

# Business Insurance

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

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## Workers comp insurers predict rate hike in 2001

HARTFORD, Conn.—Nearly one-third of workers compensation insurers expect to raise rates by up to 20% for 2001, according to a recent survey.

And more than 90% of the 30 major workers compensation insurers surveyed expect some rate increase, according to the survey conducted by Hartford, Conn.-based asset management and research company Conning & Co.

“A lot of the major workers compensa-  
See *Updates* on next page



PHOTO: NEWSMAKERS

A Firestone Wilderness tire that separated from its casing, allegedly resulting in the crash of a 1998 Ford Explorer on Aug. 9 in Florida.

## Tire problems drive interest in recall cover

By LEE FLETCHER

The extensive tire recall by Bridgestone/Firestone Inc. is prompting many companies to assess their current protection for recall risks, as well as driving new interest in product recall insurance.

Some companies, however, do not buy recall coverage and instead opt to retain the financial risk associated with a large product recall.

“Every company has to assess what could really happen. One of the issues that needs to be decided is how much to buy in the way of limits. If you’re selling to the automotive industry, you really need large limits because really the issue is how many units (automobiles) could be affected,” said Vince DeConti, an underwriting officer for product recall at American International Group Inc. in New York.

Interest in product recall coverage, particularly in the automotive industry, has

probably doubled since the Bridgestone/Firestone recall was ordered in early August, said Mr. DeConti. “I’m sure that even more of the automotive components (manufacturers) will be looking for coverage. That’s one of the major areas that we see expressed interest in product recall,” he said.

Manufacturers’ product liability exposures have shifted during the last decade or so, Mr. DeConti said. For example, original equipment manufacturers in the automotive industry only are willing to accept liability for the components they make. In the past, OEM suppliers were more willing to take responsibility for vehicle recalls, he explained. This shift has occurred in the high-tech field as well, he added.

Although Mr. DeConti declined to identify clients that have purchased or are considering product recall insurance, he said several large automotive

See *Recall* on page 20

## Pension reform OK expected in Senate

By JERRY GEISEL

WASHINGTON—The Senate Finance Committee this week will take up and almost surely pass a comprehensive pension reform measure.

The bill, which is modeled after a measure that passed the House in July on a bipartisan 401-25 vote, now is getting its finishing touches in a bid to win more support from Democratic panel members and avert a veto from President Clinton.

Like the House bill, H.R. 1102, the Finance Committee measure, which will be formally proposed by Committee Chairman William

Roth, R-Del., and voted on Sept. 7, will include such provisions as allowing employees to contribute more to their 401(k) and other savings plans, while cutting some of the red tape associated with administering pension plans.

But the Finance Committee bill also is expected to include provisions, now being assembled, that would require employers to boost disclosure to employees of the impact on their expected benefits of plan conversions, such as conversion from traditional defined benefit plans to cash balance and other newer types of pension plans.

The measure also is expected to include provisions that would

limit situations in which employees—working for employers that replace traditional plans with cash balance plans—could work for years after a conversion but not have any more benefits than those they already have accrued under the old plans. This result is often referred to as “wear-away.”

Another provision, expected to be proposed by Sen. Max Baucus, D-Mont., would give lower-income employees non-refundable tax credits for amounts contributed to 401(k) plans or individual retirement accounts. That provision could help to defuse opposition from the Clinton administra-

See *Pension* on page 22

## Buyers see positive results More HPR consolidation

By MICHAEL BRADFORD

Risk managers are watching the insurance marketplace for highly protected risks get smaller, but so far buyers are satisfied with this consolidation.

The latest acquisition in the HPR market was announced last month when American International Group Inc. proposed a \$1.2 billion purchase of HSB Group Inc., the parent of Hartford Steam Boiler Inspection & Insurance Co. The deal follows the 1997 purchase of Industrial Risk Insurers by Employers Reinsurance Corp. and the 1998 merger of the three Factory Mutual companies into a single entity. Employers Re in 1999 also bought the renewal rights to the HPR business of Kemper Insurance Cos. and transferred it to IRI.

Risk managers say they are seeing some efficiencies sprout from the consolidation among HPR players and are optimistic that their insurers will continue to provide the products and services they need at a reasonable price. Still, they are keeping a close eye on how their HPR insurers perform.

“I’m always concerned when I see mergers because mergers minimize competition,” said Paul F. Buckley, treasury director-risk management at Lucent Technologies Inc. in Murray

See *HPR* on page 4

### HPR market shrinking

Recent consolidation milestones

2000: AIG agrees to buy HSB

1999: Employers Re buys HPR business from Kemper Insurance Cos.

1998: Factory Mutual companies merge into Factory Mutual Insurance Co.

1997: Employers Re buys Industrial Risk Insurers

## Court limits Title VII suits Claim of bias against sexual orientation dismissed

By JOANNE WOJCIK

CHICAGO—A recent federal court decision dismissing a Title VII lawsuit that alleged discrimination over sexual orientation offers employers more confusion than guidance, legal experts say.

In *Hamner vs. St. Vincent Hospital*, the 7th U.S. Circuit Court of Appeals ruled on Aug. 24 that Title VII specifically prohibits discrimination based on gender, not based on sexual orientation. The decision was published Aug. 29.

But other federal appellate

courts have found that Title VII of the federal Civil Rights Act does apply to cases involving discrimination on the basis of sexual orientation, and at least 11 states and more than 100 municipalities have enacted laws prohibiting such discrimination, observers point out.

This “patchwork quilt of rights and obligations in the workplace” is confusing for employers, especially those with employees in more than one state, said Gerald L. Maatman Jr., chairman of the global labor, employment and em-

ployee benefits practice group at Baker & McKenzie in Chicago.

“This case really does not provide a whole lot for employers,” said Gregory Moore, a partner at Hall, Render, Killian, Health & Lyman in Indianapolis, who represented the employer in the 7th Circuit case.

“It very much muddies the waters for employers about what falls under current law,” agreed Steven Fulk, a partner at Fulk & Allain L.L.C. in Indianapolis, who represented plaintiff Gary Hamner. See *Ruling* on page 16

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# UPDATES

## Comp rate increases expected

Continued from previous page

tion insurers are not going to write new business unless the price is right for them," Geri Riley, assistant vp at Conning, said. "Companies should expect to allocate more money in workers compensation costs."

The largest workers comp insurers are more likely than smaller insurers to expect large rate increases, the survey found.

Sixty-seven percent of insurers with more than \$1 billion in premiums expect to raise rates 10% to 20%, compared with 33% of insurers with \$100 million to \$500 million in premium volume and 18% of insurers with premium volume of less than \$100 million, according to the survey.

## General Re names new CEO

STAMFORD, Conn.—GeneralCologne Re has made several executive promotions, including naming John Brandon executive vp of General Re Corp. and vice chairman and chief executive officer of General Reinsurance Corp.

Mr. Brandon, formerly chief financial officer of General Re Corp., will oversee its North American reinsurance and insurance operations, including those of General Reinsurance Corp., Genesis Insurance Co., General Star Indemnity Co., Fairfield Insurance Co. and GeneralCologne Life Re.

Franklin Montross IV was named executive vp of General Re Corp. and was appointed GeneralCologne Re's chief underwriting officer. In addition, Mr. Montross was named vice chairman and chief underwriting officer of General Reinsurance Corp., with worldwide responsibility for the company's underwriting and actuarial practices and standards.

Hans Peter Gerhardt also was named executive vp of General Re Corp.

William Thiele, John Chlonokey and Peter Nance were named senior vps of General Re Corp. Elizabeth Monrad was promoted to CFO of General Re Corp., and Tim McCaffrey was named the company's general counsel.

Milan Vukelic, Eckhard Volkening and Jack Koepke all were named vps of General Re Corp. Daniel Hickey and Christopher Migel were appointed to jointly lead the consolidated North American treaty reinsurance operations and were named executive vps of General Reinsurance Corp.

Stamford, Conn.-based General Re Corp., a subsidiary of Berkshire Hathaway Inc., is a holding company for global reinsurance and related risk management operations. It owns General Reinsurance Corp. and holds a controlling interest in Cologne Reinsurance Co., with both companies operating under the trade name GeneralCologne Re.

## Northridge claims review urged

SACRAMENTO, Calif.—A report from the California Senate Insurance Committee released last week recommends that the state's Insurance Department reopen regulatory review of how insurers handled claims in the wake of the 1994 Northridge Earthquake.

The recommendation comes on the heels of legislation, S.B. 1899, that would extend the statute of limitations by one year for Northridge quake insurance claims. The California Assembly passed the bill last month.

The Senate panel's report, titled "The Department of Insurance: In Rubble After Northridge," makes several recommendations aimed at restoring public confidence in the California Insurance Department. The panel's findings stem from the Senate's investigation into the department's operation under former insurance commissioner Chuck Quackenbush.

Also in the report are calls for rescinding confidential settlements between the former commissioner and insurers. The settlements involved the insurers' handling of Northridge earthquake claims. Mr. Quackenbush quit his post in July amid investigations into his conduct and allegations that he used settlements with insurers to further his political career.

The report makes other recommendations, such as establishing a catastrophe claims mediation program that the panel says could reduce lawsuits against insurers. It also recommends making public any settlements the Department of Insurance reaches with insurers, as well as publicizing market conduct examinations of insurer practices. Those are now confidential.

The Assembly late last Monday rejected a measure, S.B. 953, that would have limited insurer contributions to the political campaign of anyone seeking the insurance commissioner post.

## Forbes to buy U.K. broker

LONDON—Johannesburg, South Africa-based brokerage Alexander Forbes Ltd. plans to acquire most of the U.K. brokerage operations of Bradstock Group P.L.C.

Alexander Forbes will pay £12.7 million (\$18.5 million) for London-based Bradstock's retail insurance brokerage operations; its international events insurance brokerage arm, called Insurex Expo-sure; and Bradstock Trustee Services, and independent pension fund trustee business.

These Bradstock operations had revenues of £18.1 million (\$29.0 million) for the year ended Sept. 30, 1999, Forbes said in a statement. Bradstock's retail brokerage operation serves clients throughout the United Kingdom and Ireland via a network of 10 branch offices.

"The businesses that are being acquired complement the group's existing risk services operations in the U.K. and will provide them with strong niche positions in insolvency, professional indemnity and specialist event insurance," the statement said. "The acquired Bradstock business units strengthen our presence in the U.K. and enable us to market complementary products and services to our enlarged client base," John Percy-Davis, chief executive officer of Alexander Forbes Risk Services, said in the statement. Bradstock's retained operations will include its extended warranty business.

See *Updates* on page 22

## Errors & Omissions

• The market value of shares beneficially held by Melvin G. Todd, chief executive officer of Clark/Bardes Holdings Inc., is \$778,339, based on the Aug. 18, 2000, share price. A chart in the Aug. 28 issue gave an incorrect figure.

# California employers can require arbitration

By ROBERTO CENICEROS

SAN FRANCISCO—California's Supreme Court handed employers a major victory when it upheld their use of mandatory agreements that require employees to submit discrimination, sexual harassment and other employment-related claims to arbitration rather than to court proceedings, defense experts say.

In its ruling last week, the court also established long-awaited guidelines for crafting the mandatory agreements, giving employers a road map to what it considers fair contracts that will withstand judicial scrutiny.

One risk manager said the ruling in *Marybeth Armendariz et al. vs. Foundation Health Psychcare Services Inc.* now gives his company a green light to adopt arbitration agreements. Other employers with existing agreements will want to review them to ensure compliance with the court's new guidelines, legal experts say. These experts also note that employers could face increased costs associated with arbitration and that new litigation may arise as employees resist signing revised agreements.

Still, meeting the high court's due process guidelines and any additional costs to comply are mi-

nor matters compared with the significant victory handed to employers, said William J. Emanuel of Jones, Day, Reavis & Pogue in Los Angeles. Mr. Emanuel is head of the law firm's labor and employment practice in California.

"Arbitration is so much less expensive than litigation for employers that all the (court's new) requirements pale in significance," he said. "It's vastly cheaper."

In the case heard by California's Supreme Court, Mr. Emanuel drafted an amicus brief on behalf of Employers Group, a Los Angeles-based human re-

See *Arbitrate* on page 2

## Employers urge veto of benefit increase

# California comp hike passes

SACRAMENTO—Employer groups in California vowed to lobby Gov. Gray Davis to veto a workers compensation benefits increase bill adopted Thursday during the final hours of the state's legislative session.

The governor is likely to veto Senate Bill 996, but his approval is possible, said Lori Kammerer, executive director of Sacramento-based Californians for Compensation Reform. The legislation eventually would increase workers comp costs in California by \$2.6 bil-

lion annually and does not contain reforms sought by employers. Among other reforms, employers want the evaluation and finding of a permanent disability to be based on objective medical guidelines and not on subjective physician opinions.

Passage of the bill comes just a day after the Oakland-based California Workers' Compensation Institute issued a bulletin reporting that a 1999 fourth-quarter claims frequency survey reveals a continuing decrease in filed claims. Claim severity in the state, however,

continues to increase.

The survey of 40 workers compensation insurers found annual claim frequency dropped 7.7%, marking the ninth consecutive year of declining frequency. But claim severity continues to soar. The CWCI estimates that for 1999, the total loss per indemnity claim will climb 14% to \$31,148. That means average claim costs are up 72% in the last five years—more than offsetting savings due to the decline in frequency, the CWCI reported.

—By Roberto Cenicerros

# Disaster institute begins research

By MARK A. HOFMANN

ALEXANDRIA, Va.—A new alliance of academic institutions, governments and insurance industry companies hopes to use applied research to help mitigate natural disaster losses around the globe.

The World Institute for Disaster Risk Management, located at Virginia Polytechnic Institute and State University's Alexandria Research Institute, came into being earlier this year and began its first formal project in August, said Frederick Krimgold, the institute's co-director.

The institute wants to draw upon the knowledge of academics at prestigious universities worldwide to help clients—governments, businesses or non-governmental organizations—better understand the nature of risk, said Mr. Krimgold, an architect and director of technology assistance and development for university outreach at Virginia Tech.

Virginia Tech joined with the Swiss Federal Institutes of Technology and the World Bank Disaster Management Facility to create the institute earlier this year. The institute's initial funding came from the

two schools and from Swiss Reinsurance Corp.

"As a worldwide leader of financial services, Swiss Re supports positive contributions to society, and we believe the World Institute for Disaster Risk Management fills an important need by helping countries find ways to reduce the loss of life and property from disasters," said a Swiss Re spokesman in New York.

"Our support of the organization as a founding member is part of a long Swiss Re tradition of providing assistance for international humanitarian

See *Disaster* on page 16

# INSIDE

• Congress should make clear that the Age Discrimination in Employment Act applies only to employees, and not to retirees, this week's editorial says. **PAGE 8**

• In Taking Stock, Myron M. Picoult writes that the insurance industry has not yet reached a good balance between pricing and retentions. **PAGE 13**

• AXA and CGNU have reached radically different decisions about their respective global risks businesses: CGNU will withdraw from that business; AXA has announced mergers that it calls an effort to build its global risks unit into a truly global company. **PAGE 15**

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## Departments

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# U.S. reinsurers' results deteriorate in 1st half

By DOUGLAS McLEOD

The future may look brighter for reinsurers, but the present leaves a lot to be desired.

In the first half of this year, U.S. reinsurers saw already poor results deteriorate further, even as written premium volume increased.

Loss ratios for many of the largest reinsurers climbed, pushing the industry's overall combined ratio to 112.2% from the 107.6% reported for the first half of last year, according to figures compiled by the Reinsurance Assn. of America in Washington.

As loss experience worsened,

net written premiums for the surveyed companies grew 19.1% to \$12.3 billion in the first six months of 2000, compared with the first half of 1999. "There's no question that the results still are lousy," said Jerome

Karter, vice chairman of SCOR U.S. Group in New York. "I don't think the full year is going to be exciting for the reinsurance industry."

"This is going to be a bad year,

and that's assuming there are no" catastrophe losses, said Donald Watson, a director with Standard & Poor's Corp. in New York. "If there are cats, it will be even worse."

What bodes well for the industry, though, is the prospect of rising prices for primary insurance and reinsurance coverages as the year-end renewal season approaches, reinsurers, brokers and industry analysts agree.

"We are seeing the beginning of dramatic rate firming in the reinsurance sector in many of the property lines of business, in addition to certain other areas, such as aviation and workers compen-

sation," said Kenneth Zuckerberg, a vp with Wasserstein Perella Securities Inc. in New York. "We are actually pretty bullish on the sector."

"We're certainly not seeing things getting worse in any line. That may be somewhat good news all by itself," Mr. Karter said. "There's some hope."

The 20 largest reinsurers, accounting for the lion's share of the reinsurance market, did marginally better than the overall industry, though their premium growth was somewhat slower. Net written premiums for the top 20 rose 12.4% to \$11.9 billion in the first half from \$10.5 billion for

the same period in 1999. That compares with the 19.1% growth recorded by all reinsurers surveyed by the RAA.

*Business Insurance* includes in the Top 20 the reinsurance results of Berkshire Hathaway Reinsurance Group, which does not participate directly in the RAA survey, although the results of Berkshire-owned General Re Group are included in the RAA tally.

The premium growth for the most part does not reflect rate firming at midyear, but instead is the result of a shift by some reinsurers to pro-rata business—in which reinsurers take a percent-

See Results on page 19



PHOTO: AFP

A police officer makes a security sweep of the Sydney Olympic Park.

## Olympic execs on alert for risk of terrorism

By KATE TILLEY

SYDNEY, Australia—The high-profile nature of the Olympic Games in Sydney makes them a potential target of terrorist activity, but the New South Wales police force says its safety and security arrangements are in place and it is ready.

The state police force has held three major exercises this year to test its level of preparedness. All police leave has been canceled, and some suburban police stations will be closed during the Games. Court sessions and police training courses have been canceled, freeing police for security efforts.



Sydney's Olympic Park baseball stadium in May, the exercise involved a mock terrorist raid in which hostages were taken by terrorists armed with poisonous gas.

