

Business Insurance

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Updates

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

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Provision would protect U.S. names from Lloyd's judgments abroad

WASHINGTON—A little-noticed provision in late drafts of the massive federal spending bill being hammered out by congressional negotiators could, if it becomes law, protect U.S. names of Lloyd's of London against foreign judgments rendered against them in connection with their membership in Lloyd's.

Because the final version of the so-called omnibus budget bill was not available late last week, it remained unknown whether the provision to amend the Securities Act

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Patient protection dies as session nears end

By JERRY GEISEL

WASHINGTON—Health care patient protection legislation was taken off life support as Congress finally pulled the plug on the issue in the closing days of the session.

"The fight for the patient's bill of rights is over," Senate Minority Leader Tom Daschle, D-S.D., said after the Senate voted last week to table the legislation.

But as Congress killed patient protection legislation, Sen. Edward Kennedy, D-Mass., in a surprise 11th-hour effort, was attempting to win approval of an amendment to end, in favor of Massachusetts, a heated and potentially nationally significant battle being fought over a state prescription drug mandate.

That battle began in August, when several HMOs in Massachusetts said they would scale back prescription drug benefits next year to Medicare-eligible retirees to help keep coverage affordable.

The Massachusetts Division of Insurance sued one of the HMOs—Harvard Pilgrim Health Care—which intended to offer a zero-premium plan with an \$800 annual cap on prescription drug benefits. State regulators said such a cutback violated a 1994 Massachusetts law.

See Congress on page 24

Scorecard for 105th Congress

What was accomplished

- Opened up Medicare program to more private competition
- Limited pension simplification
- Limited liability immunity for manufacturers of raw materials used in medical devices

What was not accomplished

- Patient protection legislation
- Substantive pension reform
- Product liability reform

Elections seen as chance to strengthen majorities

By MARK A. HOFMANN

WASHINGTON—Presidential scandal and a renewed focus on traditional concerns such as education have pushed risk management and benefits issues even lower than usual on the political radar screen with only two weeks before congressional elections.

Despite months of congressional debate over patients' rights, the question of how to regulate managed care plans hasn't risen to the forefront in many campaigns. Tort reform issues, which have energized business in previous election seasons, have taken a very low profile.

Nevertheless, risk managers, insurers and other observers regard the Nov. 3 elections as critical on both the state and local levels because they provide an opportunity to build on pro-business majorities in

statehouses and Congress.

"This is a year of opportunity to get more market-oriented legislatures and governors" elected, said Jack Ramirez, president of the Des Plaines, Ill.-based National Assn. of Independent Insurers. He said President Clinton's troubles could lead to lower turnout among the president's supporters and increase the chance that pro-business candidates will win. Mr. Ramirez said the NAII will "devote more resources to races this year" than ever before.

A spokesman for the American Insurance Assn. in Washington said, "Our strategy and hope has been to elect as many pro-business people to Congress, state legislatures and governorships as possible."

David M. Farmer, senior vp in the Alliance of American Insurers' Washington office, said: "We're interested in the election of the next Congress of individuals who will be fair to business interests in a non-partisan fashion. It's our view that the election

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Sprinkler maker suing insurers for recall cover

Suit also seeking defense costs

By ROBERTO CENICEROS

LANSDALE, Pa.—Central Sprinkler Corp. is suing its product liability insurers, attempting to gain coverage for the recall announced last week of 8.4 million Omega fire suppression sprinklers, a Central official confirmed.

The recall came in a settlement with the U.S. Consumer Product Safety Commission, which had sued Central to force it to comply with its demand for the recall.

Also last week, a Los Angeles Superior Court delayed ruling on a bid by the Lansdale, Pa.-based sprinkler manufacturer to settle a pending class-action lawsuit related to its Omega sprinklers.

The recall will go forward. But the court ruling leaves unresolved whether Central's settlement attempts will relieve it of potential liabilities and whether the \$38 million it has set aside for the recall and settlement is adequate for the task, observers said.

"The question as to whether or not our members will be made whole is still an open question," said Gerry Lederer, vp-government and industry affairs for the Building Owners &

Managers Assn. in Washington. BOMA, which represents 16,000 members managing 7 billion square feet of commercial property in North America, is party to one of several lawsuits filed nationwide against Central in connection with its Omega sprinklers.

The Los Angeles court is scheduled to hear the issue again Oct. 27.

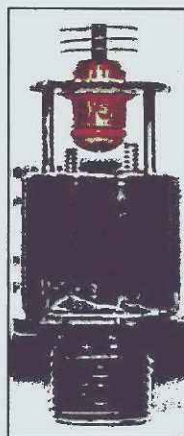
Central does not have product recall insurance, but it is seeking coverage from its product liability insurers for the recall, as well as for defense costs, Al Sabol, Central's chief financial officer, confirmed. Central filed its suit in California last month against product liability insurers.

Mr. Sabol could not say in which California jurisdiction the suit was filed, nor who the insurers are. But he did confirm plaintiff attorneys' assertion that Central has about \$200 million in liability coverage.

Apart from its settlement with the CPSC, Central had sought to have a Los Angeles Superior Court certify a class-action lawsuit filed there. Central has worked out a potential settlement in that lawsuit.

But the court on Thursday postponed ruling on Central's

See Sprinkler on page 27



Cardiac coaching produces better health, savings

By ROBERT KAZEL

LOUISVILLE, Ky.—An especially intensive disease management program may hold the key to conquering one of employers' most expensive and recurrent costs: workers' and retirees' heart

conditions.

The program already has yielded impressive results for Humana Inc., and it will be rolled out in somewhat different form to United HealthCare Corp. nationwide. Both are team efforts taken together with a disease management

company, Buffalo Grove, Ill.-based Cardiac Solutions Inc. The program is open to health plan sponsors as well.

Humana and United HealthCare's programs involve nurses, acting as disease managers, forming close relationships with heart patients to coach them into practicing healthy activities, such as maintaining proper diets and staying on drug regimens.

The payoff for Louisville-based Humana, which began the program in 1996, was a 61.1% reduction in inpatient health care costs and a 57% drop in hospital admissions for all conditions, Cardiac Solutions Vp Cornelia Tilney said.

But some benefit managers said the program makes sense for Medicare recipients, though it may not result in direct savings for most employers.

Humana and Cardiac Solutions tracked 1,915 HMO members who had experienced at least one previous hospitalization for congestive heart failure.

The system Humana used, a proprietary Cardiac Solutions program called Multicare, entails these features:

- Intensively trained nurses who act as disease managers and work to form close relationships both with the patients and their physicians.

- Education and coaching of patients to motivate them to eat properly and take medicine.

- Coaching on other services, such as physical therapy, counseling and home health aid.

- "Humanizing activities," such as postcards to patients' homes, home visits, supportive telephone calls and special attention to weight changes and salt intake.

"This isn't just a nurse picking up the phone and checking in on the patient; this is a very complex, intricate technical program," Ms. Tilney said.

Programs such as Humana's and Cardiac Solutions' would appeal

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Updates

Bill could help U.S. names

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of 1933 and the Securities Act of 1934 survived the final round of negotiations. Several sources said, however, that it had appeared in late versions of the budget bill, and they believed that it had remained.

The provision would prohibit U.S. courts from recognizing or enforcing foreign judgments "where such violation was committed in connection with any previous members or underwriting at Lloyd's of London, or in connection with any Lloyd's of London syndicate related to such membership or underwriting."

A policyholder attorney said that if the provision were to become law, it could work to the detriment of U.S. policyholders.

"The purpose of insurance is to protect policyholders. While we fully sympathize with the plight of American names who have been mistreated by Lloyd's, the simple fact is that 'immunizing' American names can only come at the direct expense of American policyholders," said R. Mark Keenan, a partner in the New York law firm of Anderson Kill & Olick P.C.

Congress is expected to approve the omnibus budget bill this week.

Aon takes stake in Sedgwick

LONDON—Aon Corp. has made an investment that will enable it to profit from the proposed merger of two of its competitors.

The Chicago-based broker acquired some 9 million shares of U.K. insurance broker Sedgwick Group P.L.C. at a price at least 26 pence (44 cents) less than the 225 pence (\$3.84) per share price J&H Marsh & McLennan Inc. has offered to acquire the broker.

J&H M&M extended the acceptance period until Oct. 20 for the merger, which was proposed in August. The Federal Trade Commission has cleared the merger; the deal also must be approved by the European Commission (BI, Oct. 12).

If the merger is approved, the arbitrage deal will net Aon about £2.46 million (\$4.2 million) and give it a 1.628% stake in Sedgwick.

The shares were acquired by Aon Advisors, a London investment subsidiary of Aon, for between 197 pence and 199 pence (\$3.36 to \$3.39) per share in a series of transactions in the past few days.

"It's an investment," confirmed an Aon spokesman in Chicago last week, declining to comment further.

Trial in air crash stayed

ATLANTA—A federal appeals court has indefinitely stayed the trial in which American Airlines Inc. would have argued that two navigation system contractors were liable for the 1995 crash of a Boeing 757 passenger jet near Cali, Colombia.

The crash in a mountainous area of South America killed all but four of 163 passengers and crew aboard American Flight 965.

The 11th U.S. Circuit Court of Appeals on Oct. 1 stayed the trial, which was scheduled to begin Oct. 26, while the court considers two issues in the litigation.

The court is reviewing the airline's appeal of a September 1997 ruling by a U.S. district court judge in Florida that American was guilty of willful and wanton misconduct in the crash. That ruling means that American would not be able to limit its liability for the crash to \$75,000 per passenger. American at the time of the crash had not yet voluntarily waived its Warsaw Convention liability limits, as it and many other major airlines subsequently did.

The appeals court also is reviewing a motion by navigation system contractors Jeppesen-Sanderson Inc. and Honeywell Inc. The contractors argue that because of the willful and wanton misconduct judgment against American, the airline is barred by Florida state law from suing the contractors.

American claims in court papers that the contractors knew their navigation system contained errors. Those errors could lead pilots to steer their aircraft toward unintended points and into mountains, American claims.

The contractors argue that the pilots of Flight 965 did not follow American's own guidelines and incorrectly used the navigation system.

Florida probing withdrawals

TALLAHASSEE, Fla.—Florida health maintenance organizations are coming under fire for decisions to drop more than 52,000 Medicare beneficiaries in markets they are exiting.

Florida's insurance commissioner and attorney general have issued subpoenas to seven HMOs as part of the officials' attempts to determine whether the plans unfairly dropped the members. The investigation will focus on whether the HMOs engaged in unfair trade practices or antitrust activity as part of the cancellations.

Subpoenas were sent last week to Prudential Health Care Plan, United HealthCare of Florida, CIGNA Healthcare of Florida, Aetna U.S. Healthcare, Humana Medical Plan, AvMed Health Plan and Principal Health Care of Florida.

In a statement, AvMed President Edward Peddie said the HMO tried for two years to communicate to state and federal officials problems related to its Medicare business.

"If the goal of Congress, the Florida attorney general and the Florida insurance commissioner is to demonize HMOs that are trying to increase access, improve quality and moderate the cost of health care, they have taken another large step" by politicizing their investigation by beginning them just weeks before elections, Mr. Peddie said.

High court to take ERISA case

WASHINGTON—The Supreme Court has agreed to review a disability claim denial case that raises questions about ERISA pre-emption of state regulation.

One of the two major questions in *UNUM Life Insurance Co. of*

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Pension rules too rigid?

More flexible rules needed to keep up with plan design: Strauss

By JERRY GEISEL

WASHINGTON—More flexible federal rules are needed to accommodate the latest wave of innovative pension plan designs, says the executive director of the Pension Benefit Guaranty Corp.

As the workforce has changed, hundreds of employers have scrapped their traditional pension plans and replaced them with hybrid plans, so named because they are intended to combine the best features of defined benefit and defined contribution plans.

Perhaps the most radical of the new wave of hybrid plans is NationsBank Corp.'s new cash balance plan that allows employees to direct pay credits to 11 investment options. In addition, NationsBank—now known as Bank of



Mr. Strauss

America following its merger with BankAmerica Corp.—gave employees a one-time opportunity to transfer to the cash balance plan any pretax contributions previously made to the company's 401(k) plan.

Federal rules, though, have not kept pace with new designs, said PBGC Executive Director David Strauss.

Because plan design has leaped ahead of rules, employers and their advisers aren't always sure if the new plans pass muster.

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More employers offer LTC cover, but participation rate low: HIAA

By ROSEANNE WHITE

The number of employers offering long-term care insurance by the end of 1996 grew 21.6% from the year-end 1995 level, according to a recent survey.

Most of the plans employers offered were employee "pay-all" plans, but 432 of the 1,532 employers reporting they offer the benefit paid at least part of the LTC premium for employees and/or retirees, the Washington-

based Health Insurance Assn. of America said in its survey report. Among employers that do not subsidize the premium, the average employee participation rate was about 6%, according to the report.

That low participation rate "is one of the stumbling blocks" in the employer market, said Susan Coronel, long-term care director for the HIAA. Among all other benefits, employees often see long-term care as a low priority.

While those employees who are not educated about long-term care tend not to buy it, those who have had experience with persons who needed long-term care are more likely to purchase the coverage, Ms. Coronel said.

Greater employer promotion of the benefit also spurs growth, she said.

More small employers are offering the benefit than large employers. Among the employers offering

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Risk execs told to expand vision

Expanding focus adds value: Lange

By GAVIN SOUTER

CALGARY, Alberta—A substantial change is taking place in the nature of risk management and the role of the risk manager within an organization, one risk manager contends.



Fundamental to this change is the notion that risk managers must create value for the organizations they work for, says Scott Lange, director of risk management at Microsoft Corp. in Redmond, Wash.

