SEPTEMBER 17, 2001

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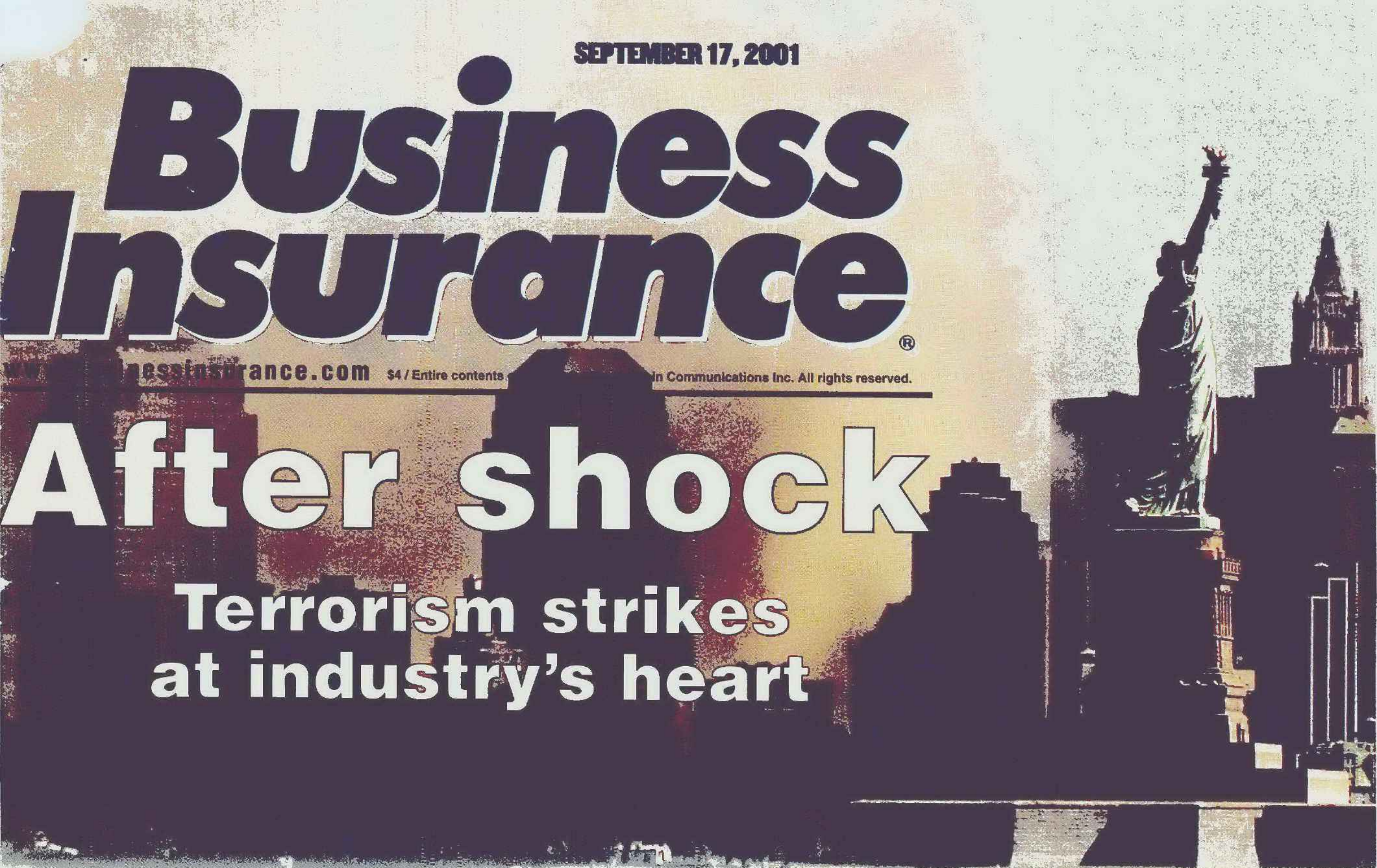

After shock

Terrorism strikes at industry's heart

Tragedy touches entire market

By DOUGLAS McLEOD

In the largest catastrophe ever, the insurance industry lost its own.

While insured losses from the terrorist attacks on New York and Washington may soar into the tens of billions of dollars, most people last week were focused on the disaster's appalling toll on co-workers, friends and family.

The extent of the financial loss will emerge in coming weeks as businesses and insurers assess the damage to buildings—including the destruction of the $3.2 billion World Trade Center complex—along with massive expected business interruption, workers compensation, aviation, automobile and life insurance losses.

Last week, though, businesses and insurance industry officials dealt only sporadically with financial issues as they concentrated on tracing the whereabouts of the hundreds still missing, attempting to comfort employees and their families and resuming operations damaged to varying degrees by the catastrophe.

In New York, more than 4,700 people were missing or confirmed dead on Friday, including passengers of the two hijacked jets that struck the twin World Trade Center towers around 9 a.m. Tuesday. In Washington, the toll of missing and dead stood at 190, including passengers on the plane that plowed into the Pentagon, while 45 died aboard the United Airlines jet that crashed southeast of Pittsburgh.

Phone lines in New York were taxed beyond their limits as employers and family members tried desperately to confirm that Trade Center workers made it out of the 110-story towers alive before the structures collapsed shortly after the attacks, blanketing lower Manhattan in ash and debris.

In hundreds of cases, the inquiries were answered with good news: Stories abounded of people descending dozens of flights of stairs to safety and making their way home.

In hundreds of other cases, the news was disturbing.

Marsh & McLennan Cos. Inc. on Friday was still unable to account for about 300 of the 1,700 employees and 50 to 100 visitors at its offices near the top of 1 World Trade Center—the North Tower and the first to be hit—and various floors at 2 World Trade Center, the company said.

Aon Corp. said it is still unable to account for 200 of the 1,100 employees and 250 visitors present at its offices on the 92nd and 98th through 105th floors of the South Tower, struck by the second plane about 15 minutes after the first impact, according to Chairman and Chief Executive Officer Patrick G. Ryan.

"We have learned of several cases of extreme heroism by some of our employees, some of whom went back into the building after they'd gotten themselves out and others out safely," Mr. Ryan said. "And then some remained on the floor to help everyone get off that particular floor. Unfortunately, in some cases, we have not been able to contact those referenced employees."

While the Trade Center housed many insurance and reinsurance companies and brokers—including SCOR U.S. Corp., Empire Blue Cross & Blue Shield, Metropolitan Life Insurance Co., Kemper Insurance Cos. and broker Frenkel & Co. Inc.—heavy losses also fell on others.

Bond dealer Cantor Fitzgerald L.P. was missing nearly 700 of the 1,000 employees that had been working on the 101st and three higher floors of 1 World Trade Center. Among the missing employees was Gary Lutnick, brother of the firm's chairman and CEO. Howard W. Lutnick.

Stockbroker Keefe, Bruyette & Woods Inc. as of Friday had not confirmed the safety of 67 of its 171 employees at 2 World Trade Center, according to information posted on the company's Web site.

Most companies established hotlines for employees to report themselves and others safe, and many also provided phone numbers for emotional counseling and other support services, along with numbers for area hospitals treating the injured.

The disaster, an intricately coordinated terrorist operation carried out by knife-wielding hijackers, began on a clear Tuesday morning as hundreds of thousands of commuters were at or nearing work in New York and Washington.

At about 8:50 a.m., an American Airlines Boeing 767 jet hijacked from Boston's Logan Airport crashed into the 1 World Trade Center tower above the 96th floor. About 15 minutes later, an identical United Airlines jet, also hijacked from Boston, flew into 2 World Trade Center at about the 87th floor.

Within 90 minutes, as workers in the buildings were still attempting to flee and as horrified witnesses looked on, the top floors of both 1 and 2 World Trade Center buckled and the buildings collapsed into themselves, sending up massive clouds of smoke, ash and debris that enshrouded lower Manhattan and areas downwind in Brooklyn, where smoke and paper drifted past windows of stunned onlookers.

In Washington, meanwhile, an American Airlines Boeing 757 hijacked from Dulles Airport crashed into the west side of the Pentagon at about 9:40, triggering a partial building collapse and a massive fire. An hour later, a fourth jet, a United Airlines Boeing 757 hijacked after departing Newark, N.J., crashed in a rural area southeast of Pittsburgh. The plane, possibly intended to be used against another target in Washington, may have crashed after several passengers took action against the hijackers, cellular telephone conversations between passengers and family members suggested.

See **Disaster** *on next page*

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Disaster may be largest loss ever
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pa

Disaster

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Rescue efforts in New York began immediately but have been hampered by the actual and threatened collapse of other buildings in the area around the huge piles of rubble that remain where the World Trade towers stood. Seven World Trade Center, a 47-story building north of the towers, caught fire and collapsed several hours after the initial attacks. All of its occupants, who included employees of the National Assn. of Insurance Commissioners' Securities Valuation Office and the U.S. Securities and Exchange Commission, had been evacuated. Several other buildings, including a Marriott hotel, buildings within the World Trade Center complex and others in the immediate area, had either partially collapsed or showed signs of structural damage on Friday.

The experience for witnesses of the destruction was harrowing.

"It was awful....It was just horrible," said Jeffrey Weinstein, a lawyer with Mound, Cotton, Wollan & Greengrass who saw the towers burn and collapse from the firm's office, located several blocks away. The collapse of the first tower produced an enormous white cloud that enveloped the building, while "the second one was just black and turned (day) into night," according to Mr. Weinstein, who said he and others were ferried out of lower Manhattan by tugboat to New Jersey.

Dan Prince, director of communications for Willis North America, with offices several blocks from the World Trade Center, said he looked out his window as the first tower collapsed to see a wall of ash, soot and debris hurtling toward him: "It was a clear and cloudless day, and within minutes we couldn't see the building across the street," he said.

J. Patrick Gallagher Jr., president and CEO of Itasca, Ill.-based Arthur J. Gallagher & Co., said he was visiting New York for a series of meetings and watched the disaster unfold from Midtown Manhattan with his daughter, uncertain where the destruction would end.

"If you see a big flash, give me a hug," Mr. Gallagher said he told his daughter. "That's how spooky it was."

"I cannot describe to you the feeling that I have and that our people have for the people in our industry" who were caught in the disaster, Mr. Gallagher said. "It's all anyone is talking about—who was there, who got out, who didn't."

London's insurance and risk management community was likewise in a state of shock and mourning over the tragedy (see story, page 17).

One London company spokesman, while noting that his company's U.S. unit suffered no casualties and has been able to continue operating, broke down in tears at the thought of those at Marsh, Aon and other companies who were less fortunate.

In fact, as companies, insurers and reinsurers assess the damage in the coming weeks, the most keenly felt loss will be that of colleagues and friends who never emerged from the devastation of the World Trade Center, numerous industry officials say.

Apart from the looming financial impact, said Jack McGrath, a senior vp with broker Hilb, Rogal & Hamilton in Pittsburgh, the loss of people stands to be a "devastating blow to the industry itself."

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Carolyn Aldred, Michael Prince and Rodd Zolkos contributed to this report.

Industry reeling amid loss of life

By DOUGLAS McLEOD

NEW YORK—The many insurance brokers, insurers, reinsurers and industry-related institutions housed in the two 110-story World Trade Center towers suffered widely varying losses in last week's terrorist attack.

Among the most severely damaged are Marsh & McLennan Cos. Inc., which had offices of several units scattered within both trade center towers. MMC units Marsh Inc. and Guy Carpenter & Co. Inc. occupied the 93rd through 100th floors of the North Tower. That tower, known as 1 World Trade Center, was the first to be hit. William M. Mercer Cos. L.L.C., Seabury & Smith and Carpenter also had offices on the 49th through 53rd floors of the South Tower. The tower, known as 2 World Trade Center, was the first structure to collapse.

MMC had 1,700 employees in the towers and reported that between 50 and 100 visitors were scheduled to be in the offices at the time of the attack. As of Friday afternoon, the broker had confirmed the safety of more than 1,400 of these people, MMC Chairman Jeffrey Greenberg said.

Many of those still unaccounted for were in the Marsh Inc. offices in 1 World Trade Center, an MMC spokeswoman said.

MMC has launched a disaster recovery plan, is making room in its Midtown Manhattan headquarters building for employees from the trade center and has opened an assistance center for employees' families at a mid-Manhattan hotel.

Chicago-based Aon Corp. had 1,100 employees on the 92nd and 98th through 105th floors of 2 World Trade Center, along with 250 employees and others visiting at the time of the attack, according to Chairman and Chief Executive Officer Patrick G. Ryan. As of Friday afternoon, 200 of these people were still unaccounted for, Mr. Ryan said. An Aon office in Glenview, Ill., is serving as a "nerve center" in the effort to account for missing employees, and the broker is offering counseling services to employees and their families, officials said.

Other World Trade Center tenants include:

- Empire Blue Cross & Blue Shield, New York's largest health insurer, which had its corporate headquarters at 1 World Trade Center, with 1,914 employees in offices from the 17th to the 31st floors. All but nine of the employees were found safe as of Friday afternoon, the company said. Empire said its operations are continuing with only slight disruption despite the devastation, noting that its data storage, customer service and claims administration functions also operate from other locations. The insurer did say, though, that paper claims submitted before Sept. 6 should be resubmitted.
- Retail insurance broker Frenkel & Co. Inc., the 39th-largest broker of U.S. busi-

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INSIDE

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- **London's insurance and risk management community responds to the tragedy in the United States with shock and sorrow. PAGE 17.**
- **Publishing Director Kathryn J. McIntyre finds that what should be a moment of joyous recollection becomes a time of horror and grief. PAGE 21**
- **Promoters readily called off public events following Tuesday's terrorist attack but may soon seek cancellation coverage. PAGE 23**

DEPARTMENTS

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Risk managers respond

Crisis triggers backup plans

By MICHAEL BRADFORD

Employers affected by the terrorist attack on the World Trade Center are operating under crisis management plans as they account for employees and struggle to get their operations back on track.

In the days following the Sept. 11 crash of two commercial airliners into the trade center towers, many businesses that were tenants in the complex have shifted operations that were handled there to other existing facilities. Among those businesses are numerous insurers, reinsurers and brokerages.

SCOR U.S. Corp., which had 120 employees on the 23rd and 24th floors of the South Tower—the area known as 2 World Trade Center—said it immediately concentrated on the evacuation of its workers following the attack, according to a written statement from the company. Staffers were relocated to another New York location, and SCOR said last week that the company's operations in the city should be restored within days. The reinsurer transferred its data processing operations to a facility in Chicago.

Marsh & McLennan Cos. Inc. and its operating units that had offices in the trade center implemented disaster recovery plans immediately after the attack. The companies had approximately 1,700 employees at the center. As of Friday afternoon, Marsh had accounted for more than 1,400 of them.

Marsh set up a call center at its Midtown Manhattan headquarters, and on its Web site, the company instructed all its World Trade Center employees, whether working or on vacation, to call the number without delay. A toll-free phone line also was established to provide employees with up-to-date information about the company's plans.

Marsh instructed all employees of its Marsh North America unit who had worked in the trade center to remain at home. Those who worked for its William M. Mercer Inc. unit were instructed to report to another New York location. Employees of Guy Carpenter & Co. Inc. were told to continue to work at home, and that unit was expected to be back in operation today.

In a recorded message that also was posted on the company's Web site, Marsh Chairman Jeff Greenberg said that operations outside of Manhattan were "very little affected. ...For many years, we have had disaster recovery plans, and we are moving ahead with our backup systems and procedures."

Morgan Stanley Dean Witter & Co., one of the largest employers at the World Trade Center, acknowledged that "a number" of its 3,500 employees at the complex were unaccounted for. It is "clear that we have lost friends and colleagues," said Philip Purcell, the chairman of the investment bank, in a written statement.

Morgan Stanley established a telephone center to receive calls from anyone with information about employees who were working in or visiting the trade center at the time of the attack. Mr. Purcell said in his statement that the company "will resume full operations as exchanges and markets reopen."

A 22-year-old analyst who works for an investment banking firm that had its largest office in the vicinity of the trade center said he was on his way to work Tuesday morning and had stopped at a store across the street from the center just before the first airliner struck the North Tower, the area known as 1 World Trade Center. He and a colleague subsequently abandoned their plan to walk in a wide loop to their offices after they saw the explosion that resulted when a second airliner struck the South Tower.

"It was chaotic," he said. As people fled the burning buildings, bystanders—many of whom didn't realize they were in the midst of a terrorist attack—watched in a state of shock.

Disrupted telephone and e-mail connections initially made communication with his office impossible, but the analyst finally reached an administrative official at home Tuesday evening. The firm began holding twice-daily conference calls to communicate its recovery efforts which were hampered by the fact that structural damage prevented the company from gaining access to its offices.

Nevertheless, "it's amazing how everyone is willing to do whatever it takes," the analyst said. For example, executives who were on the West Coast when the disaster occurred traveled by bus to New York. Employees have offered to share their condominiums and apartments, for use as temporary worksites or residences for co-workers while the firm makes arrangements to re-establish operations in satellite offices in the Manhattan area or to temporarily relocate employees to regional offices.

Disaster planning and the timing of the attack probably saved many of the trade center's tenants from losing much of their data, an expert suggested.

Many of the center's tenants—which primarily were banks, insurers and other financial services companies—probably backed up their data on a regular basis, said Joseph A. Gerber, a co-chairman of the crisis management practice depart-

See **Response** *on page 2*

Attacks may cause largest insured loss ever

By RODD ZOLKOS

As emergency crews dealt with the aftermath of Tuesday's terrorist attack on the United States and as investigators worked to identify the perpetrators, the insurance industry began to contemplate the grisly event's ultimate financial cost—almost certainly its largest disaster ever.

