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Updates

New York tells brokers, insurers to disclose all compensation

ALBANY, N.Y.—The debate over undisclosed compensation being paid to brokers from insurers they place business with made its way to the New York Insurance Department late last month.

In a letter circulated to insurers and brokers in New York, Bonnie Steingart, deputy superintendent and general counsel, said that, pursuant to New York insurance laws, a broker is the legal representative of a policyholder.

She warned that "the undisclosed receipt

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Rendez-Vous de Septembre

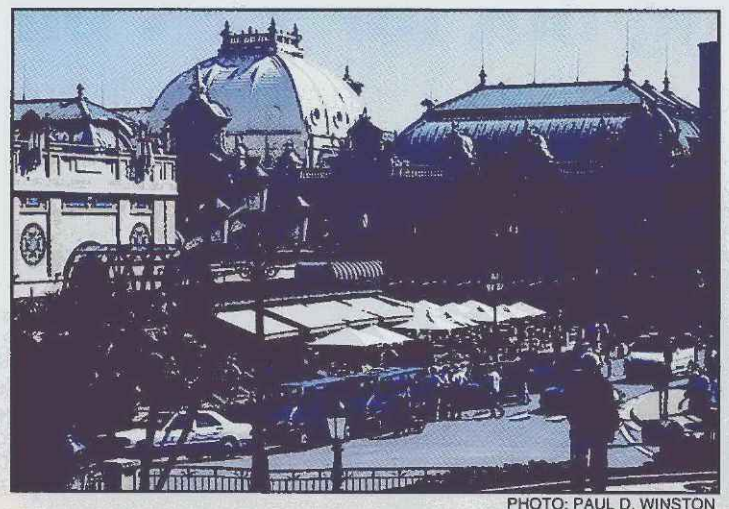

PHOTO: PAUL D. WINSTON

The Cafe de Paris remains a favorite Rendez-Vous locale.

Reinsurers hope rates near bottom

By GAVIN SOUTER and PAUL D. WINSTON

MONTE CARLO, Monaco—Reinsurance rates still have not hit rock-bottom, but they might at this year-end renewal season, reinsurance executives hope.

While few reinsurers expect property and casualty reinsurance rates to do anything but fall, many say a combination of factors could halt the decline after Jan. 1, 1999, renewals are sealed.

The current depressed level of reinsurance rates; the recent declines in worldwide stock prices; an increase in the frequency of catastrophe losses in 1998; and potential Year 2000 losses all could combine to stop the declines in reinsurance price declines.

But stacked against those mitigating factors are some strong reasons for low reinsurance prices: another year of strong profits for reinsurers; the continued absence of large catastrophe losses for reinsurers; more efficient methods of securitizing risks; the clout of the megabrokers; and the continued quest for market share from established and new reinsurers.

Which set of forces will prevail will not be known for several months, but the relative strength of each factor on the market was one of the talking points at the 42nd annual Rendez-Vous de Septembre, held Sept. 7-11 in Monte Carlo, Monaco.

The Rendez-Vous is the traditional beginning of year-end reinsurance renewal negotiations. Every year in the first full week of September the tiny principality on the Mediterranean is brim full of reinsurers, cedents, brokers and consultants each gauging relative negotiation stances to be taken in the upcoming renewals.

Few deals are completed during the meeting, but most participants agree that the meeting serves a useful func-

See **Rendez-Vous** *on page 43*

Battle over drugs for retirees heats up

Massachusetts HMO faces regulatory probe

By JERRY GEISEL

BOSTON—Massachusetts regulators are escalating their battle with HMOs over prescription drug benefits for retirees eligible for Medicare.

In the latest twist of a dispute that could have repercussions in other states, the Massachusetts Division of Insurance is launching a probe into Harvard Pilgrim Health Care's proposal to offer a scaled-back prescription drug benefit in 1999 to the roughly 60,000 retirees enrolled in its Medicare risk HMO.

Currently, Brookline, Mass.-based Harvard Pilgrim offers a risk HMO plan with an unlimited prescription drug benefit, with retirees paying a $71 monthly premium. It also offers a zero-premium plan with no drug benefits.

Next year, Harvard Pilgrim intends to offer, in most parts of the state, a zero-premium plan with an $800 annual limit on prescription drugs. To try to control costs, other risk HMOs in the state also intend to place dollar caps on plans that now offer unlimited prescription drug benefits (*BI*, Aug. 24).

This change, Harvard Pilgrim told its members, would mean cost savings for most members. Take the example of a retiree now in the unlimited prescription drug plan. That retiree now pays $852 a year in premiums. If the retiree this year had prescription drug costs of $800, that retiree's total cost for prescription drugs still would be the $852 premium.

Under the new zero-premium program, if that retiree had $800 in prescription drug costs in 1999, his or her total cost would be zero, as the plan's prescription drug limit is $800.

Such a plan would fit the HMO's goal of finding the right

See **Drugs** *on page 59*

Hacking incident moves Web security to front page

By SALLY ROBERTS

NEW YORK—Businesses may learn several lessons from a recent breach of computer security that caused the New York Times to shut down its World Wide Web site for nine hours.

While no data was stolen and any business interruption loss was minimal, the break-in by computer hackers is a reminder that these incidents can occur, even with advanced security systems in place.

The incident also shows the need for constant review of computer security and perhaps buying insurance to transfer the liability risk that can arise from computer hacking.

"The fact that this happened to (the New York Times) will raise eyebrows that if it can happen to them, it can happen to anyone," said Frank Johns, managing director for Pinkerton Global Intelligence Services in Arlington, Va.

It is "a good example of how serious the problem is," he said of computer crime. "I don't know what security measures (the Times') Web site has, but if you just look at the quality of their Web site, I suspect it is state-of-the-art, and hackers still got in."

"The real bottom-line message is that it can happen to you. . . .No one's immune," agreed Dave Muckley, chief

See **Hacked** *on page 58*

The New York Times' Web site was targeted by computer hackers.

Employers fine-tune plans to comply with parity law

By ROSEANNE WHITE

More than nine months after many employers were required by federal law to remove discriminatory dollar limits on mental health benefits, they are finding that other approaches are effective in controlling costs.

What most employers have done in complying with the Mental Health Parity Act is to translate the dollar caps they had on outpatient sessions and inpatient days for mental health care to limits on the number of outpatient sessions and inpatient days, according to consultants.

"Most employers are making cost-neutral decisions," said Ed Kaplan, vp-health practice for The Segal Co. in New York.

But Joan Pearson, a principal with Towers Perrin in Seattle, said a number of the consultant's clients who had mature managed mental health plans, specifically specialized carve-out plans, have had such a good claims cost experience that they eliminated the dollar limit and did not replace it with a day or visit limit. Many of those employers simply use the dollar maximum in the medical plan for mental health. Other clients without managed mental health plans in effect converted the dollar limit to day or visit limits, Ms. Pearson said.

Under the act, employers cannot place discriminatory dollar caps on mental health care treatment compared with treatment for physical illnesses. They can, how

See **Parity** *on page 53*

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NEWSPAPER

Updates

N.Y. issues compensation rules

of additional compensation is sufficient to create the perception that brokers are conflicted in their loyalties and that such conduct may constitute a violation of Section 2110 as a dishonest or untrustworthy practice."

A spokeswoman for the Insurance Department said the letter was distributed in an effort to be proactive on an issue the department describes as warranting scrutiny.

"There is litigation pending in Pennsylvania regarding this issue," the spokeswoman said. "We know this occurs in the industry. We wanted to act before something happens here." She had no further information about the pending litigation in Pennsylvania.

"It's as simple as a consumer's right to know. We want to make sure consumers are protected," she added.

The Insurance Department issued these guidelines:

- All compensation arrangements between an insurer and a broker should be put in writing and agreed to by both parties.
- All such compensation arrangements should be disclosed to a policyholder prior to the purchase so as to enable the policyholder to understand the costs of the coverage and the motivation of the broker in placing the business.
- All fees paid to brokers should be included as factors in the establishment of an insurer's premium rates.
- All fees paid to brokers, and reasons for such fee payments, should be included in a broker file maintained by the insurer.
- The insurer's internal auditing procedures should include verification that all fees paid to brokers are proper and within the parameters of the New York Insurance Law and Department regulations.

The debate over broker commissions heated up in London earlier this year (*BI*, April 27) and was the subject of a session held at this year's Risk & Insurance Management Society Inc.'s annual convention (*BI*, May 11).

Lloyd's, EMLICO strike deal

BOSTON—Lloyd's of London underwriters have reached an agreement in principle to settle reinsurance disputes with Electric Mutual Liability Insurance Co. and its sole policyholder, General Electric Co.

A final agreement still is to be worked out, according to Nick J. DiGiovanni, a lawyer with Lord, Bissell & Brook in Chicago representing Lloyd's. He would not comment on the agreement's terms.

Lloyd's would be the last to settle among a group of reinsurers that sought to reverse the hugely insolvent EMLICO's controversial 1995 redomestication to Bermuda. Kemper Reinsurance Co. agreed to a settlement in June, shortly before it was acquired by General Electric's GE Capital Corp. unit (*BI*, Aug. 3; June 22). Allstate Insurance Co. and General Re Corp. units previously reached their own settlements.

Reinsurers had charged that EMLICO concealed its insolvency to win Massachusetts Insurance Department approval for the move to Bermuda, where it intended to take advantage of favorable Bermuda liquidation laws.

Despite the latest settlement agreement, lawyers for the Massachusetts Insurance Department say they will continue to press for a receivership order against EMLICO. A Massachusetts state judge heard arguments Sept. 10 on an Insurance Department receivership petition, which GE and EMLICO's Bermuda liquidators have opposed. If the petition is granted, Massachusetts regulators say they will go to court in Bermuda to seek the insurer's return to the United States.

The judge had not ruled on the petition by late last week.

NIOSH vocal on noise at work

WASHINGTON—Acceptable workplace noise levels would be lowered if a proposal offered by the National Institute for Occupational Safety and Health is adopted.

NIOSH released the proposal to reduce acceptable average noise exposure levels over an eight-hour period to 85 decibels—roughly the noise heard three feet away from an electric drill boring through a piece of wood—from the current 90-decibel limit adopted in the 1970s. The new proposed limit reflects more recent research and analytical techniques, according to the agency.

Dr. Linda Rosenstock, NIOSH's director, said in a statement accompanying the recommendations that job-related hearing losses are too often dismissed as a "fact of life and natural effect of aging, but nothing could be further from the truth. In fact, hearing losses caused by overexposures to noise at work are preventable conditions that impose needless burdens on workers, their families, business and society."

In addition to lowering the acceptable noise level, NIOSH's specific recommendations include more frequent monitoring of noise exposures and eliminating adjustments for age when calculating workplace hearing loss. The proposal has been sent to the Occupational Safety and Health Administration for study.

Humana exiting five markets

LOUISVILLE, Ky.—Humana Inc. is withdrawing from several unprofitable regions as a result of its canceled merger with United HealthCare Corp.

Humana will exit Sarasota and Treasure Coast, Fla., which are predominantly Medicare product markets; Springfield and Jefferson City, Mo., which are predominantly commercial product markets; and one of its largest Medicaid markets, which Humana declined to name.

"Since Medicaid contracts exist with local governments, we feel it is important to inform the local government in question first.... Therefore we feel it would be inappropriate to identify the area at this time," a company spokesman explained.

The number of affected Humana members in the four Florida markets is about 120,000. The spokesman said he did not know how many employer groups will be affected and could not provide details on the number of risk HMO members.

Despite the withdrawal, Humana says it will honor its contractual

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Insurers must defend claims of lead dust from miniblinds

By DAVE LENCKUS

NEWARK, N.J.—In a ruling with huge lead liability implications for the insurers of window blind manufacturers and distributors, a federal judge has ruled "it is reasonable to infer" that product safety lawsuits against one manufacturer include property damage claims.

Because of that inference, the judge on Sept. 2 denied a summary judgment motion by the manufacturer's general liability insurers that sought to relieve them from defending the company against the lawsuits and from indemnifying the company for any damages a court may impose against it.

The insurers argued that the underlying lawsuits sought only a recall of the manufacturer's miniblinds and recoveries of the purchase price. The cost of both are excluded from the manufacturer's coverage.

In class-action and individual lawsuits filed against window blind manufacturers and distributors, consumers claim that lead dust forms on the miniblinds, creating a health hazard. The suits name as defendants, among others, manufacturer Jencraft Corp. and retail and discount store giants Sears, Roebuck & Co. and Wal-Mart Stores Inc.

The decision is the first of its kind in litigation that miniblind manufacturers and distributors are waging against their general liability insurers to establish that

See **Miniblinds** *on page 38*

Time running out for Y2K bill

Senate committee approves S. 2392 without amendment

By MARK A. HOFMANN

WASHINGTON—Only swift congressional action can save a bill meant to encourage businesses to swap information on how to deal with the Year 2000 computer problem.

The measure—S. 2392, the Year 2000 Information and Readiness Disclosure Act—won the approval of the Senate Judiciary Committee last week after often-acrimonious debate over an amendment designed to narrow the measure's protections for businesses. The argument over the amendment could mean further controversy on the floor of the Senate. The House appears unlikely to move on the measure before the Senate makes its final judgment.

Supporters point to the rapidly dwindling number of days left in the current Congress as reason for pushing the bill forward. If Congress does not pass the bill within the next four weeks, the measure will die until the new Congress convenes in 1999.

The bill is a compromise worked out between Senate leaders and the White House. It would grant businesses a temporary exemption from antitrust actions if they share information regarding how they are fixing the Year 2000 problem. Under the bill, businesses also would enjoy temporary relief from liability by being allowed to disclose their Year 2000

See **Senate** *on page 54*

Federal health care rates climb

Drug costs, aging workers push plan's premiums up 10.2%

By JERRY GEISEL

WASHINGTON—A federal agency is providing yet more evidence that employers' respite from big health care premium increases has ended.

Premiums for the nation's largest group health insurance plan—a program that covers 8.7 million federal employees, dependents and retirees—will increase by an average of 10.2% next year.

That is a substantial increase from this year's 7.2% increase and the first time in a decade that the program's premium increases have moved into double-digit territory, according to the Office of Personnel Management, the federal agency that administers the program.

The increase in the federal program, which involves 285 managed care and traditional indemnity plans offered to federal employees, mirrors the rate hikes that health maintenance organizations and other plans have been seeking and getting from other employers.

For example, earlier this year, the California Public Employees Retirement System accepted a 10.75% rate hike by Kaiser Permanente. Consultants say that HMOs, on average, have been seeking rate hikes for next year of 6% to 12%.

Federal officials and others say many of the same factors driving

See **Federal** *on page 40*

OSHA planning to publish ergonomics standard in 1999

By MARK A. HOFMANN

WASHINGTON—The Occupational Safety and Health Administration plans to publish a proposed ergonomics standard next summer if Congress permits it to do so.

OSHA Administrator Charles Jeffress said during a speech last week to representatives of the poultry industry that OSHA would pursue a "program oriented" rule. That means employers that were covered by an ergonomics rule would have to determine whether they did indeed face ergonomics hazards and then find ways to address those.

Mr. Jeffress said OSHA was still wrestling with the scope of the proposed rule but assured his listeners that the federal agency would not try a "one size fits all" approach, according to a written copy of the speech to the safety and health committee of the National Turkey Federation and the National Broiler Council.

OSHA has intended to issue some sort of ergonomics standard since 1992, but Congress has repeatedly blocked it from doing so. The current Congress has not yet specifically forbidden OSHA from putting forth a proposal next year.

Employers have repeatedly

See **OSHA** *on page 6*

Inside

- The Labor Department's proposed new standards for health care plan coverage decisions are timely, doable and needed, one of this week's editorial says. **PAGE 8**

- Cargo insurers in Europe and North America are reporting a downturn in shipments to Russia in the wake of that country's economic crisis. **PAGE 15**

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Study proposes boxer pensions

By MICHAEL BRADFORD

Boxers who battled for years in the ring often find they have little to fall back on.

A recently published study suggests there may be a way to change that and provide fighters a pension that will help them through the years that follow the final bell.

The study by The Segal Co., completed late last year and published in July, recommends that four "separate but complementary plans" be established to provide payments to retired boxers. Those retirees in the greatest need would receive payments from a charitable trust under the recommendations. A defined contribution and defined benefit plan would be set up, and a disability/survivors' benefit program would be established.

The study was among the requirements in the Professional Boxing Safety Act of 1996 that looked at the regulations and health, safety and retirement issues related to boxing. The law called for the Secretary of Labor to arrange for the study.

Because pensions for boxers are "virtually non-existent, congressional action or collective bargaining" would be necessary to develop the programs, according to Thomas D. Levy, Washington-based senior vp and chief actuary at The Segal Co.

He pointed out that establishment of the plans could give eligible boxers a reasonable pension without a significantly high

See **Boxers** *on page 55*

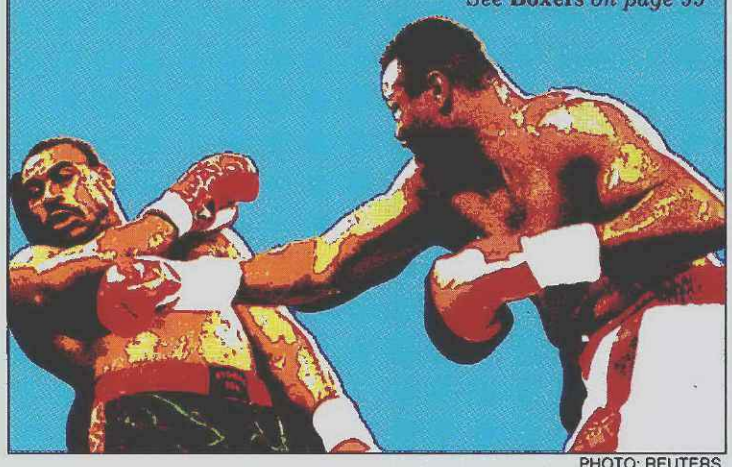

PHOTO: REUTERS

Moving beyond cat bonds key to growth of market

By DOUGLAS McLEOD

NEW YORK—Securitized insurance risk is attracting greater interest from insurers and investors, though it will have to expand beyond the current property catastrophe-related products to develop as a market, several experts say.

Despite soft reinsurance market conditions, the number of securitization deals is growing as sellers and buyers become more familiar with products like exchange-traded catastrophe options, cat bonds and contingent capital deals, experts said last week at a conference sponsored by the CNA Re unit of Chicago-based CNA Financial Corp.

Open interest in PCS catastrophe options on the Chicago Board of Trade has grown steadily since 1995, in recent months reaching nearly 20,000 contracts. The number of cat bond issues and swap deals, meanwhile, also has picked up this year, with one issuer—San Antonio-based auto insurer United Services Automobile Assn.—oversubscribed for a second hurricane bond issue in July after completing a successful first issue in 1997.

Investors are more interested in cat bond issues for several reasons, noted Anthony Chiarenza, chief executive officer of Hedge Financial Products Inc., a CNA securitization unit.

For one thing, the financial performance of cat bonds is uncorrelated with traditional investments such as stocks, bonds and commodities, allowing investors to diversify their portfolios. While interest rate-sensitive stock and bond markets fluctuate with every speech by Federal Reserve Chairman Alan Greenspan, for example, cat bonds are not similarly affected, Mr. Chiarenza said.

"If you are sitting on a one-year cat bond, it doesn't matter what he says," Mr. Chiarenza observed. "The point is, it's a non-correlated risk."

Investors can't get similar diversification by investing in insurance and reinsurance company stocks, he added, because they are still affected by market fluctuations and factors other than the insurance risk itself

See **Securitize** *on next page*

Study blasts HMO pay

But HMOs, consultants question research, conclusions

By AMANDA MILLIGAN

Health management organizations that argue they need to raise prices to cover soaring costs first should consider trimming executive compensation, a health care consumer group contends.

Seeing what it regards as an inconsistency between HMOs' cries for cutting costs and raising rates against the robust salaries of top executives, Washington-based Families USA Foundation found that top executive of companies that own or operate HMOs earned $2 million on average in 1997.

However, some insurers and compensation consultants contend that the group's research is flawed and also note that the compensation of the executives is in line with other industries.

The consumer group evaluated 15 publicly traded companies that own 74 HMOs. Using public information on each company's five highest-paid executives in 1997, Families USA analyzed both cash compensation and pending, unexercised stock options for 79 executives. From that, the consumer group developed a list of the 25 highest-paid executives.

In 1997, the 79 executives earned an average of $2 million in salary, bonus, allowances, long-term incentive payouts and exercised stock options, according to Families USA. Among the top 25, the average was $5.1 million.

"The hypocrisy of the industry on the issue of health care costs is startling," Families USA Executive Director Ron Pollack said in a statement. "They lose money in 1997 but spend millions to compensate their top executives, spend millions on advertising and lobbying to kill patient protections, and then they go around scaring the American public saying they will need to raise premiums to cover the very minor costs of comprehensive patient protections."

Lorie Slass, communications director for the consumer group and co-author of the survey, said excessive executive compensation is often ignored by the HMOs. "These are companies that time and again are asking consumers to be cost conscious, but as executives, they're not being cost conscious with paying their salaries."

According to the survey, top executives of CIGNA Corp., Oxford

See **Pay** *on page 58*

Privacy model draws criticism

By MEG FLETCHER

NEW YORK—New model legislation for medical records privacy could create administrative problems for workers comp insurers and self-insurers if enacted.

A majority of state insurance regulators last week voted to approve the model, the Health Information Privacy Model Act, which is intended to limit unauthorized access to patient medical records.

However, critics of the proposal

NAIC

contend that regulators failed to fully consider its impact on property/casualty insurance, particularly workers compensation claims.

In addition, opponents of the model act warn that provisions designed to guarantee claimants access to their medical information would increase administrative expenses for employers and create claims handling problems.

At least one regulator also opposed those provisions, arguing that the burdens they create would encourage insurers and self-insurers to deny workers compensation claims outright or immediately label them as fraudulent as a means to minimize access to claims files.

However, opponents' views were largely ignored last week as members of the National Assn. of Insurance Commissioners approved the Health Information Privacy Model Act by a vote of 37 to 13 at their fall quarterly meeting in New York.

State regulators plan to send the model to federal lawmakers as well as to states requesting it. Congress is seeking the NAIC's input because it is facing an August 1999 deadline to develop national medical records privacy legislation. If Congress misses the deadline, the U.S. Department of Health and Human Services will promulgate regulations on its own.

The new model act, including the 23 technical amendments presented at the meeting, is "a very good work product" and "a significant step in protecting individually specific health information," said Kathleen Sebelius, the Kansas commissioner. She chairs the Accident and Health Insurance Committee, which drafted the model.

The 28-page model act is designed to meet individual consumers' concerns about outsiders gaining unauthorized

See **Privacy** *on page 57*

Cargo lost on downed jet

Painting, cash, jewels aboard Swissair Flight 111

By SARAH GODDARD

LONDON—Claims for valuable cargo aboard a Swissair passenger jet that crashed off Canada earlier this month could starting hitting the insurance market as soon as this week.

Until then, however, London market underwriters are keeping tight-lipped about potential claims for cargo that included a Picasso painting, cash and jewelry.

The Boeing MD-11 crashed into the ocean near Peggy's Cove, Nova Scotia, on Sept. 3, killing all 215 passengers and 14 crew members. Flight 111 from New York to Geneva, Switzerland, was nicknamed the "United Nations airbus" because so many UN staff regularly used the flight. Nine people from various UN agencies were on the jet that crashed.

The shoreline search for crash debris was expected to conclude late last week.

Among the items known to have been aboard the ill-fated aircraft was a Picasso painting en route to Switzerland from New York. Shipping documents valued the painting, called "Le Peintre," at $1.5 million, a spokesman for Swissair confirmed. Along with other high-worth cargo, the painting had not yet been recovered from the water, but the airline spokesman did not expect it to have weathered the accident. The picture was packed in a safe container with an aluminum door that was designed to deter theft, not to withstand shock, water or fire, he explained.

The airline's liability for any cargo it did not directly insure is subject to Warsaw Convention limits of $20 per kilogram (about 2.2 pounds), said the spokesman.

A consignment of watches about Flight 111 had been insured with Swisscargo, a sister

See **Swissair** *on page 55*

PHOTO: AP/WIDE WORLD

This Picasso painting, entitled "The Painter," or "Le Peintre," might have been among the cargo that went down in the Swissair crash.

Securitize

Continued from previous page

In addition, risk-adjusted rates of return have so far been higher for cat bonds than for a number of other traditional stock and bond funds, including the Standard & Poor's 500 Index, he said.

To gain acceptance as a distinct "asset class," though, securitized insurance risk must grow to encompass casualty and other risks besides cat exposure, Mr. Chiarenza said.

"If we are going to develop this market, we need to create a real asset class" that includes eight to 10 independent or "low correlation" types of risk, he said. "We clearly need something else. The catastrophe business (alone) is not going to do it."

He offered several candidates for securitization, including:

• Agricultural risks, where deals could cover damage to crops caused—for example—by Midwest drought. The cost of catastrophic weather-related damage to agriculture is now borne largely by government entities and could be shifted to the private sector, he said.

"There is $10 billion, $15 billion, $20 billion of risk here that could be securitized," Mr. Chiarenza said.

• Aviation risks, where coverage might be triggered by number of lives lost in air crashes; and marine risks, where bonds or swaps might cover specific oil rig losses. Securitizing these risks would be tough because traditional insurance markets are now so competitive, he observed.

• Pollution events, which could be covered in deals triggered by the number of barrels of oil spilled, for example.

• Insurers facing a risk of being clobbered by losses on long-term disability policies by higher-than-expected nursing home utilization rates.

• Weather-related events, such as losses or additional costs suffered by utility companies in heat waves.

• Casualty exposures, such as directors and officers liability, errors and omissions or workers compensation.

'If we are going to develop this market, we need to create a real asset class' that includes eight to 10 independent or 'low correlation' types of risk, says Anthony Chiarenza.

The problem securitizing liability lines, experts at the meeting agreed, is that losses are less predictable than in property lines, and it is therefore tougher to develop loss indexes needed to standardize a capital markets product.

Securitized transactions to date have included cat bonds, contingent capital deals and exchange-traded products like the CBOT's PCS options, noted Debra L. McClenahan, executive vp and senior financial officer of CNA Re.

In a typical cat bond deal, an investor's return is contingent on a catastrophic event. Payments to an issuing insurer can be triggered by a variety of things, including the insurer's own losses, industry losses or the occurrence of a specific event. A 1997 deal covering Tokio Marine & Fire Insurance Co., for example, is triggered by Tokyo earthquakes exceeding magnitude 7.1 on the Richter scale.

The deals can be structured so that investors' interest alone is at risk, their interest and principal or a combination of the two. USAA's 1997 bond issue, for example, consisted to two "tranches" of bonds, one in which only interest was at risk and the other in which interest and principal were at risk.

In contingent capital deals, an insurer secures a commitment of a capital investment if a triggering event like a hurricane occurs. These deals allow an insurer to set the terms of a capital infusion when it is in relatively strong financial condition rather than after a catastrophic loss, when it is in a less favorable bargaining position, Mr. McClenahan noted.

The "option premium" an insurer pays for a contingent capital commitment is typically less than the cost of traditional reinsurance, she added.

The other category of capital markets products is exchange-traded instruments, which—in addition to the CBOT's products—include catastrophe swaps available through the New York-licensed CATEX facility and products on the Bermuda Commodities Exchange.

Rather than competing with capital markets, traditional reinsurers can play a large role in risk securitization, Ms. McClenahan said.

Reinsurers have underwriting, pricing and auditing expertise to support securitization deals and can facilitate them by pooling ceding insurer clients to create a "critical mass" for securitized products, she said.

Reinsurers also can continue their traditional role, assuming ceding company risks that are not encompassed by securitized transactions.

"These core competencies make reinsurers the natural distribution channel for securitized risk," she said.

Richard Sandor, chairman of Hedge Financial and an early proponent of securitization, noted that the concept is following predictable stages of development that have previously marked nascent markets for commodities, such as wheat, or financial products, such as collateralized mortgage obligations.

The first stage is a structural change in a market that creates a demand for capital. This happened in the insurance industry, Mr. Sandor said, in the wake of Hurricane Andrew and the Loma Prieta earthquake, when insurers recognized that huge property values had become concentrated in cat-exposed areas like California, Texas, Florida and Long Island in New York and that they were not prepared for the potential loss.

Succeeding stages in the market's evolution led to the development of organized futures and options markets and later in a proliferation of over-the-counter markets, he said.

The test of risk securitization will come when a huge loss hits the initial group of investors in cat products. Rather than kill demand for the products, though, Mr. Sandor predicted the first mega-loss will fuel demand, as insurers seek more capital and new investors jump in to supply it.

"The game begins when the next big event occurs," he said. "A $100 billion Florida event, a $150 billion Los Angeles event will not hurt the securitization effort. It will make the market, not hurt it." BI

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St. Croix Valley Healthcare receives BHCAG award

By MICHAEL PRINCE

MINNEAPOLIS—St. Croix Valley Healthcare received the Gold Award and a $100,000 prize from the Buyers Health Care Action Group as the purchasing coalition's outstanding provider of health services.

Silver awards also were issued to Access Quality Care System, HealthEast Care and HealthPartners. This is the first year the BHCAG has presented its Excellence in Quality Awards to its provider groups, called "care systems."

St. Croix received the award by having the highest ranking in the three areas judged: clinical quality improvement programs, delivery of preventive care services and patient satisfaction.

Benefit Beat

The three silver award winners received the next-highest scores, and each will be given $50,000.

Also honored were Children's PHOM for special recognition for high patient satisfaction and Health System Minnesota for achievement in preventive care services.

The awards were created for providers to focus on cost and quality, said Carolyn Pare, director of benefits and risk for Dayton Hudson Corp. in Minneapolis and vice chairwoman of the BHCAG. "The results of our initial Excellence in Quality Award program illustrate that care systems are focusing on the right things," she said in a written statement. "All of the winners deserve recognition for their outstanding efforts to improve health care."

Patricia Drury, a senior consultant for the BHCAG who ran the awards program, said the group plans to present awards each year.

The BHCAG includes some of the largest employers in Minnesota, including General Mills Inc., The Pillsbury Co. and Dayton Hudson Corp., with 132,000 enrollees in 16 care systems.

Health plans honored

WASHINGTON—Four health plans have been honored by the American Assn. of Health Plans as providing exemplary breast cancer treatment programs.

The four plans—Humana Health Plan of Chicago; Keystone Mercy Health Plan of Pennsylvania; Kaiser Permanente of California, in partnership with WIN Against Breast Cancer; and Blue Cross & Blue Shield of Massachusetts, in partnership with the American Psychological Assn.—were picked by the AAHP's Women's Health Task Force from among the organization's more than 1,000 member plans.

The task force evaluated health plans based on five criteria: patient satisfaction; overall effectiveness; innovation; the quality and validity of the program's internal evaluation; and the ability of other health plans to implement similar programs.

All four honorees "are very attentive to individual needs of women," said an AAHP spokeswoman.

Each of the four plans was honored for a different aspect of care. Humana was cited for its system of tracking women's mammograms and its quick follow-up treatment. Under that program, more cases of breast cancer have been detected and the average time between detection and the start of treatment has dropped by more than a month.

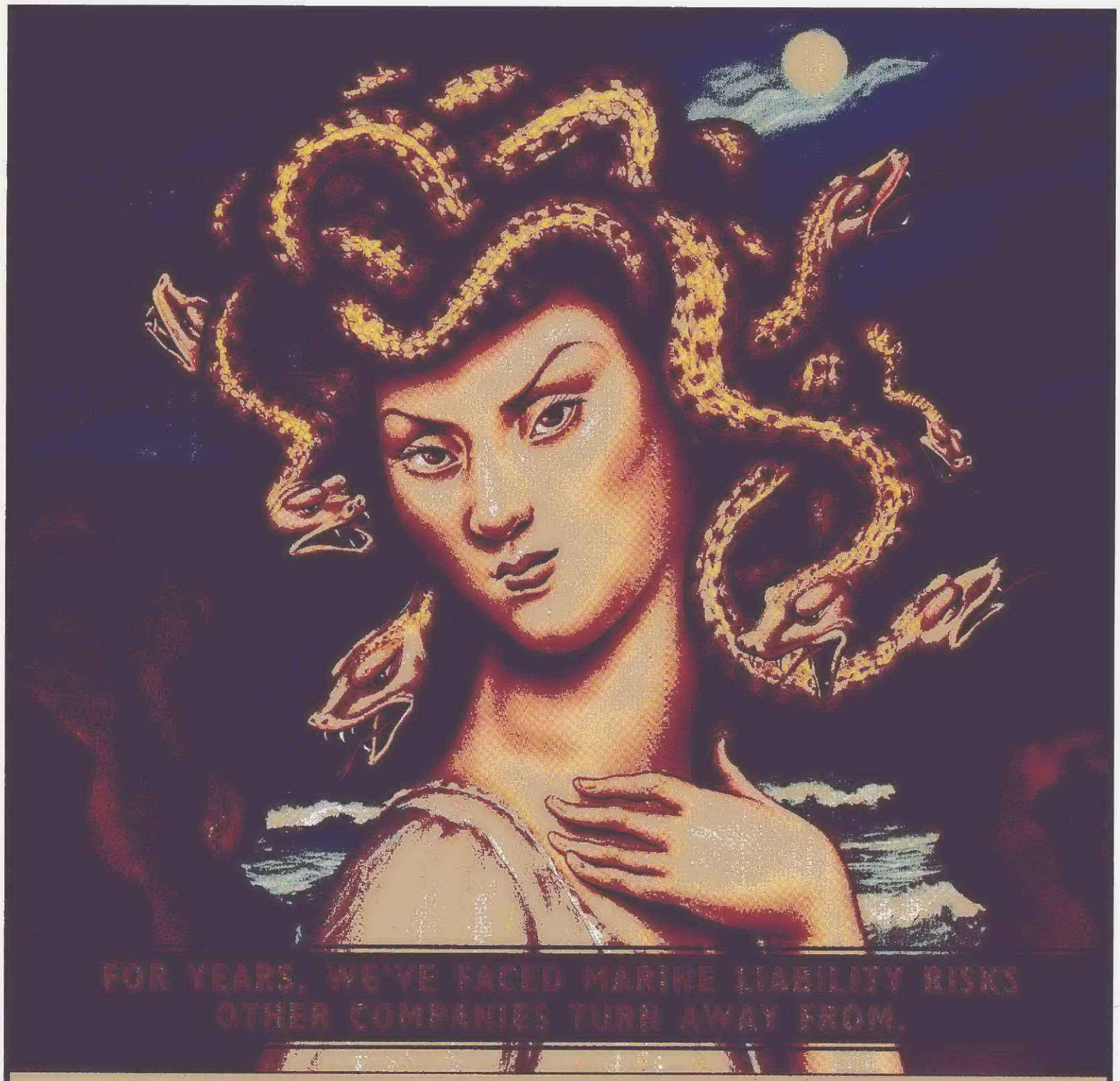
Keystone was honored for its outreach to low-income women in southeastern Pennsylvania. The plan, the largest Medicaid managed care provider in Pennsylvania, partnered with community organizations and a local hospital. The partnership was able to double the mammography screening rate for members.

Kaiser Permanente teamed with the Women's Information Network Against Breast Cancer to provide for the psychological needs of newly diagnosed breast cancer patients. The program pairs a breast cancer survivor with a woman newly diagnosed to provide support throughout the treatment process. As a result, 71% of patients were satisfied with the care, compared with 56% for other patients.

The fourth honoree, Blue Cross & Blue Shield of Massachusetts, joined with the American Psychological Assn. and the Linda Pollin Institute at Harvard Medical School to create an intensive group psychological program. This psychological program gives breast cancer patients the opportunity to discuss their treatment and how to reduce the stress of the disease. The pilot program's goal is to see how this psychological intervention can enhance the effectiveness of traditional medical treatment.

The report is the first in a four-part series dealing with women's health issues. The three remaining reports concern domestic violence; obstetrics and prenatal care; and hormone replacement therapy. The reports are scheduled to be issued later this year or early 1999.

The project was funded by The Commonwealth Fund, a New York-based foundation. BI



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OSHA

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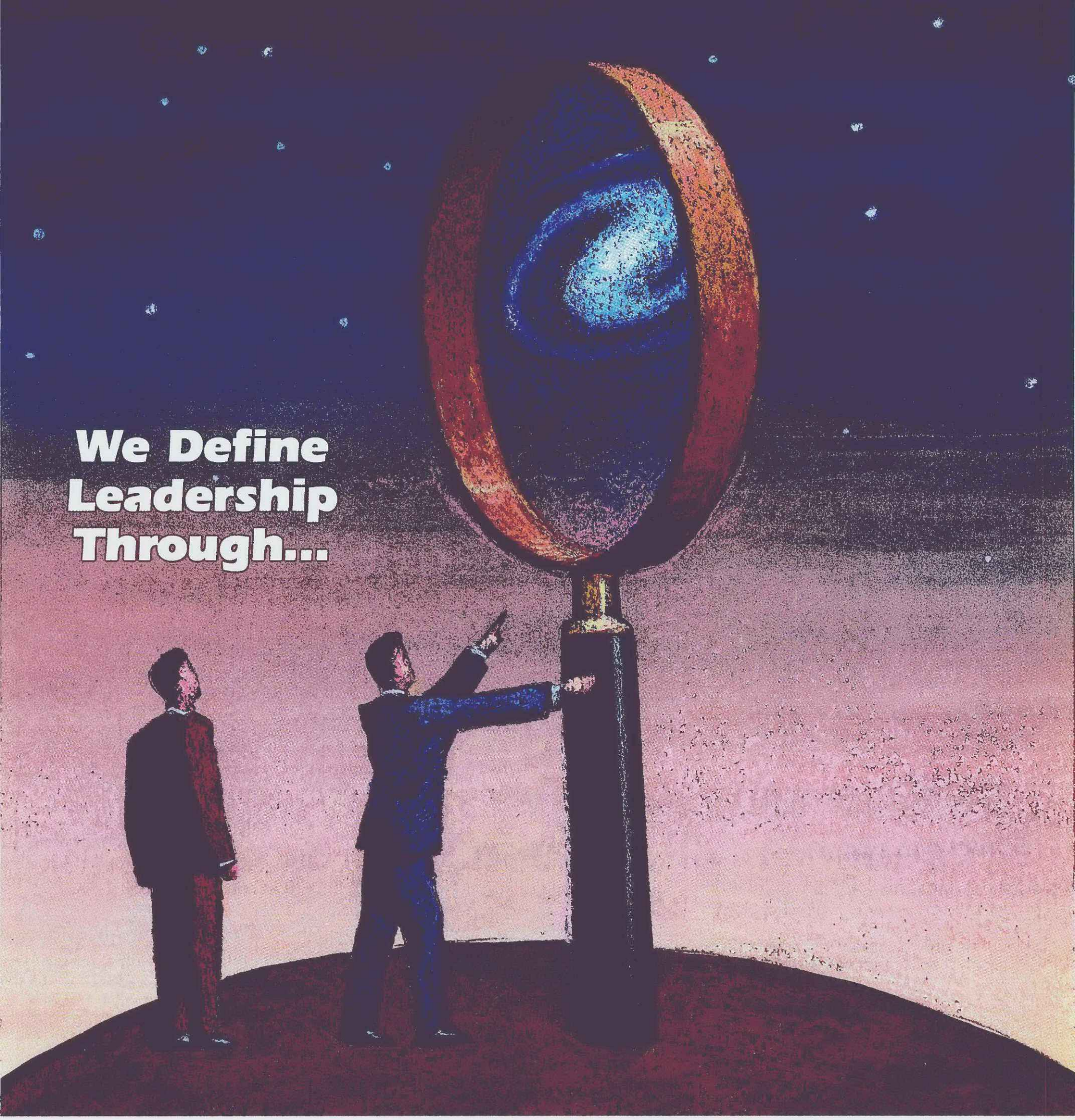
criticized the Occupational Safety and Health Administration's efforts and questioned whether adequate scientific evidence exists to justify imposing an ergonomics standard.

During his address, Mr. Jeffress also discussed the particular hazards facing workers in the poultry industry, which OSHA surveyed about working conditions last year (*BI*, Sept. 29, 1997).

Mr. Jeffress said that whereas officials thought that repetitive motion problems would be the biggest safety issue facing the industry, the survey found that back injuries accounted for approximately 40% of poultry workplace injuries.

He urged his audience of poultry industry health and safety officials to make "simple, commonsense fixes."

Among Mr. Jeffress' suggestions are keeping plant floors clean of fat and water and giving workers high-traction boots to cut down on slips and falls that cause back injuries. BI



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Opinions

Proposal picks up the pace

HOW MUCH TIME should health care plans have to decide if they will cover a medical procedure?

The Labor Department, in a long-awaited proposed rule, has given its answer: In the case of urgent benefit determinations, plans would have 72 hours to notify beneficiaries whether coverage will be provided. For non-urgent care, the deadline would be 15 days.

In addition, in cases where care already has been provided, a health care plan generally would have 15 days to notify a participant of the payments it will make, whether the claim will be denied, or whether more information is needed from the participant or provider before a payment decision can be made.

If adopted, these proposed rules would replace an outdated 1977 Labor Department regulation that says health care plans must handle claims as quickly as possible but no later than 90 days after receipt.

Today's health care delivery system bears little resemblance to that of two decades ago, when the current rule was developed. In 1977, traditional fee-for-service was king. In that system, few questions were asked before or after services were provided.

But as managed care has evolved and has largely supplanted traditional indemnity plans, the no- or few-questions approach has largely gone by the wayside.

As we all know, health care plans now often require pre-certification or pre-authorization before they will approve coverage for a major procedure.

We have no problem with that kind of scrutiny. We have no doubt that years ago, prior to the advent of managed care, there was too much unnecessary surgery; lack of physician review by outside parties was one reason why.

While medical care, in certain situations, no longer is automatically and instantly provided, that doesn't mean employees should be forced to wait an inordinate amount of time before a plan decides whether it will cover a procedure. A 90-day standard obviously is obsolete, and the new proposed 72-hour and 15-day standards are doable and needed.

Other parts of the proposed rules are more problematic. One change the Labor Department is suggesting, involving disclosure of certain information to participants, needs to be reconsidered.

The department is considering whether participants who are suing a plan for denial of benefits should be entitled to a slew of information, including documents related to previous claims made with that plan over the prior five years involving the same diagnosis and treatment.

This strikes us, and many others as well, as creating a significant administrative burden. Maintaining five years of records of coverage decisions and diagnosis may be more than many plan administrators could handle.

But, overall, we think the proposed regulations are a good first step in updating claims determination decisions to fit today's health care delivery system.

Precedents will contain Y2K

TWO LEGAL ACTIONS could greatly limit or expand businesses' liability for Year 2000 losses, depending on how courts rule.

The two cases both seek to draw on important product liability precedents to curb liabilities arising from the Millennium Bug. We hope the courts agree that businesses deserve the same protections from frivolous litigation and unreasonable claims in disputes alleging harm from computer flaws as well as products.

In recognition of the high stakes, two insurance organizations filed amicus briefs in one of the cases, *Kumho Tire Co. vs. Carmichael*. The briefs urge the U.S. Supreme Court to set the same high standard for the admissibility of expert technical testimony on Year 2000 lawsuits that it imposed in 1993 on expert scientific testimony in product liability cases (*BI*, Sept. 14).

The second action is a pre-emptive strike by Andersen Consulting, which is seeking a declaratory judgment in a Massachusetts court that it should not be liable for a business' cost of replacing a computer system it installed in 1989 that is not Year 2000-compliant (*BI*, Sept. 7).

Setting reasonable curbs on such lawsuits now, before the clock winds down, will be pivotal in limiting the flood of litigation that is bound to follow Dec. 31, 1999.

This will assure that, in addition to the high costs incurred in eliminating the computer bug or coping with the problems it causes, businesses are not also saddled with the expense of defending frivolous lawsuits.

In the Supreme Court case, insurers are calling on the court to apply the same restraints it imposed in *Daubert vs. Merrell Dow Pharmaceuticals*. That 1993 decision was a landmark ruling giving businesses new protection from junk science in the courtroom. In that case, which involved the antinausea drug Bendectin, the court ruled that federal judges must essentially act as gatekeepers, screening the reasoning and methodology of expert testimony before it can be heard. The court later clarified the *Daubert* opinion and said that district courts, not appellate courts, should serve in this gatekeeper role.

Similar protection should be afforded to the thousands of businesses that are sure to be sued in the wake of losses caused by the Year 2000 computer problem.

In the Massachusetts action, Andersen argues that in 1989, when it installed a computer for retailer J. Baker Inc., the only two options available that met the client's objectives were not Year 2000-compliant. As a result, Andersen questions why it should be accountable for not installing a system that didn't exist.

Andersen's argument echoes the state-of-the-art defense, in which a defendant can show that it provided goods and services in accordance with the state of scientific and technical knowledge at the time, or in compliance with government or industry standards.

We think this defense should clearly be available to consultants that gave professional advice on computers before Year 2000 solutions were available. It will prove equally important to computer and other high-tech manufacturers.

In both of these important cases, the courts have an opportunity to define and limit the boundaries of legal actions brought in the wake of Year 2000 computer losses. Such restrictions will assure that problems wrought by the Millennium Bug do not also spread to our courts and cause our system of justice to crash.

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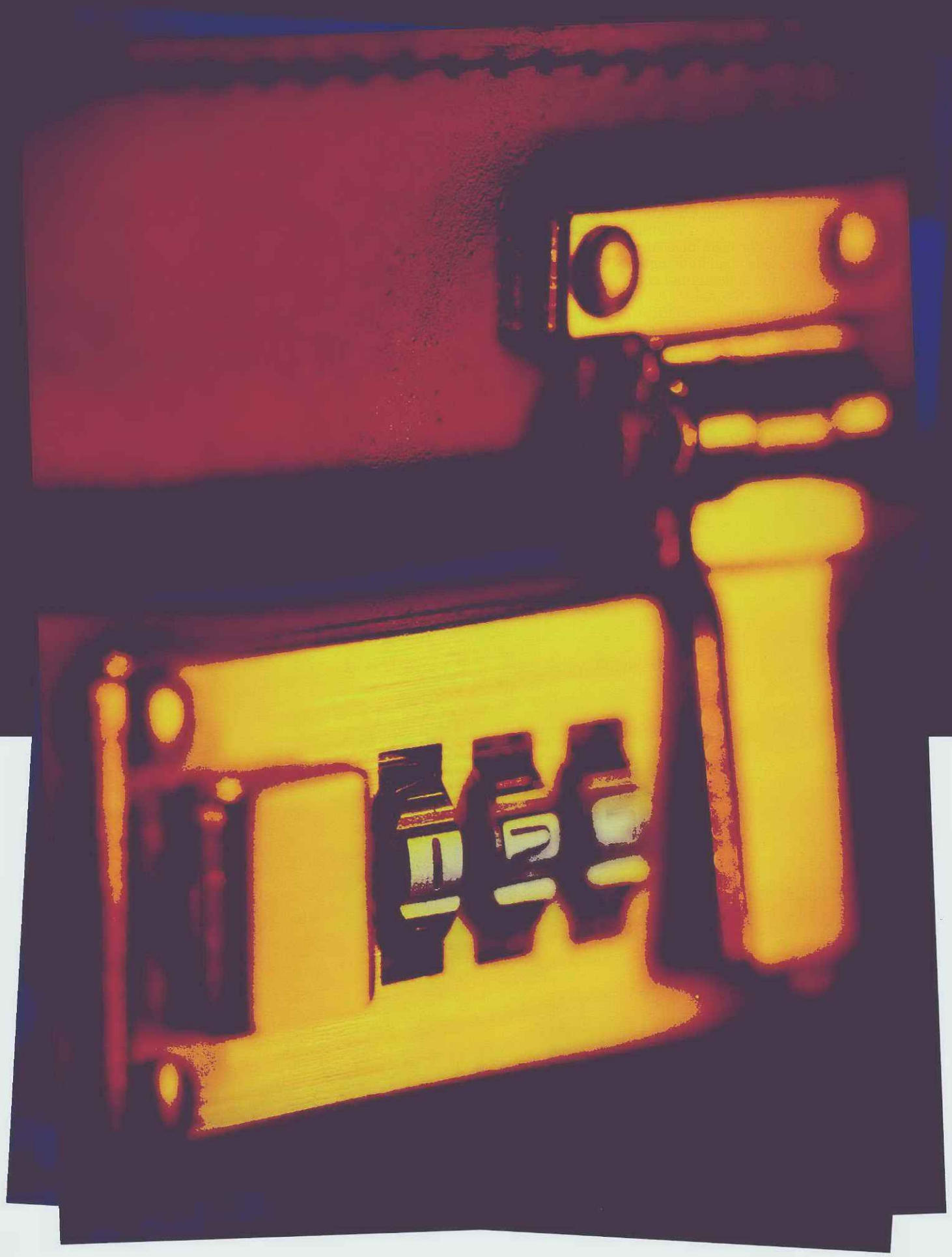

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Insurer connects with the customer

Research, policyholder surveys lead to some 'eye-opening successes' at CNA E&S

By JOANNE WOJCIK

SAN FRANCISCO—Some surplus lines insurers are trying new tactics to tap into the commercial market.