An earlier exercise, Sky Ring, involved a scenario at Sydney Airport in which an aircraft with International Olympic Committee delegates was hijacked. Another exercise, Blue Ring, had terrorists taking over a ship at Circular Quay, Sydney, on which IOC delegates were conducting a meeting.

A police media spokesman said each exercise took  
See Terrorism on page 17

The final exercise, Exercise Ring True, tested counterterrorist operations. Held at

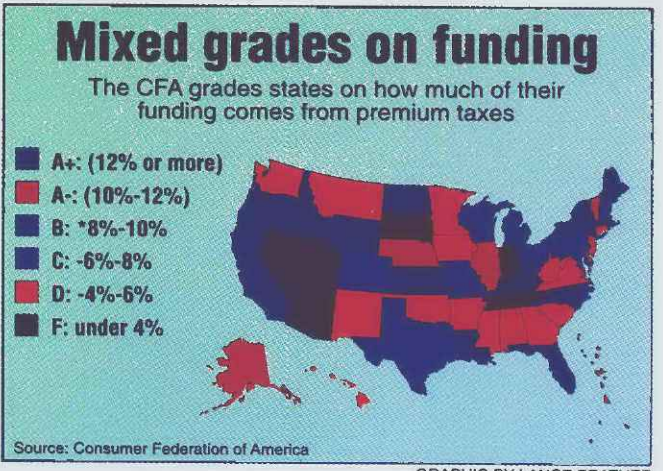
## Regulatory funding levels improve, but many remain inadequate: CFA

BY MARK A. HOFMANN

WASHINGTON—Although the funding of state insurance departments has improved in recent years, there is still ample room for improvement, according to the Consumer Federation of America.

In a report issued last week, "1988, 1993 and 1998 Changes in State Insurance Department Resources," J. Robert Hunter, the former Texas insurance commissioner and a longtime insurance industry critic, wrote that progress has been made in the long-term goal of adequately funding state insurance departments. The survey compared the level of funding for insurance regulators—expressed as a percentage of premium taxes collected by each state that are returned to the insurance department—in 1998 to that available in 1993 and 1988.

"What we identify here is one necessary condition for effective state regulation: do states have sufficient re-  
See Funding on page 22



GRAPHIC BY LANCE PRATHER

## Drug settlement gets final OK

Fraction of diet drug users pursue individual suits against American Home

By MICHAEL PRINCE

PHILADELPHIA—A federal judge in Philadelphia gave final approval last week to a multibillion-dollar settlement of most diet drug lawsuits against American Home Products Corp.

The ruling, by Judge Louis Bechtle, finalizes the settlement in which American Home will pay up to \$3.75 billion to users of its diet drugs Pondimin and Redux. Pondimin, the brand name of fenfluramine, was often used with another drug, phentermine, in the "fen-phen" combination.

American Home withdrew both drugs in 1997, after studies showed they caused heart valve damage in

users. The company reached a comprehensive settlement of a nationwide class-action suit in 1999 under which users would receive compensation based on the extent of their injuries. The settlement resolves the vast majority of claims against American Home.

But 45,000 individuals—less than 1% of all users—have elected not to participate in the settlement and are pursuing their own lawsuits against the Madison, N.J.-based company.

The judge gave the settlement preliminary approval in November 1999 and held additional hearings on it earlier this year.

"We have always felt this was a fair and equitable settlement, and we're

very pleased that Judge Bechtle has agreed," American Home Chairman and Chief Executive Officer John Stafford said in a written statement.

Last year, American Home recorded a charge of \$4.75 billion to cover the costs of the drug suits. And just last month, the company announced that it expects to take an additional, unspecified charge to cover the costs of suits by users who opted out of the settlement.

The company has lost a number of multimillion-dollar jury verdicts in recent months, including a \$150 million verdict late last year in Mississippi. American Home has no insurance to cover these costs. **BI**

## Forum to explore new opportunities

# New century for captives

By RODD ZOLKOS

PALM BEACH GARDENS, Fla.—The 10th Annual World Captive and Alternative Risk Financing Forum will help attendees move "Into the 21st Century" with examinations of cutting-edge risk financing techniques and other issues by the most innovative captive sponsors and leading risk financing experts.

This year's forum, scheduled for Nov. 13-15 at the PGA National Resort and Spa in Palm Beach Gardens, Fla., will be structured on parallel tracks, one focusing on traditional captive-oriented material and the other on the practical basics of new risk financing techniques and instruments.

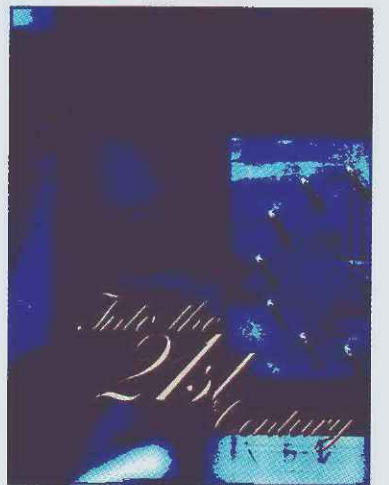
And, outside the formal program, the

annual gathering also provides many opportunities for one-on-one exchanges with panelists and peers during breaks, receptions and meals.

The conference's co-sponsors are *Business Insurance*, Skandia International Risk Management/SINSER and Tillinghast-Towers Perrin.

Concurrent sessions beginning at 3 p.m. on Monday, Nov. 13, will address captive basics and the new world of e-business, respectively.

Using real-life examples, "Captives 101: The Benchmark Course" will concentrate on the basic concepts of risk financing in general and captives in particular. While intended for those new to the subject, the session also will offer  
See Captives on page 21



# HPR

Continued from page 1

Hill, N.J. "I'm not a great proponent of mergers."

But, he added, service has improved since his HPR insurer, Allendale Mutual Insurance Co., merged into the single entity called Factory Mutual Insurance Co., based in Johnston, R.I. Since its early days as an AT&T Corp. subsidiary, Lucent had purchased property coverage from Allendale.

As long as Factory Mutual sticks to what it does best and doesn't make any changes in its operating philosophy, "I don't foresee a problem," said John Watson, director of insurance and risk management at Pepperdine University in Malibu, Calif. Even so, he added, "I would be a poor risk manager if I didn't keep an eye out for these kinds of problems."

Stephen M. Wilder, vp-risk management at The Walt Disney Co. in

Burbank, Calif., said he, too, has seen a more efficient Factory Mutual since the merger. He said the blending of the insurers that "all did things differently" into one entity has resulted in "a more streamlined" insurer that provides "better service, quicker."

The wave of HPR consolidation that began in the 1990s was partly prompted by dismal underwriting results in the specialized property market.

"Price levels have been dropping steadily over time and it's not like the market was growing in any significant way," said Shivan S. Subramaniam, president and chief executive officer of Factory Mutual. In such a scenario, the only way to provide products and services at a reasonable price is to consolidate, he said.

Gail P. Norstrom, president and CEO of IRI in Hartford, Conn., pointed out that the large-risk property market "has been a tough market for the past 10 years. I don't think any of us were getting the returns we would

have liked."

Less-than-satisfactory results and a desire to maximize shareholder value have helped fuel the desire for HPR insurers to merge, Mr. Norstrom said. And reinsurers are "waking up to the notion that there is a higher cost of capacity," he remarked. "You start adding all that up and it makes more sense to be a larger, scalable organization."

The deal by AIG to acquire HSB looks to be largely about market opportunities.

"Combining the two, I think, strongly complements both organizations," said Daniel J. Ryan, assistant vp at A.M. Best Co. in Oldwick, N.J. "AIG is a major commercial lines insurance company with a huge global broker market presence. Needless to say, HSB is very specialized and has a similar distribution network."

The deal gives HSB access to a "much bigger client base" and AIG a specialty in which it now participates

only minimally, Mr. Ryan said. "It just fits."

While neither AIG nor HSE would comment on the acquisition, a transcript from a conference call with analysts—during which the insurers announced the deal—indicates that HSB hopes the union will give it the ability to offer new products and services.

Richard H. Booth, HSB Group's chairman, president and CEO, said during the call that HSB is an "engineering-driver company" with projects in around 80 countries. Often, however, the insurer has to pass up opportunities to offer products and services to large companies that ask for them because of the "small size of our balance sheet."

Mr. Booth said he thinks that the deal with AIG means HSB now will have the financial strength to exploit those opportunities. "That is a significant upside in my opinion."

Risk managers and insurers say rates are slowly rising in the HPR

property market, but the shuffling among insurers is not to blame.

In fact, consolidation probably is helping keep rates from rising faster than they are, according to Mr. Subramaniam. In the case of the Factory Mutual merger, a more efficient and streamlined operation helps keep down expenses that would have been passed to policyholders, he said.

Suzanne Douglass, managing director-property at Willis Risk Solutions in New York, said it may be some time, however, before risk managers see a break in pricing from the efficiencies that HPR insurers may be realizing. The streamlining does not appear to be having much of an effect on insurance prices, she said. "I suppose there are some economies of scale; whether that has converted directly into a savings, I'm not convinced."

Policyholders have enjoyed low rates for some time, Mr. Subramaniam said, and even though rates currently are rising, the increases are not drastic.

"Only in the last nine or 10 months has there been some stabilization and inching up" of HPR property rates, Mr. Subramaniam pointed out.

Reinsurance rates figure into property insurance costs, Mr. Subramaniam pointed out, and "a lot of property reinsurers are starting to push up rates. I don't think that has anything to do with the mergers."

"Rates are still very soft in the HPR market," said Best's Mr. Ryan. HPR property risks are large accounts with savvy risk managers who, with their brokers, have become adept at negotiating favorable prices for their coverage, he explained.

In the conference call with analysts, AIG Chairman and CEO Maurice R. Greenberg said that while property prices are improving, the increases are "still not enough and we want it to go much higher. We've got to remember that rates went down for almost a decade and the fact that they are going up one or two years very incrementally is still not adequate."

He said AIG and HSB share the philosophy of "underwriting for a profit and not for market share. That will continue to be the way it will be run," he said of HSB.

Ms. Douglass mentioned that HPR insurers focusing on those types of risks alone might be putting themselves at something of a competitive disadvantage by offering such a narrow product line. Commercial property business is a small portion of the overall commercial market, and HPR risks are a small piece of the property market, she explained.

"Some argue that there will always be a place for the niche market," Ms. Douglass remarked. But many insurers are offering a widening array of property/casualty coverages as buyers increasingly look for integrated programs.

For underwriters that handle just HPR property accounts, there is no "competing balance built into their books," she said.

It raises the question of "what is the long-term prognosis for companies that do only property?" she said.

James Noble, director of corporate risk management and insurance at Colgate-Palmolive Co. in New York, said the amount of coverage he purchases from Factory Mutual has decreased since his company instituted an integrated risk program last year. Allendale wrote primary property coverage for the company for around 70 years, but Factory Mutual has only a piece of Colgate-Palmolive's excess insurance under the integrated program.

Mr. Noble said Factory Mutual made the right move in "going where their strength is" and remaining an HPR specialist. On the other hand, the inability to write other coverages means policyholders have to be selective when using the insurer, he noted. "So that limits what they can do," he said of the insurer. **BI**

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# OPINIONS

## Congress must fix ADEA

**I**F THERE EVER WAS a court decision that calls for congressional intervention, a ruling last month by the 3rd U.S. Circuit Court of Appeals is it.

As we reported, the court found that under the Age Discrimination in Employment Act, age discrimination suits can be brought against employers that provide lesser health care benefits to Medicare-eligible retirees than to other, younger retirees.

The ruling came as a shock to employers, which have long thought that ADEA applies only to employees and not to retirees. There is, in fact, good reason for employers to be surprised. In looking at the legislative history behind ADEA, it is clear that Congress intended that the law apply to the benefit programs offered to a company's active employees and not to its retiree population.

While the appeals court acknowledged that history, the judges nevertheless ruled that nothing in the legislative language itself excludes retirees and the benefit plans offered to them from ADEA's reach.

This is an oversight that Congress should quickly correct if legislators are interested in preserving what is left of the shrinking base of employer-provided retiree health care plans. If the ruling is not addressed by Congress, then employers will have few practical alternatives for minimizing their liability exposure other than to cut back drastically on the benefits they offer through retiree health care—or stop offering such benefits altogether.

ADEA does offer employers a safe harbor against age discrimination suits if they provide the same benefits to older employees as to younger employees, or if they spend the same amount on benefit plans for the two groups.

In the real world, however, this defense against ADEA claims is not practical when applied to retiree benefits. Typically, an employer's cost for providing health care benefits to younger retirees will be several times higher than to older retirees.

The reason for that is simple: Medicare provides basic health care coverage for retirees 65 and older. As a result, employers, if they offer retiree health care coverage, only need to supplement Medicare coverage, such as by providing prescription drug benefits. By contrast, in the case of retirees under 65, who are not eligible for Medicare, employers will typically offer those younger retirees the same health care plans they provide to active employees. Obviously, that is going to cost a lot more than a health care plan that fills in the gaps left by Medicare.

To equalize their costs for the two groups, employers' choices are limited. One option would be to add a whole slew of health care-related benefits for Medicare-eligible retirees. Obviously, though, that wouldn't be very practical, as employers already are struggling to restrain the



costs of their existing benefit programs and would not want to increase their costs by expanding benefits.

Another alternative would be to equalize benefits for the two groups, but that, too, would not be very practical. For starters, determining what is an "equal" benefit package would not be an easy task. Indeed, in the litigation before the appeals court, the employer—Erie County, Pa.—offered Medicare-eligible retirees a health maintenance organization with lower cost-sharing requirements than a point-of-service plan that was provided to younger retirees. In spite of the lower out-of-pocket costs, the Medicare-eligible retirees argued that their plan was less generous because they had to go through the HMO's provider network to receive benefits.

If it is not overturned, the appeals court decision will lead to years of litigation, as courts wrestle with trying to determine whether benefit packages for different classes of retirees are equal. That wouldn't be a very appealing prospect to employers, and many no doubt would terminate health care plans for both groups of retirees.

That would hardly be in the public interest. Nor would yet another alternative employers would have: providing an "equal" but stripped-down health care package to both groups.

Clearly, the only action that does make sense—which is what legislators intended, but failed to do when drafting ADEA—is to rewrite the law to make explicit that ADEA does not apply to benefits offered to younger and Medicare-eligible retirees. Those groups, because of Medicare, do have different benefit needs, and Congress should recognize that basic fact.

## LETTERS

### Loss mitigation an important safeguard

To the editor: Your July 31 article on the California Earthquake Authority's good risk management and investing position, "Safer Homes as Important as Strong CEA," was encouraging, but one

major factor continues to receive less attention than it should: loss mitigation.

More public and private efforts need to focus on promoting mitigation as the best means to safeguard people and property from the devastation of earthquakes and other natural disasters.

Within homes, techniques such as anchoring bookcases to walls are well known and increasingly being used by the public. Efforts such as those by the Federal Emergency Management Agency to educate the public on these techniques are commendable.

Several weeks ago, researchers at the University of San Diego at California found that frame and stucco homes built

under current codes held up much better than expected to quake conditions. New code requirements can and do make a difference. Strict enforcement is essential. And increasing limitations on development in high-risk, environmentally sensitive areas—such as along coastlines and faultlines—is another positive step that should be taken.

Loss prevention is the surest way to reduce the impact of earthquakes; it is the key to protecting valued belongings and even lives.

**David Farmer**  
Senior Vp of Federal Affairs  
Alliance of American Insurers  
Downers Grove, Ill.

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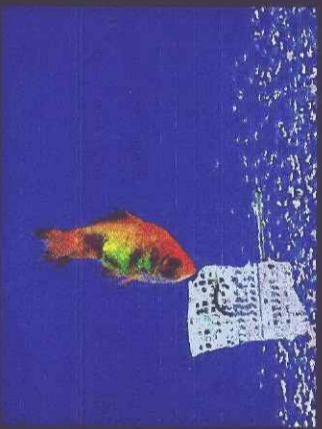
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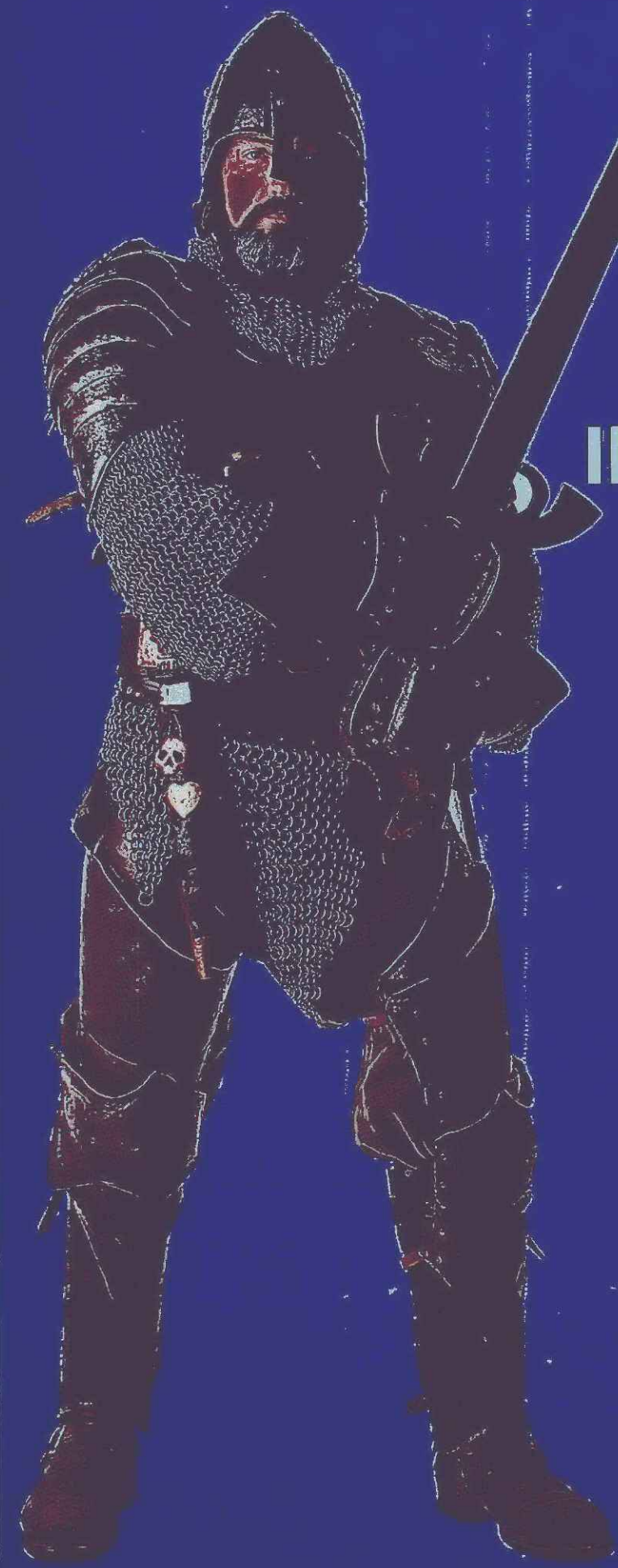
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# Agent/Broker Topics

A monthly editorial section sent exclusively to agents, brokers and consultants

## FIGHTING FRAUD

AGENTS/BROKERS:  
THE FIRST LINE  
OF DEFENSE



**INSIDE:**

**INTERMEDIARIES  
CAN STOP FRAUD  
BEFORE IT STARTS**

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AGAINST SWINDLERS**

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**CAUGHT IN A WEB:  
TECHNOLOGY AIDING  
SURVEILLANCE EFFORTS**

**PAGE 12H**

# Producers on front line in fraud battle

By SALLY ROBERTS

**W**hen it comes to combating fraud in the insurance industry, agents and brokers have an important role to play.

Because intermediaries are the first access point to a policyholder's application and are often the first person a policyholder contacts when filing a claim, agents and brokers are in an ideal position to

spot signs of false or fraudulent activity while it is in its early stages, experts say.

