not only make a decision about this particular case but reduce the hidden risk factors that led to the sexual harassment occurrence in the first place.

Guess what? The CEO did not want to know these results! He wanted to know only whether our professional opinion was to terminate or rehabilitate the employee. We received a polite “No thanks” to the provision of any other information.

The first time we heard this kind of refusal, we were astonished. Why would executive officers choose to keep themselves in the dark, especially about aspects of organizational life that could potentially get them into more trouble? Didn't the employer want to learn how to get closer to achieving the ideal harassment-free environment?

The answer, we found, is that such knowledge is discoverable.

Practically speaking, what it means in this case is if the accused harasser were to continue to harass and another complaint were made against him, and if the complainant could show that the employer had access to knowledge about his harassment potential, the very act undertaken by the employer to get more information could be used against it in a court of law.

Let's take another example. After a hostile-environment sexual harassment complaint was made against a high-level executive in a major company, the CEO asked us to train his entire organization. What attracted him to our program over that of our competitors was its scientific self-assessment component. As part of our process, we routinely analyze employee responses and derive aggregate scores that identify potential risks, if any, in the organization. We offered the CEO an optional report on these findings. Though personally curious, he

informed us that, regretfully, he had been advised by counsel to decline the organizational assessment.

Again, the reason for the refusal was that the information would be discoverable. In this case, this means that if a subsequent harassment complaint were made, and if it could be shown that the harassment occurred in a department with identified sexual harassment risk and that the employer had prior knowledge of problems in that department, the employer's good-faith effort could be used against it in a court of law.

Let us now enter the courtroom, with eyes wide shut. The ground shakes under a new set of imperatives. In presiding over cases of workplace harassment, judges seek testimony from expert witnesses that is substantiated by fact—and this means statistics. Professionals are required to defend their opinions of harassers and victims, of recidivism and psychological damage based on research.

In the legal era that has followed the Supreme Court's decision in *Daubert vs. Merrell Dow Pharmaceuticals*—which dealt with the admissibility of expert testimony—it is no longer enough for a practitioner to assert, for example, that his or her opinion is based on 30 years of experience treating individuals with harassment problems. When testifying in court, the practitioner must present documentation—the same type of documentation that the employers we cited refused to have as part of their corporate records.

Judges want to know “the numbers,” experts want to provide the data and employers want to know how to improve their workplaces. But employers are hindered in their efforts, as they try to achieve an ideal environment without increasing their liability when litigation does occur. **BI**



Mr. Dranoff



Ms. Dobrich



Ms. Lamel

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Insurer Topics

A special editorial section sent exclusively to insurers and reinsurers

Reinsurance Strategies

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Support growing for terrorism risk reinsurance pool page 12D

Industry striving to reassure public after terrorist attacks page 12G

Slowing economy puts insurer focus on controlling costs page 12H

A close-up photograph of a hand in a dark suit sleeve moving a large, light-colored chess king piece on a white chessboard. The lighting is dramatic, with strong highlights and deep shadows, emphasizing the texture of the wood and the fabric of the sleeve. The background is dark and out of focus.

The market prepares for the next move

Tough reinsurance renewal season ahead

Price hikes, coverage restrictions expected as reinsurers react to attack losses

By RODD ZOLKOS

As this year's reinsurance renewal season begins, reinsurance buyers are bracing for a particularly challenging market.

With losses from the Sept. 11 terrorist attacks in the United States hitting an already hardening market, companies looking to cede risks are expecting both higher prices and, for some risks, reduced capacity.

In early October, rumors of price increases of 20% to 50% were common.

Reinsurance renewals will be marked by "higher prices, restrictive clauses and coverage availability problems," said J. David Cummings, professor of insurance and risk management at the Wharton School of Business at the University of Pennsylvania in Philadelphia.

"Usually when something like this happens, what happens is the price of reinsurance available goes way up and the amount available goes way down."

The previous record insured loss, Hurricane Andrew, had just such an impact on the reinsurance market, Mr. Cummings noted. And, he noted, the effects "can last for a significant period of time."

Unfortunately, the market's experience with Andrew doesn't provide an ideal model for predicting how long the Sept. 11 attacks might affect the market, Mr. Cummings said, because the 1994 Northridge earthquake might have extended the impact of Andrew. But, the insurance professor

noted, reinsurance rates did go up in 1992 following the hurricane "and stayed up until 1996."

"And this was about twice as bad as Andrew in terms of a property event," he noted.

"My gut reaction is that because of the magnitude of the World Trade Center event, the amount of the loss is not going to be known during this renewal cycle. And my guess would be, this would definitely carry over into next year and several years beyond," said Jerry Wollam, president of NAMIC Insurance Co. in Indianapolis.

"I think most primary insurers are going to be realizing some sort of premium increase on their reinsurance," said the president of the insurance company created by the National Assn. of Mutual Insurance Cos.

Mr. Wollam said he can't project how large those increases will be until later in the renewal season. But, he said, "Ultimately, I think it's going to come down to the senior executives of the reinsurance companies making these decisions."

And, he noted, the picture probably won't really become clear until very late in the renewal process. "I think it will come closer to Jan. 1 before the increases are really passed down to the primary carriers."

"And I think it will be across the board," Mr. Wollam said. "And it won't be just the commercial carriers; it will be the personal lines carriers as well."

Steven Bolland, a senior vp at intermediary Gill & Roeser Inc. in New York, also expects price increases to cut across various lines.

"It's going to be across the board, involving nearly all lines. Obviously, it will be higher in certain areas like aviation and so forth. But it's going to be very substantial and significant," Mr. Bolland said.

"If you need a lot of capacity in certain areas, there will be some shortages in some areas of the market,"

'In terms of this sort of attack...there's no way to really predict what a reasonable premium is for it.'

— J. David Cummings
Wharton School
of Business

Mr. Bolland continued. "There may be shortages of capacity at a price you want to pay."

Christopher J. Swift, partner and national industry leader of the insurance practice at KPMG L.L.P. in Chicago, said he sees a similar scenario: Reinsurance coverage might be available in some cases but at a price cedents will not be willing to pay.

"I think there's going to be sufficient capacity out there, but at what price? That might force people to look elsewhere," Mr. Swift said.

Mr. Swift said he doesn't expect the Sept. 11 losses to disrupt this year's reinsurance renewals.

"I don't think it's going to disrupt it. It's going to make it more complex," he said. "I think there's going to be a lot of long nights and a lot of long discussions about pricing and exposure."

In addition to expecting higher premiums and reduced capacity, insurers are also anticipating changes in terms in reinsurance contracts. Among the likely changes in upcoming renewals, many say, is the addition of terrorism exclusions.

"I wouldn't be surprised to see war risk or terrorism exclusions written into the policies," said Mr. Cummings of the Wharton School.

In addition, reinsurers may have trouble assessing the extent of their

exposure to events like the Sept. 11 attacks.

"In terms of this sort of attack, there's no data to base the loss on," Mr. Cummings said. "There's no way to really predict what a reasonable premium is for it."

In the absence of modeling tools like those used to study natural disaster exposures, "predictability goes out the window and the capacity is really strained after such a large event," he said.

"It's going to be a real shock to the markets....Even after a smaller event like Andrew, people got really skittish because they said, 'What does this mean in terms of future loss probabilities?'" Mr. Cummings said. "And this is even worse, because there just isn't any way to even model it."

"If I were a private reinsurer, I would be very skittish of writing coverage that could be triggered by terrorist attacks," he said. "This is going to scare a lot of people out of the market for a while."

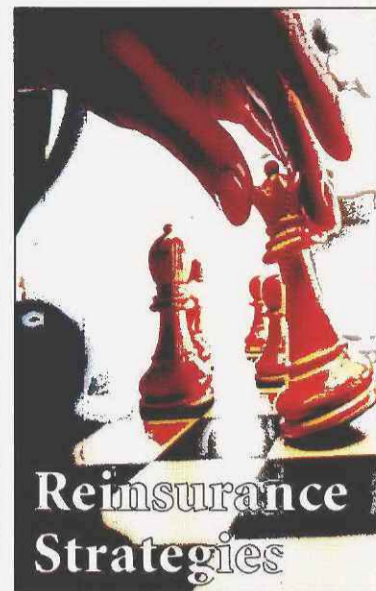
"Certain reinsurers are going to remove the war and terrorism coverage from the reinsurance coverage," said NAMICO's Mr. Wollam. "And that's going to put the primary insurers in a box."

"What we're hearing is that the reinsurance community is working on excluding terrorism from its contracts going forward, which I guess has prompted the other activity," said Don Griffin, director of business and personal lines at the National Assn. of Independent Insurers in Des Plaines, Ill. "I certainly wouldn't be surprised to see it on larger buildings on a facultative basis."

Some states are said to be considering legislation that would prohibit insurers from excluding acts of terrorism, "so what may be created, unfortunately, is a gap where the primary companies are left exposed and there's not an ability to (obtain coverage) in the reinsurance market," Mr. Griffin said.

But, he noted that with respect to Sept. 11 losses, reinsurers "are honoring their contracts, as far as we know, and they will be hit relatively hard by this event."

The possibility of a significant capacity crunch is one key factor prompting calls for the creation of a



federally backed reinsurer of last resort for terrorism risks (see story, page 12D).

Such a vehicle would likely help the reinsurance market return more quickly to normal footing, Mr. Cummings said.

"Generally, I'm not the sort of person who likes government intervention in things, but I think this might be a case where it's warranted," he said. If they could reinsure the terrorist event, the market would probably get back to where it was fairly quickly. "I'd expect it to come back quicker if we could lay off part of the risk to the government."

Given the losses reinsurers are facing from the Sept. 11 attacks and the impact of the losses on the reinsurance market, Mr. Bolland said he expects to see new capital coming into the market.

He cited the late September creation of AXIS Specialty Ltd. by Mars & McLennan Cos. Inc.'s MMC Capital Inc. unit as an example of what's likely in store in terms of new capital coming into the hardening reinsurance market (BI, Oct. 1). The Bermuda-based company will be capitalized at about \$1 billion.

"That's the first. We'll see if any others appear," Mr. Bolland said.

"It's opportunistic capital," he said. "And it will probably happen in Bermuda, because you can get in and get out of Bermuda pretty quickly. You can't do that in the United States."

Last week, a property catastrophe reinsurer was formed in Bermuda by State Farm Mutual Insurance Co. and RenaissanceRe Holdings Ltd. The reinsurer, DaVinci Reinsurance Ltd., will have \$500 million in capital. **BI**

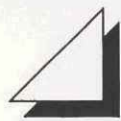
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Munich Re reviewing conditions

MUNICH, Germany—Munich Reinsurance Co. said earlier this month that its requests to review ceding clients' coverage conditions do not signal a decision to exclude coverage for terrorism-related losses following the Sept. 11 attacks.

A Munich Re spokeswoman confirmed that the reinsurer has sent letters to clients requesting a review of their underwriting condi-

tions ahead of renewals.

Munich Re is still considering its policy on terrorism cover, and at this stage "we haven't decided to exclude it," she said. The requests to review clients' underwriting practices—made via letters to insurers in some countries and communicated verbally in other countries—were merely a request to clients to examine their portfolios

concerning terrorism to ensure they had not left themselves overexposed, she said.

Earlier, Dutch insurer Fortis said it had received such a letter, and the Dutch insurer association, Verbond van Verzekeraars, said it was investigating the letters, which it said some of its members had received.