For example, rather than relying solely on the advice of managing general agents and wholesale brokers, one surplus lines insurer is surveying policyholders directly to find out what they want.

The company also is encouraging its staff to bone up on other aspects of the financial services industry, such as securitization, so that they can develop alternative financial insurance products.

The objective is "getting to better understand what the customer wants," explained Richard Quehl, president and chief operating officer of CNA E&S, Commercial Operations, a division of Chicago-based CNA Financial Corp.

"We've had some eye-opening successes in that effort."

For example, socioeconomic research into liquor liability revealed that significant changes in the industry were impacting the sale of insurance.

"Given our size and our tenure in this industry, we thought we knew all there was to know, at least all that had value for insurance companies," Mr. Quehl said during an interview at the 1998 annual convention of the National Assn. of Professional Surplus Lines Offices, held in San Francisco Sept. 9-13.

But CNA's researchers found that liquor sales have been declining at restaurants and bars in California since the implementation of a statewide smoking ban this year.

"Policies written in English don't have the same meaning or value as policies written in Korean or Spanish."

— Richard Quehl

Conversely, liquor sales at California retailers are climbing.

"If you follow the money, the money's going into package stores or liquor stores. Fewer revenues for restaurants and bars, but a real uptick in the revenues being generated by liquor stores," Mr. Quehl said. "So what do we do? We need to start focusing in on a new product for liquor stores."

CNA's research also showed that "with the distribution system we have in place today, we can't reach the growing part of the industry"—the ethnic communities—according to Mr. Quehl.

"Policies written in English don't have the same meaning or value as policies written in Korean or Spanish or some other language. But why not sell the customer a policy that he or she can read?"

To reach this market, CNA is looking for alternative distributors, such as brokers in inner-city and ethnic areas, he said.

"We haven't been accessing the businesses that are servicing the largest-growing ethnic populations in their areas. We've been much more focused on suburban sales than on inner-city sales," he explained.

In discussions with another of CNA's clients, the operator of a large Colorado ski resort, Mr. Quehl learned about the need for products that provide balance sheet protection.

"If there's not a lot of snow in his area, the word gets out very quickly," he explained. "So he was very concerned about maintaining financial stability on his balance sheet."

"The more we talked about it, it seemed like a good opportunity to do some new type of insurance hedge-like product, the theory being that if he had two ski resorts, one on the East Coast and one in the Rockies," one would likely have snow while the other did not.

Looking at the situation from an insurer perspective, Mr. Quehl reasoned that "if you were to provide balance sheet protection for both resorts, you're going to have a limits loss in the Rockies one year and no loss on the East Coast, or vice-versa. That equates to a 50% loss ratio. If you put a margin on top for profit and expense, you're still running a loss ratio of under 60%.

"That's a very attractive opportunity for us and each year, as long as we could accurately predict the weather impact on these two resorts, each year we'd be in a profit position," he said.

And "each year the customer is very happy, because he's got the balance sheet protection he wants to go back to his corporate owners and show increased growth."

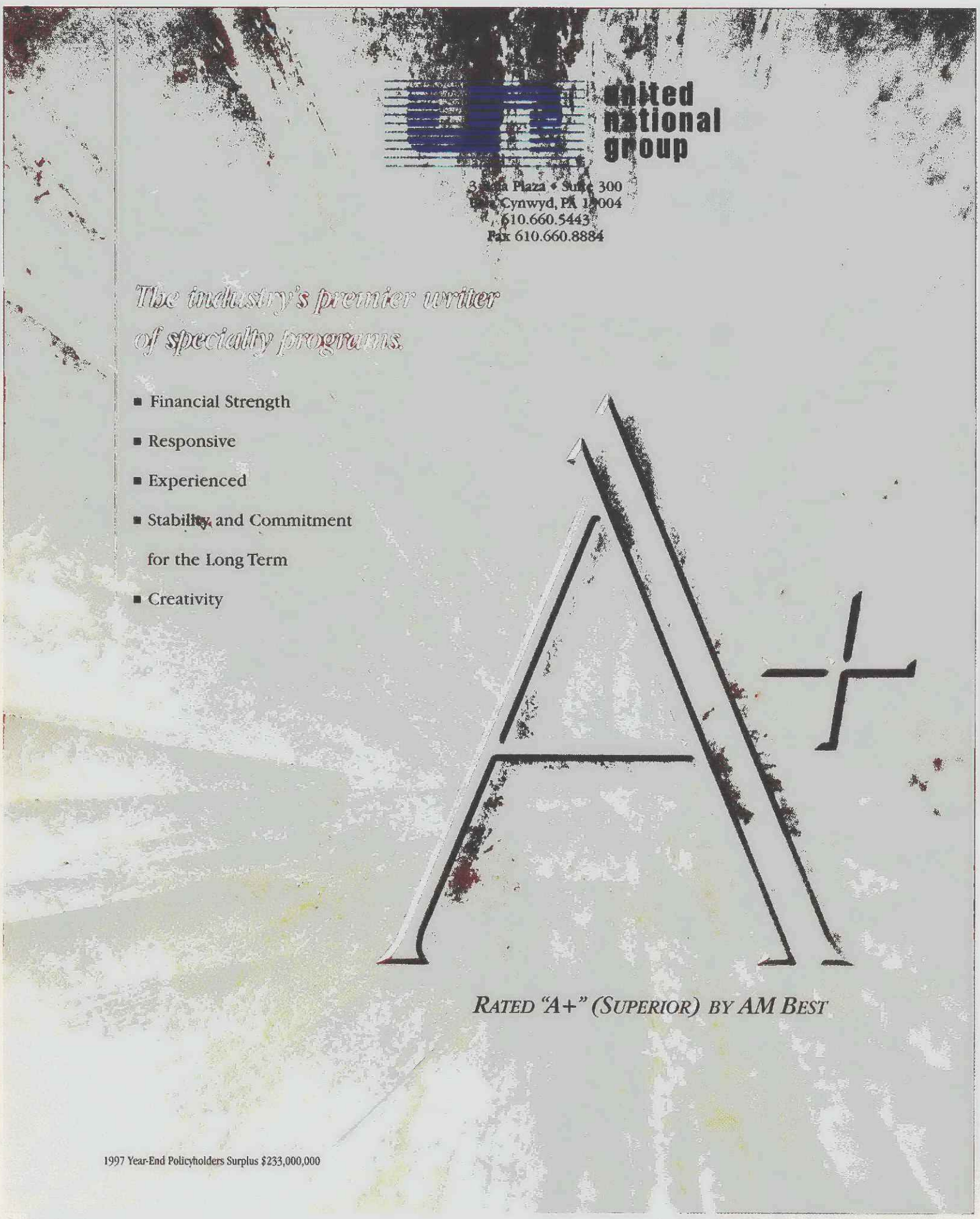
"There's a million of opportunities like that out there. And there's all kinds of swaps and derivatives you could use to securitize those types of risks," Mr. Quehl said. "You look at all the weather-related hedges associated with crops. People in the securities industry have been doing that for a long time."

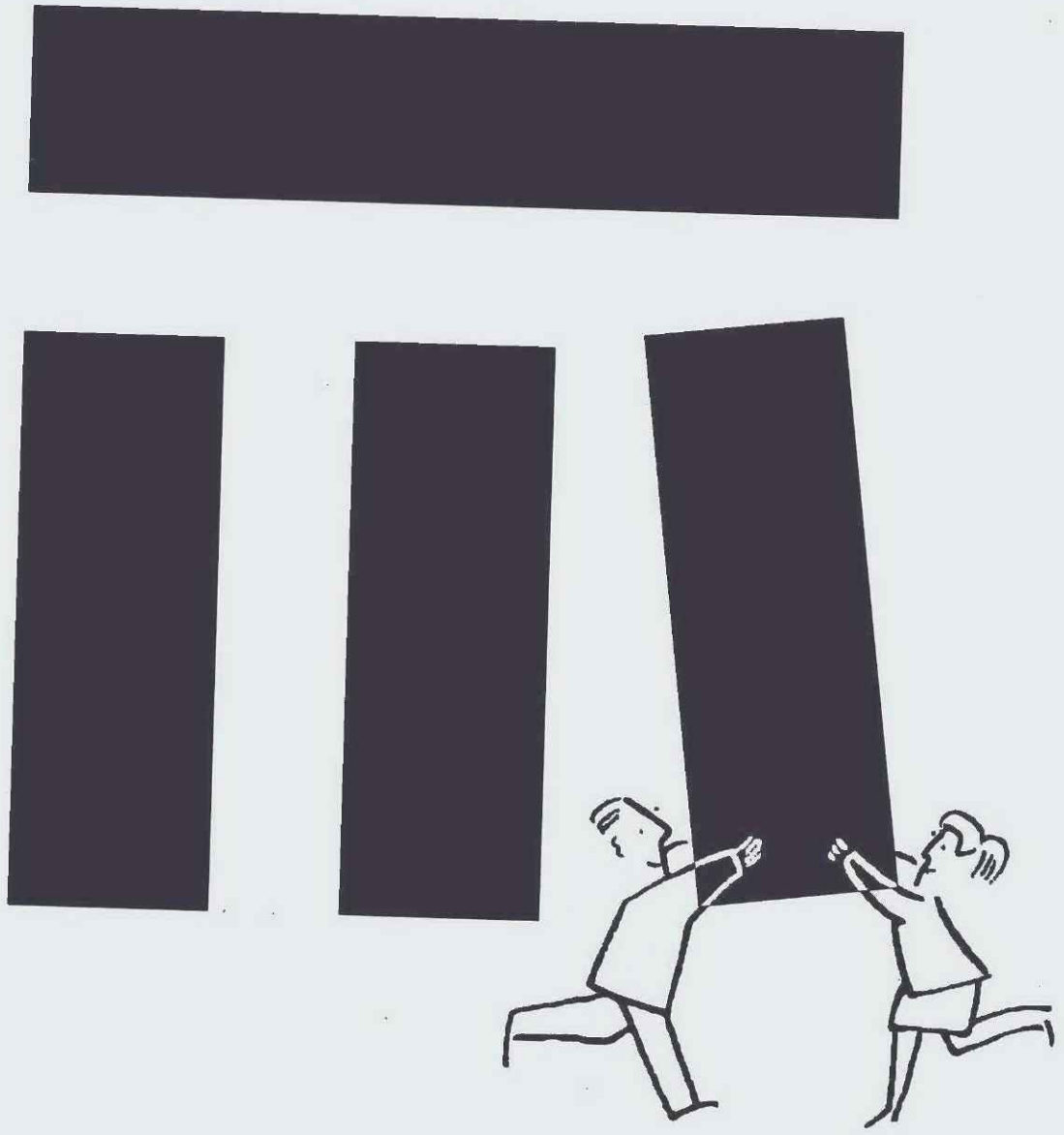
"The problem is, the insurance people don't speak securitization. The people who are experts in securitization don't understand insurance. So you have this communication gap," he explained.

This is why CNA is teaching its employees about the world of financial transactions outside of the insurance realm.

CNA also is offering financial incentives such as bonuses to foster a corporate culture like that espoused by the Three Musketeers: "All for one and one for all."

"If they're all focused on how their responsibility fits into our overall financial organization, I think ultimately we've motivated people in a direction that's best for them, best for the results we're trying to achieve," Mr. Quehl theorized. BI





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Management of Capital and Risk

Y2K claims may yield reinsurance disputes

By JOANNE WOJCIK

SAN FRANCISCO—Year 2000 coverage disputes brought by policyholders likely will trigger increased arbitration between insurers and their reinsurers, a reinsurance expert predicts.

Some insurers, for example, may try to treat all of their Year 2000 claims as a single event, so they incur only one retention before their reinsurance coverage is triggers, but reinsurers will probably fight this approach if the claims are not related, predicts Adrienne Reid, senior vp and chief treaty underwriting officer at Zurich Reinsurance in New York.

"We hope that many disputes do not occur. But if they do, we see a possibility of increased arbitration," she said.

In order to prevent disagreement over coverage triggers, "I think there has to be clarification in policy wording now as we enter the Jan. 1, 1999, renewal season," she suggested. "We don't believe that one occurrence, such as Y2K, can be seen as one event."

Reinsurers will be especially concerned about how insurers handle their Year 2000 claims, Ms. Reid said.

Regardless of what Year 2000 claims insurers decide to cover, they always will have a duty to defend any suits against policyholders, she pointed out.

She was speaking to an audience of mostly surplus lines marketers and underwriters attending the annual convention of the National Assn. of Surplus Lines Offices, held Sept. 9-13 in San Francisco.

"The highest exposure right now is technology software and hardware companies," she said, adding that according to The Gartner Group, a Year 2000 consultant, so far approximately 200 coverage disputes have been filed over Year 2000 issues.

Insurers also will likely incur significant expenses in seeking declaratory judgments over coverage issues, Ms. Reid added.

In coverage litigation, "there will probably be arguments about when the occurrence happened," she said.

Most insurers will likely argue that the policy in force when the damages actually occurred should respond, she said.

Eventually, however, the same trigger used in asbestos and pollution coverage cases—the manifestation and exposure triggers—likely will be applied to coverage for Year 2000 losses, she predicts.

Commercial general liability insurers also will likely be divided over whether data—currently considered intangible—is tangible property that can be damaged.

"As we know, property damage is defined as physical injury to tangible property including that resulting in loss of use of the property," she said.

Some courts have ruled that tangible property can be "property that is on magnetic tape that has not yet been printed out in hard copy," she said. "But there's also been case law that data that's in circuits, that's in wires, is not tangible, that it's not yet tangible." Because of these differing opinions, Ms. Reid predicts "this particular item will be discussed in the courts over and over again."

Business interruption is another coverage likely to be heavily litigated, according to Ms. Reid. "It will not cover unless there is a covered peril," such as fire, she explained.

So if the volume of work that normally flows through a system is diminished as a result of a Year 2000 problem, "that's not covered. There has to be total interruption or suspension of business," she said.

As a result of all of the coverage issues likely to be litigated, "it is quite possible" that insurers' legal costs will exceed indemnity, Ms. Reid warned.

"That is the biggest issue in the industry right now. Allocated loss adjustment expense will be quite expensive," she said.

For example, The Gartner Group estimates that as much as $1 trillion will be spent on litigation over Year 2000 problems, she said. BI

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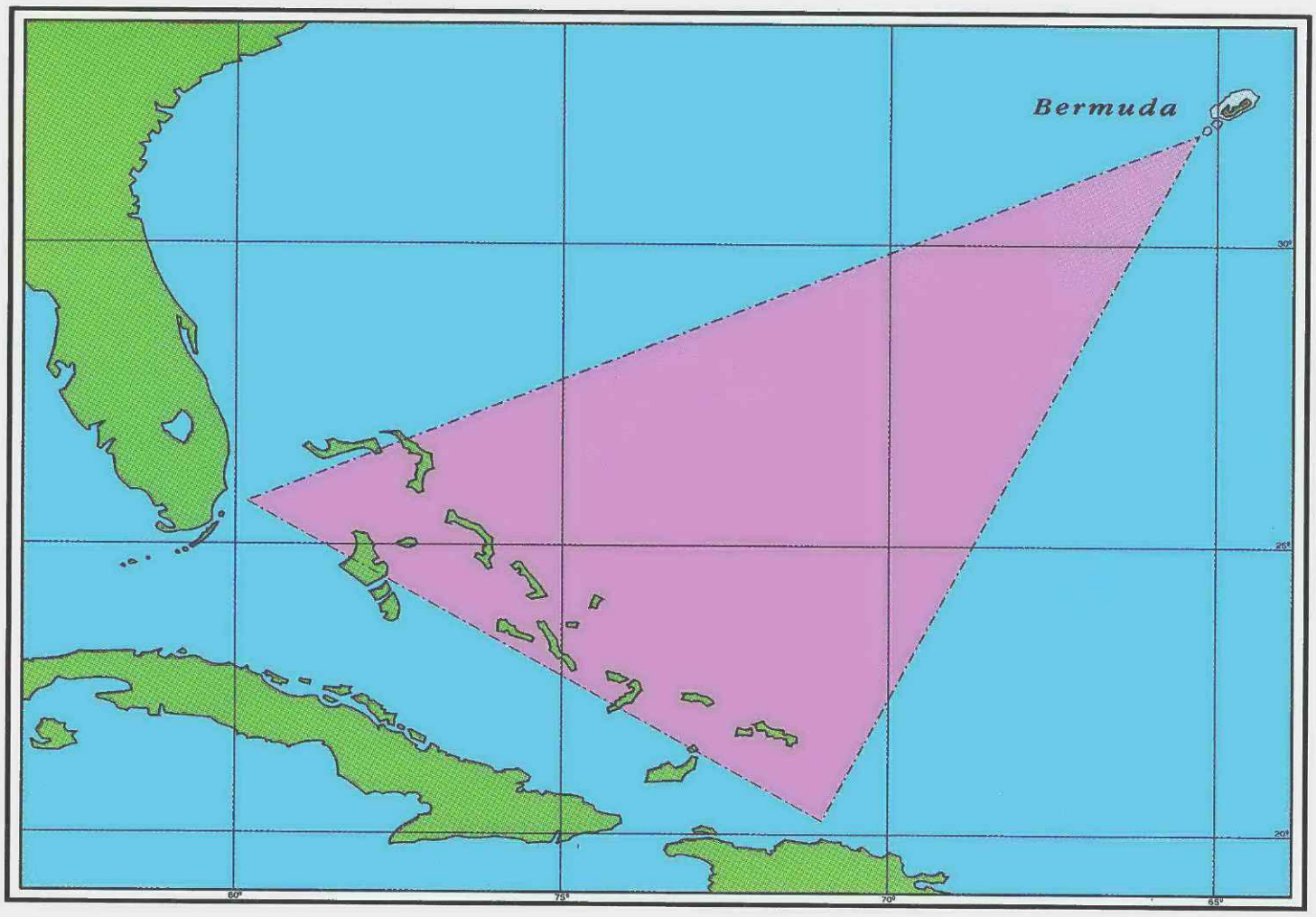

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Solvency of E&S viewed

SAN FRANCISCO—The solvency of the surplus lines industry continues to equal or exceed that of the total property/casualty industry, according to A.M. Best Co.

The rating agency's Annual Surplus Lines Review was released at the 1998 convention of the National Assn. of Professional Surplus Lines Offices, held in San Francisco Sept. 9-13.

During the 29-year period from 1969-1997, surplus lines company insolvency rates have mirrored that of the overall property/casualty industry with an average annual failure frequency rate of 0.86% and 0.87%, respectively, according to the A.M. Best report.

From 1983 to 1987, both admitted and surplus lines companies had a higher failure rate of approximately 1.2% due to the increased frequency of major catastrophe losses, increased building activity and inadequate pricing in the early 1980s, the Best report said.

The report also found that the overall premium volume for the excess and surplus lines industry declined by nearly 1% in 1997, compared with a 2.6% growth rate for the entire property and casualty industry.

The fifth annual study of the surplus lines industry is included in the 1998 NAPSLO Security & Review Annual Report.

A limited number of copies are available free from NAPSLO. Contact Mike Ardis, communications coordinator, 6405 N. Cosby, Ste. 201, Kansas City, Mo. 64151; 816-741-3910; fax: 816-741-5409; e-mail: mike@napslo.org.

New officers also were elected and installed during the meeting. Orville D. Jones, chairman and chief executive officer of Crump Insurance Services Inc. in Dallas took over as NAPSLO president, replacing Paul Springman, president of Evanston Insurance Co. in Evanston, Ill.

This year's meeting also served as the springboard for launching the Derek Hughes/NAPSLO Educational Foundation Lecture Series. The first speaker in the program was American Red Cross President Elizabeth Dole.

Attendance at the meeting also topped 2,000 for the fifth consecutive year.

—By Joanne Wojcik

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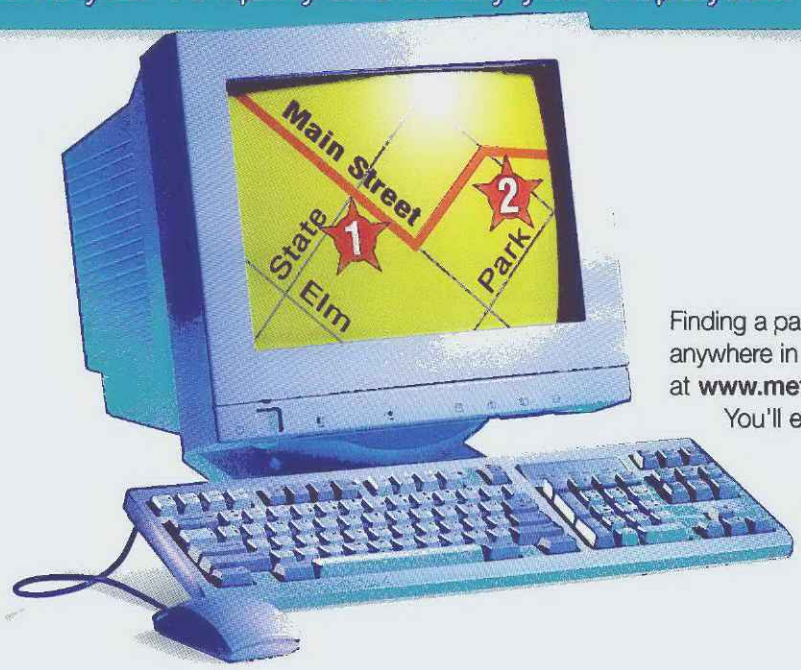

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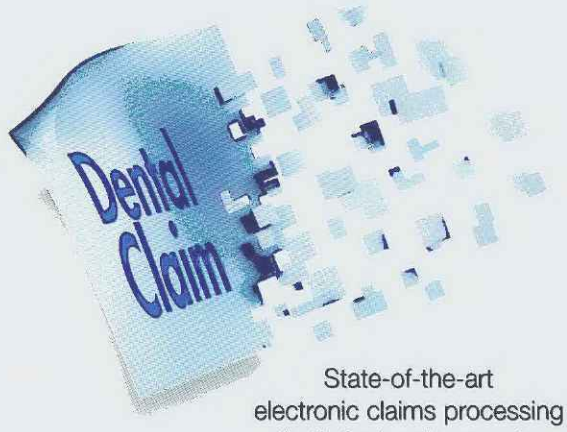

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INTERNATIONAL

Global Briefs

Dublin, Ireland-based **X.L. Europe Insurance** has set up a new operating division to manage and cover employers liability exposures in the United Kingdom and Ireland. XL Prevent has two aspects to its operations: risk management services, based in Newcastle upon Tyne, England; and employers liability underwriting, based in London. Other offices are in Manchester, Burton-on-Trent and Harrogate, England; Glasgow, Scotland; and Dublin. Terry Nichol has been named as director and general manager of XL Prevent and Paul Blundell is director of risk evaluation. . . .Roger Taylor, chairman-elect of AMLIN, the organization to be created by the merger of Murray Lawrence Holdings Ltd. and Angerstein Underwriting Trust P.L.C., has been elected president of the **British Insurance Law Assn.** Jonathan Sacher, head of the insurance and reinsurance group at London law firm Paisner & Co., has been appointed chairman. . . .Ian Muress has been appointed U.K. chief executive of loss adjuster **McLarens Toplis**, based in London. Mr. Muress will take up his post on Nov. 1, while George Cuthbert will remain group chief executive. . . .**Clive Archer** has been appointed manager of international casualty treaty underwriting at St. Paul Reinsurance Co. Ltd. in London. Mr. Archer previously was senior casualty treaty underwriter for ERC Frankona. . . .**David Pamphlett** has been named deputy underwriter for syndicate 282, owned by Liberty Syndicate Management Ltd. Mr. Pamphlett has been with syndicate 282 for the past eight years, specializing in marine liability coverage. . . . **Queensland Insurance (PNG) Ltd.**, a subsidiary of Australian insurer QBE Insurance Group Ltd., has agreed to acquire the Papua New Guinea insurance portfolio of General Accident P.L.C., now CGU P.L.C., raising its total market share to 35 million kina ($15.4 million), or about 35% of the market. . . .Rating agency A.M. Best Co. has assigned an A- rating to **Latin American Reinsurance Co. Ltd.** of Hamilton, Bermuda. Best said the rating reflected the company's "excellent" initial capitalization, as well as its ownership by EXEL Ltd. and Risk Capital Reinsurance Co. Best anticipates Latin American Re's experienced management and teams will continue their strong relationships in Latin America and South America, and it expects the company to remain debt-free for its first five years. . . .**Lloyd's syndicate 33**, part of Hiscox P.L.C., is leading a £18.5 billion ($31.02 billion) terrorism coverage facility for the U.K. Higher Education Section Mutual, UMALT. Syndicate 33 has taken a 50% line on the cover, placed into the London market by Leumi Insurance Services (UK) Ltd. . . .French reinsurer **SOREMA S.A.** plans to open new branch offices in London and Sao Paulo, Brazil, in 1999, pending regulatory approval. SOREMA sold its U.K. reinsurance subsidiary in February to Trenwick Group Inc., citing the difficulty of managing its risk accumulation worldwide with separate underwriting operations in London and Paris. . . .Losses from the **riots in Indonesia** protesting the government earlier this year are unlikely to be covered by insurance, according to a statement by the Singapore Reinsurance Assn. A spokesman for Germany's Munich Re A.G. confirmed that international reinsurers will exclude claims arising from civil commotion or politically motivated events. . . .**Bruno Ritchie** has joined Hiscox P.L.C. to develop its telecommunications and aerospace business. Mr. Ritchie was previously space risks underwriter at Assurances Generales de France in Paris. . . .London rating agency Fitch IBCA Ltd. has assigned an A, or strong, rating to **Hiscox Insurance Co. Ltd.**, part of Hiscox P.L.C. Fitch said the rating reflected Hiscox Insurance's good capitalization and technical reserves, as well as the "intrinsic improvement" in its underwriting. Fitch noted Hiscox has shed certain unprofitable business segments it inherited after taking over Economic Insurance Co. Ltd.

Russian crisis raises concerns

Security risks higher, cargo insurers say

By MARIA KIELMAS

Cargo insurers in the Europe and North America are reporting a downturn in shipments to Russia in the wake of that country's economic crisis.

Some cargo insurers are beefing up security at warehouses in the event of an increase in crime.

The main effect of the Russian crisis on Western companies in the past month has been "a drastic reduction of shipments. Apparently, suppliers in the U.S. cannot get paid," said Bill Walker, managing partner of Seattle-based Overseas Insurance Brokers.

Cargo underwriters at Lloyd's of London remain more circumspect, for the moment.

"August is always a quiet month (for business), because everyone goes to their dacha (summer house). So far, we have been fortunate not to suffer any losses," said Richard Burnett, cargo underwriter at H.R. Dumas, a division of Lloyd's managing agency Wellington Underwriting P.L.C.

Mr. Burnett said underwriters are conscious of increased security risks in Russia as the economic and political crisis deepens. The Russian government has expressed fears of increased crime in the wake of the crisis, while hijackings and theft of cargoes in Russia is rife. "We have taken the precautions to beef up security at warehouses. We have recommended that armed guards be posted around them," he said.

See **Cargo** *on next page*

PHOTO: AFP

Russia's currency crisis is prompting merchants to cut prices, and some underwriters say the economic climate has increased security risks on cargo.

Committee to outline broker self-regulation

By SARAH GODDARD

LONDON—U.K. brokers made one more step toward self-regulation last week with the formation of an executive committee to guide the industry's transition away from government oversight.

Chaired by Anthony Howland Jackson, chairman of the Lloyd's Insurance Brokers' Committee, the newly formed executive committee will oversee the appointment of a chairman, chief executive and board of directors for "Newro"—the provisional name for the independent regulatory body—as well as establishing the direction it will take.

The executive committee includes: Simon Bolan, chairman of the British Insurance & Investment Brokers' Assn.; Tim Carroll, chairman-designate of the International Underwriting Assn., which will be created by the merger of the Institute of London Underwriters and the London International Insurance & Reinsurance Market Assn.; Albert Mills, chairman of the General Insurance Council at the Assn. of British Insurers; Max Taylor, chairman of Lloyd's of London; and Michael Slack, chairman-designate of the soon-to-be-formed Assn. of Insurance Intermediaries & Brokers, a new trade association for intermediaries.

"This is the first major phase in creating the new, totally independent, self-regulatory regime for general insurance," said Mr. Howland Jackson. The executive committee has agreed that its key objectives are to:

- Establish and enforce principles and

See **Brokers** *on page 19*

German employers critical of front-runner

By DON LEWIS KIRK

COLOGNE, Germany—On the eve of German national elections, employers are harshly criticizing the Social Democratic Party and its charismatic leader, Gerhard Schroeder.

Mr. Schroeder, who is seeking to reverse employer-friendly tax and social insurance reforms, is leading Chancellor Helmut Kohl in pre-election polls.

Mr. Schroeder has pledged that he will unravel social security legislation passed in October in his first 100 days in office. The so-called "Rentenreform" is expected to slash German retirement benefits by 6%, beginning in 1999. If the SPD has its way and the reduction is repealed, employers expect total retirement contributions—which they share with employees—to account for 25% of wages by the year 2030. Currently, employer contributions account for 20.3% of wages. Additional costs to employers if the reforms are reversed are estimated at 15 billion deutsche marks ($8.87 billion) by 2030.

PHOTO: AFP

Germany's upcoming election pits pro-employer Chancellor Helmut Kohl, right, against Gerhard Schroeder, left, who has promised to overturn previous pension reforms.

German Employer Assn. President Dieter Hundt called the SPD agenda a "100-day program to destroy economic recovery." Mr. Hundt blasted the party's position, saying it jeopardized talks among government, employers and unions aimed at creating jobs. The SPD's stance "only boosts personnel costs, dampens investment and kills jobs," he said.

See **Germany** *on page 20*

Pollution insurance guidelines issued

By MATTHEW MacDERMOTT

LONDON—The U.K. insurance industry, from buyer through to reinsurer, has developed an unprecedented set of guidelines that aim to improve the underwriting of environmental risks in the United Kingdom.

The guidelines were launched at a London seminar this month as part of a wider report delivered by the Joint Pollution Working Group.

The working group, established 18 months ago, includes representatives from the Assn. of British Insurers, the Assn. of Insurance & Risk Managers, the British Insurance & Investment Brokers Assn., Lloyd's of London, the London International Insurance & Reinsurance Market Assn., the Loss Prevention Council and the Environment Agency.

Phil Bell, working group chairman and technical services manager-global risks division for U.K. insurer Royal & Sun Alliance P.L.C. of London, said it is the first time all sectors of the U.K. insurance industry have joined forces to examine and improve the underwriting of a particular insurance class. He said all group members agreed there was a need for better-quality underwriting of public liability insurance for sudden and unintended pollution in the United Kingdom.

Insurance for third-party claims for damage arising from pollution in the United Kingdom generally is offered as part of public liability policies.

Mr. Bell said the guidelines represent a more technical approach to environmental underwriting, as practiced in Europe and the United States, by giving insurers better information and guidance on assessing environmental risks. He said the guidelines aim to help underwriters better understand the technicalities of environmental underwriting and, ultimately, reward the better risks.

The guidelines, which are not en-

See **Pollution** *on page 18*

Cargo

Continued from previous page

Mr. Burnett explained that the additional security is provided by private security companies that are joint ventures between former military personnel from the United Kingdom and Russia. Although there have been no increases in claims yet, the extra measures are generally adopted for warehouses containing computer goods and other high-value electronics, he said.

Cargo insurance is the dominant business sector for Russian state insurer Ingosstrakh, but the company is not registering an increase in claims yet as a result of the ongoing crisis.

"There are no special requirements (for security). We have not seen any reason for doing that up to now," said Nikolai Lychakin, director of cargo insurance at Ingosstrakh.

Mr. Lychakin noted that Ingosstrakh still has the same claims statistics as throughout last year. Most of the problems relate to the bank payments. "We sometimes have to receive payments in rubles even if the sum insured is in U.S. dollars," he said. Ingosstrakh is trying to negotiate special exchange rates with clients to overcome the difficulty of the currency shortage for Russian clients, Mr. Lychakin added.

Mr. Walker is not concerned with any increase in security risk as a result of the Russian crisis; he is not involved in warehouse coverage. The far eastern region of Russia has been in recession ever since the perestroika era of the former Soviet Union in the mid-1980s, he noted.

Overseas Insurance Brokers is a joint venture between Mr. Walker, a Seattle-based freight forwarder that he declined to identify and Russian entrepreneur Sergei Banderev, who is president of the Nakhodka Reinsurance Co., a division of the Pacific Ocean Insurance Co. Both companies are based in Nakhodka, a port located about 112 west of Vladivostok.

Business placed by Overseas Insurance with Pacific Ocean is reinsured to a limit of $1 million in the Russian market. An excess layer up to $2 million is placed in the London market, while anything in excess of $2 million is reinsured with Swiss Reinsurance Co., Mr. Walker said.

Cargo insurers see new business opportunities with the demise of Ingosstrakh's London-based affiliate Black Sea & Baltic General Insurance Co., which became insolvent in August due to losses on older long-tail business.

"That opens up a number of opportunities for us," said Mr. Walker, noting that a major U.S. broker had placed a great deal of Russian cargo business through Black Sea & Baltic.

Insurance executives are trying to play down any of the Russian crisis spreading to the former Soviet states, despite currency volatility in the former Soviet republics. On Sept. 7, the governments of Azerbaijan, Georgia and Kazakhstan warned against panic as local currencies fell against the dollar in street trading. But Ukraine effectively devalued its hrvyna by introducing a new exchange rate corridor on Sept. 7. The rate fell to 2.53 hrvyna to the U.S. dollar from 2.25 hrvyna to the U.S. dollar.

"We don't think this is too much of a problem because there has been a positive reaction from the (International Monetary Fund)," said Danny Fushchych, deputy general manager at Kiev-based Bain Hogg International, a division of Aon Corp. On Sept. 2, the IMF approved a $2.2 billion loan to Ukraine.

Mr. Fushchych acknowledges that Ukraine still is exposed to Russian economic development, as 40% of its trade is with Russia. "But 80% of that 40% is a barter operation. And the remaining 20% is in rubles or hrvynas," he added. The real problem for the development of the insurance market in Ukraine remains the very high premium tax levied by the government. Direct insurance premiums are subject to a 30% tax, while reinsurance premiums are subject to a 15% tax.

Despite a run on U.S. currency in several adjacent republics, insurers remain calm.

Insurers in Kazakhstan are hoping the government will further open up the market to foreign investment. At present, foreign companies may buy only up to 50% of a domestic insurer in Kazakhstan.

"There haven't been any effects from the Russian crisis up to now," says Buniat Sardarov, director at Baku, Azerbaijan-based Sedgwick Azeri Ltd., a division of London-based broker Sedgwick Group P.L.C. BI

'Silk Road' project may spur cargo cover

An agreement signed Sept. 7 by 12 nations from central Asia, the Caucasus and the Black Sea area to rebuild the "Silk Road" could mean new business opportunities for insurers.

The Silk Road is the ancient trading route between Europe and China via the Caucasus.

Armenia, Azerbaijan, Bulgaria, Georgia, Romania, Ukraine, Moldova, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkey signed an accord in Baku, Azerbaijan, to upgrade all forms of infrastructure, regulations and customs procedures.

'If this goes ahead, it will be of great importance to insurers,' says Sedgwick Azeri's Buniat Sardarov.

"If this goes ahead, it will be of great importance to insurers," said Buniat Sardarov, director at Sedgwick Azeri Ltd. in Baku. "Now there is already some oil coming in from Kazakhstan by sea to Baku and then by rail to the Black Sea. All this has to be insured. This is a great opportunity for insurers," Mr. Sardarov observed.

But Danny Fushchych, deputy general manager at Kiev, Ukraine-based Bain Hogg International, a division of Aon Corp., remains circumspect.

"This is a very expensive project. People do talk about it, but it is not something to be done today. We need to create the road infrastructure," Mr. Fushchych said. A re-created Silk Road would have only a short route through Ukraine, he noted.

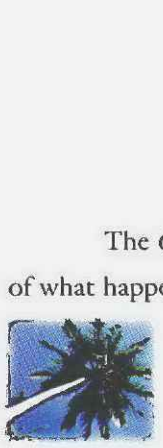
Ingosstrakh has offices in all the former Soviet republics and, hence, in all the countries along the Silk Road. But the Russian insurer is losing its dominance in the region's cargo market.

"The volume of cargo from the central Asian republics to Russia is falling," noted Nikolai Lychakin, director of cargo insurance at Ingosstrakh. But as business with central Asia declines, Ingosstrakh's eyes are turning to the other end of the Silk Road, in China.

"We are now very interested in China and have opened a representative office there. We are considering all prospects of cooperation with China. Reinsurance is written in all directions, but cargo is the first step," Mr. Lychakin said.

—By Maria Kielmas

Imagine if AMBITION LACKED FORESIGHT



The 600 statues on Easter Island stand as a stark reminder of what happens when grand schemes go awry. These sculptures, or moai as they are called, are all that are left of a once thriving civilization. In their zeal to construct larger and larger monuments, the inhabitants all but ignored the impact of their efforts. By clearing the island of trees to hoist their monuments, they unwittingly sealed their fate.

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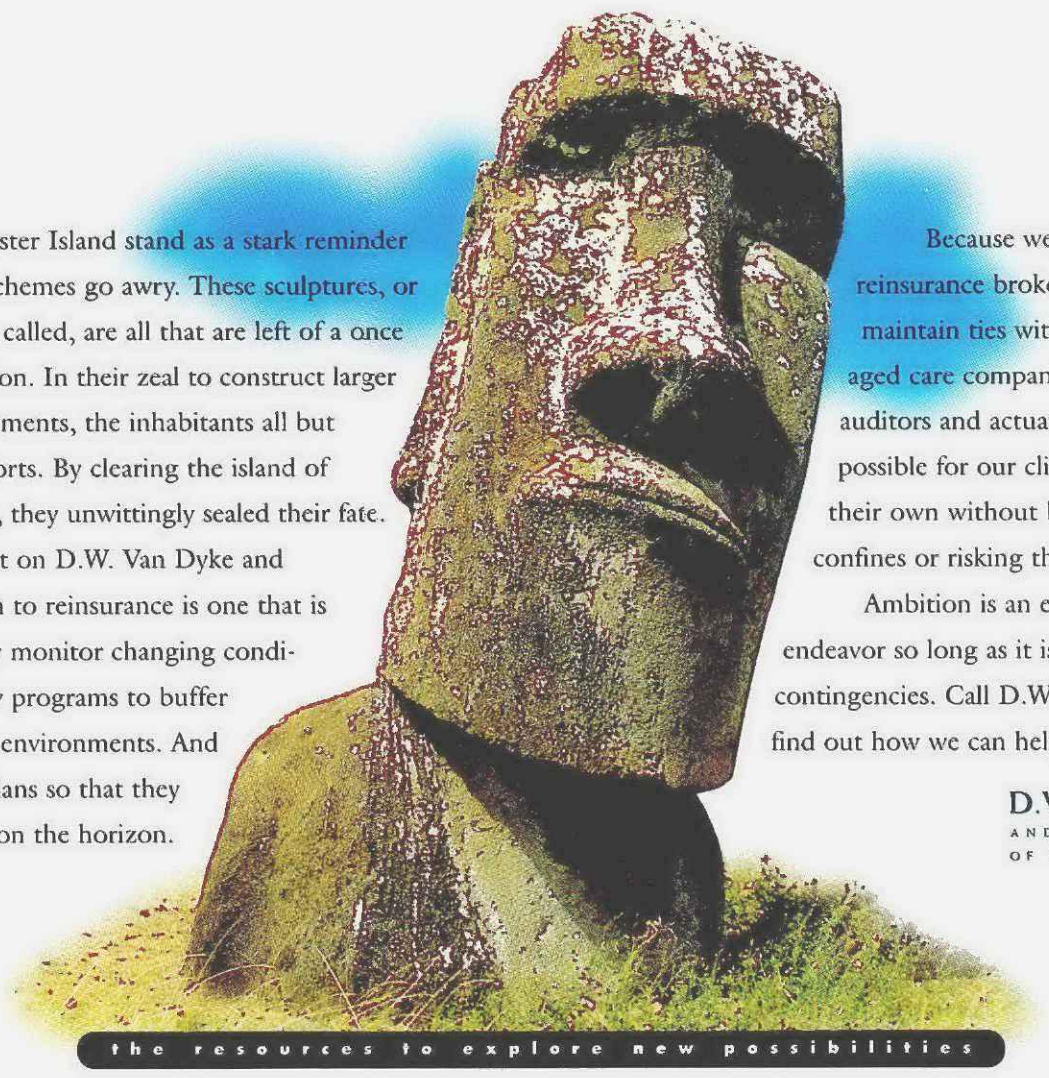

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LEXINGTON INSURANCE COMPANY PIONEERS IN REVOLUTIONARY COVERAGE

Pollution

Continued from page 15

forceable, set out key questions for insurers to ask buyers seeking public liability insurance. The questions are designed to help insurers identify businesses that have a high risk of filing large pollution liability claims.

Michael Meacher, U.K. Environment Minister, welcomed the launch of the guidelines during a keynote address at the seminar, attended by more than 60 representatives of the U.K. insurance industry. He said the report sends a clear message to U.K business that "it pays to get your environmental house in order."

"Although the insurance industry are not front-line environmental policemen, they do have an important role in educating the businesses they insure and helping them reduce their environmental risks, as well as giving them financial incentive to reduce that risk," he said.

Mr. Meacher said the guidelines are a good, practical initiative, but that they now must be backed by commitment from the insurance industry to take them forward.

Mr. Bell said he agreed with Mr. Meacher that the guidelines must not be "just words on paper." He said action now lies with individual insurers to adopt the guidelines in assessing their clients' environmental risks.

Graham Lee, director of risk management at Waste Management International P.L.C. of London and chairman of AIRMIC's environmental group, said U.K. risk managers welcome the shift toward more technical environmental underwriting. "I am sure some buyers will complain about filling out more forms, but I am sure the majority will welcome the opportunity to discuss their environmental risks with underwriters," he said.

Mr. Lee said there is a need for U.K. insurers to study their clients' environmental exposures more carefully. He said many large U.K. companies have well-developed risk management plans for environmental liabilities, but there is a perception among such companies that underwriters make no allowance for this.

"Buyers now look at environmental liabilities the same as any other liability they face—without emotion and using as much fact as possible," he said. "Buyers want underwriters to ask the right questions. . .to discriminate between good and bad."

The guidelines cover three areas:

- Inherent hazards, including a list of all industrial materials and substances processed, handled or stored onsite.
- Management controls, including processing, storage and waste management procedures.
- Location, including descriptions of surrounding areas and pathways through which potential pollution and contamination could flow.

The guidelines are based on general-purpose questionnaires, but they can be adopted by insurers to specific industries.

Jeremy Hodge, manager of insurance services at the U.K. Loss Prevention Council, which provided technical advice to the working group, said the guidelines are designed to operate on multiple levels. "The idea is to avoid troubling every client with every detail and only bothering with the extreme for extreme cases," he said.

The starting point is a standard questionnaire for all buyers. Insurers can then issue supplementary questionnaires for those companies they think might be high risks, detailed questionnaires for those companies they know are high risks, and, finally, consultant reports to address areas that need to be improved. At each level, buyers must provide more detailed information.

Mr. Hodge said the most difficult part for insurers is interpreting the information gathered from the questionnaires. "How you turn the questions and answers into ratings and premiums is up to each insurer," he said.

Training and support for underwriters who will be dealing with the questionnaires is essential, Mr. Hodge said. But he said the guidelines are "not just science for science's sake" and that underwriters still will have to apply some degree of common sense. "You will still have to go for the overall feel of the risk," he said.

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Copies of the Joint Pollution Working Group's Recommendations for the Underwriting of Pollution Risks cost £15 ($25) and are available from the Assn. of British Insurers, 51 Gresham St., London U.K. EC2V 7HQ; 44-171-600-3333; fax: 44-171-696-8999.

Stiffer pollution fines sought

Current U.K. levels offer little deterrent, agency says

LONDON—The U.K. Environment Agency is calling for stiffer court fines for U.K. companies that pollute the environment.

The agency, the U.K.'s environmental watchdog, contends that current U.K. fine levels are no deterrent to pollution for large U.K. companies.

The move is being supported by the U.K. Assn. of Insurance & Risk Managers, which says higher court fines will raise corporate awareness of environmental management in the United Kingdom.

In the 1997-98 financial year, the Environment Agency prosecuted 600 U.K. companies for environmental pollution, a 16% increase from the previous year.

The average fine was £2,000 ($3,354) per ton of chemical released.

Martin Brocklehurst, head of the Environment Agency's environment protection service, said that while U.K. courts are taking a harder line on environmental pollution, fines still are not high enough to deter multimillion-pound companies.

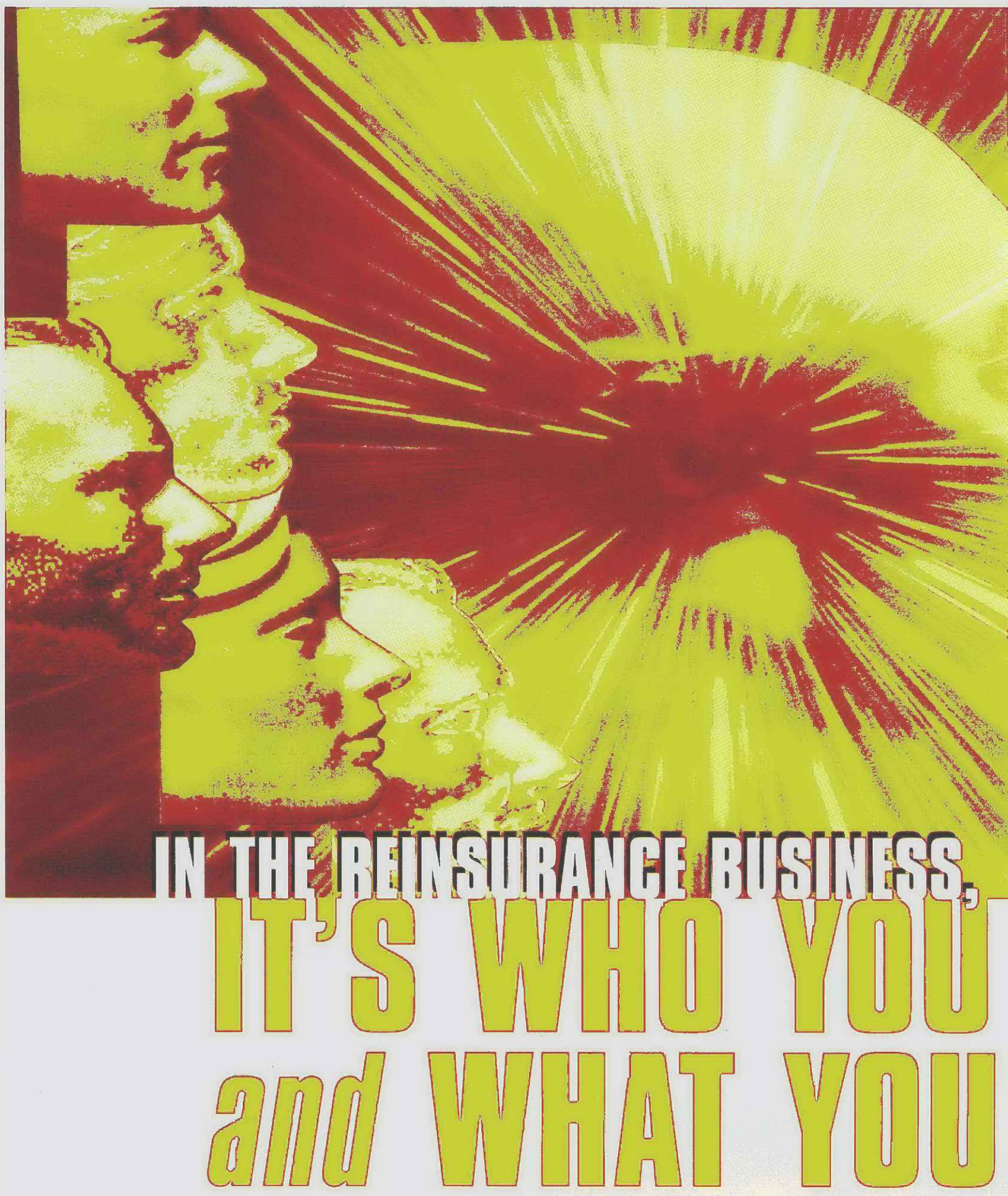
The largest environmental fine in the United Kingdom in 1997-98 was a £300,000 ($503,100) fine against Imperial Chemical Industries P.L.C. of London in Warrington Crown Court (*BI*, March 23).

