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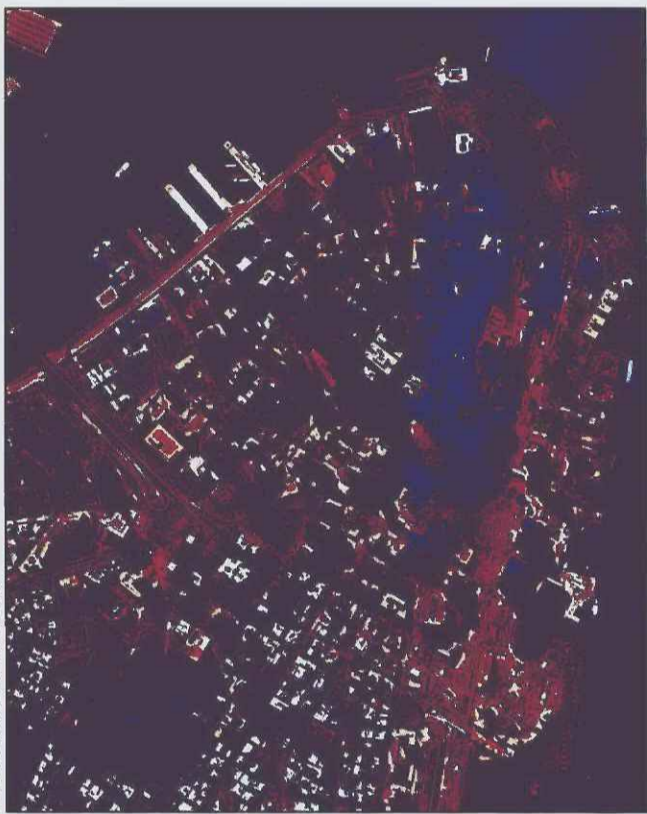
UPS captive tax ruling withstands IRS appeal

ATLANTA—United Parcel Service of America Inc. has won another round in its tax fight with the Internal Revenue Service over its former offshore reinsurance program.

The 11th U.S. Circuit Court of Appeals last Thursday rejected an IRS request that the full court rehear a June decision by a three-judge panel that UPS' reinsurance

See **Updates** on next page

AFTERMATH



\$3.6 billion loss hits WTC policy bound in July

By DOUGLAS McLEOD

NEW YORK—Twenty-two property insurers are facing a \$3.55 billion total loss from the destruction of New York's World Trade Center, only weeks after the coverage was bound and before policy wordings had been finalized.

A wide array of big-name European and U.S. insurers and reinsurers are on the coverage binder for the World Trade Center complex, which was brought down in a terrorist attack on Sept. 11.

While the coverage does include a standard war risk exclusion, several of the insurers on the risk have issued blanket statements that they will not invoke the exclusion to avoid paying claims.

Some observers speculate, though, that insurers or reinsurers whose financial survival is threatened by claims from the attack might try to apply the exclusion

See **Coverage** on page 43

Policy cancellations may ground aircraft

By DAVE LENCKUS and CAROLYN ALDRED

Lawmakers worldwide late last week were scrambling to pass emergency legislation to prevent all air travel from abruptly halting this week due to sweeping liability insurance problems that air carriers face following the Sept. 11 terrorist attacks in the United States.

Lawmakers were compelled to act after the already loss-plagued aviation insurance market early last week canceled the coverage of all policyholders for third-party losses resulting from hijackings and other terrorist acts. In general, the cancellations are scheduled to take effect between today and Wednesday, according to insurance market sources.

Insurers have offered to provide vastly reduced coverage for the risk—known as war and allied perils—but the amount falls far short of the limits that aircraft leaseholders and banks require policyholders to maintain. Without adequate coverage for that risk, airlines would have to ground their planes.

The cancellations have hit not only commercial passenger airlines but private corporate air fleets; air freight carriers; aircraft manufacturers, which test-fly aircraft; airports; and airport ground handlers, according to sources.

In the United States, Congress late last week was considering legislation under which the federal government would provide U.S. airlines with most of the war and allied perils coverage they need to keep fly-

ing. The legislation also would limit the liability of the airlines and airports that terrorists used in their attacks.

In addition, the legislation would give the Secretary of Transportation the authority to cover the higher costs that air carriers will face for their traditional liability and hull insurance during upcoming insurance renewals.

Lawmakers in the United Kingdom, Australia and elsewhere also were hammering out legislation late last week to keep the airlines under their authority in operation.

In the attack, terrorists hijacked two United Airlines and two American Airlines jets and crashed one jet from each airline into the World Trade Center in New York. The other American Airlines jet was crashed into the Pentagon in Arlington, Va., and the second United jet crashed into a field near Pittsburgh.

Authorities last week estimated that more than 6,300 persons in the WTC, the Pentagon and the hijacked planes were either killed or are missing.

Insured losses from the disaster likely will exceed \$30 billion, according to estimates by A.M. Best Co. of Oldwick, N.J.

United has \$1.5 billion of liability insurance per aircraft per occurrence, and American has at least \$1.5 billion of liability insurance, according to market sources.

The insurers that participated in the 2000 aviation

See **Aviation** on page 41

Tragedy spurs EAP use Helping employees cope

By JOANNE WOJCIK

The value of employee assistance programs—once regarded as a nonessential perk in benefit packages—is gaining new respect in the wake of the recent terrorist attacks in the United States.

The volume of calls to employer-sponsored EAPs is up significantly at some companies since the Sept. 11 tragedy, and many employers—both close to and far from the affected areas—are seeking to offer these counseling services for the first time.

This surge in EAP usage is unlikely to subside any time soon, behavioral health care experts say, because the magnitude of the tragedy will leave lingering effects for weeks, months and even years for some people. Much depends on each individual's psychological makeup and history, experts say.

EAP counselors also are fielding thousands of calls from parents nationwide seeking guidance in helping children deal with stress stemming from the event.

"It's a lot like insurance. You take it for granted until you have to use it," observed Richard Chaifetz,

chief executive officer of ComPsych Corp., a Chicago-based EAP and mental health care provider that specializes in critical incident stress debriefing services.

ComPsych, which has offices worldwide, provided counseling and stress debriefing services after the bombing of the Alfred P. Murrah Federal Building in Oklahoma City; the shootings at Columbine High School in Littleton, Colo.; and several terrorist strikes in Great Britain.

"As with any crisis, there will be employers that reassess their need for an EAP," said Stuart Hales, communications director at the Employee Assistance Professionals Assn. in Arlington, Va. "This may heighten interest in them," he said of the terrorism threat.

"Obviously, an event like this is certainly going to have an impact on our employees," said Ralph Kim-mich, director of benefits at Dallas-based Southwest Airlines. EAP-related calls to the airline's benefits office rose 18% in the week following the attacks, Mr.

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Attack loss estimates climbing
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Reinsurance rates to rise
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INSIDE

• Despite a sharp decline in the stock market following the terrorist attacks, most participants in employer-sponsored retirement plans did not panic and reallocate their investments. **PAGE 4**



• Workers compensation claims from the attacks are expected to be significant, but the workers comp insurance market is prepared to handle the losses. **PAGE 6**

• The loss of life at the World Trade Center is grievous, but the orderly evacuation of thousands of workers is a sign that risk management and safety measures have taken root. **PAGE 8**



• The call-up of more than 35,000 reservists in the U.S. armed forces will test a benefits law designed to help returning veterans. **PAGE 26**



• Insurance regulators are considering proposals to prevent a recurrence of problems related to the Uncover workers comp reinsurance pool. **PAGE 28**

• Some in Europe are pondering whether a terrorism insurance model like Pool Re in the United Kingdom would help protect U.S. companies. **PAGE 32**

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UPDATES

Continued from previous page
program in Bermuda had a legitimate business purpose. In the June decision, the panel's 2-1 ruling overturned an earlier Tax Court ruling that the program was a sham. The Tax Court ruled in 1999 that the company illegally funneled nearly \$100 million in 1984 income to Overseas Partners Ltd., a Bermuda-based captive reinsurer that UPS created to cover damage claims from its customers. The Tax Court declared that the reinsurance program was designed solely to shield the company from paying taxes. In response to the decision, UPS put \$1.8 billion in escrow with the IRS, an estimate of what the ruling would ultimately cost the company for the years the program existed. The money will remain in the escrow account until all the proceedings in the case are complete.

► **P/C PROFITS DOWN 75.6%** Catastrophe losses, a decline in investment income, and other factors slashed the U.S. property/casualty insurance industry's income and surplus during the first half of this year, according to the Insurance Services Office Inc. and the National Assn. of Independent Insurers. The U.S. property/casualty industry's aftertax net income for the first six months of this year was \$2.55 billion, down 75.6% from the comparable period in 2000. Consolidated surplus dropped 8.5%, to \$298.23 billion at the end of the first six months of this year. In addition, the industry's post-dividend combined ratio deteriorated to 111.2% from 108.8%.

► **VERMONT'S 500TH CAPTIVE** Vermont earlier this month issued its 500th captive insurance company license, to a captive formed by the Roman Catholic Diocese of Brooklyn. The captive is managed by Willis Management (Vermont) Ltd. The state's Department of Banking, Insurance, Securities and Health Care Administration also subsequently issued licenses 501, 502 and 503. Those three captives were formed, respectively, by Salisbury, N.C.-based Delhaize America Inc.; Richmond, Va.-based Tredegar Corp.; and Wallingford, Conn.-based Masonicare. All four of the new captives are single-parent captives. Vermont has now issued 14 new licenses this year, has one on the verge of being signed and six more applications under review, said Derick A. White, the state's assistant director of captive insurance.



PHOTO: AFP

A worker searches through the debris after a blast at a French chemical plant.

► **BLAST AT FRENCH PLANT** French industrial company TotalFinaElf is still assessing the damage and cost of an explosion at its Grande Paroisse chemical plant on the outskirts of Toulouse, France. The blast, which occurred Friday morning, killed 12 people and injured 240. A company spokeswoman said she had no details about insurance coverage on the plant, which is owned by TotalFinaElf's Atofina subsidiary. Atofina principally produces nitrogen fertilizers. The cause of the explosion, which resulted in serious damage to the facility, is still under investigation.

► **ORACLE RE TO ENTER LIQUIDATION** Oracle Reinsurance Co. Ltd., a specialty reinsurer that wrote no business after its initial year of operation in 1998, will commute its outstanding obligations and go into liquidation, its parent company, Delphi International Ltd., announced. Oracle wrote \$135.3 million in excess workers compensation, long-term disability and professional liability premiums in 1998 but has not written any business since, according to its financial statements. It assumed most of the 1998 business from U.S. affiliates Safety National Casualty Corp. of Missouri and Reliance Standard Life Insurance Co. of Illinois. Delphi and Oracle have reached commutation agreements with Safety National, Reliance Standard and others, and have negotiated deals to satisfy obligations to creditors and preferred stockholders, Delphi said. After settling its liabilities, Delphi plans to enter liquidation and to pay a distribution to common stockholders of \$3 per share, the company announced. Delphi expects the liquidation process to be complete in the first quarter of 2002.

► **BRIEFLY NOTED** A.M. Best Co. has downgraded Copenhagen Reinsurance Group to B++ from A-. The rating agency said that the downgrade follows the Danish reinsurer's decision to temporarily suspend underwriting while it analyzes its exposure to the Sept. 11 terrorist attacks in the United States....California Gov. Gray Davis signed into law a bill to increase to 2% from 1% a state assessment on workers compensation premiums. Assembly Bill 1183 increases funding for the California Insurance Guarantee Assn., which pays claims for insolvent insurers. Without the additional funding, the guaranty fund would have run out of money to pay claims by January 2002, a Senate analysis of A.B. 1183 said....The co-sponsors of the annual Insurance Leadership Forum, held each October at the Greenbrier resort in White Sulphur Springs, W.Va., last week canceled the meeting scheduled for Oct. 6-10....San Francisco's domestic partner ordinance is not preempted by either the Airline Deregulation Act or the Railway Act, the 9th U.S. Circuit Court of Appeals recently ruled. An appellate panel affirmed a lower court ruling in *Air Transport Assn. vs. City and County of San Francisco*....Approximately 500,000 beneficiaries will be affected in 2002 by the withdrawals of HMOs from the Medicare program, the American Assn. of Health Plans said. That number represents nearly 10% of the 5.6 million individuals—mostly retirees—who have opted out of the traditional Medicare program to receive coverage through HMOs....The House Financial Services Committee has scheduled a hearing on the impact of the Sept. 11 terrorist attacks on the insurance industry for Sept. 26....The Illinois Insurance Department placed United Capitol Insurance Co. in conservation. United Capitol is a unit of Rock Hill, N.Y.-based Frontier Insurance Co., which entered voluntary rehabilitation in New York last month...Jack L. Wesley has been named president and CEO of Oil Insurance Ltd. and Oil Casualty Insurance Ltd. Mr. Wesley has held those positions at the Bermuda-based excess insurer on an interim basis since the retirement of Jon R. King in March. **[E]**

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

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News

Multibillion-dollar hit for life insurers

By JERRY GEISEL

WASHINGTON—While life insurers will face a big financial hit from the Sept. 11 terrorist attacks, their losses will be only a fraction of those faced by property/casualty insurers.

And with most losses incurred by extremely well-capitalized life insurers, the solvency of the companies almost certainly will not be an issue.

"I don't think this will affect anyone's solvency," said David Ives, chief executive officer of Niis/Apex Group Holdings Inc., a Salem, Mass.-based claims management company.

For major primary life insurance writers, "this will not have a significant material negative financial impact," said Robert Riegel, managing director, life and health insurance, for Moody's Investors Service Inc. in New York.

Currently, Moody's estimates the losses of life insurers related to the terrorist attacks to be in the range of \$2 billion to \$5 billion. That compares with the approximately \$30 billion in property/casualty insurance losses that analysts now project.

While not insignificant, the losses that life insurers face are small compared to the industry's reserves. According to the Washington-based American Council of Life Insurers, U.S. life insurance companies have \$3.1 trillion in assets, with billions in highly liquid assets.

For example, according to the ACLI, life insurers have, in the aggregate, \$4.5 billion in cash and another \$7.3 billion in

See **Life** on page 39

New York's top life insurers

The top writers of group life in New York state, ranked by 2000 direct premiums written

Company	Direct premiums written (thousands)	Market share
Metropolitan Life	\$552,388	32.1%
Hartford Life	146,902	9.0
Prudential of America	143,949	8.9
Aetna	98,207	6.0
CIGNA	73,681	4.5
UnumProvident	68,708	4.2
MassMutual Financial	54,332	3.3
Zurich Insurance	45,402	2.8
American General*	45,251	2.8
Liberty Mutual	37,560	2.3

*American General now owned by American International Group Inc. Source: A.M. Best Co. Inc.

Attack loss tally grows, may pass \$30 billion

By MARK A. HOFMANN

Insured losses from the Sept. 11 terrorist attacks could ultimately exceed \$30 billion, according to estimates issued last week by several analysts.

That would make the disaster the largest single insured loss in history. And some experts have cautioned that the losses could climb even higher, particularly after Munich Reinsurance Co. and Swiss Reinsurance Co. both roughly doubled their initial estimates of their losses and Berkshire Hathaway Inc. estimated that it would face losses of about \$2.2 billion.

In issuing its estimate, Berkshire Hathaway said that it was sticking to its earlier assumption that its losses would amount to 3% to 5% of the industry total. If that estimate proves to be correct, total losses would be about \$44 billion.

Meanwhile, New York-based Standard & Poor's Corp. lowered its financial

strength ratings of two insurers because of exposures relating to the Sept. 11 attack. Lloyd's of London's rating fell to A from A+, and Zurich Insurance Co.'s dropped to AA from AA+. S&P had already placed two insurers exposed to losses from the attacks under Credit-Watch with negative implications, and on Thursday it assigned that status to an additional 15 insurers, as well as to Lloyd's and Zurich.

In a Friday morning teleconference, Mark Puccia, S&P's managing director-financial services group, said that although the attacks were likely to become the largest insured loss in history, the rating agency is not ready to endorse any particular loss projection. By Friday morning, S&P had tallied \$19.2 billion in claims from various public and confidential sources.

Oldwick, N.J.-based A.M. Best Co. warned early last week that it is too early
See **Loss** on page 39

Aftermath



PHOTO: KRT
A trader at the Chicago Mercantile Exchange goes through a security check on Sept. 13, when trading resumed following a two-day halt.

Attacks put focus on crisis plans

By MICHAEL BRADFORD

U.S. employers are stepping up security measures and examining the effectiveness of their disaster recovery plans in the wake of the Sept. 11 terrorist attacks.

Risk management experts noted that the sudden attacks on the World Trade Center, in which two hijacked jets were crashed into the twin towers, made it impossible for some businesses there to implement contingency plans. As rescue workers continued the grim task of combing through the rubble of the collapsed buildings last week, however, several lessons emerged.

Employers at the WTC that had a plan in place and regularly tested it were as prepared as they could be, risk management experts said.

"The key to crisis response is one word—planning," said Joe Gerber, co-chairman of the crisis response and crisis management practice group at Philadelphia-based law firm Cozen O'Connor. "You develop a plan, you

drill and you test your plan," he said. When the time comes to execute it, the procedure should almost be rote, Mr. Gerber stressed.

"These disasters and catastrophes can be manmade or they can be acts of nature," he said. "They can strike at any time of the day or night. The true test of any plan is its ability to respond to any disaster at any time of the day or night."

Mr. Gerber, whose firm has several clients with operations in the WTC, said most of the tenants' plans were working as they should. Those who had multiple locations across the city or in other parts of the country are faring best, he noted. "Obviously, they are better positioned to survive than those who were housed entirely in the World Trade Center and may have had all their employees there."

Robert Wellman Jr., senior risk manager at Risk International Services Inc., a consulting firm in Richfield, Ohio, acknowledged that the attacks were so swift and devastating

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Insured loss estimates

Companies	Estimated losses in millions	Companies	Estimated losses in millions
Berkshire Hathaway	\$2,200	SCOR S.A.	\$100-200
Munich Re Group	1,950	Kemper Insurance Cos.	60-80
Swiss Reinsurance Co.	1,260	Trenwick Group	75
Allianz A.G. Holding	928	Markel Corp.	75
St Paul Cos. Inc.	700	Everest Re Group Ltd.	75
XL Capital Ltd.	600-700	IPC Holdings Ltd.	50-75
Employers Reinsurance Corp.	600	New York Life	50-75
Chubb Corp.	500-600	Aon Combined Insurance Co.	50-55
AXA Group	550	Amlin P.L.C.	66.1
Citigroup Inc.	500	CGNU P.L.C.	51.4
American International Group Inc.	500	AEGON N.V.	50
Hartford Financial Services Group	450	Wellington Underwriting P.L.C.	44
Zurich Financial Services Group	400	PMA Capital	30
ACE Ltd.	400	SVB Holdings P.L.C.	29.4
Hannover Re Group	365	SAFECO Corp.	25
PartnerRe Ltd.	350	Goshawk Insurance Holdings	20
Liberty Mutual Insurance Co.	200-300	American Financial Group	less than 20
MetLife Inc.	250	Aetna Inc.	10 to 15
Factory Mutual Insurance Co.	250	W.R. Berkley Corp.	10
CNA Financial Corp.	130-230	Argonaut Group Inc.	10
Royal & Sun Alliance Group P.L.C.	221	Nationwide Mutual	less than 10
QBE Insurance Co. Ltd.	129	Conseco	less than 5
Prudential Financial	75-125	ESG Re Ltd.	1
Transatlantic Holdings	100		

Source: Company reports

Brokers reassure clients

Marsh, Aon grieving but ready to serve

By SALLY ROBERTS

NEW YORK—The world's two largest insurance brokers, while still reeling from the loss of their employees at the World Trade Center Sept. 11, said last week that they are committed to meeting clients' needs and resuming normal business operations.

For the past week, the primary focus at Marsh & McLennan Cos. Inc. and Aon Corp. has been on searching for missing employees and on comforting and assisting family members and other employees affected by the catastrophe. Each company has made available a variety of resources, including call centers, crisis counseling, family assistance centers, colleague assistance centers and financial assistance funds, to help in this effort.



'We remain very committed to our clients, as well as very saddened.'

— Ken LeStrange
Aon Risk Services
Cos. Inc.

Late last week, Marsh was missing 313 of the approximately 1,900 employees who either worked at or were visiting 1 World Trade Center, where Marsh Inc. occupied floors 93 through 100. Those floors received the brunt of the impact

when the first hijacked aircraft, an American Airlines Boeing 767 jet, hit the North Tower above the 96th floor. Two other Marsh employees are confirmed dead, including an employee of M&M unit Putnam Investments who was aboard one of the hijacked aircraft.

Aon, which occupied floors 92 and 98 through 105 of 2 World Trade Center, is missing approximately 200 of its 1,146 employees who were in the South Tower when it was struck by a United Airlines 767 at the level of about the 87th floor. Another 89 individuals—representatives of vendors, insurers and clients who were meeting with Aon employees that morning—also are missing. Pfizer Inc. confirmed last week that among

those is Jean M. Collin, a risk manager for the New York-based pharmaceutical company.

While the brokers continue to aid and comfort affected employees and family members, Marsh and Aon also are reaching out to assist their clients. Many of the brokers' clients were themselves affected by the terrorist attacks.

"We remain very committed to our clients, as well as very saddened by the loss of our employees," said Kenneth J. LeStrange, chairman of Aon Risk Services Cos. Inc., during an interview from Aon's temporary client service center, set up in Midtown Manhattan.

"We never lost sight of their needs," Mr. LeStrange said. "We had our business recovered and just as able as it was Tuesday morning, literally Tuesday after-"
See **Brokers** on page 39

Fraction of participants move 401(k) balances

By JERRY GEISEL

Amid last week's plunge in the stock market, most 401(k) plan participants didn't move their account balances, though account activity was much higher than normal.

Transaction volume surged on Sept. 17, the day the major U.S. stock exchanges reopened after the Sept. 11 terrorist attacks at the World Trade Center and the Pentagon led to their closings, say the largest 401(k) plan administrators.

On Sept. 17, 0.08% of participants in plans administered by The Principal Financial Group, which

administers about 26,500 401(k) plans, reallocated their account balances. The day after that, 0.07% made a transfer. Although that was higher than normal, "only a fraction of participants moved account balances," said Monica Kirgan, Principal's managing director of retirement and investor services in Des Moines, Iowa.

