

# Business Insurance®

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

Entire contents © copyright 2000 by Crain Communications Inc. All rights reserved

## REINSURANCE TRENDS & ISSUES

PREDICTING  
THE MARKETS'  
FUTURE

To Subscribe Call  
1-888-446-1422 in the U.S. or  
1-313-446-0450 outside the U.S. or  
go online to [www.businessinsurance.com](http://www.businessinsurance.com)

*Difference comes from knowing the* **SCOR.**

"A+" (Superior) by A.M. Best

Whatever the risk, it is the way SCOR combines technical expertise and local knowledge to provide coverage – when and where you need it – that makes the difference.

#### GLOBAL

- 1,100 experts representing 45 nationalities
- Serving thousands of customers in 100 countries

#### RESPONSIVE

- Understanding and anticipation of customer needs
- Building strong client relationships
- Reacting fast with tailored solutions and services

#### BALANCED

- A well-diversified book of business
- Sustained, balanced growth
- One of the strongest balance sheets in the industry

#### INNOVATIVE

- A unique blend of human capital and exclusive analytical and underwriting tools
- Commitment to bringing new, creative ideas to the market

**Knowing the SCOR makes a world of difference.**

[www.scor.com](http://www.scor.com)



SCOR a leading reinsurer:  
Property & Casualty – Life,  
Accident & Health – Non-  
Traditional and Alternative  
Risk Transfer – Credit & Surety

Two World Trade Center ■ New York, NY 10048  
Phone 212.390.5200 ■ Fax 212.390.5415

One Pierce Place, Suite 600 ■ Itasca, IL 60143  
Phone 630.775.7300 ■ Fax 630.775.0846

Comunal No. 80 Bis 501, Col. Acacias del Valle 03240  
Mexico D.F. ■ Phone 52.5.524.4512 ■ Fax 52.5.534.2484

1401 Brickell Avenue, Suite 910 ■ Miami, FL 33131  
Phone 305.679.9951 ■ Fax 305.679.9963

101 California Street, Suite 2700 ■ San Francisco, CA 94111  
Phone 415.765.1200 ■ Fax 415.397.8390



*Looking ahead...*



# Business Insurance

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

Entire contents copyright © 2000 by Crain Communications Inc. All rights reserved.

## J&H directors near to settling suit over sale to Marsh

NEW YORK—Retired directors of Johnson & Higgins are on the verge of settling bitter litigation with their former colleagues over the allegedly fraudulent allocation of windfall profits from the broker's \$1.8 billion sale to Marsh & McLennan Cos. Inc. in 1997.

In an Oct. 16 court filing, lawyers for 13 retired J&H directors reported that they have agreed to terms of a settlement with 24 J&H directors active at the time of  
*See Updates on next page*

# Wells Fargo, Acordia in merger talks

By SALLY ROBERTS

CHICAGO—Banking giant Wells Fargo & Co. is in talks with Acordia Inc. about a possible acquisition of the world's seventh-largest insurance broker.

Neither Acordia nor Wells Fargo would comment on the discussions, which have circulated in the rumor mill since the recent Insurance Leadership Forum held at the Greenbrier resort in White Sulphur Springs, W. Va.

The acquisition, if completed, would satisfy the needs of both firms. Acordia's Chief Executive Frank C. Witthun has been very public about the broker's need to explore exit strategies for its short-term investors,

and Wells Fargo CEO Dick Kovacevich has publicly expressed a desire to increase the bank's insurance and securities business amid pressure to become a financial super-market.

With the addition of Acordia to its existing insurance operations, Wells Fargo Insurance Inc. would become the first bank-owned insurance broker to break into *Business Insurance's* top 10 rankings of the world's largest insurance brokers.

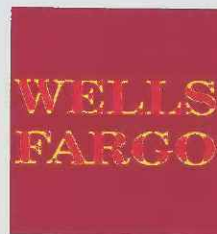
St. Louis Park, Minn.-based Wells Fargo Insurance ranked as the eighth-largest insurance broker of U.S. business this year based on \$190.3 million in 1999 brokerage revenues (*BI*, July 17). Combined with Acordia's \$337.2 million in brokerage rev-

enues, an enlarged Wells Fargo Insurance would have ranked as the world's fifth-largest insurance broker.

Charles L. Ruoff,



Acordia's senior vp and chief marketing officer, acknowledged that Mr. Witthun has been very open about the fact that at some point in time, Acor-



dia's investors would want to sell their equity stake in the company.

"That time has come," Mr. Ruoff said. "We are exploring our options, but we can't comment on anything specific," he said.

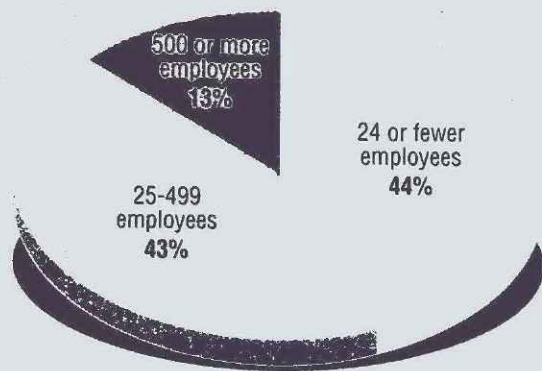
In 1997, Acordia's management, together with investment banking groups Knightsbridge Capital L.L.C. and Wand Partners Inc., bought \$285.9 million of Acordia's brokerage operations for \$310 million from Anthem Inc., an Indianapolis-based mutual insurance company and licensee for various Blue Cross & Blue Shield plans.

In 1998, Knightsbridge sold its stake in Acordia to High Ridge Capital Partners L.P. and NationsBank Capital Investors, now affili-

*See Mergers on page 71*

## Where drug users work

Distribution of drug users by employer size



Source: Substance Abuse and Mental Health Services Administration 1997 survey

## Employer drug testing has pitfalls

By LEE FLETCHER

Drug testing is the norm in many workplaces, because employers have found that testing saves money and makes for a safer environment for workers and customers. But experts say that, in order for employers to avoid liability, they must be consistent and precise when implementing and enforcing drug testing policies.

"Drug testing is an important tool, a tool that's used a lot. But if it's not crafted carefully or administered carefully, it's a recipe for disaster," said Gerald L. Maatman Jr., a partner and chairman of the global employment law practice group at Baker & McKenzie in Chicago.

According to Mr. Maatman, drug testing can create employment practice liability exposures. When tests produce positive results that result in employee termination, he said, some workers end up suing.

"Some employees will say that 'the manner in which you collected my specimen or the way in which the test

*See Testing on page 69*

## Camelot must pay back taxes

# COLI a 'sham' tax shelter: Judge

By MICHAEL PRINCE

WILMINGTON, Del.—A federal judge in Wilmington, Del., has ruled that a company's corporate-owned life insurance policies are a "sham" tax shelter and has ordered the company to pay back taxes and penalties of over \$6 million.

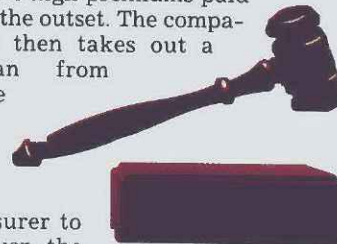
The judge also stated that similar shelters are under investigation by the Internal Revenue Service, possibly resulting in a tax liability of \$6 billion for 85 other employers.

About 200 other companies are using COLI in a similar manner and may be at risk, a consultant says.

At issue is a type of group life insurance policy known as COLI VIII policies, or broad-based leveraged COLI. Employers are both the policyholders and the beneficiaries of these policies taken out on employees and the employers pay the entire cost of the pre-

miums.

The plans are designed to have high premiums paid at the outset. The company then takes out a loan from the



insurer to cover the premiums. The loan in turn gives the company a high tax deduction for the interest on the loans. The net result for the companies, such as Camelot Music Inc.—the subject of the current case—is a positive cash flow, assuming the interest payments are tax-deductible. Camelot is owned by CM Holdings Inc., based in North Canton, Ohio.

"To achieve these design goals, the designers of the COLI VIII policies in-

corporated several innovative features in an attempt to comply with the Internal Revenue Code governing life insurance. In doing so, the designers obviously inched toward that invisible line which separates true life insurance from tax-driven or tax-sheltering investments," wrote District Judge Murray Schwartz in his 143-page decision of Oct. 16.

The case arose in 1991 when Camelot Music Inc. bought corporate-owned life insurance policies on its 1,430 employees. To finance the premiums, the company took out a loan from the insurance company they were bought through, Mutual Benefit Life Insurance Co., and then for four years claimed interest tax deductions on the loan payments. The IRS moved to disallow these deductions, claiming they were a sham designed to generate tax savings. Camelot objected, resulting in

*See COLI on page 71*

## Insurers to use genetic info

# U.K. panel approves use of Huntington's test

By CAROLYN ALDRED

LONDON—British insurers may use the results of genetic tests for Huntington's disease in underwriting life insurance policies, a government-appointed committee ruled this month.

The ruling is the first of a series due to be made by the Genetics and Insurance Committee, which is examining the reliability of several genetic tests for identifying genetic markers for different diseases and whether they should be used by insurers when assessing insurance applications.

Genetic testing and its likely impact on insurers, employers and individuals is an issue generating controversy worldwide, and the GAIC's announcement on Oct. 12 has put the United

Kingdom in the spotlight as one of the only countries where a government-backed committee has ruled that insurers may use genetic test results.

Fear of discrimination and the inability of individuals who test positive for Huntington's disease to obtain medical, disability or life insurance has already led to the introduction of legislation in many countries that prevents insurers either from requiring that the genetic tests be taken or using the results of the tests.

In other countries, insurance industry associations themselves have introduced codes of conduct or moratoria on the use of such test results.

The GAIC is a government-appointed but non-statutory advisory committee, comprising geneticists and in-

surers, set up by the British government in April 1999 to evaluate specific genetic tests, including their medical reliability and their relevance to particular types of insurance.

The U.K. Huntington's Disease Assn. said in a statement following the GAIC's decision that it has "considerable reservations about the way in which the insurance industry proposes to use this information."

"The government, insurance companies and patient organizations must work together to ensure that people at risk of inherited disease should be able to protect themselves and their families by being able to obtain insurance at affordable rates," the London-based association said.

*See Genetic on page 64*

# UPDATES

## J&H directors near to settling suit

Continued from page 1

the sale, whom the retirees accused in a 1997 lawsuit of wrongfully diverting huge shares of the profits to themselves.

The defendant directors have also agreed to the settlement, and Marsh & McLennan—accused in the suit of conspiring with the defendant directors—has consented to “all substantive business terms of the settlement” but was still resolving “drafting issues” as of last Friday, according to the letter and a lawyer involved in the case.

The agreement calls for the parties to “close and fund the settlement” by Nov. 15, according to the letter. The settlement’s terms are not disclosed in the court filings, and Paul C. Saunders, a lawyer for the defendant directors with Cravath, Swaine & Moore in New York, said the terms are confidential.

A spokeswoman for Marsh said the deal is not yet finalized: “Settlement discussions are still ongoing. It’s not done yet,” she said.

The 13 retirees, including former J&H Chairman Robert V. Hatcher Jr. and former Vice Chairman Kenneth A. Hecken, charged the director defendants and J&H with breaches of contract and fiduciary duty, securities law violations and fraud; Marsh was accused of aiding the alleged fraud.

U.S. District Judge Lewis A. Kaplan last fall denied a motion to dismiss charges against the defendant directors.

## Funds denied for defense

SACRAMENTO, Calif.—The California Department of Insurance will not spend public funds to defend former Insurance Commissioner Chuck Quackenbush against criminal allegations stemming from his handling of complaints against insurers over Northridge earthquake claims.

The decision by current Insurance Commissioner Harry Low also applies to other Insurance Department employees who worked under Mr. Quackenbush and are under criminal investigation. The U.S. attorney general, state Attorney General Bill Lockyer and the Sacramento county district attorney are investigating Mr. Quackenbush’s activities as commissioner.

“Requests have been made by present and former employees, including Commissioner Quackenbush, for the payment of any legal fees incurred with the criminal investigation,” Mr. Low said. “I have decided it would not be in the best interest of the department to be responsible for payment of legal fees for former Commissioner Quackenbush.”

Mr. Quackenbush left office in July; he moved to Hawaii following legislative hearings on his handling of fines levied against insurers charged with mishandling quake claims. Mr. Quackenbush maintained the investigations against him were politically motivated.

In a related issue, California’s Bureau of State Audits last week concluded that the former commissioner abused his position by requiring companies to make “off-the-book” payments—known as outreach payments—totaling \$12.3 million to non-profit organizations in settlements in lieu of paying hefty fines for the mishandling of claims.

The terms of the settlements often were for vague purposes and failed to link an infraction with an ordered outreach payment, the auditors’ report said. The money was spent for questionable purposes, including \$263,000 donated to an athletic foundation that operates football camps, the Bureau of State Audits found.

The auditors’ report cites a recent state attorney general opinion that such payments to third parties are legal only when used for activities related to the regulatory issues that prompted them. For example, the Insurance Department might require an insurer accused of discrimination in a minority neighborhood to direct payments to community groups within that neighborhood.

State Auditor Elaine M. Howle, however, stopped short of concluding in the report that the commissioner violated the law.

## Third-quarter cat losses down

NEW YORK—U.S. property/casualty insurers are catching a break so far this year, suffering one of the lowest levels of catastrophe losses since 1990, the Insurance Services Office Inc. projects.

During the third quarter, insurers will pay \$315 million in losses from three catastrophic events, the lowest third-quarter loss total in 11 years and far below the \$2.1 billion in losses from seven events recorded in the third quarter of 1999, ISO estimates.

The next-best third-quarter result was in 1997, when insurers reported \$510 million in losses from five catastrophic events. The worst third quarter came in 1992, when hurricanes Andrew and Iniki helped create \$17.4 billion in losses on more than 1 million claims, ISO noted.

This year’s third-quarter catastrophes affected 12 mainly Midwestern states and included \$150 million in losses from a thunderstorm event that hit the upper Midwest in early July. Five states sustained most of the overall losses in the quarter: Minnesota, with \$105 million; Wisconsin, \$50 million; Ohio, \$45 million; See Updates on page 71

## Errors & omissions

• Because of incorrect information given to *Business Insurance*, an article about U.K. rail safety on page 59 incorrectly identifies St. Paul International Insurance Co. Ltd. as the liability insurer for Railtrack P.L.C. St. Paul is the property insurer for Railtrack but ceased underwriting Railtrack’s liability account in March.

# HCFA memo clarifies rules on pre-existing conditions

By JERRY GEISEL

WASHINGTON—The 1996 federal law that curbs the ability of health care plans to deny coverage for pre-existing medical conditions pre-empts state laws that allow an insurer to deny coverage to a new group plan participant who is disabled with a medical condition or in the hospital, according to a federal agency memorandum.

The federal law, however, does not pre-empt state laws that require a prior insurer to continue to provide coverage to employees and dependents who are disabled at the time an employer is moving

from one insurer to another.

The memorandum, issued by the Health Care Financing Administration, builds on a memorandum HCFA issued earlier this year. That document, which for now deals only with fully insured plans, says plans must immediately extend coverage to new employees’ dependents in situations where a dependent is in the hospital at the time coverage is to begin (*BI*, June 19). The earlier memorandum did not deal with situations where an employee is in the hospital at the time coverage is to start. HCFA said that issue will be addressed in later regulations.

Both memoranda are intended to help employers and insurers comply with a far-reaching 1996 federal law that curbed the use of pre-existing medical condition exclusions in health care plans. That law, the Health Insurance Portability and Accountability Act, is intended to make it easier for employees with medical conditions to change jobs without fear of losing coverage for those conditions.

Under that law, health care plans can exclude coverage for new employees and their dependents’ pre-existing medical conditions. See HCFA on page 69

## Risk managers give advice

Liberty Mutual panelists offer tips on renewals, consolidation

By MARK A. HOFMANN

BALTIMORE—Know thyself.

That bit of advice, credited to the Athenian statesman Solon, applies to risk managers approaching renewal time. Knowing the people who actually make pricing decisions isn’t bad advice, either.

Those were just a couple of the observations offered during a wide-ranging risk management roundtable at Liberty Mutual Insurance Co.’s ninth annual risk management

forum in Baltimore last week.

The panel, made up of five veteran risk managers, also touched on such matters as the effect of consolidation in the marketplace, the likelihood of a market turn and the nature of risk management itself, as well as general trends affecting the theory and practice of risk management.

John F. Ryan, vp and manager at Liberty Mutual, asked the panelists what advice they had for those dealing with renewals in the current environment.

“You need to know your business inside and out,” said Christopher E. Mandel, director-global risk management for Louisville, Ky.-based Tricon Global Restaurants Inc. “It’s more important than ever that we have good data,” he said.

“You have to obtain and maintain a face-to-face relationship with the people who are doing the pricing,” said Randolph A. Thurman, director-risk management for Nashville, Tenn.-based Gaylord Entertainment Co. Risk managers should have “people who are key to the

See Panel on page 66



## ISU panel looks at future

# Keeping up with rapid change

By LEE FLETCHER

CHICAGO—Continued consolidation and convergence within the insurance and financial services industries, expanded employee roles and a new way of doing business through e-commerce are among the major changes influencing the insurance industry, according to a panel of experts.

Consolidation of the insurance business is likely to continue, because critical mass and balance-sheet strength are important to underwriters, said Ken Pinkston, vice chairman of Willis Group Ltd. in Nashville, Tenn.

“I think we’re seeing a separating of the strong vs. the weak and

sort of a departing from the aggregate. As far as the brokerage business is concerned, I think we’ve pretty much consolidated. A few years ago, it would have been unthinkable” to predict the tremendous consolidation that has made Willis, Aon Corp. and Marsh & McLennan Cos. Inc. what they are today, Mr. Pinkston said during a panel discussion at the 10th annual Insurance Executive Forum, sponsored by Illinois State University’s Katie School of Insurance and held Oct. 18 in Chicago.

While more purchases by the big brokers are not as likely, Mr. Pinkston said he expects more ac-

quisitions among smaller and regional brokerage firms.

“One thing that is a byproduct of the consolidation of the brokerage business is the new boutique firms, which offer specialties and can serve lines very well,” Mr. Pinkston noted.

As companies in the insurance industry sort out their business models, there’s still a lot more consolidation to come, predicted William Bolinder, a member of the Group Executive Board at Zurich Financial Services Group Inc. in Zurich, Switzerland.

Mr. Bolinder said he’s never seen more board-authorized or

See Forum on page 71

## INSIDE

- British insurers have won the right to require disclosure of test results for Huntington’s disease; they would be better off not using it, this week’s editorial says. **PAGE 8**
- Ergonomics programs work, reduce injuries, improve productivity and save money, says the Labor Department’s Charles Jeffress in Perspectives. **PAGE 39**
- A luncheon honoring the 100 Leading Women of Insurance was held Oct. 10 in Chicago. **PAGE 56**

- The announcement that faulty track maintenance may have caused last week’s fatal train crash outside London likely will increase concerns about rail safety. **PAGE 59**

## Departments

Advertiser Index .....67

Classifieds .....	66
Directory of Reinsurance Brokers .....	44
Global Briefs .....	59
Insurance Services Guide .....	64
International .....	59
Letters .....	8
Opinions .....	8
Perspectives .....	39
Ticker .....	72

*Business Insurance* (ISSN 0007-6864) Vol. 34, No. 43, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207. \$4 a copy and \$89 a year in U.S. \$108 in Canada and Mexico (includes GST). All other countries \$209 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Copyright 2000 by Crain Communications Inc.

# Early firming affects market tone but little else

By JUDY GREENWALD

**T**he hardening reinsurance market is taking center stage these days.

Although there has clearly been a turn, reinsurers, analysts and others are awaiting the January renewals to see how much firming has occurred. And although reinsurers say that their situation is improving, there is a consensus that this first round of hikes is unlikely to compensate for several years of intense competition.

Many in the industry believe that the presence of the capital markets as a potential competitor may curb drastic hikes (see story, page 12).

Meanwhile, the pace of merger and acquisition activity is expected to be slow, because most potential acquisition candidates al-

ready have been absorbed.

And despite the hardening market, the large amount of capital needed to get into the business is expected to deter any potential multiline start-ups, although more niche and special-purpose reinsurers are expected (see story, page 26).

At the same time, reinsurers must continue to contend with excess capital, although the degree to which the industry is overcapitalized is in dispute (see story, page 14).

Many observers say the turn in reinsurance rates affects all lines generally, although it is being led by the retrocessional and property segments. Other lines cited as firming include long-term casualty, workers compensation, professional liability, trucking, accident/health and medical malpractice.

David Robb, president of reinsurance operations for The Hartford Financial Services Group Inc. in Hartford, Conn., said: "I think, from what we've seen in the marketplace, if you compare, say, January to April to July—which are key renewal months—from a reinsurance perspective, things have been improving since the beginning of the year."

"January was not a very big change for most people, April was modest, and in July we began to see some meaningful changes," Mr. Robb said. "I think the market is responding to three of the worst years we've had in a long time, with '98 and '99 being particularly difficult, so I think there is a general sentiment that things need to improve," he said.

The Reinsurance Assn. of America has reported the industry's combined ratio at 112.2% for the

first half of this year. The Washington-based RAA reported ratios of 113.8% for year end 1999 and 104.4% for year end 1998.

"Everything's going up," although the increases range from slight to dramatic, said Salvatore Zaffino, president and chief executive officer of reinsurance intermediary Guy Carpenter & Co. in New York. And the hikes seem to be reasoned, rather than a knee-jerk reaction, Mr. Zaffino added.

"Nationwide, S&P would expect we're going to see premiums increase by maybe 7% in 2001," said Donald Watson, a director at Standard & Poor's Corp. in New York. "There are significant increases in some lines, but on an across-the-board basis; it's not going to be a dramatic change," Mr. Watson said. "Any increase is a positive factor for the reinsurance industry." The good news for

risk managers, he added, is that the increases "should be well managed."

Michael Schell, president and chief operating officer of St. Paul Re in New York, said: "On the whole, the reinsurers are taking on exposure on a more reasoned basis, because most reinsurers have had very poor experience over the last 12 to 24 months. And the psychology of the business has changed, where a large number of reinsurers are more afraid of keeping business on current terms than they are of losing business if they change the terms."

"I would say that there are still a few outliers in certain classes of business or certain geographic areas, but I would expect that probably has to do with an execution issue, rather than a policy issue. I don't know of any reinsurer that I

See Outlook on next page

## Demand up to cover adverse development

By DOUGLAS McLEOD

**I**n insurance industry mergers and deteriorating insurer finances are combining to expand a long-established line of business for reinsurers: adverse loss development covers aimed at rescuing insurers from themselves.

Reinsurers have seen a rising demand for the coverage, both to protect buyers of insurance companies from the acquired insurers' past liabilities and to help troubled insurers reorganize and regain their footing in the market.

The programs take various forms, sometimes including an equity investment in the ceding company by the reinsurer and sometimes consisting of only an option granted to the ceding insurer to buy the reinsurance at a future date.

While adverse development covers have existed for years, they got a boost in the late 1990s, when the Financial Accounting Standards Board concluded that restrictive accounting rules don't apply in cases where an insurance company

seller arranges the reinsurance as a reserve guarantee for the buyer.

The FASB statement coincided with an explosion of mergers and acquisitions in the insurance industry, creating new demand for adverse development coverage. More recently, the coverage has also attracted insurers facing financial problems caused by mounting losses on underpriced business.

"What this does for a troubled company is give it the ability to say, 'Look, if you're worried about my reserve adequacy, they're not my reserves anymore,'" said Kirk Roeser, president of intermediary Gill & Roeser Inc. in New York.

Viewed by some as relatively low-risk deals for reinsurers in the short term, the longer-term consequences as losses develop are less clear and require reinsurers to be especially cautious in analyzing their potential exposure, market observers say.

"If you got it wrong (and) if you are counting on being able to fix things as you go along, then you've got the wrong

See Adverse on page 20

## World's largest reinsurance brokers

Company	Gross revenues <sup>1</sup>		Employees		% Treaty	
	1999	% change	1999	% change	1999	1998
Aon Re Worldwide	\$655,000,000 <sup>2</sup>	5.6 <sup>2</sup>	3,000	-3.2	NA	NA
Guy Carpenter & Co. Inc.	526,000,000	4.8	2,080	-3.7	95	96
Willis Re	253,000,000	2.4	870	2.5	92	92
E.W. Blanch Co. Inc.	177,383,508	8.4	1,291	10.9	100	100
Benfield Greig Group P.L.C.	159,055,872 <sup>3</sup>	6.6	535	14.6	NA	NA
Heath Lambert Group	102,718,000 <sup>4</sup>	3.7	4,580	-7.8	60	55.4
JLT Risk Solutions Ltd.	86,287,940 <sup>3</sup>	16.0	NA	NA	72	100
Towers Perrin Reinsurance	51,300,000	8.0	224	4.2	97	95
John P. Woods Co. Inc.	25,000,000 <sup>5</sup>	11.6 <sup>6</sup>	71	4.4	98	98
John B. Collins Associates Inc.	20,829,000	35.3	78	30.0	100	100

<sup>1</sup> Based on reinsurance brokerage and services only <sup>2</sup> B/I estimate <sup>3</sup> Fiscal year ending 12/31/99 (British pound = \$1.618) <sup>4</sup> Fiscal year ending 3/31/00 (British pound = \$1.595) <sup>5</sup> Fiscal year ending 6/30/00 <sup>6</sup> 1998 revenues have been restated NA = Not available  
Source: B/I survey

## New business, not firmer rates, fueling intermediaries' growth

By SALLY ROBERTS

**F**aced with a changing market landscape, the world's largest reinsurance intermediaries remain committed to providing innovative solutions to ceding clients' needs.

The reinsurance market is showing signs of tightening, intermediaries say, noting that capacity is beginning to erode, particularly in the property catastrophe retrocessional market. And while most brokers say that reinsurers are not trying to obtain across-the-board increases, one reinsurance brokerage executive said he thinks reinsurers currently are not making enough of a distinction between good risks and bad ones in imposing rate increases.

Regardless, brokers say that it is new business production, rather than market firming, that has fueled their success in 1999 and so far this year. Due to continued consolidation in the primary insurance marketplace, the reinsurance pie continues to shrink, prompting intermediaries to look for other means of generating business. In some cases, brokers

have turned to marketing new or enhanced products and services—such as catastrophe modeling, dynamic financial analysis and various e-commerce initiatives—to attract new clients. Others are focusing on new lines of business, while some continue to obtain new business the old-fashioned way—by attracting producers and clients away from competitors.

Consolidation also remains a key growth strategy for many reinsurance intermediaries, although the frenzy of a few years ago has died down.

Indeed, consolidation once again played a role this year in *Business Insurance's* rankings of the world's 10 largest reinsurance intermediaries. *BI* ranks intermediaries based on their revenues from reinsurance brokerage and services in 1999.

Most notably, London-based reinsurance brokers Heath Group P.L.C., which ranked as the seventh-largest reinsurance intermediary last year, and Lambert Fenchurch Group P.L.C., No. 8 last year, combined in late 1999 to form Heath Lambert Group. Heath Lambert made its debut this year in the No. 6 spot, with

\$102.7 million in pro forma 1999 revenues, a 3.7% increase over pro forma 1998 figures.

The merger made room for a new reinsurance broker to join the top 10. Minneapolis-based independent John B. Collins Associates Inc. occupied the No. 10 spot, with \$20.8 million in 1999 revenues.

In addition, John P. Woods Co., which ranks as the ninth-largest reinsurance intermediary, with \$25.0 million in 1999 revenues, has a new owner. The Jersey City, N.J.-based broker was acquired last month by Itasca, Ill.-based Arthur J. Gallagher & Co., the world's fourth-largest retail broker (*BI*, Sept. 11). This did not affect the ranking, though, because John P. Woods' will be run as a stand-alone subsidiary of Gallagher, as opposed to merging with Gallagher's existing reinsurance intermediary, New York-based Arthur J. Gallagher Intermediaries Inc.

And while John P. Woods opted to forgo its independence and merge with a larger, publicly traded retail broker, a group of former Aon Re Inc. executives re-

See Brokers on page 32

### Inside:

**Multiline reinsurers** High capital requirements are deterring start-ups. **page 10**

**Capital markets** Increased interest may hold down reinsurance rate hikes. **page 12**

**Capital** Experts disagree over how much excess capital the industry has. **page 14**

**Alternatives** Speciality and niche reinsurers continue to proliferate. **page 26**

**Directory of Reinsurance Brokers** **page 44**

Spotlight Editor: Judy Greenwald

## Outlook

Continued from previous page would believe has a policy of trying to gain market share by having discounted rates from where they need to be," Mr. Schell said.

Mr. Schell also noted that the tone of meetings between St. Paul Re and primary insurers has changed as well. Until recently, he explained, when he met with clients, Mr. Schell would discuss the exposures, the expected loss costs and then what, logically, the reinsurance rates would be.

The clients, in turn, would respond that they expected discounts off expected loss costs and were "not in a position to pay more for reinsurance than their competitors do," Mr. Schell said.

But since July 1, the subject of

such discounts no longer arises. Instead, clients now focus on St. Paul Re's understanding of the exposures and on its estimate of expected loss costs. No longer do clients approach the issue of rates from the perspective "that the market will support a price 25% less than the correct pricing," Mr. Schell said.

The tone of the market has changed, agreed Hoyt H. Wood Jr., executive vp of Overland Park, Kan.-based Employers Reinsurance Corp. "I think you'll find not just prices going up but a lot of reinsurers withdrawing from programs where they don't think primary pricing is getting where it's supposed to be fast enough."

"The psychology is definitely changing," said Urs Nussbaum, New York-based head of the glob-

al and national client segment of Swiss Re America Corp.'s U.S. direct reinsurance operations.

One indication of that change is that primary companies with "sensitive" issues are approaching

**'I don't think one year can overcome, really, a sustained period of underpricing the business,' says Dave Tritton.**

their reinsurers early in the renewal process. "There's quite a lot of preparedness right now on the buyers' side," Mr. Nussbaum said. "They want to get ready to think about options now," such as dif-

ferent structures for their deals, if necessary. This stands in contrast to last year, he said, when there was "a lot of action between Christmas and year end."

Mr. Nussbaum also denied some market reports that Swiss Re has been undercutting competitors in the market. "I don't believe we've actually done that," he said. Mr. Nussbaum noted that some business in which Swiss Re did not participate in the past because the company felt that the rates were inadequate has now improved to levels Swiss Re considers adequate.

"I don't think you're going to see any renewals 'as is' or price cutting," said William L. Munson, president and chief operating officer of Morristown, N.J.-based Toa Reinsurance Co. of America.

This unwillingness to cut rates

is being driven as much by pricing as by the weak investment environment, which has left reinsurers' bond portfolios at below-par levels, Mr. Munson said. "I think people have no choice but to underwrite a lot more carefully than they have in the past," he said.

But despite reinsurers' resolve to improve their lot, many in the industry maintain that the current rate hikes will not be sufficient.

"I think it's pretty unanimous right now, and I think everybody wants to see rates moving upward," said Chris Brockett, senior vp at Towers Perrin Reinsurance in Philadelphia. "My experience is the reinsurers really want to know what's happening with primary rates and will take that into consideration when they rate reinsurance transactions," he said.

But, Mr. Brockett said, the long period of soft prices on the primary side, which has been compounded by competitive reinsurance rates, means "one round of rate increases is probably not going to solve the entire situation. Sounds pretty bleak, doesn't it?"

Another observer agreed. "Across the board, reinsurers are saying that they're seeking rate increases anywhere from 10% to 20%, but the question is whether or not that's going to be enough," said Robert DeRose, senior financial analyst with Oldwick, N.J.-based A.M. Best Co. That question will not be answered until the January renewals, he said.

"I don't think one year can overcome, really, a sustained period of underpricing the business," said Dave Tritton, senior vp at Princeton, N.J.-based American Re-Insurance Co. Mr. Tritton added that the difference between the current market conditions and those in 1985 is that, in the mid-'80s, there was a "violent shift in the market," which created a crisis of affordability and availability for buyers.

That is not happening now, and "it's probably a good thing," he said. "I think the industry would like to see modest increases sustained over a period of time vs. huge increases that create dislocations."

ERC's Mr. Wood also pointed to differences between now and the mid-1980s. Primary companies have become very sophisticated with regard to what reinsurance they buy and how it is priced, he said. In the soft market, he said, "they bought a lot of reinsurance because it was affordable."

But now, Mr. Wood said, "We're hearing various companies saying, as the price goes up, 'We're just going to keep more net.'" Furthermore, because ERC is insisting on better terms, he said, "We don't expect to have a lot of growth out of the hard market."

In the mid-'80s, "the hardening was pretty fantastic for reinsurers, pretty brutal for customers. I don't see that repeating itself," Mr. Wood said.

Meanwhile, merger and acquisition activity is expected to continue among reinsurers, although the overall pace will be slower than in recent years, given the diminished number of candidates.

Deals over the past year include ACE Ltd.'s successful battle for Capital Re Corp.; Swiss Reinsurance Co.'s acquisition of Underwriters Re Group Inc.; Folksam-Reinsurance Co.'s purchase of Risk Capital Reinsurance Co.; the merger between Trenwick Group Inc. and LaSalle Re Holdings Ltd.; and Markel Corp.'s acquisition of Terra Nova Holdings Ltd.

See Outlook on page 6



# Electrifying

**PMA Re**

brainstorms

mean

powerful

contacts.



**PMA Re**

**Risk Management Solutions**

Treaty & Facultative Reinsurance, Finite Risk & Financial Management Products

215.665.5000 • fax 215.665.5286 • www.pmare.com



**Faster  
Smarter  
Better  
Leader**

*Responsive.  
Flexible.  
Innovative.  
Global.*

**Kemper  
Surety**

CONTACT YOUR BROKER OR  
[WWW.KEMPERINSURANCE.COM](http://WWW.KEMPERINSURANCE.COM)  
OR 1-800-368-2636

 **Kemper**<sup>®</sup>  
Insurance Companies

*Insurance for today's world.*

# Outlook

Continued from page 4

Most of the transactions that were going to occur during the "first phase of consolidation" have already taken place, said John Wicher, managing director of San Francisco-based Russell Miller Corporate Finance Inc., an insurance investment banking firm. "Does that mean that we won't see additional transactions? Of course we will," he said.

But, Mr. Wicher said, the next phase of consolidation will involve even-larger global financial institutions that are not necessarily insurers.

Consolidation will continue, "but at a reduced pace, just because there are fewer candidates out there," said Steven Bolland,

senior vp at intermediary Gill & Roeser Inc. in New York. In addition, Mr. Bolland said, "there's probably a limit to the consolidation in the market, in the sense that

have a presence in the U.S., and, therefore, they're not looking at it as an economic decision," Mr. Bolland said. Rather, he said, "they feel the need to have a presence in

**'We're going to continue to see acquisitions of companies that are in weakened conditions or...in situations where they cannot finance their own growth...' says Philip N. Ben-Zvi.**

some people are becoming big enough (that) they believe they have the economies of scale to stand alone."

Furthermore, "a number of reinsurers in the U.S. are subsidiaries of overseas operations that want to

the largest market in the world."

Not all the publicly traded companies will perform up to investors' expectations, and those that don't will become takeover candidates, said Swiss Re's Mr. Nussbaum. The next 12 months

"are going to show a group of companies that are equipped to deal with this market landscape better than others, and I wouldn't be surprised if those made a move on some of the companies that are not as equipped, that are slower to move," he said.

Consolidation will take place among smaller players, said Best's Mr. DeRose.

"You have to have at least \$1 billion of capital to be considered a market player," he said, noting that those companies that lack such capital could seek to become part of larger organizations.

Karen Davies, vp and senior analyst at rating agency Moody's Investors Service in New York, said the rating agency expects M&A activity to "continue along the lines of the mergers we've seen recently...where they're really looking to

assume just portfolios of business to complement their current portfolio—more of a premium-growth opportunity than a strategic play." Examples of that approach, Ms. Davies said, include Trenwick's acquisition of Chartwell Re Corp. and its merger with LaSalle Re, as well as Folksamerica's Risk Capital Re acquisition.

Phillip N. Ben-Zvi, a principal with PricewaterhouseCoopers in New York, said that he believes "we're going to continue to see acquisitions of companies that are in either weakened conditions or, perhaps, in situations where they can't finance their own growth and the acquirer may have been looking for expansion—either into product lines or in geographic areas or distribution networks—and can get them at reasonable prices at this time."

The buyers will be large or even giant companies, while their targets are likely to be small or medium-sized firms, Mr. Ben-Zvi said.

Hartford's Mr. Robb said that, although most of the desirable properties have already been acquired, "it wouldn't surprise me to see more merger activity among some of the smaller players to get to the kind of scale and critical mass they need to compete for the kind of security people are looking for."

"But," he said, "at the top end, I just don't know. I haven't seen it, and I don't know what advantage it would give someone above acquisitions already achieved in the past."

Observers also point to the declining number of publicly held reinsurers. At one time, there was only one such reinsurer, General Re Corp., said Gary Ransom, senior vp at Hartford, Conn.-based insurance research firm Conning & Co. Then, in the late 1980s and early '90s, many new publicly traded companies were created with new capital. "Now, we've radically trimmed that over time," Mr. Ransom said.

"It's just that the independent reinsurer is at a disadvantage compared to the larger enterprises, which may have more capital strength and, perhaps, have a better rating. It seems to me you could argue the market is shifting towards the larger, more-global and better-capitalized players," Mr. Ransom said.

S&P's Mr. Watson said that "the market continues to be very cyclical, and investors won't tolerate that."

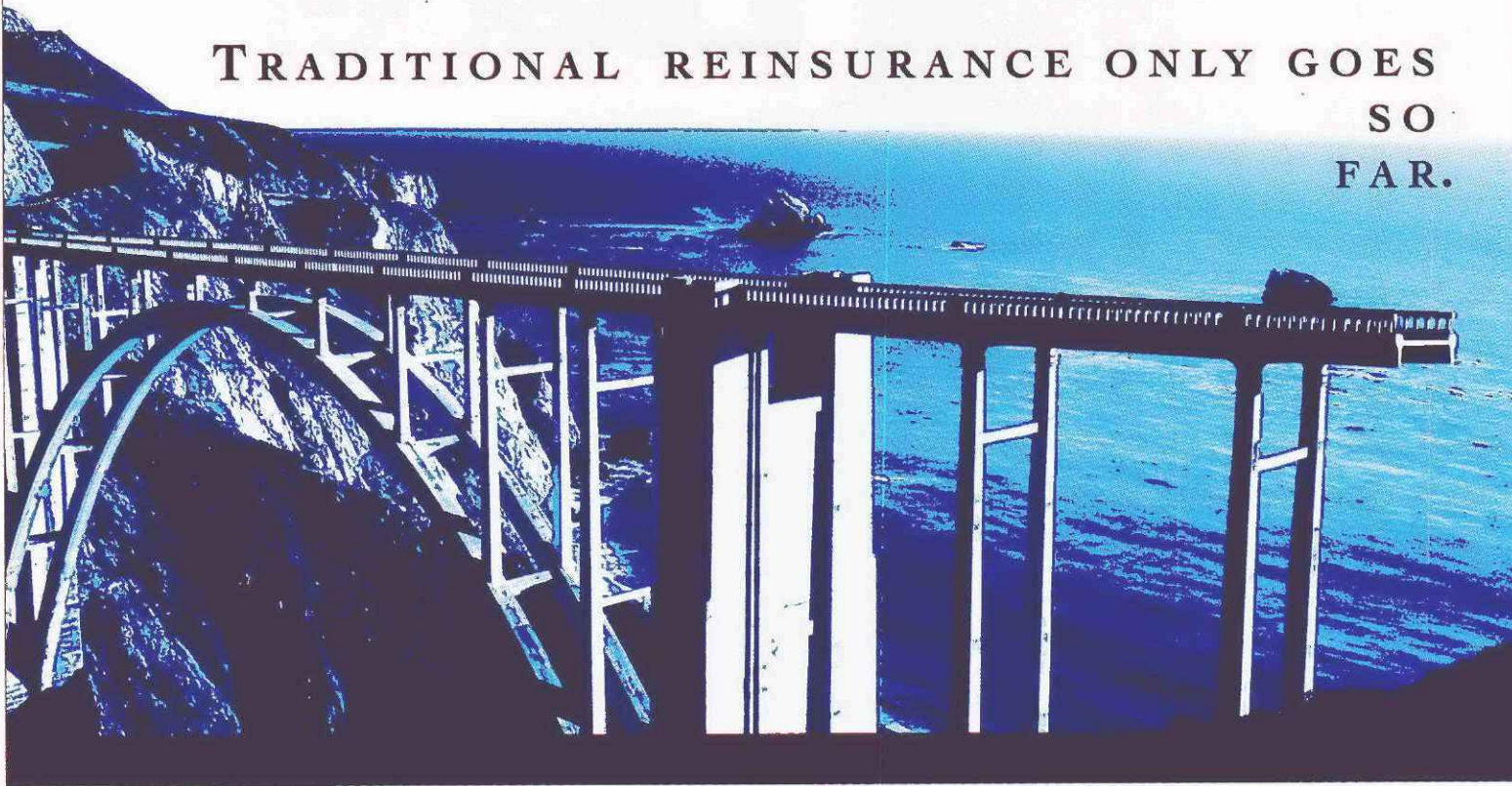
Over the past decade, there has been a significant flight to quality, with cedents moving to higher-rated entities, said Michael Paisan, vp and analyst at Keefe, Bruyette & Woods in New York. "And that's the reason why a lot of the larger reinsurance companies today are no longer publicly traded," Mr. Paisan said.