Mr. Brocklehurst said the ICI fine is the Environment Agency's largest-ever prosecution, but it is "nowhere near" the largest environmental fines issued by U.S. courts, which he said can be well over £20 million ($33.5 million).

Graham Lee, chairman of AIRMIC's environmental group and director of risk management at Waste Management International P.L.C., of London, said there needs to be a significant increase in fines for environmental pollution in the United Kingdom.

He said increased fines are well overdue and essential to reducing pollution in the short term and raising awareness of environmental management in the long term.

—By Matthew MacDermott



Workplace stress claims rising, U.K. union report says

By CAROLYN ALDRED

LONDON—Employers are facing more and more compensation claims for stress at work, repetitive strain injury and discrimination, according to a survey published this month by the Trades Union Congress, the London-based organization representing U.K. labor unions.

The survey of the TUC's legal services for 1997 showed that unions won £301 million ($503.5 million) in compensation for members last year, taking their total compensation won for workplace injuries and occupational illness to £1.5 billion ($2.5 billion) during the past five years.

Legal services offered by trade unions have expanded significantly in recent years as a means of recruiting and retaining members, the survey noted, pointing out that legal services were rated the second most important union activity by members after fighting for better pay and conditions.

'Stress has been a difficult area in law, but with more employees coming forward with their cases, unions are increasingly taking them on,' according to the TUC report.

The 1998 survey is based on responses from 39 unions, representing 96% of union membership in the United Kingdom, for the period January to December 1997.

Stress cases continued to increase, topping the list for the fourth consecutive year, with 22% of unions reporting an increase in stress cases among members. Unions have about 460 stress cases in progress, the TUC survey states.

"Stress has been a difficult area in law, but with more employees coming forward with their cases, unions are increasingly taking them on," the survey states, adding, "however, the vast majority are still settled before they come to court."

Among the landmark settlements made last year was an out-of-court settlement of £25,000 ($41,820) paid to the widow of a trade union member. The settlement, in a suit charging that the worker had been driven to suicide by stress, was the first such settlement for a suicide caused by workplace stress, according to the TUC.

Cases of repetitive strain injury also are on the increase, the survey found.

"RSI last year faced several tests in the courts and as a result is becoming better established as a recognized condition," the survey pointed out. However, the survey added that recent high-profile cases have "failed to bring clarity to the legal controversy surrounding RSI."

Discrimination cases, on the grounds of gender, race and disability, also increased markedly last year. A total of 3,346 cases were taken to employment tribunal by unions last year, of which some 8%—nearly 300—related to discrimination. The highest award secured at an employment tribunal during 1997 was £234,362 ($392,041) for a gender discrimination case.

Unions are taking on more cases of discrimination due to chronic conditions such as epilepsy, asthma and diabetes.

"These conditions, when controlled, should not affect a person's ability to do a job, a fact that some employers have been slow to recognize," the survey states.

Meanwhile, health problems and injuries sustained at work continue to make up the bulk of unions' legal work. In 1997, unions helped members to win £28.5 million ($47.7 million) in damages for occupational disease, including cases involving upper limb disorders, chronic conditions caused by dangerous substances such as organophosphates and asbestos, and accidents at work.

Trade unions also are expanding their legal services beyond help at work, offering members and their families legal help lines for all legal matters, free will writing services, and help and advice in cases of medical negligence.

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Copies of the report are available for £10 from the Trades Union Congress, Congress House, Great Russell St., London WC1B 3LS United Kingdom; 44-171-467-1294.

Brokers

Continued from page 15

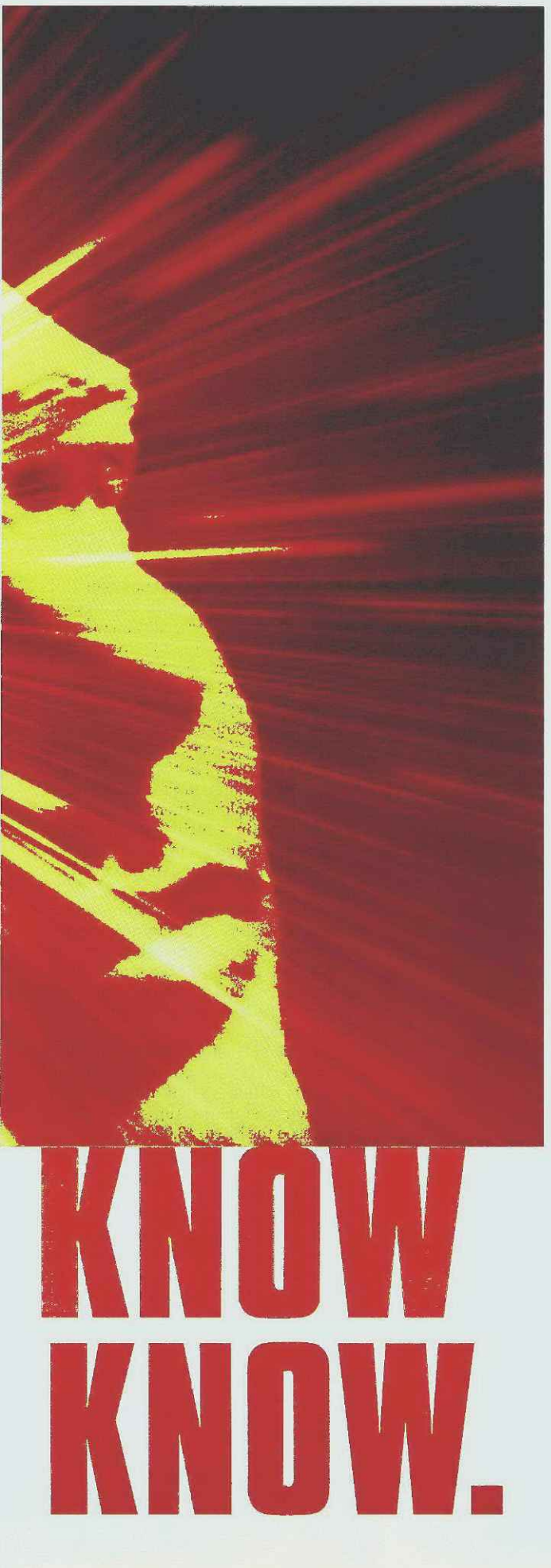
rules designed to protect policyholders, taking into account the type of business and the customer's knowledge and experience. The regulatory program for commercial lines insurance is not expected to be as strict as that for selling personal lines such as homeowners insurance.

• Establish, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence for those it regulates.

• Ensure customers are informed about the products they are buying as well as their prices.

• Ensure systems are in place for dealing with consumer complaints and that redress is available.

The executive committee already has begun searching for Newro's chief executive, and it is in discussions with the U.K. Treasury—the current regulatory authority—about repealing existing legislation authorizing the Insurance Brokers' Registration Committee to regulate U.K. brokers. BI



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Germany

Continued from page 15

The SPD aims to stabilize Germany's pay-as-you-go social insurance system, which is on the brink of collapse due to longer life expectancies, lower birth rates and high unemployment. SPD initiatives include bringing into the system more contributors, such as civil servants and the self-employed, and setting up a federal support fund financed through government, employer and pensioner contributions. SPD argues that such groups benefit from the system and thus should pay into the fund.

Mr. Hundt criticized efforts to rescue Germany's national pension system, which he deemed "antiquated," and he voiced support for slowly cutting benefits under the program and introducing alternatives, including capital-based private and company pension plans, which might be less susceptible to demographic changes.

Employers also directed criticism at the SPD for proposals to scale back health care cost cutting, employment protection and job market reform. In his agenda, the SPD's Mr. Schroeder has pledged to "re-examine" health care reform measures introduced last year by the ruling conservative coalition of the Christian Democratic Union and the Free Democratic Party. As part of 1997 health care reforms, the Kohl government boosted patient cost-sharing and cut benefits for certain treatments such as spas and denture work.

Opting for major change, the SPD plans global budgets for doctors, hospitals and medicines and to introduce managed care elements, including competitive bidding for services, into the German health care system. In addition, the SPD plans to restrict the list of medications that doctors associated with health plans can prescribe for patients; in effect, forcing the use of less expensive generic drugs.

'Global budgets mean more government, but it's questionable they can keep costs down,' says Alexander Gunkel.

While he supports "any plan to reduce costs," Alexander Gunkel, the social insurance section director of the Assn. of German Industry, questions the effectiveness of creating the budgets, fearing they will not contain health care costs but will force increases in employer contributions. "Global budgets mean more government, but it's questionable they can keep costs down," he said.

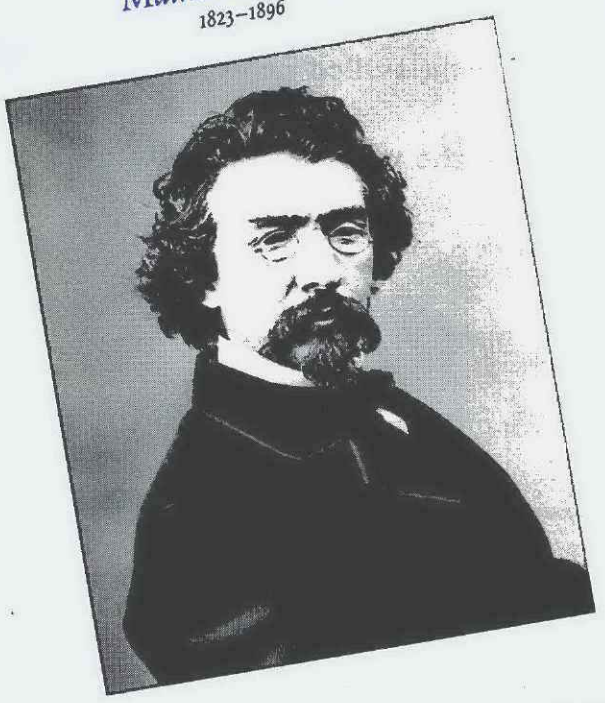
In 1992, Germany introduced budgets for health plans but found their positive effects short-lived. "Doctors just stopped certain treatments when the money ran out and did others. The patient suffered, and cost containment was a joke. If it didn't work then, why should it now?" Mr. Gunkel said.

Another factor expected to affect employer costs is an SPD plan to repeal a reform of an employee protection law. In 1996, the Kohl government changed the conditions under which employers could lay off employees. Under the reform, only companies with 10 or more employees were required to pay termination bonuses when employees were laid off. Prior to 1996—and in tune with SPD future plans—employers with five or fewer employees had to pay the bonuses.

The good news for employers is that all parties have pledged to support industry efforts to create jobs. That pledge includes the SPD, which favors lower corporate income taxes and reduced local taxes by local authorities on earnings and capital. Most importantly, the SPD supports a reduction of the additional wage costs that make German employees some of the highest paid workers in the world.

"German taxes and social insurance contributions are much too high," said Mr. Gunkel. "From our standpoint, we need less government and tax reform that provides companies with a real net increase in income." BI

Perceptive Life...



Mathew Brady established artistically and financially successful portrait studios in major cities that attracted an eminent clientele. His Gallery of Illustrious Americans (1850) included portraits of Edgar Allan Poe, James Fenimore Cooper and Daniel Webster.

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GIO urges investors to await its reply to AMP

By KATE TILLEY
and YVETTE HIGGINS

SYDNEY, Australia—GIO Holdings Australia Ltd. is advising its shareholders to wait for the formal response from the GIO board of directors later this month before considering AMP Ltd.'s $3.02 billion Australian ($1.80 billion) takeover offer.

Nick Steffey, chief executive officer of GIO, said the offer undervalues the company (*BI*, Aug. 31).

Sydney-based AMP has issued its Part A statement, which outlines its offer in full. Under Australia's Corporations Law, a company presenting a takeover bid must issue a comprehensive document outlining its reasons for launching the bid and its plans for the target company. The document is forwarded to every shareholder. The target company has two weeks to prepare its response, a Part B statement, and shareholders then have a specified time in which to compare the documents and decide whether to accept the offer. They can, however, accept the offer earlier.

Mr. Steffey said GIO shareholders should wait for GIO's Part B response before making a decision. He said AMP's Part A document was "weighty" and "will certainly take some time to properly review" by the GIO board.

On Sept. 1, stock market volatility forced AMP Ltd. to revise its initial $3.01 billion ($1.79 billion) offer, which was made Aug. 25. AMP increased the bid to $3.02 billion.

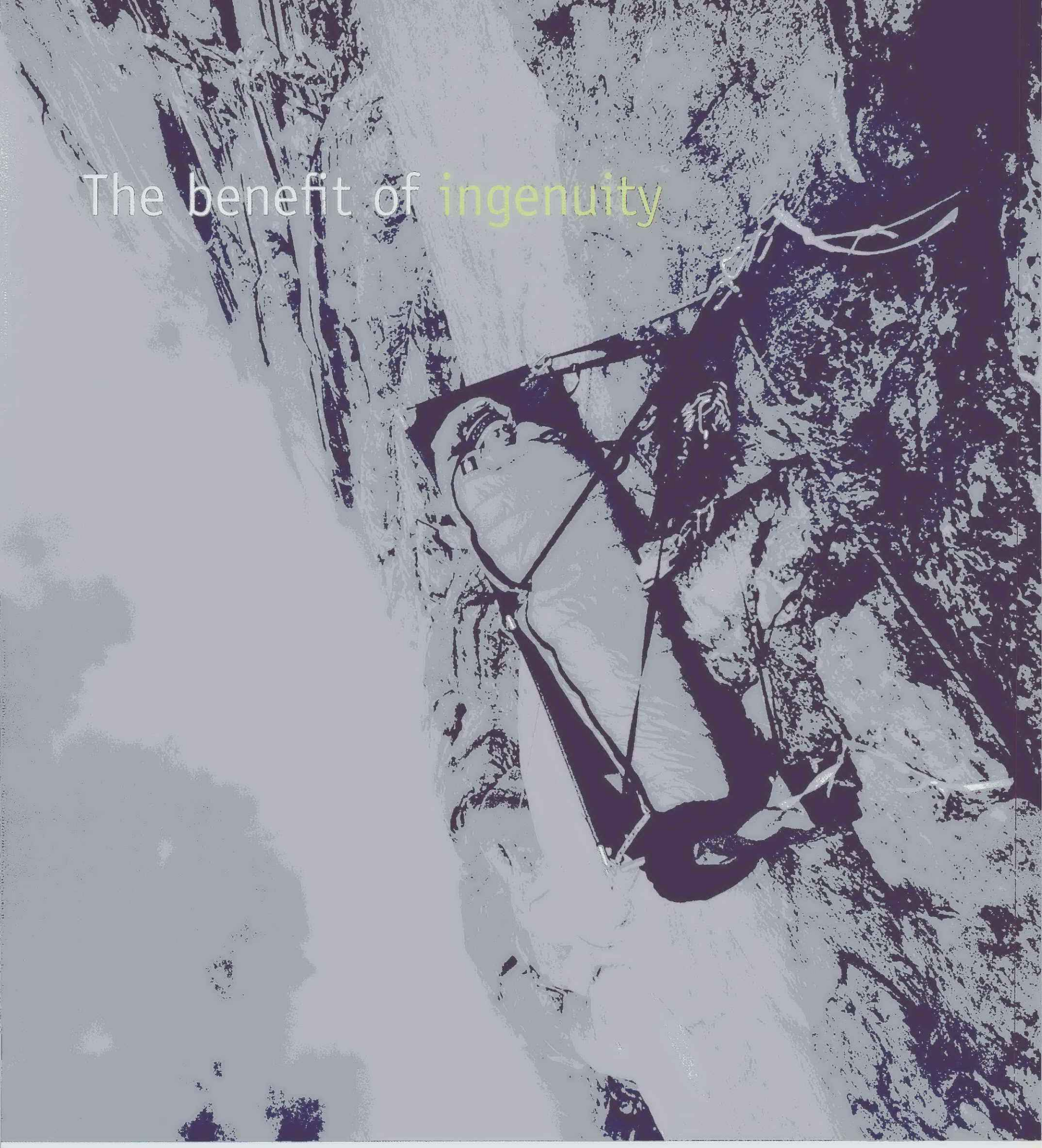
If successful, the takeover will make AMP Australia's largest corporate non-life insurer.

Last week, the Australia Competition and Consumer Commission, a regulatory agency, said it would not oppose the bid because AMP's takeover of GIO would not threaten competitiveness in the country's financial services industry.

The revised Sept. 1 offer would ensure GIO shareholders received AMP Ltd. shares worth at least $4.88 Australian ($2.90) for each GIO share. The previous offer had no set minimum value. On Sept. 15, GIO shares closed at $5.01 Australian ($2.98).

AMP Ltd. is Australia's largest life insurer. Its non-life arm, AMP

See **GIO** *on page 24*



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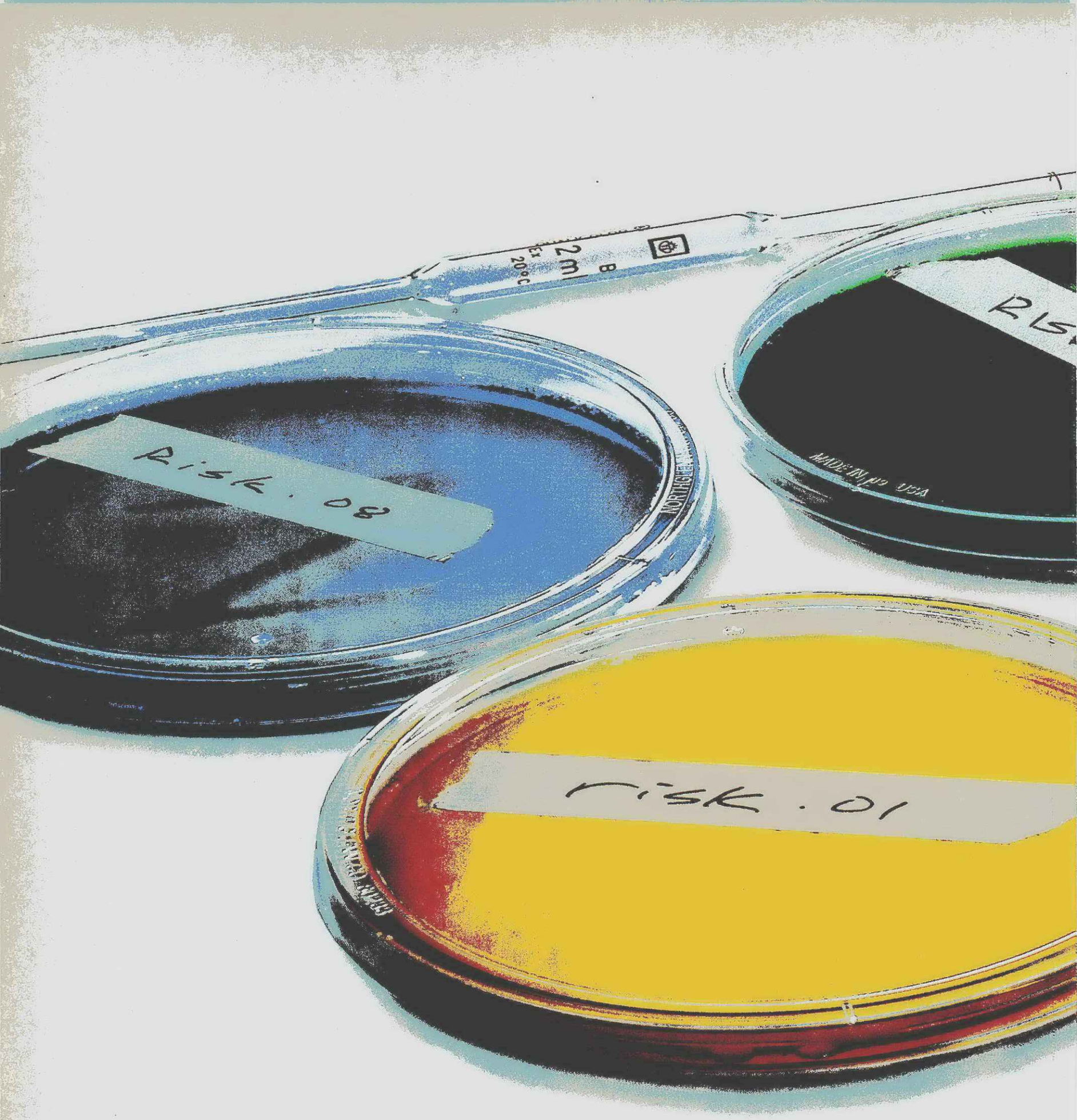
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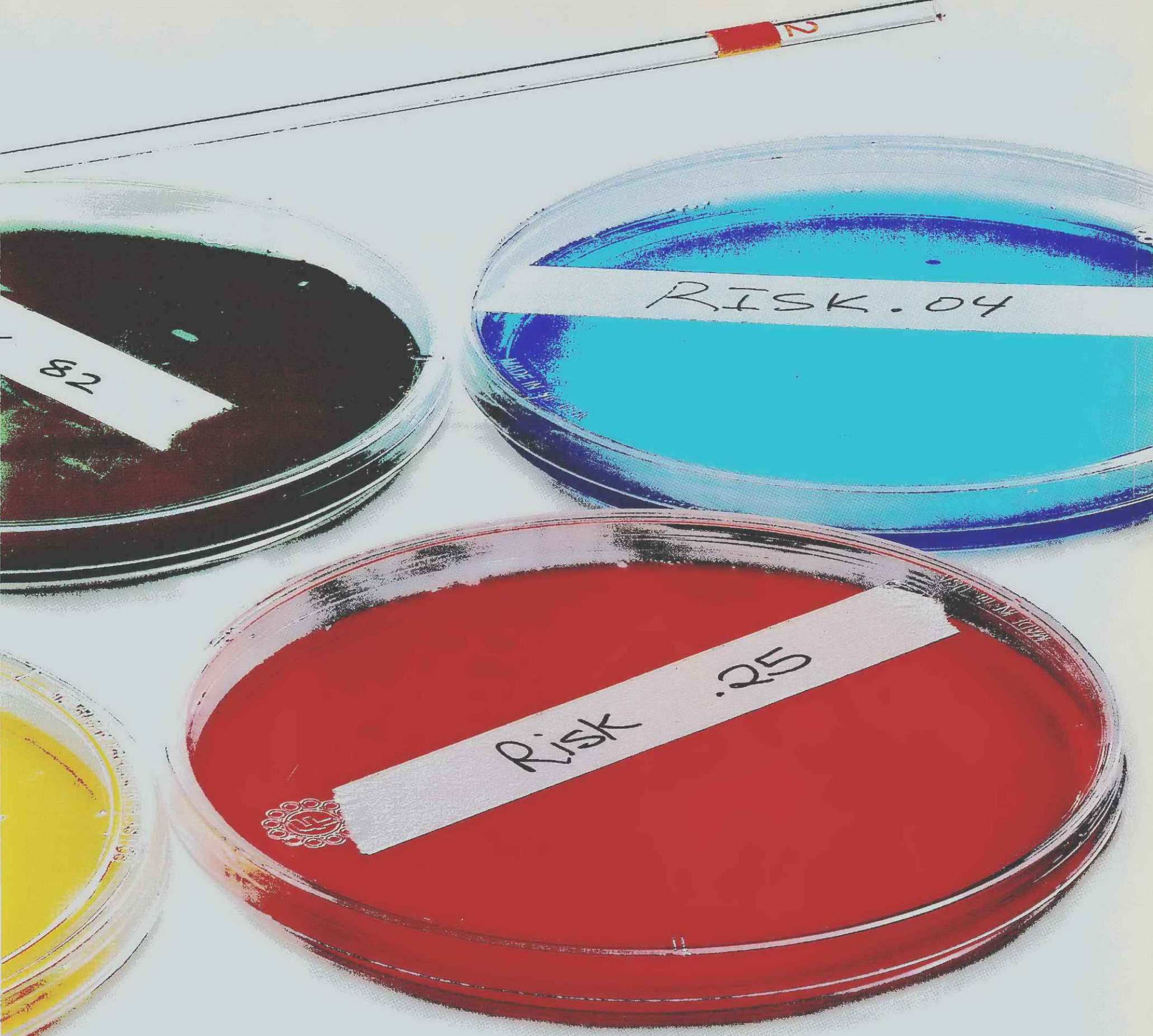

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GIO

Continued from page 20

General, is ranked 11th among Australian non-life insurers. AMP Ltd. was floated on the Australian stock market July 14.

GIO shareholders can accept AMP Ltd.'s share offer, take cash or a combination of both.

AMP's CEO, George Trumbull, said AMP adjusted the offer to "provide certainty for GIO shareholders" who wanted to accept the share offer. "In these uncertain times, we felt it was important to give GIO shareholders some comfort, and this certainly does that," he said.

Mr. Steffey said GIO had signed confidentiality agreements regarding "possible transactions" with AMP Ltd., and GIO also had been approached by other potential bidders, which he would not name. He said GIO had not been asked to sign confidentiality agreements with any other potential bidders.

Jonathan Sesel, president of the Australian Institute of Risk Management, said it was too early to determine how a successful takeover would affect risk managers. He predicted that AMP itself could become a takeover target in the next year.

Acquiring GIO would make AMP attractive to a multinational company, Mr. Sesel said. He suggested that a multinational interested in buying the insurer might not necessarily be an insurer. "AMP is as much a prize as GIO," he said.

But Greg Terry, managing director and vice chairman of the Pacific region for Melbourne-based investment bank Credit Suisse First Boston, which is advising AMP in the takeover, said that AMP Ltd.'s corporate articles ensured it could not be a takeover target within five years. When it was floated, the corporate documentation specified that no shareholder could hold more than 5% of AMP shares in that period.

Mr. Sesel said AMP Ltd.'s offer was isolated and did not necessarily indicate further consolidation in the insurance industry.

While there already has been a contraction in the number of insurers in the highly competitive Australian market, Mr. Sesel predicted that would not continue, given worldwide stock market volatility and currency drops in Asia. "I expect very little activity in terms of (consolidation) in the insurance and financial services industries," he said. BI

Dounreay safety deficient: Study

By MATTHEW MacDERMOTT

DOUNREAY, Scotland—An extensive investigation into a Scottish nuclear plant has found it has many safety problems, has been operated without clear knowledge of the risks involved and requires a change of safety culture.

After a series of safety-related incidents, the U.K. government in May shut down indefinitely the U.K. Atomic Energy Authority's Dounreay nuclear plant, on Scotland's far north coast (*BI*, May 25).

The plant was subjected to a comprehensive 19-day safety investigation in June, conducted jointly by the U.K. Health and Safety Executive and the Scottish Environment Protection Agency. The resulting report, released this month, makes 143 recommendations to improve safety at Dounreay.

The government-funded Atomic Energy Authority, which operates the Dounreay plant, has until Nov. 30 to prepare a comprehensive plan detailing how it will respond to the recommendations and the costs associated with its response.

The plan will be reviewed by the HSE and SEPA, which both will determine jointly when and under what conditions the Dounreay plant can resume operations.

In a statement responding to the report, John McKeown, the AEA's chief executive, said the authority is taking the report very seriously and will consider its recommendations carefully. "We share the same goals as our regulators and will take forward the findings of the report," he said.

The Dounreay plant opened 44 years ago but stopped producing power in 1994. It now consists of three nuclear reactors, which are being decommissioned in a process that can take up to 100 years; two storage facilities; and a fuel cycle area that reprocesses nuclear materials into chemicals for the treatment of cancer.

Laurence Williams, HSE's chief inspector of nuclear installations, said in the report there is no imminent public danger from Dounreay, but he said the plant has "many chronic safety problems" that must be addressed. Mr. Williams said the HSE is looking for a "culture change" at Dounreay.

The report's main finding is that organizational changes at Dounreay during the past four years—including the loss of experienced staff, a shift toward contracted employees and blurred responsibilities for health and safety—have weakened the site's management and technical resources.

The result is that Dounreay is overly dependent on contractors for many key functions, the report said.

The report said the HSE has no problem with the use of contractors as long as the AEA re-establishes effective control over all activities onsite.

"We found that in many cases, control of activities had been delegated too far, such that the U.K. AEA was not in control, nor was it in a position to understand the safety significance of the contractors' activities," the report said.

One of the major safety incidents at Dounreay this year was a 12-hour power failure caused by excavation contractors who accidentally disrupted power lines.

The U.K. AEA will require contractors to improve safety at Dounreay, but the report said the AEA must take ownership of the necessary high standards and targets.

Other key findings of the report:

- There is no comprehensive strategy for dealing with the various forms of radioactive waste already at Dounreay or those produced in the future.
- There is a lack of progress and delays in decommissioning.
- Decommissioning and radioactive waste strategies should be integrated for the site as a whole.
- There are a number of deficiencies in the physical condition of Dounreay's fuel cycle area—leading the HSE to suspect the U.K. AEA has been operating the area without clear knowledge of some of the risks.
- The U.K. AEA should broaden the scope of its reporting of safety incidents to regulators. BI

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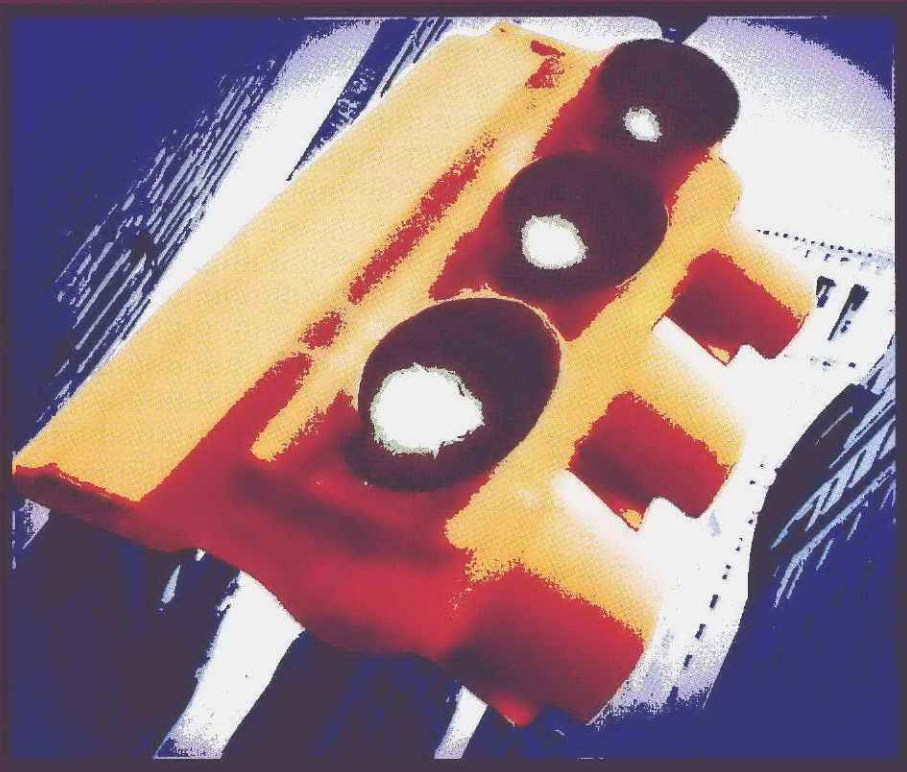

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Most benefit data not yet on the 'Net: Survey

By JENELL TALLEY

The majority of employers do not currently communicate employee benefit information online, despite various benefits associated with the technology, according to a new survey.

Only 29% of 433 corporate benefit professionals were using the Internet or corporate intranets to communicate employee benefits-related information, according to the survey by the International Foundation of Employee Benefit Plans.

Of the remainder, however, 66% said they plan to use the online technology for benefits communication in the future.

Among the respondents that are not currently using the online technology, the most frequently cited reasons were: employees' lack of computer access, 23%; the cost of implementation, 10%; and the amount of time involved to implement the technology, 9%.

Among the minority of companies using the Internet and/or intranets for benefit communication, the IFEBP found that most have been using the technology for two years or less.

The survey found that 36% of the respondents have used the technology for communicating benefit information for six months or less, while 28% have used it for seven months to one year, and 24% for one to two years. Only 2% have used it for 25 to 36 months, while 10% have used the technology for more than three years.

"We didn't realize the Internet was so new," said Cindy Drinkwater, senior director of research at the IFEBP in Brookfield, Wis. Most respondents are just becoming familiar with the technology, she noted.

There are numerous benefits associated with transferring benefits communication online, according to Ms. Drinkwater. She noted that long-term cost savings are a key advantage; printing and data entry costs are much lower.

"Internet technology proved to be a more effective way of educating employees, rather than paper communication," Ms. Drinkwater said. Internet technology makes it easier to customize benefit information. "You can come up with a specialized model, and it can focus on individuals more than a meeting or paper can," she said.

Among respondents using the Internet and intranet, speed of information transfer and feedback were the most frequently mentioned benefits. Seventy-four percent cited increased speed as the primary benefit. Other frequently cited benefits included: reduced reliance on print, 67%; improved cost-effectiveness, 54%; and increased efficiency, 51%. Only 2% of respondents cited no benefits.

A majority of respondents using online technology for benefit communication were satisfied with the medium, the survey found. Twelve percent said they were very satisfied, while 32% said they were satisfied and 29% percent were somewhat satisfied. Only 4% were dissatisfied or somewhat dissatisfied, though 6% were very dissatisfied. The remainder indicated they were neither satisfied or dissatisfied, or gave no answer.

Asking respondents to identify how they use the technology to communicate benefit information, the IFEBP found that the majority of respondents use it to present benefits-related information that employees can read, rather than developing interactive functions.

The survey broke responses down according to Internet vs. intranet use, as well as health plan vs. pension plan information.

Among respondents using only intranets for communication:

- The most common health plan information was online health plan summaries, used by 66% of respondents. That was followed by frequently asked questions about health plans that employees could view or post, 42%; links to other Web sites, 20%; and open enrollment information, 20%.
- The most common pension plan information was summary plan descriptions, 47%; frequently asked questions that employees could view or post, 21%; and links to other pension plan-related Web sites, 18%.

Among respondents only using the Internet for communication:

- The most common health plan information was data on choosing primary care physicians and/or provider directories, offered by 20%; followed by links to other health plan-related Web sites, 18%.
- The most common pension information was account balances, offered by 24%; and quarterly reports/fund performance results, 19%.

Among respondents that used both the Internet and corporate intranets:

- The most common health plan information was data on choosing primary care physicians and/or provider directories, 8%; wellness and general health information, 6%; links to other Web sites, 6%; and frequently asked questions that employees could view or post, 6%.
- The most common pension information was links to pension plan-related Web sites, 8%; retirement education literature, 7%; and prospectuses/enrollment forms that could be downloaded, 6%.

Other survey findings include:

- Ninety-five percent of the respondents currently using the Internet or intranets for benefits communication said they anticipate adding more benefit functions in the future. Only 3% said they would not add any benefits, while 2% did not answer.
- The majority of respondents, 70%, used internal resources to design their Web sites. Twenty-six percent used outside organizations, and 4% didn't respond.
- More than half of the respondents, 64%, do not track the number of employees who actually use the Internet or intranets to access benefit information. Thirty-two percent do track employees' Internet/intranet use and 4% did not answer.

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A complimentary copy of "Communicating Employee Benefits Via the Web" can be obtained from the IFEBP by calling 414-786-6710, extension 8219; by faxing a request for document #27005 to 888-217-5960; or by sending an e-mail request for the survey to pr@ifebp.org.

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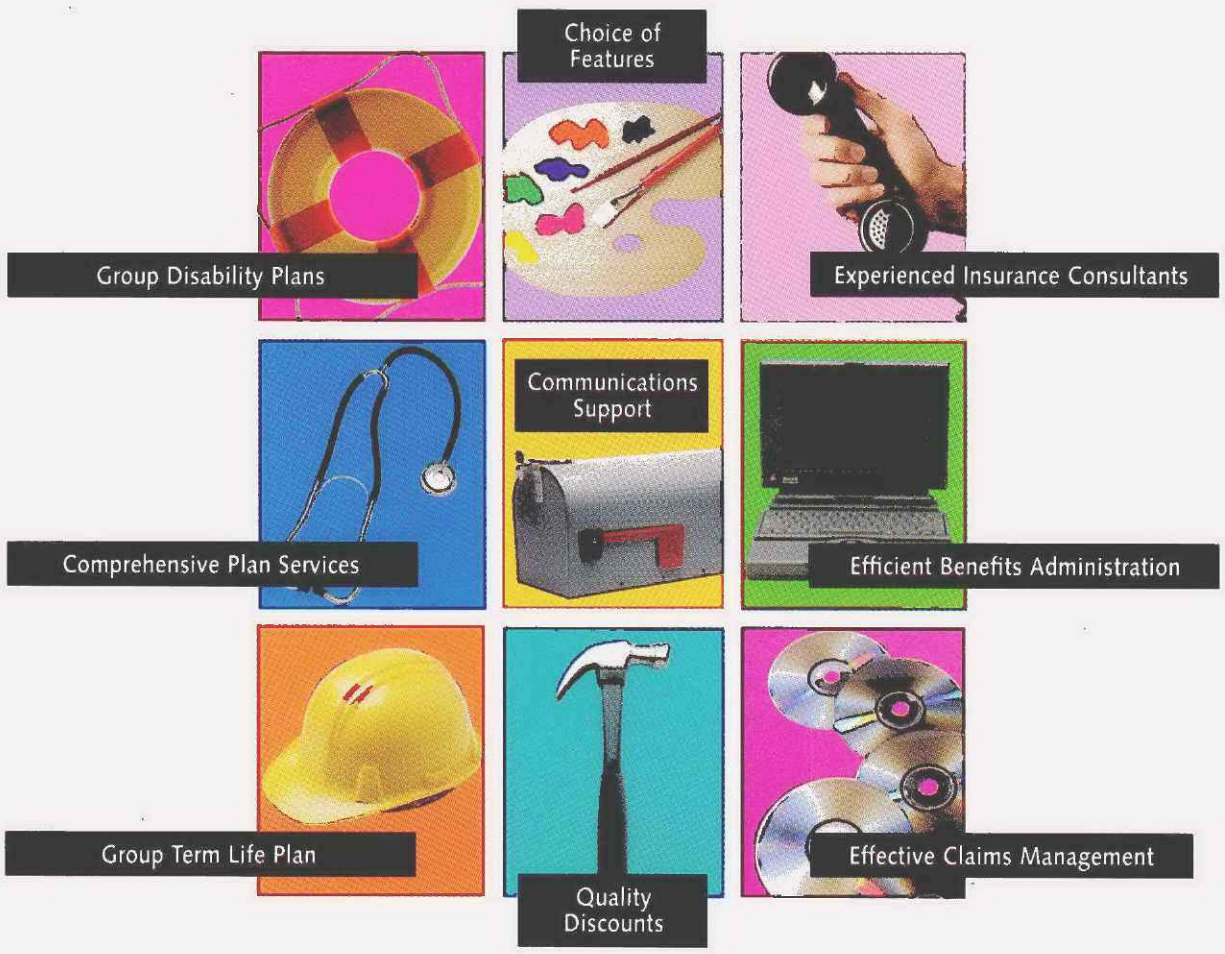

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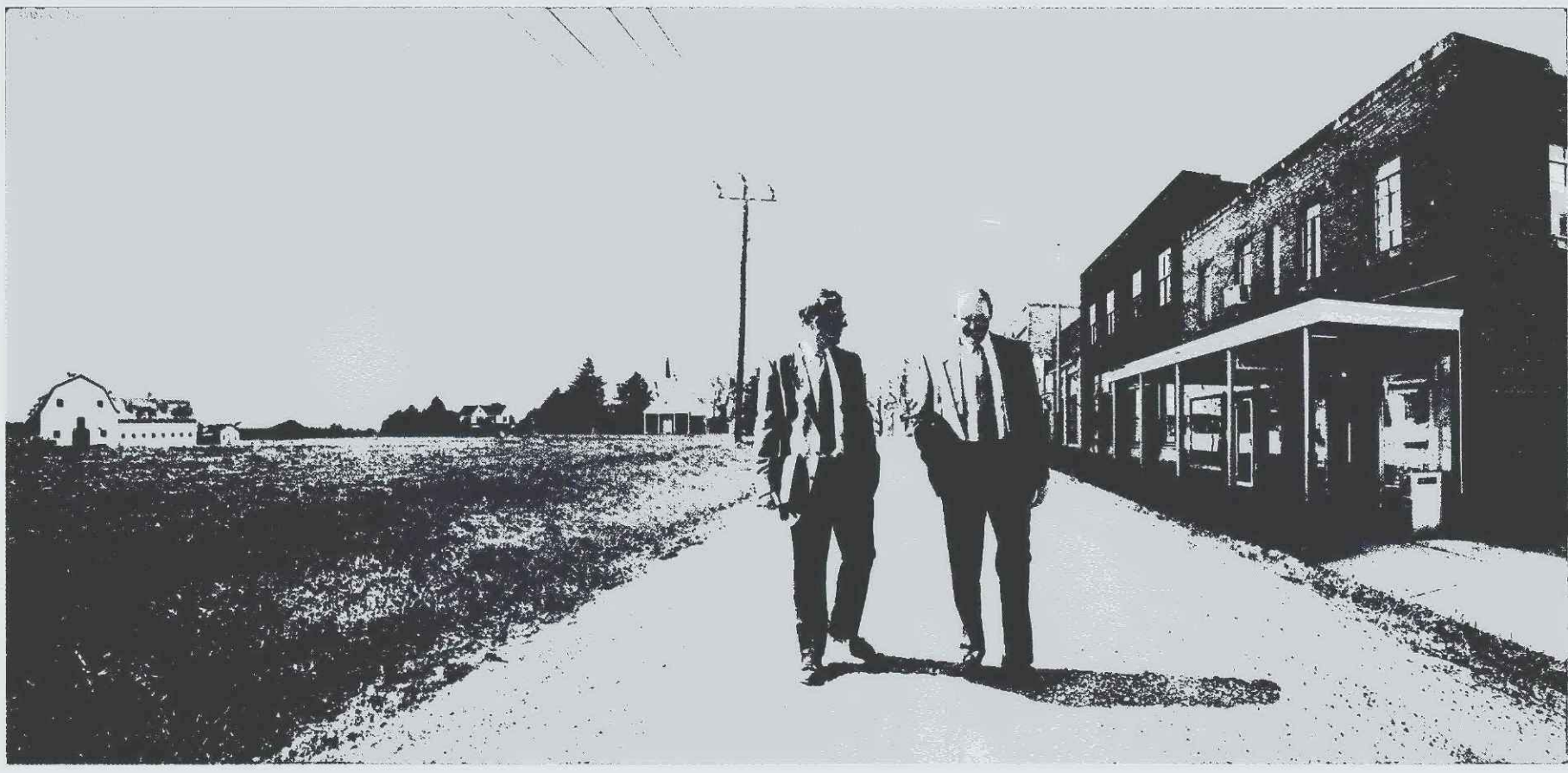

Robert Caldwell, left, with John Seibert, General Re

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Datebook

OCTOBER

OCT. 2-6. Managed Care: Conflicting Paradigms—Cost and Quality conference in Orlando, Fla., sponsored by the Pharmaceutical Care Management Assn.; $1195. PCMA, 2300 Ninth St. S., Suite 210, Arlington, Va. 22204-2320; 703-920-8480.

OCT. 3-7. National Conference 1998 in Philadelphia, sponsored by the American Society of CLU & ChFC; $749 for members and $999 for non-members. American Society of CLU & ChFC, Attention: Customer Service, 270 S. Bryn Mawr Ave., Bryn Mawr, Pa. 19010-2195; 800-392-6900.

OCT. 4-6. National Business Coalition on Health annual conference in Nashville, sponsored by NBCH; $450 for members and $520 for non-members. NBCH, Office of Meeting Management, 1 Bridge Plaza, Suite 350, Fort Lee, N.J. 07024; 800-642-2515.

OCT. 4-7. Global Insurance Company Restructuring summit in Southhampton, Bermuda, sponsored by the Strategic Research Institute; $1,495. Strategic Research Institute, 500 Fifth Ave., 11th floor, New York, N.Y. 10110; 212-302-1800.

OCT. 5-7. International Human Resource Management Certificate course in New York, sponsored by The World Trade Institute of Pace University; $700 for Society of Human Resource Managers members; $775 for non-members. Registrar, World Trade Institute, 1 World Trade Center, 55th floor, New York, N.Y. 10048; 888-722-3984.

OCT. 5-9. Human-System Interaction conference in Chicago, sponsored by the Human Factors & Ergonomics Society; $300 for members; $425 for non-members. HFES, P.O. Box 1369, Santa Monica, Calif. 90406-1369; 310-394-1811.

OCT. 6-7. Facing New Challenges: Health Care Reform and Retirement Security conference in Washington, D.C., sponsored by the National Employee Benefits Institute Foundation Inc.; for members, the first representative is free, and each subsequent attendee is $100. $395 for non-members. Other prices may apply. NEBI, Attention: Carlos Maxwell, 1101 Connecticut Ave. N.W., Suite 1000, Washington, D.C. 20036-4374; 202-737-9656.

OCT. 6. Year 2000 Liability seminar in New York City, sponsored by The Information Exchange; $699. The Information Exchange, P.O. Box 1946, 615 Main St., Niagara Falls, N.Y. 14302; 416-410-2896.

OCT. 7. Directors and Officers Liability seminar in New York City, sponsored by The Information Exchange; $699. The Information Exchange, P.O. Box 1946, 615 Main St., Niagara Falls, N.Y. 14302; 416-410-2896.

OCT. 7-11. Defense Research Institute annual meeting in San Francisco, sponsored by DRI; $595 for members and $695 for non-members. DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

OCT. 8. Earthquake exposure seminar in Minneapolis, sponsored by the Inland Marine Underwriters Assn.; $45. Susan Schuster, The Hartford, 3500 W. 80th St., Bloomington, Minn. 55431; 612-844-3335.

OCT. 8. "Insuring All Your Risks in One Basket" seminar in Chicago, sponsored by Illinois State University; $135 for individuals, $115 per person for groups of two or more. Illinois State University, Katie Insurance School, Attention: Debra Celuch, Campus Box 5490, Normal, Ill. 61790-5490; 309-438-3021.

OCT. 8. Employment Practices Liability seminar in New York City, sponsored by The Information Exchange; $699. The Information Exchange, P.O. Box 1946, 615 Main St., Niagara Falls, N.Y. 14302; 416-410-2896.

OCT. 9-14. Employee benefits conference in Las Vegas, sponsored by the International Foundation of Employee Benefit Plans; $770. IFEBP, Registrations Department, P.O. Box 69, Brookfield, Wis. 53008-0069; 888-33-IFEBP.

OCT. 11-13. 1998 Fall Forum in Washington, D.C., sponsored by the Assn. of Managed Care Organizations; $850 for members and $975 for non-members. AMHO, 1 Bridge Plaza, Suite 350, Fort Lee, N.J. 07024; 800-642-2515.

OCT. 11-13. Seventh Annual Risk Management Forum in Lake Buena Vista, Fla., sponsored by Liberty Mutual; no registration fee. Liberty Mutual Group, 175 Berkeley St., Boston, Mass. 02116; 617-574-5727.

OCT. 12-13. Reinsurance Law and Practice: New Legal and Business Developments in a Changing Global Environment seminar in New York, sponsored by the Practising Law Institute; $1,095. PLI, 810 Seventh Ave., New York, N.Y. 10019; 800-260-4PLI.

OCT. 14. The Impact of the Internet, Intranets and Extranets on the Group Life and Health Market seminar in Livonia, Mich., sponsored by StarNex and IVANS; no charge to attend. StarNex Inc., P.O. Box 2014, Wrentham, Mass. 02093; 800-903-7827.