—By Edwin Unsworth

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Industry explores terror reinsurance plan

By RODD ZOLKOS

In light of the impact on the insurance industry of the Sept. 11 terrorist attacks in the United States, the associations representing U.S. insurer interests see the creation of a government vehicle for backing terrorism insurance coverage as critically important.

Since the terrorist attacks, "there's no reinsurance for terrorist risks," said Julie Rochman, senior vp-public affairs at the American Insurance Assn. in Washington. "We've already heard from our members that there just isn't any coverage out there. What we're trying to do is come up with a mechanism that would help with that capacity problem."

The AIA, the Alliance of American Insurers, the Reinsurance Assn. of America and the National Assn. of Independent Insurers over the last few weeks crafted separate proposals for the creation of a national reinsurance entity to help meet the lack of capacity for coverage of terrorism-related events (*BI*, Oct. 8). Last week, the property/casualty industry came forward with a single proposal, endorsed by major trade associations representing insurers, reinsurers and producers (see story, page 1).

For the NAI, "the three guiding principles are: broad, simple and short-term," said Joe Annotti, assistant vp of public affairs at the Des Plaines, Ill.-based organization.

Don Griffin, director of business and personal lines at the NAI, said his organization also is concerned that if such a mechanism is created, it should be fair to all companies. The mechanism should not, for example, cause insurers with limited terrorism exposures to subsidize the reinsurance coverage of those with more extensive exposures.

"The industry has the money and the financial strength to withstand this event," Mr. Griffin said. But, he said, the concern going forward is the potential impact on the insurance industry should there be a similar terrorism event or even a major natural disaster.

"We've been trying to look forward," the AIA's Ms. Rochman said. "Now that we know the potential of terrorism loss...what do we do?"

In working with Congress in the wake of the Sept. 11 tragedy, "Our first concern was that by helping the airlines, Congress didn't inadvertently shift financial liability onto other people," she said.

"Once that package was put together, the next thing was, what happens if there's another terrorist attack?" Ms. Rochman said. "The next No. 1 priority was, where do we get capacity for terrorist attacks?"

"We very quickly got information about Pool Re," she said. The United Kingdom's Pool Reinsurance Co. Ltd. is a government-guaranteed ve-

hicle formed to reinsure excess terrorism coverage purchased from commercial property insurers.

The concept paper presented by the AIA in late September called for the creation of a privately run and financed reinsurance facility for terrorism risks. That facility would purchase reinsurance from the federal government and would sell reinsurance to insurers offering coverage for terrorism risks.

The RAA had proposed the cre-

ation of a federally chartered mutual insurer, the Homeland Security Mutual Insurance Co. U.S. insurers and reinsurers covering terrorism risks could participate on a voluntary basis. The U.S. Treasury, in turn, would reinsure Homeland.

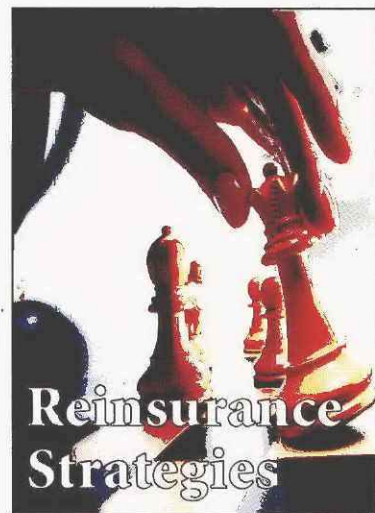
Ann Spragens, senior vp and general counsel at the Alliance of American Insurers in Downers Grove, Ill., said her organization, in making its own proposal, sought to avoid the issue of federal chartering.

The Alliance's proposal was "devoted to providing a funding mechanism," she said. "That's our jumping-off point."

Terrorism is a hazard for which the normal tools such as underwriting and risk management don't work, Ms. Spragens said. "That being the case, we are not looking to a conventional reinsurance mechanism."

The Alliance had proposed a pool-

Continued on next page



ISO SALUTES THE AMERICAN SPIRIT



Continued from previous page
ing mechanism, funded primarily by the industry. "We do anticipate the funds will come primarily from the insurance industry, with government acting as a backstop if losses reach horrific levels," she said. "We see a retention approach here with an attachment to the pool at a certain point."

Such an approach would eliminate the federal chartering issue, Ms. Spragens said. "A pool would not require any form of license or charter, so, if you will, you finesse that that way."

"Our view, is this would be a vol-

untary pool," she said. Life insurance could be included if life writers want to participate, Ms. Spragens said. "But, if you're in, you're in all the way."

Ms. Spragens added that she thinks it's necessary that along with a federal liability pool there be some sort of caps on liability litigation related to terrorist attacks.

"There is a strong consensus already that the potential for liability litigation arising from terrorist acts has tremendous loss potential," she said, so "strong caps" would have to be part of the process.

Despite the differences in their pro-

posals, those promoting them expressed optimism that a consensus solution such as that proposed last week would emerge.

The AIA's Ms. Rochman noted that it's essential to keep all the industry companies and their trade associations in accord, because if some in Congress see a split in the industry's ranks it will give them an excuse not to take up the issue.

"We have tried very hard to reach out to the other trade associations and make sure there is some consensus, trying not to give people an excuse not to act," Ms. Rochman said. "I believe there will be a consensus

that having the government in the role of an insurer of last resort makes sense. Because otherwise, terrorism is uninsurable."

The Alliance's Ms. Spragens said that she hopes Congress will approve a measure by Nov. 1, or at least have its details well defined by that time.

"Congress is only going to be here for a very short period of time, there's a whole lot on the agenda and it just happens to be renewal season," added Ms. Rochman.

Still, despite the sense of urgency, it's essential that care be taken in creating the risk-financing vehicle, Ms.

Rochman said. "You don't want to rush to put something together and find out later it's been a mistake."

And in seeking the federal government's help in providing a mechanism for covering terrorism-related losses, all the industry groups have sought to make it clear that they are not seeking an industry bailout.

"The terrorist reinsurance proposal...is not an assist to us, it's an assist to policyholders," Ms. Rochman said.

And, said Ms. Spragens, "I don't think we want to do anything as an industry to indicate that terrorism coverage would not be available." **B**

AND STANDS READY TO HELP.

We at ISO extend our deepest sympathy to the families of those who died in the attacks on the World Trade Center and the Pentagon and in the hijacked airliners. We pray for the recovery of all those injured. We salute the valor and dedication of the many firefighters, police officers, and other emergency services personnel who risked their lives in the rescue effort. **ISO's status:** On behalf of ISO's employees and their families, especially those who reside in New York City and surrounding areas, we sincerely thank you for your many expressions of concern about our safety. Earlier this year, ISO moved its corporate headquarters from 7 World Trade Center in New York to 545 Washington Boulevard in Jersey City, New Jersey. All ISO systems are operating at full capacity. **To our customers:** Our heart goes out to customers who are mourning the loss of their people. Many are also suffering severe disruption of their business. ISO is ready to help. We have contacted all customers with operations in lower Manhattan to reestablish the flow of business information on which those companies depend and to offer additional assistance. If you have questions or concerns, please contact us by sending e-mail to info@iso.com or by calling 1-800-888-4476. Or call your local ISO representative. **PCS damage estimates:** ISO's Property Claim Services (PCS™) unit has established catastrophe serial number 48 for the attacks that occurred on September 11 in New York and Virginia. As PCS formulates estimates of insured claims from the event, we will post the information on www.iso.com.

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Insurer groups busy in wake of attacks

By RODD ZOLKOS

As insurance companies wrestle with the aftermath of last month's terrorist attacks on the United States, the insurance industry's trade associations have been dealing with the increased demands they face in their job of representing the industry to legislators and the public.

In addition to getting the message out that the industry is dealing with the claims from the Sept. 11 tragedy quickly and fully, the trade groups have been busy. The groups have been trying to answer questions from the public and the news media, ease fears that the terrorism losses might cripple the industry and help craft a mechanism for financing future catastrophic terrorism losses.

At the same time, the groups continue to face the various issues that were top priorities before the morning of Sept. 11.

"There's a lot of No. 1 priorities these days, each of them truly a No. 1," said Julie Rochman, senior vp of public affairs at the American Insurance Assn. in Washington.

"The things we considered No. 1 just a month ago—asbestos, mold—haven't gone away," she said. In addition, regulatory reform remains a top issue in the association's dealings at the state level.

"On top of all that, you lay another issue," Ms. Rochman said.

In the immediate aftermath of the attacks, an early priority for the insurance industry groups was explaining how this catastrophe's impact on the industry would differ from other major disasters.

"While we didn't know many of the specifics in the hours after the attacks, we did know that the losses would be huge—perhaps record-breaking—and that they would affect many different lines of insurance," said Joe Annotti, assistant vp of public affairs at the National Assn. of Independent Insurers in Des Plaines, Ill. "This was somewhat different from previous natural and man-made disasters, which typically affected more personal lines policies. As such, we tried to draw this distinction in our early releases."

As the magnitude of the losses became clear, "questions of individual company and industry solvency, as well as war risk exclusions, came up in the days following the attack," Mr. Annotti said. "Our primary concern was to communicate a clear message" that the industry was well capitalized and able to pay for all claims from the disaster. "Also, we needed to assure consumers that companies had no intention of invoking the war exclusion for these claims."

It was important "to communicate a calming message" that would assure people in an uncertain time

that they could rely on legitimate claims being paid, Mr. Annotti said.

As time passed, the focus of the NAI's communications related to the attack began to shift to "more specific insurance issues that affect both personal and commercial consumers—claims-filing tips, workers compensation, business interruption, fraud, etc.," Mr. Annotti said.

"We consistently moved from the big picture in the initial days after

the attack to the practical aspects of getting claims paid two weeks after the disaster," he said.

As the debate has moved recently toward a national terrorism risk financing arrangement, both the message and the audience have become more political, Mr. Annotti said.

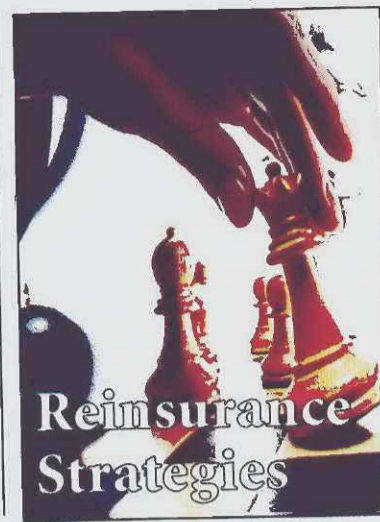
"There has been some evidence of market dislocation as some reinsurers are indicating that terrorism will be specifically excluded in future

contracts," Mr. Annotti said. "Primary insurers are likely to follow suit."

Meanwhile, some state legislators are proposing bills that would prohibit insurers from excluding terrorism.

Much of the work with Congress and the mainstream news media over the past few weeks has involved educating them about how insurance works. Before the events

See **Groups** on next page



CONFIDENCE

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INSURER TOPICS

Groups

Continued from previous page of Sept. 11, on Capitol Hill, "nobody'd ever heard of a retrocessionaire," Ms. Rochman said.

And, as part of the effort, top insurance company executives have been coming to Washington to discuss industry issues with key figures in Congress.

"The companies have been great," Ms. Rochman said. "In addition to trying to develop a policy at this level, the main thing is to make sure that our companies' voices are being heard at the highest level."

Over the past few weeks, one of the primary achievements of the groups representing the insurance industry has been the steps taken to take charge of providing industry information to the public, said Larry Kibbee, vp of public affairs at the Alliance of American Insurers in Downers Grove, Ill.