"They were acquired by much-larger entities looking to build their capital base," Mr. Paisan said, "and I think that's, ultimately, the kind of shakeup we'll see within the reinsurance market."

Mr. Paisan pointed to the Bermuda reinsurers as likely acquisition candidates. Free-standing Bermuda entities that remain include Partner Re Ltd., International Property Catastrophe Reinsurance Co. Ltd. and Renaissance Reinsurance Ltd.

Such companies are more likely to be acquired than to buy companies themselves, Mr. Paisan said. "They're just not big enough," he said. "Reinsurance is very ratings-sensitive, and you need a strong balance sheet to do that." **BI**

## TRADITIONAL REINSURANCE ONLY GOES SO FAR.



It isn't just the fear of large scale property losses or costly liabilities from serious accidents that keeps brokers and cedents on edge these days. Now it's also volatile securities markets, unusual climatic conditions and the far-reaching effects of technology sabotage that pose problems. And though traditional reinsurance is more necessary than ever, it simply can't cope with all the new risks that business and industry are facing every day.

At St. Paul Re, we have the expertise, resources, energy and ingenuity to provide customized reinsurance solutions that bridge the gap. Today we're helping our clients by designing structures that effectively manage the unforeseen. For instance, enabling an insurer to maintain consistency and financial stability by utilizing a broadly triggered multi-year balance sheet protection cover. Or protecting a utility company's revenue stream from an unusually cool summer or warm winter. Or facilitating a merger or acquisition by capping uncertain prior liabilities.

Expertise. Flexibility. Creativity. All backed by a \$6 billion surplus and financial ratings among the highest in the industry. To find out more about St. Paul Re visit our website at [www.stpaulre.com](http://www.stpaulre.com).

# St Paul Re



*Please*  
**Do Not  
Disturb**

We won't—but an earthquake might.  
Good thing Aon identified weak spots  
in our building plans (and helped us  
reinforce them) before we even started  
building our flagship hotel.



**AON**

*Insure your vision*

Anticipates risks. Finds solutions. Eliminates obstacles between you and your vision. Visit [aon.com](http://aon.com)

# Current climate not favorable for multiline start-ups

By JUDY GREENWALD

**N**ew multiline reinsurers are expected to emerge in the coming months, although some new special-purpose or highly specialized niche reinsurers may be formed.

One deterrent to the formation of new multiline reinsurers is the amount of capital required.

Michael Schell, president and chief operating officer of St. Paul Re in New York, said: "If you have to put up \$500 million of capital in order to get clients to even consider using you as a reinsurer, it's too difficult building revenue streams to support a reasonable return on equity on that cap-

ital. It would be different if there were a shortage of capital."

"The barriers to entry to this business continue to move higher—the barriers to entry principally being lots and lots of money. And, in actuality, the history of new reinsurance enterprises has not been all that favorable," said Michael Smith, an analyst with Bear Stearns & Co. Inc. in New York, citing the example of Risk Capital Reinsurance Co., which was formed in 1995 and which last year was bought by Folksamerica Reinsurance Co.

Karen Davies, vp and senior analyst at rating agency Moody's Investors Service Inc. in New York, said, "I think as the market hardens, a lot of less desirable books of busi-

ness or pieces of business will be floating around out there, so start-up reinsurance companies will face the added risk of adverse selection."

"I think there's enough capacity in the market right now that it will be difficult for a new reinsurance company to come in and grow profitable," which has been demonstrated by Risk Capital Re, among others, which attempted to grow quickly in a very soft market, Ms. Davies said.

"I would say that, right now, it just doesn't make a lot of economic sense" to start a new multiline reinsurance company, said Michael Paisan, vp and analyst with Keefe, Bruyette & Woods in New York.

With prices still competitive and interest rates low, reinsurers cannot

engage in cash-flow underwriting. Such an approach made more sense in the mid-1980s and early '90s, when interest rates were in double digits, said Mr. Paisan.

David Robb, president of reinsurance operations for The Hartford Financial Services Group Inc. in Hartford, Conn., said: "There's always an influx of capital when it's perceived that markets are hardening.

"The problem with new start-up operations is that the entry threshold has gotten pretty high in terms of buyers' requirements for security, and also there's very little leverage, if any, left in a stand-alone reinsurance company, which makes returns, even at improving rates, fairly marginal."

In addition, there is no need for ad-

ditional capacity in the market right now, said Mr. Robb. As a result, although specialist reinsurers may be created, "I don't see a big influx of capital at the moment."

"There's probably still enough capacity in the business to preclude a huge influx of new reinsurers," agreed Phillip N. Ben-Zvi, a principal with PricewaterhouseCoopers in New York.

Investors do not expect the market hardening to reach the point it did either in the mid-1980s for casualty coverages or for cat coverages after 1992's Hurricane Andrew, "so I don't think we'll see giant reinsurance companies being formed," Mr. Ben-Zvi said.

But "there's always people looking for niche opportunities," and some companies may try to take advantage of particular conditions or situations by creating niche reinsurers, said Mr. Ben-Zvi.

Steven Bolland, senior vp with reinsurance intermediary Gill & Roeser Inc. in New York, agreed. "I think it would be very difficult to set up a generalist reinsurance company at this time," he said. "You're going to have to see a very significant increase in the rates of return being achieved before any capital would be attracted to the market."

Mr. Bolland pointed to the formation of special-purpose insurers Arrow Reinsurance Co. Ltd., set up by Goldman Sachs & Co., and Lehman Re Ltd., formed by Lehman Brothers, saying: "I think you're going to find some special-purpose reinsurers being formed, where somebody has a specific idea in mind and says 'Here's a concept we like. We're willing to put in enough money to make it work.'"

Referring to Arrow Re and Lehman Re, Mr. Ben-Zvi said, "I suspect there will be a few more people who will try to do similar kinds of financially oriented deals, bringing in the investment community to reinsurance alternatives." There will not be many, "but there will be a few," he said.

"I do think that you'll begin to see special-purpose reinsurers," said Mr. Paisan. "The reinsurance marketplace is a very, very sophisticated marketplace," he said. "The trend in reinsurance is going toward the more sophisticated, specialized type of products where you need some very, very distinct intellectual capital. And those companies that have a significant amount of intellectual capital do have advantages," Mr. Paisan said.

John Wicher, managing director of San Francisco-based Russell Miller Corporate Finance Inc., an insurance investment banking firm, said there will be a "continued role and demand" for the special-purpose reinsurers, which can operate with a very small staff.

He predicted Bermuda's tax and regulatory advantages would continue to make it an attractive domicile for these "virtual" companies, which will have an operating-cost advantage.

William L. Munson, president and chief operating officer of Morristown, N.J.-based Toa Reinsurance Co. of America, also pointed to Element Re, the weather-risk unit recently created by Bermuda-based XL Capital Ltd. (BI, Oct. 2), as an example of how people with "realistic capital positions" can create solutions to meet specific needs.

"Somebody could easily do that if they thought it was an opportunity, and it wouldn't be the same as coming in and doing the traditional reinsurance products." **BI**

**YOU CAN'T DO BETTER THAN FIRST**

Focus, drive, a quest for perfection.

That's what it takes to be competitive — that's what it takes to win. Put us on your team and we'll go the distance to solve any professional liability challenge you can bring our way. Call now. It's your turn to come in First.

**FIRST STATE**

Property

Professional Liability

Programs

*We just arrived,  
but we've  
made a*

*big impression.*



Introducing Overseas Partners US Reinsurance Company, the new U.S. subsidiary of Overseas Partners Limited, a multi-billion dollar Bermuda-based reinsurer. We've just landed in America with \$275 million in committed U.S. capital, authorized in all 50 states, and a well-known American staff with the expertise to answer your needs.



**OVERSEAS PARTNERS US REINSURANCE COMPANY**

A member of the Overseas Partners Ltd. group of companies.

Philadelphia • 215-282-6100

# Capital markets may be alternative to rate hikes

By JUDY GREENWALD

**T**he capital markets' willingness to become involved in the reinsurance market may act as a brake to exorbitant rate hikes as reinsurers firm up pricing.

So far, though, the capital markets generally have not become a viable alternative to traditional reinsurance for most cedents, market observers say. Among the reasons, they say, are the time it takes to set up a deal, capital markets' concentration on the catastrophe market, the markets' lack of expertise in the reinsurance arena and their reluctance to assume significant risk.

Even so, the capital markets' interest in reinsurance may be enough to persuade reinsurers to hold the line on hikes.

"I just don't see the reinsurance market being able to increase prices 200% 300% in one year," said Steven Bolland, senior vp with reinsurance intermediary Gill & Roese Inc. in New York.

"People are aware that there are now alternatives. A lot of the larger companies have explored these and found them to be currently uneconomical for them," he said. But, if rates double or triple, "then maybe they'll find they aren't uneconomical," he added.

"I think the ability of new capital, in whatever form, to come into

the market will certainly be a brake," said John Berger, president of Chubb Re, a Bernardsville, N.J.-based unit of Chubb Corp.

All alternatives, including capital markets as well as captives and other alternative risk vehicles, will act as a brake to traditional reinsurance rate hikes, said Donald Watson, a director at Standard & Poor's Corp. in New York. "As prices get higher and stronger in the traditional reinsurance market, it makes these alternatives more attractive."

"I think the capital markets is a viable alternative to traditional reinsurance," said Joseph Fedor, executive vp at intermediary U.S. Re Corp. in New York.

Although the capital markets are more of a longer term than a short-term solution, "just the presence of the capital markets would allow the buyers to be cautious about accepting automatic rate increases from the reinsurance market," he said.

However, Mr. Fedor added, it takes about three months to access capacity in the capital markets, so unless something is already in place, or the backup work has already been done, "it would take a sizable amount of work to access" in time for year-end renewals.

Furthermore, "capital market managers do have a fair understanding of risk/reward and it's highly likely that they will trend to

become more expensive for what they are willing to offer." This may not be "at quite the same pace as the retro or reinsurance market, but they will increase prices as well," he said.

"I think the capital markets has a ways to go insofar as educating the purchaser of that business," said Brian Meredith, senior property/casualty insurance analyst with Banc of America Securities in New York, talking about investors. A firm reinsurance market will definitely increase its popularity, "but I don't think it's going to be enough to take any significant share away from the traditional market currently."

See Capital on page 14

**CORPORATE SOLUTIONS**

**you**

*At the center of our universe*

Now there's a partner you can do business with. Wherever you are. Whenever you need. A one-stop shop that saves valuable time by handling your company's insurance, reinsurance and service needs. AXA Corporate Solutions brings together the expertise of AXA Global Risks, AXA Re and AXA Cessions to offer



more competitive choices across the line. All backed by the AXA Group's financial strength across the planet. A simple call is all it takes to start leveraging your risk management decisions with our integrated solutions today.

See [www.axa-corporatesolutions.com](http://www.axa-corporatesolutions.com) for contact details.

*Your world* **beyond frontiers**

**"Be sure that you return it."**

If you're racing through this issue of *Business Insurance* because you "borrowed" it from a colleague, you should have your own subscription.

Then you'll be first on the list. You can take as much time as you like with all of *Business Insurance's* exclusive worldwide news of corporate risk, employee benefit and managed health care every week.

**To subscribe, use the card in this issue or call 1-888-446-1422 toll free.**

**Subscription rates in U.S. dollars for 1 year, 52 issues.**

U.S.	\$89
Canada*/Mexico	\$108
All other countries by expedited air	\$209

\* Price includes Canadian GST.

Ask about our special 20% off group rate for five or more subscriptions.

**Business Insurance**

Subscription Dept.  
965 E. Jefferson  
Detroit, MI 48207  
Outside the U.S.,  
call (313) 446-0450

# discover the difference

The New Choice in Global Reinsurance

Partner Reinsurance Company  
SAFR PartnerRe

Auckland Bermuda Buenos Aires  
Cambridge Hong Kong Kansas  
Montreal New York Oslo Paris  
Santiago Seoul Singapore  
Tokyo Toronto Zürich

[www.partnerre.com](http://www.partnerre.com)



PartnerRe



# Capital

Continued from page 12

William L. Munson, president and chief operating officer of Morris-town, N.J.-based Toa Reinsurance Co. of America, said, "If pricing gets excessive, then people will find alternatives."

But, he added, the capital markets are not jumping at the chance to take on risk, and most products do not meet insurers' specific needs.

Mr. Munson said that most of what he sees in terms of capital markets' involvement are efforts to offload exposure to other people "or create artificial results for stock market consumption."

"If reinsurance rates were to double and triple, then you would have to say the capital markets would have an opportunity," said Michael

Smith, an analyst with Bear Stearns & Co. Inc. in New York. "But given what we're hearing, even in terms of double-digit rate increases, I think it becomes a matter of efficiency as much as anything else. It's easier to deal with the traditional reinsurers, and I think the jury is still out as to whether or not the capital markets will come back after the first time they are really tested

"Under those circumstances, a ceding insurance company is going to be less willing to abandon a long-term relationship to a price advantage that a capital market may offer," he said. "Almost all the emphasis on the capital markets has been on property cat reinsurance, and the difficulties we've seen in the reinsurance market today are much more widespread," and involve areas in which the capital markets are just not involved.

"If the capital markets want to get involved in those areas, then we have a whole new problem to deal with," said Mr. Smith, "because then it would represent irrational competition."

The capital markets' involvement "is the 64 million-dollar question right now," said Chris Brockett, senior vp at Towers Perrin Reinsurance in Philadelphia. "I don't see the capital markets really having an appetite to rush in and replace reinsurers in areas where the reinsurers are looking for the most dramatic increases I don't think they believe they have the expertise to want to do that."

A good example is the retrocessional market, Mr. Brockett said. "There's a real capacity crunch right now, but there's been little movement on the part of reinsurers to access the capital markets for se-

curitization to place their retrocessional protection. I think everybody's investigated it, but I don't think they find it to be an attractive alternative."

Roderick P. Thaler, executive vp and national director at Willis Re in New York, said, "Short term, I don't see that as being a viable alternative, because the capital market's assessment of the risk may also be changing," and its lower risk tolerance means it may not be a panacea for the capacity woes or needs of ceding companies.

While, in the long run, the capital markets will be a viable competitor to traditional reinsurance, the problem is that it is still in its infancy stages, and reinsurance is more attractive on a price basis, said Michael Paisan, vp and analyst at Keefe, Bruyette & Woods in New York. **B1**

## How much capital is too much capital?

By JUDY GREENWALD

**T**here is general disagreement over the extent to which the reinsurance industry is overcapitalized.

While some reinsurance experts and analysts continue to say the industry has far too much capital, others say that reinsurers today may have far less than is widely believed.

In addition, some add that industry capital may be diminished in the near future by such factors as firmer pricing, reserve deficiencies, insolvencies and the risk of investment downturns.

For now, however, some still maintain that the industry is seriously overcapitalized.

"It is a fact that there has been, and continues to be, excess capital in the industry, which works counter to the sound underwriting discipline that the segment really does need," said John L. Ward, of the Cincinnati-based Ward Financial Group.

"There's a tremendous amount of overcapacity," said Steven Bolland, senior vp with reinsurance intermediary Gill & Roeser Inc. in New York.

However, he added, as reinsurance prices increase, and lackluster investment returns are insufficient to offset the underwriting losses, "leveraging is going to improve naturally."

But Phillip N. Ben-Zvi, a principal with PricewaterhouseCoopers in New York, said even stock market downturns and underwriting losses would not put a big dent in the industry's capital level.

"I think there's so much excess capital that it would take an awful lot of years of poor underwriting and even a poor stock market to wipe out the excess capital. I don't even think the individual catastrophic events can do enough" to remove it, Mr. Ben-Zvi said.

"The only economic force I can envision drastic enough to impact the capital is interest rates," he said. "A spike in the interest rates would greatly diminish the value of the fixed-income securities being held, and that would quickly take out capital and might bring a lot more discipline to the industry."

As long as there is so much excess capital it is difficult for reinsurers to take "as tough a stance intellectually as they would like to take in terms of their underwriting and pricing," Mr. Ben-Zvi said.

Chris Brockett, senior vp at Towers Perrin Reinsurance in Philadelphia, said, "Some of it has to withdraw, but reinsurance has always been trapped between a rock and a hard place, because they've needed to have a lot more capital than there's opportunity to write business, because people look at capital as sort of proxy for staying power."

But "many organizations can't  
See Excess on page 18

## Flexibility To Chart Innovative Solutions.



Rely on the expertise of Signet Star.

It takes decades of focused expertise, combined with the rare trait of flexibility to devise the kind of innovative solutions necessary for today's reinsurance programs. And we keep your programs moving swiftly toward their objectives because you work directly with decision makers, reinsurance professionals who chart a smooth course around bureaucratic waters.

These are the resources you need to move business in the right direction.



A MEMBER COMPANY OF  
W.R. BERKLEY CORPORATION

NAVIGATE BY THE STAR.

© 2000, Signet Star Reinsurance Company

- Treaty Reinsurance, Florham Park, New Jersey • Facultative ReSources, Inc., Stamford, Connecticut; Atlanta, Georgia; Schaumburg, Illinois
- Alternative Risk Solutions, Florham Park, New Jersey • Fidelity & Surety, Schaumburg, Illinois
- Professional Liability, Florham Park, New Jersey • Primary Business Solutions, Florham Park, New Jersey •

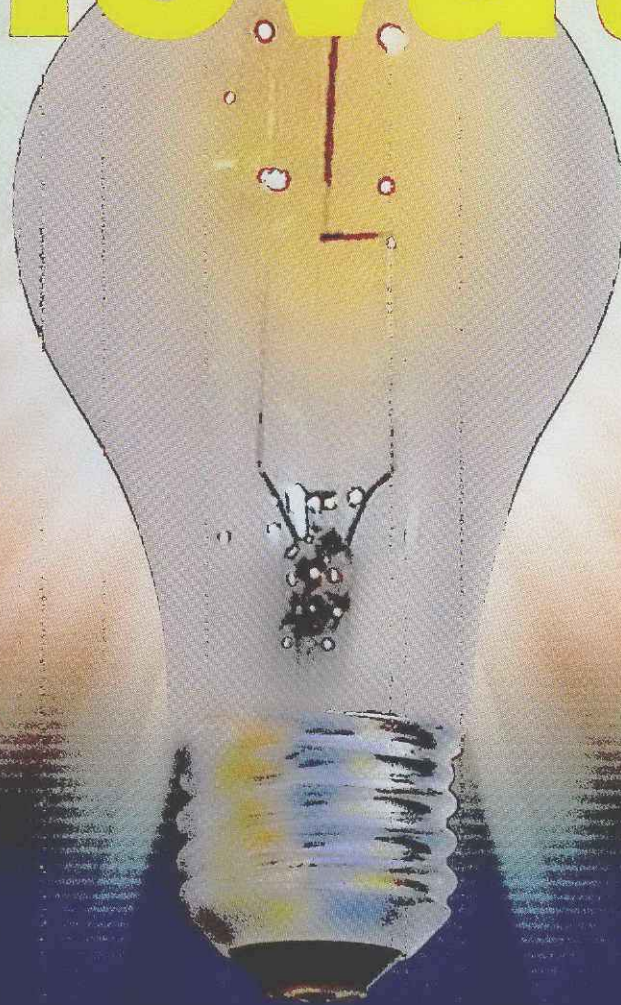


GERLING

GLOBAL FINANCIAL PRODUCTS INC.  
GROUP FINANCIAL PRODUCTS EUROPE LTD.

*Your Responsive Resource*

Frankly, we're more  
**innovative.**



Our Y2K Fix Product, named Product Innovation of the Year for 1999, was just one of many new insights and innovations produced by GGFP.

Everyday we apply the same innovative thinking to help our clients solve their business problems.

Let our team of creative thinkers show you how to view reinsurance in a new light.

GGFP - U.S. • 717 Fifth Avenue • New York, NY 10022 • (212) 745-0700 • [www.ggfp.com](http://www.ggfp.com)

GGFP - Europe • One Great Tower Street • London EC3R 5 AH • 44-207-696-8150 • [www.ggfpeurope.com](http://www.ggfpeurope.com)

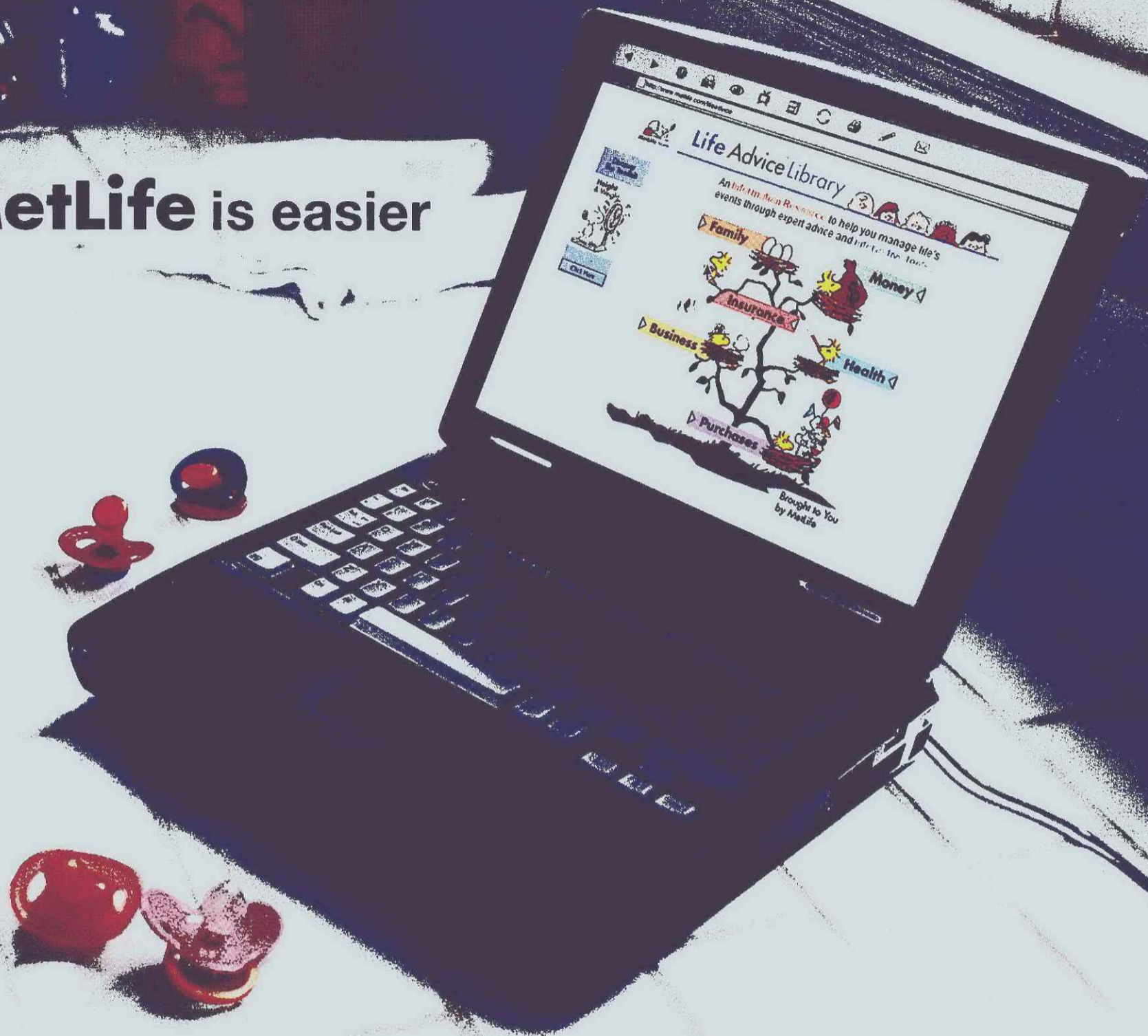


**Life is surprising**

1. Auto and Homeowner's Insurance underwritten by Metropolitan Property and Casualty Insurance Co. and Affiliates, Warwick, RI. In Texas, homeowner's insurance is provided by Metropolitan Lloyds Insurance Company of Texas. 2. Hyatt Legal Plans, Inc., Cleveland, OH. Subject to approval in some states. In certain states provided through insurance coverage underwritten by Metropolitan Property and Casualty Insurance Co. and Affiliates, Warwick, RI. 3. Available through Metropolitan Life Insurance Company group annuity contracts. 4. Mutual funds are offered by MetLife Securities, Inc., NY, NY. ©1999 Metropolitan Life Insurance Co., NY, NY. PEANUTS ©United Feature Syndicate, Inc. E99086GCK(exp0801)MLIC-LD

Dental • Disability • Life • Voluntary Benefits • Auto and Home • Long-Term Care •

**MetLife is easier**



MetLife's award-winning Life Advice® series — a unique online resource about specific life events — helps your employees deal more effectively with life's surprises, improve their quality of life, and enhance their financial picture.

As the leader in Group Life Insurance in-force (offering Term Life, AD&D, VAD&D, Group Universal Life and Group Variable Universal Life), we're dedicated to helping you help your employees navigate life's opportunities.

Call your MetLife representative or broker for details.

**MetLife® Group Life**



[www.metlife.com/business](http://www.metlife.com/business)

1-877-METBtoB

## Excess

Continued from page 14

get a decent return on that much capital, so lower returns might drive some of the capital out of the business, or it'll be deployed in other areas besides reinsurance," said Mr. Brockett.

Other observers also note the capital situation varies by company.

"I think you have to look at individual companies and see what makes sense for those particular companies," said Kaj Ahlmann, vice chairman of E.W. Blanch Holdings Inc. in Dallas.

Dave Tritton, senior vp at Princeton, N.J.-based American Re-Insurance Co., said that although the industry is obviously overcapitalized in the aggregate, the situation is different for each company. There are

some companies "that are still capital constrained or don't have the capital to do the things they need to do to be successful in the future," he said.

David Robb, president of reinsurance operations for The Hartford Financial Services Group Inc. in Hartford, Conn., agreed, noting that some companies are "hugely overcapitalized" while others are only modestly overcapitalized.

"There is some capacity coming out of the market" through losses, insolvencies, and withdrawals from the market, said Mr. Robb, who predicted there would be a slight reduction in capacity next year.

Some reinsurance observers, however, contend the industry is, in fact, not all that overcapitalized.

William L. Munson, president and chief operating officer of Morristown, N.J.-based Toa Reinsurance

Co. of America, said, "I think there's some excess capital, but I suspect it's a lot less than people think. We're seeing some significant evidence of under reserving."

**'I think people are using their capacity a lot more conservatively right now,' says Salvatore Zaffino.**

Furthermore, if reinsurers' investment portfolios are looked at from a generally accepted accounting principle basis—which reflects their market value—rather than from a statutory basis, it becomes apparent that "bond portfolios are under wa-

ter to a degree," said Mr. Munson.

"I don't think there's a lot of excess capacity out there," said Michael Smith, an analyst with Bear Stearns & Co. Inc. in New York. Reinsurers' ability to limit their exposures "has been diminished over time, which means that companies cannot leverage their capital to the extent they used to," he said. The industry's premium-to-surplus ratio currently is probably too low, "but it's never again going to go to 2-to-1."

Michael Paisan, vp and analyst at Keefe, Bruyette & Woods in New York, said: "I do believe there is a certain amount of excess capital in the industry. However, I don't think there's as much as others suggest."

For one, Mr. Paisan estimates that the industry is underreserved by about 15%, which means its capital is overstated.

"There's certain areas where there's actually a shortage of capacity," said Salvatore Zaffino, president and CEO of reinsurance intermediary Guy Carpenter & Co. in New York. These include retrocessional business and accident/health lines.

"I think people are using their capacity a lot more conservatively right now," said Mr. Zaffino, who predicted the excess capacity will shrink as a result of its utilization.

Hoyt H. Wood Jr., executive vp at Overland Park, Kan.-based Employers Reinsurance Corp., said, "There just has to be more disciplined thought around the use of our capital, whether it's excess or not, and different entities have different strategies and different vehicles by which to reduce their excess capital, if in fact they and their rating agencies and other constituencies feel they have more than they need." **BI**

We've got all the bases covered in transplant benefit management.

The United Resource Networks Transplant Network

The Transplant Access Program

Extra Contractual Services

Extraordinary savings, clinical excellence and network access make United Resource Networks the nation's leader in transplant benefit management. With even more ways to meet the needs of patients and clients, including expanded transplant access and financial relief contracting; you'll win when you go with the leader.



**United Resource Networks**

For The Most Specialized of Care

877-572-3042

www.urnweb.com

**ARCHIVES**

Order  
Your  
Access  
Now!

*Business Insurance* offers searchable online archives containing the full text of all articles and directories in the magazine from January 1994 to the present.

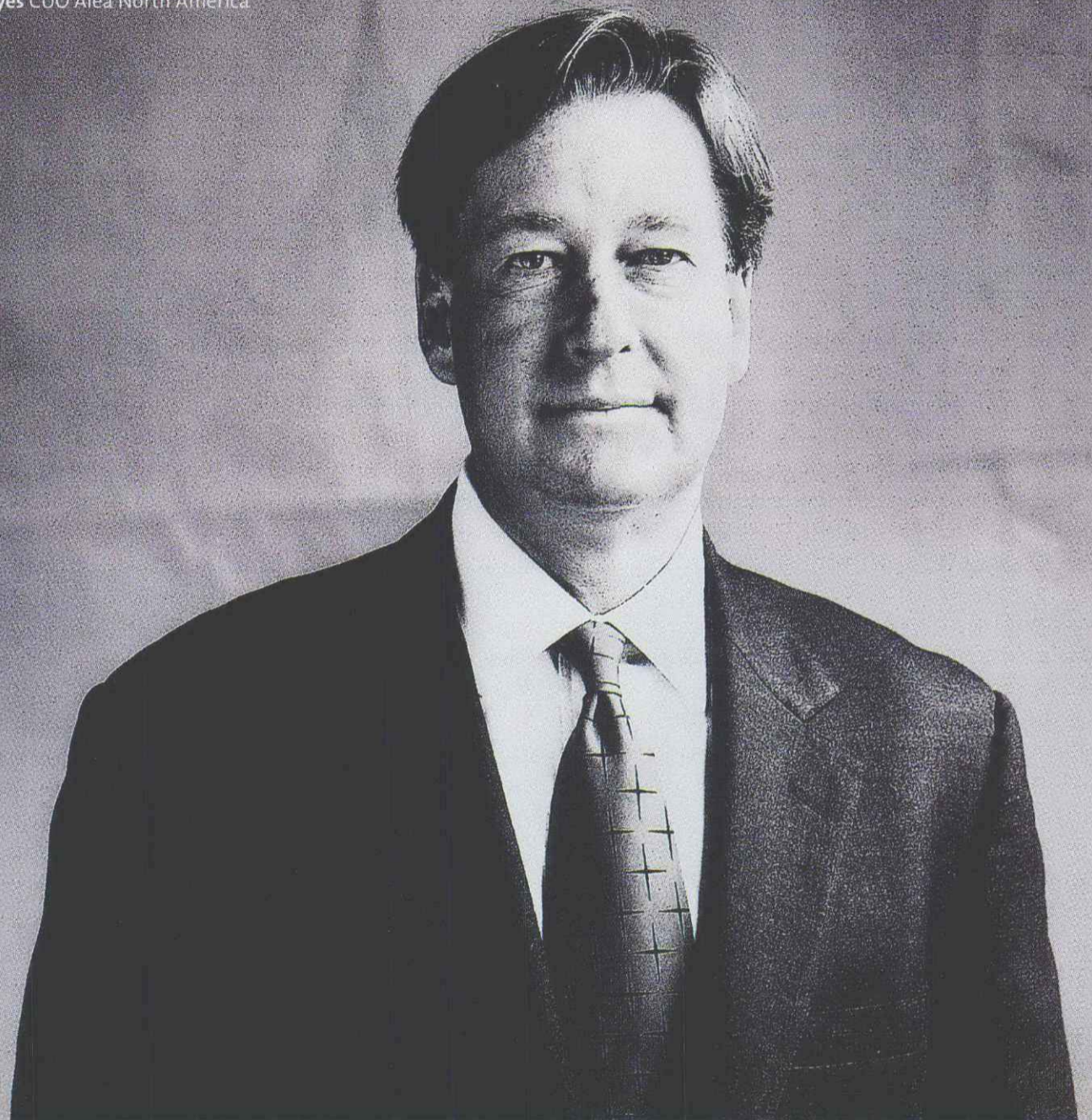
*Business Insurance's Archives* provides easy access to a database containing the industry's most comprehensive information on news and trends in risk management, employee benefits, commercial insurance and managed health care. *Archives* is a useful source of information for market research, data gathering, speech writing, competitive analysis and legal inquiries.

*Archives*, located on *BI's* home page, is available for a one-year archive access fee of \$80 for subscribers to *BI* magazine and \$120 for non-subscribers. To order your service, call 312-649-5398, or log on *BI's* site at [www.businessinsurance.com](http://www.businessinsurance.com) ... taking the business of insurance in a whole new direction.

**Business  
Insurance**  
[www.businessinsurance.com](http://www.businessinsurance.com)

"It's not about helping clients sleep at night. It's about finding out how much sleep they want."

Mike Hayes CIO Alea North America



We like working with clients who share our passion for risk.

In creating Alea we are building a risk firm from first principles. The principle of long term commitment. The principle of integrated expertise. The principle of writing good business, and only good business: business we really understand.

We can't guarantee you an easy life, but we can work with you to develop a real, in-depth understanding of just how much excitement you want. Then try and help make sure you get it.

**A passion for risk™**

Worldwide London Market business: +44 (0)20 7617 6150, london@aleagroup.com  
Continental European business: +41 61 268 2113, basel@aleagroup.com  
Alternative Risk: +1 860 513 4180, rockyhill@aleagroup.com  
Treaty Reinsurance, USA: +1 203 849 6200, norwalk@aleagroup.com

REINSURANCE INSURANCE FINANCIAL ALTERNATIVE RISK [www.aleagroup.com](http://www.aleagroup.com)

**Alea**

# Carvill

Reinsurance Intermediary

INDEPENDENCE  
INTEGRITY  
SERVICE

CONSISTENT PHILOSOPHY & PERFORMANCE

SINCE 1977

Atlanta    Bermuda    Chicago    London    Stamford

1-800-CARVILL

## Adverse

*Continued from page 3*  
mindset for this business," said one reinsurer.

Essentially a form of stop-loss protection, adverse development reinsurance became popular in the 1980s as a type of retroactive reinsurance, a category that also included loss portfolio transfers.

The covers, designed to remove liabilities from a ceding insurer's balance sheet, also produced significant gains on ceding insurer income statements under generally accepted accounting principles.

In 1993, though, FASB released Statement 113, which eliminated many of the accounting benefits of retroactive covers. The new rules dramatically changed the financial reinsurance landscape, quickly reducing the number of retroactive deals in the marketplace.

Within a few years, though, FASB was grappling with questions from accountants about whether there should be an exception to Statement 113. The exception would be for reinsurance or other third-party reserve guarantees arranged by the seller of an insurance unit for the benefit of a buyer that accounts for the acquisition as a purchase.

After discussions in 1996 and 1997, FASB's Emerging Issues Task Force decided—in a memorandum titled "EITF D-54"—that such reserve guarantees shouldn't be subject to Statement 113. This meant the accounting benefits previously eliminated by FASB

would be available in insurance company mergers and acquisitions.

The EITF decision has been "the driving force" in the growth of adverse development reinsurance in the last few years, said Greg Leonard, executive vp with Towers Perrin Re in Stamford, Conn.

"That has helped some companies get over the line doing this vs. not doing it," he explained.

"It's very attractive to companies in a purchase or sale," Mr. Roeser agreed. "Change in ownership in insurance companies is tricky business anywhere because of the huge uncertainty over the (past) liabilities."

Those uncertainties have also made the reinsurance deals an integral part of many mergers in the last few years, said Oliver Horbelt, director with the financial solutions group of Swiss Re New Markets in New York.

"New owners, in most cases, want some kind of guarantee that the old exposures do not explode," he said.

So, through the wave of industry consolidation, adverse development covers played a prominent role in many large deals, including:

- ACE Ltd.'s \$3.45 billion acquisition of CIGNA Corp.'s property/casualty operations in July 1999, a deal that featured a \$2.50 billion aggregate reinsurance coverage written by Berkshire Hathaway Corp.'s National Indemnity Co. unit for a \$1.25 billion premium.

- Superior National Group  
*See Adverse on page 24*

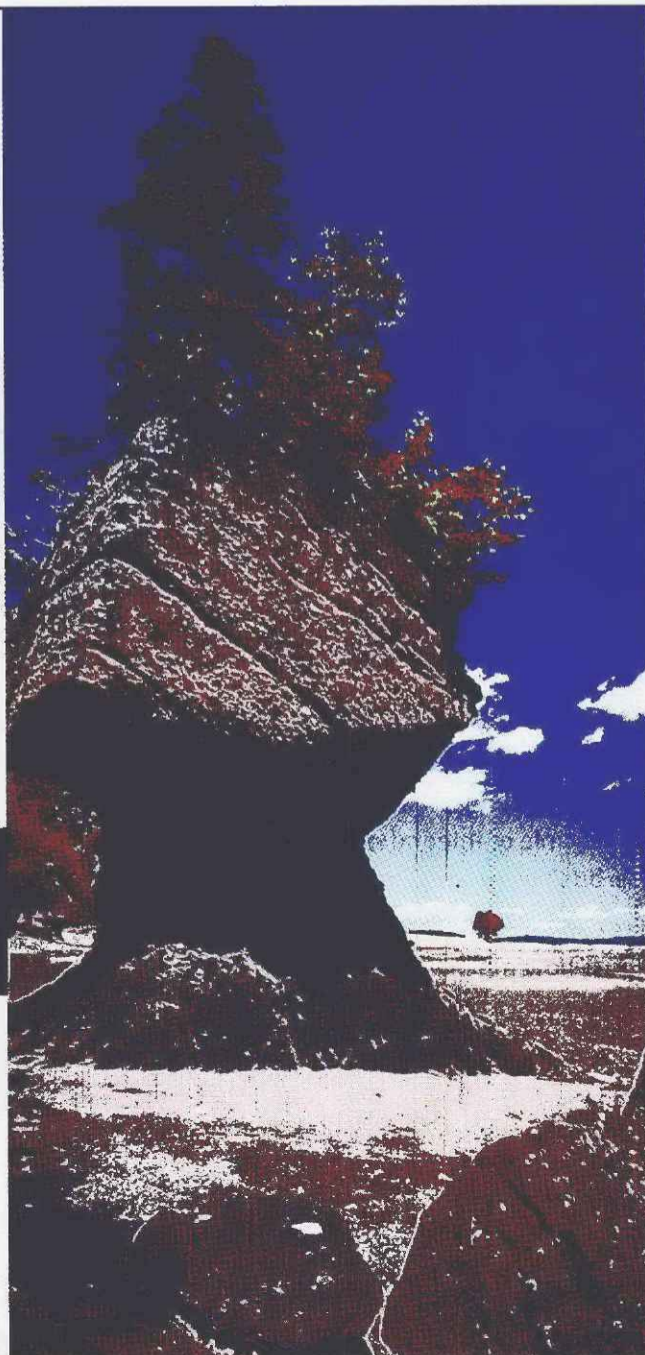
Strength and expertise. As your reinsurance partner, we are committed to knowing all we can about your business and marketplace. With our flexibility and responsiveness, we bring comprehensive solutions that keep you on the leading edge, reinforce your capital base and maximize your return — just what you'd expect from NAC Re.