OCT. 14-16. Property and Casualty Insurance Product Management Skills and Techniques seminar in Atlanta, sponsored by Dorman Consulting Associates; $995 per attendee or $895 for two or more attendees from the same company. Also **Nov. 11-13** in Chicago and **Dec. 9-11** in Phoenix. Richard W. Dorman, Dorman Consulting Associates, 1 Haverhill Court, Beachwood, Ohio 44122; 216-464-5678.

OCT. 14-16. National Disability Management conference in Washington, D.C., sponsored by the Washington Business Group on Health and UNUM Life Insurance Co.; $895 for conference only and $775 for members. Washington Business Group on Health, Attention: Ann Makowski, 777 N. Capitol St. N.E., Suite 800, Washington, D.C. 20002; 202-408-9320.

OCT. 15. Annual Litigation Strategies Symposium in Chicago, sponsored by Hinshaw & Culbertson; no charge to attend. Hinshaw & Culbertson, 222 N. LaSalle St., Suite 300, Chicago, Ill. 60601-1081; 312-704-3329.

OCT. 15-16. Insurance M&A: A Practical Approach to Structuring Complex Transactions seminar in New York, sponsored by the Practising Law Institute; $1,095. PLI, 810 Seventh Ave., New York, N.Y. 10019; 800-260-4PLI.

OCT. 15-16. Strategic Alliances to Penetrate Niche Markets seminar in New Orleans, sponsored by the Mass Marketing Insurance Institute; $275 for members and $375 for non-members. Mass Marketing Insurance Institute, 2841 Main, Kansas City, Mo. 64108; 816-221-7575.

OCT. 26-28. Sixth Annual *Business Insurance* Workers Compensation Conference, in Marina del Rey, Calif., sponsored by *Business Insurance*; $695 for risk, employee benefit or safety managers, $995 for service providers. IBF, 100 Merrick Road, Suite 500, West Building, Rockville Centre, N.Y. 11570; 516-594-3000.

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NOV. 15-18. Eighth World Captive and Alternative Risk Financing Forum, in Miami, sponsored by *Business Insurance*, Skandia International Risk Management/Sinser and Tillinghast-Towers Perrin; $975 for risk managers/captive owners, $1,250 for service providers. World Captive Forum, 4248 Park Glen Road, Minneapolis, Minn. 55416; 612-928-4659.

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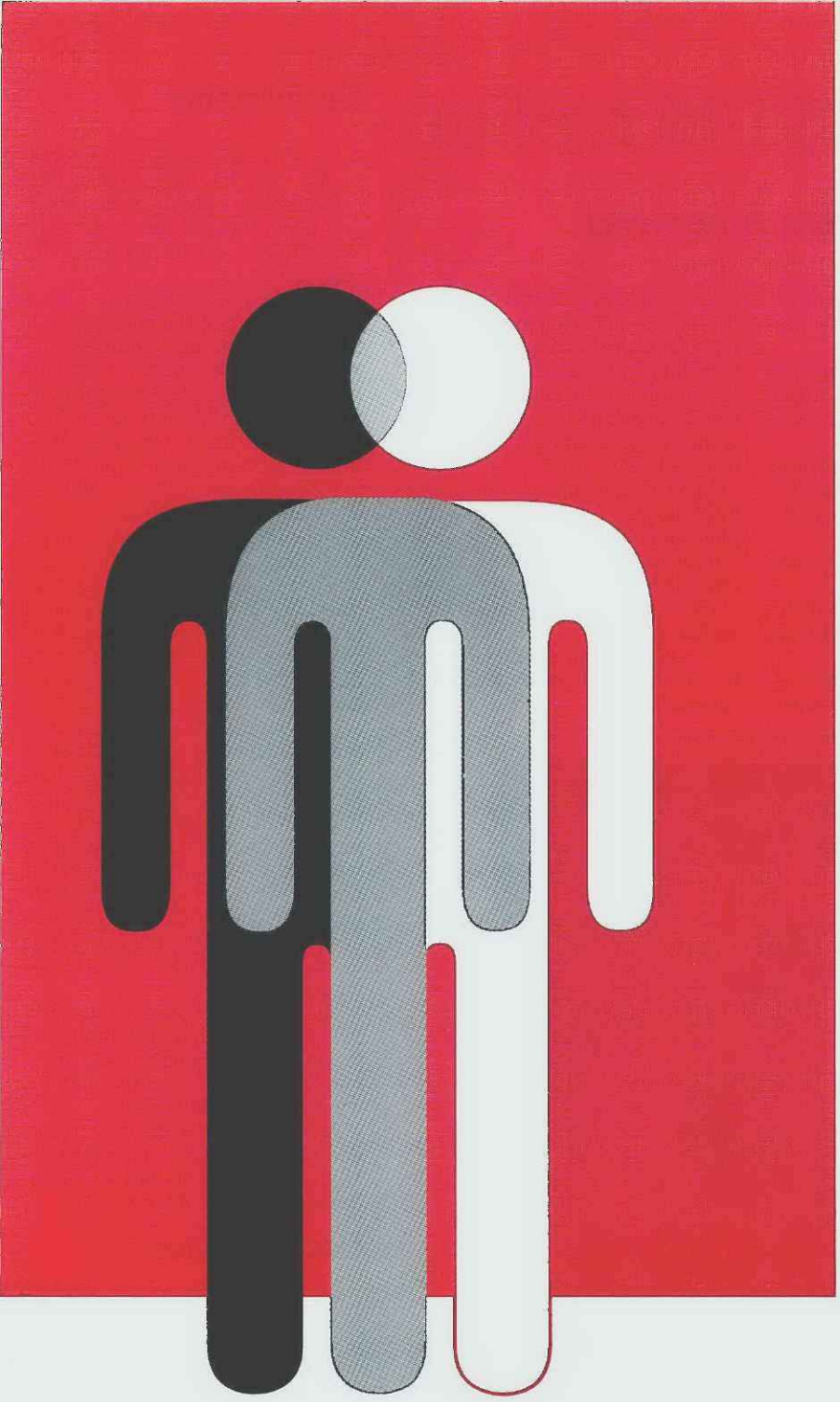

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EPL policy has limits of up to $100 million

BOSTON—Lexington Insurance Co. has introduced EPL Century Select, a new employment practices liability insurance policy that provides limits of up to $100 million.

EPL Century Select is designed to meet the needs of buyers seeking protection from catastrophic employment practices liability claims. Coverage can be tailored to fit a policyholder's buying needs and preferences.

The policy includes coverage for punitive damages where allowed by law and alternative funding methods in states that prohibit insured punitive damages, provisions for adding subsequent acquisitions and mutual selection of defense counsel.

Coverage for third-party discrimination claims, such as those brought by customers, and coverage for independent contractors is available by endorsement. In the event of a class action or multiparty claim, a policyholder's self-insured retention would apply per claim, not per claimant.

Lexington, a unit of New York-based American International Group Inc., also offers a free integrated risk management program to all EPLI policyholders that includes employment practice audits and access to EPL risk consultants.

For information, contact Paul Cunningham, EPL division manager, 617-772-4586, or Rob Jurgel, territory manager, 617-330-8445.

Comp vendor tool

CHEVY CHASE, Md.—Managed Care Advisors, a professional consulting firm, has introduced the Managed Care Performance Assessment, an evaluation of outside vendors hired by employers to manage workers compensation claims.

MCA's Managed Care Performance Assessment identifies critical areas for improvement and answers key questions about vendors:

- Are employers getting the most from their managed care programs?
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- Has the employer negotiated the best performance guarantees with its vendor?

MCA's performance assessment is tailored to the needs of individual clients. The analysis includes an in-depth review of areas such as pre-injury planning and education, first notice of injury, care management/utilization management, provider networks, medical bill review, return to work, outcomes and employer return on investment.

Upon completion of the review, MCA provides an employer with a plan summarizing the key areas for improvement and offering recommendations to improve operational work flow, reporting and benchmarking.

For information, contact Gina Gatti, senior consultant at MCA, 301-280-5920.

Products & Services

Recall policy

NEW YORK—American International Group Inc. has introduced RecallResponse, a product recall insurance policy that provides coverage for first-party recall expenses and third-party liability.

RecallResponse covers recall expenses related to the notification of the incident, product shipping, disposal of the product, rental of warehousing/storage space, hiring of additional personnel and payment of overtime to current employees. Additionally, coverage can be purchased to pick up the cost of repair, replacement or refund of the product.

Policyholders also may choose third-party liability coverage, which will pay for certain third-party compensatory damages resulting from an insured product recall. RecallResponse is available as part of a commercial general liability policy or as a stand-alone policy.

The policy covers product recall incidents in which the use or consumption of a product has resulted in bodily injury or property damage or poses an imminent danger of bodily injury or property damage. Coverage is triggered by the earlier of the initial oral or written publication of the product recall, or the policyholder's initial notice to the insurer. Either event must take place during the policy period.

The RecallResponse policy provides separate liability limits for product recall expenses—up to $5 million—and third-party liability coverage—up to $10 million.

For information, contact Vince DeConti, senior vp-foreign multinational division, 212-770-1007, or via the Internet at access. aig.com.

Hazard advice

WASHINGTON—Businesses and workers have two new tools available to help identify job hazards and assess the cost of occupational injuries and illnesses.

The Hazard Awareness Advisor and Safety Pays are the latest additions to the Occupational Safety and Health Administration's line of interactive software that can be downloaded from the agency's World Wide Web site at www. osha.gov/oshasoft.

The Hazard Awareness Advisor is designed to help workers and employers, especially small businesses without professional safety and health consultants, spot potential workplace hazards. After questioning users about their activities, policies, materials and equipment, the program narrows the list of hazards that may be present. The software then prepares a customized report that briefly describes the likely hazards for that particular business.

The program is not a substitute for safety and health professionals. It is merely an introduction to hazard recognition. The need for this software was brought to OSHA's attention by the National Federation of Independent Business. Many trade and labor organizations suggested improvements to early versions of the software. OSHA now hopes to get more suggestions from the public for later versions.

Safety Pays software is designed to illustrate to employees the impact of occupational injuries and illnesses to a company's bottom line. Using data from the insurance industry, the program analyzes a lost workday scenario selected by the user and reports the average direct and indirect costs associated with that particular case. Using the company's profit margin, the software then estimates the amount of sales necessary to cover the costs of the incident.

For information, contact Edward Stern, software adviser packaging coordinator for OSHA, 202-219-8151, or visit www.osha.gov. BI

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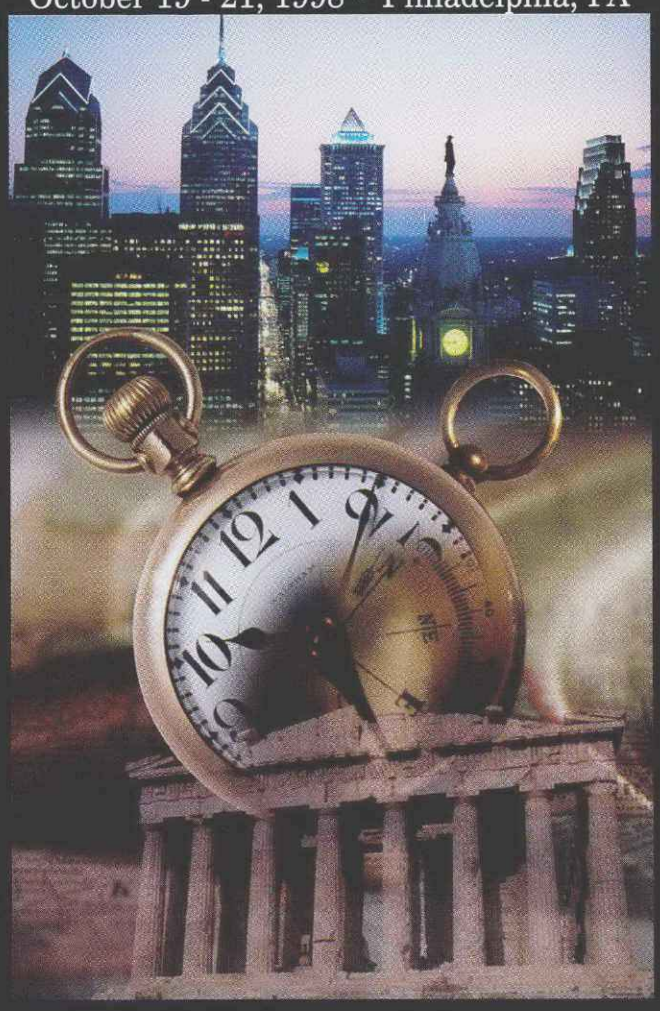

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Industry keys to continuing education

page 30D

Find the right candidates for the job by interviews based on past behavior
page 30H

Institutes' virtual classroom opens doors

Online courses offer convenience, immediate feedback and strong writing environment

By RICHARD TROUT

Career advancement for some insurance professionals has just gotten a little easier.

This month the American Institute for CPCU and the Insurance Institute of America started offering two classes over the Internet on a pilot basis, providing a wealth of opportunity for people who have deferred pursuing education and advanced degrees, perhaps because of their location, demanding work and travel schedules, and family obligations.

The online classes aren't meant to replace the classroom versions of 60 or so courses, but they instead will provide an alternative for people who find it difficult to attend classes, according to the Malvern, Pa.-based institutes.

The courses being offered online are INS 22, personal insurance, which is part of a three-course program in general insurance; and CPCU 9, economics, which is part of the 10-course CPCU designation program. Eighteen students are enrolled in each online course.

If the pilot program is successful, the institutes plan to offer the same two online courses this spring, along with INS 23, commercial insurance, and CPCU 6, the legal environment of insurance.

The institutes decided to go online with the two courses for several reasons.

In an increasingly Internet-savvy world, the institutes felt some pressure to compete with colleges, universities and other educational organizations that provide classes or even entire programs online, said Ken Dauscher, the AICPCU's vp of educational services.

Also, while a class using the formal structure may be canceled for a lack of registered students, an "Internet class can pull students together from all over the country," making cancella-

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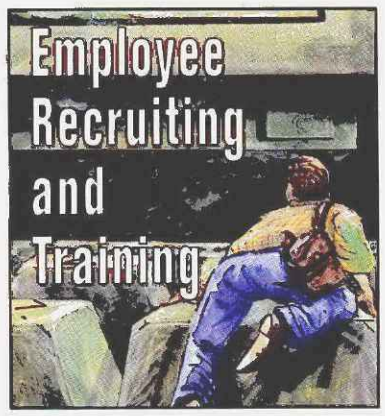


College

Continued from page 30B

ments of our associate degree online," Ms. Crowell said.

Ultimately, the college also plans to offer custom-designed training and development programs to interested insurance, banking and investment companies.

The College of Finance's typical student taking courses on campus "tends to be late 30s, early 40s, has a family, doesn't have time to go to school," Ms. Crowell said.

"We try to make it as convenient as possible," she said, emphasizing that courses have been offered on weekends and in evenings to accommodate the schedules of full-time employees.

The program will become more convenient still with the debut of the online courses, though the profile of online students might differ somewhat from those on campus, Ms. Crowell said, because they'll need to have strong backgrounds in using the Internet.

"I would see people in pretty highly technical positions who really need a basic knowledge of these three areas," she said.

But, she said, as the convergence of banks and insurance continues, she expects to see professionals in each of the three areas making up the new program—insurance, banking and investments—taking equal advantage of the opportunities the partnership will provide to learn more about the other two areas.

"We're expecting to have interest across all three layers of the financial services industry," Ms. Crowell said.

"We're really excited about all these opportunities that are coming up and all the people who have been knocking on our door," she said. "We do really kind of want to roll out gradually, make sure we're hitting the right people." BI

Continued from previous page
tion unlikely, Mr. Dauscher said.

And in the past five to eight years, the ratio of students studying independently vs. taking formal classes has changed dramatically in favor of independent study, he said. "Increasingly, it's because people feel they're working longer and harder, and they don't want to commit to a special time and a special place. So they go with independent study because it's more flexible."

A telemarketing survey also showed high interest in Internet classes.

Independent study through the Internet offers even more flexibility and enhances learning by providing an environment where students can receive feedback from their instructors and other students. This helps those students with "learning principles or concepts or knowing if they've mastered the material," Mr. Dauscher said.

The advantage of immediate feedback is readily apparent after teaching the CPCU class for only one week, said Jim Sherlock, a principal consultant in the training department at CIGNA Property & Casualty in Philadelphia. Mr. Sherlock, who has been teaching CPCU courses in the classroom for 15 years, is the CPCU 9 instructor.

"You have access to the teacher every day, and that's something I didn't have in the traditional classes. . . . If you have a question while you're reading the book, you can just get into the Internet and post a message for me," he said.

Because he responds to his e-mail every night, Mr. Sherlock said access to the instructor is probably better in the virtual classroom than in a traditional classroom. "With this course, I just take my laptop with me. I could be anywhere in the country and just plug in and I'm in the classroom," he said.

Students taking the online classes first have to go into the institutes' World Wide Web site, www.aicpcu.org. From there, the students use a password to log into a special class site, which contains three sections where the students and instructor communicate. The "assignments" section has the textbook reading assignment and questions for the coming week, the "course work" section has exercises in addition to the textbook assignment, and the "discussion" section provides a forum where students post answers to assignments and respond to other answers.

The virtual class brings more participation, said Mr. Sherlock. "With this, you can't not participate," he said.

Traditional classrooms may have passive students who don't get involved in the discussion despite instructors' techniques to try to get them involved. "Here, you got an assignment, you have something specific you have to do. And the way the class is structured, other students are depending on you getting your work done. So, it's a little motivating in that regard."

Indeed, Mr. Sherlock has found that typically some students have trouble even making it to a traditional class because of other obligations and time constraints. An online class, however, "allows people to sit down and attend the class when it's convenient for them, rather than when it's convenient for me," he said.

However, building social ties on the Internet is no easy task, admits Mr. Dauscher. "The challenges are many because you do have to try to establish a sense of community on the Internet with the students in the class. You have to get them to communicate with each other as well as with the instructor. But it can be done, and it can be done effectively," he said.

Mr. Dauscher added that the institutes expect students will go into the class site at least three times a week to read what's been posted and to add to the discussion.

Another advantage to online learning is that it sharpens the students' writing skills. The writing-intensive nature of the online class is conducive to the writing-intensive CPCU exams, Mr. Sherlock said. "The CPCU exams are written exams, and a course like this is all writing," he said. "We're sitting down and we're writing our ideas out, and that's the structure of the CPCU exam. People get a problem, and they have to write an answer."

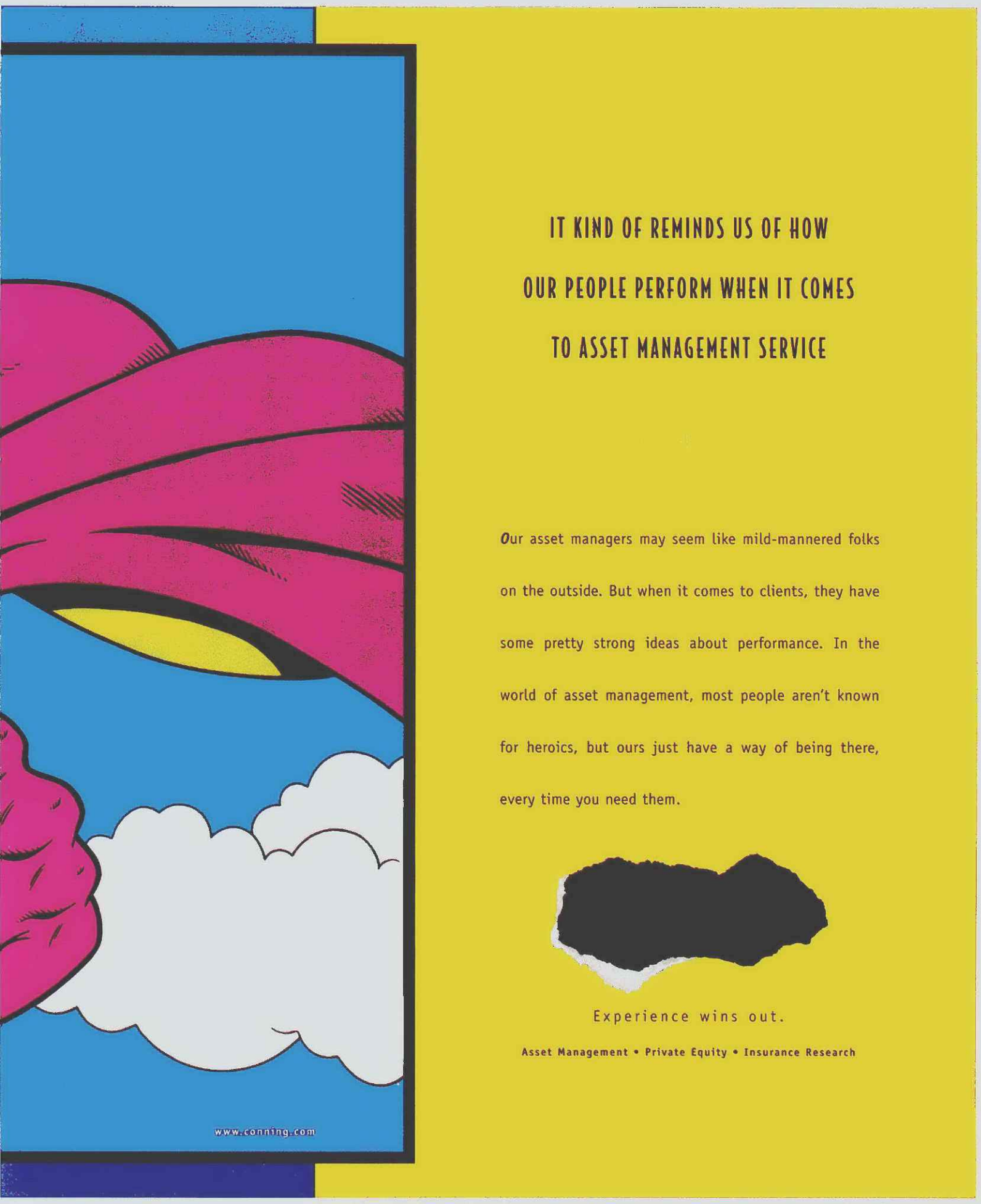
Two students taking the other online course, INS 22, are pleased with the experience thus far, though both admit using the Internet has its challenges.

Pamela Orr, a part-time insurance specialist in the Colorado Springs, Colo., regional office of United Services Automobile Assn. and the mother of an 11-year-old boy, said she prefers the traditional class setting, but this semester not enough students registered for an onsite class at USAA.

"A lot of people like the flexibility of the online course, and so far that has been a big plus," Ms. Orr said. "I miss the social interaction, because you're not talking one-on-one, but the instructor has been very encouraging online so far in trying to get you involved in what they call discussions."

Maryloretto Buckley, project

See **Online** *on page 30H*



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Online

Continued from page 30E

manager at the Austin, Texas-based Financial Services Group of Computer Sciences Corp., which sells property and casualty insurance software, is a self-described "techie." She is taking the entire INS series of courses to increase her knowledge and better communicate with her company's business analysts and customers. Ms. Buckley said the online course meshes well with her heavy workload and occasional travel.

> *"The Internet is an alternative means to study. It's not for everybody. at least not for now. But we're amazed at the level of interest that there is."*
>
> —Ken Dauscher

"Our teacher so far has done a very good job of answering questions and giving very positive feedback. It's an incentive to keep on reading and keep on doing your homework," Ms. Buckley said. Although the assignments are due Wednesdays, students can turn the homework in ahead of time and get immediate feedback, she added.

However, working online has its own quirks, to which both educators and students must adjust. "There obviously are technical challenges," said Mr. Dauscher. "The software can work very well, but depending on what version Web browser somebody has or who their Internet service provider is, you can find that there are problems there," he said.

Additionally, some companies' system configurations don't use certain computer languages, though only one or two students have encountered problems getting to the institutes' Web site, he said.

The writing-intensive nature of the class also poses a challenge. For example, the institutes had to work with the instructors ahead of time to create lesson plans that take into account the online setting, where communication is based solely on writing, Mr. Dauscher said.

He did note that online classes do not offer other forms of communication, such as body language and eye contact.

"The only thing that's been a little difficult is that once everybody has been (online) and they get the discussion going back and forth, you go in and there's 56 e-mail messages," Ms. Orr said. To get a thorough overview of the course and know the answers to the other educational objectives, she said, it's necessary to read through all the questions and be involved in the discussion.

"During orientation, everybody said it was 'a new experience,' " Ms. Orr recalled. "Now we're just into the second week and I'm much, much quicker and it's much less frustrating, whereas the first week I would say it was a little frustrating," she said.

As the Internet's presence becomes more encompassing, the ability to adjust smoothly to online learning is definitely an asset, but those who prefer the traditional classroom shouldn't worry. "The Internet is an alternative means to study. It's not for everybody, at least not for now. But we're amazed at the level of interest that there is," said Mr. Dauscher. BI

Ask and avoid being deceived

Interviewing technique can help identify right candidates for the job

By RODD ZOLKOS

In filling staff positions, just interviewing candidates isn't enough to maximize chances for success. The type of questions asked can have a lot to do with picking the best person for the job, two recruiting experts say.

Hand-in-hand with asking the right questions is understanding the nature of the job to be filled and the organization itself, considerations that should be key factors in guiding the interview.

"What you're seeking to identify are past actual real-world work experiences that are of a similar nature to what you're looking to hire them for," said Marc Blessing, vp-corporate development at Cleveland-based Management Recruiters International Inc.

"This is really critical in today's environment, where there's a real talent shortage," Mr. Blessing said. "If you see somebody that really fundamentally fits your job, you have to jump on them fast or somebody else is going to hire them out from under you."

According to Mr. Blessing, the best way to identify the right candidates is through a technique called "behavioral interviewing."

"Behavioral interviewing is a method that, through the inquiries

Continued on next page

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Continued from previous page
you pose in an interview, you would seek to identify not only what a person did but how they did it and how well they did it," he said.

Essentially, the technique aims at improving the ability to predict employee performance by evaluating candidates' actions or behaviors in response to the specific circumstances or aspects of previous jobs.

It's not an approach that's widely used, however, according to Mr. Blessing. Typically, he said, the bulk of job interviews involve "opinion-based" questions, such as, "What's your greatest strength?"

"The difficulty with opinion-based interviewing is that you get opinion-based responses," he said. "Everybody has a good opinion of themselves, especially in a job interview situation."

> *"A person's past pretty much dictates what a person's going to be like in the future and how that person conducts business."*
>
> —Jim Roth

According to Mr. Blessing, surveys have shown that the chances of hiring success with opinion-based interviewing are less than 50/50. "You might as well not bother with the interview and just flip a coin," he said.

"Whenever an interviewer tells you, 'My gut tells me,' they're telling you they haven't done a very good job of interviewing," Mr. Blessing said. But behavioral interviewing techniques enhance the chances for success by minimizing bias and maximizing facts, he said.

An example of a behavioral question would be, "Could you tell me of a particular instance at work when you uncovered a hidden agenda or bias of others?" or "Could you tell us about an experience in which you dealt with an angry customer?" Mr. Blessing said.

"It's very difficult for candidates to rehearse what they're going to say in a behavior-based interview," he said. "A lot of candidates. . .totally con their way through interviews. This approach reduces that."

On the other hand, however, Mr. Blessing said candidates able to provide real-world examples of their ability to meet a job's demands are more likely to get hired. "In fact, good candidates, if they know what they're doing, they can take an opinion-based question and turn it into a behavior-based response," Mr. Blessing said.

"A person's past pretty much dictates what a person's going to be like in the future and how that person conducts business," said Jim Roth, senior vp in charge of the insurance division of Vermilion Group/Management Recruiters of Des Moines in West Des Moines, Iowa.

"I do most of the behavioral-based questions before I even take the person into the companies," Mr. Roth said. "I ask most of the questions before I even take them in and figure out whether they're going to fit the bill or not."

By gathering more specific information about how the candidate has demonstrated the ability to meet the requirements of the job, behavior-based interviewing also facilitates making objective comparisons among candidates, Mr. Blessing said. "Another important factor about the behavioral interview is that it is far more legally defensible," he said, because it gathers more objective information for comparing candidates.

Mr. Roth said that using behavior-based questioning in recruiting employees for insurance companies "has allowed me to find the top 10% in the business."

"I pretty much work with regional vice president and above to the executive level," he said. "It has allowed me to ask certain types of questions to certain people that are very successful, and there are certain patterns that they all provide.

"Like the Million Dollar Roundtable, each one of those people has certain types of patterns that always come up," Mr. Roth said. "So when you develop your questioning around those patterns, you can come up with a real strong candidate."

But, in any case, in order to recognize the right patterns and develop the appropriate questions, it's necessary to understand the job.

"The process actually begins with what is known as a job analysis," Mr. Blessing said. That involves identifying the behaviors that have led to success in the job. "Once you understand those behaviors. . .then you construct behavior-based inquiries around them," he said.

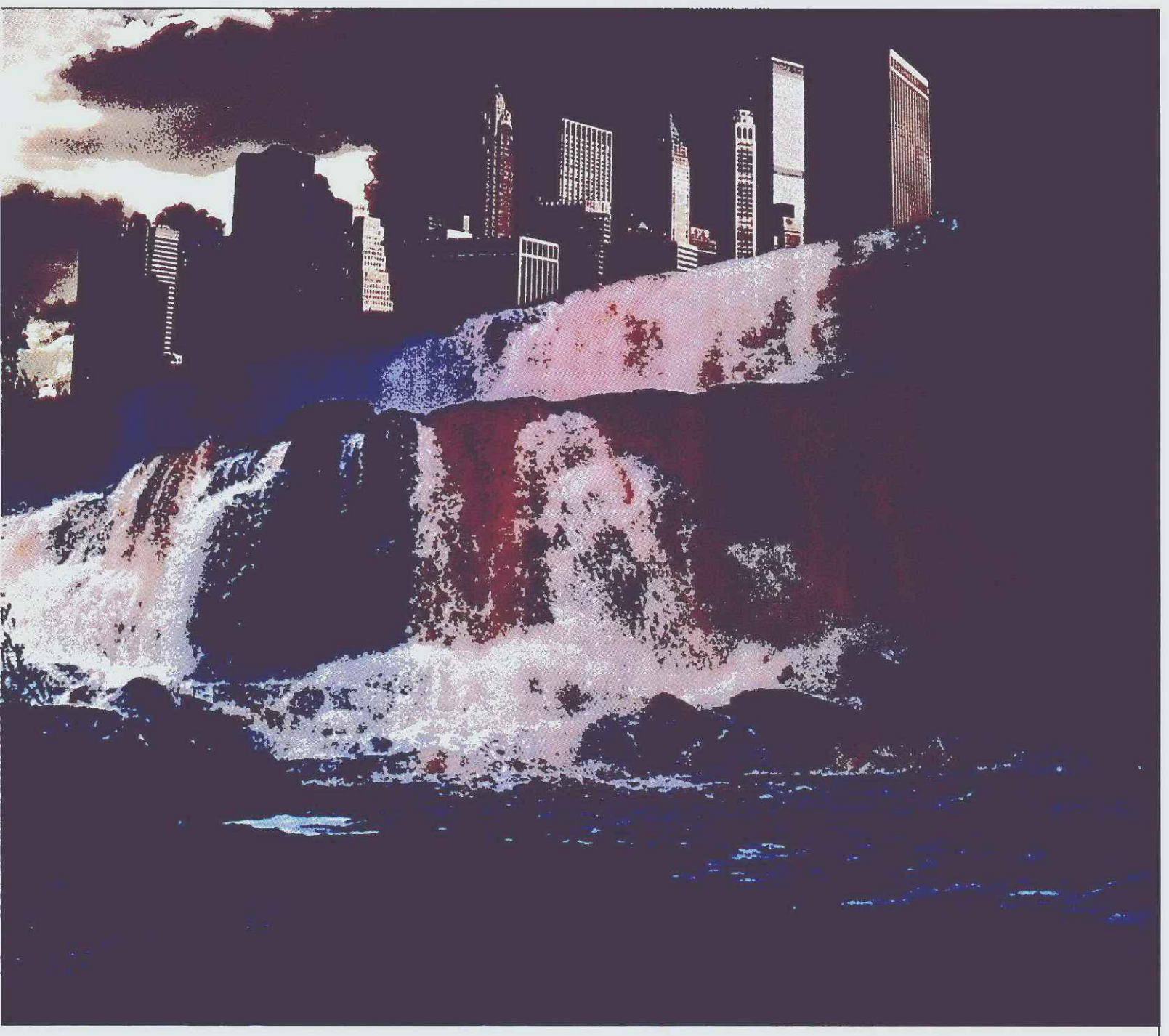
For example, in an insurance context, if you're looking to hire someone in a position where they might be dealing with sophisticated corporate customers who closely examine every detail of their policies, questions should aim to identify someone who has not only the experience but the patience and the communications abilities to explain those details to the customers' satisfaction, Mr. Blessing suggested.

Understanding the company and its culture also is essential. "A lot of recruiters don't find out the reason why there is an opening," Mr. Roth said. And "they don't take time to understand the culture."

Gordon Silva, regional vp at Metropolitan Life Insurance Co. in Charlotte, N.C., has worked with Mr. Roth on recruiting and has seen that process firsthand.

"One of the things that in specifically working with Jim has occurred is that he and I have gotten a pretty good feel of what the leadership style is here and where I want to take the organization," Mr. Silva said.

See **Interview** *on next page*



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Interview

Continued from page 30I

"No matter how good the candidate is, if there's not the right relationship between him and me, it might not be possible for me to provide the right environment for him to flourish in," he said. "The philosophy that I have in running the organization is that, yes, I run it, but I work for the employees. I try to create an environment in which people can flourish. Jim and I work well in supporting that philosophy."

Mr. Roth tested Mr. Silva as part of the process of identifying his management style, Mr. Silva said. The test took about five minutes, he recalled, examining how he classified himself in different areas. "Then a report comes back that's a pretty accurate description of who you are," Mr. Silva said. "And I gave the report to about five people without any explanation and said: 'Read that. Does that sound like me?' And they said, 'Absolutely.' "

While he thinks a job interview should be heavily weighted to behavior-based questions, Mr. Blessing said there is still a place in the process for other types of questions.

In a good interview, he said, 60% to 80% of the questions should be of a behavior-based nature. "You still want to ask opinion questions, because they're a good basis for probing," Mr. Silva said.

In addition, interviewers should still inquire about job experience, credentials and references and ask technical questions about a candidate's experience and training.

The notion of behavior-based interviewing is winning acceptance with company executives with hiring authority, the recruiters said, though it's taking time.

"It makes perfect sense, and a lot of people can conceptualize it, but putting it in practice is like learning to play golf," Mr. Blessing said.

"I think, across America, much has been done to improve the process and the quality of companies," Mr. Blessing said. "But I think the area that continues to bleed is the selection of employees."

"Most people who are involved in interviewing have never been given effective training at it, and most people do it the way they've been interviewed, which was ineffective," he said.

"Most hiring authorities still use opinion-based," Mr. Roth said. "And I'll be perfectly honest; most of my clients still use opinion-based questioning."

But, he said, when he explains to client companies the process he uses before bringing in a job candidate, "then they open their eyes a little bit. They want to know more." BI

Insurance execs expect to add staff

For those considering employment in the insurance industry, the good news is that a trend of more insurance company executives saying they plan to add staff has continued, a recent study shows.

If there's a downside in the study conducted by search and recruiting firm Management Recruiters International Inc., it's that the percentage of insurance industry executives that indicated their companies would be increasing staff size lagged slightly behind the average for all companies polled.

Still, more than half the insurance industry executives—53.4%—polled in MRI's survey for the second half of 1998 indicated they plan to increase hiring, a 2.2% increase from the percentage that reported plans to add staff in the survey conducted earlier this year.

Meanwhile, 40.3% indicated their companies would maintain current staffing levels, a 0.5% increase from the first half of the year, while the percentage of the insurance companies surveyed expecting to cut staff dropped to 6.4%, down from 8.0% in the first half of the year.

The survey polled 5,935 executives across the country, with 56.5% of the total group indicating they plan to increase hiring in the second half of 1998. Of the total, 37% reported they plan to maintain current staff levels, and 6.5% predicted staff reductions.

The survey was the 41st in an ongoing series of such polls conducted by Cleveland-based MRI. Since the beginning of 1996 the number of insurer executives saying they would add staff has shown steady growth, increasing by nearly 20 percentage points.

Insurance industry executives predicting they would reduce staffing also has dropped significantly over that period, from 13.0% in the first half of 1996 to the current level of 6.4%.

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A summary of the findings of the survey by Management Recruiters International Inc. is available free by writing to MRI, 200 Public Square, 31st Floor, Cleveland, Ohio, 44114, Att: Karen Bloomfield; by telephoning Ms. Bloomfield at 800-875-4000; or by e-mail at ksb@mricorp.mrinet.com.

Programs attracting minorities

AIA's recruitment efforts target college students and employees

By RODD ZOLKOS

Programs aimed at drawing minorities to the insurance industry are essential, and there's reason to believe they are having some success, say those championing such programs.

However, a hot job market is making it difficult to gauge the success of programs aimed at attracting minorities to consider careers in the insurance industry, says one executive.

"It's hard to determine the success with the economy like it is and the job market like it is. I think everybody's having trouble getting folks," said Harold Mitchell, agency field executive for State Farm Insurance Cos. in Duluth, Ga.

"I hate to say it, but I guess in a bad economy is where you determine whether you're getting the cream of the crop," he said.

Joe Fleming, director of public affairs in the Southeast region for the American Insurance Assn., cited a 1995 career fair the AIA sponsored with the Atlanta Urban League and about 50 insurers for minority students.

"That was a real success, and we exported that program to Kentucky and the Urban League there and also to South Carolina," Mr. Fleming said. A similar career fair is scheduled in South Carolina next month.

While hard data might be lacking, based on anecdotal evidence, the job fairs have definitely been successful at encouraging minority students to consider careers in the insurance industry, Mr. Fleming said.

"I think at the first one we had 300 to 400 students participate. I'd be willing to speculate that the vast majority of them hadn't considered the insurance industry before," he said. "I think we opened some eyes to opportunities in the industry, and that might be the catalyst to institutional change."

An interest in institutional change in the insurance industry provided the original motive for the AIA's involvement in minority recruitment in the Southeast, Mr. Fleming noted.

"Back in 1994, there were some legislative hearings in Georgia from some insurance regulators who were concerned about insurance redlining," he said. "We saw that as an opportunity to really take a proactive position and address some of the regulators' concerns."

To that end, the effort they crafted included connecting minority agents with standard insurance companies and bringing insurance company representatives into Atlanta neighborhoods to show them firsthand some of the property they were being asked to cover.

In addition, the AIA and others in the insurance business decided to take steps to expand the number of minority employees in the industry. "We decided

See **Minorities** *on page 30L*

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Minorities

Continued from page 30J

that we would embark on a program to expose more students to the opportunities that the insurance industry affords," Mr. Fleming said.

The AIA's minority recruitment efforts haven't been directed exclusively at college students. In Boston, the organization had been involved with Urban Underwriters Insurance Agency Inc., the Massachusetts Property Insurance Underwriting Assn., some insurers and Roxbury Community College in a recently completed two-year program aimed at college-educated workers considering career changes.

The course was designed to give participants a broad overview of how property/casualty insurance works, to help them make a smooth transition into the insurance industry.

"It was unique. We weren't aware of anything like it in the country," said Anne M. Doherty, the AIA's director of public affairs in Boston. "I think we averaged about 12 a class, and we've tried to stay in touch with them to see how many have gotten jobs in the industry," Ms. Doherty said. "I know of four that have."

With the AIA's original two-year commitment to the program now complete, Ms. Doherty said she wasn't sure whether the program would be reinstated in the future.

But that sort of program, gathering a group of varied partners to promote the goal of bringing minorities into the insurance industry, is typical of the sorts of efforts being crafted, State Farm's Mr. Mitchell suggested.

"I think the insurance industry is trying to develop partnerships not only with some of the universities but some of the consumer groups, the Urban League and others, to make an inroad into getting people interested," he said.

The best programs, Mr. Mitchell said, are those that give potential insurance industry employees the opportunity to learn about the industry firsthand from those already in the business. "In reality, I think the best way of getting new employees is by putting them in touch with our existing employees," Mr. Mitchell said. BI

Laws don't prompt driver coverage: NAII study

IT Briefs

Compulsory automobile liability insurance laws may be having the opposite effect that its proponents intended, increasing the number of uninsured motorists rather than reducing it, a new study shows.

The study by the National Assn. of Independent Insurers suggests that mandatory insurance laws actually fail to prompt drivers to buy and keep auto insurance over the long term.

According to the study, in states with compulsory auto insurance laws in place prior to 1976, the estimated growth in the number of uninsured motorists ranged from 6% to nearly 300% from 1976 to 1985.

The study also showed that with a national average uninsured motorist rate of 15% in 1995, the estimated uninsured motorist rate in 13 of the 45 states with compulsory auto insurance laws exceeded the national average, surpassing 20% in five of those states.

The study by the Des Plaines, Ill.-based NAII used statistical data from the years 1976 through 1985, as compiled by the Insurance Research Council.

Based on the experiences of the 19 states that had compulsory auto insurance laws in effect prior to 1976, the study suggested that any benefit of those laws might be lost over a long period of time. In Delaware, for example, which adopted the first compulsory auto insurance law in 1953, the uninsured motorist population grew 297.3% during the period studied.

Of the 12 states that added compulsory auto insurance laws between 1976 and 1984, only four experienced reductions in their uninsured motorist populations, with the highest reduction coming in Nevada, with a 15.4% decline. The other eight states saw the uninsured motorist populations increasing from 3.5% in Ohio up to 57.9% in Oklahoma.

Among the 12 states that adopted compulsory auto insurance laws after 1985, the number of increases and decreases were evenly split, according to the study, with the greatest reduction—43.5%—in Wyoming, and the greatest increase—30.2%—in Nebraska.

Copies of the study are available by calling Diana Lee at the NAII, 847-297-7800, ext. 366.

Exclusion expanded

BENSENVILLE, Ill.—The American Assn. of Insurance Services has filed endorsements for several personal and commercial lines insurance policies that would exclude coverage or reinforce existing exclusions for losses arising from the failure of computers or related systems to recognize a date or time properly.

The "Calendar Date or Time Failure" exclusions would address the Year 2000 computer problem but would go beyond computer failures associated with the Year 2000 problem to exclude property and liability losses from any failure of a computer to distinguish any date or time, whether it is before or after Jan. 1, 2000.

Courses offered

MALVERN, Pa.—The American Institute for CPCU and the Insurance Institute of America have introduced a new series of self-contained courses to meet the need for in-depth training on specific insurance topics.

The "Focus Series" offers 14 courses adapted from the institutes' technical insurance information base, each focusing on a single topic, such as business auto insurance, commercial general liability or homeowners underwriting. Each course also is designed to be filed for four hours of continuing education credit.

The courses consist of a participant/student guide that can be used either for independent study or as part of a seminar. In addition, each course includes an instructor's guide that provides material to allow trainers to offer it as a four-hour seminar.

The cost of the participant/student guides for each course ranges from $16 to $21, while the instructor's guides cost from $91 to $123 per course.

To receive a brochure with an order form for the Focus Series materials or to order course guides, call 800-644-2101; e-mail: cserv@cpcuia.org, or fax 610-640-9576.

LOMA honors Otis

ATLANTA—International life and health insurance association LOMA will honor Kenneth Otis II, president and chief executive officer of Blue Cross & Blue Shield of North Carolina, at the organization's conference later this month.

For his contributions to ongoing employee education, Mr. Otis will receive the organization's FLMI Insurance Education Award at LOMA's 1998 Annual Conference & FLMI Conferment Sept. 27-29 in Nashville. The annual award recognizes individuals for their contributions to LOMA's Fellow, Life Management Institute program and to insurance industry education as a whole.

Mr. Otis has served both as a member and as chairman of LOMA's Education Council, and he has been a member of LOMA's board of directors.

Nominations sought

AUSTIN, Texas—The societies of Certified Insurance Service Representatives and Certified Insurance Counselors are seeking nominations for their 1999 Outstanding Customer Service Representative of the Year Award.

The award recognizes customer service representatives who have distinguished themselves as leaders by providing quality service and through their contributions to their agencies, companies, communities and the insurance industry. Nominations can be made by anyone in the insurance industry.

Nominations, including the name, title, agency or company, address and telephone number of the nominee, should be sent to the Society of CISR, P.O. Box 27028, Austin, Texas 78755-1028. BI

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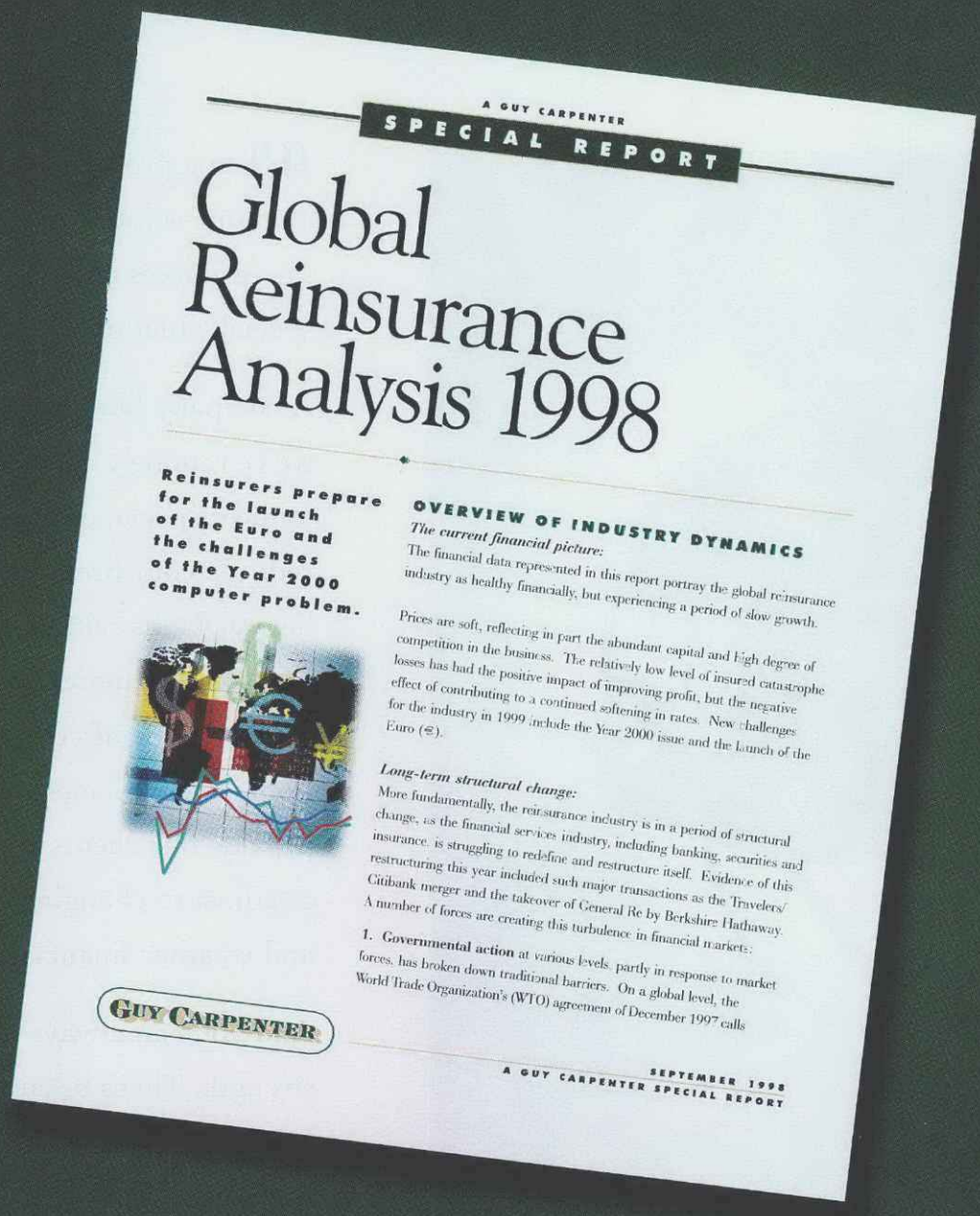

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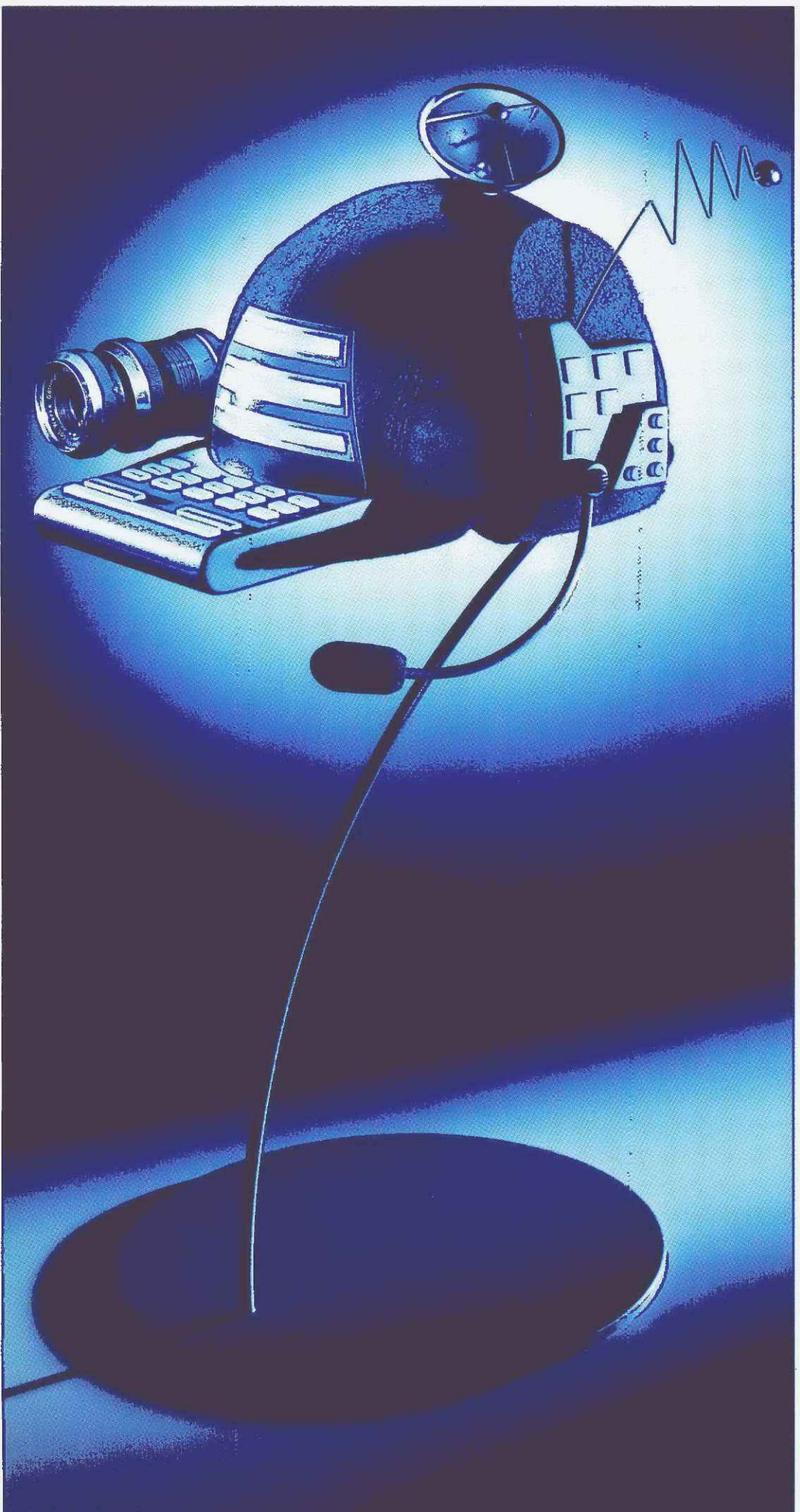

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Reimbursement disputes can be avoided

By Daven G. Lowhurst and Ross M. Petty

NEARLY ALL RISK MANAGERS and other buyers of insurance know that a liability insurer owes a broad duty to defend its insured against third-party lawsuits, even where it ultimately turns out that there is no duty to indemnify. Most of these buyers are probably aware that this broad duty to defend may require the insurer to defend an entire lawsuit even though some of the claims in that suit (e.g., contract claims or punitive damages claims) are not covered under the policy. But few policyholders appreciate the serious risk that an insurer, having provided a defense in a lawsuit including both covered and non-covered claims, will later make a claim against its policyholder for reimbursement of some or nearly all of those defense costs.