Agents and brokers are "the first line of defense," said a spokesman for the Washington-based Coalition Against Insurance Fraud, an insurer-backed organization that was formed in 1993.

"Applications and claims are each rife with warning signs, so if an agent is trained to be alert to red flags, they will be able to smell a rat a mile away," said the CAIF spokesman.

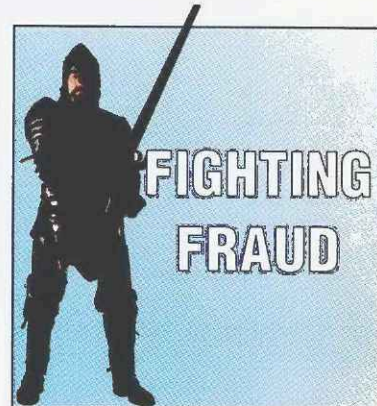
The CAIF estimates that fraud resulted in \$79.7 billion in bogus insurance claims in 1997, the last year for which the coalition has solid data. And the National Insurance Crime Bureau estimates that at least 10% of all property/casualty insurance claims contain some elements of fraud.

Those costs, not surprisingly, are passed on to consumers in the form of higher premiums. But it's not only consumers that get hurt by insurance fraud, experts say. Agents and brokers also feel the ef-

fects of fraud in the form of lower contingent commissions from insurers, who pay intermediaries fees based on the profitability of blocks of business placed, explained Madelyn Flannagan, vp-research and development for the Independent Insurance Agents of America Inc. in Alexandria, Va.

Fraudulent claims result in higher loss ratios, which causes insurers to take a closer look at their agency contracts, she said.

In addition to bottom-line repercussions, agents and brokers



also face exposure to errors and omissions claims when customers commit insurance fraud, experts say.

If an agent or broker gets caught up in an insurance fraud scandal, the question is asked: "With a little more diligence, should the agent have known about it?" explained the CAIF spokesman. "Courts today are holding agents to a higher standard of scrutiny."

And agents and brokers also face the loss of key insurer relationships.

"If an agency becomes a conduit for a bad application or a bogus claim, that agency's relationship with the company will suffer mightily," the CAIF spokesman said.

Tim Curry, assistant vp-corporate and regulatory counsel for Chubb Executive Risk in Simsbury, Conn., agrees.

Agents and brokers can "damage, if not destroy the relationship...if it becomes obvious that the agent or broker should or did know with reasonable care that an insured misrepresented facts of an application," Mr. Curry said.

At Chubb Executive Risk, which specializes in claims-made professional liability coverages, fraud is most likely to take place in the application process, he said.

"That's where agents and brokers come in, because they are in the front line," he said.

In one typical fraud scenario, a person or business seeking coverage fails to say that the coverage is for a potential claim that may arise due to an event that has already occurred, Mr. Curry explained. In some cases, the applicant doesn't realize that he or she is committing fraud by concealing facts about a prior event.

"As an insurance company, we feel we have an obligation to help our broker and agent force do their job...being part of the fraud prevention machinery," Mr. Curry said.

To do this, Chubb Executive Risk gives its distribution force a list of fraud "red flags" that are based on industry experience with fraudulent claims.

Some of the red flags include:

- The applicant is a new client, previously unknown to the agent or broker; or the applicant is unsolicited, new walk-in business and was referred by an existing policyholder.

- The applicant walked into the agent's or broker's office at noon or at the end of the day, when the staff may be rushed.

See **Fraud** on page 12D

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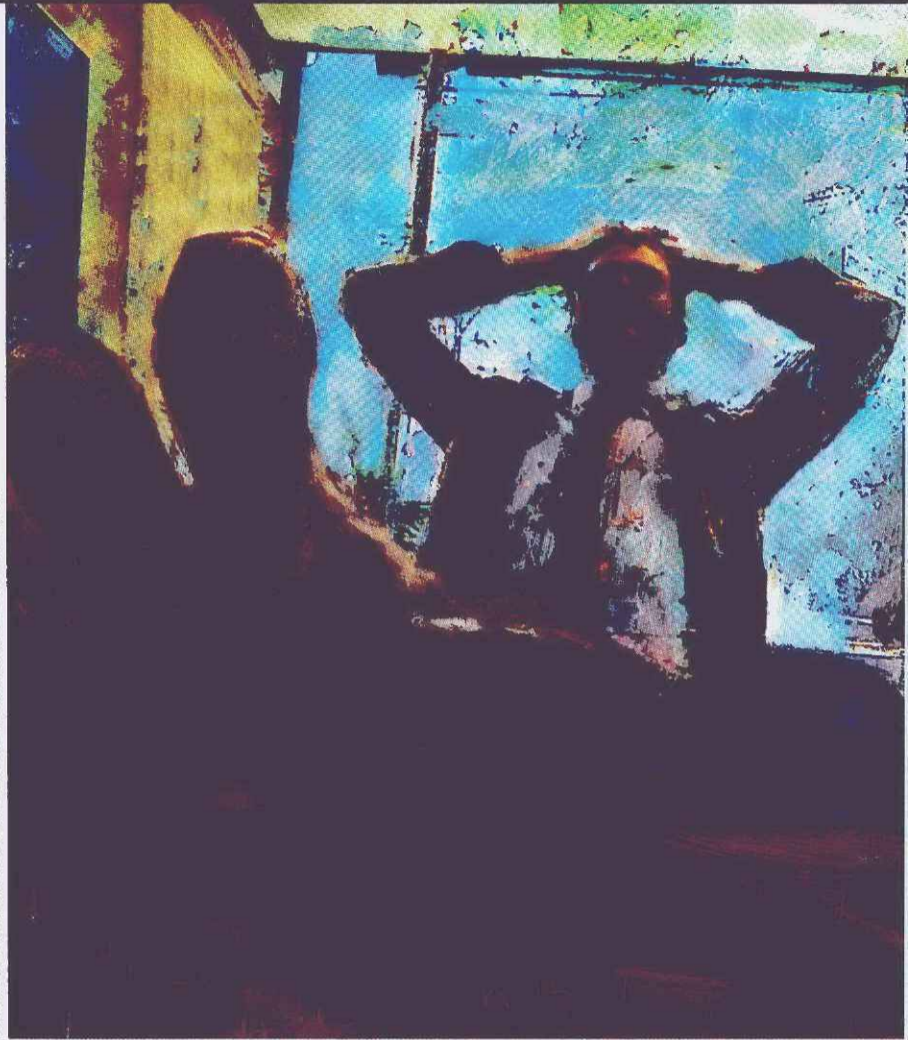
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# Fraud

Continued from page 12B

- The applicant neither works nor resides near the agency.
- The applicant's given address is inconsistent with his/her stated employment income.
- The applicant has lived at his/her current address for less than six months.
- The applicant refuses to provide a telephone number, or the number provided is a mobile or cellular phone number.

"In the last couple of years, especially as the press has brought insurance fraud into the forefront, agents have become well-versed...in looking for things," said Ms. Flannagan of the IIAA, referring to possible indications of fraud.

"They don't want to get caught up in" fraudulent activity, she said.

"They are truly involved in trying to make sure that the insurance industry maintains a good name."

Ms. Flannagan said that although agents are taking various

steps to combat fraud, they need to become "vigilant" about continually educating themselves about insurance fraud. She suggests that agents work with an insurer's special investigation unit or with various state insurance departments to keep up-to-date. There also are some continuing education courses on insurance fraud that agencies can take, she added.

The CAIF spokesman offered other suggestions for what agents and brokers can do to protect themselves, their clients and their insurers against insurance fraud.

First, he said, agents and brokers need to know both their clients and how the business operates. The more an agent knows about the business, the better equipped he or she will be to determine whether a claim makes sense. For instance, if an agent is aware that its client has been expanding its employee base, yet the client reports its old number of employees on its workers compensation renewal form, that should raise a red flag, he said.

Agents and brokers also need to be aware of what fraud scenarios

are out there, the spokesman suggests. The more aware they are, the more alert they will be to warning signs, he said.

In addition, agents and brokers need to know how to contact insurers with evidence and suspicions, he said.

The CAIF spokesman also suggests that when claims are presented, agents and brokers should ask a lot of questions. "Make sure all the data makes sense and is consistent," he said. "Clients may get irritated, but it protects the company."

## Coalition has raised awareness of fraud

By MARK A. HOFMANN

**W**hat a difference seven years can make. When the Washington-based Coalition Against Insurance Fraud came into being in 1993, insurance fraud wasn't terribly high on many radar screens—including those of insurers. In fact, said Dennis Jay, executive director of the insurer-backed coalition many insurers shied away from aggressively investigating insurance fraud because they didn't want to be seen as fighting their customers.

The issue wasn't terribly high on state lawmakers' or regulators' agendas, either. Howard Goldblatt, the coalition's director of government affairs, pointed out that not that many years ago, he was the only non-regulator who attended the National Assn. of Insurance Commissioners' Fraud Task Force meetings—meetings that were open to the public. "I had to constantly identify myself" and the coalition, because no one had heard of it, he said.

Today, however, the coalition needs no introduction at regulatory and legislative events. In fact,

the group can point to the fact that portions of its model bill on insurance fraud have been enacted by 15 states and that awareness of the costs of fraud has increased within the industry, said Mr. Jay.

But he also pointed out that, as the insurance industry evolves, the nature of fraud is evolving with it, and that there's no justification for allowing anti-fraud efforts to flag.

A major part of the process of fighting insurance fraud is to involve a key victim—the insurers themselves, said Mr. Jay. When the coalition began, "there were a lot of clueless insurers out there" that accepted the losses associated with fraud as a cost of doing business, he said.

That perspective has by and large disappeared, said Mr. Jay. But "there's still a bit of apprehension when it comes to the commercial insurance side," because underwriters don't want to risk losing large-premium accounts by taking suspicions of fraud to law enforcement officials, he said.

The coalition's membership extends beyond the insurance industry. In addition to individual insurance and reinsurance companies and trade groups, the coalition's members include such diverse groups as the Consumer Federa-

tion of America, the National District Attorneys Assn. and the Center for Consumer Affairs at the University of Wisconsin-Milwaukee.

Enactment by 15 states of portions of the coalition's broad fraud model law, which reflects the concerns of insurers, government officials and consumers, has seen a replacement of previous, narrowly focused laws with what Mr. Jay called "a tool kit for victims." Key to the model measure is that it grants insurers the "broadest possible civil immunities" when investigating fraud, he said.

The model law defines a fraudulent insurance act as "an act committed by anyone who, knowingly and with intent, defrauds another person for gain." This act applies to claims fraud, application fraud and fraud by insurers themselves. The model provides for civil penalties against perpetrators of insurance fraud and requires insurers to cooperate with authorities by disclosing any information requested, while also providing insurers—or anyone else—with some civil immunity for providing information about fraud.

But the coalition hasn't sought the spotlight in its efforts, he said. "We like to stay in the back-

ground" with other interested parties taking the lead, he said.

Mr. Jay said that one of his major disappointments is that the coalition has not been able to maintain a high level of public attention to the issue. "It's a constant process to keep the issue on the forefront."

In addition, Mr. Jay expressed disappointment over the fact that polling results still show that many Americans do not regard insurance fraud as a crime. Many people tolerate insurance fraud because they view it as a way to get back money that they paid in insurance premiums, he said.

Looking ahead, Mr. Jay said, "there are still a lot of wild schemes out there" by which con artists attempt to defraud insurers and policyholders. For example, staged auto accident rings still operate as do elaborate workers compensation fraud schemes.

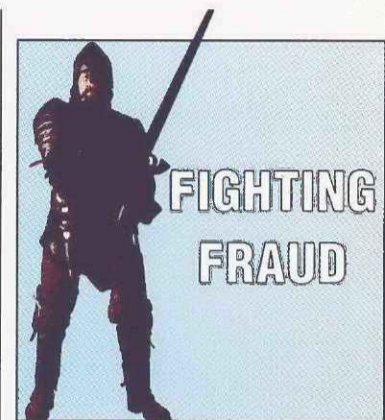
In addition, changes in business processes have created new avenues for fraud, and the coalition intends to stay on top of them, he said.

"We're taking a very definite look at e-commerce" and the potential for insurance fraud that it represents, said Mr. Jay. Although e-commerce has not thus far played a major role in insurance fraud, Mr. Jay said he believes it will become a significant problem and that neither the insurance industry nor the government is adequately prepared for the challenge.

Mr. Jay noted that there is "unbelievable lack of understanding" about how stringent privacy regulations could hamper anti-fraud efforts. Various forms of privacy legislation have been introduced at both the state and federal levels.

The life insurance industry is becoming an increasing target for perpetrators of fraud—some preferring violence to the more common tools of insurance fraud, he said. Mr. Jay pointed to three broad areas of life insurance fraud: homicides to collect on life insurance, faked deaths and viatical fraud.

Viatical fraud, he said, is of particular concern. In some cases, perfectly healthy people sell policies on which investors won't collect for decades. Sometimes, these individuals are aided by unscrupulous agents, who also reap financial



benefits from the fraud, he added.

Organized crime remains a player in insurance fraud of all sorts, said Mr. Jay. Its activities range from arranging accident rings to "phantom billing" for medical services that never occurred to laundering money through the insurance process.

Organized criminals within various immigrant communities also use insurance fraud to swindle newly arrived immigrants, he noted. For example, some fraud perpetrators have sold burial insurance to bereaved families after a loved one has already been buried, preying on the fact that the fraud victims, whose command of English often is sketchy at best, do not understand that they cannot insure against an event after it has occurred.

Mr. Jay ticked off several of the coalition's long-term goals. One is becoming involved in a massive public awareness campaign highlighting the costs of insurance fraud. This campaign would involve industry, government and consumer groups and might not be carried out under the direct aegis of the coalition, he said.

Another of the coalition's goals is to promote uniformity among state anti-fraud laws and regulations. Mr. Jay noted that the anti-fraud enforcement tools available to crime fighters vary substantially among the states.

Meeting the challenge of growing diversification in the financial services industry is another of the coalition's long-term goals. As the businesses of banking and insurance blur together following the 1999 passage of the federal Gramm-Leach-Bliley Act, there will be new avenues for fraud, said Mr. Jay. In addition, there will also be the possibility of applying to insurance anti-fraud efforts the lessons learned in combating bank fraud. "It's going to create new threats and opportunities for us," he said.

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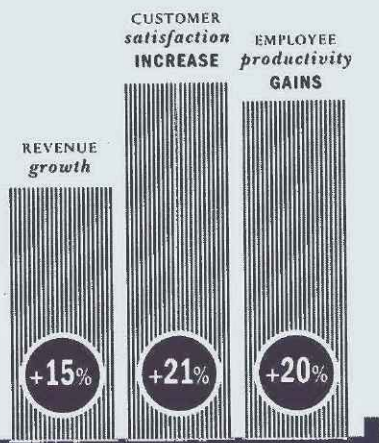
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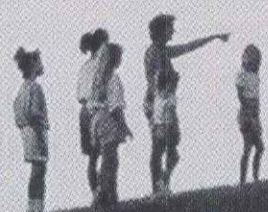


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# New technology keeps a watch over fraud

By John Powers and Bill Kizorek

**A**s the 21st century opens, we are witnessing a dramatic transformation of the surveillance industry. Overnight, it seems, the standard VHS tape is beginning to look as though it will soon go the way of the eight-track audio system. Digital tapes, evidence on CD-ROMs, Internet transmission of streaming video—these are all realities now, with not even a single insurance-related court case challenging the use of such technology.

Before burning any bridges with the past, however, it is important to remember what surveillance is all about in the first place. Just 25 years ago, plaintiff attorneys and claimants were at the tail end of a long run of victories. Those victories centered on the accepted theory that, "the more disabled, the more money you had coming." Surveillance was not commonly used, as the film charges alone could run \$500 per assignment.

The gain in popularity of surveillance corresponded with the industry's recognition that too many claims seemed to be inflated: Too many long-term disabilities did not correlate accurately to the original injury. One early investigation we worked on, for example, involved on a Michigan man who had been off work for 10 years with a fractured non-dominant thumb.

In about 1980, video tapes began to replace 8 mm and 16

mm films. Although the technology was challenged in court—because of the ease with which scenes could be edited, compared with film—the courts quickly accepted that the real evidence was the testimony of the investigator and that the tapes were simply a backup, a reinforcement of what the investigator witnessed. With video technology, the costs of surveillance dropped dramatically, and the service became more appealing to insurers.