Stability To Anchor Your Capital Base



www.nacre.com

An XL CAPITAL Company



## We lead the market in credit derivatives; now we can insure it.



**Global Credit Reinsurance Ltd.**

Licensed as a Class 3  
Insurer in Bermuda.

### Performance is



leading to results®

GC Re is one of the newest insurers on the scene in Bermuda, with the ability to buy and sell credit insurance policies as well as financial contracts on corporate, sovereign and a variety of other risks. GC Re offers its insurance-based clients access to a multitude of portfolio enhancing products and services within the Alternative Risk sector. The company has already entered into US\$5 billion of insurance policies with a variety of well-known insurers. Exposures are hedged 100% with Deutsche Bank AG, giving GC Re the effective counterparty risk of Aa3/AA.

As a leading provider of derivatives, GC Re is another means by which Deutsche Bank can offer its clients unparalleled coverage for their derivative, structuring and risk management needs – all now available in insurance policy format.

A fresh approach to the Alternative Risk market – another reason why Deutsche Bank is leading to results.

For information on how you can do business with GC Re, please contact Deutsche Bank's Global Credit Derivatives Group:

**London**

Telephone: +44 20 7545 8478

**New York**

Telephone: +1 212 469 4539

**Sydney**

Telephone: +612 9258 1476

**Tokyo**

Telephone: +813 5401 7116

Deutsche Bank



**PROBABILITY OF YOUR INSURED BEING  
SUED FOR COPYRIGHT INFRINGEMENT: 2.4%.**

**PROBABILITY THAT WE CAN OFFER YOU  
GUIDANCE BEFORE IT HAPPENS: 100%.**

How do you best prepare for the worst  
that can happen to your client? It's not  
done with policies—it's done with people.

People close by. People you trust.

Most of all, people who will be  
there for you no matter what  
happens. In an industry conduct-  
ed in currency and probabilities,  
it's the incalculable attributes of the  
people of GeneralCologne Re that make



the difference. Their knowledge, expertise  
and business principles help us keep  
our promise to set the standard in  
reinsurance. They are the people  
behind the promise, committed to  
delivering unmatched service to  
meet your needs.

**GeneralCologne Re™**

*The people behind the promise™*

[www.gcre.com](http://www.gcre.com)

Dave Schoenrock  
Underwriter, New York



## REINSURANCE TRENDS

## Adverse

Continued from page 20

Inc.'s ill-fated 1998 acquisition of Business Insurance Group from Foundation Health Corp. The sale included a \$175 million adverse development cover that Superior National tapped almost immediately, leading to arbitration and court fights.

• White Mountains Insurance Group Inc.'s recent \$2.1 billion purchase of London-based CGNU Ltd.'s U.S. property/casualty operations. The sale included a \$2.5 billion reinsurance cover from Berkshire, which also provided \$300 million in financing.

Along with their role in mergers, adverse development covers have become a tool for insurers that are facing financial problems or have run into trouble with a particular

loss-plagued line of business.

In these cases, the reinsurance covers can become part of a rescue plan that might also include loss portfolio transfers, prospective reinsurance covers, debt refinancing and capital or contingent capital transactions.

"It's really a cascade of solutions," Mr. Horbelt said. "It takes an integrated approach to these situations rather than a pure product-driven approach."

Mr. Horbelt and others cite several reasons for a rising demand for adverse development reinsurance in the last 12 to 15 months, including inadequate primary insurance pricing, worsening underwriting losses and dwindling reserve redundancies that previously provided a cushion against those losses. In addition, some insurers have been damaged by specific events, such as last year's collapse of the Unicover Managers

Inc. workers compensation facilities.

Heavy workers comp losses, in fact, have been a factor in several deals.

**'The question is, how much are insurers going to bleed on business written from 1997 to 2000,' says Donald S. Watson.**

Fremont General Corp. earlier this month completed a deal in which XL Mid Ocean Reinsurance Ltd. will reinsure up to \$400 million of \$450 million in loss and expense reserves Fremont had to post for deteriorating workers comp business in the first half of this year. XL Mid

Ocean will have the option to write prospective quota-share reinsurance on the workers comp book; it is already reinsuring \$750,000 excess of \$250,000 per loss on Fremont's workers comp policies.

Last year, Toronto-based Fairfax Financial Holdings Ltd. placed a \$1 billion adverse development cover with a Swiss Re affiliate covering—among other units—Sphere Drake Insurance Ltd., formerly Odyssey Re (London) Ltd., which was hammered by Unicover and other workers comp losses. The adverse development reinsurance, triggered when aggregate losses exceed the units' aggregate reserves at year-end 1998, is in addition to indemnifications Fairfax obtained from sellers when it acquired Odyssey and the other covered units.

Frontier Insurance Group Inc. of Rock Hill, N.Y., last month announced that it has exercised an op-

tion to buy \$800 million in adverse development coverage from Berkshire Hathaway. The deal includes \$514 million in reinsurance for reserves Frontier held at June 30 for accident years 1999 and prior, along with \$286 million in coverage for losses above the level of its reserves. The premium for the coverage is \$505 million, according to Frontier's Securities and Exchange Commission filings.

While the Frontier deal didn't include any capital investment by Berkshire, such investments are often part of deals for troubled companies.

"Without that, I don't think there would be much interest" among reinsurers, Mr. Leonard said. "If it's really a troubled company, nobody is going to put their future in it without the opportunity to control the company."

Winning control through an equity investment, though, is a two-edged sword, one reinsurer observed. While some degree of control can help turn an insurer around, if the company continues "going south," the reinsurer risks charges of conflict of interest if it focuses on limiting its own losses, he explained.

Reinsurers, meanwhile, face large long-term risks on adverse development covers, particularly for troubled insurers.

If a financially strong ceding insurer generates a loss for its reinsurer, "you always have the possibility of payback from the company by way of future business," one reinsurer observed. "You don't have that luxury if it's a troubled company."

Reinsurers also run the risk of seeing any mistake they make projecting losses compounded in adverse development deals, the reinsurer said. If loss trends suddenly worsen in a given line, such as construction defect or medical malpractice business, the deterioration would likely affect not one but all of a reinsurer's contracts.

"There is a good chance, if you get one wrong, that all the others are wrong too," the reinsurer said.

To mitigate the risk, reinsurers' most-important tool is extreme caution in analyzing loss exposures and setting limits and other terms of coverage, he said.

Reinsurers also need to align their interests with those managing claims, Mr. Horbelt added. For example, reinsurers may offer a profit sharing provision for keeping claims under a defined amount, he said.

Whether adverse development deals continue to grow is an open question, depending partly on the continuing pace of industry consolidation and the emergence of insurer financial troubles.

Several market observers expect to see more merger-related deals than troubled company deals, and they point out that the accounting benefits allowed by FASB in mergers are not available to troubled insurers pursuing a rescue plan rather than a suitor.

"The benefits are significantly greater in a change-of-ownership situation," Mr. Roeser noted.

"I think we have another year of stress here (for property/casualty insurers), and the stress is going to relate to adverse development in reserves and capital adequacy," said Donald S. Watson, a director of Standard & Poor's Corp. in New York, suggesting that the reinsurance deals are likely to continue.

If primary insurance rates continue to climb and insurer results improve, though, there may be fewer adverse development contracts consummated in the future, he said.

"The question is, how much are (insurers) going to bleed on business written from 1997 to 2000?" Mr. Watson said. **BI**



## Property-casualty reinsurers can't afford to keep their heads down

PXRE has always designed its finances to withstand worst case outcomes that would make most reinsurers bury their heads in the sand. That's why we have emerged from two record-setting years of industry losses with our capital intact, ready to write business on a global scale.

We will continue to reinsure property and casualty risks at appropriate prices for the level of exposure, while maintaining the global geographic diversity needed to ensure our financial strength. Because PXRE is committed to continuity of coverage—not just to pay your claims, but to ensure the continuation of your business under even the most extreme circumstances.

Having lived through some of the most challenging years in reinsurance history, we know that once-in-a-millennium events can happen now...and again next year, and the year after that. That's why, in addition to the commitment of our own surplus, we share our business with a select group of companies that, collectively, provide the financial strength of billions of dollars in additional capital.

If you are looking for a multi-line, risk-transfer partner with experience in all parts of the business cycle, call PXRE. With your very first call, you will learn how we came to set the industry standard for responsiveness, from underwriting requests to the settlement of claims.

A unit of PXRE Group Ltd. NYSE: PXT  
Member of BRMA (Brokers and Reinsurers Market Association)

Edison NJ USA: Gordon Forsyth III (North American Operations), Michael Bleisnick (London Market Operations), Charles Penruddocke (International Operations), Jeffrey Mayer (Finite Reinsurance)  
+1 (732) 906-8100 Fax: +1 (732) 906-9283

London: Peter Butler, Syndicate 1224 (managed by PXRE Managing Agency Ltd.)  
+44 (0)207 363-0800 Fax: +44 (0)207 663-0811

Bermuda: Jeffrey Racke +1 441-296-5858 Fax: +1 441-296-6162

Brussels: Alain Tounquet +32 2 777 0909 Fax: +32 2 777 0900



**PXRE Reinsurance Company**  
Continuity of coverage in risk transfer

[www.pxregroup.com](http://www.pxregroup.com)

# SEA CHANGE



**Y**ou can feel it.  
At Odyssey Re

change powers innovation.

We embrace it — working

intimately with clients.

Asking questions.

Listening.

Finding answers.

Making decisive

underwriting calls, backed

by deep technical resources

and top ranked capital strength.

We are rated “A” (Excellent)

by A.M. Best Company.

The sea will change,

but our course is constant:

delivering individual solutions

that optimize your financial

performance and competitive

advantage.



**OdysseyRe**<sup>®</sup>

[www.odysseyre.com](http://www.odysseyre.com)

**SAFE JOURNEY**



Rated “A” (Excellent)  
by A.M. Best Company.

# Tightening market hasn't caused flight to alternatives

By RODD ZOLKOS

Rising reinsurance rates may be spurring increased interest in financial alternatives to traditional reinsurance, but those in the alternative area of the business suggest their sector's growth is independent of rate developments on the traditional side.

"I've never believed that non-traditional products were a hard market phenomenon," said Graham C. Pewter, president and chief executive officer of Commercial Risk Partners Ltd. in Hamilton, Bermuda. "There's been continuing growth in financial reinsurance products right through the '90s.

"Having said that, the enduring

softness of the market has impacted buying decisions and has had a dampening effect on corporate buyers moving into finite arrangements," Mr. Pewter said.

While the alternative arrangements have held "intellectual appeal" in recent years, in the face of a soft market such deals proved difficult to do "when you are buying pillars of traditional capacity below burning costs," Mr. Pewter said. "If you can buy down your retentions to virtually nothing from the major traditional carriers in the market why bother?" he said of alternative programs.

"Certainly our business would suggest that the ART market has been, if anything, more heated of late," said John Gantz, a principal at Swiss Re New Markets Corp. in New York.

"There are a lot of question marks around where the traditional market is going and, as reinsurance prices continue to move up, there will be more of an impact on the commodity end of the ART market."

But, Mr. Gantz suggested, the rising traditional reinsurance rates and increased interest in his company's business aren't necessarily related.

"We see the two as somewhat separate. Because the things we're talking about are not property/casualty. It's more how do we manage the balance sheet and financial statements," he said. "It's not only looking at risk but it's really the marriage of risk and capital."

Jim Greisch, managing partner of the Nebraska business unit of KPMG L.L.P. in Omaha and reinsurance top-

ic leader of the firm's insurance committee, suggested that with the traditional reinsurance market still a long way from "hardening," most primary insurers are still focusing on traditional reinsurance.

"Most of the direct writers that we're working with are still interested in traditional risk-oriented traditional reinsurance," Mr. Greisch said. "Where they are interested in some of the more unique contracts there's usually a unique need that gives rise to the interest in the non-traditional contract."

And, of the higher reinsurance premiums that insurers might be facing, "In general, we'd say at this point the primary insurance companies, the cedents, are accepting of the increase," said Sean Mooney, senior vp and

chief economist at Gray Carpenter & Co. Inc. in New York.

"The issue will be in January, what level of increases we're seeing and whether, if that level is very high, if the acceptance would be there," Mr. Mooney said.

Still, one area of alternative risk financing in which rising reinsurance rates may have a direct impact is risk securitization, according to one player in that area.

"It does appear that—particularly for capacity-constrained areas like Florida and California—we're definitely seeing a hardening in the market that has led to a greater number of inquiries regarding securitization generally," said Tony Rettino, managing director at Aon Capital Markets

See Market on next page

## Financial reinsurance terms defined

The world of financial reinsurance and alternative risk transfer has a language all its own. Some frequently used terms are defined below.

**Basis risk**—The difference between the performance of an index and that of a specific portfolio of losses that relies upon that index as the underlying basis for a hedge. The risk is that changes in the value of the hedge might not precisely track the insured's loss experience. A "perfect hedge" would precisely track the insured's loss experience.

**Catastrophe bond**—A corporate bond whose structure requires bondholders to forgive or defer some or all of the interest and/or principal in the event that specified catastrophe losses exceed a trigger established in the bond.

**Catastrophe equity put**—A contract allowing an insurer to exercise an option to sell stock at a predetermined price to raise equity capital if losses from an event exceed a level set in the contract.

**Contingent capital instrument**—Structured financial transactions providing the option to raise capital, under specified circumstances and subject to certain conditions.

**Convergence**—A drawing together of the insurance and capital markets in a way that has seen the creation of securities based on event-risks and the use of customized insurance contracts to hedge financial exposures previously hedged with derivatives.

**Correlation**—The movement of multiple risk profiles with respect to one another. "Uncorrelated" elements in a portfolio respond to different factors, meaning that the combination of uncorrelated elements in a portfolio reduces the portfolio's overall volatility.

**Credit risk**—The possibility that either of the parties to a contract will be unable to satisfy their financial obligations under the contract.

**Derivative**—A security that derives its value from an underlying asset or cash flow.

**Event risk**—Risk associated with a fortuitous event that offers a chance of loss, but no chance of gain, such as fire, flood, earthquakes or windstorms.

**Loss portfolio transfer**—A mechanism for transferring a collection of incurred losses for a fee to an insurer or reinsurer, thus removing the losses as a liability.

**Option**—The right to buy or sell something at a fixed price for a fixed period of time.

**Private placement**—An investment opportunity for which there is no requirement to register the transaction with regulatory authorities.

**Risk securitization**—Packaging insurance risk for sale into the capital markets. Similar in concept to various asset-backed transactions that turn an illiquid asset into liquid instruments, such as mortgage-backed securities.

**Special-purpose reinsurer**—An entity formed to issue catastrophe bonds or other insurance-linked securities and use the proceeds to back a reinsurance contract to a specific insurer or reinsurer.

**Subordinated debt**—Debt on which interest and principal are paid only after the debtor satisfies higher-priority claims on assets.

**Tranche**—A specific class or category of bonds contained within a larger offering, typically with varying degrees of investor risk.

**Zero-coupon bond**—A bond that pays no periodic interest but is sold at a discount from its value at maturity.



The Maneki Neko is Japan's most popular symbol of good fortune. Traditionally, the figure is placed at the entrance of business establishments to beckon customers and welcome good fortune.

# Market

Continued from previous page in Chicago.

In recent years many of the risk securitization deals that have been done were done for strategic reasons, but with reinsurance rates rising, "For a lot of purchasers of the securitized product, it's becoming an increasingly compelling purchase for economic reasons," Mr. Rettino said.

He said he has seen several deals in the past 18 months that were more economically competitive than what was seen previously in the retrocessional market.

"And that's partly because in a retrocession deal, you're asking a retrocessionaire, a fellow reinsurer, to give you capital," Mr. Rettino said. As the market hardens, that capital becomes increasingly dear to reinsurers, and they look to charge more for pro-

viding it to competitors in the market.

That situation highlights one advantage of the capital markets, Mr. Rettino suggested. While capital market investors will differentiate between deals on the basis of such considerations as data quality and expected loss, they don't differentiate by cedent.

"So there are a lot of reinsurers that are looking at securitization," he said.

Even among some of the primary insurers considering risk securitization transactions, the deals increasingly compare favorably to traditional reinsurance, Mr. Rettino said.

"I think as you step back and look at the primary insurance side you're seeing a lot of deals that are on an apples-to-apples basis," he said.

Also, Mr. Rettino said, "In the past year we have seen a fairly significant increase in the amount of capital that is in insurance-linked funds. What's nice about that is that actually broad-

ens the number of people that can participate."

Those funds appeal to investors who recognize the advantage of bringing an uncorrelated asset class like insurance-linked securities into their portfolio, but feel they lack the expertise to analyze the data about such instruments on their own.

With all that in mind, Mr. Rettino said he anticipates an increase in risk securitization activity over the year ahead.

"I would say that (in) 2000 to date there's been a decline in securitization activity relative to 1999 and 1998," he said. But, "projecting out the next 12 months relative to the previous 12 months, it looks like there will be an increase in activity."

Aside from securitization, alternative risk financing deals are often driven more by financial industry convergence and a more enterprise-wide view of risk among risk transfer

purchasers than by higher traditional reinsurance rates.

"We see a very vigorous marketplace, but one that doesn't see the same volatility as the traditional world," said Swiss Re New Markets Mr. Gantz.

In that area, Swiss Re New Markets' activity has been largely focused on "How we can use off-balance-sheet financings to help companies," Mr. Gantz said.

"I think we have been pretty aggressive in looking at uses of contingent capital...in areas that can integrate both insurance risks and financial risks," he said.

"I think one of the things a lot more firms are doing are a lot more creative financings, and I'm not using the word 'reinsurance' deliberately," KPMG's Mr. Greisch said.

One such approach is deals that help clients seeking a way to protect their company from statutory capital

drains, "and they're looking at combining a reinsurance solution along with other financial means to protect statutory solvency," Mr. Gantz said.

"We're in a position where we can provide contingent capital to a great extent," Mr. Gantz said. Such deals allow the client company to "fix the terms when times are good" as opposed to going to the market to try to raise capital in the wake of an adverse occurrence.

"So it's a form of balance sheet protection, both in terms of solvency and liquidity," he said.

Commercial Risk's Mr. Pewter sees similar interest among companies looking across their operations at risks they need to address.

"There's been a lot of talk about integrated risk deals. Our definition of integrated risk products include a fortuitous event and some sort of adverse movement of a financial index," Mr. Pewter said. "We've closed a couple of those types of deals this year."

Mr. Pewter said he sees "tremendous potential" for weather hedges as revenue protection for many types of businesses. "Also integrating, including weather risk protection in the integrated products."

"A lot of our product development is focused on that type of risk," he said.

Mr. Pewter noted that many of the risk transfer products considered non-traditional several years ago are now considered mainstream, and said he sees Commercial Risk's operation as a sort of risk-transfer laboratory for its parent company, SCOR. "I think that's one of the roles we play within SCOR as a group," he said.

And his company's experience suggests buyers are interested in those new approaches. "We've experienced 50% growth in revenues for the past four years and this year is going to be another strong year," Mr. Pewter said.

A lot of the new developments in the alternative risk transfer arena involve "ways that the insurance and reinsurance marketplace can play alongside of banks or, in some cases, ways that are separate from banks," Mr. Gantz said.

One recent Swiss Re New Markets deal involved a client company that had seen its credit rating put on CreditWatch with negative implications by Standard & Poor's Corp. following a number of acquisitions. The client wanted to find a way to maintain its existing credit rating, "but they were limited in what they could do in the marketplace," Mr. Gantz said.

Swiss Re New Markets addressed the client's problem by structuring a deal involving a 30-year subordinated loan with an embedded currency swap, placing it with a single investor. "It was using our ability to both assume risk and trade risk that made all the pieces, all the people come together," Mr. Gantz said.

Ultimately, the biggest new development in the area of reinsurers' alternative risk transfer activities and alternatives to traditional reinsurance may be the scope of tools available to clients looking for the best possible solution to their risks.

Mr. Pewter noted "alternative" is becoming something of a catchall in the industry, with firms using it to connote a wide variety of risk transfer or risk financing activities.

"What we've presented in our literature is the broadest definition of alternative risk, embracing all of these terms," he said, taking in risk securitization, finite risk transactions and protection of self-insured retentions.

"That's really where it's new. The contingent capital area is really kin to the other side of insurance and derivatives," Mr. Gantz said. "Risk securitization is another form. Now what we're having is a dialogue with our clients involving all of the possibilities."

# Traditions

of protection, innovation, and time-honored relationships.

At Toa Re, these traditions sustain our business, whatever the vagaries of the marketplace. Capacity restrictions, financial market volatility and short-term operating results may cause some reinsurers to flinch at the thought of long-term relationships. We can assure the NAI participants, and all of our partners, that our underwriting standards will remain consistent and our capacity will be available through the years, regardless of what the future may bring.

The Toa Reinsurance Company of America  
177 Madison Avenue, P.O. Box 1930  
Morristown, NJ 07962-1930  
Phone: 973-898-9480 • Fax: 973-898-9495  
Web Site: [www.toare.com](http://www.toare.com)

Tokyo • Morristown • Toronto • London • São Paulo  
Hong Kong • Kuala Lumpur • Singapore



*Imagine helping others reach  
their full potential.*

*Imagine fostering a relationship  
with somebody you can depend on.*



*Imagine a profitable  
partnership taking root.*

*Imagine growing a business  
with someone who cares.*

To find out what a relationship with us could do for your company, call 1-800-380-4055 or visit [www.gmacre.com](http://www.gmacre.com).

**GMAC RE**

# Employers to feel bite of health reinsurance rate hikes

By MICHAEL PRINCE

It's now the reinsurers' game.

After years of losses and waning influence, health reinsurers have taken control of the marketplace. As a result, they have pushed up rates considerably, changed their relationships with managing general underwriters and turned the corner on profits.

Reinsurers "are in a position of much greater influence than they have been in a few years," said David Ives, chief executive officer of NiiS/APEX Group Holdings Inc., a health reinsurance consultant in Salem, Mass.

For a few years at the end of the 1990s, health reinsurers took a beating. They were slow to push up rates in response to rising health care in-

flation. And much of the business was written by MGUs that were paid, typically, based on volume; consequently, those MGUs often generated business without regard to its profitability.

As a result, loss ratios skyrocketed, losses mounted and many health reinsurers abandoned the field. After years of trying to correct the situation, health reinsurers appear to have succeeded in 2000.

"We feel pretty good about this market," said Ed Martin, vp-group markets at Lincoln Re in Fort Wayne, Ind.

While this revival is good news for reinsurers, it's bad news for employers, as rates for stop-loss insurance for self-funded employers are skyrocketing.

Rates are going up 30% to 40%,

with some renewals coming in over 50%, experts say. Nor are these rate hikes necessarily limited to this year; employers, they say, should expect significant rate increases in upcoming years as well.

Also, provider stop-loss insurance has gone up about 20% to 30% for the year with policies tightening in order to put more risk onto the providers, said David Kelley, vp at Cairnstone Inc., an underwriting and medical management firm in Miami.

Mr. Ives said that three trends have lined up to favor reinsurers. The first trend is price increases at the primary level, such as with HMOs. With the increases, more employers see self-funding as a financially viable option, requiring them to purchase stop-loss insurance.

The second trend is the contrac-

tion of insurers at the excess level that has been taking place over the past 18 months.

Third, there has been a reduction in capacity among reinsurers over the past two years, Mr. Ives said. While not many reinsurers have departed the market in 2000, several left in prior years and the reduction in capacity is being felt this year. Also, few new entrants have taken up the slack of those that are gone.

Standing alone any of these trends would be good for health reinsurers, "but all three of them are lined up right now," he said.

Also causing the increased rates have been high levels of health care inflation. With the costs of health care services increasing, more claims are penetrating into reinsurance layers, causing more losses for reinsur-

ers.

For example, if stop-loss reinsurance kicks in when claims for an individual reach \$100,000, health care inflation pushes more people into that range. In response, reinsurers ask for higher rates to make up for these increased claims, said Jonathan Nemeth, vp and managing actuary at ASA Inc., a division of Aon Corp. in Somerset, N.J.

Generally, a health reinsurer has to raise rates to about double the level of health care inflation to stay even, explained Mr. Martin. This is because, with 9% inflation, for example, a \$110,000 claim goes up to \$120,000. With an attachment point of \$100,000, the reinsurer's losses on that claim double, from \$10,000 to \$20,000, Mr. Martin explained. Consequently, a rate increase of 20% to 25% is needed just to stay ahead of medical inflation that is running at 10% to 12%, he said.

These increases come in addition to rate hikes pushed through to make up for losses in prior years, Mr. Nemeth said.

Furthermore, reinsurers this year have changed their philosophies after getting burned for a number of years. There has "been a determination on everyone's part to try to get the business written in the year 2000 as profitable business," Mr. Kelley said.

"Reinsurers are very cautious about doing business now and are doing a lot of more due diligence on the underwriting of the business," said Bill Thomas, president of Managed Care Resources Inc. in Lambertville, N.J. The company is an underwriter paid solely on the basis of the profits of the business it generates.

Whereas in the past reinsurers underpriced their coverage to gain market share, they now focus on profits. This trend started in the second half of 1999, but it has really accelerated this year, ASA's Mr. Nemeth said.

"The days of yore when everyone was focusing on market share have ended," he said.

Despite the price hikes, health reinsurers have not yet returned to profitability. "It takes two years to turn a book of business around," Mr. Thomas said.

With the dominance of reinsurers, MGUs are no longer exerting such a strong force on the marketplace. Previously, these MGUs often teamed with newer and less-sophisticated reinsurers, or "naive capacity." While the reinsurer often took a drubbing from the business produced, the MGU was paid a fee regardless of the profitability of the business.

But much of this capacity has been driven out, and other reinsurers have severed their relationships with those MGUs that didn't produce profitable business. This trend, which started in 1999, became entrenched this year.

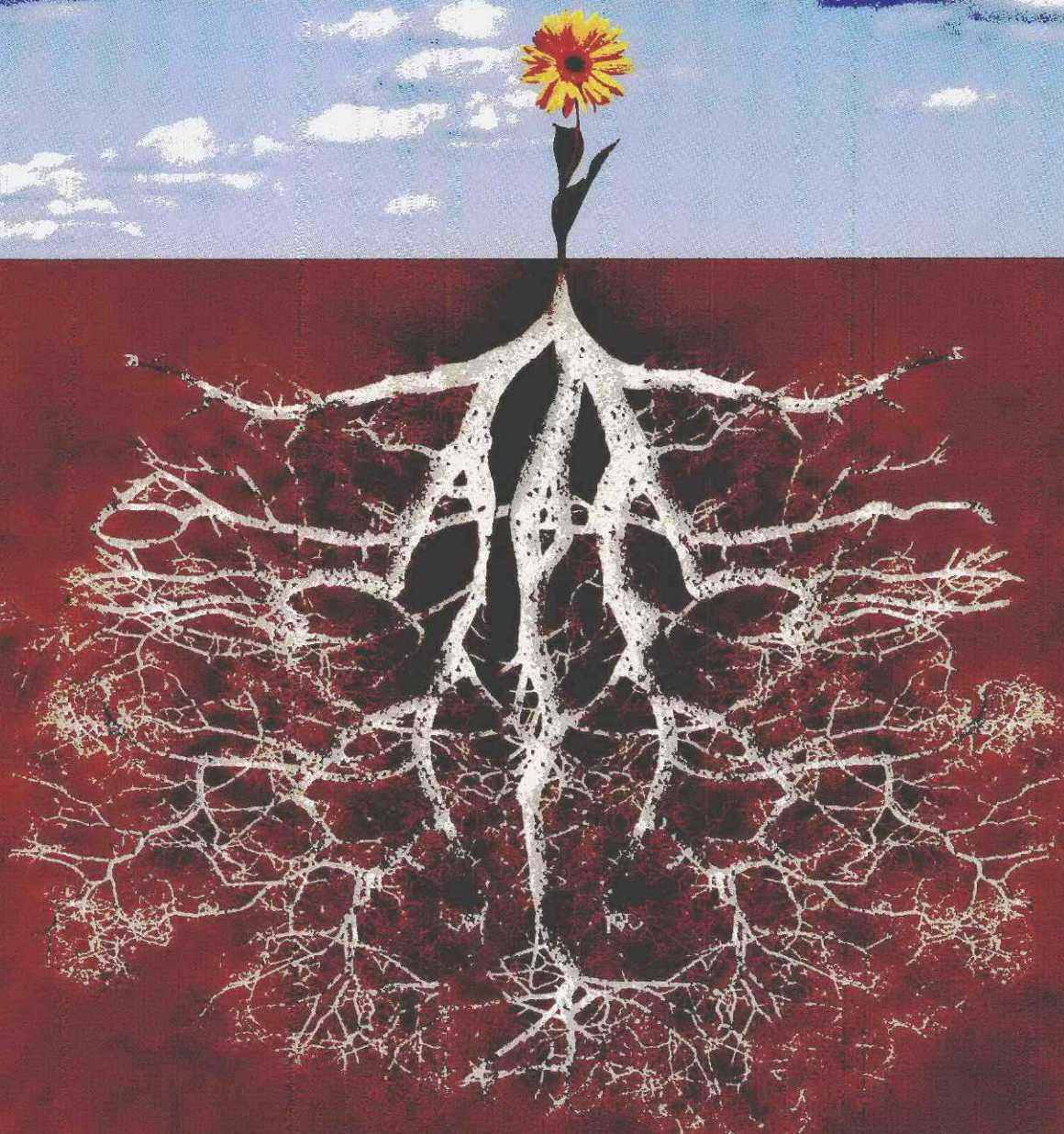
"The MGUs are having trouble finding capacity, as their blocks of business were not profitable," said Scott Taylor, senior vp at SAFECO Life Insurance Co. in Seattle.

The dearth of capacity is forcing MGUs to contact reinsurers such as SAFECO and Lincoln Re, two reinsurers that don't use MGUs, looking for reinsurance backing.

Today, almost every MGU has an arrangement whereby 20% of its fee is based on the profitability of the business it generates. This movement started in 1998, became accepted in 1999 and is "in full flower at this point," Mr. Ives said.

While this development is widely  
See Health on page 32

## LOOK BENEATH THE SURFACE...



Pick a reinsurance company with deep roots...SOREMA North America Reinsurance Company. Few reinsurers can claim the strong financial backing provided by our parent GROUPAMA/GAN. Founded in 1840 as a farmer's insurer, today GROUPAMA/GAN is one of Europe's largest insurers. These roots form the base from which we have grown and forged long-lasting and meaningful commitments with our partners. For more information, contact our home office at: One Seaport Plaza, 199 Water Street, NY, NY 10038-3526. Tel: 212-480-1900, Fax: 212-430-1323

A.M. Best Company "A" (Excellent)  
Standard & Poor's "A+" (Strong Financial Security)

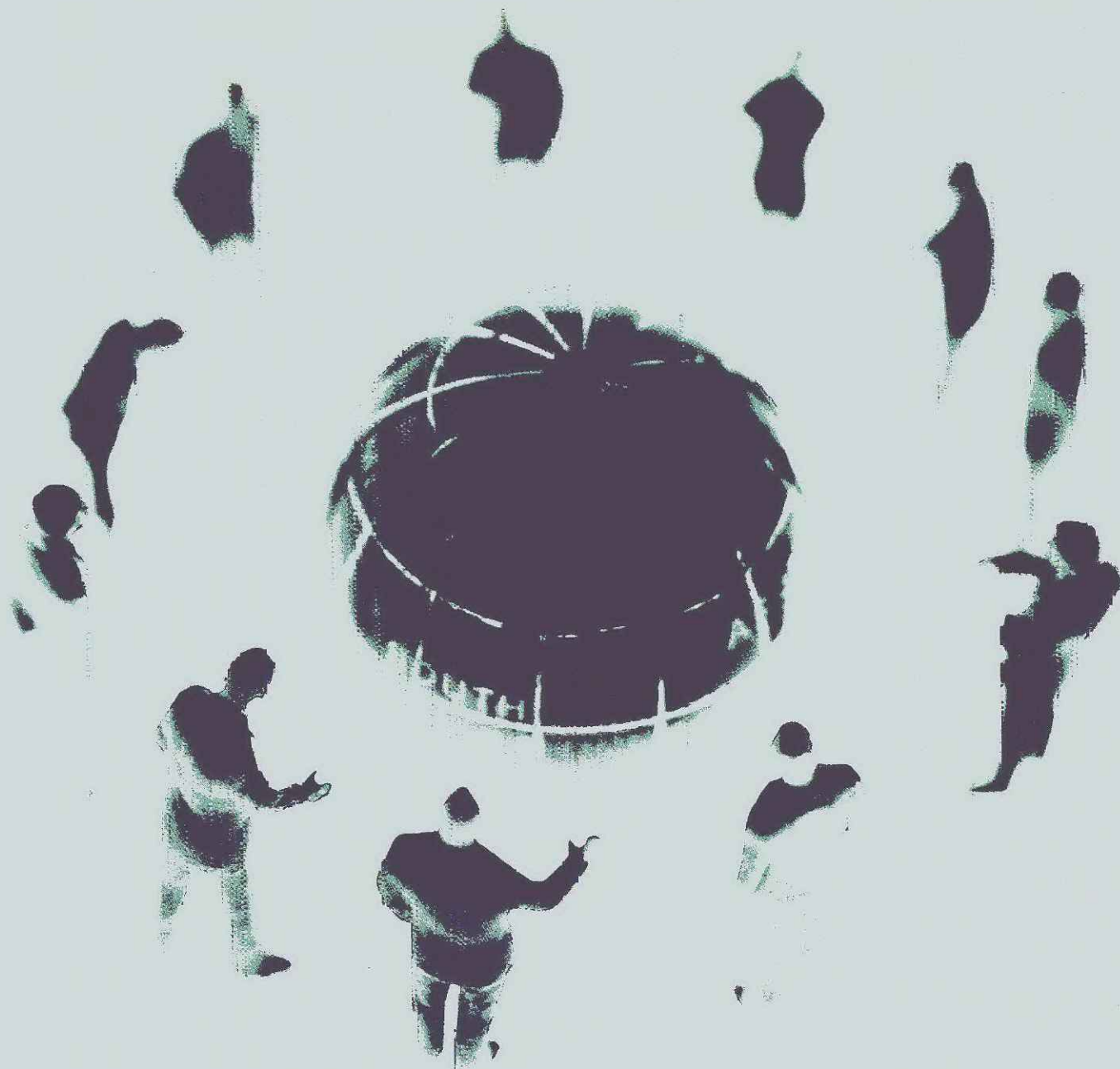
Chicago Hartford Houston Walnut Creek

New York City Phoenix Toronto

SOREMA

GROUPAMA

www.soremama.com



With all due respect to science,  
our clients are the center of the universe.

At Guy Carpenter, our approach to reinsurance revolves around the distinct needs of our clients. That focus empowers our brokers to create custom solutions for each and every client.

We build each program using a combination of global resources, specialty expertise, strong relationships with the reinsurance markets, and innovative tools that provide in-depth quantitative analysis. For a reinsurance solution designed around your needs, call your Guy Carpenter broker.

**GUY CARPENTER**

Reinsurance Intermediaries Worldwide [www.guycarp.com](http://www.guycarp.com)

## Health

Continued from page 30

seen as a good start, some think it doesn't go far enough. Mr. Thomas said the percentage is too small to truly influence the behavior of the MGUs. Even with these new arrangements, he said, the MGUs still have a strong incentive to write business without much regard for its profitability.

"No other business operates like the MGU, where you get paid in advance whether the business makes money or not," he said.

Employers have few options in response to the rate hikes. While some have been turning to the fully insured marketplace, double-digit cost hikes there mean that it is not a viable option for many. Others have been taking policies with higher attachment points in an effort to bring down premiums. But most have no choice but to pay the added costs.

"The market is accepting the increases because everyone is doing it," SAFECO's Mr. Taylor said.

Looking ahead, experts say they expect rates to climb through 2001 and, possibly, for a few more years to come.

"Next year should be very good for the stop-loss market," Mr. Taylor said.

This was a transition year, he said. "Most players are not in the black yet but are close to it," he said. Next year, he predicted, the market will see "some solid profits."

In contrast to the volatility of the health reinsurance market, life reinsurance continues along its merry way. Rates have continued to drop slightly in 2000 as mortality has improved, while profits and pricing discipline have held steady.

Perhaps the biggest trend this year has been the continued consolidation among existing reinsurers and the entrance of new contenders.

"There seems to be a tremendous amount of interest in the life reinsurance market," said Larry Rowland, president of Lincoln Re in Fort Wayne, Ind.

Deals this year include:

- CNA sold its life reinsurance business to MARC, the U.S. life subsidiary of Munich Reinsurance Co., for an undisclosed amount.

- CIGNA Corp. sold its U.S. life reinsurance business to Life Reassurance Corp. of America for \$170 million in cash. The units involved had premium volume of approximately \$100 million in 1999. Life Reassurance Corp. is a Stamford, Conn.-based unit of Swiss Reinsurance Co.

- SCOR S.A. bought the U.S. life reinsurance operations of Partner Re Ltd. for an undisclosed amount. The acquired business will add \$147 million in gross premiums to SCOR. Partner Re acquired its U.S. life reinsurance operations when it bought Winterthur Re in 1998.

In addition, some new players have entered the field.

Tempest Reinsurance Co. Ltd., a subsidiary of Bermuda-based ACE Ltd., has created a new life/health reinsurance division.

And Max Re Ltd. began operations last year. The company, based in Bermuda, has adopted a different model for reinsurance. It invests 40% of its assets with a hedge fund manager in order to gain higher investment returns (BI, Sept. 18).

But this new model does not guarantee success, Lincoln Re's Mr. Rowland said.

"While it's a different twist, we have to see how well they do," he said.

Another issue for life reinsurers this year has been the implementation of Regulation XXX. The regulation, which was drafted by the National Assn. of Insurance Commissioners

and adopted by virtually every state, requires a life insurer to set aside higher reserves for a policy that has a premium guarantee for a duration of more than five years. The longer the premium guarantee, the larger the reserve amounts required.

The regulation, which took effect on Jan. 1, has resulted in life insurers having to sink much more money into reserves, explained Joseph Kolodney, managing director at Aon Re Inc. in Stamford, Conn. And in response, those life insurers have been looking to reinsurers to assume some additional risk to help defray the extra reserve amount.

The regulation "presents significant challenges for the writing carriers and the reinsurers," said Mr. Kolodney, who noted that reinsurers have, in turn, been charging higher premiums to take on the added reserves. **B**

## Brokers

Continued from page 31

cently split from the world's largest reinsurance intermediary to form their own privately held independent reinsurance broker, Axiom Intermediaries in Burlington, N.C. (BI, Sept. 18).

Reinsurance brokers say that although the rampant consolidation of a few years ago has abated, consolidation among reinsurance brokers likely is not over.

"There are a couple of people out there that probably should be looking for a partner if they're not already," said Paul Davies, chairman and chief executive officer of Chicago-based Aon Re Worldwide, which maintained its spot at the top of the rankings this year. BI estimates that Aon Re had \$655.0 million in 1999 rev-

enues, a 5.6% increase over 1998.

"You can never rule anything out," noted Michael Brookman, deputy chairman of London-based JLT Risk Solutions Ltd. JLT Risk Solutions, which had revenues of \$86.3 million in 1999, ranks as the world's seventh-largest reinsurance broker. "Brokers are all suffering greatly from the reduction in the reinsurance and insurance marketplace and they need to increase their growth. It is difficult to see some surviving," Mr. Brookman said.

Reinsurance brokers point out that it currently is difficult for smaller independent brokers to keep up financially, because ceding clients have been demanding more-sophisticated services, such as catastrophe modeling, financial analysis and capital markets analysis.

"It's extremely expensive to invest in all the expertise needed to deliver

the best solutions today," which makes things tough for smaller reinsurance brokers, said John M. Pelly, chairman and CEO of London-based Willis Re, the world's third-largest reinsurance broker. In 1999, Willis Re had revenues of \$253.0 million, a 2.4% increase over the previous year.

"I can't tell you how much money we put into the modeling and capital markets areas," noted Mr. Davies of Aon Re.

Patrick J. Denzer, president and chief operating officer of John B. Collins Associates, said that "if you are not able to provide these types of (sophisticated) services, your sphere of potential clients drastically diminishes."

Despite the high costs involved, investing in these capabilities has paid off for the world's largest reinsurance intermediaries, they say.

