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delay WTC cover trial / 3**

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to remain profitable / 3**

Business Insurance

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\$5

Aon latest employer to alter its pension strategy

By JERRY GEISEL

CHICAGO—Continuing a trend among employers, Aon Corp. is adding a second defined contribution plan and will phase out its defined benefit pension plan.

The new plan offered by Chicago-based Aon, the world's second-largest insurance broker, will give participants the opportunity to direct company contributions into the same investment options that Aon now offers in its 401(k) plan.

Unlike the 401(k) plan, in which company contributions are matched to employees' salary deferrals, Aon's contributions to the new plan will be based on employees' length of service. Employees with less than five years of service will receive an annual contribution of 3% of pay; those with between five and nine years of service will receive a contribution of 4%; and those with between 10 and 19 years of service will receive 5%. Employees with between 20 and 29 years of service will be entitled to an annual contribution of 6% of pay and those with 30 or more years of service will be entitled to 7%.

All Aon employees hired in the United States since Jan. 1, 2004, will be enrolled in the new plan. Aon is retaining its \$1 billion defined benefit plan, which has more than 40,000 participants, including about 20,000 active employees, for those hired before then.

The adoption of the new plan comes after about two years of study—involving Aon's benefits consulting unit—and was driven by a desire to reduce what it identified as a big problem with its defined

See **PENSION**/page 19

Madrid attack spurs interest in terrorism cover

By SARAH VEYSEY

The recent terrorist bombing of commuter trains in Madrid, Spain, is renewing business interest in stand-alone terrorism insurance. London market sources reported a surge of inquiries about the coverage last week, particularly from European businesses.

More than 200 people were killed and another 1,500 were injured in the series of 10 coordinated blasts that ripped through Madrid's com-

muter trains during the morning rush hour on March 11. But despite the large number of casualties and injuries, property claims are expected to be low, as the explosions caused little damage to property. Authorities have not determined who was behind the attack, though a group associated with al Qaeda has claimed responsibility.

Any property losses will likely be covered by the Spanish government-backed catastrophe insurer, Consorcio de Compensación de Se-

guros, to which all property insurers in Spain pay supplementary premiums.

The Consorcio covers property damage and business interruption losses, including those stemming from terrorism, though the business interruption coverage requires payment of an additional premium, sources say.

Liability losses are not covered by the Consorcio, though the Spanish government has set aside 140 mil-

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One of the bomb-damaged trains is towed at the Atocha train station in Madrid on March 12. The bombings, which killed more than 200, have renewed attention to terrorism risk management.

PHOTO: GETTY

Insurers expect lobbying challenge

Efforts to renew TRIA begin

By MARK A. HOFMANN

WASHINGTON—Efforts to persuade Congress to reauthorize the Terrorism Risk Insurance Act are beginning to build up steam.

Although the act—which provides a federal backstop to cover losses stemming from a catastrophic terrorist attack—doesn't expire until the end of 2005, proponents of extending the backstop say they

must move now on reauthorization or leave open the possibility of major market disruptions.

"The most pressing concern is that displacement could begin to occur early next year, not in 2006, because any one-year policy issued on Jan. 2, 2005, is going to be bare to 100% terrorism risk for at least one day," said Joel Wood, senior vp-government affairs for the Council of Insurance Agents & Bro-

kers in Washington. "Depending on how long the renewals are, the problems could start in October because of the expiration of reinsurance."

Reauthorization efforts got a boost last week when some members of the National Assn. of Insurance Commissioners said that TRIA should be extended and called on insurers and policyholders alike to

See **TRIA**/page 22

Late News

U.S. reinsurers' ratio improves: RAA

A group of 29 U.S. property/casualty reinsurers posted an aggregate combined ratio of 101.2% for 2003, compared with a 121.3% ratio reported by a comparable group of reinsurers for 2002, according to a survey by the Reinsurance Assn. of America. The 2003 combined ratio reflects a 74% loss ratio and a 27.2% expense ratio. The reinsurers wrote \$30.63 billion in premiums, a 3.8% increase from 2002, according to the RAA.

Broadspire buys Cunningham Lindsey TPA

Broadspire Services Inc. has bought the third-party claims administration units of Cunningham Lindsey U.S. Inc. Broadspire, which was spun off from Kemper Insurance Cos. last year, will now service the existing claims operations of both of RSKCo Services Inc. and Cunningham Lindsey Claims Management Inc. The purchase price was not disclosed, but Cunningham Lindsey will pay Broadspire \$22 million for the servicing of existing claims obligations. The acquired companies, which have \$40 million in annual revenues, will increase Broadspire's revenues to more than \$350 million annually, the company says.



PHOTO: AFP

Coke recalls Dasani from U.K. shelves

The Coca-Cola Co. is temporarily withdrawing its bottled water product Dasani from sale in the United Kingdom after finding illegally high levels of bromate, a potential carcinogen, in samples of the water. The soft-drinks company would not comment on whether it carries product recall insurance to cover the costs of withdrawing the 500,000 bottles. The recall occurred as the company was in the process of

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International

FLOATING HOTELS WORRY INSURERS

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Contempt charge mulled for Silverstein in WTC case

By DOUGLAS McLEOD

NEW YORK—The World Trade Center coverage trial took a detour last week as the judge considered whether to hold WTC leaseholder Larry Silverstein in contempt of court for publicly criticizing insurers' refusal to provide a double payout of the program's \$3.55 billion policy limit.

London insurers sought a contempt ruling after Mr. Silverstein held a press conference at which he said he is fighting insurers "to achieve the money that's going to be necessary" to rebuild on the WTC site and complained that "instead of getting insurance, we got ourselves a massive amount of litigation."

The remarks violated Judge Michael B. Mukasey's order barring the parties from discussing the case with reporters other than to explain what was happening in court, the

insurers contend.

At a packed hearing last Thursday, Mr. Silverstein testified that he misunderstood the judge's order.

'I have to control people in this case, because apparently there is so much money at stake that people will do virtually anything.'

Judge Michael B. Mukasey

His lawyers also argued that a contempt ruling would be more damaging to an impartial trial than Mr. Silverstein's remarks would be.

Judge Mukasey said he would rule on the contempt motion March 22.

Meanwhile, the judge banned Mr. Silverstein from attending the

rest of the trial. He also ordered that if Mr. Silverstein later testifies in the case, his testimony must be scripted to avoid improper statements to the jury.

"This is not the only manifestation of this," Judge Mukasey said of litigants' disregard for his orders against remarks that might unfairly influence jurors. "I have to control people in this case, because apparently there is so much money at stake that people will do virtually anything."

The contempt motion came in the sixth week of a trial to determine whether about a dozen WTC insurers bound coverage on a form produced by broker Willis Group Holdings Ltd. or one produced by Travelers Property Casualty Corp.

The insurers contend that they agreed to the Willis form—known as Wilprop—which was included in the broker's original underwriting

See **WTC**/page 19

Easing rates not expected to hurt insurers in 2004

Results likely to remain strong

By JUDY GREENWALD

Commercial property/casualty insurance rates may have reached their peak, but insurers will still report good results this year, say observers.

"Price increases are beginning to moderate, and the question is, does the industry have it mostly right at this point, and I think they do," said Stephan Petersen, an analyst with Cochran, Caronia & Co. in Chicago.

Although some rates are slipping, commercial insurance business is generally profitable as insurers benefit from more disciplined underwriting and improved investment results, observers say.

And despite some notable exceptions, most insurers have not need-

ed to make significant increases to their reserves in 2003, which contrasts with a widespread round of reserve increases announced in 2002.

Property/Casualty Insurers 2003 RESULTS

According to *Business Insurance's* survey of insurer results, the 14 surveyed insurers that report net income posted an 88.7% increase in 2003, to \$15.34 billion.

Other 12-month results from the *BI* survey of 15 major property/ca-

sualty insurers include:

- All 15 insurers reported an aggregate weighted combined ratio of 99.9% for 2003, compared with 107.7% for 2002.

- Net premiums written increased 14.2%, to \$11.85 billion.

- Policyholder surplus for the 14 insurers that report this data increased 16.3%, to \$58.48 billion.

John Ward, chairman of the Cincinnati-based Ward Group, said 2003 "was an excellent year for the property/casualty industry and well ahead of the past several years' results."

Reasons for the improvement include continued hard pricing trends, improved underwriting discipline and increased equity investment returns, he said.

See **RESULTS**/page 20



Montreal-based Air Canada, like other Canadian employers, is struggling to contain increasing employee benefit costs.

Canadian firms seek to stem rising cost of benefits

By GLORIA GONZALEZ

Double-digit increases in employee benefit costs are forcing Canadian employers to re-evaluate their benefit packages and develop plans to curtail costs.

Many Canadian employers have responded to these cost increases by either reducing the level of benefits they offer or shifting some of these costs to employees, as Montreal-based Air Canada Inc. is attempting to do. The estimated cost of the financially troubled airline's benefit package was more than \$131 million Canadian (\$98.1 million) in 2003, up 11% from 2002. The company's new equity investor, Hong Kong-based Trinity Time Investments, has proposed a gradual cost-sharing program for employee benefits, such as health care, dental care, basic life and accident insurance and long-term disability.

Under the proposal, current Air Canada employees would contribute 6% of the cost of

these benefits beginning Jan. 1, 2005. An additional 6% of the costs would be deducted from an employee's paycheck each year until 2009, when employees would be responsible for 30% of the benefit costs. New employees, though, would immediately begin paying 30% of the benefit costs after Jan. 1, 2005.

In addition, current employees with less than 60 combined years of age and service would not receive post-retirement health and dental benefits but would receive life insurance the company would pay for. Employees hired on or after Jan. 1, 2005, would not be entitled to any post-retirement nonpension benefits.

Air Canada's cost-control efforts, though influenced by the airline's ailing finances, are not uncommon, but most Canadian employers are not eliminating benefits, consultants say.

"Employer costs are escalating and will likely continue to do so

See **CANADA**/page 21

Inside Business Insurance

Trucking safety rules won't ease rates

Regulations to reduce drivers' hours on the road are not expected to further soften insurance rates. **Page 4**

Regulatory reform plan gets initial support

Insurance buyers and regulators have endorsed a proposal to reform the state-based system. **Page 4**

Judicial watchdog group honors jurisprudence

Common Good is honoring judges who are helping reform the tort system, Paul Winston writes. **Page 6**

Paying more for care? Be glad you're not GM

Health care costs are rising, but for some employers, they're truly staggeringly high. **Page 8**



Airbus A380 a jumbo risk for aviation insurers

Airbus' massive new jet, larger than Boeing's 747, is creating challenges for aviation underwriters. **Page 17**

Online

- The **Datebook** calendar lists upcoming industry seminars and meetings and allows users to add information on their own events.

- Searchable **directories** enable users to locate insurance industry companies and service providers.

- New **Opinion Poll** for readers: Should Congress reauthorize the Terrorism Risk Insurance Act?

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REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Ride Along Enclosed in Editions 03 and 04

Acquisition to enhance Aon RMIS offerings

By JOANNE WOJCIK

CHICAGO—Broker Aon Corp. is buying risk management information system vendor Risk Laboratories L.L.C., creator of RiskConsole, and phasing out its own RMIS product.

Terms of the sale, which closed Feb. 12 but was not made public until March 22, were not disclosed. However it was an acquisition of 100% of the outstanding shares of RiskLabs from its former owner, American Home Assurance Co., a unit of American International Group Inc. of New York.

The decision to purchase RiskLabs came nearly a year ago, when Aon was rethinking its RMIS

marketing strategy, according to Mark Stephens, managing director of Aon eSolutions, the technology arm of the Chicago-based broker.

Aon's RMIS product, Risk Monitor, "was a market-leading product in many ways in the results it could deliver," Mr. Stephens said, "but our clients found it very difficult to use. Consequently, when we sold it, we ended up with a very labor-intensive service model. Clients liked the product, they liked the results, but they weren't very interested in using it themselves."

Recognizing this, Aon hired a business analyst in early 2003 to study the global RMIS marketplace to determine how Aon could best compete. The options presented

were to either rewrite the Risk Monitor application or to create a business relationship with a market-leading vendor.

"Who did they suggest? They came back with several choices that were good choices, but there was clearly one at the top of the list that they thought was outstanding, and that was RiskLabs down in Marietta, Ga., whom we had been familiar with, having competed with them in the marketplace, and had great respect for," Mr. Stephens said.

Because of its reputation, Aon has elected to keep the RiskLabs name, and the company will operate autonomously as a unit of Aon Corp., See AON/page 15

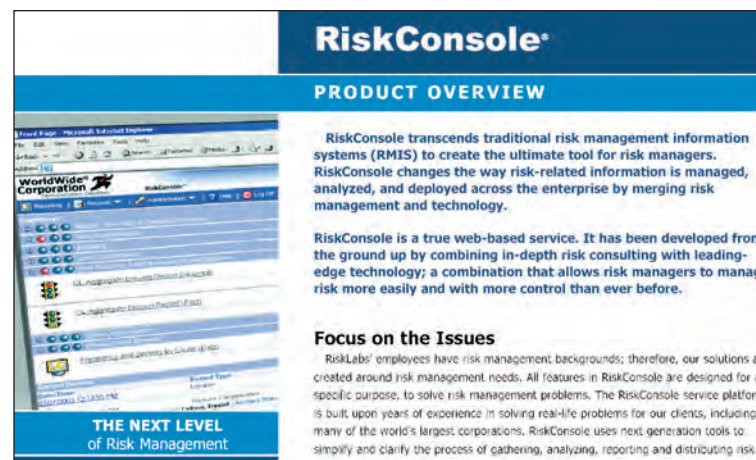


PHOTO: RISK LABORATORIES L.L.C.