In Australia, the practice of taping claimants was frowned upon in the state of Victoria, so the government there basically outlawed it. Investigators could just go out "and report what they saw. No tapes." Claimants would come to court and tell their story, investigators would tell what they saw, and the courts seemed to always side with the claimants. Within a couple of years, the state government-funded "Work Care" program—comparable to a workers compensation fund in the United States—was so many millions of dollars in the red that the state brought video surveillance back into the system.

Back in the United States, as the years went on, enough outraged claimants challenged this evidence-gathering procedure that the courts came down with a series of rulings on surveillance. In a nutshell, they set the ground rules: They did not like investigators climbing trees to look into backyards, did not like investigators cutting holes in hedges to peep into

## A/BT PERSPECTIVE

bedroom windows, and they took a dim view of investigators gathering information by using high-powered and intimidating pretexts. So, in a very short period, the rules of engagement were codified:

- Do not harass or torment the subject of the surveillance.
- Do not impersonate a police officer, clergyman, FBI agent or reporter.
- People who file claims sacrifice a certain amount of their privacy, because defendants have a right to investigate and look into the matter. Nevertheless, all claimants have a reasonable expectation of privacy.
- Do not set up, or "rope" a claimant into activities that he or she otherwise would not have performed.

In one such ruling, the Supreme Court of Pennsylvania ruled that, "It is in the best interests of society that valid claims be ascertained and fabricated claims be exposed." And that's the way the ball bounced. Surveillance flourished, billions of dollars were saved by insurers—one insurer said tapes saved it \$12 million on a single case—and investigators behaved themselves well enough to avoid outraging legislatures into restricting the profession.

Now, we are again on the cusp of change. Our lives are filed on the Internet. Privacy concerns abound. The legislatures are lobbing mortars at the problem, and we surveillance experts are ducking the shell fragments.

While all this is going on, we also must deal with such issues as the evidentiary integrity of digital video—which can be easily edited, to the point of changing heads on subjects—to

the privacy issues related to the transmission of streaming surveillance video.

So much for the history and philosophy of surveillance. Where are we now, and where is the technology going?

The digital age is here, with this new video format offering visible improvements in resolution and color. Digital video, which essentially is a stream of numbers, can be copied multiple times with no image degradation. The copies also can be copied, and they look as good as the original does.

Digital video also can quickly and easily be uploaded to a computer. Once stored on a computer, the video can be easily edited, stored on a CD-ROM, digital video disc (DVD), file server or can be streamed over the Internet. Rather than requiring that a huge file be downloaded, the streaming process approach takes a more intelligent and cooperative approach. Your computer and the Web server communicate with each other to transfer the video data you want, when you want it, as best fits within your current Internet connections. Streamers beware, however: The approach is useful only when there is enough bandwidth to play the video in real time. If the receiving computer lacks the needed bandwidth, the video will look choppy.

Wireless Webcasting across the Internet is truly the state of the art. Current technology allows remote video to be securely transmitted to a PC, which can then stream the video feed across the Internet, allowing an individual to view covert activity anyplace in the world at any time. Monitoring day care, schools, plant management, theft prevention are just some of the applications for this Webcasting technology.

This technology lets the user remotely control the camera and the recording device from anywhere in the world, via the Internet. For example, a person can sit in Topeka with a laptop computer and, by pushing the arrow buttons on the computer, move a camera lens up and down in a plant in Shanghai.

How can today's new technology benefit the insurance industry? One advantage is that companies can maintain their claim files, including surveillance videos, on huge file servers. Multiple viewers can access and review the files and videos at any time and any place to help expedite the claims handling process. For instance, rather than sending a VHS copy of a video to a treating physician, a claims handler can view the video with the doctor at the same time, and they can immediately discuss the results.

Our predictions for the future? Just look to the past. All of the new technology will be accepted by the courts. The technology also will be embraced by insurers because it will save them personnel time—imagine how much faster it is to fast forward to an indexed number on a CD versus playing a VHS tape.

The old values will remain in place: investigative integrity; the respect for claimants' rights; and probative evidentiary standards, i.e., you must be able to see that it is the claimant on the tape, and not just a shadow. The new technology will rapidly be integrated with established ethics and legalities.

Surveillance, in an even spiffier and dazzling format, can be counted on to continue to help separate the needy from the greedy.

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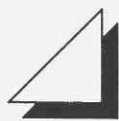
John Powers is managing director of InPhoto Surveillance Inc. in Plainfield, Ill. Bill Kizorek is a consultant to Kroll-O'Gara Co. /InPhoto and the author of nine books on surveillance and risk management.

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# Traditional financial companies face new competition

By GAVIN SOUTER

**W**ell-established financial services companies are losing some of their natural advantage over newcomers due to radical changes in the way business is conducted, says an executive for a financial services group.

Maurice Lippens, chairman of Fortis Group of Brussels, Belgium, said that more open markets and developments in technology are making it easier for new entrants to establish themselves in markets that previously were dominated by entrenched institutions.

To maintain their advantage over the newcomers, traditional financial services companies must focus on their strengths and be willing to drop businesses that are not sufficiently profitable, Mr. Lippens said.

Mr. Lippens made his remarks at the annual seminar of the International Insurance Society held in July in Vancouver, British Columbia.

"The advent of the euro, the liberalization of financial mar-

kets, the mobility of capital and digitization, with its enormous impact on transaction costs, are creating an entirely different playing field for traditional or incumbent banks and insurance companies," Mr. Lippens said.

New market and corporate structures are developing as a result of these changes, he said.

And traditional banks and insurers are losing some of their advantage over newer rivals, Mr. Lippens said.

Customers of financial services companies, however, do not change companies overnight, he said.

"Customers, make no mistake about it, do move their business to other institutions, but only if they have a compelling reason for doing so," Mr. Lippens said.

So, if traditional financial institutions are to remain successful, they must become "nimble incumbents," he said.

"Nimble incumbents know how, where and when to move. They exhibit a healthy sense of urgency and know how to pace themselves. They have the guts to divest from certain businesses and focus on some other ones in

which they are really good," Mr. Lippens said.

Few institutions have the expertise or capital to compete successfully in all major banking and insurance lines, Mr. Lippens said.

Instead, successful financial services companies will focus on a limited number of sectors, Mr. Lippens said. And while most companies will remain regional or local in their reach, they will still need to focus on a specific number of areas, rather than trying to offer a full range of products to everyone, he said.

Also, individual sectors of the banking and insurance business are going through significant changes, Mr. Lippens said. For example, he said, life insurance has become a significant savings instrument for consumers.

Success in the new economy will be a matter of meeting specific customer needs, Mr. Lippens said. And the needs will differ depending on whether the customer is retail or wholesale, he added.

"It will be a real challenge for traditional banks and insurance companies to ensure they have

the right combination of banking, asset management and insurance skills to serve one or more of these emerging customer segments in a competitively superior manner," he said.

Fortis is adapting to the new environment by analyzing its business sectors and attempting to determine whether each produces a satisfactory return on equity, Mr. Lippens said.

Where the returns are good, the company seeks to identify the reasons behind the success, he said. For poor-performing sectors, Fortis tries to determine what improvements it needs to make and whether it is capable of making those changes. If the company determines that the improvements are not feasible, it disposes of that business, Mr. Lippens said.

"We already have done so in the past, for instance, with our reinsurance business and, when necessary, will do so again," he said.

Also, in its successful businesses, Fortis is establishing itself in other countries, either independently or through joint ventures, Mr. Lippens said.

All of the changes within the banking and insurance industries will produce a wider variety of institutions, and each will have its own identifiable profile, he said.

"If we can project a clear image and are able to consistently align all our resources for an impeccable delivery, then strong trust of customers and growing shareholder value will go hand in hand," Mr. Lippens said. **BI**

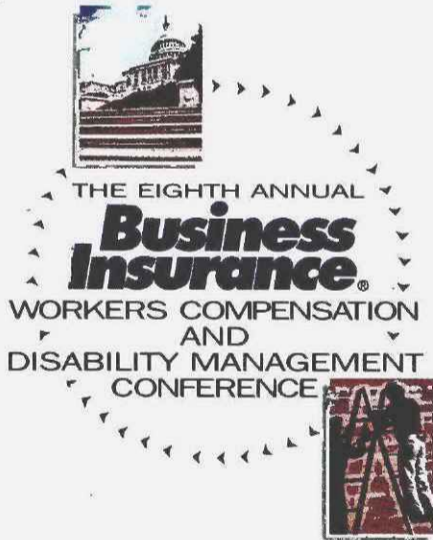
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# Internet changes way personal lines insurance sold

By GAVIN SOUTER

**T**he Internet will transform the personal lines insurance marketplace, says the head of an online insurance brokerage company. Consumers will be able to choose from a wide selection of insurers and obtain information about them online, said Robert S. Bland, chairman, president and chief executive officer of Darien, Ill.-based Quotesmith.com Inc., which offers life insurance quotes over the Internet.

And online technology will allow insurers to slash their costs and improve their service by greatly reducing the number of errors that are made in policies, he said.

Further regulatory reforms, however, are needed before insurers can fully realize the possibilities of the Internet in the United States, said retired Gen. Robert T. Herres, chairman of United Services Automobile Assn. in San Antonio.

Despite the repeal last year of the Depression-era Glass-Steagal Act, which barred certain affiliations among financial services companies, financial services regulation is still too complex and must be modernized to incorporate Internet sales, he said.

Such sales will be the domain of a new breed of financial services "supermarkets" that will exploit the full power of the Internet to offer better service to customers, Mr. Herres said.

The executives were speaking at the International Insurance Society's annual seminar, held last month in Vancouver, British Columbia.

Consumers are turning to the Internet for instant insurance quotes from a broad range of insurers, as well as for information — including unbiased ratings — about those insurers, said Mr. Bland.

Indeed, one of the key changes that the Internet has brought to the insurance market is an increase in the amount of information available to consumers, which shifts the buying process from one controlled by intermediaries to one that is controlled by consumers, Mr. Bland said.

And although consumers have greater power through the Internet, they do not always opt for the cheapest coverage, he said.

Quotesmith's two most popular insurers do not offer the cheapest coverage, Mr. Bland said. "Price is secondary to ratings and coverage," he noted.

For insurers, the Internet minimizes acquisition and operating costs and helps reduce data errors by eliminating some data entry, he said.

And Internet-based sales need not disrupt insurers' relations with agents and brokers, Mr. Bland said. Policies that require little or no advice—including low-value life insurance, auto insurance and homeowners policies—can be easily bought over the Internet by a consumer, while other products will still require the assistance of a broker or agent, he said.

The Internet also will make it easier for insurers to enter markets

abroad, Mr. Bland said. Quotesmith will likely expand outside of the United States into other English-speaking countries, he added.

But for insurers to take full advantage of the Internet, the regulatory environment in the United States must be modernized, said Mr. Herres.

"The regulatory environment is complex in our country, and integrating e-commerce into that will be a big challenge unless there are some big changes," he said.

And the opportunities for financial services companies are so great that

regulatory barriers will have to be eliminated or they will be circumvented, Mr. Herres said.

In particular, the Internet has created new opportunities for companies to become financial services "supermarkets" offering a wide range of products, Mr. Herres said.

Although companies that have tried to develop one-stop financial services shopping in the past have achieved only modest success, the Internet will increase the chances of success for such businesses, he said.

"The Internet is going to create su-

permarkets galore," Mr. Herres said.

The Internet has already become a new marketplace for many consumers, he said. Although conventional insurance distribution networks will not be entirely replaced, they will have to change, he said.

So far, most insurers have focused on using the Internet chiefly as a marketing tool, but its more important use to insurers will be as a way to provide better products and improve service, he said.

"The Internet is another tool, not the only tool. . .but you have to be

ready to exploit all of the possibilities," Mr. Herres said.

So far, banks and stock brokerages have made more use of the Internet than have insurers, he said.

"We should not overlook the fact that product design and development can be enhanced dramatically through software tools. If we are not creative and innovative with insurance products, there are other products outside the insurance industry that will achieve the financial protection that people seek," Mr. Herres said. **BI**

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***Business  
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# Recent boom belies industry problems

By Myron M. Picoult

Special to Business Insurance

A quick review of analyst commentary about the insurance industry's second-quarter results and prospects, coupled with the stock market performance of

many high-profile insurers, could lead one to believe that the industry has attained nirvana.

We do not think so.

While we don't make light of the fact that there is a clear broadening

of price changes within the industry—including the reinsurance sector—the fact remains that the road to nirvana is still full of curves and potholes.

While individual carriers reported numerous differences in rate level increases and retention rates in the commercial lines sphere, there were many common themes. Rate increases on both new and renewal business have been in the double digits. In fact, we get a sense that the recent pace of price increases and the apparent ease of acceptance by the buyers have surprised a fair number of management teams.

There are also more signs that poor automobile underwriting results have

begun to bite, and an increasing number of carriers are pursuing more rational pricing and underwriting parameters. Furthermore, there is a clear firming in numerous reinsurance classes—which was underscored by the July 1 renewals—and there are many signs that this trend will continue at least into the Jan. 1, 2001, renewals.

As one pores over the list of public property/casualty entities, it becomes painfully clear that the euphoria has not engulfed all insurers. The upbeat commentary of most industry observers aside, the stock prices of many public property/casualty insurers continue to lag.

A significant part of this disparity relates to liquidity concerns among investors—specifically their ability to accumulate a chunk of stock quickly and, likewise, the ability to dispose of it very quickly should industry dynamics start to shift. We suspect it also relates to a tenuous depth of belief in industry prospects, which many are loath to acknowledge.

It is quite difficult to fail to recognize the shift in pricing momentum that currently exists. However, it is crucial to understand that the effects of the debilitating price war that engulfed the industry have not been totally offset by the relatively recent rate relief. More rate relief for an extended period of time will be needed to return this industry to

a reasonable level of profitability. As a wrap-up on this point, we find it fascinating that industry observers have largely overlooked cautionary comments by industry management about forthcoming third- and fourth-quarter results. There remains a lack of understanding among many industry observers about the time frame needed for the dollars in written premiums to be translated into earned premiums, and there is a lack of understanding, too, of the degree to which some carrier balance sheets have been compromised.

The undermining of balance-sheet integrity has long been a focus for us. Indeed, these are financial companies, and without a strong balance sheet, an insurer can be in a remarkably tenuous position. Over the years, we have seen organizations that have exceptional actuarial capabilities and good underwriting skills, but, for some unexplained reason, the two facets are not put together, and market-share dynamics prevail.

There are, of course, numerous entities that have one strong suit and a much weaker second suit. Hence, when underwriting problems arise, it is easier to understand the source of those difficulties. The convergence of the financial services industry has resulted in a sharper focus on expense and distribution costs within the industry. This is clearly better, although we

shudder to think what expense ratios would have looked like over the past few years if management had been less focused.

In any event, various forms of artificial intelligence have been and are being promoted as one of the means of getting a better balance on carrier expenses. We would agree. However, there may be an equally compelling reason, if not a stronger one: Such approaches may be the bridge to cover the widening gap that has developed over the years in underwriting capability. While one should not trivialize the need to become more efficient, one should remember that the leverage of the loss ratio is currently double that of the expense ratio. Like we said at the beginning, we have not yet reached nirvana. **BI**

*Myron M. Picoult is a director and senior adviser to the financial institutions group at Wasserstein Perella & Co. Inc. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. An archive of Mr. Picoult's columns for Business Insurance can be viewed on the World Wide Web at: [www.businessinsurance.com](http://www.businessinsurance.com). He can be reached at [mpicoult@wpequity.com](mailto:mpicoult@wpequity.com)*



## Online dental plan enrollment, services offered

ALAMEDA, Calif.—Simpata Inc., an Alameda, Calif.-based Internet human resource service provider, has added Delta Dental Plan of California to its stable of online insurers and other benefit providers.

Under the agreement, which was reached last month, employees of Simpata customers with dental coverage through Delta Dental will be able to complete open enrollment via the Internet as well as manage their account information online, 24 hours a day, seven days a week.

Among the functions employees will be able to perform are:

- Comparing coverage before enrolling in a specific plan at the time of open enrollment.
- Adding dependents to existing policies both during open enrollment and as necessary throughout the year.
- Obtaining information on deductibles and co-payments.
- Finding out whether procedures, such as orthodontics or crowns, are covered and to what extent.
- Locating dentists who participate in Delta Dental networks in an employee's region of the country.

The contract with Delta Dental brings to more than 50 the number of insurers and other employee benefit providers with which Simpata has contracted since it launched its Internet-based human resource, benefits and payroll service in January.

The company, which is focusing on the small and midsize employer market, has 115 clients across the United States, according to a company spokesman.

In addition, Simpata's online service is available to clients of San Francisco-based broker Goldman Insurance Services, which has been working with

Simpata for nearly two years, consulting with the company's product development team and testing early versions of the online software.

Goldman also is using Simpata's service for its own 75 employees, according to Mike Phillips, vp of operations at the brokerage.

### High-tech training tool

SAN FRANCISCO—A new computer-based training course from Employment Law Learning Technologies Inc. aims to help employers reduce their exposure to harassment claims, workplace violence and even cyber liability.

Following ELT's "entertain as you train" philosophy, the interactive "Working People" training series uses character identification and storytelling to help managers and employees learn the critical aspects of their organization's employment law policies.

"A lot of the examples are subtle, to help recognize potentially harmful actions earlier," explained Brian Grabowski, a senior account executive at Porter Novelli Convergence Group in Chicago. Mr. Grabowski demonstrated the new ELT program at the recent Society for Human Resource Management conference in Las Vegas.

San Francisco-based ELT was formed in 1996 by the partners of Littler Mendelson, a leading employment law firm, to help employers comply with employment law requirements and to help build and maintain a productive, safe and litigation-free work environment.

According to the Equal Employment Opportunity Commission, nearly 1,500 workplace-related lawsuits or claims are filed nationwide on a typical day.

### PRODUCTS & SERVICES

"At an average of \$225,000 per lawsuit, not including image and morale costs and any award settlements, employers can't afford to ignore the importance of training," said Tom Herman, chief executive officer of ELT.

The "Working People" program can be accessed via ELT's Web site or is available on CD-ROM. Volume discounts are available. Additional consulting services are also available from ELT on a fee basis.