The risk of a defense cost reimbursement claim has expanded over recent years as the cost of defending claims—which often surpasses the cost of paying settlements or judgments—has soared. Insurers have increasingly searched for ways to reduce or avoid their defense obligations.

The frequency of insurers pursuing reimbursement claims is likely to increase in the wake of recent court decisions. Just last year, the California Supreme Court, often at the vanguard of insurance law, issued back-to-back opinions allowing an insurer to recover defense costs from its policyholder if the insurer proves that it is more likely than not that the defense costs were incurred solely in defending against a claim, or even a part of a claim, that was not even potentially covered under the policy. Two cases—*Jerry H. Buss et al. vs. Superior Court of Los Angeles* and *Aerojet-General Corp. vs. Transport Indemnity Co.*—illustrate two common reimbursement scenarios that policyholders must understand and anticipate. In *Buss*, the policyholder, Jerry Buss, owned several professional sports teams, including the Los Angeles Lakers (*BI*, Aug. 4, 1997). He was sued under 27 causes of action by a company providing advertising services. Mr. Buss's insurer, Transamerica Insurance Co., agreed to defend Mr. Buss based solely on one cause of action for defamation, reserving its rights to obtain reimbursement of defense costs as to the other 26 non-covered claims. Mr. Buss eventually settled the lawsuit for $8.5 million, but Transamerica refused to contribute.

Transamerica, which had paid over $1 million to defend Mr. Buss, then sought reimbursement of all defense costs except for some $21,000 to $56,000, which it believed was the only amount attributable to defending the defamation cause of action. The California Supreme Court ruled that Transamerica had the right to go after Mr. Buss to recover defense costs incurred solely in defending the 26 non-covered causes of action. Thus, the policyholder, Mr. Buss, was left facing a reimbursement claim of nearly the entire $1 million spent to defend the underlying lawsuit.

Aerojet presented a different scenario by which a policyholder may be forced to pay for its own defense. There, the policyholder tendered to its insurers' suits claiming contamination of property through the operation of manufacturing plants. The insurers sought a declaration that they did not owe a duty to fund Aerojet's entire defense based on the presence of deductibles or retained limits in several of Aerojet's policies. The California Supreme Court ruled that the insurers had a duty to defend the entirety of claims against Aerojet but could recover defense costs from Aerojet to the extent they can prove that the defense costs were incurred solely in defending non-covered claims or parts of claims. The potentially non-covered claims or parts of claims principally related to contamination occurring outside the policy period, and Aerojet will have to reimburse the insurers to the extent they prove that defense costs were incurred solely in defending such non-covered claims or parts of claims.

Rulings such as in *Buss* and *Aerojet* will likely result in more significant disputes between insurers and policyholders on the issue of who ultimately pays for defense costs. A policyholder, happy to learn that an insurer has agreed to defend a lawsuit, may be extremely displeased to learn months or often years later that the insurer is seeking to have some or nearly all of the substantial defense costs thrown back on the policyholder.

If the policyholder is unwilling to submit to the insurer's demand for reimbursement of defense costs, the policyholder may find itself the target of a further legal action by the insurer to recover those defense costs. The policyholder's displeasure would, no doubt, be magnified where the insurer is demanding reimbursement of defense costs incurred by counsel of its choice, who could have steered the underlying lawsuit in a direction favoring the insurer's later reimbursement claim.

All is not lost for policyholders, however. Armed with the understanding that any lawsuit could trigger a defense cost reimbursement claim by the insurer, a policyholder can avoid or minimize the consequences of a later reimbursement dispute by careful attention to the following issues:

• Does the claim carry the potential for a later reimbursement dispute? The policyholder first needs to determine whether the insurer has the right to later assert a claim for reimbursement of defense costs. This will hinge on at least four factors.

1. Does the complaint allege any claims or parts of claims that are not covered by the policy? If not, then there is no basis for the insurer to seek reimbursement.

2. Does the applicable law allow an insurer to defend a lawsuit but later force the policyholder to bear some or all of the defense costs? In other words, the policyholder must determine whether the insurer has the right to seek reimbursement of defense costs in the first place.

3. Has the insurer promptly and specifically reserved the right to later seek reimbursement of defense costs? If not, the insurer may have waived the right to do so. However, caution must be exercised because some jurisdictions might allow an insurer to assert a claim to recover defense costs despite the absence of a prompt and specific reservation of that right.

4. Is the insurer promptly and fully providing a defense? Some jurisdictions will allow an insurer to recover defense costs from the policyholder only if the insurer provided a prompt and full defense.

• What is the risk and extent of a potential reimbursement claim? To properly assess the risk and extent of a later reimbursement claim, a thorough legal analysis of the coverage afforded the third-party claims (and parts of claims) must be performed. Questions to address include:

1. Are there any claims (or parts of claims) that are clearly outside the scope of coverage? If so, to what extent do the non-covered claims predominate the covered claims? The policyholder should consider whether it would be advisable either to defend itself or to negotiate up front a reasonable defense cost sharing agreement.

2. Do the covered and non-covered claims involve the same factual issues? For example, has the third-party claimant alleged that the policyholder's misconduct was negligent (in one cause of action) and intentional (in another cause of action)? Does the defense against contract and tort claims hinge on proof of essentially the same facts? The more the covered and non-covered claims implicate the same factual issues, the more likely the insured will succeed in defeating the insurer's reimbursement claim, since the insurer will have considerable difficulty demonstrating that any portion of the defense costs was incurred solely because of the non-covered claims.

• Should the policyholder cut a deal on reimbursement? Assuming that the applicable law affords the insurer the right to seek reimbursement of defense costs, the policyholder should consider whether it makes sense to try to make a deal to share defense costs.

For example, after a third-party claim has been asserted, the policyholder could explore an agreement with the insurer establishing a dollar cap, percentage cap, or other formula for sharing defense costs. The cap or formula would vary depending on the nature of the claims alleged in the underlying lawsuit, including the relative importance of the covered vs. non-covered claims and the extent to which such claims are factually intertwined.

A defense cost sharing agreement could inure to the benefit of both sides by decreasing the uncertainty and risk of an unliquidated reimbursement claim, avoiding the cost of litigating the reimbursement claim down the road, allowing the policyholder and insurer to defend the third-party claim with a united front, and avoiding disputes over conflicts of interest in the retention of defense counsel.

• How can the policyholder minimize the impact of a reimbursement claim? A policyholder should be proactive to protect or even improve its position in any later reimbursement dispute. Although the strategy in minimizing the impact of any reimbursement claim will be dictated by the circumstances surrounding the claim, a few general approaches should be considered.

First, the policyholder should consider whether the insurer can be persuaded to abandon the reimbursement claim. One "persuasion point" might be to demand that the insurer appoint independent counsel. Generally, where defense counsel's handling of the underlying lawsuit can influence the outcome of a coverage dispute, the policyholder is entitled to independent counsel at the insurer's expense. Such a conflict of interest might arise if the insurer were to appoint defense counsel from its panel of law firms and yet reserve its right to recover defense costs from the policyholder. The risk of having to pay the additional expense of independent counsel may persuade the insurer to forgo a reimbursement claim altogether.

Second, consider whether it is advantageous to tender the suit to the insurer in the first place. If the non-covered claims predominate the covered claims, and the insurer refuses to waive its right to seek reimbursement, the policyholder may be better served to select and retain control over defense counsel, even though it means possibly forgoing any contribution by the insurer to the cost of defense. This would allow the policyholder to use defense counsel of its own choosing and to decide how much to spend on defense and how to allocate those defense dollars in the most efficient manner.

Third, the policyholder should plan and budget for the possibility of a reimbursement claim. The financial impact of a reimbursement claim can be softened considerably if the policyholder prepares for that potentiality. Further, the policyholder, having analyzed the likelihood and estimated amount of a reimbursement claim, can take that risk into consideration in assessing how to respond to the third-party suit. This analysis will help the policyholder determine how to approach defense and settlement.

In conclusion, a policyholder need not find itself defenseless in the face of an insurer's claim or potential claim for reimbursement of defense costs. However, the insured must first understand the risk of such a claim. Armed with this knowledge, the insured is in a much better position to assess (1) whether the insurer has the right, under the applicable law, to recover defense costs in the first place; (2) if such a right exists, whether the insurer should nonetheless be prevented from asserting that right; (3) the risk and potential exposure of a reimbursement claim; (4) how the impact of a reimbursement claim can be minimized; and (5) whether some kind of a sharing agreement should be negotiated with the insurer. Assessing these issues in a timely manner will help to avoid, or at least minimize, the consequences of an insurer's claim for reimbursement of defense costs.

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Jerry H. Buss vs. Superior Court of Los Angeles (1997) 16 Cal.4th 35 and *Aerojet-General Corp. vs. Transport Indemnity Co. (1997) 17 Cal.4th 38.*

Daven G. Lowhurst is a partner and Ross M. Petty is a senior associate at Thelen Reid & Priest L.L.P. in San Francisco, Calif., where they advise and represent policyholders in pursuing coverage claims. The views expressed herein are solely those of the authors.

Coping with nature's most costly disaster

"Hurricanes: Their Nature and Impacts on Society"
By Roger A. Pielke Jr. and Roger A. Pielke Sr.
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By Kevin M. Quinley

AS SUMMER WINDS DOWN, thoughts often turn to the markers of fall: back-to-school rituals, leaf raking and the World Series. This season brings other preoccupations to many risk managers, though, since it represents not only the start of football season but the peak of hurricane season. In fact, these words come as Hurricane Bonnie just paid a visit to the Carolinas.

Perhaps more acutely than most other business professionals, risk managers realize that losses to hurricanes in the 1990s total more than those incurred in the 1970s and 1980s combined. This is true even after adjusting for inflation. This had led many to mistakenly conclude that severe hurricanes are becoming more frequent. A preoccupation with El Nino, global warming and the human impacts on global weather patterns fuel this perception.

In fact, according to recent research, the past few decades have seen a decrease in severe storm frequency. Further, the span of 1991 to 1994 was the calmest in the last 50 years. What it means, however, is that today's world is more vulnerable to hurricane damage than it has ever been. This poses a serious public policy problem and a huge risk management challenge.

A new book, "Hurricanes: Their Nature and Impacts on Society," defines and addresses the hurricane problem, focusing primarily on the United States, in order to lay a foundation for action.

Authors Pielke and Pielke comprise a father and son team. Roger A. Pielke Jr. is a researcher with the National Center for Atmospheric Research. Roger A. Pielke Sr. is with Colorado State University, where he formulates models of small-scale weather patterns and disturbances.

Together in this book, they use the concept of vulnerability to integrate the societal and physical aspects of hurricane impacts. "Hurricanes: Their Nature and Impacts on Society" is unique in that it seeks to address both the scientific and societal aspects of hurricanes. While it focuses on the United States, it illustrates weather-related impact assessments that are applicable to other areas and to non-hurricane phenomena.

More broadly, "Hurricanes: Their Nature and Impacts on Society" illustrates the beneficial uses—as well as limitations—of hurricane science to society. Explicit consideration of the relationship between science and society is much needed in an age when scientific research is under public and political pressure to demonstrate stronger relevance to societal needs.

Though the book weighs in at about 280 pages, it is not a quick read or a tome that anyone will mistake for take-to-the-beach pleasure reading. Much of it is heavy sledding, replete with charts and graphs that might hold the interest of only the most ardent Weather Channel addict. But for risk managers for companies in hurricane zones—and that category is broad—the Pielkes' book is must reading.

Top 10 lists are popular, and the authors close out their book with "10 Important Lessons of Hurricanes." These include:

- A large loss of life is still possible in the United States.
- Society knows, in large part, how to respond to hurricanes.
- Hurricanes are the most costly natural disasters in the United States and worldwide.
- Better knowledge of hurricanes is, by itself, insufficient to change behavior.

This last point is key, not only to risk managing against the hurricane peril but risk managing in general. It isn't enough to know how to manage risks; there must be an emphasis on translating knowledge into action.

For risk managers seeking a better understanding of hurricanes and ways to cope with them, this book should be an essential part of their survival kits, along with flashlights, water and backup generators. BI

Kevin M. Quinley is senior vp-risk services for MEDMARC Insurance Co. Inc. and subsidiary Hamilton Resources Corp., both of Fairfax, Va. He holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations.

Ambiguous use of 'discrimination' favors insured

A commercial umbrella liability insurance policy covering "discrimination" was ambiguous, according to the 7th U.S. Circuit Court of Appeals and, thus, would be interpreted to obligate an insurer to defend against charges of price discrimination.

G. Heileman Brewing Co. Inc. purchased an umbrella liability policy from Federal Insurance Co. Heileman subsequently went bankrupt and was purchased by The Stroh Brewing Co. The policy covered "personal injury," defined in part as "humiliation or discrimination." The term "discrimination" was not defined in the policy.

In June 1994, wholesale beer distributor Calumet sued Heileman for discrimination, basing its claim on Heileman's pricing practices. Federal Insurance Co. declined both coverage and the duty to defend, arguing that "price discrimination" was a term of art describing conduct not included in coverage for "discrimination." Heileman then sued the insurer, seeking coverage. Federal countersued, seeking a declaration that there was no coverage. The trial court agreed with the insurer.

The appellate court concluded that the term "discrimination" as used in this policy was ambiguous. The court said it must interpret the term in favor of coverage and against the insurer. The court emphasized that "discrimination," as used in the policy, encompasses Calumet's allegations and the insurer had a duty to defend. The trial court decision was reversed.

Federal Insurance. Co. vs. Stroh Brewery Co., 7th U.S. Circuit Court of Appeals; Sept. 19, 1997. (*BI*/02/My.-$10)

Injury from illegal act covered

A health insurance plan is liable for the medical treatment of an injured plan member charged with committing an illegal, non-occupational act, the 7th U.S. Circuit Court of Appeals ruled.

The allegedly illegal act that led to the member's injury did not bar enforcement of summary plan language in the Employee Retirement Income Security Act health plan that covered his gunshot wounds, the court found.

Monroe Williams was shot five times in the legs by a Gary, Ind., police officer after demonstrating aggressive behavior toward the officer. His medical bills totaled more than $200,000, all of which his ERISA health insurance plan, the Midwest Operating Engineers Welfare Fund, refused to cover.

As with most ERISA-governed plans, participants received only a plan summary. The plan summary stated that the fund would cover hospital charges for room and board if required for hospitalization due to a non-occupational injury or illness.

The plan summary did not define "injury." However, "injury" and "accident" were described in the plan itself as bodily injury resulting from an accident. The fund denied coverage, stating Mr. Williams' "injury did not arise from an 'accident.' " Mr. Williams sued and lost in the trial court.

The appellate court said that, in the event of a discrepancy between the coverage promised in the summary plan description and that provided in the policy, the member is entitled to claim the former. "This is especially the case where, as here," the court said, "the summary contains a rather glaring omission."

Furthermore, the court said Mr. Williams' conduct could not bear any realistic relation to his interpretation of the summary. The court pointed out that it was not credible that Mr. Williams' actions against the police officer could ever have been affected by the type of health insurance Mr. Williams believed he possessed. The trial court decision was reversed, and the insurer was held liable for coverage.

Monroe Williams vs. Midwest Operating Engineers Fund, 7th U.S. Circuit Court of Appeals; Sept. 30, 1997. (*BI*/03/My.-$10)

Psychological injury compensable

An employee's psychological injury suffered after a supervisor forced her to engage in non-consensual sexual intercourse was compensable under the Workers Compensation Act, according to an Illinois appellate court.

The employee was subjected to verbal and physical sexual advances over a five-month period by her immediate supervisor. She was forced to engage in non-consensual intercourse on at least five occasions at work and elsewhere. The employee failed to report this conduct because she was afraid no one would believe her and she was afraid of losing her job. However, after hearing another female co-worker had filed sexual harassment charges against the same supervisor, the claimant reported her incidents to the supervisor's superiors.

Thereafter, she became very emotional, could not sleep and was frightened to be at work. She was diagnosed and treated for major depression. She filed for and was awarded benefits by the Industrial Commission and a trial court.

The employer appealed, claiming that the employee had suffered no physical trauma from which her present psychological condition could have arisen. The appellate court agreed with the conclusion of the commission that five acts of non-consensual sexual intercourse between the claimant and her supervisor were in the nature of physical assaults upon her, and her psychological injuries were, therefore, caused by a physical contact or injury. This was sufficient to meet the requirement of physical contact necessary for the "physical-mental" trauma theory of recovery, according to the court. The award of benefits was affirmed.

City of Springfield vs. Industrial Commission, Appellate Court of Illinois; June 30, 1997; rehearing denied Oct. 21, 1997. (*BI*/05/My.-$10) BI

Legal Briefs

These abstracts were prepared by Mayo H. Stiegler. Copies of these decisions are available by sending a $10 check for each opinion requested, payable to Mayo H. Stiegler, to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.

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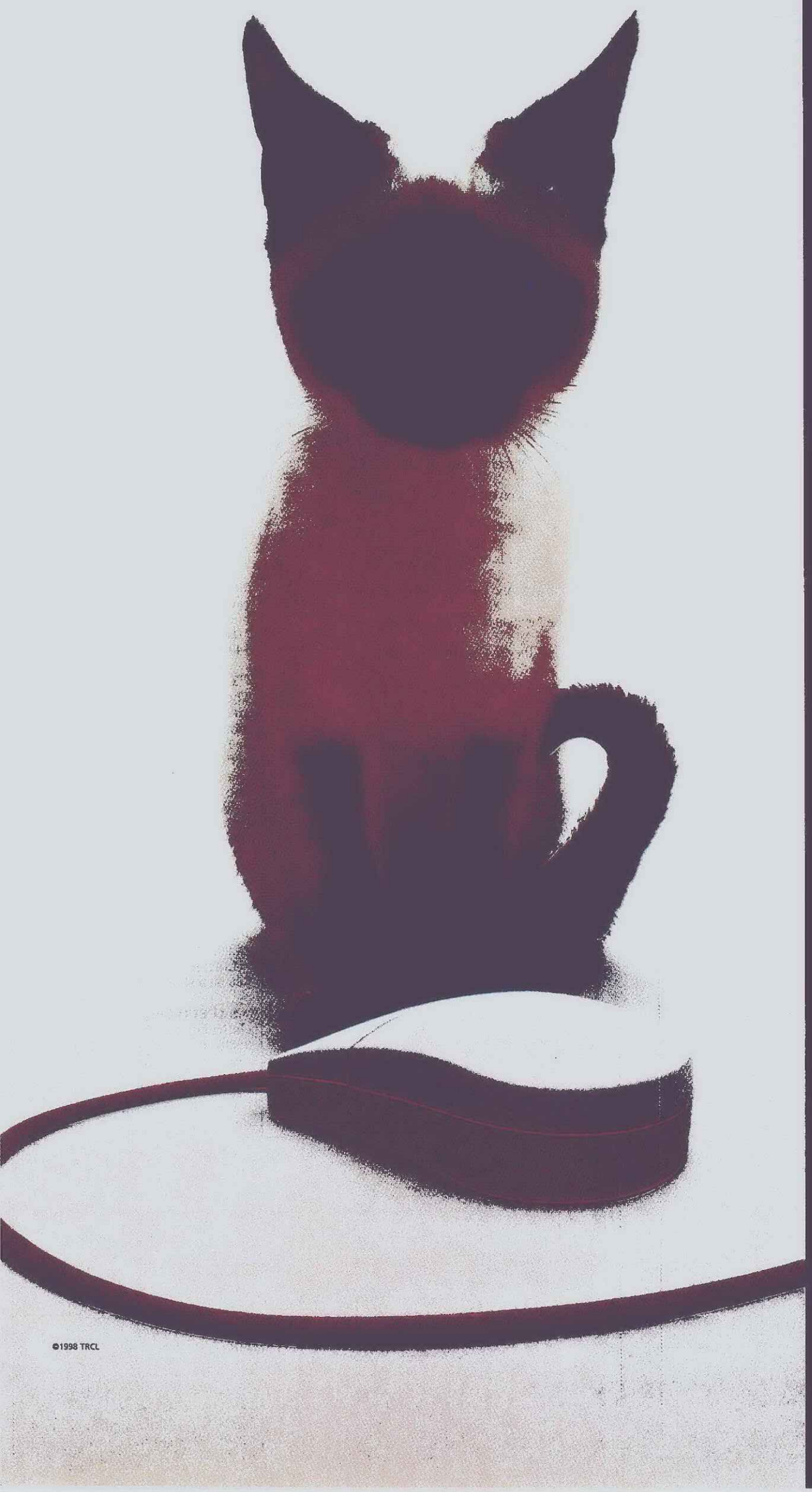

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Insider Trading

American International Group Inc.: Lloyd Bentsen, director, purchased 169 shares of common stock at $123.81 each on June 4 and now directly holds 4,404 common shares

Barber B. Conable, director, purchased 169 shares of common at $123.81 each on June 4 and now directly holds 8,776 common.

Carla Anderson Hills, director, purchased 169 shares of common at $123.81 each on June 4 and now directly and indirectly holds 5,642 common.

Frank J. Hoenemeyer, director, purchased 169 shares of common at $123.81 each on June 4 and now directly holds 19,817 common.

Dean P. Phypers, director, purchased 169 shares of common at $123.81 each on June 4 and now directly holds 14,672 common.

Pei Yuan Chia, director, purchased 169 shares of common at $123.81 each on June 4 and now directly holds 5,150 common.

Marshall Cohen, director, purchased 169 shares of common at $123.81 each on June 4 and now directly holds 4,051 common.

Martin S. Feldstein, director, purchased 169 shares of common at $123.81 each on June 4 and now directly and indirectly holds 19,528 common.

Maurice R. Greenberg, chairman, disposed of by gift 222 shares of common at an unreported price on June 26, 1998. He indirectly acquired by gift 148 shares of common at an unreported price that same day. On July 23, Mr. Greenberg disposed of by gift 196 shares of common at an unreported price and now directly and indirectly holds 37,775,894 common.

AIG stock closed at $79.00 a share on Sept. 11.

CNA Financial Corp.: Bernard L. Hengesbaugh, officer, purchased 1,800 shares of common stock between $41.31 and $41.56 each on Aug. 20 and now directly holds 2,400 common shares.

CNA stock closed at $38.19 a share on Sept. 11.

The Chubb Corp.: Henry G. Gulick, vp, sold 2,000 shares of common stock at $79.94 each on June 30 and now directly and indirectly holds 14,888 common shares.

Thomas F. Motamed, vp, exercised an option for 2,000 shares of common between $40.97 and $41.78 each on June 1 and now directly and indirectly holds 7,425 common.

Henry G. Gulick, vp, disposed of by gift 100 shares of common at $77.88 each on July 24, 1998. Mr. Gulick indirectly acquired by gift 100 shares of common at $77.88 each that same day and now directly and indirectly holds 14,891 common.

Chubb stock closed at $64.94 a share on Sept. 11.

HSB Group Inc.: Colin G. Campbell, director, indirectly sold 600 shares of common stock at $47.75 each on June 9 and now indirectly holds 600 common shares.

Henrietta Holsman Fore, director, purchased 1,000 shares of common at $53.56 each on July 27 and now directly holds 1,000 common.

William A. Kerr, vp, purchased 100 shares of common at $53.88 each on July 24 and now directly holds 4,079 common.

HSB Group stock closed at $43.56 a share on Sept. 11.

Lincoln National Corp.: Herbert Thomas McMeekin, vp, exercised an option for 2,400 shares of common stock at $26.03 each on June 9. To cover expenses of the transaction, McMeekin turned in 1,713 shares for $90.84 each on June 9 and now directly and indirectly holds 20,380 common shares.

Gabriel L. Shaheen, officer of subsidiary, exercised an option for 17,063 shares of common between $39.44 and $45.38 each on July 31, 1998. To cover expenses of the transaction, Mr. Shaheen turned in 11,997 shares for $94.06 each on July 31 and now directly holds 24,902 common.

Lincoln National stock closed at $88.50 a share on Sept. 11.

SAFECO Corp.: Roger H. Eigsti, chairman, exercised an option for 3,538 shares of common stock at an unreported price on June 9 and now directly and indirectly holds 128,590 common.

William Passavant Gerberding, director, purchased 200 shares of common at $45.94 each on July 31 and now directly holds 2,200 common.

Judith M. Runstad, director, purchased 500 shares of common between $43.65 and $44.75 each from July 30 to July 31 and now directly holds 3,500 common.

SAFECO stock closed at $43.47 a share on Sept. 11.

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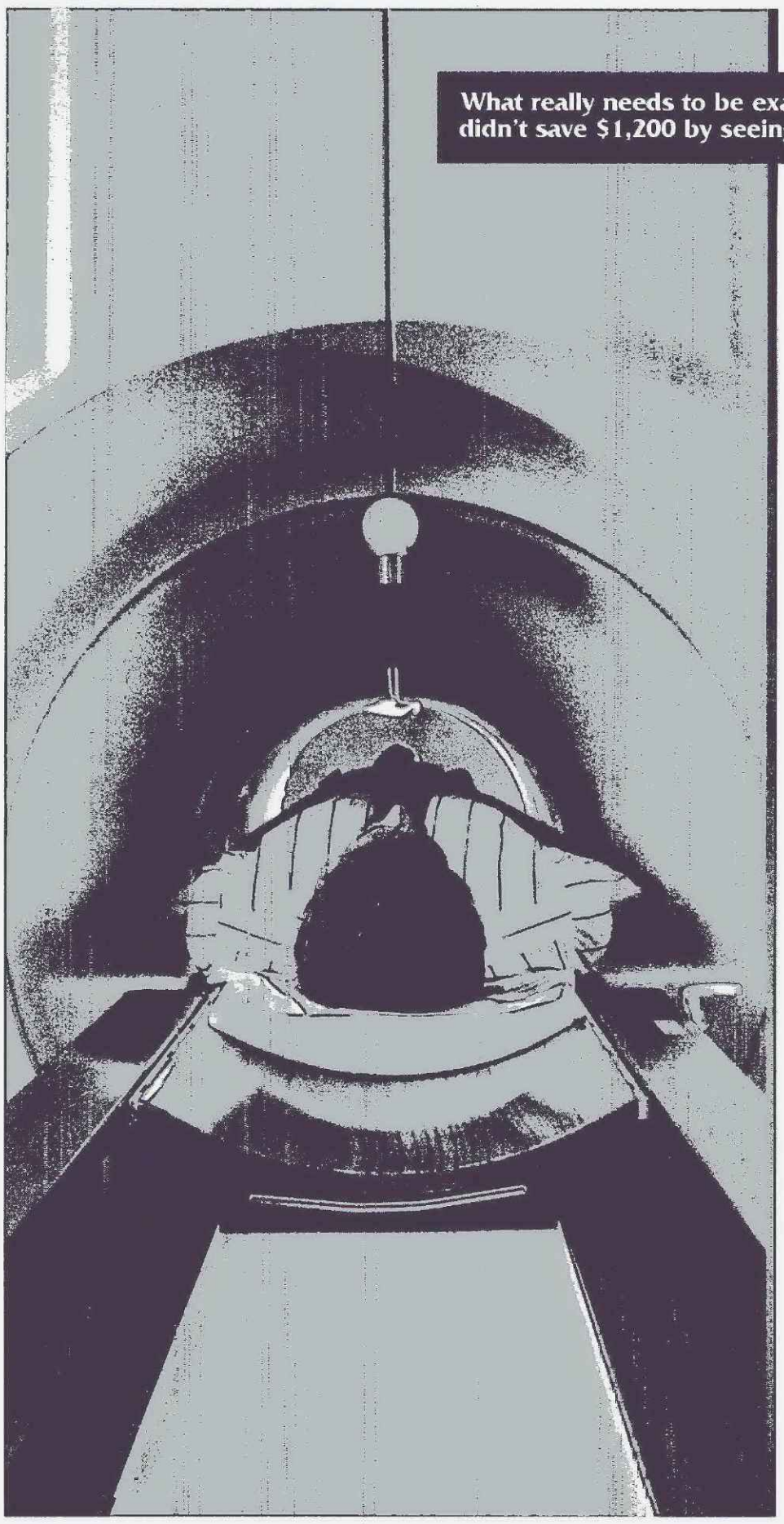
Insider Trading, compiled by Invest/Net Trading Group Inc. of Fort Lauderdale, Fla., from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers. The column is distributed by Tribune Media Services Inc.



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Miniblinds

Continued from page 2

the insurers have a duty to defend their policyholders against the product safety lawsuits, according to policyholder attorney Jay Spievack. Mr. Spievack, a partner at Kronish, Lieb, Weiner & Hellman L.L.P. in New York, represents Totowa, N.J.-based Jencraft in the coverage dispute in New Jersey federal district court in Newark.

Absent a settlement, Jencraft's coverage dispute now likely will head to trial, because parties in a case typically cannot appeal a judge's ruling on a summary judgment motion until the entire case has been wrapped up at the trial level.

But, Mr. Spievack said "From my perspective, there is no legal defense to coverage any more."

Defense attorney Lon Berk, who represents the two Jencraft insurers that have not settled the dispute, disagrees.

"The decision is procedural only, and the court has made no finding that there is any coverage obligation," said Mr. Berk, a partner with Wiley, Rein & Fielding in Washington. "These suits against Jencraft seek costs associated with product recall—not property damage. The case law is clear beyond dispute that there is no coverage for such claims. We're confident that this well-established principle will be enforced."

Mr. Berk represents Maryland Casualty Co. and Northern Insurance Co. of New York, both of which are Baltimore-based subsidiaries of Zurich Insurance Group-United States of Schaumburg, Ill.

The insurers wrote tens of millions of dollars of primary and excess general liability coverage for Jencraft from 1977 through 1990, according to Mr. Spievack.

Product safety litigation against miniblind manufacturers and distributors intensified after the U.S. Consumer Product Safety Commission released a report on miniblinds in 1996. The CPSC reported that miniblinds that contain lead-based paint are dangerous because the lead dust that forms on the blinds over time can migrate.

In their defense of the consumer complaints, miniblind manufacturers contend that, among other things, miniblinds do not cause a hazardous lead exposure and that other household products likely are the source of the exposure.

"That these homes will require special cleanup procedures to abate the alleged health hazards indicates 'physical injury' to property," Judge William H. Walls wrote.

Jencraft already has incurred millions of dollars in defense costs in those actions, and the manufacturer's defense costs likely will mount for awhile, Mr. Spievack said.

Jencraft has paid some of those defense costs. American Alliance Insurance Co., a general liability insurer Jencraft previously settled with, also has paid some defense costs.

In the coverage dispute, the Zurich companies argued that the consumer lawsuits do not trigger Jencraft's general liability insurance. The insurers argued that the lawsuits do not allege property damage other than to the miniblinds and do not seek recovery for bodily injuries. The consumers seek only a product recall and reimbursements of the purchase price for the miniblinds, but the policies' business risk exclusions bar coverage for the cost of both, the insurers argued.

U.S. District Judge William H. Walls disagreed with the insurers over the property damage issue. "Though clearly not the focus of any of the underlying class actions, it is reasonable to infer the specter of a property damage claim in those suits," Judge Walls wrote.

The judge noted that some of the consumer lawsuits complained that lead dust from the miniblinds migrated into the air and onto other surfaces in a room or onto cleaning implements. One consumer lawsuit alleges that homeowners will have to use special vacuuming equipment, at a cost of $2,000 per household, to remove lead contamination from their homes, the judge noted.

While some consumer lawsuits do not specifically seek recovery for the cost of the decontamination, "all arise from the same factual complex," Judge Walls wrote. In addition, all of the suits seek restitution and relief the court deems appropriate, he noted.

"That these homes will require special cleanup procedures to abate the alleged health hazards indicates 'physical injury' to property that could trigger coverage under the policies," Judge Walls wrote.

The judge noted that other New Jersey courts have ruled in liability lawsuits over the removal of lead paint and asbestos from various buildings that property damage has been measured by the cost of restoring property to its original condition or by any reduction in property value.

As a result, Judge Walls ruled, the insurers' business risk exclusions "are immaterial because none speaks to the issue of the alleged contamination."

Because the judge struck down the insurers' exclusions, the ruling is not merely "procedural," as the insurers' attorney maintained, said Mr. Spievack, Jencraft's attorney.

Judge Walls did not address whether the underlying consumer lawsuits sought recovery for bodily injuries, because the insurers already are obliged to defend Jencraft under his decision.

A Sears spokeswoman said she was unaware of the decision.

Wal-Mart did not return phone calls.

Defense attorney Michele Corash estimated that about a half-dozen lawsuits have been filed nationwide over the miniblind lead dust issue.

Ms. Corash, a partner with Morrison & Foerster L.L.P. in San Francisco, represented miniblind manufacturers and distributors in product safety lawsuits that the state attorney general and consumers filed in California. The attorney general's suit was settled. Afterward, a judge dismissed the other case, Ms. Corash said.

"One would think the results so far are discouraging to potential plaintiffs," she said.

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American Alliance Insurance Co. et al. vs. Jencraft Corp., U.S. District Court for the District of New Jersey; No. 96-4346.

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Figure of Zeus
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Federal

Continued from page 2

up premiums for private sector employers, such as soaring prescription drug costs and an aging work force, are behind the rate increases faced by the federal program.

This year, for example, prescription drug costs for the federal program are expected to rise 22% due to price increases and the introduction of new, expensive drugs. About one in five dollars expended in the federal program, whose formal name is the Federal Employees Health Benefit Program, or FEHBP, goes to pay for prescription drugs.

"There have been a lot of new treatments and greater utilization" of prescription drugs, said Jean Barber, a former OPM official and now managing director for business analysis and strategy for Blue Cross & Blue Shield's federal employee program in Washington. The Blues' PPO offered to federal employees covers about 4 million people, the largest of the plans available to federal employees.

"Many prescription drugs may be wonderful in improving outcomes, but they do make it difficult to restrain premium growth," Ms. Barber added.

In addition, an aging population is boosting costs, as older workers typically use more medical services than their younger counterparts.

At the same time, many HMOs hammered by losses from years of underpricing their plans to gain market share are boosting rates to improve their battered bottom lines.

"HMOs conceded price to gain market share. Now their shareholders want to see better returns," said John Welch, a principal with William M. Mercer Inc. in Washington.

Next year's 10.2% average premium increase in the federal program is a big change from just a few years ago, when the big shift of employees to less-expensive managed care plans from costly traditional indemnity plans, as well as market share pricing by many managed care plans, kept the lid on premiums.

For example, rates fell an average of 3.8% in 1995, 0.1% in 1996 and rose just 1.6% in 1997.

While rates are climbing again, the latest round of increases pale in comparison to the premium increases the federal program experienced during the hyperinflation era in health care in the late 1980s. In 1987, premiums increased by an average of 17.4%. That was followed by an average premium increase of 26.3% in 1988 and 20.5% in 1989.

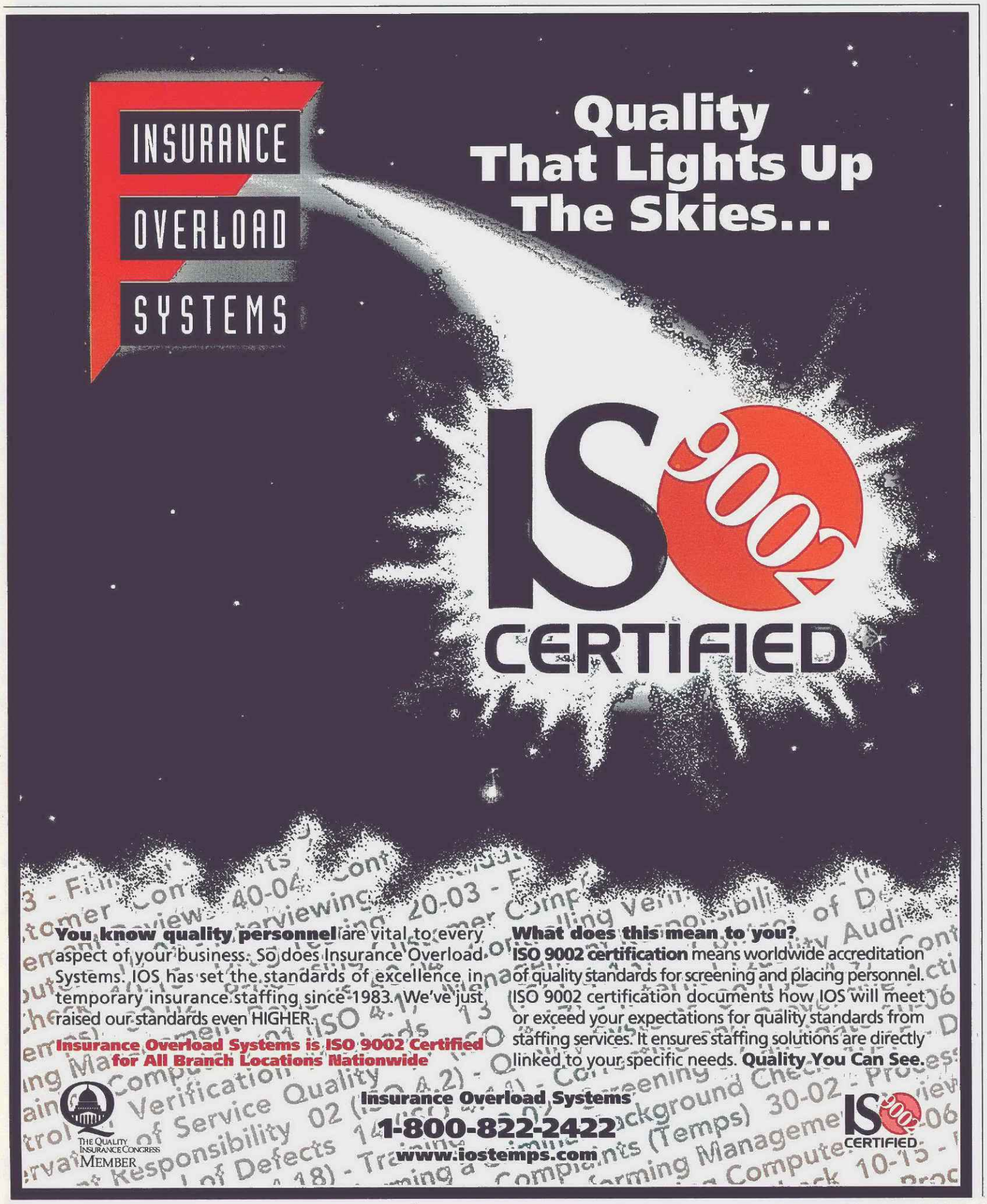
Still, health care experts do not expect a return to the yearly 20%-plus cost increases that were the norm in the late 1980s when managed care had yet to capture a significant share of the health care market.

"In the long term, managed care plans will keep costs lower than non-managed care plans," said Bill Falk, a principal with Towers Perrin in Chicago.

Whether the projected 10.2% average premium increase for the FEHBP holds true will depend on whether or not a significant percentage of federal employees change health care plans during the government's annual open season from Nov. 9 to Dec. 14.

The 10.2% average premium is based on the assumption that enrollees will stick with their current health care plans. However, the average percentage increase could turn out to be lower if many federal employees move into lower-cost plans compared with the plans they now are enrolled in.

Generally, the federal government pays just over 70% of the premium for employees. BI



RCRA reform a priority next year: Chafee

By MARK A. HOFMANN

WASHINGTON—Reform of the Resource Conservation and Recovery Act will be a Senate priority next year, according to the chairman of the committee that deals with environmental affairs.

Sen. John Chafee, R-R.I., said this Congress has "essentially run out of time" to deal with RCRA before it recesses for a final time. Sen. Chafee, the chairman of the Environment and Public Works Committee, noted that there had been some progress in working out a bipartisan approach on how best to reform the 22-year-old law but that sufficient disagreements remained among key players to doom the effort for this year.

Although RCRA reform was not a top-level legislative goal for the Risk & Insurance Management Society Inc. in the current Congress, it was the last risk management-related reform effort to die. Creation of a uniform federal product liability system, overhaul of Superfund's liability system and significant reform of the Occupational Safety and Health Administration all had ranked higher on the risk management legislative wish list, but all failed.

"Obviously, we're disappointed, but it's not a huge surprise. On any environmental issue, business hasn't been able to reach a consensus about what they want to see on reform. It's just like what happened on Superfund; the consensus position was not really strong enough for people to fight for," said Anne Allen, director of government affairs for New York-based RIMS.

RCRA deals with, among other things, how waste generated by the cleanup of polluted areas, including Superfund sites, is treated. Even when so-called remediation waste presents little risk to the public, RCRA requires that it be treated like hazardous waste, which is subject to stringent rules and regulations.

RCRA reform had appeared likely during the current Congress. Reformers got a boost late last year when the General Accounting Office issued a report that called for modest reforms of the law that could save businesses more than $1 billion and perhaps as much as $2 billion annually (*BI*, Nov. 17, 1997). The GAO report said that without changes to RCRA's disposal, permit and minimum technology requirements as they apply to remediation waste, landowners are encouraged to avoid cleanups.

One of the chief proponents of Superfund and RCRA reform, Sen. Bob Smith, R-N.H., cited the GAO report as he promised to push forward with reform in the next session of the Senate.

"It's particularly troublesome that we come to this juncture, given the fact that just about a year ago we received a report from the GAO that demonstrated the urgency of fixing the remediation waste program," said Sen. Smith.

"Despite our best efforts, agreement could not be reached on a bill to save $2 billion a year," said Senate Majority Leader Trent Lott, R-Miss., during a speech on the Senate floor. BI

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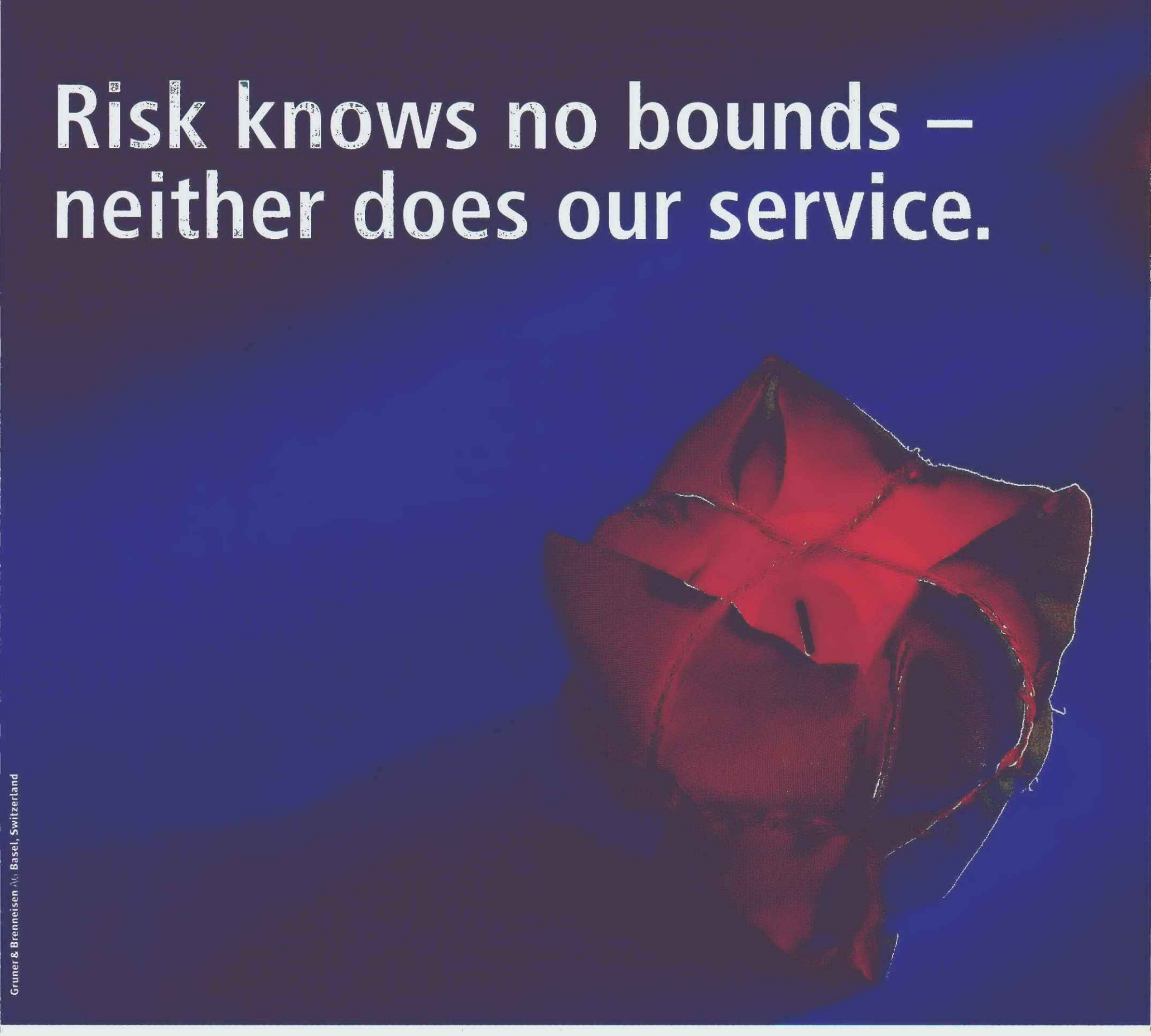

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Paperwork frustrates benefit managers: Survey

Study of midsize companies shows 91% still rely on paper for enrollment

By GEORG SZALAI

Benefit managers at midsize companies are dissatisfied with their current benefit enrollment and administration methods and are ready to consider new approaches, according to a new study.