"I think the key element...is that the industry, from a communications standpoint, has come together to talk in a series of conference calls about the type of information the public needs and how to best get that information out through the media," Mr. Kibbee said.

Shortly after the tragic events of

Sept. 11, there were many different messages about the industry impact coming from many different people, he said.

"Our concern...early on was that a lot of the information was coming out of the analyst community and not coming out of professional insurers," Mr. Kibbee said.

A major element of the response was the formation of the Disaster Insurance Information Office. The cooperative effort was formed by, and on behalf of, the entire insurance industry—both property/casualty and life/health companies, in addition to agents and brokers. It operates both from a physical site at the Insur-

ance Information Office's New York headquarters, just blocks from the World Trade Center site, and online, at www.disasterinformation.org.

The DIIO works to answer questions both from the news media and consumers. "You have the physical presence of insurance industry people there to answer questions, as well as the virtual presence," Mr. Kibbee said.

"There's a ton of media in that area, and they're all looking for anything they can write about," Mr. Kibbee said. But he added, "It's not just media outreach; it's community outreach."

Mr. Kibbee likened the physical

site to the one the industry established following Hurricane Andrew.

As their work continues, the association representatives voiced pride in the way the industry has been responding to the tragic events.

"This is a defining moment in the industry's history," the AIA's Ms. Rochman said. "We're behaving ourselves. We're settling claims."

"As someone who's been in this industry for 15 years, I've been really proud of us," she said. "This is a defining moment, and I think we, as an industry, have risen to the occasion." **BI**

Advice on trimming expenses to avoid drastic cuts

By Patricia Tilton

When the market and the economy are riding high, companies tend to make investments, introduce new products, expand employee bases, construct new buildings, etc.

But when markets turn, as is currently the case, senior executives re-emphasize their focus on delivering bottom-line results—to shareholders, customers and employees. Spending decisions, whether for investment or maintenance, are assessed with a view toward producing profits.

Evidence of market-driven cost-cutting efforts can be seen in the news almost daily. "Incidental" expenses are no longer being accepted as incidental. One recent example is the clampdown on the cost of client dinners and parties to celebrate the closing of new deals. Companies also are cutting back severely on all forms of travel and entertainment.

A slowing economy need not hinder an insurance company or other firm from pursuing its overall business plan, though. While the reduction of a company's staff is often a first move,

it isn't necessarily the only or best action, particularly if service levels are affected.

While this is not necessarily an exhaustive list, companies may want to consider the following four areas when looking for ways to wring cost savings from their operations:

Telecommunications

Competition in the telecommunications market has created a prime opportunity for any company to achieve cost savings through an analysis of its communications contracts and expenses. Indeed, for every dollar invested in conducting such an analysis, a company can save anywhere from \$5 to \$30.

When reviewing the financial management of its telecommunications needs, a company should ensure that:

- The company's telecommunication system is the right one for the organization.
- The system is being serviced properly and efficiently.
- The company is handling request for proposals, or RFPs, properly.
- The company is negotiating contracts effectively and is ensuring that vendors stick to those

agreements.

- The entire system is integrated in a proper and cost-effective manner.

- A third-party review of the system is being provided.

Taking the time to re-evaluate a company's telecommunications needs and spending also provides an opportunity to plan for the future. A company can determine how to upgrade systems to prepare for the growth that will come when the economic climate improves.

Vendors

Vendor selection is an important consideration in both a company's site selection and its continuing procurement of key services and materials.

A company should weigh a number of factors when selecting those vendors that will best meet its needs.

Attention to the following questions can help a company make the right decisions:

- Does the company have an independent third party to help guide the selection of vendors?
- Does it have a method in place to determine vendor qualifications and to initiate RFPs?
- Does the company have clear, concise summaries of vendor

responses to RFPs?

- Does it have a uniform, structured way of evaluating proposals?

- Is documentation of vendor selections readily available?

- Is the company willing to seek assistance in developing negotiation strategies?

Having in place sound negotiation strategies for vendor selection and diligently following through on them can bring major cost reductions.

Travel and entertainment

A company with significant travel and entertainment expenditures can extract substantial cost savings.

One type of analysis involves benchmarking the company's expenditures against industry norms in such areas as the average costs for hotel rooms, meeting rooms, audiovisual and banquet services, daily food and beverage, lodging costs as a percentage of total training costs and others.

Company's should make certain that:

- T&E policies and procedures are being followed.
- Guidelines are communicated properly to employees.
- Top management is informed of any significant employee abuse of the system.

- Steps are taken if additional internal controls are necessary to monitor compliance effectively.

- Reports are completed properly in a timely fashion.

- Regular third-party reviews of T&E data files are performed to determine whether any expenditures exceed policy guidelines.

Energy

An unprecedented volume of unmet earnings targets resulting from record-high energy prices and market volatility have created a great need for energy cost-reduction strategies.

By developing an energy strategy consistent with energy needs and risk tolerances, a company can save hundreds of thousands of dollars annually. Strategies typically include negotiated fixed-price contracts, customized financial contracts (a derivatives portfolio) or hybrid approaches involving both. These tools can effectively control energy-

cost exposure.

In one recent example, a company achieved \$400,000 in annual energy cost savings by identifying and contracting for alternative utility rates. Major savings such as these are typically captured by large companies with high consumption patterns of energy—in the form of commodities such as electricity, natural gas, diesel or jet fuel—in environments with limited regulatory or economic price protections.

A company should address key considerations such as annual energy spending by commodity type, whether the organization reports energy price exposure and the degree to which energy price volatility affects earnings.

The areas of telecommunications, energy, travel and entertainment and vendor management present companies with promising opportunities to generate sizable costs savings during a continuing market downturn. Drastic measures—such as laying off staff—can be spared by focusing attention on such alternative areas. Companies that adhere to this strategy can navigate the slowing economy and keep the revenue stream flowing toward an improved bottom line. **BI**

Patricia Tilton is a partner in KPMG L.L.P.'s Assurance-Based Advisory Services practice in Minneapolis.

Hartford adds online features

The Hartford Financial Services Group Inc. has added features to its Electronic Business Center that allow agents to submit quotes, access claims, bill and submit commission statements online.

Agents now can collect needed information and transact business for small commercial accounts and personal lines through a single portal. The EBC, launched last year to provide access to product information, was redesigned this summer to incorporate transactional and underwriting features. The new features are aimed at helping agencies that do business with Hartford to

maximize the EBC's time-saving potential.

Among the new EBC features are:

- Personal Lines Quote-to-Issue, a single-step feature that allows participating insurance agencies to obtain firm, accurate premium quotes for standard and nonstandard auto coverage in seconds. Currently available to agents in California, Connecticut and New York, the feature will be completely rolled out by next spring.

- Downloadable Small Business Sales Guide, which shows the agent Hartford's underwriting appetite by class and line of business.

- Online Small Business Quoting and Submission, which, along with

the Insurance Scoring feature, provides agents with access to the same information used by Hartford's underwriters to identify small-commercial accounts the insurer is likely to accept. The feature also provides quotes and allows agents to submit the business electronically.

- Customized Direct Bill Status Reports, which keep track of recent client payments and other policy billing information.

- Commission Statements, which provide commission information for the present and previous months by producer code.

- Customer relationship management tools that can help personal lines agents enhance their relationships with selected customers.

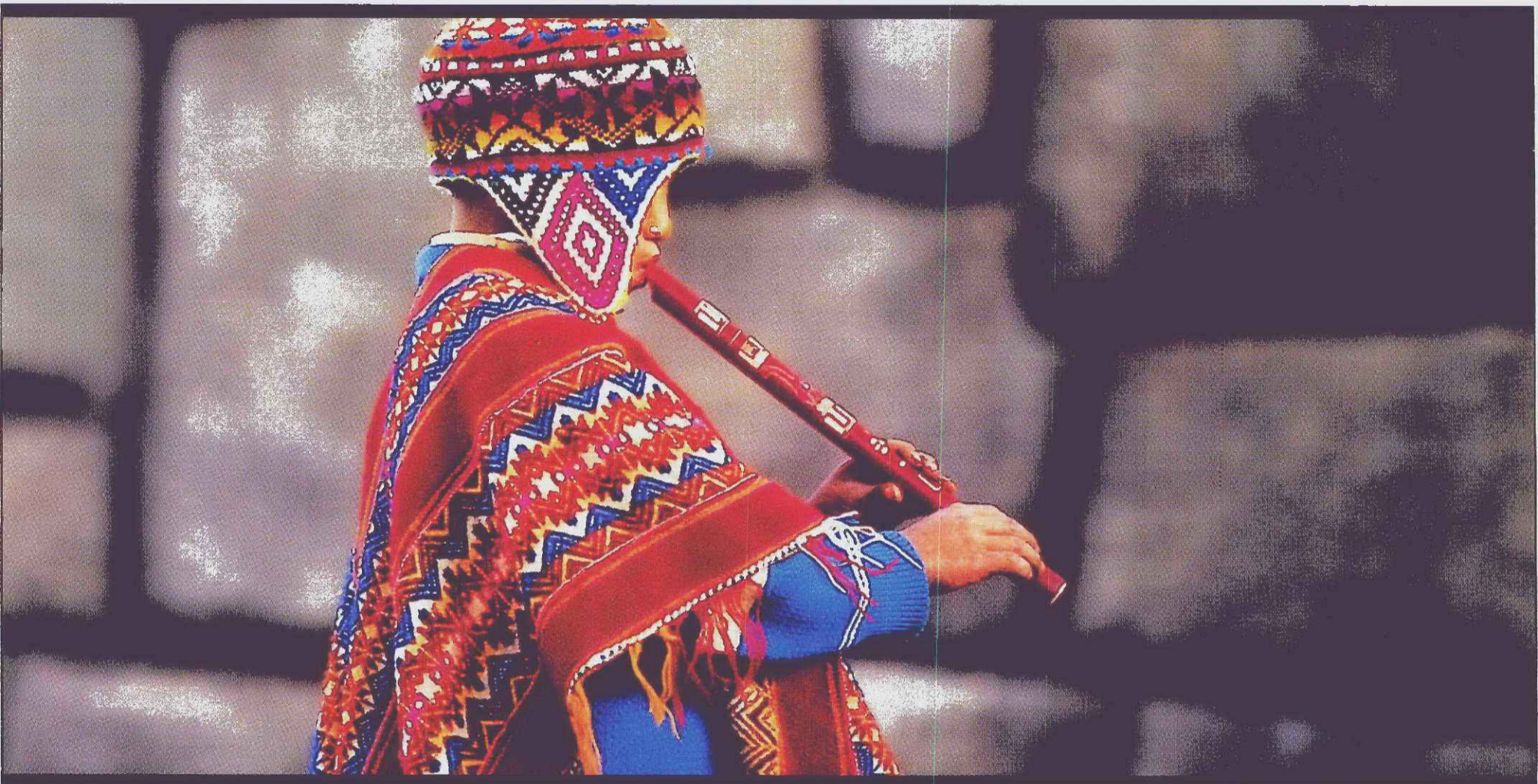
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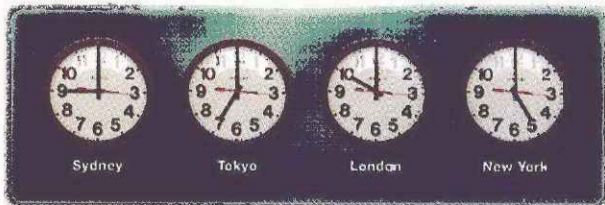
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GLOBAL BRIEFS