### 401(k) options

DENVER—Great-West Life & Annuity Insurance Co. is giving its 401(k) customers a self-directed brokerage option available through DLJdirect Inc., the online brokerage arm of New York-based Donaldson, Lufkin & Jenrette Inc.

The self-directed brokerage option will allow members of 401(k) plans administered by Great-West to choose among more than 7,000 mutual funds as well as stocks and bonds.

"Offering an online self-directed brokerage account is the next logical step in maintaining our lead in the 401(k) arena," said Steve Miller, senior vp-employee benefit sales at Great-West in Denver.

DLJdirect access will be provided via Great-West's wholly owned third-party administrator subsidiary, Financial Administrative Services Corp.

### Streamlining claims

EAST NORRITON, Pa.—Third-

party administrator America's Choice Healthplans is using HealthAxis.com technology to reduce its claims-processing costs by up to 80%.

Under a multiyear agreement announced recently by East Norriton, Pa.-based technology firm HealthAxis.com, ACH also hopes to reduce its claims-processing cycle time and transition toward a

fully electronic claims-processing environment.

"We look forward to helping ACH in its quest to improve customer service while lowering operating costs through the implementation of new technology," said HealthAxis.com President and Chief Executive Officer Michael Ashker.

King of Prussia, Pa.-based ACH provides TPA services to national employers with multistate locations and group sizes ranging from 50 to 5,000 employees. **BI**

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## GLOBAL BRIEFS

Sydney, Australia-based **QBE Insurance Group Ltd.** posted net profits of \$156.9 million Australian (\$94.2 million) for the first half of 2000, a 26% increase over the same period last year. Frank O'Halloran, chief executive officer of QBE, said he was very optimistic about the next six months. He said the company, which recently acquired Lloyd's of London vehicle Limit P.L.C., would now look for acquisitions in the United States and Asia. Mr. O'Halloran said that he expected QBE to record gross written premiums of \$5 billion Australian (\$2.88 billion) in 2001. . . . Two of Japan's largest insurers, **Yasuda Fire & Marine Insurance Co.** and **Dai-Ichi Mutual Life Insurance Co.**, have announced plans to merge. The deal represents the first alliance between a major Japanese life insurer and a Japanese non-life company. The consolidation plan includes the integration of Dai-Ichi Life's property/casualty subsidiary into Yasuda Fire as well as cooperation in the life insurance field between Dai-Ichi Life and Yasuda Fire's affiliated life company, **INA Himawari Life Insurance Co.** Ratings agency Moody's Investors Service Inc. confirmed its A3 insurance financial strength rating of Dai-Ichi Life and its Aa2 rating of Yasuda Fire. Moody's outlook on Dai-Ichi has changed to positive from stable, while its outlook for Yasuda Fire remains negative. Moody's cited cross-selling opportunities as a positive feature of the merger. . . . Munich-based insurer **Allianz A.G. Holding** has purchased a 51% stake in Bucharest-based **Asigurari Ion Tiriac S.A.** Allianz said it would merge the new acquisition with its own Romanian operation and rename the new unit **Allianz Tiriac Insurance**. The company will be the third-largest insurer in Romania, with expected premium volume of \$26 million for 2000. Terms of the deal were not disclosed. . . . Indian state-owned bank **Oriental Bank of Commerce** plans to set up an insurance subsidiary with Zurich Financial Services Group. Zurich will likely to take a 26% shareholding, the maximum allowed under India's Insurance Regulatory and Development Authority guidelines. The bank has not announced whether its insurance subsidiary would operate in the life or property/casualty sector. . . . Four former underwriters at **Limit P.L.C.** have joined Bermuda-based **Associated Electrical & Gas Insurance Services Ltd.** energy syndicate 1225 at Lloyd's. The four underwriters left Limit following the announcement that Australian insurer QBE was to take over the company. Paul Dawson will become syndicate 1225's deputy underwriter with responsibility for its energy account. John Chambers will be charged with developing a new non-marine property portfolio. David Croom-Johnson will be in charge of the syndicate's marine liability account, and Richard Palengat will be responsible for AEGIS' hull and marine short-tail accounts. AEGIS is seeking to set up its own managing agent at Lloyd's, an AEGIS spokesman said. . . . Basel, Switzerland-based **Rhine Reinsurance Co. Ltd.** will be rebranded as **Alea Group**. The company said the Latin origin of its new name reflects the company's goal to be a global provider of risk management solutions. . . . London-based **Equitable Life Assurance Society**, one of the world's oldest mutual life insurers, has said it has received inquiries from 15 prospective buyers. The group put itself up for sale after losing a court battle over its decision to reduce final bonus payments to 90,000 guaranteed annuity policyholders. Equitable said the legal fight had left it with estimated liabilities of £1.5 billion (\$2.19 billion). The insurer plans to draw up a short list of candidates by the end of September and hopes to select a buyer by December.

# AXA, CGNU diverge on global risks

BY SARAH VEYSEY

PARIS—Two of Europe's largest insurance groups, London-based CGNU P.L.C. and Paris-based AXA S.A., have made radically different decisions about the future of their respective global risks businesses.

CGNU announced in August that it will withdraw from the global risks market and shut down its Basildon, Essex-based global risks arm. Also in August, AXA announced that it had merged the operations of AXA Re, AXA Global Risks and AXA Cessions under the AXA Corporate Solutions banner in an effort, the company said, to build its global risks unit into a truly global company.

CGNU, in announcing that it would shed its industrial risks arm, cited its policy of remaining only in the markets in which it holds a top-five position. "The decision has been taken to concentrate our commercial activities to companies with (revenues) of up to £100 million (\$145.7million)," said

Ken Wallace, CGNU intermediary business director. "We are not leaving the commercial market altogether, but the decision has been taken to concentrate on the personal lines and smaller corporate risk sectors. We are looking to play to our strengths, and we would like to make it clear that it is just the global risk sector we are exiting."

Eric Paire, executive vp of AXA Corporate Solutions in Paris, said he believes that the two companies employed similar ways of thinking in coming to their divergent conclusions about the global risks sector. "The thought process of the big insurance groups, about this segment, we believe, was that this is a segment that needs lots of resources and capitalization," Mr. Paire said. "Either you're in it for good or you get out. We believe that there was, maybe, a common approach with us (at CGNU), but they decided to get out."

"At AXA, we said, 'Yes, that is a part of our activity, but we have to look at it differently,'" Mr. Paire said. That, he said, ex-

plains the name change. "These are risks that are all around the world; they are dangerous, and (these companies) have sophisticated needs. If we want to handle these risks, we need to be the first company to handle them globally as a portfolio—one worldwide portfolio managed globally," he said. "Practically, this means, on the industrial risks side, we are not just looking at Fortune 500 or 1000 companies. Our target is all companies with international needs."

And AXA, Mr. Paire said, will spread the net wide to maximize potential. "A clear aim is not to lock ourselves in a niche market. We need to get a wide enough universe of clients but (also) a universe large enough to diversify to get results," Mr. Paire said.

AXA Corporate Solutions will be headquartered in Paris and will be headed by current AXA Re Chief Executive Officer Jean-Marie Nessi. The new company, which will be capitalized at 1.50 billion euros (\$1.33 billion), will have offices in Labuan; See AXA on next page

## Asset/liability linking urged

By EDWIN UNSWORTH

Asset-liability management, the practice of managing a business so that decisions on assets and liabilities are coordinated, is likely to play a growing role in the life and property/casualty insurance industry, according to a study.

"Asset-liability Management for Insurers," a report issued last month as part of the sigma series published by Swiss Reinsurance Co., says that, because of this growing role, insurers and reinsurers need to adopt asset-liability management techniques and that greater standardization of such approaches is needed.

The study lists the forces that will compel insurers and reinsurers to adopt asset-liability management. These include consolidation in the sector, which is creating ever-larger and more-complex companies in need of the risk management tools that ALM offers; closer ties between insurers and banks, which will aid the spread of ALM best practices and a cross-fertilization of approaches; the increasing focus by regulators and ratings agencies on the ALM practices of the insurers they follow; and dramatic improvements in computer technology, which support a trend toward more-sophisticated modeling techniques.

The study points out that in recent years, mismatches between assets and liabilities have led to financial problems, including insolvency, for some major insurers in the United States, Europe and Asia. The study says that, "despite its significant potential benefits, few insurers have fully exploited what ALM has to offer."

The study warns that any insurer that does not coordinate its decisions on assets and liabilities is "courting disaster." It cites the case of a major Japanese insurance company, **Nissan Mutual Life**, which in April 1997 was ordered by Japan's finance minister to suspend its business. Nissan Mutual had sold annuities paying guaranteed rates without hedging these liabilities and then went bankrupt when a plunge in government bond yields to record-low levels created a huge gap between its com-

See Asset on next page

### Provincial loss ratios in Canada

Province	2nd quarter 1999	2nd quarter 2000*
Alberta	74.9%	74.3%
British Columbia	64.5	67.2
Manitoba	61.0	63.4
New Brunswick	84.5	94.2
Newfoundland	65.2	79.8
Nova Scotia	82.2	96.0
Ontario	73.9	75.1
Prince Edward Island	83.6	102.0
Quebec	73.8	72.4
Saskatchewan	53.2	71.9

\* Preliminary. Source: Insurance Information Centre of Canada

## Canadian P/C results dip slightly in first half

TORONTO—Underwriting results for the Canadian property/casualty insurance market deteriorated slightly in the first half of 2000, but signs of a hardening market are beginning to show, according to Paul Kovacs, chief economist at the Insurance Bureau of Canada.

"The P&C industry is ready and waiting for a hardening of the market, but data for the second quarter still do not show evidence of improving underwriting results," Mr. Kovacs said in the latest quarterly analysis of Canadian insurers by the Toronto-based IBC, which was released last week.

The combined ratio for the industry crept up to 106% in the first half of 2000 from 105% in the first half

of 1999, Mr. Kovacs said.

"The results between regions vary considerably. The Alberta market, for instance, is showing signs of improved results, while the results for insurers in the rest of western Canada deteriorated. The Ontario auto market remains stubbornly weak. Quebec insurers showed some improvement, but loss ratios in all of the Atlantic markets continued to climb," he said.

There are possible signs of a potentially hardening market in Canada, however, Mr. Kovacs said.

For example, insurers' net premiums written increased 6.5% in the first half of 2000 compared with the same period in 1999.

—By Gavin Souter

## Aussie businesses try to work amid the play

BY KATE TILLEY

SYDNEY, Australia—While many businesses in Sydney, Australia, are implementing special arrangements for staff members



to work from home and other risk management plans to cope with the influx of tourists, athletes and officials during the Olympic Games later this month, others are employing temporary staff for the duration of the Games.

But some companies are still unaware of the potential impact

the Olympics could have on them. Katie Lahey, chief executive officer of the New South Wales Chamber of Commerce, said a survey of small businesses in tourism areas found that 75% could not even name the exact dates the Games would be held.

"It's a concern," Ms. Lahey said. "But at the other end of the scale, some big retailers have planned to the extent that they know the number of extra toilet rolls they'll need for the ladies' loos."

The Chamber of Commerce has established an Olympics Commerce Centre, which has been running seminars called "Business As Usual."

The seminars aim to help business- See Games on page 17



PHOTO: ZUMA

Many Sydney small businesses have not yet taken steps to prepare for the effects of the Olympic Games, a survey found.

# AXA

Continued from previous page  
London; Miami; Milan, Italy; Montreal; New York; Sydney, Australia; Singapore and Washington.

But the business will operate on global—not regional—lines, and these offices will be special “skill centers” rather than regional branch offices in the traditional sense, Mr. Paire said.

“AXA Corporate Solutions offers clients a single point of entry into the group, wherever they are in the world. The client is no longer the client of one group company and can tap into the full range of the group’s resources and service for its insurance, reinsurance and related service requirements,” AXA said in a statement.

Because AXA Corporate Solutions will rely heavily on brokers, it does not need a dense local network, Mr. Paire said. The local offices will provide individual areas of expertise that can be accessed by the whole company. For example, AXA Corporate Solutions’ aerospace skill center will be in Washington.

“We want to achieve the capacity for a global portfolio, because we see that as the only way to get profitability (in this sector),” Mr. Paire said.

As for the legal structure of the new group, Mr. Paire said, “we are going towards a structure where the capital base will be in one place.”

The timing of the move is good,

Mr. Paire said. “The good news is that we are seeing in the market that we are launching at a time when our competitors are withdrawing; they can’t compete in this segment,” he said. “Also, the reinsurance market is getting out of the down cycle. Historically, a turn in the reinsurance market has led to a very strong movement in the industrial risks market.”

James Morgan, AXA Corporate

**‘We are launching at a time when our competitors are withdrawing,’ says Eric Paire.**

Solutions’ managing director in the United Kingdom, agreed that this is an auspicious time for the creation of the new entity. “With CGNU moving out, the selection process (for business) is broader,” said Mr. Morgan, who is based in London. “The timing is coincidental but, we think, potentially very good.”

Merging the three arms—AXA Global Risks, AXA Re and AXA Cessions—will be of great benefit, as it will allow the company to consolidate its skills, Mr. Paire said. “Resources—for example, underwriters—are difficult to find. The training is long and expensive; we are using them specifically.”

Part of the rationale behind bringing AXA Cessions, AXA’s reinsurance buying arm, into the fold was that its presence in the company would act as an impetus for AXA Re’s underwriters, Mr. Paire said. “AXA Cessions is one of the biggest reinsurance buyers in the world. The presence of AXA Cessions in AXA Corporate Solutions means pressure or incentive for the people in AXA Global Risks to be as good as the people AXA Cessions buys reinsurance from,” he said. “It is also important because we are both buyers and sellers. This is a way to balance relationships with the broker community and a valid way to make them long-term.”

Mr. Paire said that AXA had consulted with its brokers throughout the merger process. “We said to our brokers, ‘We want to become global. Can you provide a global service?’”

The brokers saw the logic of grouping AXA’s reinsurance buying and selling arms together, Mr. Paire said. “We are pushing them to see globally as we do,” he said. “Some of them have told us that this has actually helped them internally to get a global view.”

Mr. Morgan added that AXA Corporate Solutions is hoping that, if larger clients begin to retain more of their risk as the market hardens, they will turn to AXA to help them service that self-retention. AXA Corporate Solutions will also be able to offer clients the AXA group’s securitization services, he said. **BI**

# Asset

Continued from previous page  
mitted interest rates and the returns it was earning on its own investments.

**Insurers should ‘carefully coordinate their management of assets and liabilities,’ a Swiss Re study says.**

In another case, the St. Louis-based life insurer General American Life had to be placed under state supervision after a July 1999 rating downgrade by Moody’s Investors Service Inc. led to a crisis of confidence by investors.

Within days of the downgrade, which lowered the rating to Aa from Aaa, fund managers and other investors demanded repayment of about \$4.5 billion of debt securities. By August of that year, General Life had agreed to be acquired by Metropolitan Life Insurance Co. of New York.

“These episodes illustrate the need for insurers to carefully coordinate their management of assets and liabilities,” the study warns.

ALM can help insurers not only to operate more soundly but also more profitably, the study adds.

By measuring the impact of each decision on an insurer’s financial results, ALM shows how these decisions are interrelated.

This helps the insurer make better strategic choices on matters such as how to reallocate investments to boost returns, reduce risk, or both; how much reinsurance to purchase, and of what type; whether its rates are high enough to permit a satisfactory return on capital or are too high to be competitive; whether it should exit certain lines of business or enter others; whether an acquisition under consideration will prove profitable; whether it has enough capital to assure its continued solvency; and whether it has excess capital that might be redeployed or distributed to shareholders.

For most insurers, these determinations are made independently of one another, by different sectors of the company. “The company can achieve a better result, however, by taking into account the relationship between these decisions,” the study says.

*Asset-liability Management for Insurers, No. 6/2000 in the sigma series, is available free from Swiss Reinsurance Co., Economic Research & Consulting, P.O. Box CH-8022, Zurich, Switzerland. The telephone number is 41-1-285-2551, the fax number is 41-1-285-4749, and the e-mail address is sigma@swissre.com. The study is also available on the Internet at www.swissre.com.*

# Disaster

Continued from page 2  
projects in a wide range of areas, including education, health care and the environment,” the spokesman added.

“There are many people who say disaster risk is a consequence of development,” said Mr. Krimgold, who holds a doctorate in pre-disaster planning from the Royal University in Stockholm, Sweden.

Economic development, the theory goes, results in an expansion of risk.

And risk mitigation, Mr. Krimgold said, “is about money.” To mitigate disaster risks, structures—or even whole communities—either have to be physically moved or strengthened to better resist the threat, both of which cost money.

This requires guidance from government, insurers or private lenders, depending on the specific situation. “There have been a lot of

people who have been thinking about the role of the insurance industry in mitigation,” he said. In some parts of some economies, insurance will be the dominant mitigating force. In others, public policy will fill that role, he said.

“Our philosophy is to use diverse groups to accomplish goals,” said Mr. Krimgold.

Mr. Krimgold said the new institute is trying to integrate its activities with those of other large international organizations, corporations and United Nations bodies. He said the aim is to create an “interface” among these parties as well as academic institutions, so that the institute will function in a manner similar to the National Institutes of Health.

The institute will have two co-directors—Mr. Krimgold and a Swiss national. It will receive support from participating academic institutions on a “non-full-time basis,” Mr. Krimgold said.

The institute has nine affiliated institutions: the University of Texas at Austin; London School of Economics; Germany’s Max Planck

Institute; the George Washington University in Washington; Turkey’s Bogazici University; the University of Buenos Aires in Argentina; University of Hong Kong; Yokohama University in Japan; and Mexico’s National Center for Disaster Prevention in Mexico City.

The institute’s long-term strategy includes identifying and focusing on the most critical risk-prone areas around the world. It will evaluate, among other factors, a country’s risk in terms of the vulnerability of its critical infrastructures, the interaction of risks with social structures and its degree of public risk perception and awareness.

Its first project began earlier last month, when the institute began examining the post-earthquake conditions in two Turkish municipalities, the Izmit and the Duzce areas, that were struck by quakes last year. This includes examining certain aspects of the soil in affected areas, as soil conditions can magnify a quake’s destructiveness.