Similarly, the amount of money transferred from one type of fund to another leaped the day the markets reopened but then slowed. On Sept. 17, 401(k) participants transferred 0.58% of total account balances in plans tracked by Hewitt Associates L.L.C., chiefly from equity

funds to more conservative fixed-income funds, such as money market funds. That transfer activity was nine times greater than normal, Hewitt said. Over the last 12 months, on any given day, participants transferred 0.06% of total account balances.

But, on Sept. 18, only 0.04% of total account balances was transferred, slightly less than normal. On Wednesday, Sept. 19, transfer activity jumped again, but transferred funds still represented only 0.12% of total account balances. On Thursday, 0.21% of total account balances was transferred.

Administrators say the flow of

money on Monday was nearly all out of equity funds and into fixed-income funds. The next day, the flow was roughly evenly divided between the two fund types; and on Sept. 19, slightly more money flowed into equity funds than into fixed-income funds, said Don Bartolai, a principal in the Chicago office of Unifi Network, a unit of PricewaterhouseCoopers L.L.P.

On Thursday, though, the direction was into fixed-income funds, according to Hewitt.

It isn't surprising that transfer activity surged Monday, administrators say, given the gravity of events and the fact the stock mar-

ket had been closed for a week.

"Clearly, there was a lot of pent-up demand," said Lori Lucas, a Hewitt Associates defined contribution consultant in Lincolnshire, Ill.

Unlike at the end of August 1998, when the stock market was extraordinarily volatile, call volumes to benefit administration centers did not leap last week. Hewitt, for example, reported that call volume on Monday was 15% higher than a normal Monday, while Principal reported that its call volume was actually slightly lower than is usual for a Monday.

Administrators aren't sure why call volumes didn't increase significantly, though it is possible that today, many more 401(k) plan participants are much more comfortable getting information and conducting transactions online and don't see a need to work with call centers, they say.

'Employees want the freedom to control their investments and account balances. I don't see them wanting to give that up.'

— Don Bartolai
Unifi Network

While administrators say there has not been a mass withdrawal of funds from equities, 401(k) plan participants now are much less heavily invested in equities than they were a year ago. For example, last year, 75% of account balances in plans tracked by Hewitt was invested in equity-type funds, compared with 61% today. That drop is the result of both transfer activity and the decline in equity values, Ms. Lucas said.

Still, plan participants have by no means lost their confidence that, over the long term, equities will remain a good investment. Administrators say participants, on average, elect to put about 75% of their new 401(k) contributions into equity funds.

"We are not seeing a mass change in elections, though, of course, that could change," Mr. Bartolai said.

For many 401(k) plan participants, the decline in the stock market—and the corresponding fall in the value of their account balances—comes as a shock after years of significant investment gains.

But administrators don't believe the decline in the value of account balances will trigger a widespread drive by employees to push their companies to set up defined benefit plans or to improve existing plans. In defined benefit plans, employers assume the investment risk.

"Employees want the freedom to control their investments and account balances. I don't see them wanting to give that up," Mr. Bartolai said. **BI**

"We reward our brokers who get up, get out and get the business. A provider comes along who wants to help us in the trenches... that's the partner we're going to choose. As often as not, that partner is First State. With them, being proactive is like a tradition. Whether it's primary, property, excess or gap or special programs... they work with us and keep working with us as long as it takes to close the deal. No wonder we so often call First State first. They're the first rate pros."

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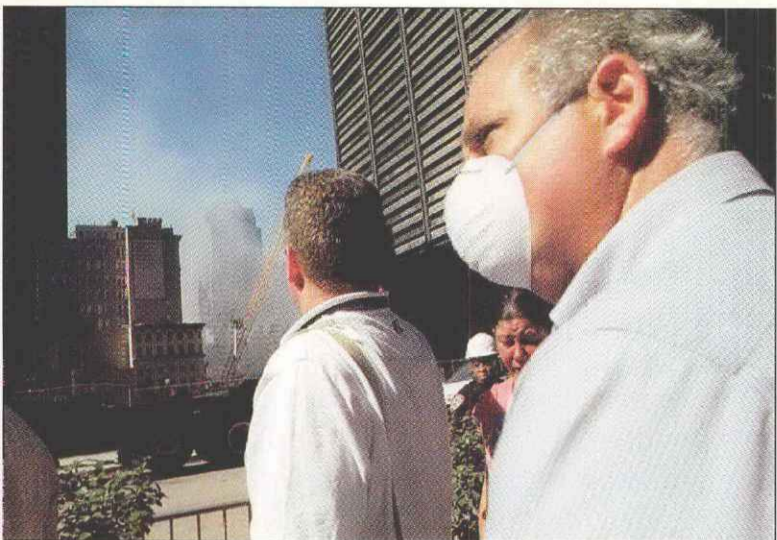


PHOTO: FRANCES M. ROBERTS

The recent terrorist attacks in New York, Virginia and Pennsylvania are expected to generate significant workers comp claims.

Workers comp system can handle claim volume

By MEG FLETCHER

The nation's workers compensation systems are beginning to process the thousands of death and injury claims, likely to total more than \$1 billion, that will result from the Sept. 11 terrorist attacks.

The workers comp toll is significant because the four suicide airline crashes coincided with the start of the workday for most of the more than 6,000 people

who died, or are presumed to have died, and for the more than 2,300 who were injured in the attacks. In addition, several of the 265 people who perished on the airline crashes that occurred in New York, Pennsylvania and Virginia included on-duty airline personnel and passengers traveling on business.

"The state workers compensation system is the first line of protection for workers who are injured on the job and the fami-

lies of workers who suffer fatal injuries," said Eric Oxfeld, the president of UWC-Strategic Services on Unemployment and Workers Compensation, a Washington-based business group.

Similar programs apply to other workers. New York self-insures a program for its emergency personnel. The federal government protects nonmilitary workers through the Federal Employees' Compensation Act. The armed forces have their own compensation plan for military personnel.

The financial strength of the workers comp system can handle the volume of claims. The main challenge for workers comp program administrators and insurers will be to streamline administrative hurdles to the claims-paying process so that employers can help beneficiaries obtain legally mandated benefits that are intended to replace a portion of a worker's lost wages. Injured workers also receive through their employers' coverage the payment of those medical costs associated with their recovery.

Nearly all employers handle this obligation by purchasing workers comp coverage from insurers or by self-insuring the risk.

Insurers must first resolve some common administrative concerns, though, including how to determine, under the laws of various states, which jurisdiction's benefit levels will apply in each case.

For example, in the case of a worker who was hired or whose work was based in a state that was not the one in which he or she was killed, a survivor typically chooses to receive benefits from the jurisdiction that would provide the highest awards; state laws vary, though, as to whether such a choice is permitted.

Insurers may require more review and litigation before they accept ancillary claims, such as those for stress and dust inhalation. That is especially likely to be the case if the claims come from individuals who were not directly harmed by the Sept. 11 attacks.

"We see the entire workers compensation community realizing that this is an extraordinary situation," said Robert Snashall, chairman of the New York Workers' Compensation Board, the state agency that administers New York's workers comp system from its Albany, N.Y., headquarters.

"The response is overwhelming. Everyone—including every insurer—wants to do the right thing, and we'll make sure that they do the right thing," Mr. Snashall said.

He noted that the board itself is taking unprecedented steps to streamline its internal operations, including the formation of a special claims team. The team, he said, will oversee a variety of claims-handling procedures to

See **Comp** on page 42



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OPINIONS

Take pride in response

AFTER THE TRAGEDIES of Sept. 11, it's likely that many in the insurance industry will focus on the human and property losses, the security lapses that provided an opportunity for the terrorist attacks to occur and the continuing threat of violence and destruction.

That's part of the process of analyzing risks and developing strategies for avoiding them in the future, and it must be done. But as we assess this tragedy and undertake the unsettling task of dwelling on the deaths and destruction, it's also worth noting the risk management, insurance and emergency services successes. They might be easy to overlook at this time of mourning and grief, but they are just as instructive in preventing similar devastation in the future.

First and foremost, the life safety practices ingrained in our society in general and among the World Trade Center tenants in particular ensured that the loss of life and injury was much smaller than might have been the case. People evacuated the buildings as swiftly as possible, aiding their fellow workers and avoiding the widespread injuries that could easily have accompanied their flight from a building under attack. Had reports of this exodus been accompanied by tales of people being trampled or crushed in the rush to get to safety or by a far greater loss of life that measured in the tens of thousands, no one would have been surprised.

But that did not occur.

Certainly, an analysis of the evacuation will point to trouble spots that provide lessons for risk and safety managers to impart to their companies' employees in the future. Apart from an unfortunate and confusing announcement to tenants of 2 World Trade Center that the situation was under control and that individuals should remain at their desks, the process worked largely as it is supposed to. That is a credit to safety professionals, and it demonstrates the importance of such training in our society, from elementary school fire drills to corporate evacuation drills.

Also impressive is the insurance industry's rush to assist policyholders and assure them that their claims would be paid swiftly. This is true of both property and casualty insurers and life and health companies. This loss will be among the largest insured catastrophes ever to be borne by insurers, and it may prove devastating for many of them. But the majority appears committed to assuring their customers that their faith in their insurance contracts is not misplaced. Property/casualty insurers worldwide, for example, have publicly assured their customers that war risk exclusions will not be invoked to contest claims or avoid payment. If we compare that with the degree to which policyholders in recent years have had to battle their insurers about claims for other, smaller disasters or other losses,



the contrast is impressive indeed.

As with safety measures adopted by business, the financial protections that insurers have purchased from reinsurers and other financial mechanisms will ensure that most companies not only meet their obligations but can continue to serve the needs of the insurance-buying public. We still believe that the U.S. government must share with insurers the financial burden of terrorism losses, as is the practice in several European countries. But it is a credit to the private industry that, in this time of crisis—the most devastating loss ever to occur and one that no one could have contemplated—the insurance system will rise to the challenge.

Finally, we must salute the emergency services personnel who, at great sacrifice to their ranks, helped people get to safety and continue to search for survivors and victims of this tragedy. The courage and dedication of these firefighters, police officers, emergency medical technicians and others are an example of professionalism under duress that should serve as an inspiration to those who will perform even the most mundane tasks of recovery in the weeks and months ahead.

It's hard to see silver linings when the clouds are at their darkest. But if we look for them, we can find examples such as these of goodness, strength and selflessness.

LETTERS

FERMA extends hand to U.S.

To the editor: May I, on behalf of all of the member associations of the Federation of European Risk Management Assns. and our individual members, extend sympathy and support to everyone in the risk, insurance and other related communities in the United States following the catastrophic acts of terrorism on Sept. 11.

Words cannot express the shock, horror and outrage felt within the European risk management community. Many of our members had friends, colleagues and busi-

ness associates in the World Trade Center. Some used to visit it.

Please accept our heartfelt sympathy. FERMA and its membership stand ready to give any support and assistance that we may be able to provide.

Maurizio Castelli

President

Federation of European Risk Management Assns.
Brussels, Belgium

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Terror attacks bolster reinsurers' resolve to impose rate hikes

By GAVIN SOUTER
and PAUL D. WINSTON

MONTE CARLO, Monaco—Reinsurers from throughout the world were holding their annual prer renewal meetings in Monte Carlo, Monaco, when the terrorist attacks on New York and Washington took place on Sept. 11.

Prior to the devastating attack, which resulted in the destruction of the World Trade Center and four commercial aircraft, as well as severe damage to the Pentagon, reinsurance executives and brokers were already warning of higher rates and a tightening of terms and conditions at year-end renewals. Such changes, in turn, will be felt by commercial policyholders, the reinsurance executives agree.

After overcoming the initial shock of the attack and striving to cope with the human tragedy, most reinsurance executives concurred that the multibillion dollar losses that will surely follow the attack will lead to even higher rate increases and even tighter terms and conditions.

Most lines of reinsurance will suffer losses as a result of the attack, and most reinsurers writing business in New York will be exposed.

The World Trade Center buildings themselves were highly coveted risks. The structures were well constructed with little exposure to natural perils, and many reinsurers were eager to cover the risks.

In addition, losses from other damaged properties, business interruption claims and myriad liability claims are expected to fall on reinsurance markets worldwide.

The inevitable result will be even more determination by reinsurers to receive what they consider an adequate premium for the risks they cover, executives say.

Expectations for year-end reinsurance renewals have changed significantly in light of the Sept. 11 attacks, but the industry fundamentals that were driving price firming before the attacks occurred remain unchanged, according to Dirk Lohmann, chief executive officer of Zurich Re, the reinsurance arm of Zurich Financial Services Group of Zurich, Switzerland.

Also unchanged is Zurich's plan to spin off Zurich Re through an initial public offering later this year, Mr. Lohmann said. As of Oct. 1, the reinsurer will be renamed Conventium Ltd. and will seek a listing on the Swiss stock exchange (*BI*, Sept. 10).

"Obviously, we expected a hardening in the market—a broad-based hardening—but the magnitude of that hardening has

gone up," Mr. Lohmann said. And the hardening will not be focused on just one part of the world, because the losses are spread throughout global markets, he added.

"Everyone expects rate firming to be much less severe than in the mid-1980s," said a U.S. reinsurer executive who asked not to be identified. "But with losses from the soft market still being felt, companies will have to be more aggressive in raising rates than they have been," he said. The losses from the WTC attack will only add to those pressures, he said.

WTC fallout

The losses that arise out of the attack on the WTC will accelerate the level of rate increases in an already hardening reinsurance market, agreed Robert L. Nason, executive vp and underwriter at XL Re Ltd., a unit of XL Capital Ltd. in Hamilton, Bermuda.

"We were thinking that a \$5 billion to \$10 billion event changes the market, and this is unprecedented in the scope and the size of the loss," he said.

Aviation, property, life, workers compensation, and other casualty lines will all be affected by losses resulting from the attack, Mr. Nason said.

The reinsurance market will experience a period of dislocation for some time after the attack, said one reinsurance executive, who did not want to be named.

And although some reinsurers will suffer financial problems as a result of the losses, there will not be a rash of insolvencies, he said.

"It'll be balance sheet-by-balance sheet, but the industry is well capitalized," the executive said.

Inevitably, there will be some significant rate increases as a result of the losses, he said. "But nobody is in the mood for irrational behavior."

Rates are sure to increase as a result of the attack, and reinsurers will also change the way they underwrite all forms of reinsurance, said another reinsurance executive who did not want to be identified.

"It will affect property, business interruption, pro-rata reinsurance, facultative, per-risk reinsurance, personal accident, workers comp, life, aviation—virtually every class has been affected," he said.

Although natural catastrophes, such as hurricanes and earthquakes, also produce a wide variety of losses, none compares with the scope of the World Trade Center disaster, the reinsurer said.

As a result of this loss, reinsurers will be

See **Rendez-Vous** on page 14



PHOTOS: PAUL D. WINSTON

Losses may prompt restrictions on terms, conditions

By PAUL D. WINSTON
and GAVIN SOUTER

MONTE CARLO, Monaco—Reinsurers' push to regain underwriting profitability will be felt by cedents not only in the form of higher rates but perhaps also in tighter terms and conditions.

The breadth of exposures being covered under current all-risk property coverage is driving some markets to consider writing the coverage on a named-perils basis, executives said during the annual Rendez-Vous de Septembre, which was held Sept. 9-14 in Monte Carlo, Monaco.

Losses from the Sept. 11 terrorist attacks in the United States also may

prompt reinsurance companies to more clearly define the terms of coverage, particularly those for business interruption and terrorism risks.

"Business interruption coverage is so broad that almost any loss results in a business interruption claim," said Nick Bonnar, active underwriter for Lloyd's of London syndicate 588 and a director of XL Brockbank Ltd. in London. "Reinsurers need to take a harder look at this and price it appropriately," he said.

"We still have great difficulties evaluating business interruption and contingent business interruption losses," agreed Hans D. Rohlf, managing director and chief underwriting officer-North

America for Hannover Reinsurance Co. of Hannover, Germany. Losses from the Sept. 11 attack, which are likely to include enormous business interruption claims, "may give the market a chance to develop clearer underwriting criteria for the exposure," he said.

"Risk definitions...will have to be much more exact, and applied on an industrywide basis," Mr. Rohlf said.

Dirk Lohmann, chief executive officer of Zurich Re, the reinsurance arm of Switzerland-based Zurich Financial Services Group, said that U.S. courts' expansion of coverage might also lead reinsurers away from all-risks coverage for commercial risks. That, he said, is al-

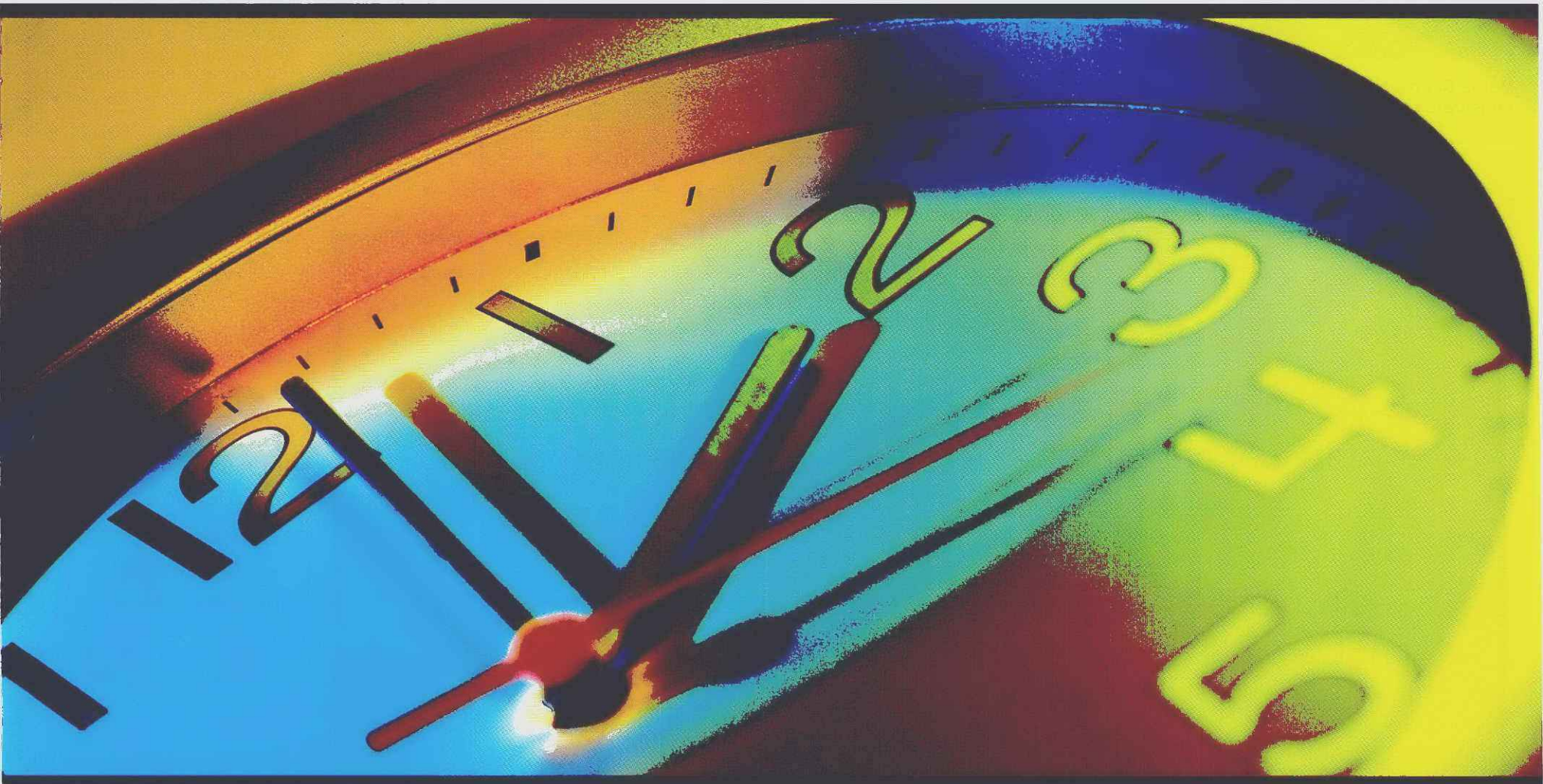
ready occurring in the area of homeowners insurance.

U.S. courts' willingness to expand coverage has been seen in the area of mold-related claims, and such moves could prompt a transition to named-perils property coverage from an all-risks approach, Mr. Lohmann said. "As courts keep expanding coverage, this shift may occur," he said.

Discussions by primary companies on how to handle toxic mold liabilities indicate a new resolve to tighten underwriting guidelines throughout the insurance and reinsurance industry, agreed Mark Hinkley, executive vp at CdyseyReinsur-

See **Terms** on page 12

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PHOTO: PAUL D. WINSTON

Monte Carlo's famed Cafe de Paris was a popular meeting place for reinsurers at the Rendez-Vous de Septembre.

Terms

Continued from page 10
ance Corp. in Stamford, Conn.

"I'm not sure it warrants separating coverage, but it warrants developing a policy on what and where is covered," Mr. Hinkley said.

Reinsurers also are pressuring cedents to control or exclude e-commerce risks from general liability policies, said Michael H.P. Handler, managing director and continental Europe chief executive at Guy Carpenter & Co. Inc. in Zurich, Switzerland.

As a result, he said, a carve-out market for e-commerce risks is emerging, with the costs of this protection being passed on to cor-

porate policyholders (BI, Sept. 10).

The application of e-commerce exclusions and the creation of new e-commerce coverages is an example of how insurer and reinsurers are becoming more disciplined and are seeking to rate exposures separately rather than give blanket coverage for a single premium, said Mr. Hinkley of Odyssey Re.

Rather than continuing to add exclusions to coverage for various risks, "there may be a push back to a named-perils kind of policy," agreed Donald S. Watson, a director of Standard & Poor's Corp. in New York.

In response to the severe losses that reinsurers will incur this year, companies are likely to introduce a variety of coverage restrictions,

said one U.S. reinsurer executive who asked not to be identified. These include loss ratio caps; "loss corridor" provisions, under which the ceding insurer must pick up losses that fall within a defined loss ratio range; and loss ratio triggers that start reinsurance coverage when losses hit a defined point.

One major change in terms and conditions is likely to occur as a direct consequence of the Sept. 11 attacks: the renewed application of terrorism exclusions in some policies.