The starting point for value-creation is vision, he added.

"One of the questions you should be asking is, 'Do you contribute to your organization's vision?'" Mr. Lange said at the

Canadian Risk & Insurance Management Society conference earlier this month.

Traditionally, the number one thing that risk managers have provided within their organizations is insurance expertise, he said. Also, they have provided: claims handling expertise; risk evaluation; loss prevention; and technical support for insurance-related services such as certification of insurance, he said.

In addition, the traditional focus of risk managers has been on managing risks that have usually been passed on to insurers, Mr. Lange said.

"There is nothing wrong with this and you can create value just by doing these things, but you have a new opportunity because of the changing paradigms to do more," he said.

Today, more risk managers are seeking to manage uncertainty rather than simply focus on insurable risks, Mr. Lange said.

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RMIS directory upcoming

Business Insurance will publish its annual Directory of Risk Management Information Systems in the Dec. 7 issue, which also will contain a Spotlight report on risk management systems and online resources.

To be included in the directory, companies must provide software products to risk management personnel on a direct, unbundled basis; software that is limited to use by insurance companies, TPAs or brokers will not be listed.

The directory is published as an editorial service, and there is no charge to be included. If your company qualifies and has not received a questionnaire, please request one by calling Directory Editor Sandra Budde at 312-649-5279.

Completed questionnaires must be submitted by the extended deadline of Oct. 30.

Inside

- When it came to employee benefits, the 105th Congress produced more positives than negatives, one of this week's editorials says. **PAGE 8**
- A new IRS private letter ruling could increase the appeal of cash balance pension plans. **PAGE 15**
- An independent report finds that poor planning by the U.K. Environment Agency exacerbated the devastation of Britain's Easter floods. **PAGE 17**

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Soft market end in sight: CEO

By MICHAEL BRADFORD

LAKE BUENA VISTA, Fla.—The long soft commercial insurance market is coming to an end, and risk managers should brace for higher rates in the next two years, an insurer executive warns.

Various factors that have helped keep prices low for more than a decade have changed, putting pressure on insurer profitability, he says.

While rates will firm, particularly for liability lines, they are unlikely to harden as dramatically or extensively as during the mid-1980s, he adds.

"It seems clear that the party is over. Whether it be due to good management, pressure from the stock market or pressure from the rating agencies, we all must begin raising prices. You should expect to see a firming of prices in the next year or two," said Edmund F. Kelly, president and chief executive officer of Boston-based Liberty Mutual Insurance Co.

It's been a great ride for everyone in a booming economy, but the insurance industry is facing change, he said during the insurer's Seventh Annual Risk Management Forum held last week at Walt Disney World.

"We all—the economy as a whole—have had a great run for the last nine or 10 years," he said. "The property/casualty business has benefited along with everyone else."

Particularly beneficial to insurers, he explained, has been a low level of inflation. "This has produced a low cost of risk as well as slowing down an upward development in outstanding claims. Good news for American business and good news for us insurers," he said.

The cost of risk has fallen across all lines, Mr. Kelly said.

"The results for you, the customer, have been lower prices, improved capacity as well as broader offerings. Who among us would have thought in 1990 that coverage would ever be

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Mr. Kelly

Seventh annual
**LIBERTY
MUTUAL**
Risk Management
Forum

M&A setting records

Number, value of insurance industry deals soaring: Study

By ROSEANNE WHITE

The number of insurance industry mergers and acquisitions reached 263 in the first half of this year, up 32.2% from 1997's first half, according to a new study.

The total value of those transactions, based on the values of individual deals at the time they were announced, is \$134.7 billion, according to Hartford, Conn.-based Conning & Co. That figure dwarfs the \$20.8 billion value of insurance deals announced during the same period of 1997.

Indeed, two deals by themselves surpassed the first-half 1997 value: Travelers Group Inc./Citicorp, which was valued at \$70 billion at the time of announcement and valued at \$74 billion at the Oct. 8 close of the deal; and Berkshire Hathaway Inc./General Re Corp., valued at about \$21.4 billion at the time of announcement, the Conning report points out. Even without these two deals, the value of the remaining mergers and acquisitions during this year's first half was 109% above 1997's first half.

"Transaction values at the top continue to get

larger," the report states.

The surging value of the deals shows that "gigantic companies are looking to be larger for a number of reasons," said Nancy Carini, a Conning vp.

Conning reiterates a projection made in an earlier 1998 study that the number of transactions for the full year "will easily eclipse the 1997 record of 432 transactions."

However, the recent stock mar-

ket volatility could affect the merger and acquisition climate, Ms. Carini said. Part of the aggressiveness of the merger and acquisition trend can be attributed to companies' high stock values. But when share values decline, companies may be less able to fund stock deals. The stock market volatility also could trigger hostile takeover attempts if a tar-

See **Deals** on next page

M&A activity heats up

Top 15 insurance-related M&A transactions, first-half 1998

Buyer	Target company	Transaction value in millions*
Travelers Corp.	Citicorp	\$70,000
Berkshire Hathaway Inc.	General Re Corp.	21,400
Commercial Union P.L.C.	General Accident P.L.C.	11,500
Conseco Inc.	Green Tree Financial	6,100
The St. Paul Cos. Inc.	USF&G Corp.	3,700
Canada Life Assurance Co.	Crown Life Insurance Co.	3,450
Cendant Corp.**	American Bankers Insurance Group	3,100
EXEL Ltd.	Mid Ocean Ltd.	2,100
Nationwide Mutual Insurance Co.	ALLIED Group Inc.	1,500
Guardian Royal Exchange P.L.C.	Netherlands Insurance Group of Cos.	1,150
Aetna Inc.	NYLCare Health Plans Inc.	1,050
Lincoln National Corp.	Aetna (life business)	1,000
Metropolitan Life Insurance Co.	Dachan Life Insurance Co.	1,000
Mutual Life Co. of Canada	Metropolitan Life Insurance Co.	850
ACE Ltd.	CAT Ltd.	711
Total		\$128,611

* At date of announcement ** Terminated acquisition of American Bankers
Source: Conning & Co.

Integrated risk management calls for common approach

By RODD ZOLKOS

CHICAGO—If integrated risk financing approaches are to take hold, insurance buyers must view them as part of a broader approach to managing risk, rather than just another insurance product.

According to panelists at the Eighth Annual Insurance Executive Forum of the Katie Insurance School of Illinois State University, the first step toward integrated risk financing programs is for all those dealing with the diverse risks an organization faces to take a common approach to managing those risks.

At the same time, if the insurance industry is to provide the best risk financing solutions to its clients, it must promote holistic rather than individual product strategies, said John G. Gantz Jr., executive vp at Swiss Reinsurance America in New York and one of the participants in the discussion earlier this month in Chicago.

Discussing his company's efforts to craft a multiyear/multi-line approach, Jeffrey M. Sandburg, director of risk management at Chicago-based Morton International Inc., said, "I think the first question that a risk manager has to answer is, 'Does the concept make sense?'"

"Intuitively and logically, I think it makes a lot of sense," Mr. Sandburg said.

The next step is to look at how the organization is handling its risk and who is handling it. While typically the risk manager handles many of the organization's exposures, other people, such as treasury, the purchasing department or operations, also are handling risk, Mr. Sandburg noted.

"The key thought in going forward in the program is you have several different disciplines working together in divergent ways to control corporate assets and preserve shareholder equity."

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Examining the risks of medical clinics

Differing exposures need careful treatment

By RODD ZOLKOS

SAN DIEGO—The risk management issues facing inpatient and outpatient facilities can be very different, presenting considerable challenges for hospitals that buy clinics or ambulatory care facilities.

"We've got hospitals acquiring clinics without any clue of what they're picking up," said Debra L. McBride, assistant vp-risk management at Midwest Medical Insurance Co. in Minneapolis.

"We also have large clinics acquiring small clinics without understanding what they're getting into," Ms. McBride said. She made her remarks earlier this month in a presentation at the annual conference of the American Society for Healthcare Risk Management in San Diego.

The first questions facing a hospital acquiring a clinic facility are: how many clinics are you getting, are they large or small, and how are they staffed, Ms. McBride said.

It's not unusual in small clinics and ambulatory care facilities to have non-medical people providing medical care, such as assisting in surgeries or giving injections, she noted.

Another key concern is whether the acquired clinics will have a shared identity with the hospital. If so, the hospital may find itself in a position of "ostensible agency." Under ostensible agency, if it

is perceived that the clinic's physicians work for the hospital, the hospital could be liable for any problems associated with the clinic's actual physicians.

The hospital also needs to examine the treatments administered by the clinics it is acquiring, Ms. McBride said.

"Many clinics give (drug) samples to patients, and then they don't put it in the chart," she said. In such cases, a patient subsequently may have

a recurrence of an earlier problem, but new physicians might have no idea how it was previously treated.

Patient transfers between the clinic and other sites can be another concern. "Are they taking the patient in the receptionist's car?" asked Ms. McBride, suggesting that the way those transfers are done can raise a host of possible exposures.

Extended clinic hours or urgent care facilities also can raise some staff and patient safety issues, particularly if the clinics keep narcotics on site, providing a possible target for thieves.

The area of medical records and record retention is another possible exposure for a hospital acquiring a clinic to consider. The clinics must have record-keeping policies and follow-up systems in place, Ms. McBride cautioned.

"In clinics or an ambulatory care facility, everything practically goes out," she said. Policies

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ASHRM

Plan satisfaction service offered

By ROSEANNE WHITE

SAN RAFAEL, Calif.—A new service provider pledges to help employers increase employee satisfaction with their health care benefit plans.

CareCounsel L.L.C., a San Rafael, Calif.-based company launched last year, started its health assistance program in February. A toll-free telephone counseling line offers a variety of educational, patient advocacy and coaching services that proponents say breed employee satisfaction through better understanding of workers' benefit plans.

When an employer contracts with CareCounsel, the service familiarizes itself with the plans offered and establishes relationships with representatives at those plans, according to Lawrence N. Gelb, president and

chief executive officer.

Once the service is initiated with an employer, telephone counselors will help an employee understand all of his or her health plan options and guide that employee in selecting the most appropriate plan. The education and information aspect of this service also encompasses answering specific questions about coverage and the definition of terms used.

The counselors also will help an employee select a physician within a plan by providing data such as the doctor's educational background and graduation date, board certifications and primary and secondary specialties.

The advocacy role is aimed at helping employees resolve claims disputes with providers and investigate treatment delays and denials, among other service issues. CareCounsel also will help pa-

tients diagnosed with certain diseases find support groups or national associations that might help them understand and cope with their conditions.

"The whole concept is that consumers are confused as the health care system has become increasingly complex," Mr. Gelb said. "At the same time, with all the issues related to the managed care backlash, confidence that the health plan is going to do the right thing has dropped. There's a need for an independent, confidential resource to help people."

But Helen Darling, practice leader-group benefits and health care at Watson Wyatt Worldwide in Stamford, Conn., said the service "raises a lot of questions," chiefly whether an employer should delegate the role of advocate for its employees and

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Heart

Continued from page 1

not only to HMOs but to plan sponsors with large populations of retirees, as well as those with many older current workers with heart conditions, she said.

"We're just starting to call on these employers," said Ms. Tilney. "Some of them are interested in contracting out for programs such as this. . . If you're a very large, national retailer with many 25-year-old females, it may not make sense, but if you're an IBM and have many older males, a program like this makes a great deal of sense."

The only expense to rise in the Humana program was prescription drug costs, which rose by roughly two-thirds. That was expected, Ms. Tilney said, because patients were taught by disease managers the importance of taking drugs as prescribed.

The Humana program's results were "really quite stunning," said Dr. Richard Vance, the HMO's vp for population health improvement.

"In the last seven to eight years, there has been the promise of programs that can deliver but rarely those that demonstrate savings of

money and better health (for participants)," he said. "There have been smaller studies with other diseases, (but) this . . . requires skills. This is something you have to gain by experience."

The rise in drug costs that accompanied the program was anticipated and even welcomed, he said. "Disease management programs like this realize the main driver to hospitals is the failure of management of proper pharmaceutical care," he said.

Minnetonka, Minn.-based United HealthCare Corp. said in September that it, too, planned to join with Cardiac Solutions to try to reduce the cardiac-related expenses of its work force. United HealthCare tried a small pilot program in North Carolina and found that hospital admissions dropped by about 40% and emergency room visits dropped 73% over a 12-month period.

The North Carolina program, which involved 148 employees with heart problems, also included close monitoring of patients, encouragement of smoking cessation, lowering of cholesterol, better diet and other lifestyle changes for current workers.

One benefit manager said programs such as Humana's probably would

save Medicare the most money, as that program is the most common payer of benefits to cardiac patients, who typically are older or retired.

Alan Peres, manager of benefits strategy of the Chicago-based Ameritech Corp., said that, on a cost basis, such a program is more appealing than trying to fight heart disease at the primary level—attempting to prevent a first occurrence of a heart attack.

But he said most employers would not see a direct return if the program were helping only Medicare patients.

"If you work on Medicare patients, Medicare reaps the patients' benefits—we don't reap the Medicare benefits," Mr. Peres said.

Richard Dreyfuss, director of compensation and benefits of Hershey, Pa.-based Hershey Foods Corp., said of Humana's program that "the premise is reasonable" and called it the "second generation of case management."

Considering that workers' cardiac problems are undoubtedly a significant cost to Hershey, he said Hershey might consider integrating such a program with its existing HMOs and third-party providers, especially if a contractor took the risk. **BI**

Holbrook president at Hartford Fidelity

Comings & Goings: Industry

George T. Holbrook has been named president at Hartford Fidelity & Bonding Co. in Hartford, Conn.