A summary of he study was released early this month by Benefits Access Inc., a Hartford, Conn.-based unit of CIGNA Corp. providing integrated benefits counseling and administration services to companies with 1,000 to 10,000 employees.

A majority of benefits managers particularly criticized the prevalence of paperwork in the benefit enrollment process, according to the study.

"It's frustrating to administer benefits, and the (enrollment) process is very confusing to employees," said Sue Flores, employee benefits manager at Chandler, Ariz.-based Microchip Technology Inc., which employs 1,200.

The survey of more than 900 midsize companies was conducted by New York research firm Guideline Research before last year's fall enrollment season. It was done when Benefits Access started operations to assess the needs of its target market, said Rick Swaye, Benefits Access president.

While more than half of the employers surveyed believed they had quality and cost-effective benefits administration, 88% wished that it involved less paperwork. And 74% said they wanted to give employees faster and easier access to their benefits administration, according to the study.

But 91% of midsize companies still rely on paper enrollment, the survey found. Only 18% used phone or voice-response systems. And only 14% used personal computers at the worksite for enrollment, with 6% offering plan enrollment via intranet and 4% via Internet, the study found.

Employers using phone systems for enrollment were the most satisfied. While 45% of them said they were satisfied, only 16% of companies using paper enrollment, Internet and intranet said so. Of the companies using personal computers for enrollment, 33% were satisfied, the study found.

Following recent trends, phone and computer enrollment—particularly Internet-based systems—will continue to grow rapidly, Mr. Swaye said. "This is happening much faster than I and many anticipated," he said.

Benefit managers at midsize companies confirmed that there was dissatisfaction with existing administrative methods and said they were looking into technology to make the process easier for themselves and their employees.

Buffalo, N.Y.-based specialty foods processor Rich Products Corp., which employs about 5,000, is establishing an intranet it wants to use in administering its cafeteria benefits plan, said Gord Cumming, director of benefits.

"We are looking next year to allow employees to elect their benefits electronically" and look up information on offered benefits, he said. "People often get intimidated when they get a huge paper package of information," he explained.

But the intranet would be only a first step in changing benefits administration, Mr. Cumming said. "The disadvantage of the intranet is that you can only access it at work. But a lot of the benefits decisions involve the family," he said. Therefore, a possible next step would be to utilize a touch-tone phone system, just like the one Rich already uses for the administration of its 401(k) plans, Mr. Cumming said.

The phone solution was too costly for Microchip Technology, said Ms. Flores. While the company still uses paper enrollment, Ms. Flores keeps exploring new technologies. "It would surprise me if we didn't have an electronic system in one or two years," she said. Employees working weekend shifts, when human resources people are out of the office, could then still access all benefit information, Ms. Flores said. And "we wouldn't have to constantly send out and stock paper."

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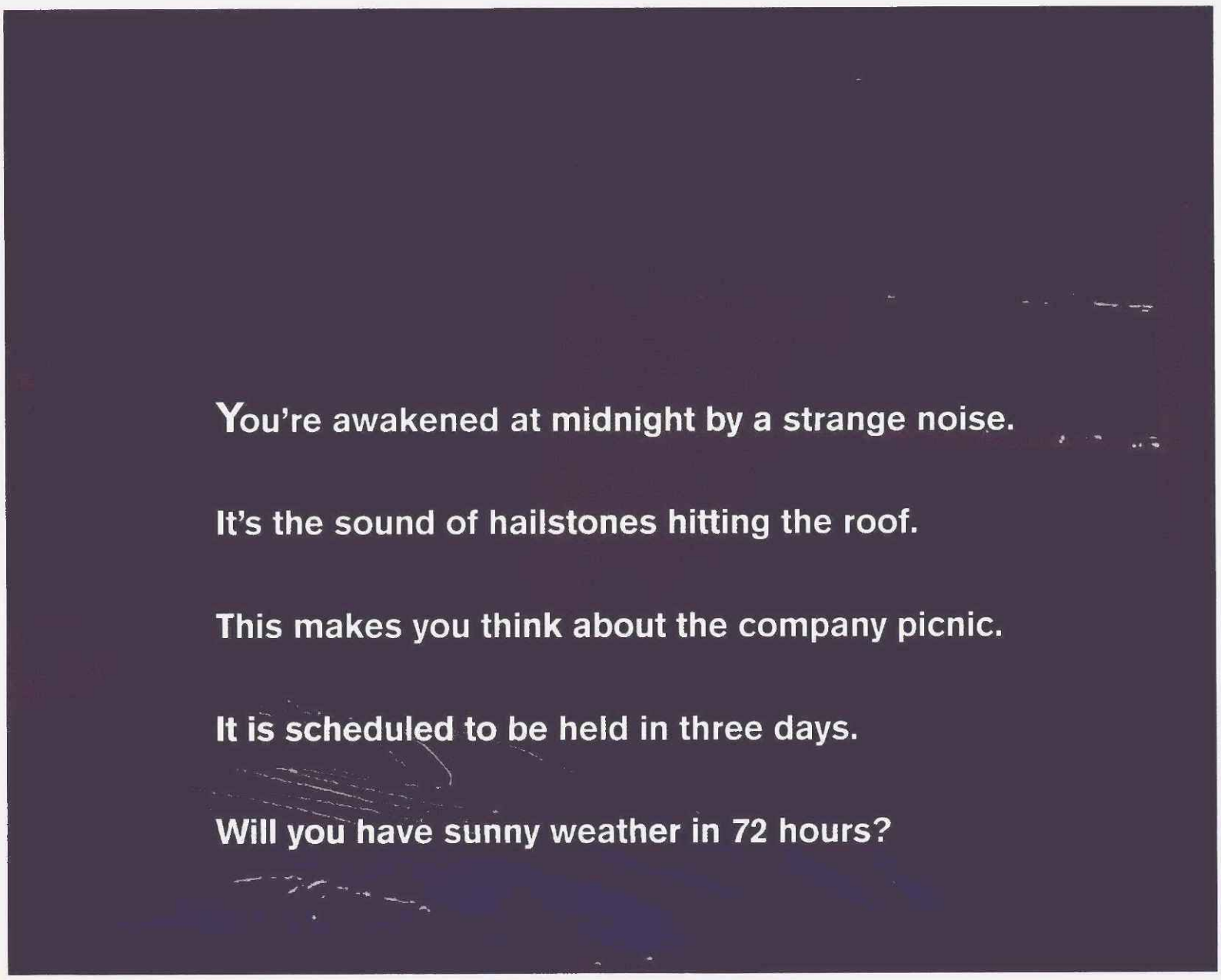
A press release and summary of the study can be obtained from Shari Wrisley at Benefits Access Inc., 860-534-7288. She also can put you in touch with a Benefits Access employee for further discussion of the study, if necessary. BI



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Rendez-Vous

Continued from page 1

tion as a forum for general discussions.

This year, more than in previous years, the talk centered less on renewal rates and more on wider industry issues, such as consolidation (see story, page 45).

Indeed, more than a few participants this year were working for different companies from those they represented last year, either because of a change of ownership in their companies or switching employers.

But regardless of the changes in the makeup of the reinsurance industry, most participants at the Rendez-Vous agreed there would be little change in the downward direction of reinsurance rates this year.

Cedents will be pushing for further decreases as they continue to absorb losses within their retentions that are not large enough to penetrate their reinsurance coverage, said Ron A. Iles, London-based chairman of Chicago-based Aon Re Worldwide, a unit of Chicago-based Aon Corp.

"A lot of buyers feel that reinsurers are not sharing the pain. They are not doing anything like as well on their net accounts as reinsurers are doing on their accounts," he said.

The lack of losses for reinsurers so far in 1998 will likely lead to reductions, agreed Jacques Blondeau, chairman and chief executive officer of SCOR S.A. in Paris.

Although the ice storm in Canada and windstorms in the United States this year have affected primary insurers, they have not resulted in large losses for reinsurers, he said.

Reinsurance rates for commercial lines could deteriorate another 10% to 15% at year-end, Mr. Blondeau said.

Catastrophe reinsurance rates will likely not fall as much, as they are already at very low levels, he said.

"There is a tremendous amount of competition," Mr. Blondeau said.

Only life, personal lines, and credit and surety reinsurance rates remain relatively attractive for reinsurers, he said.

The reinsurance industry's fundamentals are the worst they've ever been, said Steven J. Bensinger, president of Chartwell Re Corp. of Stamford, Conn. One problem, he said, is that "people are saying, 'What's it going to take to change it?' rather than saying, 'Here's what we're going to do to change it.'"

The fan who gave St. Louis Cardinal Mark McGwire back the ball he hit for his 61st home run "must have been a reinsurance underwriter—giving something back for nothing," quipped Mr. Bensinger.

Catastrophe rates still could fall further, according to John Berger, president and CEO of Chubb Re Inc., the newly formed reinsurance subsidiary of Chubb Corp. in Warren, N.J.

As long as there is an absence of catastrophes, many reinsurers seem to think rating levels are not much of an issue, he said.

"But, of course, we don't know how long that will go on," Mr. Berger said.

Even if the pattern of low catastrophe losses that many reinsurers have benefited from since 1992 were to come to an end, catastrophe rates still might be largely unaffected, said Herve Cachin, chairman and general manager of Societe Anonyme Francaise de Reassurances, a Paris-based unit of Partner Re Ltd.

European reinsurers, in particular, will be well-placed to absorb another catastrophe as they have established large catastrophe reserves, he said.

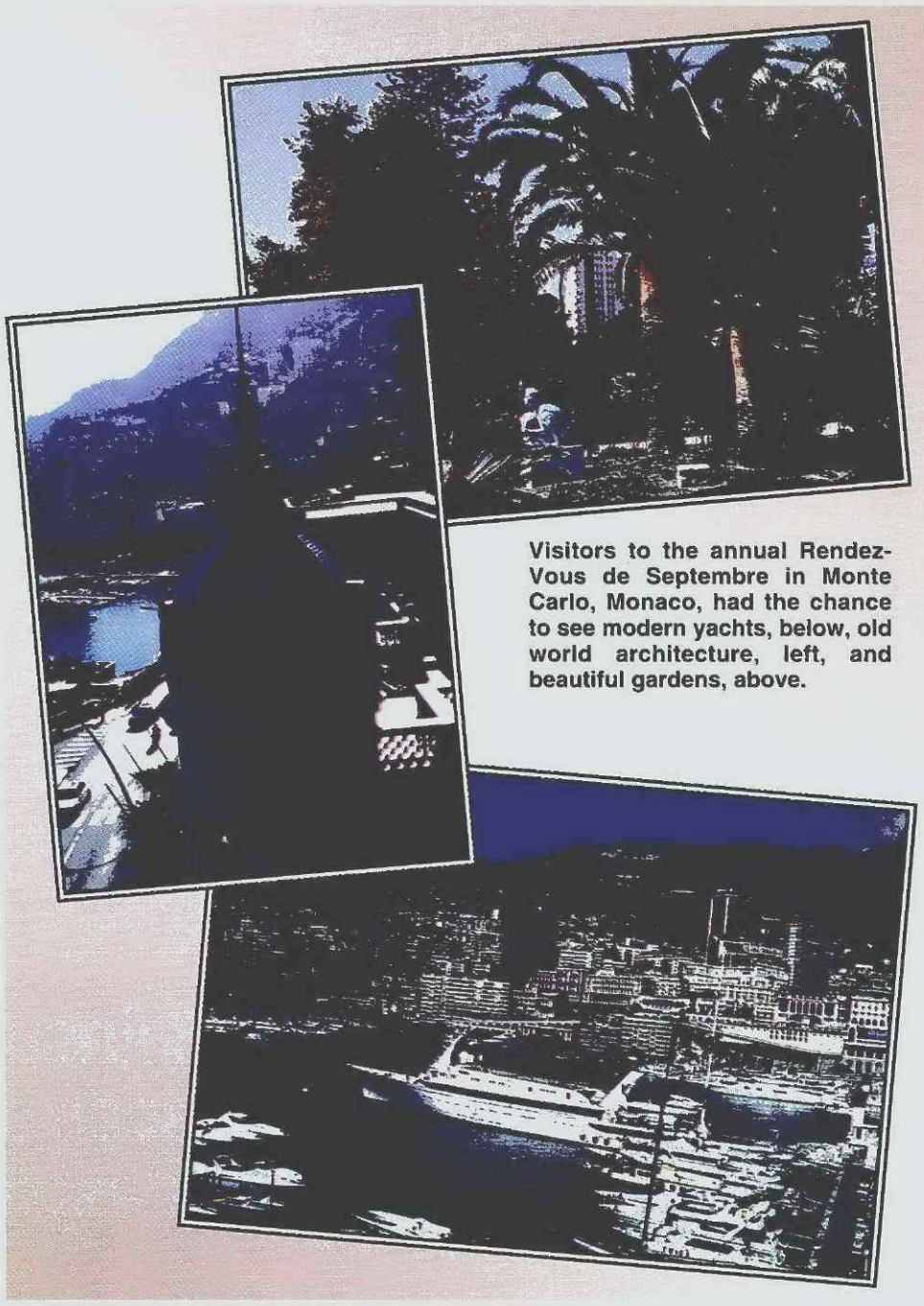
However, as catastrophe rates already have declined to such low levels, declines at year-end for this line may be limited to 5% to 10%, Mr. Cachin said.

"Prices have dropped so much more outside of the United States, and today rates in Europe and Japan are lower than they were in 1992," he said.

But reinsurers still have made a lot of money over the past two years, and they are all unwilling to give up any of their market share, Mr. Cachin said.

"Even the largest reinsurers are prepared to write business at inadequate prices," he said.

"We have surplus capital, and greed is still prevalent, so we have very little to fear," observed Michael A. Butt, a director of X.L. Mid Ocean Reinsurance Co. Ltd. of Hamilton, Bermuda, during a presentation at the Rendez-Vous. "Fear has to come back for the excess surplus to be eroded," he said.



Visitors to the annual Rendez-Vous de Septembre in Monte Carlo, Monaco, had the chance to see modern yachts, below, old world architecture, left, and beautiful gardens, above.

Any change in the market is likely still some way off, said James F. Dowd, chairman and CEO of Odyssey Reinsurance Corp. in New York.

"I don't see any dramatic changes or anything on the horizon that will change things in the next 18 to 24 months," he said.

The only event that could change that view would be further sharp deteriorations in financial markets, Mr. Dowd said.

"But I'm optimistic enough to think that won't happen. We seem to be in a recovery period," he said.

"The market is very soft, but it's been that way now for a long time," said Dirk Lohmann, chief executive officer of Zurich Insurance Co.'s reinsurance operations. "I'm used to it and can thrive in it; you have to work harder," he said.

"Reinsurers are fighting to not have to make as many rate reductions. But the capacity is there and competitition is huge, so there will be more reductions in rates—even though loss frequencies may be increasing," said Vincent Redier, chairman of Aon Holdings France and formerly head of Group Le Blanc de Nicolay, which Aon acquired in April.

The pressure to further reduce rates remains, agreed James P. Bryce, senior vp at International Property Catastrophe Reinsurance Ltd. in Bermuda.

"Last year we were swimming upstream and this year we are still swimming upstream, but the current may be getting a little stronger," he said.

Again, the lack of catastrophe losses will bring more pressure on reinsurers to reduce rates further, he said.

However, other factors affecting reinsurers may mitigate that pressure, Mr. Bryce said.

"The question of rates has not really come up as often this year. There's a feeling that maybe enough is enough," he said.

And although there has not been any large insured catastrophe, there has been an upturn in smaller weather-related losses that may have affected some reinsurers, Mr. Bryce said.

"There has been a high frequency of losses, and anyone that is writing aggregate covers will almost certainly feel it," he said.

Canadian cedents are likely to face higher property catastrophe rates, because cat models never contemplated the risk of the severe ice storm that hit parts of Canada and the northeastern United States in January, said Hans D. Rohlf, managing director and chief underwriting officer-North America for Hannover Reinsurance A.G. of Hannover, Germany. The failure to consider that risk was a mistake, and pricing needs to reflect that exposure, he said.

Rates will likely drop, but maybe not as much as at year-end renewals in the past few years, said Norbert Strohschen, chairman of Gerling-Konzern Globale Reinsurance Co. in Cologne, Germany.

Shareholders of reinsurers will be piling more pressure on reinsurers to generate profits as they see their capital gains from other investments subside due to the downturn in financial markets, he said.

"A lot of people are seeing their capital gains melting away and interest rates are low, so there will be pressure from shareholders," Mr. Strohschen said.

And the financial crises in developing markets, such as the Far East and Russia, will limit the ability of reinsurers to develop new business to generate profits, he said.

"If the idea is to produce profits for shareholders, we have to do something about it, so this year there maybe further slight reductions, but it could come to an end," Mr. Strohschen said.

Executives of Paris-based SOREMA S.A. emphasized the importance in the current reinsurance climate of having the financial support of a strong parent company with a long-term view. SOREMA is a subsidiary of French mutual insurer GROUPAMA S.A.

"We are confident we are here to stay," said Alexis Ruset, chairman and chief executive officer of SOREMA. With GROUPAMA's backing, the reinsurer is able to focus on long-term growth rather than short-term gains, he said. "We can't change overnight; it's a long-term strategy," he added.

SOREMA also benefits in that its parent is not demanding the same sort of returns on equity that some other reinsurers are struggling with, Mr. Ruset said.

Although many competitors are trying to attain a 15% return on equity, "we want a 10% return on equity," said Mr. Ruset, who added that "15% can be tragic for many companies, because it is a directive from shareholders that can't be met responsibly."

"The market is as bad as I've seen it. Maybe time erodes memory, but it seems as bad as ever," said Brian Duperreault, chairman, president and CEO of ACE Ltd. in Bermuda.

"There aren't many areas that are bright spots, or that we see as resurgent," he said.

But with recent declines in world stock markets, it is unlikely that strong investment returns will continue to offset unprofitable underwriting, Mr. Duperreault said.

Since the mid-1980s, there has been a general decline in the frequency and severity of losses, "but that has been overcompensated in pricing," he said.

"Interest rates are at an all-time low, the stock market is correcting and cash flow is negative," he said.

In light of those factors, "there has to be a correction, just like there was a stock market correction," Mr. Duperreault said. But the timing of such a correction is unpredictable, he said, noting that just five months ago that there was no limit in sight to the soaring stock market.

"We see more and more problems developing" as the stock market pushes reinsurers to meet earnings expectations, said Richard E. Cole, chairman and CEO of Chartwell Re. "If there's a big event, along with a stock market downturn, there could be a turn in the market," he said.

Even without a significant loss, some reinsurance companies that have been writing business at exceedingly low rates, buoyed by interest income, may find themselves in trouble.

The key drivers for the current market are overcapitalization and strong investment returns, said Brian M. O'Hara, chairman and chief executive officer of X.L. Insurance Co. Ltd. in Hamilton, Bermuda. Bad underwriting results have largely been masked by strong investment returns and the release of reserves, he said.

"We speculate that there has been a lot of underreserving over the past two to three years. The market may be running out of old reserves to release," he said.

Against shareholder pressures and lower investment gains, this means changes for the industry, Mr. O'Hara predicted.

"More and more, there will be segmented changes, though, and not a broad market turn," he said. "We're in the middle of a big change, and I love change, because it creates opportunity," he added.

"The last three years have been unique because of underwriting results, low losses and strong investment returns. In 1998 or 1999, that will change," said Donald S. Watson, director of reinsurance ratings for Standard & Poor's Corp. in New York.

"The low loss ratios of 1996, '96 and '97 we won't see again," he predicted.

In the current environment, obtaining upgraded ratings will be difficult for reinsurers, Mr. Watson said. Upgrades will occur but will be less frequent, he said. Also, some negative ratings may emerge as capital is depleted, he added.

"We don't want to rate at the top of the cycle, but through the cycle. We need to look at the ability to sustain earnings and growth," Mr. Watson said.

The inability to grow premiums in the soft market and the increase in smaller catastrophe losses could hurt some reinsurers, said Benito Pagnanelli, deputy general manager of Assicurazioni Generali S.p.A. of Trieste, Italy.

"The premium in the market is not growing, yet everybody is trying to increase their market share. Sometimes market share can mean a market share of losses," he said.

But some reinsurance executives say they must push to keep rates up in certain lines, in spite of all the "naysayers" in the market.

"Rates have to go up," said William J. Adamson, chief executive officer of CNA Re in Chicago. "Pricing assumptions are made on achieving certain investment returns. If there were a broad

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Rendez-Vous de Septembre

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recession, you would see rates firm."

In each product line, reinsurers must determine an appropriate rate of return to bet their surplus on, he said. "We have to begin to increase rates in certain areas, and so do our clients," he added.

The trick will be doing so without driving customers to other reinsurers, Mr. Adamson said.

"You have to stand up to clients, go to the edge of the precipice without falling in," he said.

"We see some instances with ceding companies where we took rates up," Mr. Adamson said, pointing for example to some professional liability or speciality lines.

While rates were not raised a great deal, he said, CNA Re was able to raise rates in cases where the cedent was bringing rates up, or in cases where rates were inadequate for the exposure. This is easier to do with long-term customers, who tend to recognize the need for "ebb and flow" over time and won't balk if rates go up, he add.

Reinsurers also have offered clients reasons to stay with them other than capacity and price, said Mr. Iles of Aon.

"If they are all the same, it is not going to work. Reinsurers have got to be right on top of all the changes taking place, like the financial vehicles and total balance sheet protection. Insurance companies don't want to transfer conventional risks, they want to transfer the unconventional risks," he said.

Reinsurers need to help cedents cover risks such as pollution, currency risks and investment risks, Mr. Iles said. "If all reinsurers are going to do is help insurers transfer risk that the insurers would rather run themselves, then they will be out of business," he added.

Brokers, too, must seek to offer cedents more than traditional risk transfer services if they are to succeed in the future, said Brandon Sweitzer, president and chief executive officer of Guy Carpenter & Co. Inc. in New York.

"We have to be interested in the whole range of analytical and consultative activities that improve the profitability of our clients," he said.

Reinsurance brokers should be able to offer a full range of services to cedents, Mr. Sweitzer said, including: risk transfer; advice on Year 2000 issues; mergers and acquisitions; runoff services; administrative services; catastrophe modeling; joint venture opportunities; and program ideas.

"It's not just 'How can I work on your reinsurance program?' That is still very important, and it's the bedrock of our business, but the vision is to be involved in any critical decision facing an insurance or reinsurance executive," Mr. Sweitzer said. BI

Reinsurance industry sees deals continue despite soft pricing

MONTE CARLO, Monaco—While the reinsurance industry's growth and earnings prospects are diminished, new formations and acquisitions continue to occur in the soft marketplace.

One of the most talked-about examples of this during the Rendez-Vous de Septembre was the creation last month of Chubb Re Inc., the newly formed reinsurance subsidiary of Chubb Corp. (*BI*, Aug. 24).

John Berger, who was formerly chief executive officer of F&G Re Inc. prior to its purchase by The St. Paul Insurance Cos. Inc., was the first employee of the company, but he has since been joined by several other executives: Brian Hegarty, managing director, nontraditional reinsurance; Wayne Paglieri, managing director and chief underwriting officer; and Thomas Wafer, managing director, international underwriting and marketing.

Although Chubb Re is being set up in the midst of a very soft market, that is not a bad thing, Mr. Berger said.

"If you like the business and you like the people, that is more important than the timing," he said.

The current state of the market will not necessarily be an impediment to startups, agreed Brian Duperreault, chairman and chief executive officer of Hamilton, Bermuda-based ACE Ltd. "If it's worth doing, it's a good idea; do it regardless of the market," he said. "It needs to be an all-weather idea; if it's only a fair-weather idea, then don't do it."

Another recent acquisition is Hannover Reinsurance A.G.'s purchase of Clarendon Insurance Co.

The acquisition of the specialty insurer gives the reinsurer another outlet for diversification from the soft reinsurance market, said Hans D. Rohlf, managing director and chief underwriting officer-North America for the Hannover, Germany-based reinsurer.

Mr. Rohlf said much of his Rendez-Vous discussions were spent assuring other reinsurers that it would not assume all of the reinsurance for Clarendon, which traditionally has ceded a lot of business to the market.

"We very much honor existing relationships and will do everything not to endanger those in order to provide the continuity expected from us," Mr. Rohlf said.

"Consolidation and startups are continuing in this market," said Donald S. Watson, director of reinsurance ratings for Standard & Poor's Corp. in New York. In addition to Chubb Re, he cited Rhine Reinsurance Co. Ltd.'s planned acquisition of Bankers Trust Corp.'s insurance products group as another recent deal.

"It's fascinating, with all the pessimism in the market, all these companies are starting up," Mr. Watson said. The reason is that even if rates continue to go down, much of the reinsurance industry will still turn in "respectable" returns, so it may be an attractive investment for some companies, he explained.

"Our outlook is negative, as capital will diminish, but on a historical basis, earnings will still be attractive," he said.

—By Paul D. Winston and Gavin Souter

Reinsurance consolidation wave continues

Many finding opportunities arising from M&A activity

By GAVIN SOUTER and PAUL D. WINSTON

MONTE CARLO, Monaco—The steady pace of consolidation that has roiled the reinsurance industry over the past several years is showing little sign of slowing.

Numerous reinsurers and brokerages represented at the Rendez-Vous de Septembre this year have bought out rivals or sold to other companies over the past year. And many of the name tags that delegates wore at this year's meeting will likely carry new company affiliations next year, too.

While the consolidation among brokers may have come to its natural conclusion, there is still some way to go before the wheeling and dealing of reinsurance companies comes to an end.

In the United States, especially, numerous broker market reinsurers either are, or should be, up for sale, many reinsurer executives say.

As cedents retain more risk and search for highly capitalized reinsurers to take on the less predictable portions of their portfolios, the need for numerous medium-sized and small reinsurers diminishes.

And as the larger reinsurers seek to gain positions in other markets, their appetite for acquisitions increases.

Although the largest two brokers may now have finished their major consolidation efforts, the effect that those deals have had on the market was a central talking point of the Rendez-Vous.

In the reinsurance industry, mergers and acquisitions will increasingly occur in the middle segment of the industry rather than among the largest companies, Michael A. Butt, a director of X.L. Mid Ocean Reinsurance Co. Ltd. of Bermuda, said during a presentation at the Rendez-Vous. Among the mid-sized reinsurers, consolidation will occur as companies face increasing losses on their own, he said.

"We are into 18 months of negative cash flow. How long can that continue?" Mr. Butt asked.

The number of reinsurers and insurers in the U.S. market will likely shrink further, said James Dowd, chairman and chief executive officer of Odyssey Reinsurance Corp. in New York.

"There's a long way to go in the U.S. because there are still so many companies operating," he said.

Odyssey itself has been part of the reinsurance consolidation with the purchase last year of Cie. Transcontinentale de Reassurance of Paris and Sphere Drake Holdings Ltd. in Bermuda and London.

And Odyssey's parent, Fairfax Financial Holdings Ltd. of Toronto, has been part of the consolidation among insurers this year with its purchase of Crum & Forster Holdings Inc.

While Odyssey will continue to look at other available reinsurers, it does not have an urgent need to make another purchase, Mr. Dowd said.

"We are pretty well spread on the reinsurance side and we have a global network that we are comfortable with," he said.

There are still reinsurers outside of the United States seeking to access the market.

Shortly before the Rendez-Vous, Bermuda-based Partner Re Ltd. announced plans to buy the reinsurance department of Winterthur Group for $750 million, in part to gain greater access to the U.S. market, said Herbert N. Haag, president and chief executive officer (*BI*, Sept. 7).

Both Partner Re's and Winterthur Re's operations in the United States were not big enough by themselves to compete effectively with bigger reinsurers in the market, but the combination will create a U.S. reinsurer with more than $500 million in capital and more than $250 million in gross premiums.

The senior management and the majority of the staff of Winterthur Re will be kept on with Partner Re in the United States and with a planned Partner Re branch in Winterthur, Switzerland, Mr. Haag said.

'There's a long way to go in the U.S. because there are still so many companies operating.'
—James Dowd

"This is not a cost-cutting exercise," he said.

Gerling-Konzern Globale Reinsurance Co. is another European reinsurer that has been part of the consolidation process in the United States, as it has wanted to gain greater access to the world's largest insurance market, said Norbert Strohschen, chairman of the Cologne, Germany-based reinsurer.

Earlier this year Gerling announced plans to buy Constitution Reinsurance Corp. in New York. Constitution is a medium-sized reinsurer with a good book of U.S. business that will greatly enhance Gerling's existing U.S. operations, Mr. Strohschen said.

Although Gerling has long wanted to increase its size in the United States, it had been limited in what it could do by the Glass-Steagal Act, which limits ownership of insurers by banks, as Deutsche Bank is major shareholder of the reinsurer, he said.

However, after discussions with U.S. regulators, Gerling was permitted to make a moderately sized purchase, Mr. Strohschen said.

Gerling was eager to get the permission to make a purchase as it realized it needed to grow in order to compete with larger rivals in the U.S. market, he said.

"Gerling was very small in the U.S., but the market has changed, and we were missing on opportunities that were being taken by our competition," Mr. Strohschen said.

Other reinsurers not participating in the consolidation movement say they see opportunities for themselves arising from mergers and acquisitions.

"For several years now, we have seen a race for critical size among reinsurers. We don't know where the starting blocks or finish line are, because the race is for recognition, not results," said Alexis Ruset, chairman and chief executive officer of SOREMA S.A. of Paris. Given SOREMA's ownership by French mutual insurer GROUPAMA S.A., "We feel we can take a long-term view, take the time to catch our breath and build a quality, profitable reinsurance operation," he said.

"Because we are not in the same race, we can take advantage of critical developments along the way," Mr. Ruset noted. One such development is opportunities created by consolidation.

"When two reinsurers merge, 1 plus 1 rarely equals 2," he said, noting that many cedents are opposed to placing all their risks with only one or two companies and will look for additional reinsurers.

Consolidation in North America also creates opportunities for SOREMA to pick up certain underwriting teams or portfolios of business that the acquiring company does not wish to retain, Mr. Ruset said.

Another opportunity is structural in nature, he said. The big reinsurers created through mergers may not be as flexible as the cedent desires, making smaller reinsurers more attractive.

"Every time one reinsurer merges with another, we open a bottle of champagne, because it creates new opportunities for us," Mr. Ruset joked.

One benefit of consolidation, according to William J. Adamson, chief executive officer of CNA Re in Chicago, is that "aggregation of risk in the new entity creates demand for additional reinsurers."

If one company carries 10% of a cedent's risk and merges with another company that has 20% of the risk, the ceding company may decide that having 30% of its business in the hands of a single reinsurer is too much, Mr. Adamson noted.

While the consolidation will lead to bigger and stronger reinsurers, cedents may not like the reduction in choice of reinsurers, agreed James P. Bryce, senior vp at International Property Catastrophe Reinsurance Co. Ltd. in Bermuda.

"Not everybody is comfortable with a handful of players controlling their destiny," he said.

Reinsurers that remain outside of the consolidation trend may benefit from other strengths, such as consistency in shareholder structure and support, Mr. Bryce said. American International Group Inc. has been a major shareholder in IPC Re since its inception.

Whereas most reinsurers agree that the consolidation of insurers and reinsurers still has some way to go, most say the major consolidation among brokerages has reached its conclusion.

"One could argue that brokering is consolidated as much as possible," said Mr. Butt of X.L. Mid Ocean. If consolidation has run its course among brokers, some predict that spinoffs and startups will follow, as was the case in the 1970s and '80s, he said.

"Today that is unlikely, because there is higher risk to starting up a brokerage," said Mr. Butt. That is because many existing brokers and underwriters are already "aligned," making it difficult for a new broker to win business, he said.

But there still could be room for new specialist brokerages, said Mr. Dowd of Odyssey.

"On the brokerage side the consolidation has almost reached its natural conclusion. It's more likely that there will be spinoffs and boutique firms set up by people who feel constricted at the giant firms, rather than further consolidation of the giants," he said.

But while cedents wait for that to happen, they have far fewer choices, reinsurers say.

"In essence, it means a lack of choice for the industry. While we have extremely good relationships with the largest brokers, it's nice to have alternatives," said Hans D. Rohlf, managing director and chief underwriting officer-North America for Hannover Reinsurance A.G. of Hannover, Germany.

In Canada, about 95% of its business is in the hands of Aon Re and Guy Carpenter, he estimated. "Is that a good distribution for a viable market?"

Just as some insurers have made an investment in Willis Corroon Group P.L.C. and USI Insurance Services Corp. to, among other things, assure an alternative distribution channel, Mr. Rohlf speculated that this could also happen with reinsurance intermediaries.

Reinsurers also are likely to suffer from poorer administrative service from brokers as a result of the consolidation, said Benito Pagnanelli, deputy general manager of Assicurazioni Generali S.p.A. of Trieste, Italy.

"We have faced administrative problems when this has happened in the past, particularly with London brokers," he said.

In London much of the responsibility for the administration of reinsurance contracts lies with the brokerages, Mr. Pagnanelli said.

"If there are changes, it is sometimes difficult to trace accountability or the issuance of coverage notes. . .there is always additional effort, which means additional costs," he said.

But the consolidation could have some benefits for broker market reinsurers, said CNA Re's Mr. Adamson.

See **Consolidation** *on page 46*

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Consolidation

Continued from previous page

"Broker consolidation has been a benefit to us because we are viewed as someone who will remain on the risks of the surviving brokers," he said.

CNA Re has long-term relationships with both Guy Carpenter and Aon Re, as well as smaller brokers, Mr. Adamson noted. On a global basis, 30% of CNA Re's business still is with brokers other than the top two intermediaries, he said.

"There's still room for small brokers. Some are excellent and provide excellent service. It's in our interest to help them survive," said Francois Chavel, president and chief executive officer of SOREMA N.A. in New York. "Even if they lack technical capabilities, they can outsource those services. The key is their experience, professionalism and relationships," he said.

On the treaty side, about 80% of SOREMA N.A.'s business is placed by Aon Re, Guy Carpenter/Sedgwick and E.W. Blanch, estimated Nicolas Papadopolou, executive vp and chief underwriting officer of SOREMA N.A. On the facultative side, though, those brokers only account for about 40% to 50%, he said.

"A concern has been that consolidated brokers will leverage their relationships and the volume of business they bring" to insurers and reinsurers, observed Donald S. Watson, director of reinsurance ratings for Standard & Poor's Corp. in New York. "However, abuses of that leverage would only serve to drive business elsewhere, and there's a relatively low barrier to entry in the brokerage business," he noted. "I haven't seen the impact of consolidation that some fear."

Brian M. O'Hara, chairman and chief executive officer of X.L. Insurance Co. Ltd. in Hamilton, Bermuda, said it is not yet clear whether consolidation would give the megabrokers new leverage with underwriters.

"The only thing you can do is provide such a superior service that they have to use you," he said.

"You like to see more choice, but the market will sort that out. We have good relationships with all our brokers," noted Brian Duperreault, chairman and chief executive officer of ACE Ltd. in Hamilton. "Consolidation must be sorted out by the broker's client," he added.

Brokerages involved in the consolidation still see a lot of opportunities for themselves and benefits for their clients as a result of the consolidation.

If brokers do achieve more leverage with reinsurers, then it will be to the benefit of cedents, said Ronald Iles, London-based chairman of Aon Re Worldwide, a unit of Aon Corp.

'Consolidation must be sorted out by the broker's client.'
— Brian Duperreault

"We don't get paid by reinsurers; we get paid by our clients, so if we can do a better job for them as a result of our size we should," he said.

But, the power of the large reinsurance brokers often is exaggerated, Mr. Iles said.

"In Europe probably more than two-thirds of reinsurance premiums are with the direct writers, so the leverage potential may be overstated," he said.

More important to cedents are the enhanced services the large brokerage organizations can provide, according to Brandon Sweitzer, president and chief executive officer of New York-based Guy Carpenter & Co. Inc., the reinsurance brokerage subsidiary of Marsh & McLennan Cos. Inc.

"It's absurd to say that we are disadvantaging our clients," he said.

Instead, cedents will be provided with a much wider range of traditional and non-traditional reinsurance services, he said.

M&M's proposed purchase of Sedgwick Group P.L.C. will do just that, Mr. Sweitzer said.

The amalgamation of Sedgwick Re will provide Guy Carpenter clients with extensive facultative reinsurance expertise in North America; a stronger presence in the Far East; expertise in reinsurance for multiline insurers in the United Kingdom; a stand-alone runoff services operation; a stand-alone analytical services arm; as well as capital markets expertise, he said.

"Our business is becoming more and more akin to investment banking and consulting," Mr. Sweitzer said.

Brokerages are competing more with consultants, agreed Patrick G. Ryan, chairman and chief executive officer of Chicago-based Aon Corp., which has been a leading consolidator in the global brokerage industry.

"There is intense competition for risk management services. A battle is emerging to be the lead provider of these services between brokers and consultants. We believe the broker will be the lead provider and distributor of these services," he said.

That competition and consolidation are driven by the customer, he said.

"If the client didn't want greater investment in technology, more resources and information, we wouldn't consolidate to provide that," Mr. Ryan said. "As the client has greater needs, the broker has to grow to meet those needs," he said, noting that corporate clients have expanded internationally, so brokers have had to follow.

Aon is not exercising its leverage with markets in the way some fear the megabrokers could act, such as demanding contingent commissions, according to Mr. Ryan.

"I say to the markets: 'Let's partner to benefit the client. Let's not worry about how we are paid; the client will decide how we are paid if we do a better job for the client," he said. "We're not costing the client more if they are getting better quality and prices."

The consolidation also is providing more opportunities for other brokers, said David Margrett, chief executive officer of London-based broker Lambert Fenchurch Group P.L.C., which owns reinsurance intermediary Kininmonth Lambert Ltd. "There's a lot of market out there still, even with the megabrokers," he said.

"More interesting to us are the opportunities that come from these changes," such as attracting new people displaced by consolidation, said Mr. Margrett.

Meanwhile, continued M&A activity may be on hold until there is a world stock market correction, noted Mr. Watson of S&P.

He said a handful of reinsurer transactions waiting in the wings are on hold as a result of recent stock market volatility.

"I believe the decision to go forward with these deals will be more a personal one than a strategic one," he said, pointing to how well a deal rewards management in light of diminished stock prices.

Generally, though, the capital resources won't be there for the industry to continue making deals at the pace of recent years, Mr. Watson said. The mergers and acquisitions that are done "will be strategic in nature, with a speciality or geographic target," he said.

An ideal acquisition in this environment would be a company that brings "new synergies" to the acquiring company, such as new products or geographic reach for existing clients, Mr. Watson said. BI

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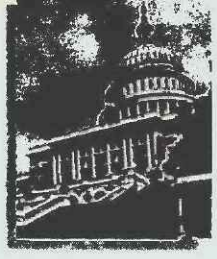

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Industry increasingly embraces securitization

By PAUL D. WINSTON and GAVIN SOUTER

MONTE CARLO, Monaco—The reinsurance industry appears to accept that risk securitization is here to stay, and several reinsurers are moving to capitalize on the new tools.

The use of capital market instruments is a natural complement to reinsurance, some executives say.

Even so, several reinsurance executives attending the Rendez-Vous de Septembre earlier this month point out that the viability and staying power of capital markets instruments has yet to be tested by a significant loss.

"The idea of the moment is convergence of capital markets and reinsurance," said Donald S. Watson, director of reinsurance ratings for Standard & Poor's Corp. in New York.

"There's a lot of interest in the capital markets, but volume won't be significant enough to drive growth for a number of years," he said.

"It's a big investment to make at a time when premiums are down for the reinsurance industry," he added.

Given the high cost of entry, banks getting into insurance securitization may have an edge over reinsurers, Mr. Watson said. That's because they already have a great deal of expertise in structuring financial deals, resulting in lower expenses compared with reinsurers that have to acquire this expertise, he explained.

Bermuda has become a center for capital markets products because of its reinsurance and financial expertise, Mr. Watson said, pointing to the activity to date there. Capital markets start-ups in Bermuda this year, he noted, include Arrow Reinsurance Co. Ltd., formed by Goldman Sachs, and Lehman Re Ltd., formed by Lehman Brothers.

Commercial Risk Partners Ltd., a Bermuda-based subsidiary of SCOR S.A., announced at the Rendez-Vous the formation of a new operating division called Commercial Risk Capital Markets that will focus on opportunities in the convergence of insurance and capital markets. The company will recruit a team of specialists, to be based in Bermuda, during the fourth quarter.

"This sector of the market is growing rapidly in importance, and our involvement is a natural evolution of our business as a provider of non-traditional capacity to the market," said Graham C. Pewter, president and chief executive officer of Commercial Risk Partners in a statement.

> *"The idea of the moment is convergence of capital markets and reinsurance.'*
> — Donald S. Watson

Currently, capital markets-based reinsurance products cannot beat traditional reinsurers on price, said Jacques Blondeau, chairman and CEO of SCOR.

"But each of them is a prototype," he said.

Once securitization methods have been formalized, capital markets-based products will be able to compete better with traditional reinsurance, especially if prices rise after a future catastrophe, Mr. Blondeau said.

And securitized products will likely hold back the ability of reinsurers to drastically increase catastrophe reinsurance prices in the same way they did after Hurricane Andrew, he said.

Rather than increasing rates on line after a big loss to more than 30%, reinsurers may increase those rates only to 15% to 20%, to keep prices competitive with catastrophe bonds, Mr. Blondeau said.

And if interest rates remain low, the securitized reinsurance products will be very attractive to investors, he said.

SCOR is far from alone in seeking to tap the capital markets.

Zurich Re will be in the risk securitization business, and it is looking to complete an offering for its first deal by the year's end, said Dirk Lohmann, CEO of Zurich Insurance Co.'s reinsurance division. Another securitization idea already is in the wings for 1999, he added.

Brian Murphy, who previously headed up Guy Carpenter & Co. Inc.'s securitization efforts, was hired to coordinate a securitization strategy for all Zurich entities, Mr. Lohmann said.

In the deals under consideration, Zurich Re will act as a portfolio manager and place risks from its portfolio with the capital markets, Mr. Lohmann explained. The company is looking to eventually use capital markets tools for also financing third-party risks, he added.

One reinsurer that has already been involved in capital markets deals is Swiss Re New Markets, a unit of Swiss Reinsurance Co. in Zurich.

The increase in the number of companies being set up to offer the products is a reaction to the marketplace, said CEO Erwin Zimmerman.

"The change is on the demand side," he said.

More cedents and corporations are realizing that securitized products can provide solutions to problems that are not met by conventional reinsurance, he said.

For example, if a company is looking for long-term catastrophe coverage, it may find it more attractive to set up a capital markets deal than to try to seal the coverage with a reinsurer, Mr. Zimmerman said.

"It can be expensive. But if you get it right, it can be a very effective technique," he said.

The deals are particularly attractive to companies based in the United States that have to worry about investor scrutiny every quarter and wish to reduce their exposure to volatility, Mr. Zimmerman said.

Currently, most capital markets deals cover catastrophe exposures. But in the future, an increasing number will more likely cover bulk risks such as life insurance, auto insurance and credit risks, he said.

Homogeneous risks can be bundled together and derivatives can be sold in the same way as mortgage-backed securities, he said.

And while securitization will change the wholesale sector of the insurance and reinsurance market, it should not radically change the retail sector, Mr. Zimmerman said.

"Risks will still come in through the primary reinsurers," he said.

Hannover Reinsurance A.G., a pioneer in the risk securitization arena, has completed three such deals and will continue to be active in this area, said Hans D. Rohlf, managing director and chief underwriting officer-North America for the Hannover, Germany-based reinsurer.

The first two Hannover Re securitization deals involved property catastrophe exposures, while the third deal involved a portfolio of life/health exposures.

> *'It can be expensive. But if you get it right, it can be a very effective technique.'*
> — Erwin Zimmerman

The essence of reinsurance is to provide a spread of risk, and investors could use risk securitization offerings in the same way, Mr. Rohlf said.

SOREMA S.A. is setting up a new alternative risk transfer department to explore such deals.

"SOREMA is one of the first reinsurers of its size to do this," observed Alexis Ruset, chairman and CEO of the Paris-based reinsurer. "We have to invest in the future to meet the need of our ceding companies."

Securitization will definitely be part of the future, said James Dowe, chairman and CEO of Odyssey Reinsurance Corp. in New York.

And although several investment banks have established units to develop capital markets-based reinsurance products, reinsurers will not be pushed out, he said.

"All of us will be involved on some level or other. . . .The key is understanding the transaction and the underlying business," he said.

CNA Financial Corp.'s acquisition of Hedge Financial in 1997 gives CNA Re a "laboratory to experiment in securitization and take some basis risk," said William J. Adamson, CEO of the Chicago-based reinsurer.

Currently, though, there remain some issues to be worked out before securitization takes off, he said. These include accounting issues and how deals should be optimally structured.

Once such issues are resolved, capital markets instruments could help risk-bearing entities to assume additional risk to meet clients' demands, Mr. Adamson said. Securitization deals "may be able to help in those cases, eliminating the downside of risks assumed," he said.

"Right now, we haven't found the new wave of securitization to be less expensive than the traditional way of doing reinsurance," observed Steven J. Bensinger, president of Chartwell Re Corp. in Stamford, Conn.

"The big question is the staying power of these markets," said Michael A. Butt, a director of X.L. Mid Ocean Reinsurance Co. Ltd. of Hamilton, Bermuda.

What will happen when the first cat bond blows up?

"Some traditionalists think that will make capital markets go away, but nobody takes a really big position in those," so a loss is unlikely to drive away investors, said Mr. Lohmann of Zurich Re. "These investors are sophisticated and not blind to the risk, even if it is different from junk bonds," he said. BI

Who makes the top 10 of Standard & Poor's Top Global Business Insurers again?

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Reinsurers expect significant losses over Y2K

By PAUL D. WINSTON and GAVIN SOUTER

MONTE CARLO, Monaco—The reinsurance industry is keenly aware of the Year 2000 risk but generally is counting on ceding companies to manage the exposure.

For those insurers that can't demonstrate that they are responsibly underwriting the exposure, reinsurers may walk away from the risk, some reinsurance executives say.

Even though many questions remain over how the Year 2000 problem will play out and what policies could be triggered, reinsurers are preparing for losses to be significant.

For the most part, there is uncertainty about what the Year 2000 will bring, said Dirk Lohmann, chief executive officer of Zurich Insurance Co.'s reinsurance operations. However, he added, "the general consensus is that even for those doing all they can to mitigate the exposure, there will be losses."

Some insurers and reinsurers are taking the position that the Year 2000 bug is not a covered event, or a fortuitous loss, though they may cover such losses as fire after a computer failure, he said.

Year 2000 losses will have an effect on loss ratios, for which no premium was paid, Mr. Lohmann said.

"If it's not paid now, it will be paid later. The cost will work its way through the system, and there will be higher costs," he said.

> 'It's easy to say "exclude everything,' but then you would sit back and you wouldn't have any business.'
>
> — James P. Bryce

Reinsurers can't put a blanket exclusion on all Year 2000 exposures, said James P. Bryce, senior vp at International Property Catastrophe Reinsurance Ltd. in Bermuda.

"It's easy to say 'exclude everything,' but then you would sit back and you wouldn't have any business," he said.

Instead, reinsurers need to examine the issue on a case-by-case basis, as each risk will likely have different exposures, Mr. Bryce said. For example, risks in the Northern Hemisphere would include burst pipes, whereas in the Southern Hemisphere concerns would more likely center on issues such as food spoilage due to the failure of air conditioning systems, he said.

"You have to work through the problems with the clients and make sure that you have a high comfort level," Mr. Bryce said.