Following the 1993 bombing of the World Trade Center, the market was fairly aggressive in adopting terrorism exclusions for certain property risks, said Hannover Re's Mr. Rohlf. But in the soft market that followed, these exclusions "vanished," he said.

Terrorism exclusions will undoubtedly be considered by some reinsurers as they seek ways to curb their future exposures, said another reinsurer executive who did not want to be identified.

"It's too early to tell whether they will be included, but I'm sure it's going to be considered," he said.

'People are going to start thinking about their exposures, so we will see terrorist exclusions for property risks.'

— Elvin Patrick
Cathedral Capital P.L.C.

Once reinsurers overcome the emotional shock of the attacks, they likely will seek to impose terrorism exclusions for U.S. risks, said Elvin Patrick, a director at Cathedral Capital P.L.C., a Lloyd's of London managing agency.

"People are going to start thinking about their exposures, so we will see terrorist exclusions for property risks," he said.

In the United Kingdom, terrorism exclusions were successfully implemented by underwriters in the early 1990s, after several of attacks by the Irish Republican Army. That led to the creation of a government-backed facility, Pool Reinsurance Co. Ltd. (see stories, pages 32 and 35), to provide coverage for terrorism risks.

In most other European countries, terrorism exclusions have not been included in property policies, and they are unlikely to be imposed even in the wake of the World Trade Center attack, said Mr. Handler of Guy Carpenter.

"I'm sure there will be a push to include exclusions, but I question whether they will go through in continental Europe," he said.

In addition to efforts to tighten terms, reinsurers will be trying hard to increase rates this year, and insurers and their policyholders will have enough to bear from those increases, Mr. Handler said.

"If reinsurers push too much, the original insureds are going to look for alternatives, and that would not be in the interest of anyone in the industry," he said. **BI**

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Rendez-Vous

Continued from page 10

sure to examine their accumulations of risk much more stringently, he said. "It changes the whole idea of how you assess risks."

The losses stemming from the attack will certainly accelerate rate increases that were already expected, said Michael H.P. Handler, managing director and continental Europe chief executive at intermediary Guy Carpenter & Co. Inc. in Zurich.

"Wherever there was a firming taking place, that will be reinforced," he said.

And while reinsurance programs that directly suffer losses will be affected most, the losses from the attack will likely bring broad rate increases across many areas of the reinsurance market, Mr. Handler said.

The loss could have a particularly harsh impact on the retrocessional market, as retrocessional capacity was already severely limited prior to the attack, he noted.

Capacity was also contracting in the reinsurance market as a whole before the attack, Mr. Handler said. While only a few rein-

surers had formally exited areas of the market, several others had curtailed their capacity, he said.

"They are not reducing their capital, but they want an adequate return on their capital," Mr. Handler said.

Property trends

Speaking at the Rendez-Vous de Septembre prior to the Sept. 11 attack, Mr. Lohmann of Zurich Re discussed the factors prompting higher property rates at year-end renewals.

"We saw hardening last January in Europe—obviously very much so in those markets affected by natural catastrophe losses, but also in other areas. Some countries, though, saw only mild changes," he said.

This year, though, property rate hikes were expected to be sharply higher for European cedents, Mr. Lohmann said.

Guy Carpenter's Mr. Handler agreed. In Europe, property catastrophe programs that had not suffered losses were still expected to face rate increases of about 10%, Mr. Handler said.

Outside the United States, property catastrophe rates moved up at the end of 2000, and they are likely to rise again at the end

of this year, said Nick Bonnar, active underwriter for Lloyd's of London syndicate 588 and a director of XL Brockbank Ltd. "There haven't been any big natural catastrophes yet, but it's too soon to see," he said of non-U.S. markets.

Losses from the attack will accelerate rate hikes. 'Wherever there was a firming taking place, that will be reinforced.'

— Michael H.P. Handler
Guy Carpenter & Co. Inc.

"In the U.S. property catastrophe market, exposures are only ever going to increase, driven by economic and demographic factors," Mr. Bonnar said. "So, reinsurance rates need to keep up with that exposure."

"For the U.S. market, the Jan. 1, 2001, renewals saw some improvement in pricing, but it gen-

erally remained soft," Mr. Lohmann said of property rates.

Firming property prices really began to hit the U.S. market in the spring, in both the primary and reinsurance markets. By July 1, that firming was even more evident and was occurring in a greater number of lines, according to Mr. Lohmann.

Price increases for U.S. property reinsurance renewals at midyear would have been even larger had Tropical Storm Allison occurred three weeks earlier, Mr. Lohmann said. The storm—which caused an estimated \$2.5 billion in insured losses to date—happened too late to have a direct impact on July 1 renewals, but its effects will be felt at year end. Allison struck Houston and the Gulf Coast on June 5 and, after drenching the region for several days, continued across the Southern United States for several more days.

The huge Allison toll is notable because it primarily stems from individual commercial lines claims, rather than personal lines losses, Mr. Lohmann said. A significant portion of the losses came from flood damage to highly protected risks, he said, with many claims falling under all-risk property policies.

Casualty trends

In Europe, much of the effort to increase reinsurance rates in 2001 centered on liability exposures, said Mr. Handler of Guy Carpenter, speaking before the attack.

Several large U.S.-related losses had hit the market, and reinsurers, who had pushed through property reinsurance rate increases in 2000, were now turning their attention to liability programs, he said.

Rates were already firming in the European liability market, agreed Mr. Lohmann of Zurich Re.

Rate firming had occurred mostly in the product liability arena, he said. This was driven, he said, by losses incurred by Aventis S.A., which faces lawsuits over feed containing its genetically modified corn; Sulzer Medica Ltd., which has recalled defective hip implant products; and Bayer A.G., which recalled a cholesterol-lowering drug over concerns about potentially harmful side effects. Product liability for these three pharmaceutical companies "were big programs syndicated throughout the reinsurance market," he said.

In the U.S. casualty market, there are "signs that things are not going well," said Mr. Lohmann, who cited the medical malpractice liability market in particular. Warning signs in that line, he said, include The St. Paul Cos. Inc.'s efforts to raise rates or exit underpriced markets in several states (*BI*, June 11), as well as the collapse of PHICO Insurance Co. (*BI*, Aug. 27).

The most significant casualty rate hikes in the U.S. market are being seen in directors and officers liability insurance, according to Mr. Lohmann. Lloyd's of London, in particular, is raising D&O rates sharply in the wake of U.S. losses on the line, he said.

If D&O firming leads to sharply higher primary rates, buyers might turn to captives and risk retention groups, Mr. Lohmann said. "To some extent, though,

many policyholders are not yet prepared to take this route, having grown accustomed to the soft insurance market," he said.

The D&O market is "just now poised to see higher rates," said Hans D. Rohlf, managing director and chief underwriting officer—North America for Hannover Reinsurance Co. of Hannover, Germany. Until now, however, rates have been inadequate for Hannover Re to write much coverage on this line, he said.

"Lloyd's underwriters are seeing a 1980s-like panic on D&O lines, especially on coverage written for banks," said the U.S. reinsurance executive who asked not to be identified.

The effects of the soft market conditions of recent years are still hitting companies' underwriting results, especially in the D&O line, where many multiyear policies were written in the late 1990s, he said. Such policies were used to lock in coverage at a time of uncertainty from Y2K, he noted.

D&O losses related to initial public offerings by Internet-related companies also are troubling some reinsurers, said XL Re's Mr. Nason.

Casualty pricing by insurers and reinsurers also continues to be plagued by asbestos losses, Mr. Lohmann noted. "It's like some horror movie" that keeps coming out in new versions, he said.

Prior to the attack, the reinsurance market was already seeing big changes as some reinsurers struggled to cope with the adverse development of certain liability exposures, said Mr. Nason of XL Re.

"There is a lot of rethinking about our business," Mr. Nason said.

Reserve inadequacy is going to add to pressure to raise rates, agreed the unnamed U.S. reinsurance executive. "Without a reserve cushion, the only way to get profits is through better underwriting and pricing," he said.

As a result, he added, "the duration and degree of rate firming will be larger than was expected."

Other casualty lines that are starting to see higher rates are umbrella liability and workers compensation, said Mr. Rohlf of Hannover Re. And pricing for lawyers professional liability "is still not where it needs to be," he said.

In the U.S. casualty reinsurance market, "there is a resolve for insisting on profitable underwriting," said Mark Hinkley, executive vp at Odyssey Reinsurance Corp. in Stamford, Conn., speaking prior to the attack on the WTC.

That resolve is being driven by a loss of money and jobs at reinsurance companies, he said.

Several reinsurers are suffering from losses on poor-performing liability lines, such as directors and officers liability and medical malpractice, Mr. Hinkley said.

The losses have prompted owners of reinsurers to replace managers who have underwriting backgrounds with ones who have financial backgrounds and to withdraw some capacity in the loss-making lines, he said.

"And there will be further reductions in capacity before new capacity is added," Mr. Hinkley said. BI

All of us at Hannover Re are shocked and appalled by the horrendous terrorist attacks that occurred in the United States. For all of us, the world is no longer the same place that it was before 11 September, 2001.

We are deeply saddened to have learned that some colleagues from our industry are among those who lost their lives. Our thoughts and our most heartfelt sympathy are with those who died and with their families.

Hannover Re mourns the loss of those killed in this tragedy.

We offer any assistance needed to our clients that have been affected by this unprecedented event.

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Attacks not likely to spark significant consolidation

By PAUL D. WINSTON

MONTE CARLO, Monaco—Although mergers and acquisitions are likely to continue in the reinsurance marketplace, losses from the terrorist attacks in New York and Washington are not likely to drive significant consolidation, several reinsurance executives say.

However, some companies that were already in a precarious financial position may close their doors under the weight of these and other losses, they said during interviews held during the Rendez-Vous de Septembre, Sept. 9-14 in Monte Carlo, Monaco.

"Many reinsurance companies—certainly the top five—will survive this event and be in a position to benefit from rising rates," said Hans D. Rohlf, managing director and chief underwriting officer-North America for Hannover Reinsurance Co. of Hannover, Germany. Hannover Re ranks as the world's fifth-largest reinsurer, based on 2000 net premiums written of about \$4.90 billion (BI, Sept. 3).

The reinsurance market already was consolidating somewhat before the attacks, and losses from the catastrophe may increase that activity, said Michael H.P. Handler, managing director and continental Europe chief executive at Guy Car-

penter & Co. Inc. in Zurich, Switzerland.

For example, Bavarian Re had been absorbed by its parent company, Swiss Reinsurance Co., CNA Financial Corp. had pulled out of the London reinsurance market, and some Lloyd's of London capacity had been reduced, Mr. Handler said.



"There was a need for greater consolidation already, and I think this will accelerate it," he said.

Although consolidation is likely, it will be more a consequence of market fundamentals than of losses from the Sept. 11 attacks, said Dirk Lohmann, chief executive officer of Zurich Re, the reinsurance arm of Zurich Financial Services Group in Zurich, Switzerland.

"Some people may exit reinsurance—voluntarily and involuntarily—but there will not nec-

essarily be more consolidation" because of these losses, he said.

The main factor driving consolidation, he said, is that "smaller players lack the critical scale" that clients are demanding. Even with this trend, though, it is unlikely that reinsurance would be written only by a few large companies, he said.

"There will be further consolidation, but the market will still have 15 to 20 reinsurers that will remain active and growing," Mr. Lohmann predicted.

He also pointed to the four largest reinsurers—Munich Reinsurance Co., Swiss Reinsurance Co., GeneralCologne Re and Employers Reinsurance Co.—and noted that their growth rates recently have not been as large as those of some mid-sized reinsurers.

Even before the terrorist attacks, the "flight to quality" was apparent among ceding companies, which sought out the strongest reinsurance partners, said Mr. Rohlf. "Our clients, especially those with long-tail exposures, are seeking to place their coverage with fewer companies with the financial strength they require," he said.

There is a continuing trend in the market for cedents to seek out financially strong reinsurers, said Nick Bonnar, active

underwriter for Lloyd's of London syndicate 588 and a director of XL Brockbank Ltd. This is also true within Lloyd's, he said, where reinsurance buyers scrutinize a syndicate's capital base and its ratings from Standard & Poor's Corp. and A.M. Best Co.

As a result of this flight to

quality, there is likely to be consolidation among syndicates within the Lloyd's market, he predicted. "The big will get bigger and the weak will fall by the wayside."

Gavin Souter contributed to this report.

Terror attacks shift Rendez-Vous focus

MONTE CARLO, Monaco—The annual Rendez-Vous de Septembre was held in the principality of Monaco from Sept. 9-14.

Official attendance figures were not made available by the organizing committee, which instead focused its annual press conference on the reinsurance industry's response to the Sept. 11 terrorist attacks in the United States (BI, Sept. 17). A simple comparison of participant lists, though, indicates that registration was down slightly this year.

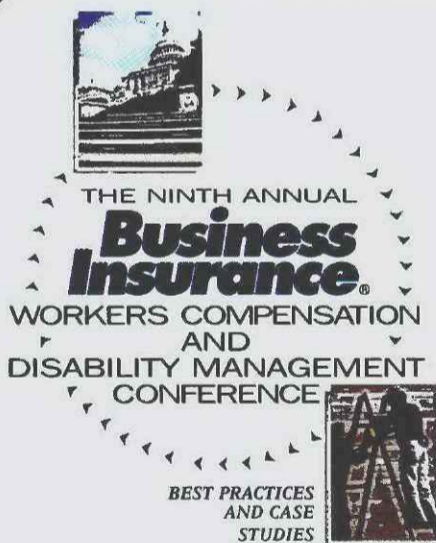
Organized events and meetings during the Rendez-Vous rapidly disintegrated following news of the attacks, as attendees tried to find news of

colleagues, comprehend the scope of their exposure and exit Monaco to travel home. As international travel to the United States was halted until Sept. 14, U.S. attendees faced delays in returning home.

Next year's Rendez-Vous de Septembre is scheduled for Sept. 9-13. Registration forms must be completed by June 30, 2002. The registration fee is 100 euros (\$92) per person.

For more information, contact the Rendez-Vous de Septembre, Direction du Tourisme et des Congrès, 2a, Boulevard des Moulins, MC 98030, Monaco. Telephone: 377-92-16-6050; fax: 377-92-16-6135; www.rvs-monte-carlo.com.

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Lloyd's expected to withstand hefty losses

By GAVIN SOUTER
and SARAH VEYSEY

MONTE CARLO, Monaco—As a major market for property reinsurance, aviation and war risks, Lloyd's of London likely will have a significant exposure to losses from the Sept. 11 terrorist attacks in the United States, speculated several attendees of the Rendez-Vous de Septembre in Monte Carlo, Monaco.

Shortly after the attacks, Lloyd's Chairman Sax Riley said in a statement that losses within the Lloyd's market would be "manageable," but Lloyd's underwriters and observers said in interviews after the Rendez-Vous that the extent of the losses for individual syndicates would vary widely.

Some syndicates that were already facing financial problems from large losses in 1999 and 2000 could be pushed under by their exposure to the attacks, but others have the strength to pay their losses and move on, they say.

Changes in the structure of the London market that were made after Lloyd's suffered huge losses in the late 1980s and early 1990s have led to a more stable market that is better able to withstand large losses, observers say. And they note that, prior to the attacks in the United States, Lloyd's appeared to be entering a hopeful period.

Elvin Patrick, director of Cathedral Capital P.L.C. in London, said that although it is impossible at this time to ascertain the extent to which Lloyd's or its individual syndicates will be hit by the losses from the destruction of the World Trade Center, he is confident the market will not disappear.

Some smaller syndicates that already faced financial problems due to losses in 1999 and 2000 will likely not survive their exposure to the attack, Mr. Patrick said. But he stressed that other syndicates have

the financial strength to pay their losses and continue operating.

Mr. Patrick said the syndicates' losses likely would become apparent more quickly than those of other insurers. He noted that Lloyd's accounting procedures ensure that losses from one year are not carried over into the next. Still, he said, Lloyd's will not necessarily suffer larger losses than will other insurers.

Cathedral, for example, is tentatively predicting it will face about a 10% loss on its stamp capacity of £80 million (\$119.4 million) as a result of the attacks, Mr. Patrick said. "And aviation and property catastrophe is what we do for a living," he said.

Lloyd's syndicates are also more financially sound than they have been in the past, Mr. Patrick said.

In the last decade, Lloyd's syndicates faced reinsurance problems as a result of large losses, but most syndicates now have better reinsurance and retrocessional programs, he said. The programs have been placed in larger layers with secure reinsurers that are typically outside of the Lloyd's market, so there is less chance of a reinsurance spiral recurring, Mr. Patrick said.

"Most Lloyd's syndicates have comprehensive reinsurance programs, and the quality of the reinsurance market is higher," he said.

And with the demise of several companies in London and the entrance into Lloyd's of well-known insurers such as American International Group Inc., Lloyd's is once again dominating the London market, Mr. Patrick said.

Most of the money recently flowing into the London market has been going to Lloyd's syndicates rather than to the company market, agreed Dirk Lohmann, chief executive officer of Zurich Re, the reinsurance arm of Zurich Financial Services Group of Zurich, Switzerland.

"The meltdown of the company market has taken some companies by surprise, but maybe it's not so surprising, because corporate capital has migrated to Lloyd's of London rather than into the company market," Mr. Lohmann said.

Earlier this month, CNA Financial Corp. and Copenhagen Reinsurance Co. Ltd. announced they were exiting the London reinsurance market (BI, Sept. 10).

'Certain syndicates will be reflecting on what they should do going forward, and others are saying they will take a big hit and getting on with business.'

— Michael Brookman
JLT Risk Solutions Ltd.

It is easier to set up a new venture at Lloyd's than to obtain a license for a new insurer from the U.K. Financial Services Authority, Mr. Lohmann noted. Lloyd's provides a ready-made infrastructure and access to markets around the world, he said.

But in light of the losses likely to hit Lloyd's from the Sept. 11 attacks, "some of that money might not be happy," Mr. Lohmann noted. "The recent events may hasten the exodus of some companies at Lloyd's who decide that it is not their core activity," he said.

Lloyd's as a market will continue to operate, though some syndicates may fold in the wake of losses from the attack, Mr. Lohmann said.

Losses from the WTC attack will

likely cause problems for some Lloyd's syndicates, but others will simply pay the claims and move on, said Michael Brookman, deputy chairman of JLT Risk Solutions Ltd., a unit of Jardine Lloyd Thompson Group P.L.C. in London.

"Certain syndicates will be reflecting on what they should do going forward, and others are saying they will take a big hit and getting on with business," he said.

The size of the losses faced by insurers, including Lloyd's syndicates, will ultimately depend on the role that the U.S. government takes in the claims process, Mr. Brookman said.

"I think people are looking to the government to provide some leadership on how the claims will be handled," he said.

Airline officials last week urged Congress to provide protection against claims related to the attack.

Dominic Simpson of Moody's Investors Service Ltd. in London said Lloyd's gross exposure to the events would likely be "substantial." He said that the leadership role played by the Lloyd's market for many lines of business affected by WTC-related losses is cause for concern about the Lloyd's franchise itself.

Mark Hewlett, managing director of property, casualty and reinsurance ratings for Moody's in Europe, said that he could not pinpoint a loss threshold at which the viability of the Lloyd's market would be called into question. But he said that there would be some syndicates that had managed their aggregate exposures and reinsurance better than had others. "There will be a shakeout," he predicted.

Mr. Hewlett said that the aviation sector was causing Moody's the most concern.

Mr. Simpson said that aviation underwriters at Lloyd's of London are expecting to see liability claims from the incident of about \$5 bil-

lion.

"Lloyd's underwriters issued their first standard aviation insurance policy in 1911, and since that time many significant losses have bestowed the market. The tragic events of last week have impacted the aviation market to a very significant extent, but with the leadership quality and unique capital structure of Lloyd's, it will be trading forward in aviation business," said Nick Bonnar, active underwriter for Lloyd's syndicate 588 and a director of its managing agency, XL Brockbank Ltd.

As proof, he noted that XL Brockbank and others in the Lloyd's market last week were discussing renewals of coverage for international airlines.

Charles Philipps, chief executive of Lloyd's company Amlin P.L.C., which last week predicted it would see a loss of £45 million (\$66.2 million) from the recent events, said the Lloyd's market as a whole would be heavily hit by losses stemming from the terrorist attacks. Consequently, he said, the future of some syndicates is in doubt.

Speaking prior to the loss, XL Brockbank's Mr. Bonnar said that Lloyd's appeared to be heading into an era of renewal, marked by firming rates, a predicted return to profitability and a new U.K. regulator.

In anticipation of these firming rates, some Lloyd's syndicates had been expected to increase their capacity and the limits they made available for 2002, Mr. Bonnar said.

XL Brockbank, however, had been telling its underwriters to write the same limits for 2002 but focus on being more selective, he said.

As a result, it expected its book of business to be more profitable. "We're less interested in volume than in profits," he said.

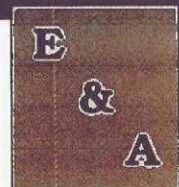
Paul D. Winston contributed to this story.

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Plan

Continued from page 3

that some businesses at the trade center "were left with no way to follow a business contingency plan, no matter how well it was drafted. Specifically, those headquartered there or with the majority of their employees in the World Trade Center."

Several employers with substantial operations in the World Trade Center are coping with the loss of employees. More than 5,000 people remained unaccounted for last week.

Among the hardest hit was Cantor Fitzgerald L.P., a bond trading firm whose approximately 1,000 employees occupied four floors near the top of 1 World Trade Center, the North Tower. The firm has been able to account for only about 350 of its workers.

Brokers Marsh & McLennan Cos. Inc. and Aon Corp. also had offices in the twin towers, and both companies are still missing employees. Last week, Marsh said it could not account for 313 of its approximately 1,900 employees at the World Trade Center, and Aon could not account for about 200 of its 1,100 employees there.

Marsh, Aon and others that did have disaster recovery plans in place mobilized quickly after the attacks. Their first priority was to account for employees, then concentrate on business operations (see story, page 3).

Marsh had offices on eight floors near the top of the 1 World Trade Center. The broker's Guy Carpenter & Co. unit was based in 2 World Trade Center, and its Mercer Consulting Group, Seabury & Smith and MMC Enterprise Risk subsidiaries also were in that tower.

Since the attack, Marsh has provided counseling for employees and families and established a foundation that will provide funds to families of employees killed in the disaster.