Aon says its purchase of Risk Laboratories L.L.C. will give its RMIS clients access to the features in RiskLabs' advanced system.

Truckers face new time limits

Safety rules not expected to further ease rates

By MICHAEL BRADFORD

New regulations governing the hours commercial truck drivers can spend on the road are unlikely to accelerate softer pricing in the trucking liability market.

Aimed at improving safety on America's roads, the new hours-of-service regulations enacted by the Federal Motor Carrier Safety Administration limit the time truckers can spend behind the wheel. In some cases, the new rules—which are the first substantial reworking of the regulations since 1939—reduce the number of hours truckers can work.

The new rules took effect Jan. 4, but enforcement did not begin until early March so that trucking companies had additional time for driver education and training.

But insurance industry sources say it will take time to evaluate whether the regulations make the nation's highways safer. Until then, trucking insurers are not expected to lower rates for coverage.

The FMCSA contends that the new rules will save 75 lives, prevent 1,326 fatigue-related injuries and prevent 6,900 property-damage-only crashes each year. That would save the U.S.

economy \$628 million per year, the agency estimates.

The regulations increase the required off-duty time for truckers to 10 consecutive hours from eight. In addition, they impose a duty period of 14 continuous hours. That is a change from the previous 15-hour period, which could stop and start according to the task the driver was performing.

Unchanged is a requirement that truckers must stop driving after 60 hours on duty over seven consecutive days or 70 hours on duty over eight consecutive days. The restart time has been simplified, though. After mandatory breaks, drivers can take the wheel again after 34 hours of rest, as opposed to the variable calculation under the old rules, which depended on various factors.

An insurance company trade group says the changes are weaker than they could have been because the FMCSA doesn't require electronic monitoring of compliance with the regulations.

"The technology is there, and it's relatively cheap. It would have been a simple, cost-effective measure," said Dave Snyder, vp and assistant general counsel with the American Insurance

See TRUCKS/page 14

Reform plan draws support

Federal lawmaker seeks changes in regulatory system

By MEG FLETCHER

NEW YORK—The House Financial Services Committee chairman's comprehensive plan for improving insurance regulation through a federal-state partnership is drawing initial praise from diverse groups, including risk managers, insurers, producers and regulators.

Whether their support continues, though, may depend on whether Rep. Mike Oxley, R-Ohio, can convince advocates of optional federal charters that they are unnecessary. He expressly opposes such charters as well as a federal insurance regulator.

He outlined a "road map to state-based insurance regulatory reform" during an address to the National Assn. of Insurance Commissioners, which held its quarterly meeting in New York last week. Rep. Richard H. Baker, R-La., chairman of the House Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises helped develop the plan.

Rep. Oxley identified six key areas for reform: more efficient review of insurance products to speed them to market; improved agent licensing procedures; streamlined insurer licensing; more effective and

coordinated market-conduct oversight; elimination of price controls; and an improved federal-state partnership to coordinate policy and to promote uniformity.

"We will focus our federal tools



PHOTO: ROLL CALL

Rep. Mike Oxley has proposed revamping the state-based system of insurance regulation.

on ensuring full participation in those programs with enforced deadlines and without deviations," he said but did not provide details or give timetable for the introduction of legislation.

Rep. Oxley, however, rejected proposals such as a federal charter to allow insurers and agents to op-

erate nationally, as well as a single federal regulator. Instead, he recommends "a federal-state advisory council," possibly overseen by a federal appointee. That person, however, would have no regulatory or licensing authority other than to approve or disapprove a limited set of coordination issues.

The plan calls for a six-member council consisting of three members appointed by the NAIC and one member each appointed by the U.S. Treasury Department, the Securities and Exchange Commission and the Federal Reserve Board, according to NAIC President Ernst Csizsar.

Several trade groups praised Rep. Oxley's general goal of streamlining state insurance regulation.

Although the National Assn. of Mutual Insurance Cos. prefers state-based reforms, the Oxley plan would "allow insurance regulatory reform at the state level to happen while making it a more effective and efficient system," said David A. Winston, vp-federal affairs for Indianapolis-based NAMIC.

The Alexandria, Va.-based Independent Insurance Agents & Brokers of America Inc. praised Rep. Oxley's "middle ground" approach See REGULATION/page 6

Cost-shifting grows, poll finds

Employers are no longer willing to absorb increases in the cost of health care and are forcing their employees to share more of the burden, a study by the National Business Group on Health has found.

Employers are doing this by raising premiums and point-of-care cost-shifting and by offering high-deductible plans, usually without a reimbursement arrangement, according to the survey, released at the organization's Business Health Agenda 2004 in Washington.

But, employers are making this cost shift in concert with providing information and education to em-

ployees to help them make better decisions, said Ted Chien, global director of group benefits and health care consulting at Watson Wyatt Worldwide in Washington. Watson Wyatt conducted the survey, to which 450 employers responded in the winter of 2003.

Only 29% of employers were willing to absorb health care cost increases, which still grow by double digits, vs. 52% in 2000.

The survey also found that companies that were more aggressive in applying "financial tension"—that is, cost-shifting—produced far better results, with median cost in-

creases of 7% compared with median hikes of 17% to 19% that most other employers face.

Among other findings:

- 20% of employers were confident in their ability to manage cost, but only 10% were confident in their ability to manage quality.

- 41% reported their health benefit costs were over budget last year.

- 50% were uncertain whether they would be offering health care benefits 10 years from now.

The survey results will be available online in mid-April at www.watsonwyatt.com.

—By Joanne Wojcik

Heads up! Charity needs you

As you can see from the below photo, I shaved my head on St. Baldrick's Day, as promised, to raise funds for the National Childhood Cancer Foundation's search for a cure. On behalf of my



PHOTO: MICHAEL MARCOTTE

Paul Winston

head, more than \$2,500 was raised for the charity in a little over a week through generous donations by friends, family, co-workers and even several readers.

Thanks to all who supported me and the St. Baldrick's Day fundraiser overall. Preliminary estimates are that a goal of raising \$3 million will be met this year, up from more than \$2 million raised a year ago.

I also would like to thank the folks at Towers Perrin Re in Chicago, particularly Heather Kash and Tom Leonhardt, who helped organize the event where my hair was shorn and provided encouragement to all.

If you are interested in this

charity, either as a donor or a future participant, please visit www.stbaldricks.org.

The picture above won't be here for long, as I'm already growing my hair back. I tried staying bald for a week, but it didn't take. Maybe it was the many razor nicks I added to the back of my head, or the sunburned pate I got from one brief afternoon outdoors, or Lance Ewing referring to me as his "My Twin Doll," or my daughter insisting that I wear a hat when appearing with her in public.

Or maybe it's just that I want a chance to cut it off again and help out in next year's St. Baldrick's Day.

—Paul Winston

Paul Winston

Watchdog honors prudent jurists

Last week, Common Good, the organization devoted to changing our litigation culture and its impact on society, announced the winners of its first annual Gatekeepers Awards.

Unlike the many awards for the most outrageous excesses and abuses of our legal system, these awards salute judges who perform their intended roles in keeping frivolous or absurd claims from the courts, restoring the public's confidence that the courts are not a wild lottery but a forum for reasonable and justified claims.

"In today's legal climate, not enough judges are acting as gatekeepers. Anyone can sue for almost anything. Legal fear is transforming America from a can-do nation into one where people are nervous about even ordinary daily activities," Common Good said in announcing the awards, which are listed at www.cgood.org.

Common Good reviewed 2003 legal decisions to honor judges whose rulings demonstrated they fulfilled the role of gatekeeper, protecting courts from abuse with a healthy dose of common sense.

The 2003 winners are:

● **Chief Justice Ralph J. Cappy of the Supreme Court of Pennsylvania.**

The case, *Carl R. Grady vs. Frito-Lay Inc.*, alleged a Dorito chip lodged in Mr. Grady's throat, tearing his esophagus. The Gradys alleged that Doritos are inherently dangerous. But Justice Cappy rejected the plaintiff's expert testimony after determining that none of the tests involved actually chewing the corn chips as intended. The court's opinion said the tests "smacked of a high school science fair project," according to Common Good.

● **Justice Barbara Milano Keenan of the Supreme Court of Virginia.**

In *Donna P. Thurmond vs. Prince William Professional Baseball Club Inc.*, Justice Milano Keenan rejected an effort to hold a minor league baseball club liable for a fan who was struck in the stands by a foul ball. Justice Milano Keenan's ruling held that no one with "ordinary intelligence" could watch a baseball game without "coming to a full realization" that batters cannot always control the direction of the ball, Common Good said in its award.

● **Chief Judge Anthony J. Scirica of the 3rd U.S. Circuit Court of Appeals.**

In *Amanda Walker-Serrano vs. Donald Leonard et al.*, the court held that a third-grader cannot sue school officials for being prevented from circulating a petition opposing a field trip to the circus, Common Good reported. The plaintiff believes

circuses are cruel to animals and wanted to solicit signatures opposing the trip. Her teacher felt the petition was disruptive, prompting her parents to sue the president of the school board, the superintendent of schools, the principal of the school and Amanda's teacher alleging civil rights violations. "The special responsibilities of elementary school educators, and our deference to the choices they make in operating schools, precludes elevating this dispute to the level of a constitutional violation," Judge Scirica wrote for the majority.

● **Judge Morris Sheppard Arnold of the 5th U.S. Circuit Court of Appeals.**

At midnight on June 1, 1999, during

a severe thunderstorm, an American Airlines jet crashed while landing in Little Rock, Ark., killing 11 people, including the pilot. Most of the survivors settled with the airline for undisclosed amounts, but two passengers sought compensatory and punitive damages. The trial court rejected their claim for punitive damages, intended to punish wrongdoing, but

granted compensatory damages. One of the plaintiffs appealed. Ruling in *In re: Aircraft Accident at Little Rock, Arkansas, on June 1, 1999*, Judge Arnold upheld the lower court ruling, essentially finding that no reasonable jury could find that the flight crew crashed the plane on purpose.

● **Chief Justice Miriam Shearing, Justice Nancy A. Becker and Justice Mark Gibbons of the Supreme Court of Nevada.**

Paola Najgrodski was a passenger in a car that was speeding through a neighborhood in Las Vegas and ran a stop sign, crashing through a cinderblock wall and into a flowerbed in the yard of Joseph Volpe. She was severely injured in the crash and sued, alleging the homeowner and contractor who built the wall, which she termed a "deathtrap," were at fault. A district court dismissed the case, a move the high court upheld in *Paola Najgrodski vs. Joseph A. Volpe, and Pardee Construction Co. of NV.* "It was unforeseeable" that she would travel "75 mph in a residential neighborhood, . . . zoom past a stop sign, . . . and crash into" the wall. "Imposing liability on . . . landowners for injuries or fatalities suffered by motorists who leave the roadway would place an undue burden on landowners," the justices wrote.

Kudos to Common Good for selecting these examples of common-sense jurisprudence. May other judges take note.

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Regulation: Reforms outlined

Continued from page 4

of using targeted federal legislation to reform the state-based regulatory system. "Such an approach would preserve state oversight" through enactment of federal tools, IABA said in a statement.

Meanwhile, other groups voiced general support for the plan,

though they continued to advocate optional federal chartering. Those groups included the New York-based Risk & Insurance Management Society Inc. as well as the American Insurance Assn. and the Council of Insurance Agents & Brokers, both Washington-based.

"These are important and much-

needed reforms that are welcomed by commercial insurance buyers everywhere," RIMS President Lance J. Ewing said in a statement. RIMS' ultimate goal, however, continues to be an optional federal insurance charter, he said.

In his plan, Rep. Oxley outlined specific goals that would affect commercial insurance buyers.

Rep. Oxley's proposals 'are important and much-needed reforms that are welcomed by commercial insurance buyers everywhere.'

Lance J. Ewing
Risk & Insurance Management
Society Inc.

"With respect to multistate commercial policies, we want a single choice of law that will best protect the consumer—perhaps the state of domicile of the policyholder," he said. For example, "if Microsoft is purchasing liability insurance, the state of Washington would have the greatest interest in protecting the company," he added.

"Similarly, for a large, sophisticated business, it may not make sense to go through a full forms review process. Also, the definition of a sophisticated commercial insured should be adopted nationwide," he said.

For its part, the NAIC wants to have a seat at the table and "offer our expertise and resources," Mr. Csiszar said in an interview. "We don't want to stand on the sidelines and be naysayers. We want to have a dialogue."

Mr. Csiszar expects to testify before Rep. Baker's subcommittee at the end of this month. In an effort to emphasize progress made in streamlining examinations, the NAIC plans to expedite its consideration of a Market Conduct Surveillance Model Law adopted by the National Conference of Insurance Legislators.