Year 2000 losses could first manifest themselves in the directors and officers liability market, said Brian M. O'Hara, chairman and CEO of X.L. Insurance Co. Ltd. in Hamilton, Bermuda. He predicted a mountain of litigation against corporate executives as a result of Year 2000-related losses.

"We see opportunity in Y2K risks because we aren't exposed," Mr. O'Hara said. X.L. lost a lot of D&O liability accounts to recent competition and also has higher attachment points for D&O, so it isn't as exposed to the problem as other companies underwriting D&O risks, he noted.

The key issue for many reinsurers is how clients are dealing with the Year 2000 exposure.

"Y2K may be a concern in instances where clients don't seem concerned about addressing exposures to systems," said William J. Adamson, CEO of CNA Re in Chicago. The reinsurer also is talking with cedents about their plans for covering Year 2000 risks and how they'll manage that exposure, he said.

Overall, he said, there is more concern about potential problems with non-U.S. risks.

Hans D. Rohlf, managing director and chief underwriting officer-North America for Hannover Reinsurance A.G. of Hannover, Germany, said, "Year 2000 is certainly a topic of discussion among reinsurers, but our U.S. counterparts take the exposure more seriously than some European reinsurers, not excluding my fellow countrymen."

Many ceding companies are managing this exposure by differentiating between risks, in some cases walking away from accounts that haven't done enough to minimize their exposure, Mr. Rohlf noted.

But reinsurers can't leave risk management entirely up to the cedent, he added.

"As much as we expect our cedents to underwrite their business, we have to underwrite our book and differentiate also," he said.

The Year 2000 problem is largely an issue for insurers to deal with rather than reinsurers, said Norbert Stohschen, chairman of Gerling-Konzern Globale Reinsurance Co. in Cologne, Germany.

However, reinsurers must ensure that insurers are addressing the problem, he said.

"If they are not, then we will cancel the contract," he said.

But many property reinsurers in Germany already are exposed to potential losses due to the prevalence of three-year coverage contracts, Mr. Stohschen said.

"I'm sure it will have a big impact on the profitability of our business," he said.

Companies with U.S. exposures are more likely to take a greater interest in Year 2000 problems, as they will likely face the largest liabilities, said Jacques Blondeau, chairman of SCOR S.A.

"U.S. lawyers are already at the starting blocks," he said.

SCOR has already acted to reduce its exposure to Year 2000 liabilities by leaving programs with heavy professional liability exposures, especially those programs covering computer manufacturers, Mr. Blondeau said.

Reinsurers and insurers that offer occurrence-based coverage will not be able to do much about the problem, he said.

"The exposure is already there," he said.

While Year 2000 exposures are often regarded as a liability problem, there is also a significant property exposure if a failure to fix a system results in property damage to the items the system controls, said Herve Cachin, chairman and general manager of Societe Anonyme Francaise de Reassurances, a unit of Partner Re Ltd. in Paris.

SAFR is asking its cedents to review their books of business and ensure that all the policyholders have a plan to deal with the Year 2000 problem, he said.

"If they do so, we tell them that we are ready to cover the residual risk. . . .If we are not sure that they have done this, we will put in an exclusion," he said.

"I am concerned about the impact the Year 2000 problem could have on the market," said Azmin Daya, managing director of New Cap Reinsurance Corp. Ltd. in Sydney, Australia. "That is one reason not to be too aggressive this renewal season," he added.

The Year 2000 exposure is also driving interest in multiyear programs, noted Mr. Lohmann of Zurich Re. He said he sees more such deals in both insurance and reinsurance. "The goal is to get (through) the Year 2000, as well as lock in top-line growth," he explained.

> 'I am concerned about the impact the Year 2000 problem could have on the market. That is one reason not to be too aggressive this renewal season.'
>
> — Azmin Daya

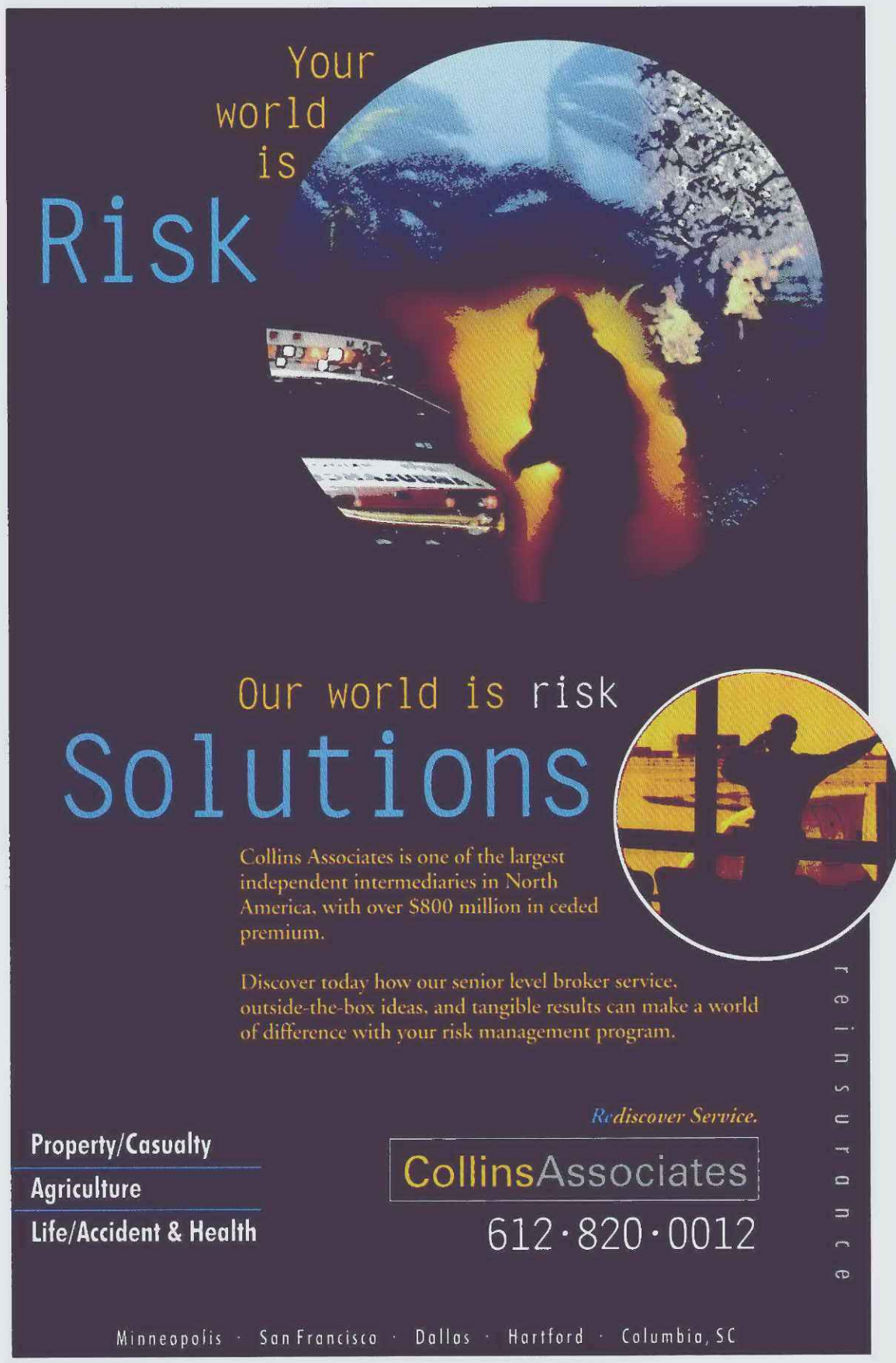
So far, there has been little consistency in the Year 2000 stance taken by reinsurers, said Ronald A. Iles, London-based chairman of Chicago-based Aon Re Worldwide.

For example, some reinsurers are giving fairly broad property coverage, while others say they will cover the consequential damages but not the initial damage, he said.

"It is very difficult to get a collective view on the market," he said.

The divergent approaches being taken by reinsurers to the problem could lead to confusion and problems, said Benito Pagnanelli, deputy general manager at Assicurazioni Generali S.p.A. in Trieste, Italy.

"It will be unacceptable to have on the same reinsurance treaty 10 different reinsurers, each with different opinions (regarding coverage)," he said. BI



Reinsurance industry upbeat about Lloyd's

By GAVIN SOUTER and PAUL D. WINSTON

MONTE CARLO, Monaco—The pessimism that laced discussions about Lloyd's of London in previous meetings was absent at this year's Rendez-Vous de Septembre.

Instead, a rosy optimism about the market's future pervaded the discussions among reinsurers.

That optimism may be in part be because so many reinsurers now have a stake in the market as corporate investors. Nevertheless, several reinsurers were upbeat about the future of Lloyd's.

The present and future of Lloyd's is largely based on that influx of corporate capital over the past several years.

"We have traditionally been a market with a global customer base, and now we have a global capital base," said Max Taylor, chairman of Lloyd's.

'We have traditionally been a market with a global customer base, and now we have a global capital base.'
—Max Taylor

And as the investors in Lloyd's consolidate their holdings in Lloyd's, the market is becoming more efficient, he said.

In future, the number of underwriters on each slip will reduce as fewer and bigger syndicates take larger lines; each syndicate in the future also will develop its own expertise, Mr. Taylor said.

"The days of the following syndicate are numbered," he said.

One area where some Lloyd's syndicates will likely develop expertise and enhance the growth of the market is securitization of insurance and reinsurance, Mr. Taylor said.

Lloyd's has the underwriting expertise to assess the risks and syndicates at Lloyd's will likely extend their expertise to include packaging the risks for the capital markets, he said.

"There is no reason why elements of risk shouldn't be transferred to the capital markets. It's a big opportunity," Mr. Taylor said.

Reinsurers based outside of London but with investments in Lloyd's are clearly betting on the market's future, especially Bermuda market companies.

"In Lloyd's, we are executing the strategy we announced; there's no need to do more in terms of acquisitions," said Brian Duperreault, chairman, president and chief executive officer of Bermuda-based ACE Ltd.

The goal of ACE's investment in Lloyd's has been to boost its U.K. and international business opportunities.

As the largest single corporate member at Lloyd's of London (*BI*, June 22), with nearly 10% of 1998 capacity under management, ACE has a unique perspective on the opportunities and challenges facing Lloyd's.

Mr. Duperreault acknowledged that Lloyd's has "expense issues" it must address to be more competitive with other markets. "Costs are too high and will be squeezed out," he said, noting that the current leadership is addressing these problems.

"Corporate names may be more inclined to wring inefficiencies out of the market" than individual names have been, Mr. Duperreault said.

Because corporate capital providers are not only providing capacity but also are acquiring managing agencies, "they have the means and the will to effect change," he said.

Top 10 corporate members of Lloyd's

Name	1998 capacity (£s in millions)
LIMIT P.L.C.	677
ACE	303
Terra Nova	234
Cox Insurance	227
CLM Insurance Fund	224
Brockbank/X.L. Mid Ocean	210
Charman/ACE	188
Angerstein Underwriting Trust	181
Duncanson & Holt	181
Wellington	166

Source: Standard & Poor's Corp.

Stamford, Conn.-based Chartwell Re Corp. also has made a significant investment in Lloyd's, through its acquisition of Archer Group Holdings P.L.C. and Archer Managing Agents Ltd. The managing agency was renamed Chartwell Managing Agents Ltd., effective Sept. 1.

"The new name shows we are deploying more of our underwriting capital to this operation as it becomes more of an underwriting arm of Chartwell, said Steven J. Bensinger, president of Chartwell Re and chairman and CEO of Chartwell Managing Agents.

Chartwell plans to merge two of its syndicates, syndicates 839 and 463, subject to Lloyd's approval.

The combination will create a single syndicate with £90 million ($150.3 million) in capacity, making it one of the largest pure liability underwriters in the market, said Richard E. Cole, chairman and CEO of Chartwell Re.

Overall, Chartwell is writing an increasing amount of primary business and becoming less of a pure reinsurer, Mr. Cole observed.

In addition to its Lloyd's agency, Chartwell owns Dakota Specialty Insurance Co., a non-admitted insurer, and Insurance Corp. of New York, an admitted company that specializes in program business.

With its U.S. and Lloyd's operations, and continued flat growth in reinsurance, primary business could grow to 65% of its volume, Mr. Cole said. BI

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Economic woes may hit expansion

By GAVIN SOUTER

MONTE CARLO, Monaco—Financial crises in emerging markets in the Far East and Russia will likely dampen the expansion efforts of international reinsurers in the those countries, reinsurance executives predict.

Downturns in economic activity will reduce the demand for insurance coverage, and the need to retain foreign currency will likely reduce the demand for reinsurance.

However, there could be a silver lining for reinsurers in the economic problems, some executives say. As insurers in the economically troubled countries see their assets and capital shrink, they may seek to purchase more reinsurance protection.

"Ceding companies will be a lot less wealthy, and they will not be able to retain as much risk," said Jacques Blondeau, chairman and chief executive officer of SCOR S.A. in Paris.

Reinsurers wanting to expand in the Asian region will be able to offer increased capacity to those cedents, he said.

There may be some degree of increased demand for reinsurance in the Asia, agreed Herve Cachin, chairman and general manager of Societe Anonyme Francaise de Reassurance, a Paris-based unit of Partner Re Ltd.

However, increases in demand for capacity at some insurers may be outweighed by a reduction in demand for reinsurance as an increasing number of insurers in the Asian region become insolvent due to economic turmoil, he said.

"A lot of insurance companies will disappear," Mr. Cachin said.

"We will see a lot of consolidation in Asia," agreed Dirk Lohmann, CEO of Zurich Insurance Co.'s reinsurance division in Zurich, Switzerland. "Many Asian companies, excluding Japan, were little more than glorified agencies. There was little retention of risk and impaired capital," he said.

Even so, Mr. Lohmann added, Asian markets still offer opportunity to reinsurers, as long as efforts are focused, rather than overly broad.

A lot of the construction and engineering projects that were previously covered by insurers and then reinsured have been halted, said Benito Pagnanelli, deputy general manager at Assicurazioni Generali S.p.A. of Trieste, Italy.

"This obviously has an effect on premiums," he said.

The turmoil will likely lead to a reduction in demand for reinsurance from international reinsurers, said Herbert Haag, president and chief executive officer of Partner Re Ltd. in Bermuda.

"There will be more retention within the local markets because they will not want to spend their foreign currency," he said.

Although the individual insurers may need more reinsurance protection that will likely be provided by local reinsurers and pooling facilities, Mr. Haag said.

Political and economic turmoil in Russia could have an even larger effect on reinsurers' growth plans, said Mr. Pagnanelli of Generali.

"If the Cold War started again, it would have an immediate effect on our economies," he said.

Although Western insurers and reinsurers only derive a small amount of premium from Russia, Western economies have significant links with Russia, so political disruption could end those links and expansion in the country, Mr. Pagnanelli said. BI

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Various factors driving reinsurer consolidation

By PAUL D. WINSTON

MONTE CARLO, Monaco—The reinsurance industry is being transformed by consolidation and an increasing emphasis on specialization, a reinsurance executive says.

"The shape of the food chain has changed radically" as a result of consolidation, said Michael A. Butt, a director of X.L. Mid Ocean Reinsurance Co. Ltd. of Hamilton, Bermuda. X.L. Mid Ocean Re itself is the product of EXEL Ltd.'s purchase of Mid Ocean, which was completed last month (*BI*, Aug. 31).

The consolidation trend is driven by multiple factors, which vary by company and can change in prominence over time, he said.

Speaking at a presentation on "Consolidation and Specialism," sponsored by Pricewaterhouse-Coopers during the Rendez-Vous de Septembre, Mr. Butt reviewed some of the leading factors behind the consolidation trend, as well as pressures on reinsurers to become specialists rather than generalists.

The forces behind reinsurance consolidation include:

• Underwriting cycles.

"This, in my view, is the strongest driver of consolidation and will remain a strong factor until pricing changes," Mr. Butt said.

• "Gaining reach," the process of moving to a global from a regional position in reinsurance.

"It's interesting that our business took as long as it did to go from regional to global," Mr. Butt remarked, pointing to earlier globalization efforts by other financial services industries.

One early impetus for reinsurers' global expansion was a desire for "counter-cyclicality," or offsetting soft conditions in one part of the world with firmer pricing in other regions. "But for those of us who took this approach, seeking balance in our books via a global reach, we found that the world had passed us by and there were no longer many regional differences," he said.

• A desire to achieve greater scale and spread of business.

The drive for size, in part a response to cedents' "flight to quality," has been a consistent factor behind reinsurer consolidation. As mergers create fewer and larger corporations, such as the recent mergers of British Petroleum Co. P.L.C. and Amoco Corp., or Chrysler Corp. and Daimler-Benz A.G., that will drive further consolidation among their insurance services providers, Mr. Butt said.

Also fueling this trend is a move among reinsurers to write more excess-of-loss business, as well as higher retentions by ceding companies, he added. "It is ironic that in our industry, historic trends show increased retentions just before a market turn," he said.

• Desire for additional means of distribution.

"Very few reinsurers today are only at one end of the distribution chain," Mr. Butt noted. He pointed to direct writer Employers Reinsurance Corp., which recently acquired broker market reinsurer Kemper Reinsurance Co., as an illustration of a company that has gained multiple means of distribution.

• Responding to investor demands.

This factor is becoming more prevalent as capitalism expands globally, according to Mr. Butt. In Europe, he noted, there has been an adjustment to "Wall Street-style thinking." Because a significant portion of the industry's capital has come from Wall Street, it is natural that those investors' demands will be felt, he said.

• Lowering volatility.

"Historically, especially at Lloyd's, this has been done by buying cheap retrocessional cover. (Lloyd's) is doing so again, hopefully this time without the spiral," said Mr. Butt, referring to the London market excess-of-loss spiral in the 1980s, in which many Lloyd's syndicates wound up assuming risks they thought they had ceded.

The underwriting cycle in the reinsurance industry, 'in my view, is the strongest driver of consolidation and will remain a strong factor until pricing changes.'

— Michael A. Butt

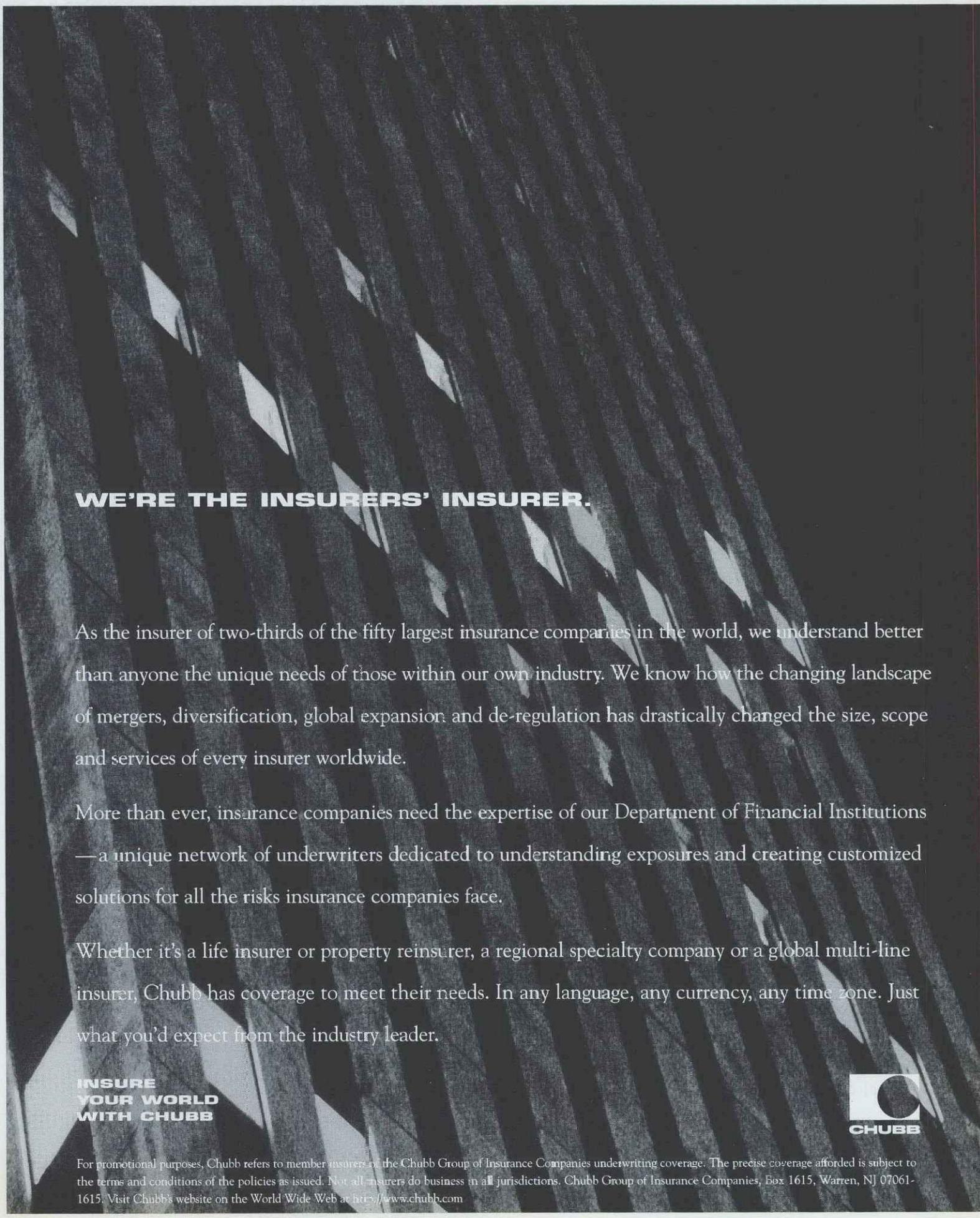
Increasingly, mergers and acquisitions will be seen as a means to lower volatility in particular lines. Mr. Butt pointed to American International Group Inc.'s proposed $18 billion acquisition of SunAmerica Inc. (*BI*, Aug. 24), which will bring AIG diversification via new capabilities in asset management and retirement services and products.

• Capital markets risk financing.

To many in the reinsurance industry, it is not yet clear whether the capital markets represent competition or a new partner for sharing risks.

"I no longer believe it to be ancillary, but instead a fundamental part of our business," Mr. Butt

See **M&A** *on next page*



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M&A

Continued from previous page
said. "Those who do not participate are at risk."

Asked why he expects the capital markets to become a key part of reinsurance, Mr. Butt replied, "The business we are in is only a financial service; we exaggerate the differences."

For reinsurance companies to enter this new risk financing arena requires significant capital, which is not difficult to attain, he said.

"But the skills to deploy that capital are harder to develop," he added.

"If you believe convergence is taking place, you can't just look within our business but must also look at companies at the fringe," he said.

At the same time that these various forces are driving consolidation, the reinsurance industry also is coming under pressure to become more specialized, according to Mr. Butt.

"Analysts didn't like generalists, so we all became specialists," he quipped.

To Mr. Butt, this trend means adopting greater underwriting discipline for a given reinsurance specialty.

"I'm horrified by intuitive pricing in our market, especially in London," he said. The reinsurance industry must apply more technical skills to underwriting, rather than relying on intuition about risks, he said.

Other elements of specialization, he said, include differentiating among products; providing added value to products; product innovation; and offering different skill mixes. BI

Rendez-Vous attendance steady amid industry change

MONTE CARLO, Monaco—Reinsurance industry executives continue to flock to Monaco during the first week of September to see and be seen.

Official attendance at the 1998 meeting was 2,322, down just one from 2,323 in 1997. However, because many industry executives attend but do not formally register, the actual number of reinsurance executives in Monte Carlo from Sept. 7-11 may be dozens higher.

Next year, the number of attendees could drop further due to consolidation in the industry, predicted Antoine Jeancourt-Galignani, chairman of Assurances Generales de France in Paris and president of the Rendez-Vous.

In particular, he said, the various brokers that have bought out rivals over the past two years will fully consolidate their operations and likely send fewer representatives to the meeting.

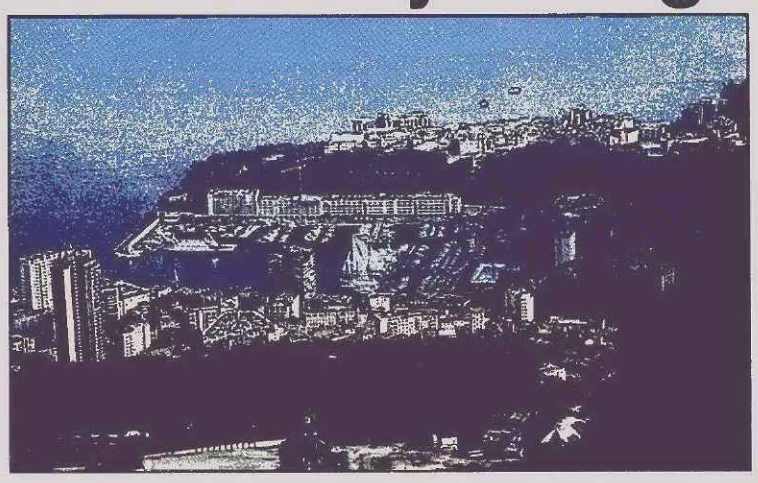
The number of countries represented in Monte Carlo fell to 76 from 83 last year. The United Kingdom, as it did last year, sent the largest contingent, followed by France, the United States, Italy, and Germany.

The Rendez-Vous de Septembre is the traditional beginning of year-end reinsurance renewal negotiations. The week-long event offers executives ample opportunity to determine which way the winds are blowing for the industry, to meet with colleagues and peers and to publicly display recent changes in organizations.

"It's important to be here, because in the past 18 months, we've made a major commitment to the European reinsurance market," said Patrick Ryan, chairman and chief executive officer of Aon Corp. of Chicago, attending his first Rendez-Vous de Septembre. "We wanted these companies to know more about Aon, because we really view ourselves as a global company," Mr. Ryan said.

One of X.L. Mid Ocean Reinsurance Co. Ltd.'s objectives for attending the Rendez-Vous de Septembre in Monte Carlo is to show that the merger of the company is complete and working well, said Michael A. Butt, a director of X.L. Mid Ocean Reinsurance Ltd. of Hamilton, Bermuda.

The ability to spend quality time with other industry executives during the Rendez-Vous also is attractive, said Brian M. O'Hara, chairman and chief executive officer of X.L. Insurance Co. Ltd. in Hamilton, Bermuda. Even among executives on the island of Bermuda, many often are too busy to meet and talk at home, he noted.



A view of Monte Carlo and the Port of Monaco from the corniche above the Mediterranean principality.

Chartwell Re Corp.'s top executives come to the Rendez-Vous to discuss the reinsurer's evolution as an organization and because of its increased emphasis on international business, said Steven J. Bensinger, president of the Stamford, Conn.-based reinsurer.

"With current market dynamics and a desire to improve one's situation, the meeting offers a chance to discuss with other reinsurers how to improve. There's a lot of intellectual capital, and ideas to synthesize" at the Rendez-Vous, Mr. Bensinger said.

In addition to frequent meetings, cocktail receptions and dinners, the Rendez-Vous also features presentations.

Usually, the Tuesday-morning presentations are made by leading figures in the insurance and reinsurance industry. However, this year a fresh approach was taken. The three winners of an essay competition for people under 35, sponsored by the Rendez-Vous organizing committee, presented their winning papers. The competition drew about 15 entries.

The first presentation was made by Marjol Nikkels, a director of Sensio Konsult in Apeldoorn, Netherlands. She spoke about the opportunities arising for insurers out of the privatization of the social security system in the Netherlands.

Currently, insurers concentrate too much on products and policies and not enough on services, Ms. Nikkels said.

"If the insurance companies are unable to give a concrete expression to those services, they will find themselves playing second fiddle to the employers," he said.

The second paper was presented by Philippe Francois, head of the plan-budget-resultat department. of AXA Reassurance in Paris. He presented an approach to reinsurance portfolio management that he developed with a colleague.

The approach provides a mathematical tool to be used in conjunction with an underwriter's experience and intuition in assessing reinsurance portfolios, he said.

The final paper was presented by Nicholas Smith, associate director of Crosby Asset Management (Hong Kong) Ltd. Mr. Smith spoke about insurance opportunities in Asia.

Despite the recent economic crisis in the region, there is still a huge potential for insurers seeking to operate in Asia, he said.

A combination of demographics, increasing economic sophistication of individuals, and regulatory reforms in the region will provide opportunities for insurers, Mr. Smith said.

Next year the formal presentations will revert to the traditional format, and senior executives will speak about new technology.

The 1999 Rendez-Vous de Septembre will be held Sept. 6-10.

For more information or to register, contact the Rendez-Vous de Septembre, Centre de Congres Auditorium de Monaco, Boulevard Louis II, Monte Carlo 98000, Monaco; 377-9216-6050; fax: 377-9216-6135.

Parity

Continued from page 1

ever, maintain annual and lifetime caps on the number of outpatient sessions and inpatient days available for mental health treatment. Employers also can impose higher co-payments on mental health care. Those employers whose health care costs increase at least 1% after complying with the law are entitled to an exemption.

An employer's plan year start date determined the date by which it had to comply with the parity law. Those employers that had to meet the Jan. 1 compliance date were able to apply for the 1% exemption after July 1.

Several consultants interviewed were unaware of any employer that filed for an exemption. Towers Perrin estimated that to meet the 1% exemption, "mental health costs would have to increase $35 per employee per year," Ms. Pearson said.

However, consultants and employers say it's too early to attach a dollar cost to the parity mandate. Many variables, such as what the employer was offering prior to the law; the employer's size; and even the employer's industry, which can influence usage of the benefits, can determine the effect of the law.

Mr. Kaplan said it will take 18 months of data to see the full impact of compliance. Increased frequency among an employer's general population is not an issue, he said. The issue is that a small or midsize employer can be significantly hurt by having one or two chronic users of the benefits, he said.

Yet, for larger employers with managed care, the cost may not prove worrisome. "Our clients are spending relatively small amounts of money for mental health and chemical dependency compared with medical care," Ms. Pearson said.

"What we've seen over the last few years for a lot of clients is that costs were stabilized at $135 per employee per year" for mental health care and substance abuse treatment, she said. Some of those clients initially had costs as high as $500 per employee per year.

"You can control costs almost as efficiently with day and visit limits as with dollar limits," Ms. Pearson said.

Arlene Westbrook, director of employee benefits at the Chicago Mercantile Exchange, said the Merc's mental health care costs have remained stable for the past two or three years. Because use of the benefits remains at pre-1998 levels, she is expecting cost stability even after having amended the plan to comply with the law Jan. 1. The upcoming renewal process will give her a better indication on claims costs so far, she said.

The commodities exchange removed the $50,000 dollar lifetime limit for inpatient treatment for mental and nervous disorders. Now, the Merc's 1,000 or so employees are entitled to a lifetime maximum of 60 days inpatient treatment through the preferred provider network reimbursed at 85% with no limit. Those seeking inpatient treatment out of the network are reimbursed at 70%.

Outpatient treatment remained the same as it was prior to the Jan. 1 compliance date. Employees seeking outpatient therapy through the PPO are entitled to 40 visits yearly, with the same $15 copayment as for physical care. Employees that go out of the network are entitled to 20 visits reimbursed at 70% after meeting a deductible.

The Merc also has an employee assistance plan, which provides a range of services from health-related counseling to child care and elder care assistance and legal help. For general services, employees are entitled to three free sessions. For specialized services, they may receive one or two free sessions.

While the benefits department hopes costs stay stable, the department also promotes the benefits so that employees who need them can access them, Ms. Westbrook said.

Some employers reassessed the value of mental health benefits prior to the parity act, and the law has given many others an opportunity to look at their mental health benefits and see if they make sense, said Michael Jeffrey, a principal at William M. Mercer Inc. in Baltimore.

Companies are becoming more aware that behavioral health plans are part of the overall strategy to keep people at work and productive. "It's not a throwaway benefit any more," Mr. Jeffrey said. "There's more of an understanding that if you have an employee with a mental health or chemical dependency problem and you address it early, that helps the bottom line."

The key is to strike that right balance of management of these benefits so that employees have enough flexibility to get what they need from the plan and the employer can continue to afford to provide the services, said Wendy Miller, senior director, benefits planning and research for Merck & Co. Inc. in Whitehouse Station, N.J. "I want people, if they need help, to get the help at the right time, at the right place, at the right cost," Ms. Miller said.

Merck always has had parity between treatment for physical illnesses and treatment for mental health problems.

"Mental illness is not something people have voluntarily, and it should not be arbitrarily limited," Ms. Miller said.

Mental health care falls under the same $1 million lifetime maximum as physical health care, though inpatient chemical dependency treatment is limited to two treatments per lifetime. That limit helps ensure that participants make an effort to change their behavior rather than routinely seek treatment, Ms. Miller said.

Under the carve-out mental health benefit program, outpatient counseling costs $10 a visit in the network, with no limit on the number of visits and no deductible. Inpatient treatment received in the network is paid at 90% after the deductible. It's paid at 60% out of the network.

But having some mechanism of control over the benefits such as a network is imperative, or providers may be tempted to take advantage of the plan, she said. Also, incentives to keep people in the network help avoid other problems particular to mental health treatment, including inpatient stays that exceed what's right for the patient or an unhealthy mutual dependence that could develop between participants and their outpatient providers, she said.

The carve-out plan and the EAP is used by about 14% of the 17,000 participants in point-of-service and indemnity plans and those receiving benefits under a union contract. Another 7,000 employees in HMOs, who are not covered by the carve-out plan, can use the EAP at no cost for up to eight visits.

"Benefit design structures of an organization are driven primarily by the historical philosophy of the client," said John Vlajkovic, a consultant with Hewitt Associates L.L.C. in Lincolnshire, Ill. The parity law "highlighted the possibility that this represents something significant in an organization."

Between 3% and 5% of a covered population generally use the benefits, he said, yet studies show that probably 10% of the population suffers from depression or other mental health problems and could benefit from treatment.

"If the population were treated properly for behavioral health, there could be an offset to other expenses" such as absenteeism and treatment for physical illnesses, Mr. Vlajkovic said.

Eileen Settineri, a New York-based consultant with Watson Wyatt Worldwide, said some employers have implemented a plan design style similar to health maintenance organizations that have a higher copayment for mental health care visits in addition to the cap on the number of visits. Some HMOs have a flat copayment for mental health care visits, while others have a copayment schedule that varies with the number of visits, she said.

Mercer's Mr. Jeffrey said the consultant encourages clients to improve outpatient coverage so that people aren't driven to seek inpatient care. By improving outpatient coverage through such means as not attaching a high coinsurance to the benefit, employees' access to care is improved and they may seek treatment earlier, he said.

Employers can use other approaches to tailor a mental health benefits plan to meet company and employee needs. Those employers that use specialized mental health care providers may want to offer participants a trade-off in the plan between inpatient hospital days and alternative care options, such as usage of a day treatment facility. A plan might be designed so that a participant could trade two units of care at a day treatment facility for one inpatient day.

Or an employer might design a plan to say that exceptions to the caps are subject to case management, Mr. Vlajkovic said. "A lot of employers fear hard caps," he said.

A trend being seen in HMO plans is outpatient visit flexibility, said Ms. Settineri. That approach adjusts copayments or allows different numbers of visits for individual therapy, group therapy or medication checks. "Some HMOs have adopted that, and I think we may see more of that," she said. "Carve-out plans may start adopting these features as well."

More employers are showing an interest in EAPs and carve-out plans, consultants say. Some employers will now offer up to six free EAP visits, said Mr. Jeffrey. While some employers are using the EAP as a gatekeeper to mental health care, "that defeats the purpose," Mr. Jeffrey said. Employees should view EAPs as a confidential source of advice and access to treatment rather than as an obstacle to getting services paid for, he said.

When it comes to chemical dependency treatment, employers are taking different stances. The federal law did not require the removal of dollar limits on chemical dependency treatment.

Many employers are treating chemical dependency the same as mental health because it simplifies administration and sometimes overlaps treatment for other psychiatric disorders, said Ms. Pearson.

However, she said, "Quite a number of clients want to have a lifetime limit on chemical dependency treatment.

The AFTRA Health & Retirement Funds in New York, which serves members of the American Federation of Television and Radio Artists, must comply with the law on Dec. 1. "We were concerned about increasing costs dramatically" because part of the ability to control costs was removed, said Dina Goldman, fund director.

"We're very aware of participants' need to have choices," Ms. Goldman said. However, "we still have to find some way of controlling our costs so we can deliver as much to our participants as possible."

Approximately 16,700 participants in the AFTRA health plan receive inpatient and outpatient treatment through Value Behavioral Health. Prior to this program being implemented in 1996, participants had access to only 30 days of hospitalization coverage for inpatient treatment. Full benefits that had been offered long ago were cut because of high costs.

The managed mental health benefit requires pre-authorization through Value Behavioral Health. Inpatient treatment has a cap of 30 days and must be in a network facility. Plan participants can have 20 outpatient visits a year in the network and 10 out of network. Currently, network visits are paid 100% up to $100, with an annual limit of $2,000. Out-of-network visits are paid at a rate of 50% up to $50, with a $500 annual limit. The annual dollar limits will be removed Dec. 1. A 50% co-insurance based on a schedule of reasonable and customary fees still will be charged for non-network visits.

In 1997, the funds' cost of mental health benefits—not including prescription drugs or chemical dependency treatment, which falls under a different program for members of AFTRA—was $120 per participant. Ms. Goldman said. For the 12-month period ending March 31, 1998, participants used 571 inpatient days and 13,500 sessions for outpatient therapy.

Hewitt's Mr. Vlajkovic breaks down the impact of mental health benefits this way: when an employer does little to manage care, behavioral health will account for 8% to 9% of total medical costs. When there is some managed care in place, behavioral health accounts for 6% to 7% of the total. Under a carve-out program, behavioral health may account for between 3% and 5% of total medical costs.

Mr. Vlajkovic said most employers recognize that future legislative changes might require greater parity between treatment for physical conditions and mental conditions. "That argues for a well-managed environment, because it eliminates the potential for abuse," he said. BI

Upcoming directory to list safety consultants

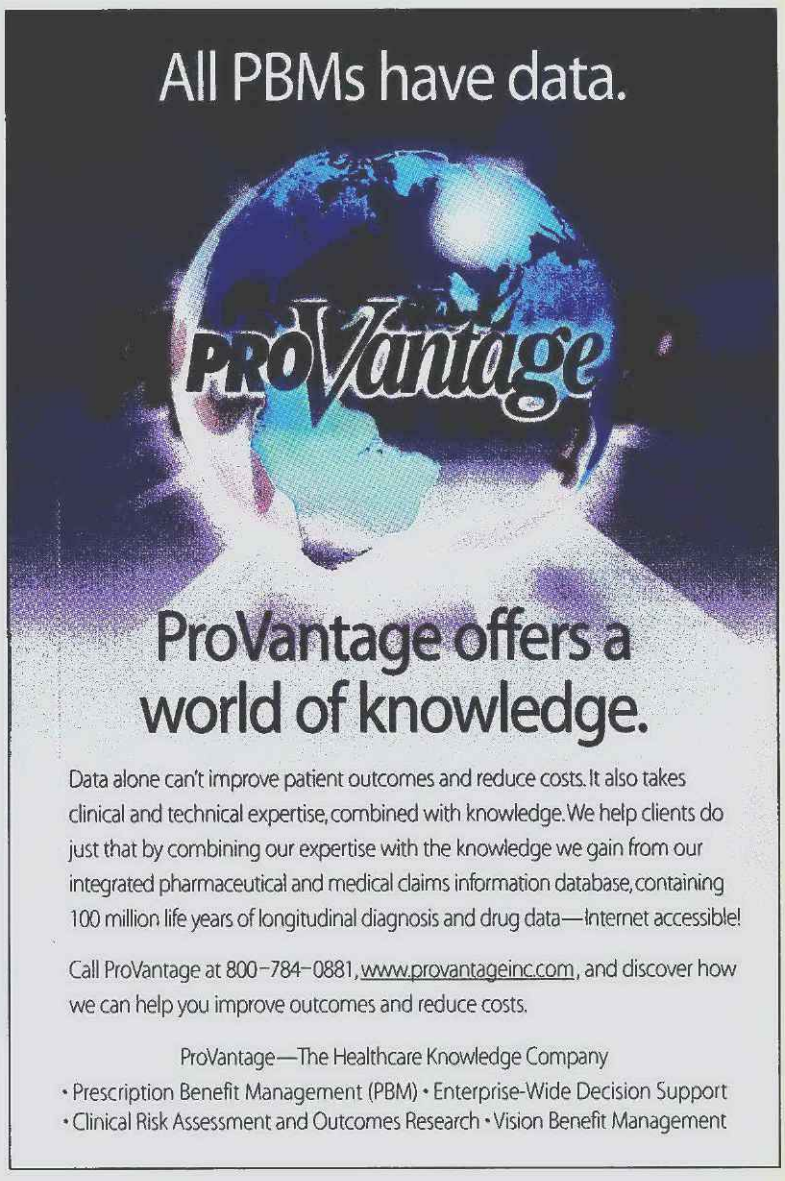
Business Insurance will publish its annual Directory of Safety Consultants and Rehabilitation Services in the Oct. 26 issue, which also will contain a Spotlight report on workers compensation.

To be included in the directory, safety consultants must generate at least $200,000 in revenues from direct, unbundled services such as safety evaluations and ergonomic consulting; rehabilitation management providers must generate at least $200,000 in revenues from direct medical management or vocational rehabilitation services for workers compensation or rehabilitation cases.

The Oct. 26 issue also will feature an Information Resource section on workers compensation. This section lists current educational and informational materials available free to readers.

The directory and the Information Resource section are published as an editorial service, and there is no charge to be included in either. If you would like to be listed in the directory or wish to submit materials for the Information Resource section, please call Assistant Directory Editor Matt Scroggins at 312-649-5483 and request the appropriate questionnaire.

Completed questionnaires must be submitted by the extended deadline of Sept. 25.



Senate

Continued from page 2

readiness without fear that the information would be used against them in Year 2000 problem-related suits. They would not, however, enjoy liability relief from suits involving Year 2000 problem-related software or hardware failures. In addition, all the limited liability relief would expire in July 2001.

Senator after senator cited the need to deal with the problem as quickly as possible as the Judiciary Committee took up the bill. "We have only five weeks left in the Senate session. We're not going to pass this unless we have consensus," said Sen. Patrick Leahy, D-Vt.

That consensus looked threatened after Sen. Fred Thompson, R-Tenn., offered the sole amendment of the day. The amendment sought to exclude statements made for the purpose of soliciting or discouraging sales of Year 2000 solutions from the liability protection it offered other statements.

Judiciary Committee Chairman Orrin Hatch, R-Utah—who with Sens. Leahy and Jon Kyl, R-Ariz. sponsored the compromise bill—said the Thompson amendment would have a "chilling effect" on information sharing and was unnecessary. He called the amendment "overly broad."

Sen. Joseph Biden, D-Del., launched into a heated defense of the Thompson amendment. At one point, he shouted at Sen. Kyl, "I don't understand what you're saying," to which the Arizona lawmaker replied, "Well, give me a chance to say it."

The debate ended when Sen. Robert Torricelli, D-N.J., said that while he believed that the right to bring a liability suit was part of the way to make a market function more effectively to improve products, in this case he would vote for the bill without the Thompson amendment. The consequences of not doing so are "so enormous" that they justify changing the liability standard temporarily, he said.

'As it was pointed out today, time is of the essence. I refuse to give up hope,' says Jan Amundson of NAM.

The Thompson amendment was defeated and the measure passed out of committee.

"This bill is not perfect, but it's the best we could come up with under the circumstances, and it's a pretty darn good bill under the circumstances," said Sen. Hatch.

Supporters of the bill remained guardedly optimistic that Congress will approve it in the few legislative days remaining.

"Sen. Torricelli's statement basically wraps it up. Extraordinary situations demand extraordinary solutions," said Melissa Shelk, assistant vp-federal affairs with the American Insurance Assn. in Washington.

Jan Amundson, general counsel for the National Assn. of Manufacturers, said: "As it was pointed out today, time is of the essence. I refuse to give up hope."

"It represents a compromise that a lot of people worked very hard on over the recess. The House is watching what the Senate is doing. We need to keep support of the bill intact," she said.

Anne Allen, director-government affairs for the Risk & Insurance Management Society Inc. in New York, said the bill is "a step in the right direction. Some of the people I've talked to about this problem said, 'We want to approach this problem, but how do we know where our responsibility ends?' So this will encourage more information-sharing between businesses. It could help develop a 'best practices' for dealing with Y2K compliance."

Ms. Allen added, however, that RIMS remains concerned about the timing and the narrowness of liability relief. BI

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Government, Unions and Educational Institutions 1,019

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Accountants, Actuaries, Attorneys & Consultants 2,705
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Total Qualified 53,525
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TOTAL CIRCULATION 53,556

★ *Source Business/Occupational breakdown of qualified circulation, November 24, 1997 Issue, as submitted to BPA for December 1997 BPA Publisher's Statement*

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Boxers

Continued from page 3

start-up cost for the programs.

It would cost about $7.5 million, the study estimates, to set up the four programs that would begin providing boxers pension payments. Of that, about $1 million would be deductions from fighters' earnings.

Funding for the plans could come from a number of sources, including a percentage of boxers' purses, contributions by managers and promoters and broadcast revenues, according to the study.

"We were surprised at how much we could do for a relatively modest amount," Mr. Levy said. However, he added, the study turned up fewer boxers than expected who would be eligible for benefits under the suggested threshold.

Under a defined benefits plan, the study suggested that the definition of "pension active" boxers should be those who had at least two fights scheduled for eight or more rounds annually. Under that definition, 472 fighters made the cut in 1996.

A year of "pension-eligible service" would be determined using the same definition of two scheduled eight-rounders per year.

The study found that 2,404 retired fighters had at least three years during which they fought in two or more scheduled eight-rounders, making them eligible for pension benefits under the study's definition.

The study suggests that the charitable trust and the defined benefit plan could be set up quickly to begin making small payments to current retirees.

Under a defined contribution plan, a boxer would contribute 4% of his earnings from fighting to a pension fund. The fight's promoter would contribute a matching amount. The study projects that a boxer who started today and fought 24 eight-rounders with average per bout earnings of $10,000 over his career, with an average annual 8% return on his contributions, would net around $15,000 per year at age 55, or as much as $40,000 per year at 65.

Mr. Levy pointed out that the pension programs are needed because boxers have very few opportunities to participate in such plans.

A state-run program in California has been in place since 1981. The defined contribution plan has assets of about $4 million, and fewer than 300 boxers are enrolled, according to The Segal Co. study.

The International Boxing Federation in 1993 set up a non-qualified defined contribution plan that requires boxers in championship fights to contribute 2% of their earnings in those bouts, not to exceed $30,000 per bout.

Robert W. Lee, president of the IBF, said the funds are invested by Lincoln National Insurance Corp. on the boxers' behalf. There currently are 131 fighters enrolled and about $900,000 in plan assets.

Mr. Lee said he is unfamiliar with The Segal Co. study but supports the idea of a plan that would cover a broad number of fighters.

But, he warned, boxers generally don't have the mind-set to worry about preparing for retirement. "You're not going to do it voluntarily," Mr. Lee said of a pension program.

Instead, fighters would have to be required to contribute. "You would have to force it for it to be done," he said. "When a guy fights for our title, he may not want to be a part of the program, but he's got to be a part of it."

The Segal Co. study suggests that pension programs for boxers have been absent largely because of the attitude of fighters. Because most start young, they don't worry about retirement, which might be decades away. "This is not a factor for most workers," the study says, "because their prime earning years are later in life when they are more likely to be retirement-conscious, and workers routinely gravitate towards companies that have better pension programs as they get older and move forward in their careers."

Boxing often draws its participants from economic groups that have a "hand to mouth" existence and no concept of saving for retirement, the study points out. It adds that many boxers who are able to earn a "decent living from boxing. . .often consume every cent to fulfill immediate needs and long-held wishes."

•

Free single copies of the study are available by sending a fax to Mary L. Feldman, senior vp-public affairs at The Segal Co. The fax number is 212-251-5490. Copies also can be requested at www.segalco.com.

Swissair

Continued from page 3

company to Swissair, but its value has not been disclosed. It weighed 2 kilograms (about 4.4 pounds).

Other valuable items included 49.8 kilograms (about 109.6 pounds) of bank notes being sent from a U.S. bank to a Swiss branch of the bank, 1 kilogram of diamonds and 4.8 kilograms (about 10.8 pounds) of jewelry. Swissair could not provide values for any of these items. The cargo is not expected to have survived the crash, though the plane's wreckage has not yet been retrieved.