Jeffrey W. Greenberg, chairman and chief executive officer of Marsh & McLennan, said in a statement that most of the operations affected by the attack were the brokerage's risk management, insurance and reinsurance services. After implementing "longstanding disaster recovery plans...all essential functions of our business" were restored last week, he said.

Marsh's "center for information technology and finance support services was in 1 World Trade Center, where we suffered most of our losses," Mr. Greenberg said. "The computer systems that were destroyed by the impact were backed up at secure offsite locations. The minor amounts of lost data are being reconstructed."

Marsh relied on information technology facilities operated by its Putnam Investments unit in Andover, Mass. and the brokerage's processing centers in Rochester, N.Y., and Des Moines, Iowa, to keep its systems running.

Guy Carpenter's staff was relocated to Marsh's headquarters in Midtown Manhattan and other locations. "As a result of Guy Carpenter's use of documentation imaging since 1995, more than 25 million documents are not affected, with only one day of data lost, which is being reconstructed," Mr. Greenberg pointed out in his statement. "All systems related to client information and claims handling are processed outside the New

York area and have been reconnected to systems in New York."

In addition to operating a call center in Glenview, Ill., near its Chicago headquarters, Aon continued its data recovery operations last week. The brokerage was able to "reroute data traffic that flowed to the World Trade Center within one hour" of the attack, said Chairman and CEO Patrick G. Ryan in a statement to clients. "Other critical business processing systems were recovered and relocated, outside New York, within 24 hours. Policy, consulting and other client-related information is being recovered, principally from our own systems but also through cooperation from carriers and clients."

Mr. Ryan said Aon's financial records and systems are "fully intact." While the brokerage's third-quarter results may be slightly delayed, he said, other functions, such as payroll, will not be affected. Some data, such as intra-office e-mail and hard-copy documents that were not electronically scanned, may be harder to reconstruct, he said.

Empire Blue Cross & Blue Shield was able to account for all but nine of the 1,914 workers it employed at 1 World Trade Center. Like many other companies with operations at the complex, Empire set up a toll-free call center so employees could report in regardless of whether they were in the area at the time of the attack.

Although Empire's headquarters were in several floors of the tower, it was able to quickly establish a location for senior management to run the company from Melville, N.Y. Other trade center employees, such as those who handled human resources operations, were moved to existing Empire locations throughout the area. No claims administration was handled from the trade center offices and those functions continued unabated from other locations, a spokeswoman for the company confirmed.

Because the attack occurred in the morning and most companies back up data every day, many employers likely are looking at a minimal loss of information, Cozen O'Connor's Mr. Gerber said.

As disaster recovery continues, employers are taking steps to protect employees and property from the potential effects of future disasters.

PepsiCo Inc. in Purchase, N.Y., has canceled meetings because of concern over employee travel, a spokesman confirmed. "We're encouraging people to think harder about whether a meeting is really necessary, particularly internal meetings rather than those with customers."

"We're on a heightened level of security," said Steven W. Sachs, senior vp and practice manager for the real estate practice group of Hobbs Group in Columbia, Md. Mr. Sachs also provides risk management services for The Rouse Co., a Columbia-based real estate development company.

At the 47 properties he is responsible for, employees are "much more attentive to unattended packages or things left in parking lots," for example, Mr.

Sachs pointed out. He said it is unclear how long such heightened awareness will have to remain in place.

Mr. Sachs said he drove to New York soon after the attack to check on The Rouse Co.'s South Street Seaport facility in Manhattan. "We had to go through lots of checkpoints" during the drive into the city, he recalled, "but I felt much better driving than on any other conveyance."

Hobbs Group executives will meet this week to discuss what worked and what didn't in terms of its crisis response, Mr. Sachs said. One of the topics will be how to make sure communications remain viable when a disaster strikes.

Tenants at the South Street Seaport location lost telephone service and may not have it fully restored until Oct. 1, he pointed out. "We're looking at getting satellite dishes for our tenants."

It is unclear as yet how to make sure that prolonged communications outages don't occur in such catastrophes, Mr. Sachs noted. Establishing a separate "fixed asset" type of system would be expensive, he explained. The question is, how to get a backup communications system quickly in place?

"We will try to figure out a way to do that in a cost-effective manner," he said.

Risk International's Mr. Wellman advised employers to spread staffers around and to "minimize decision-making" to protect against catastrophes.

Businesses that had all or most of their workforce in a single location violated a fundamental risk management principle, said Mr. Wellman. "Concentration of risk," he remarked. "In the world of risk management, that is a no-no."

"It's just sound risk management," he said. "Think of the credits property insurers give for dispersion of risk," he said, and the practice most companies employ of not putting two executives on the same plane.

After the attacks, some announcements in the twin towers instructed workers to "wait for further news" before leaving. "That was a fatal decision for many." He said such instructions put workers in a position of having to decide whether to evacuate. "Follow your gut and get out" if the situation looks dangerous, he advised.

Even experts acknowledge that planning for such a disaster as the one that unexpectedly struck New York is a challenge that employers will have difficulty meeting. Mr. Wellman said employers are asking themselves how they can "adequately prepare financially, personnel-wise, utility-wise and business continuity-wise for that which may be unpreparable."

The keys are preparation, providing a sense of security, minimizing the risk of delays and guaranteeing the reliability of systems and availability of personnel, he pointed out. But there remains the question of "how do you plan for that which is unimaginable and perhaps unplanable?" Mr. Wellman remarked.

"The answer," he said, "is do the best you can." **BI**



PHOTO: AP/WIDE WORLD

The terrorist attacks have prompted employers, including those at the Citibank Center in Los Angeles, to step up security measures.

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Risk managers key to crisis planning, response: RIMS' Mair

By SALLY ROBERTS

OTTAWA—Although it is difficult to comprehend the scope of the loss in the Sept. 11 attack on the World Trade Center and the Pentagon, this is a time risk managers can shine within their own organizations, according to a key figure in the risk management community.

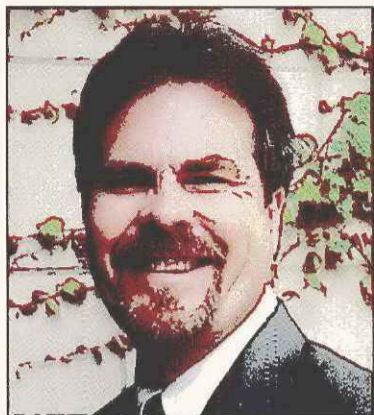
David L. Mair, the president of the New York-based Risk & Insurance Management Society Inc. and the associate director of risk management for the U.S. Olympic Committee in Colorado Springs, Colo., was attending the 26th annual conference of the Canadian Risk & Insurance Management Society Inc. in Ottawa when the attacks occurred. Like thousands of others stranded by the halt in air transportation, Mr. Mair was unable to return home, and he remained in Canada for several days after the attacks.

During an interview at Ottawa's Chateau Laurier hotel, Mr. Mair spoke about the attack, his response as a risk manager and crisis planning in general.

"This is the opportunity, I believe, for the risk manager who is a true leader to be seen as a leader," he said. "The risk manager, in many cases, is one of the few people in the organization who is well positioned and thinks about crisis response and can lead crisis response activity."

In times of crisis, a company's

chief executive officer can be overwhelmed by a million facts, Mr. Mair said. "The risk manager may see the same million facts, but he or



Mr. Mair

she is better positioned to understand how they fit in terms of loss or in terms of programs that exist in the organization, like employee assistance and crisis counseling programs," he said.

Furthermore, Mr. Mair said, it is the risk manager who can coordinate insurance resources to start the recovery process while, at the same time, concluding the disaster response efforts.

"While I don't know enough at this point to evaluate how risk managers who were involved with the companies that were affected by this

catastrophe have acted, I have a sense of confidence in my colleagues that they're doing well at a time of great difficulty," he said.

Mr. Mair said he first learned of the attacks on the morning of Sept. 11 when his wife called to tell him to turn on a television. At that point, Mr. Mair said, he immediately began implementing his crisis response plan from his hotel room.

"Recognizing that I have two organizations that I'm responsible for," he said, "I started utilizing the same crisis response plan for RIMS that I use for the USOC, the first element of which is to locate all of our people."

By about 12:30 p.m. that day, Mr. Mair said, he and his staff had successfully accounted for the USOC workforce of approximately 500 employees—six of whom were in New York and three of whom were in Washington—and the roughly 50 RIMS employees, plus several key volunteers. No one had been injured.

"We got some practice (locating staff) with our key people in Atlanta in 1996," he noted, referring to his USOC staff and the bombing that occurred in Atlanta during the Olympic summer games. "A lot of those people are still part of the organization, so they knew what to do."

Mr. Mair said that while he and his staff were accounting for employees, he began the second phase

of the crisis response plan, an assessment of ongoing safety and security concerns.

"Because the incidents occurred away from our facilities, there wasn't an immediate danger. But we recognized that we have people who were involved due to friends, families and other business relationships," he said. "Just due to the distraction of the day's events alone, we made the judgment to close both offices fairly quickly."

Mr. Mair said he coordinated the effort to get the six USOC employees in New York out of the city and relocated at a USOC training facility in Lake Placid, N.Y.

"Fortunately, one of the employees had a car. So we evacuated them to Lake Placid, where it was far enough away from the immediate incident and a place where we have employee assistance people—crisis counselors, essentially," he said.

Mr. Mair said he and his staff then moved on to the next phase of the USOC crisis response plan, making sure that the athletes remained safe and secure, he said.

"We suspended all public activity at our training centers," he said. The centers are located in Chula Vista, Calif.; Lake Placid; and Colorado Springs, Colo.

Furthermore, Mr. Mair said, his office implemented an additional safety precaution, requiring any individual trying to gain entry to a

USOC facility to show a photo identification card if he or she cannot readily be readily recognized by staff members at the entrances. Mr. Mair said that this precaution will remain in effect indefinitely.

Mr. Mair said he remains philosophical about crisis planning when events such as this take place.

"With any crisis plan, you never have the opportunity to fully test it until you're in the middle of an incident," he said. "You can test elements of it, but you can't test people's emotional and intellectual reaction to a serious event like this one until it occurs."

"While it remains to be seen, my gut feeling tells me that, due to the fact the World Trade Center was attacked several years ago and the seriousness with which people take evacuation drills, those drills may very well save a large number of lives," he said. "There will still be an enormous amount of casualties; you can't begin to minimize the horror of what happened. But we may very well find out that there were a lot of lives saved because people took the evacuations seriously."

"Too often, I think, corporations—because sometimes they can be large and unwieldy—require a crisis to teach them the lessons," Mr. Mair said. "I think it's one of the great challenges for risk managers, when times are very good, to justify their contribution to the organization." **B**

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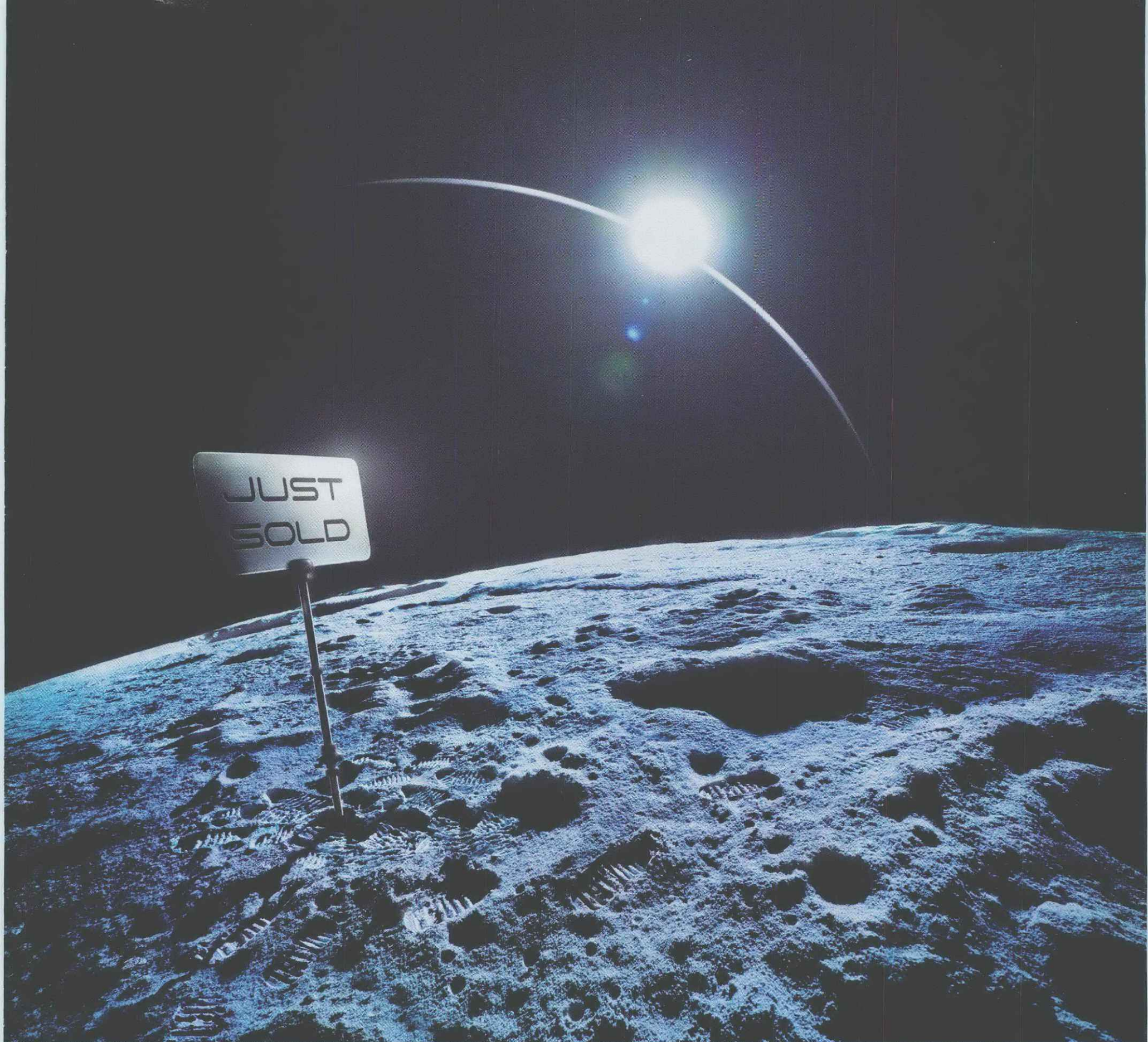
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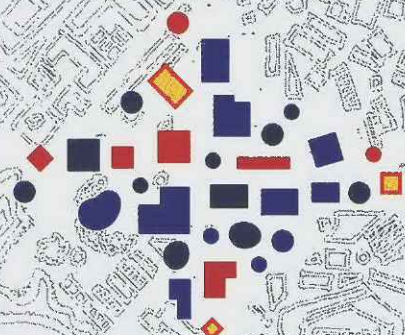


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EAP

Continued from page 1
Kimmich said.

Southwest Airlines also is providing onsite counselors at some of its larger locations and by request at others. In addition, group sessions were held at the airline's Dallas headquarters, he said.

"Our EAP, ValueOptions, has done an excellent job in providing us the resources that we need," Mr. Kimmich said. ValueOptions is a behavioral health managed care company based in Falls Church, Va.

New York-based Marsh & McLennan Cos. Inc., which has yet to account for 313 employees

from its World Trade Center operations, has posted on the company's Web site information about accessing Marsh's EAP, managed by United Behavioral Health, a subsidiary of Minneapolis-based United HealthCare.

United HealthCare itself is making its 24-hour crisis response phone line available to all of its plan members nationwide, a company spokesman said.

"This is what we do. This is what we're about," said Sharon Stein, senior vp of LifeWorks Services at Minneapolis-based work/life benefits provider Ceridian Corp.

The volume of calls to Ceridian's EAP counselors is 75% greater than normal, and use of

the company's online resources has doubled, Ms. Stein said.

ComPsych, which has 10 employer clients that had offices in the World Trade Center, has seen a 1,000% increase in calls to its employee assistance program across the country, Mr. Chaifetz said.

"And critical incident stress debriefings are up even more than that," he said.

Like many EAPs, ComPsych has been contacted by affected employers that were not clients previously. One such employer is bond trading firm Cantor Fitzgerald L.P., which lost nearly 700 of its 1,000 WTC employees.

ComPsych also has seen increased calls for assistance in Europe, according to Mr.

Chaifetz.

Fortunately, ComPsych was prepared for the increased volume, having already established a professional network of some 85 counselors in the New York area, he said.

The company also is providing interactive seminars on the Internet, as well as telephone-based counseling and worksite seminars with employees and families.

Mr. Hales of the EAP Assn. said he received an e-mail from a member company in Great Britain with a list of EAPs outside the United States that are providing counseling services following the terrorist attack.

To help EAPs handle the increased demand, the EAP Assn. is playing the role of a clearinghouse, he explained, directing members from other parts of the country to assist EAP members in New York and Washington.

"It seems the event has sent ripples everywhere," said Michael Gellert, a psychoanalyst and trauma specialist in private practice in Santa Monica, Calif., and author of "The Fate of America," a book on the culture and values of Western society.

"People as far up as Montreal are reacting in a similar way," said Joseph Luciani, a clinical psychologist in New Jersey and author of the book "Self Coaching: How to Heal Anxiety and Depression," who was an eyewitness to the attack.

Among the problems that EAPs are helping employees deal with are anxiety and depression, sleep disturbances, diminished appetite and difficulty with concentration.

In addition, many employees are likely to be concerned about traveling by air, being in public places with large numbers of people or being in tall buildings, said Mr. Gellert, who in 1991 managed an employee assistance program for District Council 37, the labor union for employees of New York City.

"This was an unprecedented attack on our country. Pearl Harbor was the closest in comparison, but that was off the mainland," said Mr. Chaifetz. "The ramifications are far-reaching, more than people realize."

Mr. Chaifetz added that increased security at airports and elsewhere will be a constant reminder of the terrorist threat. And the fact that the nation's leaders are constantly revising their plan for retaliation "doesn't give one a sense of stability. This is contributing to the anxiety," he said.

In fact, he predicts that there will be a second wave of employees seeking counseling a few weeks from now, after the magnitude of the event sinks in.

"We don't get it right away. We get numbed. This is a coping mechanism," said Mr. Gellert. But, "we'll be feeling the aftershocks for a while. It strikes right into the subconscious."

In a week or two, most people should be able to resume their normal routines, according to Mr. Luciani. "But if we see deterioration in mood after that," intervention may be necessary, he said.

Particularly vulnerable to delayed symptoms will be the so-

called "control freaks" and perfectionists—"those who like to keep all their ducks in a row," Mr. Luciani described.

"Anxiety and depression are mechanisms for trying to re-establish control," he explained.

One way employers can help workers deal with their anxiety is to "come together," he said.

"I was on the George Washington Bridge at the time of the attack. By the time the South Tower collapsed, we were standing almost shoulder-to-shoulder, touching each other," he said of strangers on the bridge.

"Employers need to recognize that coming close, establishing a sense of community, reaching out, is helpful," he said. "Human contact is a very restorative thing."

He also suggested that employers be especially cognizant of those who are not showing signs of stress. In fact, these people may be suffering more because they are unable to openly express their turmoil.

Because of the nature of the

'We don't get it right away. We get numbed. This is a coping mechanism. But we'll be feeling the aftershocks for a while. It strikes right into the subconscious.'

— Michael Gellert
psychoanalyst

event and the possibility of further attacks or even war, stress reactions are likely to continue far into the future, requiring continual care, mental health experts say.

"Periodic group interventions would be the single most successful resource" for employees, Mr. Luciani suggested, recommending that meetings be held monthly or quarterly.

"The more it's talked about, the better," said Mr. Gellert.

Employers can offer lunch-hour meetings for employees to vent and "normalize" their feelings—"to see that their reactions are normal," he said.

For example, Marsh has created a message board on its Web site for employees and their families to share thoughts, feelings and information about the tragedy.

As a society, "we've been like teen-agers," Mr. Luciani explained. "Teen-agers feel invincible. Our country has really been rocked out of its adolescence."

And, as part of coping with that, everyone needs to acknowledge that "there is a climate of lack of control we need to learn to live with," he said.

Business Insurance publishes an annual directory of EAP providers. The most recent appeared in the June 25, 2001, issue.

Call for Nominations

Risk Manager of the Year Risk Management Honor Roll

Nominations for the 2002 Risk Manager of the Year and Risk Management Honor Roll are now being accepted.

Anyone involved in risk management for a corporation, not-for-profit institution or government entity can be nominated. The competition is open to risk managers worldwide and is not limited to U.S. professionals.

The Risk Manager of the Year Award was created in 1977 by *Business Insurance* to increase recognition of the risk management profession and to recognize outstanding performance in the practice of risk management. In 2001, the Risk & Insurance Management Society Inc. became a co-sponsor of the awards.

The nominations are judged by a panel of professionals representing all aspects of risk management and the commercial insurance industry.