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Editorial

Retiree health liabilities overwhelming

SOME MAJOR EMPLOYERS' recent filings with the Securities and Exchange Commission are a stark reminder of what can happen if companies don't take steps to control their retiree health care costs.

Those reports detail the employers' retiree health care liabilities, and the numbers are staggering. General Motors Corp. alone estimates it is obligated to pay well over \$60 billion in future benefits, while many other big employers are reporting multibillion-dollar obligations, much of which are unfunded.

And those enormous liability estimates already take into account the favorable cost impact of the new Medicare prescription drug law, which will aid employers with

generous prescription drug plans by providing direct federal subsidies to offset some of the cost.

The size of those liabilities, to be sure, can fluctuate significantly. Employers' estimates of future health care inflation, for example, can lead to significant revisions of the expected liabilities. Still, even using the most conservative assumptions, the liabilities are overwhelming and clearly will be more than some employers can afford.

Indeed, massive retiree health care liabilities were a major factor in the demise of one-time steel giants Bethlehem Steel Corp. and LTV Corp., while just last week bankrupt Weirton Steel Corp. won a court order to eliminate coverage after warning that the cost could force the company into liquidation.

The examples of those steel companies and a look at their own financial statements should compel employers to act now to prevent their own future meltdown.

One area in need of examination is whether employers should even be offering coverage to individuals under 65. The cost of early retiree programs is several times that of plans for older retirees because Medicare, which picks up roughly half of health care costs, doesn't become available until an individual reaches age 65.

Additionally, with the government now improving funding of managed care plans that contract with Medicare to provide coverage to Medicare-eligible retirees, employers should analyze whether it makes financial sense to encourage

retirees to move into the plans and out of their own Medicare supplementary plans, such as by paying their premiums.

Finally, employers must examine whether they have done enough—such as through disease management programs—to ensure the most cost-efficient use of health care services.

In collectively bargained situations, employers will have to secure agreements with organized labor to implement changes. No doubt, labor might be reluctant to agree to any changes that would reduce benefits. But labor needs to be reminded that failure to control costs now could mean the end of the plan or even the demise of the employer, neither of which is in the interests of their members.

Start lobbying on TRIA now

DEC. 31, 2005, MAY SEEM far in the future, but in Capitol Hill time, it might as well be next week. Congress often moves slowly, particularly on matters of great importance. And one of the most important matters it is likely to confront between now and the end of next year is whether the Terrorism Risk Insurance Act should be extended beyond its Dec. 31, 2005, sunset.

The terrible bombings in Madrid earlier this month should underscore for lawmakers that the risk of terrorism remains high.

That's why we encourage risk managers, insurers and everyone else with an interest in a federal backstop for losses from a catastrophic terrorism event to waste no time in making their case to Capitol Hill. Without that effort, other issues easily could divert congressional attention and a federal backstop could be lost. Without a federal backstop, there's no guarantee that insurance policies in force on Jan. 1, 2006, would provide any

coverage for terrorism-related losses.

And we say "backstop" rather than "TRIA" deliberately. TRIA in its current form was not intended to be a permanent program. Members of Congress—remembering the often acrimonious debate over ancillary issues that dragged out final approval of TRIA more than a year from the legislation's introduction in the weeks following the Sept. 11, 2001, attacks—might be wary of going through that process again.

Maintaining an uninterrupted federal terrorism insurance backstop for private insurers is the critical issue in this effort.

Efforts have begun to educate lawmakers on the importance of a federal backstop. That's a welcome development, and it must be strengthened.

A successful drive to maintain the federal backstop—whether through an extension of TRIA or some other means—is a must if the nation is to be ready for Dec. 31, 2005.

Letters to the Editor

Noneconomic damages level legal playing field

To the editor: So-called "noneconomic" damages in medical malpractice lawsuits are awarded for the pain and suffering that accompany any loss of normal functions and any inability to engage in daily activities. This category also encompasses damages for disfigurement and loss of life. Noneconomic damages aren't as easy to quantify as lost wages or medical bills, but they do compensate "real" injuries. For people who do not have jobs in our economic system, it gives them a voice in our legal system.

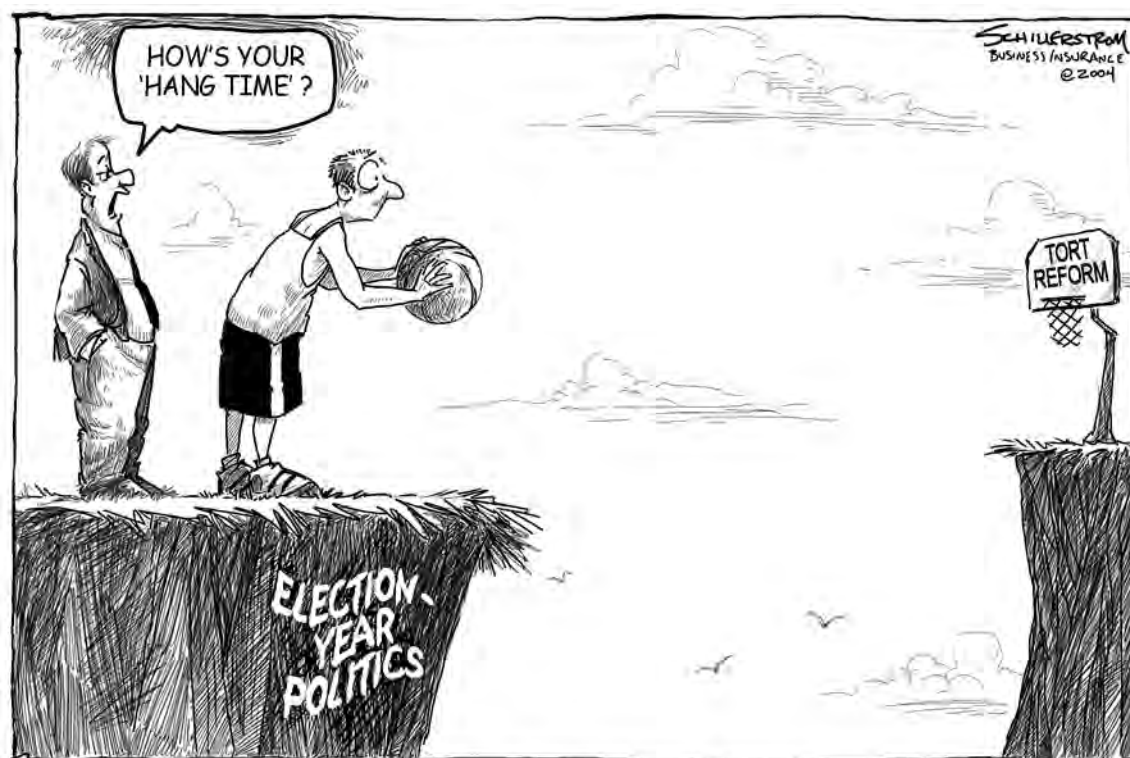
Money awarded to patients for pain and suffering has traditionally been a way to equalize the inherent unfairness in a legal system that bases the amount of compensatory damages on lost earnings, as well as medical costs. The malpractice-related death of an 80-year-old, a low-wage worker or an infant are examples of cases that would automatically result in low compensatory damages. The pain and suffering award is used to level the playing field.

Tort reform advocates claim that they want to protect the interests of their patients but at the same time they want to limit the ability of victims to recover for their injuries. These people will never know a "cap" or "limit" on their pain, struggle or suffering; why should their right to recover for their lifelong injuries be limited? It is essential that injured victims' rights to due process be protected.

The repeated use of the word "frivolous" in conjunction with malpractice lawsuits misrepresents another situation. A cap of \$250,000 would be put on a patient's damages for pain and suffering. But if that patient is entitled to any compensation for pain and suf-

See **LETTERS**/page 20

Schillerstrom



Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments.

We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to:

Letters to the Editor, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; fax: 312-280-3174; e-mail: pwinston@crain.com.

Ask a Benefit Actuary

Still unclear how to report Rx subsidy

Q: How should my company account for my plan's prescription drug benefits in light of the Medicare reform act?

A: On Dec. 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. This Medicare reform legislation has far-reaching implications for the



strategic design of retiree health plans because it adds a new prescription drug benefit—Medicare Part D—and a new type of savings account called Health Savings Accounts, or HSAs. It also modernizes the structure of the Medicare program

itself.

With passage of the act, plan sponsors have many questions about Medicare reform's impact. Although there are a lot of unanswered questions, this column will focus specifically on the prescription drug benefit and accounting issues.

Let's imagine two companies: ABC Corp., which sponsors a subsidized prescription drug plan for its retirees; and XYZ Inc., which does not.

According to Medicare reform, an employer-sponsored prescription plan is eligible for a 28% subsidy of the total prescription drug costs between \$250 and \$5,000. The subsidy applies to the total drug cost before any cost sharing if the plan benefit is at least actuarially equivalent to the Medicare Part D benefit. The accompanying table summarizes the standard coverage prescription drug benefit.

Because receiving the subsidy is attractive, ABC Corp. wonders whether its prescription plan is actuarially equivalent. But there is no guidance about how ABC Corp should make this determination—a determination that will likely need to be made annually. However, if ABC Corp. sponsors a typical drug plan with moderate co-pays and no caps on future costs, it is likely that the company's plan will be actuarially equivalent to the Medicare Part D program.

Medicare reform also did not create the infrastructure for ABC to report claims and receive its subsidy, so ABC Corp. must wait for the infrastructure to materialize before it can even collect the subsidy.

XYZ Inc., which doesn't offer its employees a prescription drug program, has several options. It can:

- Elect to have its retirees enroll in a private prescription drug plan, or PDP.
- Subsidize premiums for a Medicare Advantage—formerly Medicare + Choice—plan.
- Sponsor a "qualified" plan providing actuarially equivalent benefits.

These options, however, are not without risk. The private market for PDPs does not currently exist and the Medicare Advantage plans are untested.

Turning now to the accounting question, how would ABC account for the 28% subsidy under FAS 106, the accounting standard applicable to post-retirement medical programs? XYZ would not need to account for the 28% subsidy, unless it adopts a qualified plan.

In matters like these, the Financial Accounting Standards Board sets forth the guidance. Unfortunately, the FASB's reactions thus far have left a slew of plan sponsors scratching their heads. FASB staff offered its preliminary views in December but reversed them within a month in FASB Staff Position 106-1.

Under FSP 106-1, ABC has a one-time opportunity to defer recognition of the act in the first financial reporting period after the first measurement date (the date used for determining FAS 106 costs and liabilities) occurring after Dec. 8, 2003. If the company elects to defer, this is considered a permanent election until FASB issues authoritative guidance.

For many plan sponsors who issued financial disclosures under FAS 106 at their fiscal year-end of Dec. 31, 2003, based on a Dec. 31 measurement date, the election to defer meant they did not have to risk measuring the impact of the subsidy based

on as-yet undefined criteria. FSP 106-1 called for a narrative footnote in financial disclosures stating that the company elected to defer the impact of Medicare reform.

Those plan sponsors that are savvy enough to recognize the impact of Medicare reform benefit from earlier recognition of a cost-reducing item but may face a potential restatement of prior financial statements should their accounting for the subsidy differ from FASB's final guidance. However, they would be required to provide detailed disclosures, including the change in liabilities due to Medicare reform and how that change is reflected in the annual expense.

Plan sponsors that provide prescription drug benefits to retirees must begin to understand the impact of Medicare reform in terms of the potential design changes as well as the accounting treatment. For some plan sponsors, the best course of action may be to wait.

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four regular features in the Perspectives section of Business Insurance can give you some answers.

Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefits management issues and actuarial problems.

This month's column on actuarial questions in the benefits field is written by William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago. Mr. Miner was assisted in the preparation of this column by Valerie Lopez, a consultant in Watson Wyatt's Chicago office. Address your questions to ASK, Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

Standard Medicare Part D Prescription Drug Benefits			
Average monthly premium	\$35.00		
'True' out-of-pocket ¹	\$3,600		
Coverage ranges	From	To	% covered
Annual deductible	\$0	\$250	0%
Initial cost-sharing	\$250	\$2,250	75%
Coverage gap	\$2,250	\$5,100 ²	0%
Catastrophic coverage	\$5,100 ²	No max	95%

¹ Catastrophic coverage begins after satisfaction of "true" out-of-pocket. Only payments by the retiree and family members qualify; employer and insurance payments do not count. ² Assumes no third-party payments: \$3,600 OOP = \$250 + 25% (\$2,250 - \$250) + (\$5,100 - \$2,250). Source: Watson Wyatt Worldwide

Mental injury comp requires proof of HIV exposure

In a case of first impression in Tennessee, the state's Supreme Court ruled that an employee seeking workers compensation benefits for a mental injury due to potential exposure to HIV must demonstrate actual exposure through a medically recognized channel of transmission.