Robert Read, underwriter for Hiscox P.L.C. syndicate 33, a specialist in the fine art insurance field, would not comment on the loss, refusing to disclose whether the syndicate was involved in covering some of the cargo.

In addition to the valuable items, Flight 111 was carrying almost 14,500 kilograms (about 31,900 pounds) of general cargo, including textiles, machinery replacement parts, express mail and regular mail. A spokeswoman for the United Nations refused to confirm reports that a diplomatic pouch destined for the U.N. offices in Geneva was on the plane.

Polygon Insurance Co. Ltd., one of two captive insurance companies sharing the hull and liability coverage for Swissair along with Pentagram Insurance Co. Ltd., has confirmed the hull to be a total loss, insured for $126.5 million.

A liability reserve has yet to be established, though London market sources put the value at anywhere between $300 million and $700 million, reflecting the possible high claims filed by the families and dependents of the individuals on board. In addition, there is speculation at Lloyd's of London that personal accident claims for some of the people on the plane soon will start filtering in to the market.

The cause of the accident remains unknown. Both the flight data recorder and the cockpit voice recorder cut off 6 minutes before the plane crashed, indicating the possibility of a total system failure.

So far, none of the wreckage on the ocean floor has been brought to the surface. Instead, a team of about 180 divers is concentrating on retrieving the bodies, some of which already have been identified.

"Operation Persistence" is being coordinated by the Canadian Navy Maritime Command Atlantic, aided by the Canadian Coast Guard. The Transportation Safety Board of Canada has investigators on site to try to establish the cause of the tragedy.

•

Dave Lenckus contributed to this report.

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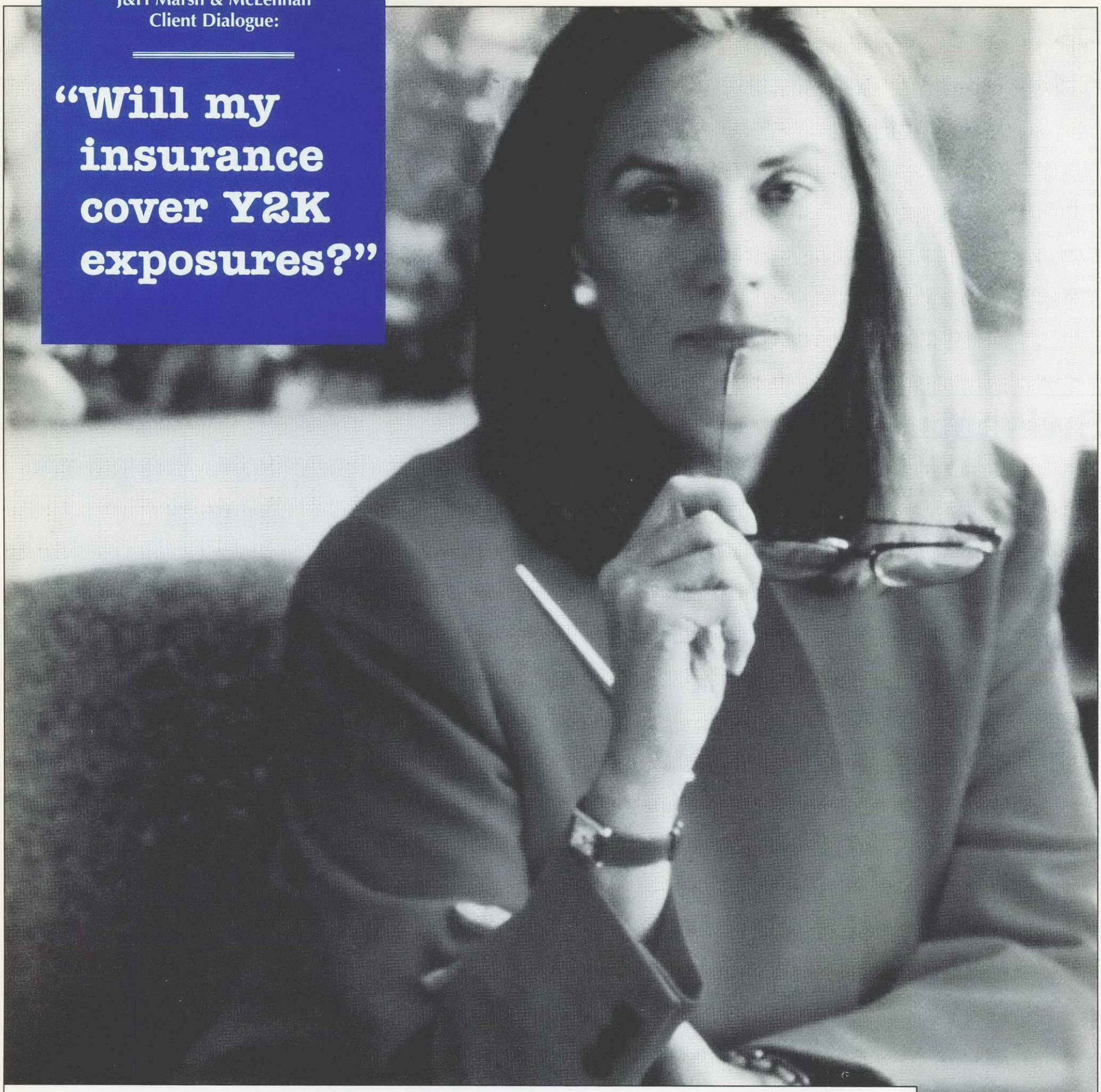

With the countdown to the millennium now being measured in days, this has become one of the most frequently asked questions we get from our clients.

The issue is Y2K — shorthand for potential problems arising from the fact that computer dating codes, as originally written, contained only two digits. This means software, if left uncorrected, could recognize the dawn of 2000 as 1900 — perhaps causing massive failures in processes dependent upon computers and embedded data-processing chips.

To help our clients understand the insurance implications of Y2K, a special J&H Marsh & McLennan Client Advisory Task Force has devoted extensive research to the subject.

The Task Force's findings have been summarized in a newly produced special report: *Y2K and Your Insurance — the Issues.* It covers the key areas of insurance relating to Y2K — including perspectives on how carriers are responding to the issue. We are also issuing regular updates on the fast-changing Y2K coverage situation.

For a copy of the report and updates, contact your J&H Marsh & McLennan Client Executive or J&H Marsh & McLennan local office.

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Commentary

We keep digging for hidden angles

You may think we are an insurance magazine.

If the content isn't enough of a clue, then perhaps the name—*Business Insurance*—might give it away.

Yet, despite that, we are constantly deluged with press releases, sample publications and information materials that appear to have absolutely no relationship with the world of insurance.

I'm sure most businesses receive daily fax updates on wholesale auto auctions, but being a news-gathering company, we don't immediately direct such items to the circular files. We read everything. . .just in case. You can rest assured that if we didn't have sensory overload from all the misdirected materials sent our way, we'd be giving more ink to your appropriately targeted releases.

I have racked my brain in an attempt to understand why we have been selected by some of these companies. Maybe writing about a few of these creative marketers will help me sort out the insurance implications and find an angle for us to cover. Here are some that have me stumped:

• The World Pumpkin Confederation. I may be out of my gourd, but I'm having a hard time figuring out why I am the lucky recipient of a postcard from this organization.

The card has a glossy color photo of a crowd of semi-normal-looking people whooping it up beside a prize-winning orange and lumpy freak of nature weighing 1,061 pounds. The World Pumpkin Confederation announcement says it is upping the ante and offering a $50,000 bounty to whoever can present a pumpkin that breaks the 1,500-pound barrier on Oct. 3 in Clarence, N.Y.

Paul D. Winston

One risk management angle I can figure out is that the confederation must carry a hefty liability insurance policy. This would cover the risk of contest entries rolling off the stage and crushing children or pets, or perhaps the risk of injury to bystanders in a seed-spitting contest.

Or maybe we can write a workers comp case study on the effectiveness of back belts at minimizing the risk of ruptured disks for United Parcel Service employees who truck this squash-on-steroids across the country.

• Ostriches On Line. This e-mail press release from an Internet marketer promotes the "exotic secrets" of using ostrich oil for skin care.

I don't know what to make of *BI*'s angle on this one, as I can't recall ever writing about skin care products or elixirs, but maybe my head's in the sand.

According to their research—and backed by historical references from Roman philosopher Pliny (whether it's Pliny the Younger or Pliny the Elder is not clear)—ostrich oil allegedly makes skin feel smoother and look better while alleviating minor aches and pains, the press release claims.

This may be a stretch, but perhaps Ostriches On Line's miracle product is the answer to soaring group health care costs. Rather than pay for costly prescription drug benefits, which, as everyone knows, is a key driver of medical inflation, employers instead could offer employees tubs of all-natural ostrich oil (though I suspect the process for extracting this oil is anything but natural). I can see the alternative medicine HMOs flocking to add this to their formularies.

• Callaway Golf Co. OK, golf and insurance; I can see a slight connection.

This release, which came on our fax, extols the virtues of the new Big Bertha Stainless Steel Metal Woods and, more specifically, how they are helping Annika Sorenstam outdrive the competition on the LPGA Tour. Frankly, I think she'd outdrive the competition using even my crummy clubs, but I digress.

I may be missing the green for the trees here, but the risk management or employee benefits *news* angle is eluding me.

The more I think about it, though, perhaps what we have here is a new exposure to rival the Year 2000 problem for making insurers quake in their shoes. If these clubs are as effective as promised, the risk of payouts on hole-in-one policies could rise exponentially. I'm not sure if it's enough to turn the market, but it certainly could put a damper on the fortunes of some surplus lines underwriters.

It's clear to me now that everything sent our way has a purpose, and we just have to try a little harder to sniff out the *BI* angle for our readers. Just wait until I get the next press release from the North American League of Tuber Enthusiasts.

Editor Paul D. Winston and Publisher and Editorial Director Kathryn J. McIntyre publish columns on alternate weeks.

Privacy

Continued from page 3

access to their health care information. It establishes standards to protect health information from unauthorized collection, use and disclosure by requiring insurers and self-insurers to establish procedures for the treatment of all health information.

The model also establishes the right of a person to examine his or her own protected health information and creates a limited right for people to have their protected health information amended or supplemented under certain circumstances.

In addition, the model requires entities to establish procedures for safeguarding health information and to notify consumers about their privacy rights with respect to protected health information and how they may exercise those rights.

However, unresolved ambiguities about how the model act would apply to property/casualty insurance claims, such as workers compensation claims, prompted two insurance commissioners to try and postpone the vote for further review.

During the Executive Committee meeting and Plenary voting session, South Dakota Insurance Commissioner Darla Lyon expressed concern about the model's Section 7, which allows an insurer or self-insurer to deny an employee access to health information if it was compiled "in preparation for litigation, law enforcement or fraud investigation, quality assurance or peer review purposes."

The lack of an exemption for a routine workers comp claim investigation means insurers would be encouraged to label every claim as fraudulent, so they could protect the information—such as a witness statement—from claimants, according to Ms. Lyon, who chairs the NAIC's Workers Compensation Task Force.

In addition, Iowa Insurance Commissioner Terri Vaughan said she was concerned that the measure would hinder the ability of one active risk manager in her state to obtain periodic workers comp loss runs he uses to analyze the safety of his operations and prevent employee injuries.

"I'm concerned that the insurer would no longer be able to share that with the risk manager," she said.

Ms. Vaughan also said she was concerned that Congress might consider the model act a reflection of unanimous NAIC thinking.

However, several commissioners voiced their support for the compromise model, including commissioners from Ohio, Montana and Nebraska. Georgia Commissioner John Oxendine said developing the act ". . .has taken way too long" and commissioners "look like a bunch of fools having this discussion."

NAIC President Glenn Pomeroy said he considers passage by 37-13 "a pretty strong vote." Even so, he said he agreed with Indiana Insurance Commissioner Sally McCarty's suggestion that the NAIC improve its review of proposals that affect multiple lines of coverage.

Critics of the model health privacy act generally agree with the criticisms raised by Ms. Lyon and Ms. Vaughan and cite health-oriented regulators' lack of familiarity with property/casualty issues as a root cause for the ambiguities in the model. But drafters eventually did establish an advisory group to provide property/casualty expertise (*BI*, March 30).

If state or federal lawmakers enact versions of the model law promoting the privacy of employees' personal medical information, it would "throw up more roadblocks" and "promote an adversarial relationship" between employers and employees over workers comp claims, said Anne Allen, director of government affairs for the Risk & Insurance Management Society Inc. in New York. In addition, "the average employer would have to add significant staff and resources in order to handle the resulting administrative workload," she said in an earlier letter to the NAIC.

Ms. Allen noted the irony of the NAIC formally adopting at the same meeting a white paper on "Regulatory Re-engineering Initiatives Related to Commercial Lines Insurance."

At the meeting in which NAIC commissioners "conceptually took away one level of oversight with passage of the white paper on commercial lines re-engineering, they added another level of oversight to risk management practices in the health area," she said.

"The fact that there is no safe harbor for routine investigation of a workers comp claim is one of the major problems with the model act," said Bruce C. Wood, assistant general counsel with the American Insurance Assn. in Washington. The model is better now than previous drafts but still represents "a lost opportunity."

"For comp, the model act is a Byzantine maze with too many open doors," said John Lennes Jr., vp of workers comp and health for the Alliance of American Insurers in Downers Grove, Ill.

"I think they have gotten themselves too balled up in the intricacies of claims handling," he said.

An employee's medical claim under workers comp coverage often receives greater review than does a typical medical claim under a benefits program because employers are responsible for paying both medical costs and wage-loss benefits, noted Mr. Lennes. The quicker that occupational and rehabilitation experts can have access to objective information about an employee's medical condition, "the faster the claim can be resolved and the employee returned to work," he said.

The model law's intention is to protect claimants' confidentiality, but "its vague definition of 'health information' actually prevents insurers from doing their job—and ultimately will make things more difficult and costly for everyone involved in the claims process," said Donald S. Cleasby, assistant general counsel for the National Assn. of Independent Insurers in Des Plaines, Ill. The NAII actively opposed NAIC passage of the model.

In other action at the meeting, state insurance regulators:

• Adopted a formal moratorium to delay, when feasible, the implementation of any NAIC model law, regulation, accreditation standard, annual statement instructions or other initiative that could detract industry resources from Year 2000 compliance efforts. The resolution is effective from July 1, 1999 to June 30, 2000.

• Voted at the committee level to inform members of the U.S. Senate about the NAIC's latest position on financial services modernization legislation. State insurance regulators support the concept and recognize the need for legislation but cannot support the Senate Banking Committee's version of H.R. 10 because it proposes a federal-state regulatory structure "plagued by substantial gaps and confusion which could easily undermine the financial health of banking and insurance institutions" and may undermine consumer confidence.

• Heard that the Interstate Insurance Receivership Commission reaffirmed its adoption of a uniform receivership law designed to maximize uniformity and fairness in distributing a failed insurer's assets (*BI*, Sept 14). The commission made only technical changes to the final document rejecting substantive changes proposed by a few life reinsurers. BI

Drugs

Continued from page 1

balance between premium costs and out-of-pocket costs for members, said Alan Raymond, Harvard Pilgrim's vp-public affairs.

But Gov. Paul Cellucci this month instructed the Division of Insurance, which regulates HMOs, to open a full investigation of Harvard Pilgrim's proposal to cap prescription drug benefits in its Medicare risk HMO.

"Thousands depend on these drug benefits, and I will not allow these companies to take advantage of our seniors. We will keep fighting to ensure that our seniors get the drug benefits they deserve," Gov. Cellucci said.

Gov. Celluci, who is completing the term of William Weld, who resigned to seek an ambassadorship, is running for re-election in November.

Harvard Pilgrim's Mr. Raymond said the Insurance Division has requested information about its proposed benefit changes for next year, and that Harvard Pilgrim will cooperate fully with the division.

"This will, most likely, need to be resolved by either a federal or state judge. Our primary interest is to get this resolved as quickly as possible," Mr. Raymond said.

A spokesman for the Division of Insurance said the probe could be a prelude to litigation. "HMOs need to be in compliance with the law," the spokesman added.

The Massachusetts controversy involves the interaction of both state and federal laws and regulations.

Under a 1994 Massachusetts law and later regulations, HMOs and other health insurers must provide either unlimited or no prescription drug coverage in plans they offer retirees eligible for Medicare.

But HMOs say the 1997 federal Balanced Budget Act pre-empts state laws affecting private plans—known as Medicare + Choice—that contract with the Health Care Financing Administration to provide coverage to retirees opting out of the traditional Medicare program.

That interpretation is backed by HCFA Administrator Nancy-Ann DeParle, who says the 1997 federal law pre-empts states from specifying what must be included as a federal Medicare benefit (*BI*, Sept. 7).

The outcome of the Massachusetts' prescription drug controversy could have implications beyond that state. If Massachusetts regulators are successful in enforcing the state's prescription drug benefit mandate, that could be a signal to other states to mandate benefits—at substantially higher cost—for HMOs and other health care plans that cover retired workers opting out of Medicare and into their own plans.

The Massachusetts controversy currently affects only individual policies that HMOs offer to retired workers who have opted out of the traditional Medicare program and receive coverage through "Medicare risk HMOs."

Massachusetts regulators have not tried to order Medicare risk HMOs to comply with the prescription drug benefit mandate for coverage negotiated by employers for retired workers, believing it is beyond their authority.

But employers could feel the impact of state mandates on risk HMOs and other plans at the end of next year, when the Balanced Budget Act giving retirees new private market alternatives to Medicare fully goes into effect.

With more private market alternatives to the traditional Medicare program almost certain to develop, more employers are likely to drop their own plans and reimburse retirees for all or a portion of those plans' premiums.

But if Medicare alternative plans are loaded down with expensive state mandates, that could increase costs for employers that drop their supplemental plans in favor of subsidizing Medicare risk HMOs for retirees. BI

Hacked

Continued from page 1
financial officer of Trident Data Systems, a Los Angeles-based information technology firm specializing in information protection.

On Sept. 13, a group calling itself HFG—Hacking for Girlies—commandeered the New York Times Web site, forcing the newspaper's electronic edition to shut down from about 10:20 a.m. EST to 7:40 p.m. EST.

The hackers took down the Times' home page and put up images of nude women and a diatribe criticizing the Times' past coverage of Kevin Mitnick. Mr. Mitnick is serving a prison sentence for a computer crime following his arrest by the Federal Bureau of Investigation in 1995; the hackers called for his release.

After a "tug of war" in which the Times' home page and the hackers' document appeared in succession, the New York Times took down its Web site to repair it off line, a spokeswoman said. While the site was back up later that night, some contents, including the New York Times electronic crossword puzzle and archives, were not available in the middle of last week. As of Friday, however, access had been restored.

The New York Times now is working with the FBI on its investigation into the break-in.

The spokeswoman declined to comment on any insurance arrangements or how the hackers might have gained access to the Web site. She did, however, describe the security as "state of the art" and said that the site's firewalls "were not penetrated or compromised" in any way. The Time's public site is on a server located outside its firewalls.

She said that while there are "certainly some technical lessons" to be learned from the break-in, the company is "very pleased" at how its crisis communications team responded to the incident.

Not only did everyone know whom to call after the break-in occurred and responded at once but the paper also immediately took down its subscriber list, which contains e-mail addresses and encrypted credit card numbers, the spokeswoman said.

Observers familiar with the incident say that as employers rely more heavily on the Internet to disseminate information and to conduct electronic commerce, they need to constantly check their security measures.

'Companies need to look at security as an ongoing process to reduce potential loss,' says Steve Haase.

Not only is the incident an indication that "it can happen to anybody," but it also should cause companies to examine their electronic security systems, said Steve Haase, chief executive officer of Network Risk Management Services Inc., an Atlanta-based wholesaler.

"Companies need to look at security as an ongoing process to reduce potential loss and to respond to potential vulnerabilities," Mr. Haase said. Any upgrade to software and hardware, for example, leads to new vulnerabilities and new security issues, he noted.

While the insurance market is still small, employers can obtain coverage now for such vulnerabilities, observers point out.

American International Group Inc., for example, last year introduced an Internet Security Liability product that addresses the liability exposures of employers that conduct business over the Internet.

The policy covers:

- Third-party losses resulting from the theft of credit card data over a policyholder's Web site, with limits up to $250,000.
- Personal injury claims, such as libel, slander and defamation of character, resulting from the electronic communication of information from, or unauthorized access to, a policyholder's Web site. This coverage has limits up to $1 million.
- Physical damage, including losses involving electronic data that arise from vandalism, computer viruses and other specific perils, as well as resulting business interruption. Limits on that coverage start at $50,000.

Earlier this month, Reliance Group Holdings Inc. also began offering a new Internet insurance product, designed to respond to third-party liability claims arising from failure to secure and manage access to data over a company's Web site.

The policy, called InsureTrust, is written on a non-admitted basis by Reliance Insurance Co. of Illinois and offered exclusively through wholesaler Network Risk Management Services. It has $10 million in capacity; the minimum premium is $5,000.

"Everyone's vulnerable," said Greg Gamble, vp of Reliance National Insurance Co. in New York. Even if an employer has the right technology and the right policies and procedures in place to secure an electronic business environment, there is still a potential for hackers to break into the system. That potential loss exposure gives rise to the need for insurance, Mr. Gamble said.

The insurance market for these types of risks "is a very small market that's about to go crazy," predicts Mr. Haase of Network Risk Management, which also acts as the wholesaler for AIG's Internet product. "I'm covered up with calls."

In addition to AIG and Reliance, several other insurers, especially in the surplus lines market, are offering or developing exploring coverage for Internet businesses, including Steadfast Insurance Co. and Columbia Casualty Co. (*BI*, Sept. 7). BI

Pay

Continued from page 3
Health Plans Inc., United HealthCare Corp., Aetna Inc. and Humana Inc. were compensated the most among the 15 companies tracked.

Earning $30.7 million in 1997, Stephen Wiggins, former chairman and chief executive officer of Oxford Health Plans Inc. topped the list of the 25 highest-paid executives.

CIGNA Chairman and CEO Wilson Taylor, who earned approximately $12.5 million, ranked a distant second. Third on the list was William McGuire, CEO of United HealthCare Corp., with earnings of $8.6 million.

Some insurers said the study's conclusions are flawed, however, because it examines the top executives of publicly traded holding companies, rather than the head of HMO operations.

As a multiline insurer, "our executives are responsible for substantially more than a health care business," said a spokesman for CIGNA Corp.

"The thing I find interesting is that nowhere on either of these lists is an executive from Aetna U.S. Healthcare," said an Aetna Inc. spokeswoman, referring to separate rankings of executives with the largest compensation and the largest unexercised stock option packages.

In addition, Aetna executives' pay is competitive with other companies comparable in size, she said. Aetna Inc.'s former chairman and CEO, Ronald Compton, was ranked seventh on the list of highest-paid executives for his earnings of almost $5.4 million.

A spokeswoman for Oxford Health Plans in New York said: "Because Oxford's compensation packages are paid by the shareholders and not by the groups, they have no impact on the price of providing health care. Looking at compensation packages by including long-term compensation that was accrued over many years in a one-year time frame, the survey gives very misleading results," she said.

The authors of the Families USA survey are not 'comparing apples to apples,' says Brooks Chamberlin.

In addition to cash compensation, the Families USA researchers included in the compensation figures allowances, long-term incentive payouts and exercised stock options.

Two recent *Business Insurance* surveys of CEO cash compensation found the average bonus and salary of executives to be about $1 million for agents and brokers and about $1.5 million for insurers and reinsurers. *BI*'s figures, though, exclude stock options (*BI*, Aug. 31; July 20).

To find capable individuals to lead a corporation, it is necessary to be competitive, said Brooks Chamberlin, managing director and head of the global insurance recruiting practice for Korn/Ferry International, a New York-based recruiting firm. "There's a supply-and-demand equation at work here," Mr. Chamberlin said.

The authors of the Families USA survey are not "comparing apples to apples," he said. Mr. Chamberlin noted that the survey includes executives of publicly traded HMOs as well as multiline insurance companies whose executives run multiple operations, of which running an HMO may be only a small part. "In that sense, I don't think the study is completely valid," he said.

Heidi Toppel, practice leader for Watson Wyatt Worldwide's eastern region executive compensation practice in Boston, said the $2 million average compensation figure generated by this survey is "not really meaningful" because each executive has a different deal with the respective company and a different job description. Even so, she said, that level of compensation is "consistent with what we see in non-health care industries."

What some don't remember when looking at publicly traded health care organizations, said Ms. Toppel, is that a fundamental part of upper management's job is to create value for shareholders.

That is different from a non-profit organization, whose "alignment is to the community and community service," she said.

Families USA's Ms. Slass said the organization has not decided whether this survey will become an annual effort. Regardless, she said she hopes the report prompts HMO executives to "be less disingenous about why they don't support consumer protections."

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Copies of the survey are available for $15 from Families USA Foundation, 1334 G St. N.W., Washington, D.C. 20005; 202-628-3030.

Updates

Humana exiting five markets

Continued from page 2
commitments to customers, providers and members in all the affected markets. In fact, the company is taking a $52 million charge against 1998 third-quarter earnings. The charge includes costs related to asset write-offs and contractual relationships with various physician practice management companies.

Altogether, the company also announced it will take a charge against 1998 third-quarter earnings of $132 million ($84 million aftertax, or 50 cents per diluted share), as a result of the failed merger.

Louisville, Ky.-based Humana Inc. is one of the nation's largest publicly traded managed health care companies, with more than 6.2 million medical members located primarily in 16 states and Puerto Rico.

Accord reached in Y2K case

WARREN, Mich.—In what may be the first of its kind, a lawsuit involving the Year 2000 computer problem has been settled.

The settlement calls for Tec America Corp. to pay $250,000 to end the litigation brought by Produce Palace International, a Warren, Mich., grocer, according to Brian Parker, Produce Palace's attorney.

Mr. Parker said his client bought a computerized cash register system manufactured by Tec America in 1995. Immediately, the system began crashing when processing payments by credit cards that expire after 1999. The system was sold by All American Cash Register, a vendor also named in the suit that has yet to settle the case. Produce Palace brought the suit after numerous attempts to fix the system failed.

The parties reached the settlement after a year of litigation with the case nearing trial, Mr. Parker said. "Everybody has had enough," he said. "It's time" to settle.

Produce Palace claimed in the suit that, contrary to the defendants' claims, the system was not state-of-the-art. "It's a basic tort and contract suit," uniquely applied to the Year 2000 problem, Mr. Parker said.

He predicts that more litigation relating to the Year 2000 issue will emerge as the date nears. "It's going to be a big industry," he said.

Tec America's attorney, Marta Manildi, of Miller, Canfield, Paddock & Stone in Ann Arbor, Mich., refused to comment.

Zabit bought by X-ceed

NEW YORK—X-ceed Inc., a diverse New York-based company, is acquiring Zabit & Associates Inc., a communications and creative services consultant, in a transaction valued at about $29.5 million.

Founded in 1993, Sausalito, Calif.-based Zabit reported about $10.1 million in revenues in the year ending June 30, of which about 40% was benefit-related. Zabit, which will operate as an X-ceed division, is well known for its employee benefit communications consulting work.

Briefly noted

The nation's **health care costs** are expected to rise at an annual clip of 6.5% between 1998 and 2001, according to the Health Care Financing Administration's Office of the Actuary. That compares to a 5% annual growth rate from 1993 to 1996, when fierce price competition among health maintenance organizations held down costs. . . .Shareholders of General Re Corp. on Friday approved the **merger with Berkshire Hathaway** at a special meeting, General Re said in a release. Berkshire shareholders earlier in the week approved the deal, expected to close in the fourth quarter. . . .Ohio Casualty Group subsidiary **The Ohio Casualty Insurance Co.** is acquiring the commercial lines division of Great American Insurance Co. for $300 million. Cincinnati-based Great American, an American Financial Group Inc. subsidiary, also will receive warrants to purchase 3 million shares of Ohio Casualty common stock and could receive up to $40 million more based on the retention and growth of the insurance business acquired by Hamilton, Ohio-based Ohio Casualty. The deal is subject to regulatory approval and is expected to close in the last quarter of the year. . . .The **Corporation of Lloyd's** insurance services unit, which provides information technology, accounting, policy processing and claims handling services to Lloyd's of London, plans to lay off 300 of its 1,000 employees as part of a major efficiency drive. The reorganization, which will create a new management structure for the unit, is expected to be completed by the end of next year and result in cost savings of £10 million ($16.8 million). . . .Florida will receive an additional $1.7 billion in its **settlement with tobacco companies**, bringing the state's total take to $13 billion. The additional payment is based on a "most-favored nation" clause in the settlement, which allows a recalculation based on settlement arrangements with other states. . . .A county district court judge last week dismissed lawsuits by 17 law firms challenging Blue Cross & Blue Shield of Minnesota's $469 million settlement of **tobacco litigation**. The law firms wanted the proceeds paid to Blue Cross subscribers, not to the health plan. . . .Former owners of a **nuclear fuel processing plant** owe $36.5 million to residents of a Pennsylvania town who claimed radiation caused an unusually high incidence of cancer. A federal jury last week found Atlantic Richfield Co. of Los Angeles and Babcock & Wilcox Co., a subsidiary of New Orleans-based McDermott International Inc., negligent in the case brought by residents of Apollo, Pa. Punitive damages are to be determined this week. Spokesmen for both companies would not comment on insurance. The plant was torn down several years ago. . . .The House Ways and Means Committee last week passed legislation that would increase to $17,000 from $15,500 the maximum amount of wages retirees age 65 through 69 can earn in 1999 without their Social Security benefits being reduced. The measure also would boost to 100% from 45% the tax deduction the self-employed can take for **health insurance premiums**. . . .The Metzler Group, a Chicago-based consulting company, has bought **Peterson Worldwide L.L.C.** for $157 million in stock. Peterson, a consultant that focuses on information analysis and runoff services, will retain its name, and Martha Wilke Murray will remain president and chief executive officer. . . .Nationwide Mutual Insurance Co. has received approvals from Iowa and Arizona regulators to acquire the property/casualty units of Des Moines, Iowa-based **Allied Group Inc.**

The market's pit and pendulum

By MYRON M. PICOULT
Special to *Business Insurance*

PROPERTY/CASUALTY insurance stocks have been poor stock market performers all year, and the recent stock market drubbing just made things worse.

After the Aug. 31 dive, our screen of 22 property/casualty insurers was down, on average, 16.2% from their year-end 1997 closings. This compares with a 1.4% decline for the Standard & Poor's 500 Index.

Property/casualty stocks have been one of the worst performers on a year-to-date basis within the insurance sector and clearly have been the worst performers since the end of the second quarter.

This thrashing, in part, reflects investor disappointment about the evaporation of a relative earnings story, earlier concern about the prospect of rising interest rates and its impact on group valuations, and increasing angst among some relatively new investors and observers about the depth and tenure of the "underwriting cycle."

In the past, when underwriting cycles were more readily defined, one found that the pendulum always swung to the extremes on both sides. The current operating environment with its elongated downdraft is certainly no exception. In fact, for some insurers, the pit may turn out to be much deeper and darker than it is currently perceived by both management and investors.

The key is obviously to find those entities that will avoid the depths of the pit and not fall prey to trends at specific companies, with softer numbers for many and stronger-than-expected numbers for a few. The devil lies in the details of the hows and the whys.

The pit may be deeper than some currently perceived, because of what we believe has been and may continue to be the erosion of balance sheet strengths by many insurers that are compromising the integrity of their balance sheet to buttress near-term earnings.

We have seen many small to medium-sized property/casualty companies belly up to the bar and address reserve deficiencies. It appears that it is becoming increasingly difficult for these smaller insurers to cover past misdeeds. There even seems to be an instance where an insurer already is addressing 1998 and 1997 reserves.

As a general rule of thumb, we do not hear any cries of "uncle." Notwithstanding some crimping of cash flows, the huge capital cache that most insurers have continues to be viewed as an almost impenetrable barrier.

In the more recent past, Wall Street has sent up rave reviews about reserve additions because it meant that managements were cleaning up the book, perhaps for a suitor. It remains to be seen if this euphoria will be maintained.

As the degree of difficulty that some insurers have put themselves in becomes evident, the enthusiasm for retrofits may give way to fear of taints. Indeed, savvy buyers with cash and valuable currencies have become increasingly sensitized to values and what they are willing to pay for acquisitions.

There are two functional income or loss components within the property/casualty industry: underwriting and investments. The stock segment of the industry has not achieved an underwriting profit since 1978—that works out to be 19 years!

For the most part, the industry has kept its head above water during this period, with its growth in net investment income and the harvesting of capital gains.

Even though this defies logic, logic dictates that some changes will have to take root sooner rather than later. At some point, industry executives' awareness of declining cash flows and continued slippage in the yield curve has to rise. Indeed, current talk of a disinflationary environment adds fuel to the fire.

For year-end 1997, net investment income of $34.48 billion—again just for the stock segment of the industry—represented 18.5% of earned premiums. Back in 1972, net investment income, which is largely tied to the industry's bond holdings (59.2% of year-end 1997 assets), underscores the profound impact that increases or decreases in the yield curve have on investment income generation.

Over the past seven or eight years, yields have dropped about 350 basis points. This had not only resulted in a plethora of calls on high-yielding bonds but also has exacerbated investment income growth as the older investments are replaced with lower-yielding pieces of paper.

The perversity of the situation is that declining yields also produce higher bond prices.

Because most insurers now mark their portfolios to market, they have come to feel healthier and wealthier notwithstanding the facets of deficient commercial pricing and the "borrowing-from-Paul-to-pay-Peter syndrome" on the balance sheet. In an effort to enhance net investment income growth, many insurers also have some funds run by outside managers that sometimes take more aggressive investment shares.

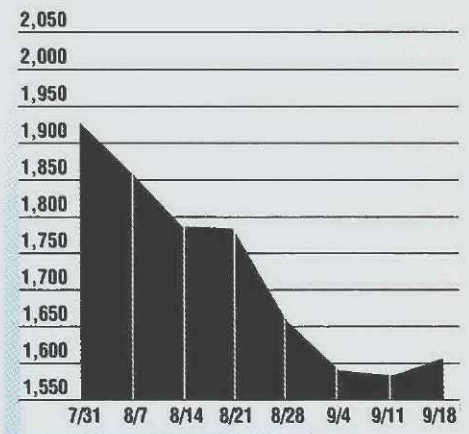
There used to be a rule of thumb in the business that a half-point decline in the portfolio yield of the property/casualty industry needed a one-point drop in the combined ratio to maintain the return on equity. The stock insurers closed out 1997 with a combined ratio, after policy dividends, of 101.5%.

The last time the industry's combined ratio approached par or below par was in the 1977-79 period. It is difficult to see that ratio improving given the current dynamic of the business.

Hence, one would like to think that the industry is going to have to get back to basics and underwrite risks at realistic prices to offset the pressures of slowing net investment income growth. This is a great theory. Our problem is that in our tenure at observing this business, we have seen many trees die. However, it has taken multiple periods before the tree falls down. BI

Myron M. Picoult is a director and senior insurance analyst at Wasserstein Perella Securities Inc. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. An archive of Mr Picoult's columns for Business Insurance can be viewed on the World Wide Web at: http://www.businessinsurance.com/ticker/headlines.html

BI Insurance Index



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

PCS catastrophe options

As of Sept. 18

Call spread	Price bid/ask
National Annual 1998	
60/80	1.0/—
150C	1.0/—
National Annual 1999	
40/60	9.2/—
60/80	4.0/—
100/120	2.0/6.5
150C	—/6.0
Southeastern September 1999	
40/60	—/4.3

Call spread	Price bid/ask
California Annual 1998	
150C	0.3/—
Western Annual 1999	
40/60	1.4/—
80/100	1.0/2.0
Midwest June 1999	
10/20	0.8/2.0
Eastern September 1999	
40/60	—/4.5

Total volume: 0 Total open interest: 19,608

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.
Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	257	3.9	13.4	5.4	495-228
Legal & Gen	682	19.7	13.3	2.4	796-400
Royal & Sun	455	11.6	23.6	5.1	825-437
Brokers					
Lmbrt Fenchurch	105	8.2	5.7	6.7	138-100
Lloyd Thmpson	202	12.0	10.5	6.6	213-151
Sedgwick Grp	213	—	7.0	3.3	220-119
Willis Corroon	201	23.3	6.9	4.2	210-116

Note: Prices are Sept. 18 closings; other numbers from Sept. 17.

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

BI Industry Stock Report SEPT. 14, 1998, THROUGH SEPT. 18, 1998

BROKERS		Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)
Aon Corp.	NYS	68.00	7.94	15.99	75.56	50.00	1369
E.W. Blanch Holdings Inc.	NYS	36.94	-1.01	7.26	38.75	29.38	125
Gallagher Arthur J. & Co.	NYS	40.25	0.78	16.88	46.56	33.56	782
Hilb, Rogal & Hamilton	NYS	18.31	0.00	-5.18	19.63	15.38	49
Kaye Group Inc.	NDQ	6.38	-3.77	-3.77	9.00	6.13	27
Marsh & McLennan	NYS	51.69	0.61	3.98	64.31	44.00	3016
Poe & Brown	NYS	37.00	1.54	24.37	42.50	25.19	44
Sedgwick Group PLC	NYS	17.56	-0.35	42.64	17.75	9.94	57
Willis Corroon Corp.	NYS	16.75	2.29	36.04	16.88	10.06	537
BROKERS	AVERAGE		0.01	15.28			
INSURERS/REINSURERS							
ACE Ltd.	NYS	30.50	6.55	-5.18	43.00	26.56	1661
Acceptance Insurance Cos.	NYS	19.00	8.96	-21.45	28.63	17.44	113
AEGON N.V.	NYS	74.38	-14.51	65.97	111.31	37.56	442
Aetna Life & Casualty	NYS	70.88	8.52	0.44	106.94	60.19	2761
AFLAC Inc.	NYS	31.56	8.37	23.47	38.25	22.13	1887
Allied Group Inc.	NYS	48.00	0.92	67.69	48.13	25.00	187
Allstate Corp.	NYS	40.94	4.13	-9.53	52.38	36.06	8712
AMBAC Indemnity Corp.	NYS	49.75	4.19	8.15	65.94	39.56	1370
American Bankers Ins.	NDQ	52.25	1.09	13.74	66.06	34.00	1725
American Financial Group	NYS	34.13	3.21	-15.35	46.75	32.50	237
American General	NYS	67.00	4.89	23.93	75.69	46.56	3194
American Heritage Life Ins.	NYS	20.31	4.17	12.85	26.06	17.06	95
American Indemnity/Fin'l	NDQ	12.00	0.00	-13.51	15.50	9.50	10
American International	NYS	79.19	0.24	9.22	102.38	64.75	11355
American Safety Insurance	NDQ	9.00	-5.26	-26.90	15.06	8.69	55
Argonaut Group	NDQ	26.00	-0.95	-23.25	38.13	24.00	302
AXA-UAP Group	NYS	52.25	5.96	33.97	71.25	31.88	253
Baldwin & Lyons Inc.	NDQ	23.81	0.26	-1.30	28.75	19.69	12
Berkley W.R. Corp.	NDQ	31.75	-3.05	-27.64	49.88	30.00	395
Berkshire Hathaway Inc.	NYS	59000.00	2.79	28.26	84000.00	42500.00	4
Capital RE Corporation	NYS	31.56	21.69	1.71	38.69	24.25	563
Capitol Transamerica Corp.	NAS	17.81	3.64	-16.42	28.13	16.75	67
Centris Group Inc.	NYS	10.38	-1.19	-7.00	14.81	8.88	296
Chartwell Re	NYS	27.75	5.21	-17.78	35.69	25.19	52
Chubb Corp.	NYS	67.00	3.18	-11.40	88.81	62.06	1914
CIGNA Corp.	NYS	65.50	8.38	14.00	74.50	45.63	3577
Cincinnati Financial Corp.	NAS	36.94	6.39	-21.27	47.13	26.75	1078
CNA Financial Corp.	NYS	40.13	5.07	-5.77	53.25	35.13	848
CNA Surety	NYS	14.31	9.57	-7.29	16.75	12.56	79
EMC Insurance Group Inc.	NDQ	12.47	-1.24	-5.90	15.88	11.75	35
ESG Re Limited	NDQ	14.50	-4.92	-38.30	28.88	14.50	178
Enhance Financial Services	NYS	30.88	11.51	3.78	37.56	24.56	532
Everest Reinsurance	NYS	38.56	4.58	-6.52	45.25	33.00	408
Executive Risk Inc.	NYS	41.13	13.45	-41.09	75.75	35.50	481
EXEL Ltd.	NYS	63.81	2.51	0.69	83.25	61.56	769
Fremont General Corp.	NYS	43.63	7.72	-20.32	62.13	37.75	849
Frontier Insurance Group	NYS	13.44	-4.02	-41.26	35.69	12.63	2269
Gainsco Inc.	NYS	7.50	-1.64	-11.76	10.19	5.75	93
General RE Corp.	NYS	201.88	1.99	-4.78	275.00	191.00	1774
Gryphon Holdings	NDQ	13.88	1.83	-17.16	19.38	11.38	214
Harleysville Group	NDQ	22.13	2.31	-7.81	28.50	19.25	110
Hartford Steam Boiler	NYS	44.00	1.00	19.59	59.56	33.25	303
HCC Insurance Holdings	NYS	20.19	0.94	-5.00	29.38	15.63	322
ING Groep N.V.	NYS	54.00	-1.03	27.62	76.75	38.88	859
IPC Holdings Ltd.	NDQ	25.38	12.00	-21.17	33.25	21.19	113
Hartford Financial Services	NYS	51.13	7.35	9.29	60.00	39.25	3798
LaSalle Re Holdings Ltd.	NYS	26.88	-1.60	-24.03	42.94	26.50	101
Life Re Corp.	NYS	91.75	1.31	40.75	92.94	49.75	346
Lincoln National	NYS	92.50	4.52	18.40	98.88	64.63	1284
MAIC Holdings Inc.	NYS	27.13	6.37	1.27	30.38	23.94	67
Markel Corp.	NYS	152.00	1.12	-2.64	187.00	138.00	44
MBIA Insurance Group	NYS	58.50	9.47	-12.44	80.94	47.19	2282
Meadowbrook Insur. Group	NYS	24.50	-1.26	-6.00	35.00	22.69	23
MMI Cos. Inc.	NYS	17.81	12.65	-29.10	27.06	15.25	47
Mutual Risk Mgmt. Ltd.	NYS	35.81	6.11	19.62	39.94	24.75	294
NAC Re Corp.	NYS	48.81	3.58	0.00	55.88	43.50	245
Navigators Group	NDQ	16.25	0.00	-13.48	22.50	16.25	10
Nobel Insurance Ltd.	NDQ	0.81	18.18	-93.81	1.00	0.40	36
NYMagic Inc.	NYS	25.00	5.82	-9.30	34.25	21.75	7
Ohio Casualty Corp.	NDQ	39.69	0.47	-11.06	51.75	36.63	592
Old Republic Int'l	NYS	22.69	0.00	-8.49	32.25	21.88	1014
Orion Capital Corp.	NYS	37.25	1.02	-19.78	59.25	34.75	512
Partner Re Ltd.	NYS	41.94	0.75	-9.57	52.50	39.56	230
Penn-America Group Inc.	NYS	9.00	-7.69	-56.10	23.00	9.00	85
Pennsylvania Manufacturer's Co	NDQ	19.19	3.72	14.55	23.75	16.25	31
Philadelphia Cons. Holding	NDQ	19.88	1.92	11.97	24.38	15.50	43
PXRE Corp.	NYS	27.19	0.46	-18.08	35.25	26.38	50
Reliance Group Holdings	NYS	15.06	16.43	6.64	19.81	12.06	1277
Reliastar Financial Corp.	NYS	42.75	9.79	3.79	52.44	33.63	1144
RenaissanceRe Holdings Ltd.	NYS	44.00	6.02	-0.28	50.75	38.19	169
Risk Capital Holdings	NDQ	23.88	19.38	7.30	25.50	19.00	146
RLI Corp.	NYS	37.50	9.09	-5.90	45.63	31.50	41
St. Paul Companies	NYS	32.88	2.14	-19.88	47.19	28.06	4067
SCOR	NYS	57.19	-7.01	19.76	72.75	40.50	5
SAFECO Corp.	NDQ	43.13	-0.79	-11.54	56.00	38.50	2085
SCPIE Holdings Inc.	NYS	31.44	5.01	8.64	38.38	26.50	NA
Seibels Bruce Group	NDQ	4.50	5.88	-40.00	8.75	4.25	79
Selective Ins. Group	NDQ	19.09	-0.49	-29.28	29.25	17.44	317
Terra Nova Insurance Co. Ltd.	NYS	26.88	0.23	2.38	35.00	23.50	19
TIG Holdings	NYS	13.50	1.89	-59.32	36.56	12.50	1810
Tokio Marine & Fire	NDQ	44.00	2.03	-23.81	61.88	39.00	72
Torchmark Corp.	NYS	37.56	0.33	-10.96	49.81	35.19	2160
Transatlantic Holdings	NYS	83.88	2.29	17.31	94.50	67.44	197
Travelers Property Casualty	NYS	30.56	-1.61	-30.54	46.06	29.63	2235
Travelers Corp.	NYS	40.19	-0.77	-25.41	73.50	37.13	46921
Trenwick Group Inc.	NDQ	33.38	0.00	-11.30	41.75	32.38	89
Unico American Corp.	NDQ	11.00	1.15	-10.20	18.13	8.88	27
United Fire & Casualty	NDQ	35.50	4.12	-19.77	47.00	32.13	13
Unitrin	NDQ	63.00	7.92	-2.51	74.13	55.56	1835
UNUM Corp.	NYS	48.44	3.06	-10.92	59.63	43.38	1607
Vesta Insurance Co.	NYS	7.50	4.35	-87.37	64.75	6.75	588
Zenith National Ins.	NYS	25.94	4.80	0.73	30.50	23.56	27
INSURERS/REINSURERS	AVERAGE		3.37	-6.20			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	10.94	-5.91	-50.84	33.94	9.94	5177
Humana Inc.	NYS	17.19	22.77	-17.17	32.13	12.25	4192
Oxford Health Plans	NDQ	9.88	32.22	-36.55	79.63	5.81	9829
Pacificare Health Sys.	NDQ	72.00	9.92	43.28	88.88	46.75	221
Safeguard Health Enter.	NDQ	4.38	18.64	-67.59	14.88	3.63	170
Sierra Health Services	NYS	19.63	18.49	-12.45	27.75	15.88	290
United Healthcare Corp.	NYS	41.25	14.58	-16.98	73.94	29.56	5076
Wellpoint Health Networks	NYS	54.50	-6.14	28.99	75.00	38.63	2270
HMOs	AVERAGE		13.07	-16.16			
ALL COMPANIES	AVERAGE		5.48	-2.36			

Top advancing issues: Oxford Health Plans, Humana Inc., Capital RE Corp. Leading decliners: AEGON N.V., Penn-America Group Inc., SCOR. Most active issue: Oxford Health Plans. The *BI* Index rose 1.6%; the Dow Jones 30 Industrials gained 1.3%; the S&P 500 increased 1.1% and the NYSE Composite gained 1.5%. Average P/E: Brokers, 24.4; Insurers/reinsurers, 14.9; HMOs, 19.0.

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

WITH OUR POLICYHOLDERS WE ARE ENGAGED IN A GREAT MUTUAL ENTERPRISE. IT IS GREAT BECAUSE IT SEEKS TO PREVENT CRIPPLING INJURIES AND DEATH BY REMOVING THE CAUSES OF HOME, HIGHWAY AND WORK ACCIDENTS. IT IS GREAT BECAUSE IT DEALS IN THE RELIEF OF PAIN AND SORROW AND FEAR AND LOSS. IT IS GREAT BECAUSE IT WORKS TO PRESERVE AND PROTECT THE THINGS PEOPLE EARN AND BUILD AND OWN AND CHERISH. ITS TRUE GREATNESS WILL BE MEASURED BY OUR POWER TO HELP PEOPLE LIVE SAFER, MORE SECURE LIVES.

Liberty Mutual is committed to reducing the impact of low back pain, so someone like Joe won't miss work, or the occasional piggyback ride with daughter Lisa. At our research center we analyze how variations in bending habits can affect the risk of low back pain. Our research has led to innovative products like Computask,™ a software program we use to evaluate workplace tasks and help recommend ways to ensure that Joe and daughter Lisa live safer, more secure lives.

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

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