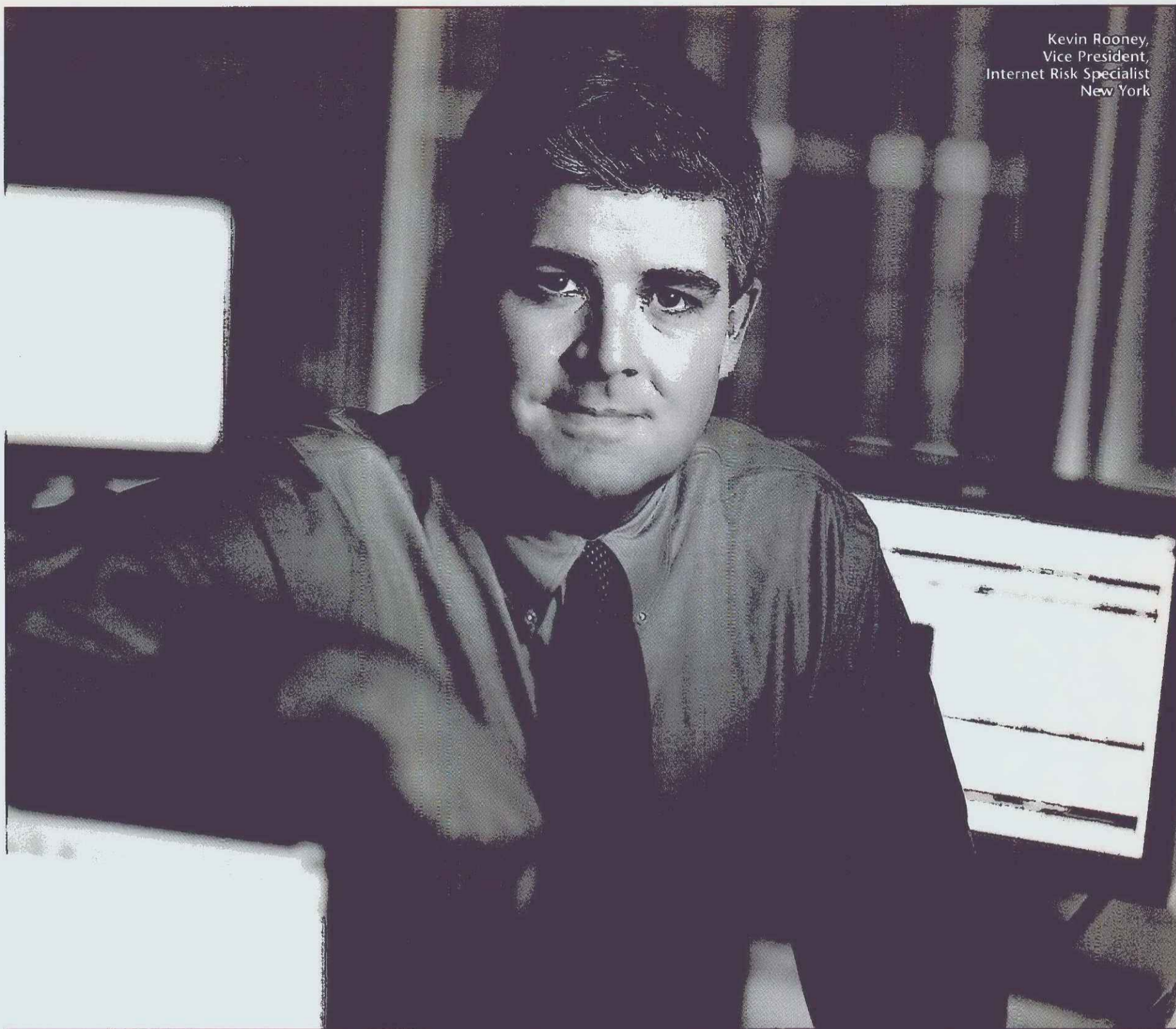
The first co-sponsored awards will be presented at RIMS' 40th annual conference and exhibition in New Orleans, April 14-18, 2002. The honorees will be profiled in the April 15, 2002 issue of *Business Insurance*, which will be distributed at the RIMS conference.

To obtain a nominating form and instructions, please contact Karen Tucker at *Business Insurance*, 312-649-5319, or e-mail: ktucker@crain.com. Nominating forms can also be printed from the Events area of www.businessinsurance.com

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Law outlines employers' duty

Call-up of U.S. reservists triggers benefit obligations

By JERRY GEISEL

WASHINGTON—With the looming call-up of more than 35,000 reservists to bolster the armed forces after last week's terrorist attacks, a 1994 law designed to clarify benefits due employees during military service will get its first significant deployment.

The law gives employers more guidance on benefits for reservists and their dependents than they had just over a decade ago, when tens of thousands of employees were called up from National Guard and other reserve units for active military service after Iraq invaded Kuwait.

Under a 1994 law, employers with 401(k) plans must give returning veterans the opportunity to make retroactive contributions.

Congress, in a delayed reaction to the Persian Gulf War and the employee benefit issues it raised, enacted The Uniformed Services Employment and Reemployment Rights Act. The 1994 law sets precise rules on the type and the manner in which employees must extend benefits to employees called up from military reserves. For employers with defined contribution plans, such as 401(k) plans, the requirements set by the law are a broad expansion of their benefit obligations.

Employers with 401(k) plans must give returning veterans the opportunity to make retroactive contributions. Companies will have to match those retroactive deferrals to the same extent they matched the other workers' contributions during the period of military service.

Employers, though, do not have to credit their own and employees' retroactive contributions with interest that would have been earned during the employee's period of military service.

Employees' salaries and wages—on which profit sharing and 401(k) deferrals are based—are defined as what the employee would have earned during the prior 12 months before the military service began.

Returning employees have three times the length of their military service—but in no case more than five years—in which to make their retroactive contributions.

The 1994 law also sets new modest health insurance continuation requirements. For leaves up to 31 days, employees can be required to pay no more than the same percentage of the premium

as before the leave began.

If the leave exceeds 31 days, employers would have to offer COBRA coverage to employees who joined the military. COBRA (the Consolidated Omnibus Budget Reconciliation Act) allows employers to charge beneficiaries a premium equal to 102% of plan costs.

But it is unlikely that many employees called up for military ser-

vice would opt for COBRA. That is because their own health care needs would be provided free by the military branch in which they served. In addition, their dependents could enroll in a federal health care program—known as the Civilian Health and Medical Program of the Uniformed Services, or CHAMPUS—that has modest cost-sharing requirements.

E1



PHOTO: AP/WIDE WORLD

Army reservists at Fort Dodge, Iowa, were among the more than 35,000 military reservists expected to be called to active duty after the terrorist attacks.

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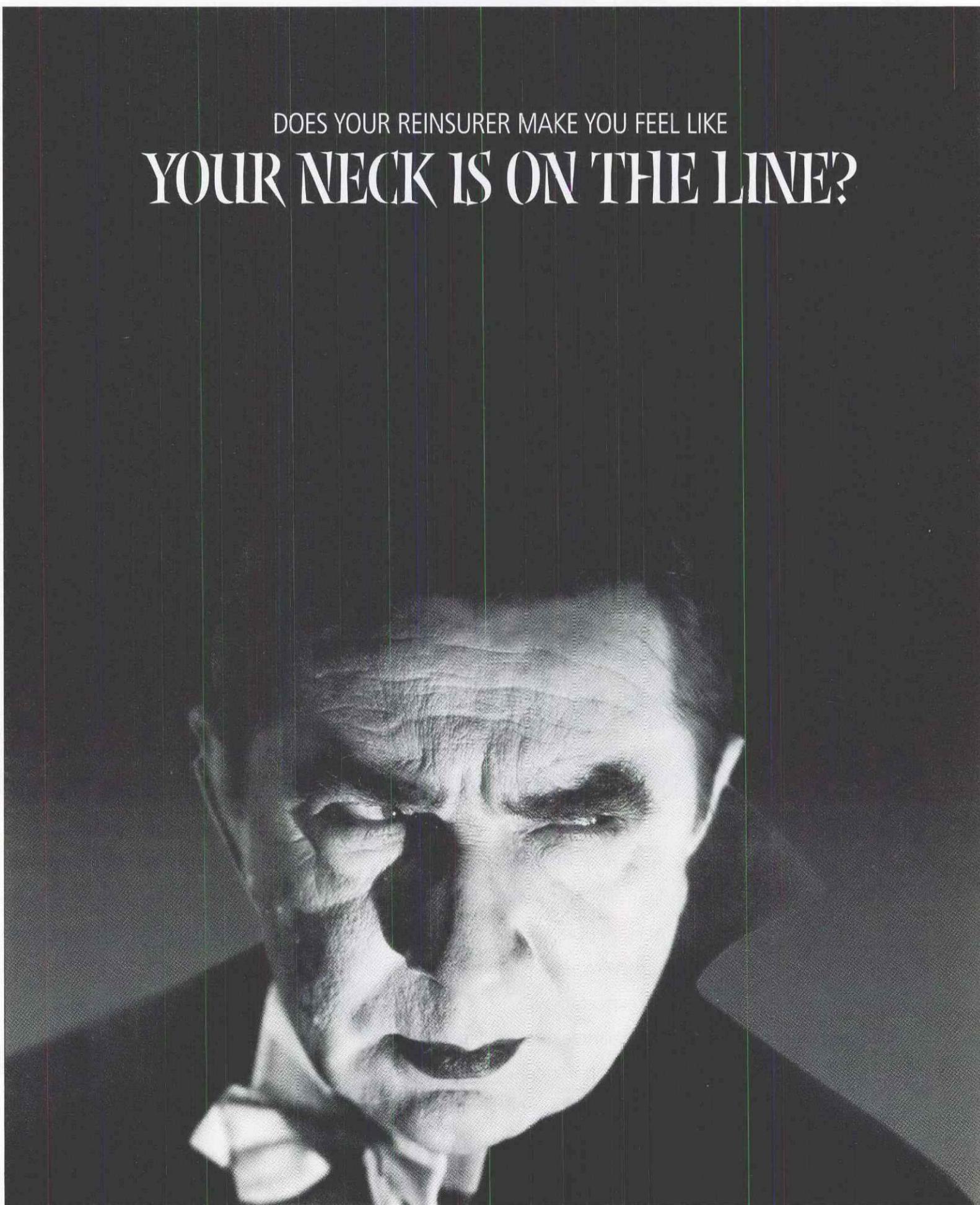




PHOTO: AP/WIDE WORLD

The Boca Raton, Fla., offices of the National Council on Compensation Insurance, which reversed a policy of not allowing workers to display the U.S. flag.

NCCI changes stance on flag

Employees now allowed to display U.S. flags in workplace

By JOANNE WOJCIK

BOCA RATON, Fla.—In the face of considerable employee and community backlash, the National Council on Compensation Insurance has reversed its position and is allowing employees to display American flags in its workplace.

NCCI President and Chief Executive Officer Bill Schrempf met with employees last Monday to announce the company's change of heart and to apologize for not allowing them to display American flags on Sept. 14 during the na-

tional day of prayer and remembrance for victims of the terrorist attacks.

Initially, the NCCI, which compiles workers compensation insurance data, told its 850 Boca Raton, Fla., employees that displays of nationalism had no place in the office. "Divisive statements or actions, political or religious discussions and anything else that could be divisive or mean different things to different people are not appropriate in our work environment," Mr. Schrempf said in a memo distributed to employees.

Several employees complained about the flag prohibition, and news of the NCCI's stance spread over the Internet after it was reported in the Palm Beach Post over the weekend.

Last Monday, Mr. Schrempf said that the company's management had met over the weekend and had decided to reverse the NCCI's longstanding policy, which he said was intended to protect employees. Managers also offered employees American flags and red-white-and-blue lapel ribbons as they entered the workplace. **EI**

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Employers recovering from attack get extra time to file Form 5500

WASHINGTON—The Labor Department is giving U.S. employers affected by the Sept. 11 terrorist attacks more time to file their pension plans' annual financial reports.

Employers with calendar year plans will be affected the most. Those plans normally are required to file Form 5500 by July 31 of the following year, but under current rules can receive extensions from the department to delay filings until as late as Oct. 15.

Under the Labor Department relief announced Monday, those employers currently with filing extensions that expire between Sept. 11 and Nov. 30, will be given an additional 120 days to file from the day their extensions were to expire.

In addition, employers with filings that were originally due between Sept. 11 and Nov. 30 will be given roughly 10 months to file Form 5500 from the time the reports were due.

The extensions apply to plan administrators and employers that are located in areas designated as federal disaster areas because of the Sept. 11 terrorist attacks. The extension also applies to filers outside the disaster areas who are unable to obtain the information needed to file from service providers, banks or insurers, whose operations are directly affected by the disasters.

Other employers with calendar year plans that do not qualify for the above exemptions but have difficulty making the filing deadlines because of the disruption of mail deliveries will have until Nov. 15 to file their Form 5500s.

Filers entitled to the extension relief should check Part 1, Box D on Form 5500 and attach a statement labeled "September 11, 2001 Terrorist Attack" that explains why they are seeking the extension.

—By Jerry Geisel

NAIC works to prevent Unicover-type problems

By MEG FLETCHER

KANSAS CITY, Mo.—Preventing debacles similar to the \$1 billion-plus losses caused by the collapse of the Unicover Managers Inc. reinsurance facility is the goal of new recommendations to tighten regulatory oversight of such workers compensation carve-out programs.

Those recommendations are contained in a 14-page white paper drafted by the National Assn. of Insurance Commissioner's Underwriting and Reinsurance Pools Working Group.

The white paper represents two years of work by the subgroup, which analyzed the 1999 downfall of the Unicover reinsurance pools, collected industry research and comment, and drafted and reviewed recommendations.

As regulators define it, workers compensation carve-out business is reinsurance, assumed by life/health companies, of the medical, wage loss and death benefits of the occupational illness and accident exposures of businesses. Carve-out business excludes the employers' liability risks that also are part of a workers comp policy.

The Lisle, Ill.-based Unicover Occupational Accident Pool reinsured the carve-out portion of workers comp risk on behalf of several pool participants.

Unicover's troubles stemmed in part from the pool's own complex reinsurance arrangements, some of which involved the facility reinsuring risks back to the pool participants, which, in turn, retroceded some exposures to other companies, including another pool participant (*BI*, March 15, 1999). In addition, questions—and lawsuits—have emerged over the extent to which brokers and managing general agents made pool participants aware of the exposures the facility was assuming.

Despite the working group's lengthy review, its recommendations are still timely because Unicover's problems persist in the marketplace, observers say.

"Overall, you are seeing much higher pricing in the workers compensation market as well as the reinsurance market, which is partially due to the collapse of the workers comp carve-out programs," said Michelle Baurkot, a senior financial analyst in the property/casualty division of rating agency A.M. Best Co. in Oldwick, N.J. As a result of Unicover's problems, "the volume of availability (for such carve-out programs) has shrunk significantly," said Don Preston, managing director-reinsurance for the American Council of Life Insurers in Washington. The carve-out coverage that

remains, though, is stable, he said.

Given the problems that have occurred, "it's appropriate that regulators increase their oversight of workers comp carve-out business to ensure that insurers and reinsurers are knowledgeable about their actual exposure," Ms. Baurkot said.

'We don't believe a life company ought to have to file a property/casualty-type accounting form.'

— Don Preston
American Council
of Life Insurers

To help ensure that, the working group recommends that:

- Each state should determine its position regarding the acceptability of workers comp carve-out business and take steps to allow life/health companies to reinsure it as "occupational accident" business.
- Such business should be conducted at an unspecified

"high attachment level," unless a company can demonstrate to its domiciliary regulator that it has considerable experience and expertise and should be allowed to operate at a lower attachment level.

- A life/health insurer must demonstrate "due diligence" to write carve-out business, including submitting a new, detailed plan for such business to its domiciliary regulator. A regulator approving the company's plan will issue a "letter of no objection," which the insurer will then file with insurance departments in all the states in which it does business as a qualified reinsurer.

- A life/health insurer should comply with disclosure requirements, including filing financial reports modeled after the annual statement filed by property/casualty insurers.

The working group's white paper, which was unanimously adopted by the NAIC's Financial Condition Committee, "is a very good, comprehensive work product," said Connecticut Insurance Commissioner Susan Cogswell, who officially headed the working group. She delegated oversight, however, to Frances O'Connor, her department's director of federal and international relations. According to sources familiar with the drafting process, determining appropriate

attachment levels was one of the more controversial recommendations.

Previously, attachment levels varied greatly and may have been as low as "first dollar" coverage, according to the white paper. The majority of carve-out programs, however, had a \$500,000 or more level for pool-type entities and \$1 million or more level for life companies, it stated.

"It is probably best to give discretion to state regulators in determining appropriate attachment levels," Ms. Cogswell said.

Another controversial matter was requiring life/health insurers to file property/casualty-type financial statements.

"We don't believe a life company ought to have to file a property/casualty-type accounting form," said the ACLI's Mr. Preston. Companies, however, "are very nimble. They will adapt," he said.

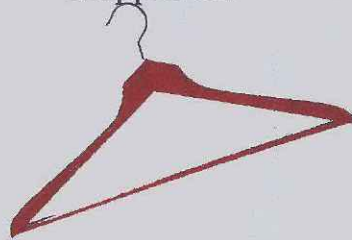
Overall, the ACLI considers the white paper as a compromise that it is willing to accept, he said.

According to the white paper, regulators' goals are to restore public confidence in these transactions and help prevent future problems. The full NAIC membership is expected to adopt the white paper at its next quarterly meeting, scheduled for Dec. 8-11 in Chicago. **BI**

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Rising costs pitted against patient rights bill

Report finds 11% increase in employers' health premiums

By MARK A. HOFMANN

Opponents of patients' rights legislation hope that a recently released report on rising employer health care costs will prompt members of Congress to reconsider expanding the liability of managed care plans.

The survey, which was released earlier this month, found that employer-provided health

insurance premiums rose 11% on average between the spring of 2000 and the spring of 2001. The Menlo Park, Calif.-based Henry J. Kaiser Family Foundation and the Chicago-based Health Research & Educational Trust conducted the survey. The results were based on the responses of 1,907 employers, ranging in size from three to more than 300,000 employees.

The survey found that the size of premium increases had increased compared with similar surveys released in 2000 and 1999. Premiums had increased an average of 8.3% in the survey released in 2000, and had risen only 4.8% during the period covered by the 1999 survey.

Firms with fewer than 200 employees reported an average premium increase of about 12.5% in the 2001 survey, compared with 10.3% a year earlier. Firms with 200 or more employees reported a 10.2% increase in premiums in the most recent survey, up from 7.5%.

"The really bad news is that this happening when the economy is sputtering," said Drew Altman, president of the Kaiser Family Foundation, as he unveiled the survey results at a Washington press conference. He noted that 75% of the larger employers that participated in the study said that they were at least somewhat likely to require employees to pay more for coverage in the coming year.

Employer groups that oppose federal patient protection legislation say that the Kaiser survey underscores their concerns about expanding the liability of

health plans—and the employers that sponsor them—for coverage disputes, as doing so likely would drive up costs further. Competing patients rights bills passed earlier this year by the House and Senate would subject plans to new liability, although the House measure would do so to a lesser extent than the Senate bill. President Bush has threatened to veto the Senate measure.

House and Senate leaders are expected to name members of a conference committee that will try to reconcile the two bills.

"We've been saying for years that the costs are increasing," said Neil Trautwein, director-employment policy for the National Assn. of Manufacturers in Washington.

"What the Kaiser report dramatizes is what we have been saying—employers are no longer able to absorb cost increases. These cost increases will come out of wages or in terms of benefits coming off the table. It's a good time for the conferees to swallow twice and resolve first to do no further harm," said Mr. Trautwein.

James A. Klein, president of the employer-backed American Benefits Council in Washington, said that the Kaiser report

"echoes other reports" that have shown a significant uptick in health care costs in recent months.

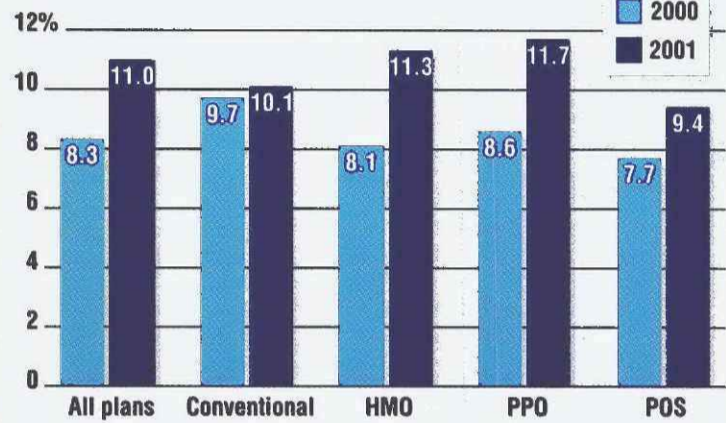
"We hope it will be a wake-up call" for Congress so that lawmakers won't pass legislation that will compound those "excessive costs," he said.

The survey also noted a continuing shift in managed care preferences, said Jon Gabel, vp-health system studies for the HRET. For the past five years, employers have switched from what he called "managed care heavy" companies—notably health maintenance organizations—to "managed care light" plans, such as preferred provider organizations. He said the decline in HMO use probably reflects the backlash against managed care, particularly in what he called "non-price rationing" of care, such as placing limits on the number of covered physician visits.

The survey report, "Employer Health Benefits: 2001 Annual Survey," and a summary of its findings are available through the Web site of the Kaiser Family Foundation, www.kff.org. The foundation is not affiliated with managed care company Kaiser Permanente.

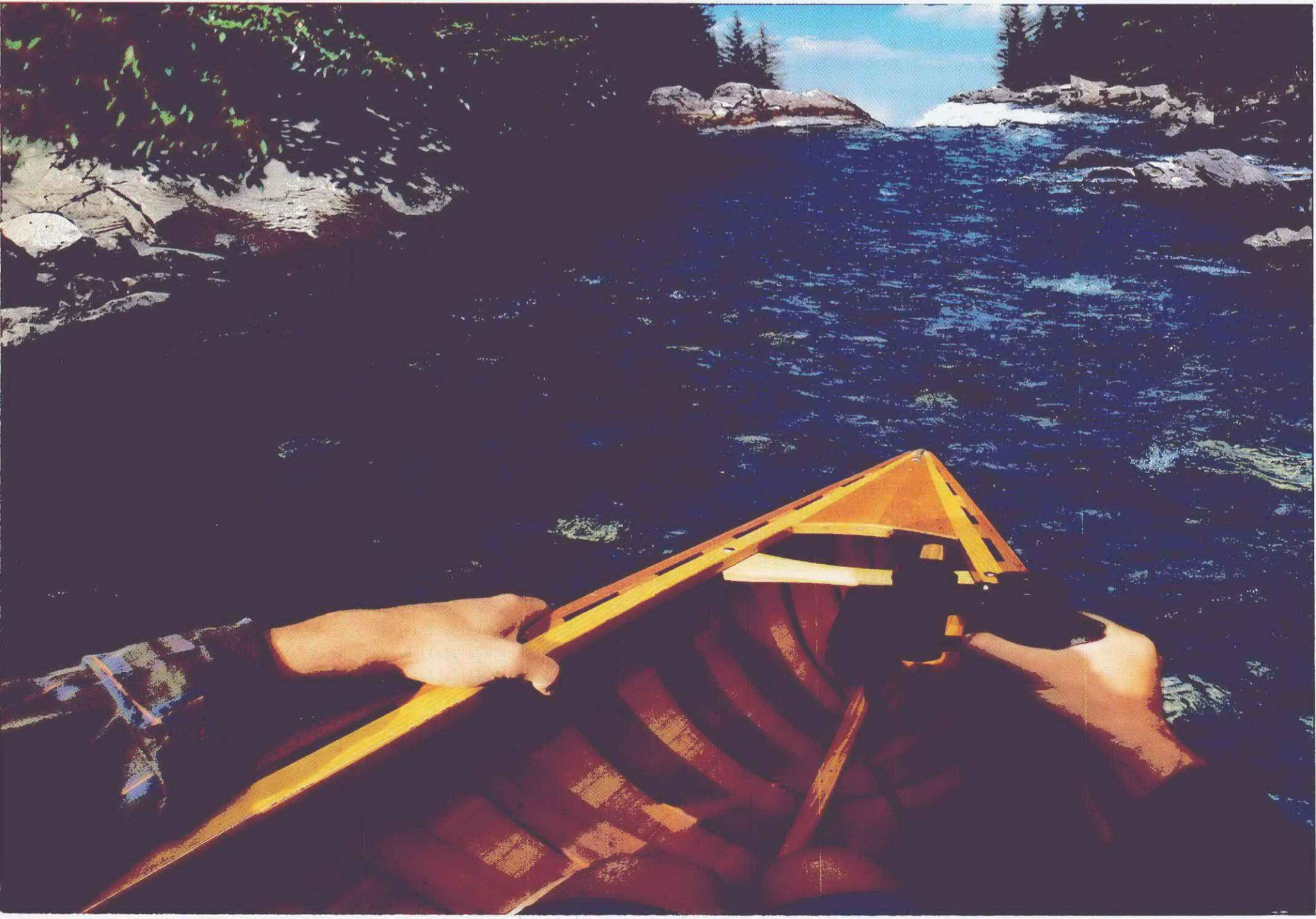
Health insurance premiums rise

Percentage change by plan type



Source: Kaiser Family Foundation/Health Research Educational Trust

GRAPHIC BY JOHN HALL



Deadline nears for *BI* directories

Business Insurance will publish its annual directories of safety consultants and rehabilitation service providers in the Oct. 22 issue, which will also include a Spotlight report on workers compensation.