Mr. Holbrook previously was president and chief executive officer of Reliance Surety Co. in Philadelphia.

In other insurer changes:

Sable Insurance Co. of San Francisco appointed **Edward S. Rice** chief operating officer. He previously was vp-loss control and premium audit services at St. Paul Fire & Marine Insurance Co.

Empire Insurance Group of Mount Vernon, N.Y., named **Robert V. Toppi** as president and chief executive officer. Mr. Toppi replaces **Richard G. Pettit**, who retired.

Donald M. Peterson, CEO of Trustmark Insurance Co. in Lake Forest, Ill., will retire on March 31, 1999. Trustmark's president and chief operating officer, **Edwin R. Fattes**, is scheduled to become CEO at that time.



Mr. Sullivan

American International Group Inc. announced that **Martin J. Sullivan** has been elected executive vp-foreign general insurance; he will continue to serve as president of American International Underwriters in New York, AIG's international property/casualty insurer. **Nicolas S. Tyler** also has been elected vp-foreign general insurance at AIG.

The specialty human services division of Great American Insurance Cos. of Chicago named **Michael G. Liguzinski** as a divisional vp. Mr. Liguzinski will concentrate in social services and non-profit insurance.

Frontier Insurance Group of Rock Hill, N.Y., appointed **Jacob Billig** vp-investor relations.

Other suppliers

Robert L. Dibblee named senior vp-government relations at the Washington, D.C., office of the National Assn. of Independent Insurers. Most recently, he was chief of staff and administrative assistant for Sen. Orrin Hatch, R-Utah.

Gregory R. Watchman joined the law firm of Paul, Hastings, Jones & Walker in Washington, D.C. He previously was deputy assistant secretary of labor for occupational safety and health in the Occupational Safety and Health Administration.

Nvest Associates Inc., an asset management firm in Boston, named **E. Roland David** senior vp.

Philip M. Giuntini resigned as president of American Management Systems Inc., an international business and information technology firm based in Fairfax, Va. He had overall responsibility for AMS financial services and telecommunications practice areas. No successor to Mr. Giuntini has yet been named.

Haight, Brown & Bonesteel L.L.P., a corporate and insurance litigation firm based in San Francisco, has announced that **Robert N. Schiff** and **Charles Negley** will be joining the firm as partners in November. Both Messrs. Schiff and Negley presently are partners at Fisher & Hurst.

The Joint Commission on Accred-

itation of Healthcare Organizations in Oakbrook Terrace, Ill., appointed **Dr. Robert A. Wise** as vp-department of standards. At JCAHO, Dr. Wise will develop standards and the interpretation of standards for accreditation programs for ambulatory care, behavioral health care, clinical laboratories, health care networks, home care, hospitals and long-term care.

Arthur Schwartz, the acting executive director and general counsel of the National Society of Professional Engineers in Alexandria, Va., will leave the NSPE in December. He will become a partner at Ames & Gough, a law firm specializing in professional liability insurance matters with offices in Washington and Boston. There he will focus on risk management, loss prevention and contract review and analysis.

Karla R. Kelly has joined Luce, Forward, Hamilton & Scripps L.L.P. in San Diego as special counsel in its health care law practice group. Previously, Ms. Kelly was assistant general counsel for San Diego-based ScrippsHealth.

Agents/brokers

Aon Group Inc. in Chicago named **Joseph J. Prochaska** executive vp. He will continue as Aon Group's chief financial officer, working to integrate its acquisitions.

Also at Aon, **Ralph M. Serio** has joined as a senior vp. Mr. Serio will be developing underwriting and risk management facilities for Aon's alternative market operations.

P. Gregory Zimmer has been appointed chief financial officer and senior vp at the Robert F. Driver Co. Inc. in San Diego. Most recently, he was senior vp of a subsidiary of General Motors Acceptance Corp. and senior vp and chief financial officer for American Custody Corp.

USI Insurance Services Corp. of San Francisco selected **Ernest J. Newborn** as senior vp and counsel. Previously, he was vp, general counsel and corporate secretary at Acordia Inc.

Mr. Newborn Sullivan & Curtis in Irvine, Calif., named **Jim Moilanen** vp.

Reinsurance

Steven J. Coffey joined Hartford Re Co. in Hartford, Conn., in the newly created position of senior vp-marketing. Previously, he was a senior vp at Guy Carpenter & Co.

John DeMartini named a vp in the Stamford, Conn., office of New York-based Towers Perrin Reinsurance. Mr. DeMartini will work in the exposure management services area and with the catastrophe modeling practice.

Zurich Reinsurance (North America) Inc. in New York announced that **Kenneth J. Ryan** has joined the organization as vp-surety underwriting. Mr. Ryan was vp-marketing and administration for the Seaboard Surety Co. in Bedminster, N.J. At Zurich Re, Mr. Ryan will focus his efforts on regional and specialty insurers in the North American market. **BI**

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Opinions

A session to build on

AS THE 105TH CONGRESS nears an end, we think legislators' handling of employee benefits proposals during the session generated more pluses than minuses.

On the plus side, Congress for the second consecutive session passed legislation that peels away the layers of red tape that needlessly complicate and increase the cost of administering corporate pension plans.

Also on the plus side, legislators opened the Medicare program to increased competition by allowing more private health care plans—such as preferred provider organizations—to compete for Medicare patients. Similarly, through passage of the so-called Medicare + Choice legislation in 1997, Congress put an end to an irrational payment system that kept HMOs and other health care plans out of the Medicare market in many parts of the country.

Another plus was approval of bills giving new tax breaks for employer-provided mass transit benefits, which not only helps the environment but also was a benefit much appreciated by many workers.

Perhaps the biggest plus, though, was lawmakers' inaction on several legislative initiatives.

Only a year ago, the odds seemed high that Congress, without much thought or consideration, was going to rush passage of so-called patient protection legislation that would have opened up employer-provided health plans to the full fury of the tort litigation system.

That effort died—amid highly effective lobbying by employers and insurers—as did later patient protection bills so hastily drafted that we shudder to think of the problems they could have caused if enacted.

Just as Congress let patient protection legislation die, it also didn't give any attention to a Clinton administration initiative that would have lowered the eligibility age for Medicare. Putting aside the terrible public policy of encouraging individuals to retire at earlier ages, that proposal would have put yet more financial pressure on a Medicare program that may be only a decade or so away from insolvency.

Regrettably, though, there are minuses as well. Legislation that would have expanded on previously passed pension simplification measures was introduced too late to gain serious congressional attention and failed to move out of committees.

Similarly, Congress, after a few cursory hearings, seemed to lose interest in examining ways to shore up the Social Security program. The importance of ensuring the future solvency of Social Security—by far the largest government entitlement program—can't be overstated.

Business needs to push early, often in '99

THE 105TH CONGRESS had a hit-and-miss record for helping businesses reduce their liability exposures.

Hits included passage of bills that would provide limited immunity for manufacturers of raw materials used in medical devices, curb class-action securities litigation and bring Year 2000 liability relief.

Misses during this Congress included inaction on bills that would reform product liability laws, Superfund and the Occupational Safety and Health Administration.

Perhaps the biggest disappointment was lawmakers yet again failed to agree on comprehensive federal product liability reform legislation. This is disappointing not only because it has been considered more times than we can count without success, but also because the generally pro-business 105th Congress was a rare opportunity to build support for this measure. However, this setback was partly offset by enactment of legislation that would grant a degree of product liability relief for manufacturers of raw materials used in certain medical devices. The successes of incremental reform like this and an earlier measure targeting the general aviation industry should help proponents win serious consideration of broader reforms in the future.

Another issue that missed out on serious consideration was reform of the Superfund law. Sadly, this is an issue of



We think it is far better to address future funding problems now and not when the program is on the edge of bankruptcy.

With the 105th session of Congress now ending and elections fast approaching, we don't think it is too soon for employers to think of benefit issues that should be on lawmakers' agenda next year.

For example, the raft of HMOs withdrawing from the Medicare + Choice program should be a message to Congress that the 1997 reforms, while well-intentioned, need revision.

At the same time, with the continuing decline of defined benefit pension plans, legislators clearly need to do more to encourage employers to offer and maintain these plans. Several bills introduced late in the session are good starting points for congressional consideration next year.

Employer involvement is key. There is no question that a highly effective lobbying campaign by the business community was a factor in the death of most of the patient protection bills. Employers can't assume, though, that these proposals won't be resurrected again, and they must again be prepared to resist them.

Similarly, legislative initiatives—such as pension simplification—that employers support won't get serious consideration unless employers weigh in as soon as the session begins in January.

diminishing expectations. Each Congress offers proposals that seem to scale back the extent of liability relief and yet still don't manage to enact even that modest reform.

Major OSHA reform also went undone. Major reform seemed possible only a year ago, but efforts to enact it fizzled in the 105th. We can take some comfort, though, in the fact that several narrow bills that codified administrative reforms OSHA already had made became law.

On the positive side of the 105th's ledger, Y2K relief legislation won lawmakers' approval in the waning days of this congressional session. This measure would grant businesses temporary relief from liability for sharing information on the Year 2000 problem (BI, Sept. 21).

President Clinton, however, has yet to sign this bill. He also has not signed another important measure that won congressional approval: legislation that would require that most class-action suits involving nationally traded securities be tried in federal rather than state court. This business-backed measure would help rein in frivolous lawsuits.

Businesses need to push early and often in the next session for balanced reform of product liability, Superfund and OSHA. That is the best hope for building on the achievements and overcoming the frustrations of the 105th Congress.

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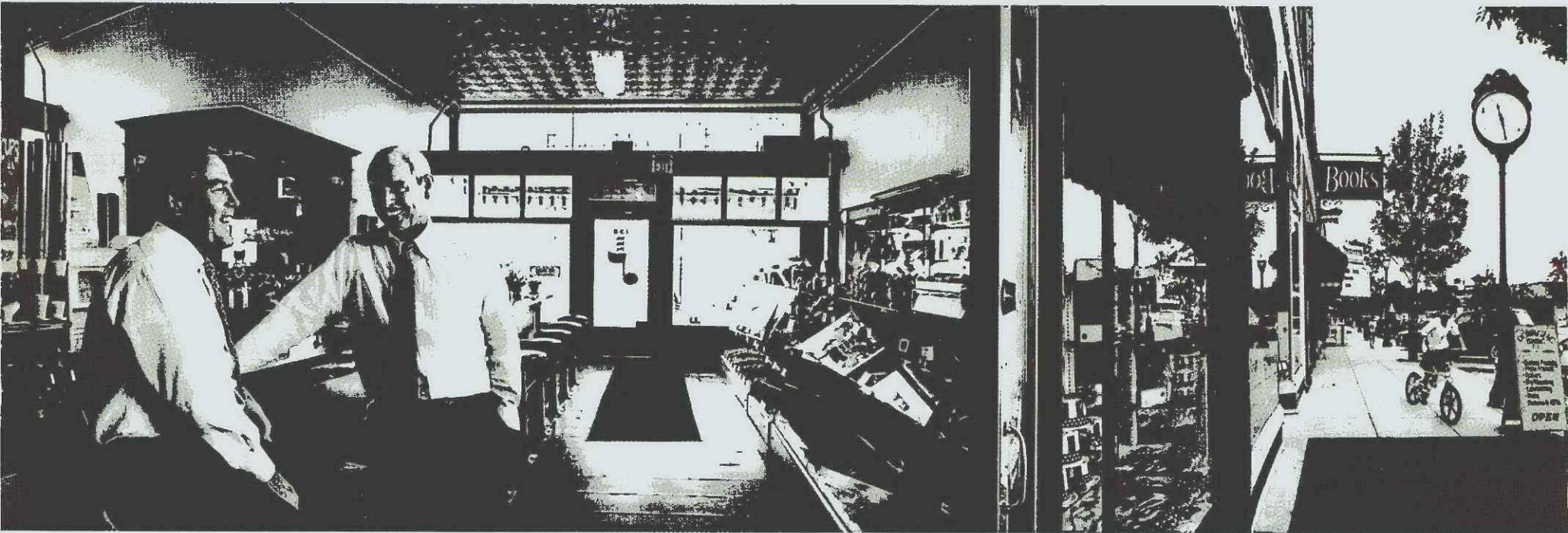
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Audits help spot Year 2000 exposures

Insurer's study of policyholder group provides blueprint for identifying problems

By GAVIN SOUTER

CALGARY, Alberta—Insurers and policyholders can gauge their susceptibility to the millennium bug by using extensive Year 2000 audits.

The assessments provide insurers with valuable information to help them control their exposures, and they provide policyholders with a check system for their Year 2000 compliance projects, an insurance executive said.

As for all insurers, Year 2000 exposures are an unfamiliar problem for Oslo, Norway-based Store-

brand Skadeforsikring A/S, said David R. Cooper, vp and senior underwriter.



Most underwriters base their judgments on historical data, but the Year 2000 liability is new and unknown, Mr. Cooper said at a session of the Canadian Risk & Insurance Management Society annual

conference earlier this month.

To help Storebrand assess its exposure to the Year 2000 problem, the insurance company hired KPMG Peat Marwick to conduct an in-depth assessment of six of Storebrand's energy industry policyholders.

"We wanted to get to know what the problems were and how they were being tackled," Mr. Cooper said.

The pilot project provided valuable information on the Year 2000 problem, and it let Storebrand amend the assessment to make it more effective in the future, he

said.

Although Storebrand's assessment was used for the energy industry, it can easily be adapted for other industries, Mr. Cooper said.

The assessment should begin with collecting documentation and completing an extensive questionnaire on what policyholders are doing to address the Year 2000 problem.