Preliminary estimates of total losses varied, with several putting it in the $10 billion to $15 billion range. Others, however, suggested insured losses might ultimately exceed $20 billion.

With anticipated claims spanning various lines of coverage—and a toll that includes the loss of four jetliners along with all passengers and crew, the destruction of New York's World Trade Center and adjacent buildings, extensive business interruption losses, sizable workers compensation and life insurance claims—it seems increasingly likely that insured losses from the disaster will top Hurricane Andrew's record of around $18 billion.

The direct financial losses stemming from Tuesday's disasters "will, in all likelihood, exceed the largest insured losses ever yet seen," ratings agency Standard & Poor's Corp. said in its analysis of last week's tragedy.

Financial loss estimates seemed to grow with each day last week. And, with extensive damage becoming apparent at the buildings that surrounded the World Trade Center, such as the World Financial Center, "It's just looking more and more like all the buildings in that area might be a total loss," one industry analyst said.

"I'm hearing numbers north of $20 billion" in insured losses, the analyst said.

Business interruption losses are the most difficult to estimate. New York City officials have closed a large area of the city's financial district. In addition, there was extensive damage to nearby buildings housing companies such as Merrill Lynch & Co. and American Express Co. "That adds to the business interruption estimates that you originally came up with, and that's why you get these estimates growing the way they are," the analyst said.

The closed area of Manhattan is "a huge area where there's a lot of business activity, financial and otherwise, that's not going on," said Thomas Mallin, president of the Property Loss Research Bureau in Downers Grove, Ill. "It just keeps getting bigger as days go by."

The property loss "is going to be staggering, but the workers comp and business interruption are going to be unbelievable," predicted Jack McGrath, a senior vp with broker Hilb, Rogal & Hamilton Co. in Pittsburgh.

It was feared that another potential source of claims would be asbestos exposure from the huge clouds of dust and ash raised by the collapse of the two World Trade Center towers. The Port Authority of New York and New Jersey, which owns the World Trade Center, had conducted a massive asbestos abatement program, the cost of which it was ultimately unable to recoup from its property insurers.

Some asbestos remained within the Trade Center buildings, noted Jeffrey Weinstein, a lawyer with Mound, Cotton, Wollan & Greengrass in New York, which represented American International Group Inc. in litigation with the Port Authority.

But federal environmental officials who have been sampling air and dust at various locations said that although asbestos levels near the scene of the disaster were slightly elevated on Tuesday, the levels have dropped since and asbestos does not pose a danger.

The Port Authority is the named insured on the property policies covering the entire World Trade Center complex, with total limits of $3.2 billion, according to a source familiar with the program. This coverage is separate from any policies that may cover the interests of New York-based Silverstein Properties Inc. and Los Angeles-based Westfield America Inc., which hold long-term leases on the complex.

The Port Authority also has a business interruption insurance program with limits of $1.5 billion, the source familiar with the program confirmed.

Port Authority officials could not be reached for comment. A spokesman for London-based Willis Group Ltd., a broker for the Port Authority, said Willis would not discuss its clients or details of their programs.

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PHOTO: AFP

Firefighters and rescue personnel work at the base of the World Trade Center last week.

Exclusions uncertain

Aviation market facing huge claims

By DAVE LENCKUS

In the aftermath of the human carnage and property devastation that terrorists wreaked in New York, Washington and Pennsylvania, insurance executives worldwide last week huddled to assess the catastrophe's impact on the insurance market—a financial toll that earlier soft conditions in the commercial aviation market may exacerbate.

Commercial aviation insurance that is led in London typically bars coverage for the kind of terrorist acts that killed thousands and destroyed the World Trade Center in New York, say legal and market sources. But loss-plagued underwriters routinely have given back that coverage to airlines freely, sources said.

Even if commercial aviation insurers did impose war risk exclusions in the coverage they wrote for the two airlines whose jets were hijacked and used as deadly missiles, insurers likely would not be able to invoke the exclusions to limit their indemnification of the airlines' ultimate liability, attorneys said.

In the attack, terrorists hijacked four commercial jets and succeeded in crashing three of them into highly populated areas. An American Airlines jet slammed into the North Tower of the World Trade Center, and a United Airlines jet was crashed into the WTC's South Tower. Another American Airlines jet was crashed into the Pentagon. A second United jet went down in a western Pennsylvania field after passengers apparently mounted an attack against the hijackers.

All 266 passengers and crew members aboard the hijacked planes perished. Authorities fear that thousands may have died in New York and that 190 people in the Pentagon were killed.

The World Trade Center was valued at $3.2 billion. American carried about $250 million in hull coverage, according to an executive familiar with the airline's reinsurance program. Sources believe United carried similar limits. Paris-based reinsurer SCOR S.A. estimates that the hull value of the hijacked planes ranged from $20 million to $100 million each. SCOR says it did not participate in the coverage for either American or United.

Global Aerospace Underwriting Managers Ltd. of London confirmed it led American's coverage and participated significantly in United's program.

Some insurers last week issued press releases with estimates of the attack's potential financial impact on their companies (see story, this page). But, largely, executives for insurers as well

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Reinsurers see long-term effects

By PAUL D. WINSTON and GAVIN SOUTER

MONTE CARLO, Monaco—Leaders of the world's reinsurance community were gathered last week in Monte Carlo, Monaco, for the annual Rendez-Vous de Septembre when terrorists struck the World Trade Center.

News of the destruction traveled swiftly, and meetings were halted and canceled as people tried to gather information from one another and through contacts in the United States.

Conversations did not immediately focus on the tragedy's claims repercussions for the world reinsurance market but instead revolved around trying to determine whether friends, colleagues or family were affected by the World Trade Center destruction. Nowhere was this more acute than among representatives of companies based in the twin towers—including SCOR U.S. Corp., Guy Carpenter & Co., Aon Corp.'s New York offices and others—who spent the rest of the day and into the next trying to determine how many of their colleagues in New York were able to escape from the buildings before their collapse.

At the Rendez-Vous' traditional press conference last Wednesday, Jean-Philippe Thierry, president of the Rendez-Vous and a senior executive at Assurances Generales de France in Paris, dispensed with the usual question-and-answer session and made a statement expressing sympathy for the victims of the attacks.

The financial losses will involve tens of thousands of insurance policies, he said. "In all these cases, it will be necessary to untangle questions of responsibility and determine liability," Mr. Thierry said.

But the insurance and reinsurance markets will be able to bear the loss, he said.

"Our market possesses the will, the capacity and the experience necessary to face up to the calls for compensation that will be made on it," Mr. Thierry said.

Initial estimates by reinsurance executives in Monaco of total insured losses from the terrorist attack ranged widely from $15 billion to more than $20 billion. By comparison, the costliest insured event up to now was 1992's Hurricane Andrew, which caused around $18 billion in insured losses.

A statement issued late last week by Standard & Poor's Corp. said claims from the terrorist attacks "will in all likelihood exceed the largest insured losses ever yet seen." S&P said, however, that any estimate of the total amount would be speculation.

Among reinsurance executives in Monaco, there was greater consensus that the catastrophic loss from the attacks will accelerate, prolong and expand the degree of rate hardening in insurance and reinsurance markets. It also is likely to drive some underwriters into insolvency if their exposures are great enough or their reinsurance protection is inadequate.

Reinsurance sources expect those losses to be concentrated within the aviation insurance market, which alone may be unable to bear them. Not only will aviation insurers face claims for the loss of the planes and deaths of the passengers and crew, but they also may face enormous liability claims stemming from alleged

See **Reinsurers** *on page 2*

Liability exposures threaten

Employers urged to have policy on use of e-mail, Web

By SALLY ROBERTS

OTTAWA—In today's highly interactive world, employers need to implement computer-use policies that spell out exactly what does and does not constitute permissible Internet and e-mail use in the workplace, according to a labor attorney.

Because of the widespread use of the Internet and e-mail at work, employers are vulnerable to several exposures, including over defamation and copyright infringement suits, as well as employment practices liabilities, criminal mischief and hacker attacks, said Colleen Dunlop, a partner in the law firm of Emond Harnden L.L.P. in Ottawa.

Building Blocks OTTAWA 2001

Additional Canadian RIMS coverage on page 16

Employers also need to consider the theft of the company's time, Ms. Dunlop said. "A lot of employees use the computer for personal use. Surfing non-work-related sites not only results in employers losing out on an employee's maximum productivity but harassment situations can arise if the company's e-mail system is used inappropriately or an employee uses the Internet inappropriately," she said.

An employer must establish a comprehensive policy on employees' computer use to mitigate these exposures, she said.

During a session at the 26th annual conference of the Canadian Risk & Insurance Management Society Inc., held last week in Ottawa, Ms. Dunlop provided for attendees some suggestions about what to include in such policies and how employers should respond to potential violations.

Ms. Dunlop said that a policy should include an explanation of its purpose and should specify that the policy applies to all personnel. The policy should clearly indicate what uses of the Internet and e-mail are permissible; it also should provide language guidelines, rules that she termed "netiquette."

The policy should spell out what constitutes confidential information and should detail the company's e-mail monitoring practices, Ms. Dunlop said. "You all should be actively doing it," she said in regard to the monitoring of e-mail. "There is no case law (in Canada) that considers e-mail a private mode of communication."

The policy also should outline the company's security guidelines as they relate to computer use, Ms Dunlop said. In addition, the policy must state what sort of content employees may access online, she said.

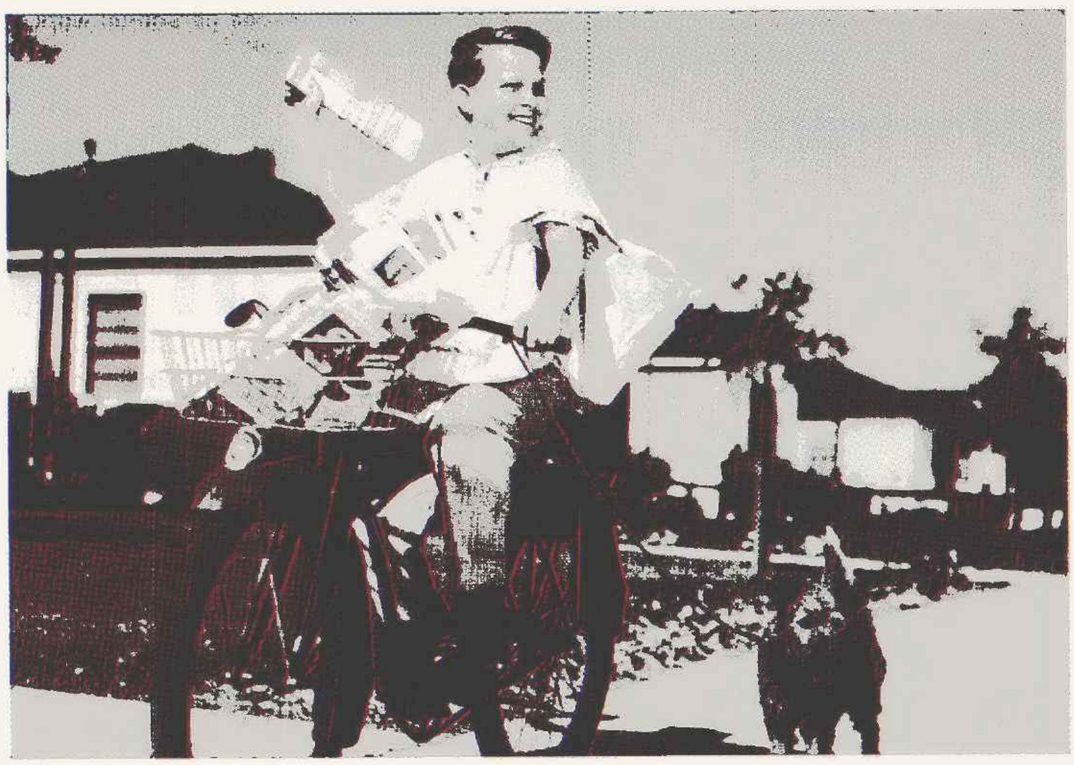
Finally, the policy should outline the disciplinary actions that would be taken if an employee violate the rules.

"In the last year, I know of 1(cases where an employee was terminated for abuse of the computer," Ms. Dunlop said, noting that in one case, the company's senior manager for information technology was accessing obscene materia on the Internet while at work "Don't assume people aren't going to do this," she said.

Ms. Dunlop said that an employe should require its employees to acknowledge its policy with their signatures, indicating they have re ceived, read and understood it. Employers also should remind staff tha

See **Policy** on page 1(

At one point, a flat tire was your biggest distribution hurdle.



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ERRORS & OMISSIONS

Due to editing errors, th Sept. 10 issue contained severa mistakes:

- Profiles of the five-larges U.S.-based insurance whole salers appeared in incorrect or der. Based on 2000 premiur volume, the five, in descendin order, are: Swett & Crawfor Group; Crump Insurance Ser vices Inc.; Stewart Smit Group; Cooney, Rikard & Curti Insurance Group; and Heat Holdings USA Inc.
- The Sept. 10 directory of in surance wholesalers misspelle the name of the contact perso for The Schinnerer Group. Mar L. Jefferson is vp-corporat marketing of the Chevy Chas Md.-based underwriting man ager.
- A story about an A.M. Be Co. report on the excess an surplus lines market incorrectl listed information about the re port's availability. Copies of th 60-page special report, as we as copies of the report plus spreadsheet file of the data, ca be ordered at *www bestweek.com*. The cost is $1(per copy for the report and $25 per copy for the combined re port and spreadsheet file fo BestWeek subscribers. Nonsub scribers can purchase the repo for $150 per copy, or the com bined report and spreadshe file for $400 per copy.

90
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What can we do to help you?

High copayments encourage enrollee thriftiness

New HMO plans hit higher-cost provider picks

By JERRY GEISEL

Two major health maintenance organizations are introducing innovative plans that will give enrollees powerful financial incentives to use lower-cost hospitals and other providers and cut premiums for employers.

Cypress, Calif.-based PacifiCare Health Systems Inc. will offer a kind of HMO network within a network. Under the plan, to be available next year, enrollees who choose to receive services in PacifiCare "select hospitals"—facilities that have agreed to provide services on favorable financial terms—will not be liable for copayments. PacifiCare will offer the Select Hospitals plan to employers in California, where the HMO has 1.7 million enrollees.

Under the new plan, those enrollees who opt to receive services in other hospitals in PacifiCare's network will be liable for daily copayments of $100, $250 or $400, depending on the cost-sharing arrangement employers choose. Premium savings for employers are expected to range between 4% and 16%, a PacifiCare spokeswoman said.

Under the new plan, enrollees who opt to receive services in some hospitals in PacifiCare's network will be liable for daily copayments of $100, $250 or $400.

In addition, Tufts Health Plan, a Waltham, Mass.-based HMO with about 900,000 enrollees, will begin marketing a plan in Massachusetts next year called the Choice Co-Pay plan. Under the plan, the inpatient admission charge paid by enrollees will be twice as much if they receive services from academic medical centers rather than from community hospitals. Depending on the level of cost-sharing, the percentage of savings with the new plan compared to those for Tufts' traditional HMO are expected to range from the low to high single digits, said Kevin Counihan, Tufts senior vp-sales and marketing.

Meanwhile, Aetna Inc., the nation's largest health insurer, last week unveiled a new plan that links a high-deductible preferred provider organization to employer-funded health care savings accounts. Hartford, Conn.-based Aetna is the first major insurer to offer such an arrangement. While Aetna is promoting its new nationwide plan for its flexibility, it says the arrangement also has a cost-savings potential (see story page 12).

These new offerings represent a significant break from the traditional marketing strategy of

See **HMOs** *on page 12*

So you think you know Aetna Group Life?

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Hate-crime claims renewal law signed

By ROBERTO CENICEROS

SACRAMENTO, Calif.—California Gov. Gray Davis has signed legislation prohibiting insurers from canceling or failing to renew policies issued to religious, educational or nonprofit organizations solely because the organizations filed claims stemming from hate crimes committed against them.

The legislation, Assembly Bill 1193, takes effect Jan. 1. It follows a spate of arson attacks in 1999 against Sacramento-area synagogues. Following those attacks, an insurer declined to renew a policy issued to one of the synagogues, according to the office of Assemblyman Darrell Steinberg, D-Sacramento.

As a result, Assemblyman Steinberg sponsored the measure, which prohibits the nonrenewal of a policy for five years after the filing of such a claim. The law applies to policies issued for property, liability and commercial risks.

The Sacramento-based Personal Insurance Federation of California offered its support for the measure this summer, after the federation won amendments limiting the scope of the legislation to religious and nonprofit organizations and to a five-year period.

In offering its support, though, the PIFC stressed that it is unaware of any insurance companies that do not renew policies based solely on the submission of policyholder claims related to hate crimes.