May Guess was employed by Sharp Manufacturing Co. of America as an assembly line worker. In November 1998, one of her co-workers lacerated his hand, which resulted in some of the co-worker's blood getting on Ms. Guess' hand. While there was no penetrating injury to Ms. Guess, she testified that she had open cuts on her hands as well as a fresh manicure. As a result of getting this blood on her hands, Ms. Guess became "out of control," "nervous," "screaming for help," "upset," "shaking," and "hysterical." She believed the blood that she got on her hands to be HIV positive, a belief she said was based on the fact that her co-worker was sick all the time, had friends who had died from AIDS, appeared frail and was on the e-mail list of a gay rights organization. Ms. Guess was treated for "agitated depression." She was also diagnosed with a post-traumatic stress disorder. However, multiple tests for HIV were negative. Ms. Guess filed for and was awarded workers compensation based on the conclusion that

Legal Briefs

she suffered a vocational disease as a result of the psychological consequences of her injury. The employer appealed.

On appeal, the employer argued that, as there was no credible proof that Ms. Guess was actually exposed to HIV-contaminated blood, there was no basis for her fear and, therefore, she did not suffer a compensable injury. The court said that, without proof of actual exposure, Ms. Guess couldn't show that her injury arose out of her employment. The court pointed out that she offered no credible evidence that she was actually exposed to HIV. Furthermore, there was nothing in the record to establish whether the blood in question was even HIV positive. In addition, the court emphasized that Ms. Guess' fears of contamination were based on speculation regarding her co-worker's sexual orientation and her assumption that he was HIV positive. The court said that if Ms. Guess were allowed to recover under the facts of the case, anybody suffering from a mental injury stemming from any perceived or imagined exposure to harmful substances or situations would be

entitled to recovery. The trial court decision was reversed.

Guess vs. Sharp Manufacturing Co. of America, Supreme Court of Tennessee, Aug. 27, 2003 (BI/04/A.-\$10)

Unpaid pension not part of bankruptcy estate

A debtor's interest in an Employee Retirement Income Security Act pension plan was not property of his bankruptcy estate and, thus, could not be used to secure the IRS' claim for delinquent taxes, according to the 9th U.S. Circuit Court of Appeals.

Donald Snyder was a vested participant in an ERISA-qualified pension plan. The plan contained an anti-alienation clause providing that benefits payable under the plan were not subject to garnishment, execution or levy of any kind before being received by the person entitled to the benefit under the plan. Mr. Snyder's interest in the plan had a balance of about \$20,000 but was not yet in payout status. Mr. Snyder accrued unpaid tax liabilities over several years, and the IRS made assessments and filed notice of federal tax liens. In December 1998, Mr. Snyder filed a bankruptcy petition listing the IRS as an unsecured creditor in the amount of about \$158,000. The IRS claimed \$145,664 as

secured by virtue of its liens on Mr. Snyder's interest in the plan. Mr. Snyder objected to the secured portion of the IRS' claim. The bankruptcy court ruled against Mr. Snyder and allowed the IRS' claim as secured. The trial court affirmed the ruling, concluding that Mr. Snyder's interest in the plan became property of the bankruptcy estate for the limited purpose of securing the IRS' claim. Mr. Snyder appealed.

On appeal, Mr. Snyder argued that his interest in the plan was excluded from the bankruptcy estate by virtue of the anti-alienation clause in ERISA. The court agreed, ruling that because Mr. Snyder's interest in the plan was not property of the bankruptcy estate, it could not be used to secure the IRS' claim. The court noted, however, that the IRS liens continued to exist, but outside of bankruptcy. The trial court decision was reversed.

U.S. IRS vs. Snyder, 9th U.S. Circuit Court of Appeals, Sept. 15, 2003 (BI/05/A.-\$10)

These abstracts were prepared by Mayo H. Stiegler. Copies of these decisions are available, at \$10 each, by sending a check payable to Mayo H. Stiegler, to Business Insurance, 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Provide the listed number for each opinion ordered.

Trucks: New rules on hours unlikely to affect rates

Continued from page 4
Assn. in Washington.

Instead, the requirements continue to call for truckers to keep written logs, which "basically are a joke," Mr. Snyder said. Given the lack of monitoring equipment, "enforcement is anything but effective," he said.

A spokesman for the FMCSA did not respond to questions regarding the regulations.

The government's motivation was "obviously to bring about change that would make for a safer environment," said Daniel Bancroft, Philadelphia-based managing director and transportation practice leader for Marsh Inc. "It's too soon to tell whether that will happen."

The government's motivation was 'obviously to bring about change that would make for a safer environment. It's too soon to tell whether that will happen.'

*Daniel Bancroft
Marsh Inc.*

The new regulations, he said, are just a part of "10 or 20 areas that drive the safety performance" of trucking companies.

He said Marsh's large trucking company clients are mostly concerned that the new regulations will drive up costs as their drivers wait for shippers to load cargo, while the clock ticks away on-duty hours and limits drivers' time on the road.

Fred Burns, president of Burns Motor Freight Inc., a 100-truck operation in Marlinton, W.Va., confirmed that his costs have risen because of such loading delays. "It counts against the 14 hours and has hurt productivity."

Insurance industry sources say the new regulations probably won't bring about enough change in driver safety to affect rates for commercial trucking liability risks, which were already softening before the rules were passed.

Joe Hutelmyer, president of Seaboard Underwriters Inc., a trucking managing general agent in Burlington, N.C., said the rules are an improvement over the old regulations but probably won't have enough impact to encourage insurers to

lower rates.

Truckers considered "better risks" have seen some relief from high liability rates since the third quarter of 2003, Mr. Hutelmyer noted. "There's plenty of availability," he said, and in most cases, "rates are steady."

Mr. Bancroft said the trucking liability market had been tight for about three years, "but it's very apparent that the tide has turned." And the market for truckers' physical damage coverage "is following the same trend," he added.

"Underwriters are still maintaining a great degree of underwriting

discipline," according to Mr. Bancroft. "Truckers are rated on their claims record, safety performance, ability to retain drivers" and other factors that affect insurance rates, he said.

Liability insurance prices are falling partly because new capacity has entered the marketplace, Mr. Bancroft explained. Bermuda startups and other new underwriters are offering capacity as more established insurers ramp up their appetite for trucking risks, he said.

"If you are a good trucking company and manage your risk proficiently," there is an opportunity to

create competition among underwriters vying for the account, said Bill Prester, president and managing director of Aon Corp.'s Aon Truck Group in Schaumburg, Ill.

He warned, though, that buyers shouldn't assume just because there is more capacity available that their problems are over in the trucking market. Some of the new players "haven't really made a commitment" to the marketplace, he said. In addition, not enough reinsurers are participating in the trucking liability market to make it as healthy as it should be, he said.

Mr. Burns said that his trucking

company's renewals last fall did not bear out the notion that the market was stabilizing. His coverage costs rose 8% on both liability and physical damage insurance, despite a decision to reduce limits on both risks to \$5 million from \$11 million. In addition, the company decided to retain \$50,000 per accident and \$300,000 annually on the liability side and increase the physical damage deductible from \$5,000 to \$25,000.

The rate hikes were imposed even though the company's claims and safety record is "excellent," Mr. Burns said.

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Aon: Broker to buy RMIS vendor RiskLabs

Continued from page 4

though its officers will report to Mr. Stephens.

"Aon is not going to be blending RiskLabs into the brokerage operations," he said. "Clients will have their own service agreements with RiskLabs. Invoicing will be done by RiskLabs. It will have a completely separate data center."

As a result, RiskLabs will be able to have relationships with non-Aon clients, he said.

Meanwhile, all of Aon's RMIS clients will be converted to the new platform, dubbed Aon RiskConsole, at no charge and as clients migrate

over, Aon will retire its Risk Monitor product, according to Mr. Stephens.

Aon plans to continue offering another system, Aon Safetylogic, which provides casualty risk control tools, a spokeswoman for Aon eSolutions confirmed.

Aon says the acquisition will be invisible to RiskLabs' clients, which include risk managers, third-party administrators and managing general agencies. Installed users of RiskLabs' systems total more than 1,100, according to RiskLabs.

AIG declined to comment on the acquisition.

The response so far from Aon's clients has been overwhelmingly positive, Mr. Stephens said.

"We thought we might have resistance, but instead we have clients rushing to be the first to convert," he said. "We polled several clients prior to the acquisition, and their impression was about the same: These people were the market leaders."

"I am excited. I think that is going to increase the potential for Aon winning the bid" that New York-based Turner Construction Co. is preparing for its RMIS systems, said Nick Napolitano, information sys-

tems manager with the contractor's insurance division, Turner Casualty & Surety, in Woodcliff Lake, N.J.

Currently Turner uses three different vendors to handle its claims, safety, loss control and insurance policy tracking needs, he explained.

"Hopefully this one system will satisfy all of those needs," Mr. Napolitano said.

Aon clients preparing to convert were particularly pleased with Aon's new offering because RiskConsole, which was built as an Internet application, is a more flexible product than Risk Monitor, which was modified for the Web from its main-

frame origins, according to Mr. Stephens.

RiskConsole also has enterprise risk management capabilities, advanced security features, report distribution capabilities and modules that produce reports for specific uses, such as toxic tort administration or litigation (*BI*, Dec. 1, 2003).

"Clients like to have their own custom dashboards, custom screens, lots of different security levels within their organizations," Mr. Stephens said. "The RiskLabs product has a high level of user configuration, so the customer can customize it on the fly at no additional cost."

'The RiskLabs product has a high level of user configuration, so the customer can customize it on the fly at no additional cost.'

Mark Stephens
Aon eSolutions

Furthermore, the newest version of RiskConsole is multilingual and able to handle multiple currency conversions, which is expected to make the product more appealing to companies with global operations, a market that RiskLabs was eager to tap, according to Bob Morrell, chief technology officer for RiskLabs in Marietta, Ga.

"We've always built RiskConsole to work internationally, but we never really had the business expertise to work internationally," Mr. Morrell said.

Associating with Aon will "bring a much larger client base with much more diverse needs," he said.

And, being owned by Aon will also give RiskLabs access to additional capital that it can use to finance "a very robust and creative development effort that should move them way out in front," Mr. Stephens said.

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Between the Lines

Compiled by Joanne Wojcik



St. Baldrick's heading for milestone

Thousands of headstrong souls—including scores of people from the insurance and reinsurance industries—lined up to lose their locks as part of a fundraiser for the National Childhood Cancer Foundation. Organizers of the annual St. Baldrick's Day expected to meet their goal this year of shaving 5,000 heads and raising \$3 million for the charity.

The shearings took place in 166 locations across the nation as well as in Bermuda, Canada, France and Ireland. Among the thousands who signed up was *Business Insurance* Editor Paul Winston.

St. Baldrick's Day was founded in 2000 by three reinsurance executives in New York. The charity events, scheduled annually around St. Patrick's Day, have raised millions of dollars for the NCCF. In 2003, St. Baldrick's Day raised more than



Paul Winston

\$2 million. Final 2004 totals will be available later this year.

For information or to donate to the NCCF, please visit www.stbaldricks.org.

Seeking rate rollbacks in court

As if Proposition 103's insurance rate rollback provisions weren't enough ammunition, consumers in California now can sue their insurers if they think they're being overcharged.

In a case against Mercury General Corp., Sam Donabedian claimed that the insurer violated Proposition 103 and discriminated against him by not providing a "persistency discount" given to motorists with an uninterrupted history of having auto insurance.

Mercury tried to get the suit dismissed by asserting that under Proposition 103, which voters approved in 1988, the insurance commissioner had the final say in settling such complaints.

But the 2nd District Court of Appeals in Los Angeles disagreed on March 11, and overturned a lower court decision that sided with the insurer.

The case, *Donabedian vs. Mercury Insurance Co.*, has been remanded for further proceedings.

Songs in the key of life

Lawyers' daytime TV ads have nothing on The Bottle Rockets' latest album, which sings the praises of living off workers compensation benefits.

In fact, some music reviewers are comparing this country-rock band's new labor protest song to those of activist-folk singer Woody Guthrie, who penned such stirring lyrical gems as "Dust Pneumonia Blues" and "The Farmer-Labor Train."

In the chorus of "Lucky Break," the aptly named first track on the album "Blue Sky," the Bottle Rockets sing, "I fell down/So here I lay/Got the workman's comp/So everything's OK."



The Bottle Rockets' 'Lucky Break' is featured on their new album, 'Blue Sky.'

10-Ks laying it on thick

Shareholders of the approximately 12,000 publicly traded companies filing their 10-K annual statements this month will have a lot more pages to pore over, securities analysts say.

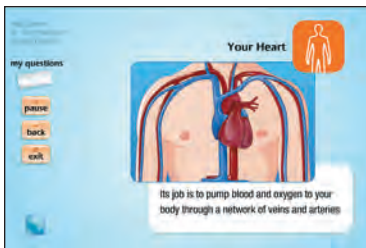


As a result of the accounting scandals plaguing corporate America in recent years, today's 10-Ks are chock full of information on such subjects as liabilities, health care costs and employee benefits.

In fact, the average size of a 2003 annual financial statement from one of the 30 companies in the Dow Jones Industrial Average has grown 14%, to 194 pages, from about 170 pages in 2002. The average size of a 10-K report rarely exceeded 60 pages five years ago.

Tips and feedback from readers are welcomed. Please send information to jwojcik@businessinsurance.com.

Products & Services



Rightfield Solutions offers online tool for hospitals

CHICAGO—Rightfield Solutions L.L.C., which produces multimedia interactive health care programs, has designed an Internet-based risk management product to reduce medical malpractice risks and costs.