Zurich Financial Services Group last week doubled its pretax loss estimate, net of reinsurance, from the Sept. 11 terrorist attacks to between \$700 million and \$900 million. Such a loss would be the largest in the group's history, though ZFS pointed out it would represent less than 2% of its \$55 billion in gross annual premiums. The day after the terrorist attacks, ZFS estimated its pretax losses at less than \$400 million. The vast majority of its U.S. exposures relate to U.S. direct nonlife and reinsurance business, ZFS said. ... London-based insurer St. Paul Insurance Co. Ltd. has said that victims of the October 1999 **Ladbroke Grove rail tragedy** will continue to receive compensation payments despite the collapse of U.K. rail operator Railtrack P.L.C. St. Paul, the lead insurer of the trains involved in the crash, said claims would still be met; the only uncertainty, the insurer said, was the question of liability for the accident. London-based Railtrack was placed into liquidation by the U.K. government this month. ... London-based multiline insurer **Royal & SunAlliance Insurance Group P.L.C.** has increased its estimate of its losses from the Sept. 11 terrorist attacks. RSA said last week that it now expects its total costs from the attacks, including premiums for reinstating reinsurance coverage, to reach £200 million (\$296.3 million) before tax and reinsurance recoveries. RSA had previously estimated its loss at £150 million (\$222.2 million). Prior to RSA's announcement, A.M. Best Co. affirmed the A+ financial strength rating of the London-based insurer but gave it a negative outlook. Best said the negative outlook reflects its concern about the adequacy of RSA's reserves, particularly with regard to asbestos and environmental liabilities in the United States; loss-cost inflation; and what it termed "the group's inconsistent financial performance." In particular, Best said it is concerned about the underperformance of some of the group's U.S. operations. ... Moody's Investors Service has downgraded the performance rating of **Lloyd's of London syndicate 376**, managed by Alleghany Underwriting Ltd., to C+ from B and placed it under review for possible further downgrade. The revision reflects Moody's view of the uncertainty over the independent trading status of the syndicate and the potential impact of the loss it suffered from the Sept. 11 attacks, which is estimated at \$112 million. ... French risk management association the Assn. pour le Management des Risques et des Assurances de l'Entreprise is urging European risk managers to explore the feasibility of a **Europewide vehicle for self-insuring risks**. The proposal was prompted by insurance rate increases and coverage restrictions seen by European companies in the wake of the Sept. 11 terrorist attacks, AMRAE said. AMRAE noted that all companies would have trouble absorbing increased costs and that some might be forced into bankruptcy. ... Michael Warwick has been appointed London general manager of **QBE International Insurance Ltd.** Mr. Warwick will assume responsibility for the London unit of the group's major risks division. He was previously executive director and London manager at the London branch of Munich-American Risk Partners. ... Zurich-based **Converium Ltd.**, the rebranded Zurich Re, began transacting business this month, with all Zurich Re offices operating under the Converium name. ... Alastair Robson has been appointed senior property underwriter at Lloyd's of London managing agency **Beazley Furlonge Ltd.'s syndicate 623**. Previously, Mr. Robson was property underwriting manager at Wurttembergische Versicherung. ... Neil Lightblown has been appointed head of corporate underwriting at **Zurich London Ltd.**, a division of Zurich Financial Services Group. Mr. Lightblown was previously casualty manager at London-based Winterthur U.K.

U.K. employment ruling could be felt internationally

By CAROLYN ALDRED

LONDON—A U.K. employment tribunal ruling illustrates that recent changes to U.K. employment law have broadened multinational employers' responsibilities to workers based in the United Kingdom.

Four United Airlines flight attendants based in London but hired in the United States and working under U.S. con-

tracts can pursue a claim for British maternity employment rights, the U.K. employment tribunal ruled this month.

The four employees—two American citizens, one British and one French—claim that they should be entitled to British employment rights because they are based in the United Kingdom, even though they were hired and trained in the United States and spend most of their time working outside of the United

Kingdom.

It is one of the first tribunal rulings on the issue since two major pieces of U.K. legislation radically changed the territorial restrictions in employment and sexual discrimination law, according to Barry Clarke, a lawyer based in the Cardiff, Wales, office of U.K. plaintiff law firm Russell Jones & Walker. Mr. Clarke represents the flight attendants.

See **Employees** on next page

Willis arranges terror capacity

LONDON—Up to \$200 million of terrorism coverage for worldwide property risks now is available through Willis Group Holdings Ltd.'s electronic trading facility.

Willis said in a statement issued last week that it put the facility together in response to "a pressing need for capacity in this major marketplace."

Since the Sept. 11 terrorist attacks in the United States, many insurers have removed terrorism coverage from their standard property policies, and most will not write it as a separate coverage due to uncertainty about the future availability of reinsurance (*BI*, Oct. 8).

The \$200 million of capacity for sabotage and terrorism for property risks is underwritten by syndicate 33—which is managed by Hiscox Underwriting Group Services Ltd.—other Lloyd's

syndicates and American International Group Inc. The capacity will be traded electronically through the e-trading unit of the Willis Global Property & Casualty division. Coverage for strikes, riots and civil commotion, which some general property underwriters increasingly are excluding, also is available, according to Willis.

Willis has been piloting an e-trading platform for about a year, said Tom Bartleet, head of the e-trading team. Mr. Bartleet added that offering the coverage electronically will speed up the placement, particularly "in light of the general congestion in the market currently."

The facility is one of several set up by brokers in response to the severe contraction of the insurance market since Sept. 11.

—By Carolyn Aldred

Jaffray names granted appeal

LONDON—The U.K. Court of Appeal last Monday granted an appeal in the *Jaffray vs. Lloyd's* fraud case, which the U.K. High Court had dismissed in favor of Lloyd's of London last year.

The *Jaffray* case centered on allegations by 216 names that 33 senior figures at Lloyd's had, between 1978 and 1988, knowingly concealed the extent of asbestos-related losses about to hit the market. The names also alleged that many had been duped into joining Lloyd's as part of a "recruit to dilute" policy, under which new capital was hastily brought into the market to soak up impending asbestos-related losses (*BI*, Nov. 6, 2000).

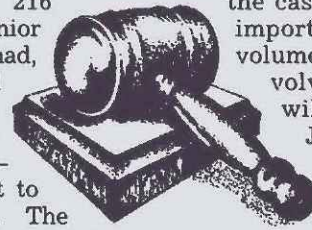
Following a lengthy trial last year, High Court Judge Mr. Justice Cresswell ruled in November that the Lloyd's

officials were not guilty, although he was critical of what he called a "catalog of failure" by underwriters in the market.

Last week, though, the Court of Appeal granted names permission to appeal the case because of its importance and the volume of evidence involved. The appeal will be heard in January.

Following the Court of Appeal's ruling, Nick Prettejohn, chief executive of Lloyd's said, "the Court has made it absolutely clear that its decision is nothing to do with the merits of an appeal; it is simply a reflection of the huge volume of evidence and length of time required to make any hearing of the arguments meaningful."

—By Carolyn Aldred



Plane collision at Italian airport kills 118

MILAN, Italy—Scandinavian Airlines System has \$1.75 billion of liability insurance to respond to losses stemming from the crash of a jet on takeoff last Monday in Milan, Italy.

All 104 passengers and six crew members aboard the SAS MD-87 were killed in the crash. The jet slammed into a Cessna aircraft during takeoff, despite taking evasive measures, then careened into a baggage-handling facility. All four people aboard the Cessna aircraft were also killed, as were four baggage handlers.

In thick fog, the Cessna plane crossed the runway that the SAS jet was using, sources said. The airport's surface-movement radar reportedly was out of service at the time of the acci-

dent, according to sources.

The SAS jet's hull was valued at \$17.9 million.

The liability and hull coverage for Stockholm, Sweden-based SAS was placed by Aon Ltd. and is led in the Lloyd's of London market by ACE Global Market syndicate 2488. ACE Global is a subsidiary of Bermuda-based ACE Ltd.

The airline's liability and hull insurance program renews Dec. 1.

Since the Sept. 11 terrorist attacks, airlines with spotless loss records have been hit with premium or rate hikes of up to 100%, which does not include the expensive surcharge they now face for their first \$50 million layer of terrorism liability coverage (*BI*, Oct. 8).

—By Dave Lenckus

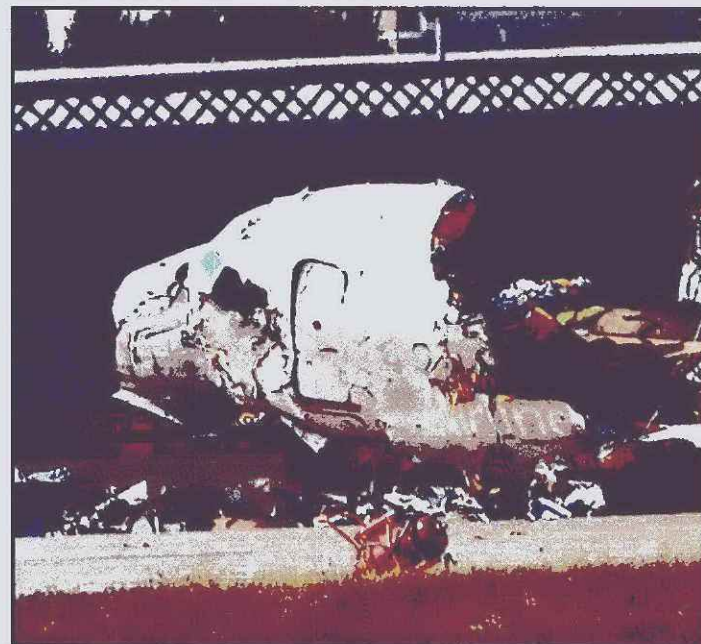


PHOTO: AFP
SAS is insured for losses from the fatal collision of one of its jets with a small plane in Milan, Italy.

INTERNATIONAL

Employees

Continued from previous page

The Employment Relations Act 1999 removed all territorial limits on employment rights, including unfair dismissal, maternity benefits and other employment issues, after Oct. 25, 1999. Under previous U.K. employment law, an employee could not bring a claim in the United Kingdom under the act if he or she "ordinarily" worked outside the United Kingdom.

"Now all an employee has to do is a tiny piece of work in the U.K. and they are entitled to bring charges under U.K. legislation."

— Barry Clarke
Russell Jones & Walker

Meanwhile, amendments to sexual discrimination legislation that took effect in December 1999 changed the territorial test under which sexual discrimination claims can be brought. Under previous legislation, employees could not bring a discrimination claim if they worked "wholly or mainly" outside of the United Kingdom. Under the new law, only employees working wholly outside of the United Kingdom are unable to bring discrimination claims under U.K. legislation.

The change in wording in the discrimination test is a "radical change, making the new test an absolute one," said Mr. Clarke. "Now, all an employee has to do is a tiny piece of work in the

U.K. and they are entitled to bring charges under U.K. legislation."

So, for example, a Japanese executive employed in Japan could come to the United Kingdom for a business lunch and, if harassed during lunch, could press sexual harassment charges against her Japanese employer in the United Kingdom, he said, as an illustration of how broad interpretations could be under current law.

"This ruling demonstrates that, under the new legislation, multinational companies cannot try to avoid domestic employment laws overseas and companies and lawyers have to be more sophisticated in understanding legislation in other territories," Mr. Clarke said.

He predicts that the jurisdictional issues in the new law likely will be taken eventually to the Employment Appeal Tribunal, because of the wide implications for overseas employers.