Documentation should include: details on the policyholder's computer programs; organization charts of both the company structure and its Year 2000 management team; the most recent annual report; the policyholder's Year 2000 policy and strategic plan; documents on any conversion process for the systems; lists of key suppliers; and information on what contingency plans have been put in place.

The insurer or the consultant it employs should next interview the policyholder's senior managers and work through the questionnaire with them in person, Mr. Cooper said.

Then an assessment can be made of the different elements of the policyholder's Year 2000 project.

The main elements that should be considered are: the infrastructure of the organization and the availability of information on the Year 2000 problem; the management of the computer system; the progress of the investigation into the problem; modifications that have been made to systems; details on any testing conducted on the systems; other aspects of the implementation of remedies; customers' and suppliers' responses to the questionnaire; and the overall state of the policyholder's facilities and equipment.

Each element has a number of answers, and each answer is

scored. Each element is then weighted according to its importance, and a final score is obtained, which can be used to judge the unit against other units in the company or to judge the whole company against its peers, Mr. Cooper said.

One of the main advantages of this exercise is that the assessment establishes communication on the problem between the insurer and policyholder and with the various units of the policyholder, he said.

"You establish good relations and good communications between the group's Year 2000 project managers and the operational units," Mr. Cooper said.

As a result of the pilot project, Storebrand discovered several important issues and problems, he said. For example, most large oil companies have a huge number of computer chips to analyze in many hard-to-access places, but they generally they are on top of their Year 2000 problems, Mr. Cooper said.

The average North Sea platform has 10,000 embedded chips, so there are "more chips in the North Sea than fish," Mr. Cooper quipped. However, only 4% of those chips are date-sensitive, he added.

Smaller oil companies have gotten off to a slower start and would benefit from an extensive assessment, he said. Additionally, the exercise showed that, in units that were rapidly expanding, the Year 2000 problem was not given the priority that it was at other units under less pressure, he said.

"If a refinery is going from 100,000 barrels a day to 200,000, there is a lot of focus on the (production expansion) and not on the Year 2000 problem," Mr. Cooper said.

The session was moderated by Gary Hudon, assistant manager-risk management at Canadian Pacific Railway in Calgary. **BI**

Vision

Continued from page 2

Managing uncertainty requires risk managers to "think about processes, not just events," he said.

And risk managers should not be as risk-averse as they have been in the past. By assessing the possible rewards as well as possible risks, risk managers are more likely to create value for their organizations, Mr. Lange said.

If a risk manager is involved in a decision where there is a \$100 million risk and a \$200 million oppor-

tunity, the risk manager would rightly question whether the risk is worth it, he said.

"But if it's a \$100 million risk and a \$5 billion opportunity you take the risk," according to Mr. Lange.

Risk managers also have to consider the full range of financial tools available to deal with uncertainty, whether it be insurance or an integrated financing approach, Mr. Lange said.

"You can't do it all, but maybe you have a role as a leader," he said.

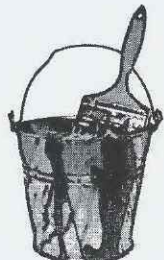
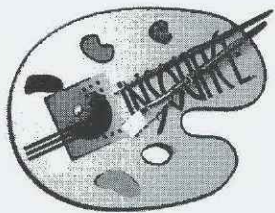
And as the role of the risk manager is changing, so is the technolo-

gy that can help enable risk managers to take a larger role in their organizations, Mr. Lange said.

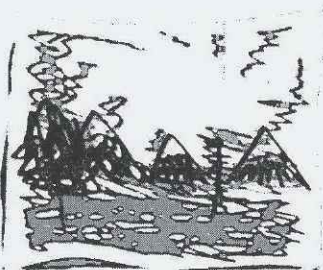
For example, by using intranets, risk managers can communicate more effectively with all of the various other company departments, he said.

By using the technology, risk managers can more readily access the expertise they need to play a larger value-creation role. For example, risk managers will be able more readily to draw on the expertise found in departments such as auditing, legal, treasury and human resources, according to Mr. Lange. **BI**

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Insurer success relies on growth, cost control: Exec

By GAVIN SOUTER

CALGARY, Alberta—Disparate forces are remolding insurance markets around the world, and insurers must change their structures to successfully fit the new molds, insurance executives say.

Consolidation, excess capacity, reconstituted capital and the global demands of customers are all affecting different insurers in different ways.

But all insurers must respond to the changes if they are to thrive, concurred the executives, who spoke during a session at the Canadian Risk & Insurance Management Society conference earlier this month.

Insurers are operating in an increasingly difficult market, said Dean O'Hare, chairman and chief executive officer of Chubb Corp. in Warren, N.J.

"But you can maintain your integrity and independence and you can grow and prosper," he said.

To do that, insurers need to make sure their organizations home in on what it takes to succeed in a difficult market, said Mr. O'Hare. He said insurers should:

- Concentrate on specialties where they have expertise and discontinue operations in markets where

they have only a marginal impact.

For example, Chubb focuses on specialty property and casualty business and in the past several years has sold its life insurance and real estate operations.

Although some organizations say they can offer their customers "one-stop shopping," it is very dif-



ficult for one large organization to offer the best products in all areas of its operations, Mr. O'Hare said.

- Maintain disciplined financial management.

That can be achieved through acquisitions that add to the value of insurers or through the return of capital to shareholders, he said.

- Exercise effective cost control measures.

Expenses in the insurance industry are generally too high and should be lowered, Mr. O'Hare said.

Although it is difficult to state a desired level for expense ratios, as each line of business demands dif-

ferent levels of expenses, Chubb has a target of reducing its expense ratio to less than 25% by 2005, he said.

"It does not mean that everyone should strive to be a low-cost producer. It does mean that your operations are as lean as possible consistent with your business strategy," Mr. O'Hare said.

- Increase their premium income, in order to increase earnings.

"Profitable premium growth is still the No. 1 challenge facing the industry," Mr. O'Hare said.

While it is difficult to grow premiums, those insurers with the ability to grow with their customers globally and have global operations are the most likely to succeed, he said.

European insurers are changing radically, in part to be able to service the global needs of their clients, said Charles-Francois Walckenaer, chairman and CEO of AXA Global Risk, a unit of AXA Group in Paris.

"The future will belong to the quickest and the most innovative," he said.

Over the past several years, Europe has radically changed due to political and economic changes, and that has been reflected in the operations of the continent's insur-

ers, Mr. Walckenaer said.

Instead of many small insurers operating in individual markets, often under the auspices of pricing cartels, European insurers are now consolidating and expanding their operations throughout the world, he said.

Industrial and commercial insurers need to be global to survive and they also need to be well-capitalized, offer significant capacity, and offer innovative coverage that meets the changing needs of policyholders, said Mr. Walckenaer.

The Bermuda market is youthful compared with most other insurance markets, but it, too, is significantly changed from its original form, said Robert J. Cooney, president and CEO of X.L. Insurance Co. Ltd., a unit of EXEL Ltd. in Bermuda.

From its beginnings as an excess liability market in the mid-1980s, the Bermuda market has expanded to offer numerous coverages, from finite risk to catastrophe reinsurance, he said.

This is due in part to increased capacity outside Bermuda, Mr. Cooney acknowledged. When X.L. and ACE Ltd. were established, they filled a void for policyholders, but now they must offer a wide variety of products to compete with

insurers outside of Bermuda.

"Our focus is not so much as an excess insurer selling products, but as a risk solutions partner," he said.

And its partners will often be "chief risk officers," a post Mr. Cooney said many organizations are likely to create over the next five years.

Insurers will have to offer a wide array of financial services if they are to succeed in the future, he said.

"We will have to evolve as quickly as our clients' expectations as far as risk financing and risk partnering go," Mr. Cooney said.

Lloyd's of London also has faced significant changes over the past few years, said Ronald Sandler, Lloyd's chief executive officer.

But the market still has managed to maintain its fundamental characteristic as a market led by underwriters, he said.

Lloyd's continues to have a structure where new capital can be easily accessed, and that structure will help ensure that Lloyd's maintains entrepreneurial culture, Mr. Sandler said.

Mark DeLillo, vp-risk management at Celotex Corp. in Tampa, Fla., and president of the Risk & Insurance Management Society Inc., moderated the session. **B1**

Assertiveness with insurers helps buyers: Attorney

By GAVIN SOUTER

CALGARY, Alberta—Canadian risk managers should be more aggressive with insurers when submitting claims, a group of policyholder attorneys says.

Risk managers must rethink their relations with insurers at all stages, from applying for coverage to seeking claims payments, say the attorneys.

In addition, risk managers should be as artful in their inter-



pretation of policy language when seeking coverage as insurers can

be when denying claims.

"Frequently, people in Canada view their insurers more as business partners rather than commercial suppliers," said Markus Koehnen, a partner at McMillan Binch in Toronto.

This attitude leads policyholders to accept propositions put to them by insurers more readily than they would accept the propositions of other commercial sup-

pliers, Mr. Koehnen said.

But insurers do not cut their policyholders any slack, he said.

"Insurers will take positions, quite rightly, that are in their favor. Similarly, if you are the insured, you should advance your own position," he said at the Canadian Risk & Insurance Management Society conference earlier this month.

Policyholders' shift in attitude should begin with the application for coverage form, said Daniel V. MacDonald, another partner at McMillan Binch.

Policyholders have a duty to disclose all material facts when making an insurance application. If they do not, insurers likely will deny subsequent claims, he said.

Consequently, policyholders should hold this uppermost in their minds when they are completing the application and then use the application as a check on the systems within their own companies, Mr. MacDonald said.

To lessen the chance of omissions: the task should not be the responsibility of one person; superiors who may have more information about potential risks should be consulted; and other groups within the company should be consulted, as well, he said.

By consulting with people outside of the risk management department, risk managers also can heighten the awareness of the issue with other managers, Mr. MacDonald added.

Although risk managers must disclose all material facts, there is no need for them to go further than they are legally required, he said.

"Often in insurance applications you are asked to answer a series of questions. . . . If a question is not asked, it gives the insured a good argument that it is not a material fact," Mr. MacDonald said.

For example, "if an insurer asks if you have had a fire on the premises within the past five years, the fact that you had a fire seven years ago is not material,"

Mr. MacDonald said.

Also, if a policyholder leaves a question blank and the insurer fails to come back and ask for an answer, a policyholder could successfully argue that the fact was clearly not material to the insurer, he said.

Once a claims dispute does arise, policyholders hold an advantage over insurers due to the legal principle of *contra proferentum*, which mandates that any ambiguous language in an insurance policy should be construed against the insurer, said Mr. Koehnen.

Insurers themselves use the principle when denying claims by pointing to ambiguities in the wordings of other insurers used by the same policyholder and arguing that a claim should rightly fall on another insurer, he said.

Policyholders can use the principle to obtain coverage in seemingly contradictory instances, Mr. Koehnen said.

For example, an insured food company produces a bad batch of product that causes food poisoning. The manufacturer receives 1,000 claims of \$20,000 each. The insurance for the company has a \$25,000 deductible per occurrence. The insurer might argue that there are 1,000 separate occurrences that each fall within the deductible. However, the policyholder could equally argue that the occurrence was the preparation of the food, not the individual acts of consumption. Because there is ambiguity, courts would likely find in favor of the policyholder, he said.

If the food company had a policy with a limit of \$1 million per occurrence and the tainted food causes \$1 million in damage to each of five customers, the insurer would most likely pay \$1 million and contend that the remaining \$4 million exceeds the occurrence limit. The policyholder would then have to argue that each case was a separate occurrence to maximize its recovery, Mr. Koehnen said.

See Claims on next page

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Assessing risk of reusing health care devices useful

By RODD ZOLKOS

SAN DIEGO—There are myriad risk management issues to be considered before a health care institution begins reusing medical devices designed to be disposable to lower its costs.

The trend toward reusing single-use medical devices is not a new one, according to Malcolm S. Parsons, vp of risk management at Doctors Hospital in Columbus, Ohio.

"The idea of reusing devices that are produced as single-use devices goes back to the early '80s," Mr. Parsons said earlier this month in a presentation at the annual conference of the American Society for Healthcare Risk Management in San Diego.

"In the mid-'90s we saw a host of barriers fall that produced a surge in the reuse of single-use devices," Mr. Parsons said. "All with one thing in mind: cost."

But, while the trend of using disposable products more than one time is growing as a cost-cutting measure, decisions about what single-use items will be reused frequently aren't given the attention from risk managers they demand, Mr. Parsons said.

"One of the things I have encountered in numerous hospitals is the decision-making process is being made where it shouldn't be made," he said. "It's being made in the cath lab. It's being made by the materials manager."

"One of these days somebody's going to get a wake-up call with regard

ASHRM

to 'How long have you been reprocessing and did you know there was a potential for an adverse patient event?' " the risk manager said.

Mr. Parsons noted that in the 1990s more and more medical products have come on the scene in disposable fashion.

At the same time, there are no laws against reusing such devices, and organizations like the Centers for Disease Control have lifted recommendations against re-using some single-use devices within certain parameters, while the American Hospital Assn., which has recommended against reuse, is in the process of revisiting the issue.

In other countries, reuse of disposable medical devices is fairly commonplace, Mr. Parsons noted. "In Canada, reuse is not a major issue," he said. "In Australia, reuse is very prominent."

But there are many serious reasons that the issue needs to be given considerable attention from a risk management perspective, Mr. Parsons said.

"Liability areas that we're concerned with are vicarious liability, corporate liability and a breach of our duty to our patients," he said.

Before authorizing the reuse of a device, a health care institution must consider whether cleansing the device for reuse might weaken its components or alter its composition, resulting in a loss of efficacy.