See **Brokers** on next page

## A Shared Vision

### Celebrating Partnerships That Have Changed Our World

How does a young nation take command of a vast, largely unexplored domain? Thomas Jefferson chose his expedition leaders with care. Captains Meriwether Lewis and William Clark were seasoned strategists, insightful observers, trusted friends. They, in turn, had the good judgement to partner their resources with Native American Sacagawea. Her innate knowledge and extraordinary recall more than made up for the geographic and cultural maps that Lewis and Clark lacked. The result? A partnership whose

resourcefulness, perseverance and courage in facing the unknown changed forever the landscape - and the future - of America by opening the Western Territory to exploration and settlement.

At OPL, being a valuable partner to our clients is the key to our business philosophy. We have become one of the world's largest reinsurers by nurturing mutually beneficial long-term relationships and by providing creative and responsive financial solutions to meet our clients' reinsurance needs.



OVERSEAS PARTNERS LTD.

QUALITY PARTNER. QUALITY PARTNERSHIP.



Mintflower Place P.O. Box 11581 8 Par-La-Ville Road Hamilton HM 08 Bermuda  
Telephone: 441-295-0788 Facsimile: 441-292-9142 www.overseaspartners.com  
Rated A Excellent by A.M. Best

# Brokers

*Continued from previous page*

All of the top-10 reinsurance intermediaries reported top-line growth in 1999, and many point out that it is their ability to offer clients an array of products and services that has helped them prosper in a soft pricing environment.

According to *BT's* annual rankings, three reinsurance brokers achieved double-digit growth in 1999. They are:

• John B. Collins Associates, which posted the largest revenue increase in 1999—a 35.3% rise, to \$20.8 million. Mr. Denzer said that the broker's growth was a product of being "one of the last independent brokerage options available" in the market. That status has helped the broker to attract new clients and new employees, Mr.

Denzer said.

• JLT Risk Solutions, which reported a 16% rise in revenues to \$86.3 million. Mr. Brookman attributes the growth to "winning substantial new business, partly because we perceived a turn was coming in the cycle, and we locked in a number of existing as well as new clients to long-term contracts."

• John P. Woods, which saw an 11.6% increase in revenues, to \$25.0 million. According to Chairman John P. Woods, new business opportunities in the property/casualty and life, accident and health business, coupled with additional business from existing clients, fueled the increase.

Intermediaries say that reinsurance rate increases, which have begun to take hold, will help bolster revenues for 2000 and 2001.

Most note, however, that the rate increases are account-specific and

have not been applied across the board.

"The retrocessional market has been seeing up to 50% rate increases this year, with some again anticipated next year," said Callum Stewart,

**'Quite frankly, the market wants to tighten up, but I'm not sure it knows how to do it,' says Paul Davies.**

managing director of non-marine reinsurance for Heath Lambert. "This will knock through to the direct reinsurance market, particularly on international business, where the losses have been far greater than, say, in the

U.S."

"We don't see a sharp spike in rates, but we see rates increasing in reinsurance similar to what many clients are trying to achieve in their own books of business," said William H. Eyre Jr., managing director and CEO of Towers Perrin Reinsurance, the world's eighth-largest reinsurance broker. In 1999, Towers Perrin Re had \$51.3 million in revenues, an 8% increase over 1998.

"Undoubtedly, there is a concerted effort from reinsurers to modify their relationships with their insureds in terms of retention, width of coverage and pricing, where relevant," said Grahame Chilton, CEO of Benfield Greig Group P.L.C. The London-based intermediary ranked at No. 5, with \$159.1 million in revenues, a 6.6% increase over 1998. "Reinsurance coverage is based on supply and demand, and the supply available for

certain natural catastrophe perils and specialty areas is not going to meet demand from customers," Mr. Chilton said.

"We feel it's a more-healthy market," said Salvatore Zaffino, chairman and CEO of New York-based Guy Carpenter & Co. Inc. In 1999, Guy Carpenter, the world's second-largest reinsurance broker, had revenues of \$526.0 million, a 4.8% increase over 1998. "It's not totally correct yet, but this type of market is more scientific," he explained. "Rate increases are warranted, but there is not a one stroke of the brush."

Willis' Mr. Pelly agreed that there is no "broad-brush approach" to rate increases.

"In looking back over the last three months, I'm aware of a 10% reduction in one portfolio and a 300% increase on another," Mr. Pelly said, noting that there haven't been many cases as extreme as the latter.

"There are certainly reinsurers that are more aggressive (in raising rates) than others, which happens at the beginning of a changing market," Mr. Pelly said.

While many reinsurance intermediaries say they are confident in reinsurers' ability to impose hikes selectively amid pressure to raise rates, at least one intermediary maintains that reinsurers are not doing enough to distinguish between good risks and bad ones.

"Quite frankly, the market wants to tighten up, but I'm not sure it knows how to do it," said Mr. Davies of Aon Re.

"Tightening up should be risk-selective and client-selective, but I don't think reinsurance underwriters are doing enough to choose the good risks from the bad risks," Mr. Davies said.

Mr. Davies noted that, right now, management is telling reinsurers to apply rate increases of a certain percent across the board or get out of a line of business. "They are throwing the baby out with the bath water," he said. "Class underwriting doesn't work, and it never will."

Reinsurance intermediaries point out that a firming market may indeed spark more interest in the fledgling risk securitization market. At the moment, however, brokers say that the traditional reinsurance market continues to offer better capacity and price, although securitized deals continue to occur.

Risk securitization "remains a viable but very expensive option when compared to traditional or finite transactions," said Mr. Woods of John P. Woods Co. Although the broker is not spending much time analyzing such deals right now, Mr. Woods said that "due to the extremely hard property catastrophe retrocession market, risk securitization may be the only, albeit expensive, alternative" in the future.

George P. Reeth Jr., president and CEO of Willis Re Inc., the U.S. unit of Willis Re, also said that he has seen little interest in the risk securitization market.

"We keep a keen awareness of what's developing in the capital markets sector.... But at this stage, we haven't found securitization in the capital markets to be the most-effective answer," Mr. Reeth said. "That may change in the future."

But Guy Carpenter's Mr. Zaffino said that he sees a more-active risk securitization market.

"The correction in the market is causing more interest, especially in swaps and cat bonds, but the volume of transactions still remains low," he said.

Mr. Davies of Aon Re, which has been on the forefront of risk securitization deals within the reinsurance brokerage community, said that more Aon Re clients are taking one layer of


*See Brokers on next page*

**OPL**  
*welcomes the arrival of*

**OVERSEAS PARTNERS US REINSURANCE COMPANY**

Partnering OPL's  
multi-billion dollar financial strength  
with decades of U.S. experience

Overseas Partners US Reinsurance Company, the new  
U.S. subsidiary of Bermuda-based Overseas Partners Ltd.,  
has \$275 million of committed capital and the  
authority to write reinsurance in all 50 states. With a well  
known expert staff, our new company is ready  
to meet the needs of a broad spectrum of U.S. Clients.



**OVERSEAS PARTNERS LTD.**  
QUALITY PARTNER. QUALITY PARTNERSHIP.

## Brokers

Continued from previous page  
risk and "dipping their toes in the capital markets" to get acclimated to the approach.

So far in 2000, Aon Re has closed four capital markets deals and has five more in the pipeline, noted Rocker Channell, president of Aon Re. Aon Re considered using the capital markets in 15 other deals this year, but the traditional market ended up being the better choice, Mr. Channell said.

Risk securitization is just one of many solutions reinsurance intermediaries are developing and offering to ceding clients today.

In an effort to enhance the services they provide, many of the reinsurance brokers upgraded their catastrophe and financial modeling tools over the past year.

For example, Benfield Greig further strengthened its capabilities in risk analysis and modeling with the launch of ReMetrica II, a graphical risk simulation software program for modeling complex risks and assessing the efficiency of financial strategies.

The reinsurance broker has released the software to its customers, and some of the largest insurers and reinsurers have since licensed the software, according to Benfield Greig.

In March, E.W. Blanch upgraded its Catalyst catastrophe modeling software to make it faster and easier to use. Using the new software, an analysis that once took 10 hours can be completed in less than 17 minutes, according to Blanch. In addition, the software makes it easier for users to experiment with different scenarios and portfolio optimization techniques, according to the company.

"We've dedicated a lot of resources

to help insurers to analyze the long-term impact of various business decisions," said Chris Walker, president and COO of Dallas-based E.W. Blanch Holdings, which ranks as the fourth-largest reinsurance intermediary. Blanch increased its revenues

**'We believe distribution is the key, and using the Internet for distribution... is what we need to do,' says Grahame Chilton.**

8.4% in 1999, to \$177.4 million.

The process, which Blanch calls "earnings sensitivity analysis," includes cat modeling, dynamic financial analysis and other actuarial ser-

vices, Mr. Walker explained.

"We take a very technical and analytical approach to the business," Mr. Walker said. As such, he said, Blanch's catastrophe modeling and financial analysis "drives much of our new business."

In addition to upgrading catastrophe and financial analysis software, reinsurance intermediaries also are moving into the world of e-commerce, although at different speeds and in different directions.

For instance, in 1998 Benfield Greig launched Benfield Greig Interactive Ltd., a unit that specializes in the development, management and marketing of Internet-based products. The unit has launched several Web-based products that enable customers to obtain quotes and bind coverage for several lines of business (*BI*, Nov. 1, 1999).

Benfield Greig now is in the midst

of launching a new Web site for its clients. Via the site, which the broker expects will be up and running in the next few weeks, a customer will have 24-hour access to information on its account and the status of its claims, Mr. Chilton said.

"We believe distribution is the key, and using the Internet for distribution—whether it is us helping (clients) or us being able to distribute reinsurance business over the Net—is what we need to do," Mr. Chilton said.

Towers Perrin Re is making a big push into e-commerce, according to Mr. Eyre.

Together with Tillinghast-Towers Perrin, the broker's sister management and actuarial consulting company, Towers Perrin Re is providing "start to finish" e-business consulting to companies looking to develop e-business strategies and to accelerate new business concepts in the financial services industry, he said.

"We're working with traditional clients and new 'e-surance' startups," Mr. Eyre said. "We're helping clients with issues such as lowering search costs, convenience, lowering transactional costs and communications."

Guy Carpenter is currently defining its e-business strategy, Mr. Zaffino said. The reinsurance broker is building a sophisticated Web-based platform, which it hopes to launch sometime in the fourth quarter.

In addition to developing Web sites, a few of the reinsurance brokers have invested in neutral online risk trading platforms.

E.W. Blanch, for example, is a significant investor in The Catastrophe Risk Exchange Inc., known as CATEX. CATEX provides a neutral online marketplace where brokers, insurers, reinsurers and risk managers can negotiate deals and trade information.

Mr. Walker said Blanch posted all of its most-recent reinsurance renewals over CATEX, but he noted that not all of the renewals were completed over the exchange.

And last month, JLT took an equity interest in dotRisk Ltd., a neutral online marketplace for commercial insurance and claims. dotRisk has three platforms. One offers end-to-end insurance purchasing; another, claims submission, processing and resolution; and a third provides a forum where any type of claim, including reinsurance, can be bought or sold. Mr. Brookman noted that investing in dotRisk enables JLT to "provide ever-improving capabilities and services" to both existing clients and prospects.

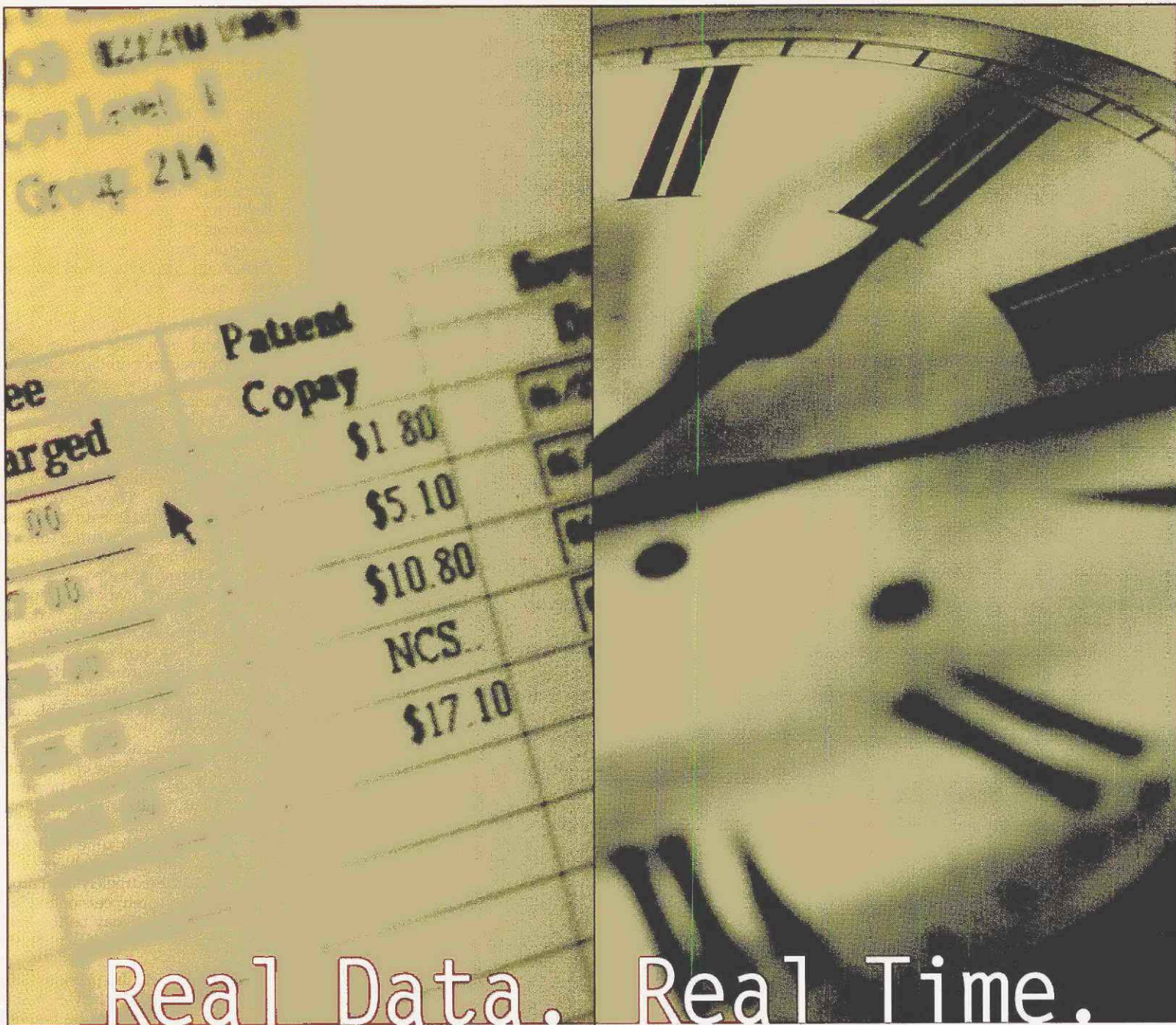
In addition to these neutral exchanges, several reinsurers over the past year have launched their own Web portals that allow ceding insurers to use the Internet to submit underwriting information, receive quotes and, in some cases, bind reinsurance online (*BI*, Aug. 28).

In general, reinsurance intermediaries are reserving judgment about these portals for the moment, though there is some skepticism about whether reinsurance can be sold online.

"I don't see the risks we transfer being commoditized enough" to be sold via the Internet, said Mr. Denzer of John B. Collins. "We believe in being able to differentiate clients' risks from the rest of the industry. That is very difficult to do in a commoditized environment," he said. Mr. Collins said, though, that he believes the Web will be a market for some smaller types of reinsurance risks.

"There are already companies offering reinsurance cover over the Internet," said Mr. Brookman of JLT. "As for how successful it will be, we will have to wait and see."

Sarah Veysey contributed to this report.



# Real Data. Real Time.

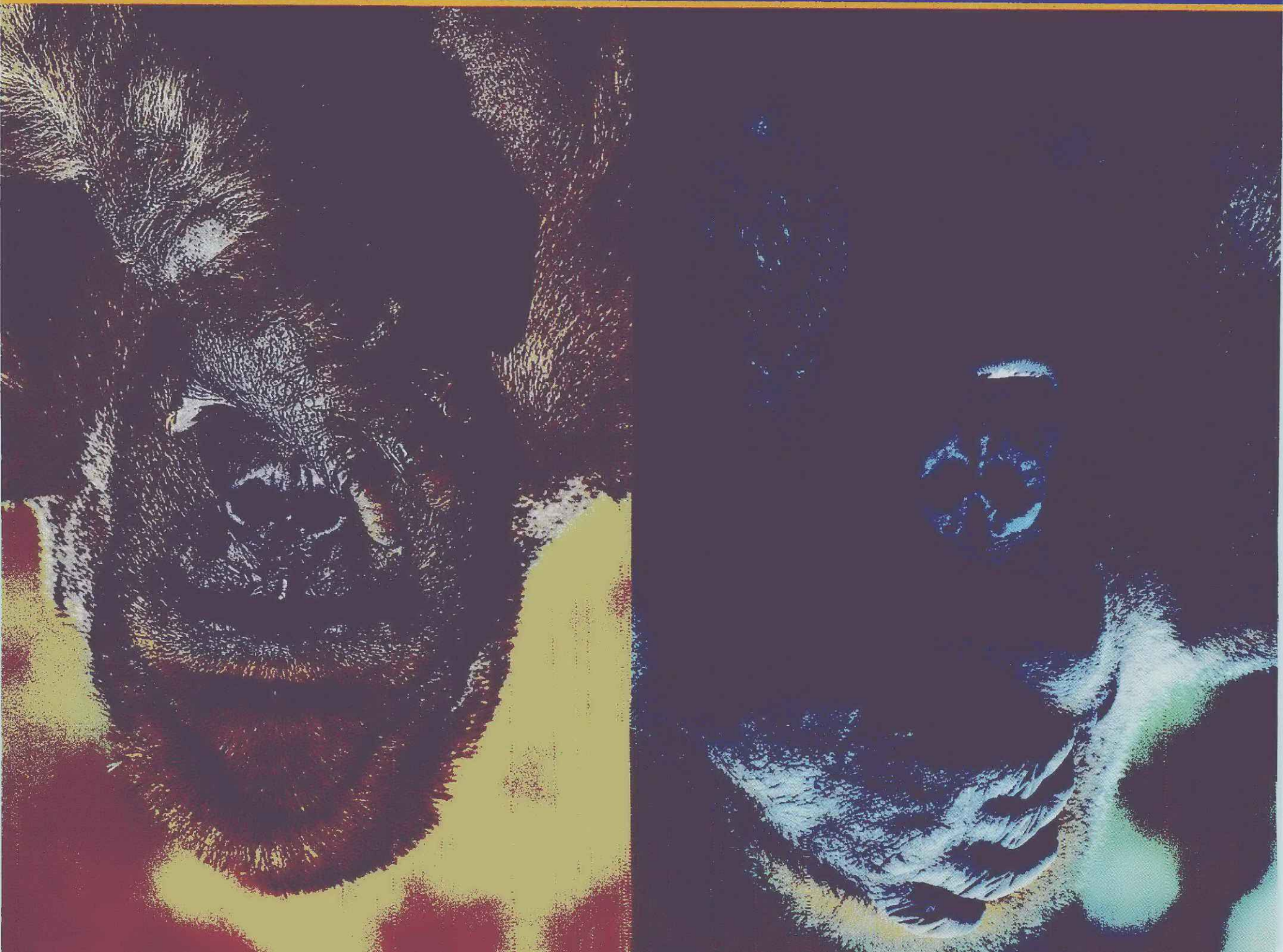
Using eligibility and benefit data from multiple healthcare plans and insurance carriers, ANSLink<sup>SM</sup> lets providers check eligibility and submit claims on one user-friendly web site.

Because ANSLink uses real data, providers can get the information they need. When they need it. ANSLink—the powerful communication link with your healthcare providers.

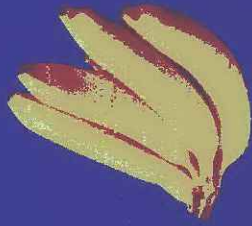
**ANSLink**<sup>SM</sup>

**Accelerating healthcare transactions.**

312-236-6616 • www.anslink.com



Ever wonder what your broker has in mind when handling your account?



### Survival of the Fittest, Not the Fattest.

It's certainly easy to tell what we have in mind: you. At U.S. RE, we've pioneered products and services to meet your needs. Instead of being driven by quarterly shareholder demands, we focus on strategic growth aimed at improving customer service. Our products and services are geared to meet every conceivable facet of exposure employing the most innovative approaches to the creation of corresponding protections with the best security... and at prices that won't make you go bananas.

**U.S. RE Corporation**  
*Reinsurance Brokers & Consultants*



Head Office: 99 Park Avenue, New York, NY 10016

Phone: 212-808-5500 Fax: 212-808-5206 E-Mail: [info@usre.com](mailto:info@usre.com) Web Site: [www.usre.com](http://www.usre.com)



**Imagine if the world was patterned after most health care plans.**

It's a hassle having everything broken into pieces. Those of you who deal with health care plans are pretty sure you know that. Most health care plans are a patchwork of systems, making hassles unavoidable. The only answer: a health benefits company built for national employers, with centralized data, a single point of contact and one high standard nationwide. Visit [www.healthcare.com](#) today. And ensures that the road to wellness won't be ridden with starts and stalls. Visit [www.healthcare.com](#)

intimate with that frustration. The problem is, most  
y that does things in a completely different way. One  
wide. In the end, this integrated system eliminates  
t [firsthealth.com/imagine](http://firsthealth.com/imagine) or call 630.737.7078.



**First Health**<sup>®</sup>

Making health care as simple as 1 ~~2~~ ~~3~~



**"Knowledge is limited.  
Imagination encircles the world."**

**-Albert Einstein**

Few can look beyond short-term profits to long-term success, and have a reach that spans the globe. At Willis Re, we're investing in your future -- investing in people, in technologies, in strategies that will benefit you for years to come.

**Willis Re U.S. offices:**

Atlanta, Dallas, Miami, Minneapolis, Nashville, New York,  
North Carolina, Philadelphia, San Francisco, Stamford  
212-820-7600

[www.willis.com](http://www.willis.com)

**Willis**

# Ergonomics standard good for business

By Charles N. Jeffress

Which ergonomics problem should a risk manager tackle first? The most serious? The most widespread? The most expensive? The easiest to solve?

How about all of the above!

The point is simple: work-related musculoskeletal disorders—or MSDs—are serious, common and costly. Many are also easy to prevent. Yet far too few employers have addressed MSDs.



The solution to work-related musculoskeletal disorders is ergonomics. Ergonomics involves reducing physical stresses—like awkward postures, excessive force, heavy lifting and repetitive motion.

Good ergonomics prevents injuries and cuts costs. The ergonomics program standard that the Occupational Safety

and Health Administration has proposed would prevent an average of 300,000 MSDs and generate \$10 billion in savings each year. That's good news for risk managers, employers and workers.

Publishing a final ergonomics standard is OSHA's top priority. Let me explain why.

In recent years, OSHA has adopted a risk management approach to preventing injuries and illnesses in the workplace. Using site-specific data, we've identified facilities that have above average injury and illness rates. We've notified those companies that they need to do a better job of protecting their workers. And we've sent inspectors to the sites with the worst records.

We've also tried to leverage our resources through partnerships and education and outreach efforts that can accomplish the same goals as inspections but reach more employers and workers. In addition, we've established a priority system for addressing outstanding problems, both through standards and through other measures such as guidelines or agreements with specific industries.

As we established priorities for standard-setting, we considered several factors: How many injuries or illnesses are caused by this hazard? How serious are the injuries or illnesses? Can an OSHA standard significantly reduce the risk of harm to workers?

When we looked at the data on workplace injuries and illnesses in the United States, we found that every year 1.8 million U.S. workers experience work-related MSDs—back injuries, carpal tunnel syndrome and tendinitis, for example. This includes nearly 600,000 injuries serious enough to cause workers to miss work, which is a full third of the most serious on-the-job injuries.

Look at these numbers another way. Today nearly 5,000 working Americans will suffer painful injuries related to overexertion or repetitive motion. These injuries are potentially disabling and can require long recovery periods. For example, workers need an average of 28 days to recuperate from carpal tunnel syndrome, which is more time than necessary for amputations or fractures.

MSDs are also very costly injuries. Direct costs of MSDs total \$15 billion to \$20 billion per year. Indirect costs increase that total to \$50 billion. That's an average of \$135 million per day. On the other hand, OSHA has found substantial evidence to show that ergonomics programs can cut

workers' compensation costs, increase productivity and decrease employee turnover. In fact, ergonomics began as an effort to streamline work processes and improve efficiency to save money.

OSHA estimates it will cost an average of \$150 annually to fix problem jobs; others suggest as much as \$780. But with the cost of an average back injury pegged at \$20,000, even \$780 would be a bargain.

A little known truth is that OSHA cost estimates are more often too high than too low. Retrospective studies of OSHA standards have found that the agency generally over-estimates rather than

**Risk managers need to know that good ergonomics is good economics. OSHA's proposal provides the framework employers can use to prevent injuries and reduce expenses.**

underestimates the cost of standards. Final costs for the asbestos, formaldehyde and cotton dust standards have been pegged at about half what OSHA had predicted. The final tally on the costs of the vinyl chloride standard totaled about 15% of the OSHA estimate and 0.3% of the highest industry estimate. In many cases, technology that reduced worker exposures also significantly increased productivity. Early indications about the cost of the lockout/tagout standard, a more recent standard, suggest that many employers have actually saved money, rather than incurring higher costs.

Risk managers need to know that good ergonomics is good economics. OSHA's proposal provides the framework employers can use to prevent injuries and reduce expenses. About 1.9 million general industry worksites with more than 27 million workers would be covered under the proposal. Employers with high-risk jobs—manual handling and production jobs—would need to share information with employees and set up a reporting system for MSDs. About 60% of the most serious musculoskeletal disorders in general industry occur in these positions. Yet only 25% of the workforce occupies these jobs.

The majority of general industry employers—75%—would be covered only if one of their employees actually suffered an MSD related to the job. In other words, these employers have no obligations under this standard unless a documented, work-related MSD occurs.

Even when an injury occurs, OSHA's proposal doesn't require retooling or remodeling an entire workplace. It only requires employers to address the specific job where the problem lies. This is the approach that hundreds of companies, large and small, have told us they use for their successful ergonomics programs. By responding immediately to an individual injury, employers can catch problems early, before irreversible damage occurs.

Solutions can be simple, obvious and inexpensive. Things like adding a platform to reduce reach, padding hand tools and work surfaces, substituting a more effective tool or reducing the size of items workers must lift. These are sensible approaches that reduce risk without reinventing the factory.

Risk management is not an exact science. It involves best estimates and most likely scenarios. It depends on careful assessment and thorough planning. Redundancy and the use of safety factors help ensure success.

Ergonomics is similar. This discipline relies on a scientific approach to fit the job to the worker. It isn't necessarily exact. Sometimes it requires experimentation. But it doesn't take a rocket

scientist to identify solutions that eliminate musculoskeletal disorders that result from a mismatch between the job and the worker.

Ergonomics is simply about protecting the body from unnecessary wear and tear on the job. That means working smarter and safer, using equipment for lifting when possible, avoiding awkward postures and eliminating excessive force.

Everyone knows it's foolhardy and downright dangerous to push equipment beyond its rated capacity.

That's a surefire recipe for malfunction or breakdown. The same is true of the human body. Pushing people beyond their physical capacity leads to lower productivity and a higher risk of injury. Taking into account the physical capacity of workers just makes common sense. And surely, workers are more valuable than machinery.

OSHA has been concerned about musculoskeletal disorders for two decades. More than 15 years ago, we began offering training on ergonomics. In the mid-1980's, we solicited comments on ways to reduce problems associated with manual lifting. In the late 1980's, OSHA worked with the auto industry and meatpackers to address injuries experienced by their workers. In 1990, the agency published ergonomic guidelines for the red meat industry that are still in widespread use today.

In 1991, OSHA was petitioned to develop an ergonomics standard as soon as possible. In 1992, we began the rulemaking process in earnest. But in 1995 as we began discussing a draft with stakeholders, Congress stepped in to block further consideration of the rule. For three years, congressional riders prohibited the agency from proposing an ergonomics standard. Then, in 1999, Congress dropped the riders, and leaders in the House pledged not to seek another delay. But the House has broken that promise and along with the Senate passed an appropriations rider to bar OSHA from acting on ergonomics for yet another year. President Clinton had promised to veto that bill, if it passed.

It's critical that we publish a final standard without further delay. The scientific evidence linking MSDs to work is strong and substantial. OSHA has reviewed and included in the rulemaking record more than 14,000 scientific studies. The jury is in on this issue. The verdict has been rendered: MSDs are directly related to work, and we can take steps to prevent them.

Does this mean that it is possible to prove that exactly X number of repetitions or lifting X pounds will inevitably result in injury or conversely that Y number of repetitions or Y pounds will definitely NOT result in an injury? No. But the principles are clear. Reducing physical risk factors reduces injuries. And many employers have proved that establishing a systematic program to address such issues as repetition, excessive force, awkward postures and heavy lifting results in fewer injuries to workers.

Put simply, there are real people in the workplace who need protection. They suffer real problems—sometimes very painful and disabling conditions. Their employers suffer real problems, too—billions in workers' compensation costs and lost productivity. And there are real solutions—often easy and inexpensive ones, sometimes more complex, but ultimately well worth the investment.

Ergonomics programs work. They reduce injuries, improve productivity and save money.

That's something any risk manager should be able to support—and any worker and employer as well.

*Charles N. Jeffress is Assistant Secretary of Labor for Occupational Safety and Health in Washington.*

# Unwrapping all the problems with UCITA

By John C. Lobert

The Uniform Computer Information Transactions Act is a creation of the National Conference of Commissioners on Uniform State Laws, an august body that has been with us for 109 years now for the purpose of proposing model laws.

Uniformity among the states is desirable, as anyone who attends meetings of the National Assn. of Insurance Commissioners these days will tell you. It creates and fosters certainty that everyone will ostensibly be treated the same way on the same subject in every state. Therefore, we can conclude that NCCUSL has the potential to render a valuable public service. As we shall see, it doesn't always reach its full potential.

While the Uniform Commercial Code is perhaps the most famous of NCCUSL's progeny, the group has

produced a wide range of laws addressing subjects from adoption and alcoholism treatment to unclaimed property and victims of crime.

UCITA has become almost as famous—or perhaps I should say infamous—because of the controversy that rages over its provisions. As a result of this controversy, it should either be changed or dropped altogether and, short of that, legislators should



run from it like scalded dogs.

The controversy mostly stems from something that is controversial itself, the uniquely named “shrink-wrap” contract. In case you've never purchased computer software, the term is derived from the practice of computer software manufacturers placing license agreements inside software boxes so that you don't see them until you break the cellophane on the box and open it (hence the shrink-wrap reference). The license says that opening the box binds the purchaser to the rest of the licensing agreement. Perhaps calling it the “booby trap contract” would be more apt, since the surprise is sprung in much the same way.

Another version of this agreement has also been hatched—the click-wrap license. As the software is installed, the license is presented on a scrollable screen. The catch here is that unless the “I accept” button is clicked, the software won't install.

This type of agreement is a “unilateral contract,” because one party proposes its terms, and the other party is bound by performing some voluntary act that amounts to acceptance. These agreements are also “contracts of adhesion,” meaning that there is no choice but to accept the terms and no opportunity to change them. (Of course, insurance contracts, other than manuscripted policies, also fall into that category, but at least they are subject to regulatory oversight.) It's the old take-it-or-leave-it, but this one has a unique twist: you took it, you opened it, you read it, and if you don't like it, you can't return it because opened software is not returnable. Surprise.

With serious doubt about the enforceability of shrink-wrap licenses (you don't actually own that software you paid for—you only have a license to use it), software manufacturers wanted something ironclad. So they went to the NCCUSL looking for a model law because there's no greater blessing a piece of legislation can receive than to be called either “uniform” or “model.” Many lawmakers seem to feel that if it's one of those, then it should become the law—no questions asked.

It's virtually impossible to amend one of these darlings, and once it starts moving through the legislative process, trying to stop it is like standing in front of a steamroller. I have known at least one instance of a scoundrel falsely representing something as a model law and actually getting it passed for that reason.

Risk managers should be concerned about this model law because it limits the liability of software

manufacturers and it allows the software manufacturer to select the dispute resolution forum.

Discussing the second issue first: Disputes under the software license perhaps are inevitable. Those disputes may relate to whether the software is functioning as warranted or they may relate to the very terms of the license itself.

Ordinarily, contract disputes are resolved in the courts or in arbitration under contract terms that have been negotiated by the parties. Under UCITA, the software manufacturer chooses how and where disputes are resolved, and evidence so far indicates that you won't like those choices.

One manufacturer already has selected France and another Ireland as the places to resolve disputes. While these locales are no doubt lovely places to visit, they aren't for this purpose. The objective is, of course, to force the buyer to accept the dispute settlement offer of the manufacturer because most buyers cannot justify hiring French or Irish lawyers and spending time and more money in those countries pursuing their cases.

The first issue is the more important, however. Under UCITA, the seller's liability for defective software is limited solely to the return of the purchase price. Consequential damages, business interruption, liability to third parties—all are gone. Also note that the seller has the ability to pull your software offline under UCITA's self-help provisions, giving rise to these same potential liabilities. While the buyer may have incurred millions of dollars in liability to others as a result of this defect or disabling of the software by the seller, that liability cannot be passed through to the seller. Nor is the seller responsible for the fact that your business may have been offline for days, even though it's the seller's fault.

As we move our businesses more and more to an absolute dependency on computer software, this is not an inconsequential consideration for risk managers.

UCITA was not adopted by NCCUSL unanimously, something that is both unusual and telling in this otherwise collegial body. In fact, six states voted against the bill—Alaska, Iowa, Minnesota, Nebraska, North Carolina and Utah—and two abstained. Why the opposition?

If you can wade through this convoluted law, you'll find that it settles any doubt on the enforceability of shrink-wrap and click-wrap licenses. They are enforceable under the law, though it does correct the old non-returnable issue—if you don't like the license terms; you can get your money back.

But you may have agreed to the terms already and didn't even know it. Section 112 says, “Conduct or operations manifesting assent may be proved by any manner, including a showing that a person obtained or used the information or informational rights and that a procedure existed by which a person must have engaged in the conduct or operations in order to do so.” Translation: Good luck getting a refund.

More bad news is that the license terms can be modified (unilaterally, of course) by the software company after a sale takes place and that UCITA limits how long you have the license from what you have now, perpetuity, to a “time reasonable,” whatever that is. Additionally, site licenses used to permit anyone at the same site to use the software. No longer. Section 307(c) says that it's the “number of users which is reasonable in light of the informational rights involved and the commercial circumstances existing at the time of the agreement.” If anyone knows what that number is, please drop me a line.

Purchasers also lose ordinary implied warranties. Let's suppose you take an automobile for a test drive before you buy it, as we all do. The next week, you discover a major defect and take the car in for repair or return. If UCITA applied to this transaction, the dealer could tell you to take a hike, because under Section 406(d), “If a licensee before entering into a contract has examined the information or the sample or the model as fully as it desired, there is no implied warranty with regard to defects that an examination ought in the circumstances to have revealed to the licensee.” In other words, you would be a fool under UCITA to try the software out before you bought it.

UCITA also allows the vendor to limit the remedy for breach of warranty to return of the purchase price.

Imagine this scenario: An insurer, through a fault in its software, underpays the claims of thousands of policyholders. The policyholders and state regulators discover this. (You know what's coming next.) Class-action lawyers sue the insurer for millions in actual and punitive damages, along with attorney fees, and regulators fine the insurer for unfair claims practices. The software manufacturer only has to reimburse the insurer for the price of the software even though it was the party at fault. Try explaining that in the next annual report.

I mentioned enforcement earlier. UCITA grants a rather novel enforcement power called “electronic self-help.” If the software vendor decides you have done something that calls for your license to be canceled (remember, you don't own the software), it can use electronic means to repossess the software. This means that software can be written so that the vendor can reach in through the Internet and disable it, as well as the use of whatever you've produced with it. Moreover, this may be done without judicial process. There's more to complain about, but I'll stop by quoting Timothy Dyck of PC Week: “[UCITA] is simply far too much power to grant software vendors.”

UCITA was introduced in nine states this year, with only two passing it. Virginia was the first to pass the law, presumably pushed by its home state favorite, the ubiquitous America Online. The governor fought the business community all the way to get it enacted. The only concession anyone was given was a delayed effective date of one year so that opponents could try to amend or repeal it. In a me-too move, Maryland adopted the law. Whatever Virginia does that's perceived as promoting economic development, Maryland rushes to do, as well. What I've been trying to figure out is how this law promotes the economy.

There is massive opposition to UCITA. Twenty-six state attorneys general signed a letter to NCCUSL expressing their concerns. Consumer groups have all chimed in, as well. Finally, the business community, including insurers, has been vocal in its opposition. The Alliance of American Insurers has vigorously opposed passage in the nine states where bills were pending in 2000.

In response, NCCUSL has been doing all it can to defend its action in adopting the law rather than admitting its mistake. Its Web site contains an extensive defense of the measure in the form of a Q&A called “Series of Papers on UCITA Issues.” This is the only model law that has such a document associated with it.

As examples of its defensive nature, check out these questions (you guess the answers given): “Does UCITA let sellers avoid consumer protections?” “Does it really allow self-help for any tiny default?” “Isn't it true that software companies choose foreign laws just to hurt the consumer?” and my personal favorite, “What if the toaster I buy has software in it, does UCITA apply?”

It doesn't stop at the Web site. At the February 2000 meeting of the National Conference of Insurance Legislators in San Francisco, NCCUSL's representative—with a straight face—told the group's State-Federal Relations Committee that the model doesn't contain the provisions claimed by its opponents and described it as “a fairly ordinary commercial contract statute” no different than commercial contract laws now contained in the UCC. He also told the committee that since all software licenses are negotiable, one could negotiate out anything objectionable and override UCITA's provisions. When was the last time you negotiated the terms of your software license before you broke open the cellophane?

Is there any question that the giant software manufacturers have somehow gotten to NCCUSL? These commissioners are prominent judges, law professors, and lawyers from all 50 states. Why has this been allowed to happen to such a respected body? I don't have the answer. I do know this: we must all band together to stop the passage of this offensive piece of legislation. As uniform laws go, it is uniformly bad. **BI**

*John Lobert is senior vp of state government affairs for the Alliance of American Insurers in Downers Grove, Ill.*



# You need an overview

**How you win: Find the best place to land, and then you commit to it.** In the last two years, Zurich Re has spent a lot of time expanding the presence of our local facultative offices; we opened brand new offices in Sydney and São Paulo, added casualty and engineering capabilities to our operations in Singapore, Mexico City and Buenos Aires and strengthened our divisions in New York, Zurich and Cologne. We offer facultative in almost every line, everywhere we do business.

Our presence isn't just a function of size, it's one of reach. eFac, our online facultative distribution and submission system, allows us to offer quotes anywhere, 24 hours a day. With our new offices, an underwriter can show up in person soon after. Our resources flow through a lot of channels, but we follow through on every one of them. **That's how you win. Give us a call.**

**Zurich Re (Zurich)**  
General Guisan-Quai 26  
8022 Zurich, Switzerland  
Phone: +41 (0)1 639 93 93  
Fax: +41 (0)1 639 90 90

**Zurich Re (Cologne)**  
Clever Strasse 36  
50668 Cologne, Germany  
Phone: +49 (0)221 539 0  
Fax: +49 (0)221 539 2022

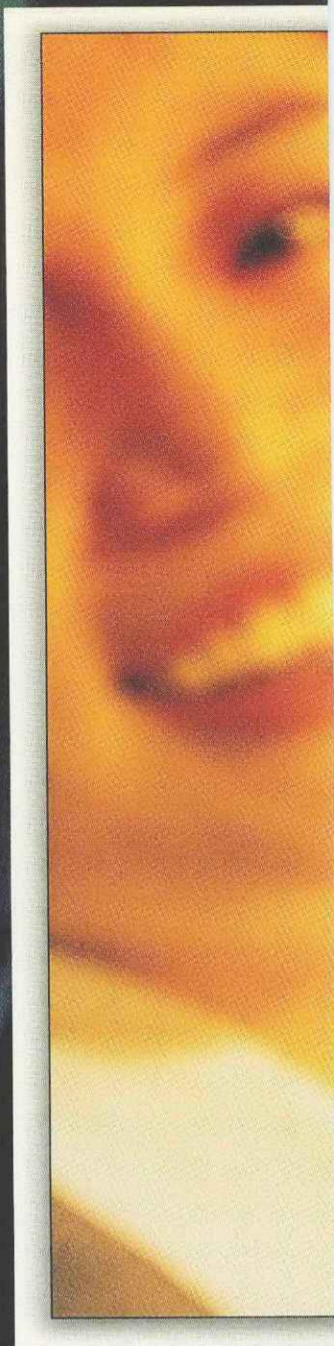
**Zurich Re (North America)**  
One Chase Manhattan Plaza  
New York, NY 10005, U.S.A.  
Phone: +1 212 898 5000  
Fax: +1 212 898 5052

Website:  
<http://www.zurichre.com>



**ZURICH RE**

Customized information will take you down  
the road to better risk management decisions.