While an employment tribunal ruling does not carry the weight of a court decision, the appeal tribunal's ruling would set a precedent and could be cited in future cases.

"U.K. maternity benefits are far superior to those offered in the U.S.," said Kevin Crieghan, president of the London-based U.K. branch of the Assn. of Flight Attendants, a flight attendants union.

"The new legislation has implications for every employer with expatriate staff in the U.K. When the government changed the law, it allowed a much broader class of employee" to claim U.K. employment rights, said Simon Jeffreys, partner and head of employment law group at the London-based law firm of CMS Cameron McKenna.

A spokesman for United Airlines in London confirmed that the airline is "looking at the decision very, very carefully" but has not yet decided whether to appeal. **BI**

Chronic

Continued from page 4

them, and performance guarantees, Ms. Tobler said.

Launching an in-house program requires an employer to promote it in a variety of ways, including discussing the program at worker meetings and in e-mails as well as distributing handouts, newsletters and payroll stuffers, she said.

Establishing the program may involve a few minor difficulties, Ms. Tobler said. "Anticipate a smooth course but don't be surprised by bumps," she said. Implementation problems can usually be overcome by staying in touch with the vendor, developing a shared project plan and making one person accountable for oversight, she added.

All disease management programs must be evaluated, though, which requires benefit managers to define outcomes in advance and develop financial data to show how outcomes are affecting a company's bottom line. Ms. Tobler recommends

considering total health care costs, rather than merely those associated with a particular disease.

"You won't see returns on investments in three to six months," she cautioned, because savings under such programs often take time to develop.

But once cost savings are achieved, they can be significant, especially if the program tackles the challenges of managing diabetics, said John P. Miall Jr., director of risk management for the city of Asheville, N.C., and president of the Asheville Claims Corp. The city self-insures health care coverages for a group of about 3,000 to 4,000 employees.

Chronic diabetics, he explained, are at high risk for other ailments, including heart disease, hypertension, stroke, nervous system damage, blindness and lower-limb amputations. Consequently, average annual health care claims for diabetics were \$4,031, compared with \$1,455 for nondiabetics, according to Mr. Miall's initial statistics.

Launching an aggressive diabetes management program that involved local pharmacists, physicians and hospitals resulted in aggregate annual group medical claims for diabetics dropping from \$221,056 to \$185,074 after one year and to \$149,501 after two years, Mr. Miall said.

Despite an increase in prescription costs for diabetes-related medicine and supplies, the overall program—which cost \$1,833 per patient per year—experienced a net savings of at least \$954 per patient per year.

In addition, other data showed that diabetics used fewer sick days and reported that the quality of their lives improved.

"Each employer must learn its own demographics and then implement programs to address those needs," Mr. Miall said.

Following this success, he implemented other programs that addressed other chronic problems, including asthma.

Andrew J. Serio, president of Health Care System Consultants Inc. in Milwaukee, moderated the panel. **BI**

Members, vendors opt to meet

In the wake of the Sept. 11 terrorist attacks, the leaders of the Self-Insurance Institute of America Inc. decided to follow President Bush's advice that the nation get back to work.

Consequently, the Santa Ana, Calif.-based organization moved forward with plans to hold its 21st annual national conference and expo Oct. 3-5 in Chicago.

The conference was attended by about 1,600 registrants and 175 exhibitors, according to an SIIA spokesman. Those are typical attendance figures, the spokesman said.

"We were very pleased" with the support from members and vendors in proceeding with the conference as planned, said Jim Kinder, chief executive officer of the

organization.

The SIIA describes itself as the only national trade association that brings together all aspects of the self-insurance industry.



At the conference, registrants were able to choose from about four dozen sessions divided into six different tracks. In addition, many attendees participated in networking and recreational op-

portunities, including golf and a dinner with entertainment.

Concern about the national tragedy of Sept. 11 was not far from the minds of attendees, though. Many wore patriotic buttons, and the SIIA distributed flyers seeking contributions to pay for continuing health care coverage for the surviving children and spouses of those killed in the attacks.

Subsequent passage of a federal relief bill that includes funds for benefit continuation appears to have made that campaign redundant at this time, though, Mr. Kinder said.

The SIIA's next conference will be Sept. 17-19, 2002, in San Francisco. For additional details, contact the organization at 800-851-7789 or visit its Web site, www.sii.org.

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Pool

Continued from page 1

The industry proposal builds upon four separate reinsurance pool proposals crafted by industry groups by early October (BI, Oct. 8). The consensus proposal calls for legislation that would establish a privately run and financed reinsurance pool, called the Homeland Security Mutual Reinsurance Co.

'It is incumbent on the industry that we coordinate, cooperate and communicate. If we do that and we do it well, I think we'll get this done. Anything short of that, I don't think we'll get it done.'

— Carl Parks
National Assn.
of Independent Insurers

The state-chartered pool, modeled after the United Kingdom's Pool Reinsurance Co. Ltd., would then purchase its own reinsurance from the U.S. government.

Under the proposal, which emerged last week, Homeland would provide reinsurance for terrorism exposures on all types of property/casualty insurance. The pool would have two separate ac-

counts—one for commercial lines and one for personal lines—and the accounts would not subsidize each other.

Participation by insurers would be voluntary, but participants would have to place all relevant business into the pool, to guard against adverse selection.

The proposal calls for the creation of a uniform definition of terrorism for all insurance and reinsurance policies sold in the United States. The secretary of the Treasury Department would determine whether an act of terrorism had occurred for purposes of the reinsurance program.

Each insurer participating in the program would retain 5% of the risk of terrorism loss for each policy sold and would transfer 95% of the exposure to Homeland. Policyholders would pay appropriate surcharges to finance the coverage.

Homeland, in turn, would purchase its own terrorism reinsurance from the Treasury Department, which would determine the charges for the reinsurance. Federal reinsurance would come into play if a terrorism event were to occur and the pool's surplus were to be reduced to less than 20% of the surplus that existed at the end of the previous calendar year.

Homeland would not be subject to federal or state taxes, and it would not start paying premiums to the federal government until its net assets had reached \$10 billion.

The proposal would not establish federal regulation of the insurance industry, which had been one of the chief points of disagreement among the competing industry proposals. Some state insurance laws would not apply to Homeland, such as those for determining coverage forms and

rates and certain solvency-related laws.

If the risk of terrorism in the United States declined or if sufficient private insurance mechanisms emerged, the program would end in six years. After four years, the Treasury secretary would determine the ongoing need for a federal reinsurance mechanism for terrorism as well as natural disasters.

Joel Wood, senior vp of the Council of Insurance Agents & Brokers in Washington, said that having Pool Re as a model should enhance the chances of legislation to create the pool.

"The consensus approach mirrors Pool Re perhaps more than any of the individual proposals that were advanced last week. Having Pool Re as a template is a

very helpful thing, particularly given that we're asking lawmakers to make quick decisions," Mr. Wood said.

The congressional calendar "gives us roughly a month to get this done," said Carl Parks, senior vp-government relations for the Des Plaines, Ill.-based National Assn. of Independent Insurers in Washington. "That makes it very obvious that to get a bill from absolute scratch through the process to being signed by the president, is a pretty daunting task. Our case is a strong one, and our message has been well received by bipartisan leadership" in both chambers, Mr. Parks said.

"Certainly, there is no conclusion by the congressional leadership or the White House as to what they will do. For those rea-

sons, it is incumbent on the industry that we coordinate, cooperate and communicate. If we do that and we do it well, I think we'll get this done. Anything short of that, I don't think we'll get it done."

"While there's no unanimity on Capitol Hill and the administration on what approach should be taken, there is near consensus that dramatic steps need to be taken to prevent a crisis in the commercial marketplace," said Mr. Wood.

Late last week, The Consumer Federation of America issued a statement blasting the proposal. While the CFA said it supports the idea of federal reinsurance, it holds that the industry's proposal lacks adequate actuarial backing and would unnecessarily put billions of taxpayer dollars at risk. BI

Sears settles retiree benefit dispute

CHICAGO—Sears, Roebuck & Co. will incur costs of up to \$34.2 million to settle a dispute with retirees over life insurance benefits.

The Hoffman Estates, Ill.-based retailing giant reached an agreement with the retirees in June (BI, June 18), but details were not revealed until the settlement received preliminary approval last Wednesday from a federal court in Chicago.

The settlement will affect a 10-year plan to reduce benefit costs that Sears implemented in 1997. Under the original plan, Sears had amended its group life insurance plan to

reduce benefits by 10% per year for 10 years, to a minimum of \$5,000. The change

SEARS

affected about 84,000 retirees.

Under the settlement, Sears will continue to cut the life insurance benefits until 2007 but by a lesser amount, a Sears spokeswoman said. "We will reduce the amount of life insurance coverage but not as quickly or by as much," she said.

The level of benefits will be frozen until 2003, and the reductions thereafter will depend on the number of retirees who agree to the settlement. The cost of the settlement to Sears will be a minimum of \$22 million and a maximum of \$34.2 million, the spokeswoman said.

Sears will mail claim forms for the settlement to retirees in November; they will have until Jan. 17, 2002, to respond. A court hearing for final approval of the settlement is scheduled for March 5, 2002.

—By Gavin Souter

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COMMENTARY

Renewal leaves Brodie shipshape

Business Insurance reporters are still conducting interviews to determine how Oct. 1 property/casualty insurance renewals played out for most commercial insurance buyers, but I can report that my friend Brodie MacGregor at The Concordia Co. Inc. is "pleased" with his renewals.

If you know the Scots, you know that "pleased" means that he is over the moon.

The total cost of insuring his boatyard and its employees went up by less than 5% when his property/casualty insurance policies renewed Oct. 1. And he kept the same deductibles and limits.

"Overall, the increase was very modest, and for that I am pleased," Brodie said last week.

"But the bad news is that it's rather anticlimactic for your story," he said, concerned that I, as a columnist following his insurance renewals, would be disappointed that they had a happy ending.

I assured Brodie that bad news is not essential to a good column, and congratulated him on his good fortune. I did tell him that the analysts on Wall Street would be disappointed that he didn't have to pay more, because they have been talking up big premium increases for this fall.

I wrote in August about Brodie's concern that the cost of insuring his New England boatyard was getting too high, at over 12% of the \$55 hourly rate he was charging for custom boat building and maintenance of fine yachts. He confided this to me over dinner in early August, just after early renewal discussions with his broker.

"I had prepared Brodie. I said it could be ugly," said his agent, Steve Prime, a vp with Gowrie Barden & Brett of Westbrook, Conn., a full-service broker with a specialty in marine insurance.

Instead, Concordia's renewals "worked out better than I expected," Steve said. Property rates went up a little more than was anticipated, but that was offset by a bit of break on workers compensation. In total, Concordia's property, casualty and marine insurance costs increased, in round numbers, to \$106,000 from \$102,000.

General liability insurance went up, but not significantly. Last year, Brodie raised his general liability deductible and lowered his limits to reduce a 15% increase in general liability insurance costs to 4%. Asked whether he would have retained even more risk this year to control costs, Brodie said of course he would.

While Steve called the premiums quoted for Concordia "palatable," he is telling other clients to budget for property/casualty insurance rate increases of 10% to 20%. "But who knows where it's going to go. It could be higher than that; it could be beneath that," he said. "We're still getting comments to 'buckle your chin strap.'" And that advice, he said, applies to large and small commercial insurance buyers alike.