The risk management program, Expectation Management and Medical Information, helps physicians inform patients about their upcoming surgical procedures through an online interactive education program, is designed to reduce malpractice premiums. The program also intends to assist hospital risk managers avoid malpractice claims and litigation.

EMMI walks patients through their surgical procedures, informing them about risks, benefits and alternatives in an easy-to-understand, conversational manner. Each patient is provided with an access code and, once entered, the program speaks directly to him or her about the upcoming surgical procedure. At any time in the program, the patient can type in questions, which are then sent to his or her doctor. The programs cover obstetrics/gynecology, plastic/cosmetic surgery, orthopedics, ocular surgery and cardiovascular surgery, among other procedures.

EMMI creates a permanent record of the patient's interaction with the program. Everything the patient heard, saw and responded to while interacting with the program is filed or a lawsuit arises, documentation of the patient's interaction with EMMI could be recreated for the judge or jury.

More information on EMMI can be obtained from Jordan Dolin, Rightfield's chief executive officer, at the company's Chicago office by telephoning 312-236-3650, ext. 14, or by visiting www.rightfield.net.

St. Paul augments Global Companion cover

ST. PAUL, Minn.—The St. Paul Cos. Inc. has introduced an enhanced version of Global Companion, its international commercial property and general liability product designed to help protect U.S. companies from the risks of conducting business overseas.

The enhanced product provides coverage for kidnap and ransom and incidental ocean cargo, company officials said, because U.S.-based companies with international operations face exposures such as the potential for kidnapping of company executives and piracy of ocean cargo. The product also covers property, liability, excess auto, foreign voluntary workers compensation and executive assistance.

The company has also added coverage for events or offenses that are committed in the United States when the claim is filed in a foreign jurisdiction.

In addition, domestic companies with foreign operations that conduct business over the Internet can access coverage protection for e-commerce risks through products offered by The St. Paul's Global Technology Underwriting business unit.

More information is available at St. Paul's Web site, at www.stpaul.com.

AIG announces coverage for anti-terror developers

NEW YORK—The American International Group Inc. is offering liability coverage for companies that develop and sell anti-terrorism products and technologies in agreement with the Support Anti-Terrorism By Fostering Effective Technologies Act of 2002.

The program, The SAFETY Act

Homeland Protector, allows companies to manage product and professional liability risks by providing coverage for the anti-terrorism product or technology once it is deployed to defend against, or to respond to, a terrorist attack. The coverage has an available liability limit of up to \$25 million and is activated once a terrorism act has occurred.

The SAFETY Act Homeland Protector also features referrals for legal assistance to help companies with the application process for legal protection under the SAFETY Act.

For more information, contact Wanda Johnson, vp of specialty casualty, at 617-443-4614 or by e-mail at safetyact@aig.com.

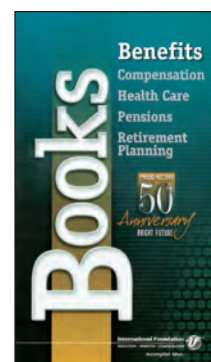
Catalog offers benefit management resources

BROOKFIELD, Wis.—The International Foundation of Employee Benefit Plans, a nonprofit educational association for employee benefits and compensation industries, has published a catalog of

employee benefits and compensation resources for benefit managers and professionals.

The catalog, "Books on Benefits—2004," offers books and periodicals relating to general benefits, compensation, health care, training and development, multiemployer and employer plans and pensions and retirement training, among other categories. The products presented in the catalog are published by the International Foundation of Employee Benefit Plans and outside sources.

To obtain a copy of the catalog, contact the organization's Brookfield, Wis., office at 888-334-3327, option 4, or at book@ifebp.org. More information can also be found on the organization's Web site, at www.ifebp.org.



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International

17

Olympic cruise ships see war risk limits cut Amid reinsurance premium hikes, P&I clubs drop per-vessel cover to \$50 million

By CAROLYN ALDRED

PIRAEUS, Greece—Marine liability underwriters are drastically reducing war risk limits for cruise ships that will be used for accommodation during this year's Olympic Games in Athens, Greece because of concerns about the aggregation of risk in the port of Piraeus.

And marine hull insurers are reserving the right to increase war risk premiums if they are not satisfied with security arrangements for the ships at the time of the Games.

At least eight of the world's largest and most luxurious cruise ships, including the five-star Queen Mary II, will dock at Piraeus, Greece, for the Games in August and offer accommodation to 11,000 Olympic representatives as well as visitors to the Games, according to the Athens Olympic Committee, ATHOC.

Due to their concern about the risks of terrorism and the high level of exposure concentrated in Piraeus, the International Group of Protection & Indemnity Clubs has reduced its war risk liabilities limit

from \$400 million per vessel to \$50 million for the ships that will be used for the Olympics.

The P&I clubs were facing increased reinsurance rates as a result of the exposure and they chose to

reduce their limits rather than pay the increased reinsurance premiums, said Stephen Gargrave, marine underwriter for Lloyd's of London syndicate 2724, managed by Limit Underwriting Ltd.

Alistair Groom, chairman of the International Group of P&I Clubs, which represents most of the world's shipping risks, confirmed that the group had agreed the lower limits for the cruise ships so as not to incur additional reinsurance premiums.

Meanwhile, hull war risk underwriters have included a special clause in the policies for the cruise ships, allowing them to charge additional premiums. The Olympic Review Clause allows insurers to review ship owners' security arrangements and change the terms of their policies or seek additional premiums if they are concerned about the security arrangements.

"There are concerns about the potential of a very large aggregate loss with so many cruise liners in Piraeus," said Rupert Atkins, chairman of the Joint War Risks Committee at Lloyd's and director of underwriting for Talbot Underwriting Ltd.

Stephen Finch, a director of marine for Miller Insurance Services Ltd., said that "there has been a

See **CRUISE SHIPS**/next page



PHOTO: EPA PHOTOS

Members of the Greek coast guard patrol the harbor of Piraeus last week in preparation for the summer Olympic Games. Some heads of state will be hosted on luxury cruisers in the harbor.

International Air Transport Assn. Conference

Airlines, insurers debate rate volatility

By PETA MILLER

MUNICH, Germany—Airline risk managers complain that, despite two years of relatively stable losses and improved risk management, aviation insurance pricing remains too costly and volatile.

Aviation underwriters counter that airline exposures are significant and that prices for hull and liability insurance must reflect that. They also assert that aviation insurance cannot be isolated from the market forces that drive the rest of the property/casualty insurance market.

Airline insurance buyers and sellers engaged in this often-heard debate during the International Air Transport Assn.'s annual conference in Munich, Germany, earlier this month. IATA is the leading trade association of the world's airlines, with more than 270 members from 130 countries.

"Insurers have come off better than airlines," said Karl-Ludwig Kley, chief financial officer at Frankfurt, Germany-based Deutsche Lufthansa A.G., in a keynote speech at the IATA meeting. He cited the Sept. 11, 2001, attacks and outbreaks of severe acute respiratory syndrome in Asia as having dramatic effects on the airline industry's profitability.

"I'm trying to understand how airlines have been so advanced in solving a lot of problems...but in others, especially insurance, we have faced so many difficulties," said Ignacio de Torres Zabala, finance director at Madrid, Spain-

based airline Iberia.

Multiple increases in insurance costs and the volatility of pricing were cited as problems by several risk managers who spoke at the IATA conference.

"It is unbearable for the market. We are paying \$40 million for insurance, five years ago we were paying \$5 million," said Mr. Torres Zabala.

"How much will I pay next year? It's the only thing we cannot predict in the profit and loss account of the company," he said.

Geoff Want, director of safety, security and risk management at London-based British Airways P.L.C., said that he wants underwriters to reward BA's risk management, particularly its efforts to upgrade security, with better insurance rates.

"The industry is safer than it was and has used technology to decrease the number of incidents," Mr. Want said. "I believe the number of losses is a trend, not a fluke," he said, referring to below-average airline losses for 2002 and 2003.

"Insurers need to recognize airlines whose measures are regularly over and above minimum requirements, and reflect that," Mr. Want said.

Meanwhile, Iberia's Mr. Torres Zabala argued for broader, more-flexible coverage for airlines and modernization of the insurance market.

"A new array of other risks is growing. Some of these existed in the past but were not mature

See **IATAC**/next page

International Air Transport Assn. Conference

Big new A380 jet calls for cover hikes

By PETA MILLER

MUNICH, Germany—As Airbus S.A.S. prepares to unveil the largest commercial passenger jet ever to take flight, aviation brokers and underwriters are working out the coverage implications for airlines flying the new plane.



Airbus A380

Toulouse, France-based Airbus in 2006 will debut the A380, a double-decker aircraft that is larger than the current king of the jumbo jets—the Boeing 747. Currently, 11 non-U.S. airlines have arranged to bring the A380 into their fleets.

The A380's maximum passenger capacity will be about 550, which is roughly 30% more than large commercial jets currently carry on average, and it will be able to carry between 18% and 20% more cargo, said Reiner

Siebert, group risk and insurance manager at London-based Virgin Atlantic Airways Ltd. Virgin has ordered six A380s, he noted.

Mr. Siebert made his remarks at the International Air Transport Assn.'s annual aviation insurance conference in Munich, Germany, earlier this month.

Although the jet will be bigger than the 747 and have a wider wingspan, speakers at the conference disagreed about the significance of the differences.

"It is larger," said Mr. Siebert, "but not that much larger."

Simon Harker, deputy chief executive at London-based Marsh Aviation & Aerospace, concurred. Current maximum

seating on the 747 is around 570, Mr. Harker said. The Airbus jet's estimated capacity of 555 means that the difference in passenger numbers is "not that significant," he said.

The current maximum insured hull value for jumbo jets is \$230 million, Mr. Harker added, noting that the estimated hull value of the A380 is between \$250 million and \$280 million, which represents a 10% to 20% increase.

See **A380**/page 19

World Updates

Limited-liability names to get U.K. tax breaks

The U.K. government has introduced tax changes intended to make it more attractive for unlimited liability investors at Lloyd's of London to convert to limited liability status. Under the change, announced Wednesday as part of the 2004 budget, names who convert to limited liability status would receive essentially the same tax treatment as other U.K. limited liability traders, such as the self-employed and professionals. Previously, names converting to limited liability status lost certain tax benefits related to accounting for losses. The tax change had been sought by Lloyd's and Lloyd's members.

Benfield posts gains, sees growth possibilities

Benfield Group Ltd. reported revenues of £300.5 million (\$536.2 million) for 2003, up 5.8% from the year before. The London-based reinsurance intermediary reported that its pretax profit rose 218%, to £31.2 million (\$55.7 million). Benfield attributed the large profit increase to the combination of revenue growth and cost management. Grahame Chilton, chief executive of Benfield, said that for 2004, the group saw particular growth opportunities in North America, where the broker generates about half of its revenues.

Underwriting focus helps Alea post improvements

Alea Group Holdings (Bermuda) Ltd. reported sharp improvements in gross premiums written for 2003, but investment losses dragged down the Bermuda-based reinsurer's profits for the year. Alea's gross premiums written rose 39.6% last year, to \$1.30 billion. But profits fell 24.9%, to \$41.0 million. However, operating profits nearly quadrupled, to \$80.8 million in 2003. The group combined ratio also improved, to 94.9% from 100.7% in 2002. In a statement, Alea credited a strong underwriting focus and an emphasis on less-volatile casualty lines of business for the improved operating results.

S&P launches ratings of U.K. pension plans

Standard & Poor's in London has launched an assessment service aimed at providing information about the management and financial strength of defined benefit pension plans in the United Kingdom. The service, believed to be the first of its kind in the United Kingdom, will be based on a five-star system. S&P said in a statement that the new, voluntary assessment service was aimed at giving independent information to sponsoring employers, pension fund trustees and plan members, among others.

Cruise ships: War risk limits reduced

Continued from previous page

high level of co-operation between insurers, ship owners and brokers."

Any decision to charge additional premiums will likely be made shortly before the Games start, he said. The "analysis of security will run to the wire and it will be a fairly late decision," Mr. Finch said.

But underwriters already are gathering information about the security provisions at the Games, said Mr. Gargrave. "We will be trying to get as much information as possible regarding the security at the Olympics at this early stage, especially with the recent terrorist

event" in Madrid, he said.

The Olympic Review Clause will "ensure that ship owners work with underwriters to give us an adequate level of comfort about security arrangements. The insurance market is flagging up that it is concerned, and the clause gives us the ability to change policy terms if not happy," he said.

'The insurance market is flagging up that it is concerned, and the clause gives us the ability to change policy terms if not happy.'

Stephen Gargrave
Lloyd's of London Syndicate 2724

Other than Cunard's Queen Mary II, which is being chartered by ATHOC for the duration of the games, most of the other liners will dock in Piraeus and are offer accommodation independently, according to an ATHOC spokeswoman.

IATA: Cover buyers seek changes

Continued from previous page

enough to be countable and worth being concerned about," he said. New risks include such things as computer failures, lost luggage or cargo, adverse weather and air traffic control problems, among others.