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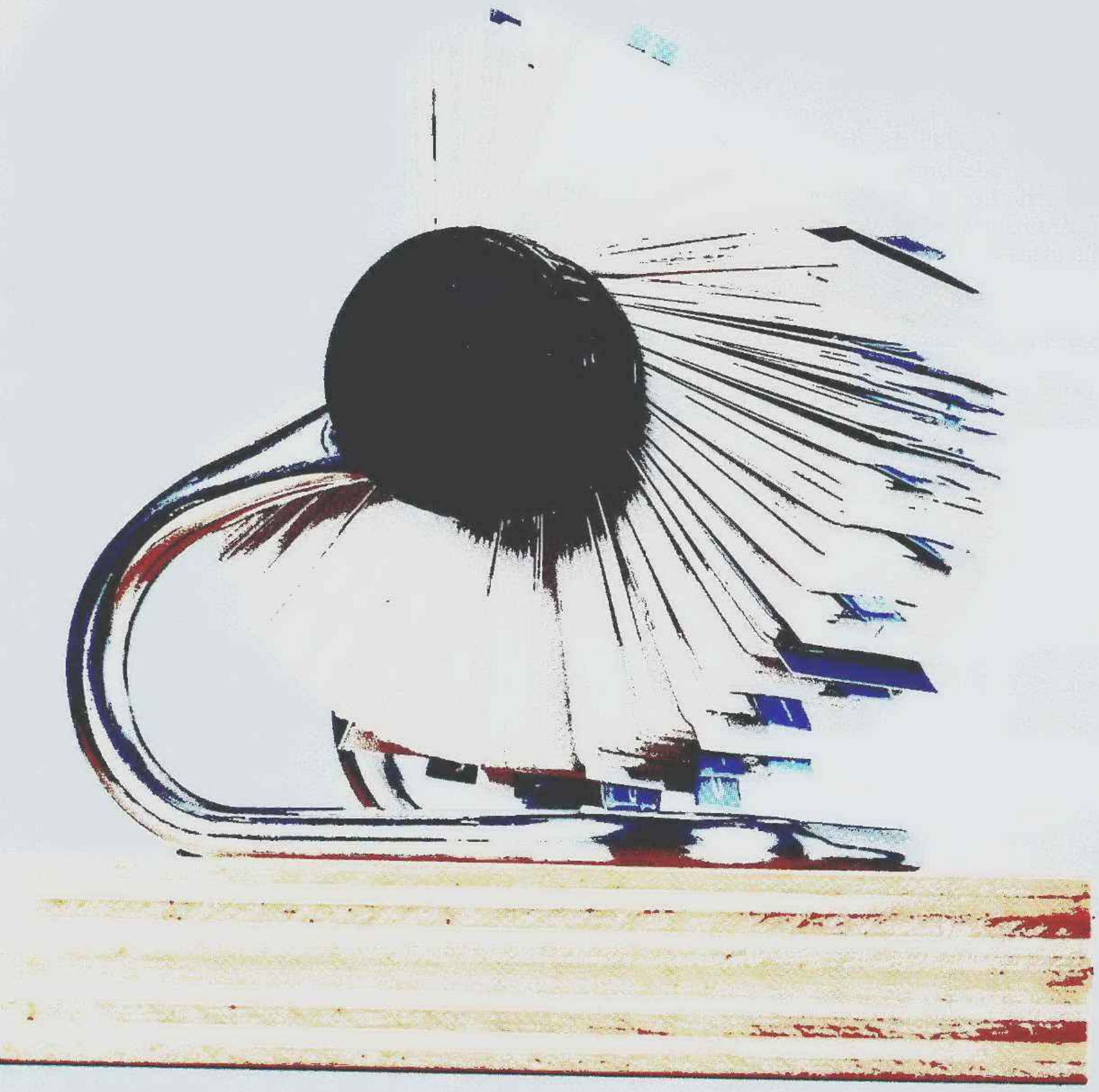

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OPINIONS

A time to mourn, protect

We are in mourning.

We mourn for the victims of the Sept. 11 terrorist attacks that killed and injured thousands of people in New York, Washington and Pennsylvania. We mourn for employers whose workplaces will never be the same. And we mourn for the people of the United States, for we have now been shown our vulnerability to acts of terrorism on a scale we never imagined.

World history is full of acts of terrorism, from assassinations to car bombings to letter bombs to hijackings to poison gas attacks. In the United States, acts such as the Oklahoma City bombing have made us familiar with terrorism and made us take new steps to avoid such risks. But few would have contemplated that in the world there were terrorists with the will and means to cause such a huge loss of life and such destruction in our largest city.

Sadly, we now not only realize such evil exists but also that we are not immune to it. Steps must be taken to restore public safety and security, as well as confidence in such protections. Those in risk management and the insurance industry will have a leadership role to play in this regard, but the biggest steps must be taken by our government.

The first line of defense against terrorism from abroad must come from the government, not only to patrol our borders but also to root out destructive elements in the world that threaten peace and safety. The government will also have to tighten airport and border security. These changes will mean inconveniences for travelers, but that seems a small price to pay for greater safety in an unsafe world.

The government may also have to create some sort of mechanism to indemnify private insurers for the billions of dollars in claims they bear from acts of terrorism. This is not only because of the effects of the Sept. 11 losses, but also because the private market for this coverage is now likely to disappear. The United Kingdom's system for terrorism insurance coverage, which resembles the U.S. National Flood Insurance Program, may serve as a model.

Businesses also will have to do more, and this is where risk management professionals must step up to show their organizations how it can be done and why resources must be allocated to these efforts. To protect their people and assets, businesses must improve their security procedures, ranging from building access to mail handling to hiring procedures. For many companies, security is lax or nonexistent. Terrorism, though, is just as likely to walk in a company's door, or slip through a mail slot, as fall from the sky.

Businesses also will need to give new attention to fire safety and emergency evacuation procedures. High-rise buildings clearly have vulnerabilities that are not present in other structures. Unless employers can demonstrate the safety of their buildings, though, many workers may deem them an unacceptable risk.

It should not be overlooked, though, that so many thousands of people did escape successfully from the World Trade Center towers before their collapse. This is a credit to the lessons learned after the 1993 bombing there and should offer hope and instruction to other building occupants and owners.

For businesses, the importance of offsite data backup should be evident. It is a lesson learned repeatedly in other disasters, but one that many companies still do not follow. It can make the difference between keeping a business operating after a disaster or shutting down for good after a catastrophe strikes.

Insurers and reinsurers will have a critical role to play after this disaster. In addition to swiftly paying claims arising from the tragedy, regardless of whether and when government remuneration is forthcoming, they will have to provide a stable and strong market for risk financing after this disaster.

Insurers also will need to strike a careful balance when pricing their coverage between raising rates to make up their losses and raising rates to take advantage of policyholders. Within a day of the disaster, some underwriters were shamefully looking at it as an opportunity to charge far higher rates and boost their profits. Responsible companies should be vigilant against profiteering, for it will hurt the entire industry's reputation.

It is too late to prevent the tragedy that occurred on Sept. 11, but there is much that can be done to protect the people of the United States and the world from suffering a similar catastrophe. Even as we mourn, the time to take those steps is now.

"WE WILL GO ON....TOGETHER!!!"

LETTERS

MDA defends role in disease research

To the editor: I want to thank you for your generally excellent commentary, "Labor to Do More for MD Cure," in the Aug. 27 issue of *Business Insurance* and offer a few observations about it that may be of value to you.

First of all, we certainly share both your obvious admiration for Joel Wood and your concern about his son James. In this regard, though, your article ascribes to Joel a shocking misstatement of fact that, if believed, could only prove injurious to James and thousands of other Duchenne muscular dystrophy patients. I'm referring to the grossly inaccurate assertion that "little funding has gone toward finding a cure for the disease."

While that may rightly characterize government-sponsored DMD research, denigrating by implication the huge private-sector effort mounted by MDA can only diminish support of the best hope James Wood and youngsters like him have. In fact, MDA has spent over $77 million on DMD research over the years,

See **Letters** *on page 12*

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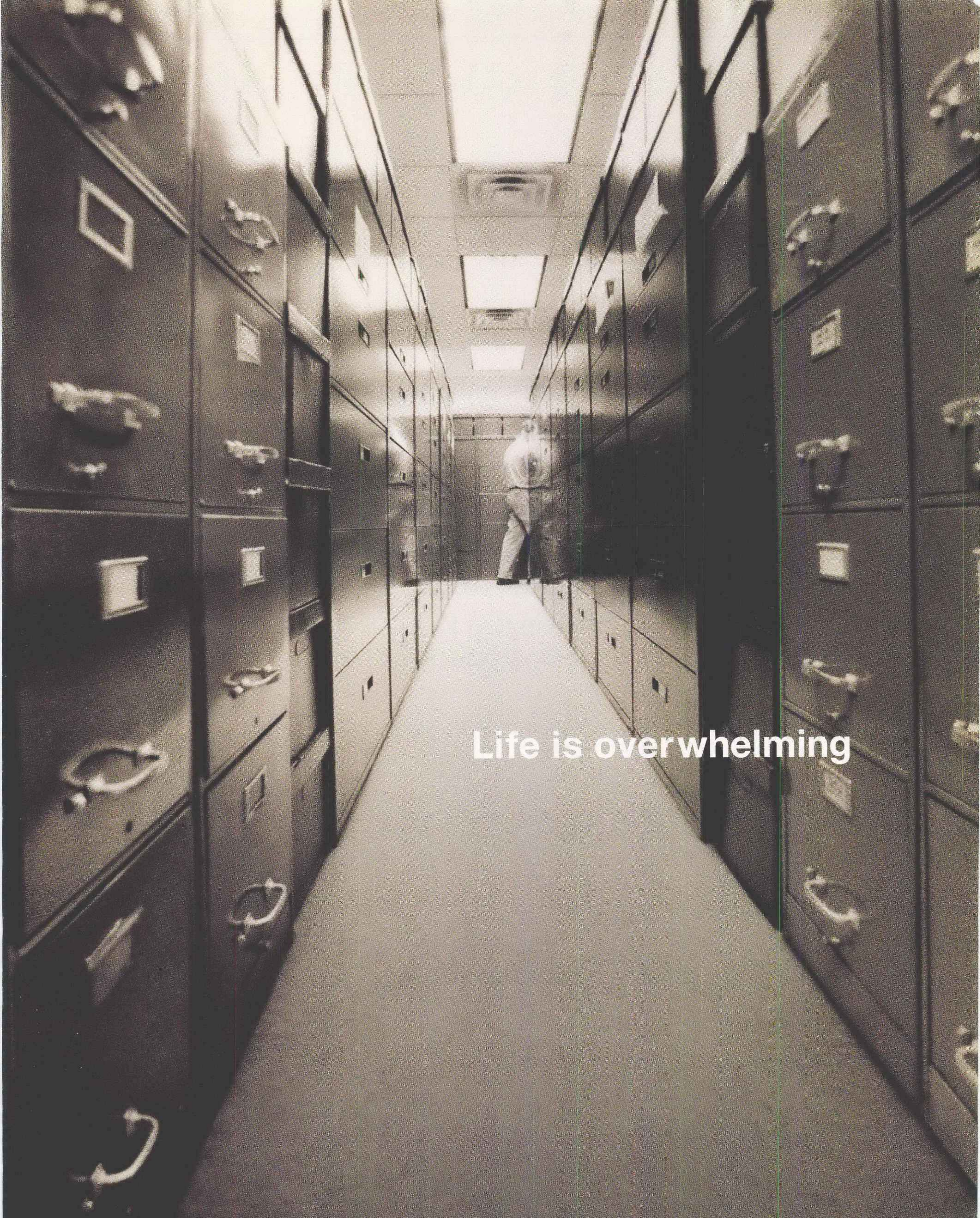

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LETTERS

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virtually having established the field and generated everything now known about the disease. That it is now possible to speak of a cure as a real possibility is principally a consequence of the efforts of MDA.

Hopefully, government support will now help translate the progress MDA has achieved into lifesaving results, but the present reality is that MDA maintains 95 DMD research projects worldwide, compared with 32 funded by the National Institutes of Health.

We're deeply grateful to Joel Wood for the key role he played in the organization of the recent advocacy effort that we pray will correct this imbalance, but that effort would have had to take place under any circumstances, for a very good reason.

Decades of MDA research—especially that which has taken place since MDA scientists discovered the Duchenne gene in 1986—have produced treatment possibilities whose development in clinical trials will be so expensive that only the resources of the government can bring them to fruition rapidly enough to benefit those now affected by DMD.

Robert Ross
President
Muscular Dystrophy Assn.
Tucson, Ariz.

Congress is not accountable

To the editor: I read with interest the Sept. 10 letter by Mark A. Tessier, "Kennedy Proposal Raises Questions," especially the last comment: "The real question...is by what enumerated power from the Constitution does Congress legislate such actions? Does anybody care anymore?"

Yes, Mark, we do care. But it doesn't do any good. Congress does what it wants in spite of a lack of justification for its action. Congress is not accountable to anyone. If you respond that Congress is accountable to the "voters," you are naive.

This is only one of the concerns that cries out for change in how Congress acts.

When are the people of this country going to make themselves heard?

Dorothy D. Dietman
Risk Manager
St. Cloud, Minn.

Plans will embrace catch-up rules

To the editor: Your article "401(k) Catch-up Rules a Setback for Many" indicates there are too many administrative problems concerning the new catch-up contributions added to the law by (the Economic Growth and Tax Relief Reconciliation Act) for such contributions to be viable.

The article implies that a legislative fix will be required, and it discusses one possible solution. Questioning the viability of catch-up contributions under current law and suggesting a legislative fix at this time seems to be sounding a false alarm. While it is true that there are administrative problems to be dealt with in regard to catch-up contributions, they can be worked through in a variety of ways. There are several alternatives available for solving the administrative problems raised in the article.

Possible approaches exist that would allow catch-up contributions to be made during the year, before nondiscrimination testing is done or deferral limits are reached. An employee who defers up to a specified limit for a payroll period could be allowed to make catch-up contributions for that period. Contributions could be made during the year but not characterized as catch-up contributions until the end of the year. Catch-up contributions could be treated as normal deferrals after the year in which they are contributed, so there would be no need to maintain historical records of catch-up contributions.

Potential administrative issues certainly exist with regard to catch-up contributions, including these proposed solutions. Allowing maximum contributions while maintaining administrative simplicity is a challenge but one that we look forward to working on with plan sponsors and government regulators. Whether the "prior year" approach described in the article or one of the approaches proposed above are used, catch-up contributions are a new form of retirement savings I expect many plan sponsors will embrace, despite having to make some administrative changes.

Kyle N. Brown
Director of Legislative Affairs
Watson Wyatt Worldwide
Research and Information Center
Washington

Iron out privacy issues

To the editor: All of this recent talk about (the Health Insurance Portability and Accountability Act) has really got me thinking that Uncle Sam is trying to pull a fast one on us. Politicians in Washington tell us that they are concerned about reforming health care and protecting our privacy. However, I think the government is adopting a "do as I say, (not) as I do" attitude.

When Medicare or Medicaid patients visit the hospital or have had health problems, the government knows. It knows because it collects "encounter data" for each visit to decide how much money it will reimburse the insurance companies for providing care to the patients. This data is then put into permanent records.

Under HIPAA, the government requires insurance companies to monitor their employees to see who accesses client medical information, when the information was looked at, and what was done with it. However, the government, which has access to all those millions of Medicare and Medicaid records, isn't required to follow the same rules with its encounter data.

I don't know about you, but I'm a bit concerned that the government has this huge stockpile of information with no mandated protection requirements. If the government can't protect the information in my IRS records, how can I ever trust them handling my health care information?

This brings up my second point. A couple of years ago, all hell broke loose on Capitol Hill over the government proposed national ID card. After an initial furor, the government backed down on the idea, saying that it needed to figure out an alternative to protect privacy. This has left health insurance companies in the lurch. While HIPAA regulations hinge upon a key identifier (the national ID), there isn't one to use.

The most logical thing to do would be to use Social Security numbers as a form of identification. But the government has said SSNs are only supposed to be used by the federal government for the Social Security program.

Am I missing something? We all know that your SSN is used by more than just the Social Security Administration. The government uses an SSN to identify most of its Medicare and Medicaid patients and income tax records. This means that every one of those encounter data records has a person's SSN on it. If those records fell into the wrong hands, someone would not only know your health information, they would also have a number that was key for most of your financial data and other important information—the ultimate dossier.

Privacy protection is very politically correct right now, and it is clear that the government is rushing to try to come up with a solution. The government has to stop writing requirements for HIPAA and iron out the fundamental issues before requiring insurers to meet all these rules.

I'm all for protecting privacy; let's just make sure that everyone has to follow the same rules. Doing anything less would be HIPAA-critical.

Brad Turley
President
Continuum Performance Systems
Madison, Conn.

Plan drives home true costs

By JERRY GEISEL

HARTFORD, Conn.—Aetna Inc. is launching a new health plan design that aims to give employees greater control over how their health care benefits are used.

The new plan, which is called Aetna HealthFund, links a preferred provider organization with an employer-funded health savings account that employees can use to pay for uncovered health expenses.

Under the plan, employers would offer a PPO with annual deductibles ranging from roughly $1,500 to $3,000. That is substantially higher than typical PPO arrangements, in which the deductible can be as little as $100 per year. Employers would have the option to provide first-dollar coverage for preventive services, such as annual physicals and mammograms.

The high-deductible plan would be combined with an employer-funded health savings account. It would be up to employers to decide how much they wanted to put in savings accounts, but Aetna expects that contributions would range from $500 to $1,000. Aetna will manage the savings accounts.

Savings account contributions would have to be used to pay for health care expenses and could not be taken as cash or used for other purposes. Unused contributions, though, could be rolled over and accumulated to pay for future health care expenses.

The plan, which will be offered on a self-funded basis, also will provide an online feature that will allow employees to track their health care expenditures and to access information about health issues.

Aetna officials describe the new plan as one that will give employees more choice on how to use health care services while also helping employers to control costs.

"Employees are interested in their ability to make their own decisions about health care and not be bound by what an employer offers," said Russ Fisher, senior vp-national accounts at Aetna Global Benefits, an Aetna division in Hartford, Conn.

For example, an employee could apply savings account balances toward expenses for medical services provided by non-PPO physicians.

Benefit experts say the health care account—linked to the high-deductible plan—could make employees more careful consumers of health care services.

"Employees have been insulated from the true cost of services. But if employees think of health accounts as funds to be managed to pay for health services, then they might use services more carefully," said Randy Abbott, a consultant in the Philadelphia office of Watson Wyatt Worldwide.