Indeed, two other renewals Steve had on Oct. 1 did not fare as well as did Concordia. For one building owner, it was a double whammy; an appraisal drove the value up 25%, and the insurer raised the property insurance rate 12.5%.

While an increase in property/casualty insurance costs of less than 5% was better than Brodie had dared hope for, insurance costs still eat up 11.8% of the new \$60 hourly rate that Concordia charges. And next to renew, in February, is the boatyard's health insurance. I haven't had the heart to tell Brodie that he can expect a big premium increase then.

As I wrote in my last commentary, the APIW's silver anniversary celebration, which was to have been held Nov. 14 at Windows on the World, atop the North Tower of the World Trade Center, will take place in a new location but on the same date. The new venue is New York's Tavern on the Green, located at Central Park West and 67th Street, on Nov. 14 from 6 p.m. to 8:30 p.m. Tickets are still available for the champagne reception, with buffet, by calling 518-785-0721 or e-mailing info@apiw.org. The deadline for reservations has been extended to Nov. 2.

As a member of APIW, I hope to see you there to celebrate women's achievements in the insurance business over the past 25 years. In the aftermath of the tragedies of Sept. 11, it will be healing to come together and share the joys of friendship and friends' successes.

Publishing Director Kathryn J. McIntyre's commentary appears fortnightly and on www.businessinsurance.com. She can be reached at kmcintyre@crain.com.

Brokers

Continued from page 1

Thurman said. If need be, he said, he would use that as negotiating leverage to keep compensation increases in check.

Like most large buyers today, Gaylord Entertainment compensates its brokers on a fee-for-service basis, rather than paying commissions tied to its premiums, said Mr. Thurman, who also is a member of the executive council of the Risk & Insurance Management Society Inc.

Brokers will have to demonstrate that the value they bring to clients is worth more money, at least one brokerage executive says.

Brokers should not increase their service fees and commissions simply because premiums are rising, said Warren Mula, managing director for relationship management at Aon Risk Services Inc. in New York. Broker compensation should increase only when brokers bring more value to an account, as they will have to do now "under very difficult circumstances," he said.

In the current hardening climate, obtaining the same amount of capacity for a buyer as in previous renewals will be more difficult, Mr. Mula said. This effort will mean increased costs for brokers, who will try to exert more leverage in the market on behalf of their clients, he explained. Those efforts bring additional value to a client, he said.

"Where it is appropriate, we are going to be speaking to our clients and seeing if we can get increases we have earned," Mr. Mula said.

Because of underwriter retrenchment following the Sept. 11 losses, placing coverage for an account requires brokers to go to more markets than they did in the past, said Craig Van der Voort, president of the commercial division of Arthur J. Gallagher Risk Management Services Inc. in Itasca, Ill. Brokers also must use more resources to make clients attractive to underwriters who are turning away business, he said.

"We are running across much greater challenges in working with what was already a more conservative and selective underwriting community," Mr. Van der Voort said. "So brokers are having to put forth much greater effort to get the job done on behalf of their clients."

As insurance rates and premiums increase, more buyers may restructure the way they compensate intermediaries, risk managers and brokers agree.

In recent years, most large commercial lines clients have shifted to compensating their brokers on a fee-for-service basis, a move that was prompted by brokers' declining commission revenue during the soft market. Most middle-market accounts, though, still pay their brokers via commissions rather than flat fees. According to *Business Insurance's* annual directory of agents and brokers, brokers in 2000 derived 92% of their gross revenues from commissions and just 8% from fees.

As the market hardens, now may be a good time for the middle-market buyers to adopt fee-based arrangements, risk managers say.

"It's a wonderful time now for the smaller buyers to make the conversion," Mr. Thurman said.

These buyers should question whether their brokers deserve the windfall of higher commissions if they are not working any harder than before to place the same coverage, he said.

Brokers should not reap additional profits for placing the same coverage limits on renewal if they are doing the same work, agreed Rae Knapp, risk manager for the Automobile Club of Southern California in Costa Mesa. Ms. Knapp said she intends to switch the way she compensates her broker to fees from commissions for placing umbrella liability coverage.

That is a tactic more middle-market accounts may now consider, brokers say.

So far, few clients have demanded to move to fee-based compensation from commissions, said Stephen B. Paulin, a senior vp in Irvine, Calif., for broker Sullivan Curtis Monroe, "but it is something we anticipate will probably start creeping down in the near future," he said.

For now, about 95% of Mr. Paulin's clients pay commissions, which are included in the premiums they pay insurers.

Gallagher's Mr. Van der Voort said he also foresees midsize clients asking about fee-based compensation in the current environment. He added, though, that he has yet to see much interest in such a shift.

Mr. Van der Voort also pointed out that buyers benefit from the fact that soft markets tend to outlast hard markets by several years. During soft pricing, broker commissions drop along with premiums, he said.

As prices increase in the commercial insurance market, brokerage share prices also are rising, with investors anticipating that brokers will boost their profits because they do not face the losses borne by insurers.

Even before the events of Sept. 11, the stock market looked favorably on broker stocks because of expectations that they would profit from a tightening market, stock analysts say.

But after Sept. 11, investors realized that brokers' earnings would benefit from the added premium growth expected to follow the attacks and the accompanying hardening of the market, said Michael A. Smith, an analyst for Bear, Stearns & Co. Inc. in New York.

The stock market's favorable outlook includes Marsh & McLennan Cos. Inc. and Aon Corp., both of which experienced losses and disruptions resulting from the World Trade Center attacks, analysts say.

A Standard & Poor's Corp. index for insurance brokers was down 2.5% for the year to date as of Oct. 5, said Cathy Seifert, an insurance equity analyst with S&P in New York. Ms. Seifert noted that, in comparison, the S&P 500, a broader market measure, was down 18.9% over the same period.

"Clearly, they are beating the overall market, and they are beating other financial stocks," Ms. Seifert said in regard to insurance broker shares. She said that the stock market expects that, in general, "whether it be fee-based or commission-based, either way, the bottom line is the client is going to be paying more."

AIG ups attack loss estimate

By DOUGLAS McLEOD

NEW YORK—American International Group Inc.'s estimated pretax loss from the Sept. 11 terrorist attacks has grown to \$800 million net of reinsurance recoveries, and its gross loss before reinsurance will total about \$2 billion, Chairman Maurice R. Greenberg said last Tuesday in a conference call with investment analysts and journalists.

AIG had previously estimated its pretax net loss at \$500 million. Mr. Greenberg did not break down the revised estimate by line of coverage, but AIG had relatively little direct exposure to the destruction of the World Trade Center itself. AIG's Lexington Insurance Co. unit wrote only a \$5 million share of the \$3.55 billion property insurance program covering the Trade Center, while its Commerce & Industry Insurance Co. subsidiary wrote \$100 million of the \$1.1 billion liability program covering the Port Authority of New York & New Jersey, the Trade Center's owner, documents show.

Mr. Greenberg predicted litigation over whether the destruction of the Trade Center towers represents one event or two under property policies insuring the Port Authority and Silverstein Properties Inc., holder of a

long-term lease on the Trade Center. Silverstein has contended that the attack was two events triggering two \$3.55 billion payouts, but Mr. Greenberg, referring to this argument, commented, "Obviously there is going to be some litigation on that."

Meanwhile, insurance buyers can expect to see rates "going up by leaps and bounds, dramatically," on upcoming renewals as industry-wide capacity shrinks in the wake of the Sept. 11 disaster, he said.

"Many companies in the industry have been weakened and will not have the firepower to respond" to coverage demands, he said, adding that he expects the current hard market to last longer than the hard market of the 1980s.

The recently completed aviation war risk and hijacking liability facility led by AIG has so far written \$350 million in premiums for 100 insured airlines, and that premium volume could double or triple within 12 months, Mr. Greenberg said. The facility offers up to \$1 billion in limits in excess of the \$50 million offered by primary markets (BI, Oct. 1).

Mr. Greenberg also reported that AIG will incur \$1.3 billion in pretax costs in the third quarter related to its August acquisition of American General Corp.



Mr. Greenberg

Finite

Continued from page 1

point—are written both as reinsurance of ceding insurers and as retrocessional protection for reinsurers.

While the covers provide some risk transfer, many of the deals ultimately require ceding companies to pay for the majority of ceded losses themselves, either through additional premium payments in future years or with investment income on cash deposits the insurers place with their reinsurers, according to Mr. Buckley's report.

The way insurers and non-U.S. reinsurers account for these contracts, though, can differ. U.S. insurers reporting under both statutory accounting principles and generally accepted accounting principles must report gross, ceded and net losses undiscounted for future investment income. They can also take full credit for reinsurance recoverable on these losses under finite and other reinsurance contracts, the report notes.

Many finite reinsurers, though, are based in offshore domiciles and are allowed to discount losses to reflect future investment earnings, substantially reducing current loss totals on contracts intended to spread the losses several years into the future, the Fitch report observes.

Under many such contracts, U.S. insurers also do not recognize future premium payment obligations as expenses until they occur, while offshore finite reinsurers typically can recognize the present value of future premium payments, the report says.

As a result, U.S. ceding companies reporting their net losses from the World Trade Center attacks are taking large reinsurance credits that finite reinsurers are not reporting as corresponding losses, creating an estimated \$3 billion to \$6 billion gap, Mr. Buckley says.

In addition, "a large cross-section of pri-

mary insurers—and reinsurers who purchase finite retrocession covers—will be taking credit for ceded balances that they will ultimately pay themselves," and these future payment obligations will "create a drag on future earnings," Mr. Buckley wrote.

While finite contracts provide financial flexibility and aid capital management after a catastrophe, they also "can mask underwriting and reserving problems" and lead insurers to defer corrective actions such as raising capital, Fitch warned.

Industry officials note that the phenomenon of "disappearing" losses won't occur in deals with U.S.-based reinsurers: Accounting rules adopted after Hurricane Andrew require "symmetrical" accounting of losses by U.S. ceding companies and their U.S.-based finite reinsurers, observers note.

Some officials also question the extent to which finite contracts will depress ceding insurers' future earnings.

Most contracts do not include an absolute obligation to reimburse a given loss—which would require cedents to accrue the expense immediately—but instead make ceding insurers' future payments contingent on the ongoing profitability of multiyear contracts, said Tom Dickson, president and CEO of Centre Group in New York. Future profits could thus mitigate future premium payments, he explained.

Other industry observers agree, though, that finite contracts will make a portion of Sept. 11 losses "disappear."

"I think it's more toward the \$6 billion (end) than it is to the \$3 billion," said Brian McGuire, senior vp with intermediary U.S. Re Corp. in New York.

John Rathgeber, an executive vp with St. Paul Financial Solutions, noted that finite reinsurance and equalization reserves used by European reinsurers likely account for some of the gap between the roughly \$20 billion in Sept. 11 losses that insurers and reinsurers have reported to date and the indus-

trywide estimate of \$35 billion or more in total losses.

S&P's Mr. Watson, meanwhile, said that while finite deals—along with the Sept. 11 losses themselves—will dampen insurers' future earnings, a more immediate concern is whether finite reinsurers will be able to handle a deluge of claims without delaying some payments.

"I would expect that we'll see some liquidity constraints at finite companies over the next six months," he said.

If reinsurance payments are delayed, ceding insurers may have to sell off assets to pay claims in the interim, and they will later reinvest reinsurance recoveries at lower interest rates, amplifying the impact of the losses, Mr. Watson said.

Industry officials, however, also question the extent of any liquidity threat. Even large property losses from the World Trade Center attack may not be enough to trigger some insurers' aggregate covers, observers say.