Mr. Torres Zabala stressed that when airlines talk about risk, they are focused on more than the central exposures traditionally covered by insurance.

"Market placement techniques are the same as in 1994. Where is the learning curve? We buy aircraft and finance them in a different way, but we cover insurance in the same way as 10 years ago," Mr. Torres Zabala said.

William Smith, deputy chairman of aviation at broker Aon Ltd. in London, said that brokers would like to see more transparency on how underwriters use risk modeling systems to generate rates.

He also echoed Mr. Want on the need to better differentiate among risks. "The amount of technology on an aircraft is critical. Money has

been invested in new technology. What is the discount for these systems?" Mr. Smith said.

Mr. Smith also warned underwriters that dollars are going out of the marketplace that will not come back.

Jacques Mercier, managing director of Allianz Marine & Aviation in Paris, responded to buyers' criticisms with a question: "Clearly the safety level has improved, but to what extent and how quickly should the insurance market react to this?"

Mr. Mercier also argued that costs per accident will increase even as airline safety improves, fueled by new liabilities created by The Montreal Convention and the update of the Rome Convention (BI, March 15).

Andreas Peter, global head of aviation and space at Zurich-based Swiss Reinsurance Co., stressed that the coverage limits provided by the insurance industry are for very large values, which should offer a certain amount of reward to the companies assuming those risks.

The world's aircraft fleet totals about 24,000, with a collective value of \$570 billion, he estimated. Liability limits of up to \$2 billion also apply to any one airplane takeoff, and an aircraft takes off every second, he pointed out.

Couple this with substantial aviation losses between 1999 and 2000, and the worst stock markets in years, which has shaved more than 300 billion euros (\$366.6 billion) in equity off European companies and "it is important to provide adequate returns for large exposures," he said.

Tony Medniuk, group chief executive at London-based Global Aerospace Underwriting Managers, put aviation insurance in the context of the wider property/casualty insurance market.

"It is not a question of people trying to take an opportunistic view on capital; it is a question that the capital deployed is not as unlimited as it once was and can be deployed in other sectors of insurance," he argued.

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The Inter-American Development Bank, a public international organization with headquarters at 1300 New York Avenue, NW, Washington, DC 20577, is accepting inquiries from firms wishing to obtain pre-qualification criteria to which they may respond in order to be considered to receive the Bank's upcoming Request for Proposal (RFP) for Brokerage Services and Insurance Consultation for the placement of its casualty insurance, financial institution bond, and specialty lines coverages, such as medical malpractice, fine arts, etc. To receive the pre-qualification criteria, interested firms must make their requests no later than 5:00pm (Eastern US time) on Wednesday, March 31, 2004 by e-mail to Ms. Marilyn Hickson, Chief, Procurement and Contracts Section (marilyn@iadb.org). Inquiry must indicate the name of the firm, its address, and telephone number; and name and e-mail address of the firm's point of contact. Issuance of the pre-qualification criteria package by the Bank does not guarantee that any inquiring firm will qualify or receive the Bank's RFP for services.

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A380: Record size creates atypical hull, seat exposures

Continued from page 17

But Brian McBride, executive vp and director of national accounts at London-based Global Aerospace Underwriting Managers Ltd., said, "The A380 will represent peak exposures in both hull and seats in one single aircraft—exposures substantially above (what is) typical."

Only a few aircraft currently have a passenger capacity of around 550, while most major commercial jets carry fewer than 450 people, Mr. McBride said. Similarly, fewer than 20 aircraft currently have hull valued at more than \$200 million.

There was little consensus among speakers about insured limits for

the A380.

Although most 747 operators buy liability limits of \$1.5 billion, there has been market talk of liability limits for the A380 of between \$3 billion and \$4 billion, said Virgin's Mr. Siebert, who described that range as "out of proportion."

Marsh's Mr. Harker said that "to

support the limits of any large aircraft, the reinsurance market will have a role to play—how much it will cost depends on the reinsurance cycle at the time." "Will there be enough reinsurance capacity to cope?" he asked.

GAUM's Mr. McBride sought to reassure delegates, saying: "We can

provide cover. We have seen in the past underwriters have been called upon and have done so in the face of losses" early in an aircraft's history.

"It is a very resilient market, one that can meet the challenge of the A380 in the next three years," Mr. McBride said.

Pension: Aon latest company to alter its plan strategy

Continued from page 1

benefit plan: volatility of contributions.

With a defined benefit plan, the amount of employer contributions can swing wildly due to changes in interest rates and investment results.

"There can be years of feast and famine. We wanted to get out of that volatility," said Jeremy Farmer, Aon's head of human resources in Chicago.

Last year, for example, Aon contributed more than \$100 million to the plan, but in some years has not had to contribute anything.

By contrast, with a defined contribution plan, where company contributions are tied to employees' salary, contributions will be more stable and easier to predict and budget.

"We wanted a clearer understanding of what our expense will be," said Mr. Farmer, adding that Aon made the same change in 1999 to its pension program in the United Kingdom.

An added attraction of the new plan is the simplicity of design.

"It is very easy for employees to understand" and know the value of their benefit, said Dennis Nirtaut, Aon's vp of compensation and benefits.

Aon's new plan will be administered by its Aon Consulting unit.

Aon is the second major Chicago-area employer to adopt in recent months a new defined contribution plan and phase out its defined benefit plan.

Sears Roebuck & Co., the giant Hoffman Estates, Ill.-based retailer, earlier this year announced that its defined benefit plan will not be offered to employees hired as of Jan. 1, 2005.

Instead, new Sears employees will be offered an enhanced 401(k) plan, as will employees who are under age 40. Current employees aged 40 and older will be given the choice of remaining in Sears' defined benefit plan or participating in the new plan (BI, Feb. 2).

Many more employers also are evaluating the future of their defined benefit plans and are considering phasing them out.

"Moving from a defined benefit

plan to a defined contribution plan is becoming much more of a pattern," said Ethan Kra, chief actuary with Mercer Human Resource Consulting in New York.

With a defined contribution approach, 'it is very easy for employees to understand' and know the value of their retirement benefit.

Dennis Nirtaut
Aon Corp.

A key driver for the re-evaluation of defined contribution plans has been funding volatility, driven by plummeting interest rates and wide swings in the equities markets.

"With a defined benefit plan, there can be long contribution holidays, followed by big contributions at a time when a company is least able to afford it," said Dallas Salisbury, president of the Employee

Benefit Research Institute in Washington.

"With a defined contribution plan, you can budget and plan with more certainty," Mr. Salisbury added.

Another defined contribution plan driver has been uncertainty about the future of cash balance plans, which legally are defined benefit plans but have elements of both defined benefit and defined contribution plans.

Several hundred employers over the past 15 years have converted their traditional final average pay pension plans to cash balance plans, in part, to offer a plan better suited to an increasingly mobile workforce. Cash balance plans offer much richer benefits to shorter-service employees than traditional final average plans.

But corporate interest in cash balance plans has virtually evaporated in the wake of a July 2003 federal court ruling, now being appealed, that IBM Corp.'s cash balance plan violates federal age discrimination law.

"Companies have been in a hold-

ing pattern," said Sheldon Gamzon, a principal in the HR unit of Price-waterhouseCoopers L.L.P. in New York.

If the IBM ruling is affirmed, though, employers will abandon cash balance plans and adopt defined contribution plans, experts say.

"If alternatives to traditional plans are shut off, more employers will head down the defined contribution plan road," Mr. Gamzon said.

That, in turn, could have ominous implications for the Pension Benefit Guaranty Corp., which depends in part on premium income from employers with defined benefit plans to fund the obligations of terminated plans the agency has taken over, said Ron Gebhardt-bauer, a senior fellow at the American Academy of Actuaries in Washington.

A PBGC spokesman, while noting that an eroding premium base is a concern, said that the agency's investment income will allow it to continue to pay benefits for "a number of years."

WTC: Silverstein faces hearing on contempt charge

Continued from page 3

submission and which would treat the Sept. 11, 2001, attack on the WTC as a single event.

Silverstein Properties Inc., however, argues that the program was being shifted in July 2001 to the Travelers form and that the insurers were either aware of that or had waived their right to agree to policy wording. The Travelers form contains no occurrence definition, and Silverstein maintains that the form would treat the attack as two occurrences, entitling it to two policy limits.

Jurors last week heard testimony from Sandy Vietor, deputy chairman of Willis Risk Solutions North America in New York; David C. Holmes, a Bermuda-based Willis broker; and several underwriters who participated in the placement.

The proceedings were overshadowed, though, by the contempt charges leveled by London insurers after Mr. Silverstein spoke at a March 15 press event at the site of the former 7 World Trade Center.

During the event, which Silverstein Properties scheduled to tout a jobs program, Mr. Silverstein projected the cost of rebuilding lower Manhattan at \$12 billion and said that he expected \$7 billion of the total to come from the WTC insurers.

"It's an ongoing battle," he was heard to say of the insurance dispute in a tape of his March 15 remarks that was played at the trial. "They are trying to save the money; we're trying to get them to fulfill the responsibilities that we paid for when we paid the premiums under the policies. Instead of getting insurance, we got ourselves a massive amount of litigation."

Judge Mukasey had initially directed the parties in the case not to make public statements and had elaborated on March 10, warning the two sides "not to start publicity campaigns...particularly about issues that are not related to the case." The two sides may talk to the press, "provided they confine themselves to trying to interpret...what happened in the courtroom," the judge directed.

London underwriters charged in court papers last week that Mr. Silverstein violated the judge's order. The order made clear that "the insureds are not to assert that a verdict against the insurers will promote the rebuilding of the World Trade Center and the insurers are not to assert that Mr. Silverstein is a greedy real estate developer attempting to leverage a human and national tragedy into a personal fi-

nancial windfall," insurers charged.

Called to testify about his understanding of the judge's March 10 order, Mr. Silverstein said that he misunderstood the directive.

The developer said that he was told during a March 10 conference call that Judge Mukasey had lifted the ban on public comments. He also said, though, that he could not remember who told him or even who all of the call's participants were.

"A multitude of people" joined in the call, Mr. Silverstein testified. "I can't tell you with specificity who was on that call or who wasn't."

Asked by the judge if he thought the order had been lifted completely or if there were some "residual" restrictions on public comment, Mr. Silverstein acknowledged understanding "that any opportunity to influence jurors is inappropriate and improper and sanctioned."

"I found myself speaking at this event and out came the words," he said. "But under no circumstances did I think I was violating an order of the court."

Earlier in the week, Willis' Mr. Holmes testified he was never told before the Sept. 11 attacks that the WTC program was being shifted to the Travelers form. The two insurers he dealt with—ACE Ltd. and XL



Leaseholder Larry Silverstein said of WTC insurers at a March 15 press event. "They are trying to save the money; we're trying to get them to fulfill the responsibilities that we paid for when we paid the premiums under the policies."

Capital Ltd.—bound on the Wilprop form and settled the WTC claim on a one-occurrence basis.

Willis Risk Solutions' Mr. Vietor testified that he conferred frequently with Silverstein's lawyers after Sept. 11 and that the lawyers actually drafted Willis' post-Sept. 11 responses to insurers that said they had bound coverage under the Wilprop form.

Before Willis sent insurers a Sept. 24, 2001, notice of loss attaching the Travelers form, Mr. Vietor said he had been told by Timothy Boyd, Willis' lead broker on the placement, that Travelers' form was the operative policy. Mr. Boyd did not

tell him before Sept. 24, though, that ACE and XL had bound on Wilprop, that Industrial Risk Insurers had bound on its own form and that Allianz A.G. Holding had issued its own policy on the risk, Mr. Vietor conceded.

Mr. Vietor denied that Silverstein lawyers first proposed the ideas that the Travelers form should govern and that the WTC loss might be two occurrences.

The two-event theory occurred to Mr. Vietor on his way home the evening after the terrorist attack, he testified. "No one fed me the idea," he said.

Results: Property/casualty insurers still profitable

Continued from page 3

"Balance sheets are generally stronger than they were a year ago, and cash flow in the fourth quarter was exceptionally strong again," Mr. Petersen said.

But the pace of rate increases is slowing.

"There does seem to be some indications the pricing increases on the commercial side might be slowing a little bit quicker than we anticipated," said John Iten, a director at Standard & Poor's Corp. in New York.

Rates for some property risks appear to be sliding, and while rates in other areas are continuing to rise, the size of the increases are diminishing, said Jay Cohen, an analyst with Merrill Lynch & Co. in New York.

Rates for difficult lines, such as medical malpractice and professional liability, are still increasing significantly but not at the same pace as the previous two years, said James B. Auden, senior director at Fitch Ratings in Chicago.

"The lines that have been the worst performing recently will probably sustain the most pricing momentum," he said.

The slowdown in rate increases has led to higher retentions by insurers, according to Mr. Petersen.

"A lot of carriers have begun to increase their net retentions a bit to sort of keep top-line growth moving along. The implication is really that it sort of signals a general comfort level" with the rates. Otherwise, insurers would be buying more reinsurance, not less, "so I see that as a general positive," said Mr. Petersen.

The continued attractive pricing environment for insurers should ensure that 2004 results will also be strong, say observers.

"I think the industry should have peak (return on equity) years the next couple of years," said Cliff Gallant, an analyst with Keefe, Bruyette & Woods in New York.