The directories are published as an editorial service; there is no charge to be included.

To be listed in the directory of safety consultants, companies must provide unbundled safety consulting services directly to corporate or institutional employers. In addition, safety consultants must generate \$200,000 or more in revenues from these services and must provide total gross revenues.

To be listed in the directory of rehabilitation service providers, companies must provide rehabilitation management services di-

rectly to employers for workers comp or liability cases. *BI* defines rehabilitation management as providing all services included in the medical management or vocational rehabilitation of an injured or ill individual. In addition, rehabilitation service providers must generate at least \$200,000 in revenues from such services and must report total gross revenues.

If your company meets the requirements and has not received a questionnaire, please request one immediately by contacting Directory Editor Kevin Edison at 312-649-5279.

Copies of the questionnaire also can be printed from the *BI* Web site, www.businessinsurance.com. Completed questionnaires must be submitted by the extended deadline of Oct. 5. **BI**

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*Grand Ole Opry manager
to Elvis Presley, Sept. 25, 1954*



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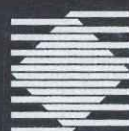
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Software

Continued from page 32
safety."

Meanwhile, "an initial approach to contacts in other European Union member states has revealed similar legal problems and concerns," the paper states, adding that HSE also is "seeking views from the U.S.A. and Australia to see how they tackle the problem."

Responses to the consultation paper were due Sept. 7. According to an HSE spokesman, the agency received responses from all sectors of industry but has not yet analyzed them.

The Computing Services & Software Assn. in London said that any change in existing legislation is unnecessary, and it questions why the HSE pursuing the matter.

"CSSA's view is that the current law adequately covers the duty of care owed by, among others, software developers and suppliers in relation to safety-critical systems," said Tim Conway, the association's director of industry affairs. "Certainly, CSSA's advice to members involved in these activities is that they should act on the basis that current legislation does cover them."

At a July meeting with the HSE, software industry representatives complained that the health and safety agency had failed to provide any examples of the types of problems that would be addressed by new legislation, Mr. Conway said.

"We are thus at a loss to understand the HSE's approach to the issue and concerned that any proposed new laws may make the U.K. a less attractive location for software development due to the potential for higher levels of duty than in the rest of the world," Mr. Conway said.

"CSSA is unaware of any in-

stances where the HSE has been unable to act in relation to software safety issues and has asked HSE for examples. None, apart from a generalized comment in relation to Y2K situations, has been forthcoming. Rather than being the basis for criticism of the industry, CSSA believes the response of the software industry to the date-change problem was an exemplary industry response to a problem that arose many decades ago due to well-known capacity issues," Mr. Conway added.

Risk manager Stuart Martin, the chairman of the information technology special-interests group of the London-based Assn. of Insurance & Risk Managers, said he also is at a loss as to why HSE is seeking to change the law.

"I think that risk managers of software suppliers see this as a product liability issue. And as a former risk manager of a manufacturing company, I would also see this as a product problem, not a health and safety problem," he said. Mr. Martin, now the group risk and insurance manager for London-based Hanson P.L.C., had been the corporate risk manager of the Farnborough, England-based aviation electronics company BAE Systems P.L.C.

Mr. Martin said software problems and errors "should fall under product liability and procedures. I would suggest that the HSE needs to look at the new law and E.U. directives on this type of product, and electronic media in general. They may find this is covered within those documents," he advised.

"It is inappropriate to apply the Health and Safety at Work Act to this issue," Mr. Martin said.

To obtain a copy of the discussion paper, contact Steve Ives at the HSE by telephone at 44-207-717-6991, or by e-mail at steve.ives@hse.gsi.gov.uk.

Pool Re

Continued from page 32

Datamonitor said that the terrorist attacks in the United States forced U.K. risk managers to put terrorism back at the top of their agendas, because the United Kingdom is seen as an ally of the United States and is, therefore, a potential target.

But the Datamonitor statement added that the events could contain a lesson for insurers worldwide about how to deal with terrorist events. "The world insurance market would do well to look towards the U.K. model in trying to ensure that cover for acts of terrorism is available on an affordable basis in the future," the statement said.

One risk manager for a London-based company said he has received several calls from U.S. colleagues who are interested in learning about the workings of Pool Reinsurance Co. Ltd., the terrorism insurance pool backed by the U.K. government (see story, this page).

David Gamble, executive di-

rector of the London-based Assn. of Insurance & Risk Managers, said the existence of Pool Re provides some comfort for U.K. risk managers in these times of uncertainty.

"Particularly in the present circumstances, the knowledge that we have essentially got backing for a major terrorist attack brings a degree of certainty in the U.K. property market," Mr. Gamble said.

He added that there is relatively little that a company, even a large company, could do to protect itself from a terrorist attack of the scale seen in the United States this month.

A model based on the Pool Re structure could work in the United States, Mr. Gamble suggested, but he added that it would "depend on political will." He pointed out that the creation of Pool Re required the passage of an act of the U.K. Parliament.

Rob Jones, director of the financial services group of Standard & Poor's Corp.'s Insurance Rating Services in London, said that a government-backed reinsurance pool to cover terrorism

risks might someday be established in the United States.

"If coverage isn't going to be available in normal circumstances in the commercial market, then it could be a possibility," Mr. Jones said. But he added that the insurance industry in the United States is regulated on a state-by-state basis and noted that states may seek to set up their own statewide pools.

Amlin's Mr. Philipps said companies must find new ways to cover emerging terrorism risks such as those seen in the attacks on the World Trade Center and the Pentagon. He said that the United States should "certainly look" at the possibility of setting up a structure similar to Pool Re.

Ed Creasy, chief executive of integrated Lloyd's vehicle Kiln P.L.C., said it is too early to tell whether a system similar to Pool Re might be suitable for the coverage of terrorism risk in the United States. Mr. Creasy pointed out that the efforts of the U.S. government are currently focused on reviving the country's ailing air transportation industry. **BI**

Insurance pools untapped

Some governments guarantee terrorism coverage

Several countries, including the United Kingdom, Spain and South Africa, already operate state-backed insurance pools for commercial terrorism risks, all of which developed out of recognized political threats.

The U.K. government-backed terrorism insurance pool, Pool Reinsurance Co. Ltd., was formed in 1993, after the start of a sustained Irish Republican Army campaign against economic targets in the United Kingdom.

Spain's state-backed Consorcio de Compensacion de Seguros originated as a result of the Spanish Civil War, which lasted from 1936 to 1939. Although operational since 1941, the Consorcio was formally recognized by Spanish law in 1954.

The South African Special Risks Insurance Assn. was formed in 1979, in response to the 1976 riots in Soweto, a racially segregated township near Johannesburg, South Africa.

Each of the three insurers is backed by a state guarantee, but those guarantees have yet to be used.

Both the Spanish and South African insurers have extended their coverage beyond political threats. Consorcio covers abnormal natural phenomena, including earthquakes, sea-quakes, floods, volcanic eruptions, atypical cyclone storms and falling astral bodies and meteorites. The Spanish insurer also provides coverage for occurrences of a political or social nature, including terrorism, rebellion, insurrection, riots and actions of armed forces in peacetime.

In South Africa, SASRIA ex-

tended its coverage in the late 1980s to include damage caused by labor disturbances, such as strikes and lockouts, as well as public disorder and civil commotion.

In Spain, reserves are funded through a surcharge levied by Spanish insurers on the premiums for certain classes of insurance, such as commercial property business; coverage for terrorism is compulsory for those classes. The sum insured is the same as the limits in the underlying property policy; the insurance coverage provides only for material damage and not for loss of profit.

In South Africa, domestic insurance companies issue SASRIA policies for both commercial and personal insurance and collect premiums on SASRIA's behalf for a commission. The coverage is not compulsory but is purchased by many companies.

Similarly, in the United Kingdom, terrorism coverage is not compulsory. Standard property policies provide coverage for damage caused by terrorism up to £100,000 (\$147,130). Terrorist coverage above that limit can be bought by policyholders from their property insurers. The coverage is then reinsured by Pool Re, a mutual insurance company comprising some 200 insurance companies that write commercial property business in the United Kingdom.

Pool Re writes terrorist coverage for property located in England, Scotland and Wales. In Northern Ireland, a government program provides terrorism coverage.

Several Lloyd's of London syndicates, including Hiscox syndicate 33 and Wellington,

also offer specific terrorism coverage. Capacity for such coverage has grown over the last decade.

Pool Re is guaranteed by the government; if a terrorist incident or incidents were to result in claims that exceed the resources of Pool Re, the government would step in as the insurer of last resort.

Currently, the rate for metropolitan-based risks is £150 (\$220.70) per £1 million (\$1.5 million) of property insured; the rate for rural-based risks is £30 (\$44.14) per £1 million, according to Pool Re Chief Executive Steve Atkins.

Mr. Atkins noted that those rates have been constant since 1998, but they represent, he said, a discount of some 85% of the rates charged when the pool was established in 1993.

Although Pool Re is able to change the rates for forthcoming renewals on short notice, "it is too early yet for us to say what impact the events (in the United States) will have on rating," Mr. Atkins said. He added that it "will be some time before the full effect will be absorbed by the industry."

The horrific attacks in the United States "were completely unprecedented in the type of event and the scale of it," Mr. Atkins said.

Demand for terrorism coverage in the United Kingdom has been "fairly level" during the last three years, and, although Pool Re itself does not handle directly requests from policyholders, contact with member companies suggests there has been "an increased level of interest" in terrorism coverage since the U.S. attacks, Mr. Atkins said.

—By Carolyn Aldred

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INTERNATIONAL

Asia

Continued from page 32

The report notes that foreign insurers may be able to boost their presence considerably in newly opening markets such as China, India and Vietnam. But in Asian markets where historically there were fewer entry barriers, "it is likely that foreign insurers will only be able to bolster their shares slowly," the report predicts.

"At the same time, it is expected that large Asian insurers will seek foreign expansion opportunities to diversify and leverage their regional networks," the report points out, noting that, "so far, mainly Japanese and South Korean insurers have been spearheading the expansion overseas, but some Taiwanese and Southeast Asian insurers are also gearing up for overseas ventures."

The study, "Insurance Markets in Asia: Sanguine Outlook Despite Short-Term Uncertainties," examines 12 markets in Asia: China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

In the last two years, insurance demand in the region "has taken a turn for the better, thanks to improving economic fundamentals, despite the threat of a U.S.-led economic slowdown in 2001," Swiss Re's report says. In particu-

lar, it notes that China and India "are on the brink of opening up to the rest of the world." Both have made moves in recent years to open their insurance markets to foreign involvement (*BI*, Sept. 3). Insurance premium volume of the 12 Asian markets totaled approximately \$600 billion in 1999, according to Swiss Re; more than 75% of that total was life insurance. In 1999, Asian markets contributed 15% of the world's property/casualty premiums and 33% of life premiums, the report states.

Barring exceptional circumstances, the overall gross domestic product of Asian countries as a whole will grow by 3.4% per year, in real terms, from 2000 to 2005, according to the report. Japan, it says, will see the slowest growth, at about 2% per year.

The main risk to these projections is a prolonged U.S. economic slump, which could "halve average GDP growth," the report notes. It adds, though, that the region's improved foreign exchange reserve position and reduced risks in the financial sector mean it "should be sufficient to withstand the recurrence of another crippling Asian financial crisis."

Another major risk is the "fragile" Japanese economy, the report says. Japan could still "plummet into a vicious cycle of mutually reinforcing deflation and negative growth," the report warns, pointing out that the rise in bankruptcy

liabilities in Japan is a "potent symptom of financial stresses in the system."

"If Japan slips into a deep recession, Asian exports and foreign investments will be affected," the report states. It says, though, that the impact of a recession in Japan likely would be less severe than that of a prolonged U.S. economic slump.

Asia, excluding Japan, is expected to experience average real growth of property/casualty business by 7.9% from 2001 to 2005, according to the report. Life insurance business is expected to grow by 8.9% per year over the same period.

In Japan, slack economic conditions and severe financial stresses that include nonperforming bank loans, domestic and external debt and weak consumer demand—will limit the growth of property/casualty and life business in Japan to 1.9% and 2.3% per year, respectively.

Despite the marked downturn in the Japanese economy since the early 1990s, Japan remains the leading insurance market in the region, contributing 75% of the region's property/casualty premiums and 82% of its life premiums in 1999. South Korea is a distant second, accounting for 9% of non-life premiums and 8% of life premiums, according to the Swiss Re report.

China, Taiwan and Hong Kong

together account for 10% of property/casualty business and 6% of life, with the Southeast Asian markets of Malaysia, Indonesia, Thailand, the Philippines, Singapore and Vietnam accounting jointly for only 4% of property/casualty and 2% of life coverage. India, which accounts for about 8% of Asia's GDP, makes up just 2% of the region's nonlife premiums and 1% of its life premiums. This is set to change, though, as a result of India's recent decision to end the insurance monopoly by the state-owned General Insurance Corp., the report states.

Deregulation of the Asian insurance markets in recent years has encouraged an influx of international insurers that now are represented in Asia through local subsidiaries, joint ventures, branches and representative offices. "They have achieved different levels of market penetration but are generally more successful in the life insurance sector," the report notes.

Since 1997, foreign insurers have bolstered their share of almost every Asian market, the report states, noting that the market share held by foreign companies has doubled in the Indonesian life insurance sector. In addition, foreign life insurers have gained a foothold in Japan and South Korea, partly due to the weakening of domestic life companies during the area's financial crisis in the

1990s, the report says.

In the property/casualty sector, increases in foreign insurers' Asian market shares "are less spectacular but equally broad-based, although in some cases foreign companies have yet to establish a meaningful market position," the report states.

Due to the globalization of insurance and the growing sophistication of policyholders, Asian insurance regulators increasingly are abandoning rate and form controls in favor of solvency-based regulation, the report notes.

As deregulation grows, insurance pricing likely will become an increasingly important competitive factor, to the benefit of policyholders, the report predicts. In addition, product innovation and the diversification of distribution systems also will accelerate, the Swiss Re report predicts.

Insurers, meanwhile, will face more-volatile business results and a squeeze on margins, according to Swiss Re's report.

Except in Japan, life insurance has "demonstrated remarkable dynamism and resilience" in Asia during the last decade, the report notes, and it predicts that life business, particularly pension and health care lines, "will experience particularly strong growth over time."

The full Sigma report can be obtained at www.swissre.com.

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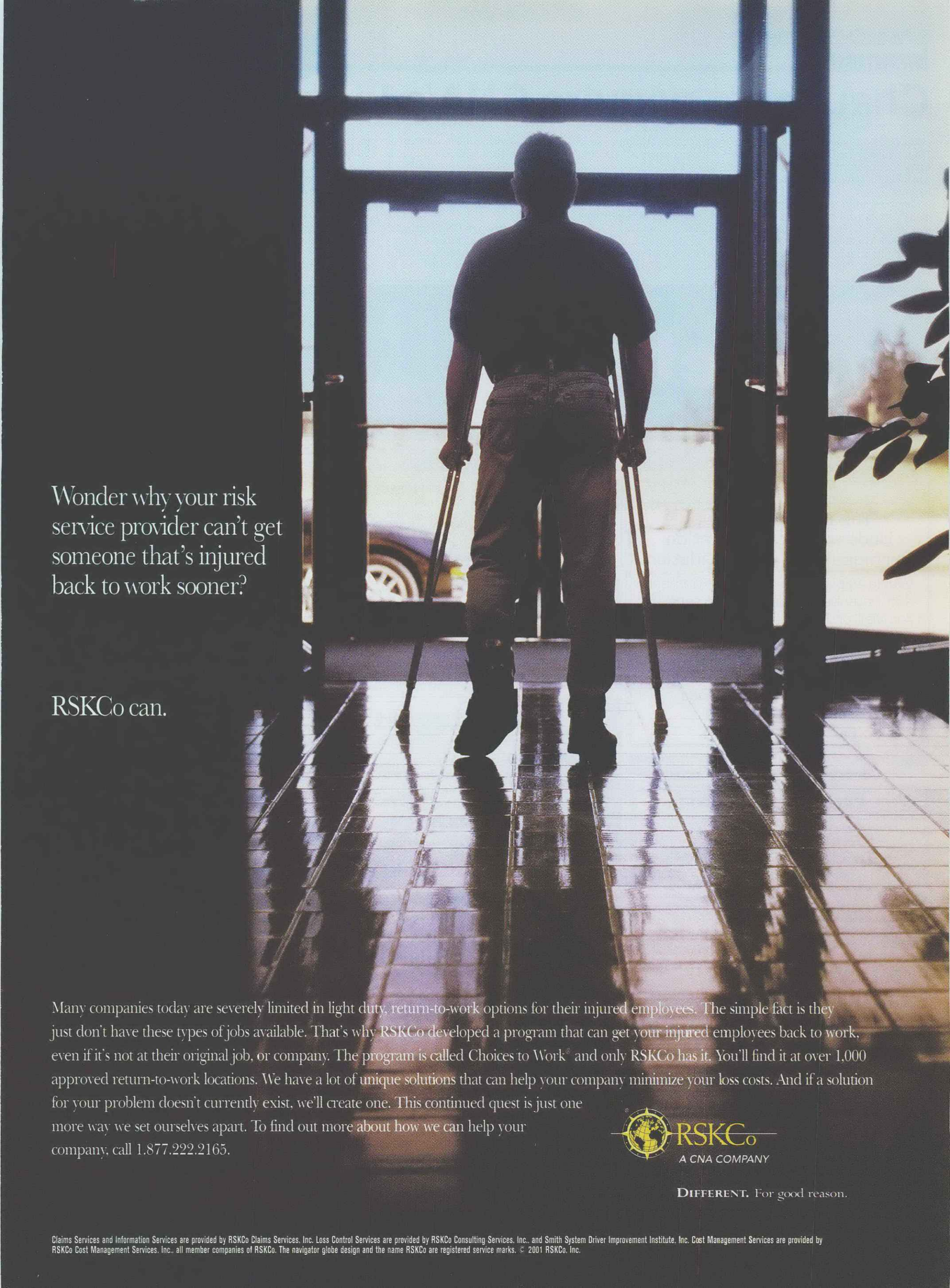
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INTERNATIONAL

Chaucer to acquire CNA's Lloyd's operations

LONDON—Chaucer Holdings P.L.C. will acquire CNA Financial Corp.'s operations at Lloyd's of London under an agreement announced recently.

Chaucer said in a written statement that its syndicates 587, 1084 and 1096 will receive an extra £5.8 million (\$8.5 million) of underwriting capital, beginning in the 2002 year of account, following Chaucer's

acquisition of CNA's Lloyd's corporate member company, CNA Corporate Capital Ltd.

According to the statement, Chaucer Syndicates Ltd., Chaucer's Lloyd's managing agency, also will acquire the right to manage nonmarine syndicate 1229 from CNA Underwriting Agencies Ltd. Chaucer said that 1229's 2001 year of account would likely be closed into its non-

marine syndicate 1096. The staff of syndicate 1229 is expected to join the Chaucer group, the statement added.

As part of the deal, CNA will acquire a 9.1% stake in Chaucer Holdings.

"The decision of CNA Financial Corp. to take a significant shareholding in Chaucer reflects its confidence in the Lloyd's market and, in

particular, in our company," Ewen Gilmour, managing director of Chaucer, said in the statement. "The £5.8 million of funds made available to us as a result of our acquisition of CNA Corporate Capital, together with the £20 million (\$29.2 million) we successfully raised in March, means Chaucer is extremely well placed to respond to the many underwriting opportunities that are

emerging."

"We are delighted to be maintaining our presence in the Lloyd's market by the acquisition of a strategic stake in Chaucer. We look forward to working with Chaucer at this exciting stage of the insurance cycle," said CNA Chairman and Chief Executive Officer Bernard L. Hengestrough in the statement.

—By Sarah Veysey

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Life

Continued from page 2
short-term government securities.

"This is a business that has lots of cash on hand to meet catastrophic obligations," an ACLI spokesman said.

At the same time, life insurers have a steady cash flow from interest payments on the bonds they hold. About 70% of the assets held by life insurers are high-quality bonds, the ACLI spokesman said.

Nonetheless, in sheer dollar amounts, the losses faced by some life insurers are significant. The largest loss estimates have been reported by MetLife Inc., with the New York-based life insurer projecting after-tax losses of between \$250 million and \$300 million.

The size of MetLife's losses are not surprising, given that it dominates the group life market in New York. According to A.M. Best Co. Inc., MetLife was the biggest group life writer last year in New York, with a 32.1% share of the market. If MetLife's estimated losses of \$250 million to \$300 million prove accurate, those losses would equal roughly 1% of the insurer's assets.