Mr. Abbott predicts that designs like the Aetna HealthFund that link high-deductible plans with employer-funded health accounts could surge in popularity if the Internal Revenue Service provides guidance on various tax issues associated with the plans.

"If you get some positive tax rulings, then you definitely will see some action," he said.

HMOs

Continued from page 3

HMOs, which has been to build networks of providers that are as broad as possible and to impose only small co-payment requirements from enrollees if they opt to receive services within those networks.

That strategy, benefit experts say, has resulted in little differentiation among HMOs. It has also led to very high costs, they say, because enrollees have lacked any financial incentive to choose lower-cost care options.

Plans such those being introduced by PacifiCare and Tufts are part of evolving efforts to bring enrollees "back into the equation" said Brad Kimler, a consultant in the Waltham, Mass., office of Hewitt Associates L.L.C.

"This is an attempt, an early one, to make consumers more aware of the cost differences between providers," Mr. Kimler said.

"The design is saying to employees that there will continue to be access to a broad network of providers, but there will be a cost associated with how you use that access," said Eileen Settineri, a director of Unifi Network's health care consulting practice in Teaneck, N.J. Unifi is a unit of PricewaterhouseCoopers L.L.P.

HMO executives and others describe the new designs as market-driven. "Employers want to save money and still give employees choice," said Tufts' Mr. Counihan.

"Employers are demanding that plans come up with new ways to keep costs at a minimum," said Mark Abate, a health care consultant with William M. Mercer Inc. in Boston.

If higher-cost providers were to lose volume as enrollees increasingly opted for lower-cost providers, the new designs could eventually give plans more leverage in negotiating rates with providers.

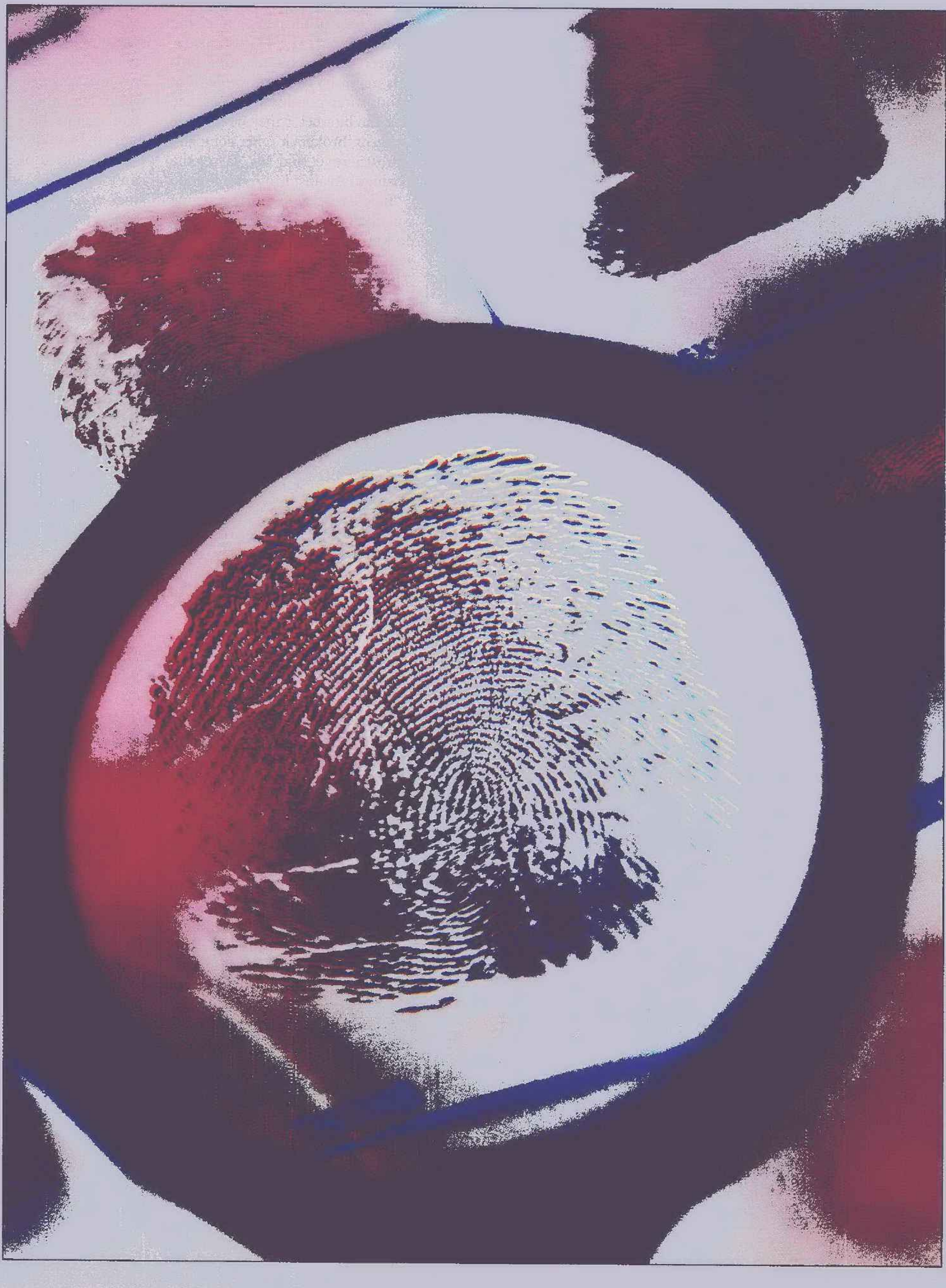
"There could be behavior modification from providers if they begin to lose business," said Hewitt's Mr. Kimler.

Experts concur that the new designs are only a first step as plans and their customers struggle to find ways to slow rapidly rising health care costs. Employers next year are bracing for premium increases that are predicted to range from 10% to 15%. That would make next year the third consecutive year of significant increases.

Insurer Topics

A special editorial section sent exclusively to insurers and reinsurers

Fighting Fraud



Inside:

Internet creates new avenues of fraud

By ROBERTO CENICEROS

As insurance purchasing on the Internet gains wider acceptance, insurers will need to expand their fraud deterrence efforts to fend off criminals buying coverage online in an attempt to file fake claims.

The fact that the Internet enables applicants and claimants to bypass agents or brokers in the insurance sales process will create potential fraud problems, fraud experts say.

To address this risk, some insurers already are placing more of a fraud-detection emphasis on the "front end" in their underwriting procedures.

That emphasis is a shift away from the traditional insurer practice of addressing fraud on the back end, when it shows up in claims, said Dennis Jay, executive director of the Coalition Against Insurance Fraud in Washington.

Insurers are taking such measures to deter criminals who might rely on the anonymity offered when purchasing insurance over the Internet. Once they have a policy obtained with fraudulent facts, they can attempt to file bogus claims, he explained

"Typically, there wasn't a lot of antifraud activity going on in underwriting," Mr. Jay said. "It was always 'Bring the money in, and then if they file claims, check them out.' That is changing, and I think that is a good trend. There is a little more emphasis before the policy is written and before the claim has a chance of getting filed."

Other types of computer-based insurance fraud also are expected to grow, including the creation of phony online insurance companies to bilk unwary consumers.

> *'It is easier to rip off someone you don't know than someone you do know, as far as justifying it in your mind.'*
>
> *— Dennis Jay*
> *Coalition Against Insurance Fraud*

Fraud experts view the Internet as a natural tool for criminals to try to tap insurer funds by simply applying for coverage with false information.

One way is for fraud artists to falsify first-party or third-party claims, assuming that some insurers might not call an adjuster to review claims below a certain dollar threshold.

Fraudsters can give their claims the appearance of legitimacy by obtaining copies of real police reports on someone else's loss to file in support of their claim, said John Eager, senior director of claims services for the National Assn. of Independent Insurers in Des Plaines, Ill. They can then bend fabricated details of their fake claims to match the incidents contained in the police reports, he said.

"It would be very easy for me to say I was involved in an accident (described in a police report) as a policyholder and then add a third party," Mr. Eager said.

Without an agent or broker to screen applicants, insurers that sell coverage online are more likely to end up with customers who have unscrupulous motives, said John D'Alusio, a senior vp for HNC Software Inc. in Sarasota, Fla. HNC creates software that analyzes claims to detect fraud.

"You look to your agent and broker to at least give you some idea of the veracity of the person applying for insurance," Mr. D'Alusio said.

Even people who are not criminals might be tempted to file false claims after purchasing insurance over the Internet if they never meet an agent, broker or other company representative, said Mr. Jay of the Coalition Against Insurance Fraud.

"It is easier to rip off someone you don't know than someone you do know, as far as justifying it in your mind," he said.

Just how much fraud occurs with online insurance sales is hard to determine.

With so few policies sold so far over the Internet, there is still little data on the incidence of fraud, said J. Joseph Cohen, director of the Insurance Fraud Investigative Division of the Kentucky Department of Insurance. So far, there are also very few prosecutions of people committing those types of crimes, he said.

"But it is just a matter of time," added Mr. Cohen, who is also president of the International Assn. of Insurance Fraud Agencies Inc. in Kansas City, Mo.

A 2000 report on insurance fraud prepared by Hartford, Conn.-based Conning & Co. found that it is difficult to determine just how much high-tech insurance crime occurs, because there is no organization that keeps accurate statistics of this activity online. There also are many disincentives for organizations to report their fraud losses, including publicizing that their systems can be exploited, the report notes.

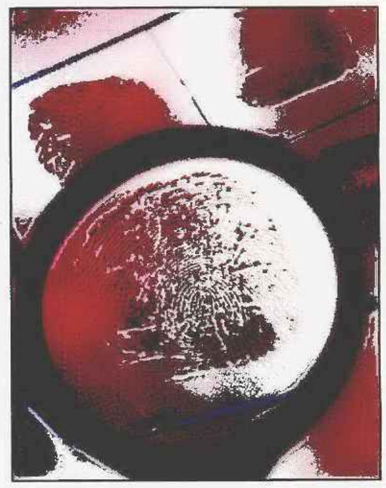
But expert fraud watchers can provide anecdotes illustrating how fraud artists perform their crimes.

"For example, we see cases where someone goes online and gets a policy and says they are from Ohio," Mr. Jay explained. "And then three weeks later there is a third-party claim against this policy for an accident in Brooklyn, N.Y., and the person who took out the policy can't be found. So the insurer is stuck for the claim. That type of thing is really easy to do."

Most online insurance fraud occurs on the personal lines side, with few fraud claims in the commercial lines arena, experts say. But that could change in the future as insurers seek to reduce expenses through such methods as directly depositing workers comp disability checks into an injured worker's checking account, Mr. D'Alusio said.

It now costs insurers about $18 to process and cut a single disability check, he said. As more insurers move to direct deposit, it becomes more likely that criminals will hack into databases with that information and then siphon off funds.

Meanwhile, criminals also are setting up their own insurance storefronts on the Internet to rob consumers who think they are purchasing coverage from a legitimate insurer.



Once detected by authorities, the operations quickly shut down and later start anew under a different name. They can set up a new Internet storefront as quickly as officials can close them down, Mr. Eager said.

Some criminal storefronts are set up just to obtain consumer information that allows them to file fraudulent claims against legitimate insurers.

Such storefronts can do so by telling consumers they will provide them with low-cost coverage. The criminal storefronts tell the consumer all that is needed is the consumer's current policy number, current insurance effective dates and other information, Mr. Eager explained.

"You would think no one is going to buy that," he said. "On the other hand, they are not asking for your Social Security number, they are not asking for your banking account, they are not asking for your credit card number. On the surface, it doesn't sound like a bad request." BI

Growing complexity of scams a challenge for investigators

By CURTIS M. WONG

Convictions for insurance fraud more than doubled from 1995 to 2000, but the growing sophistication of insurance fraud rings may be frustrating state fraud bureaus' efforts to eradicate the problem, a recent report says.

According to a study released in July by the Coalition Against Insurance Fraud, investigations conducted by the fraud bureaus of state insurance departments led to 2,123 convictions in 2000, up from 961 in 1995. The study, which examined data from the fraud bureaus of 41 states, also found that two-thirds of the bureaus had seen their budgets increase over that period.

"I think that the results speak for themselves in showing how fraud bureaus are becoming more sophisticated and serious when it comes to controlling fraud activity," said a spokesman for the Washington-based CAIF. He acknowledged, though, that it is not known whether the increase in arrests indicates improved investigative efforts or a steady increase in criminal activity.

"We still don't know whether the results are showing that fraud is reducing or whether it's just more prevalent as a whole," the spokesman said. "We still need to find out much fraud is lurking in the shadows—that's the unknown factor."

One big problem for investigators, particularly those at smaller bureaus, is that insurance fraud has become much more sophisticated, the CAIF spokesman said.

"No longer do you have these small, isolated cases of insurance fraud," he said. "It's carefully planned and organized, almost like a corporation. These rings have astute tactics for fooling insurance companies. They're crime entrepreneurs."

While health care fraud continues to be the most prevalent type of insurance fraud, the crime rings tend to focus on the physical injury aspect of automobile insurance fraud, the CAIF spokesman said.

See **Fraud** on page 12D

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Fraud

Continued from page 12B

Often, he said, fraudulent auto injury claims involve not only bogus injuries, but also phony auto salesmen, victims and physicians.

"Although it might not seem like much, automobile fraud can be a really easy way for these crime rings to scam insurance companies," he said. "There are so many different loopholes among the different laws, and the rings know that and like to take advantage of those openings. Furthermore, many insurance companies are overwhelmed with the volume and complexity of these fake claims, making them even harder to combat."

Without adequate funding, fraud bureaus will find it increasingly difficult to counter the growth of organized insurance scams, the report states. Adequate staffing may become a particular concern, the spokesman noted.

More than half of all fraud bureau staff members are employed in just three states—New Jersey, California and Florida—and many other bureaus may find themselves understaffed if they face an increase in fraud activity, the spokesman said. While the New Jersey and California bureaus each employ more than 200 staff members, many bureaus tend to operate with about 30 full-time employees, he said. In addition, some smaller bureaus operate with as few as three staff members, according to the spokesman.

"Despite all of the success, many bureaus may be struggling to stay ahead of the number of cases," he said. "Often, there's a backlog waiting to be investigated. In many ways, it's a cliffhanger—they know that they have cases, but they might not have sufficient time and employees to deal with them in a timely fashion."

Nevertheless, the spokesman said that increased training, improved technology, better coordination and experience—combined with adequate funding—should allow bureaus to increase the number of criminal convictions over the next five years.

"Really, you're seeing the results of some solid investigative work," the spokesman said. "I think these bureaus have successfully put the element of fear into the minds and hearts of criminals and would-be criminals. Obviously, there are still many scams that are committed, but it's no longer the cakewalk that these criminals have come to expect. They'll constantly be having to look over their shoulders."

The CAIF is an insurer-backed organization that was formed in 1993. The text of the study is available at the CAIF's Web site, *www.insurancefraud.org.* BI

Industry promoting background checks

By MEG FLETCHER

A new antifraud movement emphasizing efficient, in-depth background checks of agents and insurance executives is drawing support from most insurance regulators and industry representatives.

For example, the Council of Insurance Agents & Brokers is calling for the creation of a uniform criminal history review—including mandatory fingerprinting—as part of the resident producer licensing processes in all states.

Currently, fewer than 20 states require background checks on agent applicants and fewer than 10 include fingerprints as part of that process, the CIAB says. There also are "significant inconsistencies" among states that conduct such background checks, according to the Washington-based organization.

State insurance regulators who check the backgrounds of agent applicants—and who also may require background checks of insurance executives when changes occur in their companies—often may check only limited, state-based databases, unless they find something suspicious. In many states, they would have to report such suspicious information to state law enforcement officials before they could extend their inquiry to include the Federal Bureau of Investigation's fingerprint database, according to agent and regulatory sources.

"In addition to the fingerprint requirement, it is essential that states devise a single standard for reviews so that producers can rest assured license denial for criminal offenses will be judged on the same standard in all states," said CIAB Board Chairman Thomas Rodell. Mr. Rodell is managing director of Aon Risk Consultants in Chicago.

The CIAB board's new policy, which was adopted in May, "was designed to encourage the National Assn. of Insurance Commissioners to achieve two goals—to increase standards of professionalism in the industry and to harmonize regulation of the producer licensing process," according to a CIAB statement.

In general, those goals have received support among representatives of major agent and insurer trade organizations, as has the Financial Services Antifraud Network Act of 2001. That federal bill, now pending in Congress, would create a computerized network linking financial services regulators' existing antifraud databases; it also recommends oversight by a new antifraud subcommittee of the President's Working Group on Financial Markets (*BI*, April 16).

The bill "is an important advance, because it views financial services as one industry," according to a statement by House Financial Services Committee Chairman Michael G. Oxley, R-Ohio, a former FBI agent. "In the future, con artists will no longer be able to exploit the gaps that exist among the 50 states and among banking, securities and insurance regulators," Rep. Oxley said.

With the federal Gramm-Leach-Bliley Act lowering barriers among insurance, banking and securities businesses, it becomes increasingly easy for fraud artists who work in one segment to move to another and perpetrate fraud there, according to a spokesman for the Independent Insurance Agents of America in Alexandria, Va.

Currently, Martin Frankel—whom federal investigators have charged with swindling hundreds of millions of dollars from insurers he controlled after he was banned from the securities industry—is widely regarded as "the poster boy" for antifraud network legislation that won the approval of the House Financial Services Committee earlier this summer (*BI*, July 2).

While the goals of the bill—H.R. 1408—have always been popular, support for several of the measure's individual provisions has grown only through negotiations.

For example, the Kansas City, Mo.-based NAIC initially expressed strong reservations about several items, including limits on the access of state regulators to FBI fingerprint files.