There are also risks associated with the potential for mechanical failure of the reused device, as well as failure to adequately test and inspect the device, failure to build in safeguards to minimize product deteriorations and the failure to warn users of associated risks.

Then there are the risks of adverse patient reactions to the sterilizing agent or other chemical residue on the

reused device, biological toxins or other fever-inducing agents on the device or the possibility of embolisms resulting from particulate matter remaining on the reused device.

Patients' informed consent is another concern. "I've been in this business a long time and I've done a lot of things without a conscience. This thing I'm not going to do without a conscience," Mr. Parsons said. "I think you need to tell your patients. If I was your patient... I'd want to know."

The facility also must determine whether it will reprocess devices in-house or deal with an outside reprocessing firm.

Outsourcing the reprocessing function allows for some risk transfer to the reprocessor, Mr. Parsons noted, while in-house reprocessing keeps all the liability in-house.

But, it's critical that the risk manager of a health care institution that is outsourcing reprocessing examine the reprocessing company's insurance policies—simply seeing a certificate of insurance is not enough.

"And let's not forget about our staff," Mr. Parsons said. Staff may be exposed to biohazards as a result of

reusing disposable devices, he said.

"It's not just a matter of using a device, throwing it in a box and waiting for John Doe to come over from a reprocessing company," he said.

Before engaging in a policy of reusing certain disposable devices, a health care institution must take a long look at what's going to be reused and set strict policies and procedural guidelines, Mr. Parsons said.

"Make a determination what devices are going to be reprocessed. Look at the design of the product," he said. "And in that regard, you'll find that manufacturers are starting to come to the table."

The hospital should create a reuse committee and "invite most of the Free World" to participate, Mr. Parsons said. Hospital attorneys, managers, directors all should be involved, as well as the facility's medical staff.

"You start making decisions that involve your medical staff and the instrumentation that they will use (without their participation), rest assured, you're going to have a mutiny," he said.

Finally, Mr. Parsons said, whether it's pro or con, the risk manager must take a position on the issue. **BI**

Clinics

Continued from page 3

need to be established for how laboratory results and reports are handled when they come back into a clinic.

Records release and patient authorization issues also are key concerns for a hospital acquiring outpatient facilities. The release mechanism and the issue of who is determining whether it is appropriate to release records are important considerations.

In the best case, a physician will be charged with determining whether it is appropriate to release specific

records, Ms. McBride said. "But somebody needs to be looking at them to make sure that only what has been authorized goes out. And it can't be the copy service."

Other important considerations include differences in record-keeping laws that apply to hospitals and to clinics, how and where records are stored, the way records are transferred between sites, and how long records are actually retained.

"Typically, I recommend you take your longest statute of limitations and then add a year," Ms. McBride said.

How to handle patient complaints "is another important policy that needs to be in place in an ambulatory

care facility," she said. She noted that some clinics designate one person to handle patient complaints. That person can then relay the complaint information to the appropriate person, such as the risk manager, at the parent hospital.

"Looking at who responds to patient complaints, we found that there's not a lot of staff training (at clinics)," she said.

Clinics also typically rely heavily on allied health professionals, and they must be properly supervised. "A supervising physician retains liability for the acts of that person, so they do need to be supervising, particularly in the beginning," Ms. McBride said.

"Credentialing is another tricky area in ambulatory care," she said. "Oftentimes, the smaller clinics don't even credential."

Training and orientation of new staff often is lacking in clinics. It's essential, Ms. McBride said, that a hospital acquiring outpatient facilities sees to it that those efforts are brought up to speed, then documents the details of the training activities so they can be tracked.

The hospital also must make sure the clinic has follow-up systems in place, particularly with regard to some sort of triggering mechanism to guarantee that patients who miss clinically critical appointments—such as follow-ups after tests for se-

rious illness—are notified of the importance of coming into the clinic.

Ms. McBride conceded that the task of establishing appropriate policies for newly acquired outpatient facilities can be difficult.

"If the clinic doesn't have any policies or procedures, it seems like a fairly daunting task... to come in and write them from scratch," the consultant said. "That's one of the reasons you might look to take some of the hospital's policies and see if you can make them fit."

One thing that can make it easier, though, is if the clinic being acquired has its own risk manager.

"Celebrate if you've got a risk manager," Ms. McBride said. **BI**

Claims

Continued from previous page

Similar cases have occurred in the United States with similar outcomes. As Canada has so few precedents in insurance coverage disputes due to the unwillingness of policyholders to litigate claims, Canadian policyholders can cite the U.S. precedents in disputes and courts can consider the U.S. precedents in judgments, he said.

"These two rulings may appear contradictory, but they are not when you consider *contra proferentum*," he said. Because there is ambiguity in each case, the policyholder would likely win, Mr. Koehnen said.

Canadian risk managers should also be more aggressive in seeking defense costs from insurers, said J. Scott Maidment, also a partner

Canadian risk managers should be aggressive in seeking defense costs from insurers, says J. Scott Maidment.

at McMillan Binch.

"The fact that your claim is not covered by a policy does not mean that you are not entitled to a defense. The defense obligation is

broader and independent of the duty to provide coverage," he said.

If an insurer refuses to defend a policyholder, the policyholder should immediately consider going to court to obtain a declaration that the insurer must provide a defense, Mr. Maidment said.

Policy language on a duty to defend is often vague, however. As a result, Canadian courts have often ruled in favor of policyholders on the duty to defend, he said.

Usually, the courts rule that the insurer has a duty to defend that is separate from its duty to indemnify, Mr. Maidment said.

The session was moderated by Phil Corbeil, claims adjuster for the City of Calgary. **BI**

Canadian RIMS draws 529

CALGARY, Alberta—The Canadian Risk & Insurance Management Society's annual conference drew 529 people.

Registrants traveled to Calgary from all over Canada, as well as from the United States, the United Kingdom, Bermuda, Barbados and Latin America.

The conference, held October 4-7, had the theme "New Frontiers: Explore, Chart & Conquer." It was chaired by Brad Silver, risk manager for NOVA Corp. in Cal-

gary.

At the conference, Bill McGannon, the retired risk manager of NOVA, was awarded the Donald M. Stuart award for outstanding contributions to risk management in Canada.

The next conference will be held in St. John's, Newfoundland, Sept. 19-22, 1999.

For more information on the meeting, contact Wayne Hickey at 709-576-8672; fax: 709-576-8474; mail: whickey@city.stjohns.nf.ca.



IRS ruling OKs sick leave conversion to cash balance credit

By JERRY GEISEL

WASHINGTON—A new Internal Revenue Service private letter ruling could further increase the appeal of cash balance pension plans.

Under the new ruling, employees annually could convert unused paid sick leave into a pay equivalent, have that amount credited to their cash balance plans and not be taxed on the paid sick leave at the time it is converted and contributed to the cash balance plan.

Such a conversion feature in a cash balance plan does not subject the converted unused sick leave to taxes because the employees do not have the option to receive cash rather than the credits.

"Thus the employee's receipt of the pay equivalent of the unused sick leave is not constructively received because the employee cannot elect to receive the unused sick leave in cash in lieu of receiving a contribution to the plan," the ruling says.

IRS private letter rulings do not carry the weight of law, but they do give insight into the IRS' thinking on an issue.

Benefit experts say such a conversion feature would be appealing to employers and employees.

For employers with overfunded pension plans, for example, converting unused paid sick leave into a cash balance credit would give employees a higher retirement benefit without increasing their cash

costs.

"There would not be a cash outlay. Unused sick pay can be converted to retirement benefits on a very cost-effective basis for em-

'This will grab attention. People will really be interested in this,' says Dennis Coleman of PwC Kwasha.

ployers," said Dennis Coleman, a principal at PwC Kwasha in Fort Lee, N.J.

For employees, the conversion of

paid sick leave into cash balance plan credits would mean an immediate increase in retirement benefits.

"This will grab attention. People will really be interested in this. And it is good public policy because it means more funds will be available at retirement," Mr. Coleman added.

The ruling, PLR 9840006, involves an organization that allows employees to accrue 12 paid sick leave days a year. At the end of each calendar year, employees' accrued but unused sick days are credited to the employees' sick leave bank.

The organization's proposed policy would involve non-highly compensated employees who have ac-

cumulated or expect to accumulate by Dec. 31 at least 30 days in the sick leave bank.

Employees could elect to have converted annually any or all days in excess of 30 days and have that amount contributed to a pay equivalent and contributed to the cash balance plan. Unused days would remain the sick pay bank.

In addition, for terminating employees, all unused sick leave would be converted automatically to a pay equivalent, and that amount would be added to his or her cash balance account.

Employees would not have the option of receiving a payment of cash from the organization in lieu of receiving a pay equivalent contributed to the cash balance plan. **BI**

Capacity

Continued from page 17

that up to 85% of Hiscox names took this advice. This allowed Hiscox Dedicated Corporate Member Ltd. to buy £60.6 million (\$101.8 million) of its own capacity over the whole auction period, though it was competing with other corporate members, such as NLC Name No. 1 Ltd. and members agents' pooling arrangements, which are vehicles allowing individuals to invest in a spread of syndicates.

LIMIT P.L.C., one of the first corporate spread vehicles at Lloyd's, followed the same route as Hiscox, picking up £120.3 million (\$202.2 million) of capacity on syndicates belonging to Bankside Syndicates Ltd. and Janson Green Ltd., the two managing agencies that LIMIT bought recently and intends to merge next year. At the same time, LIMIT was heavily involved in selling capacity on non-aligned syndicates. Within the auction process, LIMIT was by far the largest seller of capacity of single syndicates:

- LIMIT (No. 1) Ltd. sold £17.6 million (\$29.6 million) on syndicate 2001.
- LIMIT (No. 4) Ltd. sold £13 million (\$21.8 million) on syndicate 861.
- LIMIT (No. 5) Ltd. sold £12.3 million (\$20.7 million) on syndicate 376.
- LIMIT (No. 6) Ltd. sold £11 million (\$18.5 million) on syndicate 37.
- LIMIT (No. 6) Ltd. sold £9.2 million (\$15.5 million) on syndicate 1096.

In addition, it was involved in bilateral trades for a number of syndicates, and sold LIMIT (No. 9) to ACE U.K. Ltd.

ACE had announced before the capacity auction season started that it wanted to buy up to 75% of the capacity on each of the ACE syndicates and possibly more if the opportunity arose. At the start of the trading season in July, ACE controlled nine syndicates through Methuen Underwriting Ltd., ACE

London Underwriting Ltd. and ACE London Aviation Ltd. It soon added two more syndicates with the acquisition of Tarquin Ltd., the holding company for Charman Underwriting Agencies Ltd. and Tarquin Underwriters Ltd.

In total, ACE Capital Ltd. bought £64.3 million (\$108.1 million) of capacity through the auctions, though that was less than two other corporate investors: Hiscox bought £91 million (\$152.9 million), and

cate 554—in fact, it picked up 97.24% after the auctions finished—it has the automatic right to buy out the rest of the syndicate's capacity, which it intends to do next year.

Wellington Underwriting P.L.C. acquired £69 million (\$116.0 million) of capacity through both the auctions and an offer to members. It now owns just over 40% of its syndicates' capacity, though it has disposed of its motor and high-net-

million (\$84.0 million) capacity. And it plans to dispose of capacity on other syndicates not managed by the group.

The most recent to follow this path is Australian insurer HIH Wintertur International Holdings Ltd., which last week announced it has been approved to take over the Cotesworth group of companies, except for the members agency Kiln Cotesworth Stewart Ltd.

Cotesworth Capital Ltd., the Cotesworth corporate capital vehicle, upped its involvement in syndicate 535 to 52.8% from 48.9% over the auction period, though it did not increase its participation in syndicate 1069, where it owns 45.7% of the capacity. Cotesworth Capital provides £49 million (\$82.3 million) capacity to the Cotesworth syndicates for the 1998 year of account.

In a written statement, Norman Britten, managing director of Cotesworth, said, "We recognize we need the firm support of a substantial shareholder, and we are confident that in HIH we have identified an organization that shares our business philosophy, and this will enable our syndicates to continue to trade successfully at Lloyd's."

Like other corporate owners, HIH is aiming to take a majority share in the four Cotesworth syndicates and intends to extend Cotesworth's business, both geographically and in product line.

On a smaller level, one of the few remaining unaligned managing agencies, S.A. Meacock & Co. Ltd., decided that limited liability capacity would at last have a place on its syndicate. It announced its intention to set up a small corporate member capitalized through a private placement.

In addition to the change in capacity ownership, the auction period saw changes in syndicate ownership as corporate members restructured their portfolios.

Cox Insurance Holdings P.L.C. agreed with Chartwell Re Corp. to take over syndicate 866 and Archer Personal Lines Ltd. For a while, the Brockbank Group was looking for a suitor for Admiral Insurance Services Ltd., its direct auto arm, albeit

unsuccessfully. Duncanson & Holt Syndicate Management Ltd. took over syndicate 1101 from Trafalgar Underwriting Agencies Ltd.

All this activity was reflected in the prices achieved for capacity this year.

Sedgwick Oakwood's analysis shows that the most expensive syndicates were those bought by parent organizations hungry to take over syndicate capacity. Cox syndicate 1176 reached the highest price, at 48.1 pence (80.9 cents) per pound of capacity. Cox also was the highest priced last year, though the capacity was cheaper at 39.5 pence (66.3 cents) per pound.

Bankside syndicate 386 took second-highest position both years, reaching 31.7 pence (53.2 cents) per pound this year, compared with 18.9 pence (31.7 cents) last year.