“Our study is going to provide

guidance on where reconstruction should be discouraged,” and where it should be controlled, Mr. Krimgold said.

The institute has also proposed to the Federal Emergency Management Agency a study on the “incremental rehabilitation” of existing buildings in earthquake-prone areas in the United States. FEMA has not yet approved that study.

“Rather than having the best be the enemy of the better,” the institute wants to see how to get the needed retrofitting started, and then upgrade as opportunity arises by integrating modifications into normal maintenance schedules, Mr. Krimgold said.

Looking ahead, the institute would like to establish a world database of disaster vulnerability. Mr. Krimgold said that this would probably start on a small scale and should be of interest to governments, insurers, communities and investors.

The ultimate aim is “developing a database that is nuanced enough to meet the needs of these various audiences,” he said. **BI**

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# Terrorism

Continued from page 3

three days and involved all Australian security agencies, including the Standing Advisory Committee on Protection Against Violence, a body set up by the federal government after Sydney's 1978 Hilton Hotel bombing. Two people were killed in that incident, when a bomb exploded in a rubbish bin outside the Hilton while a meeting of the Commonwealth Heads of Government was being held inside.

## New South Wales Police Minister Paul Whelan said he is confident the police force can cope with any eventuality.

The spokesman said New South Wales' 5,000-strong police force will be supplemented by volunteers and security guards, bringing the total during the Games to 12,000.

New South Wales Police Minister Paul Whelan said he is confident that the police force can cope with any eventuality. Mr. Whelan said the counterterrorist exercises "tested police response, tactical response, computer agency liaison and the overall coordination for potential disasters."

Police Commissioner Peter Ryan said the exercises included mock security breaches in order to test responses. In Exercise Ring True, 40 people were taken hostage during a baseball game by six armed terrorists. The exercise also featured a concurrent bombing in Canberra and a nerve-gas attack on a hospitality tent.

While details about how the exercises were resolved is confidential, Mr. Ryan did say that they proved successful. "The cooperation between

the NSW Police Service and other agencies was outstanding and reinforced the work that's been done to develop procedures."

The federal government's Australian Security Intelligence Organisation has assured foreign governments that it is ready to handle any terrorism threats. Dennis Richardson, director general of the intelligence network, said ASIO had been preparing for the Games for four years and had increased its staff from 100 to 600.

Up to 12 special agents of the U.S. FBI have reportedly been sent to Sydney to investigate rumors that Afghanistan-based Saudi Arabian terrorist Osama bin Laden has formed a network of extremists throughout the Asia-Pacific region. The FBI alleges that Osama bin Laden masterminded the bombing of two American embassies in 1998.

Australian Attorney General Daryl Williams said it is government policy not to comment on security issues.

"But, let me stress, Australia has well-practiced cooperative arrangements in place to respond to any security-related incident," Mr. Williams said.

ASIO and the New South Wales Police and other agencies have established the Federal Olympic Security Intelligence Centre to coordinate security arrangements during the Games.

Mr. Williams has said that Australia's security laws will not be eased to allow countries to bring guns in to protect their athletes. Israel is understood to have sought permission to bring in weapons to protect its athletes. At the 1972 Olympic Games in Munich, 11 members of Israel's Olympic team were killed by Palestinian terrorists.

The only exemption to the laws that has been allowed was four years ago, when President Clinton visited Australia. His security guards were permitted to bring into Australia their own weapons with which to protect the president. **BI**

# Games

Continued from page 15

es anticipate transportation requirements, make staffing plans, consider whether tougher security systems may be required and develop alternatives for the delivery of goods and services.

Ms. Lahey said Atlanta experienced increased credit card fraud during the 1996 Games, and the same thing could happen in Sydney. "With a new range of credit cards and travelers' checks, the potential for fraud is heightened," she said.

The needs of businesses will vary greatly. While some will have extra work, others will see a slowdown. Ms. Lahey said about 10% of businesses are moving forward their annual end-of-the-year closedown to give staff time off to enjoy the Games, which begin Sept. 15 and continue until Oct. 1. "Businesses which will be slow must consider cash flow. Are they prepared?" she asked.

Ms. Lahey advised businesses to change working hours, where possible, or to allow staff to work at home, using modems to communicate. "Lots of staff are being asked to be more flexible," she said.

For example, Ms. Lahey said, Sydney's Parramatta Road, where many new and used car lots are located, is a main thoroughfare to Games venues. But "people are unlikely to be making major purchases like cars when they cannot access the car lots easily," Ms. Lahey said.

While tourism and hospitality businesses in central Sydney are expected to do well, those off the beaten track and in the suburbs may not.

Ms. Lahey said that, of the businesses that had attended the Chamber of Commerce seminars, 95% said in a survey that they were prepared and had implemented risk management plans to cope with the changed business environment during the Games.

Ms. Lahey said she is sympathetic to those that had not planned ahead. "That happened in Atlanta. It was impossible to imagine the sheer size of it; the density of the crowds," she said. "It caught some unaware. A lot of businesses in Atlanta got into trouble, and that's why we've delivered a wake-up call for Sydney businesses. We want businesses to enjoy the Games and for it to be a profitable or, at the least, neutral experience, but it won't be if they haven't planned."

Sydney likely will have more than double its usual workday population of 500,000 people, and it will be "a partylike atmosphere for 21 days straight." The central business district will have six sites equipped with giant video screens showing highlights of the Games.

The Sydney-based Australian Securities & Investments Commission, a regulatory agency, anticipating potential disruptions caused by the Games, has granted an extension of time for companies to submit financial data for the fiscal year that closed June 30.

But while leniency is allowed for annual reports, there will be none when it comes to wages. Employers have been warned that their obligations to employees do not stop while the Games are in progress.

Susan Ryan, president of the Australian Institute of Superannuation Trustees Inc., a Sydney-based body that represents more than 700 trustees who operate superannuation funds, reminded employers that the superannuation guarantee levy of 8% will have to be paid, even if workers were employed only temporarily during the Games.

Under Australian law, all employers must pay 8%—on top of employees' salaries—into pension plans called superannuation funds. An employee selects the funds into which he or she wants that money, called a superannuation guarantee levy, to be paid; the employee does not have access to the money until retirement.

Ms. Ryan said staff recruited by the

Sydney Organizing Committee for the Olympic Games and other Games official bodies were covered by a special Olympics Award. But she warned that those individuals employed by contractors are still entitled to receive the 8% levy.

"Whether they're washing pots in a restaurant on the harbor, providing information on the phone through a call center or directing traffic, all employees are entitled to the levy," she said.

Many employees have taken leave from their regular jobs to be part of "the biggest peacetime workforce in Australia's history," Ms. Ryan said, and she noted that many may be unaware that they are entitled to the payments.

She said banks, retailers, tourist operations, hotels, warehouses and transportation companies are likely to be hiring temporary staff during the Games.

With two radar blackouts during July and early August affecting airline services into Sydney Airport, there is pressure on Air Services Australia, the federal that operates the control system at the airport, to get the problems rectified quickly.

Air Services Australia has appointed electrical engineering consultants Quiggin Cook & Associates Pty. Ltd. to prepare a report on the system, and an internal review of maintenance schedules and practices is in progress.

The first blackout occurred when a power system failed. Some planes were diverted to other airports, while others circled above the airport until an emergency power system turned on.

In the second incident, an interruption of electrical power caused radar and communications systems to fail, leaving pilots cut off from the control tower for 10 minutes.

An ASA spokesman said there had been "no service failure."

"Planes were able to land once systems were restored," the spokesman said. **BI**

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## Preliminary Schedule Summary

### MONDAY, NOVEMBER 13

Golf Tournament and Golfers' Luncheon on Masters Lawn  
Captives 101: The Benchmark Course or Basics of E-Commerce and E-Business  
Registration and Welcome Reception with Exhibitors

### TUESDAY, NOVEMBER 14

Continental Breakfast  
Keynote Address: "Into the 21st Century"  
Beverage Break  
Group Captives or  
Capital Markets and Risk Management  
Buffet Luncheon  
New Ways to Use Your Captive/  
Decontrolling Captives or  
New Risks: A Healthcare Perspective  
Beverage Break  
Rent-a-Captives or  
Employee Benefits/Pensions and Captives  
Cocktail Reception  
Dinner and Entertainment

### WEDNESDAY, NOVEMBER 15

Continental Breakfast  
Captive Case Studies  
Beverage Break  
Reinsurance or Enterprise Risk  
Buffet Luncheon  
New Tax Developments  
Conference Roundup  
  
For further information, including exhibit and sponsorship opportunities, contact:  
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# Chubb a target of shareholder class action

NEWARK, N.J.—A San Diego law firm has filed a proposed class-action lawsuit charging that Chubb Corp. officials made misleading statements about the company's prospects to inflate its stock price in advance of Chubb's 1999 acquisition of Executive Risk Inc.

The suit, filed in Newark, N.J., federal court on behalf of Chubb shareholders by class-action specialists Milberg, Weiss, Bershad, Hynes & Lerach, alleges that Chubb officials falsely reported in early 1999 that rate in-

creases and non-renewal of unprofitable commercial lines business were improving its results faster than the company had expected.

The statements, accompanying better-than-expected first-quarter 1999 results, preceded a summer rally that pushed Chubb's stock price to \$76.33 per share that spring.

The suit alleges that the "artificial" runup in Chubb's stock price allowed the company to issue fewer shares to complete the acquisition of Executive Risk in

July 1999, saving it at least \$300 million to \$400 million.

Shortly after the acquisition, Chubb "shocked the markets" by announcing worse-than-expected second-quarter 1999 results and predicting that its rate increase and policy non-renewal initiative would not improve its performance until mid-2000 at the earliest, the lawsuit alleges. Chubb's stock price fell throughout the late summer and fall of last year, hitting a low of \$44 in mid-October 1999.

The suit alleges that Chubb

and its top officers violated securities laws by making false statements that allowed Chubb to complete the Executive Risk deal at a substantially reduced cost.

The proposed class consists of Chubb shareholders who bought their stock between April 27, 1999, and Oct. 15, 1999. The class would include former Executive Risk shareholders who exchanged their stock for Chubb shares in the acquisition.

In a statement, Chubb said: "We are totally perplexed why

anyone would bring such a lawsuit against Chubb. The charges that the company made fraudulent statements about its business or prospects are completely baseless. Chubb's program to improve its standard commercial insurance business by raising rates and pruning unprofitable accounts has in fact been succeeding and continues to succeed."

Chubb's stock has bounced back since last October and closed Friday at \$75.19 a share.

—By Douglas McLeod

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# Results

Continued from page 3

age share of ceding insurers' premium and losses—from excess-of-loss contracts, according to Mr. Watson.

The pro-rata business generates more premiums but also tends to produce worse experience, Mr. Watson said. "That's really why we're seeing growth in the first half of the year," he said.

The combined ratio for the top 20 was only slightly better than the industry's, coming in at 111.8%, compared with the overall figure of 112.2%. For the same period last year, a similar but not identical group of the largest reinsurers recorded a 104.7% combined ratio, again somewhat better than the 107.6% recorded by all of the RAA-surveyed companies.

For many of the 20-largest companies, the expense ratio component of the combined ratio actually declined in the first half, compared with the year-earlier period. But loss ratios jumped for a number of these companies, pushing up combined ratios.

"The thing that stands out is the number of reinsurers that are over 110%," Mr. Karter noted. "It's really quite a number."

Ten of the top 20 reinsurers posted combined ratios over 110% in the first half, compared with only five in the year-earlier period.

The deteriorating experience is visible in the companies' reported net income: Net income for the

largest reinsurers plummeted 57%, to \$503.7 million at June 30, compared with the first half of 1999. For all of the RAA-surveyed reinsurers, net income fell 61.7%, to \$496.6 million, from the year earlier.

Six of the top 20 reinsurers posted net losses for the first half, while four did not report net income figures. In the first half of

there, but it's really the whole industry that is still definitely suffering."

"Everybody's suffering, and, obviously, it can't go on," he said.

Reinsurance market sources agree that the soft pricing of recent years will not go on past the end of this year and that rates for property and other programs renewing midyear are already firm-

become stricter for the upcoming January renewals, Mr. Zuckerberg said.

Mr. Karter predicted that primary property insurance prices will rise an average of 5% to 15%, with reinsurance prices following suit. Primary rate hikes will flow directly to reinsurers writing pro-rata business, and excess-of-loss reinsurance contracts will be renegotiated at higher rates, he said.

Along with property lines, where reinsurers have suffered large losses over the last year, aviation, workers comp and accident and health business will also see significant tightening, market observers add.

Workers comp programs, particularly those covering California risks, have produced poor results, and the workers comp reinsurance market was further damaged by last year's collapse of reinsurance facilities run by Unicovert Managers Inc.

Assuming the market does tighten at year end, the next question is whether the tighter conditions will last, or whether reinsurers will be forced back into competition by the emergence of alternatives, such as capital markets products.

"One has to recognize that there's still a large amount of capital in the business and on the sidelines that could temper the turn in the cycle," Mr. Zuckerberg observed. He noted that about \$4 billion in new capital flowed into start-up Bermuda reinsurers "in a heartbeat" after Hurricane Andrew struck Florida in 1992.

"The big question for primary companies and reinsurers is how

sustainable is the recent rate rally," he said. "We expect rates to continue to firm through 2001."

Reinsurers will need it, Mr. Zuckerberg said. Reinsurance pricing has been inadequate for at least two years, and "double-digit rate increases will be necessary for the next two years to help reinsurers return to profitability," he said.

Even so, reinsurers' results won't improve quickly, market observers say.

"It takes time for (rising prices) to really start impacting bottom line results," said Robert Garofalo, a senior financial analyst with A.M. Best Co. in Oldwick, N.J.

"Any increases in rates are going to come too late to help the reinsurance industry this year," S&P's Mr. Watson agreed.

"I don't see (combined ratios) coming down significantly until the end of the year and sometime into next year," Mr. Karter added. "You don't see it in the numbers, but you will see it in the marketplace" during upcoming renewals, he said, speaking of improving conditions for reinsurers.

First-half results, meanwhile, showed continuing consolidation in the reinsurance industry.

Absent from the top 20 at June 30 is Reliance Reinsurance Co., which troubled parent Reliance Group Holdings Inc. sold to Bermuda-based Overseas Partners Ltd. earlier this year.

In addition, gone is Risk Capital Holdings, which sold its Risk Capital Reinsurance Co. unit to Folksam Reinsurance Co. in May.

**'One has to recognize that there's still a large amount of capital in the business and on the sidelines that could temper the turn in the cycle,' says Kenneth Zuckerberg.**

1999, only three reinsurers reported net losses.

Policyholder surplus, meanwhile, continued to decline for all reinsurers. The 20 largest saw surplus slide 3%, to \$20.2 billion as of June 30, compared with year-end 1999. For all the surveyed reinsurers, surplus declined 4.4%, to \$23.3 billion as of June 30, compared with Dec. 31, 1999.

The results show that reinsurers are still feeling the effects of rising losses—particularly in property lines, but also in such lines as directors and officers liability, medical malpractice and professional liability—and the lingering impact of soft pricing, reinsurers say.

"For the six months, (results) aren't much better than they were at the end of last year," Mr. Karter said. "It's not one company here or

ing.

Mr. Karter said that a "very few" reinsurers are still trying to build volume through rate competition but that most companies are no longer cutting prices. SCOR itself, he said, has sought higher prices for many risks and has lost \$200 million in business over the last two years as a result.

Reinsurers' results so far this year may be poor, but some analysts are not focusing on the current financials, Mr. Zuckerberg said. Instead, they are focusing on the fact that "double-digit price increases in several areas of commercial insurance and reinsurance are, in fact, a reality."

Terms and conditions for property programs already began to tighten during July renewals, and underwriting guidelines should

## Largest U.S. reinsurers' first-half 2000 results

Ranked by net reinsurance premiums written. All amounts in thousands of dollars.