Hartford Life, a unit of The Hartford Financial Services Inc., is the second-largest group life writer in New York, with a 9% market share. Hartford Life estimates its losses at about \$30 million, or just under 2% of its

roughly \$180 billion in assets.

Prudential Insurance Co. of America, the third-largest group life insurer in New York last year, with an 8.9% market share, has estimated the cost of claims—most of which will be for life insurance—to be between \$75 million and \$125 million. "While not an insignificant amount, it is well within the company's ability to pay," Prudential Chairman and CEO Arthur Ryan said in a statement.

'This is a business that has lots of cash on hand to meet catastrophic obligations.'

— Spokesman,
American Council
of Life Insurers

Aetna Inc., the fourth-largest group life writer in New York last year, with a 6% market share, estimates its life insurance losses to be in the range of \$10 million to \$15 million.

But one insurer—because of a special situation—incurred multimillion-dollar losses even though it has only a small slice of New York group life insurance market.

Combined Insurance Co., an

Aon Corp. insurance subsidiary, estimates its losses from the World Trade Center attacks at between \$50 million and \$55 million. Combined wrote a portion of the life coverage for Aon employees in the WTC. As of last week, about 200 Aon employees who worked in trade center were unaccounted for.

Other life insurers say that most of the losses they will sustain will come from the individual policies they wrote, rather than from group coverage. For example, New York Life Insurance Co. estimates its losses to be in the range of \$50 million to \$75 million, mostly from individual policies, said a New York Life spokesman.

Meanwhile, given that the remains of many who perished in the World Trade Center may never be recovered, life insurers say they are prepared to waive their normal requirement of a certified death certificate before they pay a claim. "We are going to be very flexible as far as loss documentation goes," a Prudential spokeswoman said.

And some predict that life insurers could see increased sales as a result of the terrorist attacks. Based on its discussions with life insurers and agents, New York-based financial services company Lehman Bros. Inc. released a statement last week suggesting that many individuals who had put off the purchase of insurance coverage may do so now and that those who currently have coverage may opt to boost their limits. **BI**

Loss

Continued from page 3
to precisely gauge the financial impact of the disaster, in which hijacked commercial jets were crashed in New York, the District of Columbia and Pennsylvania. Based on information provided by insurers and reinsurers and on its own analysis, though, Best estimated that losses for all lines of insurance—including life insurance—could go above \$30 billion. That would make the terrorist attacks the most costly catastrophe in history in terms of insured losses.

According to Best, property, aviation, business interruption, workers compensation, commercial liability and life insurance would probably see the largest losses.

In an interview late last week, Matthew Mosher, Best's group vp-property/casualty, said: "We're not too surprised to see some of the original estimates being increased. I think, at the time they were made, the general view of the overall cost wasn't as high as it is now."

"If you were to say the likelihood of up or down, our guesstimate is that it is more likely to go up than to go down," Mr. Mosher said.

"I wouldn't be surprised all that much if estimates rose. Insurers almost never revise down, but they very frequently revise up," said Michael Baum, an analyst with Friedman, Billings, Ramsey & Co. Inc., an Arlington, Va.-based brokerage.

Kenneth S. Zuckerberg, vp-equity research for Dresdner Kleinwort Wasserstein in New York, said insured property and liability losses could run as high as \$25 billion to \$30 billion. He said that the losses would break down roughly as: \$8.5 billion to \$9 billion in aviation liability and hull losses; \$4.5 billion in commercial property for the World Trade Center, and \$1 billion to \$2 billion for other buildings in the affected area; \$5 billion to \$10 billion in business interruption; \$2 billion to \$3 billion in workers compensation; and as much as \$2 billion in other insured damage. In addition to the property/casualty loss, there could be an additional \$2 billion to \$4 billion in life insurance losses, Mr. Zuckerberg said.

Morgan Stanley estimated the insurance industry would sustain losses at the "high end" of the \$25 billion to \$30 billion range, with reinsurers bearing the brunt. "We believe large swaths of the reinsurance market are likely insolvent. Uncollectible reinsurance is going to be a problem," the company said in a Sept. 17 document.

During the Friday teleconference, S&P's Mr. Puccia repeated the rating agency's earlier contention that total industry losses would have to exceed \$50 billion before S&P would begin worry that a substantial number of insurers' claims-paying ability may be compromised. He stressed that he does not believe that any of S&P's interactively rated leading insurers and reinsurers face solvency-threatening levels of claims. **BI**

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Brokers

Continued from page 3
noon."

John T. Sinnott, chairman and chief executive officer of Marsh Inc., noted that the broker has "been able to get our operations back," to provide full client service to risk managers and reinsurance buyers.

Mr. Sinnott noted that there has been very little interruption of client service, largely because most of Marsh's client-related activities take place at its Midtown Manhattan headquarters. For the most part, the Marsh employees who worked in the WTC were part of Marsh's business support group, including its technology group, corporate finance group and part of its claims operation.

"We will sorely miss these colleagues, not only because of the personal loss we feel but also because they performed functions that are important to our business," Mr. Sinnott said.

Executives said displaced employees have been moved to other Marsh locations in the area. The computer systems that were destroyed by the impact had been backed up at secure offsite locations, they said, and any data that were lost have been reconstructed.

Unlike Marsh, Aon's client service center in the WTC was hit hard by the attack. The center was one of four region centers Aon recently set up to handle client service functions.

The establishment of the service centers was part of Aon's ongoing business transformation plan, Mr. LeStrange said; that process, he said, was why, in part, Aon saw only a limited interruption in its ability

to respond to its clients.

From a business point of view, "we had a remarkable segue from New York to other ways of servicing our clients, which would not have been possible had we not transformed our business," he said.

New York clients had access to Aon by 2 p.m. Sept. 11, he said, not-



'We will sorely miss these colleagues, not only because of the personal loss we feel but also because they performed functions that are important to our business.'

— John T. Sinnott
Marsh Inc.

ing that those clients' needs were handled and continue to be handled out of the broker's Glenview, Ill.-based client service unit. That office handled 50 New York client requests on Sept. 11 and continues to deal with about 200 requests daily that would have been handled by the New York unit, he said. Other Aon relationship managers who handle more-complex insurance matters are working side by side with the client service team in Glenview.

Aon is in the process of reconstructing its client service unit in New York at a temporary site that can house as many as 800 employees, Mr. LeStrange said.

In addition to avoiding lengthy

business interruption in gaining access to its clients and serving their needs, Aon also was able to recover most of its business processing systems.

"We lost every physical presence we had in the World Trade Center, every piece of paper," Mr. LeStrange said. "We converted all

semble one from other parts of the country and other parts of the world, Mr. LeStrange said. "We're actually using that network quite aggressively," he said.

Both Aon and Marsh expect the losses from the terrorist attacks to change the market.

Mr. Sinnott said he is confident, though, the marketplace will be able to absorb the catastrophic losses.

Mr. LeStrange, on the other hand, foresees financial strains on some companies. "It's my belief that, in terms of a dollar value, this will be, by far, the largest insured catastrophe in history," he said.

"It's my prediction that it will be a \$50 billion event," Mr. LeStrange said. "I think it will significantly impact many insurers and reinsurers."

Much of the exposure in this catastrophe is concentrated among a few reinsurers and insurers, Mr. LeStrange said. There are only a few markets for aviation coverage and for major property programs, for instance, he noted.

"I think it's going to be an industry-changing event, from an insurance and reinsurance perspective. It will stress-test the capital base of many companies," he predicted.

Roger E. Egan, president and CEO of Marsh's North American operations in New York, said that the current situation "may bring about a marketplace such as the one that existed in the mid-'80s."

"From our experience in the mid-'80s, there is the ability to create new facilities that might be necessary...and might help the industry through what will be a difficult time in the next few months," Mr. Egan said, referring to the creation of new direct insurers and reinsurers to provide needed capacity. **BI**

So, for example, if there is a need for an expert property team, the broker has readily been able to as-

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Planes should fly, but old ways won't

There is probably no business whose fortunes are so intertwined with the events and consequences of Sept. 11 as the airline industry.

It was, after all, four commercial airplanes that were seized by terrorists and used as instruments of destruction that day. And the interruption of service that followed and the threat of enormous liabilities are blamed for driving the industry to the brink of financial ruin.

Now, airlines are facing the prospect of being grounded by a lack of sufficient liability coverage and our country must decide whether to intervene and rescue this critical sector of the transportation industry.

But even before insurance capacity vanished, airlines were seeking federal assistance, claiming they would become bankrupt without it.

If it were only losses and liabilities from terrorism that brought them to this sorry situation, I would say, by all means, they should receive federal assistance. But the airlines already were on shaky financial ground caused by their own mismanagement and greed before that fateful day. Consequently, the question of whether they should be rescued is complicated.

There is probably no economic sector more crucial to commerce in the modern era than the airline industry—and none so vilified for its inefficiencies and lousy customer service.

The airline industry routinely gouges its best customers with its worst prices, regularly fails to deliver promised services and consistently performs below expectations. And that is amazing, because the public's expectations for air travel are extremely low.

Prodded by widespread consumer dissatisfaction, Congress has considered several bills that would establish a passengers' bill of rights. Indeed, the airline industry has so angered the public that a jury refused to convict for assault a passenger who tackled a gate agent, breaking the agent's neck. The agent had pushed the man's wife and physically

blocked her from retrieving the couple's child, who had wandered into the jetway.

The phrase "air rage" has gained widespread currency. And everyone can readily come up with horror stories of terrible airline service.

And yet, in spite of its many flaws, we need this industry.

It is incomprehensible that international businesses could continue without the airlines. Steamships and railways are poor substitutes for facilitating global expansion, as are such technological means of reaching across borders as the Internet and videoconferencing.

The airline industry is also a vital sector of our economy, providing jobs with payrolls that total in the hundreds of billions of dollars. Its collapse would result in nationwide financial devastation.

But if this industry is rescued by taxpayers through government intervention, it cannot continue to operate as before. This assistance should not be a handout; federal aid must come with strings attached.

As the United States nears agreement on proposals to provide billions of dollars in direct aid to the airlines, it must look beyond the fallout from Sept. 11 to consider the earlier, more extensive problems that put the industry in such a weakened position. And it should insist on reforms, backed by the threat of federal oversight.

I am no advocate of federal regulation. I believe that improvement can come without undue federal control, but only if we stop settling for terrible customer service. Our grudging tolerance for the poor quality of air travel permits that condition to persist.

Just as the business world declared war on the inefficiencies of the nation's health care system, for which it is the largest customer, so too should it demand reforms and greater efficiency in the airline industry. Customer-driven reforms should include an end to a byzantine fare system and predatory pricing strategies. Customers should also demand more efficient baggage handling, which would eliminate fear and loathing and the current clogging of overhead bins, aisles and floor space with oversized luggage.

For their part, businesses must be willing to pay more for quality service to and support those airlines that deliver it—and there are a few companies that do. Businesses must stop patronizing poor-performing airlines merely because they are enslaved by their frequent-flyer programs.

And on an issue that transcends customer service to embrace customer safety, responsibility for airline security should be handled by the government, not left to the airlines and at risk of being trimmed to boost their profits.

We cannot afford to let our airline industry collapse, but neither can we allow it to go on as before.

Editor Paul D. Winston's commentary appears fortnightly and on www.businessinsurance.com. He can be reached at pwinston@crain.com.

Aviation

Continued from page 1

underwriting pool for U.S. Aircraft Insurance Group lead United's liability and hull coverage. London-based Global Aerospace Underwriting Managers Ltd. is American Airlines' lead insurer.

If insurers treat each hijacking as a separate occurrence, the commercial aviation insurance market could face up to \$6 billion in losses, which exceeds the market's premium volume from commercial airlines for the previous four calendar years combined, according to market sources.

Liability losses stemming from the crashes at the Pentagon and in the Pennsylvania countryside, though, likely will be far less than the airlines' liability limits, said Harold J. Clark, chairman and chief executive officer of New York-based U.S. Aviation Underwriters Inc., the management company for USAIG.

The insured value of the hijacked planes totals \$128.8 million, ranging from \$21 million to \$45 million each, according to market sources. The hull war risk market paid those losses just days after the terrorist attacks, sources said.

To generate additional premium volume this year, aviation underwriters' first move was to force airlines to pay for the hijacking and terrorist liability coverage that underwriters exclude from airlines' liability coverage but that airlines have been able to buy back for years for no additional premium.

On Sept. 17, six days after the attack, insurers sent airlines notices that their war and allied perils buyback coverage would be cancelled early this week. Insurers, though, will allow airlines to purchase \$50 million of the coverage for \$1.25 per passenger per enplanement—or each time a passenger is ticketed. The \$50 million of coverage would be a sublimit of airlines' traditional liability coverage, sources say.

The buyback charge is expected to generate between \$1.5 billion and \$1.7 billion in premiums for insurers, according to aviation insurance broker Don Bingham, president of Van Beurden Insurance Services Inc. of Seattle.

U.S. airlines in 2000 reported a total of 658.7 million enplanements domestically and internationally, according to the U.S. Department of Transportation. Even factoring in a 20% reduction in business, as airlines predict they will face, the new charge would generate \$658.7 million of additional premiums for insurers annually from just U.S. airlines.

Based on a 20% reduction of 2000 enplanement figures obtained from the DOT, the buyback charge would cost United Airlines more than \$83.8 million annually, American Airlines more than \$86.2 million annually, and Delta Air Lines Inc. nearly \$105.6 million annually.

Despite the airline industry's financial woes, airlines must purchase the war and allied perils coverage to comply with the terms of their airplane leasing agreements, bond issues and unsecured loans from financial institutions, sources say. Without the coverage, airlines would have to ground their planes, they say.

But before the Sept. 11 attacks, airlines had their full liability policy limits—as American and United have—to cover third-party losses on the ground as a result of hijackings or other terrorist acts involving airlines. Those limits more than satisfied the \$500 million hijacking and terrorist coverage requirements that leasing companies and banks impose on airlines, according to sources.

As a result of the new \$50 million sublimit insurers have imposed, already cash-strapped airlines fall \$450 million short of meeting their leaseholder, bond and bank requirements.

Under a provision of the legislation Congress was considering last Friday, the federal government would cover terrorist-related liabilities exceeding \$100 million that any air carrier incurs within 180 days of enactment of the bill.

Coupled with the \$50 million of war and allied perils coverage available from aviation insurers, the legislation would leave each airline on the hook for \$50 million of terrorist-related liabilities.

In the United Kingdom, the government will cover airlines, airports and security firms for their war and allied perils risks excess of \$50 million.

The government plans to charge for the coverage but will waive the charge for the first 30 days "in recognition of the particular circumstances which the airlines face at present," the Treasury stated.

Australian Prime Minister John Howard confirmed Friday that the Australian government also is exploring providing similar insurance for airlines.

"I am prepared for the government to play a part, provided that the exposure to the Australian people is not too great," the prime minister said.

Meanwhile, Gordon Brown, Britain's chancellor of the Exchequer, is discussing the situation with other European chancellors, a Treasury spokesman said.

Similar discussions are taking place worldwide, as governments grapple with the insurance crisis faced by airlines, said a spokesman from the International Air Transport Assn. in Switzerland.

IATA "is in discussions with governments, airlines and the insurance industry worldwide," a spokesman said late last week.

The legislation that the U.S. Congress was considering last week also contained an important liability cap specifically for American, United, the airports where the terrorists boarded the jets they hijacked on Sept. 11 and the manufacturers of those planes and their component parts.

Under the legislation, only federal courts would have jurisdiction in litigation over the liability of those entities. Any liability imposed on those entities could not exceed their liability insurance coverage. And any such awards would have to be reduced by court-approved settlements the entities had reached for losses that resulted from the attack.

Courts also would be barred from ordering the defendants to pay plaintiffs punitive damages or prejudgment interest.

Under another provision of the legislation, the Secretary of Transportation would be authorized to reimburse air carriers for the amount by which their insurance premiums increase during their upcoming policy period or through Oct. 1., whichever date is earlier.

The reimbursement would be based on the cost of air carriers' coverage in effect between Sept. 4 and Sept. 10. The Secretary would have authority to grant the reimbursements for 180 days after enactment of the legislation.

Airlines renewing their liability and hull coverage this fall face steep premium increases, plus a special hull war risk surcharge that underwriters will impose on a pro-rata basis, according to market sources. During the fall renewal season, more than half of the world's airlines—including most of the world's largest airlines—renew their coverage.

Even before the Sept. 11 terrorist attacks, the commercial aviation insurance market was struggling to right itself after suffering years of underwriting losses. For the first eight months this year, insurers boosted liability and hull rates enough to generate between 30% and 50% of additional premium compared with the same period last year, according to market sources.

If insurers had maintained that same underwriting discipline throughout fourth-quarter renewals this year, their annual premium volume would have reached about \$2 billion, according to sources.

Now, for the year, underwriters plan to generate more than \$4 billion of premiums, including the war and allied perils buyback premium, Van Beurden's Mr. Bingham said.

Sarah Veysey contributed to this report.



Paul D. Winston

Comp

Continued from page 6

ensure that claims are handled as efficiently and fairly as possible.

For example, the 13-member board of gubernatorial appointees plans to adopt a new "decree procedure," which would permit it to officially declare a missing person as dead, said Peter Molinaro, the board's general counsel. Previously, the board typically waited for a state surrogate court to review the case of a missing person and order the issuance of a death certificate, Mr. Molinaro said.

The board expects that little or no DNA testing will be required in its new procedures, a

spokesman said, though additional details were not available.

The state workers comp administrative agency also has enhanced consumer access to its Web site, www.wcb.state.ny.us, by adding three new toll-free numbers and a special mailbox for e-mail inquiries. The agency also has many claims-related forms available online to download and print out.

The efforts of state officials and insurers are being coordinated, in part, by the New York State Insurance Disaster Response Plan, said John Cucci, vp-Northeast region for the Downers Grove, Ill.-based Alliance of American Insurers. While that plan was designed to deal primarily with weather-related exposures, it has proved

useful to property/casualty insurers in the aftermath of the terrorist attacks, Mr. Cucci said.

New York Insurance Superintendent Greg Serio has also established a catastrophe operations center through the state's Insurance Department, which will provide claimants with direct access to insurers as well as a list of insurers' toll-free numbers on its Web site, www.ins.state.ny.us.

Some insurers also have established mobile units to accept workers comp claims in this catastrophe.

Insurers will be in the forefront of those helping individuals and employers put their lives back together after this national tragedy, said Nancy Schroeder, assistant vp-workers compensa-

tion for the National Assn. of Independent Insurers in Des Plaines, Ill.

The laws of the relevant jurisdiction determine the benefit payments for which a claimant would be eligible. In New York, a widow with dependent children could receive up to \$400 a week payable over her lifetime or until her remarriage, minus any Social Security benefits. In Virginia, the widow could receive up to \$645 weekly for 500 weeks. In most cases, children's benefits could be extended to allow for schooling or disabilities.

Total workers comp losses will exceed \$1 billion dollars, several industry experts predict. David W. Ives, chief executive officer of the Niis/Apex Group Holdings, a consulting firm, puts the

figure at \$1.5 billion.

Stress-related claims are already being filed in connection with the attacks, but the compensability of such claims may vary with the jurisdiction.

New York typically accepts many such claims, provided they occur in the course of employment and arise out of it. In Virginia, though, a stress claim with a physical injury is compensable, but a claim without such a physical injury must result from a catastrophic event.

While only a limited number of claims are expected from dust exposure, such a claim might be compensable if it were to result in a pulmonary ailment, said Bruce Wood, assistant general counsel with the American Insurance Assn. in Washington. **EI**

Alternatives to grow, but won't eclipse insurance

By RODD ZOLKOS

As price increases in the insurance and reinsurance markets accelerate and capacity shrinks in some markets following the Sept. 11 terrorist attacks on the United States, various alternative methods of transferring risk are expected to see increased use.

Interest in captive insurance, self-insurance and capital market risk transfer tools is expected to pick up in the weeks and months ahead, as insurance and reinsurance buyers respond to the market's reaction to the catastrophe.

Industry experts note there is precedent for such activity, pointing to increased use of alternatives following past catastrophes such as Hurricane Andrew in 1992 and the Northridge earthquake in 1994.

"It typically has happened," said Richard Sandor, chief executive officer at Environmental Financial Products L.L.C. in Chicago. "The birth of insurance derivatives—or their really taking some hold—came in the early '90s following Andrew."

"When you have increasing rates, alternatives are sought in the capital markets," Mr. Sandor said. "I would suspect that we will have a similar pattern prevailing after this catastrophe."

"We expect more interest and, in fact, it's already happening," said Kathryn A. Westover, director of Strategic Risk Solutions in Colchester, Vt. "The phone is already ringing with us getting involved in taking on more risk in captives and forming new captives."

"This is not unusual," she said. "The reaction we're seeing now is, I would say, a typical reaction."

In addition, "There's nervousness, I would think, inevitably as to collectibility of reinsurance," Ms. Westover said. "What about some of the reinsurers that captives would use? That's also a natural response to a situation like this."

While noting that the insurance and reinsurance markets have enough capacity worldwide to absorb losses from the Sept. 11 disaster, Mr. Sandor said, "the hit on the reinsurance industry will be large, and we're going to need two things to happen—either an additional flow of capital into the reinsurance sector or new techniques to transfer that risk into the capital markets."

Mr. Sandor, who was instrumental in crafting the Chicago Board of Trade's catastrophe insurance fu-

tures and options contracts, said such a trend now would be a "simple repeat of history."

In the 1980s, "we felt strongly that there was an inevitable convergence of the capital markets and insurance markets coming," Mr. Sandor said. A series of catastrophes in the late 1980s and early 1990s spurred the first moves in that direction.

"The market went quiescent when the catastrophes didn't continue with the same frequency and magnitude in the late '90s," he said. But, he added, it "continued to develop slowly," and an event like last week's tragedy and the accompanying losses "will inevitably speed up the process."

Steven Bolland, senior vp at intermediary Gill & Roeser Inc. in New York, said it is possible that insurers and reinsurers will look more toward the capital markets in the months ahead.

But he noted that problems such

'When you have increasing rates, alternatives are sought in the capital markets. I would suspect that we will have a similar pattern prevailing after this catastrophe.'

— Richard Sandor
Environmental Financial
Products L.L.C.

as accounting-treatment issues remain obstacles for some companies, such as smaller firms, mutuals or regional subsidiaries of larger companies.