"Operationally, the outlook is fairly positive," said Mr. Petersen. "The industry's done a pretty good

job in the 2003 accident year, which likely sets the stage for a pretty decent 2004" and 2005 as well. "We're pretty optimistic," he said.

S&P's Mr. Iten said one "pleasant surprise" in the 2003 year-end results was that there were few additional reserve charges compared with the fourth quarter of 2002. An exception was Warren, N.J.-based Chubb Corp.'s announcement that it was adding \$250 million pretax to its net asbestos loss reserves, only a year after it had concluded a ground-up study of the issue. That was "a bit of a surprise," said Mr. Iten.

As for next year, Mr. Cohen said, "we are expecting fewer reserve charges and less adverse development. In fact, most of the adverse development that we will see will

be kind of absorbed in the reported numbers," he said.

Mr. Cohen added, "I think

'There does seem to be some indications the pricing increases on the commercial side might be slowing a little bit quicker than we anticipated.'

John Iten
Standard & Poor's Corp.

there's still a deficiency, but I think the deficiency has gotten smaller."

Mr. Ward, however, expects that companies will post additional reserve increases, "and this is unfortu-

nate for the industry, because it clouds an otherwise-excellent run at returning to operating fundamentals."

"I think, at the end of the day, it depends on what you think is going to happen with asbestos and general environmental liability issues," said James Inglis, managing director at Stamford, Conn.-based Philo Smith & Co., a boutique investment bank that specializes in the insurance industry. He added, "I don't have a lot of confidence that Congress is going to do something about this."

Most observers do not expect any major consolidation activity in 2004, despite the pending merger between the Travelers Property Casualty Corp. and The St. Paul Cos. Inc.

"The organic growth opportunities are still there," said Mr. Auden. "They may be more modest than in the prior years, but I think that's going to temper acquisition activity," he said.

Furthermore, "there's the inherent risk of acquiring another insurer's balance sheet" because of the potential for reserve issues. As a result, "the market's going to be very cautious going forward," he said.

Mr. Petersen said, "Renewal rights deals are still going to be the most common way to do an acquisition, and I think Wall Street expects most of these acquisitions to make some sort of strategic sense, so I think M&A activity will likely pick up a smidgen, but we're not expecting a wholesale rash of consolidations this year."

Property/casualty insurers' 2003 results

Ranked by net income. All amounts in thousands of dollars.

	Net income	Corporate Percent increase 2003-2002 (decline)	Consolidated revenues 2003	Property/casualty operations					
				Combined ratio 2003	Combined ratio 2002	Premiums written 2003	Percent increase 2003-2002 (decrease)	Policyholder surplus 2003	Percent increase 2003-2002 (decrease)
American International Group	\$9,274,000	68.0%	\$81,303,000	92.4% ²	106.0% ²	\$35,212,000 ²	28.4%	N/A	N/A
Travelers P/C Corp.	1,696,000	N/M ³	15,139,200	96.3 ³	123.6 ²	13,200,800 ²	10.5	\$8,444,200	15.9%
ACE Ltd.	1,417,482	1,751.7	10,689,742	91.5 ²	101.7 ²	10,215,008 ²	26.6	8,834,796	38.3
Chubb Corp.	808,800	262.9	11,344,000	98.0	106.7	11,067,900	22.3	6,300,000	39.6
The St. Paul Cos.	661,000	203.2	8,854,000	102.6 ²	109.7 ²	7,540,000 ²	5.6	5,729,000	9.7
Old Republic Int'l	459,801	17.0	3,285,827	93.3	98.4	1,460,323	15.1	1,856,720	13.6
Cincinnati Financial Corp.	374,337	57.0	3,181,233	95.5	99.7	2,815,130	12.8	3,257,679	21.0
SAFECO Corp.	339,200	12.7	7,358,100	100.1	105.3	5,114,300	11.6	2,789,700	11.2
American Financial Group	289,700	242.4	3,359,600	98.9 ²	101.0 ²	2,011,600 ²	(16.7)	1,813,500	4.1
Argonaut Group Inc.	109,000	N/M ³	730,000	104.2	126.6	592,500	22.4	353,573	37.1
Ohio Casualty Corp.	75,800	N/M ³	1,669,000	106.1 ²	112.8 ²	1,441,550 ²	(0.5)	867,627	19.5
RLI Corp.	71,291	98.9	519,886	92.0	95.6	474,094	14.6	554,134	21.4
Hartford Financial Services Group Inc.	(91,000)	N/M ⁴	18,733,000	98.0	99.8	9,051,000	6.1	5,900,000	20.4
CNA Financial Corp.	(143,000)	N/M ⁴	11,720,000	149.6 ²	109.4 ²	7,070,000	(12.7)	6,550,000	(2.4)
Liberty Mutual Ins. Co. ²	N/A	N/A	N/A	106.4	108.0	11,443,000	8.2	5,231,000	-
Cumulative	\$15,342,411	88.7%	\$177,886,588	99.9%	107.7%	\$118,709,205	14.2%	\$58,481,929	16.3%

1. Includes dividends. 2. Statutory. 3. Comparison not meaningful due to 2002 loss. 4. Comparison not meaningful due to 2003 loss. N/A Company did not provide data.
Source: BI Survey

Business Insurance

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Letters to the Editor

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fering, his or her claim is, by definition, not "frivolous." Frivolous claims are thrown out of court. In fact, many states have requirements to pay for the independent review of a case to determine whether there is good reason to even initiate a malpractice lawsuit.

Because I am a good automobile driver and do not have or cause accidents, my insurance rates are as low as possible. If someone else has a terrible driving record and has or causes numerous accidents, they end up having much higher insurance rates. Why isn't that the same for doctors? If good doctors do not have malpractice cases against them, why are they paying the same insurance rates as those repeat offenders?

The insurance industry should rate doctors on performance when

setting malpractice premiums and seek to decertify doctors with numerous malpractice claims. Risk should be spread, reducing the number of classifications of doctor specialties. Risk pools for some are too small and, thus, overly influenced by a few losses and the concentration in a few specialties of doctors handling the highest-risk patients. If you're going to solve this insurance rate crisis, you need to weed out bad doctors, implement patient safety reforms and reform the insurance industry, not engage in tort reform.

The real reason medical malpractice insurance rates fluctuate is market forces, not because of a sudden massive increase in medical malpractice jury awards. The causes of and solutions to this crisis lie not with the legal system but with the business, accounting and mismanaged underwriting practices of the insurance industry.

State regulators must enforce and

state lawmakers must strengthen state insurance laws in order to end the boom-and-bust swing from illegal overpricing, such as the rates doctors are being asked to pay today, to illegal and inadequate underpricing, which will be seen when the market softens too much later in the cycle.

The nation's insurance companies are in the process of advancing a legislative agenda to limit liability for doctors, hospitals, health maintenance organizations, nursing homes and drug companies that cause injury. Insurance companies are blaming high insurance rates on the supposed increase in claims by patients, rising verdicts and exploding tort system costs when, in reality, it is the insurance industry's efforts to make up for their economy-driven, market-based investment losses that are the cause.

Gregory D. Pawelski
Wernersville, Pa.

Canada: Employers seek to stem rising benefit costs

Continued from page 3

in the foreseeable future," said David Haber, president of Vancouver, British Columbia-based Heath Lambert Benefits Consulting Inc.

The main area of concern is health care costs. Overall health care spending in Canada was estimated at \$121.4 billion Canadian (\$90.9 billion) in 2003, an \$8 billion Canadian (\$6.0 billion) increase from 2002, according to the Canadian Institute for Health Information.

'We do see a lot more consumerism, and it's really necessary. If a company is trying to control future costs, the employees have to play a part in that.'

*Dan Clarry
Mellon's Human Resources
& Investor Solutions*

"When they talk about controlling future costs, they talk about health," said Dan Clarry, a Toronto-based consultant with Mellon's Human Resources & Investor Solutions practice.

About 70% of Canada's total health expenditures are financed by the government, while the remaining 30% is funded by private payers—for example, individuals and private insurance firms. The provincial governments bear most of the costs of physician visits and hospital charges, but the private sector pays the bulk of costs for prescription drugs and visits to other practitioners, such as chiropractors, according to CIHI data.

For the private sector, rising prescription drug costs are the major problem because they account for more than 70% of plan costs. In 2003, retail drug spending for the private sector was estimated at about \$12.1 billion Canadian (\$9.1 billion), or 65% of total drug spending, up from \$9.6 billion Canadian (\$7.2 billion) in 2000, according to CIHI.

In 2004, the projected rate of increase of drug costs is 15.6%, according to a Mellon survey.

Drug cost shifting

Several factors are driving the escalation in costs, including the influx of new drugs into the market and the aging population and its increasing demand for medication, consultants say.

In addition, some shifting of drug costs from the public to the private sector has taken place, though studies show this is a slow process. For example, provinces such as British Columbia will pay for drug costs only above a certain threshold paid by the private sector.

Employers have the option of not picking up costs that are shifted from the government, but many of them do pay for these costs for their employees. "It's not an automatic downshifting to the employer," said Fiona Francis, a vp with the Toronto-based benefit consulting

firm John Chute & Associates. "They have the option of saying to the insurance company, 'We're going to freeze this plan.'"

Many employers have shifted costs to their employees by introducing deductibles and coinsurance, though several have adopted Air Canada's approach of gradually phasing in cost sharing. "The days of company-pay-all plans are fading," Mr. Clarry said. One Canadian retailer decided to combat cost increases by instituting a flexible benefit plan with lower subsidies for family coverage.

Consultants note, though, that

Canadian employers have not asked their employees to shoulder the full costs of these increases. "For the most part, employers are picking up the expenses," Ms. Francis said.

A central focus of health care cost-saving measures in Canada is consumerism. Instead of eliminating drug benefits or introducing co-pays, employers are trying to educate employees to become better consumers.

For example, Canadian law requires pharmacists to prominently display their dispensing fees, so employers are encouraging employees

to shop for the best fees, which range from \$5 Canadian to \$14 Canadian (\$3.74 to \$10.48). Some companies also cap their contributions toward dispensing fees.

"We do see a lot more consumerism, and it's really necessary," Mr. Clarry said. "If a company is trying to control future costs, the employees have to play a part in that."

Employers are also changing plans to cover only prescription drugs and exclude over-the-counter drugs. Some companies are trying to exclude certain classes of drugs, including lifestyle drugs such as Vi-

agra or once-a-day/slow-release drugs, which can be more expensive than versions taken three times a day. "Employers are becoming more sophisticated with their drug plans," Ms. Francis said. "Larger employers want a say in what drugs are considered eligible in their plan."

In addition, pharmacists are frequently giving 10-day trial dosages for new drugs to patients who have not taken the drug before, particularly for maintenance drugs. This can help the patient and employer avoid filling a 90-day prescription

See CANADA/next page

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Canada: Effort to stem rising benefit costs

Continued from previous page that is ineffective or causes a bad reaction.

Disability costs surge

Drug costs are not the only area of concern for Canadian employers, as the increase in disability costs has emerged as another key benefit issue. Total disability income insurance plan payments rose from \$2.4 billion Canadian (\$1.8 billion) in 1990 to \$4.8 billion Canadian (\$3.6 billion) in 2001, according to the

Canadian Life & Health Insurance Assn. "With an aging workforce, disability costs have gone up dramatically," Mr. Haber said.

Another key factor is an upsurge in disability claims for mental health conditions such as depression and an increase in the length of time an employee is affected by the disability, according to Jean-Guy Gauthier, a Montreal-based partner in the group benefits practice at Morneau Sobeco. Employers are trying to curtail rising disability costs through employee assistance

programs that offer mental health counseling, he said.

"Unless you do something in the next five years, you could have costs that double," Mr. Gauthier said.

The costs of other benefits, such as life insurance, have been stable in recent years, though an aging workforce could contribute to an increase in a company's life insurance premiums, consultants say.

The cost of dental benefits is not a huge issue, even though the private sector bears these costs. Each

year, the provincial dental associations set a specific price for every dental procedure. The fees usually increase only 3% to 5% per year. Some Canadian employers save a modest amount on dental costs by paying for coverage based on the dictated fees from the previous year or two ago, Mr. Clarry said.

Most Canadian employers still offer comprehensive dental coverage, but some save money by paying only 50% to 70% of the costs of sophisticated procedures, such as dentures, crowns or orthodontics for

kids.

Although they want to reduce the costs of benefits, Canadian employers will not eliminate core benefits because they are important for employee recruitment and retention, particularly with the aging population and the number of people who will retire in the next several years, consultants say. Instead, Canadian employers will continue to seek other ways to lower costs.

"I think everyone is trying to come to grips with the issue of cost increases in disability and medical," Mr. Gauthier said. "They're not going to curtail it to the extent that they might want to, but they will certainly manage it wisely."

Spain: Attacks spur interest in coverage

Continued from page 1

lion euros (\$170.8 million) to compensate victims and their families.

The Madrid bombings are likely to again put terrorism risks at the forefront of risk managers' minds, said Paul Bassett, executive director of Aon Special Risks/Counter Terrorism in London.