### **Risk Mark**

Developing a risk management strategy for your worldwide property exposures can be a complex challenge. **Risk Mark** simplifies the process and allows you to make better informed decisions. It can provide risk quality benchmarks within your company, across industries, and within a specific industry group. Understanding your exposure is key to making better risk management decisions. Put our knowledge to work for you.

**Securing the future of your business.**

**FM** Global

# Business Insurance directory of reinsurance intermediaries



## Administration of Special Risks Inc. (ASR)

379 Princeton-Hightstown Road, Building 2, First Floor, Cranbury, N.J. 08512; 609-371-0800; fax: 609-371-0803

	1999	1998
Premium volume	\$7,000,000	\$7,000,000
% Facultative	100%	100%
Gross revenues	\$500,000	\$550,000
Total employees	4	4

Reinsurance brokering began: 1995.  
**Conducts business:** Mexico, Central and South America.  
**Contact:** Ruth Povedea, president; irc997@rcn.com.

## Agnew International Inc.

14 Washington Road, Princeton Junction, N.J. 08550; 609-799-7373; fax: 609-799-2265

	1999	1998
% Treaty	5%	10%
% Facultative	95%	90%
Gross revenues	\$666,000	\$672,000
Total employees	5	6

Reinsurance brokering began: 1976.  
**Conducts business:** United States and worldwide, with an emphasis in Latin America.  
**Officers:** Patrick Agnew, president; W. James Cook, vp; Gustavo A. Bravo, assistant vp.  
**Contact:** Patrick Agnew.

## Aon Re Worldwide

123 N. Wacker Drive, Chicago, Ill. 60606; 312-781-8818; fax: 312-781-8819  
 www.aon.com

	1999	1998
Gross revenues*	\$655,000,000	\$620,000,000
Total employees*	3,000	3,100

Parent: Aon Corp.  
**Branch offices:** Glendale and San Francisco, Calif.; Stamford, Conn.; Miami; Atlanta; Chicago; Boston; Minneapolis and St. Paul, Minn.; Parsippany, N.J.; New York; Philadelphia; Dallas; Buenos Aires, Argentina; Sydney, Australia; Baku, Azerbaijan; Central Manama, Bahrain; Hamilton, Bermuda; Rio de Janeiro, Brazil; Brussels, Belgium; Montreal; Toronto; Santiago, Chile; Hong Kong; Bogota, Colombia; Quito, Ecuador; London; Paris; Hamburg, Germany; Athens, Greece; Guatemala City; Mumbai, India; Dublin, Ireland; Tel Aviv, Israel; Milan, Italy; Tokyo; Almaty, Kazakhstan; Kuala Lumpur, Malaysia; Mexico City; Amsterdam, Netherlands; Auckland, New Zealand; Ruwi, Oman; Karachi, Pakistan; Lima, Peru; Moscow, Singapore; Johannesburg, South Africa; Seoul, South Korea; Madrid, Spain; Basel, Switzerland; Taipei, Taiwan; Bangkok, Thailand; Dubai,

United Arab Emirates; Kiev, Ukraine; Tashkent, Uzbekistan; Caracas, Venezuela.

**Acquisitions:** INREASEG, Ecuador, October 1999.

**Conducts business:** worldwide.  
**Officers:** Paul Davies, chairman-Aon Re Worldwide; Dennis Mahoney, chairman-Aon Group Ltd..

**Contact:** Rocker Channell, president-Aon Re Worldwide.  
 \*Estimated.

## Associated Intermediaries Inc.

P.O. Box 3306, Gainesville, Ga. 30503; 770-536-9800; fax: 770-536-0093  
 www.reins-offices.com

	1999	1998
Premium volume	\$19,750,000	\$17,500,000
% Treaty	100%	103%
Gross revenues	\$1,310,000	\$1,225,000
Total employees	5	4



## Ballantyne McKean & Sullivan Ltd.

Latham House, 16 Minories, London, EC3N 1AX England; 44-207-480-7288; fax: 44-207-488-9837  
 www.bmsgroup.co.uk

	1999	1998
Premium volume	\$271,824,000	\$289,975,000
% Treaty	100%	100%
Gross revenues	\$13,524,862	\$14,674,392
Total employees	66	62

Converted at applicable exchange rates.

Reinsurance brokering began: 1980.  
**Parent:** BMS Associates Ltd.  
**Conducts business:** Canada, United Kingdom and the United States.  
**Officers:** Hugo Crawley, chairman; Christopher Manwaring, deputy chairman; Roger Cooper, managing director.  
**Contact:** Hugo Crawley.

## Barrington Insurance Group L.L.C. dba Big Re Intermediaries

Zurich Towers II, 1450 American Lane, Suite 1525, Schaumburg, Ill. 60173; 847-517-7100; fax: 847-517-7105  
 www.bigus.com

	1999	1998
Premium volume	\$32,000,000	NA
% Treaty	100%	NA
Gross revenues	\$925,000	NA
Total employees	8	NA

Reinsurance brokering began: 1999.  
**Conducts business:** United States.  
**Officers:** Walter D. Hardy, managing partner; John P. Doyle, president; William H. Wiggs, CFO.  
**Contact:** Nicole Lietz, executive assistant; nlietz@bigus.com.

## Benfield Greig Group P.L.C.

55 Bishopsgate, London, EC2N 3BD England; 44-207-578-7000; fax: 44-207-578-7002  
 www.benfieldgreig.com

	1999	1998
Gross revenues	\$159,055,872	\$149,257,589
Total employees	535	467

Converted at applicable exchange rates.

Reinsurance brokering began: 1973.  
**Branch offices:** Stamford, Conn.; Alpharetta, Ga.; Mahwah, N.J.; New York; Philadelphia; Dallas; Seattle; Brussels, Belgium; Rio de Janeiro, Brazil; Toronto and Vancouver, Canada; Santiago, Chile; Munich, Germany; Rome; Tokyo; Mexico City; Madrid, Spain.  
**Subsidiaries:** Benfield Greig Asia Pte. Ltd., Singapore; Benfield Greig (Australia) Pty. Ltd., Sydney, Australia; Benfield Greig Canada Ltd.; Benfield Greig Paris S.A., Paris; Benfield Greig (New Zealand) Ltd., Auckland, New Zealand; Benfield Greig (South Africa) Pty. Ltd., Johannesburg, South Africa; Benfield Greig Ltd., United Kingdom; Benfield Greig L.L.C., United States.

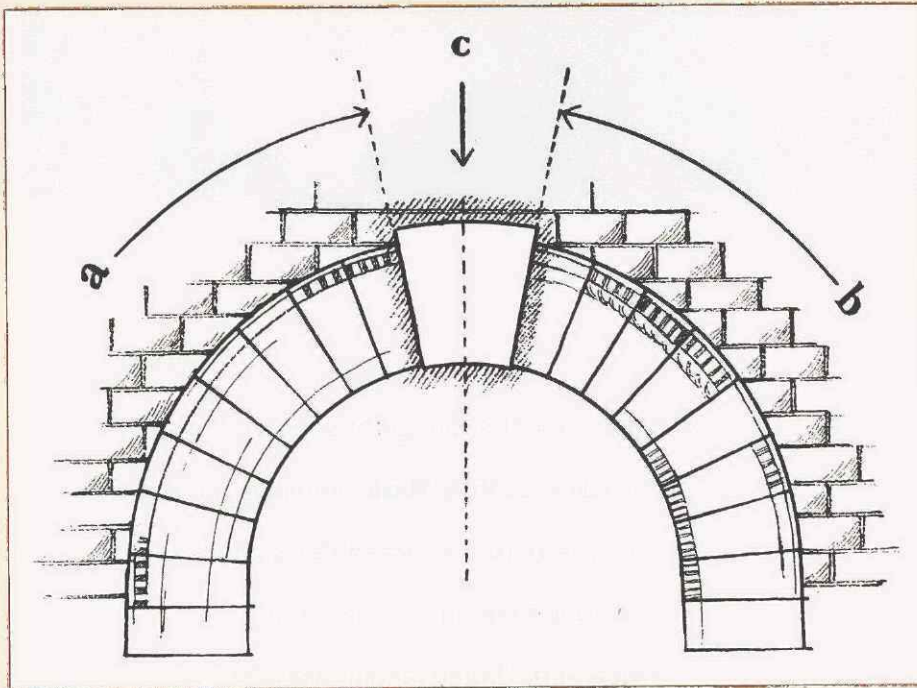
**Acquisitions:** Bates Turner Intermediaries L.L.C.; Overland Park, Kan.; December 1999.

**Conducts business:** worldwide.  
**Officers:** John Coldman, chairman; Graeme Chilton, chief executive; David Spiller, managing director.

**Contact:** Julianne Jessup; julianne.jessup@benfieldgreig.com.

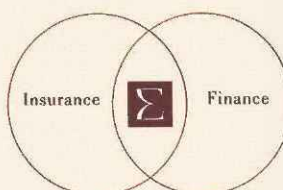
## E.W. Blanch Co. Inc.

500 N. Akard, Suite 4500, Dallas, Texas 75201; 214-756-7000; fax: 214-756-7001  
 www.ewb.com



It takes more than a good design to achieve expert craftsmanship. Structural integrity depends on experience and execution. Each Enterprise transaction is skillfully constructed to achieve our client's strategic objectives, blending different financial instruments to manage corporate risk with balanced solutions.

Enterprise Advisors, Inc. 712 Fifth Avenue, New York, NY 10019 T: 212-707-0800 F: 212-707-0801 www.enterprisere.com





## Turn your insurance into a powerful financial tool.

Swiss Re can help you turn insurance into a much more efficient and effective financial tool. We start by thinking of insurance in ways that help achieve the broader corporate finance objectives of your firm.

Think of risk management and capital management as two sides of the same coin. A wide variety of risks — an explosion at a plant, a sharp spike in interest rates, or a contentious strike — all have a quantifiable impact on profitability and the balance sheet. In this context, risk management can serve as a full partner with other CFO and treasury functions

in enhancing capital efficiency.

Swiss Re, including our Swiss Re New Markets division, can help you determine the most effective role for insurance as well as other corporate finance solutions. Let us assist your company's efforts to protect itself from conventional risk while also striving to finance growth, enhance liquidity and protect shareholders from market fluctuations.

If you want to take a different approach to risk and capital management, contact a Swiss Re representative or visit our website at [www.swissre.com](http://www.swissre.com).

**Swiss Re**



Management of Capital and Risk

Continued from page 44

	1999	1998
Premium volume	\$4,630,000,000	\$4,500,000,000
% Treaty	100%	100%
Gross revenues	\$177,383,508	\$163,632,000
Total employees	1,291	1,164

Reinsurance brokering began: 1957.

Parent: E.W. Blanch Holdings Inc.

Branch offices: Los Angeles; San Francisco; Miami; Atlanta; Chicago; Boston; Minneapolis; Kansas City, Mo.; Hoboken, N.J.; New York; Philadelphia.

Subsidiaries: E.W. Blanch Ltd.

Acquisitions: Crawley Warren, London; November 1999.

Conducts business: E.W. Blanch Co. Inc., United States; E.W. Blanch Ltd., Argentina, Australia, Brazil, Chile, China, Denmark, Germany, Malaysia, Mexico, Singapore, United Kingdom United States and Vietnam.

Officers: Edgar W. Blanch Jr., chairman/CEO-E.W. Blanch Holdings Inc.; Kaj Ahlmann, vice chairman-E.W. Blanch Holdings Inc.; Chris Walker, president/COO-E.W. Blanch Holdings Inc.

Contact: Susan Wollenberg; susan.wollenberg@ewb.com.

Parent: Marsh &amp; McLennan Cos. Inc.

Branch offices: Glendale, Los Angeles and San Francisco, Calif.; Hartford and Stamford, Conn.; Miami; Roswell, Ga.; Chicago; Carmel, Ind.; Boston; Minneapolis; Dallas; Seattle; Tokyo; Zurich, Switzerland.

Subsidiaries: Guy Carpenter & Co. Inc. of Pennsylvania, Philadelphia; Guy Carpenter & Co. S.A., Buenos Aires, Argentina; Guy Carpenter & Co. Pty. Ltd., Sydney, Australia; Guy Carpenter & Co. S.A., Brussels, Belgium; Guy Carpenter & Co. S.A., Rio de Janeiro, Brazil; Guy Carpenter & Co. Ltd., Toronto; Guy Carpenter & Co. Ltda., Santiago, Chile; Guy Carpenter & Co. Corredores de Feasegueros Ltda., Bogota, Colombia; Guy Carpenter & Co. Ltd., London; Guy Carpenter & Co. S.A., Levallois-Perret Cedex, France; Guy Carpenter & Co. GmbH, Munich, Germany; Guy Carpenter & Co. Ltd., Kowloon, Hong Kong; Guy Carpenter & Co. Ltd., Dublin, Ireland; Guy Carpenter & Co. S.r.l., Milan, Italy; Guy Carpenter & Co. Labuan Ltd, Labuan, Malaysia; Guy Carpenter Reinmex, Mexico City; Guy Carpenter & Co. B.V., Amsterdam, Netherlands; Guy Carpenter & Co. Peru S.A., Lima Peru; Guy Carpenter & Co. (S) Pte., Singapore; Guy Carpenter & Co. (Pty.) Ltd., Johannesburg, South Africa; Guy Carpenter &

Cia., S.A., Barcelona and Madrid, Spain; Guy Carpenter & Co. AB, Stockholm, Sweden; Guy Carpenter & Co. Venezuela C.A., Caracas, Venezuela.

Conducts business: worldwide.

Membership: Brokers &amp; Reinsurance Markets Assn.

Officers: Salvatore D. Zaffino, chairman/CEO; Edmund R. Megna Jr., president; Geoffrey I.K. Bromley, COO.

Contact: Sean F. Mooney, 212-323-1345; sean.f.mooney@guycarp.com.

**Herbert Clough Inc.**

Financial Centre, 695 E. Main St., P.O. Box 10216, Stamford, Conn. 06904-2216; 203-328-6427; fax: 203-328-6408 www.clough.com

	1999	1998
Premium volume	\$475,000,000	\$545,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$12,250,000	\$12,955,000
Total employees	32	57

Reinsurance brokering began: 1926.

Parent: Berkshire Hathaway Inc.

Conducts business: worldwide.

Membership: Brokers &amp; Reinsurance Markets Assn.

Officers: Robert McGowan, president/CEO; Lawrence C. Magnant, executive vp; Roger Eel, senior vp.

Contact: Scott Bradley; sbradley@genre.com.

**John B. Collins Associates Inc.**

8300 Norman Center Drive, Suite 1275, Minneapolis, Minn. 55437; 952-820-0012; fax: 952-820-2700

	1999	1998
Premium volume	\$960,000,000	\$810,000,000
% Treaty	100%	100%
Gross revenues	\$20,829,000	\$15,400,000
Total employees	78	60

Reinsurance brokering began: 1987.

Branch offices: San Francisco; Hartford, Conn.; Chicago; Columbia, S.C.; Dallas.

Acquisitions: Greenwood International Insurance Services, Boston, August 2000.

Conducts business: worldwide.

Officers: John E. Collins, chairman/CEO; James A. Brost, vice chairman; Patrick J. Denzer, president/COO.

Contact: Robert C. Donohoe, senior vp.

**EWI Re Inc.**

5400 LBJ Freeway, Suite 1060, Dallas, Texas 75240; 972-866-6815; fax: 972-866-6801

	1999	1998
Premium volume	\$90,000,000	\$115,000,000
% Treaty	95%	90%
% Facultative	5%	10%
Gross revenues	\$3,230,000	\$4,000,000
Total employees	13	17

Reinsurance brokering began: 1988.

Conducts business: United States.

Officers: James C. Epstein, president; Jorge I. Cardona, senior vp/COO; Michael D. Elliott, Charles T. Black, senior vps.

Contact: Jorge I. Cardona; jcardona@ewiretx.com.

Continued on next page

**Guy Carpenter & Co. Inc.**

2 World Trade Center, New York, N.Y. 10048; 212-323-1000; fax: 212-313-4970 www.guycarp.com

	1999	1998
Premium volume	\$10,500,000,000	\$9,700,000,000
% Treaty	95%	96%
% Facultative	5%	4%
Gross revenues	\$526,000,000	\$502,000,000
Total employees	2,080	2,159

Reinsurance brokering began: 1923.

**Directory terms explained**

Information in the 18th annual *Business Insurance* Directory of Reinsurance Intermediaries was gathered from responses to a BI questionnaire. The directory is published as an editorial service; there is no charge to be included.

To be included, companies must generate at least \$500,000 in gross revenues from reinsurance brokerage and must provide revenue information.

Listings begin with the company's address, phone and fax numbers and World Wide Web address. Financial and operational information for 1999 and 1998 is provided, including the premium volume related to reinsurance, percentage of treaty and facultative business (as a percentage of reinsurance premium volume) and gross revenues related to reinsurance. The total number of employees assigned to reinsurance is provided on a full-time equivalent basis.

Next, the year reinsurance brokering began and parent company are noted, as well as the locations of branch offices and subsidiaries brokering reinsurance. Acquisitions in 1999 and so far in 2000 are listed next.

A list of countries in which the company conducts business as a reinsurance intermediary is also provided. In addition membership in the Brokers & Reinsurance Markets Assn. is noted for applicable companies. Principal officers and a contact for readers seeking more information complete each listing.

Although every effort is made to obtain complete and accurate information, BI is unable to verify all information provided.

Exchange rates used in the directory: British pound=\$1.595 (FYE 3/31/00), \$1.618 (FYE 12/31/99), \$1.647 (FYE 9/30/99), \$1.654 (FYE 3/31/99), \$1.657 (FYE 12/31/98), \$1.700 (FYE 9/30/98); French franc=0.162 (FYE 12/31/99) 0.170 (FYE 12/31/98).

Companies that wish to receive a questionnaire for this directory for 2001 should contact the Directory Department, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; biweb@rcrain.com

# THE PASSION



License to get on with it.™



Firemar's Fund McGee  
Marine Underwriters

A company of the Allianz Group

Continued from previous page

**F****Financial Reinsurance Inc.**

140 S. Atlantic Ave., Suite 400,  
Ormond Beach, Fla. 32176;  
904-677-4453; fax: 904-673-1630

	1999	1998
Premium volume	\$11,000,000	\$8,600,000
% Treaty	100%	100%
Gross revenues	\$615,000	\$505,000
Total employees	3	2

Reinsurance brokering began: 1960.

Parent: Ormond Re Group Inc.

Subsidiaries: W.J. Burt & Associates, New York.

Conducts business: worldwide.

Officers: W. Lockwood Burt, president; John B. Deiner, executive vp/secretary/general counsel; Anthony L. DiPardo, William T. Long, senior vps.

Contact: John B. Deiner; ormondre@bell-south.net.

**C.L. Frates Reinsurance Intermediary Inc.**

2 Greenwich Plaza,  
Greenwich, Conn. 06830;  
203-629-5600; fax: 203-622-0777  
www.clfrates.net

	1999	1998
Premium volume	\$27,500,000	\$26,000,000
% Treaty	100%	100%
Gross revenues	\$1,281,000	\$1,388,000
Total employees	5	5

Reinsurance brokering began: 1986.

Conducts business: Europe and the United States.

Officers: Albert P. Amato, senior vp; Sandro Prosperino, second vp.

**G****Arthur J. Gallagher Intermediaries Inc.**

14 Wall St.,  
New York, N.Y. 10005;  
212-732-9855; fax: 212-619-7957  
www.ajg.com

	1999	1998
Premium volume	\$63,900,000	\$50,200,000
% Treaty	65%	60%
% Facultative	35%	40%
Gross revenues	\$7,100,000	\$5,150,000
Total employees	30	26

Reinsurance brokering began: 1986.

Parent: Arthur J. Gallagher & Co.

Branch offices: Chicago; Red Bank, N.J.

Officers: Randall Jensen, president; Robert P. Hodson, Robert Polansky, Chris Medlicott, senior vps.

Contact: Robert P. Hodson; 212-312-6303; robert\_hodson@ajg.com.

**Gill & Roeser Inc.**

535 Fifth Ave.,  
New York, N.Y. 10017;  
212-972-4880; fax: 212-972-4885  
www.gillroeser.com

	1999	1998
Premium volume	\$100,000,000	\$100,000,000
% Treaty	100%	100%
Gross revenues	\$4,681,000	\$2,507,000
Total employees	8	8

Reinsurance brokering began: 1983.

Conducts business: United States.

Officers: Kirk Roeser, president; Steven Bol-

land, senior vp; Peter Larsen, Andrew Burger, Dale Myer, vps.

Contact: Robert Wick, president-RWPR Inc.; Harwood Building, Suite 423; Scarsdale, N.Y. 10583; 914-722-1400.

**Gras Savoye Reassurance**

2-8 Rue Ancelle,  
Neuilly Sur Seine, 92200 France;  
33-141-43-5760; fax: 33-141-43-5789  
www.grassavoye.com

	1999	1998
Premium volume	\$135,189,000	\$137,343,000
% Treaty	61%	64%
% Facultative	39%	36%
Gross revenues	\$9,201,600	\$8,364,000
Total employees	33	31

Converted at applicable exchange rates.

Reinsurance brokering began: 1992.

Parent: Gras Savoye S.A.

Conducts business: Africa, Europe, France and the Middle East.

Officers: Patrick Lucas, president; Luc Malatre, managing director; David Rainbow, deputy managing director.

Contact: Jean-Clude Clement; 33-141-43-5666; jean.claude.clement@grassavoye.com.

**H****Heath Lambert Group**

Friary Court, Crutched Friars,  
London, EC3N 2NP England;  
44-207-560-3000; fax: 44-207-560-3502

	1999	1998*
Premium volume	\$1,419,550,000	\$1,300,044,000
% Treaty	60%	55.4%
% Facultative	40%	44.6%
Gross revenues	\$102,718,000	\$99,074,600
Total employees	4,580	4,969

Fiscal years ending 3/31/00 and 3/31/99.

Converted at applicable exchange rates.

Parent: HLF Insurance Holdings Ltd.

Subsidiaries: Edward Lloyd Ltd., New York; Heath Insurance Brokers Inc. of Georgia, Atlanta; Heath Insurance Brokers Inc. of California, Fresno, Irvine, San Francisco, Solvang and Woodland Hills, Calif.; Heath Insurance Brokers Inc. of Connecticut, Farmington, Conn.; Heath Insurance Brokers Inc. of Florida, Vero Beach, Fla.; Heath Insurance Brokers Inc. of Illinois, Chicago; Heath Insurance Brokers Inc. of Texas, Dallas, Houston, Lubbock, Texas; Heath Holdings USA, Inc., Dallas; C.E. Heath (Sur) S.A., Buenos Aires, Argentina; Caspian International Broking, Baku, Azerbaijan; Kininmonth Lambert Australia Pty., Sydney, Australia; LF (ME) EC, Manama, Bahrain; Heath Do Brasil Ltda., Rio de Janeiro, Brazil; Heath Chile S.A., Santiago, Chile; Heath Group P.L.C.-Representative Office, Beijing; Heath de Colombia Corredores Colombianos de Reaseguros Ltda., Bogota and Medellin, Columbia; Kininmonth Lambert Zargreb Ltd, Zargreb, Croatia; Heath (CZ) a.s., Prague, Czech Republic; Agencia Intermediaria de Reaseguros Francisco Rivadeneira Cia Ltda., Quito, Ecuador; Heath Overseas Holdings Ltd., London; LSN Reassurances, Paris; Heath Ruckversicherungs-gesellschaft GmbH, Cologne, Germany; Lambert Brothers Ltd., Hong Kong; A&B Reinsurance S.r.l., Milan Italy; Assiteca, Milan, Italy; Heath Kazakhstan Ltd., Almaty, Kazakhstan; Al Mulla Insurance & Reinsurance Broking Co. W.L.L., Safat, Kuwait; Heath Lambert Asia Pacific Ltd., Kuala Lumpur, Malaysia; Agencia Interoceánica Asesores e Intermediarios S.A. de CV, Mexico City; Nilsen Brokers Ltd. A/S, Lyssaker, Norway; CE Heath & Partners L.L.C., Ruwi, Oman; Heath del Peru Corredores de Resseguros S.A., Lima, Peru; Heath Polska, sp.zo.o; Warsaw, Poland; Heath & Amorim Re Sociedade Corretora de Resseguros S.A., Lisbon, Portugal; Kininmonth Lambert (S) Pte., Singapore; Heath Seoul Ltd., Seoul, South Korea; Heath-Re Y Asociados S.A. Correduria de Reaseguros, Madrid, Spain; Interbroker Correduria de Reaseguros S.A., Barcelona and Madrid, Spain; Heath de Venezuela Sociedad de Corretaje de Resseguros C.A., Caracas, Venezuela.

Conducts business: worldwide.

Officers: David Margrett, CEO; Stewart Wilson, COO; William Wilks, corporate group director.

Contact: Tim Tookey, group finance director; tookey@heathlambert.com.

\*pro forma numbers combination of Heath Group P.L.C. and Lambert Fenchurch Group P.L.C.

**Hemispheric underwriting Managers L.L.C.**

2600 Douglas Road, Suite 807,  
Coral Gables, Fla. 33134;  
305-443-6660; fax: 305-443-6648

	1999	1998
Premium volume	\$18,250,000*	NA
% Facultative	100%	NA
Gross revenues	\$820,000*	NA
Total employees	5	NA

Reinsurance brokering began: 1999.

Parent: Hemispheric Holding Co. L.L.C.

Conducts business: Caribbean, Central America, Portugal, South America and Spain.

Officers: John H. Blake, president/CEO; Julio Jimenez, vp-underwriting, Nitza Rivera, corporate secretary.

Contact: John H. Blake; jhblake@humllc.com.

\*Estimated.

**Holborn Corp.**

1 Wall St. Plaza, 88 Pine St.,  
New York, N.Y. 10005  
212-797-2285; fax: 212-964-0919  
www.holborn.com

	1999	1998
Premium volume	\$469,000,000	\$456,000,000
% Treaty	100%	100%
Gross revenues	\$19,100,000	\$18,500,000
Total employees	50	47

Fiscal years ending 2/29/00 and 2/28/99.

# N T O L E A D

BELIEF IN WHAT YOU DO IS ESSENTIAL TO LEADERSHIP.

THE BELIEF THAT ANYTHING IS POSSIBLE AND THE AUDACITY

TO TACKLE WHAT CONVENTIONAL WISDOM SAYS CAN'T BE DONE.

THAT'S THE SPIRIT YOU'LL FIND AT FIREMAN'S FUND McGEE

MARINE UNDERWRITERS. OUR PEOPLE LOVE WHAT THEY DO.

THEY ARE DEVOTED TO THEIR CRAFT AND ATTACK EACH

CHALLENGE WITH AN UNCOMMON LEVEL OF INTELLECTUAL ENTHUSIASM

AND VITALITY. AN ATTITUDE THAT TRANSLATES TO THE KIND

OF FRESH, IMAGINATIVE SOLUTIONS THE TIMES DEMAND.

CALL US AT 1-800-235-6029.

LEADING THE NEXT GENERATION OF MARINE INSURERS.

Continued from previous page

**Reinsurance brokering began:** 1920.  
**Branch offices:** Minneapolis.  
**Conducts business:** Bermuda, Europe, United Kingdom and the United States.  
**Membership:** Brokers & Reinsurance Markets Assn.  
**Officers:** John N. Gilbert Jr., president/CEO; Frank T. Harrison, senior vp/COO; Keith D. Gillies, senior vp.  
**Contact:** Frank T. Harrison; frankh@holborn.com.

**J**

**JLT Risk Solutions Ltd.**

6 Crutched Friars,  
 London, EC3N 2PH England;  
 020-7528-4000; fax: 020-7528-4500  
 www.jltgroup.com

	1999	1998
% Treaty	72%	100%
% Facultative	28%	0%
Gross revenues	\$86,287,940	\$74,399,303

Converted at applicable exchange rates

**Reinsurance brokering began:** 1981.  
**Parent:** Jardine Lloyd Thompson Group P.L.C.  
**Subsidiaries:** Intermediary Insurance Services Inc., San Francisco; Jardine Sayer & Co. Inc., Lawrenceville, N.J.; JLT Re Pty. Ltd., Sydney, Australia; Jardine Lloyd Thompson Asia Pte. Ltd., Singapore.  
**Conducts business:** worldwide.  
**Officers:** E.J. Lloyd, chairman; M. Brookman, D. Collins, deputy chairmen; S.P. McGill, chief executive.  
**Contact:** Group corporate relations department; 44-207-528-4000.

**Jardine Sayer & Co. Inc.**

Princeton Pike Corporate Center, 1009  
 Lenox Drive, Building 4,  
 Lawrenceville, N.J. 08648-0400;  
 609-896-0555; fax: 609-896-2666

	1999	1998
Premium volume	\$300,000,000	\$330,000,000
% Treaty	98%	98%
% Facultative	2%	2%
Gross revenues	\$11,500,000	\$10,700,000

Total employees 37 36

**Reinsurance brokering began:** 1979.  
**Parent:** Jardine Lloyd Thompson Group P.L.C.  
**Branch offices:** San Francisco; Dallas.  
**Conducts business:** United States.  
**Officers:** John D. Sayer, president; John E. Januszewski Jr., COO/controller; Alfred H. Blanton, executive vp.  
**Contact:** John E. Januszewski Jr.; jej@jardinesayer.com.

**L**

**W.J. Lehrke Co.**

7601 France Ave. S., Suite 225,  
 Edina, Minn. 55435;  
 952-835-3755; fax: 952-835-3547

	1999	1998
Premium volume*	\$32,000,000	\$30,000,000
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	\$3,580,000	\$3,224,000

Total employees 11 11

Fiscal years ending 2/28/00 and 2/28/99.

**Conducts business:** Australia, England, France, Germany and the United States.  
**Officers:** Walter J. Lehrke, chairman; Thomas A. Lehrke, president; Soren P. Sorensen, vp.  
**Contact:** Thomas A. Lehrke; tom@lehrke.com.  
 \*Estimated.

**Edward Lloyd Ltd.**

100 Merrick Road, Suite 200 W.,  
 Rockville Centre, N.Y. 11570;  
 516-763-9320; fax: 516-763-6722

	1999	1998
Premium volume	\$7,500,000	\$7,500,000
% Facultative	100%	100%
Gross revenues	\$750,000	\$750,000
Total employees	4	4

Fiscal years ending 3/31/00 and 3/31/99.

**Reinsurance brokering began:** 1984.  
**Parent:** HLF Insurance Holdings Ltd.  
**Conducts business:** worldwide.  
**Officers:** John Mannix, president; Rambha

McCanless, vp; Noel Ulrich, secretary.

**M**

**MRM Speciality Brokers Ltd.**

44 Church St., P.O. Box 2064,  
 Hamilton, HM HX Bermuda;  
 441-295-5688; fax: 441-292-1867

	1999	1998
Premium volume	\$300,000,000	\$250,000,000
% Treaty	80%	80%
% Facultative	20%	20%
Gross revenues	\$13,342,000	\$10,734,000
Total employees	41	37

**Reinsurance brokering began:** 1991.  
**Parent:** Mutual Risk Management Ltd.  
**Subsidiaries:** H&H Park Ltd, Hamilton, Bermuda; MRM Hancock, London; Market Re Intermediaries, San Francisco.

**Conducts business:** Europe and the United States.

**Membership:** Brokers & Reinsurance Markets Assn.

**Officers:** Paul Scope, chairman; Phillip R.S. Hancock, managing director; Spencer Woodbury, president.

**Contact:** Mike Foulger, COO; mfoulger@mrm.bm.

**Meadowbrook Insurance Group**

26600 Telegraph Road,  
 Southfield, Mich. 48034;  
 248-358-1100; fax: 248-358-1614  
 www.meadowbrook.com

	1999	1998
Premium volume	\$59,000,000	\$61,000,000
% Treaty	100%	100%
Gross revenues	\$1,900,000	\$2,200,000
Total employees	8	9

**Reinsurance brokering began:** 1985.  
**Subsidiaries:** Meadowbrook Intermediaries, Southfield, Mich.; Meadowbrook International Ltd., Hamilton, Bermuda.

**Conducts business:** United States, worldwide.

**Officers:** Marc S. Willner, senior vp-Meadowbrook Insurance Group; Suzanne Viksne, vp-Meadowbrook Intermediaries; Michael Woodroff, president-Meadowbrook International.

**Contact:** Marc S. Willner; 248-204-8134; marcwillner@meadowbrook.com.

**P**

**PWS Holdings P.L.C.**

52 Minories,  
 London, EC3N 1JJ England;  
 44-207-480-6622; fax: 44-207-702-1689  
 www.pwsint.co.uk

	1999	1998
Gross revenues	\$20,493,621	\$18,659,200
Total employees	224	231

Fiscal years ending 9/30/99 and 9/30/98.  
 Converted at applicable exchange rates.

**Reinsurance brokering began:** 1964.  
**Branch offices:** Amsterdam, Netherlands; Manila, Philippines.

**Subsidiaries:** PWS Canada Inc. PWS International; PWS (USA) Inc.

**Conducts business:** Asia, Central and South America, Europe and the United States.

**Officers:** Lord Pearson of Rannoch, chairman; Peter Smith, managing director; Peter Chapman, finance director.

**Contact:** Peter Chapman, 44-207-748-0465, peterchapman@pwsint.co.uk; Ann Marie Sharp-McManus, senior vp, 212-791-9350, annmarie@pws-usa.com.

**Preferred Reinsurance Intermediaries Inc.**

14 Monckton Blvd.,  
 Columbia, S.C. 29206;  
 803-790-4800; fax: 803-790-4825

	1999	1998
Premium volume	\$80,000,000	\$80,000,000
% Treaty	100%	100%
Gross revenues	\$1,950,000	\$1,800,000
Total employees	16	16

**Reinsurance brokering began:** 1983.  
**Branch offices:** Port Washington, N.Y.; Cary, N.C.

**Conducts business:** United Kingdom and the United States.

BERMUDA INSURANCE SYMPOSIUM V

THE WORLD INSURANCE FORUM

The Board of Directors has decided to postpone the Bermuda Insurance Symposium V

which was scheduled for February 2001. It has been rescheduled for February 2002 to allow us to take advantage of the expanded facilities of the Fairmount Southampton Princess Resort, Bermuda's premier conference hotel.

The World Insurance Forum will be the first event to be held in the newly renovated facilities. The hotel's multi-million dollar face lift will be completed by the end of December, 2001.

RESCHEDULED FOR FEB 2002

For further information contact:

Suzie Pewter, Project Coordinator,  
 Bermuda Insurance Symposium,  
 The Whitfield Building, 61 Front Street, Penthouse,  
 P.O. Box HM 2550, Hamilton HM KX, Bermuda.

Telephone: 441 292 6386 Fax: 441 292 6990  
 e-mail: info@bis.bm Website: http://www.bis.bm

JOIN THE REST OF THE WORLD IN BERMUDA

# Tough Risk? Don't get taken for a ride.



From roller coasters and clinical trials to race cars and brownfield sites, we'll keep you covered through all the ups and downs. When it comes to out-of-the-ordinary risks, we'll go out of our way to keep you safe and sound. Have your broker give us a call.



**Our specialty is your security**  
[www.generalstar.com](http://www.generalstar.com)

Specialty underwriting through appointed surplus lines brokers. For a list of brokers in your area, call General Star Management Company, Stamford, CT (203) 328-5700, ext. 5985, or fax your request to: (203) 328-5840.

Atlanta • Chicago • London • Los Angeles • New York • Stamford

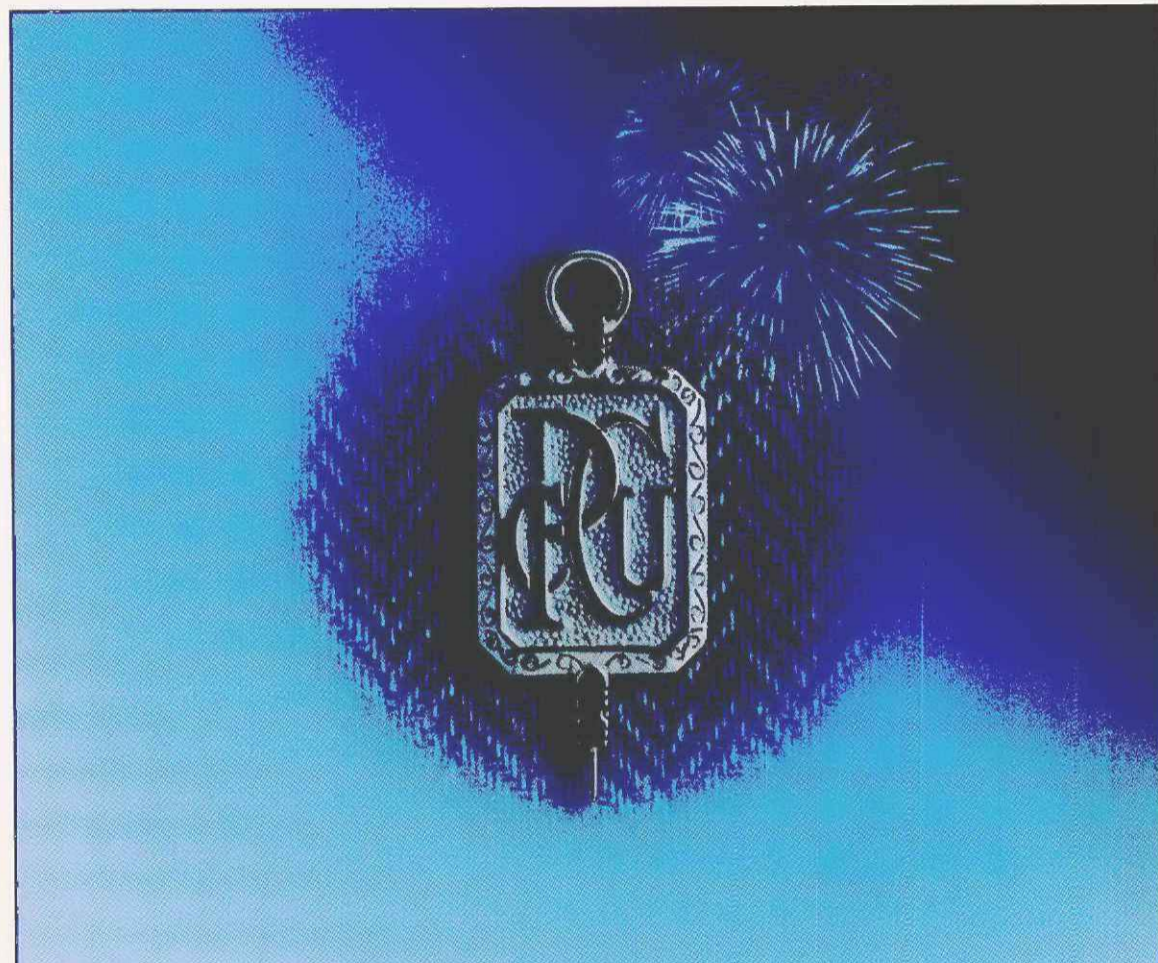
# FRATES

## Reinsurance Intermediary, Inc.

Let our experience work for you by designing a reinsurance program that suits your exact needs.

Two Greenwich Plaza  
Greenwich, Connecticut 06830  
Phone: 203-629-5600  
Fax: 203-622-0777

Visit our web site at [www.clfrates.net](http://www.clfrates.net)



## DRESS FOR SUCCESS.

**The Chartered Property Casualty Underwriter (CPCU®) key** is a symbol of personal and professional achievement that goes far beyond choosing the right business suit. It demonstrates that its wearer is a high-achieving, highly motivated professional who is committed to the highest ethical standards and continuous professional development.

Those who have earned the prestigious CPCU designation from the American Institute for CPCU gain the knowledge and technical competence required in today's business environment. In addition, they gain confidence, earn recognition from their peers and employer, and prepare themselves for future career growth.

Employers who hire CPCUs gain competent employees who can achieve demanding goals and meet rigorous challenges—the type of employees needed to create and sustain a high performance organization.