But the NAIC is "fairly pleased" with the latest version of the measure, except for a provision that gives the General Accounting Office blanket audit authority over state insurance officials, programs and activities, said Marty Nevrla, an Arkansas insurance regulator who chairs the NAIC's Antifraud Task Force on behalf of Commissioner Mike Pickens.

The National Conference of State Legislatures also opposes that GAO provision, according to a resolution it approved at a meeting in August.

From the point of view of the National Assn. of Professional Insurance Agents, "terrific progress has been made," said Pat Borowski, division vp of the Alexandria, Va.-based trade association.

Ms. Borowski said the latest draft of the bill includes essentially all of the protections and requirements jointly recommended in March by a trio of agents groups—the PIA, the IIAA and the National Assn. of Insurance & Financial Advisors. She said, for example, that the bill would establish an acceptable balance, providing regulators with enhanced access to background information while protecting individuals' constitutional rights.

The Financial Services Coordinating Council, a coalition of five

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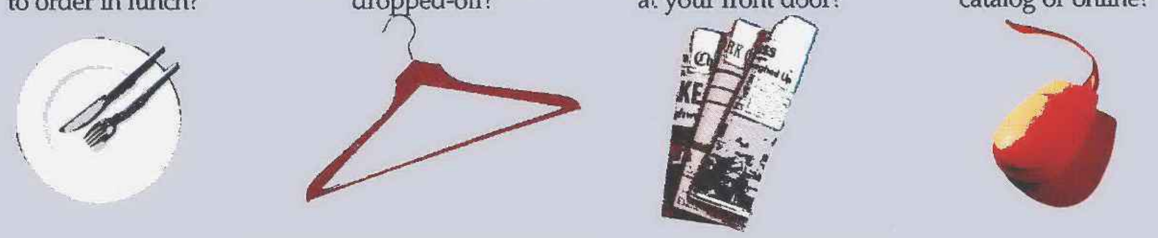

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Checks

Continued from previous page

major financial services trade associations, also praised the bill for its balance. The database information "is comprised largely of final enforcement actions and other antifraud information narrow enough in scope to provide adequate privacy protection while enhancing the ability of regulators to ferret out fraudulent activity," according to a coalition statement. Members of the FSCC include the American Bankers Assn., the American Council of Life Insurers, the American Insurance Assn., the Investment Company Institute and the Securities Industry Assn.

The proposal to link antifraud databases 'is an important advance, because it views financial services as one industry.'

— Rep. Michael Oxley
R-Ohio

Meanwhile, representatives of two other insurer trade groups still have some reservations.

The bill poses "a challenging problem," because of the number of people and agencies involved and the need to cooperate and coordinate activities, said Ann Spragens, senior vp and general counsel for the Alliance of American Insurers in Downers Grove, Ill. Ms. Spragens also voiced concern that the proposed plan may create liability problems if the information available through the network proves to be inaccurate.

Donald S. Cleasby, assistant general counsel of the National Assn. of Independent Insurers in Des Plaines, Ill., said his organization is concerned about several aspects of the bill, including the lack of insurer access to the information, lack of NAIC accountability, and the possibility that the bill may preempt state confidentiality rules. BI

High-tech tools aid insurers in fighting health care fraud

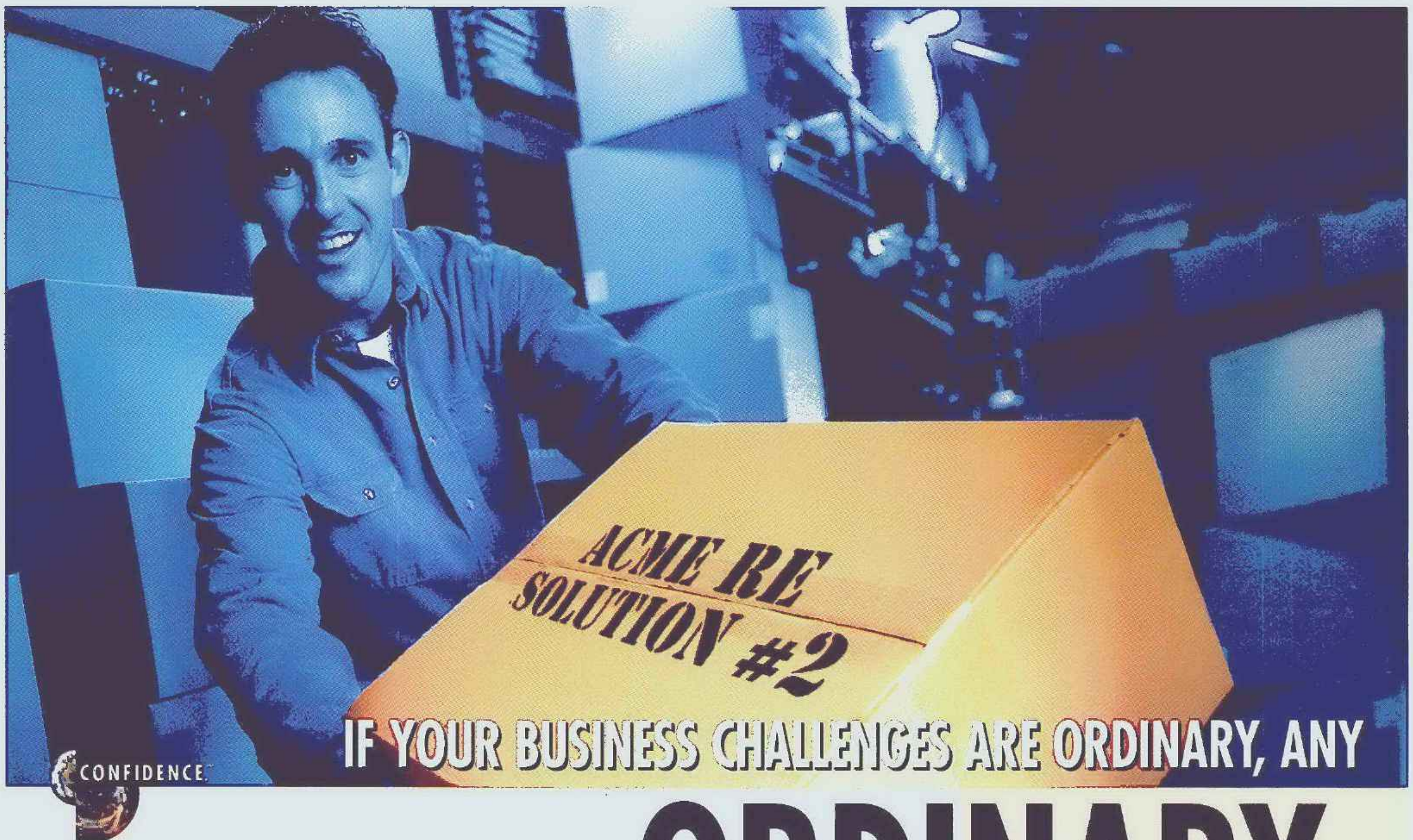
By MICHAEL PRINCE

In their ongoing fight against fraud, health care insurers are increasingly going high tech. In recent years, more health insurers have turned to software to help identify which health care providers are submitting suspicious bills. Using this software, health plans can narrow the field of providers to investigate, concentrating their resources and energies where they are most likely to catch fraudulent providers.

While no one knows the exact level of fraud that exists, estimates put the amount at between 3% to 5% of the $1.2 trillion annual health care tab in the United States, said Bill Mahon, executive director at the National Health Care Anti-Fraud Assn. in Washington.

Mr. Mahon said that although individual patients often commit fraud, the real problem stems from providers or those pretending to be providers. "If you really want to make it big with health care fraud,

See **Health** *on page 12G*



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Health

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you have to be a provider," he said.

Statistics compiled by the Blue Cross & Blue Shield Assn. in Washington show that 45 Blues plans in the United States had total recoveries and savings of $119.5 million from their antifraud efforts in 2000. The plans opened 11,291 cases of possible billing fraud and referred 866 of them to law enforcement authorities, said David Ignatius, national antifraud director at the association in Washington.

The most common type of fraud involves billing for services that were never provided, Mr. Mahon said. The next most common is "upcoding"—when providers submit bills for procedures that are more expensive than those that were actually performed.

More than 4 billion claims are filed every year, Mr. Mahon said. Even if just a tiny percentage of those claims are fraudulent, he noted, they can lead to the loss of lots of money.

"Even a small minority has the leverage to do tremendous damage to the health care system," Mr. Mahon said.

Only a computer can sift through the mountain of data to fight fraud, said Mary Anne Shoemake, a senior manager with Ernst & Young L.L.P. in Dallas. "It can't be done humanly. There is just too much data to go through," Ms. Shoemake said.

Claims administrators process hundreds of claims a day, "so they don't scrutinize every single bill as they did years ago, when all the claims were manual," said Adria Garneau, a senior consultant with NiiS/Apex Group Holdings Inc. in Salem, Mass. "There is absolutely no way that a human being can detect the problems" of incorrect or fraudulent billing, Ms. Garneau said.

Software developers have created a variety of systems to attack the problem. While they differ in their particulars, each is designed to make passes through the piles of data to identify those providers that merit a second look by trained investigators, Ms. Shoemake said.

"Any software that helps you make more intelligent decisions is worth its weight in gold," Mr. Mahon said.

One of the more popular systems is the Fraud and Abuse Management System developed by International Business Machines Corp.

Available since 1996, FAMS has been purchased by more than 40 health plans, said Tom Schamber, solutions executive at IBM in Southbury, Conn. The system, he said, is "designed to help improve the efficiency of investigation and auditing."

In order to use the software, a health plan must categorize the various care providers according to their specialties, grouping together, for example, all gynecologists or all radiology labs. The plan then divides those groups further, according to geographic areas, Mr. Schamber said.

For each resultant peer group, the health plan creates a model derived from that group's billing data. The model is based on an analysis of, typically, 30 to 35 billing features chosen by the health plan from a list of 1,452 provided by FAMS.

Examples of such billing features are the average charge per patient visit and the average number of bills submitted per office visit. Some of the features are general and can be used for every type of provider, while others are tailored to particular groups, Mr. Schamber explained.

FAMS can analyze the billing data in regard to one or more billing features. It can create a report that provides the group's median figure for the selected feature and then rank group members according to the degree to which they deviate from the median. For example, a report on office visit costs will identify the median cost for a visit and rank providers by the extent to which they are outlyers.

FAMS can also create an overall report that analyzes the data in regard to all the billing features that apply to a given group. The system then can assign each provider with a "suspicion index score." The higher the score assigned, Mr. Schamber said, the greater the likelihood that a provider has engaged in some billing fraud.

"It doesn't prove that fraud did or did not take place," he explained. Instead, the system directs investigators—who might previously have spent their time engaged in random audits—to the most fertile ground for probing, he said.

The system costs up to $500,000, but Mr. Schamber said that many insurers report that it pays for itself within a year of its purchase.

One health insurer that has been impressed with FAMS is Regence Blue Cross & Blue Shield of Oregon. Since it began installation of the system earlier this year, the health insurer has seen a big change in its antifraud measures, said John Taylor, manager of external audits and investigations for Regence in Portland, Ore.

FAMS has made the health insurer more assertive in its fight against fraud. Before adopting FAMS, Mr. Taylor said, "we really didn't have a proactive way" to look at possible fraud.

"Without some kind of data software that you can integrate with an existing data system and (that) has the ability to look for trends, the only way you can possibly fight fraud is to rely on tips" from plan members, he said.

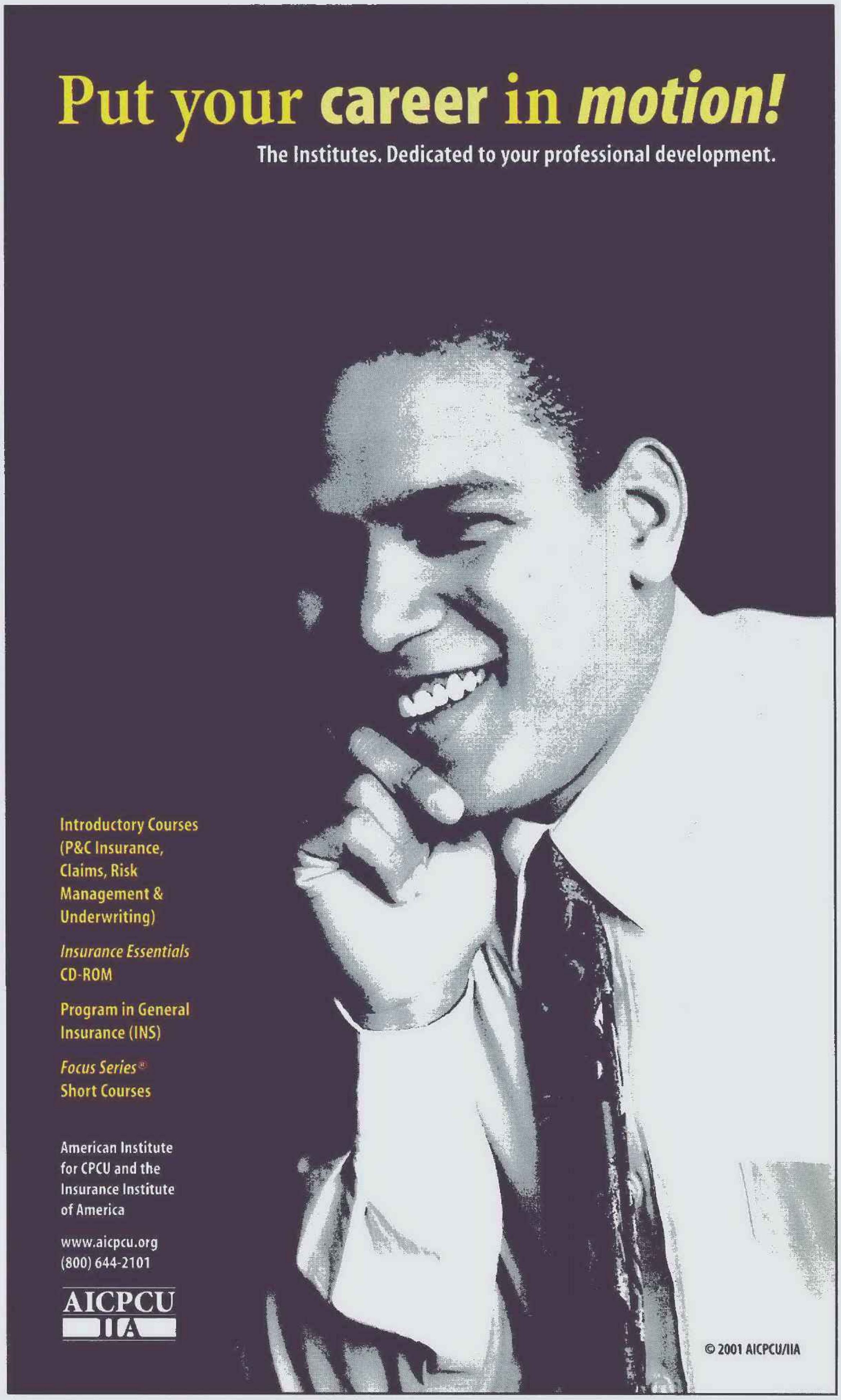
Using FAMS, which is in the final stages of installation, Regence has initiated three investigations. One case has been referred to federal authorities for a probe of possible Medicare fraud, while the health plan has recouped $8,000 from the provider involved. In addition, thousands of dollars in bills from that provider have been rejected, Mr. Taylor said.

Such developments have him predicting that FAMS will more than pay for itself within two years.

Mr. Taylor praised the system for its ability to spot potential problems faster than did the old method. "The more we use it, the more excited we become," he said.

Using their old computer system, it took Regence weeks to run a series of reports to detect any unusual billing patterns. With FAMS, the same reports can be completed in minutes, he said.

And Mr. Taylor noted that saving time affects the bottom line. "Anything you can do proactively saves you money," he said. BI



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ASPs can keep company technologically up to date

By Asif Ahmed

As with most enterprises, the insurance industry is always on the lookout for the latest technology and ways to apply it to improve business processes.

Those of us who've been around for a while can still remember the excitement of online green screens, the heart-stopping thrill of real-time processing. A personal computer on everyone's desk? That was hardly considered a remote possibility just 20 years ago.

We've come a long way in a short time. But the speed with which technology is introduced and adopted has left many feeling as though they are now among the technological have-nots, with little ability to keep up with the pace of change.

The necessary investment in technology and the skill to implement and maintain it have become overwhelming to all but those few insurers with significant financial resources to support the necessary infrastructure and staffing and to keep pace with rapid change.

But the rest of the group can take comfort in an increasingly popular alternative to traditional build-or-buy software options: the application service provider. An ASP is simply a third-party service that develops software for a certain task, hosts it remotely and provides access to users via the Internet for a fee.

Unlike innovations of the past, the use of an ASP enables an insurance company to take advantage of all of the capabilities of a technology without having to build or buy software, invest in infrastructure or assemble a support staff.

ASPs have been around for the past couple of years, but the industry is now starting to stand up and take notice. The predicted growth rate of ASPs is staggering, with Gartner Group, a Stamford, Conn.-based consulting company that specializes in computer-related concerns, estimating a $25.3 billion market by 2004.

Others are more conservative in their estimates. Framingham, Mass.-based information technology industry analyst IDC predicts a market of $7.8 billion, and Cloverdale, Calif.-based information technology market data provider InfoTech Trends estimates one of $9.1 billion in the same timeframe. Still, the rapid adoption of ASPs is virtually a certainty.

ASP benefits

While ASPs can offer many benefits, from rapid implementation to minimized capital investment in in-house systems and development efforts, the ASP world should be approached with a bit of caution.