In addition, unlike Hurricane Andrew, a large portion of Sept. 11 losses will be liability and workers compensation claims that will emerge over a period of years and that may not give rise to finite reinsurance payments for several years, Messrs. Dickson and Rathgeber said.

One thing observers agree on is that interest in finite products is growing as reinsurance capacity dwindles and rates shoot up.

"There is markedly more interest in alternative programs" as ceding companies weigh the rising cost of traditional coverage against the probability of future cat events, Mr. Dickson observed. The expected exclusion of terrorism risk from direct insurance policies will remove a large degree of volatility from loss evaluations, he added.

"Reinsurers know there's a maximum amount they can raise rates before ceding companies will look at alternatives," observed Bryon Ehrhart, president of Chicago-based Aon Re Services. **B**

Insured losses

Companies	Estimated losses in millions
Berkshire Hathaway	\$2,200
Munich Re Group	\$1,950
Lloyd's of London	\$1,920
Swiss Reinsurance Co.	\$1,260
Allianz A.G. Holding	\$928
Zurich Financial Services Group	\$700-900
American International Group Inc.	\$800
XL Capital Ltd.	\$600-700
St Paul Cos. Inc.	\$700
GE/Employers Reinsurance Corp.	\$600
Chubb Corp.	\$500-600
ACE Ltd.	\$550
AXA Group	\$550
Citigroup Inc.	\$500
Hartford Financial Services Group	\$450
PartnerRe Ltd.	\$350-400
Hannover Re Group	\$365
Liberty Mutual Insurance Co.	\$200-300
Royal & Sun Alliance Group P.L.C.	\$290
Gerling Global Ruckversicherungs A.G.	\$201-274
Factory Mutual Insurance Co.	\$250
MetLife Inc.	\$250
CNA Financial Corp.	\$230
SCOR S.A.	\$150-200
QBE Insurance Co. Ltd.	\$129
Prudential Financial	\$75-125
Allegheny Insurance Holdings L.L.C.	\$112
Transatlantic Holdings	\$100

Source: Company reports as of Oct. 12, 2001

Toxic

Continued from page 3

received no training on how to handle chemicals and was assured the blue-green substance was safe.

Mr. Gunnell subsequently learned the substance was Absorb, an organic solvent/degreaser that contains two hazardous substances, sodium hydroxide and 2-butoxyethanol, or 2BE. Workers using the latter, in particular, should avoid skin contact and wear chemical-resistant gloves and possibly a respirator, according to the decision.

After four and one-half months of using Absorb, Mr. Gunnell's injuries included a slowing of brain function, anxiety and panic attacks, concentration difficulties, loss of cognitive function, personality changes, mood and temper problems, respiratory problems and numbness, according to the decision. Experts at the trial testified there was a "reasonable degree of probability" that his injuries were caused by his exposure to 2BE.

Mr. Gunnell and the two other workers sued for a variety of charges. Various trial court rulings ended the case insofar as the two other workers were concerned. After a five-week trial, a jury concluded that Metrocolor had specifically intended to injure Mr. Gunnell and awarded him \$1.7 million in economic and noneconomic damages and another \$5 million in punitive damages.

In its decision, the appellate

court said it is bound by the California Supreme Court's 1980 decision in *Johns-Manville Products Corp. vs. Superior Court*, an asbestos case in which the court ruled an employer's concealment of known unsafe working conditions and viola-

The upshot of the ruling is 'that employers have immunity for intentionally poisoning their workers.'

—Martina A. Silas
Plaintiff's attorney

tion of environmental safety regulations falls under the exclusive-remedy provision of the California Workers Compensation Act.

The appellate court also ruled no criminal battery occurred nor was there willful physical assault because no force or violence was involved. These findings mean the exclusive-remedy provision still applies.

Mr. Gunnell's attorney, Encino, Calif.-based Martina A. Silas, a solo practitioner, said she plans to appeal the decision to the California Supreme Court.

"We're going to ask the Supreme Court to revisit the *Johns-Manville* decision, because there's been a lot of leg-

islative and judicial developments since then," she said.

Ms. Silas said the upshot of the appellate ruling is "that employers have immunity for intentionally poisoning their workers. That actually is what the bottom line of the ruling is, because the jury found that (Metrocolor) did it with specific intent to injure (Mr. Gunnell)."

But Metrocolor attorney Frederick D. Cohen of Encino, Calif.-based Horvitz & Levy, said, "I think you can always argue after the fact that an employer should have known and, in fact, acted knowing an injury was going to occur, and therefore acted deliberately."

"I think the reason the court acted as it did is the whole purpose of workers comp is to avoid that kind of inquiry; second-guessing an employer's motive. The allegations here are really a product of a post-hoc characterization of an employer's motive," Mr. Cohen said. "The real question in any workplace injury is, did the injury occur in the performance of the job?"

Mr. Cohen said he believes it is "extremely unlikely" the state Supreme Court will reject the *Johns-Manville* decision.

Every subsequent case "has uniformly concluded that its rationale remains valid today and was in no way changed by the most recent amendments to the Workers Compensation Act," he said.

Ross C. Gunnell et al. vs. Metrocolor Laboratories Inc. et al., Second Appellate District, Division Three; 01 C.D.O.S. 8551.

Parity

Continued from page 3

ment of substance and chemical dependency. Equitable coverage also would not be required for services delivered outside a network, provided that beneficiaries have reasonable access to in-network providers.

Like the 1996 law, the Senate bill would apply only to employers that offer mental health care coverage in their group benefit plans. Employers that do not offer any coverage for mental health and those with 50 or fewer employees would be exempt.

Since its introduction, the mental health care benefits parity bill has enjoyed overwhelming support. Its road to passage by the full Senate seemed assured following its unanimous passage Aug. 1 by the Senate Health, Labor, Education and Pensions Committee.

But recent efforts by Sens. Wellstone and Domenici to bring the legislation to a Senate floor vote have been rebuffed by several conservative Republican senators, benefits lobbyists say. Those Republicans are concerned about the impact of the measure on health care costs, though the Congressional Budget Office pegs the annual average cost increase at just under 1%.

While rapid progress on the measure has stalled, that isn't to say that the Senate won't act.

"I would, by no means, rule it out," Mr. McArdle said. Indeed, while progress may have slowed, the measure now is co-sponsored by nearly two-thirds of the Senate.

Once the bill does come up for a Senate floor vote, amendments to the measure are expected. For example, Sen. Judd Gregg, R-N.H., is expected to offer an amendment that would exempt employers from parity if such an upgrade would boost their health care costs by more than 1% a year.

In addition, employer groups want an amendment to delay the bill's current Jan. 1, 2002, effective date. "Because of the changes employers would have to make to their plans and the need for regulatory guidance, an effective date of next January just isn't feasible," said the American Benefits Council's Mr. Dennett. **B**

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Choice

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employers, because Denver is home to thousands of employees of Minneapolis-based companies that offer Patient Choice.

"If we can offer the same product here, it lessens the burden on employers from having to offer multiple plans," Mr. Rockers said.

The direct-purchasing model that Patient Choice now operates was developed in the early 1990s by the BHCAG, a Bloomington, Minn.-based employer purchasing coalition. BHCAG created its "care system," in which employers contract directly with health care providers, in an effort to improve quality and reduce costs in the Twin Cities area. The resulting plan is sold to BHCAG members as Choice Plus.

Later, as health plans began consolidating, BHCAG's members saw the model as a way to spur competition among the remaining health plans, said Carolyn Pare, chair of BHCAG's steering committee.

But BHCAG spun off its model to Patient Choice, in part because BHCAG does not have the expertise to market and expand the model, Ms. Pare said. Yet Patient Choice, by contract, still relies on a medical provider network owned by BHCAG. Also by contract, BHCAG employer members and Minneapolis-area medical providers help direct Patient Choice operations in Minnesota.

But now, as Patient Choice seeks to spread nationally, observers note that several large Minneapolis-area employers have left the model within the past few months. Employers that left about a year ago said they could obtain better rates from health plans that sought to take business away from the coalition (BI, Sept. 25, 2000).

Patient Choice was "catalytic" in pushing Minneapolis-area health plans to improve their care quality and their administration services while expanding their plan offerings, said George Halvorson, the president and CEO of Health Partners, a Minneapolis health maintenance organization with 670,000 covered lives.

But, he said, other area health plans have improved, and Patient Choice, with 130,000 members for 2001, is no longer as strong a competitor as it once was. Health Partners once ad-

A direct-contracting health care product 'lessens the burden on employers from having to offer multiple plans.'

— Tom Rockers
The Alliance
employer coalition

ministered BHCAG's plan, but in 1999 it declined to bid on that business because it had come to regard BHCAG as a competitor.

Observers say that employers in cities such as Denver and Portland may be best served by Patient Choice if they are looking for an alternative to existing health purchasing options rather than if they are trying to reduce costs.

During the mid-1990s, employers in the Twin Cities area kept health care costs below the national average, and the early entrance of managed care in the region helped maintain costs. But recent surveys show that health care costs around Minneapolis are running above the national average, said Marcia

McCarty, health care practice leader at William M. Mercer Inc. in Minneapolis.

Therefore, Ms. McCarty said, employers in areas where Patient Choice is expanding may want to take a close look at the company's costs.

Self-insured employers in Denver could use more health care purchasing options, said James E. Crockett, manager of risk and benefits for Denver Water, a city water authority. Nearly two years ago, when Denver renewed its contract for provider networks, only two companies were willing to bid on the utility's business, which has 1,050 employees, he said.

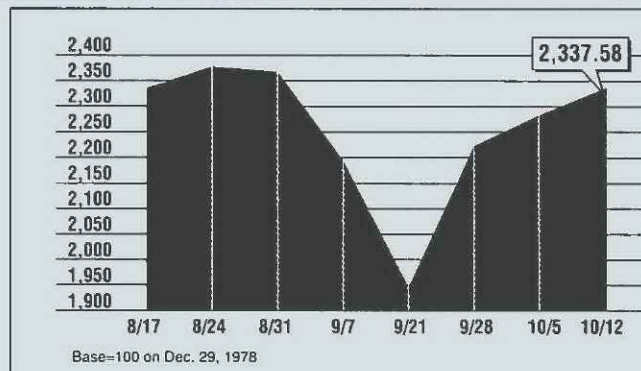
"There may have been more (options) for a larger group, but there wasn't a great deal of competition for a self-insured preferred provider organization," Mr. Crockett said. Denver Water is not a member of The Alliance.

Although Patient Choice is ready to enroll participants in Denver and Portland for 2002, it is still in a marketing phase in those cities and has not yet signed contracts with any employers, a Patient Choice spokeswoman said.

While Patient Choice in Minnesota is guided by BHCAG members, Mr. Rockers said his coalition will not provide that function. Patient Choice will act independently in Denver.