Earning the CPCU designation also unlocks key networking opportunities through membership in the CPCU Society. Society members promote and adhere to high ethical standards in the insurance profession and support continuing education and industry and community service.

Dress for success by earning the CPCU key—the symbol of achievement that never goes out of style.



AMERICAN INSTITUTE FOR CPCU  
INSURANCE INSTITUTE OF AMERICA

Phone: (800) 644-2101  
Fax: (610) 640-9576  
E-mail: [cserv@aicpcu.org](mailto:cserv@aicpcu.org)  
Web site: [www.aicpcu.org](http://www.aicpcu.org)



Phone: (800) 932-2728  
Fax: (610) 251-2761  
E-mail: [membercenter@cpusociety.org](mailto:membercenter@cpusociety.org)  
Web site: [www.cpusociety.org](http://www.cpusociety.org)

Continued from page 48

**Officers:** Robert H. Sanders, president; Karen N. Basso, senior vp; David L. Coulter, vp  
**Contact:** Charles W. Perry; [cperry@preferre-dre.com](mailto:cperry@preferre-dre.com).

### S

#### Smyth, Sandford & Gerard

5 Hanover Square,  
New York, N.Y. 10004;  
212-374-1323; fax: 212-587-4170

	1999	1998
Premium volume	\$295,000,000	\$275,000,000
% Treaty	63%	60%
% Facultative	37%	40%
Gross revenues	\$11,250,000	\$10,000,000
Total employees	30	31

**Reinsurance brokering began:** 1987.  
**Branch offices:** Coral Gables, Fla.  
**Conducts business:** worldwide.

**Officers:** Douglas King, president; Carl J. Casale, executive vp; Thomas C. Chiappa, senior vp; Gustavo I. Chomat, president-Florida office.

**Contact:** Douglas King; Thomas C. Chiappa.

### T

#### THB Intermediaries Inc.

1 Liberty Plaza, 27th Floor,  
New York, N.Y. 10006;  
212-266-0260; fax: 212-571-2420  
[www.nnng.com](http://www.nnng.com)

	1999	1998
Premium volume	\$55,000,000	\$45,000,000
% Facultative	100%	100%
Gross revenues	\$4,500,000	\$3,500,000
Total employees	32	30

**Reinsurance brokering began:** 1984.  
**Parent:** Near North National Group.

**Branch offices:** Los Angeles; Chicago; Dallas.

**Conducts business:** worldwide.

**Officers:** Richard Di Clemente, president; Lisa Loeffler, CFO; Robert Brookshire, senior vp; Paul Amidei, vp.

**Contact:** Richard Di Clemente.

#### Tanenbaum-Harber Reinsurance Intermediaries Inc.

320 W. 57th St.,  
New York, N.Y. 10019-3799;  
212-603-0365; fax: 212-582-6256

	1999	1998
Premium volume*	\$25,500,000	\$28,000,000
% Treaty	100%	100%
Gross revenues	\$1,600,000	\$1,845,000
Total employees	6	6

*Fiscal years ending 3/31/00 and 3/31/99*

**Reinsurance brokering began:** 1986.  
**Parent:** Tanenbaum-Harber Co., Inc.

**Conducts business:** United States.

**Officers:** Walter L. Harris, chairman; Peter M. Black, president; Randa K. Globerman, controller.

**Contact:** Peter M. Black; 212-603-0352.  
\*Estimated.

#### Totsch Enterprises Inc.

8745 W. Higgins Road, Suite 320,  
Chicago, Ill. 60631;  
773-380-8040; fax: 773-380-8054

	1999	1998
Premium volume	\$65,000,000	\$65,000,000
% Treaty	99%	99%
% Facultative	1%	1%
Gross revenues	\$1,200,000	\$1,100,000
Total employees	5	5

**Reinsurance brokering began:** 1978.

**Conducts business:** Canada, England, France, Germany, Sweden and the United States.

**Officers:** Marvin D. Totsch, president; Mary Ellen Totsch, secretary/treasurer; William E. Totsch, Robert L. Totsch, vps.

#### Towers Perrin Reinsurance

Mellon Bank Center, 1735 Market St.  
Philadelphia, Pa. 19103;  
215-963-7700; fax: 215-963-7873  
[www.towers.com](http://www.towers.com)

	1999	1998
Premium volume	\$1,250,000,000	\$1,100,000,000
% Treaty	97%	95%
% Facultative	3%	5%
Gross revenues	\$51,300,000	\$47,500,000
Total employees	224	215

**Reinsurance brokering began:** 1934.

**Parent:** Towers Perrin.

**Branch offices:** Los Angeles; San Francisco; Hartford and Stamford, Conn.; Fort Lauderdale, Fla.; Chicago; Boston; Dallas; Seattle; Buenos Aires, Argentina; Montreal; Toronto.

**Acquisitions:** Pegasus Advisors, Avon, Conn., July 2000.

**Conducts business:** worldwide.

**Membership:** Brokers & Reinsurance Markets Assn.

**Officers:** William H. Eyre Jr., managing director/CEO; Daniel R. Colello, managing director/COO; Mary K. O'Gorman, executive vp/chief accounting officer.

**Contact:** William H. Eyre Jr.; 215-963-7748.

### W

#### Willis Re

10 Trinity Square,  
London, EC3P 3AX England;  
44-207-488-8111; fax: 44-207-488-8976  
[www.willis.com](http://www.willis.com)

	1999	1998
Premium volume	\$4,215,000,000	\$4,327,000,000
% Treaty	92%	92%
% Facultative	8%	8%
Gross revenues	\$253,000,000	\$247,000,000
Total employees	870	849

**Parent:** Willis Group Ltd.

**Branch offices:** San Francisco; Stamford, Conn.; Miami; Atlanta; Minneapolis; New York; Stoney Creek, N.C.; Philadelphia; Nashville, Tenn.

**Conducts business:** worldwide.

**Membership:** Brokers & Reinsurance Markets Assn.

**Officers:** John M. Pelly, chairman/CEO; Gra-hame Millwater, COO; George P. Reeth Jr., president/CEO-Willis Re Inc..

**Contact:** Lorraine Sullivan; 212-820-7674; [sullivan\\_lc@willis.com](mailto:sullivan_lc@willis.com).

#### WinterBrook Re Intermediaries L.L.C.

3526 Highway 9,  
Howell, N.J. 07731;  
732-942-7272; fax: 732-942-7373  
[www.winterbrookre.com](http://www.winterbrookre.com)

	1999	1998
Premium volume	\$18,000,000	\$16,000,000
% Treaty	100%	100%
Gross revenues	\$600,000	\$550,000
Total employees	5	4

**Reinsurance brokering began:** 1991.

**Conducts business:** United States.

**Officers:** W. Brian Harrigan, chairman; Kenneth H. French, president; Irene Bekech, secretary.

**Contact:** Kenneth H. French; 732-942-7272; [kfrench@winterbrookre.com](mailto:kfrench@winterbrookre.com).

#### John P. Woods Co. Inc.

Newport Tower, 525 Washington Blvd.,  
Jersey City, N.J. 07310-1607;  
201-216-9600; fax: 201-610-9555  
[www.jpwoods.com](http://www.jpwoods.com)

	1999	1998
Premium volume	\$720,000,000	\$700,000,000
% Treaty	98%	98%
% Facultative	2%	2%
Gross revenues	\$25,000,000	\$22,400,000*
Total employees	71	68

*Fiscal years ending 3/31/00 and 3/31/99*

**Reinsurance brokering began:** 1978.

**Parent:** Arthur J. Gallagher & Co.\*

**Branch offices:** Atlanta.

**Conducts business:** worldwide.

**Officers:** John P. Woods, chairman; John P. Woods III, president; John N. DiBlanda, executive vp/CFO.

**Contact:** John P. Woods III; 201-216-9600, ext. 2177; [jaywoods@jpwoods.com](mailto:jaywoods@jpwoods.com).

\*On August 31, John P. Woods Co. Inc. became a member of Arthur J. Gallagher Co.  
\*restated

### Y

#### H.E. Yerkes & Associates Inc.

160 Water St.,  
New York, N.Y. 10038;  
212-344-1707; fax: 212-422-8473

	1999	1998
Premium volume	\$16,786,000	\$18,700,000
% Treaty	100%	100%
Gross revenues	\$940,000	\$1,055,000
Total employees	4	4

**Reinsurance brokering began:** 1979.

**Officers:** Harry E. Yerkes III, president; Ann R. Kaplan, vp.

**Contact:** Harry E. Yerkes III; Ann R. Kaplan. **BI**

THE TIME IS RIGHT.  
THE TECHNOLOGY IS PROVEN.  
AND THE NEED HAS EXISTED  
FOR YEARS.

**CLAIMPlace, the e-commerce business solutions provider for the claims industry.**

Little has changed in the world of claims management — until now. Now there's CLAIMPlace. We're providing the insurance industry with the innovation, technology and claims experience to dramatically reduce claims expense and loss ratios. We're making web based resources available to help create quantum leaps in productivity, financial results and customer satisfaction. And that's just the beginning. Interested? Go to [www.claimplace.com](http://www.claimplace.com).



**CLAIMPlace**

# New health plan approach raises questions

By JERRY GEISEL

ATLANTA—Defined contribution health care plans—a much-discussed approach for holding down employers' rising medical costs—are no more than "fluff" at this point, one benefit consultant maintains.

Under the defined contribution approach, an employer would give its employees vouchers or some type of credit that the employees would use to purchase health insurance coverage. An employee could then choose the level of coverage that best suits his or her needs.

For employers, limiting their contribution to a fixed amount would, as with defined contribution pension plans, limit their costs to a fixed, predictable amount. At the same time, employers would essentially shed their role as a purchaser and administrator of health care plans, allowing them to concentrate on their core business.

While the concept may sound appealing, Kenneth Jacobsen, a senior vp in the Atlanta office of The Segal Co., said he is "very cynical" about the approach.

Speaking in Atlanta this month at the Corporate Benefits Conference, sponsored by the International Foundation of Employee Benefit Plans, Mr. Jacobsen suggested that the approach raises, at this point, far more questions than answers.

Indeed, until these questions are resolved, "No employer in its right mind" would establish a defined contribution plan for employee health care coverage, he said.

One major question, he noted, is the tax status of an employer contribution. For traditional health care plans, in which employers select the plans and pay some or a portion of the premium, companies can fully deduct the cost of the premium, while that cost is not added to employees' taxable income.

But there is no section of the tax code dealing with, for example, health care vouchers, Mr. Jacobsen said, adding that he believes such contributions would be considered by the Internal Revenue Service to be taxable income to employees.

"We don't see any way you could hand employees a voucher" on a tax-free basis. Unless and until Congress writes new tax law to give health care vouchers favorable tax status, vouchers are not going to take off, he said.

Mr. Jacobsen also questioned another aspect of the defined contribution plan approach—that such plans would make employees better purchasers of health care—that is cited often by its proponents. Advocates of this approach say if employees are given a fixed amount of money to purchase health care coverage and can keep contributions that are not used, they will purchase lower-cost plans and become more careful consumers of health care services.

But Mr. Jacobsen says the reality might be a lot different. "I don't think" employees would, for example, do a better job in selecting hospitals and physicians than health care plans now do.

Similarly, employees who select a low-cost plan with very high cost-sharing requirements in an effort to pocket the unused portion of a voucher or cash contribution, might find their coverage insufficient if they need expensive medical procedures, he said.

If that were to happen, "there could be horror stories," Mr. Ja-

cobsen predicted.

Another real-world problem involves older, less healthy employees, who likely would find it a lot more difficult than younger employees to obtain affordable coverage from health insurers without the purchasing clout of a group, he said. In addition, employees, on their own, might not be sophisticated enough to understand the various differences—such as certain coverage restrictions—among health care plans.

"Who will act as an agent for the consumer? Who will push plans to ensure that they have enough providers" in a network? he asked.



To reduce this problem, employers could negotiate policy terms with insurers and then leave it to employees to purchase coverage from those plans that the employer sponsors. But employers, as plan sponsors, could face liability for actions taken by the plans they selected.

"If you put HMOs online, you still could have a responsibility to see that the plans are sound," Mr. Jacobsen said.

Then, Mr. Jacobsen said, there are the real-world problems relating to administration. If employees were given vouchers to purchase coverage, it isn't clear

how employee contributions could be easily and inexpensively transferred to health care plans.

While defined contribution plans may be appealing to health care theoreticians, in the real world they already have sparked controversy. For example, when Xerox Corp. executives said the company was merely examining this potential approach, the company "got a tremendous backlash" from employees, he said.

To be sure, health care plans that have defined contribution plan elements now exist. One example is medical savings accounts. Under an MSA—now limited to employers with no more than 50 employees—an employer purchases a high-deductible health care plan. Then, the employer or employee,

but not both, make a fixed contribution to the MSA. Funds in the MSA can be withdrawn tax-free to pay for uncovered medical-related expenses.

But interest in MSAs has been less than predicted. In 1996, when Congress passed legislation giving MSAs their tax-favored status, lawmakers established a limit of 750,000 policies that could be set up. Advocates predicted that the 750,000-policy ceiling would be quickly reached. But, in fact, roughly only 50,000 policies have been issued.

The fact that MSAs have not caught on in a significant way "may be a harbinger for full-fledged defined contribution health care plans, Mr. Jacobsen said. **B!**

*Is there someone who understands the power of*

*a promise? Someone who approaches misfortune*

*as an opportunity to do what's right? Is there*

*an insurance company that has spent 146 years*

*earning one of the strongest claims payment*

*reputations in insurance history? Without Question.*

For more information contact your independent insurance agent or broker or visit [www.sunlife.com](http://www.sunlife.com)

# Transition benefits worth time spent: Expert

By JERRY GEISEL

ATLANTA—Designing a transitional benefit plan is one of the most challenging tasks an employer faces when converting a traditional defined benefit pension plan to a cash balance plan, a consultant says.

In moving to a new plan, "you always will spend the most time on transition benefits," says Gary Elias, a principal in the Atlanta office of William M. Mercer Inc.

Speaking in Atlanta this month at the Corporate Benefit Conference, sponsored by the International Foundation of Employee Benefit Plans, Mr. Elias said employers that change plan design can expect to spend 12 to 18 months preparing and implementing the change. And designing a transition benefits plan can be one of the most

time-consuming parts of the conversion process, he said.

Because of fundamental differences in the designs of cash balance and traditional plans, transition benefits are needed to protect older employees.

In a cash balance plan, benefits typically accrue evenly throughout an employee's service with an employer. For example, the cash balance plan credit might be equal to 5% of an employee's compensation.

By contrast, traditional defined benefit plans are designed so that most benefits are earned only after an employee has completed many years of service.

Without a transition benefit program, longer-service employees could

fall shy of qualifying for meaningful benefits—such as subsidized early retirement benefits in the old plan—and they may not participate in the cash balance plan long enough to earn significant benefits.

Faced with this problem, employers switching to new plans have used a variety of approaches to protect the interests of longer-service employees, Mr. Elias said.

Some employers, for example, allow certain longer-service employees to remain in the old plan. One problem with this approach, Mr. Elias noted, is that employers must maintain two different plans for what could be decades.

Others employers have given employees a one-time opportunity to choose which plan they want to join. A

problem could arise, however, if an employee later concludes that he or she made a poor decision and claims the employer didn't provide enough information to allow employees to make the right choice. "Then, the employer has to decide what to do."

Regardless of the transition plan that is implemented, employers have to "communicate openly and honestly," Mr. Elias advised.

The conversion to cash balance plans is being driven by a variety of factors, Mr. Elias said, the most significant being demographics. Today, employees are much more mobile. As a result, cash balance plans—in which benefits accrue much faster than in they do in traditional plans—are more appealing to employees who tend to remain in jobs for relatively short periods of time.

"The traditional plan provides little value early on," Mr. Elias said.

Take, for example, an employee who changes jobs every five years. Under a traditional plan, the employee would not have stayed long enough to qualify for a significant benefit in each plan in which he or she participated. Such an employee likely would have earned greater benefits if each employer had provided a cash balance plan.

The move to cash balance plans also is being driven by employers, who for the first time in decades are taking a good, hard look at plan design to see whether those designs still make sense, Mr. Elias said.

For example, some employers offered traditional plans with heavily company-subsidized early retirement benefits. Under such plans, employees who reached a certain age and worked a certain number of years would be entitled to a full pension benefit, unreduced for age. "When that early retirement cliff is hit, the benefit increase" is incredible, Mr. Elias said.

But aside from the high cost of such plans, employers have begun to question whether such plans make sense in an economic environment in which employers want to do everything possible to retain employees, Mr. Elias noted. Under such plans, employees lack a strong fiscal incentive to stay with a company, because they would have already qualified for full pension benefits.

By contrast, cash balance plans typically lack early retirement subsidies, and because benefits accrue evenly, there is no cliff in which an employee's accrued benefit dramatically increase in value from one year to the next.

Another force propelling the move to cash balance plans is greater employer interest in making pension plans simpler and more visible, he said. Cash balance plans, in which benefits are expressed as a lump sum, are easier to understand than traditional plans, in which benefits are expressed as a monthly amount payable at retirement age. **BI**

A catastrophe has no size requirement.

Without Question.™ **The St Paul**

Property and Liability Insurance

## Conference draws more than 175

ATLANTA—More than 175 people traveled to Atlanta to attend the annual Corporate Benefits Conference, held Oct. 12-13.

The conference is sponsored by the International Foundation of Employee Benefit Plans and is endorsed by the Council on Employee Benefits and the WEB Network of Benefits Professionals.

Three employers received honorable mentions in the IFEBP's Creative Excellence in Benefits competition.

Prudential Securities Inc. won for its use of cutting-edge technology in administering its tax-favored commuter reimbursement account program. Erickson Retirement Communities was named for its work/life benefits program. Union Carbide Corp. was cited for its primary care physician award program, which gives participating physicians a share of the cost savings if the company's health care costs are kept below a certain target, while maintaining quality of care.

The time and place of next year's conference have not been set. For more information, contact the IFEBP at 262-786-6710, ext. 8217.

# Bush, Gore differ on benefit proposals

By JERRY GEISEL

ATLANTA—With the national elections just weeks away, the Democratic and Republican candidates for

president have staked out significantly different positions on key employee benefit issues.

Those differences involve how to expand health care coverage to the unin-

sured, imposing new penalties on managed care organizations, revamping the federal Medicare program and pension reform.

As evidenced by last week's debate, "health care is a key issue for both candidates," said Ann Marie Breheny, a consultant with Watson Wyatt Worldwide in Bethesda, Md.

Speaking this month in Atlanta before the Corporate Benefits Conference sponsored by the International Foundation of Employee Benefit Plans, Ms. Breheny said health care is a top concern for voters, with both candidates laying out their positions.

The Democratic candidate, Vice President Al Gore, has frequently discussed what he would do to expand coverage. Among other things, he has proposed giving small employers tax credits to offset the cost of providing

health care plans to employees, raising the income ceiling for Medicaid coverage and encouraging the use of health care purchasing pools.

For his part, Texas Gov. George W. Bush, the Republican candidate, would provide tax credits to lower-income individuals to offset the cost of buying health insurance policies and make it easier for trade associations to provide coverage to their members.

Gov. Bush also would permanently extend a 1996 law—set to expire at the end of this year—that allows small employers to establish tax-favored medical savings accounts linked to high-deductible health insurance plans. He also would remove the 750,000 ceiling on the number of MSAs that can be established, and allow both employers and employees to contribute to an MSA. Currently, only

employers or employees, but not both, can contribute to MSAs.

While the candidates have different approaches to expanding coverage, there is one basic similarity, Ms. Breheny noted: Both candidates endorse incremental change rather than the kind of sweeping change that President Clinton proposed during his first year in office and which later collapsed in Congress.

On Medicare reform, the candidates also have taken different approaches. In general, though, Gov. Bush has provided much less detail than his opponent, Ms. Breheny said. For example, Gov. Bush has said as a basic principle that Medicare beneficiaries should have access to private health care plans, including those that offer prescription drug coverage.

By contrast, Vice President Gore has laid out exactly the amount of the prescription drug benefit that Medicare would offer. Under his proposal, the government would pay 50% of a beneficiary's first \$5,000 of prescription drug bills with greater coverage for low-income beneficiaries.

Other Medicare-related differences between the candidates include Mr. Gore's opposition to raising the eligibility age, now 65, for retirees to obtain Medicare coverage. Gov. Bush has not addressed the eligibility age issue.

Where the two candidates agree on Medicare is that both want a prescription drug benefit added to Medicare and both want to work to ensure the future solvency of the program, which now covers about 39 million people, Ms. Breheny said.

On boosting the rights of patients in managed care plans, the vice president supports legislation that would give enrollees the right to seek damages under state law in coverage disputes. Gov. Bush also supports expanding the liability of health care plans for coverage decisions, but contends such a provision would have to be part of an independent appeals process.

Pension reform, Ms. Breheny said, has received much less attention from the two candidates than health care issues, though Vice President Gore has provided more specifics. For example, he strongly supports requiring employers converting traditional pension plans to cash balance plans to give plan participants more information on the financial impact of the conversion on their projected benefits. He also is opposed to the weakening of federal rules that prohibit pension plans from discriminating in favor of highly compensated employees. Gov. Bush has not addressed these issues.

Other differences include Vice President Gore's endorsement of expanding the federal Family and Medical Leave Act to cover more small employers. Currently, the FMLA requires employers with at least 50 employees to provide up to 12 weeks of unpaid job-protected leave for employees with medical and family-related situations. Gov. Bush has not stated his position on expanding FMLA, though he favors letting employers give, on a tax-free basis, computers and Internet access to disabled employees.

While who is elected president will help to shape the legislative benefit agenda, the composition of the new Congress also will be a key factor, Ms. Breheny said. For example, House Ways and Means Committee Chairman Bill Archer, R-Texas, is retiring this year. He is a proponent of tax-favored MSAs and, with his retirement, MSAs backers will lose their most influential supporter in Congress.

If the Democrats win control of the Senate, the chairmanship of the Finance Committee likely will pass to Sen. Max Baucus, D-Mont., from Sen. William Roth, R-Del.

One possible ramification of such a change is that the committee, which has jurisdiction over employee benefits legislation, could focus more on small employer issues, Ms. Breheny said. **BI**

## Tough Marine Risk? That's Our Job.

We're Ready.

**G & M MARINE, INC.**

MARINE INSURANCE UNDERWRITERS

www.gmmarine.com

(504) 588-9044

# ELLA™

Employment-Labor Law Audit *on the Web*

#### ELLA will work with you to:

- ▶ Detect hidden problems
- ▶ Develop a positive employee relations program
- ▶ Develop risk reduction strategies
- ▶ Prioritize loss prevention tasks

#### Some of the subject areas covered by ELLA

- ▶ Advice on Reference Checking
- ▶ AIDS in the Workplace
- ▶ Americans with Disabilities Act Requirements
- ▶ Application Forms
- ▶ Benchmarking
- ▶ Discrimination in the Workplace
- ▶ Drug-Free Workplace
- ▶ Employee Files and Notices
- ▶ Employee Handbooks
- ▶ Employee Retention Issues
- ▶ Family and Medical Leave Act Requirements
- ▶ Immigration Law Compliance
- ▶ Job Performance Reviews

- ▶ Leaves of Absence
- ▶ Plant Closings
- ▶ Positive Employee Relations
- ▶ Recruitment, Selection, and Hiring
- ▶ Responding to Reference Inquiries
- ▶ Sexual Harassment
- ▶ Terminations / Involuntary Layoffs
- ▶ Unemployment Insurance
- ▶ Wage and Hour Issues
- ▶ Wage and Hour Requirements under FLSA

#### Add Legal Research to ELLA with PeopleWorks®

PeopleWorks on the Web provides easy access to a comprehensive database of current federal and state labor laws, regulations, best practices, forms, manuals and posters. The ELLA/PeopleWorks value package gives you the ability to do deep HR research and audit your specific situations in one, fully-integrated internet service.

Assess an  
organization's  
employment  
policies and  
minimize risk.

ELLA  
on the Web

Prices start  
at \$250.

So little  
to pay  
for so much  
protection

Try ELLA without charge at  
[www.hrproducts.com/ellapw/ellatrial.html](http://www.hrproducts.com/ellapw/ellatrial.html)

**(800) 610-5410**



Already a proven leader in Property Cat reinsurance, we are diversifying into all lines of Property & Casualty and Life & Annuity reinsurance.

Our business approach remains unchanged: sophisticated analysis, open communication, flexible solutions and rational pricing.

As part of an expanding global insurance leader, we have changed our name to ACE Tempest Re.



**ace tempest re**

Bermuda • London • Stamford

One of the ACE group of Insurance & Reinsurance Companies

# 100 Leading Women in Insurance honored

CHICAGO—Just over 500 people attended an Oct. 10 luncheon in Chicago honoring the women named to *Business Insurance's* 100 Leading Women in Insurance special feature.

In addition, 45 of the 100 honorees attended the luncheon (see photo, below). Complete names, titles and details for all the honorees can

be found in the 100 Leading Women feature in the Oct. 2 issue of *Business Insurance*.

In addition to remarks from Kathryn J. McIntyre, the publisher and editorial director of *Business Insurance*, attendees heard Illinois Rep. Judy Erwin, D-Chicago, salute the honorees and speak on the challenges facing

women.

Part of the proceeds from the luncheon will be donated in the 100 honorees' names to the City of Hope National Medical Center and Beckman Research Institute in Duarte, Calif., for its ongoing efforts in breast cancer research and treatment.

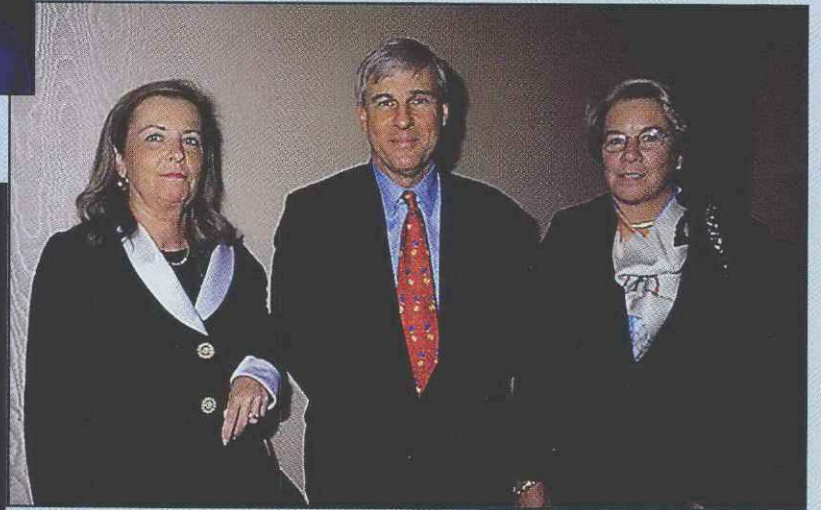


Seated from left: Susan Velleman, Donna Galer, Jette James, Susan Meltzer, Adrienne Reid, Lucille "Lucky" Gallagher, Cheri Hawkins, Illinois Rep. Judy Erwin, Kathryn McIntyre, Elizabeth Eiss, Lydia Kam, Reina Gregorio, Karen Foley, Shelia Mulrennan, Patricia Drago. Second row, from left: Cecilia Norat, Anna Rappaport, Karen Clark, Patricia Roberts, Linda Lamel, Judith Robinson, Sibyl Bogardus, Barbara Haugen, Judith Blades, Carol Barton, Nancy Ayers, Janet Nelson, Bonnie Bocitto, Julie Kronbach, Constance Curnow, Carolyn Murphy, Christine LaSala, Teresa Pahl, Jennifer Gallagher. Third row, from left: Evelyn Wolovnick, Leslie Nylund, Judith Lindenmayer, Martha Bannerman, Marsha Cohen, Joyce Wright, K.C. Kidder, Pamela Rogers, Barbara Bell, Tracey Carragher, Corbette Doyle, Winifred Baker, Robin Williams.





Photos from the Oct. 10 luncheon in Chicago honoring the 100 Leading Women in Insurance. Above: (from left) Judith Lindenmayer of FMR Corp., Cheri Hawkins, formerly of Weyerhaeuser Corp., K.C. Kidder of Wells Fargo & Co., and Jette James, of Marsh Canada Ltd. Center: keynote speaker Illinois Rep. Judy Erwin, D-Chicago. Far upper right: (from left) Linda Lamel of Claims On Line Inc., Cecilia Norat of American International Group Inc., Marsha Cohen of the Reinsurance Assn. of America, and Sheila Mulrennan of Insurance Archaeology Group. Far lower right: (from left) Constance Curnow of Guy Carpenter & Co., Brandon Sweitzer of Marsh Inc., and Winifred Baker of Lloyd's America Inc. Bottom: Kathryn McIntyre, publisher and editorial director of *Business Insurance*.



All photos by Michael Marcottep

The novice tells you,  
"Abandon ship."

The expert tells you,  
"Hang on. It's only a two-foot drop."

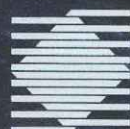
*With the largest and strongest pool of talent in the industry, and professionals averaging 22 years of experience, our experts truly grasp the depth and magnitude of the risk you're facing—even what's 'round the bend. We listen to your concerns and respond to your needs at unrivaled speed. Protecting you. And partnering with you.*

*Now and for the long haul. Call on us.*

*We'll help lead you to calmer waters.*



**AMERICAN RE**  
A Member of the Munich Re Group



Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private Equity ... Mortgage Loan &amp; Real Estate ... Insurance Research ... Asset Management ... Private

## WHO DELIVERS THE WHOLE PACKAGE?

To help you realize value, manage risk and achieve your financial objectives, Conning develops integrated, performance-driven solutions.

- ✓ Customized investment management for insurance and financial service companies.
- ✓ Research on insurance industry conditions and issues, and comprehensive insurance equity research.
- ✓ Equity capital for emerging growth companies in the financial services sector.
- ✓ Secure, investment-grade commercial mortgage loans and investment real estate.



1-888-CCNNING  
www.conning.com

Conning & Company, Member, NASD/SIPC

## Rail

Continued from previous page  
the next decade to improve rail safety.

In 1999, there were 90 derailments and 93 collisions of British trains. Although this was the lowest total on record, the death toll of the Paddington Station crash, at 31, is the highest since a December 1988 crash that killed 35.

Transport Minister Lord Macdonald, who visited the site of Tuesday's crash, said investment in rail safety will be made "on a large scale." "We want to make sure the companies involved running the railways spend it urgently and in as effective a manner as possible," he said.

U.K. Deputy Prime Minister John

Prescott cut short a visit to China to attend an emergency meeting Thursday with GNER, Railtrack and the Health and Safety Executive.

On Wednesday, amid speculation that a problem with the rails had caused the crash, Railtrack chief executive officer Gerald Corbett offered to resign, but later in the day the company's board unanimously rejected his offer.

Railtrack and the private passenger rail operating companies are each required to have liability coverage of at least £155 million (\$223.6 million).

A Railtrack spokeswoman said Thursday that the company's liability insurance is with St. Paul International Insurance Co. Ltd. in London. The spokeswoman declined to comment on the limits of coverage. **BI**

## Tsunami

Continued from previous page  
feet.

The volcanoes of the Canary Islands have experienced major landslides in the past. The scientists say 1,000-ton limestone boulders recently discovered in the Bahamas may be the result of prehistoric tsunamis that had their source in the Canary Islands.

Mr. Day, who began mapping La Palma in 1994, said an eruption of the ridge-shaped Cumbre Vieja in 1949 and resulting earthquakes caused the west side of the volcano to slide about 13 feet downward toward the sea, opening a fissure that stretches about one and one-quarter miles along the summit.

By mapping volcanic vents formed by eruptions over hundreds of thousands of years along the north-south ridge of the volcano, Mr. Day concluded that the fault could be as much as 12 miles long, dissecting the entire length of the volcano. This means that a volcanic eruption could cause an entire side of Cumbre Vieja, a half-trillion tons of rock, to fall into the sea.

Water within the rock is also contributing to the treacherous situation. When heated by a volcanic eruption, the water expands, adding to the pressure widening the fissure and pushing the land

into the sea.

Mr. Day noted that global warming may be adding to the pressure and hastening the date of collapse.

According to Mr. Day, there is no way to know when Cumbre Vieja will next erupt. He said, though, that there have been eruptions in 1646, 1712 and 1949, making it look as though an eruption occurs every two centuries or so. "So, it's likely that sometime during the next century, there'll be another eruption...but it'll be pretty soon in geological terms," he said.

Mr. McGuire also pointed out that while the western flank could collapse with the next eruption of the Cumbre Vieja, it may take numerous eruptions to shake it loose.

"We simply don't know. But, put it this way: if I was living in Miami or New York and I heard that the Cumbre Vieja was erupting, I'd be keeping a very close eye on the news," he said.

Mr. Day said the areas most at risk include cities such as Miami, parts of Boston, and the coastal sections of New York suburbs.

He said that the eight hours it would take the wave to travel to North America is "just enough time to get the message out to warn people. ... But unless evacuation plans were incredibly efficient, it would not be enough time to get everybody out of the affected areas." **BI**



## OFF THE SHELF SOLUTIONS?

When crisis looms and ordinary insurers are heading for the door, you need a different kind of partner. A partner who is resourceful, innovative and financially sound. Many of Bermuda's insurers and reinsurers were formed in the crucible of Property and Casualty crisis. Bermuda stepped up to the "wicket" when others backed away.

We're still here. Better than ever.

Don't settle for the standard run-of-the-mill coverage. Get the custom solutions your business needs.

**Bermuda. The world's insurance laboratory.**

www.bermuda-insurance.org Tel: (441) 292-9829  
E-mail: feedback@bermuda-insurance.org

**Bermuda**   
**means Business**

**THE FOLLOWING PREVIEW HAS  
BEEN APPROVED FOR ALL AUDIENCES.**

**COMING SOON IN  
BUSINESS INSURANCE...**



Issue Date	Editorial Feature	Demographic Section	Ad Closing
Sep 11	Surplus Lines <i>Directory: Surplus Lines Insurers &amp; Wholesalers</i> <i>Distribution: IUMI; NAIC; NAPSLO</i>		Aug 29
Sep 18	Reinsurance: Rendez-Vous Report <i>Directory: Benefit Networks</i> <i>Distribution: ISCEBS</i>	IT Fighting Fraud	Sep 6
Sep 25	<i>Distribution: HMIS</i>		Sep 13
Oct 2	Top 100 Women <i>Distribution: CIAB/CICE</i>	ABT Leaders in Productivity	Sep 20
Oct 9	Marine Market Report		Sep 27
Oct 16	Workers Compensation <i>Directory: Safety Consultants &amp; Rehabilitation Services</i> <i>Information Resource: Workers Comp</i> <i>Distribution: BI Workers Comp Conference; Canadian RIMS</i>	IT Reinsurance Strategies	Oct 4
Oct 23	Reinsurance: Trends & Issues <i>Directory: Reinsurance Brokers</i> <i>Distribution: Baden Baden; CPCU Society; NAI</i>		Oct 11
Oct 30	<i>Distribution: ASHRM; IIAA</i>		Oct 18
Nov 6	Professional & Employment Risks <i>Distribution: PLUS</i>	ABT E&O Loss Prevention	Oct 25
Nov 13	Bermuda Market <i>Directory: Policyholder-owned Facilities: International P/C Insurers</i> <i>Distribution: ARIMA; WCF</i>		Nov 1
Nov 20	Benefits: Effective Benefit Communication/EBC Awards	IT Loss Control/CPCU Report	Nov 8
Nov 27			Nov 14

*"...the most valuable, most credible and most timely  
newsmagazine in the industry."*

*"...A must-read ... Don't miss a single issue."*

**RESERVE YOUR AD SPACE TODAY.  
CALL A SALES OFFICE NEAR YOU.**

New York: 711 Third Ave., NY 10017-4086 ■ Tel: 212-210-0134 ■ Fax: 212-210-0704  
Chicago: 740 N. Rush St., IL 60611-2590 ■ Tel: 312-649-6276 ■ Fax: 312-649-7937  
Los Angeles: 6600 Wilshire Blvd., CA 90048-4947 ■ Tel: 323-370-2456 ■ Fax: 323-655-8157  
Cleveland: 965 E. Jefferson Ave., Detroit, MI 48207 ■ Tel: 888-446-1422 ■ Fax: 313-446-6777

**Business  
Insurance**  
www.businessinsurance.com

# Flooding

Continued from page 59

Swiss Re's early estimate of the Swiss losses is 1 billion Swiss francs (\$560 million).

The flooding has, meanwhile, rekindled debate on global warming and the likelihood of further such losses.

"The current floods highlight the need for carrying out rigorous risk assessments when planning any commercial or public development in or near known flood plains. This is even more important given the accepted view that global warming is changing weather patterns in the U.K. so that we will have wetter winters and drier summers. If this happens, flooding will become more frequent and possibly more dan-

gerous," said David Gamble, executive director of the Assn. of Insurance & Risk Managers.

Local authority risk managers "have lots of concerns about climate change and future building on flood plains," said Mr. Butcher, a member of the Assn. of Local Authority Risk Managers.

flooding, are becoming a more costly problem. Of particular concern is the need to identify sufficient land to support the government's target of building 3 million new homes by 2016," said ABI Director General Mary Francis.

"The main method of preventing an increase in flood risk is to

"Insurance companies are very reluctant to provide insurance for new properties on flood plains and are more actively monitoring their existing exposure in flood risk areas" using flood risk maps and computer modeling programs, he said.

Some insurers also are looking at restructuring their reinsurance programs as costly events falling below their catastrophe cover increase in frequency and amount, said Mr. Eagle.

Increased flooding events and changing insurance markets will lead to an increase in demand for flood reinsurance protection, predicted Mr. Hausmann.

For example, Belgium and Italy are considering making flood insurance a compulsory coverage, he said.

In both these countries, few property owners have flood insurance. A Swiss Re survey estimates that less than 10% of businesses have flood insurance in Belgium, while up to 30% of commercial and small industrial businesses in Italy have coverage for flood. The percentage rises to 40% to 50% for large industrial risks, but only 5% of homeowners have flood insurance in those countries, according to Swiss Re.

To alleviate the problem of adverse selection, in which mainly high-risk policyholders seek coverage, both Belgium and Italy are considering introducing compulsory flood insurance, said Mr. Hausmann.

In Germany, few properties have insurance for flood. Swiss Re estimates that less than 10% of homes and industrial buildings are insured against flood. However, the German Insurance Assn. is developing flood risk maps to improve risk assessment and could lead to more demand for flood insurance, said Mr. Hausmann. This in turn will lead to an increased demand for reinsurance from the German insurers, he added.

In the Netherlands, where huge areas of the country lie below sea level, flood insurance generally is not available, except for some industrial properties insured through global programs.

"In view of the enormous loss potential and the absence of any calculation basis, the Dutch insurers concluded a market agreement in 1965 to exclude flood cover as it did not represent an insurable risk," said the Swiss Re survey.

In contrast, most property owners in Spain, France and Switzerland have flood insurance through a mixture of state and private insurance arrangements.

Flood risk is by far "the most frequent and destructive natural peril" in Spain and floods also occur frequently in France, according to Swiss Re.

In Portugal, flood insurance is provided exclusively by private insurers. It is usually offered along with earthquake coverage, and most property is insured for flood and quake, according to Swiss Re.

In Poland and the Czech Republic, both of which suffered major floods in 1997, separate flood insurance is available. In Poland, less than 25% of private and commercial properties and about 50% of industrial properties have flood coverage, while in the Czech Republic only about 10% of commercial property and between 20% and 30% of industrial risks are covered, according to Swiss Re.

The Swiss Re study may be viewed at [www.swissre.com](http://www.swissre.com).

## 'The insurance industry recognizes that natural perils, such as flooding, are becoming a more costly problem,' says ABI Director General Mary Francis.

"My gut feeling is very much that changing patterns in the weather and the fact that we are building in places we have never built on before are contributing factors" to the flooding, he said.

There is currently huge pressure to build on the flood plains of southeast England, an already densely populated economic hot spot. But government plans that the area must accommodate millions more homes and more businesses now are being resisted by local authorities and the ABI as fears of future flooding in the area increase.

"The insurance industry recognizes that natural perils, such as

refuse planning permission for building in flood plains," according to the ABI's new research document on inland flooding.

Future building on flood plains should be curtailed, the U.K. Environment Agency has warned the government, a spokesman for the agency noted.

ALARM needs to be stressing to the government that "building should not take place in natural flood plains," said Mr. Butcher.