Other corporate owners showing a thirst for capacity included Hardy Underwriting P.L.C., Goshawk Insurance Holdings P.L.C. and Lomond Underwriting P.L.C., all three buying into their own syndicates.

"The average weighted price (of syndicate capacity) rose by 55% from 5.57 pence (9.36 cents) to 8.97 pence (15.07 cents), which was above our initial expectations earlier this year of a 30% to 50% uplift in values," commented Philip Maidens, director of syndicate research at Sedgwick Oakwood.

Now that the trading season is almost over, more than 50% of Lloyd's capacity is owned by dedicated vehicles, according to Nick Ferrier, Lloyd's analyst at Raphael Zorn Helmsley Ltd.

"This is a major sea change from two years ago, when names were the main capacity providers," he said.

Over that time, managing agencies have realized that merging with corporate backers is the best way of ensuring capacity into the future, he said, and the handful still remaining without corporate parents most likely will not stay that way for long, he said.

"We are very confident Lloyd's will be a wholly corporate market by 2003," he said, with unlimited liability names a thing of the past. **[BI]**

'This is a major sea change from two years ago, when names were the main capacity providers' for Lloyd's of London, says Nick Ferrier.

Camperdown U.K. Ltd. bought £85.7 million (\$144.0 million).

Camperdown is owned by U.S. insurer The St. Paul Cos. Inc., and it owns three Lloyd's agencies—Gravett & Tilling Syndicate Management Ltd., Ashley Palmer Ltd. and Cassidy Davies Syndicate Management Ltd.

Terra Nova Capital Ltd. also was a prominent player in the auction process, buying £63.9 million (\$107.4 million) of syndicate capacity, some of it from LIMIT. The Lloyd's corporate member offshoot of Bermuda-based insurer Terra Nova (Bermuda) Holdings Ltd. bought into the eight syndicates managed by its agency subsidiary, Octavian Syndicate Management Ltd. This means Terra Nova now will own about 77% of the capacity on the Octavian syndicates for the 1999 year of account, up from about 60% this year.

Nigel Rogers, president and chief executive officer of Terra Nova, said the move "continues Terra Nova's strategy of acquiring capacity when warranted by market conditions and price." Because Terra Nova managed to acquire more than 90% of the capacity on syndi-

worth personal lines businesses. Wellington Managing Director Julian Avery saw the capacity acquisition as "very real progress... in accelerating Wellington's transition to becoming a specialist insurance company underwriting for its own capital."

At the same time, several managing agencies that previously were unaligned decided the best course of action was to team up with corporate providers.

Hayward Brick Stuchbery Holdings Ltd., the holding company for Chaucer Syndicates Ltd., agreed to merge with Aberdeen Lloyd's Insurance Trust P.L.C., and SVB Associates Ltd. merged with Syndicate Capital Trust P.L.C., another spread vehicle that appears to be opting for the wholly owned capacity route. "We have increased our capacity under management and are well on our way to becoming an integrated Lloyd's vehicle, having acquired £82 million (\$137.8 million) of capacity," said SCT CEO Rupert Villers.

Already, the renamed SCT Group has announced it will be setting up a new syndicate for the 1999 year of account, syndicate 1241 underwritten by George Carrington, to write property/casualty business with £50

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ILU

Continued from page 17

their downfall at some stage in the future," warned Mr. Redmond.

He added that while the figures apply to ILU members, he has no doubt they are typical of the global marine market situation. "Without question, I would be surprised if the majority of marine underwriters make a technical underwriting profit on their 1998 account," he said.

One favorable item of news for

London marine underwriters is that they appear to have escaped

London marine underwriters appear to have escaped relatively lightly from claims from Hurricane Georges.

relatively lightly from claims from Hurricane Georges, which recently

struck the Caribbean and South-eastern United States. Speaking for the London market, Mr. Redmond said, "There doesn't seem to be a huge amount of marine casualties at the moment."

Len Messenger, ILU spokesman on energy and an energy underwriter for Zurich Reinsurance (London) Ltd., said the same was true of damage to U.S. offshore oil installations.

"As far as I can ascertain, the offshore market got off reasonably lightly, with no reports of anything major," he said. **[BI]**

Alcohol

Continued from page 17

very carefully" because of the detrimental effect it would have on employee relations, the CBI spokesman said.

"Random testing has a role in high-risk industries such as transport but should not be adopted across the board," the spokesman said.

The approach of U.K. companies to alcohol abuse varies greatly, said Tom Jones, a partner in the London-based personal injury law firm of Thompsons.

"The bigger companies tend to have policies, and some even have systems, to put employees into treatment and to hold their hand

through recovery, whereas the smaller companies often have no policy," said Mr. Jones.

Mr. Jones believes that the problem of alcohol and drug abuse will become a greater issue for employers in the future, as stress caused by the workplace continues to become an issue.

"Employers are going to have to face the facts that if they are the cause of pressure which leads to stress and to alcohol abuse, then they have a legal responsibility," he explained.

"Every employer has a responsibility toward the health and safety of its employees and a vicarious responsibility to employees injured in an accident caused as a result of another employee under the influence of alcohol," Mr.

Jones said.

"Employers will need to have a strategy to deal with alcohol problems, and (firing) is not one of them," said Mr. Jones.

Although some U.K. employers

'Employers will need to have a strategy to deal with alcohol problems, and (firing) is not one of them,' says Tom Jones.

have strict policies prohibiting consumption or possession of alcohol and drugs, testing is rarely used by U.K. companies. **[BI]**

INTERNATIONAL

Floods

Continued from page 17
funded organization, commissioned an independent panel to research and report on the Environment Agency's performance during the floods. The report was released this month.

The investigation was conducted by Peter Bye, former chief executive officer and emergency planner for Suffolk County Council, and Michael Horner, an independent environmental consultant.

The report concluded that "there were instances of unsatisfactory planning, inadequate warnings for the public, incomplete defenses and poor coordination with emergency services, which fell short of the agency's own performance standards."

With regard to flood warnings, the report said there was a lack of public awareness, together with nationally inconsistent and inadequate procedures and systems, which resulted in a poor overall performance of the agency's warnings.

"The agency's performance on issuing warnings was, on average, unsatisfactory," the report said. "The majority of people affected by the Easter floods did not receive any form of direct warning."

With regard to flood defenses, the report said deficiencies in the condition and operation of some flood defenses may have added to the devastation of the Easter floods. "Flooding would have occurred irrespective of these deficiencies because of the extreme conditions, but it may have been less extensive and severe," the report said.

The report concluded that there is a need for the Environment Agency to

improve the effectiveness of its provision, operation and maintenance of flood warnings and defenses.

Archie Robertson, the Environment Agency's director of operations, said

'From a risk manager's point of view, they must always be assessing their own premises and where they are located,' says Graham Lee.

the agency will publish a plan in early November after full consideration of the report. He said the agency "acknowledges that our actions did not always meet our own standards or satisfy the public and others."

Mr. Robertson said the Easter 1998 floods should be seen as the new benchmark for U.K. flood risks. "Easter 1998 must now be the level against which risks, standards of protection and warning services are assessed in the future in these areas," he said.

Mr. Robertson said the agency already has taken many actions to improve its systems in the areas affected by the Easter floods.

These include rebuilding defenses that were damaged; adding new rainfall, river flow, and level monitoring points to improve forecasting abilities; lowering flood warning trigger levels in some places to provide earlier warnings and longer lead times for emergency response arrangements; and updating and improving flood risk maps and flood warning plans.

Mr. Robertson said the agency also has started to improve its flood warn-

ing and defense systems across England and Wales as a whole. Mr. Robertson said that completing the initiatives will take through Christmas and is likely to cost more than £1

million (\$1.7 million).

The initiatives include actions to ensure better cooperation among the agency, emergency services, local authorities and their emergency planners, including the establishment of joint flood warning planning groups;

the issue, or re-issue, of flood warning dissemination plans specifying the roles of all those involved; the expansion of direct flood warnings by telephone and fax; heightened public awareness campaigns to improve the understanding and awareness of flood risks; and investigating the feasibility of extending river gauging networks to provide early warning of extreme floods.

A spokesman for the Assn. of British Insurers welcomed the findings of the report and the Environment Agency's pledge to improve its systems.

The spokesman said it is in the insurance industry's best interests that flood warnings and defenses work as effectively as possible.

Graham Lee, chairman of the environment task group of the U.K. Assn. of Risk Managers, also welcomed moves toward improved flood warn-

ing and defense systems. But he said the Easter floods were "a freak flood, not a regular rise," and that it is therefore unfair to lay too much blame with the Environment Agency.

Mr. Lee, director of risk management at Waste Management International P.L.C. of London, said there will always be some uncertainty with flood warnings and that even the best flood defenses will be tested by extreme conditions.

He emphasized that it is important for risk managers to make their own internal decisions about their companies' flood risks. "From a risk manager's point of view, they must always be assessing their own premises and where they are located," he said.

Mr. Lee issued a particular warning to companies building on previously undeveloped sites. "You must ask why no one else has built there before," he said. **BI**

German automakers self-insuring recalls

By DON LEWIS KIRK

MUNICH, Germany—German automakers are self-insured for the costs associated with a recent series of recalls ordered by U.S. safety regulators.

While product recall insurance generally is available in Europe and elsewhere, the cost of purchasing the coverage for the automobile industry would be prohibitive, automakers and insurers say.

Earlier this month, the National Highway Traffic Safety Administration, a U.S. government agency, announced a slew of recall orders in response to its investigation of alleged defects in several models. Volkswagen of America Inc. and other automakers also issued recalls in the wake of the NHTSA probes.

U.S.-based automakers that recalled vehicles could not be reached for comment on insurance arrangements last week.

By sheer numbers, though, the hardest-hit automaker was Munich, Germany-based BMW, which recalled 2.4 million cars built between 1994 and 1998. BMW will replace ventilator caps to avoid the risk of pressure buildups in the cars' cooling systems. Under certain conditions, a rupture could allow steam to enter the passenger compartment. Of the 2.4 million cars affected by the recall, the automaker expects that at least 1.4 million cars worldwide will be returned for adjustment, including 940,000 in Germany alone.

BMW estimates its total cost for the recall will reach 22 million deutsche marks (\$13.5 million). A

spokesman for BMW said that product recall liability insurance is available in Europe but that BMW self-insures its recall exposures through balance-sheet reserves.

According to the spokesman, BMW chooses not to buy recall liability insurance. "It is a company policy to accept company risks," he said. "Asking someone else to absorb our risk just isn't our way to do things."

Volkswagen of America's parent, Wolfsburg, Germany-based Volkswagen A.G., will recall 153,000 of its cars because of possible safety problems with brakes in Rabbit models built between 1993 and 1995. As BMW does, Volkswagen said its costs will be covered through balance-sheet provisions.

In Germany, insurers have been hesitant to offer product recall coverage to automakers, said a spokesman for Munich-based insurer Allianz A.G. Holding.

"The auto industry makes generous use of recall, sometimes recalling small defects for image reasons. The premiums to cover recall risk would be so huge, automakers just wouldn't accept it," the Allianz spokesman said.

Only recently, German insurers began to offer recall insurance to other areas of industry, in the wake of 1997 legislation that allows the government to order the recall or destruction of unsafe products (*BI*, April 27).

Nevertheless, the Allianz spokesman said he believes auto manufacturers will not likely see a change soon. "As long as premiums are so high, automakers will find other solutions," he said. **BI**

Maximizing Potential



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Forum

Continued from page 3
ty," he said.

The multiyear/multiline programs then look to take those various risks and place them in what Mr. Gantz said may "simplistically" be described as a basket aggregate retention with a single limit of risk transfer above the retained layer.

"Typically these are the hazard risks that would be covered by traditional insurance," Mr. Gantz said. "But increasingly now we're moving away from traditional risks," with the integrated programs beginning to take in operational and financial risks such as foreign exchange risk or interest rate risk.

Another key element of bringing those non-traditional risks into the integrated insurance package involves getting everyone in the organization to agree on what constitutes an acceptable level of risk.

To illustrate how widely that risk appetite can vary within an organization, David C. Mocklow, director at Aon Capital Markets in Chicago, cited a client he met with recently who bought insurance down to a \$5,000 retention, while the company's treasury department had a \$25 million risk tolerance.

So the first step is to help the organization recognize inconsistency in its approach to risk, Mr. Mocklow said. Next is to develop a common approach and then finally to find the products or risk transfer solutions that can help them implement that concept.

As for the benefits of taking an integrated risk financing approach, E. Randall Clouser, executive vp at Zurich-American Insurance Group in Schaumburg, Ill., said, "The one thing we can say it is not is 'Buy three lines of business, get two free.'"

Instead, Mr. Clouser said, the advantages are based on two concepts, the first being portfolio theory.

Looking at risks as part of a broader portfolio rather than individually diversifies exposures, promoting more predictable risk-cost assumptions that are probably lower than the sum of the costs

of the risks considered individually.

In turn, that allows an organization to manage its retention strategically and possibly raise it, Mr. Clouser said.

That leads to the second key concept, efficiencies achieved by strategically managing retentions—such as through multiyear/multiline coverage—thereby reducing premiums.

In the process, the risk manager is freed to "manage risk and not manage insurance policies," Mr. Clouser said, and some frictional costs may be squeezed out of the process by virtue of avoiding an-

But Tobey J. Russ, president of American International Group Inc.'s Risk Finance Division in New York, said he thinks integrated programs will become commonplace in the near future.

"I think certainly within 10 years we're going to see these programs be much more the norm. You're going to look back and wonder what all the fuss was about," he said.

In addition, he said, "I think you're going to see a lot more capital market participation going forward, not just in catastrophe bonds but in areas like this."