The attack should make risk managers aware that terrorism remains a prominent risk, agreed Julian Taylor, head of the terrorism brokerage unit at Marsh Ltd. in London.

Indeed, some brokers reported a surge of interest in stand-alone terrorism coverage following the attacks in Spain.

"The phone lines have been jammed with inquiries," said Mark Drummond-Brady, a partner in the Risk Solutions division of Jardine Lloyd Thompson Group P.L.C. in London.

In the wake of terrorism in Madrid, risk managers will be examining their terrorism exposures worldwide and assessing whether they have coverage for all such risks, said Stephen Ashwell, a terrorism underwriter at Hiscox P.L.C. in

London.

In Spain, there has been renewed interest in terrorism liability coverage—which is not provided by the Consorcio—following the bombings, said Tina Kirby, a terrorism

As U.S. insurers have become more comfortable with writing terrorism cover under the TRIA backstop, there have been fewer U.S. risks coming into the London market.

*Tim Press
Miller Insurance Services Ltd.*

underwriter at Beazley P.L.C. in London.

Most of the inquiries that JLT has received in recent days have been from U.K. businesses, especially from those based in London, noted Mr. Drummond-Brady. In addition, JLT has "had a lot of inquiries from Italy, we have had a lot of inquiries from Poland, the Czech Republic

and Greece," among others, he said. Many of those have come from multinationals with a presence in some or all of those areas, he noted.

In addition, JLT has heard from French companies concerned about the risk of terrorism in Islamic states in which they have operations, he noted.

David Gamble, chief executive of the London-based Assn. of Insurance & Risk Managers, said the Madrid bombings would likely reinforce U.K. buyers' support for the country's terrorism reinsurance pool, Pool Reinsurance Co. Ltd.

Rates for terrorism cover have softened in recent months, and the attack in Spain is not likely to result in dramatic increases, though it may end price decreases, said brokers and insurers in the London market.

Aon's Mr. Bassett said he does not expect underwriters to raise rates broadly as a "knee-jerk reaction" to the Madrid bombings, in part because underwriters outside of the Consorcio arrangement will not bear any of the loss burden. In addition, he noted that the terrorism insurance market is more sophisticated

and mature than it was in the immediate aftermath of the Sept. 11, 2001, terrorist attacks in the United States.

Rate increases are likely for certain sectors, such as public transportation, noted Tim Press, a director of Miller Insurance Services Ltd. in London. "But as a general rule of thumb, (the Madrid bombings) probably haven't impacted on rates in a major sort of way," he said.

Quentin Prebble, a terrorism underwriter on Liberty Syndicates' syndicate 282, noted that "while it is too early to say what rates are going to do, this will probably arrest any decline."

JLT's Mr. Drummond-Brady said that events such as the bombings do "heighten caution" among insurers, leading to more extensive information gathering during underwriting, he said.

Marsh's Mr. Taylor noted that recent months have seen an increase in the number of companies buying stand-alone terrorism insurance, as well as a shift in who is buying the coverage.

"Up until 18 months ago, the core part of our business—50% or

so—was made up of U.S. buyers. The U.S. government introduced the Terrorism Risk and Insurance Act and there was a shift," with some buyers opting to purchase terrorism coverage as part of their property/casualty programs. To participate in the federal backstop created under the law, property/casualty insurers must offer terrorism coverage to U.S. policyholders.

Mr. Press agreed that as insurers in the United States have become more comfortable with writing terrorism cover under the TRIA backstop, there have been fewer U.S. risks coming into the London market.

Bill Wise, vp of ACE Ltd.'s global property terrorism unit in Philadelphia, said that the company has seen a "substantial increase in interest" from U.S. buyers in its stand-alone terrorism product since the attacks in Spain. And he said the company expects interest to build in the coming months.

Interest in stand-alone coverage has been growing throughout 2003, he noted. While there was a dip in demand following the introduction of TRIA in 2002, since then companies—particularly those with international exposures—have been looking more to stand-alone coverage, he noted.

TRIA: Efforts to renew backstop begin

Continued from page 1

Congress to move.

But while there was agreement among state insurance regulators that a federal backstop is desirable, some regulators question whether TRIA is the best vehicle. Policyholders have not been flocking to add terrorism coverage to their underlying policies, and the results of a Treasury Department-commissioned survey of insurers about their practices regarding TRIA have thus far been "disappointing," according to an NAIC report.

"We need to make some decisions and make them early," said Julie Gackenbach, assistant vp-government relations in the Property Casualty Insurers Assn. of America's Washington office.

"Even though it seems like we're 20 months away from expiration and that seems like an eternity to members of Congress, insurers are already working on these contracts and developing forms into that period," said Ms. Gackenbach.

"We're in the second of a three-year program; however, operationally we're beginning to negotiate contracts for that last of three years," she said.

That raises two "fundamental threshold questions: The first is whether Treasury will extend the 'make available' provision into 2005; and whether there will continue to be backstop beyond 2005," Ms. Gackenbach said.

The "make available" provisions require insurers that participate in the program to make terrorism coverage available to policyholders.

Moses Mercado, vp-federal affairs for the American Insurance Assn. in Washington, said that the Madrid terrorist attacks served as a "sort of reminder of where we're at." Even before the attacks, insurance industry representatives were "beginning an educational process on the Hill," he said.

"The industry has been trying to get together to see if we can get something done this year," he said.

"The importance is because our companies are faced with a lot of regulatory obligations," he said, adding that "there's a lot of uncertainty for us."

The CIAB's Mr. Wood also noted that this month's terrorist attack in Spain shows that the risk remains.

"With the Madrid bombings, and now the perception of the risk of terrorism not having diminished, there is an instinctive response on the part of many members of Congress that this is one underpinning legislative act upholding the economy," he said.

Risk managers are also concerned about what will happen to TRIA.

"RIMS continues to work closely with the Department of Treasury and the Department of Homeland Security related to terrorism and its impact on our members," said Lance J. Ewing, president of the New York-based Risk & Insurance Management Society Inc.

"TRIA was never intended to be a permanent safety net, but it has

provided a temporary comfort level to the risk management and insurance industry. While RIMS would like to see an extension of TRIA, we are cautious that this does not become an entitlement or a crutch," he said. "RIMS urges Congress to reauthorize this important legislation in a timely manner. We also urge the insurance, reinsurance and the brokerage community to work toward a solution that is available and affordable to the business community, for the day when a government backstop is no longer available," said Mr. Ewing, who is also vp-risk management for Caesars Entertainment Inc. in Las Vegas.

Risk managers could play a key role in determining TRIA's ultimate fate, said the CIAB's Mr. Wood.

Enacting TRIA wasn't easy, he noted, and the effort nearly failed several times before the law was passed in late 2002.

"The problem is that all of those who endured the intra-industry fights and the political bullets fly-

ing in that year it took us to enact TRIA don't have a big appetite for re-engaging in that debate. This may be an uphill climb, but it's quickly moving to the top legislative priority for the industry. At the end of the day, consumer groups—RIMS in particular and developers—are going to have to lead it," Mr. Wood said.

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Late News

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launching its 5-year-old Dasani brand in the United Kingdom.

Plan design changes cut health costs: Survey

Plan redesigns that increase employee cost-sharing and employee migration to lower-cost plans significantly reduced group health care premium increases for a group of employers, a survey reveals. Plan administrator Fidelity Investments calculated that if surveyed employers this year had kept the same plan design they had in 2003, premiums would have increased by 13% on average. But due to increased cost-shifting efforts, such as raising deductibles, and migration of employees to lower-cost plans, the average premium increase was only 7.4%

Foreign insurers not gaining ground in China

More than two years after China joined the World Trade Organization and agreed to open up its insurance market, foreign insurers have yet to make significant inroads into the market there, a brokerage executive based in China said. "Most foreign



insurers are not gaining a lot of scale," Yiming Shen, deputy general manager at Aon Asia Ltd. in Hong Kong, said at a seminar in London on the Chinese insurance market. The Beijing-based People's Insurance Co. of China has a 71% share of the market, while other domestic insurance companies hold

28%, leaving foreign insurers with only 1% of the market, Mr. Shen said.



PHOTO: UPI
President Bush supports the use of association health plans.

Bush urges approval of association health plans

President Bush once again is urging Congress to pass legislation designed to make it easier for small employers to band together through their trade associations to provide health care coverage to employees free of state mandates and regulations. Speaking before the U.S. Chamber of Commerce last week, President Bush said so-called association health plans would make health insurance more affordable for small employers by exempting association plans from state benefit mandates.

Munich Re posts loss on tax charge

Munich Reinsurance Co. posted a 434 million euro (\$547.4 million) loss for 2003, compared with a profit of 1.08 billion euros (\$1.13 billion) in 2002. The loss stemmed mainly from a tax charge of 1.79 billion euros (\$2.26 billion), according to a

spokesman for the Munich-based reinsurer. Also contributing to the loss was a reserve boost of \$368 million at the group's U.S. reinsurance operation, American Re Corp. Munich Re's gross written premiums increased by about 1% in 2003 to 40.43 billion euros (\$51.00 billion).

Tennessee Blues plan, HCA resolve dispute

BlueCross BlueShield of Tennessee Inc. and a Hospital Corp. of America subsidiary have reached an agreement that ends a dispute over HCA's proposed rate increases and allows enrollees of the Blues plan to receive care at the HCA unit's hospitals. Neither party would discuss the rates or other terms of the contract, which runs from April 1, 2004, through Sept. 30, 2006. "Our premiums will not go up, and we felt it was a good deal for our company and our customers," a spokesman for BlueCross BlueShield said. The dispute began in 2002 when the Blues plan objected to HCA's proposed rate request, which was 20% higher than other local hospitals, according to BlueCross BlueShield.

Turnaround plan puts Allianz back in black

Allianz A.G. Holding recorded net income of 1.6 billion euros (\$2.02 billion) for 2003, up from a loss of 1.2 billion euros (\$1.26 billion) in 2002. The 2002 loss stemmed in part from a deficit of 1.4 billion euros (\$1.47 billion) at the company's banking arm, Dresdner Bank. The insurer's gross premium volume grew 2.8% in 2003, to 85.0 billion euros (\$107.07 billion), Allianz said in a statement.

Go-cart mishap ruled work-related

An employee can recover workers compensation benefits for an injury

stemming from a recreational activity if the worker was compelled to participate by his or her employer, New Jersey's Supreme Court ruled. The New Jersey court found in favor of Porfirio Lozano, a laborer who severely injured his ankle when he crashed a go-cart. The accident occurred after Mr. Lozano's boss insisted he operate the go-cart even though Mr. Lozano had declined to do so, explaining that he did not know how to drive. The court ruled that recreational and social activities are work-related when employees are compelled to participate.

Briefly noted

The Council of Insurance Agents & Brokers is calling on West Virginia Gov. Bob Wise to sign legislation that would repeal the state's countersignature law. The CIAB filed a suit in federal court last month to have West Virginia's countersignature law declared unconstitutional, but the state House and Senate later approved legislation that would repeal the law....Swiss Reinsurance Co. has been granted permission to begin the licensing process for a branch office in Taiwan. Swiss Re plans to open an office in Taipei that should be fully operational by the end of the year, the company said in a statement....The Missouri House of Representatives has approved comprehensive civil justice reform legislation. The measure, HCS HB 1304, has been referred to a Senate committee.

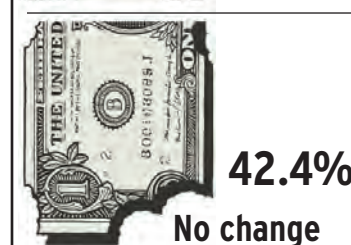
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Online Poll

[3/15-3/19]

How has your concern about insurer security changed over the past year?



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SCPIE Holdings Inc.	-11.00%
Vesta Insurance Co.	-7.52%
AEGON N.V.	-7.40%
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Weekly change by market segment

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Source: FinancialContent Inc. (<http://financialcontent.com>)

Safeco selling life insurance, brokerage units

SEATTLE—Safeco Corp. is selling its life and investment operations and an insurance brokerage operation in two separate deals totaling \$1.44 billion.

Seattle-based Safeco said it reached a definitive agreement to sell its Redmond, Wash.-based Safeco Life & Investment operations' life insurance, group insurance, annuities and mutual fund businesses to an investor group led by Bermu-

da-based White Mountains Group Ltd. and Omaha, Neb.-based Berkshire Hathaway Inc. The deal, valued at \$1.35 billion, may also include additional proceeds based on June 30, 2004, statutory book value, Safeco said.

Separately, Safeco has signed a definitive agreement to sell its Albuquerque, N.M.-based Talbot Financial Corp. insurance brokerage unit to an investor group led by Talbot's

senior management.

Under terms of the \$90 million deal, Talbot's senior managers formed Satellite Acquisition Corp. Chicago-based Hub International Ltd. will acquire 70% of Satellite, and Satellite will use proceeds from the Hub investment to simultaneously purchase Talbot and all of its subsidiaries from Safeco. Talbot management will purchase the remaining 30% of Satellite, which

Hub will buy over the next three years.

The insurer announced in September its plan to sell its life and investment operations and focus on property and casualty insurance business.

Both transactions are expected to close before the end of this year's third quarter, subject to regulatory approvals.

—By Judy Greenwald

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