Planners have a major problem in southeastern England, as much of the most suitable land there for building has already been used.

But the risk of flooding "must be looked at more seriously by planners in the future," said Mr. Butcher.

He estimates that his council in Lewes may file a claim of up to £500,000 (\$725,600) with its insurer, Zurich Municipal.

Most residents and businesses in the area likely will be insured, but it may be many months before properties can be used again.

Businesses must have a disaster recovery plan, said Mr. Butcher, predicting that those organizations with a plan in place are more likely to survive.

An Environment Agency spokesman said U.K. businesses generally are aware of flood risk. He cited one chemical manufacturing company in the flood area with a contingency plan that led the company to move all chemicals to a higher level and send home all employees other than emergency staff.

The East Sussex County Council has a disaster contingency plan, and its emergency planning department "swung into action" as soon as the crisis developed, said Mr. Butcher.

Meanwhile last week, the West Sussex County Council held a contingency planning meeting with the Environment Agency and the emergency services to prepare in case more rainfall causes flooding in their district.

The United Kingdom has one of the greatest potentials for insured flood losses because flood insurance there is included in most personal and commercial property policies.

As a result, "almost everybody has flood insurance" in the United Kingdom, said Swiss Re's Mr. Hausmann. Other areas in Europe, however, such as the Netherlands, are more prone to flooding and therefore access to flood insurance is more difficult.

But inland flooding and coastal flooding due to a storm surge could detrimentally affect huge areas of the United Kingdom, he noted.

As a result, U.K. insurers are becoming more active about flood loss control, noted Matthew Eagle, director of non-marine insurance for Aon Group Ltd. in London.

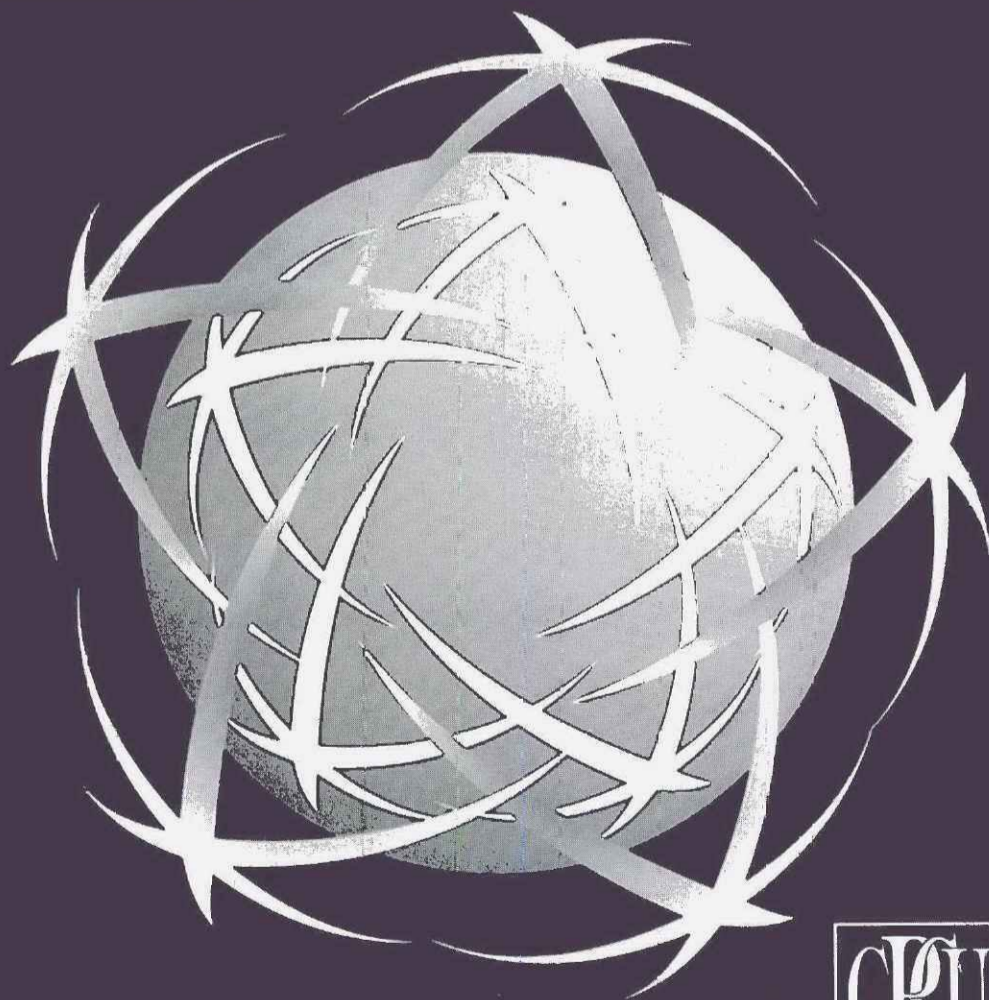
## Outdoorsman Territory

Your outdoor specialty program source.

- Hunting Preserves, Sporting Clays, Trap & Skeet • Hunting Lease Liability
- Indoor & Outdoor Rifle, Pistol & Archery Ranges
- Outdoor Equipment Manufacturers • Outfitters, Guides & Lodgeowners
- Forestry Consultants



800-849-9288 • [outdoorins@aol.com](mailto:outdoorins@aol.com)



## CPCU Society 2001 Business Without Boundaries

As we enter the wireless world of the 21st century, at a time when businesses are becoming increasingly global, please join the 30,000 members of the CPCU Society in saluting Bruce D. Williams, CPCU, CLU, C-FC, C-IC, 2000-2001 CPCU Society president. Our 2001 Annual Meeting theme is "Business Without Boundaries" and we hope that all of our members will join us in Seattle, October 21-23, 2001.



CPCU Society (Chartered Property Casualty Underwriters) • [www.cpcusociety.org](http://www.cpcusociety.org) • (800) 932-2728



[www.businessinsurance.com](http://www.businessinsurance.com)



Do you go out of your way to avoid volume like this?

At *Business Insurance*, we love bumper-to-bumper traffic because we know that a steady stream of visitors to our Web site is one of the most significant benefits we can offer our advertisers.

Now the industry's leading newsmagazine offers daily news updates, insightful commentary and a searchable article archive, making us the most up-to-date, comprehensive and informative online destination.

Only *BI* has the power to drive users to your banner ad and keep them coming back for return trips.

Stop avoiding rush hour. When it comes to online advertising, take the road most traveled. Ride with [www.businessinsurance.com](http://www.businessinsurance.com) ... taking the business of insurance in a whole new direction.

## INTERNATIONAL

## Genetic

Continued from page 1

The Assn. of British Insurers this month welcomed the decision but stressed that its members will not require applicants at risk—such as the children of Huntington's disease victims who have a 50% chance of inheriting the disease—to take the test in order to obtain insurance.

The GAIC's "decision does not mean that individuals will be asked to have a genetic test for Huntington's disease before obtaining insurance, but where individuals have already been tested as part of their medical care, then this information should be disclosed to insurers in any application for life insurance," explained John Durrant, chairman of the GAIC.

"Many who have a family history of a genetic disorder such as Huntington's disease have difficulty in obtaining insurance because of their family history. The approval of the two tests for Huntington's disease will allow insurance to be provided at normal rates to those (family members) who have a normal test result," Mr. Durrant said.

Huntington's disease, formerly known as Huntington's chorea, is a late-onset genetic disorder that afflicts about 6,000 people in the United Kingdom, according to the Huntington's Disease Assn. When also taking into account the number of people at risk of inheriting the disease, the figure can become much higher.

A degenerative brain disorder, the condition usually starts to develop between the ages of 35 and 55; symptoms include loss of muscle control leading to involuntary

body movements, emotional and cognitive changes and progressive dementia. There is no known cure, and death usually occurs some 15 to 20 years after symptoms first develop.

Each child of an individual with Huntington's disease has a 50/50 chance of inheriting the fatal gene that causes the illness, and each person who carries the gene will develop Huntington's. A test for the gene was developed in 1993.

A statement issued by the GAIC acknowledged that "the committee recognizes that this complex subject is an important issue to the public, industry and government alike." The statement added that the GAIC "will work closely with the new Human Genetics Commission, which is looking at the wider social and ethical issues related to the use of personal genetic data and which will include genetic tests for insurance or employment purposes. The Human Genetics Commission is due to begin their inquiry later this year." The HGC was formed by the U.K. government in May 1999.

Genetic testing and whether insurers and employers should have the right to learn the results known to the individuals they insure or employ are being debated worldwide.

"The key points in the debate about genetic testing and insurance are discrimination of applicants as a consequence of genetic testing and anti-selection as a potential problem for insurance companies," according to The Impact of Modern Genetics on Life Insurance, a research paper published by GeneralCologne Re, which is the brand name for the combined General Reinsurance Co. and Cologne Reinsurance Co.

"Members of the public, includ-

ing politicians and consumer groups, are concerned that use of genetic information may lead to a class of people unable to afford insurance. On the other hand, insurers are concerned about the potential rise in applications by persons who are aware of information which increases the likelihood of their making an early claim but who choose not to inform their insurance company of this information—a practice known as adverse-selection or anti-selection," the publication contends.

### While the public is worried about the possibility of discrimination arising from genetic testing, insurers fear adverse selection.

Currently, insurers worldwide do not typically request genetic tests for underwriting purposes. Genetic information is usually obtained by asking questions about an individual's family history of diseases. But the huge and rapid advance in genetic testing, likely to accelerate with the success of the Human Genome Project—a public/private initiative to map all human genes—is producing a dilemma for insurers.

"The greatest fear of insurers is to be unable to have access to the results of genetic tests which are known to the applicant," according to the research paper's authors, Ernst-Peter Fischer of the University of Constance, Germany, and Kerstin Berberich of GeneralCologne Re, in Cologne, Germany.

"If, one day, there was to be a

broad use of genetic tests, it might be necessary for the insurance industry to request special genetic tests for underwriting purposes, in the form of general screening, to ensure a symmetrical distribution of information and to minimize the danger of anti-selection," the authors write.

But public and political concern about discrimination already has led to the introduction of regulations by governments and insurance associations in many countries that limit the use of genetic testing by insurers and employers, according to information obtained from several sources, including GeneralCologne Re, Swiss Re and the ABI.

In Europe, the Dutch insurance industry was one of the first to act in 1990 with a voluntary moratorium, originally for five years but now indefinite, on requiring genetic tests or using existing test results. But subsequent Medical Examination Legislation in 1998 that regulates the medical information available in health checks undertaken for employment and for occupational disability or life insurance products has been criticized by the Dutch Insurance Assn. This law not only prevents the disclosure of genetic testing but restricts the duty to disclose inherited diseases that have already affected relations. This constitutes a restriction on the current right of underwriting, GeneralCologne Re writes in its "Publication Number 42: Impact of Modern Genetics on Life Insurance."

Neighboring Belgium enacted legislation in 1992 prohibiting the transmission of genetic data, while Austria passed legislation in 1994 preventing insurers and employers from obtaining genetic test results. Also in 1994, Norway passed legislation prohibiting the handling and use of genetic test information by insurers.

France, too, introduced legislation in 1994, stating that the genetic study of an individual's characteristics can be carried out only for medical purposes of scientific research, while the French Federation of Insurance Cos. announced that its members would not use genetic information for the next five years when determining the applicants' insurability, even if applicants present favorable genetic information. That ban expired in 1999.

Denmark's legislation forbidding the use of genetic information was introduced in 1997. Although no specific legislation with respect to genetic tests or genetic information has been passed in Germany, the German Insurance Industry (GDV) announced in 1997 that German insurers will not, at present, demand any specific genetic test for underwriting purposes, though the GDV still insists on the policyholders' duty to disclose all known material circumstances.

Similarly, there is no specific legislation in Sweden, although member companies of the Swedish Insurance Assn. have agreed to not require applicants to disclose genetic test results for pension, life and disability policies up to specified amounts.

New Zealand introduced legislation in 1993 that allowed insurers to use existing genetic test results but prohibited them from requiring tests to be taken. In Australia, under a voluntary code adopted in 1997, insurers will not require genetic tests.

In the United Kingdom, the Assn. of British Insurers adopted a detailed code of conduct, in effect since January 1998, for all ABI

members that offer life insurance; income protection insurance; critical illness insurance; long-term care insurance; and health, travel and medical expenses insurance.

Under the ABI guidelines:

- An applicant may not be asked to undergo a genetic test in order to obtain insurance.

- When the underwriter receives an application for insurance containing a genetic test result, the underwriter must consult a medical practitioner, or even a genetics specialist, before reaching a decision.

- Insurers may take account of existing genetic test results only when their reliability and relevance to the insurance product has been established.

- There must be no effect on the premium or terms unless a relevant and reliable genetic test result indicates an increased risk.

- Insurers must not offer lower-than-standard premiums on the basis of genetic test results. This is to "allay public concern that an uninsurable genetic underclass may develop if the insurance industry were to seek out the good genetic risks by offering them cheaper insurance," according to GeneralCologne Re.

- If the underwriter deems the risk too great to insure as a result of a genetic test, he or she must offer alternative solutions, where practicable.

"The U.K. is unusual in that its government hasn't moved quickly to legislate. It has left it open for more research to be done. Other countries have imposed a blanket moratorium and outlawed the use of genetic information for the time being," said Angus Macdonald of the Genetics and Insurance Research Centre at Heriot-Watt University in Edinburgh, Scotland.

The center, sponsored by the ABI and individual insurance companies, was set up last year to research the financial consequences of genetic testing and its likely impact on the insurance and other financial industries.

"The development of human genetics and genetic testing has enormous implications, not only for medicine but also for the way in which health care, long-term care and all kinds of insurance are funded, and it is essential that these outcomes are researched at a time when major policy decisions are being considered by governments all over the world. GIRC's remit is to develop mathematical and actuarial models to estimate the costs of genetic knowledge to individuals, to insurers and to service providers," according to a statement published by the GIRC.

Adverse selection, resulting from potential policyholders being aware of test results but not being obliged to inform insurers, likely will have a greater impact on medical, disability and long-term care insurance than on life insurance, particularly in markets such as the United Kingdom, where life insurance still is bought by a much-greater percentage of the population, according to Mr. Macdonald.

"After a shaky start, the insurance industry and other interested parties (in the United Kingdom) have begun to cooperate to find practical and acceptable ways to deal with the impact of genetics on insurance," Mr. Macdonald wrote in a research paper. He added that "few, if any, other countries have reached a position in which time has been granted for the problems to be explored in a reasonably rational fashion, and several have already enacted restrictive legislation that has closed down the options, perhaps prematurely." ■

## Products & Services Guide

To place your ad, contact Irais Amleshi

Phone: (312) 649-5340 Fax: (312) 649-7937

E-Mail: iamleshi@crain.com

### CPCU® CIC and IIA candidates

I guarantee you'll learn more in less time with The Burnham System - or your money back!  
Ray Burnham, CPCU, ChU, CIC, AIC, AIA, ARM, AU, AAI, ARC  
19 Everett St., Southbridge, MA 01550  
Call 1-888-BURNHAM Now!

### Cash In On Self-Insurance... Become your own TPA!

✓ little or no upfront investment  
✓ turn-key program with on-line system access, training, and marketing support.  
Call Benetech at (800) 372-5246 ext. 308

### Need Dental Care?

Check Out Our Dental Plans

[www.aortho.org/dental\\_plans.html](http://www.aortho.org/dental_plans.html)

### Where Benefit Buyers meet Benefit Sellers

[www.employee-benefits.com](http://www.employee-benefits.com)

### WELLER SALVAGE

• Autos  
• RV's  
• Heavy Trucks  
• Heavy Equipment  
1-877-725-8243  
[www.wellersalvage.com](http://www.wellersalvage.com)

## Mind your Business

Advertise in BI's

### Products & Services Guide

312-649-5340

**Business Insurance**

## WLD

CLAIMS PROCESSING SOFTWARE SINCE 1979

EDI, PPO, HMO, RE-INSURANCE, LTD, STD, FLEX, DENTAL, AD-HOC REPORTING, MEDICAL, 24 HOUR COVERAGE, DATA CONVERSIONS, VISION, MANAGED CARE, PRE-CERT, AWP, CLAIMS, EDITING, AUTO ADJUDICATION, ADA, BILL REVIEW, LIFE, COBRA, PREMIUM BILLING, CAPITATION, PCP, PRESCRIPTION DRUGS, EFT, UNBUNDLING...

831 NORTH HERCULES AVE., CLEARWATER, FLORIDA 33765

(727)442-9296 FAX: (727) 443-4936

Toll Free (877) 807-4730 • [www.wltsoftware.com](http://www.wltsoftware.com)



No boundaries.

Your risks? Broader.  
Your job? More complex.  
Your business? Changing.  
At Zurich U.S., we go beyond insurance to address the diverse risk and financial management needs you face today. With focused risk specialists who have firsthand experience in your industry. With e-business capabilities for instant information. And easy collaboration. As part of the Zurich Financial Services Group, we have the resources and financial strength to help you manage any kind of risk. Anywhere in the world. No matter what your business. Or size. True partners. No limits.



**ZURICH**

*Your aspirations. Our passion.*

*Property • Casualty • Liability  
Marine • Political Risk  
Accident & Health • Integrated Solutions*

© 2000 Zurich American Insurance Company. Coverages underwritten by member companies of Zurich U.S., including Zurich American Insurance Company. Coverages may not be available in all states. Certain coverages may be written on a nonadmitted basis.

[www.zurichus.com](http://www.zurichus.com)

1-800-382-2150

# Panel

Continued from page 2

ment Co. Risk managers should have "people who are key to the decision making" visit their facility on an annual or biannual basis to see exactly how the company does business.

David L. Mair, director-risk management for the U.S. Olympic Committee in Colorado Springs, Colo., stressed that risk managers should begin the renewal process earlier than usual this time around because of changing market conditions. "Giving a lot of lead time" will be critical in the next 12 to 24 months, he said.

William J. Kelly, managing director of J.P. Morgan & Co. Inc. agreed, cautioning that underwriters often don't look at the submissions right away.

"Some of us are not faced with the annual hazing process" of renewals because of multiyear policies, said Judith E. Lindenmayer, vp-Fidelity insurance and risk

management for FMR Corp. in Boston.

Ms. Lindenmayer noted that some insurers have been selling their products below cost, and "all of us in this room know that this cannot go on." She added that she

"There is an effort by a number of insurers to strengthen rates," said Mr. Mair. Many attempts, however, simply aren't panning out, he said, likening the situation to insurers dipping their toes in the water.

Risks with good track records can

**Judith E. Lindenmayer of FMR Corp. noted that some insurers have been selling their products below cost. 'All of us in this room,' she said, 'know that this cannot go on.'**

is hoping for a soft landing rather than a hard market turn.

"We've become so self-insured" that Tricon doesn't deal much with the traditional market, said Mr. Mandel. But when talking to other risk managers, Mr. Mandel said, he has been hearing that "negotiating renewals is becoming more difficult," in part because of consolidation in the marketplace.

avoid increases, said Mr. Thurman. But for those with bad loss records, "this is going to be a very uncomfortable year or two years," he predicted.

Mr. Kelly said that the continuing consolidation of the insurer marketplace is a positive development. But, he added, "I think state regulation fuels fragmentation" and encourages inefficiency among insur-

ers.

Mr. Mair said that although the consolidation means that insurers can offer more capacity, that capacity is concentrated in fewer hands. That could mean quicker market turns, he said.

Looking at brokers, Mr. Mair said that non-compete agreements signed by some brokers during the flurry of brokerage consolidation are now expiring, which is bringing talent back to the marketplace.

Earlier in the discussion, Mr. Thurman pointed to consolidation among insurers as one of the more-significant trends affecting risk managers. He said that fewer and fewer underwriters bidding for business could increase the possibility that government would assume a more-active regulatory role.

In regard to another regulatory matter, Mr. Kelly noted that although recent changes in federal financial services regulation have lowered the barriers separating banks, insurers and securities businesses, there has not been a major influx of banks into insurance.

"The reason banks have not been anxious to get in the insurance business is that the P/C business is not terribly attractive," he said.

As risk management grows more complex, the need for education and a greater variety of skills has grown as well, panelists noted. Mr. Kelly urged his audience not to get stuck in a support role, while Mr. Mandel stressed the importance of developing leadership skills. "Can you lead—not just lead people but are you a thought leader?" he asked.

"In addition to increasing your professional skills through education, increase your people skills," Mr. Thurman said.

Mr. Mair said he believes that people currently entering the field "are far smarter" than he was when he began his career. He said that successful risk managers need to be open to learning and to new ideas. "Read—pick up the newspaper," he said.

"Keep learning," said Ms. Lindenmayer. "Things change every single day." **B**

# Professional Marketplace

[www.businessinsurance.com](http://www.businessinsurance.com)

To place your ad, contact Irais Amlashi

Phone: (312) 649-5340

Fax: (312) 649-7937

E-Mail: [iamleshi@crain.com](mailto:iamleshi@crain.com)

Business Insurance, Classified Department,  
740 N. Rush Street, Chicago, IL 60611-2590

Call for details on Blind Box  
and Internet Advertising

## HELP WANTED

"Where Professionals  
Insure Their Careers"

**Executive  
Recruiters  
Nationwide**

[www.rmainc.com](http://www.rmainc.com)

- Risk Management
- Insurance Brokerage
- RMIS Technology
- Safety & Loss Control
- Claims Management
- Risk Management Consulting

15 James Street, Main Level,  
Florham Park, NJ 07932  
Call 973-765-9000  
Fax 973-765-9009  
Also Ask About Our  
Temporary Opportunities

**RMA RICHARD MEYERS  
& ASSOCIATES, INC.**

## HELP WANTED

## HELP WANTED

### INSURANCE CLAIMS MANAGER

Williams & Company Consulting, Inc., a well-established management advisory firm in business since 1929, is seeking a results oriented leader to manage our Jefferson City, Missouri office. This individual will be responsible for directing a staff of 10 professional and administrative employees, including Geologists, Engineers, Environmental Specialists, and Claims Processors. Other key responsibilities will include making eligibility determinations and functioning as a liaison with related state agencies.

The preferred candidate will possess a minimum of 5 years of managerial experience, which includes directing professional and administrative staff members. Several years of environmental or risk management claims experience is essential. Knowledge of statutory, regulatory, and insurance policy coverage and eligibility criteria, coupled with the ability to independently render decisions, is necessary. A Bachelor's Degree in Environmental Engineering, Geology, Hydrogeology or Business Administration is strongly preferred. The candidate can expect to travel approximately 5% of the time.

Williams & Company offers a first-rate salary, bonus, and benefit program in a progressive organizational culture. To explore this challenging and exciting opportunity, please forward a resume along with salary requirements by e-mail to [grs@willconsult.com](mailto:grs@willconsult.com), by fax to 816-444-0505, or by postal mail to 9237 Ward Parkway, Suite 114, Kansas City, Missouri 64114. Please visit our website at [www.willconsult.com](http://www.willconsult.com). No phone calls please.

EOE

## HELP WANTED

### Motivated Attorney

Established leader in the Chicago market seeks a motivated attorney to join our nationally recognized complex legal fee dispute, consulting and audit practice. This is a unique opportunity to invest in the further development of this niche market working directly with recognized leaders in this practice. Ideal candidate should have 5-10 years of complex litigation experience (either as a litigator or manager), possess excellent analytical and writing skills, be creative and enjoy detail-oriented, forensic types of investigation. No direct experience in fee disputes or fee auditing is required, although database and spreadsheet skills are a plus. Must be capable of managing the work product of others and committed to delivering quality, reliable work on time.

We offer a competitive compensation and benefit package including health, dental, LTD, vision care, Life, 401(k), and a collegial work environment. All inquiries should be made by mail or e-mail (no calls please).

Please send a cover letter, resume, and a non-privileged writing sample to:

Meckler Bulger & Tilson  
233 South Wacker Drive • Suite 8200  
Chicago, IL 60606  
Attn: Ms. M. H. Leigh, Partner  
Or [mari.henry.leigh@mbtlaw.com](mailto:mari.henry.leigh@mbtlaw.com)  
EEO/M-F Employer

## HELP WANTED

## HELP WANTED

### RISK MANAGEMENT RECRUITING CAREER COACHING

RMIS  
BROKERAGE

**keystrategies**  
LLC.

Recruiting • Consulting • Coaching

CLAIMS  
SAFETY

Mike Tannenbaum □ Barry Citron □ Lee Burrows

100 Eagle Rock Ave.  
E. Hanover, NJ 07936

Ph. 973-887-2300  
Fax 973-887-4334

[www.keystrategies.com](http://www.keystrategies.com)

"The Risk Management Career Experts"

## HELP WANTED

### Group Life Underwriter

Johnson Rooney Welch, Inc., managing underwriter for a Major Domestic Life Insurance Company is currently seeking an experienced Group Life Underwriter for our underwriting and administrative office in Northern California. The individual sought will have at least 3-5 years of Group Life Underwriting experience. Underwriting experience should include knowledge of risk evaluation, experience statistics, credibility factors, demographics and underwriting theory. The individual sought should also be thoroughly familiar with procedures for developing insurance contracts.

We are a highly professional organization with a progressive employee-oriented work environment. Please forward resume and current salary information to:

Robert E. Rooney  
Johnson Rooney Welch, Inc.  
2339 Gold Meadow Way, Suite 205  
Gold River, CA 95670  
Phone (916) 631-0202  
Fax (916) 631-6377  
E-mail [bob@jrwc.com](mailto:bob@jrwc.com)

## HELP WANTED

### Captive Manager/Accountant

Charleston, South Carolina  
Newly formed Captive Management Company is looking for captive manager/accountant for this start up company.

Please send resume and salary requirements to:

"Captive Manager"  
Charleston Captive  
Management Company  
211 King Street, Suite 320  
Charleston, SC 29401  
Fax: 843-723-8738  
[lionshthree@aol.com](mailto:lionshthree@aol.com)

## HELP WANTED

## HELP WANTED

### Director

Litigation Management - Risk Management Services

Crawford & Company, the global leader in risk management, has an exciting career opportunity in its corporate headquarters in Atlanta GA for a Director - Litigation Management.

The Director-Litigation Management will centralize the management of outside defense counsel for claims related litigation. The successful candidate will develop and implement a comprehensive litigation methodology including guidelines, procedures and fee guidelines; develop a certification process to qualify and maintain a network of defense attorneys throughout the US; control legal costs to clients.

The ideal candidate has an undergraduate degree, 5-7 years experience working in the defense attorney industry or with an independent litigation management firm, in-depth knowledge of billing practices associated with the defense attorney industry, excellent communication and negotiation skills, legal knowledge and claims management experience in a TPA environment.

Crawford offers an attractive compensation package and benefits package. For IMMEDIATE consideration visit <http://www.crawfordandcompany.com> and submit your resume on line. OR send your resume, referring to REF#XHX00-000532 to our National Resume Processing Center via Crawford & Company, P.O. Box 92167, Los Angeles, CA 90009; Email: [Crawford@resumesearch.com](mailto:Crawford@resumesearch.com) fax: 310-242-543.

EOE M/F/V/D • No Agencies Please

More Classifieds Online!

Visit [www.businessinsurance.com](http://www.businessinsurance.com)

## BUSINESS OPPORTUNITIES

### GENERAL AGENTS

Lost a market?...we have A rated markets and reinsurance capabilities.

Contact:

EAST-WEST CONNECTION, INC.  
201-666-9200 • Fax: 201-666-2642  
[www.gmcgee.com](http://www.gmcgee.com)

## LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

IN THE PETITION OF COLIN GRAHAM BIRD AND PAUL ANTHONY BRERETON EVANS, AS JOINT PROVISIONAL LIQUIDATORS OF NORTH ATLANTIC INSURANCE COMPANY LIMITED, F/K/A BRITISH NATIONAL LIFE INSURANCE SOCIETY LIMITED AND BRITISH NATIONAL INSURANCE COMPANY LIMITED,

Case No. 97-B-41602 (JHG)

NOTICE IS HEREBY GIVEN that on October 12, 2000, the Bankruptcy Court entered an order (the "Order") continuing the Preliminary Injunction Order pursuant to 11 U.S.C. §§ 105 and 304(b) originally entered in this case on April 7, 1997. The Order shall remain in effect pending a hearing scheduled for April 17, 2001 at 9:45 a.m. before the Honorable Jeffrey H. Galliet, Bankruptcy Judge, in the Alexander Hamilton Custom House, One Bowling Green, New York, New York. Any person wishing to obtain a copy of the Order should contact Theresa D'Agostino (212) 993-2526.

CADWALADER, WICKERSHAM & TAFT  
100 Maiden Lane  
New York, New York 10038  
Tel: (212) 993-2526  
Fax: (212) 504-6666  
Attention: Kenneth P. Coleman, Esq.  
Stephen Doody, Esq.

## Looking for a candidate to fill the job?

When the most talented men and women in the insurance industry want to make a move, they turn to...

**Business  
Insurance**  
[www.businessinsurance.com](http://www.businessinsurance.com)

Call: Irais Amlashi at 312-649-5340 for advertising details.

# Risk managers have active role in mergers

BY MARK A. HOFMANN

BALTIMORE—The risk manager's role during mergers and acquisitions shouldn't be limited to identifying risks.

And for that matter, identifying the risks presented when one company takes over another shouldn't be seen as a one-shot deal, said Mike Shelton, senior practice expert-post-merger management for McKinsey & Co. in Chicago. Instead, risks must be pinpointed and monitored throughout the process, Mr. Shelton said during a presentation at Liberty Mutual Insurance Co.'s ninth annual risk management forum, held last week in Baltimore.

The current business environment that's encouraging increased merger and acquisition activity could mean a "golden age of risk management," said Geoffrey E. Hunt, executive vp and manager-business market at Liberty Mutual,

before Mr. Shelton took the podium. Increased global competition, shareholder activism, moves toward deregulation and a sense that speed is more important than accuracy all play roles in that environment.



**Liberty Mutual**

you ever had and more exposures than you ever had, and your exposures are multiplying," said Mr. Hunt.

"What's going to keep CEOs awake at night? The things they don't know," he said.

And that is the opening for the risk manager—to identify and quantify risks and then develop plans to mitigate those risks, he said. He suggested a number of

ways in which risk managers can get involved in the merger process. These include conducting post-mortems of other transactions to determine ideas that might have worked, reviewing deal documents and examining how valuation was done. He also stressed the importance of maintaining separate checklists related to the various stages of a merger—pre-deal, during the deal and post-deal—and updating them regularly.

Talking to other risk managers who have been involved in M&A deals also is crucial, said Mr. Hunt.

"There are a lot of battle scars people out there have endured," he said.

"Speed counts more than accuracy—that must be something that makes any risk manager cringe," said Mr. Shelton. He then outlined the role of risk management in the process.

Mr. Shelton first noted that while the number of mergers has sky-

rocketed in recent years, "the average merger fails." He pointed to several studies that have found that anywhere between 57% and 89% of all mergers eventually fail. A lack of a clear vision of what the merger should accomplish, vague targets and unresolved cultural issues are among the reasons for failure.

For risk managers, the task begins with identifying all of the risks involved, he said. "Most organizations actually stop there," he said. "That's really not enough."

Instead, risk management should continue with a mitigation and contingency plan, the formation of a risk group to oversee the process, and continual monitoring and re-identification of risks throughout the merger, he said.

He stressed that the risks come in many forms. Some are organizational, but others could be more unusual, such as the emergence of morale problems when standardiz-

ing benefits. There is also the risk that customers will defect as a result of the merger.

Companies should consider all the risks, including the risk of delaying the merger, and quantify them, he said. This includes determining probability of occurrence, impact and "appreciating that this changes over time," said Mr. Shelton. A company should then target the top five risks and deal with them, he said.

He also ticked off a list of pitfalls that must be avoided. These include managing risks in a fragmented fashion, failing to manage intangible risks, designing an inappropriate risk management process for the project and basing a risk management plan on the manifestation of risk, rather than what's actually driving it, he said.

He again stressed that managing risks in M&A deals is not a one-time action but rather a process that needs to be re-examined **BI**

# Business continuity plans need constant refining

BY MARK A. HOFMANN

BALTIMORE—A successful contingency plan is not a static document.

"You constantly need to refine it, because your business changes on a continuous basis," says Richard Wnek, president of Crisis Management International in Atlanta. That's particularly true given the emerging challenges facing risk managers, he adds.

Mr. Wnek addressed the issue of business continuity planning and contingency planning during the ninth annual Risk Management Forum sponsored by Liberty Mutual Insurance Co. The forum took place in Baltimore last week.

Mr. Wnek noted that the idea of

business continuity planning "should be familiar to most risk managers." The idea emerged from the financial services industry and gained impetus with concerns about the Year 2000 computer



**Liberty Mutual**

problem. "The Y2K issue forced everyone to look at least at data" and vendor vulnerabilities, he said. The issue has continued to stir interest as more companies have moved into the international arena.

According to Mr. Wnek, a busi-

ness continuity plan has five objectives:

- To ensure continuous availability of your business. This is achieved, he said, "by the implementation of a formal holistic program, which addresses the entire organization, not just data processing."

- To protect assets and profit-earning ability.

- To maintain customer confidence.

- To identify exposures and corporate risks.

- To develop recovery strategies and priorities.

A business continuity program helps to assure organizational survival after a disaster; expedite restoration of services; minimize financial loss and embarrassment; maintain or gain a competitive edge; and meet ethical and legal obligations to employees, clients, suppliers, shareholders and the community, he said.

It also helps to identify both process inefficiencies and single points of failure, maintain a positive image of the corporation and protect jobs, he said.

Getting a continuing plan in place is a complex process involving vulnerability analysis, threat/risk analysis and business impact analysis. Threat/risk analysis alone requires plugging variables into an equation to determine the

nature of the exposure facing the organization.

Mr. Wnek also mentioned crisis management programs. These involve both plans and procedures—such as public relations efforts and employee communications—and what he called the "human side of crisis." The human side, which involves training teams to respond to the crisis and having outside resources available, is "probably one of the areas that is most frequently overlooked," said Mr. Wnek. A comprehensive crisis program includes practice and simulations of crisis situations and "regular review and update," he said.

Contingency plans involve response, recovery, resumption and restoration. Plans and procedures look at business units and processes and identify interdependencies, he said.

Mr. Wnek pointed to four critical success factors in implementing plans: top management commitment, regular exercises, documentation that shows why certain decisions were made, and resources allocation. The plan's components consist of assessments using such techniques as vulnerability and threat/risk analyses; program initiation, implementation and planning; and ongoing management, exercise and maintenance.

Planning involves prioritizing critical elements and recovery objectives, he said. In fact, lack of prioritization has doomed some organizations in crisis, he said.

He repeatedly stressed the importance of keeping plans up to date. Plans must be tested and re-evaluated again and again.

Mr. Wnek said risk managers face new challenges as they seek to implement their plans. For example, increased reliance on technology has created some vulnerabilities that aren't easy to quantify, he said. Customers are growing increasingly intolerant of downtime. And, of course, corporations have grown increasingly dependent on their "knowledge assets."

"How do you assess the knowledge assets of an organization?" he asked. Quantifying those assets is extremely difficult, he said.

Scott R. Goodby, chief operating officer-specialty risks market for Liberty Mutual, also spoke briefly during the session.

In an interview after the presentation, Mr. Wnek explained that there is no technical difference between contingency planning and business continuity planning. Some people consider a contingency plan as applying specifically to a particular process—such as what to do when a server crashes—he said. Business continuity planning is often used in reference to an **BI**

## ADVERTISER INDEX

Issue of October 23

ADVERTISER	PAGE #	ADVERTISER	PAGE #
ALEA	19	Insurance Advisory Committee	60
American Institute for CPCU	50	Kemper Insurance Companies	5
American Reinsurance	56,57	LaSalle Re Ltd.	70
ANSLink	34	Liberty Mutual	9
AON Corporation	7	MaxRe Ltd.	58
AXA Corporate Solutions	12	Metropolitan Life Ins. Co.	16,17
Benetech	64	NAC Reinsurance Corp.	20
Bermuda Insurance Symposium	48	Odyssey Re	25
Burnham Systems	64	Old Republic Risk Management	68
Business Insurance	61,63	Outdoorsman Agency	62
Guy Carpenter & Company	31	Overseas Partnership Ltd.	32,33
Carvill America Inc.	20	Overseas Partners US Re	11
CLAIMPlace	51	Partner Reinsurance	13
CNA Re	C5	PMA Reinsurance Corp.	4
Conning & Company	60	PXRE Reinsurance Company	24
C.P.C.U. Society	62	Royal & SunAlliance	C6
Deutsche Bank	21	SCOR U.S.	C2-C4
Empire Blue Cross/Blue Shield	63R	Signet Star Reinsurance	14
Enterprise Advisors Inc.	44	Sorema Reinsurance	30
Fireman's Fund McGee	46,47	St. Paul Corporate	52,53
First Health	36,37	St. Paul Reinsurance	6
First State Management Group	10	Swiss Re	45
FM Global	42,43	Tempest Re	55
C L Frates	50	TOA Re	26,27
GeneralCologne Re	22,23	United Resource Networks	18
General Star Management	49	U S Re Corp.	35
Gerling Global Financial Pro.	15	Weller Salvage	64
GMAC Re	28,29	Willis Re Inc.	38
G & M Marine Incorporated	54	WLT Software of FL, Inc.	64
Group Health Inc.	61R	Zurich Reinsurance Int'l	41
Information Handling Service	54	Zurich US	65

## New England HMOs fall below NAIC solvency standards

KENNEBUNK, Maine—Forty percent of the licensed New England HMOs that reported risk-based capital data at the end of 1999, would have failed to meet new solvency standards set by the National Assn. of Insurance Commissioners, according to the New England HMO Monitor, a quarterly publication that analyzes local and regional performance of all New England health maintenance organizations.

The NAIC's 1998 requirements mandate various levels of regulatory action if an HMO does not meet a 200% minimum ratio of adjusted net worth to risk-based capital, which measures the de-

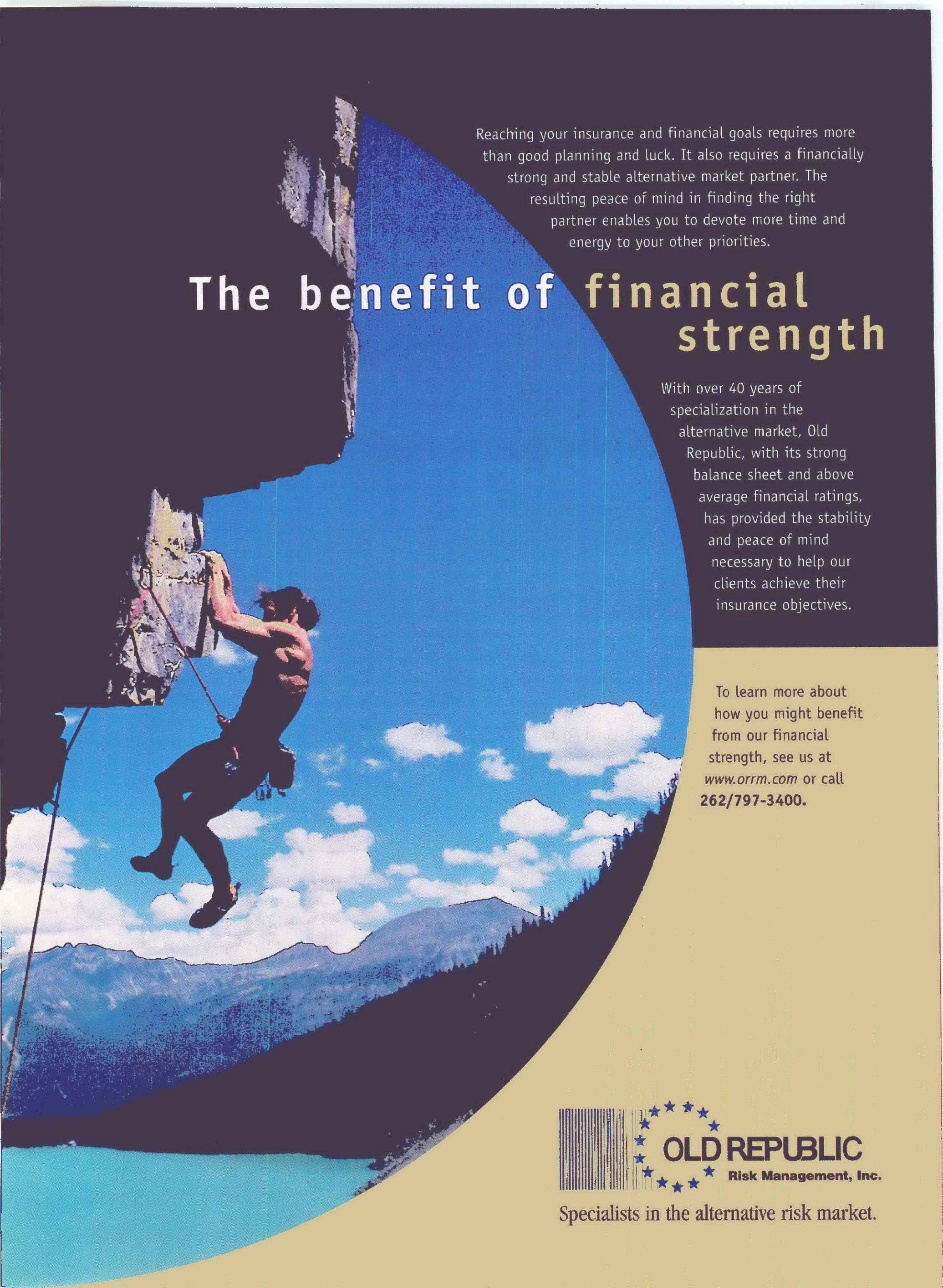
gree to which an HMO's capital is at risk. When an RBC solvency ratio falls below 70%, the insurance commissioner is required to seize control of the HMO.