Lessons learned from the Internet stampede of the last few years, quickly followed by the dotcom meltdown, left some skeptical with regard to the efficacy of Internet use. But for most, those vicissitudes reinforced the need to focus on the business problem.

Many of the early Internet failures consisted of putting the cart before the horse, putting forth a new technology in search of a use. It seems this lesson must be relearned every time a breakthrough technology is introduced to the business environment.

Many cost benefits to ASP users can be easily discerned, including the elimination of costly investments in hardware, software and technical skills. But perhaps the true value of an ASP is more elusive, found in improved business processes.

ASPs provide easy access to current technology, up-to-date information and ongoing software enhancements. Consequently, the insurer is freed to focus on delivering quality insurance programs, capturing new premium dollars, increasing retention rates, improving combined ratios and serving clients.

With ASPs, the insurer can focus on the business of insurance—as it should—rather than on the business of technology.

Suitable ASP applications

For the insurance industry, ASPs have now become a viable alternative to traditional build-or-buy options. Still, ASPs are not the answer for all application and technology needs.

Just like any other technology, ASPs are well suited for some applications and not so well suited for others. A few characteristics to look for when considering applications for ASP implementation include:

- Applications with a user community that is widely distributed rather than heavily centralized.
- Applications that include internal and external users.
- Applications that support business processes that are relatively consistent throughout the insurance industry rather than those that are unique to a specific insurer.
- A business process that is dynamic in nature, requiring continual application modification and enhancement.

Among the insurance applications that tend to lend themselves to ASP use are claims processing, litigation management and underwriting.

Selecting an ASP

Identifying the applications that are suitable for ASP use is one challenge; finding a suitable ASP is another.

Keeping in mind that an ASP is an outside organization that will be providing an ongoing service, it's important to select one that not only provides the function required but delivers quality service.

A collaborative work environment with effective communication between the insurer and ASP is key to a long-term and successful relationship. Although the ASP is external to the organization, it should be viewed as a virtual extension of the insurer's information technology and application support team.

Before embarking on the search for the right ASP, it is important to identify your business requirements. And when identifying those requirements, don't consider just the functionality you have today. After all, you're trying to use technology to continually improve the process.

Think about the optimal way you would like the business process to be carried out. There is no point in replicating only what you do today via an ASP. Instead, imagine the perfect process, then see how closely you can come to its implementation.

If an ASP lacks the vision and expertise to enhance your particular application, it isn't the right ASP for you.

Given that the Internet is the delivery medium for an ASP, it is only reasonable to expect the application to be available to users 24 hours a day, seven days a week. Support services should also be available around the clock, with easy access to both online and personal assistance. Many users are not technically savvy, and they often prefer the security of a human voice providing advice in real time.

And while the use of an ASP largely eliminates the need to develop, implement and maintain software and technology, the user community must still be trained. The success of the application depends upon its being accepted by users, who can then develop proficiency.

The ASP should offer comprehensive training as part of its service, using a variety of programs designed to instruct a diversified group of users. Ongoing training as new enhancements and new users are introduced should also be available.

Putting ASP concerns to rest

Some fear that outsourcing applications to an ASP compromises the control a company has over its organization and interferes with the role and strategy of its information technology group. But it is important to remember that not all applications are suitable for ASPs. When selecting appropriate applications, a key criterion is to choose business processes that are relatively consistent throughout the insurance industry, such as claims litigation management.

Unless the application is unique to the individual insurance organization, why should an IT group's limited resources be consumed with reinventing the wheel? Even if the application is developed in-house, can the insurer afford the information technology talent to maintain and enhance these applications?

In other words, the efforts of in-house information technology staff may be better focused on the few vital and unique core applications that truly differentiate an insurer's business and operation.

Another concern often raised when using an ASP is security. After all, critical client and product information may now be outside the walls of the organization. A qualified ASP will ensure that this concern is adequately addressed, with multiple levels of security from facility to network, data and application. When evaluating an ASP, therefore, it is critical to take inventory of its attention to security.

For example, if the ASP's application was first developed as a traditional software product to be purchased and installed on the insurer's in-house system, security measures were probably not addressed in the original software design. This might lead to skepticism about the ability to move the application to an ASP delivery with adequate security. An application developed specifically for ASP delivery will most likely have security measures incorporated into its software design and technology architecture.

Summary

ASPs are an attractive alternative to building or buying software, and the insurance industry will surely take advantage of this new service delivery channel. Nonetheless, the path to ASP success must follow traditional, time-tested rules.

These include carefully selecting appropriate applications and delineating business requirements, developing a good understanding of the costs and benefits of ASP use, conscientiously choosing a high-quality ASP, and proceeding with cautious optimism and good planning. BI

Asif Ahmed is president and chie operating officer of Visibillity, Chicago-based application servic provider focusing on litigatio management.

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OCT. 3-5. Globalization and Technology Special-Interest Seminar in Glasgow, Scotland, sponsored by Casualty Actuarial Society; £1,165 ($1,666). CAS, Emily Monacell, 1100 N. Glebe Road, Suite 600, Arlington, Va. 22201; 703-276-3100; fax: 703-276-3108.

OCT. 3-5. Self-Insurance Institute of America 21st National Conference and Exposition in Chicago; $675 for members, and $995 for nonmembers. 12241 Newport Ave., Suite 100, Santa Ana, Calif. 92705; 714-508-4920; fax: 714-508-4904; *www.siia.org.*

OCT. 5-10. 47th Annual Employee Benefits Conference in San Francisco, sponsored by International Foundation of Employee Benefits Plans; $870. IFEBP, 18700 W. Bluemound Road, P.O Box 69, Brookfield, Wis. 53008-0069; 262-786-6700; fax: 262-786-8670.

OCT. 6-10. Insurance Leadership Forum in White Sulphur Springs, W.Va., sponsored by the Council of Insurance Agents & Brokers/Council of Insurance Company Executives; $950. CIAB, 701 Pennsylvania Ave. N.W., Suite 750, Washington, D.C. 20004-2608; 202-783-4400.

OCT. 7-9. International Foundation of Employee Benefit Plans Annual Conference and Exhibition in San Francisco; $870. IFEBP, Stacey Van Alstyne, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 262-786-6700; *www.ifebp.org.*

OCT. 7-10. Federation of European Risk Management Assns. Risk Management Forum 2001 in Barcelona, Spain; $1,034 for risk managers, and $1,797 for others. FERMA, *www.ferma-asso.org.*

OCT. 15-19. Global Benefits Management Certification Course in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; five-day course is $1,499 for members, and $1,749 for nonmembers, and two-day course is $675 for members and $775 for nonmembers. IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; *www.ifebp.org.*

OCT. 21-23. CPCU Society Annual Meeting in Seattle; $495 for members, and $545 for nonmembers. CPCU Society, P.O. Box 3009, Malvern, Pa. 19355-0709; 800-932-2728; *www.cpcusociety.org.*

OCT. 21-24. Conference for Risk Retention Pools, in Key West, Fla., sponsored by Advanced Risk Management Techniques; $595. Wendy Wiens, 23701 Bircher Drive, Lake Forest, Calif. 92630; *www.armtech.com.*

OCT. 22-24. The Ninth Annual *Business Insurance* Workers Compensation and Disability Management Conference in San Diego, sponsored by *Business Insurance* and IBF-International Business Forum; $1,095 for service providers, and $795 for risk managers, benefit managers and safety managers. IBF, 100 Merrick Road, Suite 500, West Building, Rockville Centre, N.Y. 11570; 516-594-3000.

OCT. 25-26. Fourth Annual P/C Claims Congress in Orlando, Fla.; sponsored by Global Business Research Ltd.; $1,495. Conference Administrator, Global Business Research Ltd., 510 Sacramento St., Nevada City, Calif. 95959; 800-868-7188; *www.globalbusinessresearch.com.*

OCT. 27-30. Independent Insurance Agents of America Annual Conference in Honolulu; $399 for agents, and $545 for others. IIAA, 127 S. Peyton St., Alexandria, Va. 22314; 800-221-7917.

OCT. 29-NOV. 1. American Society for Healthcare Risk Management Annual Conference in Boston. $575 for members, and $730 for nonmembers. ASHRM, 1 N. Franklin St., Chicago, Ill. 60606; 312-422-3980; *www.ashrm.org.*

OCT. 29-NOV. 1. International Risk Management Institute Construction Risk Conference in New Orleans; $1,050. IRMI, Conference Coordinator, 12222 Merit Drive, Suite 1450, Dallas, Texas 75251-2276; 800-827-4242; fax: 972-371-5120; *www.irmi.com.*

NOVEMBER

NOV. 3-7. Health Insurance Assn. of America Annual Forum in Orlando, Fla.; $795 for members, and $945 for nonmembers. HIAA, 555 13th St. N.W., Washington, D.C. 20004; 202-824-1600; *www.hiaa.org.*

NOV. 4-7. National Assn. of Independent Insurers Annual Meeting in New Orleans; $500 for members, and $600 for nonmembers. NAII, 2600 River Road, Des Plaines, Ill. 60018-3286; 847-297-7800.

NOV. 7. Asset Management for Insurance Companies Seminar in Boston, sponsored by the Institute for International Research; $995. IIR, Sasha Burgansky, 708 Third Ave., New York, N.Y. 10017; 212-661-6041; fax: 212-661-6041.

NOV. 8-9. Additional Insured Endorsements Conference in Orlando, Fla., sponsored by the Institute for International Research; $1,595. IIR, Sasha Burgansky, 708 Third Ave., New York, N.Y. 10017; 212-661-3500; fax: 212-661-6041; *www.iirusa.com/additionalinsured.*

NOV. 11-14. Insurance Professionals Technology Conference in Dallas, sponsored by Insurance Services Office Inc.; $625. Nicola Freeman, 545 Washington Blvd., Jersey City, N.J. 07310-1686; 201-469-2443; fax: 201-469-4006.

NOV. 12-13. Corporate Benefits Conference in Tucson, Ariz., sponsored by International Foundation of Employee Benefit Plans and Council on Employee Benefits; $540 for IFEBP/CEB members, and $640 for nonmembers. 888-334-3327.

NOV. 12-14. 11th Annual World Captive and Alternative Risk Financing Forum in Palm Beach Gardens, Fla., produced by *Business Insurance*, Skandia/SINSER and Tillinghast-Towers Perrin; $975 for risk managers, and $1,250 for others. Tina Gassman, 4248 Park Glen Road, Minneapolis, Minn. 55416; 800-845-0778.

NOV. 14-16. Professional Liability Underwriting Society Conference in Chicago; cost varies by date of registration: $650 to $775 for members, and $860 to $985 for nonmembers. PLUS Conference, 4248 Park Glen Road, Minneapolis, Minn. 55416; 800-845-0778.

NOV. 19-22. Assn. of Risk & Insurance Managers of Australasia Conference in Sydney, Australia; before Oct. 18, cost is $950 Australian ($483) for members, and $1,200 Australian ($610) for nonmembers; after Oct. 18, cost is $1,020 Australian for members and $1,270 Australian for nonmembers. Intermedia Convention & Event Management, P.O. Box 1280, Milton, Queensland, 4064 Australia; 61-7-3369-0477; fax: 61-7-3369-1512; *www.arima.com.au.*

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The Datebook is compiled from notices sent to Business Insurance. Notices for meetings should be sent at least eight weeks in advance to Datebook, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Please include the cost, if any, to attend the meeting and information on registration for interested readers. Business Insurance reserves the right to select those meetings of greatest interest to its readers and cannot guarantee that notices will be printed. Datebook listings also are available at www.businessinsurance.com.

The employees of Arthur J. Gallagher & Co. would like to express our deepest sympathy to our colleagues, clients, friends, competitors and business associates who have been impacted by the horrific events that took place on September 11th. Our thoughts and prayers are with you now and in the days to come.

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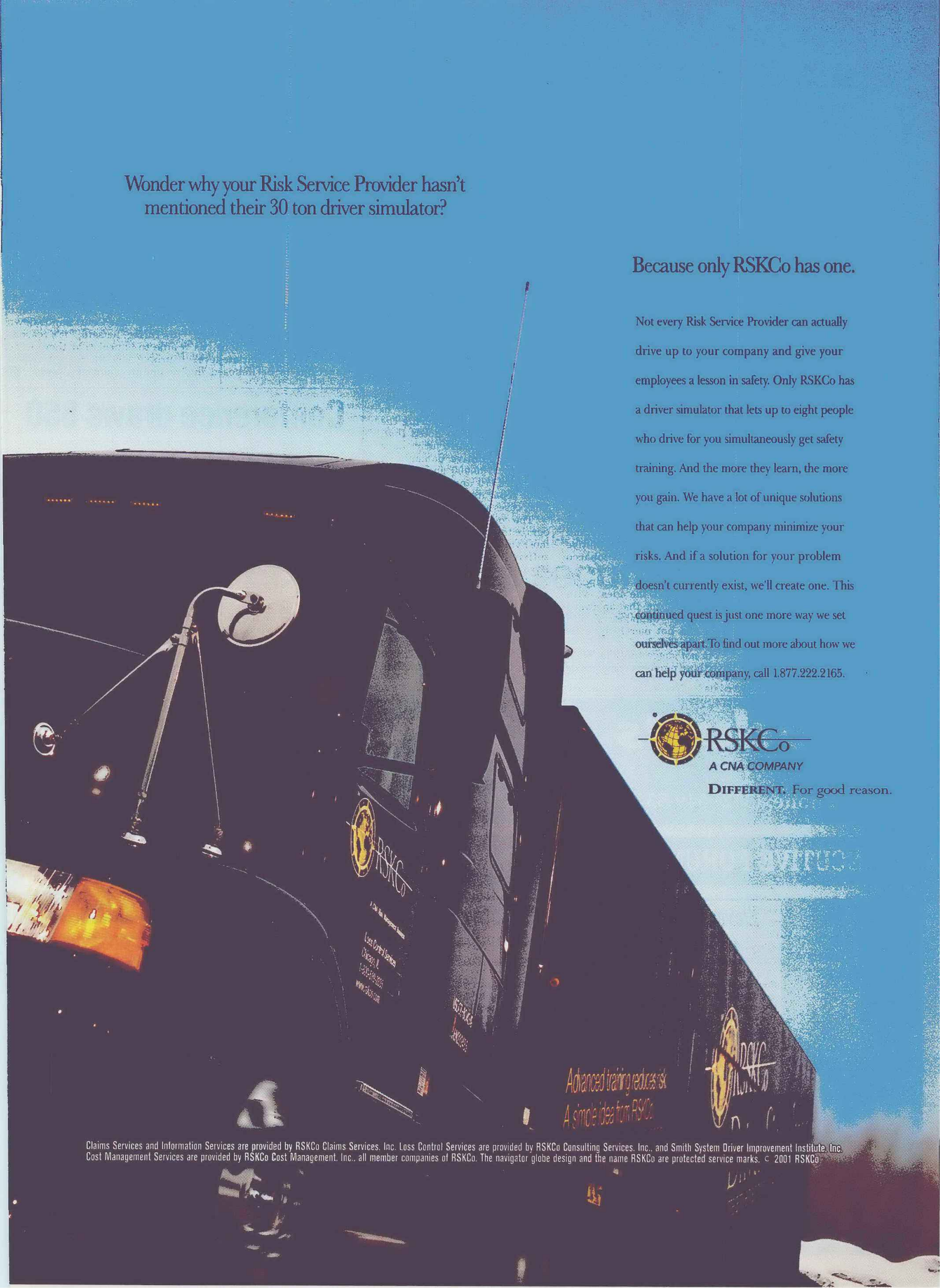
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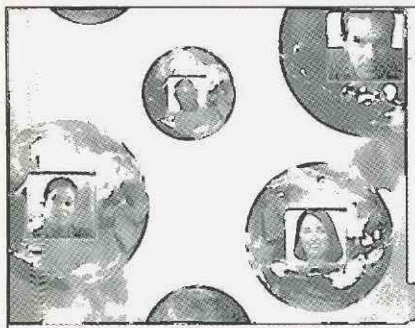

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Interested candidates should furnish a resume and cover letter by September 30, 2001, to Sara Begley, Deputy Director, Arizona Department of Insurance, 2910 N. 44th St., #210, Phoenix, AZ 85018. Contact Ethel Rozelle, the Department's Human Resources Specialist by e-mail (**erozelle@id.state.az.us**), by fax (602-912-8403) or by phone (602-912-8405) with any questions concerning this opportunity.