Reinsurer	Net reinsurance premiums written 2000	Net reinsurance premiums written 1999	Policyholders surplus (reinsurers only)	Net income (loss) 2000	Losses & loss adjustment expenses	Loss ratio	Underwriting expenses	Expense ratio	Combined ratio 2000	Combined ratio 1999
1 Employers Re Group	\$1,954,974	\$1,680,694	\$4,786,254	\$74,315	\$1,419,182	79.5%	\$656,342	33.6%	113.0%	110.0%
2 American Re-Insurance Co.	1,508,974	1,394,976	2,014,187	(60,611)	1,274,716	84.5	489,437	32.4	116.9	100.5
3 General Re Group <sup>1</sup>	1,455,199	1,233,195	4,849,453	234,203	1,178,137	83.6	417,035	28.7	112.3	99.9
4 Swiss Re America Corp.	851,707	457,280	1,098,603	70,782	587,423	82.4	282,048	33.1	115.5	115.0
5 Transatlantic Re/Putnam Re	738,129	665,056	1,509,185	83,224	549,416	75.0	193,030	26.2	101.1	99.5
6 St. Paul Re <sup>2</sup>	680,777	582,600	N/A	N/A	563,777	92.8	174,927	25.7	118.5	91.5
7 Everest Reinsurance Co.	588,645	521,386	1,234,602	78,941	440,293	78.8	149,805	25.4	104.2	103.4
8 Zurich Reins. (N.A.) Inc.	588,223	482,644	855,957	37,360	340,463	66.1	212,942	36.2	102.3	108.1
9 CNA Re <sup>2</sup>	555,700	673,451	N/A	N/A	385,000	75.0	188,800	34.0	109.0	108.0
10 Hartford Re Co.	455,526	392,117	N/A	N/A	288,180	75.1	135,949	29.8	104.9	102.4
11 Gerling Global Re	441,463	387,209	605,116	(7,470)	354,820	81.6	138,519	31.4	113.0	106.3
12 Berkshire Hathaway <sup>3</sup>	417,000	685,000	N/A	N/A	241,000	79.0	100,000	32.8	111.8	91.7
13 Odyssey Re Corp./Odyssey Amer Re <sup>4</sup>	282,105	257,812	884,397	28,476	215,884	72.9	98,379	34.9	107.8	110.8
14 Folksam Reinsurance Co. <sup>5</sup>	266,409	96,349	318,762	(30,990)	144,291	79.1	80,894	30.4	109.5	105.9
15 SCOR U.S. Group	241,168	303,701	342,481	(33,146)	273,687	106.7	87,489	36.3	143.0	110.3
16 Signet Star Reinsurance Co.	206,670	197,463	310,515	5,387	140,739	71.8	65,721	31.8	103.6	108.9
17 ACE Financial Services	193,416	98,824	354,678	24,610	48,651	47.7	47,125	24.4	72.1	N/A
18 Partner Reins. Co. of the U.S. <sup>6</sup>	166,485	91,124	329,805	(14,607)	117,664	80.4	55,793	33.5	113.9	119.3
19 PMA Reins. Corp.	135,699	117,041	282,105	16,112	91,731	71.3	40,237	29.7	101.0	100.3
20 Underwriters Reinsurance Co.	128,156	226,539	421,451	(2,910)	140,489	101.2	42,565	33.2	134.4	103.7
<b>Total for top 20</b>	<b>\$11,856,425</b>	<b>\$10,544,461</b>	<b>\$20,197,551</b>	<b>\$503,676</b>	<b>\$8,554,543</b>	<b>80.6%</b>	<b>\$3,557,037</b>	<b>31.2%</b>	<b>111.8%</b>	<b>104.7%</b>
<b>Total RAA results<sup>7</sup></b>	<b>\$12,295,148</b>	<b>\$10,323,333</b>	<b>\$23,268,411</b>	<b>\$496,623</b>	<b>\$9,288,556</b>	<b>80.9%</b>	<b>\$3,853,204</b>	<b>31.3%</b>	<b>112.2%</b>	<b>107.6%</b>

1. All data presented on a North American Combined Statutory Basis for the General Re Group. Excludes other affiliates from the Berkshire Hathaway Group. 2. Results include combined U.S. and non-U.S. affiliate operations. 3. Excludes General Re Group units. 4. Includes pro forma combined results of Odyssey Reinsurance Corp. and Odyssey America Re Corp. (formerly TIG Reinsurance Co.). 5. Income figures include reinsurance business acquired from Risk Capital Reinsurance Co. on 5/5/2000. 6. Excludes results of Partner Re Insurance Co. of New York. 7. Excludes Berkshire Hathaway Group. Source: Reinsurance Assn. of America

# Recall

Continued from page 1

electronic component makers are putting together insurance programs for product recall.

But such coverage hasn't always been available, he noted. Other than recall liability coverage for the food and beverage industry, recall coverage for other industries has only been available for about two years, Mr. DeConti said.

Bruce Graham, products specialist with The Hartford Financial Services Group Inc. in Hartford, Conn., explained that recall insurance "has been very expensive in the past and in some people's minds they never really resurrected the idea of purchasing product recall insurance."

Generally, companies don't purchase product recall coverage because they don't foresee having to making a recall, he said. "Most of us are prepared for the ordinary—it's the extraordinary that is always different every time it comes along," according to Mr. Graham. "I'm not sure how many companies could withstand the financial pressure and the cash-flow pressure on their business processes if they had to divert their energies to doing a massive recall—that's where the insurance comes into play."

Recall liability coverage, however, can be expensive. "Premiums are significant although I think they're reasonable. A typical automotive component maker with \$100 million in sales and \$10 million in limits might be spending a couple hundred thousand dollars a year on product recall," according to Mr. DeConti, who said the costs vary widely depending on exposures.

According to Tony Defelice, se-

nior vp and director with Willis North America Inc. in New York, some companies don't buy product recall insurance because of the amount of pride they have in the products they manufacture.

"They believe that their research

**'Most of us are prepared for the ordinary—it's the extraordinary that is always different,' says Bruce Graham.**

and development and quality control procedures are such that won't lend to a large type of product recall situation," he said.

Additionally, Mr. Defelice said some clients believe the limits that would be available on their product recall would not be sufficient for the type of recall that they would have—so they end up self-insuring.

"Certainly the pharmaceutical industry would be prone probably to not buying product recall because the limits they would need probably would not suffice in terms of what their actual exposure would be. Also, a typical product recall policy would cover such things as additional advertising, expense, disposal, transportation, but it wouldn't cover the replacement of the product itself, which would be a very large component," Mr. Defelice said.

The type and value of the product manufactured will play a large part in a company's decision to buy coverage.

"Whenever someone has a recall, the question is how many people actually return the product. The rea-

son that Bridgestone/Firestone will have a fairly high response rate is because in addition to the people worried about the safety aspect, some people might take advantage of it because they'll get a new set of tires, which is over a \$400 item," Mr. DeConti said.

Many recalls are based on the nature of the product being recalled, Mr. Graham said. He said companies need to ask themselves, "How likely is it to, or has it caused injury to people either in terms of bodily injury or property damage?"

"If there is something of imminent and serious potential liability, like the Tylenol case a number of years ago, they (companies) have to identify what kind of cost they would incur in order to quickly get out there, locate the product, recall the product and avoid any future liabilities," Mr. Graham said.

Other factors companies need to think about when considering

whether to purchase product recall coverage, according to Mr. Graham are, "What is the potential size of a recall? Is their product such that the only likely thing to go bad is one batch of materials? If so, that may limit the size of the recall and therefore the amount of expense that would be incurred to process a recall," Mr. Graham said.

Companies then need to decide if they can handle that kind of a financial impact on the company.

When a company is going through a recall, it is diverted from what it does best, which is manufacturing its product, according to Mr. DeConti. He recommends that companies use outside help to communicate recall information so they can get back to manufacturing.

"For a lot of companies, it's their first time going through this. If it's not their first, they will at least have some new people and it's usually a different type of recall," explained

Mr. DeConti.

For companies that opt not to buy recall liability coverage, there are other ways of protecting themselves, said Mr. Defelice.

"They can put together a finite risk type of program which will smooth out any bumps in terms of recall activity. A finite risk program would prevent a large impact to your earnings because you can rely on that quasi-self-funded policy to protect you in an event of an incident like what we had at Firestone," Mr. Defelice said.

Companies that do decide to purchase product recall insurance need to make educated decisions about how much to buy, said Mr. DeConti.

"They need to decide what limits to buy, and typically more is better than less. Bridgestone/Firestone took out a \$350 million reserve, many people think it will end up being a much higher figure than that," Mr. DeConti said. **BI**

# Tire recall leads to lawsuits

In the weeks since Bridgestone/Firestone Inc. announced that it was recalling millions of tires, both the tire-maker and Ford Motor Co., which uses the affected tires on certain vehicles, have been hit with a barrage of lawsuits, with more suits being filed daily.

On Aug. 31, the National Highway Traffic Safety Administration released a database of more than 1,400 complaints related to Bridgestone/Firestone tires, including more than 250 reported injuries and 88 reported fatalities.

California, Florida and Texas had the highest number of reported complaints, with a combined total of approximately 750.

The recall, which was announced

Aug. 9, involved an estimated 14.4 million tires that contained a safety-related defect. Bridgestone/Firestone estimated that approximately 6.5 million of the tires covered by the recall are still in use.

The Nashville, Tenn.-based tire manufacturer does not have insurance to cover costs related to the recall. Instead, the company will pay for the recall out of corporate revenues, according to John Marcum, risk manager of Bridgestone/Firestone in Nashville.

Bridgestone/Firestone is reported to have set aside reserves of \$350 million to help cover expenses related to the recall.

Sherman Joyce, president of the American Tort Reform Assn. in Wash-

ington, said he believes that both Ford and Bridgestone/Firestone are making a "very good immediate effort" in handling the recall. Mr. Joyce expressed concern, however, that claims made by individuals who had not sustained injuries will slow the process for those who did.

"Litigation is appropriate if people are hurt. What concerns us is the sort of unnecessary fanning of the flames, making things more difficult for consumers," Mr. Joyce said.

"With respect to the regulatory process," he said, "we hope it's fact-driven, not media-, PR- or fear-driven. In the absence of facts, we need to let the experts do their jobs."

—By Lee Fletcher

# Arbitrate

Continued from page 2

source organization with 5,000 members.

Employment arbitration agreements—which typically call for a private judge to settle a claim—have grown in popularity in recent years, as employers in California and other states have sought to curb losses stemming from employment-related claims.

The New York-based American Arbitration Assn. reports that 500 employers currently use its services to administer employment dispute resolution programs through arbitration or mediation. Before 1991, only a dozen employers used the non-profit association for those services, an AAA spokeswoman said. The AAA is the nation's largest dispute resolution organization.

Prior to the recent high court ruling, California employers that attempted to enforce their arbitration agreements faced conflicting lower court decisions about their legitimacy. Plaintiff's attorneys have vigorously opposed the practice.

"There were a lot of cases, and some were going against employers," Mr. Emanuel said. "There was a lot of uncertainty, which led to a lot of litigation. The certainty provided by this decision will help employers avoid costly litigation, because they will know how to do it right."

In 1998, the San Francisco-based 9th U.S. Circuit Court of Appeals ruled against the use of mandatory arbitration agreements in employment matters. The appeals court held that the Civil Rights Act of 1991 prohibited their use in the settlement of civil rights-related claims. But the California Supreme Court's decision prevails over the 9th Circuit's decision, Mr. Emanuel said.

The U.S. Supreme Court is also ex-

pected to weigh in next year in a case involving Circuit City Stores Inc. The high court will decide whether a 1926 federal arbitration law applies to employment contracts signed by non-union workers. That case also came from the 9th Circuit, which had ruled against the employers.

**The Supreme Court's guidelines have created 'a whole new world out there,' says consultant Jim Kuns.**

Arbitration is "really a fair and prompt method for resolution of disputes rather than a vindictive process," which court action often turns out to be, said Jeffrey W. Pettegrew, vp—risk management and insurance for Weststaff Inc., a Walnut Creek, California-based temporary staffing services company.

Mr. Pettegrew said his company finds that the arbitration agreements it applies to areas other than employment issues save considerable money and reduce from years to months the time spent settling disputes. Additionally, arbitrators' decisions often lead to creative solutions that Weststaff can implement to improve its business practices, he said.

Still, Weststaff had held off implementing employment "predispute agreements" because courts were so divided over the issue. But in light of last week's ruling, it will consider introducing the agreements to new hires, Mr. Pettegrew said.

Nonetheless, while arbitration agreements may work well for some employers, they're not appropriate for all industries, said Eugene F. Kiernan, director of risk management and insurance for National Semiconductor

in Sunnyvale, Calif.

In California's Silicon Valley, where competition for employees is fierce, an agreement can scare away potential job applicants, Mr. Kiernan said. His company does not use them.

"Now the insurance industry would love mandatory arbitration, because then your employment practices policies would never get into court," Mr. Kiernan said.

Those California employers that do have existing mandatory arbitration agreements may now want their legal counsel to review them to ensure that they pass muster, said Jim Kuns, an Employers Group staff consultant specializing in labor relations.

The Supreme Court's guidelines have created "a whole new world out there," Mr. Kuns said.

The *Armendariz vs. Foundation* case reviewed by the court stems from a sex discrimination complaint filed by two heterosexual female workers. The women claim they were fired in 1996 from Foundation due to discrimination by homosexual supervisors and co-workers at the San Rafael, Calif., managed care company. The employees had signed agreements that required arbitration and capped the damages they could collect. Yet the agreements allowed the employer to pursue unlimited damages in court.

The high court concluded that the arbitration agreement "possesses a damages limitation that is contrary to public policy and that is unconstitutionally unilateral." Defense experts say it is important to note the court did not allow the employer in the case to "strike" those parts of the agreement it found objectionable while upholding the remainder. Instead, the court ruled the entire contract unenforceable.

Employers with mandatory arbitration agreements must provide employees with the opportunity to collect the same amount of money for statutorily imposed remedies as the employers can collect through court proceedings,

the court said. That applies to damages for emotional distress, punitive damages and attorney fees, said Teresa R. Tracy, an employer defense expert in the Los Angeles office of Baker & Hostetler L.L.P. Ms. Tracy has helped many clients draft arbitration agreements.

Ms. Tracy noted many existing agreements are silent on damage recovery or limit to back pay the amount an employee can collect; those provisions are no longer acceptable. Ms. Tracy said employers will now want to spell out for their employees what damages they are entitled to.

Some existing agreements also shift arbitration costs to employees. But the court ruled employers must pay those costs that are unique to arbitration, such as the hourly fees paid to arbitrators. It will, however, still be appropriate for employees to pay for some costs, such as those they would incur to depose witnesses, Ms. Tracy said.

The court also ruled that arbitration agreements cannot be unilateral, requiring only the employee to submit to arbitration. Both sides will now have to submit employment-related issues to arbitration. For example, if an employer were to include trade secret restrictions in an employment contract, Ms. Tracy said, the employer may want to spell out that it would be subject to arbitration should a dispute arise over that issue.

The court also said that an employee must be allowed to conduct reasonable discovery and have access to documents and witnesses. Ms. Tracy said that, while many existing agreements tend to be silent on the issue of discovery, courts now will want discovery rules contained in the agreements.

While some experts say many employers will now need to revise their agreements, not all will have to change them. Mr. Emanuel noted that those agreements held by his clients have already considered the due process issues addressed by the court. He ac-

knowledge that those employers that do have to revise agreements could encounter employee resistance and perhaps even the filing of lawsuits.

"There will be some transitional issues that will come up while this new approach is being phased in," Mr. Emanuel said. "There will be a lot of advice work for employers' attorneys, and there will be some litigation that will arise. No doubt about it." Still, he said, the important point is that employers can require mandatory arbitration agreements.

In its ruling, the high court also set out requirements for arbitrators. The court ruled that arbitrators must fair and neutral; they must also write out their findings for subsequent court review, if necessary.

*Marybeth Armendariz et al. vs. Foundation Health Psychcare Services Inc., California Supreme Court, S075942.*

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# Copying this article is strictly prohibited

There is a legal battle being waged whose outcome could dramatically affect how business is done in the new millennium.

You may have heard of this dispute, involving a software program called Napster, and figured it had little to do with you because: a) You don't listen to Metallica, and b) You couldn't download a music file from the Internet even if you wanted to. I believe, however, that the Napster dispute has the potential to destroy current copyright protections for any material—including this column—and wreak havoc on free market economies.

Napster is a program that enables computer users to copy and exchange digital music files, resulting in a vast, automated exchange where files are freely traded. Essentially, Napster allows your computer to search the files on other computers using its software and download copies of whatever you like. If you want to find a particular song by Metallica, for example, you put your query online, and the software matches you with people who have these selections, just as people are perusing your hard drive and wondering whether to download your Toto music library. It's an automated process, so you can enter your search parameters, go away, and come back to find the job has been completed.

I mention Metallica because that band has taken the lead in trying to shut down Napster, charging that this free exchange of its music is copyright infringement and theft. Contrary to the warm fuzzy feelings that Metallica invokes, the band does what it does for the money, and it has no interest in giving its work away for free. While many other artists share Metallica's view, some do not; they see the free exchange of their music as an excellent way to gain recognition and interest. Often, though, these Napster supporters are bands that are not now making any money on their music anyway, and as soon as people start paying for their CDs, they'll likely change their minds and start to vote Republican.

The issue, as I see it, boils down to one of choice: Whether an original literary or artistic work is freely copied and shared should be up to the person or entity that created it in the first place.

If Metallica says no, that should be its right, and violators should be prosecuted. If Ned's Garage Band from Pocatello, Idaho, wants its musical message to spread as widely as possible, it should be free to use Napster, MP3 or whatever other technology exists to share its songs of potato love.

Current U.S. copyright statutes clearly protect the ability of the originator of material to control the copying, publishing and sale of that work. So it is amazing to me that the courts hearing the Napster dispute are even contemplating any argument that would contravene that right, which long existed under common law before it was the subject of legislation. While a trial court moved recently to block Napster Inc., creator of the software, a federal appeals court that will hear arguments next month has stayed that move.

If courts ultimately rule that copyrights do not block the exchange and copying of music or published material, not only will a lot of musicians find their revenue streams dry up but so too will any business that relies on intellectual property as an asset or source of income.

Book publishers, broadcasters, newspapers and software developers are among those that would be especially hard hit. If people were free to copy, print and exchange books, instead of buying them, pretty soon authors and publishers would have to find other lines of work to feed themselves. Where would Harry Potter be in this brave new world? And what about Amazon.com, let alone the corner bookstore?

Technology is the source of this new battle over ownership of the right to distribute information. Technology has enabled images, sounds and words to be broken down into a digital code. With the spread of personal computers and the growth of the Internet, it has become quite easy to share these perfect copies with millions of others.

Not only does Web technology make this possible but it also has conditioned us to expect to receive free information. As early companies sought to stake out a place on the Internet and lure visitors to their sites, they often offered free information. Book publishers offered free excerpts. Music companies offered free electronic singles. News organizations put all their information online for free.

I believe that the resulting mindset—that we are entitled to whatever we find on the Web—is at least partly responsible for the belief by some individuals that copyrights aren't worth the pixels used to display them.

If this view that all information should be free prevails, eventually there will be nothing worthwhile for those pixels to display. The vast majority of companies and individuals will likely conclude, despite lip service to such noble concepts as art for art's sake and media's duty to serve the masses, that if no one is willing to pay for their efforts, then why should they bother?

Editor Paul D. Winston's commentary appears fortnightly and on [www.businessinsurance.com](http://www.businessinsurance.com). He can be reached at [pwinston@crain.com](mailto:pwinston@crain.com)

## Captives

Continued from page 3

more experienced participants insight into some of the latest twists on captive basics.

Panelists will include Nicholas Dove, president of Skandia International Risk Management in Hamilton, Bermuda; D. Hugh Rosenbaum, principal at Tillinghast-Towers Perrin in London; and Paul Pitman, vp-human resources, Americas and global compensation and benefits at JTI-Macdonald Corp. in Toronto.

At the same time, another panel will examine what the e-commerce revolution means for risk managers, brokers and insurers and how they do business. Participants in "Basics of E-Commerce and E-Business" will include Michael Kim, principal at Tillinghast-Towers Perrin in New York; and Christopher Lathja, corporate risk manager at Schlumberger Ltd. in Paris. Martin J. Ross, associate publisher of *Business Insurance* in New York, will moderate the session.