"The larger companies, the reinsurers, would be the people who would be able to access and utilize the (capital markets) products more easily than some of the other companies," Mr. Bolland said. He said reinsurers may be interested in using the capital markets to replace retrocessional coverage, he said. "Retrocessional capacity is going to decrease, prices are going to go up even more, and it doesn't take much for it to become noneconomic."

Also, he said, "the capital mar-

ket's attitude toward loss" will be a key factor in the growth of the risk transfer tools.

"Once the capital markets start having losses on these products, what will their reaction be?" Mr. Bolland said. "Because I've never heard of one of these financial instruments being triggered before now."

"There's an awful lot of problems here. But that's not to say there aren't an awful lot of companies that might benefit from these things, because there are," Mr. Bolland said.

Christopher J. Swift, partner and national industry leader of the insurance practice of KPMG L.L.P. in Chicago, said recent disasters might have an impact on how capital markets price insurance risks.

"My suspicion is that the capital markets are always an option, but given more risk out there in the marketplace today, in the world, then pricing will probably be different," Mr. Swift said, with capital markets investors demanding greater returns

A report by Morgan Stanley & Co. Inc. examining the property/casualty industry after the World Trade Center disaster predicts that self-insurance and alternative risk transfer will increase.

But, the report's authors said that while demands for such programs may increase, "We do not believe the alternative markets will be an adequate or even preferred substitute for insurance and reinsurance in the face of price increase for traditional risk transfer products."

The Morgan Stanley analysis said that price increases being seen now aren't "simply a function of lack of capacity and insurer resolve," but rather an increased recognition of the value of risk transfer prompted by the World Trade Center attack, adding, "Demand for traditional risk transfer inevitably will rise."

"Alternative products are not a substitute for traditional risk transfer in that they do not transfer significant risk," the report said. "While we believe demand for both types of products will rise, we do not expect to see a vast expansion of self-insurance as a substitution for insurance."

But James D. Blinn, managing principal of Acclarit Group Inc. in New York and chairman of the Self-Insurance Institute of America Inc., said he thinks the issue of increased use of self-insurance "is almost like a gimme."

In some specific cases, self-insuring might prove particularly attractive, he said. From a workers compensation perspective, for example, he noted many of those killed in the tragedy were office workers. As a

'Alternative products are not a substitute for traditional risk transfer in that they do not transfer significant risk.... We do not expect to see a vast expansion of self-insurance as a substitution for insurance.'

— Research report
Morgan Stanley & Co. Inc.

result, "in New York, there are going to be some interesting discussions about what the rates charged for office workers and other supposedly low-hazard groups of workers should be."

If those rates increase, it could become more economically attractive for many employers to self-insure their workers compensation exposures, he said.

Mr. Blinn said he also sees a tightening property market prompting increased interest in transferring risks to the capital markets.

"Someone like Arrow Re or Lehman Re, those facilities that are set up to provide capital markets solutions for transferring property risk, I think they're going to see a tremendous amount of interest," he said. Arrow Reinsurance Co. Ltd. is a Bermuda reinsurer owned by Goldman Sachs Group Inc.; Lehman Reinsurance Co. Ltd. is a Bermuda-based unit of Lehman Bros.

Strategic Risk Solutions' Ms. Westover said many companies will use captives as a way to address larger retentions.

"The minute the prices really start to go up, then you see retentions start going up," she said. But, while companies increase those retentions as a way of controlling in-

urance prices, "they don't want to have operating companies exposed to a \$4 million hit on a per-event basis."

In response, many companies will use captives to write a deductible buy-down program, Ms. Westover said. By essentially funding the retention through the captive, the risk stays within the corporate group, but the company has taken steps toward stabilizing overall results.

Ms. Westover said the issue of using captives in conjunction with the capital markets "is not, at this point in time, what people are automatically turning toward."

But, she said, "there's no question" that, on a case-by-case basis, using the captive as a special purpose vehicle to transfer risks into the capital markets can be both a feasible and attractive option.

"We're not going to see people rushing to that tomorrow," she said. But, the hardening of traditional markets and questions over reinsurance collectibility might prompt more sophisticated risk managers to consider other alternatives, and the capital markets might be one such approach, Ms. Westover said. **EI**

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Coverage

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as a last line of defense.

If they do, they face an uphill battle, particularly in any litigation or arbitration in the United States, where several legal precedents rule out the use of the war exclusion to deny claims for terrorism damage, legal experts say.

The Port Authority of New York and New Jersey, the World Trade Center's owner, restructured its property and liability insurance programs this summer after announcing a long-term lease deal under which New York-based Silverstein Properties Inc. and Los Angeles-based Westfield America Inc. would take over operation of the complex.

Non-U.S. companies wrote the largest share of the \$3.55 billion property and business interruption insurance program, which named the Port Authority, Silverstein, Westfield and their lenders as insureds. A separate \$1.5 billion business interruption policy names the Port Authority only, a source familiar with the program said.

A restructured liability program was underwritten by 19 insurers, including some companies on the property program, and provides \$1.1 billion in liability limits.

Under the lease deal, valued at \$3.2 billion, the Port Authority granted 99-year leases on the office portions of the twin towers and two other buildings to Silverstein, and on the retail space below the complex to Westfield.

Silverstein made a \$616 million downpayment to the Port Authority and is to make annual payments starting at \$107.3 million and rising after the first five years of the lease, according to rating agency Fitch Inc. in New York. To finance the deal, Silverstein borrowed \$563 million from GMAC Commercial Mortgage, which retained \$80 million of the loan and resold the rest as a series of mortgage-backed securities.

When the lease deal closed in July, though, the parties had only certificates evidencing insurance coverage, rather than actual policies. A policy spelling out the terms of the coverage was not issued until after the Sept. 11 terrorist attack, and as of last Wednesday, policyholders still had not signed off on the final wording, according to one source familiar with the program.

A spokesman for Willis Group P.L.C., a broker on the property program, declined to comment.

Coverage program details

Under the \$3.55 billion property and business interruption program, Swiss Reinsurance Co. provided a total of \$742.2 million, or 20.9% of the full limits, in various layers. Lloyd's of London underwriters provided \$683.9 million, or 19.3% of the total, while Allianz A.G. wrote \$551.7 million, or 15.6%; ACE Ltd., \$298.0 million, or 8.4%; and Chubb Corp., \$254.3 million, or 7.2%, documents related to the program show.

Other large participants on the revised property and business interruption program include Westport Insurance Corp., a General Electric Co. unit, with \$237.2 million, or 6.7% of the \$3.55 billion program; Travelers Group, with \$210.6 million, or 5.9%; and Royal Indemnity Co., with \$178.2 million, or 5%.

Fourteen other insurers provided

limits ranging from \$66.8 million, or 1.9% of the risk, to \$1.6 million, or 0.05%, according to documents detailing the program. Those insurers are XL; Gulf Insurance Group, a Travelers affiliate; Liberty Mutual Insurance Co.; Zurich; Munich Reinsurance Co.; Hartford Financial Services Group Inc.; St. Paul Cos. Inc.; Wurttembergische Fire Insurance Co.; TIG, a Fairfax Financial unit; QBE Insurance Group Ltd.; Lexington Insurance Co., an AIG unit; Copenhagen Reinsurance Co. Ltd.; Houston Casualty Co.; and Tokio Marine & Fire Insurance Co.

Under the separate liability program, the largest participants are ACE, providing \$200 million, or 18.1% of the total; Zurich Insurance Co., \$154 million, or 14%; XL Capital Ltd., \$125 million, or 11.3%; Commerce & Industry Insurance Co., a unit of American International Group Inc., \$100 million, or 9.1%; and Chubb, \$60 million, or 5.4%.

Fourteen other companies wrote liability limits ranging from \$50 million, or 4.5% of the risk, to \$20 million, or 1.8%, documents show. Those insurers are: Gerling Global General Insurance Co.; Great American Insurance Co.; Liberty Mutual; Ohio Casualty Co.; Great American Assurance Co.; Fireman's Fund Insurance Co., an Allianz unit; American Motorists Mutual Insurance Co.; Athena Assurance Co.; Crum & Forster Corp.; General Star Indemnity Co., a Berkshire Hathaway Inc. unit; Gulf Insurance; Royal Insurance Co.; St. Paul; and the AXA Corporate Solutions unit of AXA S.A.

War risk exclusions

The property coverage carries a standard war risk exclusion but does not exclude terrorism losses and specifically includes damage caused by aircraft, according to GMAC Commercial Mortgage, which provided a first mortgage loan to Silverstein.

Several participating insurers, including ACE, AIG, Chubb, Hartford, St. Paul and Zurich have already announced that war risk exclusions would not apply to claims arising from the Sept. 11 attack. St. Paul Chairman Douglas Leathersdale said in a statement that "we are not going to hide behind the war exclusion for these acts of terrorism."

After an ACE spokeswoman was quoted in news reports saying it is "too soon to tell" whether the exclusion applies, ACE issued a statement last week saying it has "no intention of denying any claim on the basis of the war exclusion."

Whether all property/casualty insurers and reinsurers follow this lead remains to be seen: A number of insurance industry and legal sources predict that some non-U.S. insurers and reinsurers—particularly those that would arbitrate reinsurance disputes in London—may try to invoke the exclusion.

"There is more sweet talk going on now than I can imagine, and I don't understand why it's being swallowed," Eugene Anderson, a New York-based policyholder lawyer with Anderson, Kill & Olick P.C., said of insurers' stated intentions to pay claims. "You can bet your bottom dollar that the reinsurers are not going to pay."

"It seems like the U.S. companies are saying they are not going to invoke the exclusion and the European companies are suggesting they might," said Donald Watson, a director with Standard & Poor's

Corp. in New York. "There seems to be a split emerging."

The problems facing any insurer or reinsurer that uses the exclusion, though, include potential damage to its reputation, given the emotional nature of the catastrophe, Mr. Watson added.

"This, ultimately, is a political issue and a public perception issue," he observed. While an insurer or reinsurer may take the dispute to court or arbitration, "they might not succeed, and they might garner a lot of ill will."

Attempts to use the exclusion may, in fact, be acts of desperations.

"If you are a fairly solvent U.S. company, you will not try to touch that hot potato," one reinsurance executive said of the war risk exclusion. But some financially weak non-U.S. insurers and reinsurers may grasp at the defense: "Once these emotions settle down and the story moves to the back pages of the Wall Street Journal, that would not surprise me at all," the executive said.

Non-U.S. reinsurers that issue policies providing for disputes to be arbitrated in London, largely out of the public eye, may be more inclined to test the war risk defense, several insurance lawyers and industry observers say.

Arbitration "means that there is not going to be a (public) record," observed Mr. Anderson. "Do you think three retired insurance executives in London, who think they were (cheated) out of a fortune by asbestos claims, are going to vote in favor of reinsurance for the World Trade Center? It won't happen."

Legal obstacles to clause

But insurers or reinsurers that do seek to enforce the war risk exclusion face daunting odds, legal sources agree.

In the United States, insurers would have to contend with such precedents as a 1974 federal appellate ruling that the exclusion did not apply to the terrorist hijacking and later destruction of a Pan American Airways Boeing 747 in Jordan. A New York federal court reached a similar conclusion in a 1983 ruling regarding the destruction of a Holiday Inn hotel in Beirut, Lebanon.

For the exclusion to apply, war must exist between two sovereign or "quasi-sovereign" states, said Lawrence B. Brennan, a lawyer with Wilson, Elser, Moskowitz, Edelman & Dicker in New York. "Terrorism is not war," he said.

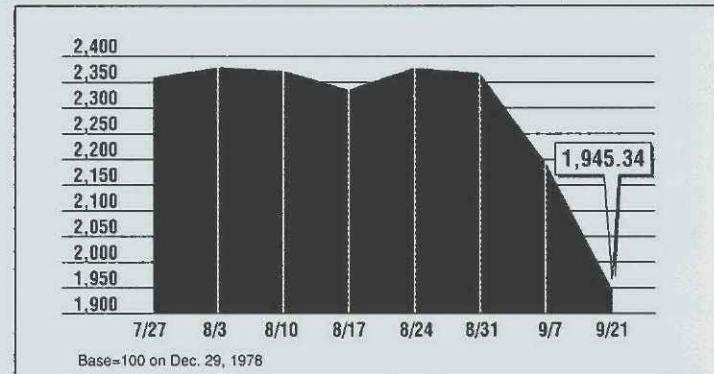
Even in the case of the Pan Am 103 bombing over Lockerbie, Scotland—in which two men described as agents of the Libyan government were convicted—insurers paid the loss and have sued the Libyan government to recover their payments, one reinsurance lawyer noted.

Reinsurance contracts themselves typically do not include war risk exclusions, noted Lawrence Brandes, a lawyer with Cadwalader, Wickersham & Taft in New York.

Without a clear exclusion, the debate then becomes a "follow the settlements question," in which a reinsurer might argue that an insurer's claim settlements are unreasonable and are not within the scope of coverage, one reinsurance lawyer said.

"As long as (an insurer's) decision is made in good faith and coverage is even arguable, reinsurers typically can not second-guess the cedent's decision," the lawyer said. "I think the reinsurers, in all likelihood, will have to follow what the cedents do."

B/Stock Index - 9/21/2001



	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol. (000)
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BROKERS

Aon Corp.	NYS	36.30	-1.12	5.99	42.31	28.13	15693
Arthur J. Gallagher & Co.	NYS	31.09	18.39	-2.27	34.25	21.88	8120
Brown & Brown	NYS	44.30	6.75	26.57	50.69	28.75	915
Clark Bards Holdings	NDQ	18.30	-19.38	80.74	33.30	7.25	278
E.W. Blanch Holdings Inc.	NYS	13.50	0.00	-22.58	29.50	6.70	0
Hib, Rogal & Hamilton	NYS	44.15	7.32	10.72	48.16	33.75	603
Marsh & McLennan	NYS	82.02	-5.72	-29.90	135.69	80.30	8617
Willis Group Holdings Ltd.	NYS	20.80	18.18	25.30	20.80	15.50	5258
BROKERS AVERAGE			3.05	11.82			

INSURERS/REINSURERS

ACE Ltd.	NYS	20.50	-37.88	-51.69	43.94	20.50	45963
Aceel International Corp.	NDQ	0.07	0.00	-76.42	0.59	0.06	0
Acceptance Insurance Cos.	NYS	4.70	-13.40	-10.48	6.94	3.70	130
AEGON N.V.	NYS	21.00	-18.95	-49.32	43.00	20.86	1444
AFLAC Inc.	NYS	23.91	-13.17	-36.25	37.47	23.01	11968
Allmerica Financial Corp.	NYS	42.29	-18.31	-41.67	74.25	42.29	1457
Allstate Corp.	NYS	31.75	-6.84	-27.12	45.90	30.00	19310
Ambac Financial Group	NYS	46.97	-18.16	-19.45	64.00	44.25	7788
American Financial Group	NYS	18.73	-15.97	-29.49	30.75	18.69	722
American General	NYS	44.55	0.00	9.33	47.44	33.66	0
American Int'l Group	NYS	67.05	-9.71	-31.97	103.75	66.99	71295
American Safety Insurance	NYS	8.90	-8.25	45.31	10.36	3.25	63
Argonaut Group	NDQ	14.55	-11.92	-30.71	21.25	13.50	193
AXA-UAP Group	NYS	15.95	-32.50	-55.58	38.09	15.95	2675
Baldwin & Lyons Inc.	NDQ	13.20	-24.59	-21.74	28.75	18.20	17
Berkley W.R. Corp.	NDQ	39.81	2.34	-15.63	48.75	30.50	773
Berkshire Hathaway Inc.	NYS	62500.00	-8.09	-11.97	74600.00	53500.00	4
Capitol Transamerica Corp.	NAS	5.36	-5.59	23.50	16.80	10.31	290
Chubb Corp.	NYS	59.50	-10.49	-31.21	90.25	56.86	11198
Cincinnati Financial Corp.	NYS	37.29	-6.54	-5.74	42.92	32.56	2341
Citigroup	NYS	36.36	-14.35	-28.79	57.38	36.30	127302
CNA Financial Corp.	NYS	24.35	-12.06	-37.16	40.24	24.35	5213
CNA Surety	NYS	12.70	-7.97	-10.88	14.70	10.63	133
EMC Insurance Group Inc.	NDQ	15.35	2.33	30.64	15.86	9.25	159
ESG Re Limited	NDQ	3.15	-9.74	70.85	4.00	1.72	45
Everest Reinsurance	NYS	49.38	-19.72	-31.06	75.50	44.88	8044
Fremont General Corp.	NYS	4.75	-17.39	68.89	6.97	1.50	1071
Gaisno Inc.	NYS	1.37	-8.67	-47.81	4.25	1.10	37
Harleysville Group	NDQ	20.40	-17.97	-30.26	30.63	18.75	456
HCC Insurance Holdings	NYS	23.32	-4.82	-13.43	29.66	17.63	4035
ING Groep N.V.	NYS	21.30	-21.86	-46.83	41.97	21.30	1509
IPC Holdings Ltd.	NDQ	19.09	-20.62	-9.10	25.05	16.88	502
Hartford Financial Services	NYS	50.10	-19.08	-29.06	80.00	50.00	11306
John Hancock Fin. Services	NYS	34.44	-10.55	-8.47	42.00	25.63	9780
Lincoln National	NYS	42.20	-12.17	-10.81	52.75	38.00	5437
Market Corp.	NYS	165.85	-12.02	-8.37	207.47	133.50	352
MBIA Insurance Group	NYS	39.21	-26.02	-20.65	57.49	39.21	8682
Meadowbrook Insur. Group	NYS	1.90	-38.71	-76.62	8.38	1.90	42
MettLife	NYS	25.20	-12.50	-28.00	36.63	23.38	18885
Mutual Risk Mgmt. Ltd.	NYS	5.57	-43.45	-63.33	23.56	3.40	3683
Navigators Group	NDQ	17.92	-9.54	34.61	20.86	10.63	13
NYMagic Inc.	NYS	16.84	-19.00	-10.78	22.70	14.75	15
Ohio Casualty Corp.	NDQ	10.93	-14.60	9.30	14.34	6.13	3560
Old Republic Int'l	NYS	22.65	-12.88	-29.22	32.06	21.25	2648
Partner Re Ltd.	NYS	34.23	-28.27	-43.89	62.90	32.50	7650
Penn-America Group Inc.	NYS	9.73	-2.21	27.61	10.60	6.69	7
PMA Capital Corporation	NDQ	17.50	-2.78	1.45	18.94	15.19	122
Philadelphia Cons. Holding	NDQ	26.30	-12.62	-14.82	37.50	17.75	697
ProAssurance	NYS	14.75	-11.57	-11.61	19.25	11.88	83
PXRE Corp.	NYS	11.18	-35.93	-33.75	20.10	11.18	816
Renaissance Re Holdings Ltd.	NYS	76.80	4.12	-1.93	84.19	57.00	1589
RLJ Corp.	NYS	40.70	-9.35	-8.92	46.16	37.44	62
St. Paul Cos.	NYS	35.50	-13.94	-34.64	57.00	34.00	12139
SCOR	NYS	25.01	-40.59	-50.23	53.75	25.01	22
SAFECO Corp.	NDQ	26.02	-12.45	-20.85	35.88	21.50	5791
SCPIE Holdings Inc.	NYS	17.45	-8.54	-26.14	31.40	17.45	NA
Seibels Brupe Group	NDQ	2.40	-11.11	326.67	3.25	0.55	27
Selective Ins. Group	NDQ	20.81	-15.48	-14.19	28.22	15.25	185
Tokio Marine & Fire	NDQ	43.50	-13.43	-23.68	58.25	43.50	165
Torchmark Corp.	NYS	35.60	-10.84	-7.38	43.25	26.94	2819
Transatlantic Holdings	NYS	71.11	-1.28	0.75	84.16	59.88	179
Trenwick Group Ltd.	NYS	6.35	-53.72	-74.41	27.13	6.35	4573
Unico American Corp.	NDQ	5.25	-8.70	-10.84	7.75	4.05	#N/A
United Fire & Casualty	NDQ	23.60	-15.50	19.49	34.52	15.19	38
Unitrin	NYS	34.25	-5.12	-15.69	41.94	29.56	418
UNUM Corp.	NYS	22.58	-16.59	-15.98	33.75	22.58	6266
Vesta Insurance Co.	NYS	10.26	-14.50	102.67	12.49	4.25	1004
XL Capital Ltd.	NYS	62.00	-24.39	-29.04	89.25	62.00	20218
Zenith National Ins.	NYS	25.70	-11.65	-12.51	30.70	20.00	32
INSURERS/REINSURERS AVERAGE			-14.82	-11.11			

MANAGED CARE ORGANIZATIONS

Aetna Inc.	NYS	25.15	-13.07	-38.75	42.69	23.02	6760
CIGNA Corp.	NYS	79.90	-9.99	-39.61	136.75	79.90	6253
Health Net Inc.	NYS	17.11	-12.26	-34.66	26.94	15.56	3139
Humana Inc.	NYS	9.50	-16.30	-37.70	15.81	8.38	4189
Oxford Health Plans	NYS	22.65	-12.88	-42.66	32.06	21.25	2648
Pacificare Health Sys.	NDQ	11.06	-21.28	-26.27	47.00	9.81	3966
Sierra Health Services	NYS	6.35	-33.16	67.11	11.16	2.75	1028
United HealthGroup	NYS	59.95	-9.71	-2.32	70.00	45.78	12838
Wellpoint Health Networks	NYS	98.80	-7.20	-14.27	121.50	81.66	3918
MANAGED CARE AVERAGE			-15.09	-18.79			

ALL COMPANIES -8.96 -6.03

Top advancing issues: Arthur J. Gallagher & Co., Willis Group Holdings Ltd., Hib Rogal & Hamilton, Brown & Brown, Renaissance Re Holdings Inc. Leading decliners: Trenwick Group Ltd., Mutual Risk Management Ltd., SCOR, Meadowbrook Insurance Group, ACE Ltd. Most active issues: Citigroup, American International Group, ACE Ltd., XL Capital Ltd. The B/Stock Index fell 13.03%; the Dow Jones 30 Industrials fell 14.26%; the S&P 500 fell 11.60%; and the NYSE Composite dropped 11.24%. Average P/E: Brokers, 24.88% Insurers/reinsurers, 21.36%; and managed care companies, 14.93%.

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

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