Insurance companies, Mr. Russ

'I think the reality is that we're in a period of education. But what we're really doing is changing the way that we partner with our clients,' says John G. Gantz Jr.

nual renewals.

Despite the potential advantages of an integrated risk approach, Mr. Clouser said that for now its development is being driven by the insurers, reinsurers and brokers, rather than by the policyholders.

While some client companies are coming forward with opportunities to craft multiyear/multiline programs, "I think largely we are driving this market," he said.

"Risk managers are using (traditional) insurance to finance insurance risk very, very efficiently," Mr. Clouser said, while treasury departments are proving successful at using various financial tools to hedge their risks.

And from a policyholder's perspective, Mr. Sandburg noted that developing an integrated program is a very time-consuming process, and many risk management departments don't have enough staff to devote to the task.

"I think time can be a real deterrent to looking at a holistic approach," he said.

Mr. Gantz said: "I think the reality is that we're in a period of education. But what we're really doing is changing the way that we partner with our clients."

suggested, will become less "warehousers of risk" and instead "packagers of risk," moving those exposures into the capital markets.

And because of those changes, Mr. Sandburg said he thinks the risk management function itself will change.

Rather than fearing that change, Mr. Russ said, risk managers can prepare for it.

"I think if you're at a corporation and you're a risk manager, one of the things you should consider is rotating into the financial side of the operation," he said. "Likewise, finance people should rotate into risk management for a meaningful period of time."

And because of the programs' complexity, whether from the seller or buyer side of the integrated risk financing transaction, Mr. Clouser said: "I also think there's not going to be one person who's going to be able to understand all aspects of these transactions with the depth necessary. We have to team for expertise."

Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*, moderated the Katie School's annual executive forum. **B**

LTC

Continued from page 2

long-term care insurance at the end of 1996, 51.95% had 100 or fewer employees, 13.03% had a workforce of 1,001 to 5,000, 9.12% had from 5,001 to 25,000 employees, and 5.13% had 25,000 or more. HIAA based those percentages on data derived from 12 LTC insurers that represent 80% of the market.

The reasons more large employers are not offering the benefit is that they tend to have more concerns about the legal and tax issues involved in offering a new benefit, and employers in recent years have been focused on trimming benefits, Ms. Coronel said.

Policies sold through the employer market accounted for more than 650,000 of the 4.96 million policies in force at the end of 1996. The remainder were sold to individuals, through the group association market or as accelerated death benefit riders to life insurance policies. The year-end 1996 total for policies sold through all sources is 14% greater than year-end 1995. The annual rate of growth averaged 22% from 1987 to 1996, the HIAA report states.

The main factor in the increase

of policies in 1996 over 1995 was the discussion and ultimate passage of the Health Insurance Portability and Accountability Act late that year, said Ms. Coronel. Consumers were educated by the discussion and took advantage of

The main factor in the increase in 1996 over 1995 was discussion and passage of HIPAA, says Susan Coronel.

the opportunity to purchase pre-1997 policies that would then be grandfathered into a tax-qualified status under HIPAA, as long as the policies were qualified under state long-term care insurance requirements. Under the law, employers can pay a certain amount of employee LTC premiums without employees being taxed. And consumers who pay for the coverage themselves can count the premium as a medical cost for tax purposes.

The HIPAA legislation came after the 1994 demise of national health care reform legislation, which sent a "clear signal from government that (long-term care)

is not going to be a social benefit" and that consumers must provide it for themselves, Ms. Coronel said.

When data from 1997 is analyzed, growth will probably remain in the range of the past couple years. During the first part of the year, insurers were occupied with reformatting and refiling policies to attain tax-qualified status. Because of that, the real impact of HIPAA won't be seen until this year's figures are analyzed, she said.

Ms. Coronel said the survey also shows that premiums in the employer market have stabilized, if not decreased slightly. They are comparable with the individual market. The average annual premium for individual policies containing a \$100-a-day nursing home benefit and a \$50-a-day home health care benefit, four years of coverage and a 20-day deductible was \$247 at age 40, \$364 at age 50, \$980 at age 65, and \$3,907 at age 79. The premiums increase significantly with a 5% compounded inflation feature.

Copies of "Long-term Care Insurance in 1996" are available from the Health Insurance Assn. of America for \$25 each, plus shipping and handling, by calling 800-828-0111.

Updates

High court to take ERISA case

Continued from page 2

America vs. John E. Ward is whether California's notice-prejudice rule is pre-empted by ERISA. The California rule, similar to rules in several states, requires an insurer to prove actual prejudice before denying a claim based on timely notice. At issue is the scope of ERISA's "saving" clause, which saves from federal pre-emption state laws regulating insurance.

The second major question is whether state agency law governs relationships between employers, insurers and plan beneficiaries, or whether application of the laws in such situations also is pre-empted by ERISA.

The underlying case involves Mr. Ward, who was president and chief executive officer of Management Analysis Co. until May 1992. Mr. Ward was diagnosed in December 1992 with diabetic neuropathy, a disabling condition. Mr. Ward said he was unaware of MAC's long-term disability benefit plan until April 1994, when he discovered information about the coverage among his personal belongings and filed a claim with UNUM. UNUM denied the claim, saying his deadline for filing was Nov. 5, 1993.

Mr. Ward sued the MAC employee disability plan and UNUM, and the U.S. District Court for the Southern District of California in August 1995 granted summary judgment in favor of the plan. On appeal, the 9th U.S. Circuit Court of Appeals in February reversed and remanded the case, based on California's notice-prejudice rule.

Bannan, Green & Frank L.L.P. in Los Angeles, the law firm representing UNUM, said in the petition for Supreme Court review that the 9th Circuit ruling, along with a parallel 6th Circuit decision and conflict with other circuit opinions, "will create enormous confusion and difficulty" in plan design and administration nationwide. Plan structures may be overturned and administration and benefit payments may be subject to conflicting state and federal regulation, the petition states.

13 indicted in Florida

ORLANDO, Fla.—A state grand jury has indicted 13 people, including several insurance agents, on charges that they defrauded Florida investors of \$10.9 million in a securities scam backed by a series of offshore insurers.

The indictments revolve around Legend Sports Inc., a now-defunct Orlando, Fla.-area company that sold a total of \$16.5 million of promissory notes in 14 states, purportedly to build golf-related recreational centers. State prosecutors charge that Legend was a Ponzi scheme, paying initial investors with money from new investors while large sums were diverted to those involved in the scheme.

The promissory note salesmen included Florida insurance agents, who persuaded mainly retired clients to cash in annuities or individual retirement accounts to invest in Legend notes, state officials charge. The salesmen claimed the notes were risk-free and backed by guarantees—which later proved worthless—from offshore insurers that included Tarent Insurance Co. Ltd. and Westwood Insurance Co. Ltd. Both insurers were based in Antigua but were struck from the island's register of companies last year (*BI*, Feb. 24, 1997; Aug. 12, 1996).

Those named in the indictments include:

- James T. Staples, Legend's former chairman. Mr. Staples was arrested last week and released on \$10,000 bond. He will plead not guilty to the charges, said his lawyer.

- John K. McGarrity, a former president of the now-defunct Amberco Brokers Ltd. of Bermuda, who issued the Tarent and Westwood guarantees through Beta Management Ltd., his Nassau, Bahamas, company. Florida officials said Mr. McGarrity's whereabouts is unknown. Beta Management's Bahamas phone is no longer in service.

- Francis O. Clarkson, a disbarred Charlotte, N.C., lawyer who acted as a U.S. representative of Tarent and Westwood, according to court papers. He could not be reached.

- Joseph A. Monaco, a Lake Mary, Fla., insurance agent who is charged with helping organize the scheme, and David E. Trotter, a Windermere, Fla., agent involved in the note sales. Neither could be reached.

These men and eight other defendants are charged with violating a state racketeering law, securities fraud and other charges. No date had been set for arraignments last week.

Another 37 Legend sales agents, including 29 licensed insurance agents, remain under investigation, the Florida Insurance Department said.

Briefly noted

Beleaguered **Cendant Corp.** has backed out of its deal to acquire American Bankers Insurance Group and will pay American Bankers a \$400 million breakup fee. Following the news, Standard & Poor's Corp. removed American Bankers from its CreditWatch list and affirmed its A+ financial strength rating. . . . A U.S. District Court judge in San Francisco last week granted United Airlines a **preliminary injunction**, allowing it to forgo offering unmarried domestic partners family medical and bereavement leave. The preliminary injunction is good until January, when United is scheduled to go to court against the city of San Francisco. The city wants United to comply with its Equal Benefits Ordinance, which requires all companies that conduct business with the city to grant domestic partners of employees the same health, pension and other benefits spouses receive. . . . **American Medical Security Group**, a Green Bay, Wis.-based insurer, is purchasing CNA Financial Corp.'s small-employer group health care business. CNA will continue to administer accounts until Feb. 1, 1999. Terms were not disclosed. CNA earlier said it is concentrating its health care focus on larger employers. . . . French reinsurer **SCOR S.A.** has joined forces with personal lines mutual *Mutuelle Assurance des Travailleurs Mutualistes* and *La Mutualite Francaise*, an umbrella organization for French mutuals, to create a new reinsurer, **MUTRE**. Capitalized at 100 million French francs (\$18.4 million), MUTRE will help mutuals develop long-term insurance products.

Sprinkler

Continued from page 1

attempt for several reasons, including skepticism that the offer amount is adequate, said Jeffrey B. Cereghino, a partner at the Alamo, Calif., firm of Berding & Weil, which represents BOMA. Additionally, the court ruled that Central had not adequately notified all potential plaintiffs of its settlement conditions, Mr. Cereghino said.

BOMA is a party to such a lawsuit filed in federal court in Philadelphia and last week argued against Central's offer to settle the Los Angeles suit, Mr. Lederer said. Certification of a class and a class settlement in Los Angeles would pre-empt plaintiffs in other suits, such as the one in Philadelphia, from gaining similar status.

BOMA wants Central to acknowledge that its product is defective, Mr. Lederer said. It also wants to assure that all its members are treated equally regardless of their company size, and it wants Central to pay all member out-of-pocket expenses for replacing Omega Sprinklers, an amount BOMA believes will exceed the \$38 million Central has set aside.

Several lawsuits filed nationwide have sought to force Central to pay for replacing its Omega sprinklers without requiring that plaintiffs first submit samples for testing to see whether their installed Omegas fail to operate.

Central's settlement agreement with the CPSC addresses BOMA's first two concerns—an admission that the product is defective and equal treatment regardless of size—but the third concern, the amount needed for the replacements, remains in question, Mr. Lederer said.

As part of Central's settlement with the CPSC, Central agreed to provide free replacement Quick Response Glass Bulb Sprinklers

for every existing Omega head. For commercial buildings, the replacement sprinklers must be approved by Factory Mutual Research Corp., according to the agreement. Omegas were not Factory Mutual-approved.

Central is taking a \$38 million charge against third-quarter earnings to cover the cost of the recall, the company has announced.

But that amount is less than \$5 a sprinkler head, and according to the CPSC settlement, that money must cover labor costs and also go toward paying for a nationwide advertising campaign to find building owners with installed Omega sprinklers, Mr. Lederer said.

Additionally, the \$38 million is not totally a cash contribution available to plaintiffs because it includes the value of Central-manufactured replacement sprinklers, critics contend.

According to Central's offer to settle the Los Angeles lawsuit, its contribution to a sprinkler replacement fund could be reduced if notifications fail to turn up fewer than the 8.4 million sprinkler heads, said Mr. Sabol.

Central is actually putting up \$8.8 million in "real dollars," and then in 2001 it will add additional funds depending on the number of claims submitted, said Mr. Cereghino, BOMA's attorney.

BOMA is also unhappy that the first dollars of any recovery from Central's liability insurers would reimburse the sprinkler company for defense costs rather than increasing the sprinkler replacement fund, Mr. Cereghino said.

"If there is going to be a settlement with the carriers and you know the class is underfunded, basic math tells you that it is, the first dollars should go to the class," Mr. Cereghino said.

Central had been paying voluntarily for building owners with installed Omegas to submit samples of sprinkler heads for testing. (BI,

Aug. 18, 1997). If the heads were found defective, the company had been paying replacement costs.

Through July 31, the company had spent \$12 million for testing and replacing Omega sprinklers, Mr. Sabol said.

Rubber O-rings in Omega sprinklers have swelled under pressure and failed to release water during fires. Problems also surfaced with the sprinklers after the company announced it would switch to manufacturing them with silicone O-rings (BI, Nov. 17, 1998).

The CPSC alleges that 30% to 40% of Omega sprinklers removed from various locations nationwide have failed to activate, and the agency has received reports of Omegas not functioning in 17 fires that resulted in injuries and \$4.3 million in property damage.

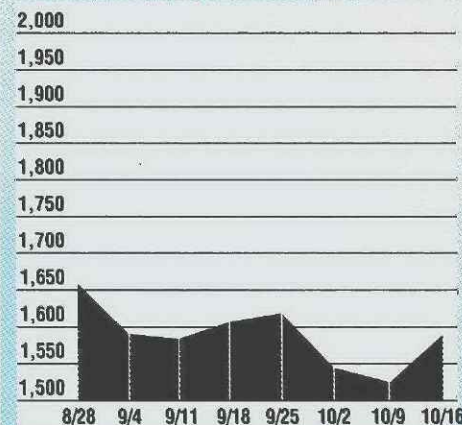
Only one lawsuit has been filed against Central alleging that one of its Omega sprinklers failed and contributed to fire damage, Mr. Sabol said. The number of such suits probably has been limited because such allegations would be tough to prove, given that Omega's sprinkler failure rate is low, he said, and that if one fails, other Omega sprinklers in the room or building are to likely operate.