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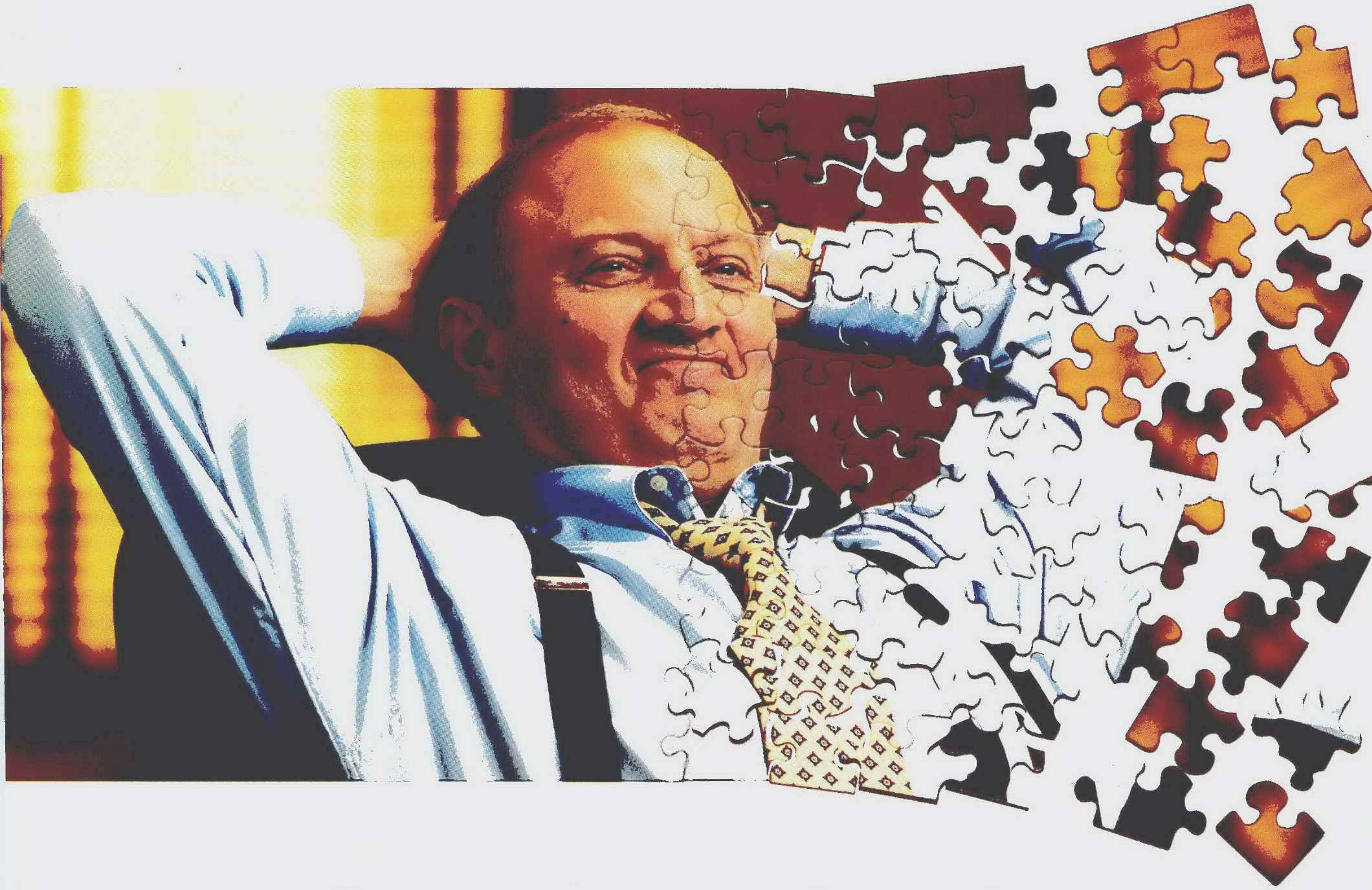

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MARSH

To all those touched by the events of Tuesday, September 11:

Many of our colleagues working in the World Trade Center were able to escape. Tragically, however, there were many who did not. Today, we know that we suffered a great loss.

Hundreds of our most valued colleagues will never return due to a devastating act of terrorism.

But they were more than colleagues. They were dearly loved fathers and mothers, sons and daughters, friends and patriots.

We share our deepest and most profound sorrow for every member of their families. Our hearts, thoughts and prayers go out to them. Their loss is our loss.

Ours is a business of people. On that awful day, we suffered a devastating human toll that our company will never forget.

To help, we are offering counseling and support to all our colleagues and their families.

As we move forward in the coming days our company will recover. We are operational worldwide. Despite the situation in lower Manhattan, none of our essential business functions has been irrevocably injured. We have tremendously capable people from all parts of our company providing ingenuity and professionalism for all of our clients. Every single one of those clients have had, and will continue to have, our devotion and commitment to excellence.

Life can never go on exactly as it was before. But we shall carry on. We are up to the challenge. That is the essence of our company.

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COMMENTARY

Tragedy of today taints tomorrow's joy

Last Tuesday morning, I was putting the finishing touches on what I had intended to be my commentary this week; its topic was the announcement of my retirement at the end of the year and a celebration of 25 eventful years at *Business Insurance*.

I can't share with you the joy of that column this week, in the wake of the horror and tragedy that terrorists have inflicted upon the United States and on all of us.

As I write this, after watching television news reports for most of my waking hours for the last two days, I know that this column must acknowledge the brutal pain that we all are bearing and the fear we have for the thousands who are still missing. Among the thousands of individuals who worked in the World Trade Center, a disproportionate number are in the insurance and reinsurance business, and their companies had occupied much of the office space in the two towers.

I am deeply concerned for the mental well-being of those who miraculously lived through this horror. My heart breaks for the families and friends of those who are still missing. And I fear for the confirmation yet to come of the deaths of many who were killed in the terrorist attack and the collapse of the towers.

I have wanted to turn the television off since Tuesday morning, but I can't. I feel just as I did on Nov. 22, 1963, when I was an 11-year-old sixth-grader. I could not turn away from the television after school on the day President Kennedy was assassinated. I am feeling the same sick sense of disbelief that I felt then. This could not be happening, I thought, not in my country.


Kathryn J. McIntyre

The World Trade Center towers can't be gone, I keep thinking now. I can see in my mind's eye the offices of the friends I have visited there. Just recently, hundreds of us in the business were at Windows on the World, the restaurant that was located on the 107th floor of the north tower, celebrating the achievements of two wonderful women in the insurance and reinsurance business. The APIW also had chosen Windows on the World for its 25th anniversary celebration, to be held Nov. 14.

Coming to grips with this horrible reality is especially difficult for me because I am safely vacationing on the island of Nantucket. If I could turn off the television and stop reading the newspapers, the only reminder of this horror I would have would be the flags flying at half-staff everywhere.

But turning off the news won't erase from my mind what I was doing and whom I was talking to Tuesday morning, before our lives were forever shattered by terrorists.

I was hitting the save key on my nearly completed column when a friend working on Wall Street telephoned at 8:45 a.m. Before getting to the business at hand, she chatted, telling me it was a perfect morning in New York. Suddenly she interrupted herself in midsentence. "I have to go," she said. "Something has happened."

Just then my husband called out that there was a breaking news story coming from the World Trade Center. I dashed to the television to see flames pouring out of 1 World Trade. A few minutes later, my friend called back to apologize for hanging up on me; she explained that an individual in her office had seen a plane crash into the World Trade Center. I told her that I had the television on, and she excused herself to greet her 9 a.m. appointment, assuring me that she was safe.

I can't remember what my husband and I said to one another in those first few minutes as we tried to understand what was unfolding on television. When we saw the second plane hit 2 World Trade, we realized that we were witnessing a terrorist attack.

Minutes later, I got a call from another friend in the business. She prefaced the reason for her call by saying that her news was nothing as tragic as the attack on the World Trade Center. "I'm going in to be operated on for breast cancer on Friday," she said. A survivor of breast cancer surgery nine years ago, my friend said she was more concerned for the safety of those in the World Trade Center towers than for herself. No one had yet thought that the towers would collapse.

As long as you and I live, we will ask and answer friends: "Where were you when terrorists attacked the World Trade Center and the Pentagon?" It will eclipse the question that anyone old enough to understand the tragedy of Nov. 22, 1963, has asked and been asked since that terrible day: "Where were you when President Kennedy was shot?"

I will never forget that on Sept. 11, 2001, I was on Nantucket on a beautiful sunny morning, cheerfully writing a column celebrating my pending retirement when unimaginable terrorist attacks struck our country. Now, to the extent that I can even begin to contemplate living a more relaxed life in the years to come, I grieve for all of those killed last Tuesday who will never know those joys.

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

Response

Continued from page 2

ment of the Philadelphia-based law firm of Cozen O'Connor. The firm has a number of clients that were tenants in the trade center.

"Prior catastrophe losses have forced people to develop backup systems. Most are backing up daily," rather than weekly, as was the practice at some companies in past years, Mr. Gerber pointed out. "Assuming they were backing up daily, and given that the loss occurred at 8:45 a.m., they may not have any loss of data," he said.

The Securities Valuation Office of the National Assn. of Insurance Commissioners managed to obtain backup databases from the NAIC's Kansas City, Mo., headquarters. The SVO's office was destroyed in the collapse of the area known as 7 World Trade Center, though none of its 44 employees was injured. The SVO plans to resume operations, using temporary offices in Midtown Manhattan and Kansas City.

Some companies based in the trade center struggled not only to find their workers but also to restore the critical services the companies provided.

Nearly all of the 448 Verizon Communications employees who worked in the World Trade Center and the 40 who worked at the Pentagon had been accounted for as of late last week. As it tracked its workers, the company also began the work of restoring telephone service to about 200,000 lines; the lines had been routed through a Verizon facility adjacent to the collapsed 7 World Trade Center building.

The area of the attack is "the most telecommunications-intensive area of the world," said Larry Babbio, vice chairman and president of Verizon, in a news conference last Wednesday. Verizon has 19 offices serving 2 million telephone lines in the area.

Mr. Babbio said Verizon was the primary supplier of service to the "entire World Trade Center area." The Verizon office, he said, is "probably one of few still standing, although it is badly damaged." Falling steel from the nearby collapsing buildings damaged the Verizon office, and water poured into the basement and lower floors.

Water, dirt and grit knocked out service and covered electronic equipment. While generators are being used to provide temporary power to the facility, restoring telephone service "could be a very long process," Mr. Babbio said. Another of Verizon's Manhattan facilities provides telephone service to the New York Stock Exchange, and "we're trying to get them back as quickly as possible," he said.

Verizon's lines into the Pentagon continued to function after the attack there, Mr. Babbio said. "Our switching equipment is still operating," he said.

Marriott International Inc.'s New York Marriott World Trade Center Hotel "was destroyed after the collapse of the World Trade Center Towers," said Brad Wood, vp-risk management for the hotel company in Bethesda, Md. The Marriott Financial Center Hotel also sustained damage, he said.

"We believe, at this time, that all of the guests were evacuated" from the hotels, Mr. Wood said late last week. "But we've been unable to confirm that." Two employees at the World Trade Center hotel remained unaccounted for.

He said Marriott's crisis response team mobilized, first working with authorities to locate guests and employees. An assistance center was set up to aid guests and employees. Guests were offered accommodations at other New York-area Marriott hotels.

The approach by Marriott and Verizon is the route employers are encouraged to take in a crisis, Mr. Gerber said. The first thing companies must do, he said, is "take care of the human needs," by making sure workers have adequate medical care and counseling. Then, he said, the needs of clients and customers can be addressed.

That is exactly what appears to be happening among businesses that had been based at the World Trade Center, Mr. Gerber said. "In large measure, what is happening today in New York City mirrors what should happen and what is expected to happen."

Elliott R. Feldman, co-chairman of Cozen O'Connor's crisis management practice department, pointed out that companies that have carefully worked on crisis management planning will have the least difficulty recovering from the tragedy. "If there is no preplanning, then you just have a lot of chaos," he said.

Mr. Gerber said "planning generically is the answer," instead of depending on plans put in place for Year 2000 contingencies or those that were used when the trade center was bombed in 1993. "The true test of a crisis preparedness system is how fresh it is. …The companies that survive this will be the ones who have kept their plans crisp and fresh," he said, while those that may not have updated their plans since the bombing eight years ago likely will have more problems recovering.

Mr. Feldman said the way the trade center was evacuated during last week's attack indicated that tenants had been working on crisis preparedness. "During the '93 bombing, there were many reports that it took four to five hours" for some occupants to get out of the buildings, he noted. Last week, he said, "there were reports of people exiting from the higher floors in an hour to an hour and 15 minutes."

Mr. Gerber said he expects the catastrophe will cause others to rethink their disaster planning. "Sadly, we will see a renewed interest in crisis preparedness and crisis response. People who thought they were safe will take this seriously. One of the lessons here is, you're not safe anywhere."

Meg Fletcher contributed to this report.

Victims

Continued from page 2

ness in 2000, which safely evacuated all 231 of its employees from offices on the 35th floor of 2 World Trade. Frenkel said it has implemented a disaster recovery plan, moving employees to other office space in Manhattan, New Jersey and Long Island while it searches for new permanent office space in New York.

- Kemper Insurance Cos. of Long Grove, Ill., which had 225 workers on the 35th and 36th floors of 1 World Trade Center. All have been accounted for and will move to Kemper offices in Long Island and New Jersey, a Kemper spokesman said.
- SCOR U.S. Corp., which had 120 employees on the 23rd and 24th floors of 2 World Trade Center. All were evacuated safely, the company said. SCOR will move its workers to another downtown Manhattan location and has transferred its electronic data processing functions to a Chicago location.
- Metropolitan Life Insurance Co., which had 52 employees in a sales office on the 89th floor of 1 World Trade Center. All but two of these were confirmed safe as of last Thursday afternoon.

Along with World Trade Center tenants, several insurers and industry-affiliated entities in the area were affected by the disaster.

St. Paul Re, with about 250 New York employees, has an office about a block from the complex from which all employees were evacuated safely, a spokesman said. About 40 employees will work from a St. Paul office in Morristown, N.J., and the others will work from home until other arrangements can be made.

St. Paul also had 17 legal employees in a separate lower Manhattan office, but "the main partner took everybody, and they walked across the Brooklyn Bridge to his grandmother's house, where they could make calls," the spokesman said.

The lower Manhattan campus of the St. John's University School of Risk Management, formerly The College of Insurance, is only blocks from the World Trade Center and was evacuated Tuesday before the first trade center tower collapsed. The school's building sustained some damage, but the extent will not be known until the building can be examined after city authorities allow non-emergency personnel back into lower Manhattan, a university spokesman said.

While no one who was in the school's building at the time of the attack was hurt, many of the school's students work for companies with offices in the World Trade Center towers and some were still unaccounted for last week, the spokesman said.

Until it moved to Jersey City, N.J., earlier this year, the Insurance Services Office Inc. had its headquarters at 7 World Trade Center, a 47-story office building that caught fire in the initial attack and collapsed several hours later. ISO's Property Claim Services division assigned catastrophe No. 48 to the Sept. 11 attacks in New York and at the Pentagon.

Still at 7 World Trade Center at the time of the attack were the National Assn. of Insurance Commissioners' Securities Valuation Office as well as a local office of the U.S. Securities and Exchange Commission that included enforcement division staff. All occupants of 7 World Trade Center were evacuated safely.

Michael Prince and Rodd Zolkos contributed to this report.

Reinsurers

Continued from page 3

lapses in security that permitted the hijackings. Aviation insurers could face claims from many other insurers exposed to losses from these attacks.

Aviation insurers could face huge losses over the disasters (see story, page 3).

The American Airlines planes that were destroyed each carried about $250 million in hull coverage, and $1.5 billion in liability limits, according to an executive familiar with the airline's reinsurance program. The two United Airlines jets that were hijacked and crashed were covered for similar amounts. Both airlines' insurance programs were placed with multiple underwriters in the global insurance and reinsurance markets.

One executive described the reinsurance programs for London aviation insurers as "shaky," because they depend on weakened retrocessional capacity that spirals through the market. The aviation retrocessional market is similar to, though not as pervasive as, the London market excess, or LMX, spiral of the 1980s. Some of that retrocessional protection is likely to collapse under the weight of these losses, putting more pressure on the companies it covers, reinsurers say.

The airports where the hijackers gained access to the planes also likely will be sued, though their liability limits typically are smaller than those for the airlines, executives say.

The airports' liability insurance also may be written outside the aviation market, other sources said.

Apart from aviation, all segments of the marketplace are expected to be hit by losses.

"This loss is certainly going to take a chunk of capital out of the industry. The reinsurance industry will have no choice but to seek additional rate hikes" above those contemplated before this loss, said Donald S. Watson, a director of Standard & Poor's Corp.

"There's no question there will be a lot of pain in the reinsurance industry," he added. "It will be some time before reasonable estimates of claims can be made, but insurers and reinsurers will expect an immediate outflow of capital" to cover claims for these losses, Mr. Watson said.

S&P's outlook for the reinsurance industry was negative before this loss occurred. "Our negative outlook for reinsurers is because we've seen a serious deterioration of capital adequacy," Mr. Watson said. This is exacerbated by the need to strengthen reserves, which will continue for many companies in addition to the losses they now will face, he added. "Now, there will be further stress on the industry's capital," he said.

Insurers and reinsurers likely will also face cash flow problems as companies with offices in the World Trade Center seek rapid claims payments to set up alternative facilities, one reinsurer said.

The financial problems will likely be compounded as insurers and reinsurers are forced to sell investments in falling financial markets to pay the losses, he noted.

"The market was fragile before this loss," he said, noting that asbestos losses had already depleted the reserves of several insurers and reinsurers this year.

"A lot of the fat had already gone," remarked one reinsurance broker.

Capacity in the retrocessional reinsurance market, in particular, was already shrinking before the terrorist attacks, and the losses from the attack will likely hit retro layers and cause more capacity problems, one reinsurance executive said. "There might not be a retro market left," he said.

> *'For those companies already on the brink financially, this could tip them over.'*
>
> *— Robert Mebus*
> *Standard & Poor's Corp.*

Other reinsurers that likely will be hit hard are those that write open-ended pro rata treaties that take a proportion of all the losses paid by their cedents, the reinsurer noted. "If you stick with catastrophe excess of loss, you know your exposure, but a lot of those pro rata treaties don't have caps," he said.

While many insurers and reinsurers will pay claims from the terrorist attacks, much of the loss may fall on specialty markets, such as the aviation, war risk and personal accident markets, one broker said.

The limited number of companies and Lloyd's syndicates operating in those markets could be financially devastated by the losses, he said.

"For those companies already on the brink financially, this could tip them over," said Robert Mebus, managing director of S&P in New York.