Patient Choice will offer the same consumer-driven model available in Minnesota, though. Under that model, employers pay a set per capita premium contribution, and employees add to that through payroll deductions. Employees and their dependents chose among primary care clinics, linking them to specific care systems or networks. The contributions made by employees depend on factors such as the primary clinics chosen, the fees set by doctors and patient satisfaction surveys. **BI**

B/Stock Index - 10/12/2001



	Price	Weekly % change	Year to date		Vol. (000)		
			% change	High			
BROKERS							
Aon Corp.	NYS	42.50	-1.51	24.09	44.80	28.13	4869
Arthur J. Gallagher & Co.	NYS	37.05	3.15	16.46	38.20	21.88	3468
Brown & Brown	NYS	54.45	0.93	55.57	57.75	28.75	781
Clark Bards Holdings	NDQ	24.00	-4.00	137.04	33.30	7.25	116
E.W. Blanch Holdings Inc.	NYS	13.50	0.00	-22.58	29.50	6.70	0
Hilt, Rogal & Hamilton	NYS	50.80	3.89	27.40	53.80	33.75	1116
Marsh & McLennan	NYS	103.27	0.31	-11.74	133.94	79.00	7219
Willis Group Holdings Ltd.	NYS	23.40	-0.21	40.96	24.59	15.50	1259
BROKERS AVERAGE			0.32	33.40			
INSURERS/REINSURERS							
ACE Ltd.	NYS	37.04	11.20	-12.72	43.94	18.10	13932
Accel International Corp.	NDQ	0.07	0.30	-76.42	0.59	0.06	0
Acceptance Insurance Cos.	NYS	5.22	7.33	-0.57	6.05	3.70	120
AEGON N.V.	NYS	26.98	1.70	-34.89	43.00	19.69	1043
AFLAC Inc.	NYS	26.73	0.87	-25.94	37.47	23.00	14168
Allmerica Financial Corp.	NYS	43.75	-0.79	-39.66	74.25	39.74	1247
Allstate Corp.	NYS	33.85	-8.46	-22.30	45.90	30.00	19368
Ambac Financial Group	NYS	52.63	-4.29	-9.74	64.00	42.20	3973
American Financial Group	NYS	21.25	0.19	-20.00	30.75	18.36	538
American General	NYS	44.55	0.00	9.33	47.44	33.66	0
American Intl Group	NYS	83.69	5.91	-15.09	103.75	66.00	36131
American Safety Insurance	NYS	9.00	-1.10	46.94	10.36	3.44	1
Argonaut Group	NDQ	17.05	0.32	-18.81	21.25	13.47	85
AXA-UAP Group	NYS	21.90	4.29	-39.01	38.09	15.40	1873
Baldwin & Lyons Inc.	NDQ	21.53	11.55	-7.40	28.75	16.50	6
Berkley W.R. Corp.	NDQ	50.00	4.52	5.96	51.20	31.13	729
Berkshire Hathaway Inc.	NYS	73900.00	2.07	4.08	75300.00	53500.00	3
Capitol Transamerica Corp.	NAS	16.00	-0.62	28.64	16.80	10.31	145
Chubb Corp.	NYS	76.59	2.05	-11.46	90.25	55.55	8330
Cincinnati Financial Corp.	NYS	38.93	-5.07	-1.60	42.94	32.88	3582
Citigroup	NYS	45.06	4.55	-11.76	57.38	34.52	75152
CNA Financial Corp.	NYS	27.27	1.00	-29.63	40.24	23.00	1635
CNA Surety	NYS	13.70	-1.44	-3.86	14.70	11.00	76
EMC Insurance Group Inc.	NDQ	13.70	-5.71	16.60	16.00	9.25	3
ESG Re Limited	NDQ	2.95	-1.67	60.00	4.00	1.72	18
Everest Reinsurance	NYS	73.30	3.07	2.34	75.50	44.94	4339
Fremont General Corp.	NYS	5.35	3.94	90.22	6.97	1.50	622
Gainco Inc.	NYS	1.49	-3.67	-43.24	4.06	1.10	102
Harleysville Group	NDQ	25.31	-3.76	-13.47	30.63	19.11	286
HCC Insurance Holdings	NYS	28.07	4.35	4.20	29.66	17.63	4004
ING Group N.V.	NYS	28.26	3.21	-29.46	41.97	20.70	1173
IPC Holdings Ltd.	NDQ	27.00	-4.43	28.57	28.40	18.50	1204
Hartford Financial Services	NYS	57.85	3.30	-18.09	80.00	45.50	6960
John Hancock Fin. Services	NYS	35.70	-4.03	-5.12	42.00	25.63	3802
Lincoln National	NYS	41.75	-8.52	-11.76	52.75	38.00	5769
Markel Corp.	NYS	204.50	-2.69	12.98	213.25	133.50	91
MBA Insurance Group	NYS	48.14	-1.69	-2.58	57.49	36.00	4895
Meadowbrook Insur. Group	NYS	3.18	24.71	-60.86	8.38	1.80	39
MetLife	NYS	26.85	-6.67	-23.29	36.63	23.38	8306
Mutual Risk Mgmt. Ltd.	NYS	9.02	12.05	-40.61	23.56	3.40	641
Navigator Group	NDQ	17.50	-0.40	31.46	20.86	11.00	8
NYMagic Inc.	NYS	18.17	10.12	-3.74	22.70	15.25	23
Odyssey Re Holdings	NYS	17.99	12.65	2.22	18.19	11.08	422
Ohio Casualty Corp.	NDQ	12.53	0.56	25.30	14.34	6.88	1528
Old Republic Intl	NYS	25.60	-4.83	-20.00	32.06	21.20	3166
Partner Re Ltd.	NYS	52.00	7.66	-14.75	62.50	32.00	3340
Penn-America Group Inc.	NYS	9.20	-2.95	20.66	10.60	6.69	61
PMA Capital Corporation	NDQ	17.05	-3.94	-1.16	18.94	15.19	146
Philadelphia Cons. Holding	NDQ	36.72	8.13	18.93	37.50	19.88	451
ProAssurance	NYS	13.95	-1.69	-16.40	19.25	11.88	80
PXRE Corp.	NYS	13.80	1.85	-18.22	20.10	10.40	57
RenaissanceRe Holdings Ltd.	NYS	95.30	-2.47	21.69	101.00	58.13	1908
RLI Corp.	NYS	40.74	-1.59	-8.83	46.16	37.50	38
St. Paul Cos.	NYS	51.50	16.12	-5.18	57.00	34.00	12864
SCOR	NYS	31.65	7.29	-37.01	53.75	23.50	7
SAFECO Corp.	NDQ	30.05	0.13	-8.59	36.88	21.50	3062
SCPIE Holdings Inc.	NYS	16.55	-0.90	-29.95	31.40	15.19	44
Seibels Bruce Group	NDQ	2.70	0.00	380.00	3.25	0.55	3
Selective Ins. Group	NDQ	22.34	-6.88	-7.88	28.22	15.25	129
Tokio Marine & Fire	NDQ	44.60	-1.44	-21.75	58.25	42.33	30
Torchmark Corp.	NYS	38.93	-0.69	1.28	43.25	27.19	1698
Transatlantic Holdings	NYS	86.24	1.29	22.18	89.50	59.91	123
Trenwick Group Ltd.	NYS	8.14	-8.54	-67.19	27.13	5.50	776
Unico American Corp.	NDQ	5.80	-8.52	-1.28	7.75	4.05	1
United Fire & Casualty	NDQ	28.35	6.58	43.54	34.52	16.19	2035
Unitrin	NYS	38.78	1.78	-4.54	41.94	29.56	192
UNUM Corp.	NYS	23.03	-5.38	-14.31	33.75	22.25	4527
Vesta Insurance Co.	NYS	12.10	-5.10	139.01	13.40	4.25	304
XL Capital Ltd.	NYS	90.00	4.05	3.00	91.05	61.50	10090
Zenith National Ins.	NYS	26.86	2.52	-8.56	30.70	20.00	58
INSURERS/REINSURERS AVERAGE			1.05	1.44			
MANAGED CARE ORGANIZATIONS							
Aetna Inc.	NYS	30.07	2.70	-26.77	42.69	23.02	2275
CIGNA Corp.	NYS	83.19	-1.90	-37.12	136.75	75.50	3131
Health Net Inc.	NYS	20.71	1.57	-20.92	26.94	15.75	2075
Humana Inc.	NYS	11.63	-0.17	-23.74	15.81	8.38	3004
Oxford Health Plans	NYS	25.60	-4.83	-35.19	32.06	21.20	3166
Pacificare Health Sys.	NDQ	13.96	1.60	-6.93	40.50	9.81	1297
Sierra Health Services	NYS	8.14	-0.49	114.21	11.16	2.75	352
United HealthGroup	NYS	67.09	-2.23	9.31	70.00	50.50	8368
Wellpoint Health Networks	NYS	105.94	-0.80	-8.08	121.50	81.66	3001
MANAGED CARE ORGANIZATIONS AVERAGE			-0.51	-3.91			
ALL COMPANIES			0.29	10.31			

Top advancing issues: Meadowbrook Insur. Group., St. Paul Cos., Odyssey Re Holdings Mutual Risk Mgmt. Ltd., Baldwin & Lyons Inc. Leading decliners: Trenwick Group Ltd., Lincoln National Unico American Corp., Allstate Corp., Selective Ins. Group. Most active issues: American Intl Group, Allstate Corp., AFLAC Inc., ACE Ltd., St. Paul Cos. The BI Index increased 2.32%; the Dow Jones 30 Industrials rose 2.468%; the S&P 500 rose 1.89%; and the NYSE Composite rose 1.37%. Average P/E: Brokers, 30.03; Insurers/reinsurers, 23.86; and managed care companies, 17.59.

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

World Cup coverage fouled after AXA withdraws from risk

COLOGNE, Germany—AXA Colonia Versicherung A.G. has canceled its coverage for the 2002 soccer World Cup because of uncertainty in the wake of the Sept. 11 terrorist attacks.

A spokesman for AXA Colonia, a subsidiary of Paris-based insurance giant AXA S.A., confirmed late last week that it was in talks with FIFA, soccer's governing body, to find new insurance to cover the tournament to be held in Japan and South Korea next summer.

AXA Colonia was the lead insurer of a consortium that had agreed to provide up to 944 million euros (\$851.8 million) in coverage. AXA's withdrawal effectively terminates the World Cup insurance program.

"As a result of the current uncertain international climate, insurance company AXA has given notice to terminate its insurance cover for the 2002 FIFA World Cup Korea/Japan on Nov. 11, 2001, while also announcing that it will cooperate with FIFA to find a joint solution by the end of the month-long term of notice," FIFA said in a written statement.

"The world football governing body, together with its insurance partners, will now search for alternatives while at the same time investigating the legal implications of this situation," FIFA said.

—By Sarah Veysey

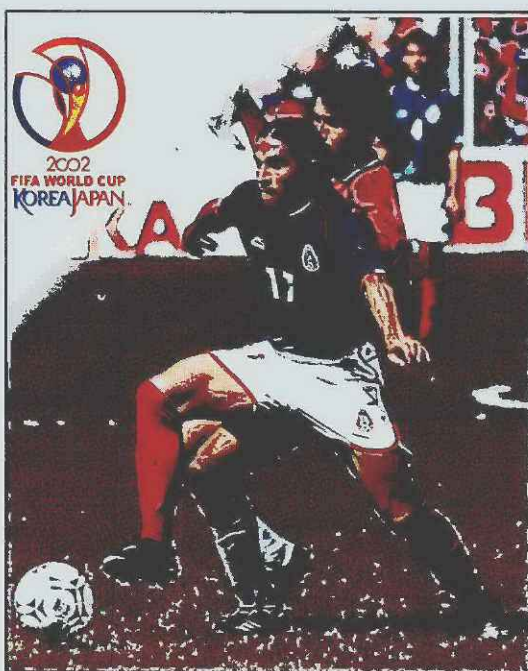


PHOTO: AFP

Juan Francisco Palencia (17) of Mexico's national team, which next month plays Honduras in a bid to qualify for the 2002 World Cup.

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