Replacing the sprinkler heads is not complex, said Joe Hankins, engineering specialist for Norwood, Mass.-based Factory Mutual. There are established procedures for minimizing potential hazards resulting from the temporary shutdown of sprinkler systems, and the replacement procedure should be similar to performing a typical system upgrade, he said.

"You would typically want to schedule it when the building isn't occupied and have extra security on to watch for fires and have the fire department notified that the protection is going to be out of service," Mr. Hankins said.

Experts also recommend that only professionals replace the sprinklers because improper installation can damage them. **BI**

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc. (nordby.com) Boulder, Colo.

PCS catastrophe options

As of Oct. 16	Price	Call spread	Price	Call spread
National Annual 1998	bid/ask		National Annual 1999	bid/ask
80/100	0.5/1.6		40/60	9.2/—
150C	—		60/80	4.0/—
			100/120	2.0/6.5
			150C	—/6.0
National December 1998			Western Annual 1999	
10/20	—		40/60	1.4/—
20/40	0.3/—		80/100	1.0/2.0
Eastern September 1999			Midwest June 1999	
40/60	—/4.5		10/20	1.0/1.4
Southeastern September 1999				
40/60	—/4.3			
Total volume: 306 Total open interest: 16,254				
For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674				
Source: Chicago Board of Trade				

Maine regulators, insurers reach comp settlement

GARDINER, Maine—Maine insurance regulators and 33 insurers reached a settlement recently over a 1995 Maine law that sought to pay off the state's large residual workers compensation market deficit through a complex series of assessments, primarily on insurers and employers.

The Maine Workers' Compensation Residual Market Deficit Resolution and Recovery Act required that all property/casualty insurers licensed by Maine contribute \$65 million toward initial funding of the state's residual market pool, regardless of whether they wrote any workers comp coverage during the deficit years (BI, Oct. 9, 1995).

The assessments were designed to pay off the deficit, estimated at \$220 million in 1995, which arose when there was no active workers comp market in Maine, due partly to inadequate insurance rates.

Insurers, led by the Alliance of American Insurers, challenged the assessments in 1995, including \$6.5 million in assessments on "minor carriers."

Under the terms of the settlement, the state's residual market pool expects to make staggered payments beginning in 2000 of up to \$8.5 million in proportional refunds to all insurers that have paid pool assessments. In addition, 14 major insurers that helped broker the settlement

will initially assign their payouts to compensate minor insurers first.

The 1995 act "was the last piece of the puzzle that stabilized the workers compensation market in Maine," said S. Catherine Longley, commissioner of Maine's Department of Professional and Financial Regulation in Gardiner, Maine. "We are pleased that any cloud that has been hanging over this law is eliminated," she said.

Rodger Lawson, president of the Downers Grove, Ill.-based Alliance, said the Alliance is pleased to have reached an agreement that "injects greater fairness into the direct assessment scheme on insurers."

—By Meg Fletcher

British Issues

Companies	Price	P/E	Div.	Yield	52-week
	pence		pence	%	high-low
Gdn Royal Exch	272	4.2	13.4	5.0	495-227
Legal & Gen	617	18.0	13.3	2.7	796-400
Royal & Sun	548	12.7	23.6	4.7	825-437
Brokers					
Lmbt Fenchurch	103	8.1	5.7	6.9	138-100
Lloyd Thompson	173	10.2	10.5	7.8	213-151
Sedgwick Grp	198	—	7.0	3.5	220-119
Willis Corroon	198	23.1	6.9	4.3	210-116

Note: Prices are Oct. 16 closings; other numbers from Oct. 15.

Source: Nordby International Inc. (nordby.com) Boulder, Colo.

BI Industry Stock Report OCT. 12, 1998, THROUGH OCT. 16, 1998

BROKERS

	Price	Weekly % change	Year to date % change	52-week High	Low	Vol.(000)
Aon Corp.	NYS	58.13	8.01	-0.85	75.56	48.25 1656
E.W. Blanch Holdings Inc.	NYS	39.25	7.53	13.97	41.13	29.38 201
Gallagher Arthur J. & Co.	NYS	39.75	5.82	15.43	46.56	33.56 257
Hilo, Rogal & Hamilton	NYS	17.00	5.02	-11.97	19.50	15.38 85
Kaye Group Inc.	NDQ	5.13	-18.00	-22.64	8.88	5.13 125
Marsh & McLennan	NYS	52.38	5.81	5.36	64.31	43.38 3877
Poe & Brown	NYS	34.75	4.12	16.81	42.50	26.50 28
Sedgwick Group PLC	NYS	18.13	5.07	47.21	18.13	9.94 43
Willis Corroon Corp.	NYS	16.81	0.00	36.55	17.25	10.06 40
BROKERS AVERAGE			1.92	12.59		

INSURERS/REINSURERS

	Price	Weekly % change	Year to date % change	52-week High	Low	Vol.(000)
ACE Ltd.	NYS	34.75	25.23	8.03	43.00	24.38 2370
Acceptance Insurance Cos.	NYS	18.63	-3.56	-23.00	28.63	17.44 85
AEGON N.V.	NYS	86.13	19.20	92.19	111.31	37.56 453
Aetna Life & Casualty	NYS	66.81	1.52	-5.31	89.38	60.19 2821
AFAC Inc.	NYS	36.38	11.71	42.30	38.25	22.13 4598
Allied Group Inc.	NYS	48.00	0.26	67.69	48.38	25.00 29
Allmerica Financial Corp.	NYS	41.50	3.91	-16.90	75.25	38.38 1791
Allstate Corp.	NYS	46.56	13.39	2.90	52.38	36.06 11425
AMBAC Indemnity Corp.	NYS	49.88	15.48	8.42	65.94	40.00 678
American Bankers Ins.	NDQ	40.50	16.13	-11.84	66.06	30.13 7017
American Financial Group	NYS	33.38	3.89	-17.21	45.75	30.50 173
American General	NYS	67.13	9.70	24.16	75.69	46.56 2849
American Heritage Life Ins.	NYS	20.38	2.84	13.19	26.06	17.06 117
American Indemnity/Fin'l	NDQ	10.63	-7.61	-23.42	15.38	9.50 1
American International	NYS	87.69	25.83	20.95	102.38	64.75 17590
American Safety Insurance	NDQ	8.75	29.63	-28.93	15.06	6.75 18
Argonaut Group	NDQ	24.06	1.32	-28.97	37.50	21.25 128
AXA-UAP Group	NYS	53.25	18.50	36.54	71.25	31.88 410
Baldwin & Lyons Inc.	NDQ	19.50	-7.14	-19.17	28.75	19.00 8
Berkley W.R. Corp.	NDQ	29.25	0.00	-33.33	49.88	25.25 1193
Berkshire Hathaway Inc.	NYS	66500.00	7.95	44.57	84000.00	42500.00 5
Capital RE Corporation	NYS	19.50	22.83	-37.16	38.69	14.75 856
Capitol Transamerica Corp.	NAS	16.38	3.97	-23.17	27.25	15.00 60
Centris Group Inc.	NYS	8.44	-12.90	-24.37	14.81	8.00 64
Charwell Re	NYS	23.06	-3.66	-31.67	35.31	21.94 136
Chubb Corp.	NYS	64.63	6.16	-14.55	88.81	55.38 1680
CIGNA Corp.	NYS	67.31	5.18	17.15	74.50	45.63 3452
Cincinnati Financial Corp.	NAS	38.06	15.34	-18.87	47.13	27.94 1044
Citigroup	NYS	41.75	17.81	-22.51	73.50	28.50 92946

	Price	Weekly % change	Year to date % change	52-week High	Low	Vol.(000)
CNA Financial Corp.	NYS	39.44	8.23	-7.39	53.25	34.50 216
CNA Surety	NYS	13.38	-3.17	-13.36	16.75	12.56 114
EMC Insurance Group Inc.	NDQ	11.00	2.33	-16.98	15.88	9.00 15
ESG Re Limited	NDQ	15.63	8.70	-33.51	28.88	12.75 156
Enhance Financial Services	NYS	23.44	11.61	-21.22	37.56	17.31 453
Everest Reinsurance	NYS	32.44	6.13	-21.36	45.25	28.75 552
Executive Risk Inc.	NYS	41.06	-1.05	-41.18	75.75	35.50 302
EXEL Ltd.	NYS	75.38	12.19	18.93	83.25	61.56 1287
Fremont General Corp.	NYS	46.63	16.20	-14.84	62.13	36.00 315
Frontier Insurance Group	NYS	14.63	11.96	-36.07	33.50	12.19 486
Gainsco Inc.	NYS	6.50	8.33	-23.53	10.06	5.75 148
General RE Corp.	NYS	229.00	8.79	8.02	275.00	191.00 2711
Gryphon Holdings	NDQ	15.50	-3.13	-7.46	19.38	11.38 144
Harleysville Group	NDQ	19.38	0.65	-19.27	28.50	17.25 119
Hartford Steam Boiler	NYS	39.75	6.71	8.04	59.56	33.25 417
HCC Insurance Holdings	NYS	18.25	4.29	-14.12	28.94	15.63 291
ING Groep N.V.	NYS	48.06	17.58	13.59	76.75	36.06 660
IPC Holdings Ltd.	NDQ	21.50	12.79	-33.20	33.25	19.00 135
Hartford Financial Services	NYS	47.94	15.34	2.47	60.00	37.63 2724
LaSalle Re Holdings Ltd.	NYS	22.13	13.46	-37.46	42.94	19.50 172
Life Re Corp.	NYS	91.94	0.68	41.04	92.94	52.06 299
Lincoln National	NYS	81.25	14.34	4.00	98.88	64.63 1410
MAIC Holdings Inc.	NYS	25.63	-0.49	-4.33	30.38	23.94 85
Market Corp.	NYS	142.00	2.53	-9.05	187.00	132.00 24
MBIA Insurance Group	NYS	55.75	11.64	-16.58	80.94	46.06 1549
Meadowbrook Insur. Group	NYS	23.06	2.22	-11.51	35.00	22.31 45
MMI Cos. Inc.	NYS	17.56	3.69	-30.10	26.50	15.25 32
Mutual Risk Mgmt. Ltd.	NYS	31.94	16.14	6.68	39.94	25.38 798
NAC Re Corp.	NYS	50.81	1.88	4.10	55.88	43.50 245
Navigator Group	NDQ	13.75	-3.51	-26.79	20.75	13.25 45
Nobel Insurance Ltd.	NDQ	0.72	0.00	-94.52	1.00	0.40 20
NYMag Inc.	NYS	21.63	-6.49	-21.54	34.25	21.63 33
Ohio Casualty Corp.	NDQ	35.13	1.44	-21.29	51.75	33.75 310
Old Republic Int'l	NYS	21.19	7.62	-14.54	32.25	17.94 1235
Orion Capital Corp.	NYS	31.63	-1.17	-31.90	59.25	28.00 786
Partner Re Ltd.	NYS	39.81	10.78	-14.15	52.50	33.63 211
Penn-America Group Inc.	NYS	8.75	1.45	-57.32	23.00	8.13 38
Pennsylvania Manufacturer's Co	NDQ	17.88	2.14	6.72	23.75	16.25 15
Philadelphia Cons. Holding	NDQ	21.50	3.61	21.13	24.38	15.50 82
PXRE Corp.	NYS	23.31	-2.36	-29.76	35.25	23.25 220

	Price	Weekly % change	Year to date % change	52-week High	Low	Vol.(000)
Reliance Group Holdings	NYS	13.13	5.53	-7.08	19.81	10.75 1481
Reliastar Financia Corp.	NYS	41.31	21.51	0.30	52.44	29.00 1185
RenaissanceRe Holdings Ltd.	NYS	40.63	2.85	-7.93	50.75	38.00 99
Risk Capital Holdings	NDQ	19.81	-3.35	-10.96	25.50	18.81 78
RLI Corp.	NYS	32.88	-1.31	-17.50	45.63	31.56 65
St. Paul Companies	NYS	34.31	5.37	-16.37	47.19	28.06 5481
SCOR	NYS	63.44	8.21	32.85	72.75	40.75 37
SAFECO Corp.	NDQ	44.94	11.30	-7.82	56.00	38.25 2233
SCPIE Holdings Inc.	NYS	28.81	2.44	-0.43	38.38	26.50 NA
Seibels Bruce Group	NDQ	4.31	4.55	-42.50	8.38	3.72 49
Selective Ins. Group	NDQ	18.00	2.31	-33.33	29.25	16.69 746
Terra Nova Insurance Co. Ltd.	NYS	25.56	0.74	-2.62	35.00	23.50 101
TIG Holdings	NYS	12.00	-3.03	-63.84	36.56	11.63 764
Tokio Marine & Fire	NDQ	57.25	14.79	-0.87	60.13	39.00 279
Torchmark Corp.	NYS	37.94	9.57	-10.07	49.81	31.81 1081
Transatlantic Holdings	NYS	84.25	8.27	17.83	94.50	67.44 9

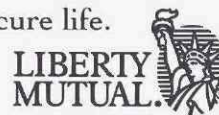


Ever since we recommended a slip-resistant floor surface where Louisa Abbott works, she hasn't taken a spill. [At least, at work.]

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Louisa has never taken a spill on the job because of the safety precautions her employer learned from Liberty Mutual. At our research center we study the connection between shoes, floor surfaces and slippery hazards like water and grease. By investigating your safety concerns we can recommend a plan that can help lower your workers compensation costs, and ensure that Louisa Abbott lives a safer, more secure life.

➤ *There's more information we'd like to share. So please call John Ryan at (617) 574-5842 or visit our website at <http://www.libertymutual.com>*



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