Since 1999, four of the six New England states have enacted the NAIC's risk-based capital requirements for HMOs, according to the report.

According to Mark Farrah Associates, the Kennebunk, Maine, market research firm that publishes the HMO Monitor and that conducted the analysis, 40% of the HMOs in Connecticut, Massachusetts, Rhode Island, Maine, New Hampshire and Vermont failed to meet the 200% mini-

imum requirement in 1999. Specifically, the research firm found that solvency ratios for the 30 HMOs in that region varied from 34% to 1,075%.

As the RBC solvency test becomes a requirement in every state, HMOs likely will divest themselves of less profitable lines of business and take fewer expansion risks to improve their capital positions, the marketing research firm predicted in a statement. It also forecast further consolidation in the HMO marketplace as a result of HMOs wanting to avoid the consequences of falling below the RBC standards.



Reaching your insurance and financial goals requires more than good planning and luck. It also requires a financially strong and stable alternative market partner. The resulting peace of mind in finding the right partner enables you to devote more time and energy to your other priorities.

## The benefit of **financial strength**

With over 40 years of specialization in the alternative market, Old Republic, with its strong balance sheet and above average financial ratings, has provided the stability and peace of mind necessary to help our clients achieve their insurance objectives.

To learn more about how you might benefit from our financial strength, see us at [www.orm.com](http://www.orm.com) or call 262/797-3400.



Specialists in the alternative risk market.

# Honoring those who lead the way

It's the countdown to the deadline for submitting nominations for the 2001 Risk Manager of the Year and Risk Management Honor Roll awards.

I can't wait to see who is selected for the 2001 awards. I know they will be special men and women, because I have met the most fascinating and talented people since *Business Insurance* started this awards program in 1977.

I had just joined *BI* when, for the 10th anniversary of its first issue, then Publisher Al Malecki decided that we should create the Risk Manager of the Year award to give something back to the risk management community that had made us a success during a decade of publishing.

I was fortunate to be assigned the job of reporting on our first Risk Manager of the Year, named in 1978: Howard Weber, director of insurance at Minnesota Mining & Manufacturing Co. He was a true pioneer in risk financing and a leader in the emerging discipline of risk management. He also was generous with his time and talent, sharing it with colleagues who called on him for advice. He also was incredibly patient with cub reporters seeking his counsel and insights.

For the next 13 years, I had the privilege of reporting the accomplishments of 12 of our Risk Managers of the Year. I

finally had to give up my favorite reporting assignment when I became publisher of *Business Insurance* in 1992.

Although I am no longer the reporter on this great assignment, I still host my favorite event of the year: The Risk Manager of the Year luncheon, at which we present the award. We host this luncheon in the hometown of our award winner, to make it as convenient as possible for his or her management and staff to attend the gala event.

Each year, I am overwhelmed by the deep pride that the honoree's staff and management take in their award winner and by the humility of the honoree.

We also host a luncheon during the annual Risk & Insurance Management Society Inc. annual meeting at which we present the Risk Management Honor Roll awards for the current year and gather our former Risk Managers of the Year for a reunion. It's a very close second to my favorite event of the year.

We created the Risk Management Honor Roll awards in 1981 after three years of awarding the Risk Manager of the Year award to risk managers of giant corporations. We realized that we had many worthy nominations from public entities and smaller companies who, at that point in time, we feared would not be recognized because their challenges were different from those of large corporations. The new awards allowed us to recognize outstanding risk management in different employment settings.

Interestingly, we have since also named risk managers from public entities and a small company as Risk Manager of the Year.

There's just one month left to submit the written nomination of a risk manager whom you think deserves recognition for practicing the art and science of risk management with outstanding skill and results.

It's not too late to begin a nomination, now that we are all living at Internet speed. You can log onto our Web site—[www.businessinsurance.com/bi\\_services/bi\\_events.php3](http://www.businessinsurance.com/bi_services/bi_events.php3)—to download the nominating form. You also can e-mail me, and we will fax or send you a nominating form.

Others around the globe have started their own Risk Manager of the Year awards, and we are flattered by their emulation of our award. But I must note that risk managers from all around the world are eligible for our awards. We have already named three Canadians as honorees and welcome nominations from anywhere in the world.

I use the term "we" in the editorial sense. A diverse panel of 10 independent judges selects the honorees from the written nominations. The judges come from the insurance underwriting and brokerage communities, academia, consulting and risk management.

I can add only one more observation: From what I have seen over the years, the next best experience to receiving a *Business Insurance* Risk Manager of the Year or Risk Management Honor Roll award is having nominated the honoree.



Kathryn J. McIntyre

Publisher and Editorial Director Kathryn J. McIntyre's commentary appears fortnightly and on [www.businessinsurance.com](http://www.businessinsurance.com). She can be reached at [kmcintyre@crain.com](mailto:kmcintyre@crain.com).

# HCFA

Continued from page 2  
tions for up to 12 months.

This period, however, must be offset by prior coverage. For example, if an employee joined a company after being covered under a prior plan for eight months, the maximum exclusion for a pre-existing condition under the new plan would be four months. If the employee had 12 months of coverage under the prior employer's plan, the new employer could not impose a pre-existing condition exclusion.

The latest memorandum deals with the interplay of HIPAA and so-called state insurance succeeding carrier laws. These laws address situations in which an employer switches its group health care coverage from one insurer to another. The laws detail the obligations of the prior and succeeding carriers to provide coverage to individuals who are in the hospital or disabled at the time of the change.

HCFA says such laws are pre-

empted to the extent they would allow the succeeding carrier to deny coverage to an individual who is disabled when coverage under the previous insurer ended.

HIPAA "contains an absolute legal prohibition against a carrier's refusal to enroll an otherwise eligible individual based on a disability or other health factor," the memo says.

"If the state law purported to relieve a succeeding carrier of legal responsibility for enrolling an individual on the basis that the individual was covered by a prior carrier under a state extension of benefits requirement, the state law would not apply," according to the HCFA memo.

However, state laws that protect disabled employees when their employers change insurers would not be pre-empted. Take the situation of an employee whose employer changed carriers. At the time of the change, an employee was disabled, and the new insurer was legally allowed to exclude coverage for the condition because the employee had prior coverage for only one

month. The new insurer could, under federal law, deny coverage for 11 months.

In that situation, HIPAA would not pre-empt a state law requiring the prior insurer to continue to provide coverage for that condition. If HIPAA "permitted the succeeding carrier to impose a pre-existing condition exclusion on an individual's disabling condition, the prior carrier's extension of benefits obligation would presumably require it to provide coverage under state law," the HCFA memo says.

For example, some state laws require health insurance policies to provide a reasonable provision for the extension of benefits in the event of total disability at the time a group policy is discontinued. Such laws, HCFA says are not pre-empted by HIPAA.

"States are free to implement state requirements in a way that protects the interests of disabled individuals without preventing the application of state authority," HCFA said.

BI

# Testing

Continued from page 1

was conducted was defective, and, therefore, you terminated me without having a strong basis in fact for doing so.' Then they end up suing for wrongful termination and sometimes defamation," he said.

Mr. Maatman said he is currently involved in a case in which a senior management executive showed up late for a test, was suspended and sued the company, claiming that he had been defamed.

"He said other people at the company said he avoided the test because he was a drug user. He claimed that he lost the ability to receive a promotion in the company and wasn't treated fairly because of the way the test was administered," he said.

A major problem, Mr. Maatman said, is that laws regarding privacy vary from state to state.

"It's a real tough nut to crack for employers with sites in multiple states, because you end up having to tailor the intrusiveness of your policy depending on the state in which you're doing your testing. Illinois, for example, is a state that is very pro-employer, whereas California is a state that is very pro-employee on the issue of privacy. Because there is no federal law that governs the privacy issue, you, in essence, have employers subject to very much a patchwork quilt of common law claims," he said.

Layne Thome, director of associate services at The Home Depot Inc. of Atlanta, handles the drug testing and rehabilitation program for the chain of home improvement stores.

"Where we run into problems are in the differences between state laws. We have a consistent policy that we follow, and wherever the state differs, we try to accommodate our policy to match what the state requirements are. But sometimes we feel that the state requirements leave a bit of a vague interpretation," Ms. Thome said.

In one case that led to litigation, Ms. Thome said the dispute was more about interpretation of a state policy than about Home Depot's drug testing practices.

"In that case, it was a post-accident stipulation in the state of Connecticut. However, most of the times, we've been challenged not on our policy itself but on how it applies to the state," Ms. Thome said.

Home Depot policy stipulates the testing for drugs of all job applicants and, in accordance with state laws, of current associates under certain conditions.

"For example, we often test post-accident and if there's reasonable suspicion, if the person is showing obvious signs of impairment. Also, we test for post-rehabilitation—anytime somebody's gone through rehab while being employed with home detail once they've returned to work," Ms. Thome said.

Additionally, Home Depot tests any employee who receives a promotion, which it defines as an increase in pay, responsibilities, or both.

"This is for everyone," Ms. Thome said, noting that when Home Depot Chief Executive Officer Arthur M. Blank was promoted, he was tested, too.

Ms. Thome said that Home Depot has been testing for drugs since 1989; the company maintains that testing is the reason it has seen a decrease in the number of work-related accidents.

"The expectation is that, by drug testing, you keep your workforce safer, because, with company drug tests, people are less likely to do drugs. We started the policy because we felt it was important to maintain the safety of our workplace for both our customers and our associates," Ms. Thome said.

Mike Jank is vp of risk management for Advantica Restaurant Group Inc. in Spartanburg, S.C., the owner of the Denny's family restaurant chain.

Mr. Jank said that when Advantica decided to implement its drug-testing program, it was done to attract the "right" type of employees to run the Denny's restaurants.

"We looked at it and realized that we're entrusting a multimillion-dollar business with an individual that potentially has a drug problem. If an individual is willing to go to the length of involving themselves in an illegal activity, what's to stop them from taking the next step, which is taking money out of our business or adversely affecting personnel within that business?" Mr. Jank asked.

Dominic A. Taurone, director of labor and trust for PacifiCare & Behavioral Health, an employee assistance program provider in Laguna Hills, Calif., said that an employer has an absolute right to test prior to employment. But Mr. Taurone called pre-employment testing an "IQ test."

"If I've got a cocaine addict that's going to go for a job down at the local grocery chain, he'll clean up for the 36 hours it takes to clean up his system. He knows better than some of the therapists and counselors out there," he said.

One potential problem, Mr. Taurone said, is random drug testing.

"I've seen it to be effective, but at what cost? Employers need to know that if they're going to randomly test an individual, they are violating a constitutional right and they may get sued. And they will lose the suit," he said.

Mr. Taurone said that the existence of a drug policy most effectively reduces risk. In drug testing, he said, all must be treated equally and monitored consistently.

Mark A. de Bernardo, executive director of the Institute for a Drug-Free Workplace and a senior partner at the Washington law firm of Littler Mendelson, said drug testing is done for two reasons—deterrence and detection.

"Employers have the most-effective weapon in the war on drugs—the paycheck. If you and I believe that our jobs are contingent on being drug-free, that is a very powerful incentive to get people to stay off drugs," Mr. de Bernardo said.

But, Mr. de Bernardo said, it is an unfortunate truth that many employees choose to abuse drugs, which, he said, not only costs employers time and money but puts co-workers and customers at risk.

"The government tells us that three-fourths of the people that engage in illicit drug use are employed. People who use drugs are one-third less productive and are 2.5 times more likely to have absences of eight days or more. People who use drugs are 3.6 times more likely to injure themselves or another person in a workplace accident and are five times more likely to be injured in an accident off the job, which, in turn, affects attendance or job performance. Also, people who use drugs are five times more likely to file a workers comp claim," he said.

Mr. de Bernardo said most employers are convinced that drug testing works, helping to prevent many problems in the workplace.

To do it right, Mr. de Bernardo said, employers need to be prepared to pay. Initial tests can cost about \$15, with confirmatory tests costing around \$60.

"The question is not whether you can afford to do drug testing; the question is whether you can afford not to do drug testing," he said. BI

# the right stuff

The right stuff is more than having the right credentials.

The right stuff is delivering the very best of ourselves in everything we do.

LaSalle Re defines the 'right stuff' as our determination to push ourselves beyond your expectations.

Highly-rated by A.M. Best and Standard & Poor's

Property catastrophe and other specialty reinsurance covers

Strong capital base

Sophisticated proprietary modeling

Exceptional customer service

Innovative and creative solutions

## LaSalle Re

competitive spirit

## Third-quarter cat losses down

Continued from page 2

Michigan, \$40 million; and Illinois, \$16 million.

For the first nine months, cat losses totaled \$3.48 billion, less than half the \$8.06 billion recorded in the first nine months of last year and well below the \$9.59 billion recorded in 1998's first nine months. Insurers received 1.2 million business and personal property and auto damage claims through Sept. 30 of this year, half the number received during the same period last year, according to the ISO.

This year's nine-month period ranks as the fourth best in total losses since 1990 and produced the smallest number of catastrophes. ISO's Property Claim Services unit defines a catastrophe as any event that causes \$25 million or more in insured property losses.

## Gallagher hires McCaffrey

ITASCA, Ill.—Arthur J. Gallagher & Co. has appointed a veteran insurance broker as its vp-market relations.

John F. McCaffrey, who has held executive positions at both Willis Corroon Group and Aon Corp., will help Itasca, Ill.-based Gallagher enhance and develop relationships with insurers, said Gallagher Executive Vp Michael J. Cloherty.

Mr. McCaffrey's "unique blend of brokering and management talent will add significantly to our existing insurance market relationships as well as add depth to our executive sales team. I'm confident he will be a significant contributor to our future success and development," Mr. Cloherty said in a statement.

During his 35-year career in the insurance industry, Mr. McCaffrey rose to the rank of chief executive officer at Frank B. Hall & Co. Inc., which is now part of Aon.

## PartnerRe U.S. names officer

PEMBROKE, Bermuda—PartnerRe Ltd. has appointed Robin Williams chief underwriting officer of the reinsurer's U.S. unit.

PartnerRe earlier this month announced that Patrick Thiele will become president and chief executive officer, succeeding Herbert N. Haag, who is retiring Dec. 1. Mr. Thiele joined PartnerRe this year, after serving as group director of CGU P.L.C. in London and executive vp of The St. Paul Cos. Inc. in St. Paul, Minn.

Ms. Williams came to PartnerRe U.S. from Odyssey American Reinsurance Corp. in Stamford, Conn., where she was senior vp in charge of Odyssey's book of specialty casualty treaty business. Before that, she spent 15 years in a senior actuarial post at Fireman's Fund Insurance Co. Earlier this month, Ms. Williams was named one of *Business Insurance's* 100 Leading Women in the insurance industry.

PartnerRe U.S., based in New York, wrote \$240.3 million in net property/casualty reinsurance premiums in 1999.

## APA sells captive to Mutual Risk

HAMILTON, Bermuda—The American Psychiatric Assn. has sold its professional liability captive insurance operations to Bermuda-based Mutual Risk Management Ltd., which has provided fronting and management services to the organization since 1988.

Mutual Risk has acquired Professional Risk Management Services Inc., the association's Arlington, Va.-based managing general agency unit, along with Tennessee-domiciled Psychiatrists' Risk Retention Group Inc., and Barbados-domiciled Psychiatrists' Mutual Insurance Co., which Mutual Risk managed.

The RRG and the Barbados insurer will be merged into Mutual Risk's Legion Insurance Co. subsidiary, which had acted as fronting insurer for the program and which will continue to write its professional liability policies, said Robert Mulderig, Mutual Risk chairman and chief executive officer.

PRMS will continue to provide marketing, underwriting and claims administration to psychiatric association members, he said. The program covers about 6,000 individual psychiatrists and 55 behavioral health care groups and clinics.

## Briefly noted

Arthur J. Gallagher & Co. has launched a new online marketplace for property/casualty insurance agents and brokers. Coveragefirst.com, a division of Gallagher's wholesaler Risk Placement Services Inc., offers independent agents and brokers online access to a large and growing pool of specialized products and services to help address their clients' specific insurance needs.... **Kemper Insurance Cos.' Financial Insurance Solutions** division has unveiled a new Web site that gives agents and brokers access to sample policies and online applications. Based in Berkeley Heights, N.J., Kemper FIS specializes in providing corporate and executive protection insurance coverage for commercial enterprises, financial institutions and nonprofit organizations.... **Marsh & McLennan Cos. Inc.'s** revenues for the first nine months of 2000 rose to \$7.68 billion, a 13% increase over the same period last year. Profits for New York-based Marsh & McLennan increased 22% to \$895 million.... **California Public Employees' Retirement System** directors voted to sell the system's primary tobacco company investments, which total more than \$525 million. The decision was based on financial rather than social considerations, said a spokesman.... **Kyoei Life Insurance Co.** of Tokyo filed for protection from creditors Friday, saying its 4.53 trillion yen (\$41.88 billion) in liabilities was almost equal to its available assets. The bankruptcy is the largest in Japan's postwar history, beating the 2.9 trillion yen (\$26.81 billion) debts of Tokyo-based Chiyoda Mutual Life Insurance Co., which filed for court protection earlier this month.

# Mergers

Continued from page 1

ated with Bank of America.

In 1999, Acordia's equity ownership breakdown was as follows: Wand Partners Inc. owned 36.6%; High Ridge Capital owned 34.8%; Bank of America owned 20.8%; Acordia's management owned 5.8%; and Royal SunAlliance USA owned 2% (BI, July 19, 1999).

Just as Wells Fargo would answer Acordia's need for a buyer, the broker would fulfill Wells Far-

go's desire to beef up its insurance operations.

According to several press reports, Mr. Kovacevich has said that he wants to reinvent Wells Fargo, the nation's seventh-largest bank, into a financial services giant. To do this, Mr. Kovacevich has said he would be interested in the possibility of making a major acquisition in the insurance or securities field if the right deal came along.

The passage of the Gramm-Leach-Bliley Financial Services Modernization Act, which was

signed into law in late 1999, removes many of the barriers that have prevented banks, insurers and securities firms from affiliating with one another and being involved in each other's business.

Faced with the removal of these Depression-era prohibitions and such mega deals as Citicorp's 1998 merger with insurer Travelers Group and Chase Manhattan Corp.'s recent merger with investment brokerage J.P. Morgan & Co. Inc., banks have been under pressure to offer more financial products and services. **BI**

# COLI

Continued from page 1

a trial that took place earlier this year. Mutual Benefit is now owned by Hartford Life Insurance Co. in Simsbury, Conn.

The court sided with the IRS and said that the policies provide no economic benefits to Camelot Music aside from the tax deductions.

"Stated succinctly and bluntly, Camelot's COLI policy loans had no practical economic effect other than to generate income tax deductions," Judge Schwartz wrote in the decision.

Therefore, the court stated, the transaction is a sham and the deductions are disallowed. In addition, penalties against the company are warranted.

Ken Kirk, president of Vinings Management Corp., a consulting firm specializing in COLI audits and litigation support in Atlanta, said a key piece of evidence against the employers is the interest rate they selected. In these programs, the employer is given a

choice of what interest payment to make on the loan from the insurer. In a normal situation, a lower rate of interest would be chosen to minimize the cost of the loan. But Camelot, like most other companies using these COLI programs, chose the highest interest rate to gain the largest tax deduction possible, he said.

## The court...said the policies provide no economic benefits to Camelot Music aside from the tax deductions.

About 700 to 800 employers have bought leveraged COLI policies, Mr. Kirk said. Of those, about 200 were of "the very aggressive type," such as the one at issue in the suit, he said. While COLI programs are still sold, leveraged programs stop being sold after the interest deduction was eliminated starting in 1996,

he said.

According to Mr. Kirk, the Camelot decision is the second one where employers have had the interest deduction disallowed. Last year, a U.S. Tax Court ruled against Winn-Dixie Stores Inc. over its COLI program, costing the company \$19.7 million in back taxes and penalties.

The Camelot decision could influence a trial scheduled to start next month in Ohio federal court involving American Electric Power Co., a utility in Columbus, Ohio, Mr. Kirk said. The company said that if it lost its suit against the IRS, it could wipe out over \$300 million in the company's earnings.

Mr. Kirk also said, "a number of companies are contemplating whether to take legal action," against the insurer or broker that sold the COLI program, with some class action suits being considered.

*Internal Revenue Service vs. CM Holdings Inc., U.S. District Court for the District of Delaware, No. 97-695.*

# Forum

Continued from page 2

management-directed merger and acquisition activity than he has in recent times.

"If you look in a more global sense and even within the mid-tier, there's still an awful lot of activity left to go. Not only for the financial services underwriters, but also for brokers' balance sheets—it's going to be key to their success in the future," Mr. Bolinder said.

Siri Gadbois, vp for risk management for Educational & Institutional Insurance Administrators Inc. in Chicago, said that from a client's perspective, "we would look for some relief from consolidation, so that we would have an opportunity to adapt to the changes."

"I think there is a lack of continuation of the level of service during the transition time," after a big merger or acquisition, Ms. Gadbois said. She added that buyers would welcome increased strength and scale among regional and boutique brokers.

Mr. Bolinder agreed that the needs of member clients and customers cannot be forgotten in developing M&A strategies.

"We better do it in a way that benefits our clients, or we're really kidding ourselves," Mr. Bolinder said.

Christopher Migel, executive vp of GeneralCologne Re in Stamford, Conn., said that for reinsurers, it's extremely important to build on relationships and to work together with customers. "We need to push transparency, so clients know where we're coming from," Mr. Migel said. GeneralCologne Re is the brand name for the combined General Reinsurance Co. and Cologne Reinsurance Co.

According to Cary McMillan, executive vp and chief financial and

administrative officer at Chicago-based Sara Lee Corp., some important aspects often are missing after the deals are completed.

Buyers are "not seeing lower costs, and we're seeing less capacity in the industry, not more. I think, in the end, we're very much for consolidation, but with the reduction of ca-

an insurer mistakenly believe they are buying coverage for all of their risks, which few underwriters would be contemplating.

"The exclusions are so deep and vague that there may be misunderstandings about what's covered. We must have something that evolves and carefully build it out," he said.

## 'I think there is a lack of continuation of the level of service during the transition time' after a big merger or acquisition, says Siri Gadbois of the EIA.

capacity and no transaction-cost reduction, it's hard to see in the short term how we benefit," Mr. McMillan said.

The panel also discussed the trend toward enterprise risk management.

Ms. Gadbois noted that, as a result of this broader approach to managing risks, "chief risk officer" as a job title is likely to grow within organizations. She said the shift from risk management's current focus on insurable risk to a broader enterprise risk management approach is a welcome move. She urged risk managers not to look at enterprise risk management merely as a broader risk financing option. Instead, she said, they should regard the approach as way to improve risk control, transferring or financing only those risks that ultimately cannot be managed or retained.

Mr. Bolinder agreed that the emphasis should be on risk control, rather than risk financing. The labels given to insurance policies designed to finance these expanded risks can be misleading, he said. Too often, he said, companies coming to

Mr. Pinkston stressed that for an enterprise risk management approach to succeed, the executives of a company advocate managing risks throughout the organization and set an example.

"For it to really become a fabric of a company, the CEO has got to buy into it and say, 'This is what we're going to do—we're going to protect our reputation, and this is how we're going to do it,'" Mr. Pinkston said.

The panel unanimously agreed that the Internet is continually changing the way all aspects of the commercial insurance business are conducted.

"Anyone who ignores the power of the Internet does it at their own peril and the peril of their company," said Mr. Bolinder, noting that the Internet will drive the way companies do business.

Ms. Gadbois, however, urged attendees to protect relationships in the face of greater reliance on technology.

Moderating the panel discussion was Paul D. Winston, editor of *Business Insurance*. **BI**

# FOR THE RECORD

Excerpts from BI's Daily Online Updates, Oct. 16 - Oct. 20, 2000

**▶ VENTURE CAPITAL** New York-based Securitas Capital L.L.C., a global equity investment firm, has formed a \$100 million global private equity fund that will invest in newly formed insurance companies that follow innovative business models, including e-business approaches. Securitas Ventures L.P. will provide funding to companies that are early in their development, from those needing seed money to start-ups that are in their second round of seeking institutional investors, said a spokeswoman. "It depends very much on the opportunity," she said. Securitas Capital also manages the \$500 million Securitas Fund, which makes investments in insurance and related firms that are further along in their development, the spokeswoman said. Swiss Reinsurance Co. and Credit Suisse Group are limited partners in both funds, she said.

**▶ EDUCATION VENTURE** A joint venture between the Austin, Texas-based National Alliance for Insurance Education & Research and the Massachusetts Assn. of Insurance Agents aims to provide professional education programs to agents in five New England states. The recently announced collaboration, called The Northeast Alliance, will administer courses beginning in January 2001 in the following National Alliance professional designation programs: Certified Insurance Counselors, Certified Insurance Service Representatives, and Certified Risk Managers. In addition, the Northeast Alliance will offer the National Alliance's James K. Ruble seminars and other educational programs. MAIA leaders, including President Glenn Niinimaki, Executive Vp Francis Mancini and Director of Education Heather Kramer, will direct the new alliance. For more information, visit [www.scic.com](http://www.scic.com).

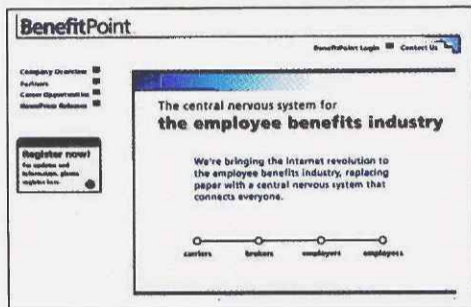
**▶ ONLINE ADMINISTRATION** BenefitPoint Inc., which provides Internet-based tools and services for managing employee benefit transactions, has added Aon Consulting Inc. to its field of clients.



PHOTO: AFP

**A passenger on this American Airlines jet won a claim for post-traumatic stress.**

**▶ AIR CRASH AWARD** A federal district court jury in Arkansas has awarded an American Airlines passenger \$6.5 million in compensatory damages for a claim stemming from a 1999 airline disaster. Anna Lloyd sued the airline, claiming that she suffers from post-traumatic stress disorder related to the crash of American Airlines Flight 1420. The flight crashed June 1, 1999, at Arkansas' Little Rock National Airport while landing during a severe thunderstorm. The nearly 16-year-old MD-82 jet was carrying 139 passengers and six crew members. The pilot and 10 passengers were killed when the MD-82 smashed into light standards and erupted in flames before coming to rest. American Airline's hull and liability coverage at the time of the accident was led by Short Hills, N.J.-based Associated Aviation Underwriters (BI, June 7, 1999). An AAU spokesman said he was unable to comment on the award.



San Francisco-based BenefitPoint provides an online infrastructure that links insurers, brokers, employers and employees, allowing them to access and exchange group insurance and employee benefits information. The service aims to improve efficiencies and lower costs by enabling all parties to work from the same basic data, thus avoiding paper-based processes and redundant data entry. BenefitPoint's software offers clients such functions as online benefits administration and enrollment, procurement of employee benefit and financial products, workplace marketing of coverages, analysis and data mining tools, consolidated billing and client management applications, among other things. BenefitPoint's system is configured to handle more than 250 insurance

companies' policies, reflecting more than 3,500 different benefit products, the company said in a statement. More than 120 brokerage and consulting firms are already committed to using the BenefitPoint service. Other large brokers already contracting for the BenefitPoint online platform include Arthur J. Gallagher & Co., which is also an investor in the company, and Willis Group Ltd. Altogether, about 120 brokers and consultants have committed to using BenefitPoint, of which 35 are also investors. More information is available at [www.benefitpoint.com](http://www.benefitpoint.com).

**▶ STOP-LOSS COVER** Self-insured employers have a new stop-loss health insurance option under a program unveiled last week by Cairnstone Re. The Miami-based managing general underwriter of stop-loss coverage is offering a program called OmniRisk for self-insured employers with 150 or more employees. The standard maximum coverage is \$1 million, though up to \$5 million is available, according to Cairnstone. Attachment points for OmniRisk will vary based on an employer's loss experience, but Cairnstone offers monthly accommodation, in which all claims count toward an aggregate attachment point. Issuing insurers for Cairnstone's stop-loss programs include Kemper Insurance Cos. and PFL Life Insurance Co. Initially, OmniRisk coverage will be underwritten by PFL and will be available in all states except New York, Cairnstone said. The program will be marketed through third-party administrators and brokers. More information is available from Cairnstone by calling 305-265-1422.

**▶ AMBAC GAINS** Financial guarantee insurer Ambac Financial Group Inc. reported a 20.2% increase in net income, to \$269.2 million, for the nine months ended Sept. 30. For the third quarter, the New York-based insurer reported \$90.9 million in net income, a 13.9% increase. Gross premiums written for the first nine months rose nearly 15%, to \$339.0 million. Growth in international business and a single large municipal transaction helped boost



results, according to Ambac. Ambac Chairman and Chief Executive Officer Philip B. Lassiter

saic in a statement: "It was another in a long line of solid quarters for both business production and bottom-line results. The outlook remains upbeat as all of our markets continue to provide very attractive business opportunities." Also this month, Ambac directors approved a three-for-two stock split, payable Dec. 12 to shareholders of record on Nov. 27.

**▶ HEALTH COST SURVEY** Prescription drug costs, which are increasing at a rate double that of all other medical services, will help to boost total health plan costs, a new survey predicts. The cost of non-network fee for service, preferred provider organizations, point-of-service and health maintenance organization plans are projected to increase 15.1%, 12.5%, 11.4% and 9.9%, respectively, according to The 2001 Segal Health Plan Cost Trend Survey. Meanwhile, prescription drug benefit plan costs are expected to grow 19.7% for active employees and retirees under age 65 and 20.9% for retirees age 65 and older, the survey by New York-based benefit consultant The Segal Co. found. Among the factors contributing to higher prescription drug costs are increased patient demand as a result of direct-to-consumer advertising, the advent of new and expensive drug therapies and greater reliance on drug therapy by physicians. Overall health plan cost increases are being buoyed by consumer backlash against managed care, which has eased cost control efforts by insurers and plan sponsors, according to the survey. Also contributing to higher health plan costs are the aging U.S. population, expensive new technologies and cost shifting to the private sector resulting from cutbacks in Medicare and Medicaid, according to the survey, which included responses from 45 major insurers, pharmacy benefit managers, third-party administrators and managed care organizations nationwide. An electronic version of the 2001 Segal Health Plan Cost Trend Survey is available on the consultant's Web site, [www.segalco.com](http://www.segalco.com).

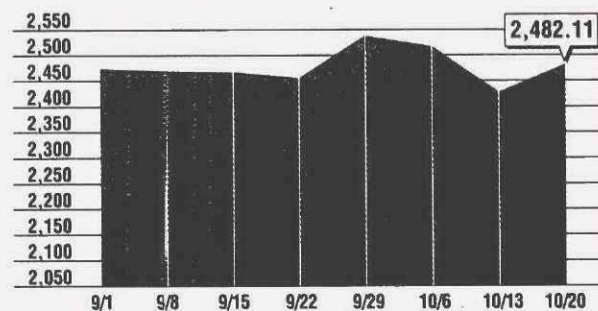
**▶ To get breaking news as it occurs, visit Business Insurance's free online Updates at [www.businessinsurance.com](http://www.businessinsurance.com). All of the material in the For The Record column, as well as other content in this week's issue, is generated from daily news postings that appeared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

Find daily coverage on Corporate Risk, Employee Benefit and Managed Health Care News at [www.businessinsurance.com](http://www.businessinsurance.com)

## BI Industry Stock Report OCT. 16, 2000, THROUGH OCT. 20, 2000

BROKERS						INSURERS/REINSURERS						HEALTH MAINTENANCE ORGANIZATIONS						ALL COMPANIES														
Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol. (000)	Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol. (000)	Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol. (000)	Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol. (000)					
Aon Corp.	NYS	37.63	1.86	-5.94	42.75	20.69	4367	Gainsco Inc.	NYS	3.81	1.67	-29.07	6.50	3.50	282	Vesta Insurance Co.	NYS	4.56	-2.67	17.74	7.88	3.44	146	XL Capital Ltd.	NYS	71.88	1.77	38.55	80.00	39.00	1970	
Brown & Brown	NYS	31.44	-6.16	64.11	34.81	15.38	982	Harleysville Group	NDQ	20.75	4.40	45.61	20.75	11.63	238	Zenith National Ins.	NYS	20.81	-0.60	0.91	24.94	18.75	34	INSURERS/REINSURERS	AVERAGE		0.48	7.14				
Bardis Holdings	NDQ	10.75	2.38	-25.22	20.63	8.50	82	HSB Group Inc.	NYS	39.94	0.31	18.11	40.63	21.50	593	Foundation Health Systems Inc.	NYS	16.50	1.54	66.04	18.56	6.25	2288	Humana Inc.	NYS	10.50	-1.18	28.24	12.38	4.75	3403	
E.W. Blanch Holdings Inc.	NYS	18.75	-1.32	-69.39	65.00	16.56	906	HCC Insurance Holdings	NYS	18.75	1.68	42.18	22.94	8.00	351	Oxford Health Plans	NDQ	28.81	5.98	127.09	34.25	9.75	7344	Pacificare Health Sys.	NDQ	11.94	6.70	-77.48	72.31	10.56	5493	
Gallagher Arthur J. & Co.	NYS	54.63	3.43	68.73	60.50	23.06	758	ING Groep N.V.	NYS	64.13	2.29	5.12	69.94	46.81	645	Sierra Health Services	NYS	4.75	-3.80	-28.97	10.00	2.44	457	United HealthGroup	NYS	105.31	1.38	98.24	112.00	39.38	7911	
Hibb, Rogal & Hamilton	NYS	38.63	-0.32	36.73	42.13	24.25	72	IPC Holdings Ltd.	NDQ	19.63	3.63	31.93	20.38	9.75	208	Wellpoint Health Networks	NYS	100.56	4.75	52.51	105.25	48.25	3738	HMOs	AVERAGE		2.20	37.95				
Kaye Group Inc.	NDQ	6.56	2.94	-21.64	11.88	5.00	10	Hartford Financial Services	NYS	71.69	2.96	51.32	77.81	29.38	3680	ALL COMPANIES	AVERAGE		1.01	21.00												
Marsh & McLennan	NYS	123.44	3.51	29.00	135.69	64.38	5259	John Hancock Financial Services	NYS	27.63	4.25	62.50	29.06	13.44	4843																	
BROKERS	AVERAGE		0.35	17.92				LaSalle Re Holdings Ltd.	NYS	18.88	0.00	14.39	19.38	10.88	0																	
								Lincoln National	NYS	44.50	-1.52	11.25	56.38	22.63	3372																	
								MAIC Holdings Inc.	NYS	13.06	4.50	-38.35	23.80	10.00	124																	
								Market Corp.	NYS	139.88	-2.27	-9.76	182.06	111.50	95																	
								MBIA Insurance Group	NYS	68.13	1.77	28.99	73.44	36.31	1200																	
								Meadowbrook Insur. Group	NYS	4.19	1.52	-36.19	12.06	3.94	17																	
								MetLife	NYS	24.13	-3.50	69.30	27.63	14.25	8271																	
								Mutual Risk Mgmt. Ltd.	NYS	16.50	-29.97	-1.86	23.75	9.81	1872																	
								Navigator Group	NDQ	11.25	-3.74	15.38	14.13	8.63	11																	
								NYMagic Inc.	NYS	15.50	-1.20	17.54	15.75	12.25	18																	
								Ohio Casualty Corp.	NDQ	7.75	5.98	-51.75	17.88	6.13	1164																	
								Old Republic Int'l	NYS	23.13	1.37	69.72	27.06	10.63	1360																	
								Partner Re Ltd.	NYS	50.00	-0.50	54.14	53.44	28.38	1072																	
								Penn-America Group Inc.	NYS	8.81	8.46	13.71	9.75	6.63	62																	
								PMA Capital Corporation	NDQ	16.75	1.52	-15.72	20.50	15.50	52																	
								Philadelphia Cons. Holding	NDQ	20.88	3.41	43.97	22.63	13.13	130																	
								PYRE Corp.	NYS	14.25	9.62	9.62	17.56	9.94	127																	
								Reliance Group Holdings	NYS	0.13	-20.00	-98.11	7.75	0.13	2370																	
								ReiaStar Financial Corp.	NYS	53.94	0.00	37.64	53.94	23.75	0																	
								RenaissanceRe Holdings Ltd.	NYS	65.94	10.94	61.31	68.75	33.19	1256																	
								RLJ Corp.	NYS	38.44	2.16	13.06	39.63	26.25	27																	
								St. Paul Cos.	NYS	47.19	2.58	40.07	51.31	21.31	2849																	
								SCOR	NYS	44.00	-1.12	-0.56	53.63	38.38	24																	
								SAFECO Corp.	NDQ	23.69	-3.81	-4.77	30.69	18.00	2410																	
								SCPIE Holdings Inc.	NYS	19.31	-1.28	-39.88	36.94	18.88	NA																	
								Selbets Bruce Group	NDQ	0.75	0.00	-57.14	3.88	0.53	41																	
								Selective Ins. Group	NDQ	16.38	-5.07	-4.73	20.38	14.63	313																	
								Tokio Marine & Fire	NDQ	55.13	2.08	-6.77	67.00	45.00	76																	
								Torchmark Corp.	NYS	29.06	3.33	0.00	26.00	18.75	1362																	
								Transatlantic Holdings	NYS	89.94	-1.84	-15.21	96.63	68.75	46																	
								Trenwick Group Inc.	NYS	15.56	-10.43	-8.12	21.25	12.00	533																	
								Unico American Corp.	NDQ	7.13	5.56	1.79	8.63	4.50	7																	
								United Fire & Casualty	NDQ	16.94	-0.37	-25.14	23.38	15.50	13																	
								Unitrin	NDQ	31.56	1.81	-16.11	39.75	27.19	346																	
								UNUM Corp.	NYS	27.00	0.00	-15.79	36.19	11.94	4451																	

### BI Insurance Index



Base=100 on Dec. 29, 1978

Top advancing issues: RenaissanceRe Holdings Ltd., American Safety Insurance, ACE Ltd. Leading decliners: Mutual Risk Mgmt. Ltd., Frontier Insurance Group, Reliance Group Holdings. Most active issue: Citigroup. The BI Index rose 2.2%; The Dow Jones 30 Industrials increased 0.3%; the S&P 500 went up 1.6%, and the NYSE Composite rose 0.7%. Average P/E: Brokers, 21.4; Insurers/reinsurers, 24.1; and HMOs, 14.3.



How can you have  
solutions without  
expertise?

Our technical excellence provides expert solutions to your complex problems, as well as the type of thinking you'd expect from a leader. To discover how we can help you succeed, contact us today.

phone: 1-800-200-1546 [www.cnare.com](http://www.cnare.com)

**CNA RE**

**Long-Awaited Mystery Sequel.  
Worldwide Book-Signing Tour.  
Location Of Book Shipment Also A Mystery.**

**Your Business. Your Risk. Understood.<sup>SM</sup>**

Sometimes one logistical error can cause major corporate nightmares. Which is why you want an insurance partner who knows your needs inside and out. One who has walked a mile in your shoes. And one who can protect you and help you manage risk in 130 countries around the world. End of story.

Providing Commercial, Personal and Specialty Insurance Solutions.

**ROYAL & SUNALLIANCE**  
You Have Our Attention.<sup>®</sup>