Although S&P regularly applies stress tests to the capital of the companies it rates, a loss of this type and magnitude has not been contemplated. Instead, the tests focus on losses to which a company might reasonably expect to be exposed, based on the areas in which they operate, said Mr. Mebus. A property catastrophe reinsurer, for example, would be assessed for its vulnerability to certain natural catastrophe scenarios, rather than man-made catastrophes of this scale.

"For U.S. commercial lines companies, we look at a worst-case loss situation," S&P's Mr. Watson explained. "We look at 95% probability loss scenarios," rather than scenarios that have only a slight chance of occurring.

"I don't know how anyone could have contemplated this," added Rob Jones, a director of S&P in London.

"Those companies that were already struggling may not make it, particularly if they have a not insubstantial aviation exposure," said Hans D. Rohlf, managing director and chief underwriting officer-North America for Hannover Reinsurance Co. in Hannover, Germany.

In addition to reinsurance losses, the terrorist attacks are likely to extend the renewal season, as many insurers seek extensions, some attendees of the Rendez-Vous said. This would be driven not only by efforts to determine their exposure to losses but also by the fact that leading intermediaries Guy Carpenter and Aon Re lost people, data and resources in the terrorist attack that are critical to the renewal process.

"If Guy Carpenter comes to me and asks for a six-month extension because of this, I would certainly agree to that," a Lloyd's of London underwriter said.

Oct. 1 is one of the leading renewal dates for aviation insurance programs, noted Wilhelm Zeller, chairman of Hannover Re. Except for those programs that were already being finalized, most programs that renew on Oct. 1 will require extensions, he said.

In addition to hardening rates, this loss also may lead to changes in terms and conditions. Already there is some momentum in the reinsurance market to move away from an all-risks property coverage approach to a named-perils approach. This would eliminate the problem of losses not contemplated by underwriters being paid under all-risk policies, which in turn has prompted the introduction of numerous exclusions.

If reinsurance coverage changes or capacity vanishes for certain perils, capital could flow into new reinsurance facilities set up for the purpose of covering these risks, similar to what occurred with the establishment of property catastrophe reinsurance facilities in Bermuda following Hurricane Andrew, the S&P analysts speculated.

"It will be interesting to see if capital flows to write coverage for these risks where needed," Mr. Mebus said, referring to risks that might no longer be included under standard property contracts.

Hedge funds, in particular, have been seeking areas in which to enter the insurance market, especially in Bermuda, noted Mr. Watson. They might see the need for new facilities that would provide such coverage as an opportunity, he said.

Aviation

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as brokers shut down press access to their organizations as they went about the grim business of dealing with their own personnel losses as well as their financial setbacks, while also trying to service clients.

For just London market companies—which often lead commercial aviation insurance placements and generally participate in covering risks even when they do not lead the coverage—the preliminary loss estimate last week was "somewhere in the range" of $20 billion, said a spokeswoman for the London-based International Underwriting Assn. The IUA represents about 120 insurers and reinsurers.

That estimate takes into account not only potential commercial aviation losses but also life and business interruption losses, the spokeswoman said.

Aviation insurance and reinsurance consultant Ric Parker of F.W. Parker Associates in Greenwich, Conn., said the commercial aviation market faces losses stemming from four occurrences—one occurrence for each of the four hijacked jets—because commercial aviation coverage is written on a per aircraft/per occurrence basis.

Airlines typically purchase between $1.5 billion and $2 billion of liability limits. Therefore, depending on the airlines' ultimate liability for the loss, the aviation market faces a loss that could reach $6 billion to $8 billion.

Even before the attack, leading commercial aviation underwriters had bemoaned their underwriting losses and had called for rate hikes (*BI*, May 21).

From 1992 through 2000, airline claims exceeded the commercial aviation market's premium volume by more than $1.5 billion, according to figures produced before the attack by one major aviation insurance broker.

Even though hull and liability insurance rate hikes this year through August generated a 31% premium increase for underwriters compared with the same period last year, $275 million of hull and liability losses exceeded premium volume by $3 million, according to the broker. Those figures are based on coverage written for airlines with fleets exceeding $150 million in value.

Underwriters, however, are just heading into their busiest renewal period of the year, when they typically generate up to 75% of their premium volume.

Whatever the commercial aviation insurance market's ultimate loss may be, underwriters may have passed up an opportunity to limit their exposure.

A standard policy form that commercial aviation underwriters commonly use purports to bar coverage for losses resulting from acts of war that are declared or undeclared, according to airline attorney Jim Segerdahl, a partner with Kirkpatrick & Lockhart L.L.P. in Pittsburgh. The policy states that those acts include "malicious acts" and "hijacking."

Insurance sources said that exclusion is part of every policy written in the London market.

But underwriters generally have allowed airlines to "buy back" that excluded coverage through a policy endorsement for no additional premium, market sources agree.

Neither American nor United would discuss their coverage.

Even if American and United had alternate war risk exclusions that were silent on malicious acts and hijackings and the airlines could not buy back the coverage, commercial aviation insurers would not be able to impose the exclusions, an insurer attorney and a policyholder attorney agreed.

President Bush's assertion that the attack was an act of war "should not be taken literally," said insurer attorney Franklin F. Bass, a partner with Wilson, Elser, Moskowitz, Edelman & Dicker L.L.P. in New York.

Unlike warring nations, terrorists want to destabilize a country, not invade it and take control, he said.

Therefore, the Sept. 11 attack was "not an act of war as contemplated in the insurance sense," Mr. Bass said.

But, if the United States were to declare war against a sovereign state involved in the attack, "we may have to re-evaluate what war is," he said.

Even if insurers attempt to limit coverage by invoking a war risk exclusion, "courts may well find a way to find coverage" for policyholders, Mr. Segerdahl said. Courts would have to consider specific policy language and legal principles, such as policyholders' reasonable expectations of coverage.

Plaintiffs' attorney Marc S. Moller said families of victims already have approached his law firm for guidance on protecting their rights. "We're answering their questions," said Mr. Moller, a partner at Kreindler & Kreindler in Hackensack, N.J.

But the firm is "taking a step back" from the situation and is not mounting any litigation while re covery efforts continue and th federal government fashions it multibillion-dollar aid package "The focus now has to be helpin people deal with their loss," M Moller said.

How losses might be covered i unclear, he said.

But given that major airline have waived restrictions on their li ability for losses arising fro crashes involving internationa flights, Mr. Moller said he woul not expect airlines to react any dif ferently for the domestic flights in volved in the Sept. 11 terrorist at tack.

The ultimate loss from the at tack, however, will exceed Ameri can's and United's insurance limit and corporate assets combined, M Parker asserted.

American and United aske Congress last week to limit their l ability for losses stemming fro the attack, confirmed a spokesma for Senate Commerce Committe Chairman Ernest F. Hollings, D S.C. But Sen. Hollings said he be lieves that request is prematur because Congress' first priority ensuring the nation's security, th spokesman said.

Mr. Moller also noted that fede al law allows victims to sue terro ist organizations and states th sponsor them and recover at lea part of the judgment from the U. government. The government the would seek to recover from ar U.S. assets the defendants have.

Sarah Veysey in London co tributed to this report.

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Losses

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While some insurers and reinsurers said last week that it was premature to discuss the extent of their losses from the attacks, others did offer some early numbers.

• Mark Greenberg, a senior vp at Chubb Corp. in Warren, N.J., said that while his company had a "significant" property exposure in the World Trade Center, Chubb has "significant reinsurance that is in place." Chubb expects a pretax property loss of $100 million to $200 million.

However, "business interruption is a wild card, because you don't know how long it will take businesses to get up and running." Likewise, it will take a while before the extent of workers comp losses becomes clear, Mr. Greenberg said.

• Munich Re Group estimated its loss at $910 million, saying in a statement that claims "derive mainly from the lines of aviation, buildings, business interruption, life and workers compensation insurance."

• Swiss Reinsurance Co. estimated its losses at $730 million.

• German insurance giant Allianz A.G. Holding cautioned that it was too soon to accurately predict the group's exposure, but said net losses could reach $637 million.

• Employers Reinsurance Corp. estimated its pretax net loss at $600 million.

• American International Group Inc. estimated its net pretax losses at $500 million.

• AXA Group said it could face up to 272 million francs ($400 million) in claims.

• Zurich Financial Services Group estimated its preliminary pretax loss in the $400 million range.

• PartnerRe Ltd. expects $350 million to $400 million in claims.

• Hannover Re estimated its losses at $365 million, saying much of that will come from the company's participation in the insurance programs of American Airlines and United Airlines Inc., which each owned two of the jets used in the attacks.

• London-based multiline Royal & SunAlliance Insurance Group P.L.C. said its net pretax loss would be about £150 million ($220.5 million).

• French reinsurer SCOR S.A. estimated its loss at between $100 million and $200 million, mainly from property/casualty claims.

• MetLife Inc. estimated its after-tax loss at between $250 million and $300 million.

• Markel Corp. expects a pretax net loss of up to $75 million.

• London multiline insurer CGNU P.L.C. said its net liability was not expected to exceed £35 million ($51.4 million).

The tragedy is expected to seriously hit the profitability of some U.K. insurers. Lloyd's of London-based insurer Hiscox P.L.C. said that while it expected its Lloyd's syndicate 33 to have enough funds to cover any claims, the effect of the terrorist strike will "clearly have a material impact on this year's profitability."

Lloyd's confirmed Thursday that it had a substantial involvement both in the insurance programs of United Airlines and American Airlines and the World Trade Center complex, but that it couldn't yet quantify the market's exposure.

"The tragic events in the United States this week have generated the most complex set of insurance liabilities and interdependencies the industry has ever seen," said Lloyd's Chairman Saxon Riley.

Many claims adjusters had to overcome the temporary loss of lower Manhattan offices—and more serious obstacles—as they began pulling together response teams.

"We're dealing with the tragic loss that our industry has suffered—that overshadows everything," said Robert Barnett, Los Angeles-based catastrophe coordinator and national operations leader for Chicago-based McLarens Toplis Inc. "We're also dealing with having to temporarily relocate our own offices in lower Manhattan."

Paul Hulsebusch, vp-catastrophe operations for GAB Robins North American Inc. in Parsippany, N.J., said his company had evacuated its office in lower Manhattan "without incident."

Grover Davis, president and CEO of Atlanta-based Crawford & Co. said the big adjusting company would work out of its facilities in Wayne, N.J., and Melville, N.Y., until it regained access to its New York office.

One question raised following Tuesday's terrorist attack was whether the nature of the disaster might trigger act-of-war exclusions.

"Right now, we're thinking that the war exclusion would not come into play," said John Eager, senior director of claims services at the Des Plaines, Ill.-based National Assn. of Independent Insurers. "But, this is an ongoing situation. If the government would declare that this is an act of war based on an investigation, then we would have another challenge."

Case law has held that, absent the involvement of a sovereign nation, terrorist acts do not constitute acts of war.

But one repercussion of Tuesday's events could be that terrorism exclusions might become common in U.S. insurance policy language, some suggested.

Of coverage in place for Tuesday's disaster, "the policies that we're aware of do have act-of-war exclusions," Chubb's Mr. Greenberg said. "They do not have terrorism exclusions. It remains to be seen whether this becomes an act of war."

"We know the property policy on the center itself does not exclude terrorism," he said.

Chubb announced Thursday that it had determined that act-of-war exclusions did not apply to Tuesday's events, and that it had begun paying related claims.

As to whether terrorism exclusions might be more common in the future, Mr. Greenberg said, "We haven't crossed that bridge yet," but added, "you don't start excluding everything that costs the company money. We are in business to insure people against disasters."

Amelia Boss, professor of law at Temple University's Beasley School of Law in Philadelphia, said she thinks it's "inevitable" that terrorism exclusions will become a part of standard policy forms. But, she added, "One question will of course be, how stringent will those exclusions become?" If those exclusions become too stringent, "you're eliminating what the customer wants to purchase," she said.

Meg Fletcher, Mark A. Hofmann, Douglas McLeod and Sarah Veysey contributed to this report.

Out of respect for tragedy, many events canceled

By ROBERTO CENICEROS

LOS ANGELES—In the aftermath of last week's terrorist attacks, the acknowledgment of the nation's suffering took precedence over scheduled entertainment programs and concerns about recouping financial losses under event cancellation insurance policies.

Concerts, professional sports events, movie releases and even insurance conferences across the nation were canceled or postponed, with concerns about insurance coverage set aside until later, according to event cancellation risk experts.

These experts say that most such events were canceled or postponed out of a sense of propriety and mourning, rather than for reasons that might trigger insurance coverage, such as public safety measures imposed by governments.

"There is more concern for respect for Americans who have lost their lives and their loved ones," said Brian Kingman, senior vp in Los Angeles for Aon Albert G. Reuben Insurance Services. "It's an issue of mourning, and there should be mourning. It's not a time of happiness. It would be tasteless and inappropriate."

Most events likely were canceled out of respect, said David Holcombe, risk manager for International Speedway Corp./NASCAR in Daytona Beach, Fla. NASCAR postponed a race scheduled for Sunday in New Hampshire.

"That was a very significant decision and one that took a lot of thought and time," Mr. Holcombe said. NASCAR postponed the race "strictly out of a sense of decency."

But a sense of mourning and a concern for decency do not trigger coverage under event cancellation policies. Policyholders must cancel events due to developments that are beyond their control; cancellations cannot be voluntary measures. Government calls to shut down out of fear of terrorist attacks, for example, would trigger coverage, the experts say.

Mr. Kingman said the event cancellation policies he negotiates generally do not exclude coverage for acts of terrorism. But other experts say they typically exclude the coverage unless it has been specifically requested.

Mr. Kingman placed the cancellation coverage for Madonna's Drowned World Tour, which concluded Friday in Los Angeles. Madonna postponed one Los Angeles show that had been scheduled for last Tuesday night, the day on which the terrorist attacks took place in New York and Washington.

Mr. Kingman said he would argue that such a postponement should be covered by event cancellation insurance because it was called off for security reasons. There had been news reports that three of the hijacked planes used in the attacks originally were destined for Los Angeles, he noted; consequently, he said, an argument could be made that amassing thousands of fans in that city posed a danger.

Madonna's concert insurance coverage had an "aggregate event deductible," though, requiring an impact on several shows before triggering coverage, Mr. Kingman said.

Whether events were canceled out of concern for crowd safety or out of concern for propriety will have to be settled once policyholders start to focus on financial matters, the experts say.

As of late last week, few claims had been filed.

After the attack, "most people are still reeling from what happened," said Christie Mattull, senior vp in Los Angeles for Chicago-based Near North Insurance Brokerage Inc. "We are a pretty large entertainment broker, and we have not had one call yet with anyone even inquiring about those things, even though we have clients with (event cancellation) coverage," Ms. Mattull said.

> *'It's an issue of mourning, and there should be mourning. It's not a time of happiness.'*
>
> *— Brian Kingman*
> *Aon Albert G. Reuben Insurance Services*

But the claims could come later, when policyholders realize they put their hearts ahead of their financial concerns, experts say.

Perhaps the biggest factor in determining coverage availability is one that could affect all types of property/casualty policies, not just event cancellation, they say. That factor concerns policy clauses that exclude war risks.

Despite President George W. Bush's references to the attacks as acts of war, the war risk exclusions may not apply, some experts say. Some war risk clauses are broader than others, they note, with some clauses defining war risks as attacks by the armies or navies of sovereign nations but not necessarily those by terrorist groups.

Consequently, they say, coverage may ultimately depend on whether an individual terrorist group or a sovereign nation is determined to have been responsible for the attacks. How insurers will respond remains to be seen.

"We really don't know what is going to happen, because this has never occurred," Ms. Mattull said.

Brokers said they hope insurers interpret such clauses liberally, because, they point out, the event that led to the cancellations and postponements was neither expected nor intentional on the part of policyholders.

Insurer payout for cancellation claims could be minimal, though, because many policyholders likely postponed or canceled their events out of a sense of propriety, Ms. Mattull said.

Concerts by performers such as Elton John and others were among those postponed or canceled, and while some may have had cancellation coverage, it is likely that others did not.

Most major sports events, including those sponsored by the PGA Tour Inc., the National Hockey League and Major League Soccer, were canceled or postponed. The National Football League announced the cancellation of last weekend's scheduled games, and Major League Baseball postponed its games through the weekend.

Major League Baseball teams typically do not have event-cancellation coverage for regular-season games, said Lowery Robinson, the president of Atlanta-based Marketing Etc., a managing general agent that specializes in sports and entertainment event coverage. That's because the games—and, thus, the revenue—can be made up later in the season, Mr. Robinson said.

But professional sports teams may purchase coverage for special events, such as all-star games, Mr. Robinson said. He noted, for example, that he has provided coverage for preseason professional baseball games. Those games can bring a team significant revenue, he said, yet there is little or no time to reschedule them.

Hollywood's major motion picture studios also postponed the completion or release of several films depicting material that might be viewed as insensitive, according to entertainment newspaper reports.

But major studios are not likely to have coverage that would be triggered due to the existence of similarities between film content and horrific real-life events, one industry insurance expert said.

Several insurance industry associations canceled or postponed scheduled conferences. Among other industry events, the National Assn. of Professional Surplus Lines Offices Ltd. canceled its annual conference, which was scheduled for Sept. 12-16 in San Antonio, and the National Assn. of Insurance Commissioners canceled its fall quarterly meeting, which would have met Sept. 22-25 in Boston.

The Indianapolis-based National Assn. of Mutual Insurance Companies canceled its 106th annual convention, which was to have been held Sept. 23-26 in Washington.

"We did not make this decision lightly," said James A. Blum, NAMIC chairman and chief executive officer of Brotherhood Mutual Insurance Co. in Fort Wayne, Ind.

"Since 1895, NAMIC has suspended its annual convention only once—in 1943, in the middle of World War II," Mr. Blum said. "That underscores how very seriously we take this assault on innocent people."

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