Tuesday morning begins with the keynote address, "Into the 21st Century," presented by Erwin Zimmermann, divisional chief executive at Swiss Re New Markets in Zurich, Switzerland.

Following Mr. Zimmermann's discussion of key risk financing issues and trends at the start of the new century, a panel will comment on his remarks. Panelists will include Paul F. Buckley, treasury director-risk management at Lucent Technologies Inc. in Murray Hill, N.J.; and Allison O'Sullivan, director-risk management at the Atlanta-based Coca-Cola Co. Kathryn J. McIntyre, publisher and editorial director of *Business Insurance* in Chicago, will moderate.

The morning will continue with a pair of concurrent sessions, one focusing on group captives and the other on capital markets and risk management.

The session on group captives will examine factors behind the success of such captives and will include a case study of a thriving group captive. The session will be moderated by Robert J. Rosser, senior vp at Skandia in Hamilton, Bermuda, and panelists will include Robert S. Cubbin, president and chief operating officer at Meadowbrook Insurance Group in Southfield, Mich.; Steven C. Blackburn, president of Telcom Insurance Group in Greenbelt, Md.; and James R. Cameron, partner at Baker & McKenzie in New York.

Meanwhile, the capital markets panel will discuss the trend toward a broader deployment of insurance as a corporate finance tool. The panel will include Douglas F. Bateson, vp at J.P. Morgan Securities Inc. in New York; and Amy M. Bradach, principal at Centre Solutions in New York, and will be moderated by Ms. McIntyre.

The first pair of Tuesday afternoon sessions will include a panel on new captive uses and another on health care risks.

"New Ways to Use Your Captive/Decontrolling Captives" will explore advanced financing possibilities for mobilizing captive assets and liabilities. Tillinghast-Towers Perrin's Mr. Rosenbaum will moderate the session, which will include Paul Bawcutt, chairman of the Risk & Insurance Research Group in London; J. Brady Young, president of Strategic Risk Solutions in Waltham, Mass.; and Bob Golden, president, global business at Zurich Corporate Solutions in Zurich.

"New Risks: A Healthcare Perspective" will examine whether health care organizations can adopt an enterprise risk financing approach or whether conflicting influences they face limit them to a traditional approach to risk. The panel will include Mitch H. Melfi, senior vp and chief risk officer at Catholic Health Initiatives in Cincinnati; Elizabeth D. Mariner, vp at Towers Perrin Reinsurance in Stamford, Conn.; and Brenda Saylor, director of risk and insurance management at ProMedica Health System in Toledo, Ohio. Michael Maglaras, principal at Michael Maglaras & Co. in Stamford, Conn., will moderate the session.

The first of two concurrent sessions in Tuesday

afternoon's final pairing will examine opportunities and new developments in the rent-a-captive area. Panelists will include F. Michael Heffernan, president of Walnut Creek, Calif.-based Heffernan Petersen Insurance Brokers; Charles F. Holdren, founder of Cornerstone Risk Management & Insurance Services L.L.C. in Huntington Beach, Calif.; and James W. Blankenship, tax partner at KPMG in Hamilton, Bermuda. Skandia's Mr. Dove will moderate the session.

The other session, "Employee Benefits/Pensions and Captives," will offer a "how-to" of captive use for U.S. and non-U.S. benefits and pension programs. It will explore advantages, tax and regulatory challenges and the insurers involved in the area. Panelists will include JTI-Macdonald's Mr. Pitman; Kathleen Davis, an attorney with Downs, Rachlin & Martin in Burlington, Vt.; and Cynthia Beerbower, chairman of Reeve Court Insurance Ltd. in Bermuda. Mitchell J. Cole, principal with Towers Perrin in New York, will moderate the discussion.

Wednesday morning begins with a session of captive case studies. A highlight of the forum, the case study session offers an in-depth examination of state-of-the-art risk financing programs. This year's case study panel will include Lucent's Mr. Buckley; John Donahue, risk manager of the California State Automobile Assn. in San Francisco; and Schlumberger's Mr. Lathja. Mr. Rosenbaum will moderate the session.

The morning will continue with a pair of concurrent sessions, one focusing on reinsurance and the other on enterprise risk.

The reinsurance panel will examine reinsurance trends and how they apply specifically to captive insurers. It will include Rob Bartholomew, principal at USA Program Administrators Inc./USA Risk Group in Medford, N.J.; Robert D. Byler, president, Alternative Risk Division, Rhine Re in Rocky Hill, Conn.; and Robert D. Schultz, president of Artis in Windsor, Conn. Skandia's Mr. Rosser will be the moderator.

The corresponding panel will discuss real-life examples of enterprise risk financing, examining how the deals were structured and priced, as well as discussing some of the potential drawbacks in enterprise risk programs. The panel will include Robert E. Curtis, account executive at XL America in Stamford, Conn.; Michael J. McAndless, corporate risk manager at United Grain Growers Ltd. in Winnipeg, Manitoba; and Coca-Cola's Ms. O'Sullivan. Towers Perrin's Mr. Cole will moderate the session.

The afternoon begins with a session examining both the present and future of U.S. and international tax positions as they apply to captive owners. The panel will include Baker & McKenzie's Mr. Cameron and KPMG's Mr. Blankenship, with *Business Insurance's* Mr. Ross moderating.

The afternoon will end with the forum's final session, a conference roundup moderated by Mr. Rosenbaum that will give attendees a chance to ask unanswered questions or follow up on topics from other sessions.

Full registration for risk managers for the forum is \$975. Registration for non-risk managers is \$1,250, with a \$975 fee for second and subsequent registrations from the same company. The exhibitor fee is \$2,750, which includes one full registration, with a \$750 fee for additional exhibit personnel, to a maximum of two. Non-industry guest registration is \$150. The fee for an optional golf tournament, beginning at 8 a.m. on Monday, Nov. 13, is \$200.

The special World Captive Forum room rate at the PGA National Resort and Spa is \$159 per night, with an additional resort service fee of \$5 per day. To receive the group rate, individuals must mention the World Captive Forum and make reservations by Oct. 11.

For more information, contact the World Captive and Alternative Risk Financing Forum, 4248 Park Glen Road, Minneapolis, Minn. 55416; 952-928-4659; fax 952-929-1318; or [www.captiveforum.com/CaptiveForum](http://www.captiveforum.com/CaptiveForum). **BI**

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# Pensions

*Continued from page 1*

tion, which has charged that too many of the benefits of the House-passed pension bill were directed at higher-income individuals.

As the bill nears its Finance Committee vote, benefit experts say passage by the panel is virtually assured. "The prospects are almost certain. All the reports we have had have been very strong," said James Delaplane, vp-retirement policy at the Assn. of Private Pension & Welfare Plans in Washington.

"This is a big event in terms of advancement of pension reform," added Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

Assuming the bill clears the Finance Committee, the full Senate would take it up, most likely in the week of Sept. 18, benefit lobbyists say.

Still, although the bill appears to face smooth sailing, uncertainties remain—chiefly what the committee will do in the area of cash balance plans. Two committee members—Sens. Charles Grassley, R-Iowa, and James Jeffords, R-Vt.—have been especially concerned about the impact that conversions of traditional plans to cash balance plans have had on older employees' expected pension benefits.

Sen. Jeffords' interest was triggered last year when International Business Machines Corp., Vermont's biggest private-sector employer, switched to a cash balance plan. That action, in turn, led to a revolt by thousands of older, longer service IBM employees, who said the conversion would significantly slice the benefits they had expected to receive. IBM, under an agreement Sen. Jeffords announced, later agreed to double the number of employees who would be given a choice of remaining in the traditional plan or moving to the cash balance plan.

The extent of cash balance changes in the reform measure isn't known as yet. "Discussions are continuing. Final decisions have not been made yet," the APPWP's Mr. Delaplane said.

But at a minimum, the bill would

mandate more extensive disclosure requirements for cash balance and other pension plan conversions, while the measure also likely would include provisions dealing with wear-away.

Wear-away can occur when a new benefit formula is applied to employees' past and future service. Under this approach, though, federal rules stipulate that an employee can never receive less than he or she earned under the old formula.

The term is so-named because the minimum benefit the worker accrued under the old formula eventually will "wear away," or no longer apply because the new formula at some point will generate a larger benefit.

## 'This is a big event in terms of advancement of pension reform,' Frank McArdle says of the reform bill.

The advantage to this approach rather than the "sum all" approach—in which the frozen benefit earned under the old plan is added to the benefit earned for future service under the new formula—is administrative simplicity. Plan administrators don't have to track benefits under two formulas for one individual for an extended period of time.

If benefit conversions that result in wear-away are banned, benefits earned under the new and old plan would have to be kept separate. That would mean—in the case of a conversion to a cash balance plan from a traditional plan—that benefits accrued under the old formula could not be converted to an opening account balance in the cash balance plan. That would make it more difficult for employees to know the cash value of the benefits they had accrued in the old plan.

While it remains to be seen how extensive proposed cash balance plan-related changes will be—much less their impact—it is known that the Finance Committee bill will mimic the House bill in numerous areas. These include:

- Gradually raising to \$15,000 from \$10,500 the maximum annual salary deferral that could be made to 401(k) plans.

Employees 50 and older also could contribute an extra \$5,000 annually to a 401(k) plan through a so-called catch up provision. This provision would be a boon to women who have left the workforce to raise children and only now have the opportunity to save for retirement.

- Increasing to \$200,000 from \$170,000 the amount of annual employee compensation employers can consider in calculating pension benefits—a change that could considerably increase benefits.

- Increasing to \$160,000 from \$135,000 the maximum annual benefit that can be funded through a defined benefit plan, while raising to \$40,000 from \$30,000 the maximum annual contribution that can be made to defined contribution plans.

Aside from increasing benefits that can be provided through pension plans, the Finance Committee bill is expected to pick up most, if not all, of the provisions in the House bill that would reduce the administrative hassle associated with sponsoring a pension plan. Some of those provisions include:

- Non-discrimination testing. One significant change would ease non-discrimination testing procedures for 401(k) plans that allow both pretax and aftertax contributions. This would be accomplished by allowing employers to use the same basic test—used to compare contributions of highly compensated and rank-and-file employees—on both pretax and aftertax contributions.

By contrast, current law requires a complex testing procedure for savings plans that allow both pretax and aftertax contributions.

- Portability. Account balances could be transferred between 401(k), 403(b) and 457 plans when employees change jobs between the private, non-profit and governmental sectors. 403(b) plans are the non-profit world's rough equivalent of 401(k) plans, while 457 plans—offered by state and local governments—also are similar to 401(k) plans. **BI**

# Funding

*Continued from page 3*

sources to do the job?" wrote Mr. Hunter, who now serves as the Washington-based CFA's director of insurance. "This paper will not review the other vital condition for effective regulation to be in place: do the states have the will to effectively regulate even if the insurance industry opposes such regulation?"

In general, there has been a slow but steady increase in the percentage of premium taxes returned to the departments since 1988. In that year, the Consumer Insurance Interest Group—a joint project of the CFA, Public Citizen, the National Insurance Consumer Organization and the National Assn. of Professional Insurance Agents—recommended that states allocate at least 10% of the premium taxes they collect for insurance regulation.

At a Washington news conference on the report last week, Mr. Hunter noted that no one involved with the original 1988 study had argued that returning 10% of premium taxes to regulators was too much. Among other things, the CIIG had recommended that funding be used to assure that each insurance department had at least one professional actuary on its staff and that states be able to pay competitive salaries to retain qualified

personnel.

At that time, only four states met the 10% goal. By 1998, 15 jurisdictions—including the District of Columbia and the U.S. Virgin Islands—met the goal of returning at least 10% of their premium tax collections to their insurance departments. These departments received grades of A+ or A- from the CFA report.

Seven states, however, returned less than 4% of premium tax revenues in 1998 to their regulators, according to the CFA report. These states—Arizona, Georgia, Indiana, Nevada, South Dakota, Tennessee and Utah—received a grade of F.

In a statement issued shortly after the CFA report's release, George Nichols III, the Kentucky insurance commissioner who currently serves as president of the National Assn. of Insurance Commissioners, said: "I view this report very positively because it documents how far we've come. We will continue to build upon these dramatic gains and successes, and yet I know that every commissioner wants to do more, while carefully balancing how we spend public dollars."

Mr. Nichols added: "I might debate Bob's method of grading and measuring," noting that the 10% figure was "simply a benchmark. Each state must take into account specific differences in the cost of

regulation, directly related to the size of their insurance market, population and number of domiciled carriers."

"Overall, the report shows why we must continue building on our successes and do more for consumers. This report may even help my colleagues convince state lawmakers and taxpayers for increasing support and recognition of the return on investment when consumers are properly protected by state departments of insurance," he said.

Kentucky received a grade of B from the report. In fact, the CFA report cited Kentucky as an example of a small state that had made "excellent progress" in increasing the amount of resources it dedicates to regulation.

"Consider Kentucky that went from under 3.5%...in 1988 to 9.43% in 1998, almost to the 10% standard. During the decade, Kentucky saw its staff go up well over 50%, market conduct exams go up and actuaries go from 0 to 2 on staff," according to the CFA report.

The CFA survey was based on data from NAIC resources reports.

Copies of "1988, 1993 and 1998 Changes in State Insurance Department Resources" cost \$10 and are available from the Consumer Federation of America, 1424 16th St. N.W., Suite 604, Washington, D.C., 20036; 202-387-6121. **BI**

# UPDATES

## NAIC product-review body

KANSAS CITY, Mo.—The fastest way to bring new insurance products to market is to establish a new entity to coordinate advertising and rate and form review and to oversee compliance with emerging national standards, according to a proposal by a National Assn. of Insurance Commissioners' subgroup.

During meetings early last week, the NAIC's Speed to Market Working Group outlined steps for establishing the Coordinated Advertising, Rate and Form Review Authority, or CARFRA. The proposal was also discussed during the NAIC's meeting last week in Kansas City, Mo., by the working group co-chair, Diane Koken, who is Pennsylvania's insurance commissioner, and Frank M. Fitzgerald, Michigan's financial and insurance services commissioner. Under the proposal, one insurance commissioner from each state could agree to participate in the new authority, which would operate under a board of directors. Member states would contribute staff, to be appointed to review teams that would analyze insurers' submissions from their respective state offices.

CARFRA members' initial duties would include determining which products are appropriate for such treatment and adopting standards, including a uniform definition of "exempt commercial policyholder." Their decisions, which would be subject to appeal, would be reported to the respective commissioners, who would make final decisions.

Under the plan, individual insurers would be responsible for filing to a central electronic repository and paying applicable fees to states and CARFRA for each review. But CARFRA is optional, and insurers could continue to file new-product information on a state-by-state basis.

"This process is analogous to the state securities Central Equity Review," though there are far fewer products and federal securities regulation is more extensive, according to the commissioners' presentation.

CARFRA is expected to aid consumers by speeding products to market and improving the review that new products undergo, regulators say.

The NAIC working group expects to receive comments on the report at its quarterly meeting Sept. 9-13 in Dallas, an NAIC spokeswoman said.

## Aon forms technology group

CHICAGO—Aon Corp. has formed a new Technology Risk Group to serve the insurance and risk management needs of several sectors, including dotcoms; hardware, software, and technology service providers; and life science and biotech companies.

The move is part of Aon's ongoing strategy of providing specialized expertise to specific industry segments, the Chicago-based broker said in a statement. Aon launched 10 global practice groups earlier this year (BI, July 17).

The new technology group initially is focusing on U.S. business, but it will eventually become a global practice group, explained Michael D. Rice II, a director with Aon Financial Services Group in Denver.

"We are really addressing all the technology risks of technology companies as well as all the technology risks of non-technology companies," said Mr. Rice, who will head the new group with Michael Marcon, executive vp for Aon's merger and acquisitions group in San Francisco. These risks include Internet liability, intellectual property and directors and officers liability, Mr. Rice said.

The Technology Risk Group will be managed out of Aon's San Francisco and Denver offices.

## Postal violence overstated: Study

WASHINGTON—Despite public perceptions, postal workers are no more likely to physically assault, sexually harass or verbally abuse their co-workers than are employees in the workforce in general, says a report by the independent U.S. Postal Service Commission on a Safe and Secure Workplace.

The 249-page report, which studied data on workplace homicides from 1992 through 1998, also found that postal workers are only one-third as likely as are those in the national workforce to be victims of homicide at work. Compared with postal workers, retail workers are eight times more likely and taxi drivers are 150 times more likely to be homicide victims while at work, the study found.

"'Going postal' is a myth and a bad rap causing unnecessary apprehension and fear among 900,000 postal workers," said Joseph A. Califano Jr., chairman of the Washington-based commission and president of The National Center on Addiction and Substance Abuse at Columbia University in New York, in a statement. "This report should shatter the myth that postal workers are more violent than other workers and discourage the pejorative use of that expression," he said.

Attention was drawn to the tensions at and safety of postal workplaces after several homicides took place in the late 1980s and early 1990s.

The report also surveyed nearly 12,000 postal workers and 3,000 employees in the national workforce. It found that, in the past year, 5% of both postal workers and other workers were physically assaulted at work, 14% of postal workers and 16% of other workers were sexually harassed at work, and 36% of postal workers and 33% of other workers were verbally abused on the job.

In examining homicide at work from 1992 through 1998 in all major industries, the report found the retail trade had the highest rate, at 2.10 homicides per 100,000 workers annually. The next-highest rate was in public administration, which included police work, with a homicide rate of 1.66 per 100,000. Among occupations, the report found homicide rates were highest for taxi drivers and chauffeurs, at 31.54 per 100,000; followed by police, at 6.46 per 100,000. Homicide rates for postal workers ranked low, at 0.26 per 100,000, while the homicide rate for the national workforce overall was .77 per 100,000 workers.

The independent commission was established in 1998 by Postmaster General William J. Henderson to help the postal service create the safest possible environment.

A full copy of the report can be found at [www.casacolumbia.org](http://www.casacolumbia.org).





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## THE GREATEST RISK IS NOT TAKING ONE.

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